# SANTANDER CARDS UK LIMITED

Registered in England and Wales
Company number 01456283

# ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2018

# REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2018.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions under Sections 415A (1) & (2) of the Companies Act 2006. The Company is also exempt from preparing a Strategic Report in accordance with Section 414B of the Companies Act 2006.

## Principal activities

The principal activity of Santander Cards UK Limited (the Company) was originally the provision of store cards, credit cards, and unsecured sales finance products, and this was sold to SAV Credit Limited during 2013. The operations of the Company have therefore been treated as discontinued, and the financial statements have been prepared on a basis other than going concern which includes, where appropriate, writing down the Company's assets to net realisable value. The financial statements do not include any provision for future costs of terminating the business of the Company except to the extent that such costs were committed at the end of the reporting year. It is the intention of the Directors to liquidate the Company in the near future.

## Results and dividends

The profit for the year amounted to £1.8m (2017: £2.5m loss).

The Company paid an interim dividend of £10m out of its cumulative and realised retained earnings on 11 July 2018 (2017: £nil). The directors do not propose the payment of a final dividend for 2018 (2017: £nil).

## Directors

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

J Olaizola (resigned 4 October 2018)
R J Morrison
R Attar-Zadeh

## Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

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

## Statement of going concern

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 16 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, liquidity risk and market risk.

The Company sold its store card, credit card and other unsecured sales finance receivables during 2013. As discussed under the principal activity, the Company has not engaged in any further trading activity since the date of the asset transfer. The financial statements have therefore been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the entity's assets to net realisable value. The financial statements do not include any provision for future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting year. The parent has provided a formal letter of support to the Company, confirming that support will be provided to allow the Company to meet its obligations as they fall due. It is the intention of the directors to liquidate the Company in the near future.

# REPORT OF THE DIRECTORS (continued)

**Qualifying Third Party Indemnities**

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings 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 financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

**Statement of disclosure of information to Independent auditors**

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

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

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

PricewaterhouseCoopers LLP are re-appointed as auditors under Section 487(2) of the Companies Act 2006.

By order of the Board

Samuels

Cheryl Samuels

For and on behalf of
Santander Secretariat Services Limited
Secretary

25 April 2019

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

# *Independent auditors' report to the members of Santander Cards UK Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion, Santander Cards UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity; 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.

### Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than going concern.

### 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 Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Report of the Directors*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2018 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 Report of the Directors.

# Independent auditors' report to the members of Santander Cards UK Limited (continued)

### 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 set out on page 1, 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.

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.

## 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 received 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.

### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

H Anderson

Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 April 2019

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

| | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| Interest receivable | 3 | 0.9 | 0.7 |
| Interest payable | 4 | (0.6) | (0.5) |
| Net interest income | | 0.3 | 0.2 |
| Dividend income | | 10.0 | - |
| Fair value movements | 5 | 0.6 | 0.7 |
| Net exchange gains | | 0.3 | 0.2 |
| Credit impairment losses | 11 | (0.5) | (3.7) |
| Impairment of investments | 12 | (8.9) | - |
| Profit/ (Loss) before tax | | 1.8 | (2.6) |
| Tax | 8 | - | 0.1 |
| Profit/ (Loss) for the financial year | | 1.8 | (2.5) |

All amounts above relate to discontinued operations.

The accompanying notes are an integral part of these financial statements.

The Company has no comprehensive income or expenses attributable to the equity holders other than profit of £1.8m (2017: £2.5m loss) for the current and previous year.

# BALANCE SHEET
As at 31 December

| | Note | 2018 £m | Restated 2017* £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 56.6 | 56.0 |
| Financial assets designated at fair value | 9 | - | 3.0 |
| Amounts owed by group undertakings | 11 | 20.0 | 20.2 |
| Shares in group undertakings | 12 | 93.1 | 102.0 |
| Deferred tax assets | 10 | - | 1.7 |
| Other assets | 13 | 9.5 | 5.1 |
| **Total assets** | | 179.2 | 188.0 |
| **Liabilities** | | | |
| Amounts owed to group undertakings | 11 | 43.6 | 42.4 |
| Other liabilities | 14 | 4.8 | 4.8 |
| Current tax liabilities * | | 6.8 | 8.6 |
| **Total liabilities** | | 55.2 | 55.8 |
| **Equity** | | | |
| Share capital | 15 | - | - |
| Retained earnings * | | 124.0 | 132.2 |
| **Total equity** | | 124.0 | 132.2 |
| **Total liabilities and equity** | | 179.2 | 188.0 |

*As restated – see Note 20.

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

These financial statements have been prepared in accordance with the special provisions relating to the small companies regime and the directors make this statement in accordance with section 414(3) of the Companies Act 2006.

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

Rachel Morrison
Director
25 April 2019

# CASH FLOW STATEMENT

For the year ended 31 December

| | 2018 £m | 2017 £m |
|---|---|---|
| Profit/ (Loss) for the financial year | 1.8 | (2.5) |
| Adjustments for: | | |
| Interest receivable | (0.9) | (0.7) |
| Interest payable and fees and similar charges | 0.6 | 0.5 |
| Impairment on Group Loan | 0.5 | 3.7 |
| Impairment of investments | 8.9 | - |
| Movement in financial assets designated at fair value | 3.0 | (0.7) |
| | 13.9 | 0.3 |
| Net amounts repaid by group undertakings | 1.1 | 3.0 |
| Increase in other assets | (4.4) | (0.8) |
| Net cash generated from operating activities | 10.6 | 2.5 |
| Financing activities: | | |
| Dividends paid | (10.0) | - |
| Net increase in cash and cash equivalents | 0.6 | 2.5 |
| Cash and cash equivalents at beginning of year | 56.0 | 53.5 |
| Cash and cash equivalents at end of year | 56.6 | 56.0 |

Where tax assets/liabilities have been group relieved, they are accounted for as amounts due to/from group undertakings.

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £m | £m | £m |
| As at 1 January 2017 (restated)* | - | 134.7 | 134.7 |
| Loss for the financial year | - | (2.5) | (2.5) |
| As at 31 December 2017 (restated)* | - | 132.2 | 132.2 |
| | | | |
| As at 1 January 2018 (restated) * | - | 132.2 | 132.2 |
| Profit for the financial year | - | 1.8 | 1.8 |
| Dividends paid | - | (10.0) | (10.0) |
| As at 31 December 2018 | - | 124.0 | 124.0 |

*As restated – see note 20

The accompanying notes are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

# 1. ACCOUNTING POLICIES

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

General information

The Company is a private company limited by shares, domiciled and incorporated in England and Wales and part of Santander UK Group Holdings plc 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 of Santander Cards UK Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention and subsequently measured at net realisable value except for equity instruments which are measured at fair value through profit or loss.

The functional and presentation currency of the Company is sterling.

Going Concern

The Company sold its store card, credit card and other unsecured sales finance receivables during 2013 and it has not engaged in any further trading activity since the date of the asset transfer.

IAS 1 requires that financial statements for a company that has ceased to trade are prepared on an "other than going concern" basis. In addition, it is the intention of the Directors to liquidate the Company in the foreseeable future. Accordingly, the financial statements have been prepared on an "other than going concern" basis. This has had no impact on the amounts reported. The directors of the Company have been provided with a letter of support by the UK parent company, confirming the parent company will provide support to the Company for a period of 12 months from the date of signing these financial statements.

Recent accounting developments

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). The new or revised accounting policies are set out below.

The accounting policy changes for IFRS 9, set out below, have been applied from 1 January 2018. Comparatives have not been restated. As a result of the change from IAS 39 to IFRS 9, some disclosures presented in respect of certain financial assets are not comparable because their classification may have changed between the two standards. This means that some IFRS 9 disclosures are not directly comparable and some disclosures that relate to information presented on an IAS 39 basis are no longer relevant in the current period.

The application of IFRS 15 had no material impact on the Company as there were no significant changes in the recognition of in scope income.

Future accounting developments

At 31 December 2018, the Company had 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:

- IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. The application of this standard is not expected to have any material impact on the Company's financial statements.

Revenue recognition

a) Interest Income and Expense

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest method. The effective interest rate is the rate that 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 the financial instrument and all other premiums or discounts.

b) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date with any gains or losses included in the statement of comprehensive income.

Financial Instruments

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.

1) 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, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

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. 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.

*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.

Based on these factors, 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 'Interest receivable' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

The Company's debt instruments consist of amounts owed by group undertakings.

Financial assets: equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. All equity investments are subsequently measured at FVTPL. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'fair value movements' line in the income statement.

This category includes equity shares denominated in US Dollars.

Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost. The Company's financial liabilities comprise amounts owed to group undertakings which are classified as amortised cost. Interest on the balances is calculated using the effective interest rate and reflected in the 'interest payable' line within the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

2) Impairment of debt instrument financial assets

Expected credit losses are recognized on all financial assets at amortised cost. 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.

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

For more on how ECL is calculated see the Credit risk section on note 2.

3) Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or the Company has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when extinguished, cancelled or expired.

Income taxes, including deferred income taxes

Income tax payable on profits is recognised as an expense in the period in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantively enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Shares in group undertakings

In the Company's financial statements, investments in subsidiary undertakings and associates are stated at cost less impairment provisions.

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks.

Separate financial statements

The Company is a subsidiary of Santander UK plc, a Company registered in England and Wales, which produces consolidated financial statements available for public use and complies with International Financial Reporting Standards. Accordingly, the Company has taken advantage of the exemption in paragraph 4(a) of IFRS 10, Consolidated Financial Statements and not prepared consolidated financial statements.

The acquisition method of accounting is used to account for the acquisition of subsidiaries which meet the definition of a business. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition related costs are expensed as incurred.

Critical judgements and accounting estimates

The preparation of the financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

NOTES TO THE FINANCIAL STATEMENTS

# 1. ACCOUNTING POLICIES (continued)

Critical judgements and accounting estimates (continued)

The following accounting estimates and judgements are considered important to the portrayal of Company's results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) 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.

In calculating each estimate, a range of outcomes were calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Credit impairment losses

The ECL impairment methodology requires management to make a number of judgements, assumptions and accounting 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.

# 2. FINANCIAL RISK MANAGEMENT

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

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

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company manages liquidity risk by maintaining sufficient liquid resources to ensure it can meet its obligations with the support of its parent company.

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts.

| At 31 December 2018 | Demand £m | Up to 3 months £m | 3-12 months £m | 1-5 years £m | Total £m |
|---|---|---|---|---|---|
| Amounts due to group companies | 29.4 | - | 14.2 | - | 43.6 |
| Other liabilities: | | | | | |
| Other creditors | 4.8 | - | - | - | 4.8 |
| Total financial liabilities | 34.2 | - | 14.2 | - | 48.4 |

| At 31 December 2017 | Demand £m | Up to 3 months £m | 3-12 months £m | 1-5 years £m | Total £m |
|---|---|---|---|---|---|
| Amounts due to group companies | 29.0 | - | - | 13.4 | 42.4 |
| Other liabilities: | | | | | |
| Other creditors | 4.8 | - | - | - | 4.8 |
| Total financial liabilities | 33.8 | - | - | 13.4 | 47.2 |

# 2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk management

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains.

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.

The Introduction of IFRS 9

IFRS 9 replaced IAS 39 on 1 January 2018. IFRS 9 introduced a new impairment methodology and rules around classification and measurement of financial assets. Upon implementation, the measurement categories of 'Cash and cash equivalents' and 'Amounts owed by group undertakings' have changed from 'Loans and receivables' to 'Amortised cost'.

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 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. |

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. Group Relief balances (2018: £2.5m) are excluded from this analysis.

| | Balance Sheet | | |
|---|---|---|---|
| 2018 | Gross amounts £m | Loss allowances £m | Net exposure £m |
| Financial assets at amortised cost: | | | |
| Amounts owed by group undertakings | 55.7 | (38.2) | 17.5 |
| Total financial assets at amortised cost | 55.7 | (38.2) | 17.5 |

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

The class of financial instruments that is most exposed to credit risk in the Company are amounts owed by group undertakings in the form of intercompany loans.

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 2018:

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| Exposures | | | | |
| Amounts owed by group undertakings | 17.0 | 38.7 | - | 55.7 |
| Total exposures | 17.0 | 38.7 | - | 55.7 |
| | | | | |
| IFRS 9 ECL | | | | |
| Amounts owed by group undertakings | - | (38.2) | - | (38.2) |
| Total ECL | - | (38.2) | - | (38.2) |
| Net exposures | 17.0 | 0.5 | - | 17.5 |

# 2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk - Credit exposures and corresponding ECL (continued)

Movements in ECL provision are set out below:

| | £m |
|---|---|
| At 31 December 2017 (IAS 39) | 37.7 |
| At 1 January 2018 IFRS 9 | 37.7 |
| Charge to income statement | 0.5 |
| At 31 December 2018 | 38.2 |

Market risk

Market risk is the potential for loss of income or a decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk arises as a result of interest rates. The Company's interest rate risk arises from borrowings on which the possibility of finance cost increases may arise from changes in interest rates. The Company holds a mixture of loans to and from group undertakings. The effect of the net interest receivable/payable reduces the risk the Company is exposed to from adverse fluctuations in interest rates. The effect of this can be found under the income statement. In addition the Company holds significant cash balances which earn interest and thus reduces the risk further.

Interest rate sensitivity analysis

A 50bps increase in interest rates would have resulted in an increase in operating profit and in net assets of £0.3m (2017: £0.4m). A 50bps decrease in interest rates would have resulted in a decrease in operating profit and in net assets of £0.5m (2017: £0.3m).

# 3. INTEREST RECEIVABLE

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Interest receivable | 0.9 | 0.7 |

# 4. INTEREST PAYABLE

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Interest payable on loans from fellow subsidiary undertakings | 0.6 | 0.5 |

# 5. FAIR VALUE MOVEMENTS

| | 2018<br>£m | 2017<br>£m |
|---|---|---|
| Fair value movement in financial asset – equity securities denominated in US Dollars (VISA shares) | 0.6 | 0.7 |

# 6. AUDITORS' REMUNERATION

The profit in the current year has been arrived at after charging audit fees of £5,500 which are payable to the Company's auditors for the statutory audit of the Company's annual financial statements. The audit fees in the preceding year (£5,500) were paid on the Company's behalf by its UK parent undertaking, Santander UK plc for which no recharge was made in accordance with Company policy.

Fees payable to the Company's auditors and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent undertaking disclose such fees on a consolidated basis.

# 7. DIRECTORS EMOLUMENTS AND INTERESTS AND EMPLOYEES

No directors were remunerated for their services to the Company. Directors' emoluments are borne by the UK parent company Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the directors during the year (2017: £nil).

The Company had no employees in the reporting year.

# 8. TAX

| | 2018 £m | 2017 £m |
|---|---|---|
| Current tax: | | |
| UK corporation tax on profit/ (loss) for the year | (1.7) | (2.4) |
| Total current tax credit | (1.7) | (2.4) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 2.0 | 2.6 |
| Change in rate of UK corporation tax | (0.3) | (0.3) |
| Total deferred tax | 1.7 | 2.3 |
| Tax credit on profit/ (loss) for the year | - | (0.1) |

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profits/ (losses) for the year.

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020. The effects have been reflected in the deferred tax balances at both 31 December 2018 and 2017.

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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Profit/ (Loss) before tax | 1.8 | (2.6) |
| Tax calculated at a tax rate of 19.00% (2017: 19.25%) | 0.3 | (0.5) |
| Effect of change in tax rate on deferred tax provision | (0.3) | (0.3) |
| Non deductible expenses | 1.8 | 0.7 |
| Non taxable income | (1.8) | - |
| Tax credit for the year | - | (0.1) |

# 9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

Valuation of financial instruments

Fair value measurements

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table summarises the financial assets accounted for at fair value, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

| Financial assets | Measurement basis | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|
| Listed equities | Fair value | Level 1 | Quoted bid prices in an active market |

# 9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE (continued)

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated based on the market price. The Company did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2018.

Fair value valuation bases

The following table summarise the fair values at 31 December 2017 of the asset classes accounted for at fair value, by the valuation methodology used by the Company to determine their fair value. The table also disclose the percentages that the recorded fair values of financial assets represent of the total assets that are recorded at fair value in the balance sheet:

31 December 2017

| Balance sheet category | | Quoted prices in active markets | | Internal models based on Market observable data | | Internal models based on Other than market observable data | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | £m | % | £m | % | £m | % | £m | % |
| Assets | | | | | | | | | |
| Financial assets designated at fair value | Equity securities | 3.0 | 100 | - | - | - | - | 3.0 | 100 |
| Total assets at fair value | | 3.0 | 100 | - | - | - | - | 3.0 | 100 |

Valuation techniques

All of the equity securities are publicly quoted and so quoted prices are used to ascertain the fair value.

| | 2018 | 2017 |
|---|---|---|
| | £m | £m |
| Financial assets designated at fair value - equity securities denominated in US Dollars (VISA shares) | - | 3.0 |

During the year, the Company sold the equity securities for £3.8m.

# 10. DEFERRED TAX ASSETS

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:

| | 2018 | 2017 |
|---|---|---|
| | £m | £m |
| At beginning of year | 1.7 | 4.0 |
| Income Statement charge for the year | (1.7) | (2.3) |
| At end of year | - | 1.7 |

Deferred tax assets and liabilities are attributable to the following items:

| | Provided Balance sheet | | Provided Income statement | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £m | £m | £m | £m |
| IAS transitional adjustments | - | 2.1 | (2.1) | (2.2) |
| Other temporary differences | - | (0.4) | 0.4 | (0.1) |
| | - | 1.7 | (1.7) | (2.3) |

# 11. AMOUNTS OWED BY/ (TO) GROUP UNDERTAKINGS

| | 2018 £m | 2017 £m |
|---|---|---|
| Assets: | | |
| Amounts owed by Group Undertakings | 20.0 | 20.2 |
| Liabilities: | | |
| Amounts owed to Group Undertakings | 43.6 | 42.4 |

*Amounts owed by Group undertakings are payable on demand. In the current year, a credit impairment loss of £0.5m relating to intra-group* loans was recognised (refer to reconciliation in note 2).

The liabilities owed to group undertakings are repayable on demand except for the term facility from Santander UK plc of £14.2m which is payable within a year.

# 12. SHARES IN GROUP UNDERTAKINGS

| Cost | £ m |
|---|---|
| At 1 January 2018 | 538.0 |
| At 31 December 2018 | 538.0 |
| Provision for impairment: | |
| At 1 January 2018 | (436.0) |
| Impairment charge in the year | (8.9) |
| At 31 December 2018 | (444.9) |
| Net book value: | |
| At 31 December 2017 | 102.0 |
| At 31 December 2018 | 93.1 |

Investments in subsidiary companies are shown as cost less provision for impairment. The Company has exercised the exemption under Section 400 of the Companies Act 2006, which dispenses with the requirement to prepare group financial statements. This is also in accordance with the exemption in IAS 27 'Consolidated and Separate Financial Statements'.

The wholly owned subsidiaries the Company held in the year are listed below. The company has no associates or joint ventures.

| Name of subsidiaries | Place of incorporation ownership (or registration) and operation | Proportion of ownership interest % | Ultimate Proportion of Ownership % |
|---|---|---|---|
| Directly held: | | | |
| Santander Global Consumer Finance Limited | England and Wales | 100 | 100 |
| Santander Consumer Credit Services Limited | England and Wales | 100 | 100 |
| Santander Cards Limited | England and Wales | 100 | 100 |
| First National Tricity Finance Limited | England and Wales | 100 | 100 |
| Santander Cards Ireland Limited | Ireland | 100 | 100 |
| Time Retail Finance Limited (in liquidation) | England and Wales | 100 | 100 |

None of the subsidiaries are banks or listed on a stock exchange.

Up until 28 June 2018, the Company indirectly held Tuttle and Son Limited by virtue of ownership of the immediate parent Santander Global Consumer Finance Limited. On 28th June 2018, Santander Global Consumer Finance Limited sold its entire stake holding in the subsidiary to Santander Equity Investments Limited, a fellow group company.

The registered offices of the subsidiaries are listed below:

| Name of subsidiaries | Registered office address |
|---|---|
| Directly held: | |
| Santander Global Consumer Finance Limited | 2 Triton Square, Regent's Place, London, NW1 3AN |
| Santander Consumer Credit Services Limited | 2 Triton Square, Regent's Place, London, NW1 3AN |
| Santander Cards Limited | 2 Triton Square, Regent's Place, London, NW1 3AN |
| First National Tricity Finance Limited | 2 Triton Square, Regent's Place, London, NW1 3AN |
| Santander Cards Ireland Limited | 25/28 North Wall Quay, Dublin 1, Ireland |
| Time Retail Finance Limited (in liquidation) | Griffins Tavistock House South, Tavistock Square, London, WC1H 9LG |

# 12. SHARES IN GROUP UNDERTAKINGS (continued)

During the year, the Company recognised an impairment loss of £8.9m on interest held in its subsidiary, Santander Cards Limited. This was a result of the recoverable amount of the investment being below the carrying value.

# 13. OTHER ASSETS

| | 2018 £m | 2017 £m |
|---|---|---|
| *Amounts falling due within one year* | | |
| Other debtors | 9.5 | 5.1 |

Other debtors include an accrual of £3.8m relating to VISA shares sale proceeds (note 9) which were in the course of being cleared at the year end.

# 14. OTHER LIABILITIES

| | 2018 £m | 2017 £m |
|---|---|---|
| *Amounts falling due within one year* | | |
| Other creditors | 4.8 | 4.8 |

# 15. SHARE CAPITAL

| | 2018 £ | 2017 £ |
|---|---|---|
| *Allotted, called up and fully paid* | | |
| 1,000 (2017:1,000) Ordinary shares of £1 each | 1,000 | 1,000 |

# 16. CAPITAL MANAGEMENT AND RESOURCES

The Company's immediate UK parent, 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. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Santander UK group's capital management can be found in the Santander UK plc Annual Report and financial statements.

Capital held by the Company and managed centrally as part of the Santander UK group, comprises share capital and reserves which can be found in the Balance Sheet.

# 17. CONTINGENT LIABILITIES

At 31 December 2018, Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited, which are the three PRA-regulated entities in the Santander UK group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc including the Company. The parties to the Capital Support Deed 2015 were permitted to form a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed was 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 breached or was at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission as supported by the Capital Support Deed 2015 expired on 31 December 2018. From 1 January 2019 as a result of ring-fencing, Santander UK plc entered into a new Capital support deed with Cater Allen Limited and certain non-regulated subsidiaries including the Company which expires 31 December 2021.

# 18. RELATED PARTIES

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £m | £m | £m | £m |
| Santander Consumer Credit Services Limited | 0.5 | 0.4 | 0.2 | 2.4 |
| Santander Cards Ireland Limited | - | 0.1 | 0.3 | 1.3 |
| First National Tricity Finance Limited | - | - | 0.4 | 0.4 |
| Santander Global Consumer Finance Limited | - | - | 0.1 | 0.1 |
| Santander UK plc | 0.4 | 0.2 | 0.1 | - |
| | 0.9 | 0.7 | 1.1 | 4.2 |

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | £m | £m | £m | £m |
| Santander Consumer Credit Services Limited - Loan | 31.7 | 31.8 | - | - |
| Santander Consumer Credit Services Limited – Impairment | (31.4) | (31.2) | - | - |
| Santander Cards Ireland Limited – Loan | 7.0 | 6.9 | 0.3 | 0.3 |
| Santander Cards Ireland Limited - Impairment | (6.8) | (6.5) | - | - |
| First National Tricity Finance Limited - Loan | 0.1 | 0.1 | 6.0 | 5.8 |
| Santander Global Consumer Finance Limited – Loan | 16.6 | 16.6 | 23.1 | 22.9 |
| Santander UK plc - Loan | 0.3 | - | 14.2 | 13.4 |
| Santander UK plc – Bank account | 56.6 | 56.0 | - | - |
| Santander UK plc – Group Relief | 2.5 | - | - | - |
| Abbey National Treasury Services plc – Group Relief | - | 2.5 | - | - |
| | 76.6 | 76.2 | 43.6 | 42.4 |

Other transactions:

| | 2018 | 2017 |
|---|---|---|
| | £m | £m |
| Dividend paid to immediate parent Company | 10.0 | - |
| Dividend received from subsidiary – Santander Cards Limited | 10.0 | - |

The Company paid an interim dividend of £10m out of its cumulative and realised retained earnings on 11 July 2018.

During the year, the Company entered into no transactions with key management personnel of the Company, (2017: £nil).

Amounts owed by and to group undertakings are unsecured. Loans with Santander Consumer Credit Services Limited, First National Tricity Finance Limited and Santander Global Consumer Finance Limited accrue interest at 3 month LIBOR and a margin of 110 bps. Interest on the loan with Santander Cards Ireland accrues at 3 month EURIBOR and a margin of 110 bps. The loan from Santander UK plc accrues interest at 1 month LIBOR in the current year.

# 19. 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 the 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, United Kingdom NW1 3AN.

# 20. RESTATEMENT

The opening reserves have been restated to reflect a provision for possible exposures as result of continued uncertainty over negotiations with HMRC regarding the tax treatment of the disposal of the cards business in 2013. The provision was omitted from the Company's financial Statements as it was provided for in its Parent Company. The impact of these adjustments on the Balance Sheet is summarised below:

| | 31 December 2017 (as previously reported) £m | Adjustments £m | 31 December 2017 (as restated) £m | 1 January 2017 (as previously reported) £m | Adjustments £m | 1 January 2017 (as restated) £m |
|---|---|---|---|---|---|---|
| Current liabilities | | | | | | |
| Current tax liabilities | - | 8.6 | 8.6 | - | 8.6 | 8.6 |
| Total liabilities | 47.2 | 8.6 | 55.8 | 45.7 | 8.6 | 54.3 |
| Equity | | | | | | |
| Retained earnings | 140.8 | (8.6) | 132.2 | 143.3 | (8.6) | 134.7 |
| Total equity | 140.8 | (8.6) | 132.2 | 143.3 | (8.6) | 134.7 |