2018 Annual Report

Abbey National Treasury Services plc

PART OF THE BANCO SANTANDER GROUP

Abbey National Treasury Services plc
2018 Annual Report
Index

Strategic report 2

Financial review 4

Governance
Directors 9
Directors' report 10

Risk review 15

Financial statements
Auditor's report 33
Primary financial statements 37
Notes to the financial statements 41

Important information for readers
Abbey National Treasury Services plc (the Company or ANTS) operates primarily in the UK, and is part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Abbey National Treasury Services plc is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Isle of Man branch is regulated by the Isle of Man Financial Services Authority. The Jersey branch is regulated by the Jersey Financial Services Commission.

This Annual Report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements.

For more information see www.aboutsantander.co.uk.

Strategic report

Abbey National Treasury Services plc (ANTS or the Company) is a subsidiary of Santander UK Group Holdings plc (together with its subsidiaries, Santander UK or the Santander UK group). The Company is required to set out in this report a fair review of its business and a description of its principal risks and uncertainties, including a balanced and comprehensive analysis of the development and performance of the business in the year and of its position at the end of the year. This information can be found below and in the following sections of this Annual Report, which are incorporated into and form part of this Strategic report.

Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' Report (for which see page 10) and the Strategic report. Under English law, the Directors would be liable to the Company, but not to any third party, if one or more of these reports contained errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would otherwise not be liable. Pages 10 to 14 inclusive comprise the Directors' Report, pages 2 and 3 comprise the Strategic report, each of which have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

The Directors, in preparing this Strategic report, have complied with Section 414C of the Companies Act 2006.

Principal activities and business review

The Company historically provided corporate and wholesale banking, and treasury services to UK clients and the wider Santander UK group, of which ANTS is a part.

The Financial Services (Banking Reform) Act 2013 inserted provisions into the Financial Services and Markets Act 2000 (FSMA) and related legislation requiring the Santander UK group amongst a number of other UK banking groups, to operationally and legally separate certain retail banking activities from certain wholesale or investment banking activities by 1 January 2019. This is known as 'ring-fencing'.

Under Santander UK's ring-fencing plans, Santander UK plc became the ring-fenced bank of the Santander UK group. To support this, in 2018, ANTS was emptied of most assets and liabilities, except for a small pool of residual assets and liabilities, and was sold by Santander UK plc, becoming a wholly-owned direct subsidiary of Santander UK Group Holdings plc. As a result, the businesses transferred or run-down are presented in the Financial Statements as discontinued operations. In addition, on 17 December 2018, the businesses of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc was sold to ANTS. For more information, see Note 37 to the Financial Statements.

Following these restructures, ANTS is now an operating company whose principal activity is to undertake banking and financial services transactions to customers in Jersey and the Isle of Man. It also holds a small pool of residual assets and liabilities, which is intended to be run down and/or managed for value.

ANTS had previously entered into agreements to provide capital and/or liquidity to Santander UK plc and other members of the Santander UK group, in order to facilitate efficient intercompany funding arrangements under current regulations. Following the implementation of the Santander UK group's ring-fencing plans and in order to comply with ring-fencing legislation, the previous capital agreement expired on 31 December 2018, and ANTS withdrew from the liquidity arrangements on the same date. With effect from 1 January 2019, ANTS formed a new capital core UK group with Santander UK Group Holdings plc and Santander Equity Investments Limited (the Non-Ring Fenced Bank Capital Support Deed). In addition, with effect from 1 January 2019 ANTS now manages its own liquidity separately.

In addition, ANTS had previously given a full and unconditional guarantee in respect of certain unsubordinated liabilities of Santander UK plc (excluding debt securities). Via this guarantee, the Company had previously also indirectly guaranteed the obligations of Cater Allen Limited incurred prior to 31 December 2018. As part of the Santander UK group's ring-fencing plans, this guarantee was terminated and was of no further force and effect such that, with effect from 1 January 2019, the Company was released and discharged from all related present and future obligations and liabilities.

For more on these guarantees and agreements, see Note 28 to the Financial Statements.

Development and performance of our business in 2018
Information on the development and performance of our business in the year is set out in the 'Income statement review' section of the Financial review.

Our position at 31 December 2018
Information on our position at the end of the year is set out in the 'Balance sheet review' section of the Financial review.

2019 outlook remains uncertain
We expect global economic activity to continue to expand in 2019, albeit at a slower pace with a number of heightened risks to the outlook from the ongoing imposition of trade restrictions, geopolitical tensions and slower growth in developed economies. These risks, together with the uncertain environment, highly competitive banking market and demanding regulatory agenda in the UK, mean we are cautious in our outlook

Our principal risks and uncertainties

Information on our principal risks and uncertainties is set out in the Risk review by type of risk.

Key performance indicators

The directors of the Company's ultimate UK parent, Santander UK Group Holdings plc, manage the operations of the Santander UK group (which includes ANTS) on a business division basis. Key performance indicators are not set, monitored or managed at the Company level. As a result, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The development performance and position of the business of the Company is set out in the Financial review. The key performance indicators of the Santander UK group can be found on page 12 of its 2018 Annual Report, which does not form part of this report.

Managing our environmental impact efficiently

Our Environment & Energy Management Systems provide a framework for defining responsibilities and processes in relation to waste, energy, water, travel and supply chain management at our 15 main offices and data centres in the UK. In 2018, we successfully recertified the ISO 14001 & ISO 50001 accreditation across all of these properties.

Managing our supply chain responsibly

We want to do business with like-minded companies who share our values and ambition to be a driver of prosperity and who therefore meet our risk and control standards as outlined in our Third Party Supplier Risk Framework.

We continually review our supply chain management policies and processes to comply with the 2015 Modern Slavery Act requirements. We require our suppliers to comply with explicit requirements to respect human rights and adhere to ethical labour practices.

We meet the Living Wage requirement for employees of suppliers who work at Santander UK sites, and our standard supplier contracts include specific requirements to respect human rights and ethical labour practice based on the principles of the UN Global Compact.

We are committed to high ethical standards

Ethics and integrity are at the heart of a prosperous business and society. Corruption, bribery, modern slavery and financial crime erode the value that business creates and divert precious resources away from the socio-economic growth of our country. We want to protect and maintain our licence to operate by acting responsibly and demonstrating how we live up to our values in everything we do. We are determined to uphold the highest standards and promote human rights, sound business ethics and corporate culture.

See the Directors' report for more on our Code of Ethical Conduct and Anti-Bribery and Corruption Policy.

By Order of the Board

Antonio Roman
Director
27 February 2019

Financial review

5 Income statement review
6 Balance sheet review

INCOME STATEMENT REVIEW

SUMMARISED INCOME STATEMENT

	2018 £m	2017 £m
Net interest income	1.8	1.4
Non-interest income/(expense)[1]	2.7	(0.2)
Total operating income	4.5	1.2
Operating expenses before credit impairment losses, provisions and charges	(2.7)	(2.2)
Operating credit impairment losses, provisions and charges	-	-
Profit/(loss) on continuing operations before tax	1.8	(1.0)
Tax on profit on continuing operations	(0.4)	0.3
Profit/(loss) on continuing operations after tax	1.4	(0.7)
Profit in respect of discontinued operations after tax	17.8	132.4
Profit after tax	19.2	131.7

(1) Comprised of Net trading and other income.

A more detailed income statement is contained in the Financial Statements.

2018 compared to 2017

As described in the Strategic Report and in Note 37 to the Financial Statements, in 2018 under Santander UK's ring-fencing plans, ANTS was emptied of most assets and liabilities, except for a small pool of residual assets and liabilities. The prohibited business of ANTS, which principally included the Santander UK group's derivatives business with financial institutions, certain corporates and the Santander UK group's short term markets business, was either transferred to Banco Santander London branch or, in the case of the majority of our short-term markets business, was run down. The majority of the permitted business of ANTS transferred to Santander UK plc, with a small amount of the permitted business of ANTS transferring to Banco Santander London Branch. These transactions had a significant impact on the results of the Company in 2018.

In addition and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the results of the businesses that were transferred or run-down in the year are presented in the income statement as discontinued operations, with prior periods restated accordingly.

Profit/(loss) on continuing operations before tax increased by £2.8m to a profit of £1.8m in 2018 (2017: loss of £1.0m) mainly due to positive mark to market movements on legacy loan books held at fair value through profit or loss as well as the inclusion of the results of the Crown Dependency branches (Jersey and Isle of Man) following their acquisition on 17 December 2018.

Profit from discontinued operations after tax decreased by £114.6m to £17.8m in 2018 (2017: £132.4m) reflecting the transfer and run down of the businesses in 2018.

Critical factors affecting results

The preparation of our Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the balance sheet date 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 other factors believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Estimates and judgements that are considered important to the portrayal of our financial condition are set out in 'Critical Judgements and Accounting Estimates' in Note 1 to the Financial Statements.

BALANCE SHEET REVIEW

SUMMARISED BALANCE SHEET

	2018 £m	2017 £m
Assets		
Cash and balances at central banks	4,433	5,128
Financial assets at fair value through profit or loss:		
- Trading assets	-	30,170
- Derivative financial instruments	36	19,853
- Other financial assets at fair value through profit or loss	426	1,152
Financial assets at amortised cost:		
- Loans and advances to customers[1]	453	8,117
- Loans and advances to banks[1]	718	6,260
- Reverse repurchase agreements - non trading[1]	-	8,782
Financial investments	-	255
Interest in other entities	-	57
Property, plant and equipment	3	10
Tax, intangibles and other assets	19	305
Total assets	6,088	80,089
Liabilities		
Financial liabilities at fair value through profit or loss:		
- Trading liabilities	-	31,109
- Derivative financial instruments	222	20,972
- Other financial liabilities at fair value through profit or loss	-	1,043
Financial liabilities at amortised cost:		
- Deposits by customers	4,825	2,448
- Deposits by banks[1]	606	14,084
- Repurchase agreements - non trading[1]	-	223
- Debt securities in issue	-	6,043
Tax, other liabilities and provisions	89	285
Total liabilities	5,742	76,207
Equity		
Total shareholders' equity	346	3,882
Total equity	346	3,882
Total liabilities and equity	6,088	80,089

(1) From 1 January 2018, the non-trading repurchase agreements and non-trading reverse repurchase agreements that are held at amortised cost are now presented as separate lines in the balance sheet, as described in Note 1 to the Financial Statements. Comparatives are re-presented accordingly.

A more detailed balance sheet is contained in the Financial Statements.

2018 compared to 2017

As described in the Strategic Report and in Note 37 to the Financial Statements, in 2018 under Santander UK's ring-fencing plans ANTS was emptied of most assets and liabilities, except for a small pool of residual assets and liabilities. In addition, on 17 December 2018, the business of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc was sold to ANTS. These transactions had a significant impact on the balance sheet of the Company in 2018.

Assets

Cash and balances at central banks

Cash and balances at central banks decreased by 14% to £4,433m at 31 December 2018 (2017: £5,128m). This was mainly due to no balances being held with the US Federal Reserve following the closure of the ANTS branch office in the US, partially offset by increases in balances held with the Bank of England following the acquisition of the Crown Dependency branches of Santander UK.

Trading assets

Trading assets decreased to £nil at 31 December 2018 (2017: £30,170m). This reflected the run-down of the majority of our trading business, and the transfer of our gilt-edged market-making business to Banco Santander London Branch, as part of our transition to our ring-fenced model.

Derivative financial instruments - assets

Derivative assets decreased to £36m at 31 December 2018 (2017: £19,853m). This mainly reflected the transfer of the prohibited part of our derivatives business with financial institutions to Banco Santander London Branch, as well as the transfer of the permitted derivatives business to Santander UK plc, as part of the transition to our ring-fenced model.

Other financial assets at fair value through profit or loss
Other financial assets at fair value through profit or loss decreased by 63% to £426m at 31 December 2018 (2017: £1,152m). This was mainly driven by the election to re-measure Social Housing loans from FVTPL to amortised cost to reflect the hold to collect business model following the adoption of IFRS9. These loans were subsequently transferred to Santander UK plc as part of our ring-fencing plans. The residual balance principally comprises a small portfolio of receivables held in run-off.

Loans and advances to customers
Loans and advances to customers decreased to £453m at 31 December 2018 (2017: £8,117m). This mainly reflected the transfer of our permitted lending business to Santander UK plc, with a small amount of prohibited lending being transferred to Banco Santander London branch. This was partially offset by the inclusion of £453m of mortgage advances and other loans following the acquisition of the Crown Dependency branches of Santander UK plc.

Loans and advances to banks
Loans and advances to banks decreased to £718m at 31 December 2018 (2017: £6,260m), mainly reflecting reduced balances with other Santander UK group companies.

Reverse repurchase agreements – non trading
Non trading reverse repurchase agreements decreased to £nil at 31 December 2018 (2017: £8,782m), mainly due to the transfer of the permitted business to Santander UK plc, as part of the transition to our ring-fenced model.

Financial investments
Financial investments decreased to £nil at 31 December 2018 (2017: £255m), mainly due to the reclassification of £150m of debt securities to fair value through profit or loss on adoption of IFRS 9 (reflecting the fact that these financial assets do not have 'solely payment of principal and interest' characteristics), and the subsequent transfer of remaining debt securities to Banco Santander London branch, as part of the transition to our ring-fenced model.

Tax, intangibles and other assets
Tax, intangibles and other assets decreased to £19m at 31 December 2018 (2017: £305m) mainly due to the reduction of macro hedging in respect of loans transferred to Banco Santander London branch, as part of the transition to our ring-fenced model.

Liabilities

Trading liabilities
Trading liabilities decreased to £nil at 31 December 2018 (2017: £31,109m). This reflected the run-down of the majority of our trading business, and the transfer of our gilt-edged market making business to Banco Santander London branch, as part of the transition to our ring-fenced model.

Derivative financial instruments - liabilities
Derivative liabilities decreased to £222m at 31 December 2018 (2017: £20,972m). This mainly related to the transfer of the prohibited part of our derivatives business with financial institutions to Banco Santander London branch, as well as the transfer of our permitted derivatives business to Santander UK plc, as part of the transition to our ring-fenced model.

Other financial liabilities at fair value through profit or loss
Other financial liabilities at fair value through profit or loss decreased to £nil at 31 December 2018 (2017: £1,043m). This reflected the maturity of the remaining outstanding issuances out of the US$ 10bn Euro Commercial Paper Programmes, as well as the transfer of structured deposits to Santander UK plc as part of the transition to our ring-fenced model.

Deposits by customers
Deposits by customers increased to £4,825m at 31 December 2018 (2017: £2,448m). This was mainly due to the inclusion of retail customer deposits following the acquisition of the Crown Dependency branches, partially offset by reductions in wholesale funds and deposits, as part of the transition to our ring-fenced model.

Deposits by banks
Deposits by banks decreased to £606m at 31 December 2018 (2017: £14,084m). This mainly reflected the decrease in funding from other Santander UK group subsidiaries and other deposits that are no longer required to fund the assets which were transferred out of ANTS, as part of the transition to our ring-fenced model.

Repurchase agreements – non trading
Non trading repurchase agreements decreased to £nil at 31 December 2018 (2017: £223m), mainly due to the transfer of the permitted business to Santander UK plc, as part of the transition to our ring-fenced model.

Debt securities in issue
Debt securities in issue decreased to £nil at 31 December 2018 (2017: £6,043m). This reflected the maturity of all outstanding commercial paper and certificates of deposit as part of the transition to our ring-fenced model.

Tax, other liabilities and provisions
Tax, other liabilities and provisions decreased to £89m at 31 December 2018 (2017: £285m) as part of the transition to our ring-fenced model.

Equity
Total shareholders' equity
Total shareholders' equity decreased to £346m at 31 December 2018 (2017: £3,882m) as ANTS paid Santander UK plc dividends of £3,546m in respect of the ring-fencing transfers referred to above.

Governance

9 Directors
10 Directors' report

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Simon Lloyd

Chairman

Timothy Simon Lloyd was appointed as Non-Executive Director and Chairman of Abbey National Treasury Services plc on 11 August 2016. Simon has extensive experience as a Company Secretary and General Counsel in the financial services industry and was the Chief Administration Officer of Santander UK plc until his retirement from that company on 31 December 2016. Previously he occupied the role of Chief People Officer (2008 – 2015) at Santander UK plc and Company Secretary for Alliance & Leicester plc (2003 - 2007). Simon trained as a solicitor and spent seven years in private practice before moving into the financial services industry, where he has also held roles as Company Secretary and General Counsel at Bristol & West plc, and Head of Legal for UK Retail Banking at Lloyds Bank plc. Simon is also Chairman of Milton Keynes University Hospital NHS Foundation Trust.

Vicky Wallis

Non-Executive Director

Vicky Wallis was appointed as Non-Executive Director of the Company on 30 November 2018. Vicky joined Santander UK as Chief HR Officer in April 2015 with overall responsibility for the Santander UK group's recruitment and training programme, performance matters, and employee benefits and reward. She brings a breadth of experience having spent 26 years with Wallis Consulting, Vodafone and Royal Bank of Scotland, in roles including Head of HR.

Andrew Honey

Non-Executive Director

Andrew Honey was appointed as Non-Executive Director of the Company on 12 December 2018. Andrew joined Santander UK plc in 2012. He is currently Director, Governance & Regulatory Affairs and has previously held the role of Deputy Company Secretary & Head of Regulatory Affairs of Santander UK plc. Andrew brings a wealth of experience to this role having spent over 25 years with the Bank of England and the former Financial Services Authority.

EXECUTIVE DIRECTORS

Antonio Roman

Chief Executive Officer and Chief Financial Officer

Antonio Roman was appointed Chief Executive Officer of the Company on 5 February 2019, and Executive Director and Chief Financial Officer of the Company on 31 July 2014. He is also Chief Financial Officer of Santander UK plc. Antonio has extensive financial services experience across a wide range of areas including Finance, Investor Relations and Retail Banking. He was appointed Treasurer of Santander UK plc in 2014, with responsibility for the management of interest risk, liquidity, funding, economics and investor relations. Antonio joined Santander UK plc in 2013 as Deputy Treasurer and prior to that held the position of Head of Financial Management at Banco Español de Credito SA.

Patricia Halliday

Chief Risk Officer

Patricia Halliday was appointed as Executive Director and Chief Risk Officer of the Company on 22 January 2018. She is also Chief Risk Officer for Santander UK plc. Patricia joined Santander UK in May 2017 and brings a wealth of expertise to this role having held senior risk roles for the last 18 years, including in GE Capital, Deutsche Bank and Barclays Capital.

Tom Ranger

Executive Director

Tom Ranger was appointed as Executive Director of the Company on 23 January 2019. He is also Treasurer of Santander UK plc. Tom joined Santander UK plc in 2009 as Head of Secured Funding following the integration of Alliance & Leicester which he joined in 2007. Tom brings a breadth of experience on treasury and regulatory matters having held senior positions for the last 18 years in the banking sector.

Directors' report

INTRODUCTION

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2018.

HISTORY AND CORPORATE STRUCTURE

ANTS was established in 1989 for the purpose of managing the liquidity, risk management and wholesale banking needs of Abbey National plc (subsequently renamed Santander UK plc) and its subsidiaries.

In 1997, Abbey National plc acquired the business and assets of Cater Allen Holdings plc (CAH) for £195m. The synergies between ANTS and the Cater Allen business provided ANTS with opportunities for growth in strategically important markets with Cater Allen's then principal businesses comprising money markets, a share dealing service and onshore and offshore retail banking.

On 12 November 2004, Banco Santander SA, a company incorporated in Spain, completed the acquisition of the entire issued ordinary share capital of the parent company of ANTS, Santander UK plc, at which point the Company became an indirect subsidiary of Banco Santander SA.

In 2010, all of the business and assets of Cater Allen International Limited, a subsidiary of CAH and a significant participant in the repo and wholesale money markets, were transferred to the Company. The principal purpose of the transfer was to increase the efficiency of ANTS and the Santander UK group. No gain or loss was recognised on the transfer.

In 2018, Santander UK Group Holdings plc acquired the entire issued share capital of the Company from Santander UK plc. On 17 December 2018, the businesses of Santander UK plc Jersey Branch and the Isle of Man Branch were transferred to two new Abbey National Treasury Services plc Jersey and Isle of Man branches. The principal purpose of the transfers was to comply with ring-fencing legislation by moving the Company and prohibited businesses out of Santander UK plc, the ring-fenced bank.

The Company is a wholly-owned subsidiary of Santander UK Group Holdings plc which, in turn, is a wholly-owned subsidiary of Banco Santander SA. The ordinary shares of the Company are not traded on the London Stock Exchange.

RESULTS AND DIVIDENDS

The profit after tax for the year was £19.2m (2017: £131.7m). The Directors do not recommend the payment of a final dividend for 2018 (2017: £nil) on the ordinary shares in issue. Interim dividends of £600m and £2,946m were paid during the year on the ordinary shares (2017: £nil).

Details of ANTS's activities and business performance during 2018 are set out in the Strategic report on pages 2 to 3, and the Financial review on pages 4 to 7.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no material post balance sheet events.

DIRECTORS

Directors who served during the year and to the date of signing the financial statements were as follows:

Name of Director	Date of appointment
Simon Lloyd (Chair and Non-Executive)	11 August 2016
Antonio Roman (Chief Executive Officer and Chief Financial Officer)	31 July 2014
Patricia Halliday (Chief Risk Officer)	22 January 2018
Tom Ranger	23 January 2019
Vicky Wallis (Non-Executive)	30 November 2018
Andrew Honey (Non-Executive)	12 December 2018

During the year, the following directors resigned:

Name of Director	Date of resignation
Susan Allen (Non-Executive)	31 December 2018
Patrick Flynn	31 December 2018
Juan Garrido Otaola (Chief Executive Officer)	31 December 2018
Chris Sullivan (Non-Executive)	31 October 2018

None of the Directors have service contracts with ANTS. All Directors except the Chairman are employed by companies within Banco Santander and have employment contracts which are for an indefinite term, except for the Chairman who, since retiring from Santander UK plc on 31 December 2016, has served under a contract for services. Directors may be paid instead of being required to work during their notice period. None of the Directors' employment contracts provide for benefits to be paid on termination of employment other than for redundancy.

All Directors are appointed and retired in accordance with the Company's Articles of Association and the UK Companies Act 2006. The Company does not require the Directors to offer themselves for re-election every year, or that new Directors appointed by the Board offer themselves for election at the next Annual General Meeting.

Details of aggregate remuneration received by the Directors of the Company in 2018 and 2017 are found in Note 33 to the Financial Statements. The remuneration, excluding pension contributions, of the highest paid Director and details of Director participation in defined benefit pension schemes are contained in Note 33 to the Financial Statements. For a description and details of related party transactions, see Note 34 to the Financial Statements.

Directors' 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 Annual Report. 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.

EMPLOYEES

Except for the staff of the Jersey branch, the Company's staff have employment contracts with Santander UK plc, or in the case of the staff of the Isle of Man branch ALIL Services Limited, rather than with the Company. The cost of their services is recharged by Santander UK plc and ALIL Services Limited to the Company.

As part of the Santander UK group, we continue to ensure that our remuneration policies are consistent with our strategic objectives and are designed with the long-term success of the Company in mind. In doing so we aim to attract and retain the most talented and committed people with first class development schemes and a customer-focused culture that empowers people, values individuality and encourages collaboration. A highly-motivated and engaged workforce provides the best service for our customers.

Employee involvement

Communication

ANTS participates in Santander UK's policies and wants to involve and inform employees on matters that affect them. The intranet is a focal point for communications with daily updates on what is happening across Santander UK (including ANTS). The 'We are Santander' website connects staff to all the information they need about working for Santander UK (including ANTS). Santander UK (including ANTS) also uses face-to-face communication, such as team meetings, regional roadshows and annual staff conventions for strategic updates. All these channels are designed to keep employees fully informed of news and developments which may have an impact on them, and to keep them up to date on financial, economic and other factors which affect the Company's performance. Santander UK (including ANTS) considers employees' opinions and asks for their views on a range of issues through regular Company-wide surveys.

Consultation

Santander UK (including ANTS) has a successful history of working in partnership with its recognised trade unions, Advance and the Communication Workers Union (CWU). Both trade unions are affiliated to the Trades Union Congress. We consult Advance and the CWU on significant proposals and change initiatives within the business at both national and local levels.

Employee share ownership

Santander UK (including ANTS) continues to operate two all-employee, HMRC-approved share schemes: a Save-As-You-Earn (Sharesave) Scheme and a Share Incentive Plan (SIP), the latter of which allows employees to purchase Banco Santander SA shares from gross salary. Eligible senior management can participate in a Banco Santander long-term incentive plan. See Note 33 to the Financial Statements for a description of the plans and the related costs and obligations.

DISABILITY

Santander UK (including ANTS) is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. Santander UK (including ANTS) has processes in place to help train, develop, retain and promote employees with disabilities. It is committed to giving full and fair consideration to applications for employment made by disabled people, having regard to their particular aptitudes and abilities, and for continuing the employment of employees who have become disabled by arranging appropriate training and making reasonable adjustments within the workplace.

CODE OF ETHICAL CONDUCT

Santander UK (including ANTS) is committed to maintaining high ethical standards – adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are further reflected in Santander UK's Code of Ethical Conduct, as updated in October 2018. This sets out the standards expected of all employees, and supports The Santander Way and Santander UK's (including ANTS) commitment to being Simple, Personal and Fair.

Under their terms and conditions of employment, staff are required to act at all times with the highest standards of business conduct in order to protect Santander UK's (including ANTS's) reputation and ensure a Company culture which is free from any risk of corruption, compromise or conflicts of interest. Staff are also required to comply with all Company policies, including the Anti-Bribery and Corruption Policy.

These require employees to:
- Abide by all relevant laws and regulations
- Act with integrity in all their business actions on behalf of Santander UK (including ANTS)
- Not use their authority or office for personal gain
- Conduct business relationships in a transparent manner and
- Reject all improper practices or dealings they may be exposed to.

POLITICAL CONTRIBUTIONS

In 2018 and 2017, no contributions were made for political purposes and no political expenditure was incurred.

SHARE CAPITAL

Details of the structure of the Company's capital, including the rights and obligations attaching apply to each class of share in the Company, can be found in Note 29 to the Financial Statements which are incorporated by reference into this report. The powers of the Directors in relation to share capital are set out in the Company's Articles of Association as determined by the Companies Act 2006.

SUBSIDIARIES AND BRANCHES

The Company has no subsidiaries, associates or joint ventures. The Company has branch offices in Jersey and the Isle of Man. The Company also had a branch office in the US which closed in the year. For further information, see Note 18 to the Financial Statements.

FINANCIAL INSTRUMENTS

ANTS's risks are managed on a group level by Santander UK Group Holdings plc. The financial risk management objectives and policies of Santander UK (including ANTS) and the exposure of ANTS to credit risk, market risk, and liquidity risk are outlined in the Risk review.

RESEARCH AND DEVELOPMENT

New products, campaigns and business initiatives are reviewed by Santander UK's Product Approval and Oversight Committee.

SUPERVISION AND REGULATION

The Company is authorised by the PRA and regulated by the FCA and the PRA. The Isle of Man branch is regulated by the Isle of Man Financial Services Authority. The Jersey branch is regulated by the Jersey Financial Services Commission. While ANTS operates primarily in the UK, it is also subject to the laws and regulations of the other jurisdictions in which it operates.

BOARD COMMITTEES

ANTS maintains a standing Board Audit Committee, Board Risk Committee and Board Nomination Committee. Each Committee is chaired by the Company Chair and met regularly throughout the year.

INTERNAL CONTROLS

Risk management and internal controls

The Board and its Committees are responsible for reviewing and ensuring the effectiveness of management's system of risk management and internal controls. We have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. For further details, see the Risk review.

Management's report on internal control over financial reporting

Internal control over financial reporting is a component of an overall system of internal control. ANTS's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting, and the preparation and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

ANTS' internal control over financial reporting includes:

- Policies and procedures that relate to the maintenance of records that fairly and accurately reflect the transactions and dispositions of assets
- Controls providing reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only as authorised by management
- Controls providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, and use of disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or because the degree of compliance with policies or procedures may deteriorate.

Management is responsible for establishing and maintaining adequate internal control over the financial reporting of ANTS. Management assessed the effectiveness of ANTS's internal control over financial reporting at 31 December 2018 based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in May 2013 (the 2013 Framework).

Based on this assessment, management concluded, at 31 December 2018, that ANTS's internal control over financial reporting was effective.

GOING CONCERN

The going concern of the Company is reliant on preserving a sufficient level of capital and adequately funding the balance sheet. The Company's business activities and financial position, together with the factors likely to affect its future development and performance, are set out in the Strategic report on pages 2 and 3, and the Financial review on pages 4 to 7. The Company's objectives, policies and processes for managing the financial risks to which it is exposed, including capital, funding and liquidity, are described in the Risk review.

In assessing going concern, the Directors take account of all information of which they are aware about the future, which is at least, but is not limited to, 12 months from the date that the financial statements are approved.

As described in the Strategic Report, as a result of the structural reform of the Santander UK group (consisting of Santander UK Group Holdings plc and its subsidiaries), the Company was sold by Santander UK plc during the year and became a wholly-owned direct subsidiary of Santander UK Group Holdings plc. During the course of the year, the prohibited business of the Company, which principally included the Company's derivatives business with financial institutions, certain corporates and elements of the short term markets business, was transferred to Banco Santander SA. In addition, during the year the majority of the permitted business of the Company was transferred to Santander UK plc, with a small amount of the permitted business of the Company transferring to Banco Santander London Branch. On 17 December 2018, the businesses of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc were transferred to the Company. The branch of the Company in the US was closed in December 2018. Following all of these changes, the Company's principal activity is to undertake banking and financial services transactions for customers in Jersey and the Isle of Man, whilst also holding a small pool of residual assets and liabilities that were not otherwise sold or transferred as referred to above.

From the point at which the Company became a subsidiary of Santander UK Group Holdings plc, the Company was reliant on Santander UK Group Holdings plc for some of its funding. In this context, the Board of Santander UK Group Holdings plc has confirmed that Santander UK Group Holdings plc is a going concern, and that it will provide funding to the Company for the foreseeable future. In giving this commitment to provide funding to the Company, the Board of Santander UK Group Holdings plc have considered the uncertainties within ANTS when preparing the forecasts and budgets of the businesses of the Santander UK group.

At 31 December 2018, the Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed 2015) with Santander UK Group Holdings plc and certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed 2015 were permitted by the PRA 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 were exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed 2015 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. With effect from 1 January 2019, and in accordance with our ring-fenced structure, the Company, Santander UK Group Holdings plc and Santander Equity Investments Limited have entered into a Capital Support Deed dated 13 November 2018 (the Non-RFB Capital Support Deed). From 1 January 2019, the parties to the Non-RFB Capital Support Deed have been permitted by the PRA to form a core UK group, a permission which will expire on 31 December 2021. Other than the change of the entities in scope, the purpose of the Non-RFB Capital Support Deed is the same as the Capital Support Deed 2015.

Governance

At 31 December 2018, the Company, Santander UK plc, and Cater Allen Limited constituted the Domestic Liquidity Sub-group (DoLSub) under the PRA's regulatory liquidity rules. Each member of the DoLSub was required to support the others by transferring surplus liquidity in times of stress. With effect from 1 January 2019, and in accordance with our ring-fenced structure, Santander UK plc was granted a new DoLSub permission, withdrawing the Company from the UK DoLSub. The Company now manages its own liquidity.

Having assessed the principal risks and the other matters discussed above, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report 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 IFRS as adopted by the EU. In preparing the financial statements, the directors have also elected to comply with IFRS, issued by the IASB. 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 the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable IFRS as adopted by the EU and IFRS issued by the IASB have been followed for the financial statements, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent
- 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 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. 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 UK Companies Act 2006. The Directors are responsible for the maintenance and integrity of the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Having taken into account all the matters considered by the Board and brought to its attention during the year, the Directors are satisfied that the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary to assess Santander UK's performance, business model and strategy.

Each of the Directors at the date of approval of this report confirms, to the best of their knowledge, that:

- The financial statements, prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company
- The management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties they face.

DISCLOSURE OF INFORMATION TO AUDITORS

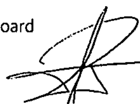
Each of the Directors at the date of approval of this report confirms that:
- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and
- The Director has taken all steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the UK Companies Act 2006.

AUDITOR

PricewaterhouseCoopers LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Company's forthcoming Annual General Meeting.

By Order of the Board



Antonio Roman
Director
27 February 2019
2 Triton Square, Regent's Place, London NW1 3AN

This Risk review consists of audited financial information, except where it is marked as unaudited. The audited financial information is an integral part of the Financial Statements.

16	Risk governance
17	Credit risk
28	Market risk
28	– Banking market risk
28	– Trading market risk
29	Liquidity risk
30	Capital risk

RISK GOVERNANCE

RISK FRAMEWORK

Our risk governance structure

We are committed to the highest standards of corporate governance in every part of our business. This includes risk management. For details of our governance, including the Board and its Committees, see the 'Governance' section of this Annual Report. ANTS maintains a Board Audit Committee, Board Risk Committee and Board Nomination Committee. The Board delegates certain responsibilities to Board level Committees as needed and where appropriate.

Our risk governance structure strengthens our ability to identify, assess, manage and report risks, as follows:
- Committees: A number of Board and Executive committees are responsible for specific parts of the Risk Framework
- Key senior management roles with risk management responsibilities: Senior roles with specific responsibilities for risk
- Risk organisational structure: We have 'three lines of defence' built into the way we run our business.

With effect from 1 January 2019, ANTS operates within a standalone Risk Appetite Statement that was approved by the Board in November 2018.

Committees

The Santander UK Risk Framework states that operating companies of Santander UK should have a sufficient committee structure in place to allow them to discharge their risk responsibilities and escalate issues. The structure should be proportionate to the company's size and complexity. The ANTS Board and Executive level committee responsibilities for risk in 2018 were:

Board level Committees	Main risk responsibilities
The ANTS Board	- Has overall responsibility for business execution and for managing risk - Reviews ANTS' adherence to the Santander UK Risk Framework and Santander UK Risk Appetite.
ANTS Board Risk Committee	- Assesses ANTS' adherence to the Santander UK Risk Framework - Advises the Board on Risk Appetite, tolerance and strategy - Oversees our exposure to risk.
ANTS Board Audit Committee	- Monitors and reviews the integrity of the financial statements and any formal announcements relating to financial performance - Reviews the adequacy and effectiveness of the internal financial controls and whistle-blowing arrangements - Monitors and reviews the effectiveness of the internal audit function.

Executive level Committees	Main risk responsibilities
ANTS Executive Committee	- Sets and monitors performance against the ANTS annual plan and budget - Ensures that adequate and effective risk control processes and reporting systems are in place to identify, assess, manage and report all the relevant risks in ANTS as detailed in the Santander UK Risk Framework - Monitors the risk profile of ANTS - Manages the structural balance sheet risks, capital, funding and liquidity, in accordance with the policies, strategies and future plans set by Santander UK.

The Santander UK Corporate Governance Framework and Risk Frameworks have been adopted by its subsidiaries, including ANTS, to ensure consistency of application. Prior to November 2018, the Corporate Governance Framework and Risk Frameworks were applied from the level of Santander UK plc (of which ANTS was a subsidiary at that time) and adopted by Santander UK. As Santander UK is now the immediate parent company of ANTS, its Executive and Board level committees consider the impact on ANTS, as a subsidiary, as part of their decision making process.

Key senior management roles with risk management responsibilities

Chief Executive Officer - The Board delegates responsibility for our business activities and managing risk on a day-to-day basis to the CEO. The CEO proposes our strategy and business plan, puts them into practice and manages the risks involved. The CEO also has to ensure that we have a suitable system of controls to manage risks and report to the Board on it.

Chief Risk Officer - The CRO oversees and challenges risk activities, and ensures new lending decisions are made within the Santander UK Risk Appetite. The CRO is accountable for the control and oversight of credit, market, liquidity, capital, strategic, operational and model risk.

Chief Financial Officer – The CFO is responsible for the development of strategy, leadership and management of the CFO Division. In supporting ANTS corporate goals within the constraints of risk appetite, the CFO is responsible for the management of interest rate, liquidity and capital risks.

Head of Compliance - The Head of Compliance is accountable for the control and oversight of legal, conduct and regulatory, reputational and financial crime risk, and is responsible for reporting on these risks to the CRO to provide them with a holistic enterprise wide view of all risks.

Money Laundering Reporting Officer – The Money Laundering Reporting Officer ("MLRO") is responsible to the Head of Compliance for control and oversight of Financial Crime Risk but has regulatory responsibility to report on this risk type to Executive, Board Committees and the FCA.

Head of Internal Audit - The Head of Internal Audit designs and uses an audit system that identifies key risks and evaluates controls. The Head of Audit also develops an audit plan to assess existing risks that involve producing audit, assurance and monitoring reports.

CREDIT RISK

Overview

As described in Note 37 to the Financial Statements, as part of the Santander UK group's ring-fencing plans, ANTS was emptied of most assets and liabilities in 2018, except for a small pool of residual assets and liabilities. In addition, as described in Note 32 to the Financial Statements, on 17 December 2018 the businesses of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc were transferred to the Company pursuant to transfer schemes effected under relevant Jersey and Isle of Man law. As described in more detail below, these transactions had a significant impact on the credit risk exposures of the Company in 2018.

On 1 January 2018, IFRS 9 replaced IAS 39, and introduced new rules on how to classify and measure financial assets, as well as new concepts, principles and measures for credit impairment charges. For more, see Note 1 to the Financial Statements.

Credit risk management
In this section, we set out our products and services that expose us to credit risk. We also set out our approach to credit risk across the credit risk lifecycle. We also discuss our ECL methodology and the key inputs to our ECL model.

Credit risk review
In this section, we analyse our maximum and net exposures to credit risk, including their credit quality and concentrations of risk.

CREDIT RISK MANAGEMENT

Exposures

Exposures to credit risk arise from the portfolio of residential mortgages we acquired in 2018 as part of the business of the Crown Dependency branches (Jersey and Isle of Man), previously owned by Santander UK plc.

Prior to the changes arising as part of the implementation of our ring-fencing plans, exposures to credit risk also arose in our business segments from:

Corporate & Commercial Banking	Corporate & Investment Banking	Corporate Centre
- Loans, bank accounts, and treasury services. - We provide these to SMEs and mid corporates, Commercial Real Estate and Social Housing associations.	- Loans, treasury products, and treasury markets activities. - We provide these to large corporates, as well as sovereigns and other international organisations.	- Asset and liability management of our balance sheet, as well as our non-core portfolios being run down. - Exposures include sovereign and other international organisation assets that we hold for liquidity.

Portfolios

In 2018, we acquired a portfolio of residential mortgages as part of the business of the Crown Dependency branches (Jersey and Isle of Man), previously owned by Santander UK plc.

Prior to the changes arising as part of the implementation of our ring-fencing plans, our other main portfolios were:

Corporate & Commercial Banking	Corporate & Investment Banking	Corporate Centre
- **SME and mid corporate** – banking, lending and treasury services mainly to enterprises with an annual turnover up to £500m. - **Commercial Real Estate** –lending to experienced, professional landlords mainly secured by tenanted UK property in the office, retail, industrial and residential sub-sectors. - **Social Housing** – lending and treasury services for UK housing association groups secured by tenanted UK residential property. Borrowers are mainly charitable entities and registered with the appropriate regulator for the part of the UK in which they operate.	- **Sovereign and Supranational** – securities issued by local and central governments, and government guaranteed counterparties. - **Large Corporate** – loans and treasury products for large corporates to support their working capital and liquidity needs. - **Financial Institutions** – mainly derivatives, repurchase and reverse repurchase transactions (known as repos and reverse repos), and stock borrowing/lending.	- **Sovereign and Supranational** – securities issued by local and central governments, and government guaranteed counterparties. We hold them to help meet our liquidity needs. - **Structured Products** – the Asset and Liability Committee (ALCO) portfolio is high quality assets, chosen for diversification and liquidity. - **Derivatives** – older total return swaps we held for liquidity, that we are running down. - **Social Housing** – legacy Social Housing loans that do not fit with our strategy. - **Crown Dependencies** – mainly residential mortgages to individuals in Jersey and the Isle of Man.

Following the completion of our ring-fencing plans, the only portfolios that remain in ANTS are managed in Corporate Centre.

Our approach to credit risk

We manage our portfolios across the credit risk lifecycle, from drawing up our risk strategy, plans, budgets and limits to making sure the actual risk profile of our exposures stays in line with our plans and within our Risk Appetite.

1. Risk strategy and planning

All relevant areas of the business work together to create our business plans. We aim to balance our strategy, business goals, and financial and technical resources with our attitude to risk (our Risk Appetite). To do this, we focus particularly on economic and market conditions and forecasts, regulations, conduct considerations, profitability, returns and market share. The result is an agreed set of targets and limits that help us direct our business.

2. Assessment and origination

Managing credit risk begins with lending responsibly. That means only lending to customers who can afford to pay us back, even if things get tighter for them, and are committed to paying us back. We undertake a thorough risk assessment to make sure customers can meet their obligations before we approve a credit application. We make these decisions with authority from the Board and we consider:

- The credit quality of the customer
- The underlying risk – and anything that mitigates it, such as netting or collateral
- Our risk policy, limits and appetite
- Whether we can balance the amount of risk we face with the returns we expect.

We also use stress testing, for example to estimate how a customer might be able to cope if interest rates increase.

Affordability

For residential mortgages, we take proportionate steps to make sure that the customer will be able to make all the repayments on the loan over its full term. As part of this, we assess the risk that they will not pay us back. We do this by a series of initial affordability and credit risk assessments. If the loan is secured, we assess affordability by reviewing the customer's income and spending, their other credit commitments, and what would happen if interest rates went up. For unsecured products that have fixed interest rates, affordability reviews for these products do not consider the impact of increases in interest rates. We regularly review the way we calculate affordability and refine it when we need to. This can be due to changes in regulations, the economy or our risk profile.

Credit profile

For residential mortgages, we look at each customer's credit profile and signs of how reliable they are at repaying credit. When they apply, we use the data they give us, and:

- **Credit policy:** these are our rules and guidelines. We review them regularly to make sure our decisions are consistent and fair, and align to the risk profile we want. For secured lending, we look at the property and the LTV as well as the borrower
- **Credit scores:** based on statistics about the factors that make people fail to pay off debt. We use them to build models of what is likely to happen in the future. These models give a credit score to the customer for the loan they want, to show how likely it is to be repaid. We regularly review them
- **Credit reference agencies:** data from credit reference agencies about how the borrower has handled credit in the past
- **Other Santander accounts:** we look at how the customer is using their other accounts with us.

How we make the decision

For residential mortgages, many of our decisions are automated as our risk systems contain data about affordability and credit history. We tailor the process and how we assess the application based on the type of product being taken. More complex transactions often need greater manual assessment. This means we have to rely more on our credit underwriters' skill and experience in making the decision. This is particularly true for secured lending, where we might need to do more checks on the customer's income, or get a property valuation from an approved surveyor, for example.

Credit risk mitigation

We use different types of credit risk mitigation, including collateral, across our portfolios.

For our residential mortgage portfolio, collateral is in the form of a first legal charge over the property. Before we grant a mortgage, we have the property valued. We have our own guidelines for surveyor valuations, which build on guidance from the Royal Institution of Chartered Surveyors (RICS). But we also make use of automated valuation methodologies where our confidence in the accuracy of this method is high.

For our other portfolios, for lending we can use covenants (financial or non-financial) and we can also take guarantees. For secured lending, collateral can include mortgage debentures, and first legal charges on commercial real estate property or portfolios of residential real estate owned and let by UK Housing Associations. For derivatives, repos and reverse repos, and stock borrowing / lending we use standard legal agreements to reduce credit risk and we also hold collateral and trade through central counterparties (CCPs) to reduce risk.

3. Monitoring

We measure and monitor changes in our credit risk profile on a regular and systematic basis against budgets, limits and benchmarks. We monitor credit performance by portfolio, segment, customer or transaction. If our portfolios do not perform as we expect, we investigate to understand the reasons. Then we take action to mitigate it as far as possible and bring performance back on track. We monitor and review our risk profile through a formal structure of governance and forums/committees across our business segments. These agree and track any steps we need to take to manage our portfolios, to make sure the impact is prompt and effective. This structure is a vital feedback tool to coordinate issues, trends and developments across each part of the credit risk lifecycle.

Credit concentrations

A core part of our monitoring and management is credit concentrations, such as the proportion of our lending that goes to specific borrowers, groups or industries. We set concentration limits in line with our Risk Appetite and review them on a regular basis.

We regularly monitor and report our credit risk by portfolio, segment, industry, location and customer. We give the Santander UK Executive Risk Control Committee a detailed analysis of our credit exposures and risk trends every month. We also report our larger exposures and risks to the Board Risk Committee every month.

For residential mortgages, our risk assessment does not end once we have made the decision to lend. We continue to monitor credit risk across the credit risk lifecycle, ensuring that early arrears are highlighted and customers contacted to discuss potential problems. For residential mortgages, our monitoring also takes account of changes in property prices. We estimate the property's current value every three months. We use statistical models based on recent sales prices and valuations in that local area. A lack of data can mean our confidence in the model's valuation drops below a certain minimum level, and in that case we use the House Price Index (HPI) instead.

Our Watchlist

For other portfolios, we use a Watchlist to help us identify potential problem debt early. Just because a customer is on our Watchlist does not mean they have defaulted. It just means that something has happened that has increased the probability of default. There are several reasons we might put customers on this list. For example, if they suffer a downturn in trade, breach a covenant, lose a major contract, slip into early arrears, or their key management resign. Whatever the trigger, we review the case to assess the potential financial impact.

We classify Watchlist cases as:

- **Enhanced monitoring**: for less urgent cases. If they are significant, we monitor them more often
- **Proactive management**: for more urgent or serious cases. We may take steps to restructure debt including extending the term, taking more collateral, agreeing a lower credit limit or seeking repayment of the loan through refinancing or other means.

We assess cases on the Watchlist for impairment collectively, unless they are in the hands of our Restructuring & Recoveries team at which point we assess them individually. If a case transfers to Stage 3 (previously, becomes NPL), we take it off the Watchlist and assess it for impairment individually.

When a customer is included in enhanced monitoring, we do not consider that it has suffered a SICR for ECL purposes, so it remains in Stage 1 for purposes of our loss allowance calculations. When a customer is included in proactive management, we consider that it has suffered a SICR. This means we transfer it to Stage 2 and subject it to a lifetime ECL assessment to calculate the new loss allowance. We usually review the value of any collateral as part of working out the new loss allowance. This is based on the expected future cash flows and the value of the collateral compared to the loan balance. We also take into account any forbearance we offer. This includes whether any extra security or guarantees are available, the likelihood of more equity and the potential to enhance value through asset management.

We monitor the credit quality of our portfolios of treasury products daily. We use both internal and third-party data to detect any potential credit deterioration.

4. Arrears management

Sometimes our customers face financial difficulty and they may fall into payment arrears or breach conditions of their credit facility. If this happens, we work with them to get their account back on track. We aim to support our customers and keep our relationship with them. To do this, we:

- Find affordable and sustainable ways of repaying to fit their circumstances
- Monitor their finances and use models to predict how they will cope financially. This helps put in place the right strategy to manage their debt
- Work with them to get their account back to normal as soon as possible in a way that works for them and us
- Monitor agreements we make to manage their debt so we know they are working.

For residential mortgages, we have several strategies for managing arrears and these can be used before the customer has formally defaulted, or as early as the day after a missed payment. We assess the problems a customer is having, so we can offer them the right help to bring their account up-to-date as soon as possible. The strategy we use depends on the risk and the customer's circumstances. We have a range of tools to help customers to reach an affordable and acceptable solution. This could mean visiting the customer or offering debt counselling by a third party.

For other portfolios, we identify problem debt by close monitoring, supported by our Watchlist process. When there is a problem, our relationship managers are the first to act, supported by the relevant credit risk expert. If a case becomes more urgent or needs specialist attention, and if it transfers to Stage 3 (previously, to NPL), we transfer it to our Restructuring & Recoveries team. We aim to act before a customer actually defaults (to prevent it, if possible). The strategy we use depends on the type of customer, their circumstances and the level of risk. We use restructuring and rehabilitation tools to try to help our customers find their own way out of financial difficulty and agree on a plan that works for both of us. We aim to identify warning signs early by monitoring customers' financial and trading data, checking to make sure they are not breaching any covenants, and by having regular dialogue with them. We hold regular Watchlist meetings to agree a strategy for each portfolio. Our Restructuring & Recoveries team attend these meetings, and we may hand over more serious cases to them.

5. Debt recovery

Sometimes, even when we have taken all reasonable and responsible steps we can to manage arrears, they prove ineffective. If this happens, we have to end our relationship with the customer and try to recover the whole debt, or as much of it as we can. When a customer cannot or will not keep to an agreement for paying off their arrears, we consider recovery options. We only do this once we have tried to get the account back in order. To recover what we are owed, we may initiate legal action that could ultimately lead to the customer facing court action for possession of the property.

For residential mortgages, we can delay legal action. That can happen if the customer shows that they will be able to pay off the loan or the arrears. We aim to repossess only as a last resort or if necessary to protect the property from damage or third party claims. We make sure our estimated losses from repossessed properties are realistic by getting two independent valuations on each property, as well as the estimated cost of selling it. These form the basis of our loss allowances calculations. Where we do enforce the possession of properties held as collateral, we use external agents to realise the value and settle the debt. During this process we do not own the property but we do administer the sale process. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with insolvency regulations.

Consensual arrangements

For other portfolios, where we cannot find a solution through arrears management, we look for an exit. If circumstances permit, we aim to do this by agreeing with the borrower that they will sell some or all of their assets on a voluntary basis or agree to give them time to refinance their debt with another lender.

Enforcement and recovery

Where we cannot find a way forward or reach a consensual arrangement, we consider recovery options. This can be through:

- The insolvency process
- Enforcing over any collateral
- Selling the debt on the secondary market
- Considering other legal action available to recover what we are owed from debtors and guarantors.

If there is a shortfall, we write it off against loss allowances we hold, once the sale has gone through. In certain very rare instances we may act as mortgagee in possession of assets held as collateral against non-performing commercial lending. In such cases the assets are carried on our balance sheet and are classified according to our accounting policies.

Risk measurement and control

We measure and control credit risk at all stages across the credit risk lifecycle. We have a range of tools, processes and approaches, but we rely mainly on:

- **Credit control**: as a core part of risk management we generate, extract and store accurate, comprehensive and timely data to monitor credit limits. We do this using internal data
- **Review**: we use formal and informal forums to approve, validate, review and challenge our risk management. We do this to help us predict if our credit risk will worsen.

The residential mortgage portfolio involves managing approximately 2000 accounts. This allows us to analyse the portfolio in detail at an individual account level in order to measure the risk.
We assess and review our loss allowances regularly. We look at a number of factors, including the:

- Cash flow available to service debt
- Value of collateral, based on agency valuations.

Key metrics

We use a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells us what credit risk is likely to cost us 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 (SICR) since origination. We explain how we calculate ECL below.
Stages 1, 2 and 3	We assess each facility's credit risk profile to determine which stage to allocate them to, and we monitor where there is a SICR and transfers between the stages. We explain how we allocate a facility to Stage 1, 2 or 3 below.
Expected Loss (EL)	EL is based on the regulatory capital rules of CRD IV and gives us another view of credit risk. It is the product of the PD, exposure at default and loss given default. We calculate each factor in accordance with CRD IV, and include direct and indirect costs. We base them on our risk models and our assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL, which we set out below. For the rest of our Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless we specifically say they relate to CRD IV. For our IFRS accounting policy on impairment, see Note 1 to the Financial Statements.
Non-Performing Loans (NPLs)	We use NPLs to monitor how our portfolios behave. We classify loans as NPLs when customers do not make a payment for three months or more, or if we have data to make us doubt they can keep up with their payments. There are differences between NPL and Stage 3, which we set out below. Although we adopted IFRS 9 from 1 January 2018, we continued to monitor NPLs as a key metric in 2018.

We also assess risks from other perspectives, such as geography, business area, product and process. We do this to identify areas we need to focus on. We also use stress testing to establish vulnerabilities to economic deterioration. Our business segments tailor their approach to credit risk to their own customers, as we explain later on.

Recognising ECL

The ECL approach estimates the credit losses arising from defaults in the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a SICR since the origination date. The ECL approach estimate takes into account forward-looking data, including a range of possible outcomes, which should be unbiased and probability-weighted in order to reflect the likelihood of a loss being incurred even when it is considered unlikely.

Multiple economic scenarios and probability weights

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. For example, our Downside 2 scenario reflects the possibility of a recession occurring. We believe that our five scenarios, in particular the Downside 1 and Downside 2 scenarios, reflect the range of outcomes that Brexit may take, including a deal with a transition period, or a no-deal Brexit. Our scenarios are also in line with a number of scenarios that have been produced by, for example, the Bank of England and its disruptive scenario, and other economic forecasters no deal scenarios. As such our scenarios and weights reflect the range of possible outcomes that the UK may face in 2019.

Base case
- Our base case assumes that the UK will negotiate an orderly exit with the EU that avoids a so-called 'cliff-edge' event when the UK leaves the EU and that there will be a relatively smooth transition period.
- GDP forecast for 2018 was lowered in August to reflect disappointing Q1 results, which results in slower growth in the following years until reverting to the long run annual growth of 1.6% in 2024.
- Unemployment continues its current trend over the forecast period, tightening labour markets further and pushing up average earnings growth. This growth along with the expected fall in inflation result in positive real earnings growth for 2019 onwards.
- The UK's net trade position is expected to fall back as sterling rallies against the dollar reducing the competitiveness of UK exports. Even though the Brexit negotiations are likely to result in some increased trade costs between the EU and UK, these are not projected to significantly impact the downwards trend in the share of UK exports going to the EU.
- For Bank Rate, the base case currently assumes one bank rate rise in 2019 and another in 2020.
- In the medium term, the forecast projections assume that current demographic and productivity trends will continue, causing a reduction in the UK's growth potential which is reflected in an average annual growth expectation of less than 2%.
- In summary, the base case assumes that activity will continue to run at this relatively sluggish pace. With CPI inflation likely to slow as we move through 2019, and a positive increase in wage growth predicted, this will provide a boost to household spending power. However, the effect of this will be softened by the continued impact of the UK Government's welfare reforms and the projected slowing of employment growth. In addition, with the household savings ratio at low levels and with credit conditions starting to tighten these two areas are unlikely to be able to compensate for any downside effects to growth.

Our methodology to derive the scenarios relies on a set of parameters embodied in GDP fan charts published by the Office for Budget Responsibility (OBR) twice a year. To avoid major changes to the scenarios due to changes in the OBR fan charts, we place more weight on the long-run trend of the fan charts rather than relying on each individual release. We use the OBR fan charts to calculate our GDP paths for each individual scenario. These fan charts reflect the probability distribution of a deviation from the OBR's central forecast to illustrate the uncertainty regarding the outcome of a variable, in this case GDP. We use the 0.6 and 0.7 fan chart paths for the upside scenarios, and the 0.3 path for Downside 1. However, for Downside 2 we use a blend of the Downside 1 scenario and the recession of the early 1980s as this recession was less extreme than the 2008/09 recession and more in line with what we think could happen. This means that in the longer run the GDP levels in our Downside 1 and Downside 2 scenarios converge. In order to ensure that Downside 2 is kept consistent with any changes to the OBR fan charts, we calculate the Downside 2 GDP by taking the percentage difference between the Downside 2 and Downside 1 GDP in the original forecast, and applying this difference to the new Downside 1.

Once the GDP paths have been forecast, we run them through the Oxford Global Economic Model (OGEM) to derive the other macroeconomic variables, such as unemployment and house prices, and then impose the Bank Rate for each scenario. The forecasting period for GDP is 5 years and then we revert back to the average trend growth over 3 years based on the OBR's long-run GDP forecast. The annual growth rates over the five year forecast for each of our scenarios are:

Assumption	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
House price index[(1)]	3.40	2.30	2.00	(2.00)	(9.50)
GDP[(1)]	2.50	2.10	1.60	0.70	0.30
Unemployment rate	2.80	3.80	4.30	6.90	8.60
Interest rate	1.00	1.25	1.50	2.50	2.25

(1) Compound annual growth rate.

To determine our initial scenario probability weightings, we give the highest weight to the base case, whilst the extreme scenarios typically attract lower weights than the more moderate ones. In addition, due to the current economic position and policy concerns evidenced by the PRA and Financial Policy Committee (FPC), and due to political concerns we have applied a higher weighting to the downside scenarios. We consider this appropriate in light of the consensus view of future performance of the UK economy, including projections for GDP growth. The probability weights we applied to the scenarios are:

Scenario type	Probability %
Upside 2	5
Upside 1	15
Base case	40
Downside 1	30
Downside 2	10

As part of our review of the scenarios and weights that we use, we performed statistical analysis to assess whether the scenarios and weights we use capture the non-linearity of losses implied by the results. The outcome of this analysis, which modelled a number of different scenarios, demonstrated that there is a non-linear relationship between the ECLs based on the GDP growth paths for individual scenarios. In addition, the trend line modelled showed that our base case, Downside 1 and Downside 2 scenarios provide a reasonable fit for the loss distribution.

We update the baseline in our economic scenarios at least twice a year in line with our annual budgeting and three year planning processes, or sooner if there is a material change in current or expected economic conditions. We refresh all our economic scenarios each quarter to reflect the latest available actual data and OBR fan charts, which are then reviewed and approved by ALCO. Probability weights are reassessed by ALCO at least quarterly. We aim to avoid embedding new economic scenarios into our models on a quarter-end month. Instead, we aim to run the model with the new scenarios for two months before the quarter-end to ensure that we can fully validate the output.

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 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. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required. The definition of default (credit impaired) we use to identify an exposure as Stage 3 or NPL are different, although the differences are not material. For more, see the section 'Definition of default (Credit impaired)' that follows. These criteria are under review in parallel with the ongoing regulatory changes to the default definition.

We use a range of quantitative, qualitative and backstop criteria to identify exposures that have experienced a SICR. The Santander UK Credit Risk Provisions Forum (CRPF) reviews and approves our SICR thresholds periodically. The Santander UK Board Audit Committee reviews and approves them each year, or more often if we change them.

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 PD since the recognition date exceeds a set threshold both in relative and absolute terms. We apply a relative threshold of 100% (doubling the PD). We base the thereshold 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. The quantitative criteria are:

Mortgages	Corporate Lending[(1)]
30bps	400bps

(1) Corporate Lending use the comparison of lifetime PDs to determine Stage allocation, unlike other products which first turn the lifetime PD into an average yearly PD (annualised) and then do the comparison.

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 are:

Mortgages	Corporate Lending
In forbearance	In forbearance
Default in last 24m	Watchlist – proactive management
£100+ arrears	NPL in last 12m
Bankrupt	Default at proxy origination

Backstop criteria

As a backstop, we classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. This means that we do not rebut the 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.

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 three months past due, or if we have data to make us doubt they can keep up with their payments i.e. they are unlikely to pay. The data we have on customers varies across our business segments. It typically includes where:

Mortgages

- They have been reported bankrupt or insolvent
- Their loan term has ended, but they still owe us money more than three months later
- They have had forbearance while in default, but have not caught up with the payments they had missed before that, or they have had multiple forbearance
- We have suspended their fees and interest because they are in financial difficulties
- We have repossessed the property.

Corporate Lending

- 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 us – 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
- Their loan has an excessive LTV that is unlikely to be resolved, such as by a change in planning policy, pay-downs, or increases in market values.

Where we use the advanced internal ratings-based basis for a portfolio in our capital calculations, we use the same default definitions for ECL purposes. We review and approve the definition of default each quarter. The Santander UK Board Audit Committee reviews and approves the definition each year, or more often if we change it.

Definition of default used for NPL

The definition of default we use to identify NPLs is not significantly different to the definition of default we use to identify Stage 3 exposures. The only difference relates to mortgages. For NPL, we classify a mortgage customer as bankrupt for at least two years after first being declared bankrupt, before we reassess their position. For Stage 3, the equivalent period is at least seven years before we reassess their position. At 31 December 2018, the Company had no material Stage 3 exposures or NPLs.

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:

Factor	Description
Survival rate (SR)	The probability that the exposure has not closed or defaulted since the reporting date.
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.
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. For revolving products, or amortising products with an off-balance sheet element, we determine EAD using the balance at default and the contractual exposure limit. We vary these assumptions by product type and base them on analysis of recent default data.
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, which vary according to whether the product is secured or unsecured. If the product is secured, we take into account collateral values as well as the historical discounts to market/book values due to forced sales type.

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 days past due and loan to value. PD and SR are not required for accounts in default.

Forecast period

We base the forecast period for amortising facilities on the remaining contractual term. For revolving facilities, we use an analytical approach based on the behavioural, rather than contractual, characteristics of the facility type. In some cases, we shorten the period to simplify the calculation. If we do this, we apply a post model adjustment to reflect our view of the full lifetime ECL.

Forward-looking information

Our assessments of a SICR and the calculation of ECL both incorporate forward-looking information. We perform historical analysis and identify the key economic variables that impact credit risk and ECL for each portfolio. These can include GDP, house prices and unemployment. Where applicable, we incorporate these economic variables and their associated impacts into our models.

Management Judgement applied in calculating ECL

IFRS 9 recognises that expert management judgement is an essential part of calculating ECL. Specifically, where the historical information that we use in our models does not reflect current or future expected conditions or the data we have does not cover a sufficient period or is not robust enough. We consider the significant management judgements in calculating ECL to be:

- **Definition of default:** We define a financial instrument as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than three months past due, or if we have data to make us doubt they can keep up with their payments. The data we have on customers varies across our business segments.
- **Forward-looking multiple economic scenarios:** We use five scenarios, consisting of a central base case, two upside scenarios and two downside scenarios. This symmetry meets the 'unbiased' requirement and we consider these scenarios sufficient to account for any non-linear relationships.
- **Probability weights:** in determining the initial scenario probability weightings, we assign the highest probability to the base case, whilst the extreme cases typically attract lower probabilities than the more moderate ones.
- **SICR thresholds:** we use a combination of quantitative (both absolute and relative), qualitative and backstop criteria to identify exposures that we consider have shown a SICR since initial recognition.

Post Model Adjustments (PMAs)

We use a range of methods to identify whether we need a PMA. These include regular review of model monitoring tools, end-user computing controls monitoring, period-to-period movement and trend analysis, comparison against forecasts, and input from expert teams who monitor and manage key portfolio risks. We only recognise a PMA if the ECL is over £1m. We keep PMAs in place until we no longer need them. This will typically be when they are built into our core credit model or the conditions that impacted the historical data no longer exist. We did not apply any PMAs to our ECL model in 2018.

Governance around ECL impairment allowances

Our Risk Methodology team developed our ECL impairment models (except for the OGEM), and all material models are independently reviewed by our Independent Validations Team. As model owners, the Santander UK Risk Provisioning & Forecasting team run the models to calculate our ECL impairment allowances each month. The models are sensitive to changes in credit conditions, and reflect various management judgements that give rise to measurement uncertainty in our reportable ECL as set out above. The following Santander UK committees and forums review the provision drivers and ensure that the management judgements we apply remain appropriate:

- **Model Risk Control Forum** reviews and approves new models and required model changes.
- **ALCO** reviews and approves the economic scenarios and probability weights we use to calculate forward-looking scenarios.
- **CRPF** reviews management judgements and approves ECL impairment allowances.
- **Board Audit Committee** reviews and challenges the appropriateness of the estimates and judgements made by management.

For more on the governance around specific elements of the ECL impairment allowances, including the frequency of, and thresholds for, reviews, including by these committees and forums, see the detailed sections above.

How we assess the performance of our ECL estimation process

We assess the reasonableness of our ECL provisions and the results of our Staging analysis using a range of methods. These include:

- **Benchmarking**: we compare our coverage levels with our peers.
- **Stand-back testing**: we monitor the level of our coverage against actual write-offs.
- **Back-testing**: we compare key drivers periodically as part of model monitoring practices.
- **Monitoring trends**: we track ECL and Staged assets over time and against our internal budgets and forecasts, with triggers set accordingly.

CREDIT RISK REVIEW

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. As a result of the change from IAS 39 to IFRS 9, some 2018 disclosures in this section are not comparable with prior periods because the methodologies for calculating incurred losses under IAS 39 and ECLs under IFRS 9 are fundamentally different. This means that some IFRS 9 disclosures do not have prior period comparatives and some IAS 39 disclosures are no longer relevant from 1 January 2018.

Our maximum and net exposure to credit risk

The tables below show the main differences between our maximum and net exposure to credit risk. For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment. Financial assets at FVTPL are not within the scope of the impairment requirements of IFRS 9.

	Maximum exposure				
	Balance sheet asset				
2018	Gross amounts £bn	Loss allowances £bn	Net amounts £bn	Off-balance sheet[1] £bn	Net Exposure £bn
Cash and balances at central banks	4.4	–	4.4	–	4.4
Financial assets at amortised cost:					
Loans and advances to customers[2]	0.5	–	0.5	–	0.5
Loans and advances to banks	0.7	–	0.7	248.8	249.5
Total financial assets at amortised cost	1.2	–	1.2	248.8	250.0
Total	5.6	–	5.6	248.8	254.4
2017					
Cash and balances at central banks	5.1	–	5.1	–	5.1
Financial assets at amortised cost:					
Loans and advances to customers[2]	8.3	(0.2)	8.1	9.3	17.4
Loans and advances to banks	6.3	–	6.3	224.6	230.9
Reverse repurchase agreements – non trading[3]	8.8	–	8.8	–	8.8
Total financial assets at amortised cost	23.4	(0.2)	23.2	233.9	257.1
Financial investments	0.3	–	0.3	–	0.3
Total	28.8	(0.2)	28.6	233.9	262.5

	Maximum exposure				
	Balance sheet asset				
2018	Gross amounts £bn	Loss allowances £bn	Net amounts £bn	Off-balance sheet[1] £bn	Net Exposure £bn
Financial assets at FVTPL:					
Other financial assets at FVTPL	0.4	–	0.4	–	0.4
Total	0.4	–	0.4	–	0.4
2017					
Financial assets at FVTPL:					
Trading assets	21.0	–	21.0	–	21.0
Derivative financial instruments	19.9	–	19.9	–	19.9
Other financial assets at FVTPL	1.2	–	1.2	0.3	1.5
Total	42.1	–	42.1	0.3	42.4

(1) Off-balance sheet exposure includes the guarantee of the liabilities of Santander UK plc which was terminated with effect from 1 January 2019 as set out in Note 28 to the Financial Statements. There is no ECL provision on the off-balance sheet exposure.
(2) Balances include interest we have charged to the customer's account and accrued interest that we have not charged to the account yet
(3) From 1 January 2018, non-trading reverse repurchase agreements that are held at amortised cost are now presented as separate lines in the balance sheet, as described in Note 1. Comparatives are re-presented accordingly.

Credit quality

Single credit rating scale (unaudited)

In the table below, we have used a single rating scale to ensure we are consistent across all our credit risk portfolios in how we report the risk of default. It has eight grades for non-defaulted exposures, from 9 (lowest risk) to 2 (highest risk). We define each grade by an upper and lower PD value and we scale the grades so that the default risk increases by a factor of ten every time the grade number drops by two steps. For example, risk grade 9 has an average PD of 0.010%, and risk grade 7 has an average PD of 0.100%. We give defaulted exposures a grade 1 and a PD value of 100%. In the final column of the table we show the approximate equivalent credit rating grade used by Standard & Poor's Ratings Services (S&P).

	PD range			
ANTS risk grade	Mid %	Lower %	Upper %	S&P equivalent
9	0.010	0.000	0.021	AAA to AA+
8	0.032	0.021	0.066	AA to AA-
7	0.100	0.066	0.208	A+ to BBB
6	0.316	0.208	0.658	BBB- to BB
5	1.000	0.658	2.081	BB-
4	3.162	2.081	6.581	B+ to B
3	10.000	6.581	20.811	B-
2	31.623	20.811	99.999	CCC to C
1 (Default)	100.000	100.000	100.000	D

The PDs in the table above are based on Economic Capital (EC) PD mappings which are calculated based on the average probability of default over an economic cycle. This is different to the IFRS 9 PDs which are calculated at a point in time using forward looking economic scenarios. Where possible, the EC PD values are largely aligned to the regulatory capital models however any regulatory floors are removed and PDs are defined at every possible rating rather than categorised into rating buckets.

Rating distribution

The tables below show the credit rating of our financial assets to which the impairment requirements in IFRS 9 (2017: IAS 39) are applied. All balances are classified as Stage 1 and there is no material ECL.

	ANTS risk grade								
2018	9 £bn	8 £bn	7 £bn	6 £bn	5 £bn	4 £bn	3 to 1 £bn	Other[1] £bn	Total £bn
Cash and balances at central banks	4.4	–	–	–	–	–	–	–	4.4
Financial assets at amortised cost:									
Loans and advances to customers[2]	–	0.1	0.1	0.1	–	–	–	0.2	0.5
Loans and advances to banks	0.1	–	0.6	–	–	–	–	–	0.7
Total on balance sheet exposures	4.5	0.1	0.7	0.1	–	–	–	0.2	5.6
Off-balance sheet exposures	–	–	248.8	–	–	–	–	–	248.8
Total	4.5	0.1	249.5	0.1	–	–	–	0.2	254.4

	ANTS risk grade								
2017	9 £bn	8 £bn	7 £bn	6 £bn	5 £bn	4 £bn	3 to 1 £bn	Other[1] £bn	Total £bn
Cash and balances at central banks	5.1	–	–	–	–	–	–	–	5.1
Loans and advances to customers[2]	0.6	1.4	1.1	1.8	2.7	0.3	0.3	0.1	8.3
Loans and advances to banks	–	–	6.0	–	–	–	–	0.3	6.3
Reverse repurchase agreements – non trading[3]	–	1.5	7.2	0.1	–	–	–	–	8.8
Financial investments	0.2	0.1	–	–	–	–	–	–	0.3
Total	5.9	3.0	14.3	1.9	2.7	0.3	0.3	0.4	28.8

(1) Other items include smaller cases in the commercial mortgages portfolio. We use scorecards for these items, rather than rating models.
(2) Balances include interest we have charged to the customer's account and accrued interest we have not charged to the account yet.
(3) From 1 January 2018, non-trading reverse repurchase agreements that are held at amortised cost are now presented as separate lines in the balance sheet, as described in Note 1. Comparatives are re-presented accordingly.

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.

31 December 2018	Stage 1 £m	Total £m
Exposures		
Loans and advances to customers	453	453
Loans and advances to banks	718	718
Total exposures	1,171	1,171
Total IFRS 9 ECL	–	–

Reconciliation of exposures, loss allowances and net carrying amounts

The table below shows the relationships between the disclosures in the Credit risk review section which reference on-balance sheet exposures and the total assets as presented in the Balance sheet.

	On-balance sheet			Off-balance sheet	
	Exposures £m	Loss allowance £m	Net carrying amount £m	Exposures £m	Loss allowance £m
Loans and advances to customers	453	–	453	248,758	–
Loans and advances to banks	718	–	718	–	–
Total exposures	1,171	–	1,171	248,758	–
Assets classified at FVTPL			462		
Non-financial assets			4,455		
Total assets per the Balance Sheet at 31 December 2018			6,088		

Concentrations of credit risk exposures

We manage our country risk exposure under our global limits framework. Within this framework, we set our Risk Appetite for each country, taking into account factors that may affect its risk profile. These can include political events, macroeconomics and the nature of the risk. We actively manage exposures if we think we need to. We consider Santander UK and Banco Santander related risk separately.

The tables below show our total exposures, which are the total of balance sheet and off-balance sheet values. We calculate balance sheet values in accordance with IFRS (i.e. after netting allowed under IAS 32) except for credit provisions which we add back. Off-balance sheet values are undrawn facilities and letters of credit. We classify location by country of risk – the country where each client has its main business or assets. That is unless there is a full risk transfer guarantee in place, in which case we use the guarantor's country of domicile. If a client has operations in many countries, we use their country of incorporation. The tables below exclude balances with other Santander UK group companies and other Banco Santander companies outside the Santander UK group. We show them separately in 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander companies outside the Santander UK group'.

	2018					2017					
		Financial institutions						Financial institutions			
	Governments £bn	Banks[1] £bn	Other £bn	Corporate £bn	Total[2] £bn	Governments £bn	Government guaranteed £bn	Banks[1] £bn	Other £bn	Corporate £bn	Total[2] £bn
Eurozone:											
Ireland	–	–	–	–	–	-	-	0.2	0.2	0.5	0.9
Italy	–	–	–	–	–	0.4	-	-	-	-	0.4
Spain (excl. Banco Santander)	–	–	–	–	–	-	-	0.3	-	-	0.3
Portugal	–	–	–	–	–	-	-	0.1	-	-	0.1
France	–	–	–	–	–	-	0.3	1.3	0.2	2.2	4.0
Luxembourg	–	–	–	–	–	-	-	-	1.3	0.1	1.4
Germany	–	–	–	–	–	-	-	1.2	-	0.1	1.3
Other[3]	–	–	–	–	–	-	-	0.3	0.1	1.2	1.6
	–	–	–	–	–	0.4	0.3	3.4	1.8	4.1	10.0
Other countries:											
UK	4.4	0.5	0.4	–	5.3	3.0	-	5.8	9.6	19.5	37.9
US	–	0.1	–	–	0.1	5.3	0.1	7.2	2.1	0.1	14.8
Japan[4]	–	–	–	–	–	3.0	-	2.6	0.2	0.8	6.6
Switzerland	–	–	–	–	–	0.2	-	0.2	-	0.1	0.5
Denmark	–	–	–	–	–	-	-	-	-	0.2	0.2
Isle of Man	–	–	–	0.3	0.3	-	-	-	-	-	-
Other	–	–	–	–	–	-	-	0.3	0.5	0.5	1.3
	4.4	0.6	0.4	0.3	5.7	11.5	0.1	16.1	12.4	21.2	61.3
Total	4.4	0.6	0.4	0.3	5.7	11.9	0.4	19.5	14.2	25.3	71.3

(1) Excludes balances with central banks.
(2) Excludes cash at hand, intangible assets, property, plant and equipment, deferred tax assets, and other assets. Loans are included gross of credit provisions.
(3) 2017 exposure includes The Netherlands of £1.4bn, Belgium of £0.1bn and Finland of £0.1bn.
(4) Balances primarily relate to equity instruments listed in Japan and reverse repos with Japanese banks, held as part of our Short Term Markets business. The equity instrument risk exposures are hedged using derivative instruments and the additional reverse repos are fully collateralised.

Balances with other Santander UK group companies

We enter into transactions with other Santander UK group companies in the ordinary course of business. Prior to the changes to the business in 2018 arising from ring-fencing, we provided corporate, wholesale banking and treasury services to the wider Santander UK group, of which we are a significant part. We also provided certain treasury support functions for the Santander UK group. In this regard, our role was to provide access to certain financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements.

At 31 December 2018 and 2017 we had gross balances with other Santander UK group companies as follows:

			2018			2017
	Financial institutions			Financial institutions		
	Banks £bn	Other £bn	Total £bn	Banks £bn	Other £bn	Total £bn
Assets:						
UK	–	0.1	0.1	13.8	0.4	14.2
Liabilities:						
UK	–	–	–	14.5	2.5	17.0

The above balances with other Santander UK group companies at 31 December 2017 mainly arose from ANTS providing treasury support functions for the Santander UK group and exclude the Upstream Guarantee of the liabilities of Santander UK plc which was terminated on 31 December 2018 as set out in Note 28 to the Financial Statements.

Balances with other Banco Santander companies outside the Santander UK group

We deal with other Banco Santander companies outside the Santander UK group in the ordinary course of business. We do this where we have a particular business advantage or expertise and where they can offer us commercial opportunities. This is done on the same terms as for similar transactions with third parties. These transactions also arise where we support the activities of, or with, larger multinational corporate clients and financial institutions which may deal with other Banco Santander companies. We conduct these activities in a way that manages the credit risk within limits acceptable to the PRA.

At 31 December 2018 and 2017, we had gross balances with other Banco Santander companies outside the Santander UK group (all of which are financial institutions – banks) as follows:

	2018 £bn	2017 £bn
Assets:		
Spain	0.2	4.4
Liabilities:		
Spain	0.2	4.5

Industry concentrations

As part of our approach to credit risk management and the Santander UK Risk Appetite, we set concentration limits by industry sector. These limits are set based on the industry outlook, our strategic aims and desired level of concentration, but also take into account any relevant limit set by Banco Santander SA. For more industry information, see 'Concentrations of credit risk exposures' above.

Credit performance

The customer loans in the table below are presented differently from the balances in the Balance Sheet. The main difference is that the customer loans below exclude inter-company balances. We disclose inter-company balances separately in the Notes to the Financial Statements. In addition, customer loans below are presented on an amortised cost basis.

2018	Customer loans[1] £bn	NPLs[2][3] £m	NPL ratio %	Gross write-offs £m	Loss allowances[4] £m
Total	0.5	2	-	141	-
2017					
Total	9.0	235	2.61	-	157

(1) Includes Social Housing loans and finance leases.
(2) We define NPLs in the 'Credit risk management' section.
(3) All NPLs continue accruing interest.
(4) Loss allowances for 2017 were on an incurred loss basis per IAS 39, whilst for 2018 they are on an ECL basis per IFRS 9.

MARKET RISK

BANKING MARKET RISK

BANKING MARKET RISK MANAGEMENT

Risk appetite

Our framework for dealing with market risk is part of the overall Santander UK Risk Framework. The banking market risk Framework sets out our high-level arrangements and standards to manage, control and oversee banking market risk. The Santander UK Risk Appetite sets the controls, risk limits and key risk metrics for banking market risk. We articulate risk appetite by the income and value sensitivity limits we set in the Santander UK Risk Appetite, at both Santander UK and Banco Santander group levels.

BANKING MARKET RISK REVIEW

Interest rate risk

Yield curve risk

The table below shows how the Santander UK group (including ANTS) base case income and valuation would be affected by a 50 basis point parallel shift (both up and down) applied instantaneously to the yield curve at 31 December 2018 and 2017. Sensitivity to parallel shifts represents the amount of risk in a way that we think is both simple and scalable. 50 basis points is the stress we typically focus on for banking market risk controls, although we also monitor sensitivities to other parallel and non-parallel shifts as well as scenarios.

	2018		2017	
	+50bps £m	-50bps £m	+50bps £m	-50bps £m
Net interest margin sensitivity	207	(23)	212	(125)

TRADING MARKET RISK

TRADING MARKET RISK MANAGEMENT

Risk appetite

The Santander UK market Risk Framework sets out our high-level arrangements and minimum standards for managing, controlling and overseeing trading market risk. The Santander UK Risk Appetite sets the controls, risk limits and key risk metrics for trading market risk. The key risk metrics include a stress economic loss limit and risk-factor stress scenarios. We report these key metrics to the Santander UK Board Risk Committee and the Santander UK Executive Risk Control Committee each month.

TRADING MARKET RISK REVIEW

Value at Risk (VaR)

This table shows our Internal VaR for exposure to each of the main classes of risk for 2018 and 2017. The VaR figures show how much the fair values of all our tradeable instruments could have changed. Since trading instruments are recorded at fair value, these are also the amounts by which they could have increased or reduced our net income.

	Year-end exposure		Average exposure		Highest exposure		Lowest exposure	
Trading instruments	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Interest rate risks[1]	–	2.6	1.3	2.5	4.1	3.5	–	1.8
Equity risks[2]	–	0.3	0.2	0.5	0.6	2.0	–	0.1
Foreign exchange risks	–	0.3	0.3	0.4	0.9	1.7	–	–
Correlation offsets[3]	–	(0.7)	(0.5)	(0.7)	–	–	–	–
Total correlated one-day VaR	–	2.5	1.3	2.7	4.1	3.7	–	2.0

(1) This measures the effect of changes in interest rates and how volatile they are. The effects are on cash instruments, securities and derivatives. This includes swap spread risk (the difference between swap rates and government bond rates), basis risk (changes in interest rate tenor basis) and inflation risk (changes in inflation rates).
(2) This measures the effect of changes in equity prices, volatility and dividends on stock and derivatives.
(3) The highest and lowest exposures for each risk type did not necessarily happen on the same day as the highest and lowest total correlated one-day VaR. It is impossible to calculate a corresponding correlation offset effect, so we have not included it.

LIQUIDITY RISK

ANTS has historically provided treasury support for the Santander UK group, with its role being to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements. As described in Note 37 to the Financial Statements, under the ring-fencing model, ANTS became a wholly-owned direct subsidiary of Santander UK Group Holdings plc, outside the Ring-Fenced Bank and was emptied of most assets and liabilities in 2018, except for a small portfolio of specific assets that remained in the Company. In addition, on 17 December 2018, the business of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc was sold to ANTS. In 2018, we managed liquidity risk on a Santander UK group basis and it is therefore not appropriate to consider these risks separately at an ANTS level. Under this model, and the PRA's liquidity rules, Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited form the DoLSub which allows the entities to collectively meet regulatory requirements. Each member of the DoLSub will support the others by transferring surplus liquidity in times of stress.

With effect from 1 January 2019, and in accordance with our ring-fence structure, Santander UK plc was granted a new DoLSub permission, withdrawing ANTS plc from the existing DoLSub. As a result, from 1 January 2019 we monitor and manage liquidity risk for ANTS plc separately.

LIQUIDITY RISK MANAGEMENT

Risk appetite

The ANTS LRA statement is based on the principles of liquidity management it uses to manage its balance sheet. It also supports its need to meet or exceed the rules of its regulators. ANTS has adopted the Santander UK Group Holdings Risk Management framework and the CFO and Risk Divisions within Santander UK plc manage and control liquidity risk on behalf of ANTS. The relevant policies and procedures within Santander UK Group Holdings plc and Santander UK plc therefore also apply to ANTS. The ANTS LRA is proposed to the Risk division, and reviewed and approved by the Board each year, or more often if needed. From 1 January 2019, separate LRAs for Santander UK plc and for ANTS have been approved. These are appropriate to their individual business models and consistent with the strategy of Santander UK Group Holdings plc. The ANTS Board approved the Internal Liquidity Adequacy Assessment Process (ILAAP) in November 2018. From 1 January 2019, separate LRAs for Santander UK plc and for ANTS have been applied, which are appropriate to their individual business models and consistent with the strategy of Santander UK Group Holdings plc.

Risk measurement (unaudited)

We use a number of metrics to manage liquidity risk. These include metrics that show the difference between cash and collateral inflows and outflows in different periods. We have a liquidity stress test framework in place which is central to our LRA measurement and monitoring. It includes three severe but plausible stress test scenarios. To fit with our risk appetite, the liquidity outflows that come from these stress tests must be fully covered with high-quality liquid assets, other liquid assets and management actions sanctioned at the right level of governance. Our Risk division runs a range of stress tests. Our LRA stress test is a combination of three test that cover idiosyncratic, market-wide and combined scenarios. We monitor our LCR to ensure we continue to meet the requirements. Although the Basel Committee published its final Net Stable Funding Ratio (NSFR) standards in October 2014, the NSFR has not yet been implemented within the EU (unlike the LCR). As such there is no formal NSFR requirement applicable to UK or other EU banks until such time as the European Commission adopts appropriate regulatory and technical standards. Nonetheless, we monitor our NSFR on an ongoing basis and stand ready to comply with the standards once agreed.

Risk mitigation (unaudited)

The Board aims to make our balance sheet resilient at all times and for it to be perceived as such by stakeholders. This preserves our short and long-term viability. The Board recognises that as we are involved in maturity transformation, we cannot hold enough liquidity to cover all possible stress scenarios. The Board requires us to hold enough liquidity to make sure we will survive three plausible but severe stress scenarios (our LRA stress). We do this by maintaining a prudent balance sheet structure and approved liquid resources.

Risk monitoring and reporting (unaudited)

We monitor liquidity risk weekly and monthly. We do this through different committees and levels of management, including the Santander UK ALCO and the Board Risk Committee.

FUNDING RISK MANAGEMENT

Deposit funding

ANTS is primarily funded through Crown Dependency deposits and has access to internal wholesale funding from Santander UK Group Holdings.

Wholesale funding

Reconciliation of wholesale funding to the balance sheet

This table reconciles our wholesale funding to our balance sheet at 31 December 2018 and 2017.

		Balance sheet line item				
2018	Total £bn	Deposits by banks £bn	Repurchase agreements – non trading[1] £bn	Trading liabilities £bn	Financial liabilities designated at fair value £bn	Debt securities in issue £bn
Deposits	0.6	0.6	–	–	–	–
Balance sheet total	0.6	0.6	–	–	–	–
2017						
Deposits	0.3	0.2	-	-	0.1	-
Certificates of deposit and commercial paper	6.4	–	-	-	0.4	6.0
Securitisation & structured issuance	0.2	0.2	-	-	-	-
Total wholesale funding	6.9	0.4	-	-	0.5	6.0
Repos	25.2	–	-	25.2	-	-
Other	20.3	13.7	0.2	5.9	0.5	-
Balance sheet total	52.4	14.1	0.2	31.1	1.0	6.0

(1) From 1 January 2018, the non-trading repurchase agreements that are held at amortised cost are now presented as separate lines in the balance sheet, as described in Note 1. Comparatives are re-presented accordingly.

CAPITAL RISK

THE SCOPE OF OUR CAPITAL ADEQUACY

Regulatory supervision

For capital purposes, we are subject to prudential supervision by the PRA, as a UK banking group, and by the European Central Bank (ECB) as a member of the Banco Santander group. The ECB supervises Banco Santander as part of the Single Supervisory Mechanism (SSM). Although we are part of the Banco Santander group, we do not have a guarantee from our ultimate parent Banco Santander SA. As we are regulated by the PRA, we have to meet the PRA capital requirements on a standalone basis. We also have to show the PRA that we can withstand capital stress tests without the support of our ultimate parent. Reinforcing our corporate governance framework, the PRA exercises oversight through its rules and regulations on the Board and senior management appointments.

Santander UK Group Holdings plc is the holding company of ANTS plc and is the head of the Santander UK group (including ANTS) for regulatory capital and leverage purposes.

CAPITAL RISK MANAGEMENT

The Board is responsible for capital management strategy and policy and ensuring that our capital resources are monitored and controlled within regulatory and internal limits. We operate within the capital Risk Framework and appetite approved by the Santander UK Board. This reflects the commercial environment we operate in, our strategy for each material risk and the potential impact of any adverse scenarios or stresses on our capital position.

Management of capital requirements

Our capital risk appetite aims to maintain capital levels appropriate to the level of stress applied, and the expected regulatory response.

- In an adverse economic stress, which we might expect to occur once in 20 years, the firm should remain profitable and exceed all regulatory capital minimums at all times
- In a very severe economic stress, which we might expect to occur once in 100 years, and which has been designed to test any specific weaknesses of a firm's business model, the firm should meet all regulatory capital minimums at all times. This is subject to the use of regulatory buffers designed for such a stress.

Management of capital resources

We use a mix of regulatory and economic capital ratios and limits, internal buffers and restrictions to manage our capital resources. We also take account of the costs of differing capital instruments and capital management techniques. We also use these to shape the best structure for our capital needs.

We decide how to allocate our capital resources as part of our strategic planning process. We base this in part on the relative returns on capital using both economic and regulatory capital measures.

We plan for severe stresses and we set out what action we would take if an extremely severe stress threatened our viability and solvency. This could include not paying dividends, selling assets, reducing our business and issuing more capital.

Risk measurement

We apply Banco Santander's approach to capital measurement and risk management for CRD IV. For more on the CRD IV risk measurement of our exposures, see Banco Santander SA's Pillar 3 report.

The main metrics we use to measure capital risk are CET1 capital and total regulatory capital.

Risk mitigation

Santander UK has designed its capital Risk Framework, policies and procedures to ensure that we operate within our risk appetite.

Santander UK manages capital transferability between its subsidiaries in line with its business strategy, its risk and capital management policies, and UK laws and regulations. There are no legal restrictions on Santander UK moving capital resources promptly, or repaying liabilities, between Santander UK and its subsidiaries except for distributions between group entities in the ring-fenced bank sub-group and group entities that are not members of the ring-fenced bank sub-group, where the PRA is required to assess the impact of proposed distribution prior to payment.

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. 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, ANTS, Santander UK Group Holdings plc and Santander Equity Investments Limited entered into a new Capital support deed which expires 31 December 2021.

Risk monitoring and reporting

We monitor and report regularly against our capital plan. We do this to identify any change in business performance that might affect our capital. Every month, we also review the economic assumptions we use to create and stress test our capital plan. We do this to identify any potential reduction in our capital.

CAPITAL RISK REVIEW

Regulatory capital resources

The table below is consistent with our regulatory filings for 2018 and 2017. We manage our capital on a CRD IV basis. During the years ended 31 December 2018 and 2017, we held capital over and above our regulatory requirements, and managed internal capital allocations and targets in accordance with our capital and risk management policies.

This table shows our regulatory capital.

	2018 £m	2017 £m
CET1 capital before regulatory adjustments	346	3,882
Total regulatory adjustments to CET1 capital	(3)	(154)
CET1 capital	**343**	3,728
Total regulatory capital	**343**	3,728

CET1 regulatory adjustments

These are adjustments required by CRD IV.

Financial statements

33	**Audit report**
37	**Primary financial statements**
37	Income Statement
37	Statement of Comprehensive Income
38	Balance Sheet
39	Cash Flow Statement
40	Statement of Changes in Equity
41	**Notes to the Financial Statements**

Independent auditors' report to the members of Abbey National Treasury Services plc

Report on the audit of the financial statements

Opinion

In our opinion, Abbey National Treasury Services plc'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 2018 Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the cash flow statement, 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.

Certain required disclosures have been presented in the Risk review in the Annual Report on pages 15 to 31 rather than in the notes to the financial statements. Except for items marked as unaudited, the Risk review forms an integral part of the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall materiality: £13.3 million (2017: £38.9 million), based on 0.5% of total assets.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered to be financially significant in the context of the company.
- The area of focus which was of most significance in the audit of the financial statements was:
  - Accounting and disclosure in relation to Banking Reform

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority and the Prudential Regulatory Authority, 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 preparation of 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). The engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or component auditors included:

- Discussions with management, including the Santander UK group's Chief Legal Officer, and Internal Audit, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting;
- Assessment of matters reported on the Santander UK group's whistleblowing helpline and the results of management's investigation of such matters;
- Attendance at key governance forums and reviewing management information presented at these meetings;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Accounting and disclosure in relation to Banking Reform Refer to pages 2 to 3 (Strategic report) and page 73 (Note 37: Ring-fencing). On 12 June 2018, the high court approved the Santander UK Group's ring-fencing transfer scheme ('the Scheme'), which was subsequently executed through 2018. Under the Scheme ANTS became a wholly-owned direct subsidiary of Santander UK Group Holdings plc, outside the ring-fenced bank, and most of its assets and liabilities were transferred to other entities within the global Santander Group, or run down. The business of the Crown Dependency branches (Jersey and Isle of Man), previously owned by Santander UK plc, was also sold to ANTS pursuant to transfer schemes effected under relevant Jersey and Isle of Man law, and therefore transferred out of the ring-fenced bank. The transfer of assets and liabilities from and to the company had a significant impact on the balance sheet and results and involved accounting judgements around areas like discontinued operations. Banking reform was therefore an area of focus for the audit.	We have considered a number of aspects of the banking reform project as part of our audit. This has included; Considering the reasons for transferring the assets and liabilities at book value and the accounting treatment; – Reviewing the disclosures in financial statements; – Reviewing the transfer agreement; – Understanding the recording process for the transfer of the assets and liabilities, – Understanding and testing controls that would identify an error in assets or liabilities transferred or run down (such as cash reconciliations and custodian reconciliations) – Performing further testing procedures over the transfers such as agreeing the details of transferred assets to the systems of the transferee. We also considered the IFRS 5 implications of the transfers, which included assessing management's decision that the assets and liabilities transferred in 2018 represent a separate major line of business and therefore require disclosure as a discontinued operation under IFRS 5. It was concluded that they do as a majority of the balances in ANTS have been transferred. Based on the procedures performed and evidence obtained we were satisfied that the transactions arising as a result of the Scheme have been recorded and disclosed appropriately.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We identified Jersey and Isle of Man Branches of the company as components which, in our view, required a full scope audit either due to their size or their risk characteristics, in the context to the company's financial statements.

We used component auditors within PwC who are familiar with the relevant businesses to audit its components. Processes and controls supporting the company's operations are also undertaken by Banco Santander S.A. in Spain, including the hosting and monitoring of certain IT systems. As part of the planning and execution of the audit, we worked closely with the component auditors throughout the year to ensure that the procedures performed on our behalf were sufficient for our purposes and we reviewed the results of their work.

The procedures which we performed over the reporting units accounted for 99% of total operating income and 99% of total assets of the company.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£13.3 million (2017: £38.9 million).
How we determined it	0.5% of total assets excluding balances of Jersey and Isle of Man branches.
Rationale for benchmark applied	Banking reform migrations have had a significant impact on the company and it now has a much reduced and simplified balance sheet. As a result of these changes we have revisited our materiality benchmark and have used a total assets based benchmark rather than one based on net assets in the previous year as this was considered more appropriate. The balances from the Jersey and Isle of Man branches were excluded from the materiality calculation as the transfers occurred close to year end and due to their size would have distorted materiality.

For each component in the scope of our audit, we allocated a materiality that is less than our overall materiality. The materiality allocated across the components was £13.2 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £665,000 (2017: £1,900,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy

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 Directors' Report, 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.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report 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 Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 14, 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

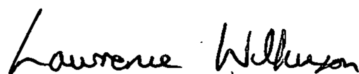
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 31 March 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2016 to 31 December 2018.



Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2019

INCOME STATEMENT

For the years ended 31 December

	Notes	2018 £m	2017 £m
Interest and similar income		13.8	8.2
Interest expense and similar charges		(12.0)	(6.8)
Net interest income	2	1.8	1.4
Net fee and commission income	3	0.1	-
Net trading and other income	4	2.6	(0.2)
Total operating income		4.5	1.2
Operating expenses before credit impairment losses, provisions and charges	5	(2.7)	(2.2)
Credit impairment losses	7	-	-
Provisions for other liabilities and charges		-	-
Total operating credit impairment losses, provisions and charges		-	-
Profit/(loss) on continuing operations before tax		1.8	(1.0)
Tax on profit/(loss) on continuing operations	8	(0.4)	0.3
Profit/(loss) on continuing operations after tax		1.4	(0.7)
Profit in respect of discontinued operations after tax	9	17.8	132.4
Profit after tax		19.2	131.7
Attributable to:			
Equity holders of the parent		19.2	131.7
Profit after tax		19.2	131.7

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

		2018 £m	2017 £m
Profit/(loss) after tax on continuing operations and total other comprehensive income net of tax from continuing operations		1.4	(0.7)
Profit after tax in respect of discontinued operations	9	17.8	132.4
Total other comprehensive income in respect of discontinued operations	9	3.2	(9.2)
Total comprehensive income in respect of discontinued operations		21.0	123.2
Total comprehensive income		22.4	122.5
Attributable to:			
Equity holders of the parent		22.4	122.5
Total comprehensive income		22.4	122.5

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

BALANCE SHEET

At 31 December

	Notes	2018 £m	2017 £m
Assets			
Cash and balances at central banks		4,433	5,128
Financial assets at fair value through profit or loss:			
- Trading assets	11	-	30,170
- *Derivative financial instruments*	12	36	19,853
- Other financial assets at fair value through profit or loss	13	426	1,152
Financial assets at amortised cost:			
- Loans and advances to customers[(1)]	14	453	8,117
- Loans and advances to banks[(1)]		718	6,260
- Reverse repurchase agreements – non trading[(1)]	16	-	8,782
Financial investments	17	-	255
Interests in other entities	18	-	57
Intangible assets	19	3	46
Property, plant and equipment		3	10
Deferred tax assets	8	13	9
Other assets		3	250
Total assets		6,088	80,089
Liabilities			
Financial liabilities at fair value through profit or loss:			
- Trading liabilities	20	-	31,109
- Derivative financial instruments	12	222	20,972
- Other financial liabilities at fair value through profit or loss	21	-	1,043
Financial liabilities at amortised cost:			
- Deposits by customers	22	4,825	2,448
- Deposits by banks[(1)]	23	606	14,084
- Repurchase agreements – non trading[(1)]	24	-	223
- Debt securities in issue	25	-	6,043
Other liabilities		36	166
Provisions	26	6	18
Current tax liabilities		47	101
Total liabilities		5,742	76,207
Equity			
Share capital	29	250	250
Retained earnings		86	3,622
Other reserves		10	10
Total shareholders' equity		346	3,882
Total liabilities and equity		6,088	80,089

(1) In 2018, non-trading repurchase agreements and non-trading reverse repurchase agreements were presented as separate lines in the balance sheet, as described in Note 1. Comparatives are re-presented accordingly.

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board on 27 February 2019 and signed on its behalf by:

Antonio Roman
Director

Company Registered Number: 2338548

CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Profit after tax		19	132
Adjustments for:			
Non-cash items included in profit:			
– Depreciation and amortisation		9	13
– Provisions for other liabilities and charges		12	19
– Impairment losses		22	72
– Corporation tax charge		7	60
– Other non-cash items		13	541
		63	705
Net change in operating assets and liabilities:			
– Cash and balances at central banks		42	(2)
– Trading assets		24,143	(909)
– Derivative assets		19,817	8,101
– Other financial assets at fair value through profit or loss		875	680
– Loans and advances to banks and customers		10,353	6,562
– Other assets		212	61
– Deposits by banks and customers		(11,252)	(11,749)
– Derivative liabilities		(20,750)	(10,648)
– Trading liabilities		(31,101)	15,017
– Other financial liabilities at fair value through profit or loss		(656)	672
– Debt securities in issue		(6,680)	(1,469)
– Other liabilities		(203)	(89)
		(15,200)	6,227
Corporation taxes paid		(55)	(68)
Effects of exchange rate differences		164	(30)
Net cash flows from operating activities		(15,009)	6,966
Cash flows from investing activities			
Proceeds from disposal of subsidiaries[1]		40	-
Purchase of property, plant and equipment and intangible assets	19	(5)	(19)
Proceeds from sale and redemption of financial investments		1	482
Net cash flows from investing activities		36	463
Cash flows from financing activities			
Issue of debt securities		-	1,866
Repayment of debt securities		-	(3,020)
Dividends paid on ordinary shares	10	(3,546)	-
Net cash flows from financing activities		(3,546)	(1,154)
Change in cash and cash equivalents		(18,519)	6,275
Cash and cash equivalents at beginning of the year		23,016	17,333
Effects of exchange rate changes on cash and cash equivalents		128	(592)
Cash and cash equivalents at the end of the year		4,625	23,016
Cash and cash equivalents consist of:			
Cash and balances at central banks		4,433	5,128
Less: regulatory minimum cash balances		-	(42)
		4,433	5,086
Net trading and other cash equivalents		-	5,954
Net non-trading other cash equivalents		192	11,976
Cash and cash equivalents at the end of the year		4,625	23,016

(1) In 2018, a number of subsidiaries were sold for a cash consideration of £40m (2017: £nil), which was equivalent to the carrying value of the assets and liabilities.

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

		Other reserves				
	Share capital £m	Available-for-sale[1] £m	Fair value[1] £m	Currency translation £m	Retained earnings £m	Total £m
At 31 December 2017	**250**	**-**		**10**	**3,622**	**3,882**
Adoption of IFRS 9 (see Note 1)	-	-	1	-	(13)	(12)
At 1 January 2018	**250**		**1**	**10**	**3,609**	**3,870**
Total comprehensive income net of tax from continuing operations	-		-	-	1	1
Total comprehensive income net of tax in respect of discontinued operations	-		(1)	-	22	21
Total comprehensive income	-		(1)	-	23	22
Dividends on ordinary shares	-		-	-	(3,546)	(3,546)
At 31 December 2018	**250**		**-**	**10**	**86**	**346**
At 1 January 2017	**2,549**	**(5)**		**10**	**1,205**	**3,759**
Total comprehensive income net of tax from continuing operations	-	-		-	(1)	(1)
Total comprehensive income net of tax in respect of discontinued operations	-	5		-	119	124
Total comprehensive income	-	5		-	118	123
Capital reduction	(2,299)	-		-	2,299	-
At 31 December 2017	**250**	**-**		**10**	**3,622**	**3,882**

(1) Following the adoption of IFRS 9, a fair value reserve was introduced to replace the available-for-sale reserve, as described in Note 1.

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

1. ACCOUNTING POLICIES

These financial statements are prepared for Abbey National Treasury Services plc (the Company or ANTS) under the Companies Act 2006. Abbey National Treasury Services plc is a public company, limited by shares and incorporated in England and Wales having a registered office at 2 Triton Square, Regent's Place, London, NW1 3AN. ANTS is an operating company whose principal activity is to undertake banking and financial services transactions to customers in Jersey and the Isle of Man. It also holds a small pool of residual assets and liabilities, which is intended to be run down and/or managed for value.

Basis of Preparation

The financial statements have been prepared on the going concern basis using the historical cost convention, except for financial assets and liabilities that have been measured at fair value. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the statement of going concern in the Directors' Report.

Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with IFRS as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee (IFRS IC) of the IASB (together IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk review. Those disclosures form an integral part of these financial statements.

Recent accounting developments

On 1 January 2018, ANTS 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 impact of applying IFRS 9 is disclosed in Note 38. 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. As explained in Note 38, the classification and measurement changes to financial assets that arose on adoption of IFRS 9 have been aligned to the presentation in the balance sheet. ANTS has decided to continue adopting IAS 39 hedge accounting and consequently there have been no changes to the hedge accounting policies and practices following the adoption of IFRS 9.

In addition, non-trading repurchase agreements and non-trading reverse repurchase agreements that are held at amortised cost are now presented as separate lines in the balance sheet. Previously, non-trading reverse repurchase agreements were included in 'Loans and advances to banks' and 'Loans and advances to customers', and non-trading repurchase agreements were included in 'Deposits by banks'. The new presentation, which is considered to be more relevant to an understanding of our financial position, was adopted with effect from 1 January 2018, and comparatives are re-presented accordingly. The impact of this re-presentation on the balance sheet at 1 January 2017 was to decrease loans and advances to customers by £556m and loans and advances to banks by £2,668m, increasing non trading reverse repurchase agreements by £3,224m, and to decrease deposits by banks by £664m, increasing non trading repurchase agreements by the same amount.

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. The accounting policy changes for IFRS 15 are set out in the Revenue recognition policy below.

Future accounting developments

At 31 December 2018, ANTS 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 for ANTS:

- 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.

  ANTS has elected to apply the modified retrospective approach whereby the ROU asset at the date of initial application is measured at an amount equal to the lease liability.

  The application of IFRS 16 at 1 January 2019 is expected to increase property, plant and equipment by £1.5m (being the net increase in ROU assets referred to above), increase other liabilities by £1.4m from recognising lease liabilities, and increase provisions by £0.1m for the estimated restoration costs. There is expected to be no impact on shareholders' equity.

Subsidiaries

Interests in subsidiaries are held at cost subject to impairment.

Discontinued operations
A discontinued operation is a component of ANTS that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Foreign currency translation
Items included in the financial statements of each entity in ANTS are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The Financial Statements are presented in sterling, which is ANTS's functional currency.

Income statements and cash flows of foreign entities are translated into ANTS's presentation currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are translated into the functional currency of the Company involved at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement unless recognised in other comprehensive income in connection with a cash flow hedge. Non-monetary items denominated in a foreign currency measured at historical cost are not retranslated. Exchange rate differences arising on non-monetary items measured at fair value are recognised in the income statement except for differences arising on equity securities measured at fair value through other comprehensive income (FVOCI) (2017: available-for-sale), which are recognised in other comprehensive income.

Revenue recognition
a) Interest income and expense
Interest and similar income comprises interest income on financial assets measured at amortised cost, investments in debt instruments measured at FVOCI and interest income on hedging derivatives. Interest expense and similar charges comprises interest expense on financial liabilities measured at amortised cost, and interest expense on hedging derivatives. Interest income on financial assets measured at amortised cost, investments in debt instruments measured at FVOCI (2017: available-for-sale) and interest expense on financial liabilities other than those at fair value through profit or loss (FVTPL) is determined using the effective interest rate 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 gross carrying amount of the financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding expected credit losses. The calculation includes all amounts paid or received by ANTS that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision). For more information on stage allocations of credit risk exposures, see 'Significant increase in credit risk' in the 'Credit risk management' section of the Risk review.

b) Fee and commission income and expense
Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Fee and commission income which forms an integral part of the effective interest rate of a financial instrument (e.g. certain loan commitment fees) is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'. Most fee and commission income is recognised at a point in time. Certain commitment, upfront and management fees are recognised over time but are not material.

c) Dividend income
Except for equity securities classified as trading assets or financial assets held at fair value through profit or loss, described below, dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

d) Net trading and other income
Net trading and other income includes all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (comprising financial assets and liabilities held for trading, trading derivatives and other financial assets and liabilities at fair value through profit or loss), together with related interest income, expense, dividends and changes in fair value of any derivatives managed in conjunction with these assets and liabilities. Changes in fair value of derivatives in a fair value hedging relationship are also recognised in net trading and other income. Net trading and other income also includes income from operating lease assets, and profits and losses arising on the sales of property, plant and equipment and subsidiary undertakings.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including computer software, which are assets that necessarily take a substantial period of time to develop for their intended use, are added to the cost of those assets, until the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they occur.

Pensions and other post-retirement benefits
ANTS also participates in various Santander UK group defined benefit pension schemes. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore in accordance with IAS 19 the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and ANTS accounts for its contributions as a defined contribution plan. The contribution to be paid by ANTS is calculated as the contributions made by Santander UK plc to the schemes in respect of ANTS's employees. Once the contributions have been paid, ANTS has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs which are presented in Operating expenses in the income statement.

Intangible assets
Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of those products can be measured reliably. These costs include payroll, materials, services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three to seven years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software programmes are expensed as incurred.

Property, plant and equipment
Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in net trading and other income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Internally developed software meeting the criteria set out in 'Intangible assets' above and externally purchased software are classified in property, plant and equipment on the balance sheet where the software is an integral part of the related computer hardware (e.g. operating system of a computer). Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

Owner-occupied properties	Not exceeding 50 years
Office fixtures and equipment	5 to 8 years
Computer software	3 years

Depreciation is not charged on freehold land and assets under construction.

Financial Instruments
a) Initial recognition and measurement
Financial assets and liabilities are initially recognised when ANTS becomes a party to the contractual terms of the instrument. ANTS 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. ANTS does not hold any held to maturity financial assets.

A regular way purchase is a purchase of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the market place concerned. Regular way purchases of financial assets classified as loans and receivables, issues of equity or financial liabilities measured at amortised cost are recognised on settlement date; all other regular way purchases and issues are recognised on trade date.

b) Financial assets and liabilities

i) Classification and subsequent measurement
From 1 January 2018, ANTS has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI 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:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI, and
- Equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

The classification and measurement requirements for financial asset debt and equity instruments and financial liabilities are set out below.

a) 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 ANTS's business model for managing the asset, and the cash flow characteristics of the asset.

Business model
The business model reflects how ANTS manages the assets in order to generate cash flows and, specifically, whether ANTS'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, ANTS assesses whether the assets' cash flows represent SPPI. In making this assessment, ANTS 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, ANTS classifies its debt instruments into one of the following measurement categories:

- 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 and measured as presented in Note 14. Interest income from these financial assets is included in 'Interest and similar 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.
- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading and other income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Net trading and other income' in the period in which it arises.

ANTS 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.

b) 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, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. 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 other income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'Net trading and other income' line in the income statement.

c) Financial liabilities
Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability)
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, ANTS recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Contracts involving the receipt of cash on which customers receive an index-linked return are accounted for as equity index-linked deposits. The principal products are Capital Guaranteed/Protected Products which give the customers a limited participation in the upside growth of an equity index. In the event the index falls in price, a cash principal element is guaranteed/protected. The equity index-linked deposits contain embedded derivatives. These embedded derivatives, in combination with the principal cash deposit element, are designed to replicate the investment performance profile tailored to the return agreed in the contracts with customers. The cash principal element is accounted for as deposits by customers at amortised cost. The embedded derivatives are separated from the host instrument and are separately accounted for as derivatives.

d) Sale and repurchase agreements (including stock borrowing and lending)
Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by ANTS remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an asset. The difference between the sale and repurchase price is treated as trading income in the income statement, except where the repo is not treated as part of the trading book, in which case the difference is recorded in interest income or expense.

Securities lending and borrowing transactions are generally secured, with collateral in the form of securities or cash advanced or received. Securities lent or borrowed are not reflected on the balance sheet. Collateral in the form of cash received or advanced is recorded as a deposit or a loan. Collateral in the form of securities is not recognised.

e) Day One profit adjustments
The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, ANTS recognises a trading gain or loss at inception (Day One gain or loss), being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire Day One gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or an offsetting transaction is entered into.

ii) Impairment of debt instrument financial assets

ANTS assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. ANTS 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 of the Risk review.

a) Write-off

For secured loans, a write-off is only made when all collection procedures have been exhausted and the security has been sold or from claiming on any mortgage indemnity guarantee or other insurance. There may be occasions where a write-off occurs for other reasons, such as following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than its face value.

There is no threshold based on past due status beyond which all secured or unsecured loans are written off. The write-off policy is regularly reviewed. Write-offs are charged against previously established credit impairment loss allowances.

b) Recoveries

Recoveries of credit impairment losses are not included in the impairment loss allowance, but are taken to income and offset against credit impairment losses. Recoveries of credit impairment losses are classified in the income statement as 'Credit impairment losses'.

iii) Modifications of financial assets

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset normally depends upon whether the renegotiation or modification is due to financial difficulties of the borrower or for other commercial reasons.

- Contractual modifications due to financial difficulties of the borrower: where ANTS modifies the contractual conditions to enable the borrower to fulfil their payment obligations, the asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated/modified contractual cash flows that are discounted at the financial asset's original effective interest rate and any gain or loss arising from the modification is recognised in the income statement.
- Contractual modifications for other commercial reasons: such modifications are treated as a new transaction resulting in derecognition of the original financial asset, and the recognition of a "new" financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in the income statement as a gain or loss on derecognition.

Any other contractual modifications, such as where a regulatory authority imposes a change in certain contractual terms or due to legal reasons, are assessed on a case-by-case basis to establish whether or not the financial asset should be derecognised.

iv) Derecognition other than on a modification

Financial assets are derecognised when the rights to receive cash flows have expired or ANTS 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) ANTS 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.

c) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance, and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments are measured as the amount of the loss allowance. ANTS has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision and charged to credit impairment losses in the income statement. The loss allowance in respect of revolving facilities is loans and advances to customers to the extent of any drawn balances. The loss allowance in respect of undrawn amounts classified in provisions. When amounts are drawn, any related loss allowance is transferred from provisions to loans and advances to customers.

Derivative financial instruments (derivatives)

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in interest rate, cross currency, equity, residential property and other index-related swaps, forwards, caps, floors, swaptions, as well as credit default and total return swaps, equity index contracts and exchange traded interest rate futures, and equity index options.

Derivatives are held for risk management purposes. Derivatives are classified as held for trading unless they are designated as being in a hedge accounting relationship. ANTS chooses to designate certain derivatives as in a hedging relationship if they meet specific criteria, as further described in 'Hedge accounting' below.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are estimated using valuation techniques, including discounted cash flow and option pricing models.

Certain derivatives may be embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then ANTS assesses the entire contract as described in the financial asset section above for classification and measurement purposes. Otherwise, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Contracts containing embedded derivatives are not subsequently reassessed for separation unless either there has been a change in the terms of the contract which significantly modifies the cash flows (in which case the contract is reassessed at the time of modification) or the contract has been reclassified (in which case the contract is reassessed at the time of reclassification).

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement, and included within net trading and other income.

Offsetting financial assets and liabilities

Financial assets and liabilities including derivatives are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. ANTS is party to a number of arrangements, including master netting arrangements under industry standard agreements which facilitate netting of transactions in jurisdictions where netting agreements are recognised and have legal force. The netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis.

Hedge accounting

ANTS applies fair value hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates, exchange rates and certain indices such as retail price indices.

At the time a financial instrument is designated as a hedge (i.e. at the inception of the hedge), ANTS formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, ANTS formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, ANTS can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges); or (iii) a hedge of a net investment in a foreign operation (net investment hedges). ANTS applies fair value hedge accounting, but does not apply cash flow hedging or hedging of a net investment in a foreign operation.

Fair value hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Where the hedged item is measured at amortised cost, the fair value changes due to the hedged risk adjust the carrying amount of the hedged asset or liability. Changes in the fair value of portfolio hedged items are presented separately in the balance sheet in macro hedge of interest rate risk and recognised in the income statement within net trading and other income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. For fair value hedges of interest rate risk, the cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity. For portfolio hedged items, the cumulative adjustment is amortised to the income statement using the straight line method over the period to maturity.

Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use.

The fair value 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. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment, and intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to property, plant and equipment may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the property, plant and equipment's recoverable amount. The carrying amount of the property, plant and equipment will only be increased up to the amount that would have been had the original impairment not been recognised.

Leases

a) ANTS as lessor

Operating lease assets are recorded at cost and depreciated over the life of the asset after taking into account anticipated residual values. Operating lease rental income and depreciation is recognised on a straight-line basis over the life of the asset. A provision is recognised to reflect a reduction in any anticipated unguaranteed residual value. A provision is also recognised for voluntary termination of the contract by the customer, where appropriate.

b) ANTS as lessee

ANTS enters into operating leases for the rental of equipment or real estate. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The corresponding rental obligations are recorded as borrowings. The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income taxes, including deferred taxes

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. A current tax liability for the current or prior period is measured at the amount expected to be paid to the tax authorities. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the liability recognised is the most likely outcome. Where a most likely outcome cannot be determined, a weighted average basis is applied.

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 liabilities are not recognised if the temporary difference arises from the initial recognition of 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. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where ANTS is able to control reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. ANTS reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax relating to fair value re-measurements of financial instruments accounted for at FVOCI is charged or credited directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and 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.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks and short-term investments in securities.

Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and it can be reliably estimated.

Conduct provisions are made for the estimated cost of making redress payments with respect to the past sales of products, based on conclusions regarding the number of claims that will be received, including the number of those that will be upheld, the estimated average settlement per case and other related costs. Provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists. An obligation exists when ANTS has a detailed formal plan for restructuring a business, has raised valid expectations in those affected by the restructuring, and has started to implement the plan or announce its main features.

When a leasehold property ceases to be used in the business, provision is made where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provisions include amounts in respect of irrevocable loan commitments if it is probable that the facility will be drawn and the resulting loan will be recognised at a value less than the cash advanced.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

Share capital

a) Share issue costs

Incremental external costs directly attributable to the issue of new shares are deducted from equity net of related income taxes.

b) Dividends

Dividends on ordinary shares are recognised in equity in the period in which the right to receive payment is established.

Accounting policies relating to comparatives - IAS 39

On 1 January 2018, ANTS adopted IFRS 9 which replaced IAS 39. In accordance with the transition requirements of IFRS 9, comparatives were not restated. The accounting policies applied in accordance with IAS 39 for periods before the adoption of IFRS 9 are set out below:

Financial assets and liabilities – IAS 39

Financial assets and liabilities are initially recognised when ANTS becomes a party to the contractual terms of the instrument. ANTS determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. Financial assets that are classified at fair value through profit or loss, which have not been designated as such or are not accounted for as derivatives, or assets classified as available-for-sale, may subsequently in rare circumstances, be reclassified from the fair value through profit or loss category to the loans and receivables, available-for-sale or held-to-maturity categories. Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition. ANTS does not hold any held to maturity financial assets.

a) Financial assets and liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL if they are either held for trading or otherwise designated at FVTPL on initial recognition.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances financial assets and financial liabilities other than those that are held for trading are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets or liabilities are managed and their performance evaluated on a fair value basis, or where a financial asset or financial liability contains one or more embedded derivatives which are not closely related to the host contract.

Financial assets and financial liabilities classified as FVTPL are initially recognised at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement except for gains and losses on financial liabilities designated at FVTPL relating to own credit which are presented in other comprehensive income.

Derivatives, trading assets and liabilities and financial assets and liabilities designated at fair value are classified as FVTPL.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or FVTPL. They arise when ANTS provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. Loans and receivables consist of loans and advances to banks, loans and advances to customers, and loans and receivables securities.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories described. They are initially recognised at fair value including direct and incremental transaction costs, and subsequently held at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until sale or until determined to be impaired when the cumulative gain or loss or impairment losses are transferred to the income statement. Where the financial asset is interest-bearing, interest is determined using the effective interest method.

Income on investments in equity shares, debt instruments and other similar interests is recognised in the income statement as and when dividends are declared and interest is accrued. Impairment losses and foreign exchange translation differences on monetary items are recognised in the income statement.

Impairment of financial assets – IAS 39

At each balance sheet date ANTS assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

a) Assets carried at amortised cost

For loans and advances, loans and receivables securities and held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

More detailed policies for certain portfolios measured at amortised cost are described below.

Individual assessment
At each balance sheet date, ANTS conducts impairment reviews to assess whether there is objective evidence of impairment for individually significant corporate assets. A specific observed impairment is established for all individually significant loans that have experienced a loss event such as where:

- An asset has a payment default which has been outstanding for three months or more
- Non-payment defaults have occurred but where it has become evident that a forbearance exercise will be undertaken due to the inability of the borrower to meet its current contractual repayment schedule
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The borrower has a winding up notice issued or insolvency event
- The borrower has had event(s) occur which are likely to adversely impact upon their ability to meet their financial obligations (e.g. Where a customer loses a key client or contract)
- The borrower has regularly and persistently missed/delayed payments but where the account has been maintained below three months past due
- The customer loan is due to mature within six months and where the prospects of achieving a refinancing are considered low.

In such situations the asset is transferred to the Corporate & Commercial Banking Restructuring & Recoveries team. As part of their impairment reviews, an assessment is undertaken of the expected future cash flows (including, where appropriate, cash flows through enforcement of any applicable security held) in relation to the relevant asset, discounted at the loan's original effective interest rate. The result is compared to the current carrying value of the asset. Any shortfall evidenced as a result of such a review will be assessed and recorded as an observed specific loss allowance.

Collective assessment
Observed impairment loss allowances
A collective impairment loss allowance is established for loans which are not individually significant and have suffered a loss event. These non-individually significant loans are grouped together according to their credit risk characteristics and the allowance for observed losses is determined on a collective basis by applying loss rates (i.e. estimated LGD) derived from analysis of historical loss data of observed losses.

IBNO impairment loss allowances
Loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an IBNO allowance for incurred inherent losses. Such losses will only be individually identified in the future. As soon as information becomes available which identifies incurred losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment or included in the observed collective assessment above depending on their individual significance.

The allowance for IBNO losses is determined on a portfolio basis using the following factors:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by product)
- The estimated period between an impairment event occurring and the loss being identified and evidenced by the establishment of an observed loss allowance against the individual loan (known as the emergence period, as discussed below)
- Management's judgement as to whether current economic and credit conditions are such that the actual level of incurred inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

b) Loans and receivables securities and held to maturity investments
Loans and receivables securities and held-to-maturity investments are assessed individually for impairment. An impairment loss is incurred if there is objective evidence that a loss event has occurred since initial recognition of the assets that has an impact on the estimated future cash flows of the asset. Potential indicators of loss events include significant financial distress of the issuer and default or delinquency in interest and principal payments (breach of contractual terms).

Loans and receivables securities and held-to-maturity investments are monitored for potential impairment through a detailed expected cash flow analysis, where appropriate, taking into account the structure and underlying assets of each individual security. Once specific events give rise to a reasonable expectation that future anticipated cash flows may not be received, the asset originating these doubtful cash flows will be deemed to be impaired with the impairment loss being measured as the difference between the expected future cash flows discounted at the original effective interest rate and the carrying value of the asset.

c) Assets classified as available-for-sale
ANTS assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. The assessment involves reviewing the financial circumstances (including creditworthiness) and future prospects of the issuer, assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the security below its cost. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously reported in the income statement and is removed from other comprehensive income and recognised in the income statement. For impaired debt instruments, further impairment losses are recognised where there has been a further negative impact on expected future cash flows.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase is due to an event occurring after the impairment loss was recognised in the income statement (with objective evidence to support this), the impairment loss is reversed through the income statement. If, in a subsequent period, the fair value of an equity instrument classified as available-for-sale increases, all such increases in the fair value are treated as a revaluation, and are recognised in other comprehensive income. Impairment losses recognised on equity instruments are not reversed through the income statement.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgements and accounting estimates 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 judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

In the course of preparing the financial statements, no significant judgements have been made in the process of applying ANTS's accounting policies.

2. NET INTEREST INCOME

	2018 £m	2017 £m
Interest and similar income:		
Loans and advances to Santander UK group undertakings	2.5	-
Other loans and advances	11.3	8.2
Total interest and similar income:	13.8	8.2
Interest expense and similar charges:		
Deposits by Santander UK group undertakings	(10.4)	(6.8)
Other deposits and borrowings	(1.6)	-
Total interest expense and similar charges	(12.0)	(6.8)
Net interest income	1.8	1.4

3. NET FEE AND COMMISSION INCOME

	2018 £m	2017 £m
Current account and debit card fee income	0.1	-

4. NET TRADING AND OTHER INCOME

	2018 £m	2017 £m
Net (losses)/gains on other financial assets at fair value through profit or loss	(1.6)	3.4
Net gains/(losses) on derivatives managed with assets/liabilities held at fair value through profit or loss	4.2	(3.6)
	2.6	(0.2)

5. OPERATING EXPENSES BEFORE CREDIT IMPAIRMENT LOSSES, PROVISIONS AND CHARGES

	2018 £m	2017 £m
Staff costs:		
Wages and salaries	2.2	2.0
Social security costs	0.1	0.1
Pensions costs – defined contribution plans	-	0.1
	2.3	2.2
Other administration expenses	0.4	-
	2.7	2.2

The company uses staff who have employment contracts with Santander UK plc. The cost of their services is recharged by Santander UK plc to the Company, and classified in these financial statements as staff costs.

The average number of full time equivalent staff, including in respect of discontinued operations, was 667 (2017: 1,047).

6. AUDIT AND OTHER SERVICES

	2018 £m	2017 £m
Audit fees:		
Fees payable to the Company's auditor and its associates for the audit of the annual accounts	0.3	1.6
Total audit fees[1]	0.3	1.6
Non-audit fees:		
Audit-related assurance services	-	0.1
Total non-audit fees	-	0.1

(1) The 2018 audit fees included £nil (2017: £0.4m) which related to the prior year.

7. CREDIT IMPAIRMENT LOSSES AND PROVISIONS

The credit impairment loss allowance requirements introduced by IFRS 9 mandated a change from recognising impairment losses on an incurred loss basis (as reflected in 2017) to an expected credit loss (ECL) basis (as reflected in 2018). For more details on this change in methodology, see the IFRS 9 accounting policy changes in Note 1 and the IFRS 9 transition disclosures in Note 38. There were no material credit impairment losses on loans and advances to banks, non-trading reverse repurchase agreements, other financial assets at amortised cost and financial assets at fair value through other comprehensive income.

8. TAXATION

	2018 £m	2017 £m
Current tax:		
UK corporation tax on profit on continuing operations for the year	0.4	(0.3)
Total current tax	0.4	(0.3)
Total deferred tax	-	-
Tax on profit on continuing operations	0.4	(0.3)

The standard rate of UK corporation tax was 27% for banking entities (2017: 27.25%) following the introduction of an 8% surcharge to be applied to banking companies from 1 January 2016. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. The Finance Act 2016, introduced a further reduction in the standard rate of corporation tax rate to 17% from 2020. The effects of the changes in tax rates are included in the deferred tax balances at both 31 December 2018 and 2017.

The effective tax rate for continuing operations in 2018 and 2017, based on profit before tax, was equal to the standard tax rate of UK corporation tax of 27.6% (2017: 31.3%). The tax on profit before tax differs from the theoretical amount that would arise using the basic corporation tax rate of the Company as follows:

	2018 £m	2017 £m
Profit/(loss) before tax on continuing operations	1.8	(1.0)
Tax calculated at a tax rate of 19% (2017: 19.25%)	0.3	(0.2)
Bank surcharge on profits	0.1	(0.1)
Tax charge on continuing operations	0.4	(0.3)

Current tax assets and liabilities

Movements in current tax assets and liabilities during the year were as follows:

	2018 £m	2017 £m
Liabilities at 1 January	(101)	(119)
Income statement (including discontinued operations)	(7)	(58)
Corporate income tax paid	55	68
Other movements	6	8
Liabilities at 31 December	(47)	(101)

Other movements include current tax amounts relating to amounts settled by intercompany group relief.

The amount of corporation income tax paid differs from the tax charge for the period as a result of the timing of payments due to the tax authorities together with the effects of movements in temporary differences, adjustments to prior period current tax provisions and current tax recognised directly in other comprehensive income.

The Company proactively engages with HM Revenue & Customs to resolve tax matters relating to prior years. The accounting policy for recognising provisions for such matters are described in Note 1 to the Financial Statements. It is not expected that there will be any material movement in such provisions within the next 12 months.

The Company adopted the Code of Practice on Taxation for Banks in 2010.

Deferred tax

The table below shows the deferred tax assets and liabilities including the movement in the deferred tax account during the year. Deferred tax balances are presented in the balance sheet after offsetting assets and liabilities where the Company has the legal right to offset and intends to settle on a net basis.

	Available-for-sale £m	Accelerated tax depreciation £m	Other temporary differences £m	Total £m
At 31 December 2017	-	2	7	9
Adoption of IFRS 9 (see Note 1)	-	-	5	5
At 1 January 2018		2	12	14
Charged to other comprehensive income (including discontinued operations)		-	(1)	(1)
At 31 December 2018		2	11	13
At 1 January 2017	(4)	1	11	8
Income statement charge (including discontinued operations)	-	1	(3)	(2)
Credited/(charged) to other comprehensive income (including discontinued operations)	4	-	(1)	3
At 31 December 2017	-	2	7	9

The deferred tax assets scheduled above have been recognised on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets within the Santander UK group as they reverse.

In addition, the Company had net operating losses carried forward in the US of $nil (2017: $76m) as such losses expired on the closure of the Company's US Branch. A deferred tax asset was not previously recognised on these losses as the Company did not anticipate being able to offset the losses against future profits or gains in order to realise any economic benefit in the foreseeable future.

9. DISCONTINUED OPERATIONS

Following Court approval of our Ring-Fence Transfer Scheme (RFTS) on 11 and 12 June 2018, ANTS was emptied of most assets and liabilities, except for a small pool of residual assets and liabilities, and became a wholly-owned direct subsidiary of Santander UK Group Holdings plc, outside the ring-fenced bank. The prohibited business of ANTS, which principally included our derivatives business with financial institutions, certain corporates and our short term markets business, was either transferred to Banco Santander SA (mainly Banco Santander London Branch) or, in the case of the majority of our short term markets business, was run down. The majority of the permitted business of ANTS transferred to Santander UK plc, with a small amount of the permitted business of ANTS transferring to Banco Santander London Branch. For more on ring-fencing, see Note 37.

The RFTS transfers, asset sales and the run-down of certain short-term positions met the requirements for presentation as discontinued operations. The financial performance and cash flow information relating to the discontinued operations were as follows:

	2018 £m	2017 £m
Total operating income	216.9	592.3
Operating expenses before credit impairment losses, provisions and charges	(158.1)	(308.0)
Total operating credit impairment losses, provisions and charges	(34.0)	(91.6)
Profit in respect of discontinued operations before tax	24.8	192.7
Tax on profit in respect of discontinued operations	(7.0)	(60.3)
Profit in respect of discontinued operations after tax	17.8	132.4

There were no gains or losses recognised on the measurement to fair value less costs to sell or on the disposal of the asset groups constituting the discontinued operations.

Other comprehensive income in respect of discontinued operations was as follows:

	2018 £m	2017 £m
Available-for-sale reserves		4.9
Fair value reserves	(1.0)	
Currency translation reserves	0.4	(0.3)
Retained earnings	3.8	(13.8)
Other comprehensive income, net of tax, in respect of discontinued operations	3.2	(9.2)

In 2018, the net cash flows attributable to the operating activities, investing activities and financing activities in respect of discontinued operations were £14,958m outflow (2017: £7,141m inflow), £35m inflow (2017: £463m inflow) and £3,546m outflow (2017: £1,154m outflow), respectively.

10. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares declared and paid during the year were as follows:

	2018 Pence per share	2017 Pence per share	2018 £m	2017 £m
In respect of current year – first interim	240.00	-	600	-
– second interim	1,178.41	-	2,946	-
	1,418.41	-	3,546	-

The dividends that were made in 2018 related to the ring-fencing transfers to Banco Santander London Branch and Santander UK plc. For more on our ring-fencing transition, see Note 37.

11. TRADING ASSETS

	2018 £m	2017 £m
Securities purchased under resale agreements	-	8,870
Debt securities	-	5,156
Equity securities	-	9,277
Cash collateral associated with trading balances	-	6,156
Short-term loans	-	711
	-	30,170

In 2018, as part of our ring-fencing plans, the trading business was run down. For more on our ring-fence transition, see Note 37. In 2017, a significant portion of the debt and equity securities were held in our eligible liquidity pool. They comprised mainly of government bonds and quoted stocks.

12. DERIVATIVE FINANCIAL INSTRUMENTS

a) Use of derivatives

The Company undertook derivative activities primarily to provide customers with risk management solutions, and to manage and hedge its own risks. In 2018, as part of the Santander UK group's ring-fencing plans, ANTS transferred the majority of its derivative balances to Banco Santander London Branch as these related to products the Santander UK group can't offer, or customers it can't serve, from within the ring-fenced bank. The residual derivative balances are being run down and/or managed for value. For more on our ring-fence transition, see Note 37.

The Company's derivative activities do not give rise to significant open positions in portfolios of derivatives. Any residual position is managed to ensure that it remains within acceptable risk levels, with matching deals being used to achieve this where necessary. When entering into derivative transactions, ANTS employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

b) Analysis of derivative financial instruments

The contract/notional amounts of derivatives in the tables below indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent actual exposures.

			2018			2017
		Fair value			Fair value	
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Derivatives held for trading:						
Exchange rate contracts	335	1	-	175,846	5,011	6,775
Interest rate contracts	484	35	222	888,415	23,145	22,178
Equity and credit contracts	-	-	-	18,546	830	968
Total derivatives held for trading	819	36	222	1,082,807	28,986	29,921
Derivatives held for hedging:						
Interest rate contracts	-	-	-	1,289	27	211
Total derivatives held for hedging	-	-	-	1,289	27	211
Netting	-	-	-	-	(9,160)	(9,160)
Total derivative financial instruments	819	36	222	1,084,096	19,853	20,972

Derivative assets and liabilities are reported on a gross basis on the balance sheet unless there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. For more information on offsetting, see Note 36.

c) Analysis of derivatives designated as hedges

Net gains or losses arising from fair value hedges included in net trading and other income

	2018 £m	2017 £m
Fair value hedging:		
Gains on hedging instruments	33	134
Losses on hedged items attributable to hedged risks	(31)	(128)
Fair value hedging ineffectiveness	2	6

13. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 £m	2017 £m
Loans and advances to customers:		
- Loans to housing associations	-	330
- Loans to other customers	414	505
	414	835
Debt securities	12	317
	426[1]	1,152

(1) Comprises £426m of financial assets designated at FVTPL and £nil of financial assets mandatorily at FVTPL.

Loans and advances to customers principally represented other loans, being receivables that are managed, and have their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them is provided on that basis to management. Since 2009, the Company's policy has been not to designate similar new loans at fair value through profit or loss.

The net gain during the year attributable to changes in credit risk for loans and advances at fair value through profit or loss was £nil (2017: £45m). The cumulative net loss attributable to changes in credit risk for loans and advances at fair value through profit or loss at 31 December 2018 was £nil (2017: £124m).

14. LOANS AND ADVANCES TO CUSTOMERS

	2018 £m	2017 £m
Amounts due from Santander UK group undertakings	-	9
Amounts due from Banco Santander subsidiaries and joint ventures	-	16
Other loans and advances	453	8,249
Loans and advances to customers	**453**	**8,274**
Credit impairment loss allowances on loans and advances to customers	-	(157)
Net loans and advances to customers	**453**	**8,117**

Movement in credit impairment loss allowances on loans and advances to customers:

	£m
At 31 December 2017	157
Adoption of IFRS 9 (see Note 1)[1]	(5)
At 1 January 2018	152
Total charge to the income statement	7
Write-offs and other items[2]	(141)
Sales	(18)
At 31 December 2018	-
At 1 January 2017	86
Charge to the income statement	72
Write-offs and other items	(1)
At 31 December 2017	157

(1) The adjustment for the adoption of IFRS 9 related to the re-measurement of loss allowances on loans and advances to customers at amortised cost following the adoption of IFRS 9.
(2) The contractual amount outstanding on financial assets that were written off in the year, and are still subject to enforcement activity was £nil.

15. TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

ANTS enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to structured entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned.

- Full derecognition occurs when ANTS transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when ANTS sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of ANTS's continuing involvement. There are no assets subject to partial derecognition.

Financial assets that do not qualify for derecognition consist of (i) securities held by counterparties as collateral under repurchase agreements and (ii) securities lent under securities lending agreements.

As the substance of the sale and repurchase and securities lending transactions is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting ANTS's obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers, as appropriate. As a result of these transactions, ANTS is unable to use, sell or pledge the transferred assets for the duration of the transaction. ANTS remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition and their associated financial liabilities:

	2018		2017	
Nature of transaction	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Sale and repurchase agreements	-	-	243	(218)
Securities lending agreements	-	-	118	(118)
	-	-	361	(336)

16. REVERSE REPURCHASE AGREEMENTS – NON TRADING

	2018 £m	2017 £m
Agreements with banks	-	8,632
Agreements with customers	-	150
	-	8,782

17. FINANCIAL INVESTMENTS

	2018 £m	2017 £m
Loans and receivables securities	-	255

18. INTERESTS IN OTHER ENTITIES

The movement in interests in subsidiaries was as follows:

	Cost £m	Impairment £m	Net book value £m
At 1 January 2018	57	-	57
Disposal	(57)	-	(57)
At 31 December 2018	-	-	-
At 1 January 2017 and 31 December 2017	57	-	57

The Company is incorporated and domiciled in the UK and has no subsidiaries, associates or joint ventures. The Company has branch offices in Jersey and the Isle of Man. The Company also had a branch office in the US which closed in the year.

Subsidiaries

During the year, as part of the Santander UK group's ring-fencing plans, ANTS sold 100% of the share capital of Santander Equity Investments Limited to Santander UK Group Holdings plc, for a consideration of £40m, which was equivalent to the book value of the associated assets and liabilities. Prior to this, Santander Equity Investments Limited acquired 100% of the share capital of a number of subsidiaries of Santander UK plc, with aggregate net assets of £9m at the acquisition date. In addition, Santander Equity Investments Limited acquired 100% of the share capital of a number of subsidiaries of ANTS, with net assets of less than £1m at the acquisition date.

For more on our ring-fencing plans, see Note 37.

19. INTANGIBLE ASSETS

	Cost £m	Accumulated amortisation /impairment £m	Net book value £m
At 1 January 2018	62	(16)	46
Additions	4	-	4
Disposals	(63)	22	(41)
Charge	-	(6)	(6)
At 31 December 2018	3	-	3
At 1 January 2017	43	(8)	35
Additions	19	-	19
Charge	-	(8)	(8)
At 31 December 2017	62	(16)	46

20. TRADING LIABILITIES

	2018 £m	2017 £m
Securities sold under repurchase agreements	-	25,504
Short positions in securities and unsettled trades	-	3,694
Cash collateral	-	1,911
	-	31,109

In 2018, as part of our ring-fencing plans, the trading business in ANTS was run down, and the gilt-edged market making business was transferred to Banco Santander London Branch. For more on our ring-fencing transition, see Note 37.

21. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 £m	2017 £m
US$10bn Euro Commercial Paper Programme	-	387
Structured deposits	-	656
	-	1,043

Gains and losses arising from changes in the credit spread of securities issued by ANTS reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount. The net gain during the year attributable to changes in ANTS's own credit risk on the above securities was £6m (2017: net loss of £19m). The cumulative net loss attributable to changes in ANTS's own credit risk on the above securities at 31 December 2018 was £nil (2017: £38m).

At 31 December 2017, the amount that would have been required to be contractually paid at maturity of the securities was £6m higher than the carrying value.

22. DEPOSITS BY CUSTOMERS

	2018 £m	2017 £m
Current and demand accounts	1,044	-
Savings accounts	3,063	-
Time deposits	718	-
Amounts due to Santander UK subsidiaries and joint ventures	-	749
Wholesale funds and deposits[1]	-	1,699
	4,825	2,448

(1) Includes equity index-linked deposits of £nil (2017: £682m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £nil and £nil, respectively (2017: £682m and £24m, respectively).

Wholesale funds and deposits are interest bearing.

23. DEPOSITS BY BANKS

	2018 £m	2017 £m
Amounts due to Santander UK subsidiaries	4	12,491
Amounts due to Banco Santander SA – other	8	13
Other deposits	594	1,580
	606	14,084

24. REPURCHASE AGREEMENTS – NON TRADING

	2018 £m	2017 £m
Agreements with banks	-	223

25. DEBT SECURITIES IN ISSUE

	2018 £m	2017 £m
US$20bn Commercial Paper Programme	-	2,760
Certificates of deposit	-	3,283
	-	6,043

26. PROVISIONS

	2018 £m	2017 £m
At 1 January 2018	18	15
Additional provisions	12	19
Utilisation	(24)	(16)
At 31 December 2018	6	18
To be settled:		
– Within 12 months	6	18
	6	18

Isle of Man and Jersey Bank Depositor Compensation Schemes (DCSs)

Following the acquisition of the Crown Dependencies on 17 December 2018, the Isle of Man branch of the Company continues to be a participant in the Isle of Man Depositors' Compensation Scheme and the Jersey branch of the Company continues to be a participant in the Jersey Bank Depositors Compensation Scheme. These Depositor Compensation Schemes (DCSs) are independent statutory compensation funds for customers of Isle of Man and Jersey banks, and pay compensation if a bank is unable to pay claims against it.

The DCSs are funded, if and when required, by contributions from covered banks in the Isle of Man or Jersey that are participants in the DCS. The cost to ANTS in respect of the DCSs for 2018 was £nil (2017: £nil).

Financial Services Compensation Scheme (FSCS)

The FSCS is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry (and recoveries and borrowings where appropriate). Following the default of a number of deposit takers since 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. It is expected that the substantial majority of the principal amount outstanding will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted. However, to the extent that there remains a shortfall, the FSCS can recover any shortfall of the principal by levying the deposit-taking sector, including ANTS, who will make future contributions towards the FSCS' management expense levies in proportion to its share of total protected deposits. The costs to ANTS in respect of the FSCS for 2018 were £nil (2017: £nil).

UK Bank Levy

In addition to changes in corporation tax rates, Finance (No.2) Act 2015 reduced the UK Bank Levy rate from 0.21% via subsequent annual reductions to 0.10% from 1 January 2021. As a result, a rate of 0.16% applies for 2018 (2017: 0.17%). The cost of the UK Bank Levy for 2018 was £1m (2017: £19m). ANTS paid £34m in 2018 (2017: £nil) and provided for a liability of £1m at 31 December 2018 (2017: £34m).

Off-balance sheet ECL

Following the adoption of IFRS 9 on 1 January 2018, provisions include expected credit losses on guarantees given to third parties and undrawn loan commitments.

Other

Other provisions principally comprise amounts in respect of vacant property and restructuring charges relating to the US branch of the Company which closed in the year.

27. RETIREMENT BENEFIT PLANS

ANTS has exposure to various Santander UK defined benefit and defined contribution pension schemes in operation. Details of each scheme required by IAS 19 are disclosed in Note 31 in the Annual Report of Santander UK plc. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore, in accordance with IAS 19, the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and ANTS accounts for its contributions as a defined contribution plan. The contribution to be paid by ANTS is calculated as the contributions made by Santander UK plc to the schemes in respect of employees related to ANTS. An expense of £5m (2017: £9m) was recognised for these contributions and is included in the income statement in staff costs within operating expenses, and in profit in respect of discontinued operations after tax.

28. CONTINGENT LIABILITIES AND COMMITMENTS

	2018 £m	2017 £m
Guarantees given on behalf of Santander UK plc, fellow subsidiaries and subsidiaries	248,751	224,629
Guarantees given to third parties	-	307
Formal standby facilities, credit lines and other commitments with original term to maturity of:		
– One year or less	-	1,041
– Later than one year	5	8,295
	248,756	234,272

At 31 December 2018, ANTS had no significant credit impairment loss provisions relating to guarantees given to third parties and undrawn loan commitments. See Note 26 for further details. Where the items set out below can be reliably estimated, they are disclosed in the table above.

Guarantees given on behalf of Santander UK plc

The Company had previously given a full and unconditional guarantee in respect of certain unsubordinated liabilities of Santander UK plc (excluding debt securities) incurred before 31 December 2018 under a deed poll guarantee entered into on 11 May 2017. Via this guarantee, the Company had previously also indirectly guaranteed the obligations of Cater Allen Limited incurred prior to 31 December 2018. As part of our ring-fencing plans this guarantee was terminated and was of no further force and effect such that, with effect from 1 January 2019, the Company was released and discharged from all related present and future obligations and liabilities.

Capital Support Deed

At 31 December 2018, Abbey National Treasury Services plc, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, were party to a capital support deed dated 23 December 2015 (the Capital Support Deed 2015) with Santander UK Group Holdings plc and certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed 2015 were permitted by the PRA 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 were exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed 2015 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. With effect from 1 January 2019, and in accordance with our ring-fenced structure, Abbey National Treasury Services plc, Santander UK Group Holdings plc and Santander Equity Investments Limited have entered into a Capital Support Deed dated 13 November 2018 (the NRFB Sub-Group Capital Support Deed). From 1 January 2019, the parties to the NRFB Sub-Group Capital Support Deed have been permitted by the PRA to form a core UK group, a permission which will expire on 31 December 2021. Other than the change of the entities in scope, the purpose of the NRFB Sub-Group Capital Support Deed is the same as the Capital Support Deed 2015.

Domestic Liquidity Sub-group (DoLSub)

As a firm subject to the liquidity obligations in the Capital Requirements Regulation (CRR) Santander UK plc applied for, and was granted, a CRR Article 8 DoLSub CRR permission (DoLSub Article 8 permission). At 31 December 2018, the UK DoLSub comprised the entities Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited. With effect from 1 January 2019, and in accordance with our ring-fenced structure, Santander UK plc was granted a new DoLSub permission, withdrawing Abbey National Treasury Services plc from the UK DoLSub. Abbey National Treasury Services plc will meet liquidity adequacy and reporting requirements on an individual basis.

Guarantees given to third parties

Guarantees given to third parties consist primarily of letters of credit, bonds and guarantees granted as part of normal product facilities which are offered to customers.

Formal standby facilities, credit lines and other commitments

Standby facilities, credit lines and other commitments are also granted as part of normal product facilities which are offered to customers. Corporate facilities can comprise standby and revolving facilities which are subject to ongoing compliance with covenants and the provision of agreed security. Failure to comply with these terms can result in the withdrawal of the unutilised facility headroom.

Isle of Man and Jersey DCSs and FSCS

As described in Note 26, ANTS participates in the Isle of Man and Jersey DCSs, and the UK's national resolution scheme, the FSCS, and is thus subject to levies to fund the DCSs and the FSCS. In the event that the DCSs or the FSCS significantly increases the levies to be paid by firms the associated costs to ANTS would rise.

Other legal actions and regulatory matters

ANTS engages in discussion, and co-operates, with the FCA, PRA and other regulators and government agencies in various jurisdictions in their supervision and review of ANTS including reviews exercised under statutory powers, regarding its interaction with past and present customers, both as part of general thematic work and in relation to specific products, services and activities. During the ordinary course of business, ANTS is also subject to complaints and threatened legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, in addition to legal and regulatory reviews, challenges and tax or enforcement investigations or proceedings in various jurisdictions. All such matters are assessed periodically to determine the likelihood of ANTS incurring a liability.

In those instances where it is concluded that it is not yet probable that a quantifiable payment will be made, for example because the facts are unclear or further time is required to fully assess the merits of the case or to reasonably quantify the expected payment, no provision is made. In addition where it is not currently practicable to estimate the possible financial effect of these matters, no provision is made. A provision established with respect to interest rate derivatives is held by Santander UK plc.

German dividend tax arbitrage transactions
Santander UK plc, ANTS and Cater Allen International Limited are currently under investigation by the Cologne Criminal Prosecution Office and the German Federal Tax Office in relation to historical involvement in German dividend tax arbitrage transactions (known as cum/ex transactions). We are cooperating with the German authorities and are conducting our own internal investigation into the matters in question. There are factual issues to be resolved which may have legal consequences including potentially material financial penalties. These issues create uncertainties which mean that it is difficult to predict with reasonable certainty the resolution of the matter including timing or the significance of the possible impact. However, any potential losses, claims or expenses suffered or incurred by ANTS in respect of these matters have been fully indemnified by Santander UK plc, as part of the Ring-Fence Transfer Scheme.

Taxation
ANTS engages in discussion, and co-operates, with HM Revenue & Customs in their oversight of ANTS's tax matters. ANTS adopted the UK's Code of Practice on Taxation for Banks in 2010.

Other
As part of the sale of subsidiaries, businesses and other entities, and as is normal in such circumstances, ANTS has given warranties and indemnities to the purchasers.

Obligations under stock borrowing and lending agreements
Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations are offset by a contractual right to receive stock under other contractual agreements. See Note 31.

Other off-balance sheet commitments
ANTS has commitments to lend at fixed interest rates which expose it to interest rate risk. For further information, see the Risk review.

Operating lease commitments

Rental commitments under non-cancellable operating leases	2018 £m	2017 £m
No later than one year	1	–
Later than one year and not later than five years	–	1
	1	1

During 2018, rental expense amounted to £0.4m (2017: £0.4m) in respect of minimum rentals. There was no contingent rent expense included in this rental expense.

29. SHARE CAPITAL

	Ordinary shares of £1 each		Tracker shares of £1 each		B Tracker shares of £1 each		Total
Issued and fully paid share capital	No.	£m	No.	£m	No.	£m	£m
At 1 January 2017	2,549,000,000	2,549	1,000	–	1,000	–	2,549
Cancellation and extinguishment of shares	(2,299,002,000)	(2,299)	–	–	–	–	(2,299)
At 31 December 2017, 1 January 2018 and 31 December 2018	249,998,000	250	1,000	–	1,000	–	250

In 2008, the Company issued 1,000 Tracker Shares of £1 each at par to its parent company for £1,000. The Tracker Shares entitled the holders to dividends related to certain cash flows that were received by the Company in the period up to 7 April 2010. The Tracker Shares are not redeemable and do not confer any rights to participate in the assets of the Company on winding up (beyond the amount subscribed). The Tracker Shares carry no voting rights.

In 2010, the Company issued 1,000 B Tracker Shares of £1 each at par to its parent company for £1,000. The B Tracker Shares entitled the holders to dividends related to certain cash flows that were received by the Company in the year up to 31 December 2011. The B Tracker Shares are not redeemable and do not confer any rights to participate in the assets of the Company on a winding up (beyond the amount subscribed). The B Tracker Shares carry no voting rights.

On 14 December 2017, the issued share capital of the Company was reduced to £250,000,000 by cancelling and extinguishing 2,299,002,000 ordinary shares of £1 each. This capital reduction gives effect to the order made by the High Court and an amount of £2,299,002,000 was credited to the Company's retained earnings and forms part of the Company's distributable reserves.

30. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below shows the changes in liabilities arising from financing activities:

	2018			2017		
	Balance sheet line item			Balance sheet line item		
	Debt securities in issue £m	Dividends paid £m	Total £m	Debt securities in issue £m	Dividends paid £m	Total £m
At 1 January	6,043	–	6,043	7,895	–	7,895
Cash flows from financing activities	–	(3,546)	(3,546)	(1,154)	–	(1,154)
Cash flows from operating activities	(6,047)	–	(6,047)	(1,306)	–	(1,306)
Non-cash changes:						
– Unrealised foreign exchange	(1)	–	(1)	15	–	15
– Other changes	5	3,546	3,551	593	–	593
At 31 December	–	–	–	6,043	–	6,043

31. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following transactions are conducted under terms that are usual and customary to collateralised transactions, including, where relevant, standard securities lending and repurchase agreements.

a) Assets charged as security for liabilities

The financial assets below are analysed between those assets accounted for on-balance sheet and off-balance sheet in accordance with IFRS.

	2018 £m	2017 £m
On-balance sheet:		
Trading assets	–	14,982
Loans and advances to customers	1,227	–
Loans and advances to banks	184	–
Financial Investments	–	33
Total on-balance sheet	**1,411**	15,015
Total off-balance sheet	–	41,072

ANTS provides assets as collateral in the following areas of the business.

Sale and repurchase agreements
The Company enters into sale and repurchase agreements and similar transactions of equity and debt securities, which are accounted for as secured borrowings. Upon entering into such transactions, the Company provides collateral in excess of the borrowed amount. The carrying amount of assets that were so provided at 31 December 2018 was £nil (2017: £31,947m).

Stock borrowing and lending agreements
Asset balances under stock borrowing and lending agreements represent stock lent by ANTS. These balances amounted to £1,196m at 31 December 2018 (2017: £21,628m) and are offset by contractual commitments to return stock borrowed or cash received.

Derivatives business
In addition to the arrangements described above, collateral is also provided in the normal course of derivative business to counterparties. At 31 December 2018, £215m (2017: £2,512m) of such collateral in the form of cash had been provided by ANTS and is included in the table above.

b) Collateral accepted as security for assets

The collateral held as security for assets below are analysed between those liabilities accounted for on the balance sheet and off-balance sheet in accordance with IFRS.

	2018 £m	2017 £m
On-balance sheet:		
Trading liabilities	–	1,911
Deposits by customers	–	8
Total on-balance sheet	–	1,919
Total off-balance sheet	237	42,224

Purchase and resale agreements
The Company also enters into purchase and resale agreements and similar transactions of equity and debt securities, which are accounted for as collateralised loans. Upon entering into such transactions, the Company receives collateral in excess of the loan amount. The level of collateral held is monitored daily and if required, further calls are made to ensure the market values of collateral remains at least equal to the loan balance. The Company is permitted to sell or repledge the collateral held in the absence of default. At 31 December 2018, the fair value of such collateral received was £nil (2017: £25,381m). Of the collateral received, almost all was sold or repledged. The Company has an obligation to return collateral that it has sold or pledged.

Stock borrowing and lending agreements
Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations totalled £237m at 31 December 2018 (2017: £16,843m) and are offset by a contractual right to receive stock lent by ANTS.

Derivatives business
In addition to the arrangements described above, collateral is also received from counterparties in the normal course of derivative business. At 31 December 2018, £nil (2017: £1,919m) of such collateral in the form of cash had been received by ANTS and is included in the table above.

Lending activities
In addition to the above collateral held as security for assets, ANTS may obtain a charge over a customer's property in connection with its lending activities. Details of these arrangements are set out in the 'Credit risk' section of the Risk review.

32. ACQUISITION OF CROWN DEPENDENCIES

On 17 December 2018 and as part of the Santander UK group's ring-fencing plans, the businesses of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc were transferred to the Company pursuant to transfer schemes effected under relevant Jersey and Isle of Man law.

The fair value of the consideration and the carrying value of the assets and liabilities acquired as of the transfer date is set out below.

	£m
Assets	
Financial assets at amortised cost:	
- Loans and advances to customers	291
- Loans and advances to banks	4,565
Property, plant and equipment	3
Other assets	3
Total assets	**4,862**
Liabilities	
Financial liabilities at amortised cost:	
- Deposits by customers	4,796
Other liabilities	63
Current tax liabilities	3
Total liabilities	**4,862**
Net identified assets and liabilities and fair value of consideration	**-**

Financial effect of the acquisition

The total operating income and profit before tax included in the income statement for the year ended 31 December 2018 contributed by the Crown Dependency branches since their acquisition were £1.4m and £0.8m, respectively. Had the Crown Dependency branches been included from 1 January 2018, ANTS would have included total operating income of £52.4m and profit before tax of £35.2m for the year.

Analysis of loans and advances acquired:

	Fair value £m	Gross contractual amounts receivable £m	Estimated uncollectible gross contractual amounts receivable £m
Loans and advances to customers	291	291	-
Loans and advances to banks	4,565	4,565	-
	4,856	4,856	-

33. TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a) Remuneration of Directors and Other Key Management Personnel

The remuneration of the Directors and Other Key Management Personnel is set out in aggregate below.

Directors' remuneration	2018 £	2017 £
Salaries and fees	989,232	1,010,569
Performance-related payments	1,096,114	1,463,265
Other fixed remuneration (pension and other allowances & non-cash pension benefits)	219,666	224,197
Total remuneration[1]	**2,305,012**	2,698,031

Directors' and Other Key Management Personnel compensation	2018 £	2017 £
Short-term employee benefits	2,093,245	2,487,497
Post-employment benefits	211,767	208,787
Total compensation[1]	**2,305,012**	2,696,284

(1) In addition to the remuneration in the table above, termination benefits of £31,613 were paid to one director in 2018 (2017: nil).

Of the Directors that served during the year, seven (2017: six) were remunerated in relation to their services as Directors of this Company and the amounts included above are based on an estimated time allocation basis. The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander SA and Santander UK plc. Salaries and performance-related payments comprise payments to seven (2017: six) Directors serving during the year.

The Company ensures that it is compliant with the mandatory deferral requirements of the PRA's Remuneration Rules and Remuneration Code for staff who meet the relevant criteria (Code Staff) and the amount of bonus to be deferred is based on the total variable pay received. The PRA Remuneration Rules and Remuneration Code prescribes that at least 40% of variable pay must be made over a period of at least three, five or seven years and, for staff earning more than £500,000 in variable remuneration, at least 60% of a bonus must be deferred over the same period.

All UK bonus awards in 2018 and 2017 are subject to deferral principles that have been set at Banco Santander group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK Board Remuneration Committee and can be overridden by UK national requirements to meet any criteria set by the PRA or other regulator/law. However, the general deferral principles are as follows:

- Any deferred amount will be issued over a three, five or seven year period as an award comprising 50% in shares and 50% in cash
- Deferrals are subject to continued employment with the Banco Santander group in the UK and on the condition that none of the prescribed circumstances of forfeiture occur.

In 2018, the remuneration, excluding pension contributions and compensation for loss of office, of the highest paid Director was £1,506,905 (2017: £1,678,972) of which £810,000 (2017: £1,100,000) was performance-related. In 2018 and 2017 no amounts were paid with respect to a defined contribution scheme on behalf of the highest paid Director.

At 31 December 2018 and 2017, there was no accrued pension benefit for the highest paid Director and there was no lump sum accrued by the highest paid Director.

b) Retirement benefits

No Director will be receiving benefits under a defined benefit scheme (2017: none) and two Directors (2017: three) will be receiving benefits under a defined contribution scheme.

34. RELATED PARTY DISCLOSURES

a) Parent undertaking and controlling party

The Company's immediate parent is Santander UK Group Holdings plc, a company incorporated in England and Wales. The ultimate parent and controlling party is Banco Santander SA, a company incorporated in Spain. The smallest and largest groups into which the Company's results are included are the group accounts of Santander UK Group Holdings plc and Banco Santander SA, respectively, copies of which may be obtained from Shareholder Relations, 2 Triton Square, Regent's Place, London NW1 3AN, on the corporate website (www.aboutsantander.co.uk) or on the Banco Santander corporate website (www.santander.com).

b) Transactions with related parties

Transactions with related parties during the year and balances outstanding at the year-end:

	Interest, fees and other income received		Interest, fees and other expenses paid		Amounts owed by related parties		Amounts owed to related parties	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Ultimate parent	(32)	(57)	452	334	226	4,276	(229)	(4,393)
Immediate parent[1]	-	(554)	-	170	-	13,857	-	(14,293)
Subsidiaries	-	-	-	-	-	8	-	(24)
Fellow subsidiaries	(113)	(138)	466	56	150	467	(11)	(2,789)
	(145)	(749)	918	560	376	18,608	(240)	(21,499)

(1) In 2018, the immediate parent of ANTS changed following its sale by Santander UK plc to Santander UK Group Holdings plc. Comparatives in the table above have not been restated for this change in ownership.

Further information on balances due from/(to) other Banco Santander companies is set out in the sections 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander companies outside the Santander UK group' in the Risk review. In addition, details of the Capital Support Deed and the DoLSub liquidity facility, as well as guarantees previously given on behalf of Santander UK plc and fellow subsidiaries, are described in Note 28.

The above transactions were made in the ordinary course of business, except those carried out with Banco Santander SA and Santander UK plc as part of our ring-fencing plans as described in Note 37, on substantially the same terms as for comparable transactions with third party counterparties, and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features.

In addition, and as described in Note 37, in 2017 Santander UK plc, Abbey National Treasury Services plc, Santander UK Group Holdings plc and Banco Santander SA entered into a ring-fencing transfer scheme which formalised the business transfers required to implement the planned ring-fenced structure. In 2018, ANTS became a wholly-owned direct subsidiary of Santander UK Group Holdings plc, outside the ring-fenced bank, and was emptied of most assets and liabilities, except for a small pool of residual assets. The prohibited business of ANTS, which principally included the Santander UK group's derivatives business with financial institutions, certain corporates and the Santander UK group's short term markets business, was either transferred to Banco Santander London branch or, in the case of the majority of our short-term markets business, was run down. The majority of the permitted business of ANTS transferred to Santander UK plc, with a small amount of the permitted business of ANTS transferring to Banco Santander London Branch. For more on ring-fencing, see Note 37.

35. FINANCIAL INSTRUMENTS

a) Measurement basis of financial assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

b) Fair value measurement and hierarchy

(i) Fair value measurement

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 ANTS has access at that date. The fair value of a liability reflects its non-performance risk.

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 as the current bid price multiplied by the number of units of the instrument held.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

ANTS manages certain groups of financial assets and liabilities on the basis of its net exposure to either market risks or credit risk. As a result it has elected to use the exception under IFRS 13 which permits the fair value measurement of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position for a particular risk exposure or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

(ii) Fair value hierarchy

ANTS applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

ANTS categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in an active market that ANTS can access at the measurement date.

Level 2 Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3 Significant inputs to the pricing or valuation techniques are unobservable.

Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. ANTS recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

c) Valuation techniques

The main valuation techniques employed in internal models to measure the fair value of the financial instruments at 31 December 2018 and 2017 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. ANTS did not make any material changes to the valuation techniques and internal models it used in 2018 and 2017.

A In the valuation of financial instruments requiring static hedging (for example interest rate, currency derivatives and commodity swaps) and in the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies or forward commodity prices, as well as credit spreads. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments. The forward commodity prices are generally observable market data.

B In the valuation of equity financial instruments requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary local volatility and stochastic volatility models are used. These types of models are widely accepted in the financial services industry. Observable market inputs used in these models include the bid-offer spread, foreign currency exchange rates, volatility and correlation between indices. In limited circumstances, other inputs may be used in these models that are based on unobservable market data, such as the Halifax's UK HPI volatility, HPI forward growth, HPI spot rate, mortality, mean reversion and contingent litigation risk.

C In the valuation of financial instruments exposed to interest rate risk that require either static or dynamic hedging (such as interest rate futures, caps and floors, and options), the present value method (futures), Black's model (caps/floors) and the Hull/White and Markov functional models (Bermudan options) are used. These types of models are widely accepted in the financial services industry. The significant inputs used in these models are observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates. In limited circumstances, other inputs may be used in these models that are based on unobservable market data, such as HPI volatility, HPI forward growth, HPI spot rate, and mortality.

D In the valuation of linear instruments such as credit risk and fixed-income derivatives, credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk such as credit derivatives, the probability of default is determined using the credit default spread market. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair values of the financial instruments arising from ANTS's internal models take into account, among other things, contract terms and observable market data, which include such factors as bid-offer spread, interest rates, credit risk, exchange rates, the quoted market price of raw materials and equity securities, volatility and prepayments. In all cases, when it is not possible to derive a valuation for a particular feature of an instrument, management uses judgement to determine the fair value of the particular feature. In exercising this judgement, a variety of tools are used including proxy observable data, historical data and extrapolation techniques. Extrapolation techniques take into account behavioural characteristics of equity markets that have been observed over time, and for which there is a strong case to support an expectation of a continuing trend in the future. Estimates are calibrated to observable market prices when they become available.

ANTS believes its valuation methods are appropriate and consistent with other market participants. Nevertheless, the use of different valuation methods or assumptions, including imprecision in estimating unobservable market inputs, to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date and the amount of gain or loss recorded for a particular instrument. Most of the valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities, where available.

d) Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with the Risk Department. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, ANTS will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The factors that are considered in this regard include:
- The extent to which prices may be expected to represent genuine traded or tradeable prices
- The degree of similarity between financial instruments
- The degree of consistency between different sources
- The process followed by the pricing provider to derive the data
- The elapsed time between the date to which the market data relates and the balance sheet date
- The manner in which the data was sourced.

The source of pricing data is considered as part of the process that determines the classification of the level of a financial instrument. Consideration is given to the quality of the information available that provides the current mark-to-model valuation and estimates of how different these valuations could be on an actual trade, taking into consideration how active the market is. For spot assets that cannot be sold due to illiquidity, forward estimates are discounted to estimate a realisable value over time. Adjustments for illiquid positions are regularly reviewed to reflect changing market conditions.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development and / or validation of: (i) the logic within the models; (ii) the inputs to those models; and (iii) any adjustments required outside the models. Internal valuation models are validated independently within the Risk Department. A validation report is produced for each model-derived valuation that assesses the mathematical assumptions behind the model, the implementation of the model and its integration within the trading system. The results of the independent valuation process and any changes to the fair value adjustments methodology are approved in line with the model Risk Framework and policy.

e) Fair values of financial instruments carried at amortised cost

The following tables analyse the fair value of the financial instruments carried at amortised cost at 31 December 2018 and 2017, including their levels in the fair value hierarchy – Level 1, Level 2 and Level 3. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value. Cash and balances at central banks which consist of demand deposits with the Bank of England and, in 2017, the US Federal Reserve have been excluded from the table, as the carrying amount is deemed an appropriate approximation of fair value. There were no financial instruments carried at amortised cost whose fair values would be classified in Level 1.

	2018				2017			
	Fair value				Fair value			
	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets								
Loans and advances to customers	-	453	453	453	1,565	6,561	8,126	8,117
Loans and advances to banks	271	409	680	718	464	5,784	6,248	6,260
Reverse repurchase agreements – non trading	-	-	-	-	8,780	-	8,780	8,782
Financial investments	-	-	-	-	256	1	257	255
	271	862	1,133	1,171	11,065	12,346	23,411	23,414
Liabilities								
Deposits by customers	4,825	-	4,825	4,825	-	2,448	2,448	2,448
Deposits by banks	594	12	606	606	1,099	12,998	14,097	14,084
Repurchase agreements – non trading	-	-	-	-	229	-	229	223
Debt securities in issue	-	-	-	-	6,043	-	6,043	6,043
	5,419	12	5,431	5,431	7,371	15,446	22,817	22,798

Included in the above table are the following intercompany balances:

	2018				2017			
	Fair value				Fair value			
	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets								
Loans and advances to customers	-	128	128	128	-	25	25	25
Loans and advances to banks	183	30	213	213	-	5,334	5,334	5,334
Reverse repurchase agreements – non trading	-	-	-	-	6,643	-	6,643	6,643
	183	158	341	341	6,643	5,359	12,002	12,002
Liabilities								
Deposits by banks	-	12	12	12	-	12,504	12,504	12,504
	-	12	12	12	-	12,504	12,504	12,504

The carrying value above of any financial assets and liabilities that are designated as hedged items in a portfolio (or macro) fair value hedge relationship excludes gains and losses attributable to the hedged risk, as this is included in other assets on the balance sheet.

Valuation methodology for financial instruments carried at amortised cost

The fair value exposures set out in the tables above are managed by using a combination of hedging derivatives and offsetting on-balance sheet positions. The approach to specific categories of financial instruments is described below.

Assets:

Loans and advances to customers

The approach to estimating the fair value of loans and advances to customers has been determined by discounting expected cash flows to reflect current market rates for lending of a similar credit quality. The determination of their fair values is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour.

i) Advances secured on residential property

The fair value of the mortgage portfolio is calculated by discounting contractual cash flows by different spreads, each representing a LTV band, after taking account of expected customer prepayment rates. The spread is based on new business interest rates derived from competitor market information. Further discounting is applied for certain higher risk mortgage portfolios.

ii) Corporate loans

The corporate loan portfolio is stratified by product. The determination of the fair values of performing loans takes account of the differential between existing margins and estimated new business rates for similar loans in terms of segment, maturity and structure. Provisions are considered appropriate for the book that is not impaired. A discount has been applied to impaired loans. Although exits have generally been achieved at carrying value, this does not reflect the discount a purchaser would require. A discount has therefore been applied based on the target return sought by distressed bond funds, who are the typical purchaser of the assets.

With respect to intercompany loans, the carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are either short-term in duration or subject to fair value hedges.

Loans and advances to banks

These comprise secured loans, short-term placements with banks including collateral and unsettled financial transactions. The secured loans have been valued on the basis of spreads on credit default swaps for the term of the loans using valuation technique A as described above. The carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are very short-term in duration. This includes intercompany balances.

Reverse repurchase agreements – non trading

The fair value of the reverse repurchase agreements – non trading were estimated using valuation technique A as described above.

Financial investments

These consisted of asset-backed securities that are complex products and debt securities. These fair values were determined using industry-standard valuation techniques, including discounted cash flow models. The inputs to these models used in these valuation techniques included quotes from market makers, prices of similar assets, adjustments for differences in credit spreads, and additional quantitative and qualitative research.

Liabilities:

Deposits by customers

The majority of deposit liabilities are payable on demand and therefore can be deemed short-term in nature with the fair value equal to the carrying value. Certain of the deposit liabilities are at a fixed rate until maturity. The deficit/surplus of fair value over carrying value of these liabilities has been estimated by reference to the market rates available at the balance sheet date for similar deposit liabilities of similar maturities. The fair value of such deposit liabilities has been estimated using valuation technique A as described above.

Deposits by banks

The fair value of deposits by banks, including repos, has been estimated using valuation technique A as described above.

Debt securities in issue

Where reliable prices are available, the fair value of debt securities in issue has been calculated using quoted market prices. Other market values have been determined using valuation technique A as described above.

Repurchase agreements – non trading

The fair value of the repurchase agreements – non trading were estimated using valuation technique A as described above.

f) Fair values of financial instruments measured at fair value

The following tables summarise the fair values of the financial assets and liabilities accounted for at fair value at 31 December 2018 and 2017, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

		2018				2017				
		Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Valuation technique
Assets										
Trading assets	Securities purchased under resale agreements	-	-	-	-	-	8,870	-	8,870	A
	Debt securities	-	-	-	-	5,156	-	-	5,156	-
	Equity securities	-	-	-	-	9,277	-	-	9,277	-
	Cash collateral	-	-	-	-	-	6,156	-	6,156	A
	Short-term loans	-	-	-	-	656	55	-	711	A
		-	-	-	-	15,089	15,081	-	30,170	
Derivative financial instruments	Exchange rate contracts	-	1	-	1	-	4,996	15	5,011	A
	Interest rate contracts	-	35	-	35	-	23,160	12	23,172	A & C
	Equity and credit contracts	-	-	-	-	-	794	36	830	B & D
	Netting	-	-	-	-	-	(9,160)	-	(9,160)	
		-	36	-	36	-	19,790	63	19,853	
Other financial assets at FVTPL	Loans and advances to customers	-	414	-	414	-	771	64	835	A
	Debt securities	5	7	-	12	184	133	-	317	A & B
		5	421	-	426	184	904	64	1,152	
Total assets at fair value		5	457	-	462	15,273	35,775	127	51,175	
Liabilities										
Trading liabilities	Securities sold under repurchase agreements	-	-	-	-	-	25,504	-	25,504	A
	Short positions in securities and unsettled trades	-	-	-	-	3,694	-	-	3,694	-
	Cash collateral	-	-	-	-	-	1,911	-	1,911	A
		-	-	-	-	3,694	27,415	-	31,109	
Derivative financial instruments	Exchange rate contracts	-	-	-	-	-	6,760	15	6,775	A
	Interest rate contracts	-	222	-	222	-	22,384	5	22,389	A & C
	Equity and credit contracts	-	-	-	-	1	929	38	968	B & D
	Netting	-	-	-	-	-	(9,160)	-	(9,160)	
		-	222	-	222	1	20,913	58	20,972	
Other financial liabilities at FVTPL	Debt securities in issue	-	-	-	-	-	387	-	387	A
	Structured deposits	-	-	-	-	-	656	-	656	A
		-	-	-	-	-	1,043	-	1,043	
Total liabilities at fair value		-	222	-	222	3,695	49,371	58	53,124	

Transfers between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the period in which they occur. In 2018, there were no (2017: none) transfers of financial instruments between Levels 1 and 2. In 2018, there were no (2017: none) transfers of financial instruments between Levels 2 and 3.

g) Fair value adjustments

The internal models incorporate assumptions that ANTS believes would be made by a market participant to establish fair value. Fair value adjustments are adopted when ANTS considers that there are additional factors that would be considered by a market participant that are not incorporated in the valuation model.

ANTS classifies fair value adjustments as either 'risk-related' or 'model-related'. The fair value adjustments form part of the portfolio fair value and are included in the balance sheet values of the product types to which they have been applied. The magnitude and types of fair value adjustment are listed in the following table:

	2018 £m	2017 £m
Risk-related:		
– Bid-offer and trade specific adjustments	5	22
– Uncertainty	19	43
– Credit risk adjustment	-	29
– Funding fair value adjustment	-	6
	24	100
Model-related	-	8
Day One profit	-	1
	24	109

Risk-related adjustments

Risk-related adjustments are driven, in part, by the magnitude of ANTS's market or credit risk exposure, and by external market factors, such as the size of market spreads.

(i) Bid-offer and trade specific adjustments

Portfolios are marked at bid or offer, as appropriate. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the cost that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position. For debt securities, the bid-offer spread is based on a consensus market price at an individual security level. For other products, the major risk types are identified. For each risk type, the net portfolio risks are first classified into buckets, and then a bid-offer spread is applied to each risk bucket based upon the market bid-offer spread for the relevant hedging instrument.

(ii) Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, a range of possible values exists that the financial instrument or market parameter may assume, and an adjustment may be needed to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

(iii) Credit risk adjustment

Credit risk adjustments comprise credit and debit valuation adjustments. The credit valuation adjustment (CVA) is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default, and ANTS may not receive the full market value of the transactions. The debit valuation adjustment (DVA) is an adjustment to the valuation of the OTC derivative contracts to reflect within the fair value the possibility that the ANTS may default, and that ANTS may not pay full market value of the transactions.

ANTS calculates a separate CVA and DVA for each counterparty to which it has exposure. ANTS calculates the CVA by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default i.e. LGD. Conversely, ANTS calculates the DVA by applying the PD of ANTS, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to ANTS and multiplying the result by the LGD. Both calculations are performed over the life of the potential exposure.

For most products ANTS uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

For certain types of exotic derivatives where the products are not currently supported by the standard methodology, ANTS adopts alternative methodologies. These may involve mapping transactions against the results for similar products which are valued using the standard methodology. In other cases, a simplified version of the standard methodology is applied. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the standard methodology.

The methodologies do not, in general, account for wrong-way risk. Wrong-way risk arises where the underlying value of the derivative prior to any credit risk adjustment is positively correlated to the probability of default of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation. Exposure to wrong-way risk is limited via internal governance processes and deal pricing. ANTS considers that an appropriate adjustment to reflect wrong-way risk is £nil (2017: £nil).

(iv) Funding fair value adjustment (FFVA)

The FFVA is an adjustment to the valuation of OTC derivative positions to include the net cost of funding uncollateralised derivative positions. This is calculated by applying a suitable funding cost to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio.

Model-related adjustments

Models used for portfolio valuation purposes, may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the core revaluation models and a model limitation adjustment is no longer needed.

Day One profit adjustments

Day One profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs. Day One profit adjustments are calculated and reported on a portfolio basis.

The timing of recognition of deferred Day One profit and loss is determined individually. It is deferred until either the instrument's fair value can be determined using market observable inputs or is realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred Day One profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without immediate reversal of deferred Day One profits and losses.

h) Internal models based on information other than market data (Level 3)

The table below provides an analysis of financial instruments valued using internal models based on information other than market data with further details on the valuation techniques used for each type of instrument. Each instrument is initially valued at transaction price:

			Balance sheet value		Fair value movements recognised in profit/(loss)	
Balance sheet line item	Category	Financial instrument product type	2018 £m	2017 £m	2018 £m	2017 £m
1. Derivative assets	Equity and credit contracts	Reversionary property interests	-	31	24	(6)
2. FVTPL	Loans and advances to customers	Roll-up mortgage portfolio	-	64	-	2
3. Derivative liabilities	Equity contracts	Property-related options and forwards	-	(38)	2	-
			-	57	26	(4)
Other Level 3 assets			-	17	(10)	(27)
Other Level 3 liabilities			-	(5)	1	19
Total net assets			-	69		
Total income / (expense)					17	(12)

Valuation techniques

1. Derivative assets – Equity and credit contracts

These are valued using a probability weighted set of HPI forward prices, which are assumed to be a reasonable representation of the increase in value of the Santander UK group's reversionary interest portfolio underlying the derivatives. The probability used reflects the likelihood of the home owner vacating the property and is calculated from mortality rates and acceleration rates which are a function of age and gender, obtained from the relevant mortality tables. Indexing is felt to be appropriate due to the size and geographical dispersion of the reversionary interest portfolio. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. Non-seasonally adjusted (NSA) national and regional HPI are used in the valuation model to avoid any subjective judgement in the adjustment process which is made by Markit, which publishes the Halifax HPI.

The inputs used to determine the value of the reversionary property derivatives are HPI spot, HPI forward growth and mortality rates. The principal pricing parameter is HPI forward growth.

2. FVTPL – Loans and advances to customers – roll-up mortgage portfolio

These represent roll-up mortgages (sometimes referred to as lifetime mortgages), which are an equity release scheme under which a property owner takes out a loan secured against their home. The owner may not make any interest payments during their lifetime in which case the fixed interest payments are rolled up into the mortgage. The loan or mortgage (capital and rolled-up interest) is repaid upon the owner's vacation of the property and the value of the loan is only repaid from the value of the property. This is known as a 'no negative equity guarantee'. ANTS suffers a loss if the sale proceeds from the property are insufficient to repay the loan, as it is unable to pursue the homeowner's estate or beneficiaries for the shortfall.

The value of the mortgage 'rolls up' or accretes until the owner vacates the property. In order to value the roll-up mortgages, ANTS uses a probability-weighted set of European option prices (puts) determined using the Black-Scholes model, in which the 'no negative equity guarantee' are valued as short put options. The probability weighting applied is calculated from mortality rates and acceleration rates as a function of age and gender, taken from mortality tables.

The inputs used to determine the value of these instruments are HPI spot, HPI forward growth, HPI volatility, mortality rates and repayment rates. The principal pricing parameter is HPI forward growth. The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 1 above. The other parameters do not have a significant effect on the value of the instruments.

3. Derivative liabilities – Equity contracts

There are three types of derivatives within this category:

European options – These are valued using a modified Black-Scholes model where the HPI is log-normally distributed with the forward rates determined from the HPI forward growth.
Asian options – Asian (or average value) options are valued using a modified Black-Scholes model, with an amended strike price and volatility assumption to account for the average exercise period, through a closed form adjustment that reflects the strike price relative to the distribution of stock prices at each relevant date. This is also known as the Curran model.
Forward contracts – Forward contracts are valued using a standard forward pricing model.

The inputs used to determine the value of the above instruments are HPI spot rate, HPI forward growth rate and HPI volatility. The principal pricing parameter is HPI forward growth rate.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table sets out the movements in Level 3 financial instruments in 2018 and 2017:

	Assets				Liabilities		
	Derivatives £m	Other financial assets at FVTPL £m	Financial assets at FVOCI £m	Total £m	Derivatives £m	Other financial liabilities at FVTPL £m	Total £m
At 31 December 2017	**63**	**64**		**127**	**(58)**	**-**	**(58)**
Adoption of IFRS 9	-	55	-	55	-	-	-
At 1 January 2018	**63**	**119**	**-**	**182**	**(58)**	**-**	**(58)**
Total gains/(losses) recognised in profit/(loss):							
– *Fair value movements*	14	-	-	14	3	-	3
– Foreign exchange and other movements	(5)	-	-	(5)	5	-	5
Sales	-	(119)	-	(119)	50	-	50
Settlements	(72)	-	-	(72)	-	-	-
At 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the year	9	-	-	9	8	-	8
At 1 January 2017	339	63		402	(75)	-	(75)
Total gains/(losses) recognised in profit/(loss):							
– Fair value movements	(33)	2		(31)	19	-	19
– Foreign exchange and other movements	32	-		32	(32)	-	(32)
Additions	9	-		9	(2)	-	(2)
Settlements	(284)	(1)		(285)	32	-	32
At 31 December 2017	63	64		127	(58)	-	(58)
(Losses)/gains recognised in profit/(loss) relating to assets and *liabilities held at the end of the year*	(1)	2		1	(13)	-	(13)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives (Level 3)

As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any hedged positions.

		Significant unobservable input				Sensitivity	
			Assumption value				
2017	Fair value £m	Assumption description	Range[1]	Weighted average	Shift	Favourable changes £m	Unfavourable changes £m
1. Derivative assets – Equity and credit contracts:	31	HPI Forward growth rate	0% - 5%	2.42%	1%	10	(10)
– Reversionary property derivatives		HPI Spot rate	n/a	773[2]	10%	8	(8)
2. FVTPL – Loans and advances to customers:	64	HPI Forward growth rate	0% - 5%	2.57%	1%	2	(2)
– Roll-up mortgage portfolio							
3. Derivative liabilities – Equity contracts:	(38)	HPI Forward growth rate	0% - 5%	2.32%	1%	3	(3)
– Property-related options and forwards		HPI Spot rate	n/a	727[2]	10%	7	(8)

(1) The range of actual assumption values used to calculate the weighted average disclosure.
(2) Represents the HPI spot rate index level at 31 December 2018 and 2017.

i) Maturities of financial liabilities and off-balance sheet commitments

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities and off-balance sheet commitments of ANTS 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. This table is not intended to show the liquidity of ANTS.

2018	On demand £m	Not later than 3 months £m	Later than 3 months and not later than 1 year £m	Later than 1 year and not later than 5 years £m	Later than 5 years £m	Total £m
Financial liabilities						
Derivative financial instruments	-	-	-	2	242	244
Deposits by customers	1,580	1,224	1,880	141	-	4,825
Deposits by banks	594	12	-	-	-	606
Total financial liabilities	2,174	1,236	1,880	143	242	5,675
Off-balance sheet commitments given	-	-	-	5	-	5
2017						
Financial liabilities						
Trading liabilities	1,520	26,914	152	161	2,580	31,327
Derivative financial instruments	5	1,032	1,602	4,375	15,287	22,301
Other financial liabilities at fair value through profit or loss	-	521	141	362	27	1,051
Deposits by customers	1,070	607	51	743	-	2,471
Deposits by banks	1,109	10,159	2,193	441	209	14,111
Repurchase agreements – non trading	-	-	1	224	-	225
Debt securities in issue	-	4,864	1,199	-	-	6,063
Total financial liabilities	3,704	44,097	5,339	6,306	18,103	77,549
Off-balance sheet commitments given	-	588	452	7,643	653	9,336

(1) Comprises the derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

36. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are reported on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following tables show the impact of netting arrangements on:

- All financial assets and liabilities that are reported net on the balance sheet
- All derivative financial instruments and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements described above.

For derivative contracts, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

For repurchase and reverse repurchase agreements and other similar secured lending and borrowing, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

ANTS engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables below do not purport to represent ANTS's actual credit exposure.

	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on-balance sheet			Related amounts not offset				
2018	Gross amounts £m	Amounts offset £m	Net amounts on the balance sheet £m	Financial instruments £m	Financial collateral[1] £m	Net amount £m	Assets not subject to enforceable netting arrangements[2] £m	Balance sheet total[3] £m
Assets								
Derivative financial instruments	36	-	36	(34)	-	2	-	36
Loans and advances to customers and banks[4]	-	-	-	-	-	-	1,171	1,171
Total assets	36	-	36	(34)	-	2	1,171	1,207
Liabilities								
Derivative financial instruments	216	-	216	(34)	(176)	6	6	222
Deposits by customers and banks[4]	-	-	-	-	-	-	5,431	5,431
Total liabilities	216	-	216	(34)	(176)	6	5,437	5,653
2017								
Assets								
Derivative financial instruments	28,756	(9,160)	19,596	(16,575)	(1,140)	1,881	257	19,853
Reverse repurchase, securities borrowing & similar agreements:								
– Trading assets	15,224	(6,354)	8,870	(205)	(8,665)	-	-	8,870
– Non trading assets	8,782	-	8,782	-	(8,782)	-	-	8,782
Loans and advances to customers and banks[4]	37,849	(31,714)	6,135	-	-	6,135	8,242	14,377
Total assets	90,611	(47,228)	43,383	(16,780)	(18,587)	8,016	8,499	51,882
Liabilities								
Derivative financial instruments	29,893	(9,160)	20,733	(16,575)	(1,941)	2,217	239	20,972
Repurchase, securities lending & similar agreements:								
– Trading liabilities	31,858	(6,354)	25,504	(205)	(25,299)	-	-	25,504
– Non trading liabilities	223	-	223	-	(223)	-	-	223
Deposits by customers and banks[4]	46,653	(31,714)	14,939	-	-	14,939	1,593	16,532
Total liabilities	108,627	(47,228)	61,399	(16,780)	(27,463)	17,156	1,832	63,231

(1) Financial collateral is reflected at its fair value, but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.
(2) This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.
(3) The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.
(4) The amounts offset within loans and advances to customers/banks or deposits by customers/banks relate to intercompany balances that are subject to netting.

37. RING-FENCING

Regulation
The Financial Services (Banking Reform) Act 2013 inserted provisions into the Financial Services and Markets Act 2000 (FSMA) and related legislation (the Banking Reform Legislation) requiring the Santander UK group amongst a number of other UK banking groups, to operationally and legally separate certain retail banking activities from certain wholesale or investment banking activities by 1 January 2019. This is known as 'ring-fencing'. The Banking Reform Legislation specifies:

- Certain banking services or activities (principally deposit taking from individuals and SMEs) which must be undertaken by a ring-fenced bank.
- Certain banking services and activities, along with certain types of credit risk exposure or off-balance sheet items, which a ring-fenced bank will be prohibited from carrying on or incurring (prohibited business).

As a result, under the ring-fencing regime, a ring-fenced bank is only permitted to carry on banking services or activities that are not prohibited (permitted business).

Santander UK group model (including ANTS)
The Santander UK group's ring-fence structure was completed ahead of the 1 January 2019 regulatory deadline. Its implementation involved an RFTS between Santander UK plc, ANTS and Banco Santander SA, as well as asset sales and the rundown of certain short term positions. Under our chosen model:

- Santander UK plc is the primary ring-fenced bank within a ring-fenced bank sub-group and serves all of our personal customers in the UK, and the majority of our business banking customers. Santander UK plc also broadly, to the extent allowed by the legislation, continues to hold and serve Santander's corporate banking business in the UK. Any products Santander UK can't offer, or customers it can't serve, from within the ring-fenced bank (which includes some Corporate & Investment Banking business and some Corporate & Commercial Banking customers) are, in most cases, provided or served by the wider Banco Santander group, notably through its Banco Santander London Branch. Santander UK plc continues to be a subsidiary of Santander UK Group Holdings plc, and is the holding company of the Santander UK ring-fenced bank sub-group. Cater Allen Limited is also a ring-fenced bank and part of the Santander UK ring-fenced bank sub-group. Neither Santander UK plc nor Cater Allen Limited conduct prohibited business.
- ANTS was emptied of most assets and liabilities, except for a small pool of residual assets and liabilities, and became a wholly-owned direct subsidiary of Santander UK Group Holdings plc, outside the ring-fenced bank. The prohibited business of ANTS, which principally included the Santander UK group's derivatives business with financial institutions, certain corporates and the Santander UK group's short term markets business, was either transferred to Banco Santander London branch or, in the case of the majority of our short-term markets business, was run down. The majority of the permitted business of ANTS transferred to Santander UK plc, with a small amount of the permitted business of ANTS transferring to Banco Santander London Branch.
- The business of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc was sold to ANTS pursuant to transfer schemes effected under relevant Jersey and Isle of Man law, and therefore transferred out of the ring-fenced bank.

Any associated business transfers to Banco Santander London Branch were made for a cash consideration equivalent to the book value of the associated assets and liabilities, which represents a fair value for ANTS. Costs to sell were immaterial. The Santander UK group's ring-fence structure is now in place with all required transfers completed. Compliance with ring-fencing legislation has involved significant effort over a number of years. As set out in more detail in Note 9, the RFTS transfers, asset sales and the run-down of certain short-term positions met the requirements for presentation as discontinued operations.

38. TRANSITION TO IFRS 9

Statutory balance sheet reconciliation under IAS 39 and IFRS 9

The measurement categories and carrying amounts of financial assets determined in accordance with IAS 39 and IFRS 9 are compared below, illustrating a total net assets decrease of £12m as a result of the application of IFRS 9:

	IAS 39				IFRS 9			
Assets	Measurement category	Carrying amount (31 December 2017) £m	Reclassifications[1] £m	Remeasurement[2] £m	Measurement category	Carrying amount (1 January 2018) £m	Re-presentation[5] £m	IFRS 9 Balance Sheet (1 January 2018) £m
Cash and balances with central banks	Loans & receivables	5,128	-	-	Amortised cost	5,128	-	5,128
Trading assets	FVTPL	30,151	-	-	FVTPL (Mandatory)	30,151	-	30,151
	FVTPL	19	-	-	FVOCI	19	(19)[(a)]	-
		30,170	-	-		30,170	(19)	30,151
Derivative financial instruments	FVTPL (Trading)	19,853	-	-	FVTPL (Mandatory)	19,853	-	19,853
Other financial assets at fair value through profit or loss[3]	FVTPL (Designated)	324	(21)[(b)]	-	Amortised cost	303	(303)[(b)]	-
	FVTPL (Designated)	766	-	-	FVTPL (Designated)	766	-	766
	FVTPL (Designated)	62	-	-	FVTPL (Mandatory)	62[(c)]	236[(d)]	298
		1,152	(21)	-		1,131	(67)	1,064
Loans and advances to customers	Loans & receivables	7,945	-	5	Amortised cost	7,950	303[(b)]	8,253
	Loans & receivables	86	-	-	FVOCI	86	(86)[(a)]	-
	Loans & receivables	86	-	-	FVTPL (Mandatory)	86	(86)[(d)]	-
		8,117	-	5		8,122	131	8,253
Loans and advances to banks	Loans & receivables	6,260	-	-	Amortised cost	6,260	-	6,260
Reverse repurchase agreements – non trading	Loans & receivables	8,782	-	-	Amortised cost	8,782	-	8,782
Financial investments	Loans & receivables	105	-	-	Amortised cost	105	-	105
	Loans & receivables	150	-	-	FVTPL (Mandatory)	150	(150)[(d)]	-
					FVOCI	-	105[(a)]	105
		255	-	-		255	(45)	210
Other assets	Other assets	372	(1)	-	Other assets	371	-	371
Total assets (pre-deferred tax asset)[4]		80,089	(22)	5		80,072	-	80,072

(1) Gross (pre-tax) impact on assets resulting from facilities impacted by the IFRS 9 classification and measurement rules.
(2) Gross (pre-tax) impact of facilities that were subject to an incurred loss assessment under IAS 39, and are now subject to an ECL assessment under IFRS 9; and facilities that have been reclassified from a non-amortised cost basis to an amortised cost basis. There is no loss allowance movement attributable to held-to-maturity investments or available-for-sale financial assets reclassified to amortised cost.
(3) The balance sheet category for 'Financial assets designated at fair value' has been changed to 'Other financial assets at fair value through profit or loss' following the adoption of IFRS 9.
(4) The impact of transition to IFRS 9 gave rise to a net deferred tax asset of £5m, of which £6m is attributable to 'Reclassifications', offset by a £1m deferred tax liability attributable to 'Remeasurement'. This net deferred tax asset was recognised in Note 8.
(5) Gross (pre-tax) impact of re-presentations resulting from the adoption of IFRS 9.

Reclassification and re-presentation

The columns for 'Reclassifications' and 'Re-presentations' in the table above capture the following changes resulting from the adoption of IFRS 9:

(a) Of the financial assets at FVOCI of £105m, £19m was previously classified as trading assets (measured at FVTPL) and £86m was previously classified as loans and advances to customers (measured at amortised cost). As these financial assets were held within hold to collect and sell business models, they were re-measured at FVOCI on adoption of IFRS 9.

(b) The Company elected to re-measure Social Housing loans from FVTPL to amortised cost to reflect the hold to collect business model. This resulted in a £21m downward measurement of the financial asset from £324m to £303m and a balance sheet reclassification of £303m from other financial assets at FVTPL to loans and advances to customers at amortised cost.

(c) Other financial assets of £62m, previously designated at FVTPL under IAS 39, are now mandatorily held at FVTPL, as there is no longer an option to bifurcate embedded derivatives under IFRS 9 and they fail the SPPI test.

(d) Other financial assets at fair value through profit or loss of £236m were previously classified as financial investments of £150m (measured at amortised cost) and loans and advances to customers of £86m (measured at amortised cost). As these financial assets do not have SPPI characteristics, they were mandatorily measured at FVTPL on adoption of IFRS 9 and were moved to other financial assets at FVTPL.

Reclassifications of debt instruments

For financial assets that were reclassified on transition to IFRS 9, the following table shows their fair value at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified:

	2018 £m
To amortised cost from FVTPL:	
Fair value at 31 December 2018	-
Fair value gain that would have been recognised during the year if the financial asset had not been reclassified	31

The effective interest rate of these debt instruments on the date of initial application of IFRS 9 was 3.45%. In 2018, interest income of £7m was recognised for these debt instruments.

39. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 31 December 2018 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.