ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

Registered in England and Wales
Company Number 03002815

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

STRATEGIC REPORT

The Directors submit the Strategic Report together with their Report of the Directors' and the audited financial statements for the year ended 31 December 2018.

Fair review of the Company's business

The principal activity of Abbey National Treasury Services Overseas Holdings (the "Company") is to act as an investment company.

During the year, the Company reduced its share capital by cancelling and extinguishing 349,999,000 issued ordinary shares at £1 each.

The Company held a portfolio of equities, a medium term strategy, which replicates the performance of the FTSE 100 index until these instruments matured during the year. The capital value of the equities in the portfolio was economically hedged through the sale of a synthetic forward over the FTSE 100 index, as noted in note 9, which also matured during the year.

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

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

Principal risks and uncertainties facing the Company

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 2.

By order of the Board

Cheryl Samuels
For and on behalf of
Santander Secretariat Services Limited, Secretary

30 September 2019
Registered office: 2 Triton Square, Regent's Place, London NW1 3AN

REPORT OF THE DIRECTORS

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

Principal activities and review of the year

The principal activity of the Company is to act as an investment company. The Company is registered as an unlimited company.

The Company held a portfolio of equities, a medium term strategy, which replicates the performance of the FTSE 100 index until this year when these instruments matured. The capital value of the equities in the portfolio was economically hedged through the sale of a synthetic forward over the FTSE 100 index, as noted in note 9, which also matured during the year.

On the 24th January 2018 Santander Equity Investments Limited acquired the Company's interest in the following entities:

- Abbey National UK Investments
- Solarlaser Limited
- Abbey National Business Office Equipment Leasing Limited
- Abbey National Beta Investments Limited

On the 28th June 2018 Santander UK plc acquired the Company's interest in Abbey National Property Investments.

On 26th November 2018 the Company reduced its share capital by cancelling and extinguishing 349,999,000 issued ordinary shares at £1 each.

On 29th November 2018, an agreement was entered into to transfer the Company from Santander UK plc to Santander Equity Investments Limited.

Likely future developments

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

Results and dividends

The profit for the year amounted to £3,235,039 (2017: £5,525,461). The Directors do not recommend the payment of a final dividend (2017: £nil). The Company paid an interim dividend for the year of £363,663,981 (2017: £nil).

Impact of Brexit

The process for the UK leaving the EU impacts the economic, legal and regulatory environment across the financial services industry. The HoldCo Group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Post Balance Sheet events

No adjusting or significant non-adjusting events have occurred between the 31 December 2018 and the date of authorisation of the financial statements.

Directors

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

AR Honey
RJ Morrison

Statement of Directors' responsibilities in respect of the financial statements

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

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

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

The Directors are 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 Companies Act 2006.

REPORT OF THE DIRECTORS *(continued)*

Financial instruments

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

The financial risk management objectives of and policies of the Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Group financial statements.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 2.

Statement of Going Concern and Financial Management

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 14 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to liquidity risk, credit risk and market risk.

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and financial statements.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force as at the date of this Annual Report and Financial Statements and during the financial year. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

Statement of disclosure of information to auditors

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

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

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

Independent Auditors

In accordance with Sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are deemed to have been re-appointed as the Company's Auditors..

By order of the Board

Samuels

Cheryl Samuels
For and on behalf of
Santander Secretariat Services Limited, Secretary

30 September 2019

Registered office address: 2 Triton Square, Regent's Place, London NW1 3AN

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

Report on the audit of the financial statements

Opinion

In our opinion, Abbey National Treasury Services Overseas Holdings' financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; 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.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS (CONTINUED)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 2, 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.

Liam Thompson-Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2019

PRIMARY FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2018 £	2017 £
Interest expense		(41,991)	-
Investment income	4	4,415,652	4,445,233
Operating expenses		(35,750)	-
Profit before tax		4,337,911	4,445,233
Tax (charge)/credit	5	(1,102,872)	1,080,228
Profit for the year		3,235,039	5,525,461

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit of £3,235,039 (2017: £5,525,461) for the current and previous year.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Retained earnings £	Total Equity £
Balance at 1 January 2017	350,000,000	5,781,183	355,781,183
Profit and total comprehensive income for the year	-	5,525,461	5,525,461
Balance at 31 December 2017	350,000,000	11,306,644	361,306,644
Balance at 1 January 2018	350,000,000	11,306,644	361,306,644
Profit and total comprehensive income for the year	-	3,235,039	3,235,039
Reduction of capital	(349,999,000)	349,999,000	-
Dividend	-	(363,663,981)	(363,663,981)
Balance at 31 December 2018	1,000	876,702	877,702

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

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2018 £	2017 £
Net cash flows generated from/(used in) operating activities	12	354,481,982	(1,885,868)
Investing activities			
Sale of investments		12,732	-
Net cash generated from investing activities		12,732	-
Financing activities			
Dividends paid		(363,663,981)	-
Net cash used in financing activities		(363,663,981)	-
Net decrease in cash and cash equivalents		(9,169,267)	(1,885,868)
Cash and cash equivalents at beginning of year		10,306,184	12,192,052
Cash and cash equivalents at end of year	12	1,136,917	10,306,184

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

PRIMARY FINANCIAL STATEMENTS *(continued)*

BALANCE SHEET
As at 31 December

	Note	2018 £	2017 £
Non-current assets			
Interest in other entities	6	-	12,732
Total non-current assets		-	12,732
Current assets			
Cash	12	**1,136,917**	-
Other financial assets at fair value through profit or loss	7	-	411,144,094
Derivatives held at fair value through profit or loss	9	-	17,935,843
Loans and receivables	8	**1,600**	5,565,157
Total current assets		**1,138,517**	434,645,094
Total assets		**1,138,517**	434,657,826
Current liabilities			
Derivatives held at fair value through profit or loss	9	-	(72,427,229)
Current tax liability		**(20,625)**	-
Trade and other payables	10	**(240,190)**	-
Bank overdraft	12	-	(923,953)
Total current liabilities		**(260,815)**	(73,351,182)
Total liabilities		**(260,815)**	(73,351,182)
Net assets		**877,702**	361,306,644
Equity			
Share capital	11	**1,000**	350,000,000
Retained earnings		**876,702**	11,306,644
Total equity		**877,702**	361,306,644

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

The financial statements on pages 6 to 15 were approved by the board of directors, authorised for issue and signed on its behalf by:

RMorrison

Rachel Morrison
Director

30 September 2019

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. ACCOUNTING POLICIES

The Company is a private unlimited company with shares, incorporated and domiciled in England and Wales. The registered office is 2 Triton Square, Regent's Place, London, NW1 3AN.

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

Basis of preparation
The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention modified by revaluation of financial assets and financial liabilities held at fair value through profit or loss and on a going concern basis as disclosed in the Directors' Statement of Going Concern and Financial Management set out in the Report of the Directors.

The financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company (the functional currency). The financial statements are presented in Sterling, which is the functional currency of the Company.

The company is a wholly-owned subsidiary of Santander Equity Investments Limited and is included in the consolidated financial statements of Santander UK Group Holdings plc which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Future accounting developments

At 31 December 2018, there were no significant new or revised standards and interpretations, and amendments, which had been issued but which are not yet effective for Abbey National Treasury Services Overseas Holdings Limited.

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). The new or revised accounting policies are set out below. The application of IFRS 9 had no material impact on the Company. The application of IFRS 15 had no material impact on the Company as there were no significant changes in the recognition of income.

Revenue recognition

Investment income comprises all gains and losses from changes in the fair value of financial assets held at fair value through profit and loss, together with related income and expenses. Changes in fair value of derivatives are also recognised in investment income.

Interest income is accrued daily, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Financial instruments

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

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

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:
- 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
For the year ended 31 December 2018

1. ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

b) Financial assets and liabilities (continued)

i) Classification and subsequent measurement (continued)

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 the Santander UK Group Holdings business model for managing the asset, and the cash flow characteristics of the asset.

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

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

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

Based on these factors, the Company classifies its debt instruments into 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. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
– 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/(expenses)' in the period in which it arises. The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

At the balance sheet date, all financial assets were measured at amortised cost.

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

b) 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, the Santander UK Group Holdings recognises any expense incurred on the financial liability, and

At the balance sheet date, all financial liabilities were measured at amortised cost.

i) Impairment of debt instrument financial assets
The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
– The time value of money, and
– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2018

1. ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

b) Financial assets and liabilities (continued)

i) Classification and subsequent measurement (continued)

c) Fair value hierarchy

The Company 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) and, 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.

The Company categorises assets 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 the Group has the ability to access at the measurement date.

Level 2: Quoted prices in markets that are not active, 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: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset are unobservable.

Income taxes, including deferred income taxes

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. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

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

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, amounts due from other banks, short term investments in securities and bank overdrafts repayable on demand.

Interest in other entities

Interest in other entities is carried at cost less any provision for impairment.

Financial liabilities

Trade and other payables are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost and the redemption value recognised in the income statement over the period of the liability using the effective interest rate method.

Share capital and other reserves

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Shares are recognised in accordance with the substance of the transaction. Shares which have a contractual obligation to deliver cash otherwise, they are classified as equity instrument.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared and approved.

Critical accounting judgements and key sources of estimation uncertainty

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements. There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
For the year ended 31 December 2018

2. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are credit risk and liquidity risk. The Company manages its risk in line with the central risk management function of the HoldCo Group. The HoldCo Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the HoldCo Group's regulators.

Effective and efficient risk governance and oversight provide management with assurance that the HoldCo Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the HoldCo Group's strategic objectives.

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

Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient liquid resources to ensure it can meet its obligations as they fall due.

The contractual maturities of financial liabilities are detailed as follows:

At 31 December 2018	Demand £	Up to 3 months £	3 – 12 months £	1 – 5 years £	Over 5 years £	Total £
Accrued expenses	-	35,750	-	-	-	35,750
Total financial liabilities	-	35,750	-	-	-	35,750

At 31 December 2017						
Derivative financial instruments	-	-	72,427,229	-	-	72,427,229
Bank Overdraft	923,953	-	-	-	-	923,953
Total financial liabilities	923,953	-	72,427,229	-	-	73,351,182

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

The Company is exposed to credit risk on its loans and receivables relating to amounts receivable from its immediate parent company and fellow subsidiaries. The maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in notes 8 and 9 to the financial statements.

The Company does not use credit derivatives to hedge credit exposure. There has been no cumulative change in the fair value of loans and receivables attributable to changes in credit risk and there has been no change in the current year.

The maximum exposure to credit risk can be found in note 8.

As at 31 December 2018 there were no assets that were either past due or impaired (2017: £nil).

Market risk
Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. Market risk arises as a result of interest rates and exposures to changes in equity markets.

The Company's income is exposed to increments in the LIBOR interest rate on receivables relating to amounts due by group companies.

Sensitivity analysis
A 50 basis point adverse movement in interest rates would result in a reduction in operating profit of £98,955 (2017: £68,322) and a corresponding reduction in net assets. A 50 basis point positive movement in interest rates would result in an increase in operating profit of £98,955 (2017: £41,031) and a corresponding increase in net assets.

Investments held at fair value through profit and loss are subject to movements in quoted market prices. The Company has entered into a put/call option to manage the exposure to movements in market prices.

Fair value estimation
Equity investments held at fair value through profit and loss are valued based on quoted market prices. In the valuation of amounts due from parent company, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and reference yield curves derived from the quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
For the year ended 31 December 2018

3. PROFIT FROM OPERATIONS

No directors were remunerated for their services to the Company. Directors' emoluments are borne by Santander UK Group Holdings plc. No emoluments were paid by the Company to the directors during the year (2017: £nil).

The Company had no employees in the current or previous financial year.

The profit from operations in the current year has been arrived at after charging audit fees of £35,750 which are payable to the Company's auditors for the statutory audit of the Company's annual financial statements. The audit fees in relation to 2017 which amounted to £35,750 were borne by Santander UK plc and were not recharged.

4. INVESTMENT INCOME

	2018 £	2017 £
Net (loss)/gain on financial assets designated at fair value through profit or loss	(12,577,234)	27,325,442
Income from dividends within the year	14,436,473	15,200,775
Net gain/(loss) on derivatives	2,556,413	(38,080,984)
	4,415,652	4,445,233

5. TAX CHARGE/(CREDIT)

	2018 £	2017 £
Current tax:		
UK corporation tax on profit of the year	408,730	(1,080,228)
Adjustment in respect of prior year	694,142	-
Total current tax	1,102,872	(1,080,228)

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

The tax on the Company's profit before tax differs from (2017: differs from) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2018 £	2017 £
Profit before tax:	4,337,911	4,445,233
Tax calculated at tax rate of 19.00% (2017: 19.25%)	824,203	855,707
Non-deductible expenses	246,713	15,232
Non-taxable income	(662,186)	(1,951,167)
Adjustment in respect of prior year	694,142	-
Tax charge/ (credit) for the year	1,102,872	(1,080,228)

6. INTEREST IN OTHER ENTITIES

	2018 £	2017 £
Balance at 31 December	-	12,732

At 31 December 2018 the Company had the following shareholdings in:

	Shareholdings in ordinary shares %		2018	2017
	2018	2017	£	£
Abbey National UK Investments	-	100	-	10,448
Abbey National Beta Investments Limited	-	92.49	-	1,232
Abbey National Property Investments	-	0.00	-	520
Solarlaser Limited	-	79.68	-	392
Abbey National Business Office Equipment Leasing Limited	-	58.33	-	140
Balance at 31 December			-	12,732

The registered office for all the named companies above: 2 Triton Square, Regent's Place, London, NW1 3AN.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
For the year ended 31 December 2018

6. INTEREST IN OTHER ENTITIES (CONTINUED)

On the 24th January 2018 Santander Equity Investments Limited acquired the Company' interest in the following entities:

- Abbey National UK Investments
- Solarlaser Limited
- Abbey National Business Office Equipment Leasing Limited
- Abbey National Beta Investments Limited

On the 28th June 2018 Santander UK plc acquired the Company's interest in Abbey National Property Investments.

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

	2018 £	2017 £
Current:		
Amount due from parent company	-	11,225,893
Amount due from fellow subsidiary company	-	14,723,347
Equity investments	-	385,194,854
Total	-	411,144,094

The Company has designated its equity investments as fair value through profit and loss on the basis that doing so significantly reduces a measurement inconsistency that would otherwise arise from measuring these assets on a different basis from the derivatives that economically hedge the investments.

The Company has designated amounts due from parent and subsidiaries as fair value through profit and loss on the basis that doing so significantly reduces a measurement inconsistency.

The fair value of equity investments is based on the quoted market price and they are revalued on a regular basis throughout the year. On this basis, they are classified as level 1 under the IFRS 7 hierarchy.

Amounts due from parent company in 2018 are £nil (2017: £11,225,893) bear a variable rate based on LIBOR, are repayable on demand and are classified as level 3 under the IFRS 7 hierarchy.

Amounts due from a fellow subsidiary company in 2018 are £nil (2017: £14,723,347), bear a fixed rate and are repayable on demand. They are classified as level 3 under the IFRS 7 hierarchy.

Assets included in equity investments were lent to Abbey National Treasury Service plc under stock lending agreements in 2017. There were no collateral pledged by the related party given that there was a guarantee in place between Abbey National Treasury Services plc and Santander UK plc in 2017. The balance amounted to £385,194,854 in 2017.

8. LOANS AND RECEIVABLES

	2018 £	2017 £
Current:		
Amounts due from immediate parent company	-	4,244
Amounts due from fellow subsidiaries	1,600	3,546,120
Amounts due from fellow subsidiaries– group relief	-	2,014,156
Other loans and receivables	-	637
	1,600	5,565,157

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

Current amounts due from fellow subsidiaries of £1,600 (2017: £3,546,120) are non-interest bearing and repayable on demand. Amounts due from fellow subsidiaries – group relief was non-interest bearing and repayable on demand.

The loans and receivables are classified as level 3 under the IFRS 7 hierarchy.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2018

9. DERIVATIVES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 £	2017 £
Net derivatives liabilities held at fair value	-	(54,491,386)

The Company previously entered into a variety of derivative contracts, predominately with a view to hedge market risk exposure. At balance sheet date, there were no derivatives held on balance sheet. The derivatives held in the prior year are as follows:

At 31 December 2017	Contract/notional amount £	Fair value assets £	Fair value Liabilities £
Interest rate swap	311,000,000	17,935,843	-
Equity contracts:			
Options	649,990,516	-	(72,427,229)
Total	960,990,516	17,935,843	(72,427,229)

The derivatives are classified as level 2 under the IFRS 7 hierarchy.

10. TRADE AND OTHER PAYABLES

	2018 £	2017 £
Current:		
Amount due to related companies - group relief	204,440	-
Accrued expenses	35,750	-
	240,190	-

The Directors consider that the carrying amount of trade payables approximates to their fair value. The amounts are non-interest bearing and repayable on demand.

11. SHARE CAPITAL

	2018 £	2017 £
Issued and fully paid:		
1,000 (2017: 350,000,000) ordinary shares of £1 each	1,000	350,000,000

Analysis of movement:		
At 1 January	350,000,000	350,000,000
Capital reduction of 349,999,000 ordinary shares of £1 each	(349,999,000)	-
At 31 December	1,000	350,000,000

12. NOTE TO THE CASHFLOW STATEMENT

Reconciliation of profit before tax to net cash flow from operating activities:

	2018 £	2017 £
Profit for the year	3,235,039	5,525,461
Add back Tax charge/(Deduct) tax credit	1,102,872	(1,080,228)
Profit before tax	4,337,911	4,445,233
Changes in investments	399,918,201	(34,627,704)
Changes in net derivatives liabilities	(54,491,386)	28,293,568
Changes in operating assets and liabilities:		
Change in receivables	3,545,157	3,035
Change in payables	1,172,099	-
Net cash generated from/(used in) operating activities	354,481,982	(1,885,868)

Where tax assets have been group relieved, they are accounted for as operating assets/operating payables.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
For the year ended 31 December 2018

12. NOTE TO THE CASHFLOW STATEMENT (CONTINUED)

Reconciliation of cash and cash equivalents:	2018	2017
	£	£
Cash (excluding bank overdrafts)	1,136,917	-
Financial assets at fair value- Amounts due from parent company	-	11,225,893
Loans and receivables	-	4,244
Bank overdraft	-	(923,953)
Cash and cash equivalents	**1,136,917**	10,306,184

13. RELATED PARTY TRANSACTIONS

The transactions with related parties relate to interest received and dividends from related group entities.

Related party transactions at balance date are as follows:

	(Income)/ Expenses		**Amounts due from/(to) related parties**	
	2018	2017	**2018**	2017
	£	£	**£**	£
Immediate parent (1)	-	(40,190)	-	11,230,136
Fellow subsidiaries	**3,195,234**	37,204,770	**(202,840)**	(34,207,762)
	3,195,234	37,164,580	**(202,840)**	(22,977,626)

(1) In 2018, the immediate parent of the Company changed following its transfer from Santander UK plc to Santander Equity Investments Limited. Comparatives have not been restated for this change in ownership and interest earned from Santander UK plc up to the change of ownership has been disclosed within the category of immediate parent.

There were no related party transactions during the year or existing at the balance sheet date with the Company's or parent company's key management personnel (2017: £nil).

14. CAPITAL MANAGEMENT AND RESOURCES

The Company's UK parent, Santander UK Group Holdings plc (the HoldCo Group) adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the HoldCo Group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the HoldCo Group's capital management can be found in the Santander UK Group Holdings plc annual report and financial statements.

Capital held by the Company and managed centrally as part of the HoldCo Group, comprises share capital and reserves which can be found in the Balance Sheet on page 7.

15. PARENT UNDERTAKING AND CONTROLLING PARTY

Up until 29 November 2018, the Company's immediate parent company was Santander UK plc, a company registered in England and Wales. On 29 November 2018, the Company was transferred to Santander Equity Investments Limited, a company registered in England and Wales and a subsidiary of Santander UK Group Holdings plc.

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

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

16. POST BALANCE SHEET EVENTS

No adjusting or significant non-adjusting events have occurred between the 31 December 2018 and the date of authorisation of the financial statements.