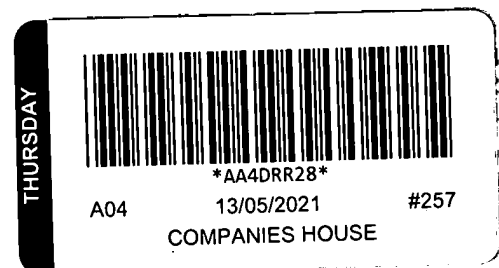


CATER ALLEN LIMITED

Registered in England and Wales
Company Number 00383032

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2020



STRATEGIC REPORT

Cater Allen Limited (the Company) is a wholly owned indirect subsidiary of Santander UK plc, authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The Directors present the Company's Strategic Report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2020.

Business Review and principal activities

The principal activity of the Company is to be an authorised deposit taker under the Financial Services and Markets Act 2000. The Company operates as a retail and commercial bank primarily offering services through specialist intermediaries across a number of different sectors, together with a smaller portfolio of direct customers. The Company offers a range of current and savings products to meet the differing requirements of personal, business and specialist clients.

2020 was a demanding year in general with Brexit uncertainty and economic turmoil as a result of the COVID-19 pandemic. The Company continues to monitor the impact of Brexit on its operations and customers and intends to take a coordinated approach with its ultimate UK parent company, Santander UK plc, where applicable.

Net interest income (NII) saw a significant downturn in 2020 following the Bank of England (BOE) base rate reduction to 0.1%. This was partly offset by a reduction in customer interest expense. Operating costs increased in the year due to the costs of implementing the Company's new Core Banking Platform and the provision of regulatory and non-regulatory services to better enhance the customer journey.

With the prevalence of COVID-19, the Company places the customer's welfare at the heart of its business. The Company operates no branches and offers no lending facilities; therefore support to customers has focused on an advisory role. For instance the Company has been encouraging customers towards having access to on line banking services, the use of contactless card payments to reduce human contact and being alert to the potential dangers from fraudsters. The Company continues to monitor the impact of COVID-19 on its operations and customers and as with Brexit, intends to take a coordinated approach with its ultimate UK parent company, Santander UK plc, where applicable.

A key event of 2020 was the completion of the phased migration to the new Core Banking Platform which had commenced in July 2019. The new core banking platform provides enhanced Digital and Open Banking capabilities to better meet current and future needs.

Also in the year, the Company ceased the offering of Term deposits to both new and existing customers as their original deposit reach maturity.

Further information on the Company can be found via the Company's external website, www.caterallen.co.uk.

The financial results are set out on page 14 and reflect profit after tax of £30.3m (2019: £51.0m). The Company's capital, funding and liquidity requirements are managed centrally at the Santander UK plc Group (the Group) level and are described in the Santander UK plc 2020 Annual Report which does not form part of this Report.

Likely Future Developments

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

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 to the financial statements.

Strategic and Business Risk is managed at the Group level, with the focus on maintaining a low to medium risk appetite; review of risks to ensure the Company stays within its risk appetite range; mitigation of risk through having a clear and consistent strategy and an effective planning process; and finally through risk monitoring and management. Further information can be found under the Risk review section of the Santander UK plc 2020 Annual Report which can be obtained from the ultimate UK parent company's website at: www.santander.co.uk.

Financial Risk Management

The Company manages the majority of its foreign exchange risk through the use of operational bank accounts denominated in EURO and US Dollars and currency matched funding activities. Note 32 within these financial statements explains the relationship between the Group and the Company.

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.

STRATEGIC REPORT (continued)

Key performance indicators

The Company forms part of the Group and the results of the Company are consolidated into the Group at a divisional level. Key performance indicators (KPI's) are established and monitored as appropriate at Company, Divisional and Group levels.

The Company places the customer at the heart of the business, coupled with a continued focus on costs and risk management. To achieve these objectives, the Company closely monitors the following:

Customers

The Company aims to grow customer loyalty and hence grow customer numbers through enhancement of the customer's journey, together with a focus on delivering the requirements for Open Banking. During the year the Company successfully completed the final phased migration of customers to the new core banking platform. In addition the Company reported a growth in customer numbers year on year.

The Company monitors customer service and satisfaction with a specific focus upon customer complaints. Customer complaints increased year on year, however we saw a reduction in the number of complaints during the last two months of 2020. It is the intention of the Company to use this key indicator as a means to identify problem areas, where suitable resolution is needed to ensure a better experience for our customer base.

Shareholders

The Company aims to achieve consistent profitability, keeping a rein on operating costs and maintaining a strong balance sheet. As described under the business review, during the year the Company saw a further reduction in NII, together with increased operating expenditure as a result of project costs, the most significant being those in relation to the new core banking platform. However the Company continues to remain profitable and reported a profit after tax of £30.3m

People

The Company has no direct employees and all of its support staff are employed directly by Santander UK plc. In line with Santander UK plc, the Company aims to maximise colleague engagement and strives for colleagues to live "The Santander Way" through adoption of the Group's behaviours. Performance in this area is through engagement surveys and appraisals at the Santander UK plc Group level. Further information can be found under the Strategic Report of the Santander UK plc 2020 Annual Report.

Communities

The Company supports communities through the transfer of skills, knowledge and innovation. The number of people supported in the community is a key measure in this regard albeit this is monitored at Divisional level.

| KPI | 2020 | 2019 |
|---|------------|------------|
| Customer Numbers | 117,517 | 113,260 |
| New Customer Account Openings | 7,513 | 12,676 |
| Customer Liabilities (£'000) | £4,777,000 | £5,005,000 |
| Net Operating Income (£'000) | £60,334 | £80,620 |
| Operating expenses including amortisation (£'000) | £18,800 | £10,761 |
| Cost-Income Ratio | 31.0% | 13.3% |
| Customer Complaints | 1,963 | 1,373 |

The Company aligns its approach to communities with that of its ultimate UK parent company, Santander UK plc. Further information in this regard can be found in the Santander UK plc 2020 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 statements during the year. Nothing in this Report should be construed as a profit forecast.

Section 172 Statement

Section 172 of the Companies Act 2006, requires directors to run the organisation in a way which promotes the long-term success of the Company for the benefit of its members and stakeholders as a whole. In meeting its statutory obligations under section 172, the Company's Board of Directors have due regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Supporting Staff;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

STRATEGIC REPORT (continued)

Section 172 Statement (continued)

The Company is a wholly owned indirect subsidiary of Santander UK plc and as such, operates to the standards expected by Group. The Board ensures that promoting the success of the Company remains at the centre of its decision making. The Board meets at least quarterly and receives information which has regard for section 172 considerations. During the year, the Board increased the frequency of its meetings in order to discuss Brexit, COVID-19 and the migration of customers to the new Core Banking Platform. Management ensures that business proposals capture impacts on its stakeholders. The Company's key stakeholder group are the Shareholder; Customers; Support Staff, Suppliers and Regulators. Through its probe and challenge, the Board encourages Management to drive positive outcomes across the stakeholder group insofar as possible.

During the year, the Board has overseen plans to develop the Company's technological capabilities, considered essential to enhance the customer journey and foster potential strategic growth opportunities, all within the Company's Board approved risk appetite framework. From Q4 2019 to Q3 2020, the Board dedicated considerable time to oversee the migration of customers to a new Core Banking Platform. The Board considered a range of factors including customer and regulatory communications, operational stability and resourcing capacity and suitable contingency arrangements. Decisions had been taken to delay certain migration phases due to the impacts of COVID-19. Through this process, the Directors actively challenged management and third-party suppliers responsible for programme delivery to ensure technical readiness and operational stability, good customer outcomes whilst upholding the reputation of the Company. The Board also encouraged proactive and constructive engagement between Management and regulators. As a result, the migration was able to be completed safely, without material incident in Q4 2020 and stakeholder expectations appropriately managed.

In dealing with our suppliers the Board considers the needs of both the Company, whilst offering flexibility to the needs of suppliers where appropriate. The Board probes the performance and support of its key suppliers. During the year the Board focussed on the suppliers connected to the Core Banking platform upgrade, receiving assurances around robust continuity plans in place to facilitate on-going service to the Company, their adjusted work practices in light of COVID-19 and offshore based operations. The priority was to avoid disruption to the Company's activities. For this we focussed on modern slavery and supplier relationship management considerations.

From an employment perspective, the Company has no direct employees and is resourced by Santander UK plc employees (Supporting Staff). Recognising their contribution to business operations, the Board takes a proactive interest to the wellbeing of Supporting Staff, receiving regular updates on business performance impact on colleagues, and initiatives to maintain morale and work life balance throughout the pandemic. In response to the challenges faced by the pandemic, the Board reviewed its business continuity plans, which allowed agile working arrangements to aid Support Staff as well as servicing customers. More detailed initiatives to support Santander UK employees in set out in their 2020 Annual Report.

The Company has made progress on streamlining energy and its carbon footprint. Information on the annual energy use and associated greenhouse gas emissions of the Group (including the Company) is set out in the Strategic report and Directors' report sections of the Santander UK plc 2020 Annual Report.

By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we aim to make sure that our decisions are consistent and predictable and complementary to the strategic ambition of the Group.

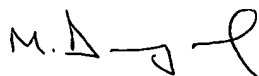
Streamlined Energy and Carbon Reporting (SECR)

Information on the annual energy use and associated greenhouse gas emissions is briefly discussed under the Section 172 Statement, for which further information can be found in the Santander UK plc 2020 Annual Report.

Climate disclosure

As stated above, the Company has made progress on streamlining energy usage and its carbon footprint through initiatives at the Group level. The Company's direct impact on climate is difficult to quantify as it shares resources and facilities with Santander UK plc, however the Company's direct impact on climate is not considered to be significant. Further information on climate change and how this is integrated into Santander UK plc's Risk framework can be found under the Strategic Report of the Santander UK plc 2020 Annual Report.

On behalf of the Board,



Madhukar Dayal
Director

For and on behalf of
Cater Allen Limited

26 April 2021

REPORT OF THE DIRECTORS

Directors

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

| | |
|---------------------------------|---|
| Annemarie Verna Florence Durbin | |
| Patricia Halliday | (resigned 31 October 2020) |
| Michael Richard Harte | (resigned 27 April 2020) |
| Reza Attar-Zadeh | (resigned 28 July 2020 and appointed in a non-executive capacity on 16 November 2020) |
| Madhukar Dayal | |
| Manroop Singh Khela | (appointed 28 July 2020) |
| Christine Joan Palmer | (appointed 2 November 2020) |

Ms Palmer and Mr Khela were appointed as executive directors of the Company during the year. Mr Attar-Zadeh was reappointed to the Board in a non-executive capacity, having served as the Chief Executive Officer previously. Mr Khela assumed the role of Chief Executive Officer on appointment.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and 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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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.

Results and dividend

The profit for the year amounted to £30.3m (2019: £51.0m).

The Directors did not recommend payment of a final dividend in respect of the year ended 31 December 2020 (2019: £nil).

Information included within the Strategic Review

Information relating to risk management and likely future developments are contained within the Strategic Report on page 1 and incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2019: £nil).

Qualifying Third Party Indemnities

Enhanced indemnities are provided to the Directors of the Company by the Group 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 Annual Report and financial statements. All of the indemnities were qualifying third party indemnities. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Independent Auditors

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

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

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

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, Note 2 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk, market 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.

Post balance sheet events

There are no post balance sheet events.

Engagement with stakeholders

How the Company engages with its stakeholders can be found under the Section 172 Statement within the Strategic Report.

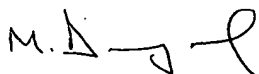
Corporate Governance Statement

The Company is part of the Santander UK plc Group. For the financial year ended 31 December 2020, 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 2020 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 Company does not have any employees and supporting staff are employed by the Group (see Note 6 to these financial statements). 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.

On behalf of the Board



Madhukar Dayal
Director

For and on behalf of
Cater Allen Limited

26 April 2021

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

Independent auditors' report to the members of Cater Allen Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cater Allen Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the statement of comprehensive income, the cash flow statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 8, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of the audit procedures performed were determined by our risk assessment.
- All material financial statement line items are included in our scoping. The business operates wholly in the United Kingdom.

Key audit matters

- Impact of COVID-19
- Valuation of Goodwill

Materiality

- Overall materiality: £2,000,000 (2019: £3,490,000) based on 5% of profit before tax.
- Performance materiality: £1,500,000.

Independent auditors' report to the members of Cater Allen Limited (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to but are not limited to, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulatory Authority's ('PRA') regulations and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries. Audit procedures performed by the engagement team included:

- Enquiries with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and testing journal entries, in particular any journal entries posted by senior management, journal entries containing certain key words and unusual account combinations impacting the cost to income ratio and late adjustments;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Review of correspondence with, and reports to, the regulators, specifically the PRA and the FCA.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The valuation of Goodwill is a new key audit matter this year. The risk of error in the calculation of interest income, which was a key audit matter last year, is no longer included because of a reassessment of the level of risk considered to be inherent in the audit of interest income. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of Cater Allen Limited (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p><i>Impact of COVID-19</i></p> <p>The impact of the COVID-19 pandemic has resulted in unprecedented economic conditions, resulting in government support programmes and regulatory interventions to support both businesses and people. The COVID-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working.</p> <p>A substantial proportion of the company's staff have been working remotely during 2020. Our audit team has also been working remotely for most of 2020.</p> <p>The roll out of vaccines has created an expectation that the restrictions will be eased however, there remains uncertainty about the future mutation and spread of the disease, the extent and impact of government measures and economic outlook.</p> <p>The impact of the COVID-19 pandemic and resulting uncertainty has impacted certain estimates (in particular annual impairment assessment of goodwill) in the company's financial statements.</p> <p>The directors have specifically considered a number of matters including:</p> <ul style="list-style-type: none"> - The going concern assessment of the company; and - The impairment assessment of the valuation of intangible assets. | <p>We have given specific consideration to the impact of COVID-19 during the planning of the audit and our audit risk assessment.</p> <p>We considered the impact of COVID-19 on the entity control environment, through our audit testing and inquiries of management. We adapted our working practices to remote working and ensured we gathered appropriate audit evidence.</p> <p>We have reviewed management's going concern assessment and findings are included in the section 'Conclusions relating to going concern', later in the opinion. This included a consideration of the future profitability of the company. As a result of these procedures we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of these financial statements.</p> |

***Independent auditors' report to the members of Cater Allen Limited
(continued)***

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|--|
| <p><i>Valuation of Goodwill</i></p> <p>Refer to note 1 (Accounting Policies and Critical Accounting Estimates) and Note 15 Goodwill.</p> <p>The company has a goodwill balance of £30 million at 31 December 2020 which relates to the 2001 purchase of the trade and assets of CA Premier Banking Limited (formerly Robert Fleming & Co Limited). The UK banking market has been impacted by the economic uncertainty and the market prices for retail financial services businesses has fallen. The carrying value of this asset is contingent upon future cash flows, the value of which may have been impacted by these developments. Management performed impairment assessments using a value in use methodology and concluded that no impairment existed as at 31 December 2020.</p> <p>The impairment assessment is complex and involves subjective assumptions including the discount rate, the terminal growth rate and the forecast cash flows.</p> <p>Due to the magnitude of the goodwill balance and the nature of these assumptions, the impairment assessments represent a key audit matter.</p> | <p>To address the risk of impairment of the company's goodwill asset, we performed a number of audit procedures over the assessment performed by management. We challenged and tested the reasonableness of management's methodology and key assumptions. Our work included the following:</p> <ul style="list-style-type: none"> - We tested the mathematical integrity of the impairment model; - We performed comparison of the performance of the business in recent years to the budgets for the equivalent periods to assess the accuracy of the budgeting process; - We engaged our valuation specialists to assist in the assessment of the methodology and key assumptions, specifically the discount rate and terminal growth rate; - We agreed the cash flow forecasts to the Board approved three-year plans and tested the reasonableness of adjustments to the plans included in the value in use model; and - We reviewed the forecasts, identified the key assumptions and assessed these for reasonableness using our understanding of the company gathered from our audit work and applied sensitivity analysis. <p>We assessed the disclosures made in the financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements.</p> |

Independent auditors' report to the members of Cater Allen Limited (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Certain procedures including those relating to the hosting and monitoring of the IT systems used by the company were performed at a Santander UK level. As part of the planning and execution of the audit, we ensured that the procedures performed were sufficient for our purposes. This gave us the evidence we needed for our opinion on the financial statements as a whole.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The Company is operated and managed in the UK and the accounts represent a single legal entity; all audit work was performed within the UK with no component auditors.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|--|
| <i>Overall company materiality</i> | £2,000,000 (2019: £3,490,000). |
| <i>How we determined it</i> | 5% of profit before tax |
| <i>Rationale for benchmark applied</i> | Profit Before Tax (PBT) is a key measure used by the shareholders in assessing the performance of the company, and is a generally accepted auditing benchmark. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,500,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the lower end of our normal range was appropriate.

We agreed with the directors that we would report to them misstatements identified during our audit above £100,000 (2019: £170,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Cater Allen Limited (continued)

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including current and forecast financial performance;
- Consideration of the capital support deed with Santander UK Plc and certain other non-regulated subsidiaries of Santander UK Plc and the deed poll guarantee with Santander UK plc which guarantees the payment of all obligations or liabilities;
- Evaluation of the reasonableness of the company's latest management forecasts, including testing of mathematical accuracy of forecasts and testing key assumptions.
- The Company is operated and managed in the UK and the accounts represent a single legal entity; all audit work was performed within the UK with no component auditors.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 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.

Independent auditors' report to the members of Cater Allen Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the directors' responsibilities, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

Independent auditors' report to the members of Cater Allen Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

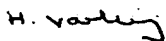
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained 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.

Appointment

Following the recommendation of the directors, we were appointed by the members on 31 March 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2016 to 31 December 2020.



Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
26 April 2021

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

| | Note | 2020 £000 | 2019 £000 |
|--|------|---------------|---------------|
| Continuing Operations | | | |
| Interest and similar income | | 69,896 | 95,957 |
| Interest expense and similar charges | | (9,357) | (15,571) |
| Net interest income | 3 | 60,539 | 80,386 |
| Fee and commission income | | 2,096 | 2,484 |
| Fee and commission expense | | (2,301) | (2,329) |
| Net fee and commission (expense)/ income | 4 | (205) | 155 |
| Other operating result | 5 | - | 79 |
| Total income | | 60,334 | 80,620 |
| Operating expenses | 6 | (15,823) | (10,591) |
| Amortisation of intangible assets | 6 | (2,977) | (170) |
| Operating profit | | 41,534 | 69,859 |
| Reversal of impairment losses on loans and advances | | - | 2 |
| Profit before tax | | 41,534 | 69,861 |
| Taxation expense | 11 | (11,213) | (18,861) |
| Profit for the year after tax | | 30,321 | 51,000 |
| Total comprehensive income for the year attributable to the equity holders of the Company | | 30,321 | 51,000 |

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

| | Share Capital £000 | Share Premium £000 | Retained Earnings £000 | Total Equity £000 |
|--|--------------------------|--------------------------|------------------------------|-------------------------|
| Balance at 1 January 2020 | 100,000 | 2,950 | 442,039 | 544,989 |
| Profit and total comprehensive income for the year | - | - | 30,321 | 30,321 |
| Balance at 31 December 2020 | 100,000 | 2,950 | 472,360 | 575,310 |
| Balance at 1 January 2019 | 100,000 | 2,950 | 391,039 | 493,989 |
| Profit and total comprehensive income for the year | - | - | 51,000 | 51,000 |
| Balance at 31 December 2019 | 100,000 | 2,950 | 442,039 | 544,989 |

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

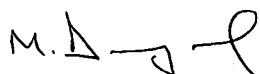
BALANCE SHEET

As at 31 December

| | Note | 2020 £000 | 2019 £000 |
|--|------|------------------|------------------|
| Assets | | | |
| Financial assets at fair value through profit or loss: | | | |
| - Other financial assets at fair value through profit or loss | 10 | 2,572 | 19,340 |
| Financial assets at amortised cost: | | | |
| - Loans and advances to banks | 13 | 5,329,187 | 5,533,908 |
| - Loans and advances to customers | 14 | - | 5 |
| Goodwill | 15 | 30,000 | 30,000 |
| Property, plant and equipment | 16 | 6 | 6 |
| Intangible assets | 17 | 11,379 | 14,356 |
| Other assets | 18 | 116 | 613 |
| Total assets | | 5,373,260 | 5,598,228 |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss: | | | |
| - Derivative financial instruments | 9 | 10 | 2,417 |
| Financial liabilities at amortised cost: | | | |
| - Deposits by banks | 19 | 5,130 | 15,887 |
| - Customer accounts | 20 | 4,776,559 | 5,005,155 |
| - Amounts due to group companies | 21 | 3,013 | 2,265 |
| Other liabilities | 22 | 2,028 | 8,661 |
| Current tax | 22 | 11,210 | 18,854 |
| Total liabilities | | 4,797,950 | 5,053,239 |
| Equity | | | |
| Share capital | 24 | 100,000 | 100,000 |
| Share premium account | | 2,950 | 2,950 |
| Retained earnings | | 472,360 | 442,039 |
| Total shareholder equity | | 575,310 | 544,989 |
| Total equity attributable to equity holder of the Company | | 575,310 | 544,989 |
| Total liabilities and equity | | 5,373,260 | 5,598,228 |

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:



Madhukar Dayal
Director
26 April 2021

CASH FLOW STATEMENT

For the year ended 31 December

| | Note | 2020 £000 | 2019 £000 |
|---|-------|--------------|--------------|
| Net cash (used in)/ generated from operating activities | 25(a) | (204,721) | 554,926 |
| Cash flows from investing activities | | | |
| Purchase of intangible assets | | - | (14,526) |
| Net cash used in investing activities | | - | (14,526) |
| Net (decrease)/ increase in cash and cash equivalents | | (204,721) | 540,400 |
| Cash and cash equivalents at the beginning of the year | | 5,533,908 | 4,993,508 |
| Cash and cash equivalents at the end of the year | 25(b) | 5,329,187 | 5,533,908 |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES

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

General information

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

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required or permitted under IFRS 9 'Financial Instruments' (IFRS 9) as set out in the relevant accounting policies and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is sterling.

Recent accounting developments

Interest Rate Benchmark Reform:

In September 2019, the IASB issued "Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7". Santander UK plc applies IAS 39 hedge accounting so the amendments to IFRS 9 do not apply. The IAS 39 amendments apply to all hedging relationships directly affected by uncertainties related to interbank offered rate (IBOR) reform and must be applied for annual periods beginning on or after 1 January 2020.

In August 2020, the IASB issued "Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16". These amendments apply only to changes required by IBOR reform to financial instruments and hedging relationships. The amendments are effective from 1 January 2021 and must be applied retrospectively without restating comparative information. Following their endorsement for use in the European Union and the UK, Santander UK plc has elected to apply the amendments in the preparation of these financial statements. The amendments address the accounting issues for financial instruments when IBOR reform is implemented including providing a practical expedient for changes to contractual cash flows, giving relief from specific hedge accounting requirements, and specifying a number of additional disclosures to enable users of financial statements to understand the effect of IBOR reform on an entity's financial instruments and risk management strategy.

As the Company has no IAS 39 compliant hedge accounting relationships, the Phase 1 amendments and the amendments relating to hedge accounting in Phase 2 do not apply. Further details of the impact of the other amendments on the financial statements for the year ended 31 December 2020 and the additional disclosures required are provided in Note 31.

The IBOR transition and risk exposure affected by IBOR reform for the Santander UK plc Group (comprising Santander UK plc and its subsidiaries) are managed at a Group level. Details of the extent of risk exposure that is affected by IBOR reform, and how Santander UK Group's transition to alternative benchmark interest rates is being managed are disclosed in the Risk review section within the Santander UK plc's 2020 Annual Report which does not form part of this Report.

Future accounting developments

At 31 December 2020, for the Company, there were no significant new or revised standard and interpretations, and amendments thereto, which have been issued but which are not yet effective or which have otherwise not been early adopted where permitted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (continued)

Revenue recognition

a) Interest income and expense

The Company's interest income originates from deposits placed with Santander UK plc. Interest is earned on these placements at the Bank of England base rate or an IBOR rate. In addition an appropriate margin is earned on placements with Santander UK plc. Interest income is earned when the Company earns the right to receive interest. This is from the time deposits are placed with Santander UK plc.

Interest expense comprises interest due to customer accounts. An interest expense is recognised when the Company incurs a liability to settle interest to the customer at any given date in time.

b) Fee and commissions income and expense

Fee income is earned from account and payment services provided to its customer base. Fee income is recognised when the Company provides the associated service to the customer.

Commission expense is recognised when the counterparty earns the right to receive commission from the Company.

Other gains and losses

Other gains and losses comprise FX gains and losses arising from both customer and operational currency transactions. Gains and losses are recognised in the same period of the underlying currency transaction.

Financial Instruments

a) Initial recognition and measurement

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

b) Financial assets and liabilities

i) Classification and subsequent measurement

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

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI.

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

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows and, specifically, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

SPPI

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Company classifies its debt instruments into one of the following measurement categories:

– **Amortised cost** – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. When the estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement. The Company's loans and receivables meet the conditions to be measured at amortised cost.

– **FVTPL** – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement. The Company's equity index-linked balances including embedded derivatives do not pass the SPPI test and are presented as "Other financial assets at fair value through profit or loss" in the financial statements.

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 liabilities

Financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives.

Deposits and payables, including intercompany financial liabilities are classified and subsequently measured at amortised cost.

Contracts involving the receipt of cash on which customers receive an index-linked return are accounted for as equity index-linked deposits. The principal products are Capital Guaranteed/Protected Products which give the customers a limited participation in the upside growth of an equity index. In the event the index falls in price, a cash principal element is guaranteed/protected. The equity index-linked deposits contain embedded derivatives. These embedded derivatives, in combination with the principal cash deposit element, are designed to replicate the investment performance profile tailored to the return agreed in the contracts with customers. The cash principal element is accounted for as deposits by customers at amortised cost. The embedded derivatives are separated from the host instrument and are separately accounted for as derivatives.

ii) Impairment

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. A three-stage approach to impairment measurement is adopted as follows:

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

The measurement of ECL reflects:

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

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

For more on how ECL is calculated see the Credit risk section of the Risk review in Note 2.

a) Write-off

All write-offs are on a case-by-case basis, taking account of the exposure at the date of write-offs. A write-off is only made when all internal avenues of collecting the debt have been exhausted. A past due threshold is applied to overdrafts where accounts that are 180 days past due are written off unless there is a dispute awaiting resolution. The write-off policy is regularly reviewed. Write-offs are charged against previously established loss allowances.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

b) Recoveries

Recoveries of credit impairment losses are not included in the impairment loss allowance, but are taken to income and offset against credit impairment losses.

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.

When the Company retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities (the "eventual recipients"), the entity treats the transaction as a transfer of a financial asset if the following three conditions are met:

- a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset.
- b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

The Company derecognises the financial asset if it transfers substantially all the risks and rewards of ownership of the financial asset. Any asset being recognised meets the de-recognition rules and no asset values are recorded by the Company.

Financial liabilities are derecognised when extinguished, cancelled or expired.

Derivative financial instruments (derivatives)

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently re-measured, at their fair value. Fair values of over-the-counter derivatives are estimated using valuation techniques, including discounted cash flow and option pricing models.

Derivatives may be embedded in hybrid contracts. If the hybrid contract contains a host that is a financial asset, then the Company assesses the entire contract as described in the financial asset section above for classification and measurement purposes. Otherwise, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives are recognised in the Statement of Comprehensive Income and included within other operating result.

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) which is sterling. The financial statements are presented in pounds sterling, which is the functional currency of the immediate parent.

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.

Pensions and other post-retirement benefits

The Company participates in the Group Pension Schemes in operation. There is no contractual agreement of stated policy for charging the net cost in relation to the Pension Schemes. The contribution recharged to and paid by the Company is calculated as the contributions made by Santander UK plc to the schemes, in respect of the Company's support staff whose employment costs are also recharged to the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill was recognised on the acquisition of the business of CA Premier Banking Limited (formerly Robert Fleming & Co Limited) in 2001 and represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses.

An annual assessment is undertaken by Santander UK plc on behalf of the Company, or more frequently when events or changes in circumstances dictate, to assess for any indicators of impairment. If indications are present, the goodwill is subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the cash generating unit (CGU) with its recoverable amount: the higher of the CGU's fair value less costs to sell and its value in use (VIU). The CGU represents the lowest level at which goodwill is monitored for internal management purposes.

The fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. VIU is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The recoverable amounts of goodwill have been based on VIU calculations. Further information can be found under Note 15.

The carrying value of goodwill is written down by the amount of any impairment and the loss is recognised in the Statement of Comprehensive Income in the period in which it occurs. Impairment losses on goodwill are not reversed. For conducting impairment reviews, CGU's are the lowest level at which management monitors the return on investment on assets.

Income taxes including deferred taxes

The tax expense represents the sum of the income tax currently payable and deferred income tax. Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income 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 assets and 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 statement of comprehensive income, 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.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with original maturities of three months or less. Relevant to the Company, loans and advances to banks comprise the total cash and cash equivalents.

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.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the likelihood of a transfer of economic benefit is considered to be remote.

The Company held no provisions as at the balance sheet date. Further information can be found in Note 23.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment include office fixtures, computer equipment and computer software which is carried at cost less accumulated depreciation. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

| | |
|-------------------------------|---------------|
| Office fixtures and equipment | 3 to 15 years |
|-------------------------------|---------------|

Intangible assets - software

Software development costs comprise internally developed software and include staff costs, external consultancy fees and intellectual property rights. Costs are expensed as incurred until all of the following criteria can be demonstrated, in which case they are capitalised as an intangible asset:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale; and
- an intention to complete the intangible asset and use or sell it; and
- ability to use or sell the intangible asset; and
- how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; and
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- an ability to measure reliably the expenditure attributable to the intangible asset during its development. The technological feasibility for the Company's software products is assessed on an individual basis and is generally reached shortly before the products or services are released, and late in the development cycle. Capitalised development costs are amortised on a straight-line basis over their useful lives, once the product is available for use. Useful lives are assessed on a project-by-project basis.

Capitalised software costs are amortised once the asset is brought into useful existence over a period of 5 years on a straight line basis.

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 have been made in the process of applying the Company's accounting policies, other than those involving estimations about goodwill.

i) Goodwill

The carrying amount of goodwill is based on the application of judgements including the basis of goodwill impairment calculation assumptions. Santander UK plc undertakes the annual assessment on behalf of the Company to evaluate whether the carrying value of goodwill is impaired, carrying out the review more frequently if reviews identify indicators of impairment or when events or changes in circumstances dictate.

Estimates include the determination of the carrying value of the CGU based on forecasts used for determining cash flows for the CGU and discount rates which factor in risk free rates and applicable risk premiums, which are variables subject to fluctuations in external market rates and economic conditions beyond management's control. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant management judgement and is subject to potential change over time. For further information on these assumptions, see Note 15.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, conduct risk, process and change management risk, reputational risk, financial crime risk, credit risk, market risk, currency 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.

The Group has three tiers of risk governance – risk management, risk control and risk assurance. The first tier of risk governance – risk management is provided by the Group Board which approves Group's Risk Appetite for each of the risks below, in consultation with Santander UK plc as appropriate, and approves the strategy for managing risk and is responsible for the Group's system of internal control. Within this tier, there is a process for transaction review and approval within certain thresholds, discharged by the Credit Approvals Committee and the Investment Approvals Committee. Transactions reviewed which exceed the threshold limits set are subject to prior review by Group Risk before final approval by the Executive Risk Control Committee.

The second tier of risk governance – risk control is provided by the Group Board independently supported by the Risk Division. The role of the Chief Risk Officer and Risk Division include development of risk measurement methodologies, risk approval, risk monitoring, risk reporting and escalation of risk issues in line with the relevant risk policies for all risks in the Group. The Group's central risk function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which ensure compliance with Group policies and limits, including risk policies, limits and parameters, an approval process relating to transactions that exceed local limits and the systematic review of exposures to large clients, sectors, geographical areas and different risk types.

The third tier of risk governance – risk assurance, provides independent objective assurance on the effectiveness of the management and control of risk across the Group. This is provided through the Non-Executive Directors, the Board Audit Committee, the Board Risk Committee and the Internal Audit function.

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. An independent central operational risk function (Enterprise and Operational Risk) has responsibility for establishing the framework within which these risks are managed and is aligned to operational risk professionals within business areas (co-ordinated by IT and Operational Risk) to ensure consistent approaches are applied across the Group. The primary purpose of the framework is to define and articulate the Group-wide policy, processes, roles and responsibilities. The framework incorporates industry practice and regulatory requirements. The day-to-day management of operational risk is the responsibility of business managers who identify, assess and monitor the risks, in line with the processes described in the framework. The operational risk function ensures that all key risks are regularly reported to the Group's risk committee and Board of Directors.

Conduct risk

Conduct risk arises as a result of actions taken by the Company that leads to customer detriment or has an adverse effect on market stability or effective competition.

The Company aims to comply with all applicable regulatory requirements and has no appetite to operate in a way that leads to unfair outcomes for customers or that negatively impacts the market or breaches regulatory or legislative requirements.

When implementing regulatory change, the Company focuses on ensuring that strategy, leadership and governance arrangements does not lead to a detrimental impact on customers, competition, or to market integrity.

Process and change management risk

Process and change management risk is the risk that new systems and procedures will not work and leave the company worse off than before.

The Company continues to carry out detailed operational risk assessments in relation to new initiatives, in order to identify, assess, manage and report the key risks involved. The Company recognises the need to manage the risks associated with change as a priority in the design processes. The Company has concentrated effort on further refining the Operational Risk Management identification and assessment methodologies to streamline, remove inefficiency, and focus on risk. During the year the Company completed the project to migrate onto the new core banking platform and its associated systems. The final phased migration concluded in October 2020. The phasing of the customer migrations has aided in reducing change management risk.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the Company or those with whom the Company is associated, that may cause stakeholders to form a negative view of the Company. The Company ensures that adequate and effective control processes are in place to identify and manage reputational risks. As part of Group procedure, the Company received and considered reports detailing ongoing and possible reputational, brand and franchise risks, including media and public policy issues. The reports also included any key decisions or key risk events that may give rise to reputational risk issues.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Financial crime risk

Financial crime risk is the risk of failure to meet the Company's legal and regulatory obligations in respect of financial crime such as money laundering, sanctions evasion, terrorist financing, bribery and corruption and could result in criminal or civil penalties against the Company, as well as affecting customers and the communities the Company serves.

The Company seeks to comply with applicable UK law, international sanctions and other regulations and makes sure it adapts to external events. The Company has minimal tolerance for residual financial crime risk and zero tolerance for sanctions, and bribery and corruption risk. The Company measures exposure to financial crime risk regularly.

The Company uses key risk indicators to monitor exposure to financial crime risks and reports all issues in a timely manner. The Company is aligned to the Group's policies regarding financial crime risk management and works closely with subject matter experts across the business on all risk management, monitoring and systems development activities to facilitate more effective communication and timely implementation of required policy and system changes. Further information regarding these policies can be found in the Santander UK plc 2020 Annual Report.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held.

Credit risk management

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

In December 2019 the Company reduced credit risk exposures arising from customer deposits through the removal of customer overdraft facilities. Subsequent to this in 2020, all remaining overdrawn balances were fully impaired.

Key metrics

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

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

Maximum exposure to credit risk

The main source of credit risk is in loans and advances to banks. Maximum exposure to credit risk is £5,329m (2019: £5,553m).

The Company's policy is to place the majority of its loans and advances with Group companies (see Note 13). The Company did not recognise an ECL provision against these balances as this would be immaterial. An assessment of the relationship concludes that the borrower (Santander UK plc) has sufficient accessible highly liquid assets in order to repay the loans if demanded and maintains good credit ratings. Furthermore, the majority of this balance is held on overnight deposit and returned to the Company the following day. As at the year-end 31 December 2020, no credit impairment losses were recognised against loans and advances to Group companies.

Loans and advances to external customers do not pose any significant risk to the Company. During December 2019 the Company removed arranged overdraft facilities offered to its customer's. All remaining overdrawn accounts were fully impaired at the balance sheet date. Further information can be found under Note 14.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Credit risk (continued)

The table below shows the financial assets that credit risk affects which are loans and advances to customers in the form of overdrafts.

| | Balance Sheet | | |
|--|-----------------------|-------------------------|----------------------|
| | Gross amounts £000 | Loss allowances £000 | Net exposure £000 |
| 31 December 2020 | | | |
| Financial assets at amortised cost: | | | |
| Loans and advances to customers | 51 | 51 | - |
| Total financial assets at amortised cost | 51 | 51 | - |

| | Balance Sheet | | |
|--|-----------------------|-------------------------|----------------------|
| | Gross amounts £000 | Loss allowances £000 | Net exposure £000 |
| 31 December 2019 | | | |
| Financial assets at amortised cost: | | | |
| Loans and advances to customers | 81 | 76 | 5 |
| Total financial assets at amortised cost | 81 | 76 | 5 |

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances.

The Company removed the offering of overdrafts in December 2019 and during 2020, had no off-balance sheet commitments such as approved but unutilised overdraft facilities.

Credit exposures and corresponding ECL

The following table analyses the credit risk exposure of financial instruments for which an ECL allowance is recognised, and the corresponding ECL at 31 December 2020.

| | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 |
|--|-----------------|-----------------|-----------------|---------------|
| 31 December 2020 | | | | |
| Exposures | | | | |
| Loans and advances to customers (Overdrafts) | - | - | 51 | 51 |
| Total exposures | - | - | 51 | 51 |
| IFRS 9 ECL | | | | |
| Loans and advances to customers (Overdrafts) | - | - | (51) | (51) |
| Total ECL | - | - | (51) | (51) |
| Net exposures | - | - | - | - |

| | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 |
|--|-----------------|-----------------|-----------------|---------------|
| 31 December 2019 | | | | |
| Exposures | | | | |
| Loans and advances to customers (Overdrafts) | 5 | - | 76 | 81 |
| Total exposures | 5 | - | 76 | 81 |
| IFRS 9 ECL | | | | |
| Loans and advances to customers (Overdrafts) | - | - | (76) | (76) |
| Total ECL | - | - | (76) | (76) |
| Net exposures | 5 | - | - | 5 |

Market Risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk, which is considered to be low arises as a result of currency foreign exchange and interest rate risk.

Currency Risk

The main operating or "functional" currency of the Company's operations is sterling. There are also small balances in Euro and US dollars. As the Company prepares its financial statements in sterling, these will be affected by movements in the euro/sterling and US dollar/sterling exchange rates. The exposure to this risk is mitigated by the use of currency matched funding. Taking this into account, the Company did not have a material financial exposure to foreign exchange gains and losses in either the year ended 31 December 2020 or the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Currency Risk (continued)

In the table below are the Company's assets and liabilities that are denominated in foreign currency at the balance sheet date.

| | 2020 Euro £000 | 2020 US Dollars £000 | 2019 Euro £000 | 2019 US Dollars £000 |
|---------------------------------------|----------------------|----------------------------|----------------------|----------------------------|
| Loans and advances to group companies | 75,089 | 48,389 | 61,807 | 45,770 |
| Loans and advances to banks | - | - | - | 3 |
| Other assets | - | - | 34 | 1,072 |
| Total assets | 75,089 | 48,389 | 61,841 | 46,845 |
| Customer accounts | 74,109 | 48,360 | 61,181 | 44,111 |
| Other liabilities | 8 | 4 | 929 | 1,654 |
| Total liabilities | 74,117 | 48,364 | 62,110 | 45,765 |

Interest rate sensitivity

Through the profile of matching the profile of assets to the profile of liabilities, the Company reduces its sensitivity towards interest rate fluctuations, however remains exposed towards changes in interest rates for reasons as follows. Not all customer deposit products are linked to the BOE base rate and in addition some products attract nil interest. However all sterling deposits subsequently placed with Santander UK plc are at the BOE base rate or an applicable variable currency rate. Subsequent to any BOE rate reduction an interest rate review is carried out and customer rates are revised accordingly. The result is a possible timing difference from when the BOE rate reduces to when customer rates are revised. Customer currency deposits attract no interest, however the Company earns interest on currency balances placed with Santander UK plc at a currency equivalent variable rate. Furthermore, deposits placed with Santander UK plc would attract negative interest, should rates fall below 0%. The impact arising from interest rate sensitivity is accentuated when interest rates are close to nil.

Where the Company offers customers products linked to a market index, a hedging derivative (an option or swap) is always purchased.

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 with the support of Santander UK plc, ensuring that the Company will have sufficient liquid resources in order to meet its obligations as they fall due.

The Company is member of the RFB Domestic Liquidity Sub-Group, together with its immediate parent Santander UK plc. The purpose of this Sub-Group is to allow liquid resources to flow into the Company for it to manage liquidity risk in accordance with regulatory requirements. Further information can be found under Note 26.

Santander UK plc also provides a guarantee (the Deed Poll Guarantee) to the Company covering all obligations or liabilities (whether actual or contingent or for the payment of any amount) incurred by the Company, to any person on or before 31 December 2022 (whether before or after the execution of the guarantee) under or in respect of any dealing, transaction or engagement whatsoever.

Maturities of financial liabilities

The maturity profile of the Company's financial liabilities based on the remaining period to the contractual maturity date at the balance sheet date was:

| | On demand | Up-to 3 months | 3-12 months | 1-5 years | Total |
|------------------------------------|------------------|----------------|---------------|---------------|------------------|
| At 31 December 2020 | £000 | £000 | £000 | £000 | £000 |
| Deposits by banks | 5,130 | - | - | - | 5,130 |
| Customer accounts | 4,756,540 | 6,736 | 9,157 | 4,136 | 4,776,569 |
| Derivative financial instruments | - | 10 | - | - | 10 |
| Amounts due to group companies | - | 3,013 | - | - | 3,013 |
| Total financial liabilities | 4,761,670 | 9,759 | 9,157 | 4,136 | 4,784,722 |
| At 31 December 2019 | £000 | £000 | £000 | £000 | £000 |
| Deposits by banks | 15,887 | - | - | - | 15,887 |
| Customer accounts | 4,934,093 | 27,896 | 31,428 | 11,738 | 5,005,155 |
| Derivative financial instruments | - | 2,243 | - | 174 | 2,417 |
| Amounts due to group companies | 104 | 1,084 | - | 1,077 | 2,265 |
| Total financial liabilities | 4,950,084 | 31,223 | 31,428 | 12,989 | 5,025,724 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Capital management and capital allocation

The Santander UK plc Board is responsible for capital management strategy, policy and ensuring that capital resources are appropriately monitored and controlled within regulatory and internal limits within each of the Santander UK plc group of companies. Authority for capital management flows to the Chief Executive and from him to specific individuals who are members of Santander UK plc's Asset and Liability Management Committee (ALCO).

ALCO adopts a centralised capital management approach that is driven by Santander UK plc's corporate purpose and strategy. This approach takes into account the regulatory and commercial environment in which Santander UK plc operates, Santander UK plc's risk appetite, the management strategy for each of Santander UK plc's material risks (including whether or not capital provides an appropriate risk mitigant) and the impact of appropriate adverse scenarios and stresses on Santander UK plc's capital requirements. This approach is reviewed annually as part of Santander UK plc's Internal Capital Adequacy Assessment Process (ICAAP).

Santander UK plc manages its capital requirements, debt funding and liquidity on the basis of policies and plans reviewed regularly at ALCO and as part of the ICAAP process. To support its capital and senior debt issuance programmes, Santander UK plc is rated on a standalone basis.

On an ongoing basis and in accordance with the latest ICAAP review, Santander UK plc forecasts its regulatory and internal capital requirements based on the approved capital volumes allocated to business units as part of the corporate planning process and the need to have access to a capital buffer. Capital allocation decisions are made as part of planning based on the relative returns on capital using both economic and regulatory capital measures. Capital allocations are reviewed in response to changes in risk appetite and risk management strategy, changes to the commercial environment, changes in key economic indicators or when additional capital requests are received.

The combination of regulatory and economic capital ratios and limits, internal buffers and restrictions, together with the relevant costs of differing capital instruments and a consideration of various other capital management techniques are used to shape the most cost-effective structure to fulfil the Santander UK plc's capital needs.

CRR II was implemented in June 2019. The Capital Requirements Regulation establishes requirements for the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosures. The Company, with support from Santander UK plc, seeks to ensure that enough collateral is placed and is available to meet the requirements of CRR II.

Capital adequacy

The Company manages its capital on a Basel III basis. Throughout 2020 and 2019, the Group managed internal capital allocations and targets in accordance with its capital and risk management policies.

Capital

| | 2020 £000 | 2019 £000 |
|----------------------------------|--------------|--------------|
| Total Tier 1 Capital* | 545,542 | 493,989 |
| Deductions from Tier 1 | (41,378) | (44,356) |
| Total Capital Resources (Tier 1) | 504,164 | 449,633 |
| Total Capital Resources | 504,164 | 449,633 |

* The Company's Tier 1 capital consists of shareholders' equity, share premium and audited profits for the years ended 31 December 2020 and 2019, adjusted for foreseeable charges and dividends based on verified profits where relevant. It does not include current year profits as these were unverified at the time figures were reported to the regulator.

3. NET INTEREST INCOME

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Interest and similar income: | | |
| Loans and advances to banks and fellow subsidiaries | 69,896 | 95,957 |
| Total interest and similar income | 69,896 | 95,957 |
| Interest and similar charges | | |
| Deposits by customers | (9,357) | (15,571) |
| Total interest and similar charges | (9,357) | (15,571) |
| Net interest income | 60,539 | 80,386 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

4. NET FEE AND COMMISSION (EXPENSE)/INCOME

| | 2020 £000 | 2019 £000 |
|---|----------------|----------------|
| Fee and commission income: | | |
| Credit related fees and commissions | 2,096 | 2,484 |
| Total fee and commission income | 2,096 | 2,484 |
| Fee and commission expense: | | |
| Introducer fees | (948) | (893) |
| Brokerage fees paid | (1,353) | (1,436) |
| Total fee and commission expense | (2,301) | (2,329) |
| Net fee and commission (expense)/ income | (205) | 155 |

5. OTHER OPERATING RESULT

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Fair value gains on derivative financial instruments | 4,513 | 109,411 |
| Fair value losses on derivative financial instruments | (4,513) | (109,411) |
| Other income | - | 79 |
| Total other operating income | - | 79 |

6. OPERATING EXPENSES

| | 2020 £000 | 2019 £000 |
|-----------------------------------|---------------|---------------|
| Staff costs: | | |
| Wages and salaries | 4,755 | 3,986 |
| Social security costs | 277 | 213 |
| Other pension costs: | | |
| - defined contribution plans | 169 | 141 |
| - defined benefit plans | 91 | 85 |
| Other personnel costs | 86 | 41 |
| | 5,378 | 4,466 |
| Property and equipment expenses | 257 | 257 |
| Other administrative expenses | 10,188 | 5,868 |
| Total operating expenses | 15,823 | 10,591 |
| Amortisation of intangible assets | 2,977 | 170 |

The increase in operating expenses in the year is driven by the costs of project activities, the most significant being those relating to the new Core Banking Platform. The increase in amortisation is attributable to a full years charge recognised in the current year (Note 17).

Santander UK plc is the employer of all staff working for the Company and bears the staff costs before recharging them to Cater Allen Limited.

| | 2020 Number | 2019 Number |
|--|----------------|----------------|
| Administrative staff | 63 | 64 |
| Sales staff | 21 | 16 |
| Monthly average number of employees | 84 | 80 |

7. DIRECTORS' EMOLUMENTS

Fees totalling £15,000 (2019: £15,000) were payable to Annemarie Durbin in respect of her position as the Chair of the Company.

No other (2019: none) directors were remunerated for their services to the Company. Directors' emoluments are borne by the UK parent company Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the directors during the year (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. AUDIT AND OTHER SERVICES

The aggregate fees for audit and other services payable to the Company's auditors is analysed as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Audit services: | | |
| Statutory audit fees for the audit of Company's financial statements | 88 | 85 |
| Non audit fees: | | |
| Audit-related assurance services | 13 | 13 |
| Total audit fees | 101 | 98 |

9. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2020 Notional amount £000 | 2020 Fair value £000 | 2019 Notional amount £000 | 2019 Fair value £000 |
|---|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
| Liabilities: | | | | |
| Customer accounts – equity index-linked balances (Note 20) | 1,478 | - | 14,759 | - |
| Amounts due to group company – equity index-linked balances (Note 21) | 1,078 | - | 2,161 | - |
| Derivative financial instruments | - | 10 | - | 2,417 |
| | 2,556 | 10 | 16,920 | 2,417 |

The Company offers equity index-linked products to customers with returns linked to indexes such as the FTSE. As a result, the financial instruments contain embedded derivatives. The Company places the customer deposit balances with a fellow group company which undertakes all the activities in relation to the hedging and valuation of these balances. Further information in relation to the measurement and valuation of the financial instruments can be found in Note 29.

10. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Amounts due from group company – equity index-linked balances | 2,572 | 19,340 |

'Other financial assets at fair value through profit or loss' consist of equity index-linked notional balances together with the associated embedded derivatives. The financial assets are mandatorily held at fair value through profit or loss.

Further information in relation to the measurement and valuation of the financial instruments can be found in Note 29.

11. TAXATION EXPENSE

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Current tax: | | |
| UK corporation tax on profit of the year | 11,210 | 18,854 |
| Adjustments in respect of prior years | 9 | (9) |
| Total current tax | 11,219 | 18,845 |
| Deferred tax (Note 12): | | |
| Origination and reversal of temporary differences | 5 | 8 |
| Change in rate of UK corporation tax | (2) | (1) |
| Adjustments in respect of prior years | (9) | 9 |
| Total deferred tax | (6) | 16 |
| Tax charge on profit for the year | 11,213 | 18,861 |

UK corporation tax is calculated at 19.00% (2019:19.00%) 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. The effect of the increase of 2% over that expected at 31 December 2019 has been reflected both in the opening deferred tax balance at 1 January 2020 and to determine the deferred tax balance at 31 December 2020.

The UK government announced in its budget on 3 March 2021 that it would increase the main rate of corporation tax by 6% to 25% with effect from 1 April 2023. Since the proposed change was not substantively enacted by the balance sheet date, the effect has not been reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

11. TAXATION EXPENSE (continued)

The tax on the Company's profit before tax differs (2019: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Profit before tax | 41,534 | 69,861 |
| Tax calculated at a tax rate of 19.00% (2019: 19.00%) | 7,891 | 13,274 |
| Bank surcharge of 8% on profits | 3,323 | 5,589 |
| Effect of change in tax rate on deferred tax provision | (1) | (1) |
| Adjustment to prior year provisions | - | (1) |
| Tax charge for the year | 11,213 | 18,861 |

12. 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:

| | 2020 £000 | 2019 £000 |
|-----------------------------------|--------------|--------------|
| At 1 January | 16 | 32 |
| Income statement credit/ (charge) | 6 | (16) |
| At 31 December | 22 | 16 |

Deferred tax assets are attributable to the following items:

| | Balance Sheet | | Income Statement | |
|-------------------------------|---------------|--------------|------------------|--------------|
| | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 |
| Deferred tax assets | | | | |
| Accelerated book depreciation | 22 | 25 | (3) | (5) |
| Other temporary differences | - | (9) | 9 | (11) |
| | 22 | 16 | 6 | (16) |

The deferred tax assets scheduled above have been recognised in the Company on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

13. LOANS AND ADVANCES TO BANKS

| | 2020 £000 | 2019 £000 |
|----------------------------------|--------------|--------------|
| Placements with other banks | - | 3 |
| Amounts due from group companies | 5,329,187 | 5,533,905 |
| | 5,329,187 | 5,533,908 |

The loans and advances to banks in the above table have the following repayment behavioural profile:

| | 2020 £000 | 2019 £000 |
|-------------------------------|--------------|--------------|
| Repayable: | | |
| On demand | 5,280,744 | 5,533,908 |
| In not more than three months | 48,443 | - |
| | 5,329,187 | 5,533,908 |

The repayment structure reflects the deposits placed by customers into both current and term accounts. However, nearly all loans and advances to banks are repayable on demand and are classed as cash and cash equivalents for the purpose of the Cash flow statement.

The book value of loans and advances to banks approximately equals the fair value.

The loans and advances to banks in the above table have the following interest rate structures:

| | 2020 £000 | 2019 £000 |
|---------------|--------------|--------------|
| Variable rate | 5,329,187 | 5,533,908 |
| | 5,329,187 | 5,533,908 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

14. LOANS AND ADVANCES TO CUSTOMERS

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Other unsecured advances | 51 | 81 |
| Loans and advances to customers | 51 | 81 |
| Less: Credit impairment loss allowance | (51) | (76) |
| Loans and advances to customers, net of loss allowance | - | 5 |

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Repayable: | | |
| On demand | 51 | 81 |
| Loans and advances to customers | 51 | 81 |
| Less: Credit impairment loss allowance | (51) | (76) |
| Loans and advances to customers, net of loss allowance | - | 5 |

The loans to customers in the above table are at a variable rate of interest (2019: Variable).
The net book value of loans and advances to customers equals their fair value.

Movement in loan loss allowances:

| | 2020 Other Unsecured advances £000 | 2019 Other Unsecured advances £000 |
|---|---|---|
| As at 1 January | (76) | (21) |
| Reductions/ (additions) of impairment during the year | 24 | (56) |
| Amounts written off during the year | 1 | 1 |
| At 31 December | (51) | (76) |

Enil of bad debts that had been previously written off were recovered during the year (2019: £0.01m).

15. GOODWILL

| | 2020 £000 | 2019 £000 |
|------------------------------|--------------|--------------|
| Cost: | | |
| At 1 January and 31 December | 95,518 | 95,518 |
| Accumulated impairment | | |
| At 1 January and 31 December | (65,518) | (65,518) |
| Net book value: | 30,000 | 30,000 |

The Goodwill was generated upon the purchase of CA Premier Banking Limited (formerly Robert Fleming & Co Limited) in 2001. The acquired trade and assets are fully integrated within the Company. During 2011, impairment of goodwill was recognised as a result of the reassessment of the value of certain parts of the business in light of the prevailing market conditions and regulatory developments. The remaining book value of goodwill is £30m.

Impairment testing in respect of the goodwill is performed by Santander UK plc and treated as a single CGU, for the purposes of the assessment. The assessment is performed annually or more frequently if there are impairment indicators present. Goodwill underwent an annual impairment review at 30 November 2020, with a further review for indicators of impairment at 31 December 2020.

At 30 November 2020, the annual review identified the continuing uncertainty created by the COVID-19 pandemic and its potential impact on the carrying value of goodwill as indicators of impairment. As a result, Santander UK plc performed an updated impairment test at 31 December 2020.

Basis of the recoverable amount

The recoverable amount of the CGU was determined based on its VIU at each testing date for 2020 and 2019. For each CGU, the VIU is calculated by discounting the cash flow projections for the CGU. The cash flow projections also take account of increased internal capital allocations needed to achieve internal and regulatory capital targets including the leverage ratio. The key assumptions used in the VIU calculation were the discount rate applied and growth rate beyond initial cashflow projections, which were as follows:

| | 2020 % | 2019 % |
|---|-----------|-----------|
| Pre-tax discount rate | 8.9 | 9.8 |
| Business average growth rate | - | 3.6 |
| Growth rate beyond initial cashflow projections | 1.6 | 1.6 |
| Estimated reduction in expected cashflows | - | 5.0 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

15. GOODWILL (continued)

Sensitivity analysis

Although there was no impairment of goodwill at 31 December 2020, the amount by which the recoverable amount exceeds the carrying value (the headroom) is sensitive to some of the assumptions used. The changes in assumptions detailed below for the pre-tax discount rate and cash flow projections would reduce the headroom by 30%.

The sensitivity analysis presented below has been prepared on the basis that a change in each key assumption would not have a consequential impact on the other assumptions used in the impairment review. However, due to the interrelationships between some of the assumptions, a change in one of the assumptions might impact one or more of the other assumptions and could result in a larger or smaller overall impact.

| | Carrying value | Value in use | Headroom | Increase in pre-tax discount rate | Decrease in cash flows |
|----------------------------|----------------|--------------|----------|-----------------------------------|------------------------|
| | £000 | £000 | £000 | bps | % |
| CA Premier Banking Limited | 575,310 | 1,265,538 | 690,228 | 245 | 24 |

Judgement used in estimating the cash flows of the CGU

The cash flow projections for the purpose of impairment testing are derived from the latest 3-year plan presented to the Santander UK plc Board. The Santander UK plc Board challenges and endorses management's planning assumptions in light of internal capital allocations needed to support Santander UK plc's strategy, current market conditions and the macro-economic outlook.

The assumptions included in the cash flow projections reflect an allocation to the cost of capital to support future growth, as well as the expected impact of COVID-19 on the UK economic environment and the financial outlook within which the CGU operates under. The cash flow projections are supported by Santander UK plc base case economic scenario. For more on the base case economic scenario, including the forecasting approach and the assumptions in place at 31 December 2020, further information can be found under Credit risk of the Risk review contained within the Santander UK Group Holdings plc Annual Report.

Cash flow projections for the purpose of impairment testing do not take account of any adverse outcomes arising from contingent liabilities (see Note 26), whose existence will be confirmed by uncertain future events or where any obligation is not probable or otherwise cannot be measured reliably.

In the current year an estimated reduction in cashflows within the goodwill assessment was not considered necessary (2019: 5%).

Discount rate

The rate used to discount cashflows is based on the average of two independent financial institutions within the United Kingdom. The Company is unique as a financial institution that offers only customer deposits and does not lend to customers. The Company is owned by Santander UK plc and policies such as capital management are undertaken at Group level. A direct comparable of the Company to other similarly structured financial institutions, whether in the United Kingdom or Europe is difficult. There is significant judgement used in deriving the discount rate (see Note 1). Furthermore the sensitivity analysis demonstrates sufficient headroom to absorb any variation in the discount rate resulting from judgement, if the Capital Asset Pricing Model (CAPM) had been applied.

Growth rates

The business average growth rate is not considered relevant for the impairment assessment in the current year, on the basis of the 3-year cashflow projection used. As a result this is not disclosed for the current year within the table under the basis of the recoverable amount paragraph above.

The growth rate for periods beyond the initial cash flow projections is used to extrapolate the cash flows in perpetuity because of the long-term perspective of CGUs. In line with the accounting requirements, Santander UK plc uses the UK Government's official estimate of UK long-term average GDP growth rate, as this is lower than management's estimate of the long-term average growth rate of the business.

During 2020 and 2019, no impairment of goodwill was recognised. Management believe there remains sufficient headroom in the balance of goodwill to support its book value and not trigger the recognition of an impairment charge in the income statement for the year to 31 December 2020.

16. PROPERTY, PLANT AND EQUIPMENT

| | 2020 Office fixtures and equipment £000 | 2019 Office fixtures and equipment £000 |
|------------------------------|--|--|
| Cost: | | |
| At 1 January | 2,999 | 2,999 |
| At 31 December | 2,999 | 2,999 |
| Accumulated depreciation: | | |
| At 1 January and 31 December | (2,993) | (2,993) |
| Net book value | 6 | 6 |

The remaining balance relates to Art and Memorabilia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

17. INTANGIBLE ASSETS

| Software: | 2020 £000 | 2019 £000 |
|---------------------------|--------------|--------------|
| Cost: | | |
| At 1 January | 14,526 | - |
| Additions | - | 14,526 |
| At 31 December | 14,526 | 14,526 |
| Accumulated amortisation: | | |
| At 1 January | (170) | - |
| Charge in year | (2,977) | (170) |
| At 31 December | (3,147) | (170) |
| Net book value | 11,379 | 14,356 |

The intangible asset relates to the new Core Banking Platform which also provides enhanced Digital and Open Banking capabilities to the customer base. The final phased migration of customers to the new core banking platform completed in 2020. Amortisation is over a five year period commencing from December 2019.

18. OTHER ASSETS

| | 2020 £000 | 2019 £000 |
|-----------------------------------|--------------|--------------|
| Items in the course of collection | 24 | - |
| Other accruals | 70 | 597 |
| Deferred tax asset (see Note 12) | 22 | 16 |
| | 116 | 613 |

The book value of other assets equals their fair value.

19. DEPOSITS BY BANKS

| | 2020 £000 | 2019 £000 |
|---------------------------------|--------------|---------------|
| Amounts due to Santander UK plc | 5,130 | 15,887 |
| Total deposits by banks | 5,130 | 15,887 |
| Repayable: | | |
| On demand | 5,130 | 15,887 |
| | 5,130 | 15,887 |

The deposits by banks in the above table have the following interest rate structures:

| | 2020 £000 | 2019 £000 |
|---------------|--------------|--------------|
| Variable rate | 5,130 | 15,887 |
| | 5,130 | 15,887 |

The fair value of deposits by banks equals book value.

20. CUSTOMER ACCOUNTS

| | 2020 £000 | 2019 £000 |
|--|------------------|------------------|
| Amounts due to fellow subsidiaries | 420 | 419 |
| Retail deposits | 4,774,661 | 4,989,977 |
| Equity index-linked deposits | 1,478 | 14,759 |
| Deposits by customers | 4,776,559 | 5,005,155 |
| Derivative financial instruments (Note 9) | 10 | 2,417 |
| Total deposits by customers | 4,776,569 | 5,007,572 |
| Repayable: | | |
| On demand | 4,756,540 | 4,934,093 |
| In not more than three months | 6,736 | 30,139 |
| In more than three months but not more than one year | 9,157 | 31,428 |
| In more than one year but not more than five years | 4,136 | 11,912 |
| | 4,776,569 | 5,007,572 |

Contracts involving the receipt of cash on which customers receive an index linked return are accounted for as equity index-linked deposits.

The customer accounts liability presented on the balance sheet includes Retail deposits and equity index-linked deposits excluding derivatives. The book value of customer accounts approximately equals their fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

21. AMOUNTS DUE TO GROUP COMPANIES

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Santander UK plc – customer repurchase of Equity index-linked products | 1,078 | 2,161 |
| Santander UK Technology Limited | 1,851 | - |
| Santander Global Technology S.L. | - | 104 |
| Gesban UK Limited | 84 | - |
| | 3,013 | 2,265 |

The amounts due to fellow subsidiaries reflect balances payable to related parties within the Santander UK plc group.

22. OTHER LIABILITIES

| | 2020 £000 | 2019 £000 |
|-------------------------------------|--------------|--------------|
| Accrued expenses | 235 | 183 |
| Items in the course of transmission | 783 | 3,386 |
| Other taxation | - | 11 |
| Other | 1,010 | 5,081 |
| Total other liabilities | 2,028 | 8,661 |
| Current tax – corporation tax | 11,210 | 18,854 |

The presentation of the prior year corporation tax liability was reclassified from other liabilities and is now shown as a separate line item onto the face of the balance sheet.

The Directors consider that the carrying amount of other liabilities approximates to their fair value.
All of the amounts above represent balances due within one year.

23. PROVISIONS

| | Regulatory £000 | Total £000 |
|---|--------------------|---------------|
| At 1 January 2019 | 93 | 93 |
| Provisions released | (93) | (93) |
| As at 31 December 2019, 1 January 2020 and 31 December 2020 | - | - |

i) Regulatory - FSCS Compensation scheme

The FSCS (Financial Services Compensation Scheme) is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry (and recoveries and borrowings where appropriate).

Following the default of a number of deposit takers since 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. The remaining debt due to the FSCS, that related to the failure of Bradford & Bingley plc, has now been repaid. This has enabled the FSCS to make a corresponding repayment of the balance of its loan to HM Treasury.

Historically, the Company's FSCS levy was borne by Santander UK plc, for which no recharges were made. Commencing 2016, Cater Allen Limited started recognising a provision for the expected FSCS levy within its own financial statements. Following repayment of the debt due to the FSCS, the remaining provision was released to the Income Statement during the prior year.

24. SHARE CAPITAL

| | 2020 £ | 2019 £ |
|--|-------------|-------------|
| Issued and fully paid: | | |
| 100,000,000 (2019: 100,000,000) ordinary shares of £1 each | 100,000,000 | 100,000,000 |
| 100 (2019: 100) preferred ordinary shares of £1 each | 100 | 100 |

There have been no changes from the previous year.

Holders of ordinary shares are entitled to:

- receive such dividends as the Directors approve out of profits remaining after payment of the preferred dividend;
- one vote for every share held in respect of resolutions proposed at general meetings; and
- receive, upon winding up, an amount in respect of each ordinary share equal to the paid up capital value thereof after paying the holders of the preference shares as described above, the balance being distributed between the shareholders in proportion to their paid up ordinary shareholdings.

Holders of preferred ordinary shares are entitled to:

- receive a specific dividend in priority to all other shareholders but have no right to a fixed coupon or a guaranteed dividend; and
- receive notice and to attend any meetings at which any matter affecting the rights attaching to the preferred shares is to be considered.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

25. CASHFLOW STATEMENT

a) Reconciliation of profit before tax to net cash generated from operating activities:

| | 2020 £000 | 2019 £000 |
|---|------------------|----------------|
| Profit before tax | 41,534 | 69,861 |
| Amortisation of intangible assets | 2,977 | 170 |
| Impairment reversal | (25) | - |
| Net cash flow from trading activities | 44,486 | 70,031 |
| Changes in operating assets and liabilities | | |
| (Decrease) / increase in items in course of transmission by other banks | (2,603) | 2,182 |
| Decrease in items in the course of collection | - | 2,457 |
| Decrease in loans and advances to customers | 30 | 110 |
| Decrease in other assets | 519 | 511 |
| Decrease in derivative financial liabilities | (2,407) | - |
| Decrease in financial assets at fair value through profit or loss | 16,768 | 91,180 |
| (Decrease)/ increase in deposits by banks and customer accounts | (228,596) | 401,744 |
| (Decrease)/ increase in deposits by banks | (10,757) | 15,185 |
| Increase/ (decrease) in amounts due to other group companies | 748 | (9,138) |
| Provision utilisation – FSCS compensation | - | (93) |
| (Decrease)/ increase in other liabilities and provisions | (4,046) | 2,967 |
| Group relief tax paid to Santander UK plc | (18,863) | (22,210) |
| Net cash (used in)/ generated from operating activities | (204,721) | 554,926 |

b) Analysis of the balances of cash and cash equivalents in the balance sheet:

| | 2020 £000 | 2019 £000 |
|---------------------------------------|--------------|--------------|
| Loans and advances to banks (Note 13) | 5,329,187 | 5,533,908 |

26. CONTINGENT LIABILITIES AND COMMITMENTS

Material Contracts

The Company, together with its ultimate UK parent Santander UK plc (the regulated entities) and certain other non-regulated subsidiaries of Santander UK plc, entered into a capital support deed dated 13 November 2018 (the RFB Sub-Group Capital Support Deed). The parties to the RFB Sub-Group Capital Support Deed are permitted by the PRA to form a core UK group, as defined in the PRA rulebook, a permission which will expire on 31 December 2021. Exposures of each of the regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the RFB Sub-Group Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breaches or is at risk of breaching its capital resources requirements or risk contractions requirements.

In accordance with the PRA liquidity rules, the Company together with its ultimate UK parent Santander UK plc form the RFB Domestic Liquidity Sub-Group (the RFB DoSub), which allows the entities to collectively meet regulatory requirements for the purpose of managing liquidity risk. Each member of the RFB DoSub will support the other by transferring surplus liquidity in times of stress.

27. UNUTILISED OVERDRAFT FACILITIES

At the balance sheet date, there were no (2019: £nil) approved but unutilised overdrafts to customers with a bank account with the Company, following the removal of overdraft facilities in December 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

28. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with its ultimate parent and fellow group companies. There were no related party transactions with its ultimate controlling party as at the year-end date (2019: £nil).

The Company has no related party transactions or balances due to or from its immediate parent undertaking.

All of the amounts below are unsecured.

Expenditure and amounts due to Santander UK Technology Limited (formerly Isban UK Limited), Produban UK Limited, Santander Global Technology Limited and Gesban (UK) Limited relate to the provision of support services to the Company.

During the year, the Company entered into no transactions with directors of the Company (2019: £nil).

| | Income | | Expenditure | | Amounts due from related parties | | Amounts due to related parties | |
|--|--------------|--------------|--------------|--------------|----------------------------------|--------------|--------------------------------|--------------|
| | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 |
| Santander UK plc – retail deposits | - | - | - | - | 5,207,591 | 5,475,271 | - | - |
| Santander UK plc – retail deposit interest | 12,055 | 38,046 | - | - | - | - | - | - |
| Santander UK plc – Bank account | - | - | - | - | 117,697 | 50,795 | - | - |
| Santander UK plc – management fees and recharges | - | - | 4,034 | 4,100 | - | - | 5,130 | 15,887 |
| Santander UK plc – transfer pricing | 57,840 | 57,894 | - | - | 4,670 | 7,838 | - | - |
| Santander UK plc – Equity index-linked balances ¹ | 2,096 | 99,322 | 2,441 | 97,918 | 2,689 | 19,649 | 1,195 | 2,470 |
| Santander UK Technology Limited | - | - | 1,851 | 7,383 | - | - | 1,851 | - |
| Santander Global Technology S.L. | - | - | - | 223 | - | - | - | 104 |
| Gesban UK Limited | - | - | 84 | - | - | - | 84 | - |
| Cater Allen Lloyds Holdings Limited – customer accounts | - | - | - | - | - | - | 358 | 104 |
| Cater Allen Syndicate Management Limited – customer accounts | - | - | - | - | - | - | 62 | 315 |
| | 71,991 | 195,262 | 8,410 | 109,624 | 5,332,647 | 5,553,553 | 8,680 | 18,880 |

(1) Equity index-linked balances include derivatives and are reflected net off customer repurchases owed to the group company.

29. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

i) Fair value measurement

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated as the current bid price multiplied by the number of units of the instrument held.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

ii) Fair value hierarchy

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

29. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
(continued)

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

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access at the measurement date.

Level 2: Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3: Significant inputs to the pricing or valuation techniques are unobservable.

The Company does not directly employ valuation techniques to determine the valuation of its derivatives or the hedging as set out in the next section (below). This is undertaken by Santander UK plc in accordance with Group policy.

Valuation techniques

The main valuation techniques employed in internal models to measure the fair value of the financial instruments at 31 December 2020 and 2019 are set out below. Santander UK plc did not make any material changes to the valuation techniques and internal models it used in 2020 and 2019.

- In the valuation of equity financial instruments requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary local volatility and stochastic volatility models are used. These types of models are widely accepted in the financial services industry. Observable market inputs used in these models include the bid-offer spread, foreign currency exchange rates, volatility and correlation between indices.

Santander UK plc believes its valuation methods are appropriate and consistent with other market participants. Nevertheless, the use of different valuation methods or assumptions, including imprecision in estimating unobservable market inputs, to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date and the amount of gain or loss recorded for a particular instrument. Most of the valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities, where available.

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with the Risk Department. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised.

Fair values of financial instruments measured at fair value

The following tables summarise the fair values of the financial assets and liabilities accounted for at fair value at 31 December 2020 and 2019, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

| Balance sheet category | Level 1 £000 | Level 2 £000 | Level 3 £000 | 2020 Total £000 | Level 1 £000 | Level 2 £000 | Level 3 £000 | 2019 Total £000 |
|---|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|-----------------|-----------------------|
| Assets | | | | | | | | |
| Other financial assets at FVTPL (Note 10) | - | 2,572 | - | 2,572 | - | 19,340 | - | 19,340 |
| | - | 2,572 | - | 2,572 | - | 19,340 | - | 19,340 |
| Liabilities | | | | | | | | |
| Derivative financial instruments (Note 9) | - | 10 | - | 10 | - | 2,417 | - | 2,417 |
| | - | 10 | - | 10 | - | 2,417 | - | 2,417 |

30. RETIREMENT BENEFIT SCHEMES

The Company participates in the Group Pension schemes. There is no contractual agreement of stated policy for charging the net cost in relation to the Pension Schemes. The contribution recharged to and paid by the Company is calculated as the contributions made by Santander UK plc to the schemes in respect of the Company's support staff whose employment costs are also recharged to the Company. Details of the scheme and any associated deficit or surplus appear in the Santander UK plc 2020 Annual Report.

Pension costs are included in staff costs in the Statement of Comprehensive Income in Note 6. None of this amount was recognised for key management personnel for the year ended 31 December 2020 (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

31. INTEREST RATE BENCHMARK REFORM

The Phase 2 amendments apply only to changes required by IBOR reform to financial instruments and, where applicable, hedging relationships. Changes are directly required by IBOR reform if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flow is economically equivalent to the previous basis.

The amendments address the accounting issues for financial instruments when IBOR reform is implemented as described below. The Company has no IAS 39 compliant hedge accounting relationships so the amendments relating to hedge accounting do not apply.

Practical expedient for changes to contractual cash flows:

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate using the guidance in IFRS 9 resulting in no immediate gain or loss being recognised, provided that, the change is directly required by IBOR reform and takes place on an economically equivalent basis. The instruments referencing LIBOR will transition to alternative benchmark interest rates during 2021. Consequently, the application of the practical expedient has had no material impact for the Company for the year ended 31 December 2020.

The following shows the sterling value of assets as at 31 December 2020 affected by IBOR reform that have yet to transition to an alternative benchmark interest rate as provided internally to key management personnel. These comprise of loans and advances to group companies denominated in US Dollars (see Note 2), since interest is earned on these balances at the USD overnight LIBOR rate:

Loans and advances placed on deposit with Santander UK plc in US Dollars: £23,651,000.

Further details of the extent of risk exposure that is affected by IBOR reform and how Santander UK's transition to alternative benchmark interest rates is being managed, are disclosed in the Banking market risk section of the Risk review within the Santander UK plc 2020 Annual Report which does not form part of this Report.

32. PARENT UNDERTAKING AND CONTROLLING PARTY

Cater Allen Limited is domiciled in the United Kingdom. The Company's immediate parent company is Santander Private Banking UK Limited, 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. Santander UK plc is the intermediate 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.