

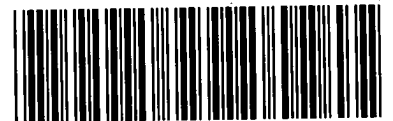
SANTANDER UK OPERATIONS LIMITED

Registered in England and Wales
No. 04137550

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2019

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COMPANIES HOUSE

STRATEGIC REPORT

The Directors submit the strategic report together with their report of the directors and the audited financial statements for the year ended 31 December 2019.

Fair review of the Company's Business

The principal activity of Santander UK Operations Limited (the "Company"), is to provide all operational servicing on behalf of Santander UK plc and its affiliates including back office operations, call centres and collections as well as systems administration (including data quality, logistics etc).

Santander UK Operations Limited (the "Company") made a profit for the year of £2,469,932 (2018: profit of £3,119,115).

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

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

Likely Future Developments

The Directors are reviewing with the parent strategic proposals around the operating model for the Company which may lead to changes in the business model in future years.

5.172 Statement

The Company is wholly owned by Santander UK Group Holdings plc and as such will always operate to the standards set by the Santander UK group. Any decision taken will be aligned to the strategy of the wider Santander UK group and be made in the best interests of all stakeholders. Impacts of any decisions will be determined through ongoing risk assessment conducted with all relevant stakeholders.

Principal risks and uncertainties facing the Company

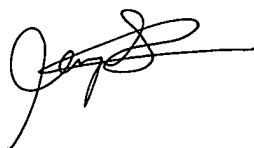
The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 2.

Payment Policy

The Company has cost management and procurement policies that explicitly promote competitive tendering and dealing with suppliers in a fair and open manner. The Company does not operate a single payment policy in respect of all classes of suppliers. Payment terms vary depending on the supplier and the type of spend, and the supplier is made aware of these before engagement.

It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions. Based on the ratio of the aggregate amounts owed to trade creditors at the end of the year to the aggregate amounts invoiced by suppliers during the year at 31 December 2019, trade creditor days for the Company were 13 days (2018:42 days).

By Order of the Board



Manroop Khela
Director
Date: 7th September 2020

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

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.

Principal activities

The principal activity of Santander UK Operations Limited (the "Company"), is to provide all operational servicing on behalf of Santander UK plc and its affiliates including back office operations, call centres and collections as well as systems administration (including data quality, logistics etc).

Likely Future Developments

The Directors are reviewing with the parent strategic proposals around the operating model for the Company which may lead to changes in the business model in future years.

Results and dividends

The profit for the year after taxation amounted to £2,469,932 (2018: profit of £3,119,115).

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

Directors

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

L Martinez Cruz	(Appointed 21 August 2019)
D Barriuso	(Resigned 22 October 2019)
A R Paz	(Resigned 16 April 2019)
M S Khela	
J A S Moodie	
V J Wallis	(Resigned 12 March 2020)
A J Webdale	
M Cueva Diaz	(Resigned 30 November 2019)
M R Harte	(Resigned 27 April 2020)

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 Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. 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 18 to the financial statements includes 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 other risks.

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

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

REPORT OF THE DIRECTORS (continued)

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 were in force during the financial year and at the date of approval of the Report and financial statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK Group Holdings plc.

Corporate Governance Statement

The Company is part of the Santander UK Group. For the financial year ended 31 December 2019, the Group reported against the UK Corporate Governance Code 2018 (the Code). Additionally, the Group has developed its own Internal Corporate Governance Framework (CGF) suitable for its subsidiaries, to which the Company adheres. The Company has therefore adopted the Group's CGF, which indirectly follows the spirit of the Code. The corporate governance arrangements of the Group, which includes the Company, are discussed in the Santander UK plc 2019 Annual Report, which does not form part of this Report.

With regard to risk management, the Group sets the overarching strategic agenda and risk appetite for itself and Group subsidiaries, to ensure alignment with its applicable risk appetite as well as its culture and values. These are reviewed regularly by its Board Risk Committee as well as its executive management. The CGF provides for the Company to review its own strategy and risk appetite, ensuring alignment to the Group's strategic agenda, risk management and automatic escalation of material risk matters as and when required. During these discussions, the Board considers its respective stakeholder group (which includes customers and its shareholder).

The number of individuals employed by the Company is set out in note 5. Remuneration practices are aligned to Group policies and procedures. Board Chair appointments (including remuneration where applicable) are subject to the Group's Board Nomination Committee consideration. The Company, its Board of Directors and its parent are committed to fair employee reward and incentivisation.

Post balance sheet events

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. COVID-19 is a non-adjusting post balance sheet event.

Brexit and IBOR 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 Santander UK group has put in place appropriate plans to address the potential risks and will update and implement in this Company as necessary.

Financial Instruments

The Company's financial instruments comprise Trade receivables and payables that arise directly from its operations as well as cash balances. All assets, liabilities and transactions are presented in sterling.

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

Payment Policy

Information on the Payment policy can be found in the Strategic Report on page 1.

Employees

Details of the number of employees and related costs can be found in note 5 to the Financial Statements.

The Company participates in the Santander UK plc's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters and the intranet. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees are encouraged to be involved in the Company's performance through Group sharesave schemes and are also encouraged to achieve a common awareness of the financial and economic factors affecting the performance of the Company and Group.

The Company is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. The Company has processes in place to help recruit, train, develop, retain and promote employees with disabilities and is committed to giving full and fair consideration to applications for employment made by disabled persons, and for continuing the employment of, and arranging appropriate training for, existing employees who have become disabled.

REPORT OF THE DIRECTORS (continued)

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 s418 of the Companies Act 2006.

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

By Order of the Board



Manroop Khela
Director
Date: 7th September 2020

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

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

Report on the audit of the financial statements

Opinion

In our opinion, Santander UK Operations 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, 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 Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 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 Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 2, 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.



Ajay Kabra (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
07 September 2020

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

Continuing operations	Note	2019 £000	Restated 2018* £000
Revenue	3	153,495	180,103
Cost of sales	4	(150,525)	(176,190)
Gross profit		2,970	3,913
Administrative expenses	7	(259)	(398)
Operating profit		2,711	3,515
Interest and similar income	8	313	313
Profit before tax		3,024	3,828
Tax charge	10	(554)	(709)
Profit for the year after tax		2,470	3,119
Other Comprehensive income for the year		-	-
Total Comprehensive income for the year		2,470	3,119

For details of the restatement see note 22.

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share Capital £000	Retained Earnings £000	Total Equity £000
At 1 January 2018	-	14,856	14,856
Profit for the year after tax and total comprehensive income	-	3,119	3,119
At 31 December 2018 and 1 January 2019	-	17,975	17,975
Profit for the year after tax and total comprehensive income	-	2,470	2,470
At 31 December 2019	-	20,445	20,445

CASH FLOW STATEMENT

For the years ended 31 December

	Note	2019 £000	2018 £000
Net cash from operating activities	15	42,913	8,186
Investing activities			
Interest received		313	313
Net cash from investing activities		313	313
Net increase in cash and cash equivalents		43,226	8,499
Cash and cash equivalents at beginning of year		61,840	53,341
Cash and cash equivalents at end of year	16	105,066	61,840

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

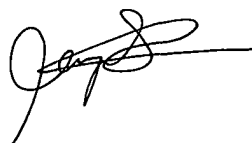
BALANCE SHEET

As at 31 December

	Note	2019 £000	2018 £000
Non-current assets			
Deferred tax	11	61	354
Total non-current assets		61	354
Current assets			
Trade and other receivables	12	13,643	53
Cash and cash equivalents	16	105,066	61,840
Total current assets		118,709	61,893
Total assets		118,770	62,247
Current liabilities			
Trade and other payables	13	(97,751)	(43,299)
Corporation tax		(574)	-
Provisions	9	-	(973)
Total current liabilities		(98,325)	(44,272)
Net current assets		20,384	17,621
Net assets		20,445	17,975
Equity			
Share capital	14	-	-
Retained earnings		20,445	17,975
Total equity		20,445	17,975

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

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



Manroop Khela
Director
Date: 7th September 2020

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

General information

The Company is a private company limited by shares, incorporated and registered in England and Wales and part of a European listed group 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 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The functional and presentation currency of the Company is sterling.

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

Recent accounting developments

In 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 Santander UK Operations Limited, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective.

Foreign currency translation

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Company ("the functional currency"). The financial statements are presented in pounds sterling (£), as this is the currency of the primary economic environment in which the Company operates.

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

Revenue recognition

Revenue represents fees receivable in respect of the operational servicing on behalf of Santander UK plc and its affiliates including back office operations, call centres and collections as well as systems administration (including data quality, logistics etc).

Revenue is measured at the fair value of the consideration received or receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Where a contract has only been partially completed at the balance sheet date, turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of trade and other payables due within one year.

Expenses in relation to cost of sales are accounted for on an accruals basis.

Interest and similar income

Interest income on cash and cash equivalent balances is accrued on a time basis, 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.

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 transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

1) Classification and subsequent measurement

Financial assets: amortised cost

The Company's financial assets that are measured at amortised costs comprise of trade and other receivables and cash and cash equivalents. Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents comprise balances held with banks.

Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost. The financial liabilities of the Company comprise trade and other payables. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. The amounts are unsecured.

2) Impairment of Financial assets

Expected credit losses are recognised on all financial assets at amortised cost. The expected credit loss considers forward looking information to recognise impairment allowances.

Impairment provisions for trade receivables are recognised based on the simplified approach using the lifetime expected credit losses. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables.

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.

Retirement Benefit Schemes

The Company participates in the Santander UK Group Pension Scheme. There is no contractual agreement or stated policy for recharging the defined benefit cost to companies in the Group. The contribution to be paid by the Company is calculated as the contributions made by Santander UK plc to the scheme in respect of the Company's employees. Details of the scheme and any associated deficit or surplus appear in the financial statements of Santander UK plc which are available from Secretariat (Santander UK plc), 2 Triton Square, Regent's Place, London, NW1 3AN.

The pension expense incurred for the company is noted in note 5.

Income taxes, including deferred taxes

The tax expense represents the sum of the tax currently payable and deferred tax.

Income tax payable on profits is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax liabilities are not recognised if the temporary difference arises from goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

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.

In the course of preparing the financial statements, no significant judgements and accounting estimates have been made in the process of applying the Company's accounting policies.

2. 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, currency risk, operational risk and liquidity 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 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.

a) Financial risks

i) Credit risk

Credit risk is the risk of financial loss arising from the default of a customer or counterparty to which the Company has directly provided services.

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.

	2019			2018		
	Gross amounts £'000	Loss allowances £'000	Net exposure £'000	Gross amounts £'000	Loss allowances £'000	Net exposure £'000
Balance Sheet assets						
Amounts due from group companies	13,643	-	13,643	51	-	51
Total	13,643	-	13,643	51	-	51

The Company did not recognise an ECL provision against these balances because the Company could fully recover the balances within a short period of time as they are all intercompany. In addition, the debtor has sufficient accessible highly liquid assets in order to repay the balance if demanded.

The carrying amount of financial assets recorded in the financial statements is net of impairment losses and represents the Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

ii) Currency risk

Currency risk is the potential that the Company will make losses due to movements in the foreign exchange markets. The Company settles certain liabilities in Euros. Since the Company prepares its financial statements in Sterling, it is exposed to this risk due to movements in the Euro/Sterling rates. The Company manages currency risk by maintaining sufficient resources to ensure it can meet its obligations as they fall due.

iii) 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 obligations as they fall due. The Company manages liquidity risk with support of its parent.

NOTES TO THE FINANCIAL STATEMENTS

2. RISK MANAGEMENT (continued)

a) Financial risks (continued)

iii) Liquidity risk (continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date. There are no significant financial liabilities related to financial guarantee contracts:

At 31 December 2019	Less than 6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	2019 Total £000
Intercompany liabilities	87,515	-	-	-	87,515
Other payables and accruals	10,236	-	-	-	10,236
Total financial liabilities	97,751	-	-	-	97,751

At 31 December 2018	Less than 6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	2018 Total £000
Intercompany liabilities	31,925	-	-	-	31,925
Other payables and accruals	11,374	-	-	-	11,374
Total financial liabilities	43,299	-	-	-	43,299

b) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Operational risk is monitored and managed within the Group. Further information can be found in the Santander UK plc Annual Report which does not form part of this Report.

3. REVENUE

Revenue is wholly attributable to the principal activity of the Company.

	2019 £000	Restated 2018* £000
Management fees – related parties	153,495	180,103
Total	153,495	180,103

* Total revenue has been restated and decreased by £22,651 from £180,125,574 after reclassification of exchange gains totalling £22,651 which were incorrectly disclosed within this total. For details of the restatement see note 22.

4. COST OF SALES

	2019 £000	Restated 2018* £000
Staff costs	133,819	129,900
Professional fees	324	1,250
Professional fees - related parties	77	61
Management fee - Geoban UK branch	15,657	16,839
Other expenses	642	28,140
Staff and other expenses – related parties	6	-
Total	150,525	176,190

* Cost of sales have been restated and decreased by £421,073 from £176,611,120 after reclassification of administrative expenses which were incorrectly included in this total. The financial statement lines impacted are other expenses which decreased by £143,197 from £28,283,368 and other management fees which fell to nil from £277,876. For details of the restatement see note 22.

5. STAFF COSTS

	2019 £000	2018 £000
Wages and salaries	112,203	108,058
Social security costs	9,081	9,024
Other pension costs	12,271	12,526
Other remuneration costs	264	292
Total Staff Costs	133,819	129,900

NOTES TO THE FINANCIAL STATEMENTS

5. STAFF COSTS (continued)

Santander UK plc, the immediate parent, bears all the staff costs before recharging them to the Company. The monthly average number of full-time equivalent staff was as follows:

	2019 Number	2018 Number
Administrative	3,969	3,738

6. DIRECTORS' EMOLUMENTS

Directors' emoluments borne by the Company are as follows:

	2019 £	2018 £
Remuneration for services as a Director (including pension allowance)	496,263	253,360
Performance related emoluments	168,150	157,140
Value of benefits received other than in cash	427,581	60,925
Total Directors' Emoluments	1,091,994	471,425

Certain Directors are entitled to receive a pension cash allowance in lieu of employer pension contributions.

Details of the emoluments of the highest paid Director which have been borne by the Company which are included in the above table are as follows:

	2019 £	2018 £
Remuneration for services as a Director	322,087	253,360
Performance related emoluments	76,950	157,140
Value of benefits received other than in cash	330,118	60,925
Total Emoluments	729,155	471,425

Emoluments for those Directors who are Santander UK plc employees, were borne by Santander UK plc, for the current and prior year for which no recharge has been made. The Directors' services to the Company are an incidental part of their duties.

7. ADMINISTRATIVE EXPENSES

	2019 £000	Restated 2018* £000
Administrative expenses	204	316
Administrative expenses – related parties	55	82
Total administrative expenses	259	398

* Administrative expenses totalling £398,422 were incorrectly classed in the previous year. For details of the restatement see note 22.

Included in other administrative expenses are fees payable to the Company's auditors for the audit of the Company's annual financial statements for the current year are £24,000 (2018: £21,120).

8. INTEREST AND SIMILAR INCOME

	2019 £000	2018 £000
Interest on bank deposits held	313	313
Total interest and similar income	313	313

9. PROVISIONS

	Provision for severance pay £000
At 1 January 2018	2,577
Provision utilised	(1,604)
At 31 December 2018 and 1 January 2019	973
Provision utilised	(973)
At 31 December 2019	-

NOTES TO THE FINANCIAL STATEMENTS

10. TAX CHARGE

	2019 £000	2018 £000
Current tax		
UK corporation tax on profit of the year	574	727
Adjustments in respect of prior years	(313)	(158)
Total current tax charge	261	569
Deferred tax		
Adjustments in respect of prior years	293	140
Total deferred tax charge	293	140
Tax charge on profit for the year	554	709

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

Finance Act 2016 introduced a reduction in the UK corporation tax rate to 17% 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%. Since this change in rate was not substantively enacted by the balance sheet date, it is not reflected in the deferred tax asset at 31 December 2019.

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

	2019 £000	2018 £000
Profit before tax	3,024	3,828
Tax calculated at a rate of 19% (2018: 19%)	574	727
Adjustments in respect of prior years	(20)	(18)
Tax charge for the year	554	709

11. 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 £000	2018 £000
At 1 January	354	494
Statement of Comprehensive Income charge	(293)	(140)
At 31 December	61	354

Deferred tax assets are attributable to the following items:

	Balance Sheet		Statement of Comprehensive Income	
	2019 £000	2018 £000	2019 £000	2018 £000
Deferred tax asset				
Other temporary differences	61	354	(293)	(140)
	61	354	(293)	(140)

12. TRADE AND OTHER RECEIVABLES

	2019 £000	2018 £000
Amounts due from group companies	13,643	51
Prepayments and accrued income	-	2
Total trade and other receivables	13,643	53

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

NOTES TO THE FINANCIAL STATEMENTS

13. TRADE AND OTHER PAYABLES

	2019 £000	2018 £000
Amounts due to group companies	22,775	2,829
Accrued amounts due to group companies	60,957	24,950
Amounts due to group companies – group relief	3,833	4,146
Accrued expenses	10,236	11,357
Other payables	-	17
Total trade and other payables	97,751	43,299

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

14. SHARE CAPITAL

	2019 £	2018 £
100 (2018: 100) 'A' ordinary shares of £1 each	100	100
100 (2018: 100) 'B' ordinary shares of £1 each	100	100
Total share capital	200	200

Share capital consists of £200 (2018: £200) issued and fully paid shares.

The holders of 'A' ordinary shares have no right to any dividend or distribution declared or made by the Company. 'A' ordinary shareholders are entitled to vote at general meetings.

The holders of 'B' ordinary shares are entitled to receive dividends or distribution declared or made by the Company if so resolved. 'B' ordinary shareholders are not entitled to receive notice of, vote at, or attend general meetings.

15. NET CASH FROM OPERATING ACTIVITIES

	2019 £000	2018 £000
Profit before tax	3,024	3,828
Adjustments for:		
Interest and similar income	(313)	(313)
Profit from operation	2,711	3,515
Changes in operating assets and liabilities:		
Net change in trade and other receivables	(13,590)	552
Net change in trade and other payables	54,472	5,723
Net change in provisions	(973)	(1,604)
Net change in deferred tax	293	-
Cash generated by operations	42,913	8,186
Net cash inflow from operating activities	42,913	8,186

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

16. CASH AND CASH EQUIVALENTS

	2019 £000	2018 £000
Balances with banks	105,066	61,840
Total cash and cash equivalents	105,066	61,840

NOTES TO THE FINANCIAL STATEMENTS

17. RELATED PARTY TRANSACTIONS

The following were the transactions with related parties as at 31 December:

	Revenue and interest income		Cost of sales and administrative expenses		Amounts due from related parties		Amounts due to related parties	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Banco Santander SA	209	206	-	-	-	-	-	-
Santander UK plc	152,710	178,816	71	82	13,643	-	72,798	21,820
Santander UK plc – group relief	-	-	-	-	-	-	3,833	4,146
Santander UK plc – interest and Bank account	313	313	-	-	105,066	61,840	-	-
Geoban UK branch	-	-	15,663	16,839	-	-	10,884	5,959
Gesban UK Ltd	-	-	61	61	-	-	-	-
Abbey National Treasury Services plc	-	519	-	-	-	-	-	-
Santander Insurance Services UK Limited	576	562	-	-	-	-	-	-
Santander London Branch	-	-	-	-	-	51	-	-
	153,808	180,416	15,795	16,982	118,709	61,891	87,515	31,925

Transactions with related parties are primarily for the settlement of salaries and other costs owed by the Company. Amounts owed by related parties include cash and cash equivalent relating to Bank balances held with Santander UK plc.

There were no related party transactions during the year (2018: nil), or existing at the balance sheet date, with the Company's or parent company's key management personnel.

18. CAPITAL MANAGEMENT AND RESOURCES

The Company's UK parent company, 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 group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Santander UK plc 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 plc group, comprises share capital and reserves which can be found in the Balance Sheet.

19. CONTINGENT LIABILITIES AND COMMITMENTS

From 1 January 2019, Santander UK plc entered into a Capital Support Deed with its regulated subsidiary Cater Allen Limited and certain other non-regulated subsidiaries of Santander UK plc including the Company. The parties to the Capital Support Deed were permitted to form a core UK group as defined in the PRA Rulebook. Exposures of each of the two regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the 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 breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. The Capital Support Deed expires on 31 December 2021.

20. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander UK Operations Limited is domiciled in the United Kingdom. The Company's immediate parent company is Santander UK plc, a company registered in England and Wales.

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

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.

21. 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, there may well be a negative impact on our 2020 financial results. COVID-19 is a non-adjusting post balance sheet event.

NOTES TO THE FINANCIAL STATEMENTS

22. RESTATEMENT

The following classification errors in the statement of comprehensive income for the year ended 31 December 2018 have been identified:

- 1) Foreign currency exchange gains were incorrectly included and disclosed as revenue in the previous years. As per IAS 18 'Revenue', exchange gains do not meet the definition of revenue and therefore, exchange gains totalling £22,651 for the year ended 31 December 2018 have been reclassified as a credit against foreign exchange losses within administrative expenses.
- 2) Administrative expenses were incorrectly included within cost of sales in previous years. Accordingly, for the year ended 31 December 2018, expenses totalling £421,073 have been reclassified as administrative expenses.

There is no impact to the overall profit or retained earnings for the year ended 31 December 2018.

The impact of these adjustments is detailed below.

Statement of Comprehensive Income:

For the year ended 31 December 2018	Impact of re-classification		
	As previously reported £000	Adjustments £000	As restated £000
Revenue	180,126	(23)	180,103
Cost of sales	(176,611)	421	(176,190)
Gross profit	3,515	398	3,913
Administrative expenses	-	(398)	(398)
Operating profit	3,515	-	3,515