SANTANDER UK (STRUCTURED SOLUTIONS) LIMITED (FORMERLY ABBEY NATIONAL TREASURY (STRUCTURED SOLUTIONS) LIMITED)

Registered in England and Wales
Company Number 09878451

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

REPORT OF THE DIRECTORS

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

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions provided in section 414B (as incorporated to the Act by the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013) of the Act.

Principal activities and review of the year

The principal activity of Santander UK (Structured Solutions) Limited (formerly Abbey National Treasury (Structured Solutions) Limited) ("the Company") is to act as an issuer of preference shares which are linked to the performance of underlying securities or assets.

On the 30th July 2018 the Company changed its name from Abbey National Treasury (Structured Solutions) Limited to Santander UK (Structured Solutions) Limited.

Results and dividends

The profit for the year after taxation amounted to £586 (2017: loss of £5,140)

The Directors do not recommend the payment of a final dividend (2017: £nil). The Company did not pay an interim dividend during the year (2017: £nil).

Impact of Brexit

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

Post balance sheet events

Since the year ended 31 December 2018, the Company has issued 8,000 preference shares in 8 lots of 1,000 each on the 21st February 2019, 11th March 2019, 17th April 2019, 6th June 2019, 10th July 2019, 30th July 2019, 7th August 2019 and 8th August 2019.

Directors

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

S D Affleck	
A J Everist	
E Consolini-Bastida	(Resigned 27 July 2018)

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Statement of Going Concern and Financial Management

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk, liquidity and market risk.

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

REPORT OF THE DIRECTORS *(Continued)*

Statement of Going Concern and Financial Management (continued)

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future 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.

Qualifying Third Party Indemnities

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

Statement of disclosure of information to auditors

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

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

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

Independent Auditors

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

By order of the Board

Samuels

Cheryl Samuels
Santander Secretariat Services Limited, Secretary

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER UK (STRUCTURED SOLUTIONS) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Santander UK (Structured Solutions) Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER UK (STRUCTURED SOLUTIONS) LIMITED (CONTINUED)

Reporting on other information (continued)

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

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

Report of the Directors

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities in respect of the financial statements set out on page 1, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER UK (STRUCTURED SOLUTIONS) LIMITED (CONTINUED)

Entitlement to exemptions

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

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

SANTANDER UK (STRUCTURED SOLUTIONS) LIMITED (FORMERLY ABBEY NATIONAL TREASURY (STRUCTURED SOLUTIONS) LIMITED) - 09878451

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

Continuing operations	Note	For the year ended 31 December 2018 £	For the year ended 31 December 2017 £
Bank charges		(81)	(6,362)
Interest expense		(68)	(105)
Net trading and other income		873	101
Profit/(loss) before tax		724	(6,366)
Tax	4	(138)	1,226
Profit/(loss) after tax		586	(5,140)

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit after tax of £586 (2017: loss of £5,140) for the current year.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital £	Share Premium £	Capital contribution Reserves £	Accumulated losses £	Total equity £
Balance as at 1 January 2018	1	99	20,000	(8,091)	12,009
Profit after tax and total comprehensive income	-	-	-	586	586
Balance as at 31 December 2018	1	99	20,000	(7,505)	12,595

	Share Capital £	Share Premium £	Capital contribution Reserves £	Accumulated losses £	Total equity £
Balance as at 1 January 2017	1	99	20,000	(2,951)	17,149
Loss after tax and total comprehensive expense	-	-	-	(5,140)	(5,140)
Balance as at 31 December 2017	1	99	20,000	(8,091)	12,009

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

CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 £	For the year ended 31 December 2017 £
Net cash (used in)/generated from operating activities	10	(2,117)	3,181
Financing Activities			
Issue of preference shares	7	9,000	3,000
Net cash generated from financing activities		9,000	3,000
Net increase in cash and cash equivalents		6,883	6,181
Cash and cash equivalents at beginning of year		22,997	16,816
Cash and cash equivalents at end of year	10	29,880	22,997

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

BALANCE SHEET

As at 31 December 2018

	Note	2018 £	2017 £
Current assets			
Loans and receivables	5	1,964	5,061
Cash	10	29,880	19,900
Total current assets		31,844	24,961
Total assets		31,844	24,961
Current liabilities			
Trade and other payables	6	(7,984)	(9,952)
Corporation tax liability		(138)	-
Financial Liabilities at fair value	7	(10,177)	(1,000)
Total current liabilities		(18,299)	(10,952)
Non-current liabilities			
Financial Liabilities at fair value	7	(950)	(2,000)
Total non-current liabilities		(950)	(2,000)
Total liabilities		(19,249)	(12,952)
Net current assets		13,545	14,009
Net assets		12,595	12,009
Equity			
Share capital	8 A	1	1
Share Premium	8 B	99	99
Capital contribution reserves	9	20,000	20,000
Accumulated losses		(7,505)	(8,091)
Total equity		12,595	12,009

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

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

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

Stephen Affleck
Director
30 September 2019

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31 December 2018

1. ACCOUNTING POLICIES

Santander UK (Structured Solutions) Limited (formerly Abbey National Treasury (Structured Solutions) Limited) is a private company limited by shares, incorporated and domiciled in England and Wales. The registered office is 2 Triton Square, Regent's Place, London, NW1 3AN.

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

Basis of preparation

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

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

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

Future accounting developments

At 31 December 2018, there were no significant new or revised standards and interpretations, and amendments, which had been issued but which are not yet effective for Santander (Structured Solutions) Limited.

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

Income taxes, including deferred income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the year in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

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

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

Cash and cash equivalents

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

Revenue/expense recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Financial instruments

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

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

1. ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

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

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

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.

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

Financial liabilities are measured at amortised cost and fair value through profit or loss. Preference shares, which are mandatorily redeemable on a specific date, are classified as financial liabilities.

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

a) Financial assets: debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Santander UK group'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 the following measurement category:
Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

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

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

1. ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

i) Classification and subsequent measurement (continued)

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

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

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

c) Fair value hierarchy

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

The Company categorises assets at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1:
Unadjusted quoted prices for identical assets or liabilities in an active market that the Group has the ability to access at the measurement date.

Level 2:
Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include redeemable equity linked preference shares.

Level 3:
Significant inputs to the pricing or valuation techniques are unobservable. These unobservable inputs reflect the assumptions that market participants would use when pricing assets or liabilities and are considered significant to the overall valuation.

Borrowings

Preference shares are redeemable on a specified date, these are classified as financial liabilities and are presented in borrowings. No dividends will be paid on these preference shares during the term of the liability. Preference shares are designated as held at fair value through profit and loss and are marked to market on a daily basis based on the performance of the underlying security or assets which the shares performance is linked to.

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 that company ("the functional currency"). The financial statements are presented in Pounds Sterling, which is the functional currency of the immediate parent.

Foreign currency transactions are translated into the measurement currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Share capital

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

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

1. ACCOUNTING POLICIES *(continued)*

Dividends

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

Critical accounting judgements and key sources of estimation uncertainty

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements. The Directors have assessed that key assumptions only impact the valuation of the preference shares. The Directors do not anticipate that an active secondary market will develop in the shares. The market value in respect of the shares will reflect numerous factors including, the current level of the reference assets, volatility of the Index (or indices), interest rates, credit risk, supply and demand, correlations and quanto correlations. Therefore, the Directors make assumptions and estimation may be required in determining the factors impacting the fair value of preference shares, which can change in relation to those assumptions. For further information, please refer to Note 7.

2. FINANCIAL RISK MANAGEMENT

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

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

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

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. It occurs in intercompany assets held by the Company and financial guarantees issued by the Company.

Maximum exposure to credit risk can be found in note 5 to the financial statements.

The Directors do not consider the credit risk to be significant given the immediate parent entity, Santander UK Plc, is an A rated counterparty.

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

Liquidity risk

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

The Company manages liquidity risk with the support of its parent company, ensuring that the Company will have sufficient liquid resources to ensure it can meet its obligations as they fall due.

Market risk

Market risk is the in the value of net assets caused by movements in the levels and prices of financial instruments. Market risk arises as a result of movements in the underlying securities or assets which the preference shares are linked to. The Company's parent Santander UK Plc has pledged to monitor the reserves of the Company and will provide on-going capital contributions when required to ensure that the Company has sufficient distributable reserves to meet all preference share obligations upon their maturity.

Sensitivity analysis

A 50 basis point adverse movement in interest rates would result in a fall in operating profit of £49 (2017: £nil) and a 50 basis point favourable movement in interest rates would result in an decrease in operating profit of £49 (2017: £35).

A 10% adverse movement in the market value of preference shares would result in a fall in operating profit of £837 (2017: £nil) and a 10% favourable movement in the market value of preference shares would result in a decrease in operating profit of £541 (2017: £nil).

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

3. PROFIT FROM OPERATIONS

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

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

The statutory audit fee for the current and prior years have been paid on the Company's behalf by the ultimate UK parent company, Santander UK plc, in accordance with Company policy and no recharge has been made. The statutory audit fee for the current year is £5,500 (2017: £5,500).

4. TAX

	For the year ended 31 December 2018 £	For the year ended 31 December 2017 £
Current tax:		
UK corporation tax expense/(credit)	138	(1,226)
Tax expense/(credit)	**138**	(1,226)

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

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19.00% effective from 1 April 2017 and to 18.00% from 1 April 2020 was enacted on 18 November 2015. The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17.00% from 2020.

The tax on the Company's profit/(loss) before tax is equal to (2017: equal to) the theoretical amount that would arise using the basic tax rate of the Company as follows:

	For the year ended 31 December 2018 £	For the year ended 31 December 2017 £
Profit/(loss) before tax:	724	(6,366)
Tax calculated at a tax rate of 19.00% (2017: 19.25%)	138	(1,226)
Tax expense/(credit)	**138**	(1,226)

5. LOANS AND RECEIVABLES

	2018 £	2017 £
Current Assets:		
Amounts receivable from group companies – group relief	1,964	1,964
Amounts due from group companies	-	3,097
	1,964	5,061

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

Amounts due from group companies are repayable on demand and are non-interest bearing. The loans and receivables are classified as level 3 under the IFRS 7 hierarchy.

6. TRADE AND OTHER PAYABLES

	2018 £	2017 £
Current liabilities:		
Amount due to group companies	7,984	9,952
	7,984	9,952

Amounts due to group companies are interest bearing at 3 months LIBOR and are repayable on demand.

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

7. FINANCIAL LIABILITIES AT FAIR VALUE

	2018 £	2017 £
12,000 (2017: 3,000) redeemable equity index linked preference shares of £0.01 each @£1 a share	12,000	3,000
Fair value movements	(873)	-
	11,127	3,000

Analysis of movement:		
At 1 January	3,000	-
Issuance of new preference shares	9,000	3,000
Fair value movements	(873)	-
At 31 December	11,127	3,000

Details of Shares in issue at 31 December 2018 are:

Reference Asset	Issue date	Redemption date	1st Autocallable date	Next Autocallable date	2018 £	2017 £
S&P 500 index & Eurostoxx 50 index	05-Dec-2017	13-Dec-2023	13-Dec-2018	12-Dec-2019	905	1,000
FTSE100	07-Dec-2017	04-Jan-2024	04-Jan-2019	04-Jan-2019	929	1,000
FTSE100, S&P 500 index & Eurostoxx 50 index	22-Dec-2017	17-Jan-2024	17-Jan-2019	17-Jan-2019	919	1,000
FTSE100	15-Mar-2018	09-Apr-2024	05-Apr-2019	05-Apr-2019	994	-
FTSE100	21-Feb-2018	13-Apr-2024	14-Mar-2019	14-Mar-2019	928	-
FTSE100	18-Jan-2018	08-Feb-2024	08-Feb-2019	08-Feb-2019	887	-
FTSE100	10-May-2018	14-May-2024	31-May-2019	31-May-2019	929	-
FTSE100	05-Jul-2018	26-Jul-2024	26-Jul-2019	26-Jul-2019	922	-
FTSE100	06-Sep-2018	27-Sep-2024	27-Sep-2019	27-Sep-2019	935	-
FTSE100	03-Oct-2018	10-Oct-2024	10-Oct-2019	10-Oct-2019	897	-
FTSE100	21-Dec-2018	17-Jan-2025	17-Jan-2020	17-Jan-2020	950	-
FTSE100	01-Nov-2018	22-Nov-2024	22-Sep-2019	22-Sep-2019	932	-
Total					11,127	3,000

The terms of each preference share agreement includes an early redemption clause where the shares can be redeemed on an "Autocallable date". On an annual basis up to the redemption date the reference asset will be assessed to see if its performance has exceeded a threshold as defined in the preference share agreement. If on this date ("scheduled observation date") the reference asset performance has exceeded the required threshold then the preference shares will be redeemed on the next redemption date ("autocallable date"). If the reference assets performance does not exceed the threshold then the reference assets will be reviewed at the next annual scheduled observation date. The Financial liabilities are classified as level 2 under the IFRS 7 hierarchy.

8.A SHARE CAPITAL

	2018 £	2017 £
Issued and fully paid:		
- 100 ordinary shares at £0.01 (2017: 100 ordinary shares at £0.01)	1	1
	1	1

On 18 November 2015, the Company issued 100 Ordinary Shares with a par value of £0.01 which were fully paid up by Abbey National Treasury Services plc at a premium of £0.99, for total consideration of £1 per share. These shares were transferred to Santander UK plc on the 4th October 2018.

8.B SHARE PREMIUM

	2018 £	2017 £
Premium on:		
- 100 ordinary shares at £0.99 (2017: 100 ordinary shares at £0.99)	99	99
Total Share premium	99	99

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

9. CAPITAL CONTRIBUTION RESERVE

At incorporation the Company received a £20,000 capital contribution from Abbey National Treasury Services plc (parent company at incorporation) to ensure that the Company has sufficient distributable reserves to settle each tranche of preference shares at the redemption.

10. NOTE TO CASH FLOW STATEMENT

	For the year ended 31 December 2018 £	For the year ended 31 December 2017 £
Profit/(loss) after tax	**586**	(5,140)
Add back tax	**138**	(1,226)
Profit/(loss) before tax	**724**	(6,366)
Unrealised gains in fair value movements in preference shares	**(873)**	-
Changes in operating assets and liabilities:		
Change in payables	**(1,968)**	9,547
Net cash (used in)/generated from operating activities	**(2,117)**	3,181

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

	2018 £	2017 £
Cash (excluding bank overdrafts)	**29,880**	19,900
Loans and receivables – amounts due from group companies	**-**	3,097
Cash and cash equivalents	**29,880**	22,997

11. RELATED PARTY TRANSACTIONS

Related party transactions at balance date are as follows:

	Amounts due from related parties		Amounts due to related parties		Expenses		Revenue	
	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £
Immediate UK Parent (1)	**-**	3,097	**19,111**	3,000	**68**	-	**873**	-
Fellow subsidiary	**1,964**	1,964	**-**	9,952	**-**	22	**-**	-
Total	**1,964**	5,061	**19,111**	12,952	**68**	22	**873**	-

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

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

12. CAPITAL MANAGEMENT AND RESOURCES

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

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 5.

13. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Santander UK plc, a company registered in England and Wales and a subsidiary of Santander UK Group Holdings plc.

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

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

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

14. POST BALANCE SHEET EVENTS

Since the year ended 31 December 2018, the Company has issued 8,000 preference shares in 8 lots of 1,000 each on the 21st February 2019, 11th March 2019, 17th April 2019, 6th June 2019, 10th July 2019, 30th July 2019, 7th August 2019 and 8th August 2019.