

ABBHEY NATIONAL PROPERTY INVESTMENTS

**Registered in England and Wales
No. 02412672**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2019**



REPORT OF THE DIRECTORS

The Directors submit their report together with the Strategic report and 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 provided in section 414B (as incorporated to the Companies Act 2006 by the Strategic Report and Directors' Report Regulations 2013) of the Companies Act 2006.

Principal activities

The principal activity of Abbey National Property Investments (the "Company") is that of a property investment company.

Likely future developments

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

Results and dividends

The profit for the year after taxation amounted to £5,054,716 (2018: £2,709,702). During the year, fair value movements increased in line with the Halifax regional index which saw growth increase to 3.7% in 2019 from around 0.6% in 2018. In addition, individual properties can out/underperform dependent on condition and location which will mean that upon revaluation the portfolio can deviate from the overall index performance. The result of these two factors was that property valuations during the current year resulted in a gain of £2,810,848 (2018: loss of £2,976,217).

The Directors do not recommend the payment of a final dividend on ordinary shares (2018: £nil).

Brexit and LIBOR transition

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

Impact of Covid-19

The Company is monitoring the impact of the COVID-19 outbreak on its financial performance. 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. While the Company does not anticipate significant change to the carrying value of its assets and liabilities at the reporting date, the Company expects the Covid pandemic to have a negative impact on housing price growth, and consequently the valuation of HPI financial assets. The Company will continue to monitor and assess its business operations.

Post Balance Sheet events

No adjusting or significant non-adjusting events, besides the aforementioned impact of Covid-19, have occurred between the 31 December 2019 and the date of authorisation of the financial statements.

Directors

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

AR Honey	(resigned 15 th April 2020)
CJ Wise	(appointed 16 th April 2020)
RJ Morrison	

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 regulations.

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

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

REPORT OF THE DIRECTORS (*continued*)

Statement of directors' responsibilities in respect of the financial statements (*continued*)

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

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

Statement of Going Concern and Financial Management

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 16 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 has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Financial Instruments

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

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

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

Qualifying Third Party Indemnities

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

Statement of disclosure of information to auditors

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


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

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

Independent Auditors

PricewaterhouseCoopers LLP are deemed to have been re-appointed as auditor's under section 487 (2) of the Companies Act 2006.

By order of the board



C Samuels
Santander Secretariat Services Limited, Secretary

7 September 2020

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL PROPERTY INVESTMENTS

Report on the audit of the financial statements

Opinion

In our opinion, Abbey National Property Investments' 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 income statement, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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.

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, 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

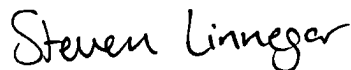
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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: prepare financial statements in accordance with the small companies regime; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Steven Linnegar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 September 2020

PRIMARY FINANCIAL STATEMENTS

INCOME STATEMENT

For the years ended 31 December

	Note	2019 £	2018 £
Continuing operations			
Net trading income/(expense)	3	2,862,759	(2,961,536)
Interest and other income	4	3,001,113	2,408,320
Operating expenses		(34,400)	(33,400)
Profit/(loss) before tax	5	5,829,472	(586,616)
Tax	6	(774,756)	3,296,318
Profit after tax for the year		5,054,716	2,709,702

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit of £5,054,716 (2018: 2,709,702) for the current and previous year.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Fair value reserve £	Non - Distributable capital reserve £	Retained earnings £	Total Equity £
Balance at 1 January 2018	138,180,520	102,740	5,199,480	325,313,263	468,796,003
Profit and total comprehensive income for the year	-	-	-	2,709,702	2,709,702
Adjustment for the adoption of IFRS 9	-	(102,740)	-	102,740	-
Balance at 31 December 2018	138,180,520	-	5,199,480	328,125,705	471,505,705
Balance at 1 January 2019	138,180,520	-	5,199,480	328,125,705	471,505,705
Profit and total comprehensive income for the year	-	-	-	5,054,716	5,054,716
Balance at 31 December 2019	138,180,520	-	5,199,480	333,180,421	476,560,421

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

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2019 £	2018 £
Net cash generated from operating activities	13	27,659,294	25,256,584
Investing activities			
Sale of investments		-	224,802
Cash generated from investing activities		-	224,802
Net increase in cash and cash equivalents		27,659,294	25,481,386
Cash and cash equivalents at beginning of year		352,351,363	326,869,977
Cash and cash equivalents at end of year	13	380,010,657	352,351,363

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

PRIMARY FINANCIAL STATEMENTS *(continued)*

BALANCE SHEET

As at 31 December

	Note	2019 £	2018 £
Non-current assets			
Financial assets at fair value through profit or loss	7	120,593,411	142,419,396
Total non-current assets		120,593,411	142,419,396
Current assets			
Cash	13	2,747,868	2,185,333
Financial assets at amortised cost	8	377,262,789	350,166,030
Other assets		-	2,915
Total current assets		380,010,657	352,354,278
Total assets		500,604,068	494,773,674
Current liabilities			
Other liabilities		(34,400)	(33,478)
Financial liabilities at amortised cost	9	(3,749,232)	-
Current tax liabilities		(3,656,375)	(5,696,951)
Total current liabilities		(7,440,007)	(5,730,429)
Non-current liabilities			
Deferred tax	10	(16,603,640)	(17,537,540)
Total non-current liabilities		(16,603,640)	(17,537,540)
Total liabilities		(24,043,647)	(23,267,969)
Net assets		476,560,421	471,505,705
Equity			
Share capital	11	138,180,520	138,180,520
Non-distributable capital reserve	12	5,199,480	5,199,480
Retained earnings		333,180,421	328,125,705
Total equity		476,560,421	471,505,705

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

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

The financial statements on pages 5 to 16 were approved by the Board of Directors, authorised for issue and signed on its behalf by:



Rachel Morrison
Director

7 September 2020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. ACCOUNTING POLICIES

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

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

Basis of preparation

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

The financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

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

Future accounting developments

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

Recent accounting developments

On 1 January 2019, the Company adopted IFRS 16 'Leases' (IFRS 16). The accounting policy has had no significant impact upon the Company.

Revenue recognition

Income from financial assets designated at fair value through profit and loss comprises all gains and losses from changes in the fair value of financial assets held at fair value through profit and loss, together with related income and expenses.

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

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

Financial instruments

a) Initial recognition and measurement

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

b) Financial assets and liabilities

i) Classification and subsequent measurement

From 1 January 2018, the Company has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

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

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI, and
- Equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances, other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

1. ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

b) Financial assets and liabilities *(continued)*

i) Classification and subsequent measurement *(continued)*

a) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Santander UK group'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, the Company classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Finance income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading and other income/(expenses)'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Net trading and other income/(expenses)' in the period in which it arises. The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

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

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

i) Impairment of debt instrument financial assets

The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

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

b) Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

1. ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

b) Financial assets and liabilities *(continued)*

i) Classification and subsequent measurement *(continued)*

c) Fair value hierarchy

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

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

Level 1:

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

Level 2:

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

Level 3:

Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset are unobservable.

Income taxes, including deferred income taxes

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

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

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

Cash and cash equivalents

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

Share capital

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

Shares are recognised in accordance with the substance of the transaction. Shares which have a contractual obligation to deliver cash or other financial assets to the preference shareholders are classified as debt. Otherwise, they are classified as equity instruments.

Dividends on ordinary shares

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

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

1. ACCOUNTING POLICIES *(continued)*

Critical accounting judgements and key sources of estimation uncertainty

In the course of preparing the financial statements, the directors believe that the only significant judgements made in relation to accounting estimates relates to the fair value of the property reversions as disclosed in note 7. The fair value of the reversionary interests are measured using valuation techniques that estimate the growth of the properties values based on assumptions relating to the growth in the Halifax's UK House Price Index ('HPI') forward prices. The sensitivity around these assumptions is covered in note 2.

2. FINANCIAL RISK MANAGEMENT

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

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

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

Market risk

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

Financial assets held at fair value through profit and loss

Financial assets held at fair value through profit and loss are managed on a fair value basis and are subject to movements in market interest rates, market prices (relating to the UK house price index) and prepayment risk. These risks are managed at a Group level by the use of derivative contracts held by other group companies.

(a) Fair value estimation

The fair value of a property reversion is the applicable percentage share of the estimated net present value of the property value at the expected date of the reversion of the property. This is calculated using an internally developed model applying forward growth estimates to current market values until the expected date of reversion.

Current market values are based on valuations by experienced property valuers. The estimated growth of the property value is based on assumptions relating to the growth in the house price index. The expected dates of reversion are based on the estimated length of time a property will be occupied. The interest rate used to discount the future value is based on the funding rates for the Group.

The main valuation technique employed in the Company's internal model to measure the fair value of the financial asset are valued using probability weighted set of the Halifax's UK House Price Index ('HPI') forward prices. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. Launched in 1984, the Halifax House Price Index is based on the lending of the UK's largest mortgage lender and provides the longest unbroken monthly data series of any UK housing index. The indices calculated are standardised and represent the price of a typically transacted house. Regional and national HPI indices are published, which are similar except that the former reflects the national HPI indices disaggregated into 12 UK regions and is published quarterly. The national indices are published monthly.

The inputs used to determine the value of the reversionary property interests are HPI spot, HPI forward growth and mortality rates. The principal pricing parameter is HPI forward growth.

HPI spot rate

The regional HPI spot rate (which is observable market data) is only published on specific quarterly dates. In between these dates, its value is estimated by applying the changes in the national HPI spot rate (which is also observable market data and published monthly) to the most recently available regional HPI spot rate. An adjustment is made to reflect the specific property risk i.e. the difference in the actual regional composition of the property underlying the Group's reversionary interest portfolio and the composition of the published regional indices. This adjustment is based on the average historical deviation of price changes of the Group's actual property portfolio from that of the published indices.

HPI forward growth rate

Long-dated HPI forward growth rate is not directly observable in the market but is estimated. A specific spread is applied to the long-dated forward growth rate to reflect the uncertainty surrounding long-dated data. This spread is calculated by analysing the historical volatility of the HPI. An adjustment is made to reflect the specific property risk as for the HPI spot rate above.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2019

2. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Fair value estimation *(continued)*

Internal valuation review

In all instances, risk control teams review positions to assess a realistic realisable value for the position and develop a methodology for any adjustment to fair value which marks the position to that value using information relevant to that asset. Consideration is given to the quality of the information available that provides the current mark-to-model valuation and estimates of how different these valuations could be on an actual trade, taking into consideration how active the market is. For spot assets that cannot be sold due to illiquidity, forward estimates are discounted to provide an estimate of a realisable value over time.

(b) Fair value interest rate risk

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant the Company's net profit would decrease by £3.5 million (2018 restated: loss increase by £4.3 million).

(c) House price index risk

The Company is exposed to House Price Index risk arising from the property reversionary interests. Property reversionary interests are held for strategic rather than trading purposes. The Company does not actively trade these interests. The sensitivity analyses below have been determined based on the exposures to HPI risk at the reporting date.

At the reporting date, if the HPI forward growth inputs to the valuation model had been 1 percent higher (on a relative basis) while all other variables were held constant, the Company's loss would decrease by £0.1 million (2018: loss would decrease by £2.7 million). If the HPI forward growth inputs to the valuation model had been 1 percent lower (on a relative basis) while all other variables were held constant the Company's loss would increase by £0.1 million (2018: loss would increase by £2.7 million)

Amounts due to/from group companies

The majority of market risk on amounts due to/from group companies arises as a result of interest rate risk as interest is charged at a rate based on LIBOR.

Sensitivity analysis

A 50 basis point adverse movement in interest rates would result in a reduction in operating profit of £1.8m (2018: £1.6m) and a corresponding reduction in net assets. A 50 basis point positive movement in interest rates would result in an increase in operating profit of £1.8m (2018: £1.6m) and a corresponding increase in net assets.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. It occurs in intercompany assets and financial assets held by the Company. The maximum exposure to credit risk on intercompany asset is represented by the carrying amount of each financial asset in the balance sheet, refer to note 7 and 8 for details.

The financial assets held by the Company are reversionary interests in property. When the property is sold the Company receives the funds through a third party. The Company is therefore exposed to settlement risk relating to the funds held by the third party not transferred to the Company. The amount of funds held by the third party at any given time is not material and therefore the Company does not use credit derivatives to mitigate the exposure to credit risk.

As at 31 December 2019 there were no assets that were either past due or impaired (2018: £nil).

Liquidity risk

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

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

The balances included in current liabilities on the face of the balance sheet are due within 12 months.

3. NET TRADING INCOME/(EXPENSE)

	2019	2018
	£	£
Gain/(loss) from financial assets designated at fair value through profit and loss	2,810,848	(2,976,217)
Dividend income	51,911	14,681
	2,862,759	(2,961,536)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

4. INTEREST AND OTHER INCOME

	2019 £	2018 £
Interest received from group companies	3,001,113	2,408,320
	3,001,113	2,408,320

5. PROFIT/(LOSS) BEFORE TAX

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the parent company, Santander UK plc. No emoluments were paid by the Company to the Directors during the year (2018: £nil). The Company had no employees in the current or previous financial year.

The profit from operations in the current year has been arrived at after charging audit fees of £34,400 (2018: £33,400). These fees were recharged in the current year by Santander UK plc and in the prior year they were payable to the Company's auditors. These fees were based on the statutory audit of the Company's annual financial statements.

6. TAX

	2019 £	2018 £
Current tax:		
UK corporation tax for the year	3,656,375	5,866,209
Adjustments in respect of prior years	(1,947,719)	(2,409,263)
Total current tax	1,708,656	3,456,946
Deferred tax:		
Origination and reversal of temporary differences	(3,181,375)	(6,652,772)
Change in rate of UK corporation tax	334,882	700,292
Adjustments in respect of prior years	1,912,593	(800,784)
Total deferred tax	(933,900)	(6,753,264)
Tax charge/(credit) for the year	774,756	(3,296,318)

UK corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profits for the year.

The Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17.00% from 1 April 2020 and this rate has therefore been used to calculate the deferred tax balance at 31 December 2019. However, this rate deduction was reversed in the UK Budget in March 2020. As a result, the UK corporation tax rate is expected to remain at 19.00%. Since this change in rate was not substantively enacted by the balance sheet date, it is not reflected in the deferred tax liability at 31 December 2019.

The tax on the Company's profit before tax (2018: loss before tax) differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2019 £	2018 £
Profit/(loss) before tax	5,829,472	(586,616)
Tax calculated at a tax rate of 19.00% (2018: 19.00%)	1,107,600	(111,457)
Chargeable gains indexation	(632,600)	(675,106)
Effect of change in tax rate on deferred tax provision	334,882	700,292
Adjustments in respect of prior years	(35,126)	(3,210,047)
Tax charge/(credit) for the year	774,756	(3,296,318)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 £	2018 £
Debt securities - interest in property reversions	120,593,411	142,419,396

The interests in property reversions have no fixed maturity date. The contractual maturity of the reversions is based on third party sales of property over a period estimated to be greater than five years. The financial assets held at fair value through profit and loss are classified as Level 3 under the IFRS 7 hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The Company has designated the assets at fair value through profit and loss as they are managed, evaluated and reported on a fair value basis in accordance with a documented risk management strategy.

8. FINANCIAL ASSETS AT AMORTISED COST

	2019 £	2018 £
Current		
Amounts due from group companies	377,262,789	350,166,030
Total	377,262,789	350,166,030

	2019 £	- Effective interest %	2018 £	Effective interest %
Amounts due in less than one year – interest bearing, floating interest rate	377,262,789	0.80	350,166,030	0.91

The Directors consider that the carrying amount of amounts due from group companies approximates to their fair value. Amounts due from group companies are repayable on demand and interest is at 3 months LIBOR.

The loans and receivables are classified as Level 3 under the IFRS 7 hierarchy. An IFRS 9 impairment review was conducted based on an internal model, the expected credit loss generated by this model which was immaterial in both 2019 and 2018.

9. FINANCIAL LIABILITIES AT AMORTISED COST

	2019 £	2018 £
Amounts due to group company	3,749,232	-

The Directors consider that the carrying amount of payables approximates to their fair value.

Amounts due to group companies are non-interest bearing and are repayable on demand.

10. 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:

	2019 £	2018 £
At 1 January	17,537,540	24,290,804
Income statement credit	(933,900)	(6,753,264)
At 31 December	16,603,640	17,537,540

The deferred tax liability arises on the difference between the accounting and tax treatment of fair value movements on financial assets.

The deferred taxation is expected to unwind through the income statement as follows:

	2019 £	2018 £
No more than twelve months after the reporting period	-	-
More than twelve months after the reporting period	16,603,640	17,537,540
	16,603,640	17,537,540

There were no unrecognised deferred tax assets or liabilities in 2019 (2018: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

11. SHARE CAPITAL

	2019	2018
	£	£
Issued and fully paid:		
Ordinary shares of £1 each	138,180,520	138,180,520

The authorised share capital of the Company is £350,180,000 (2018: £350,180,000).

12. NON-DISTRIBUTABLE CAPITAL RESERVE

	2019	2018
	£	£
Balance at 1 January & 31 December	5,199,480	5,199,480

The non-distributable capital reserve relates to special dividends paid on the irredeemable preference shares.

13. NOTES TO THE CASH FLOW STATEMENTS

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

	2019	2018
	£	£
Profit for the year	5,054,716	2,709,702
Add/(deduct) tax	774,756	(3,296,318)
Profit/(loss) before tax	5,829,472	(586,616)
Net proceeds from sale of interests in property reversions	24,636,833	26,223,943
Fair value movements in investments	(2,810,848)	2,976,217
Deferred tax movement	(933,900)	(4,843,354)
Operating cash flows before movements in working capital	26,721,557	23,770,190
Change in operating receivables	2,915	(2,244)
Change in operating payables	934,822	1,488,638
Net cash flow used in operating activities	27,659,294	25,256,584

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

Reconciliation of cash and cash equivalents:

	2019	2018
	£	£
Cash (excluding bank overdrafts)	2,747,868	2,185,333
Financial assets at amortised cost	377,262,789	350,166,030
Cash and cash equivalents	380,010,657	352,351,363

14. RELATED PARTY TRANSACTIONS

Trading transactions

The trading transactions with related parties relate to interest received and paid on amounts due from and due to related group entities. These transactions were made on normal commercial terms and conditions and at market rates.

	Income		Amounts due from related parties		Amounts due to related parties	
	2019	2018	2019	2018	2019	2018
	£	£	£	£	£	£
Immediate parent company	3,001,062	2,408,320	377,262,789	350,166,030	34,400	-
Other group companies	-	-	-	-	3,749,232	-
	3,001,062	2,408,320	377,262,789	350,166,030	3,783,632	-

During the year the Company received interest from group companies.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

15. FINANCIAL INSTRUMENTS

The following tables summarise the fair values at 31 December 2019 and 31 December 2018 of the asset and liability classes accounted for at fair value, by the valuation methodology used by the Company to determine their fair value. The tables also disclose the percentages that the recorded fair values of financial assets and liabilities represent of the total assets and liabilities, respectively, that are recorded at fair value in the balance sheet:

At 31 December 2019

Balance sheet category	Note	Level 3 Internal models based on significant unobservable data		Total	
		£	%	£	%
Assets					
Financial assets at fair value through profit or loss	7	120,593,411	100	120,593,411	100
Total assets at fair value		120,593,411	100	120,593,411	100

At 31 December 2018

Balance sheet category	Note	Level 3 Internal models based on significant unobservable data		Total	
		£	%	£	%
Assets					
Financial assets at fair value through profit or loss	7	142,419,396	100	142,419,396	100
Total assets at fair value		142,419,396	100	142,419,396	100

Valuation techniques

The valuation technique employed by the Company to measure the fair value of the financial instruments disclosed above at 31 December 2019 and 31 December 2018 is set out in Note 2. The Company did not make any material changes to the valuation techniques and internal models it used previously.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Financial assets at fair value through profit or loss	
	2019 £	2018 £
At 1 January	142,419,396	171,619,556
Total gains/(losses) recognised in profit:		
- Fair value movements	2,810,848	(2,976,217)
Sales	(24,636,833)	(26,223,943)
At 31 December	120,593,411	142,419,396
Total gain/(loss) recognised in profit relating to those assets held at the end of the year	2,810,848	(2,976,217)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As discussed above, the fair value of financial instruments is, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any offsetting or hedged positions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2019

15. FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2019

Balance sheet note line item and product	Fair value £	Assumptions	Shift	Reflected in income statement	
				Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss - reversionary property securities	120,593,411	HPI forward growth rate	1%	0.1	0.1
		HPI spot rate	10%	6.0	6.0

As at 31 December 2018

Balance sheet note line item and product	Fair value £	Assumptions	Shift	Reflected in income statement	
				Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss - reversionary property securities	142,419,396	HPI forward growth rate	1%	2.7	2.7
		HPI spot rate	10%	11.1	11.1

*The structure of the financial instruments were changed during the year as part of the banking reform project being undertaken by the parent company. The impact of this has resulted in mortality risk becoming an insignificant risk to the Company.

16. CAPITAL MANAGEMENT AND RESOURCES

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

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 6.

17. 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 immediate 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.

18. POST BALANCE SHEET EVENTS

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. While the Company does not anticipate significant change to the carrying value of its assets and liabilities at the reporting date, the Company expects the COVID pandemic to have a negative impact on housing price growth, and consequently the valuation of HPI financial assets. The Company will continue to monitor and assess its business operations.

This is a non-adjusting post balance sheet event.