

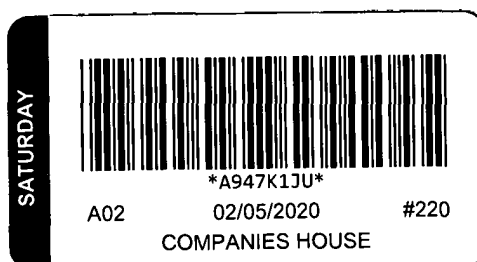
SANTANDER ISA MANAGERS LIMITED

Registered in Scotland

Company Number: SC151605

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2019



STRATEGIC REPORT

The Directors submit the Strategic Report together with their Directors' Report and the audited financial statements for the year ended 31 December 2019.

Fair review of the Company's Business

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

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

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

Santander ISA Managers Limited (the "Company") made a profit for the year of £5,910,306 (2018: £7,027,661).

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

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

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

S.172 Statement

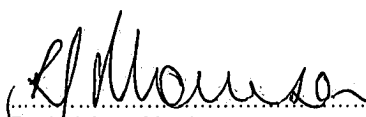
The Directors have acted in a way that they considered, in good faith, to be most likely to promote the long term success of the Company for the benefit of its members, having regard to the following:

- (a) the likely consequences of any decision in the long term: 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.
- (b) employees: the Company has no employees who are engaged in the business of the Company.
- (c) business relationships with suppliers, customers and others: the Company recognises the importance of building strong relationships with suppliers and customers and actively engages with representatives of contracting parties to ascertain their views and take them into account;
- (d) community and the environment: the Company considers the impact on the environment, both local and more extended, into decision making processes;
- (e) reputation for high standards: the Company's reputation is fundamental to the long term success of the Company and significant effort is expended to ensure that performance and processes attain and wherever possible exceed expectations; and
- (f) the need to act fairly as between members of the Company: the Company is wholly owned by Santander UK plc and that shareholder is actively involved in key decisions of the Company. Information is shared effectively to ensure that the shareholder is engaged.

Principal risks and uncertainties facing the Company

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

By Order of the Board


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Rachel Jane Morrison
Director

23 April 2020

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

REPORT OF THE DIRECTORS

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

Principal activities

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

Likely future developments

In December 2019, Santander UK launched a new Model Portfolio Service combining personal relationship management delivered by the bank's team of Private Bankers, with the digital capabilities of the Investment Hub. Further developments to expand the range of services offered on the Investment Hub and grow customer numbers remain ongoing and will continue in 2020.

Results and dividends

The profit for the year amounted to £5,910,306 (2018: £7,027,661).

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

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.

Directors

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

| | |
|-------------|--|
| JAS Moodie | |
| RJ Morrison | |
| JJ Spence | (resigned 31 October 2019) |
| FJ Conway | |
| A Kilby | (resigned 31 October 2019) |
| CL Platts | (appointed 1 January 2019; resigned 18 March 2020) |

Statement of directors' responsibilities

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.

REPORT OF THE DIRECTORS (continued)

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 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, market risk & liquidity risk.

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

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

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

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

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

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

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK 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.

Independent Auditors

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

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

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

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

By Order of the Board



Rachel Jane Morrison
Director

23 April 2020

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

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

Report on the audit of the financial statements

Opinion

In our opinion, Santander ISA Managers Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: The Balance Sheet as at 31 December 2019, the Statement of Comprehensive Income, the Cash flow Statement and the Statement of Changes in Equity for the year then ended 31 December 2019; 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 on, 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 ISA Managers 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 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.



Hamish Anderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2020

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

| | Note | 2019 £ | Restated 2018* £ |
|--|------|--------------------|------------------------|
| Revenue | 3 | 16,251,890 | 16,602,138 |
| Administrative expenses | 4 | <u>(8,974,943)</u> | <u>(8,011,369)</u> |
| Operating profit | | 7,276,947 | 8,590,769 |
| Investment income | 5 | 124,847 | 99,843 |
| Finance costs | 6 | <u>(105,120)</u> | <u>(14,487)</u> |
| Profit before tax | | 7,296,674 | 8,676,125 |
| Tax charge | 7 | <u>(1,386,368)</u> | <u>(1,648,464)</u> |
| Profit for the year | | <u>5,910,306</u> | <u>7,027,661</u> |
| Total comprehensive income for the year | | <u>5,910,306</u> | <u>7,027,661</u> |

* The prior year comparatives have been restated to reflect Finance costs separately. The charges were previously netted against Investment income. There is no change to the overall PBT.

All of the above amounts relate to continuing operations.

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


BALANCE SHEET

As at 31 December

| | Note | 2019 £ | 2018 £ |
|-----------------------------|------|----------------------------|----------------------------|
| NON-CURRENT ASSETS | | | |
| Intangible Assets | 9 | - | - |
| CURRENT ASSETS | | | |
| Trade and other receivables | 10 | 3,476,640 | 5,406,272 |
| Cash and cash equivalents | 11 | <u>34,015,349</u> | <u>26,993,001</u> |
| TOTAL ASSETS | | <u>37,491,989</u> | <u>32,399,273</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | (9,133,198) | (11,337,156) |
| Current tax | | <u>(3,034,832)</u> | <u>(1,648,464)</u> |
| TOTAL LIABILITIES | | <u>(12,168,030)</u> | <u>(12,985,620)</u> |
| NET CURRENT ASSETS | | <u>25,323,959</u> | <u>19,413,653</u> |
| NET ASSETS | | <u>25,323,959</u> | <u>19,413,653</u> |
| EQUITY | | | |
| Share capital | 13 | 5,000,000 | 5,000,000 |
| Retained earnings | | <u>20,323,959</u> | <u>14,413,653</u> |
| TOTAL EQUITY | | <u>25,323,959</u> | <u>19,413,653</u> |

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

The financial statements on pages 6 to 17 were approved by the Board of Directors, authorised for issue and signed on its behalf by:



Rachel Jane Morrison
Director

23 April 2020

CASH FLOW STATEMENT

For the years ended 31 December

| | 2019 | Restated 2018* |
|--|----------------------|-------------------|
| Note | £ | £ |
| OPERATING ACTIVITIES | | |
| Profit before tax | 7,296,674 | 8,676,125 |
| Adjustments for: | | |
| Investment income | 5 (124,847) | (99,843) |
| Finance costs | 6 105,120 | 14,487 |
| Operating cash flows before movement in working capital | 7,276,947 | 8,590,769 |
| Changes in operating assets and liabilities: | | |
| Decrease/ (increase) in trade and other receivables | 1,929,632 | (772,298) |
| (Decrease)/ increase in trade and other payables | <u>(2,203,958)</u> | <u>3,556,177</u> |
| Cash flow generated from operating activities | 7,002,621 | 11,374,648 |
| Interest paid | 6 <u>(105,120)</u> | <u>(14,487)</u> |
| Net cash flow generated from operating activities | 6,897,501 | 11,360,161 |
| INVESTING ACTIVITIES | | |
| Interest received | 5 <u>124,847</u> | <u>99,843</u> |
| Net cash flow generated from investing activities | 124,847 | 99,843 |
| Net increase in cash and cash equivalents | 7,022,348 | 11,460,004 |
| Cash and cash equivalents at beginning of year | <u>26,993,001</u> | <u>15,532,997</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 11 34,015,349 | 26,993,001 |

* The prior year comparatives have been restated to reflect Finance costs separately. The charges were previously netted against Investment income.

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

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

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

| | Share capital £ | Retained Earnings £ | Total Equity £ |
|---|--------------------|------------------------|-------------------|
| Balance at 1 January 2018 | 5,000,000 | 7,385,992 | 12,385,992 |
| Total comprehensive income for the year | - | 7,027,661 | 7,027,661 |
| Balance at 31 December 2018 | 5,000,000 | 14,413,653 | 19,413,653 |
| Balance at 1 January 2019 | 5,000,000 | 14,413,653 | 19,413,653 |
| Total comprehensive income for the year | - | 5,910,306 | 5,910,306 |
| Balance at 31 December 2019 | 5,000,000 | 20,323,959 | 25,323,959 |

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

General information

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

Basis of preparation

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

Going concern

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

Recent accounting developments

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

Revenue recognition

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

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

Financial Instruments

Initial recognition and measurement

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

i) Classification and subsequent measurement

The Company classifies its financial assets in the measurement categories of amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

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. 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.

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 have solely payments of principal and interest (SPPI) characteristics. 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Finance instruments (continued)

i) Classification and subsequent measurement (continued)

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 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.

Financial assets: amortised cost

The Company's financial assets that are measured at amortised cost comprise of trade and other receivables and cash and cash equivalents. 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.

ii) 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 earlier in the lifecycle of a product. 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.

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.

iii) 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.

Trade receivables

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

Intangible assets

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

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

Software development is amortised over three years.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Income taxes including deferred income taxes

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

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

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

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of 90 days or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Critical accounting judgements and key sources of estimation uncertainty

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

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

The following estimates and judgements are considered important to the portrayal of the Company's financial condition:

Santander Investment Hub Revenue

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

2. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are credit risk, market risk and liquidity risk. The Company manages its risk in line with the central risk management function of the Group. The Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Group's strategic objectives.

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

Market risk

Market risk is the potential for loss of income or a decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value and manages market risk accordingly. Details of the market risk management policy are disclosed in the Santander UK plc Annual Report which does not form part of this Report.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations.

NOTES TO THE FINANCIAL STATEMENTS

2. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk management practices

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also forward-looking analysis.

Credit risk arising from the cash deposits held with the parent undertaking, Santander UK plc is deemed to pose no significant concentration of risk.

Counterparty balances with third parties mostly comprise of client monies held with those parties and pose no significant credit risk to the Company due to the regulated nature of client money. Furthermore, client money balances are not assets of the Company and are not recognised on the Balance Sheet

Liquidity risk

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

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

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

Maturities of financial liabilities

| | On demand | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|------------------------------------|-----------|------------------|------------------|-----------|--------------|------------------|
| | £ | £ | £ | £ | £ | £ |
| At 31 December 2019 | | | | | | |
| Trade and other payables | - | 6,993,184 | 1,643,540 | - | - | 8,636,724 |
| Total financial liabilities | - | 6,993,184 | 1,643,540 | - | - | 8,636,724 |

| | On demand | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|------------------------------------|-----------|------------------|------------------|-----------|--------------|-------------------|
| | £ | £ | £ | £ | £ | £ |
| At 31 December 2018* | | | | | | |
| Trade and other payables | - | 9,141,335 | 1,696,852 | - | - | 10,838,187 |
| Total financial liabilities | - | 9,141,335 | 1,696,852 | - | - | 10,838,187 |

* The prior year balance of £11,337,156 included amounts totalling £498,969 that were incorrectly classed as financial liabilities.

For all financial assets and liabilities, the carrying value approximates the fair value due to the short-term nature of these financial assets and liabilities.

3. REVENUE

| | 2019 | 2018 |
|------------------------------------|-------------------|-------------------|
| | £ | £ |
| Commission fees and similar income | <u>16,251,890</u> | <u>16,602,138</u> |

4. ADMINISTRATIVE EXPENSES

| | 2019 | 2018 |
|---|------------------|------------------|
| | £ | £ |
| Management charges from related parties | 4,301,008 | 3,298,135 |
| Other administration expenses | <u>4,673,935</u> | <u>4,713,234</u> |
| | <u>8,974,943</u> | <u>8,011,369</u> |

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

The Company has no employees (2018: none).

NOTES TO THE FINANCIAL STATEMENTS

4. ADMINISTRATIVE EXPENSES (continued)

Auditors' remuneration

The remuneration of the Auditors was £24,000 (2018: £12,000) in respect of the audit of the Company's annual financial statements.

Fees for audit-related assurance services with respect to the Client Assets Sourcebook (CASS) audit for the year were £300,000 (2018: £260,000). The CASS audit-related assurance fee was paid by the Company's UK parent undertaking Santander UK plc, in accordance with company policy for which no recharge has been made.

5. INVESTMENT INCOME

| | 2019 £ | 2018* £ |
|----------------------------------|-----------------------|----------------------|
| Bank interest from group company | 67,525 | 50,334 |
| Bank interest from third parties | <u>57,322</u> | <u>49,509</u> |
| | <u><u>124,847</u></u> | <u><u>99,843</u></u> |

* The prior year bank interest from group company has been restated to exclude finance costs which are now disclosed separately. See note 6 below.

6. FINANCE COSTS

| | 2019 £ | 2018 £ |
|------------------|-----------------------|----------------------|
| Interest charges | <u>105,120</u> | <u>14,487</u> |
| | <u><u>105,120</u></u> | <u><u>14,487</u></u> |

Finance costs which were netted against Investment income in the previous year are now disclosed separately. The finance costs relate to interest charges on the intercompany payable balances.

7. TAX CHARGE

| | 2019 £ | 2018 £ |
|---|-------------------------|-------------------------|
| Current tax | | |
| UK Corporation tax charge on profit of the year | <u>1,386,368</u> | <u>1,648,464</u> |
| Total current tax | <u>1,386,368</u> | <u>1,648,464</u> |
| Tax charge on profit for the year | <u><u>1,386,368</u></u> | <u><u>1,648,464</u></u> |

UK corporation tax is calculated at 19.00% (2018: 19.00%) 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. 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%.

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

| | 2019 £ | 2018 £ |
|---|-------------------------|-------------------------|
| Profit before tax | 7,296,674 | 8,676,125 |
| Tax calculated at a rate of 19.00% (2018: 19.00%) | <u>1,386,368</u> | <u>1,648,464</u> |
| Tax charge for the year | <u><u>1,386,368</u></u> | <u><u>1,648,464</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

8. DIRECTORS' EMOLUMENTS

No Directors were remunerated for their services to the Company (2018: none). Directors' emoluments are borne by the ultimate UK parent company Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the directors during the year (2018: £nil).

9. INTANGIBLE ASSETS

| | 2019 | 2018 |
|---------------------------------|-------------------------|-------------------------|
| | £ | £ |
| Cost | | |
| Brought forward at 1 January | <u>5,014,912</u> | <u>5,014,912</u> |
| Carried forward at 31 December | <u><u>5,014,912</u></u> | <u><u>5,014,912</u></u> |
| Accumulated Amortisation | | |
| Brought forward at 1 January | <u>5,014,912</u> | <u>5,014,912</u> |
| Carried forward at 31 December | <u><u>5,014,912</u></u> | <u><u>5,014,912</u></u> |
| Net book value at 31 December | <u><u>-</u></u> | <u><u>-</u></u> |

10. TRADE AND OTHER RECEIVABLES

| | 2019 | 2018 |
|--|-------------------------|-------------------------|
| | £ | £ |
| Trade receivables | 199,951 | 168,979 |
| Amounts owed by fellow subsidiary undertakings | - | 55,701 |
| Other receivables | <u>3,276,689</u> | <u>5,181,592</u> |
| | <u><u>3,476,640</u></u> | <u><u>5,406,272</u></u> |

Amounts owed by fellow subsidiary undertakings are due on demand and non-interest bearing.

The fair value of total Trade and other receivables balances approximates the carrying value of the assets.

11. CASH AND CASH EQUIVALENTS

| | 2019 | 2018 |
|--------------|-------------------|-------------------|
| | £ | £ |
| Cash at bank | <u>34,015,349</u> | <u>26,993,001</u> |

Cash and cash equivalents comprise of £34,015,349 (2018: £26,993,001) held as liquid resources with Santander UK plc. No balances were held with other parties (2018: £nil).

12. TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|--|-------------------------|--------------------------|
| | £ | £ |
| Amounts owed to fellow related parties | 8,631,804 | 9,708,220 |
| Other payables | <u>501,394</u> | <u>1,628,936</u> |
| | <u><u>9,133,198</u></u> | <u><u>11,337,156</u></u> |

Amounts owed to fellow related parties are due on demand and, with the exception of group relief, incur interest. The fair value approximates the carrying value of the liabilities.

NOTES TO THE FINANCIAL STATEMENTS

13. SHARE CAPITAL

| | 2019 £ | 2018 £ |
|---|------------------|------------------|
| Issued and fully paid: Ordinary shares of £1 | <u>5,000,000</u> | <u>5,000,000</u> |

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

14. RELATED PARTY TRANSACTIONS

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

| Related Party | Income | | Expenditure | |
|---|---------------|---------------|------------------|------------------|
| | 2019 £ | 2018* £ | 2019 £ | 2018* £ |
| Santander UK plc – other operating income and management fees | - | - | 4,301,008 | 3,298,135 |
| Santander UK plc – bank interest | 67,525 | 50,334 | - | - |
| Santander UK plc – finance costs | - | - | 105,120 | 14,487 |
| | <u>67,525</u> | <u>50,334</u> | <u>4,406,128</u> | <u>3,312,622</u> |

| Related Party | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---------------------------------|-------------------|---------------------------------|------------------|
| | 2019 £ | 2018** £ | 2019 £ | 2018* £ |
| Santander UK plc – cash and cash equivalents | 34,015,349 | 26,993,001 | - | - |
| Santander UK plc – other payables | - | - | 6,990,654 | 8,011,369 |
| Santander UK plc – Corporation tax group relief | - | 55,701 | 1,641,150 | 1,696,851 |
| | <u>34,015,349</u> | <u>26,048,702</u> | <u>8,631,804</u> | <u>9,708,220</u> |

* The prior year comparatives have been restated to reflect Finance costs separately. The finance costs relate to interest charges on the intercompany payable balances and were previously netted against bank interest. Corporation tax Group relief balance that was previously included in Other receivables/payables is disclosed separately.

** The prior year cash and cash equivalents balances were incorrectly reflected as £26,993,387.

The Company incurred interest of £105,120 (2018: £14,487) on balances due to fellow group companies.

Also included within Administrative expenses are management charges in respect of administration costs payable to the parent undertaking, Santander UK plc of £4,301,008 (2018: £3,298,135).

Amounts owed by related parties exclude client money.

Banking Services

The parent undertaking, Santander UK plc provides banking services to the Company. The bank account balances and interest totalled £34,015,349 (2018: £26,993,001). Interest income earned from Santander UK plc on this balance was £67,525 (2018: £50,334).

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 (2018: £nil).

NOTES TO THE FINANCIAL STATEMENTS

15. CLIENT MONEY

At 31 December 2019, the Company held £4,621,047 (2018: £4,189,739) on behalf of clients within accounts operated by Santander UK plc. The prior year balance was previously incorrectly stated at £1,037,712.

The Company held £83,326,639 (2018: £60,763,375) on behalf of clients within accounts operated through third party banks.

The Company is required to hold these amounts in accordance with the Financial Conduct Authority ("FCA") Client Asset Rules. The Company had no beneficial interest in these deposits and accordingly, they are not included in the balance sheet.

16. CAPITAL MANAGEMENT AND RESOURCES

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

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

17. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander ISA Managers Limited is domiciled in the United Kingdom.

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

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

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

18. 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.