SANTANDER LENDING LIMITED

Registered in England and Wales
Company Number 05831018

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

STRATEGIC REPORT

The Directors submit the strategic report together with their directors' report and the audited financial statements for the year ended 31 December 2016.

Principal activity

The principal activity of Santander Lending Limited, (the "Company") is that of financiers of property assets for the commercial property sector.

Fair review of the Company's business

The profit for the year amounted to £9,789,777 (2015: profit £6,713,081).

The Santander UK plc group (the "Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of the Group, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in notes 3 and 4.

Likely future developments

The Directors do not anticipate any significant change in operations in the foreseeable future.

By behalf of the Board

S Affleck
Director

11 September 2017

Registered Office Address: 2 Triton Square, Regent's Place, London NW1 3AN

REPORT OF THE DIRECTORS

The Directors submit their report together with the strategic report and audited financial statements for the year ended 31 December 2016.

Dividends

The Directors do not recommend the payment of a final dividend (2015: £nil).

Subsequent events

There are no subsequent events.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements (except as noted) were as follows:

A Briggs	
M Ellwood	
C Fallis	
C Morley	(resigned 30 June 2016)
S Affleck	(appointed 30 September 2016)

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements and accounting estimates that are reasonable and prudent;
• state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, note 4 to the financial statements includes the Company's objectives, policies and processes for managing its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks.

The Company is part of the Santander UK plc Group. The Company has net current liabilities and is reliant on other companies in the Santander UK plc Group for a significant proportion of its funding. The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. In particular whilst the company disposed of all external lending during the previous year, the company intends to write new business going forwards. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Board of Santander UK plc has confirmed that it is a going concern and that it will provide funding to the Company for the foreseeable future.

The Directors, having assessed the responses of the directors of the company's parent Santander UK plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Santander UK plc to continue as a going concern or its ability to continue with the current banking arrangements.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

REPORT OF THE DIRECTORS (continued)

Qualifying third party indemnities

Enhanced qualifying third party indemnities are provided to the directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remained in force through the financial year and as at the date of this Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under s487 (2) of the Companies Act 2006.

By Order of the Board,

ALEXANDER O'BRIEN

For and on behalf of
Santander Secretariat Services Limited,
Secretary
11 September 2017

Registered Office Address: 2 Triton Square, Regent's Place, London NW1 3AN

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER LENDING LIMITED

Report on the financial statements

Our opinion

In our opinion, Santander Lending Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- *the Statement of Changes in Equity for the year then ended; and*
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.
In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER LENDING LIMITED (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Jonathan Holloway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 September 2017

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Notes	2016 £	2015 £
Interest receivable		**13,545,124**	10,214,059
Interest payable	10	**(1,106,512)**	(657,527)
Other operating expenses	6	**(15)**	(1)
GROSS PROFIT		**12,438,597**	9,556,531
Administrative expenses	10	**(108,639)**	(54,847)
PROFIT BEFORE TAX	5	**12,329,958**	9,501,684
Tax	7	**(2,540,181)**	(2,788,603)
PROFIT FOR THE YEAR		**9,789,777**	6,713,081

All of the activities of the Company are classed as continuing.

There is no other comprehensive income or expense in either the current or previous financial year other than the profit of £9,789,777 (2015: profit of £6,713,081) as set out in the Statement of Comprehensive Income above.

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Issued share capital £	Accumulated losses £	Other reserves £	Total equity £
Balance at 1 January 2015	150,000,001	(130,346,530)	153,234,634	172,888,105
Total comprehensive income for the year	-	6,713,081	-	6,713,081
Balance at 31 December 2015	150,000,001	(123,633,449)	153,234,634	179,601,186

	Issued share capital £	**Accumulated losses £**	**Other reserves £**	**Total equity £**
Balance at 1 January 2016	**150,000,001**	**(123,633,449)**	**153,234,634**	**179,601,186**
Total comprehensive income for the year	**-**	**9,789,777**	**-**	**9,789,777**
Balance at 31 December 2016	**150,000,001**	**(113,843,672)**	**153,234,634**	**189,390,963**

The accompanying notes form an integral part of the financial statements.

BALANCE SHEET

At 31 December

	Notes	2016 £	2015 £
ASSETS			
NON-CURRENT ASSETS			
Trade and other receivables	8	**315,696,836**	297,866,650
Deferred tax	13	**5,454,215**	7,994,396
		321,151,051	305,861,046
CURRENT ASSETS			
Trade and other receivables	8	**62,609,701**	73,072,167
TOTAL ASSETS		**383,760,752**	378,933,213
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	**(191,191,577)**	(196,153,815)
Provisions	12	**(3,178,212)**	(3,178,212)
TOTAL LIABILITIES		**(194,369,789)**	(199,332,027)
TOTAL NET ASSETS		**189,390,963**	179,601,186
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	14	**150,000,001**	150,000,001
Accumulated losses		**(113,843,672)**	(123,633,449)
Other reserves		**153,234,634**	153,234,634
TOTAL EQUITY		**189,390,963**	179,601,186

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors, authorised for issue and signed on its behalf by:

S Affleck
Director

11 September 2017

CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2016 £	2015 £
Profit for the year		**9,789,777**	6,713,081
NON-CASH ADJUSTMENTS			
Increase in trade and other receivables		**(7,477,350)**	(89,980,363)
Decrease in trade and other payables		**(4,962,236)**	(469,125)
Movement in deferred tax		**2,540,181**	2,788,603
		(9,899,405)	(87,660,885)
CASH FLOWS USED IN OPERATING ACTIVITIES		**(109,628)**	(80,947,804)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(109,628)**	(80,947,804)
FINANCING ACTIVITIES			
Receipts from parent undertaking		**109,628**	80,947,804
NET CASH GENERATED BY FINANCING ACTIVITIES		**109,628**	80,947,804
NET INCREASE IN CASH AND CASH EQUIVALENTS		**-**	-
Cash and cash equivalents at start of year		**-**	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		**-**	-

For the current year, where tax assets have been group relieved, they are accounted for as operating receivables.

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Principal accounting policies

The principal accounting policies adopted in the presentation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

The Company is a private company limited by shares, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have also been prepared under the historic cost convention.

The functional and presentation currency of the Company is sterling.

The Financial Statements have also been prepared on the going concern basis using the historical cost convention. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Report of the Directors.

During the current year, management reviewed the classification of balances within the Statement of Comprehensive Income and concluded that the following classification changes better reflect the substance of the underlying business and its transactions:

- "Revenue" has been reclassified as "Interest receivable"
- "Cost of sales" has been reclassified as "Interest payable"
- "Finance costs" have been reclassified as "Other operating expenses"

There have been no changes to the balances previously reported in the 2015 annual report and financial statements as a result of this.

Future accounting developments

The Company has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the Company:

a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.

Phase 1: Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

The effective date of IFRS 9 is 1 January 2018. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. At the date of publication of these Financial Statements the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these Financial Statements.

b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. At the date of publication of these Financial Statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the Company's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

Revenue recognition

The company does not generate turnover. Revenue for the Company is in the form of interest receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

Upfront arrangement fees on financing agreements with customers are spread on an effective interest rate basis over the contractual life of that agreement.

Finance income and finance costs

Income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the contractual life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts. Interest income on assets classified as loans and receivables, interest expense on liabilities classified at amortised cost and interest income and expense on hedging derivatives are recognised in the Statement of Comprehensive Income.

Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as loans and receivables have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   i) adverse changes in the payment status of borrowers in the group; or
   ii) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Commercial lending is reviewed for impairment on a case by case basis for individually significant loans. Loans that are not individually significant are assessed for impairment on a portfolio basis.

Impairment is calculated based on the probability of default, exposure at default and the loss given default, using recent data. An adjustment is made for the effect of discounting cash flows.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES *(continued)*

Income taxes including deferred taxes

The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Cash and cash equivalents

The Company does not hold cash or cash equivalents.

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or fair value through profit or loss.

'Loans and advances to customers' are classed as Loans and Receivables.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest rate method, less any impairment. Interest calculated using the effective interest rate method is recognised in the income statement. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership.

Financial liabilities

Financial liabilities are initially recognised when the Company becomes contractually bound to the transfer of economic benefits in the future. Financial liabilities are derecognised when extinguished.

Non-trading financial liabilities are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost and the redemption value recognised in the income statement over the period of the liability using the effective interest rate method.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Effective interest method

Interest expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the contractual life of the lease agreements. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the contractual life of the financial instrument to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset and liability amounts reported in the Financial Statements are based on management judgement, estimates and assumptions. There is a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment of financial assets

Impairment losses are recorded as charges in the Statement of Comprehensive Income and the carrying amount of the financial asset or group of financial assets is reduced by establishing an impairment loss allowance. Impairment loss allowances are maintained at the level that management deems sufficient to absorb incurred losses. Losses expected from future events are not recognised.

Effective interest rate calculations

IAS 39 "Financial Instruments: Recognition and Measurement" requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the effective interest rate (EIR) methodology. In order to calculate EIR, the contractual repayment profile is used. If customers repay earlier than anticipated, this will generally lead to a reduction in the Balance Sheet carrying value and a gain in the Statement of Comprehensive Income.

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk, interest rate risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Santander UK plc Group. Santander UK plc Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK plc Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK plc Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK plc Group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK plc Annual Report which does not form part of this Report.

4. RISK MANAGEMENT DISCLOSURES

Operational risk

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities.

The framework incorporates industry practice and regulatory requirements. The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk fora, risk committee and board of directors.

Credit risk

Credit risk is the risk of financial loss arising from the default of a customer or counterparty to which the Company has directly provided credit, or for which the Company has assumed a financial obligation, after realising collateral held. The credit quality of customer assets is mitigated by the credit approval process in place. Credit risk is mitigated by security taken over the borrower's assets. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. All credit risk is concentrated in the United Kingdom.

Lending decisions are based on independent credit risk analysis supplemented by the use of internal ratings tools which assess the obligor's likelihood of default. The output of the ratings tools is a borrower grade which maps to a long-run average one year probability of default.

Borrower grades are reviewed at least annually, allowing identification of adverse individual and sector trends. The grade is integrated into an overall Credit & Risk evaluation, including wider factors such as transaction and borrower structure (ranking and structural subordination), debt serviceability and security (initial and residual value considerations). Consideration is also given to risk mitigation measures to protect the Company, such as third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. Transactions are further assessed using an internal pricing model which measures both the return on equity and the risk adjusted return on capital against a series of benchmarks to ensure risks are appropriately priced.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. RISK MANAGEMENT DISCLOSURES *(continued)*

Credit risk (continued)

Portfolio asset quality monitoring is based on a number of measures, including expected loss, financial covenant monitoring, security revaluations, pricing movements and external input from rating agencies and other organisations. Should particular exposures begin to show adverse features such as payment arrears, covenant breaches or business trading performance that is materially worse than expected at the point of lending, a full risk reappraisal is undertaken. Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's Balance Sheet, and from the investment of the Company's reserves. Interest rate risk primarily arises in the Company's leasing trade. The exposure in this area is hedged with Santander UK plc Treasury function using fixed rate loans and other appropriate instruments. Consequently, changes in interest rates would result in no significant impact on either the equity of the Company or on the profit before tax.

Liquidity risk

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost.

The Company is dependent on loans from its immediate parent company Santander UK plc. All liabilities are repayable on demand.

The day to day management of liquidity is the responsibility of Asset and Liability Management ("ALM") within Santander UK plc's Group Infrastructure, which provides funding to and takes surplus funds from the Company as required.

The following table analyses the Company's non-derivative liabilities into relevant maturity groupings based on the remaining period to contractual maturity at the Balance Sheet date. These have been drawn on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

2016	**Repayable on demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	£	**£**	**£**	**£**	**£**	**£**
Deferred income	**3,178,212**	-	-	-	-	**3,178,212**
Due to related parties	**191,191,577**	-	-	-	-	**191,191,577**
Total liabilities	**194,369,789**	-	-	-	-	**194,369,789**

2015	Repayable on demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£	£	£	£	£	£
Deferred income	3,178,212	-	-	-	-	3,178,212
Due to related parties	196,153,815	-	-	-	-	196,153,815
Total liabilities	199,332,027	-	-	-	-	199,332,027

5. PROFIT BEFORE TAX

Auditors' remuneration

Auditors' remuneration of £5,000 (2015: £5,227) for the audit of these financial statements was borne by the immediate parent company in the current and preceding year.

No non-audit fees were borne on the Company's behalf in either the current or preceding year.

Particulars of employees

No salaries or wages have been paid to employees during the year or the preceding year. The Company had no employees in either the current or the preceding year.

The Directors' services to the Company are an incidental part of their duties. No directors were remunerated for their services to the Company. Directors' emoluments are borne by the parent company Santander UK plc. No emoluments were paid by the Company to the directors during the year (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. OTHER OPERATING EXPENSES

	2016	2015
	£	£
Currency losses	**15**	1
	15	1

7. TAX

	2016	2015
	£	£
Deferred tax:		
Origination and reversal of temporary differences	**2,465,992**	1,924,091
Change in rate of UK corporation tax	**74,237**	864,512
Adjustments in respect of prior years	**(48)**	-
Total deferred tax	**2,540,181**	2,788,603
Tax charge on profit for the year	**2,540,181**	2,788,603

UK corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 21% to 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015.

The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17% from 2020. Since this further change was substantively enacted prior to 31 December 2016, the effects have been reflected in the deferred tax balances at the balance sheet date.

The tax on the Company's profit before tax differs (2015: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2016	2015
	£	£
Profit before tax	**12,329,958**	9,501,684
Tax calculated at a rate of 20.0% (2015: 20.25%)	**2,465,992**	1,924,091
Effect of change in tax rate on deferred tax provision	**74,237**	864,512
Adjustments in respect of prior years	**(48)**	-
Tax charge for the year	**2,540,181**	2,788,603

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. TRADE AND OTHER RECEIVABLES

	2016	2015
Non-current	**£**	£
Loan agreement receivables	**315,696,836**	297,866,650
Current		
Loan agreement receivables	**56,837,887**	67,190,725
Other receivables	**175,816**	175,816
Amounts due from related parties (note 10)	**5,595,998**	5,705,626
	62,609,701	73,072,167
Total carrying amount of loans and receivables	**378,306,537**	370,938,817

The directors consider that the carrying amount of the trade and other receivables approximates to their fair value.

The total carrying amount of loans and receivables are neither past due nor impaired.

9. CAPITAL

The Company's immediate UK parent company Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK plc Group. Disclosures relating to the Group's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

10. RELATED PARTY TRANSACTIONS

Transactions with related parties

Particulars of transactions with related parties, and the balances outstanding at the year end, are disclosed in the tables below:

	Expenditure	
	2016	2015
	£	£
Santander Asset Finance plc	**108,639**	54,847
Santander UK plc	**1,106,512**	657,527
	1,215,151	712,374

	Amounts owed by related parties		**Amounts owed to related parties**	
	2016	2015	**2016**	2015
	£	£	**£**	£
Santander UK plc	**-**	-	**191,191,577**	196,153,815
Santander Asset Finance plc	**5,595,998**	5,705,626	**-**	-
Other group companies	**5,595,998**	5,705,626	**191,191,577**	196,153,815

The amounts due to related parties are unsecured, repayable on demand and bear interest at market rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. TRADE AND OTHER PAYABLES

	2016	2015
Financial liabilities measured at amortised cost:	£	£
Payable to related parties (note 10)	**191,191,577**	196,153,815
	191,191,577	196,153,815

The directors consider that the carrying amount of the trade and other payables approximates to their fair value.

12. PROVISIONS

	Other 2016 £	Other 2015 £
As at 1 January	**3,178,212**	3,647,337
Utilisation of provision	-	(469,125)
As at 31December	**3,178,212**	3,178,212

The other provision relates to performance guarantees in respect of a customer which was sold to a third party.

13. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2016	2015
	£	£
As at 1 January	**7,994,396**	10,782,999
Income statement charge (note 7)	**(2,540,181)**	(2,788,603)
As at 31 December	**5,454,215**	7,994,396

Deferred tax assets are attributable to the following items:

	Provided		Provided	
	Balance Sheet	**Income Statement**	Balance Sheet	Income Statement
	2016	**2016**	2015	2015
Deferred tax assets	**£**	**£**	£	£
Accelerated book depreciation	**1,818**	**(471)**	2,289	(813)
Tax losses carried forward	**5,452,397**	**(2,539,710)**	7,992,107	(2,787,790)
	5,454,215	**(2,540,181)**	7,994,396	(2,788,603)

14. ISSUED SHARE CAPITAL

	2016	2016	2015	2015
	No	£	No	£
Issued and fully paid				
Ordinary shares of £1 each	**150,000,001**	**150,000,001**	150,000,001	150,000,001

All issued share capital is classified as equity.

15. CONTINGENT LIABILITIES

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a "regulated entity").The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") of the PRA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander UK plc, a company registered in England and Wales.

The Company's ultimate parent undertaking and controlling party is Banco Santander SA, a company registered in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group Financial Statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which group Financial Statements are drawn up and of which the Company is a member.

Copies of all sets of group Financial Statements, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.