SANTANDER CARDS UK LIMITED

Registered in England and Wales
Company number 01456283

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2019.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions under Part 15, Section 415A of the Companies Act 2006. The Company is also exempt from preparing a Strategic Report in accordance with Section 414B of the Companies Act 2006.

Principal activities

The principal activity of Santander Cards UK Limited (the Company) was originally the provision of store cards, credit cards, and unsecured sales finance products, and this was sold to SAV Credit Limited during 2013. The operations of the Company have therefore been treated as discontinued, and the financial statements have been prepared on a basis other than going concern which includes, where appropriate, writing down the Company's assets to net realisable value. The financial statements do not include any provision for future costs of terminating the business of the Company except to the extent that such costs were committed at the end of the reporting year. It is the intention of the Directors to liquidate the Company in the near future.

Results and dividends

The profit for the year amounted to £11.0m (2018: £1.8m profit).

The directors do not propose the payment of a final dividend for 2019 (2018: £nil). The Company paid no interim dividends during 2019 (2018: £10m).

Directors

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

R J Morrison	
R Attar-Zadeh	(resigned 31 May 2019)
MJ Hall	(appointed 30 May 2019)

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

Statement of going concern

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 15 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 risk and market risk.

The Company sold its store card, credit card and other unsecured sales finance receivables during 2013. As discussed under the principal activity, the Company has not engaged in any further trading activity since the date of the asset transfer. The financial statements have therefore been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the entity's assets to net realisable value. The financial statements do not include any provision for future costs of terminating the business of the entity except to the extent that such costs were committed at the end of the reporting year. The parent has provided a formal letter of support to the Company, confirming that support will be provided to allow the Company to meet its ongoing trading liabilities as they fall due. It is the intention of the directors to liquidate the Company in the near future.

Brexit and LIBOR transition

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

REPORT OF THE DIRECTORS (continued)

COVID-19

The Company is monitoring the impact of the COVID-19 outbreak on the financial performance of the Company. The Company is part of the Santander UK Group, which has implemented precautionary measures and protocols based on recommendations from official health authorities, such as the World Health Organization (WHO) and Public Health England. Further such measures may need to be implemented in future, as the situation is complex and is still changing rapidly.

Given the fluidity of the situation, the Company cannot quantify the magnitude and duration of the impact of the COVID-19 outbreak at this time, although there may well be a negative impact on our 2020 financial results. However, the Company does not anticipate any significant change to the carrying value of its assets and liabilities at the reporting date. The Company will continue to monitor and assess its business operations.

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK Group Holdings plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force during the year and at the date of this Report and financial statements. 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 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.

PricewaterhouseCoopers LLP are deemed to have been re-appointed as auditors under Section 487(2) of the Companies Act 2006.

By order of the Board

Samuels

C Samuels
For and on behalf of
Santander Secretariat Services Limited
Secretary

23 April 2020

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

Independent auditors' report to the members of Santander Cards UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Santander Cards UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 2019; the statement of comprehensive income, the cash flow statement, and 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.

Emphasis of matter - financial statements prepared on a basis other than going concern

In forming our opinion on the financial statements, which is not modified, we draw attention to note 1 to the financial statements which describes the directors' reasons why the financial statements have been prepared on a basis other than going concern.

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 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 2019 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.

Independent auditors' report to the members of Santander Cards UK Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities 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.

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.

Ajay Kabra

Ajay Kabra (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
23 April 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	2019 £m	2018 £m
Interest receivable	3	1.2	0.9
Interest payable	4	(0.6)	(0.6)
Net interest income		0.6	0.3
Dividend income		-	10.0
Fair value movements	5	-	0.6
Net exchange (losses)/gains		(0.4)	0.3
Credit impairment losses	10	-	(0.5)
Impairment credit/(charge) of investments	11	2.2	(8.9)
Profit before tax		2.4	1.8
Tax credit	8	8.6	-
Profit for the financial year		11.0	1.8

All amounts above relate to discontinued operations.

The accompanying notes are an integral part of these financial statements.

The Company has no comprehensive income or expenses attributable to the equity holders other than profit of £11.0m for the current year (2018: £1.8m).

BALANCE SHEET

As at 31 December

	Note	2019 £m	2018 restated £m	2017 restated £m
Assets				
Cash and cash equivalents		**60.8**	56.6	56.0
Financial assets designated at fair value		**-**	-	3.0
Amounts owed by group undertakings	10	**5.9**	3.8*	3.8*
Shares in group undertakings	11	**95.3**	93.1	102.0
Deferred tax assets	9	**-**	-	1.7
Other assets	12	**5.8**	9.5	5.1
Total assets		**167.8**	163.0	171.6
Liabilities				
Amounts owed to group undertakings	10	**27.4**	26.8*	25.4*
Other liabilities	13	**4.7**	4.8	4.9
Current tax liabilities		**0.2**	6.9	8.6
Total liabilities		**32.3**	38.5	38.9
Equity				
Share capital	14	**-**	-	-
Retained earnings		**135.5**	124.5*	132.7*
Total equity		**135.5**	124.5	132.7
Total liabilities and equity		**167.8**	163.0	171.6

* For details of the restatement - see note 19.

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.

These financial statements on pages 5 to 20 were approved by the Board of Directors on 23 April 2020 and signed on its behalf by:

Rachel Morrison
Director
23 April 2020

CASH FLOW STATEMENT

For the year ended 31 December

	2019 £m	2018 £m
Profit for the financial year	11.0	1.8
Adjustments for:		
Interest receivable	(1.2)	(0.9)
Interest payable and fees and similar charges	0.6	0.6
Impairment on Group Loan	-	0.5
Impairment (reversal)/ charge of investments	(2.2)	8.9
Tax credit	(8.6)	-
Movement in financial assets designated at fair value	-	3.0
	(0.4)	13.9
Net amounts repaid by group undertakings	1.0	1.1
Decrease/((increase) in other assets	3.7	(4.4)
Decrease in other liabilities	(0.1)	-
Net cash generated from operating activities	**4.2**	10.6
Financing activities:		
Dividends paid	-	(10.0)
Net cash used in financing activities	-	(10.0)
Net increase in cash and cash equivalents	4.2	0.6
Cash and cash equivalents at beginning of year	56.6	56.0
Cash and cash equivalents at end of year	**60.8**	56.6

Where tax assets/liabilities have been group relieved, they are accounted for as amounts due to/from group undertakings.

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital £m	Retained earnings £m	Total equity £m
As at 1 January 2018 – restated*	-	132.7*	132.7*
Profit for the year and total comprehensive income	-	1.8	1.8
Dividends paid	-	(10.0)	(10.0)
As at 31 December 2018	-	124.5*	124.5*
As at 1 January 2019	-	**124.5**	**124.5**
Profit for the year and total comprehensive income	-	**11.0**	**11.0**
As at 31 December 2019	-	**135.5**	**135.5**

* Restated - for details of the restatement, see note 19.

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

General information

The Company is a private company limited by shares, domiciled and incorporated in the United Kingdom and part of Santander UK Group Holdings plc whose ultimate parent is Banco Santander SA. The registered office address of the Company is 2 Triton Square, Regent's Place, London, NW1 3AN.

Basis of preparation

The financial statements of Santander Cards UK 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 under the historical cost convention and subsequently measured at net realisable value except for equity instruments which are measured at fair value through profit or loss.

The functional and presentation currency of the Company is sterling.

Going Concern

The Company sold its store card, credit card and other unsecured sales finance receivables during 2013 and it has not engaged in any further trading activity since the date of the asset transfer.

IAS 1 requires that financial statements for a company that has ceased to trade are prepared on an "other than going concern" basis. In addition, it is the intention of the Directors to liquidate the Company in the foreseeable future. Accordingly, the financial statements have been prepared on an "other than going concern" basis. This has had no impact on the amounts reported. The directors of the Company have been provided with a letter of support by the UK parent company, confirming the parent company will provide support to the Company for the ongoing trading liabilities for a period of 12 months from the date of signing these financial statements.

Recent accounting developments

On 1 January 2016, the IASB issued IFRS 16 "Leases". The standard is effective for annual periods beginning on or after 1 January 2019. The accounting policy had no impact upon the Company.

Future accounting developments

At 31 December 2019, for the Company, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

Revenue recognition

a) Interest Income and Expense

Interest income on financial assets that are classified as amounts owed by group undertakings and cash and cash equivalents and interest expense on financial liabilities is determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument 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 the financial instrument and all other premiums or discounts.

b) Dividend income

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date with any gains or losses included in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments

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.

1) 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, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

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

Business model

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

SPPI

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

Based on these factors, 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 'Interest receivable' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
The Company's debt instruments consist of amounts owed by group undertakings.

Financial assets: equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. All equity investments are subsequently measured at FVTPL. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'fair value movements' line in the income statement.

This category includes equity shares denominated in US Dollars.

Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost. The Company's financial liabilities comprise amounts owed to group undertakings which are classified as amortised cost. Interest on the balances is calculated using the effective interest rate and reflected in the 'interest payable' line within the income statement.

2) Impairment of debt instrument financial assets

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

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

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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. For more on how ECL is calculated see the Credit risk section on note 2.

Financial instruments are measured at fair value unless stated otherwise.

3) Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or the Company has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when extinguished, cancelled or expired.

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 or substantively enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset 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.

Shares in group undertakings

In the Company's financial statements, investments in subsidiary undertakings and associates are stated at cost less impairment provisions.

Where an impairment provision is deemed to be no longer required, the element of the provision deemed not to be necessary is reversed and credited to the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks.

Separate financial statements

The Company is a subsidiary of Santander UK plc, a Company registered in England and Wales, which produces consolidated financial statements available for public use and complies with International Financial Reporting Standards. Accordingly, the Company has taken advantage of the exemption in paragraph 4(a) of IFRS 10, Consolidated Financial Statements and not prepared consolidated financial statements.

The acquisition method of accounting is used to account for the acquisition of subsidiaries which meet the definition of a business. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition related costs are expensed as incurred.

Critical judgements and accounting estimates

The preparation of the financial statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management considered there were no critical judgements to disclose at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Critical judgements and accounting estimates (continued)

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

In calculating each estimate, a range of outcomes were calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Credit impairment losses

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Company's future financial results and financial condition.

Key areas of judgement in accounting estimates

The key judgements made by management in applying the ECL impairment methodology are set out below:
- Definition of default
- SICR

For more on each of these key judgements, see the 'Credit risk – Santander UK group level – credit risk management' section of the Risk review of the 2019 Annual Report of Santander UK plc.

Sensitivity of ECL allowance

At 31 December 2019, the probability-weighted ECL allowance totalled £38.2m (2018: £38.2m)

The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios and, depending on the weights chosen, this could have a material effect on the ECL allowance.

Had management used different assumptions on probability weights, a larger or smaller ECL charge would have resulted that could have had a material impact on the Company's reported ECL allowance and profit before tax.

2. FINANCIAL RISK MANAGEMENT

The most significant risks faced by the Company are liquidity risk, credit risk and market risk. The Company manages its risk in line with the central risk management function of the Santander UK plc Group. Santander UK plc Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK plc Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK plc 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 plc 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 Annual Report.

Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient liquid resources to ensure it can meet its obligations with the support of its parent company.

2. FINANCIAL RISK MANAGEMENT (continued)

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities of the Company based on the remaining period to the contractual maturity date at the balance sheet date. There are no significant financial liabilities related to financial guarantee contracts.

At 31 December 2019	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Total £m
Amounts due to group companies	27.4	-	-	-	27.4
Other creditors	4.7	-	-	-	4.7
Total financial liabilities	32.1	-	-	-	32.1

At 31 December 2018 (restated – see note 19)	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Total £m
Amounts due to group companies	26.8	-	-	-	26.8
Other creditors	4.8	-	-	-	4.8
Total financial liabilities	31.6	-	-	-	31.6

Credit risk

Credit risk management

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.

In accordance with Group policy, the Company manages its portfolios across the credit risk lifecycle, from drawing up risk strategy, plans, budgets and limits to making sure the actual risk profile of the Company's exposures stays in line with plans and the Company's appetite to risk.

The Introduction of IFRS 9

IFRS 9 replaced IAS 39 on 1 January 2018. IFRS 9 introduced a new impairment methodology and rules around classification and measurement of financial assets. Upon implementation, the measurement categories of 'Cash and cash equivalents' and 'Amounts owed by group undertakings' have changed from 'Loans and receivables' to 'Amortised cost'.

Key metrics

The Company uses a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected credit losses (ECL)	ECL tells the Company what credit risk is likely to cost either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Stages 1, 2 and 3	The Company assesses the credit risk profile to determine which stage to allocate and monitors where there is a significant increase in credit risk and transfers between the stages.
Expected Loss (EL)	EL is the product of the probability of default, exposure at default and loss given default. The Company calculates each factor in accordance with group policy and risk models and an assessment of each customer's credit quality. There are differences between regulatory EL and IFRS 9 ECL. More details can be found in the Annual Report of the parent company Santander UK plc. For the rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless specifically stated otherwise. For IFRS accounting policy on impairment, see note 1 to the Financial Statements.

2. FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk

The table below shows the Company's maximum exposure to credit risk. The table only shows the financial assets that credit risk affects. Group Relief balances are excluded from this analysis.

	Balance Sheet		
2019	Gross amounts £m	Loss allowances £m	Net exposure £m
Financial assets at amortised cost:			
Amounts owed by group undertakings	39.8	(38.2)	1.6
Total financial assets at amortised cost	39.8	(38.2)	1.6

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Financial assets at FVTPL do not have the impairment requirements of IFRS 9 applied.

The class of financial instruments that is most exposed to credit risk in the Company are amounts owed by group undertakings in the form of intercompany loans.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December 2019:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Exposures				
Amounts owed by group undertakings	0.3	39.5	-	39.8
Total exposures	0.3	39.5	-	39.8
IFRS 9 ECL				
Amounts owed by group undertakings	-	(38.2)	-	(38.2)
Total ECL				
Net exposures	0.3	1.3	-	1.6

Movements in ECL provision are set out below:

	£m
At 1 January 2019 IFRS 9	38.2
At 31 December 2019	38.2

Market risk

Market risk is the potential for loss of income or a decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk arises as a result of interest rates. The Company's interest rate risk arises from borrowings on which the possibility of finance cost increases may arise from changes in interest rates. The Company holds a mixture of loans to and from group undertakings. The effect of the net interest receivable/payable reduces the risk the Company is exposed to from adverse fluctuations in interest rates. The effect of this can be found under the income statement. In addition the Company holds significant cash balances which earn interest and thus reduces the risk further.

Interest rate sensitivity analysis

A 50bps increase in interest rates would have resulted in an increase in operating profit and in net assets of £0.4m (2018: £0.3m). A 50bps decrease in interest rates would have resulted in a decrease in operating profit and in net assets of £0.6m (2018: £0.5m).

3. INTEREST RECEIVABLE

	2019 £m	2018 £m
Interest receivable	1.2	0.9

4. INTEREST PAYABLE

	2019 £m	2018 £m
Interest payable on loans from fellow subsidiary undertakings	0.6	0.6

5. FAIR VALUE MOVEMENTS

	2019 £m	2018 £m
Fair value movement in financial asset – equity securities denominated in US Dollars (VISA shares)	-	0.6

The VISA shares were disposed of during 2018.

6. AUDITORS' REMUNERATION

The profit in the current year has been arrived at after charging audit fees of £5,665 which are payable to the Company's auditors for the statutory audit of the Company's annual financial statements. The audit fees in the preceding year (£5,500) were paid on the Company's behalf by its UK parent undertaking, Santander UK plc for which no recharge was made in accordance with Company policy.

Fees payable to the Company's auditors and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent undertaking disclose such fees on a consolidated basis.

7. DIRECTORS EMOLUMENTS AND INTERESTS AND EMPLOYEES

No directors were remunerated for their services to the Company (2018: none). 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 (2018: £nil).

The Company had no employees in the reporting year (2018: none).

8. TAX

	2019 £m	2018 £m
Current tax:		
UK corporation tax on profit for the year	-	(1.7)
Adjustments in respect of prior years	8.6	-
Total current tax credit	8.6	(1.7)
Deferred tax:		
Origination and reversal of temporary differences	-	2.0
Change in rate of UK corporation tax	-	(0.3)
Total deferred tax	-	1.7
Tax credit on profit for the year	8.6	-

The provision for possible exposure regarding uncertainty of the tax treatment of the disposal of the Cards business in 2013 has been released in the year following effective settlement of the issue with HMRC.

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profits for the year.

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

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

	2019 £m	2018 £m
Profit before tax	2.4	1.8
Tax calculated at a tax rate of 19% (2018: 19%)	0.5	0.3
Effect of change in tax rate on deferred tax provision	-	(0.3)
Non-deductible expenses	(0.5)	1.8
Non-taxable income	-	(1.8)
Adjustments in respect of prior years	8.6	-
Tax credit for the year	8.6	-

NOTES TO THE FINANCIAL STATEMENTS

9. DEFERRED TAX ASSETS

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:

	2019 £m	2018 £m
At beginning of year	-	1.7
Income Statement charge for the year	-	(1.7)
At end of year	-	-

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

	Provided Balance sheet		Provided Income statement	
	2019 £m	2018 £m	2019 £m	2018 £m
IAS transitional adjustments	-	-	-	(2.1)
Other temporary differences	-	-	-	0.4
	-	-	-	(1.7)

10. AMOUNTS OWED BY/ TO GROUP UNDERTAKINGS

	2019 £m	2018 restated* £m
Assets:		
Amounts owed by Group Undertakings	5.9	3.8
Liabilities:		
Amounts owed to Group Undertakings	27.4	26.8

* For details of the restatement - see note 19.

Amounts owed by Group undertakings are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

11. SHARES IN GROUP UNDERTAKINGS

Cost	£ m
At 1 January 2019	538.0
At 31 December 2019	**538.0**
Provision for impairment:	
At 1 January 2019	(444.9)
Impairment charge reversal in the year	2.2
At 31 December 2019	**(442.7)**
Net book value:	
At 31 December 2018	93.1
At 31 December 2019	**95.3**

Investments in subsidiary companies are shown as cost less provision for impairment. The Company has exercised the exemption under Section 400 of the Companies Act 2006, which dispenses with the requirement to prepare group financial statements. This is also in accordance with the exemption in IAS 27 'Consolidated and Separate Financial Statements'.

The wholly owned subsidiaries the Company held in the year are listed below. The company has no associates or joint ventures.

Name of subsidiaries	Place of incorporation ownership (or registration) and operation	Proportion of ownership interest %	Ultimate Proportion of Ownership %
Directly held:			
Santander Global Consumer Finance Limited	England and Wales	100	100
Santander Consumer Credit Services Limited	England and Wales	100	100
Santander Cards Limited	England and Wales	100	100
First National Tricity Finance Limited	England and Wales	100	100
Santander Cards Ireland Limited	Ireland	100	100
Time Retail Finance Limited (in liquidation)	England and Wales	100	100

None of the subsidiaries are banks or listed on a stock exchange.

The registered offices of the subsidiaries are listed below:

Name of subsidiaries	Registered office address
Directly held:	
Santander Global Consumer Finance Limited	2 Triton Square, Regent's Place, London, NW1 3AN
Santander Consumer Credit Services Limited	2 Triton Square, Regent's Place, London, NW1 3AN
Santander Cards Limited	2 Triton Square, Regent's Place, London, NW1 3AN
First National Tricity Finance Limited	2 Triton Square, Regent's Place, London, NW1 3AN
Santander Cards Ireland Limited	25/28 North Wall Quay, Dublin 1, Ireland
Time Retail Finance Limited (in liquidation)	Griffins Tavistock House South, Tavistock Square, London, WC1H 9LG

12. OTHER ASSETS

	2019 £m	2018 £m
Amounts falling due within one year:		
Other debtors	5.8	9.5

13. OTHER LIABILITIES

	2019 £m	2018 £m
Amounts falling due within one year:		
Other creditors	4.7	4.8

14. SHARE CAPITAL

	2019	2018
	£	£
Allotted, called up and fully paid		
1,000 (2018:1,000) Ordinary shares of £1 each	1,000	1,000

15. CAPITAL MANAGEMENT AND RESOURCES

The Company's immediate UK parent, Santander UK plc adopts a centralised capital management approach based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK group. 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 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.

16. CONTINGENT LIABILITIES

Capital Support Deed

From 1 January 2019, following the implementation of ring-fencing, Santander UK plc, Cater Allen Limited and certain other non-regulated subsidiaries within the ring-fenced bank entered into a capital support deed dated 13 November 2018 (the RFB Sub-Group Capital Support Deed). The parties to the RFB Sub-Group Capital Support Deed are permitted by the PRA to form a core UK group, as defined in the PRA Rulebook, a permission which will expire on 31 December 2021. Exposures of each of the regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the RFB Sub- Group Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breaches or is at risk of breaching its capital resources requirements or risk concentrations requirements.

Payment Protection Insurance

In relation to a specific PPI portfolio of complaints, a legal dispute regarding allocation of liability is ongoing and remains in its early stages. The dispute relates to the liability for PPI mis-selling complaints relating to pre-2005 PPI policies underwritten by Financial Insurance Company Ltd (FICL) and Financial Assurance Company Ltd (FACL) and involves the Company and fellow subsidiary Santander Insurance Services Limited. During the relevant period, FICL and FACL were owned by Genworth Financial International Holdings, Inc. In July 2015 AXA S.A. (AXA) acquired FICL and FACL from Genworth. In July 2017, Santander UK plc notified AXA that the Company and fellow subsidiary Santander Insurance Services Limited did not accept liability for losses on PPI policies relating to this period. Santander UK plc entered into a Complaints Handling Agreement (CHA) with FICL and FACL pursuant to which it agreed to handle complaints on their behalf, and FICL and FACL agreed to pay redress assessed to be due to relevant policyholders on a without prejudice basis. Santander UK plc holds a provision in regard to this matter and has confirmed that if any liability arises, it will be settled in full by the parent and not by the Company. Further information has not been provided in these financial statements as further disclosure is considered to be seriously prejudicial.

17. RELATED PARTIES

Transactions with related parties

Particulars of transactions with related parties, and the balances outstanding at the year end, are disclosed in the tables below:

	Income		Expenditure	
	2019	2018	2019	2018
	£m	£m	£m	£m
Santander Consumer Credit Services Limited	0.6	0.5	-	0.2
Santander Cards Ireland Limited	0.1	-	-	0.3
First National Tricity Finance Limited	-	-	0.4	0.4
Santander Global Consumer Finance Limited	-	-	0.1	0.1
Santander UK plc	0.5	0.4	0.1	0.1
	1.2	0.9	0.6	1.1

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018 restated*	2019	2018 restated*
	£m	£m	£m	£m
Santander Consumer Credit Services Limited - Loan	32.8	32.2	-	-
Santander Consumer Credit Services Limited – Impairment	(31.5)	(31.4)	-	-
Santander Cards Ireland Limited – Loan	6.7	7.0	0.3	0.3
Santander Cards Ireland Limited - Impairment	(6.7)	(6.8)	-	-
First National Tricity Finance Limited - Loan	-	-	6.4	6.0
Santander Global Consumer Finance Limited – Loan	-	-	6.4	6.4
Santander UK plc - Loan	0.3	0.3	14.3	14.1
Santander UK plc – Bank account	60.8	56.6	-	-
Santander UK plc – Group Relief	4.3	2.5	-	-
	66.7	60.4	27.4	26.8

* For details of the restatement - see note 19.

Other transactions:

	2019	2018
	£m	£m
Dividend paid to immediate parent Company	-	10.0
Dividend received from subsidiary – Santander Cards Limited	-	10.0

The Company paid no interim dividend during the year (2018: £10m).

During the year, the Company entered into no transactions with key management personnel of the Company, (2018: £nil).

Amounts owed by and to group undertakings are unsecured. Loans with Santander Consumer Credit Services Limited, First National Tricity Finance Limited and Santander Global Consumer Finance Limited accrue interest at 3 month LIBOR and a margin of 110 bps. Interest on the loan with Santander Cards Ireland accrues at 3 month EURIBOR and a margin of 110 bps. The loan from Santander UK plc accrues interest at 1 month LIBOR in the current year.

18. PARENT UNDERTAKING AND CONTROLLING PARTY

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 registered in Spain. Banco Santander SA is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Santander UK plc is the parent undertaking of the smallest group of undertakings for which 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, United Kingdom NW1 3AN.

NOTES TO THE FINANCIAL STATEMENTS

19. RESTATEMENT

During the year, the Directors reviewed the loan arrangements between the Company and its subsidiary companies, Santander Global Consumer Finance Limited and Santander Consumer Credit Services Limited. As part of this review, the Directors identified that interest charged from the subsidiary companies had been overstated in the years ended from 31 December 2013 to 31 December 2018. Consequently, the results for the year ended 31 December 2018 and the opening reserves for the year ended 31 December 2018 have been restated in accordance with IAS 1 Presentation of Financial Statements. The Company has also netted balances where previously there were financial assets and financial liabilities with the same counterparty. The Company has a legally enforceable right to offset and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. The impact of these adjustments is detailed below:

	31 December 2018 (as previously reported) £m	Grossing Adjustment £m	Interest adjustments £m	31 December 2018 (as restated) £m	1 January 2018 (as previously reported) £m	Grossing Adjustment £m	Interest adjustments £m	1 January 2018 (as restated) £m
Assets:								
Financial assets at amortised cost – amounts due from group undertakings	20	(16.6)	0.4	3.8	20.2	(16.6)	0.2	3.8
Liabilities: Financial liabilities at amortised cost Amounts owed to group undertakings	(43.6)	16.6	0.2	(26.8)	(42.4)	16.6	0.4	(25.4)
Tax effect adjusted through Current tax liabilities	(6.8)	-	(0.1)	(6.9)	(8.6)	-	(0.1)	(8.7)
Total net asset adjustment		-	0.5			-	0.5	
Equity								
Retained earnings	124	-	0.5	124.5	132.2	-	0.5	132.7
Total equity adjustment		-	0.5			-	0.5	

20. SUBSEQUENT BALANCE SHEET EVENTS

Since the balance sheet date there has been a global pandemic arising from an outbreak of respiratory illness known as COVID-19. This is causing disruption to financial markets and business activity in the UK. While it is too early to accurately estimate the financial and business impact of the COVID-19 outbreak, we expect a negative impact on our 2020 financial results. COVID-19 is a non-adjusting post balance sheet event.