FOSSE MASTER ISSUER PLC

Registered in England and Wales
No. 05925693

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.

Principal activities

Fosse Master Issuer Plc (the 'Company') was established as a special purpose company for the purposes of issuing debt securities (the "notes") in the international capital markets and lending the proceeds thereof to a group company, Fosse Funding (No.1) Limited, on a limited recourse basis. In turn Fosse Funding (No.1) Limited make such funds available to the Santander UK Group Holdings plc group by purchasing a beneficial interest in a UK residential mortgage loan portfolio held by Fosse Trustee (UK) Limited (the 'Fosse Master Trust').

The principal activities of the Company as defined in the Securitisation Transaction document which can be found at http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust include holding loans under intercompany loan agreement to Fosse Funding (No.1) Limited, entering into financial instruments, issuing the notes and other activities reasonably incidental thereto.

The programme

The mortgage backed programme was established on 28 November 2006. Notes issued under the programme have been and will be issued in series. Each series will normally: (a) be issued on a single date; (b) be subject to the terms and conditions of the notes; and (c) consist of one or more classes (or sub-classes) of notes. Notes of the same class rank pari passu and pro rata among themselves. Each series of the same class will not, however, be subject to identical terms in all respects (for example, interest rates, interest calculations, expected maturity and final maturity dates may differ).

The Company's obligations to pay principal and interest on the notes are funded primarily from the payments of principal and interest received by it from Fosse Funding (No.1) Limited under the intercompany loan. The Company's primary asset will be its rights to mortgages under the intercompany loan agreement. Fosse Funding (No.1) Limited uses a portion of the amounts received from its share in the trust property to meet its obligations to pay interest and principal due to the Company under the intercompany loan. Under the documents governing the transaction, Santander UK Group Holdings plc and its subsidiaries (the 'Group') are not obliged to support any losses that may be suffered by holders of the debt securities in issue.

The loans included within the underlying portfolio include repayment loans and interest only loans with balances of less than £750,000 and having a maturity of no later than October 2054.

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level as, under International Financial Reporting Standard (IFRS) 9 – 'Financial Instruments,' the beneficial interest in a mortgage portfolio fails the criteria for recognition within the Company's financial statements as the loans fail derecognition at Santander UK plc level.

The only asset held by the Company that is at risk of material impairment is the loan to Fosse Funding (No.1) Limited, the repayment of which is dependent upon the performance of the residential mortgage portfolio. The risk of impairment is mitigated by the collateral and credit enhancements within the Fosse securitisation structure.

The performance of the mortgage portfolio is continually assessed by Santander UK plc and external credit rating agencies. It follows that the impairment policies of Santander UK plc are applied by the Company.

The directors believe that the performance of the portfolio has been in line with management's expectations.

Key performance

The profit after tax for the year ended 31 December 2018 amounted to £3.3m (2017: loss of £2.8m).

During the year the Company received interest income of £9.7m (2017: £25.4m) from Fosse Funding (No.1) Limited and Santander UK plc. The Company used those cash resources to pay interest expense of £9.5m (2017: £25.0m) on debt securities in issue. This decrease was due to a reduction in the debt securities in issue. The Company issued no debt securities during the year (2017: none) and made payments of principal of £424m (2017: £1,917m). The Company received £424m (2017: £1,923m) from Fosse Funding (No.1) Limited, being repayment of a related party loan. All amounts were paid in full and on time.

The key performance indicators used by management predominantly involve the consideration of whether there have been breaches of the transaction documents. However there are certain measures (triggers) set out in the transaction documents which are relevant to the Company including assessing whether all counterparties involved in the transaction have a rating that remains adequate to support their on-going roles in the programme, and arrears related events. There were no triggers breached in the year.

Fair review of the Company's Business

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

STRATEGIC REPORT (CONTINUED)

Fair review of the Company's Business (continued)

The purpose of this Report is to provide information to the shareholders 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.

The directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Principal risks and uncertainties facing the Company

The Company's principal risks are credit risk, market risk and liquidity risk.

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Notes 3 and 19.

The process for the UK leaving the EU impacts the economic, legal and regulatory environment for our customers and across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Likely future developments

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

Capital management

The Company is not subject to any external capital requirements, except for the minimum requirement under the Companies Act 2006. The Company has not breached this minimum requirement.

On behalf of the Board

Helena Whitaker
per pro Intertrust Directors 1 Limited
as Director

27 June 2019

Registered Office Address: 35 Great St. Helen's, London, EC3A 6AP

REPORT OF THE DIRECTORS

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

Results and dividends

The Directors do not recommend the payment of a final dividend (2017: £nil).

Post Balance Sheet events

There are no post Balance Sheet events.

Directors and their interests

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

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Tom Ranger

The Directors, with the exception of T Ranger who is employed by Santander UK plc, are all employees of Intertrust Management Limited.

Intertrust Management Limited is a private limited company and acts as the corporate services provider to the Company.

None of the Directors hold, or have ever held, any beneficial interests in the shares of the Company. No Director had a material interest in any contract of significance with the Company at any time during the year under review or subsequently.

Company secretary

The Company secretary during the year and subsequently was Santander Secretariat Services Limited.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable 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.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure and Transparency Rules (DTR) which would otherwise require the Company to have an audit committee in place and include a corporate governance statement in the Report of the Directors. The directors are therefore satisfied that there is no requirement for an audit committee or to publish a corporate governance statement.

Statement of going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, Notes 3 and 19, to the financial statements include the Company's financial risk management objectives; its exposures to credit risk and liquidity risk; and its policies and processes for managing its capital.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of going concern (continued)

The Directors, having considered the financial position of the Company and the Fosse securitisation structure as a whole, believe that the Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the period of 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Financial Statements.

The process for the UK leaving the EU impacts the economic, legal and regulatory environment for our customers and across the financial services industry. In addition, the use of LIBOR, which is expected to cease in 2021, and its transition to (near) Risk Free Reference Rates (RFR) is also a significant issue across the industry. The Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Financial instruments

The Company's financial instruments, other than derivatives, comprise loans and advances to group companies, borrowings, cash and liquid resources, and various items, such as other assets and liabilities that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Company also enters into derivatives transactions (principally cross currency swaps and interest rate swaps). The purpose of such transactions is to manage the currency and interest rate risks arising from the Company's operations and its sources of finance.

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

The main risks arising from the Company's financial instruments are currency risk and interest rate risk. The Company has debt securities in issue denominated in Sterling and US Dollars. The Company's Board reviews and agrees policies for managing these risks. The Company's policy is to eliminate all exposures arising from movements in exchange and interest rates by the use of cross currency swaps or interest rate swaps to hedge payments of interest and principal on the securities as per the requirements of the transaction documents. Cash flows from hedging activities ceased during 2018 due to all notes being redeemed.

All other assets, liabilities and transactions are denominated in Sterling.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in Note 3.

Qualifying third party indemnities

Enhanced indemnities are provided to certain Directors of the Company by Santander UK plc (where such person has been nominated in writing by Santander UK plc as its representative on the Board) against liabilities and associated costs which they could incur in the course of their duties to the Company. All indemnities remain in force as at the date of the Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

The Company has made qualifying third party indemnity provisions for the benefit of the Directors as set out in a corporate services agreement. Intertrust Management Limited has made qualifying third party indemnity provisions for the benefit of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited. These indemnity provisions remain in force at the date of the Annual Report and Financial Statements. All of the indemnities remain in force as at the date of the Annual Report and Financial Statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

Each of the Directors as 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 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 Section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have 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.

On behalf of the Board

Helena Whitaker
per pro Intertrust Directors 1 Limited
as Director
27 June 2019
Registered Office Address: 35 Great St. Helen's, London, EC3A 6AP

Independent auditors' report to the members of Fosse Master Issuer plc

Report on the audit of the financial statements

Opinion

In our opinion, Fosse Master Issuer 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 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.

Our opinion is consistent with our reporting to the Directors.

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 listed 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.

We have provided no non-audit services to the Company in the year from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality
• Overall materiality: £2,350,000 (2017: £6,485,000), based on 1% of total assets.
Audit scope
• The Company is a special purpose vehicle that forms part of a securitisation structure and issuing residential mortgage backed debt securities, established primarily as a means of creating collateral to be used for funding and liquidity by Santander UK plc. The Company's operations are governed by underlying legal and transaction documents (the "Transaction Documents").
• We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statement line item.
• In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at Santander UK plc as the parent undertaking
• We obtained an understanding of the control environment in place at Santander UK plc and adopted a controls and substantive testing approach.
Key audit matters
• Risk of error in the priority of payments.

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.

Independent auditors' report to the members of Fosse Master Issuer plc

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 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), and determined that the principal risks were related to incorrect Journal entries with regard to the priority of payments. Audit procedures performed by the engagement team included:

- Inquiries with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation or fraud;
- Evaluate the business rationale for any significant transactions that are unusual or outside the scope of Transaction Documents;
- Test journal entries to supporting documentation using risk based criteria, and;
- Testing that the priority of payments has been applied in accordance with the transaction documents as detailed in the key audit matter below.

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*
Risk of error in the priority of payments The priority of payments (the "waterfall") is key to ensuring that expenses, interest and principal repayments on the notes in issue are paid in the appropriate order on each payment date. The revenue and principal priority of payments are outlined in the transaction documents. The transaction documents also include triggers and trigger events, the breach or occurrence of which may affect the waterfall and therefore the financial statements.	The following work was undertaken by us as part of the audit: We understood the design of the structure through a combination of inquiry with management and read the transaction documents to understand the revenue and principal priority of payments for the Company and understand the relevant triggers and trigger events. We read the investor reports and minutes of the meetings of the board of directors in the year and up to the signing of the financial statements to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the waterfalls. Tested that the priority of payments applied was in line with the transaction documents and the occurrence of any trigger breaches or trigger events per the transaction documents and any impact on the waterfall and financial statements. Tested the payments in the waterfall including expenses, interest and principal payments on notes and notes outstanding at the year-end. Tested the interest expense using interest rates set out in the transaction documents and, where applicable, independently sourced reference interest rates. We h

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.
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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Fosse Master Issuer plc

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	£2,350,000 (2017: £6,485,000).
How we determined it	1% of total assets.
Rationale for benchmark applied	The Company is a not for profit entity, whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with the Directors that we would report to them misstatements identified during our audit above £118,000 (2017: £324,000) 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 are not clear, and it is difficult to evaluate all of the potential implications on the Company's activities 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, Report of the Directors and Corporate Governance Statement, 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 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 Fosse Master Issuer plc (CONTINUED)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 3, 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 Company's 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 Directors, we were appointed by the members on 1 April 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.

Jessica Miller

Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 June 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

Continuing operations	Note	2018 £000	2017 £000
Interest and similar income	5	**9,656**	25,445
Interest expense and similar charges	6	**(9,459)**	(25,020)
Net interest income		**197**	425
Net other operating income/(expense)	7	**3,365**	(2,867)
Administrative expenses	8	**(211)**	(369)
Profit / (loss) before tax	9	**3,351**	(2,811)
Tax charge on profit / (loss) for the year	10	**(2)**	-
Profit / (loss) for the year		**3,349**	(2,811)
Other comprehensive income / (expense) that may be reclassified to profit or loss subsequently:			
Cash flow hedges:			
- Losses on cash flow hedges (net of tax - £nil)		-	(12,397)
- Net gains on cash flow hedges transferred to profit and loss (net of tax - £nil)		-	12,108
Other comprehensive income / (expense)		-	(289)
Total net comprehensive income / (expense) for the year		**3,349**	(3,100)

Cash flows from hedging activities ceased during 2018 due to notes being redeemed.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £000	Retained Earnings/ (Accumulated losses) £000	Hedging reserve £000	Total equity £000
As at 1 January 2017	13	1,336	289	1,638
Loss for the year	-	(2,811)	-	(2,811)
Other comprehensive expense for the year	-	-	(289)	(289)
As at 31 December 2017 and 1 January 2018	**13**	**(1,475)**	-	**(1,462)**
Profit for the year	-	**3,349**	-	**3,349**
Other comprehensive income for the year	-	-	-	-
At 31 December 2018	**13**	**1,874**	-	**1,887**

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

BALANCE SHEET

As at 31 December

	Notes	2018 £000	2017 £000
Non-current assets			
Loans and advances to group companies	13	**195,605**	619,493
Derivative financial instruments – assets	11 & 12	**38,233**	27,542
Total non-current assets		**233,838**	647,035
Current assets			
Loans and advances to group companies	13	**987**	1,385
Cash and cash equivalents	14	**136**	176
Total current assets		**1,123**	1,561
Total assets		**234,961**	648,596
Current liabilities			
Corporation tax	10	**(1)**	-
Other liabilities	16	**(3,869)**	(4,175)
Total current liabilities		**(3,870)**	(4,175)
Net current liabilities		**(2,747)**	(2,614)
Non-current liabilities			
Debt securities in issue	15	**(229,204)**	(645,883)
Total non-current liabilities		**(229,204)**	(645,883)
Net assets / (liabilities)		**1,887**	(1,462)
Equity			
Share capital	17	**13**	13
Retained earnings / (Accumulated losses)		**1,874**	(1,475)
Total equity		**1,887**	(1,462)

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

The financial statements on pages 9 to 27 were approved by the Board of Directors, and signed on its behalf by:

Helena Whitaker
Per pro Intertrust Directors 1 Limited

As Director

27 June 2019

CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2018 £000	2017 £000
Profit / (loss) before tax		**3,351**	(2,811)
Cash flows from operating activities			
Adjustments for:			
(Gains) / losses on foreign exchange on retranslation of debt securities in issue		**(149)**	172,869
Losses / (gains) on hedged items attributable to hedged risks		**7,200**	(19,087)
Change in operating assets		**(10,691)**	168,982
Change in operating liabilities		**(306)**	(16,354)
Corporation taxes paid		**(1)**	(1)
Net cash (used in) / generated from operating activities		**(596)**	303,598
Investing activities			
Loan repayments from group companies		**424,286**	1,922,529
Net cash flow generated from investing activities		**424,286**	1,922,529
Financing activities			
Redemption of debt securities in issue		**(423,730)**	(2,226,055)
Net cash flow used in financing activities		**(423,730)**	(2,226,055)
Net (decrease) / increase in cash and cash equivalents		**(40)**	72
Cash and cash equivalents at beginning of year		**176**	104
Cash and cash equivalents at end of year	14	**136**	176

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES

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

General information

The Company is a limited liability company which is limited by shares, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA. The registered office address of the Company is 35 Great St. Helen's, London, EC3A 6AP.

Basis of preparation

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

The functional and presentation currency of the Company is sterling.

The financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the statement of going concern set out in the Report of the Directors.

Recent accounting developments

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) and IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). The new or revised accounting policies are set out below. The application of IFRS 9 had no material impact on the Company and comparatives have not been restated. 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.

Foreign currency translation

Items included in the financial statements of the Company 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 functional and presentation currency of the Company is Sterling.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of the Company at the rates in effect at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Foreign currency translation differences are recognised in profit and loss in the Statement of Comprehensive Income.

Interest income and expense

Interest income on financial assets that are classified as financial assets at amortised cost and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts.

Interest income and expense is shown gross in profit and loss in the Statement of Comprehensive Income.

Financial Instruments

Financial instruments of the Company comprise loans and advances to group companies, derivative financial instruments, debt securities in issue, cash and cash equivalents and other receivables and payables arising from the Company's operations. These instruments are recognised, classified and subsequently measured in accordance with IFRS 9 as described below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES (CONTINUED)

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 fair value through profit and loss ("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.

b) Financial assets and liabilities

Classification and subsequent measurement

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

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.

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.

Financial assets: debt instruments

Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets: debt instruments (continued)

- 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 'Other gains/losses' 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.

Financial liabilities: debt securities in issue

Financial liabilities are classified as, and are subsequently measured at, amortised cost with any difference between cost and redemption value recognised in the statement of comprehensive income over the period of the borrowings on an effective interest rate basis.

Impairment of debt instrument financial assets

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

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

The measurement of ECL reflects:

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

Loans and advances to group companies represent a loan to Fosse Funding (No. 1) Limited, the repayment of which is dependent upon the performance of the underlying residential mortgage portfolio. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Accordingly expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

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

Debt securities in issue

Debt securities in issue are initially recognised at fair value plus transaction costs that are incremental and directly attributable to the issue. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value recognised in the statement of comprehensive income over the period of the borrowings on an effective interest rate basis.

Loans and advances to group companies

Loans and advances to group companies are debt instrument financial assets measured at amortised cost. The directors consider that the relevant business model for the loans and advances to group companies to be 'hold to collect' in order to service the Company's liabilities. The directors assessed that the contractual cash flows under the intercompany loan agreement represent SPPI.

Derivative financial instruments

Derivative financial instruments ('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.

The Company holds cross currency swaps in order to manage foreign currency risk arising on the foreign denominated debt securities in issue. The Company also holds interest rate swaps to hedge significant future transactions and cash flows dependent on movement in interest rates.

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 over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow and option pricing models. The Company holds no exchange traded derivatives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

Derivatives are contracted with Santander UK plc or counterparties that meet standards set out in the relevant Prospectus. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

Hedge accounting

In order to economically hedge against interest rate risks, derivatives are entered into as a part of the securitisation transaction.

The Company applies hedge accounting to represent the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates. The Company 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. However, additional hedge accounting disclosure requirements of IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) have been included in these financial statements.

At the time a financial instrument is designated as a hedge (i.e., at the inception of the hedge), the Company 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, the Company formally assesses, both at the inception of the hedge and on an on-going 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, the Company 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'). The Company applies fair value hedge accounting but not cash flow hedge accounting or hedging of a net investment in a foreign operation.

a) Fair value hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss in the Statement of Comprehensive Income, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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 profit and loss in the Statement of Comprehensive Income. 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 in profit and loss in the Statement of Comprehensive Income using the effective interest method over the period to maturity.

b) Cash flow hedge accounting

The effective portion of changes in the fair value of qualifying cash flow hedges was recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion was recognised in profit and loss in the Statement of Comprehensive Income. Amounts accumulated in equity were reclassified to the Statement of Comprehensive Income in the periods in which the hedged item affects profit or loss. When a hedging instrument expired or was sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remained in equity and was recognised in the Statement of Comprehensive Income when the forecast transaction was ultimately recognised in profit and loss in the Statement of Comprehensive Income. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to profit and loss in the Statement of Comprehensive Income.

The Company was exposed to foreign currency risks on its debt issuances denominated in foreign currency. Cash flow hedging was used to hedge the variability in cash flows arising from this foreign currency risk. Cash flows from hedging activities ceased during 2018 due to all notes being redeemed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Income taxes

The directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Under the powers conferred by the Act, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

Cash and cash equivalents

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

Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depended on the purpose for which the assets were acquired. Management determined the classification of its assets at initial recognition and, classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Impairment of financial assets

Under IAS 39 a financial asset or a group of financial assets was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

2. CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Company's 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 other factors that are believed to be reasonable under the circumstances, on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the Company's financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition:

Impairment of Loans and advances to group companies

As described under the 'Impairment of debt instrument financial assets' above, the repayment the Loans and advances to group companies is dependent on the performance of the underlying residential mortgage portfolio. At each balance sheet date an assessment is made as to whether, as a result of one or more events, there is a significant increase in credit risk since initial recognition. In assessing the loans and advances to group companies for impairment, the Directors first consider the impairment of the underlying mortgage loans using the above 3 stage approach and consider the ECL of the loans and advances to group companies taking into account the relevant credit enhancements available for the Company in the structure. Accordingly expected losses for loans and advances to group companies are immaterial and are only likely to be material if the ECL on the underlying assets exceeded the available credit enhancements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

The Company's risk management focuses on the major areas of credit risk, market risk and liquidity risk. Risk management is carried out by the central risk management function of the Santander UK group. Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management of oversight.

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 main source of credit risk is in the loans and advances to group companies and derivative financial instruments assets.

On 1 January 2018, IFRS 9 replaced IAS 39, and introduced new rule on how to classify and measure financial assets, as well as new concepts, principles and measures for credit impairment methodology. The methodologies for calculating incurred losses under IAS 39 and ECLs under IFRS 9 are fundamentally different.

Key metrics introduces by adopting IFRS 9 are 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.
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, see the company's accounting policies on Note 1.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is the carrying amount of the loans and other debts due from members of £195.6m (2017: £619.5m) and the fair value of derivative financial assets of £38.2m (2017: £27.5m).

At the balance sheet date no ECL allowance was recognised on all financial assets subject to credit risk due to the credit enhancement features applied by the Company.

As at 31 December 2018, the book value of residential mortgage loans that Santander UK plc had assigned legal title to the Fosse securitisation structure was £4.7bn (2017: £5.8bn). The Fosse securitisation structure acquired interest in a portfolio of mortgage loans (Funder share) was £0.2bn (2017: £0.6bn) and the Santander UK plc seller share was £4.5bn (2017: £5.2bn). The seller share does not provide credit enhancement..

Loans advances to Fosse Funding (No.1) Limited can only be paid if the Company receives cash from mortgages advanced by Santander UK plc. This risk is mitigated as the securitisation structure is over collateralised and impairment risk is low. There is limited recourse under the loans as the Company only pays loan notes to the extent that it has available cash.

The Fosse securitisation structure has cash balances and reserves of £0.2bn (2017: £0.2bn) which also acts as a credit enhancement feature. Cash balances are held with Santander UK plc under a Guaranteed Investment Contract and are classified as restricted funds, as withdrawals are restricted by a priority of payments in accordance with the terms of the securitisation structure.

Derivatives are contracted with Santander UK plc or counterparties that meet standards set out in the relevant Transaction documents. If subsequently there is a ratings downgrade of the counterparty credit rating, remedial measures include provision of collateral for obligations under the relevant swap.

The loans within the portfolio are monitored and assessed for impairment on a regular basis at a group level. The impairment policy applied by Santander UK plc is equivalent to the impairment of financial assets policy of the Company.

Santander UK plc is rated periodically by credit rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings, Ltd.

Santander UK plc's credit ratings are disclosed below as the financial assets of the Fosse securitisation structure are secured on mortgage assets within Santander UK plc. Further details can be found in the notes to the Group financial statements of Santander UK plc's Annual Report and Financial Statements and monthly investor reports of Fosse Master Trust.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (CONTINUED)

Credit risk (continued)

Santander UK plc's current credit ratings were:

	S & P	Moody's	Fitch
Long-term rating	A	Aa3	A+
Long-term rating outlook	Stable	Positive	Negative
Short term rating	A-1	P-1	F1

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.

Liquidity is managed by the Company by matching the terms of the financial instruments so that cash inflows meet cash outflows. The receipts from the related party loan asset and the payments in respect of the derivative financial instruments described in the Annual Report and Financial Statements are matched. The receipts from the derivative financial instruments and the payments required in respect of the debt securities in issue described above are also matched.

Market risk

Market risk is potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company is subject to market risk in the form of interest rate risk and currency risks from the fluctuations in the US Dollar.

In order to hedge against currency risks, where the Company has a currency denominated note the Company enters into cross currency swaps to hedge its exposure to FX risk. As a result of this, the Company's total interest income and expense on financial assets and liabilities is hedged to sterling LIBOR. The Company therefore has no material cash flow sensitivity to changes in currency rates. The Company is however exposed to an element of FX re-translation and basis risk via the USD-GBP cross currency swap that is designated as a fair value hedge of the 2011 Series 2 Class A5 Fixed Rate Notes. This drives the hedge ineffectiveness as set out in Note 7, the hedge ineffectiveness for the year was £3,195k (2017:(£2,367k)), the USD-GBP FX rates have moved from (2017: 0.7396) to (2018: 0.7846) during the year, a movement of 0.045, therefore a 0.01 movement in the USD-GBP rate therefore equates to £710k of net re-translation and basis risk ineffectiveness on the cross currency swap.

The Company also enters into interest rate swap contracts with Santander UK plc, a related party, and counterparties that meet Group credit policies to manage basis risk between interest flows on the cross currency swaps and on interest payments received from Santander UK plc. Hedge accounting is adopted for that funding so that the Company is hedged against the exposure to interest rate volatility from the movement in fair value of those interest rate swap contracts.

A 50bp adverse or positive movement in interest rates would have an immaterial impact on profit for the year and on net liabilities.

During the year, the Company incurred gains on derivative financial instruments and translation gains of £3.4m (2017: losses of £2.9m). This volatility is expected to even out over the long term.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. An independent central operational risk function has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities.

The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's, risk committee and board of directors.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

All of the Company's income is derived from activities in the same business and geographical segment, within the UK.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5. INTEREST AND SIMILAR INCOME

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Interest income from Fosse Funding (No.1) Limited	5,843	16,570
Other interest income	1	-
Derivative interest income	3,812	8,875
	9,656	25,445

6. INTEREST EXPENSE AND SIMILAR CHARGES

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Interest expense on debt securities in issue	9,459	25,020
	9,459	25,020

7. NET OTHER OPERATING INCOME / (EXPENSE)

	Year ended 31 December 2018 £000	Restated Year ended 31 December 2017 £000
Fair value hedging:		
- Gain / (loss) on hedging instruments	10,395	(21,454)
- (Loss) / gain on hedged items attributable to hedged risks	(7,200)	19,087
Fair value hedging ineffectiveness	3,195	(2,367)
Cash flow hedging ineffectiveness	-	79
Fair value (losses)/gains on derivative financial instruments	21	136,363
Translation gains on debt securities in issue	149	(135,784)
	3,365	(2,867)

The comparative figures have been restated to align with the current year presentation.

The Company hedges its exposures to various risks, including interest rate risk and foreign currency risk, in connection with the Company's operations and its sources of finance.

The Company applies fair value hedge accounting with regards to the interest rate risk and foreign currency risk of class A5 of series 2011-2 fixed rate USD notes (refer to Note 15 for details).

In line with the transaction documents, swaps are also in place to economically hedge FV or interest rate risk on the remaining fixed rate or foreign currency notes and fair value movements of those swaps are accounted in Profit and Loss within the Statement of Comprehensive income.

The gains or losses arising on these assets and liabilities are presented in the table above on a combined basis.

8. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Administration fees and bank charges	211	369
	211	369

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

9. PROFIT / (LOSS) BEFORE TAX

Directors' emoluments

The Directors' services to the Company are an incidental part of their duties. No Directors were remunerated for their services to the Company. Directors' emoluments are borne by Santander UK plc and corporate service fees, which include the provision of Directors, are borne by Fosse Funding (No.1) Limited. No emoluments were paid by the Company to Directors during the year (2017: £nil).

Staff costs

The Company has no employees in the current or prior financial year.

Auditors' remuneration

The audit fee for the current year has been paid by the Company (2017: paid on the Company's behalf by Santander UK plc, in accordance with Company policy, for which no recharge has been made). The audit fee for the current year is £13,750 (2017: £13,750).

No fees for non-audit services were paid by the Company to the auditors in the period from 1 January 2018 to 31 December 2018.

10. TAX CHARGE ON PROFIT / (LOSS) FOR THE YEAR

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Current tax:		
UK corporation tax on profit for the year	1	-
Adjustments in respect of prior years	1	-
Tax charge on profit for the year	2	-

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the 'Taxation of Securitisation Companies Regulations (SI 2006/3296)'. Therefore it is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the Transaction.

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

The Finance Act 2016 introduced a further reduction in the corporation tax rate to 17% from 2020.

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Profit / (loss) before tax	3,351	(2,811)
Tax calculated at a rate of 19.00% (2017: 19.25%)	637	(541)
Non-taxable income / (expenses)	(636)	541
Adjustment to prior year provisions	1	-
Tax charge on profit / (loss) for the year	2	-

The Company meets the requirements of a securitisation company for tax purposes and is taxed on the margin that it receives in return for participating in the securitisation structure under the waterfall arrangement. Any other amounts that form part of its retained loss and all other amounts that it receives are disregarded for tax purposes.

11. DERIVATIVE FINANCIAL INSTRUMENTS ASSETS

The Company applies hedge accounting on a fair value basis. The hedge ratio is established by matching the notional of the derivative with the underlying position being hedged. Only the designated risk is hedged and therefore other risks, such as credit risk, are managed but not hedged.

The Company obtains funding in international market, issuing fixed rate debt in USD. Therefore, it is exposed to changes in fair value due to changes in market interest rates in USD and/or foreign exchange rates, which is mitigated through the use of fixed versus floating rate cross currency swaps.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

11. DERIVATIVE FINANCIAL INSTRUMENTS ASSETS (CONTINUED)

Fair value hedge

Micro hedge of interest rate risk and foreign currency risk

The interest rate risk component is the change in fair value of the fixed rate debt due to changes in the benchmark LIBOR rate. The foreign exchange component is the change in the fair value of the fixed rate debt issuance due to changes in foreign exchange rates prevailing from the time of execution. Effectiveness is assessed by using linear regression techniques to compare changes in the fair value of the debt caused by changes in the benchmark interest rate and foreign currency rate, with changes in the fair value of the cross currency swap.

Possible sources of hedge ineffectiveness

Possible sources of fair value hedge ineffectiveness are set out below:

- Hedging derivative with a non-zero fair value at date of initial designation
- Differences in discounting between hedged item and hedging instrument as cash collateralised cross currency swaps discount using Overnight Indexed Swaps (OIS) discount curves, not applied to underlying hedged item
- Counterparty credit risk impacts fair value of derivative but not hedged item

Maturity profile and average price/rate of hedging instrument

The following table sets out the maturity profile and average price/rate of the hedging instrument used in the Company's fair value hedge:

Risk		Later than one year and not later than five years
Interest rate / foreign currency (FX) risk	Exchange rate contract – nominal amount (£000)	196,148
	Average GBP – USD exchange rate	1.5460
	Average fixed interest rate – USD (%)	4.25%

Net gains or losses arising from fair value hedge included in net other operating expenses

Hedge ineffectiveness can be analysed by risk category as follows:

Risk	Changes in FV of hedging instruments to calculate hedge ineffectiveness	Changes in FV of hedged items to calculate hedge ineffectiveness	Hedge ineffectiveness recognised in income statement
	£000	£000	£000
Interest rate / FX risk	10,395	(7,200)	3,195

Hedged exposure

The following table sets out the exposures covered by the Company's hedging strategies, in connection with the debt securities in issue:

Risk	Hedged item balance sheet line	Carrying value	Accumulated amount of FV hedge adjustments on hedged item in carrying value of hedged item	Change in value used for calculating hedge ineffectiveness	Accumulated amount of FV hedge adjustments on balance sheet for discontinued hedges
		£000	£000	£000	£000
Interest rate / FX risk	Debt securities in issue	195,306	(842)	(7,200)	(2,508)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarise the fair values of the financial asset and liability classes accounted for at fair value at 31 December 2018 and 2017, analysed by the valuation methodology used by the Company to determine their fair value, including their levels in the fair value hierarchy – level 1, level 2 and level 3.

31 December 2018		**Internal models based on**								
Balance Sheet category		**Level 1**		**Level 2**		**Level 3**		**Total**		**Valuation**
		£000	**%**	**£000**	**%**	**£000**	**%**	**£000**	**%**	**Technique**
Assets										
Derivative assets	Interest rate swaps	-	-	-	-	-	-	-	-	
	Cross currency swaps	-	-	38,233	100	-	-	38,233	100	
Total assets at fair value		-	-	38,233	100	-	-	38,233	100	A

31 December 2017		Internal models based on								
Balance Sheet category		Level 1		Level 2		Level 3		Total		Valuation
		£000	%	£000	%	£000	%	£000	%	Technique
Assets										
Derivative assets	Interest rate swaps	-	-	-	-	-	-	-	-	
	Cross currency swaps	-	-	27,542	100	-	-	27,542	100	
Total assets at fair value		-	-	27,542	100	-	-	27,542	100	A

During the year ended 31 December 2018 and 2017 there were no transfers of financial instruments between levels.

The main valuation techniques employed in the Company's internal models to measure the fair value of the financial instruments are set out below.

Valuation of financial instruments

Financial instruments that are classified or designated at fair value through profit or loss and all derivatives are stated at fair value. The fair value of such financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Changes in the valuation of such financial instruments, including derivatives, are included in the line item 'Net other operating income / (expense)' or in 'Other comprehensive income / (expense)' in the Statement of Comprehensive Income.

(i) Initial measurement
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in profit and loss in the Statement of Comprehensive Income on initial recognition. Subsequent gains and losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Valuation of financial instruments (continued)

(ii) Subsequent measurement
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), 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 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 the Company has the ability to access at the measurement date. The Company has no assets or liabilities measured at fair value that are classified as Level 1.

Level 2: Quoted prices in non-active 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 2 positions include exchange rate derivatives and interest rate derivatives.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. The Company has no assets or liabilities measured at fair value that are classified as Level 3.

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.

The Company did not make any material changes to the valuation techniques and internal models it used during the year ended 31 December 2018.

Valuation techniques
The main valuation techniques employed in the Company's internal models to measure the fair value of the financial instruments disclosed above 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. The Company did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2018 and 2017.

A In the valuation of financial instruments requiring static hedging (for example interest rate and exchange derivatives), 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 quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

Internal models based on observable market data - derivative assets and liabilities
These instruments consist of exchange rate contracts and interest rate contracts. The models used in estimating the fair value of these derivatives do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgement, and the inputs used in the models are observable market data such as plain vanilla interest rate swaps and option contracts. As the inputs used in the valuation are based on observable market data, these derivatives are classified within level 2 of the valuation hierarchy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

13. LOANS AND ADVANCES TO GROUP COMPANIES

	2018 £000	2017 £000
Repayable from Fosse Funding (No.1) Limited:		
Within one year	987	1,385
After five years	195,605	619,493
	196,592	620,878

The Mortgage Loans underlying the Loans and advances to group companies are amortising however the repayments are not contractually certain, and as such the principal balance has been classified as amounts falling due after five years.

The loans are all denominated in Sterling and are at variable rates of interest, based on LIBOR for three-month sterling deposits. The carrying amount of loans and advances to group companies approximates to their fair value.

14. CASH AND CASH EQUIVALENTS

	2018 £000	2017 £000
Deposits with group undertakings	136	176
	136	176

Cash and cash equivalent balances due from Santander UK plc, a related party was £136m (2017: £176m).

All cash balances held with Santander UK plc are held under a Guaranteed Investment Contract and are classified as restricted funds, as withdrawals are restricted by a priority of payments in accordance with the terms of the securitisation structure.

15. DEBT SECURITIES IN ISSUE

Residential mortgage backed notes	2018 £000	2017 £000
These borrowings are repayable as follows:		
Greater than five years	229,204	645,883
	229,204	645,883

The classification of the debt securities in issue is in line with the legal maturity dates of the notes.

The tables below disclose the list of debt securities in issue.

Issues: 2011	Currency	2018 £000	2018 Issued currency 000	2017 £000	2017 Issued currency 000
Series 2 Class A5 Fixed Rate Notes 2054*	USD	195,306	250,000	188,082	250,000
Series 2 Class Z Floating Rate Notes 2054	GBP	33,898	33,898	33,898	33,898
		229,204		221,980	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15. DEBT SECURITIES IN ISSUE (CONTINUED)

Issues: 2015	Currency	2018 £000	2018 Issued currency 000	2017 £000	2017 Issued currency 000
Series 1 Class A2 Floating Rate Notes 2054	USD	-	-	-	-
Series 1 Class A3 Floating Rate Notes 2054	GBP	-	-	423,903	423,903
		-		423,903	
Total		229,204		645,883	

(*) Included in the carrying amount of debt securities in issue above is the following debt security in issue which is in a fair value hedging relationship. The fair value hedged accounting valuation adjustments arising for the debt security in issue is:

	2018 £000	2017 £000
Issue 2011 Series 2 Class A5 – cumulative (decrease) / increase	(842)	3,178
	(842)	3,178

The carrying amount of debt securities differs from their fair value as shown below.

Issue 2011 Series 2 Class A5 Fixed Rate Notes 2054	2018 Book Value £000	2018 Fair Value £000
Value at 31 December	195,306	197,954

Issue 2011 Series 2 Class Z Floating Rate Notes 2054	2018 Book Value £000	2018 Fair Value £000
Value at 31 December	33,898	33,811

In 2017 the carrying value was deemed to approximate to the fair value.

Interest is payable on the debt securities in issue at variable rates based on the one-month and three-month US Dollar LIBOR and three-month Sterling LIBOR.

The Company's obligations to note-holders, and to other secured creditors, are secured under a deed of charge that grants security over all of its assets in favour of the security trustee. The principal assets of the Company are loans made to Fosse Funding Limited, a group company, whose obligations in respect of these loans, are secured under a deed of charge which grants security over all its assets, primarily comprising shares in a portfolio of residential mortgage loans, in favour of the security trustee. These mortgages fail the recognition criteria described in IFRS 9 and as such are represented by a receivable on the balance sheet of Fosse Funding Limited, though legally Fosse Funding Limited is entitled to the income from these mortgages. The security trustee holds this security for the benefit of all secured creditors of Fosse Funding Limited, including the Company.

All the debt securities in issue are listed and are included in the amounts shown above.

The Company's debt securities in issue are denominated in US Dollar and Pounds Sterling. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16. OTHER LIABILITIES

	2018 £000	2017 £000
Other liabilities	14	-
Accrued interest payable	3,855	4,175
	3,869	4,175

Other liabilities include £0.1m (2017: £0.1m) of accrued interest payable to Santander UK plc. Other liabilities are deemed repayable within one year. The Directors consider that the carrying amount of other liabilities approximates to their fair value.

17. SHARE CAPITAL

	2018 £000	2017 £000
Called up, issued and partly paid:		
- 50,000 (2017: 50,000) ordinary share of £1 each: 25p called up and partly paid	13	13

18. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

	Interest Expense		Amounts due to related parties		Interest Income		Amounts due from related parties		Cash and cash equivalents	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Santander UK plc	504	1,143	34,002	33,986	3,813	8,875	38,233	27,542	141	176
Fosse Funding (No.1) Limited	-	-	-	-	5,843	16,570	196,592	620,878	-	-

The following derivative balances were held with related party Santander UK plc:

	2018 £000	2017 £000
Derivative financial instruments – assets	38,233	27,542
Derivative financial instruments - liabilities	-	-

During the year, fees of £16,200 (2017: £14,502) were charged by Intertrust Management Limited in respect of corporate services provided to the Company which included fees for the provision of Directors to the Company. These amounts were owed to Intertrust Management Limited at the year end. Intertrust Corporate Services Limited, the Company's immediate parent, is a wholly owned subsidiary of Intertrust Management Limited.

Fosse Funding (No.1) Limited and the Company are related parties by virtue of their common ownership.

There have been no transactions with key management personnel during the year, other than those disclosed elsewhere in these financial statements in respect of transactions with Intertrust Management Limited.

19. CAPITAL MANAGEMENT AND FINANCIAL RESOURCES

Santander UK plc adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group. Disclosures relating to the Company's capital management can be found in the Santander UK Annual Report and Financial Statements.

Capital held by the Company and managed centrally as part of Santander UK plc, comprises share capital and reserves which can be found in the Balance Sheet on page 10. The Company's capital is not externally regulated.

Capital is managed by way of processes set up at inception of the Company and subsequently there is no active process for managing its own capital. The Company is designed to hold minimum reserves once all amounts due on the related party loans have been received and amounts owing, including deferred consideration, have been paid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

20. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Fosse (Master Issuer) Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. The entire share capital of Fosse (Master Issuer) Holdings Limited is held by Intertrust Corporate Services Limited on a discretionary trust basis for the benefit of certain charities.

The administration, operations, accounting and financial reporting functions of the Company are performed by Santander UK plc, which is incorporated in Great Britain and registered in England and Wales.

Santander UK plc has been delegated administration and servicing functions in respect of the loans on behalf of the mortgages' trustee and the beneficiary as the service providers.

The Company is a Special Purpose Entity controlled by Santander UK plc and is therefore consolidated within the Santander UK Group Holdings plc group financial statements.

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

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