

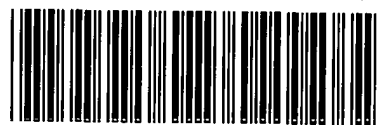
SANTANDER LENDING LIMITED

Registered in England and Wales
Company Number 05831018

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2020

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COMPANIES HOUSE

STRATEGIC REPORT

The Directors submit the Strategic report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2020.

Principal activities

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 principal activity of Santander Lending Limited, (the "Company") is that of financiers of property assets for the commercial property sector. The Company's financial results have been adversely impacted as a result of reductions in the LIBOR rates during 2020, due to the economic impact from COVID-19. Furthermore the Company has had to recognise a significantly larger impairment charge as a result of increased credit risk against its lending portfolio. As a result of these events, the Company reported a loss of £2,353,075 (2019: profit £3,937,141).

The Santander UK Group Holdings plc (together with its subsidiaries, the "HoldCo 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 HoldCo Group, which include the Company, are discussed in the HoldCo 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.

S.172 Statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the long term success of the Company for the benefit of its members, having regard to the following:

- (a) the likely consequences of any decision in the long term: The Company is wholly owned by Santander UK plc and as such will always operate to the standards set by it. Any decision taken will be aligned to the strategy of the wider Santander UK plc group and be made in the best interests of all stakeholders. Impacts of any decisions will be determined through ongoing risk assessment conducted with all relevant stakeholders.
- (b) employees: The Company has no employees and instead utilises staff resources from Santander UK plc and other fellow companies that form part of Banco Santander S.A. (the "Group"). Aligned with the Group, the Company aims to maximise colleague engagement and strives for staff to live "The Santander Way" through adoption of the Group's behaviours. The Company measures performance in this area through engagement surveys and appraisals.
- (c) business relationships with suppliers, customers and others: the Company recognises the importance of building strong relationships with suppliers and customers and actively engages with representatives of contracting parties to ascertain their views and take them into account;
- (d) community and the environment: the Company considers the impact on the environment, both local and more extended, in its decision making processes;
- (e) reputation for high standards: the Company's reputation is fundamental to the long term success of the Company and significant effort is expended to ensure that performance and processes attain and wherever possible exceed expectations; and
- (f) the need to act fairly as between members of the Company: Santander UK plc as the sole shareholder is actively involved in key decisions of the Company. Information is shared effectively to ensure that the shareholder is engaged.

The Directors also implemented strategies to support stakeholders following the impacts of COVID-19, including measures to support remote working and colleague well-being and supporting its customer base through this challenging time.

STRATEGIC REPORT

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.

The Company continues to monitor the impact of COVID-19 and Brexit and intends to take a coordinated approach with its UK parent company, Santander UK plc (the Group) where applicable. The Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'S. Affleck', written in a cursive style.

Stephen Affleck
Director

28 September 2021

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 2020.

Principal activities

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

Likely future developments

The Directors do not anticipate any significant change in the level of business in the foreseeable future.

Results and dividends

The loss for the year after tax amounted to £2,353,075 (2019: profit of £3,937,141). The Directors do not recommend the payment of a final dividend (2019: £nil).

Brexit and COVID-19

2020 was a demanding year in general with Brexit uncertainty and economic turmoil as a result of the COVID-19 pandemic. The Company continues to monitor the impact of COVID-19 and Brexit and intends to take a coordinated approach with its UK parent company, Santander UK plc (the Group) where applicable.

Post Balance Sheet events

No adjusting or significant non-adjusting events have occurred between the 31 December 2020 and the date of authorisation of the financial statements.

Directors

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

C Fallis
L-A C Irving
S Affleck

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

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 accounting standards in conformity with the requirements of the Companies Act 2006.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

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 the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 3, 4 and 18 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk and other risks.

The Company is part of the HoldCo Group. The Directors have taken account of the fact that the Board of Santander UK Group Holdings plc has confirmed that Santander UK Group Holdings plc is a going concern. As highlighted in note 17 to the financial statements, the Company meets its day to day working capital requirements through a borrowing facility provided by Santander UK plc which is due for renewal.

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 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.

Financial Instruments

The Company's risks are managed on a group level by the UK parent company, Santander UK Group Holdings plc.

The financial risk management objectives and policies of the HoldCo Group and the exposure of the HoldCo Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the HoldCo Group financial statements.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 4.

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 were in force during the financial year and at the date of approval of the Report and Financial Statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Statement of disclosure of information to 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.

Independent auditors

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

By Order of the Board,



Stephen Affleck
Director
28 September 2021

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 audit of the financial statements

Opinion

In our opinion, Santander Lending Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Santander Lending Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditors' report to the members of Santander Lending Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to applicable tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates or judgements (in particular the key judgements used in determining expected credit losses on loan agreement receivables). Audit procedures performed by the engagement team included:

- Discussions with management and communication with those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Identifying and testing manual journal entries based on specified risk parameters;
- Assessing significant assumptions and judgements made by management, in particular in relation to the key judgements used in determining expected credit losses on loan agreement receivables

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Independent auditors' report to the members of Santander Lending Limited (continued)

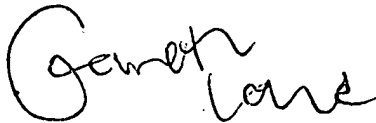
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Gareth Lane (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 September 2021

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 £	2019 £
Interest receivable	5	3,924,447	7,069,289
Interest payable	6	(354,358)	(2,113,833)
GROSS PROFIT		3,570,089	4,955,456
Administrative expenses	7	(129,383)	(942,406)
Impairment (charge)/ reversal	8	(6,694,326)	736,870
(LOSS)/ PROFIT BEFORE TAX	9	(3,253,620)	4,749,920
Tax credit/ (charge)	11	900,545	(812,779)
(LOSS) / PROFIT FOR THE YEAR		(2,353,075)	3,937,141
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		(2,353,075)	3,937,141

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 loss of £2,353,075 (2019: profit of £3,937,141) 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 year ended 31 December 2020

	Issued share capital	Accumulated losses	Other reserves	Total equity
	£	£	£	£
Balance at 1 January 2019	150,000,001	(101,074,780)	153,234,634	202,159,855
Total comprehensive income for the year	-	3,937,141	-	3,937,141
Balance at 31 December 2019	150,000,001	(97,137,639)	153,234,634	206,096,996
	Issued share capital	Accumulated losses	Other reserves	Total equity
	£	£	£	£
Balance at 1 January 2020	150,000,001	(97,137,639)	153,234,634	206,096,996
Total comprehensive loss for the year	-	(2,353,075)	-	(2,353,075)
Balance at 31 December 2020	150,000,001	(99,490,714)	153,234,634	203,743,921

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

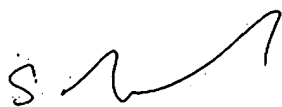
BALANCE SHEET

At 31 December 2020

	Note	2020 £	2019 £
ASSETS			
NON-CURRENT ASSETS			
Financial assets measured at amortised cost:			
Loan and other receivables	12	159,549,190	165,853,082
Deferred tax	13	2,676,608	2,400,034
		162,225,798	168,253,116
CURRENT ASSETS			
Financial assets measured at amortised cost:			
Loan and other receivables	12	41,420,716	7,994,615
Cash and cash equivalents		832,007	235,550,774
Corporation tax		623,971	-
TOTAL ASSETS		205,102,492	411,798,505
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	(1,358,571)	(205,643,786)
Corporation tax		-	(57,723)
TOTAL LIABILITIES		(1,358,571)	(205,701,509)
TOTAL NET ASSETS		203,743,921	206,096,996
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	15	150,000,001	150,000,001
Accumulated losses		(99,490,714)	(97,137,639)
Other reserves		153,234,634	153,234,634
TOTAL EQUITY		203,743,921	206,096,996

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

The financial statements on pages 9 to 26 were approved by the Board of Directors on 28 September 2021 and signed on its behalf by:



S Affleck
Director

CASH FLOW STATEMENT

For the year ended 31 December 2020

	Note	2020 £	2019 £
(Loss)/ profit for the year		(2,353,075)	3,937,141
NON-CASH ADJUSTMENTS			
(Increase)/ decrease in loan receivables, net	12	(27,122,209)	39,316,484
Decrease in trade and other payables	14	(204,285,215)	(52,802,477)
Movement in corporation tax		(681,694)	-
Movement in deferred tax	13	(276,574)	812,779
CASH FLOWS USED IN OPERATING ACTIVITIES		(234,718,767)	(8,736,073)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(234,718,767)	(8,736,073)
Cash and cash equivalents at start of year		235,550,774	244,286,847
CASH AND CASH EQUIVALENTS AT END OF YEAR		832,007	235,550,774

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. The registered office address of the Company is 2 Triton Square, Regent's Place, London NW1 3AN.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The functional and presentation currency of the Company is sterling.

The financial statements have been prepared on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

Recent accounting developments

Interest Rate Benchmark Reform:

In September 2019, the IASB issued "Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7". Santander UK plc applies IAS 39 hedge accounting so the amendments to IFRS 9 do not apply. The IAS 39 amendments apply to all hedging relationships directly affected by uncertainties related to interbank offered rate (IBOR) reform and must be applied for annual periods beginning on or after 1 January 2020.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16". These amendments apply only to changes required by IBOR reform to financial instruments and hedging relationships. The amendments are effective from 1 January 2021 and must be applied retrospectively without restating comparative information. Following their endorsement for use in the European Union and the UK, Santander UK plc has elected to apply the amendments in the preparation of these financial statements. The amendments address the accounting issues for financial instruments when IBOR reform is implemented including providing a practical expedient for changes to contractual cash flows, giving relief from specific hedge accounting requirements, and specifying a number of additional disclosures to enable users of financial statements to understand the effect of IBOR reform on an entity's financial instruments and risk management strategy.

As the Company has no IAS 39 compliant hedge accounting relationships, the Phase 1 amendments and the amendments relating to hedge accounting in Phase 2 do not apply. Further details of the impact of the other amendments on the financial statements for the year ended 31 December 2020 and the additional disclosures required are provided in Note 18.

The IBOR transition and risk exposure affected by IBOR reform for the Santander UK plc Group (comprising Santander UK plc and its subsidiaries) are managed at a Group level. Details of the extent of risk exposure that is affected by IBOR reform, and how Santander UK Group's transition to alternative benchmark interest rates is being managed are disclosed in the Risk review section within the Santander UK plc's 2020 Annual Report which does not form part of this Report.

Future accounting developments

At 31 December 2020, for the Company, there were no significant new or revised standard and interpretations, and amendments thereto, which have been issued but which are not yet effective or which have otherwise not been early adopted where permitted.

Revenue recognition

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. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected 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 but not 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 a financial instrument and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

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. Interest income on assets classified as loans and receivables and interest expense on liabilities classified at amortised cost are recognised in the Statement of Comprehensive Income.

Impairment of financial assets

Expected credit losses are recognised on all financial assets at amortised cost or at fair value through other comprehensive income. The expected credit loss considers forward looking information to recognise impairment allowances earlier in the lifecycle of a product. A three-stage approach to impairment measurement is adopted as follows:

- Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;
- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Loans and advances to group companies represent a loan to Santander UK plc and Santander Asset Finance plc. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Accordingly expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

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

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

For the purposes of the Balance Sheet and the Cash Flow Statement, cash and cash equivalents comprise assets with less than three months' maturity from the date of acquisition, including cash, restricted balances and non-restricted balances with central banks, loans and advances to banks and amounts due from other banks.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Company becomes a party to the contractual terms of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

b) Financial assets and liabilities

Classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Solely Payments of Principal and Interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the assets' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into the following measurement category:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of debt instrument financial assets

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

The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- The time value of money, and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For more on how ECL is calculated see the Credit risk section on Note 4.

2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

Key areas of judgement in ECL impairment methodology

The key judgements made by management in applying the ECL impairment methodology are set out below.

- Definition of default
- Forward-looking information
- Probability weights
- SICR
- Post model adjustments.

For more on each of these key judgements, see note 4 – Financial Risk Management.

Sensitivity of ECL allowance

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance. Had management used different assumptions on probability weights, a larger or smaller ECL charge would arise that could have a material impact on the Company's reported ECL allowance and profit before tax. Sensitivities to these assumptions are set out in the Annual Report of the Company's immediate parent company, Santander UK plc.

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 HoldCo Group. HoldCo Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the HoldCo 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 HoldCo 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT

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 HoldCo 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 HoldCo Group. The primary purpose of the framework is to define and articulate the HoldCo 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 HoldCo Group's 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.

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.

Credit risk management

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. Loans and advances to customers held at amortised cost have been fully cash collateralised.

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. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (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.

In accordance with group policy, the Company manages its portfolios across the credit risk lifecycle, from drawing up risk strategy, plans, budgets and limits to making sure the actual risk profile of the Company's exposures stays in line with plans and the Company's appetite to risk.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with HoldCo Group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the parent company Santander UK plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see Note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	The Company uses NPLs to monitor how portfolios behave. Loans are classified as NPLs when customers do not make a payment for three months or more, or if information is available to make the Company doubt they can keep up with their payments. There are differences between NPL and Stage 3, details of which details can be found in the Annual Report of fellow HoldCo Group company Santander UK plc. Although the Company adopted IFRS 9 from 1 January 2018, the Company continued to monitor NPLs as a key metric in 2018.

Other metrics

The Company also assesses risks from other perspectives, such as geography, business area, product and process. This is done to identify areas requiring specific focus. Stress testing is also used to establish vulnerabilities to economic deterioration.

Significant Increase in Credit Risk (SICR)

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan. Loans which have not experienced a SICR are subject to 12-month ECL. We assess each facility's credit risk profile and use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR to determine which of three stages to allocate them to:

- Stage 1: when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12-month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- Stage 2: when there has been a SICR since initial recognition, but no credit impairment has materialised. We apply a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- Stage 3: when the exposure is considered credit impaired using default criteria set out below. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

Criteria applicable to stage 2

Quantitative criteria

We use quantitative criteria to identify where an exposure has increased in credit risk. The quantitative criteria we apply are based on whether any increase in the lifetime probability of default ("PD") since the recognition date exceeds a set threshold both in relative and absolute terms. We base the value anticipated from the initial recognition on a similar set of assumptions and data to the ones we used at the reporting date, adjusted to reflect the account surviving to that date. The comparison uses either an annualised lifetime PD, where the lifetime PD is divided by the forecast period, or the absolute change in lifetime PD since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Qualitative criteria

We also use qualitative criteria to identify where an exposure has increased in credit risk, independent of any changes in PD. For each portfolio, the qualitative criteria used are: in forbearance, watch-list - proactive management of NPL in past 12 months and default at proxy origination.

Criteria applicable to stage 3

Definition of default (Credit impaired)

We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than 90 days past due (DPD), or if we have data to make us doubt customers can keep up with their payments i.e. they are unlikely to pay. The data includes where:

- They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan
- Something happens that makes them less likely to be able to pay – such as they lose an important client or contract
- They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
- Their loan is unlikely to be refinanced or repaid in full on maturity.

Backstop criteria

We classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. We do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 days past due) relating to either a SICR or default.

Multiple economic scenarios and probability weights

For all our portfolios, we use five forward-looking economic scenarios. They consist of a central base case, two upside scenarios and two downside scenarios. We use five scenarios to reflect a wide range of possible outcomes in the performance of the UK economy. In summary, the base case assumes that activity will continue to run at a relatively slow pace as we move through 2020 but will pick up further in subsequent years. The downside risks include unfavourable developments for Brexit, a further and sharper downturn in global growth, continuation of the very low productivity growth seen in the UK, and a move to a more protectionist agenda for trade. The upside risks are more muted at present and include the quick implementation of a new free trade agreement with the EU and an upturn in global growth, coupled with a move to more open trade. Further information on quantitative and qualitative criteria and multiple economic scenarios is set out in the Annual Report of the Company's immediate parent company, Santander UK plc.

Measuring ECL

For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly ECL as the discounted value for the relevant forecast month of the product of the following factors:

- Survival rate (SR): The probability that the exposure has not closed or defaulted since the reporting date.
- Probability of Default (PD): The likelihood of a borrower defaulting in the following month, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
- Exposure at Default (EAD): The amount we expect to be owed if a default event was to occur. We determine EAD for each month of the forecast period by the expected payment profile, which varies by product type. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. We vary these assumptions by product type and base them on analysis of recent default data.
- Loss Given Default (LGD): Our expected loss if a default event were to occur. We express it as a percentage and calculate it as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs. We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current PD and loan to value. PD and SR are not required for accounts in default.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Multiple economic scenarios

In accordance with methodology adopted by Santander UK plc, the Company uses five forward-looking economic scenarios. For 2020, they consist of a central base case, one upside scenario and three downside scenarios. These are used to reflect a wide range of possible outcomes for the UK economy. More information on forward looking economic scenarios adopted by the Company are contained in the Santander UKL plc Annual Report.

Maximum exposure to credit risk

The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

	Balance sheet asset		
	Gross Amounts £000	Loss Allowances £000	Net Exposure £000
2020			
Financial assets at amortised cost:			
Loans and advances to customers	182,987	(6,857)	176,130
Total financial assets at amortised cost	182,987	(6,857)	176,130
	Balance sheet asset		
	Gross Amounts £000	Loss Allowances £000	Net Exposure £000
2019			
Financial assets at amortised cost:			
Loans and advances to customers	171,289	(163)	171,126
Total financial assets at amortised cost	171,289	(163)	171,126

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Management does not believe that the intercompany receivable with related party gives rise to credit risk exposure. In addition to the above, the Company has existing undrawn commitments of £49,938,137 (2019: £61,438,576).

The class of financial instruments that is most exposed to credit risk in the Company is finance agreements, comprising loans and advances to customers.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December.

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
31 December 2020				
Exposures				
Loans and advances to customers	81,587	101,400	-	182,987
Total exposures	81,587	101,400	-	182,987
IFRS 9 ECL				
Loans and advances to customers	(52)	(6,805)	-	(6,857)
Total ECL	(52)	(6,805)	-	(6,857)
Net exposure	81,535	94,595	-	176,130

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Exposures				
Loans and advances to customers	171,289	-	-	171,289
Total exposures	171,289	-	-	171,289
IFRS 9 ECL				
Loans and advances to customers	(163)	-	-	(163)
Total ECL	(163)	-	-	(163)
Net exposure	171,126	-	-	171,126

Movements in ECL provision are set out below:

	2020 £000	2019 £000
At 1 January	163	900
Charge to income statement	6,908	66
Reversals	(214)	(803)
At 31 December	6,857	163

Interest rate risk

The Company's income is exposed to movements in LIBOR interest rates on receivables and payables from/to group companies.

Interest rate sensitivity analysis

A 50 basis point adverse movement in LIBOR rates would result in a fall in revenue of £826,416 (2019: an increase in revenue of £373,532). A 50 basis point favourable movement in rates would result in an increase in revenue of £826,416 (2019: a fall in revenue of £373,532).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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.

2020	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Over 5 years £	Total £
Due to related parties	1,346,581	-	-	-	-	1,346,581
Other payables	-	-	11,990	-	-	11,990
Total liabilities	1,346,581	-	11,990	-	-	1,358,571

2019	Repayable on demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	Over 5 years £	Total £
Due to related parties	205,643,786	-	-	-	-	205,643,786
Total liabilities	205,643,786	-	-	-	-	205,643,786

5. INTEREST RECEIVABLE

	2020 £	2019 £
Interest income from customer loan assets	3,921,261	7,069,289
Interest income from intercompany loan (note 16)	3,186	-
	3,924,447	7,069,289

6. INTEREST PAYABLE

	2020 £	2019 £
Interest on Intercompany loan (note 16)	354,358	2,113,833
	354,358	2,113,833

7. ADMINISTRATIVE EXPENSES

	2020 £	2019 £
Management fees (note 15)	116,925	932,240
Other expenses	12,458	10,166
	129,383	942,406

8. IMPAIRMENT (CHARGE)/ REVERSAL

	2020 £	2019 £
As at 1 January	(163,008)	(899,878)
(Increase)/ decrease in impairment provisions	(6,694,326)	736,870
As at 31 December (note 12)	(6,857,334)	(163,008)

9. (LOSS)/ PROFIT BEFORE TAX

Auditors' remuneration

Auditors' remuneration of £9,992 (2019: £9,700) for the audit of these financial statements were borne by the Company in the current and preceding year.

No non-audit fees were borne by the Company in either the current or preceding year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**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 (2019: £nil).

10. CASH AND CASH EQUIVALENTS

	2020 £	2019 £
Deposits with immediate parent Santander UK plc	832,007	235,550,774
	832,007	235,550,774

11. TAX CREDIT/ (CHARGE)

	2020 £	2019 £
Current tax:		
UK corporation tax on (loss)/ profit of the year	(623,971)	-
Total current tax	(623,971)	-
Deferred tax:		
Origination and reversal of temporary differences	5,783	902,485
Change in rate of UK corporation tax	(282,357)	(94,999)
Adjustments in respect of prior years	-	5,293
Total deferred tax	(276,574)	812,779
Tax (credit)/ charge on (loss)/ profit for the year	(900,545)	812,779

UK corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated assessable losses (2019: profits) for the year.

Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17% from 1 April 2020. However, this rate deduction was reversed in the UK Budget in March 2020. The effect of the increase of 2% over that expected at 31 December 2019 has been reflected both in the opening deferred tax balance at 1 January 2020 and to the determine the deferred tax balance at 31 December 2020.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. Since the proposed change was not substantively enacted by the balance sheet date, the effect has not been reflected in these financial statements.

The tax on the Company's (loss)/ profit before tax differs (2019: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2020 £	2019 £
(Loss)/ profit before tax	(3,253,620)	4,749,920
Tax calculated at a rate of 19% (2019: 19%)	(618,188)	902,485
Effect of change in tax rate on deferred tax provision	(282,357)	(94,999)
Adjustments in respect of prior years	-	5,293
Tax (credit)/ charge for the year	(900,545)	812,779

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. LOAN AND OTHER RECEIVABLES

	2020	2019
	£	£
Non-current		
Loan agreement receivables	166,400,000	165,907,864
Provision for ECL (IFRS 9) (note 8)	(6,850,810)	(54,782)
	159,549,190	165,853,082
Current		
Loan agreement receivables	16,586,560	5,381,461
Provision for ECL (IFRS 9) (note 8)	(6,524)	(108,226)
Amounts due from related parties (note 16)	24,840,680	2,721,380
	41,420,716	7,994,615
Total carrying amount of loans and other receivables	200,969,906	173,847,697

The Directors consider that the carrying amount of the loan receivables approximates to their fair value.

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:

	2020	2019
	£	£
As at 1 January	2,400,034	3,212,813
Income statement credit/ (charge) (note 11)	276,574	(812,779)
As at 31 December	2,676,608	2,400,034

Deferred tax assets are attributable to the following items:

	Provided		Provided	
	Balance Sheet	Income Statement	Balance Sheet	Income Statement
	2020	2020	2019	2019
	£	£	£	£
Deferred tax assets				
Accelerated book depreciation	896	(82)	978	(214)
IFRS 9 transitional adjustments	39,104	(882)	39,986	(10,291)
Tax losses carried forward	2,636,608	277,538	2,359,070	(802,274)
	2,676,608	276,574	2,400,034	(812,779)

14. TRADE AND OTHER PAYABLES

	2020	2019
	£	£
Financial liabilities measured at amortised cost:		
Payable to related parties (note 16)	1,346,581	205,643,786
Other payables	11,990	-
	1,358,571	205,643,786

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. ISSUED SHARE CAPITAL

	2020 No	2020 £	2019 No	2019 £
Authorised 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.

16. 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:

	Income		Expenditure	
	2020	2019	2020	2019
	£	£	£	£
Santander UK plc – immediate parent	3,186	-	354,358	2,113,833
Santander Asset Finance plc – other group subsidiaries	-	-	116,925	932,240
	3,186	-	471,283	3,046,073

	Amounts owed by related parties		Amounts due to related parties	
	2020	2019	2020	2019
	£	£	£	£
Santander UK plc – cash	832,007	235,550,774	-	205,643,786
Santander UK plc – other receivables/ payables	22,236,226	-	1,346,581	-
Santander Asset Finance plc – other group subsidiaries	2,604,454	2,721,380	-	-
	25,672,687	238,272,154	1,346,581	205,643,786

The amounts due to related parties are unsecured and repayable on demand. During 2020, the loan from Santander UK plc (at three month LIBOR) was settled against the available cash balance held. The residual amount of £22,236,226 is now an amount owned by Santander UK plc, for which this is interest bearing at one month LIBOR. The loan to Santander Asset Finance plc does not bear any interest and is repayable on demand.

Included in Amounts owed by Santander UK plc to the Company is £0.8m in cash and cash equivalents (2019: £235.6m) – see note 10.

There were no related party transactions during the year, or existing at the balance sheet date, with the Company's or parent company's key management personnel (2019: £nil).

17. CONTINGENT LIABILITIES

The Company, together with its UK parent Santander UK plc and Cater Allen Limited (the latter two being the regulated entities) and certain other non-regulated subsidiaries of Santander UK plc, entered into a capital support deed dated 13 November 2018 (the RFB Sub-Group Capital Support Deed). The parties to the RFB Sub-Group Capital Support Deed are permitted by the PRA to form a core UK group, as defined in the PRA rulebook, a permission which will expire on 31 December 2021. Exposures of each of the regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the RFB Sub-Group Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breaches or is at risk of breaching its capital resources requirements or risk contractions requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. 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 HoldCo Group's capital management can be found in the Santander UK plc Annual Report which does not form part of this Report.

19. INTEREST RATE BENCHMARK REFORM

The Phase 2 amendments apply only to changes required by IBOR reform to financial instruments and, where applicable, hedging relationships. Changes are directly required by IBOR reform if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flow is economically equivalent to the previous basis.

The amendments address the accounting issues for financial instruments when IBOR reform is implemented as described below. The Company has no IAS 39 compliant hedge accounting relationships so the amendments relating to hedge accounting do not apply.

Practical expedient for changes to contractual cash flows:

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate using the guidance in IFRS 9 resulting in no immediate gain or loss being recognised, provided that, the change is directly required by IBOR reform and takes place on an economically equivalent basis. The instruments referencing LIBOR will transition to alternative benchmark interest rates during 2021. Consequently, the application of the practical expedient has had no material impact for the Company for the year ended 31 December 2020.

The following shows the sterling value of assets and liabilities as at 31 December 2020 affected by IBOR reform that have yet to transition to an alternative benchmark interest rate as provided internally to key management personnel. These comprise of loan and other receivables (note 12) and amounts payable to related parties (note 14):

Loan and other receivables:

- Loan agreement receivables: £182,986,560.
- Amounts owed from related parties: £22,236,226.

Trade payables:

- Amounts payable to related parties: £1,346,581.

Further details of the extent of risk exposure that is affected by IBOR reform and how Santander UK's transition to alternative benchmark interest rates is being managed, are disclosed in the Banking market risk section of the Risk review within the Santander UK plc 2020 Annual Report which does not form part of this Report.

20. 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.