

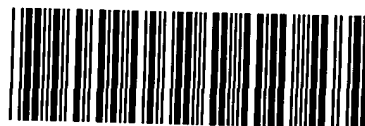
Santander Lending Limited

**Registered in England and Wales
Company Number 5831018**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2014**

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SANTANDER LENDING LIMITED - 5831018

Report of the directors

The Directors submit their report together with the financial statements for the year ended 31 December 2014.

This directors' report has been prepared in accordance with the special provisions relating to small companies under Sections 415(A) (1) & (2) of the Companies Act 2006.

Principal activity and review of the year

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

In 2013 the Company disposed of a portfolio of loan receivables to an external third-party. During 2014 the directors of the company undertook a review of operations resulting in loans being transferred from a fellow subsidiary and new lending being undertaken by the company.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £12,685,364 (2013: loss £4,480,050). The Directors do not recommend the payment of a final dividend (2013: £nil).

Future developments

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

Directors

The Directors who served throughout the year and to the date of this report (except as noted) were as follows:

A Briggs	
M Ellwood	Appointed 7 July 2014
C Fallis	Appointed 7 July 2014
C Morley	
S Pateman	

Statement of directors' responsibilities

The directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and to 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.

Report of the directors (continued)

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 has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Santander UK plc, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

Qualifying third party indemnities

Enhanced 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 remain in force as at the date of this Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Auditor

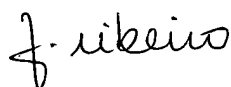
Each of the Directors as at the date of approval of this report has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

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

In accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP is deemed to have been re-appointed as auditors of the Company.

By Order of the Board,



For and on behalf of
Santander Secretariat Services Limited,
Secretary
27 July 2015

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANTANDER LENDING LIMITED

We have audited the financial statements of Santander Lending Limited for the year ended 31 December 2014 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities, 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 (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANTANDER LENDING
LIMITED
(continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report or from preparing a directors' report.



Tom Millar
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

27 July 2015

SANTANDER LENDING LIMITED - 5831018

FINANCIAL STATEMENTS

For the year ended 31 December 2014

Income Statement

For the year ended 31 December 2014

	Notes	2014 £	2013 £
Revenue		2,019,489	476,867
Cost of sales		(89,699)	(172,089)
GROSS PROFIT		1,929,790	304,778
Administrative expenses	11	(27,424)	(130,509)
Impairment losses on loans and advances		-	(3,841,677)
PROFIT / (LOSS) FROM OPERATIONS	5	1,902,366	(3,667,408)
Finance costs	6	(1)	(2,171,048)
PROFIT / (LOSS) BEFORE TAX		1,902,365	(5,838,456)
Tax	7	10,782,999	1,358,406
PROFIT / (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF SANTANDER LENDING LIMITED		12,685,364	(4,480,050)

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

Statement of Other Comprehensive Income

For the year ended 31 December 2014

There is no other comprehensive income or expense in either the current or previous financial year other than the profit (2013: loss) as set out in the Income Statement, therefore a separate Statement of Other Comprehensive Income and Expense has not been presented.

The accompanying notes form an integral part of the accounts.

SANTANDER LENDING LIMITED - 5831018

FINANCIAL STATEMENTS

For the year ended 31 December 2014

Statement of Changes in Equity

For the year ended 31 December 2014

	Issued Capital £	Retained earnings £	Other Reserves £	Total equity £
Balance at 1 January 2014	1	(143,031,894)	26,828,710	(116,203,183)
Issue of share capital	150,000,000	-	-	150,000,000
Credit to equity from loan waiver	-	-	126,405,924	126,405,924
Profit for the year	-	12,685,364	-	12,685,364
	<u>150,000,001</u>	<u>(130,346,530)</u>	<u>153,234,634</u>	<u>172,888,105</u>

	Issued Capital £	Retained Earnings £	Other Reserves £	Total Equity £
Balance at 1 January 2013	1	(138,551,844)	26,828,710	(111,723,133)
Loss for the year	-	(4,480,050)	-	(4,480,050)
	<u>1</u>	<u>(143,031,894)</u>	<u>26,828,710</u>	<u>(116,203,183)</u>

The accompanying notes form an integral part of the accounts.

SANTANDER LENDING LIMITED - 5831018

FINANCIAL STATEMENTS

For the year ended 31 December 2014

Balance Sheet

As at 31 December 2014

	Notes	2014 £	2013 £
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	8	-	-
Loans and advances to customers	9	274,752,952	-
		<u>274,752,952</u>	<u>-</u>
CURRENT ASSETS			
Trade and other receivables	9	6,033,626	13,421,411
Deferred tax	13	10,782,999	-
		<u>16,816,625</u>	<u>13,421,411</u>
TOTAL ASSETS		<u>291,569,577</u>	<u>13,421,411</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	(118,681,472)	(129,624,594)
TOTAL LIABILITIES		<u>(118,681,472)</u>	<u>(129,624,594)</u>
TOTAL NET ASSETS / (LIABILITIES)		<u>172,888,105</u>	<u>(116,203,183)</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	150,000,001	1
Retained loss		(130,346,530)	(143,031,894)
Other reserves		153,234,634	26,828,710
EQUITY / (DEFICIT) ATTRIBUTABLE TO EQUITY HOLDERS OF SANTANDER LENDING LIMITED		<u>172,888,105</u>	<u>(116,203,183)</u>

The accompanying notes form an integral part of the accounts.

The financial statements were approved by the Board of Directors and authorised for issue on 27 July 2015. They were signed on its behalf by: **COLIN MORLEY**


Director

SANTANDER LENDING LIMITED - 5831018

FINANCIAL STATEMENTS

For the year ended 31 December 2014

Cash Flow Statement

For the year ended 31 December 2014

	Notes	2014 £	2013 £
Profit / (loss) for the year		12,685,364	(4,480,050)
NON-CASH ADJUSTMENTS			
(Increase) / decrease in trade and other receivables		(275,077,012)	25,645,914
Increase / (decrease) in trade and other payables		469,124	(11,775)
Waiver of intercompany loan		126,405,924	-
Movement in deferred tax		(10,782,999)	-
		(158,984,963)	25,634,139
CASH FLOWS FROM OPERATING ACTIVITIES		(146,299,599)	21,154,089
NET CASH FLOWS FROM OPERATING ACTIVITIES		(146,299,599)	21,154,089
FINANCING ACTIVITIES			
Payment of cash advances to parent undertakings		(3,700,401)	(21,154,089)
Proceeds from issue of share capital		150,000,000	-
NET CASH GENERATED BY / (USED IN) FINANCING ACTIVITIES		146,299,599	(21,154,089)
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	14	-	-

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 accounts.

Notes to the Financial Statements

For the year ended 31 December 2014

1. Accounting policies

Principal accounting policies

The principal accounting policies adopted are set out below.

Basis of preparation

The financial statements have been prepared under the Companies Act 2006 and the historical cost convention, and on the going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is Sterling.

Compliance with International Financial Reporting Standards

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that, under European Union Regulations, are effective and available for adoption at the reporting date. The Company has complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union.

Recent accounting developments

In 2014, the Company adopted the following new accounting pronouncements and amendments to standards which became effective for financial years beginning on 1 January 2014.

- a) IAS 32 'Financial Instruments: Presentation' - In December 2011, the IASB issued amendments to IAS 32 entitled 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. The amendments did not have a material effect on the Company's financial statements.
- b) There are a number of other changes to IFRS that were effective from 1 January 2014. Those changes did not have a significant impact on the Company's financial statements in 2014,

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.

Notes to the Financial Statements

For the year ended 31 December 2014

1. Accounting policies (continued)
Future accounting developments (continued)

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 the Company's 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 2017. 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.
- c) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed.

Revenue recognition

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 income statement.

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 income statement 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.

Notes to the Financial Statements

For the year ended 31 December 2014

1. Accounting policies (continued)
Income taxes including deferred taxes (continued)

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

The Company classifies its financial assets as: financial assets at fair value through profit or loss and loans and receivables.

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. 'Net investment in finance leases' are treated in accordance with the Company's policy on finance lease agreements.

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

For the year ended 31 December 2014

1. Accounting policies (continued)

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.

Property, plant and equipment and depreciation

The cost of additions and improvements to office premises, fixtures and fittings, and equipment is capitalised. The cost of fixed assets less estimated residual value is written off on a straight line basis over the estimated useful lives as follows:

Fixtures and fittings	5 years
IT equipment	4 years

2. Critical accounting estimates and areas of significant management judgement

Some asset and liability amounts reported in the accounts 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 Loss Allowances

Individual impairment loss allowances are made in respect of finance and rental agreements where recovery is considered doubtful; a collective impairment loss allowance is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending. The impairment loss allowances are deducted from the net investment in finance agreements. The charge in the income statement comprises write offs,

Notes to the Financial Statements

For the year ended 31 December 2014

recoveries and the net movement in impairment loss allowances in the year.

2. Critical accounting estimates and areas of significant management judgement (continued)

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 contracted 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 Income Statement.

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 Group. Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK 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 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.

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

For the year ended 31 December 2014

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.

Arrears and impairment

Impairment loss allowances on loans and advances

	2014	2013
	£	£
At 1 January		
Individual	-	73,620,388
Collective	-	-
	<hr/>	<hr/>
Total impairments	-	73,620,388
	<hr/>	<hr/>
Charge for the year	-	3,841,677
Impairment loss allowance utilised in the year	-	(80,252,760)
Forex	-	2,790,695
	<hr/>	<hr/>
Total amounts charged in year	-	(73,620,388)
	<hr/>	<hr/>
At 31 December		
Individual	-	-
Collective	-	-
	<hr/>	<hr/>
Total impairments	-	-
	<hr/>	<hr/>

Market risk

Market risk is the risk of a reduction in economic value or reported income resulting from a change in the variables of financial instruments including interest rate, equity, credit spread, property and foreign currency risks. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value, and manages market risk accordingly. Details of the market risk management policy are disclosed in the Santander UK plc Annual Report – Risk Management, which does not form part of this Report.

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.

Changes in interest rates would result in no impact on either the equity of the Company or on the profit before tax as interest is allocated on a lease agreement by lease agreement basis within the Company and all interest rate risk is borne by the immediate UK parent company, Santander UK plc.

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Notes to the Financial Statements

For the year ended 31 December 2014

4. Risk management disclosures (continued)

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 at the Balance Sheet date (to contractual maturity). 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.

2014	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Over 5 years £	Total £
Due to suppliers	3,647,337	-	-	-	-	3,647,337
Due to related parties	115,034,135	-	-	-	-	115,034,135
Total liabilities	118,681,472	-	-	-	-	118,681,472
2013	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Over 5 years £	Total £
Due to suppliers	3,178,213	-	-	-	-	3,178,213
Due to related parties	126,446,381	-	-	-	-	126,446,381
Total liabilities	129,624,594	-	-	-	-	129,624,594

5. Profit from operations

Profit from operations is stated after impairment losses on loans and advances £nil (2013: £3,841,677).

Auditors' remuneration

Auditors' remuneration of £5,079 (2013: £5,000) 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' aggregate emoluments in respect of qualifying services to the Company are borne by the immediate UK parent company Santander UK plc:

6. Finance costs

	2014 £	2013 £
Currency losses	1	2,171,048
	1	2,171,048

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Notes to the Financial Statements

For the year ended 31 December 2014

7. Tax

	2014 £	2013 £
Current tax		
UK corporation tax on profit / (loss) of the year	-	(1,358,406)
Total current tax	-	(1,358,406)
Deferred tax:		
Origination and reversal of temporary differences	409,008	-
Change in rate of UK Corporation tax	(28,535)	-
Recognition of previously unprovided deferred tax	(11,163,472)	-
Total deferred tax	(10,782,999)	-
Tax credit on profit / (loss) for the year	(10,782,999)	(1,358,406)

An explanation for the deferred tax adjustment in respect of prior years is given in Note 13, Deferred Tax Asset.

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 23% to 21% with effect from 1 April 2014.

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax to 20% effective from 1 April 2015, was enacted on 17 July 2013.

As the change in rates were substantively enacted prior to 31 December 2014, they have been reflected in the deferred tax asset at 31 December 2014.

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

	2014 £	2013 £
Profit / (loss) before tax	1,902,365	(5,838,456)
Tax calculated at a rate of 21.5% (2013:23.25%)	409,008	(1,357,441)
Effect of change in tax rate on deferred tax provision	(28,535)	-
Recognition of previously unprovided deferred tax	(11,163,472)	-
Movement in current period deferred tax not recognised	-	(965)
Tax credit for the year	(10,782,999)	(1,358,406)

8. Property, plant and equipment

	2014 £	2013 £
Cost		
At 1 January	-	21,574
Disposals	-	(21,574)
At 31 December	-	-
Accumulated Depreciation		
At 1 January	-	21,574
Disposals	-	(21,574)
At 31 December	-	-
Net book value		
At 31 December	-	-

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Notes to the Financial Statements

For the year ended 31 December 2014

9. Trade and other receivables

	2014	2013
	£	£
Non current		
Loan agreement receivables	274,752,952	-
Current		
Loan agreement receivables	499,876	-
Other receivables	-	175,816
Amounts due from related parties (note 11)	5,533,750	13,245,595
	6,033,626	13,421,411
Total trade and other receivables	280,786,578	13,421,411

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

10. 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 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.

11. Related party transactions

Trading activities

Amounts due to related parties

	2014	2013
	£	£
Amounts due to Santander UK plc	115,034,135	126,446,381
	115,034,135	126,446,381

The Company entered into transactions with other related parties as shown in the table below.

	2014	2013
	£	£
Amount due to parent undertakings		
As at 1 January	126,446,381	145,422,487
Net movements	(11,412,246)	(18,976,106)
As at 31 December (note 12)	115,034,135	126,446,381
Interest paid to parent undertakings	89,699	172,089

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

Administrative expenses

During the year, administrative expenses of £nil were recharged by parent undertaking, Santander UK plc (2013: £54,625). Also during the year, administrative expenses of £27,424 were recharged by fellow subsidiary undertaking, Santander Asset Finance plc (2013: £75,884).

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Notes to the Financial Statements

For the year ended 31 December 2014

11. Related party transactions (continued)

Trading activities (continued)

Amounts due from related parties

	2014 £	2013 £
Amounts receivable from Santander Asset Finance plc	5,533,750	902,038
Santander Asset Finance plc - Tax Group relief	-	4,699,598
Abbey National Treasury Services plc – Tax Group relief		7,643,959
	<u>5,533,750</u>	<u>13,245,595</u>

The company entered into transactions with related parties as shown in the table below.

	2014 £	2013 £
Amounts due from group companies		
As at 1 January	13,245,595	11,922,611
Net movements	(7,711,845)	1,322,984
	<u>5,533,750</u>	<u>13,245,595</u>
As at 31 December (note 9)		

12. Trade and other payables

	2014 £	2013 £
Payable to related parties (note 11)	115,034,135	126,446,381
Other payables	3,647,337	3,178,213
	<u>118,681,472</u>	<u>129,624,594</u>

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

13. Deferred tax asset

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:

	2014 £	2013 £
At 1 January	-	-
Income statement credit	10,782,999	-
	<u>10,782,999</u>	<u>-</u>
As at 31 December (note 9)		

Deferred tax assets are attributable to the following items:

	Balance Sheet	Income Statement	Balance Sheet	Income Statement
	2014 £	2014 £	2013 £	2013 £
Deferred tax assets				
Accelerated book depreciation	3,102	3,102	-	-
Tax losses carried forward	10,779,897	10,779,897	-	-
	<u>10,782,999</u>	<u>10,782,999</u>	<u>-</u>	<u>-</u>

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13. Deferred tax asset (continued)

	Unprovided 2014	2013
	£	£
Deferred tax assets		
Accelerated book depreciation	-	3,782
Tax losses carried forward	-	11,159,690
	<u>-</u>	<u>11,163,472</u>

The company had an unprovided deferred tax asset of £11,163,472 at 31 December 2013 in relation to tax losses carried forward. This asset could only be utilised against the future taxable profits of the same, continuing, trade of the Company. The deferred tax asset had not been recognised in the Company on the basis that sufficient future taxable profits were not forecast within the foreseeable future to allow for the utilisation of the asset.

Following the transfer of loans into the Company from a fellow subsidiary company, and new lending by the Company, the Company has returned to profitability during 2014. Furthermore, future profits forecasts are such that the tax losses should be utilised in full in the foreseeable future. A deferred tax asset has therefore been recognised for the tax losses carried forward at the current period end.

Under current UK tax legislation, the tax losses in respect of which deferred tax assets have been recognised do not expire. The benefit of the tax losses carried forward in the Company may only be realised by utilisation against the future taxable profits of the Company.

14. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2014	2013
	£	£
Cash at bank	<u>-</u>	<u>-</u>

15. Issued share capital

	2014 No	2014 £	2013 No	2013 £
Issued and fully paid				
Ordinary shares of £1 each	<u>150,000,001</u>	<u>150,000,001</u>	<u>1</u>	<u>1</u>

During the year the Company issued 150,000,000 ordinary shares of £1 each at par for the purpose of generating additional working capital.

All issued share capital is classified as equity.

16. 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.

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For the year ended 31 December 2014

17. 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, S.A., a company registered in Spain. Banco Santander, S.A. is the parent undertaking of the largest group of undertakings for which group accounts 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 accounts are drawn up and of which the Company is a member.

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