

SANTANDER ISA MANAGERS LIMITED

Registered in Scotland

Company Number: SC151605

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2018

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STRATEGIC REPORT

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

Fair review of the Company's Business

The principal activities of Santander ISA Managers Limited (the Company) are to act as the platform service provider and stocks & shares ISA manager for investments on the Santander Investment Hub and advised investments through the Santander UK plc financial planning service. The Company is a private limited company regulated by the Financial Conduct Authority (FCA).

Santander UK plc is the immediate parent company and is incorporated in the United Kingdom. The ultimate parent company is Banco Santander SA, a company incorporated in Spain.

The Investment Hub is an online platform that allows customers the ability to invest in a wide variety of investments and manage those investments online. All advised business from the Santander UK plc Financial Planning service is serviced on the Investment Hub, including investments through both the Financial Planning and Santander Private Banking divisions.

The Company's revenue is derived from the Investment Hub platform service fee.

The Santander UK plc group (the Group) manages its operations on a divisional basis. For this reason, the directors of Santander ISA Managers Limited 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.

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

Principal risks and uncertainties facing the Company

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

By Order of the Board



Alexander O'Brien
For and on behalf of
Santander Secretariat Services Limited, Secretary
25 April 2019

Registered Office Address: 287 St. Vincent Street, Glasgow, G2 5NB.

REPORT OF THE DIRECTORS

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

Principal activity

The principal activities of Santander ISA Managers Limited is to act as the platform service provider and stocks & shares ISA manager for investments on the Santander Investment Hub and advised investments through the Santander UK plc financial planning service. The Company is regulated by the Financial Conduct Authority (FCA).

Likely future developments

In September 2018, Santander's Digital Investment Adviser launched an online advice journey that provides customers with a personal recommendation that is specific to their investment needs and objectives. It provides a conversational online tool to engage and support investors in breaking down barriers to the complex world of investing. The service is provided on the Investment Hub. Further developments to expand the services offered on the Investment Hub will continue in 2019.

Post balance sheet events

There are no Post Balance Sheet Events.

Results and dividends

The profit for the year amounted to £7,027,661 (2017: £5,925,150).

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

Directors

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

JAS Moodie	
RJ Morrison	
JJ Spence	
FJ Conway	(appointed 2 February 2018)
A Kilby	(appointed 2 July 2018)
Charlotte L Platts	(appointed 1 January 2019)

Statement of directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records which 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS (continued)

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 2 and 17 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, market risk & liquidity risk.

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

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

Financial instruments

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

The Company's financial instruments comprise loans to group undertakings, borrowings, cash and liquid resources, and various items, such as debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

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

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

Qualifying Third Party Indemnities

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

Independent Auditors

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

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

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

In accordance with Sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are re-appointed as auditors of the Company.

By Order of the Board



Alexander O'Brien
For and on behalf of
Santander Secretarial Services Limited, Secretary
25 April 2019

Registered Office Address: 287 St Vincent Street, Glasgow G2 5NB

Independent auditors' report to the members of Santander ISA Managers Limited

Report on the audit of the financial statements

Opinion

In our opinion, Santander ISA Managers 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 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.

Independent auditors' report to the members of Santander ISA Managers Limited (continued)

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

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

In 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.

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, 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.

Independent auditors' report to the members of Santander ISA Managers Limited (continued)

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.

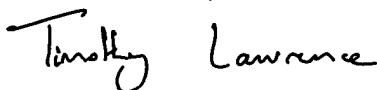
Other required reporting

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.



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

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2018 £	2017 £
Revenue	3	16,602,138	16,538,398
Other operating income	4	-	3,136
Administrative expenses	5	<u>(8,011,369)</u>	<u>(9,246,618)</u>
Operating profit		8,590,769	7,294,916
Investment income	6	<u>85,356</u>	<u>40,502</u>
Profit before tax		8,676,125	7,335,418
Tax charge	7	<u>(1,648,464)</u>	<u>(1,410,268)</u>
Profit for the year		<u>7,027,661</u>	<u>5,925,150</u>
Total comprehensive income for the year		<u>7,027,661</u>	<u>5,925,150</u>

All of the above amounts relate to continuing operations.

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

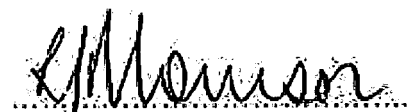
BALANCE SHEET

As at 31 December

	Note	2018 £	2017 £
NON-CURRENT ASSETS			
Intangible Assets	9	-	-
CURRENT ASSETS			
Trade and other receivables	10	5,406,272	4,633,974
Cash and cash equivalents	11	26,993,001	15,532,997
Deferred tax	13	-	-
TOTAL ASSETS		<u>32,399,273</u>	<u>20,166,971</u>
CURRENT LIABILITIES			
Trade and other payables	12	(11,337,156)	(7,780,979)
Current tax		<u>(1,648,464)</u>	-
TOTAL LIABILITIES		<u>(12,985,620)</u>	<u>(7,780,979)</u>
NET CURRENT ASSETS		<u>19,413,653</u>	<u>12,385,992</u>
NET ASSETS		<u>19,413,653</u>	<u>12,385,992</u>
EQUITY			
Share capital	14	5,000,000	5,000,000
Retained earnings		<u>14,413,653</u>	<u>7,385,992</u>
TOTAL EQUITY		<u>19,413,653</u>	<u>12,385,992</u>

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

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



Rachel Morrison
Director
25 April 2019

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2018 £	2017 £
OPERATING ACTIVITIES			
Profit before tax		8,676,125	7,335,418
Adjustments for:			
Investment income	6	(85,356)	(40,502)
Operating cash flows before movement in working capital		8,590,769	7,294,916
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		-	2,290
(Increase)/ decrease in trade and other receivables		(772,298)	2,514,340
Increase in trade and other payables		3,556,177	5,521,170
Net cash flow generated from operating activities		11,374,648	15,332,716
INVESTING ACTIVITIES			
Interest received	6	85,356	40,502
Net cash flow generated from investing activities		85,356	40,502
Net increase in cash and cash equivalents		11,460,004	15,373,218
Cash and cash equivalents at beginning of year		15,532,997	159,779
CASH AND CASH EQUIVALENTS AT END OF YEAR	11	26,993,001	15,532,997

Where tax assets and liabilities have been group relieved they are accounted for as operating receivables or operating payables.

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital £	Retained Earnings £	Total Equity £
Balance at 1 January 2017	5,000,000	1,460,842	6,460,842
Total comprehensive income for the year	-	5,925,150	5,925,150
Balance at 31 December 2017	5,000,000	7,385,992	12,385,992
Balance at 1 January 2018	5,000,000	7,385,992	12,385,992
Total comprehensive income for the year	-	7,027,661	7,027,661
Balance at 31 December 2018	5,000,000	14,413,653	19,413,653

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

NOTES TO THE FINANCIAL STATEMENTS

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, domiciled and incorporated in the United Kingdom and is owned by Santander UK plc whose ultimate parent is Banco Santander SA. The registered office address of the Company is 287 St. Vincent Street, Glasgow G2 5NB.

Basis of preparation

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

The financial statements have been prepared on the going concern basis using the historical cost convention. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Directors' Report.

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

Future accounting developments

At 31 December 2018, the Company had not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective:

- IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a *right-of-use (ROU) asset representing its right to use the underlying leased asset* and a *lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value*. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

The Company has elected to apply the modified retrospective approach whereby the ROU asset at the date of initial application is measured at an amount equal to the lease liability. The ROU asset is adjusted for any prepaid lease payments and incentives relating to the relevant leases that were recognised on the balance sheet at 31 December 2018. It includes the estimated costs of restoring the underlying assets to the condition required by the lease terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents commission receivable. Revenue for the current reporting year consists of the platform fees earned by the Company from customers making use of the Santander Investment Hub.

Other operating income comprises the income from its parent company Santander UK plc for the provision of client money services to its parent company. The associated costs for these services were borne by Santander ISA Managers Limited and the parent company reimbursed these costs to the Company at a markup of 3%. Income from the provision of client money services to the parent company ceased during 2017.

Interest income is recognised as it accrues by reference to the balance invested and the effective interest rate applicable.

Commission expenses

Commissions and similar expenses payable to intermediaries are recognised when services are provided.

Income taxes including deferred income taxes

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

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

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

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet. Cash is held with group company, Santander UK and interest earned thereon is accounted for as interest receivable from other group companies.

Trade receivables

Clients invest in products offered through the Santander Investment Hub. The investments clients choose to purchase are pre funded by the Company which allows the clients to purchase investments in real time at the current prevailing prices. Upon the point of client acceptance to purchase their chosen investments, a debtor is recognised for the cash expected to be received from the client. The debtor balance is extinguished when funds from the client are received.

Intangible assets

Intangible assets relate to computer software. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are reviewed for indications of impairment at each reporting date based on the recoverable amount.

Software development costs are capitalised when they are associated with identifiable and unique software products that are expected to provide future economic benefits, and the cost of these products can be measured reliably. Any internally developed software meeting these criteria and externally purchased software are classified in property, plant and equipment on the balance sheet. Costs associated with maintaining software programs are expensed as incurred.

Software development is amortised over three years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Financial Instruments

Financial assets: loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs, and are subsequently measured at amortised cost. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets at fair value through profit or loss

The Company classified its investments as financial assets at fair value through profit or loss and all such assets were designated at fair value through profit or loss on the transition to IFRS.

A financial asset classified in this category may be either held for trading or otherwise designated as held at fair value on inception. The assets are recognised initially at fair value and transaction costs are taken directly to the Statement of Comprehensive Income. Gains and losses arising from changes in fair value are included directly in the Statement of Comprehensive Income. The assets are derecognised when the rights to receive cash flows have expired or the entity has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

At each balance sheet date, the Company assesses whether as a result of one or more events occurring after initial recognition, there is objective evidence that financial assets at fair value through profit or loss become impaired.

Financial liabilities

Financial liabilities are initially recognised when the Company becomes contractually bound to the transfer of economic benefits in the future. Financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire.

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), 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 that are classified as Level 1.

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. The Company has classified its incidental holdings in structured products as Level 2.

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.

Valuation techniques

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. ACCOUNTING POLICIES *(continued)*

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements.

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Santander Investment Hub Revenue

Management estimate revenue earned but not invoiced from the investment hub by applying a blended commission rate of 0.3%. This percentage has been estimated based upon management's assessment of the value of individual investments across the fee percentage thresholds, arising from past experience of managing this fund.

2. FINANCIAL RISK MANAGEMENT

The Company assesses active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. The Company assesses active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity. The Company assesses active markets for exchange traded derivatives based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. Market activity and liquidity is discussed in the relevant monthly Risk Forum as well as being part of the daily update given by each business at the start of the trading day. This information, together with the observation of active trading and the magnitude of the bid-offer spreads allow consideration of the liquidity of a financial instrument. All underlying assets and liabilities are reviewed to consider the appropriate adjustment to mark the mid price reported in the trading systems to a realisable value. This process takes into account the liquidity of the position in the size of the adjustment required. These liquidity adjustments are presented and discussed at the monthly Risk Forum.

In determining the appropriate measurement levels, the Company performs regular analyses on the assets and liabilities. All underlying assets and liabilities are regularly reviewed to determine whether a position should be regarded as illiquid; the most important practical consideration being the observability of trading. Where the bid-offer spread is observable, this is tested against actual trades. If trades are not observed, the bid-offer spread is disregarded as a sign of liquidity and the position is regarded as illiquid.

Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy.

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, market risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Group. The Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the 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 Group's strategic objectives.

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

Market risk

The Company held shares in closed ended investment companies and accordingly was exposed to fluctuations in the market value of these shares. These shares were sold in full during 2017. These holdings were incidental and arose in the course of administering customer transactions. The value of those holdings was small compared to the total amount under management, and therefore did not present any significant concentration of market risk to the Company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*2. FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations. Credit risk arising from intercompany balances with fellow group undertakings are deemed to pose no significant concentration of risk. Counterparty balances with third parties mostly comprise of client monies held with those parties and pose no significant credit risk to the Company due to the regulated nature of client money. Furthermore client money balances are not assets of the Company and are not recognised on the Balance Sheet.

Cash is held with the parent undertaking, Santander UK plc.

Liquidity risk

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

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

The 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.

Maturities of financial liabilities

At 31 December 2018	On demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Trade and other payables	-	9,141,335	2,195,821	-	-	11,337,156
Total financial liabilities	-	9,141,335	2,195,821	-	-	11,337,156

At 31 December 2017	On demand £	Up to 3 months £	3-12 months £	1-5 years £	Over 5 years £	Total
Trade and other payables	-	4,460,854	3,320,125	-	-	7,780,979
Total financial liabilities	-	4,460,854	3,320,125	-	-	7,780,979

3. REVENUE

	2018 £	2017 £
Commission fees and similar income	<u>16,602,138</u>	<u>16,538,398</u>

4. OTHER OPERATING INCOME

	2018 £	2017 £
Management fees receivable	<u>-</u>	<u>3,136</u>

Management fees receivable are payable by the parent undertaking, Santander UK plc.

5. ADMINISTRATIVE EXPENSES

	2018 £	2017 £
Management charges from related parties	3,298,135	3,148,300
Other administration expenses	<u>4,713,234</u>	<u>6,098,318</u>
	<u>8,011,369</u>	<u>9,246,618</u>

Management charges are payable to the parent undertaking, Santander UK plc.

The Company has no employees (2017: none).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*5. ADMINISTRATIVE EXPENSES *(continued)*

Auditors' remuneration

The remuneration of the Auditors was £12,000 (2017: £12,000) in respect of the audit of the Company's annual financial statements.

The audit fee for the current year has been borne by the Company. For the prior year, the audit fee was paid on the Company's behalf by its UK parent undertaking Santander UK plc for which no recharge has been made.

Fees for audit-related assurance services with respect to the Client Assets Sourcebook (CASS) audit for the year were £260,000 (2017: £255,500).

The CASS audit-related assurance fee was paid by the Company's UK parent undertaking Santander UK plc, in accordance with company policy for which no recharge has been made.

6. INVESTMENT INCOME

	2018 £	2017 £
Bank interest from group company	35,847	21,183
Bank interest from third parties	49,509	14,086
Other interest receivable from group company	-	5,233
	<u>85,356</u>	<u>40,502</u>

7. TAX CHARGE

	2018 £	2017 £
Current tax		
UK Corporation tax charge on profit of the year	1,648,464	1,412,068
Adjustments in respect of prior years	-	(36,000)
Total current tax	<u>1,648,464</u>	<u>1,376,068</u>
Deferred tax:		
Adjustments in respect of prior years	-	34,200
Total deferred tax	<u>-</u>	<u>34,200</u>
Tax charge on profit for the year	<u>1,648,464</u>	<u>1,410,268</u>

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

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

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

	2018 £	2017 £
Profit before tax	8,676,125	7,335,418
Tax calculated at a rate of 19.00% (2017: 19.25%)	1,648,464	1,412,068
Adjustment to prior year provisions	-	(1,800)
Tax charge for the year	<u>1,648,464</u>	<u>1,410,268</u>

8. DIRECTORS' EMOLUMENTS

No Directors were remunerated for their services to the Company (2017: none). Directors' emoluments are borne by the ultimate 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).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. INTANGIBLE ASSETS

	2018	2017
	£	£
Cost		
Brought forward at 1 January	<u>5,014,912</u>	<u>5,014,912</u>
Carried forward at 31 December	<u>5,014,912</u>	<u>5,014,912</u>
Amortisation		
Brought forward at 1 January	<u>5,014,912</u>	<u>5,014,912</u>
Carried forward at 31 December	<u>5,014,912</u>	<u>5,014,912</u>
Net book value at 31 December	<u>-</u>	<u>-</u>

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	£	£
Trade receivables	168,979	938,926
Amounts owed by fellow subsidiary undertakings	55,701	-
Other receivables	5,181,592	3,695,048
	<u>5,406,272</u>	<u>4,633,974</u>

Amounts due from other group companies are non-interest bearing. The fair value approximates the carrying value of the assets.

11. CASH AND CASH EQUIVALENTS

	2018	2017
	£	£
Cash at bank	<u>26,993,001</u>	<u>15,532,997</u>

Cash and cash equivalents comprise of £26,993,001(2017: £15,532,997) held as liquid resources with Santander UK plc and £nil (2017: £nil) held with other parties.

12. TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Amounts owed to fellow related parties	9,708,220	6,096,114
Other payables	<u>1,628,936</u>	<u>1,684,865</u>
	<u>11,337,156</u>	<u>7,780,979</u>

Amounts due to other group companies carry no fixed terms of repayment and are non-interest bearing. The fair value approximates the carrying value of the liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2018	2017
	£	£
At 1 January	-	34,200
Income statement charge	-	(34,200)
At 31 December	<u>-</u>	<u>-</u>

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

	Provided		Provided	
	Balance Sheet	Income Statement	Balance Sheet	Income Statement
	2018	2018	2017	2017
	£	£	£	£
Deferred tax assets				
Other temporary differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,200)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,200)</u>

14. SHARE CAPITAL

	2018	2017
	£	£
Issued and fully paid:		
Ordinary shares of £1	<u>5,000,000</u>	<u>5,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The ordinary shareholders are entitled to any residual assets in the winding up of the Company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. RELATED PARTY TRANSACTIONS

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

Related Party	Income		Expenditure	
	2018	2017	2018	2017
	£	£	£	£
Santander UK plc – other operating income and management fees	-	3,136	3,298,135	3,148,300
Santander UK plc – bank interest	50,334	21,183	-	-
Santander UK plc – other interest	14,487	5,233	-	-
Gesban UK	-	-	-	36,465
	64,821	29,552	3,298,135	3,184,765

Related Party	Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	2018	2017
	£	£	£	£
Santander UK plc – cash and cash equivalents	26,993,387	15,532,997	-	-
Santander UK plc – other receivables/ payables	-	-	9,652,519	4,454,964
Abbey National Treasury Services plc	-	-	-	1,641,150
	26,993,387	15,532,997	9,652,519	6,096,114

Amounts owed by related parties exclude client money.

Cash and cash equivalents comprise of bank accounts held with Santander UK plc and amounts due from the parent company in respect of platform fees derived from the Investment Hub. These balances are interest bearing.

Amounts owed to Santander UK plc of £1,641,150 (2017: £1,641,150 owed to Abbey National Treasury Services plc) relate to corporation tax group relief.

Banking Services

The parent undertaking, Santander UK plc provides banking services to the Company. Amounts owed by Santander UK plc principally relate to the Company's bank account and accrued interest £26,993,001 (2017: £15,532,997). Interest income earned from Santander UK plc on this balance was £50,334 (2017: £21,183).

Income from other group companies includes fees receivable of £nil (2017: £3,136) from parent undertaking, Santander UK plc. During the year certain balances with fellow group companies became interest bearing. This resulted in the Company earning £14,487 (2017: £5,233) on those balances.

Also included within Administrative expenses are management charges in respect of administration costs payable to the parent undertaking, Santander UK plc of £3,298,135 (2017: £3,148,300).

16. CLIENT MONEY

At 31 December 2018, the Company held £1,037,712 (2017: £2,420,930) on behalf of clients within accounts operated by Santander UK plc and £60,763,375 (2017: £43,763,795) on behalf of clients within accounts operated through third party banks. The Company is required to hold these amounts in accordance with the Financial Conduct Authority ("FCA") Client Asset Rules. The Company had no beneficial interest in these deposits and accordingly, they are not included in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17. CAPITAL MANAGEMENT AND RESOURCES

The Company's ultimate parent, Banco Santander SA (Santander) adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the group's capital management can be found in the Banco Santander SA 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.

18. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander ISA Managers Limited is domiciled in the United Kingdom.

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

The Company's ultimate parent undertaking and controlling party is Banco Santander SA, a company incorporated 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 intermediate 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.