CATER ALLEN LIMITED

Registered in England and Wales
Company Number 00383032

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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STRATEGIC REPORT

The Directors submit the Strategic Report together with their Directors' Report and the audited financial statements for the year ended 31 December 2021.

Principal activities and fair review of the Company's Business

The principal activity of Cater Allen Limited (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 offering services through specialist intermediaries across a number of different sectors, together with a 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. The Company is a private limited company regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The Company made a profit for the year of £28,735,000 (2020: £30,321,000). At 31 December 2021, the Company had net assets of £604,045,000 (2020: £575,310,000).

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

The financial results are set out from page 12. The Company's capital requirements are managed centrally at the Santander UK plc group (the Group) level. Further information can be found under note 2 and within the Santander UK plc 2021 Annual Report which does not form part of this Report.

2021 has continued to be another challenging year for the Company. The Company's net interest income (NII) has reduced year-on-year by £6m, which was a smaller reduction than that seen between 2020 and 2019, where NII had fallen by £20m. This is attributable to repricing and stabilisation of market interest rates, the latter of which had been reduced during the early stages of the Covid-19 pandemic in 2020. A year-on-year reduction in customer deposits has also contributed to the reduction in NII. Operating expenses have decreased year-on-year due to cost efficiencies and reductions in significant ad-hoc and project related costs.

2021 saw no net growth of the company's deposit portfolio, however there was growth in the number of primary customers banking with the Company. During 2021, the Company withdrew the minimum account opening deposit requirement from all of its product offerings to simplify the proposition for customers. For 2022, the Company plans further new product offerings to grow its customer deposit portfolio.

Following completion of the migration of customers to a new Core Banking Platform in Q4 2020, the Company has continued to develop the Company's technological capabilities to optimise the effectiveness of the platform and associated operational stability whilst also obtaining independent assurance and validation of the effectiveness of the new platform in accordance with stakeholder expectations.

The Company is further encouraging moves towards a paperless environment that will aid in reducing its environmental footprint and has been encouraging its customers to switch towards paperless banking through promotion of the online banking platform and decommissioning certain paper-based services, such as the fax service.

The Company adheres to the wider policies and practices of the Group from an Environmental, Social and Governance (ESG) perspective and further information on the Group's approach can be found via the Santander UK plc Annual Report.

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

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.

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. Through the Company's internal management forum, the Company focuses its attention over four pillars:

Pillar 1: Deliver growth through customer loyalty and outstanding customer experience;

Recognising that the foundations to a successful company are driven by our customer's loyalty and providing excellent customer service. In 2021 we exceeded our KPI target by delivering a 25% year-on-year reduction in customer complaints. We also set up a new customer improvement forum during 2021 to help deliver further improvements towards enhancing customer service and operational efficiency.

The Company expects to launch new product offerings during 2022 to facilitate growth of the deposit portfolio.

As discussed under principal activity for the year, NII has decreased year-on-year, but not with the same magnitude seen last year. The primary drivers are discussed under principal activities and fair review of the Company's business above. The Company's operating expenditure including amortisation, has decreased by £2.3m year-on-year. This is attributable to the application of effective cost control management and a reduction in ad-hoc and project related costs during 2021.

Pillar 2: Simplify and digitise the business for improved efficiency and returns;

Following successful implementation of the new Core Banking Platform in 2020 which served to increase operational resilience and position the Company for future growth, the Company has continued to simplify and improve associated operational processes to improve both customer and colleague experience. Through the promotion of the on-line banking service and encouraging our customers to switch to paperless methods, we have seen an increase in digital penetration during 2021. Functionality and system enhancements should help towards driving further increases into 2022.

Pillar 3: Engage, motivate and develop a talented and diverse team;

The Company has no employees. The Company's people are employed by Santander UK plc. Accordingly, HR policies on decisions relating to the colleagues employed by Santander UK plc are aligned to the HR practices of the Group.

Pillar 4: Ensuring that Santander continues to be a responsible and sustainable business;

The Company strives to ensure a high level of satisfaction is delivered to its sole shareholder, through such means as ensuring regulatory compliance and adherence to the Group's governance, financial crime and risk frameworks.

A summary of key KPI metrics is shown below:

KPI	2021	2020
Customer Numbers	122,172	117,517
New Customer Account Openings	5,677	7,513
Customer Liabilities (£'000)	£4,544,224	£4,776,559
Net Operating Income (£'000)	£55,895	£60,334
Operating expenses including amortisation (£'000)	£16,537	£18,800
Cost-Income Ratio	30.0%	31.0%
Customer Complaints	1,466	1,963

STRATEGIC REPORT (continued)

Section 172 Statement

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172 COMPANIES ACT 2006

The Board is committed to fulfilling its responsibilities under Section 172 of the Companies Act 2006 (s172), ensuring it considers the likely impact of its decisions in the long-term, as well as the interests of the Company's stakeholders. The Directors provide the following statement pursuant to the Companies Act 2006 (as amended by Companies (Miscellaneous Reporting) Regulations 2018) (the "Act") to describe how they have acted in accordance with their duty under s172 of the Companies Act 2006 to promote the success of the Company for the benefit of its member and in so doing, how they have had regard to those factors set out in s172 (1)(a) to (f) of the Companies Act 2006 during the financial year.

Governance Framework

The Company adheres to group-wide policies in place to protect its people and provide a safe working environment, to ensure compliance with all regulatory requirements and adherence to the highest professional and ethical standards in dealing with customers, suppliers and colleagues and to ensure that it continues to operate in a socially responsible and compliant manner and manages environmental sustainability. In doing so, and by balancing the interests of the Company's stakeholders when making decisions, the Board seeks to maintain a reputation for high standards of business conduct.

The Company is part of the Santander UK plc Group. For the financial year ended 31 December 2021, 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 2021 Annual Report, which does not form part of this Report.

Throughout the year, both generally and in relation to specific matters, the Board has had regard to the interests of all its stakeholders and has engaged with them in a range of direct and indirect ways.

The Santander UK plc Board, along with the Company's Board has identified four key stakeholder groups whose interests and needs it regularly considers. These stakeholders are our customers, people, shareholders and communities.

The Company engages with its stakeholders in a variety of ways to understand their needs, priorities, and concerns. Stakeholder interests are linked to a great extent and ensuring delivery of one will often positively impact others' interests. For example, providing excellent products and customer service:

- ensures value for our customers because we are meeting or exceeding their needs.
- drives value for our investors.
- ensures that the communities where we operate are getting the support they need from the Company.
- provides job satisfaction for our people.
- meets the regulators' requirements to treat customers fairly and protect their interests.
- supports the long-term success of the Company.

Set out below are some examples of how stakeholders are taken into account when making key strategic decisions, including how the Board and management have tried to take action to lessen any potential negative impacts on them.

Customers

Customers are at the centre of the Company's business and are a key priority in any decision making by the Board and management. The Board recognises that the Company must adapt to ensure it can still meet their needs. Customers comprise deposit account holders and the financial intermediaries that introduce new business to the Company. Steps taken include:

- monitoring and analysis of complaints and incidents and the proactive implementation of actions. A customer improvement forum was established during 2021. Regular incident monitoring has helped drive more efficient processes contributing to a year-on-year reduction in customer complaints.
- the introduction of Net Promoter Scores towards the end of 2021, to measure the loyalty of our customers, to better enable us to focus on customer service and tailor our business to meet the needs of our customers.
- providing a banking platform benefiting from improved technology that helps support customers, intermediaries and enable future growth capabilities.
- ongoing development of proposition enhancements which aims to streamline the customer experience, to commence from 2022.
- liaising with financial intermediaries through the network of relationship managers, allowing for their feedback to be discussed and acted upon as and when required.

STRATEGIC REPORT (continued)

Section 172 Statement (continued)

People

Having happy, healthy and motivated people is integral to the success of the business. Our people are employees of Santander UK plc and colleague initiatives are driven at the Group level. As the UK began to 'open up' during the second quarter of 2021, the Group considered proposals on potential new ways of working for our people, recognising that few wish to return to the traditional five days in the office environment but that there are significant benefits to coming together to meet and work. The Company supported the need to ensure that any announcement confirming an expectation that our people would return to offices would be well-timed and well-thought through to ensure their safety and emotional well-being.

The Company aims to maximise colleague engagement and promotes our culture, The Santander Way, which encompasses our purpose, values, behaviours and ways of working. Measures taken to encourage employee wellbeing and advance their development include:

- group wide colleague surveys are conducted to seek their views on what it is like to work for the Company and what they would like improved.
- various wellbeing initiatives for colleagues, such as the Employee Assistance Programme (a 24/7 telephone helpline which is there to provide confidential, professional and independent support on a variety of matters).
- investment into the future of our people with ongoing coaching, training and support toward continuous professional development.

Shareholders

The Company recognises the benefits that being part of the wider Group provides, for example in terms of the ability to call upon various resources including colleagues, expertise, systems (including Information Technology solutions), policies and processes to optimise effectiveness and wider stakeholder engagement.

The Board ensures it acts in accordance with local requirements as well as internally approved governance frameworks, to ensure the Company is acting fairly towards its sole shareholder.

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.

The Company is a Ring-Fenced Bank (RFB) in its own right and is subject to PRA ring-fencing rules, including rules requiring annual review of two key ring-fencing policies - the Exceptions Policy and Arm's-Length Policy. In practice the Company discharges its responsibilities for reviewing these policies through review of the assessment conducted by Santander UK plc to meet its ring-fencing obligations (which includes responsibility for ensuring each entity in the RFB sub-consolidation group performs its ring-fencing obligations).

Strategic and Business Risk is managed at the Group level, with the focus on maintaining a low to medium risk appetite and periodic review of risks to ensure that the Group stays within its risk appetite range. As a RFB in its own right, the Company's Board determines the risk appetite of the Company. Mitigation of Strategic and Business risk occurs through having clear and consistent strategy and an effective planning process and through effective risk monitoring and management. Further information can be found within the Santander UK plc Annual Report.

Covid-19 continues to be a contributory factor in respect of economic uncertainties and elevated risks

The ongoing effects of the Covid-19 pandemic continue to be a source of uncertainty for the UK economy as well as resulting in increased risks around areas such as financial crime and operational risk. Risk is managed at the Group level and the Group continues to respond dynamically to these challenges within its risk framework. The Company continues to monitor the impact of the Covid-19 pandemic on its customers and operations and takes a coordinated approach with other members of the Group where applicable.

Broader geopolitical and social risks, including invasion by Russia of Ukraine

During the course of the past two years, since the onset of the Covid-19 pandemic, a number of broader risks have evolved and may present future headwinds. These include, geopolitical tensions between regions across the world, global supply chain pressures (which have already fuelled inflationary pressures), stretched household finances, and emerging social unrest. These factors are also likely to play into increased localised political risk, including in the UK. The Company is closely following these developments and the potential for any material impacts which may need to be taken into consideration in its future plans and intends to take a coordinated approach with the other members of the Group.

On behalf of the Board

M.D—

Madhukar Dayal
Director

For and on behalf of
Cater Allen Limited

25 April 2022

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

REPORT OF THE DIRECTORS

The Directors submit their report together with the Strategic Report and audited financial statements for the year ended 31 December 2021.

Principal Activities and Review of the Business

See Strategic Report.

Likely Future Developments

The Company intends to grow its customer deposit portfolio through the offering of new products.

Results and Dividends

The profit for the year on ordinary activities after taxation amounted to £28,735,000 (2020: £30,321,000). The Directors do not recommend payment of a final dividend (2020: £nil).

Post Balance Sheet Events

No adjusting or significant non-adjusting events have occurred between the 31 December 2021 and the date of authorisation of the financial statements.

Directors

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

Manroop Singh Khela
Madhukar Dayal
Christine Joan Palmer
Annemarie Verna Florence Durbin
Reza Attar-Zadeh

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

Statement of Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out 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.

REPORT OF THE DIRECTORS (continued)

Financial Instruments

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

The financial risk management objectives of and policies of the Group and the exposure of the Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Santander UK plc financial statements.

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

Qualifying Third Party Indemnities

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

Statement on Business Relationships

The Company recognises the importance of fostering relationships with its principal stakeholders and that this is the key to the long term success of our business. We understand the importance to act fairly and responsibly between members of the Company. For more, see the Section172 Statement in the Strategic Report.

Streamlined Energy and Carbon Reporting (SECR)

SECR is considered and managed by the Group. Information on the annual energy use and associated greenhouse gas emissions of the Santander UK group (including the Company) is set out in the Strategic Report and Directors' Report sections of the Santander UK Group Holdings plc 2021 Annual Report.

It is not feasible to measure if the 40,000KWh threshold is met. The Company does not own any property for engaging its business and instead shares office space with Santander UK plc. Furthermore with the Covid-19 pandemic, the Company applies Group policy on working from home arrangements. As a result, the Company is unable to accurately determine and isolate its own energy use and associated greenhouse gases. Any data produced would be difficult to verify and use as a basis for meaningful calculation of energy consumption. Therefore, the Company has not reported any carbon and energy information.

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.

On behalf of the Board

Madhukar Dayal
Director

For and on behalf of
Cater Allen Limited

25 April 2022

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 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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, which comprise: the balance sheet as at 31 December 2021; 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 Board of 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.

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; and
- All material financial statement line items are included in our scoping. The business operates wholly in the United Kingdom.

Key audit matters

- Goodwill impairment assessment.

Materiality

- Overall materiality: £2.0m (2020: £2.0m) based on 5% of profit before tax.
- Performance materiality: £1.5m (2020: £1.5m).

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.

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.

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

Key audit matters (continued)
This is not a complete list of all risks identified by our audit.

The impact of COVID-19, which was a key audit matter last year, is no longer included because of the view that the uncertainty caused by the pandemic last year is now better understood and a factor which is part of business operations. It is no longer considered to be a matter that, in its own right, required significant auditor attention in performing the audit. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment Refer to note 1 (Accounting Policies and Critical Accounting Estimates) and Note 15 Goodwill. The company has a goodwill balance of £30 million at 31 December 2021 which relates to the 2001 purchase of the trade and assets of CA Premier Banking Limited (formerly Robert Fleming & Co Limited). The prices for retail financial services of the UK banking market have fallen during the year and the business results continue to be impacted by economic uncertainty. In line with IAS36 management performed impairment assessments using a value in use methodology and concluded that no impairment existed as at 31 December 2021. In assessing the value in use, management considered the company to be the smallest identifiable group of assets that generates cash flows as per IAS 36. The impairment assessment is complex and involves subjective assumptions including the discount rate, the terminal,growth rate and an assessment of forecast cash flows. Due to the magnitude of the goodwill balance and the nature of these assumptions, the impairment assessments represent a key audit matter.	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: - We identified the key assumptions used in the value in use model and assessed these for reasonableness using our understanding of the company gathered from our audit work; - We engaged our valuation experts to assist in the assessment of the value in use methodology and key assumptions, specifically the discount rate and terminal growth rate; - We tested the mathematical integrity of the value in use 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 agreed the cash flow forecasts to the Board approved three-year plans; and we assessed the sensitivity of the impairment assessment to reasonable changes in key estimates using our understanding of historic and actual performance of the company; and - We assessed the disclosures made in the financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements.

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.

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. 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 these 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.

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:

Overall company materiality	£2.0m (2020: £2.0m).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	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% (2020: 75%) of overall materiality, amounting to £1.5m (2020: £1.5m) 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 Board of Directors that we would report to them misstatements identified during our audit above £0.1m (2020: £0.1m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 and the Ring Fenced Bank Domestic Liquidity Sub-Group arrangements with Santander UK plc; and
- Evaluation of the reasonableness of the company's latest management forecasts, including testing of mathematical accuracy of forecasts and testing key assumptions.

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.

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

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the director's 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 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; and
- Review of correspondence with, and reports to, the regulators, specifically the PRA and the FCA.

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

Auditors' responsibilities for the audit of the financial statements (continued)

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.

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.

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 Board of 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 6 years, covering the years ended 31 December 2016 to 31 December 2021.

H. Varley

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
25 April 2022

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

Continuing Operations	Note	2021 £000	2020 £000
Interest and similar income		57,544	69,896
Interest expense and similar charges		(3,162)	(9,357)
Net interest income	3	**54,382**	60,539
Fee and commission income		3,147	2,096
Fee and commission expense		(2,113)	(2,301)
Net fee and commission income/ (expense)	4	1,034	(205)
Other operating result	5	479	-
Total income		55,895	60,334
Operating expenses	6	(13,632)	(15,823)
Amortisation of intangible assets	6	(2,905)	(2,977)
Operating profit		39,358	41,534
Profit before tax		39,358	41,534
Taxation expense	11	(10,623)	(11,213)
Profit for the year after tax		28,735	30,321
Total comprehensive income for the year attributable to the equity holders of the Company		28,735	30,321

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 2021	100,000	2,950	472,360	575,310
Profit and total comprehensive income for the year	-	-	28,735	28,735
Balance at 31 December 2021	100,000	2,950	501,095	604,045
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

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

BALANCE SHEET

As at 31 December

	Note	2021 £000	2020 £000
Non-current assets			
Goodwill	15	30,000	30,000
Intangible assets	17	8,474	11,379
Deferred tax	12	22	22
Property, plant and equipment	16	6	6
Total non-current assets		38,502	41,407
Current assets			
Financial assets at fair value through profit or loss:			
- Other financial assets at fair value through profit or loss	10	-	2,572
Financial assets at amortised cost:			
- Loans and advances to banks	13	5,128,808	5,329,187
- Loans and advances to customers	14	-	-
Other assets	18	170	94
Total current assets		5,128,978	5,331,853
Total assets		5,167,480	5,373,260
Current liabilities			
Financial liabilities at fair value through profit or loss:			
- Derivative financial instruments	9	-	10
Financial liabilities at amortised cost:			
- Deposits by banks	19	2,783	5,130
- Customer accounts	20	4,544,224	4,776,559
- Amounts due to group companies	21	1,873	3,013
Other liabilities	22	3,932	2,028
Current tax	22	10,623	11,210
Total liabilities		4,563,435	4,797,950
Equity			
Share capital	23	100,000	100,000
Share premium account		2,950	2,950
Retained earnings		501,095	472,360
Total equity		604,045	575,310
Total liabilities and equity		5,167,480	5,373,260

A re-presentation of the balance sheet in accordance with IAS1 was made to apportion between non-current and current assets, including reporting deferred tax as a separate line item.

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

The financial statements on pages 12 to 37 were approved by the Board of Directors on 25 April 2022 and signed on its behalf by:

M. D

Madhukar Dayal
Director
25 April 2022

CASH FLOW STATEMENT

For the year ended 31 December

	Note	2021 £000	2020 £000
Net cash used in from operating activities	24(a)	(200,379)	(204,721)
Net decrease in cash and cash equivalents		(200,379)	(204,721)
Cash and cash equivalents at the beginning of the year		5,329,187	5,533,908
Cash and cash equivalents at the end of the year	24(b)	**5,128,808**	5,329,187

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

These financial statements are prepared for the Company under the Companies Act 2006.

The Company's financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS). On 31 December 2020, International Financial Reporting Standards (IFRSs) as adopted by the European Union at that date were brought into UK law and became UK-adopted IAS, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted IAS in its financial statements on 1 January 2021, however, this change had no impact on recognition, measurement or disclosures in the periods reported.

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. At the balance sheet date there were no financial instruments on the balance sheet that were measured at fair value (2020: Asset of £2,572,000 and liability of £10,000), as per notes 9 and 10.

The functional and presentation currency of the Company is pounds sterling.

Recent accounting developments

Interest Rate Benchmark Reform

In 2020, the Company applied 'Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' to all loans and advances to banks whose interest rates were based on LIBOR that were transitioning to alternative benchmark interest rates. During 2021, the Company applied the practical expedient in these amendments, 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. This resulted in no immediate gain or loss being recognised. There were no other instruments remaining that are affected by IBOR reform as at 31 December 2021.

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 either the Bank of England base rate, Euro Short-Term Rate (ESTR) or Secured Overnight Financing Rate (SOFR). 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 being the date upon which such 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 foreign exchange 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 fair value through profit and loss (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, fair value through other comprehensive income (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.

1. ACCOUNTING POLICIES (continued)

b) Financial assets and liabilities (continued)

Solely Payments of Principal and Interest (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 advances 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 under 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.

1. ACCOUNTING POLICIES (continued)

b) 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 pounds 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 colleagues whose employment costs are also recharged to the Company.

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. The Company's 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.

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 colleague costs, external consultancy fees and intellectual property rights. Costs are expensed as incurred until all the following criteria can be demonstrated, in which case they are capitalised as an intangible asset:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale; and
b. an intention to complete the intangible asset and use or sell it; and
c. ability to use or sell the intangible asset; and
d. 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
e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f. 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 indictors 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.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

As a result of its normal business activities, the Company is exposed to a variety of risks, which are outlined further below. The Company manages its risk in line with the central risk management framework of the Group. The Group aims to use a prudent approach and advanced risk management techniques to help the Company deliver robust financial performance, withstand stresses, such as the impacts of the Covid-19 pandemic, and build sustainable value for its stakeholders.

Authority flows from the Group's Board to its own CEO and from the CEO to the Company's Board and then onto specific individuals. The Group operates a risk governance structure that consists of:

- Committees – Various committees are maintained and each committee are responsible for specific areas of the Group's risk framework.
- Key Senior Management Roles – A number of senior roles have specific responsibilities for risk management.
- Risk Organisational structure – The 'three lines of defence' model.

The Group uses a 'three lines of defence' model to manage risk. This model is widely used in the banking industry and has a clear set of principles to put in place a cohesive operating model across an organisation. It does this by separating risk management, risk control and risk assurance. The reporting lines to the Group's Board with respect to risk are as follows:

The first line of defence are the business and business support units that identify, assess and manages the risks that originate and exist in their areas, within the Group's risk appetite.

The second line of defence comprise the Risk Control Units that are independent monitoring and control functions. They are under the executive responsibility of the Group's CEO, but responsible to the Group's Chief Risk Officer or the Chief Legal and Regulatory Officer for overseeing the first line of defence. They make sure Business Units and Business Support Units manage risks effectively and within the Group's Risk Appetite. The Risk Control Units are: Financial Crime; Conduct & Compliance, responsible for controlling reputational and conduct & regulatory risks; Legal; and Risk, responsible for controlling credit, market, liquidity, capital, pension, strategic and business, operational and model risks.

The third line of defence is Internal Audit as an independent corporate function. It gives assurance on the design and effectiveness of the risk management and control processes.

More detailed information around the Group's risk management policies can be found under the Risk Review section of the 2021 Santander UK plc Annual Report.

Top and emerging risks

The risks to which the Company is exposed are credit risk, market risk, liquidity risk, capital risk, operational risk and resilience (consisting of cyber, fraud, IT, people and third party), conduct and regulatory, financial crime risk, legal risk, strategic and business risk and reputational risk. Several of these risk types also have top risks associated with them. The top risks facing the Company are financial crime, IT, conduct and regulatory and capital.

The Company and the Group also regularly review emerging risks that could impact its business, customers and shareholders, including regular review and discussion at the Group's Executive Risk Control Committee (ERCC) and Board Risk Committee (BRC). The identification of emerging risks is co-ordinated by the Group's Risk Division.

Emerging risks against the key risk types that potentially affect or have the potential to affect the Company are discussed below.

Broader geopolitical and social risks, including invasion by Russia of Ukraine

During the course of the past two years, since the onset of the Covid-19 pandemic, a number of broader risks have evolved and may present future headwinds. These include, geopolitical tensions between regions across the world, global supply chain pressures (which have already fuelled inflationary pressures), stretched household finances, and emerging social unrest. These factors are also likely to play into increased localised political risk, including in the UK. The Company is closely following these developments and the potential for any material impacts which may need to be taken into consideration in its future plans and intends to take a coordinated approach with the other members of the Santander UK plc group.

Strategic and business risk - Intense Market Competition, rapid technological change and inflation

Enhancing the Company's digital proposition remains key in supporting the customers' needs and retaining and growing the customer loyalty base. Surplus deposits in ring-fenced banks remain a key driver of market pricing and are a contributory factor towards pressures on net interest margins. As well as the elevated competition between incumbent banks, new entrants backed by other large multi-national banks are also launching in the UK offering competitive incentives to compete in the growing digital market.

The Group and the Company monitors the potential for emerging inflation related risks. As the Company does not lend to customers or operate its own pension schemes, the Company is not directly exposed to the risks of increasing inflation.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Capital, conduct and regulatory and reputational risks - Demanding regulatory agenda

The Group and the Company is vigilant in taking a customer focused approach in developing strategy, products and policies that support fair customer outcomes and market integrity.

Like all UK banks the Company continues to face a demanding and complex regulatory agenda in 2022 and beyond, focused on consumer outcomes, addressing consumer detriment, price regulation and vulnerability, competition, Climate Change and Consumer Duty. The Group continues to engage regularly with the ECB on regulatory issues such as models development and implementation and the Company itself, engages with the PRA on various other regulatory matters. These challenges, increase the level of operational risk, and also the costs of compliance and business model changes.
The principal risks facing the Company are as follows:

Operational risk and resilience

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company gives a particular focus to the following risks which is mitigated through the management of Operational risk & resilience. These risks are managed in line with Group policy. More detailed information can also be found in the 2021 Santander UK plc Annual Report.

- Cyber – Cyber risk refers to threats in cyberspace, using the internet, mobile or digital technologies. Cyberspace refers to the information technologies used to store, modify and communicate information. It includes internet, information systems, mobile devices and digital technologies that support business, infrastructure and services.

- Fraud – The risk associated with an attempted or successful fraud being committed against the Company, a customer or a third party. Fraud is defined as the method of seeking to obtain a financial benefit by the use of deception or dishonesty with the intention to deprive or disadvantage the Company, its customers or other parties. Fraud can be committed by first parties (the Company's customers), second parties (people known to the Company's customers or known to the Company), third parties (people unknown to the Company's customers or to the Company), and internally by the Company's colleagues. The Company and the Group are responding to the wider fraud ecosystem threats with a holistic review of the detection controls, an enhanced focus on preventative methodology and a review of the organisational model. Both the Group and Company are committed to protecting themselves and its customers from fraud and to mitigating fraud risk in an ever-evolving external fraud environment.

- IT – IT risk is any event related to the use of technology that supports business processes that may result in the unavailability or failure in systems or processing errors causing an impact to the Company's customers or operations. The Company and the Group proactively monitor technology platforms and applications through automated alerts to detect events that may impact their performance or availability. Any material event is investigated to understand the root cause and to identify remedial actions to ensure that the event is not repeated. The Group and Company escalate these events as required through the Santander Early Escalation Notification (SEEN) Process, and these are reviewed each quarter to identify any trends that need remediation. The Company and the Group assess IT risk each year as part of the Risk and Control Self-Assessment (RCSA) process where risks are identified and assessed by the Group's business units and are then subject to a review and challenge process from the relevant SMEs. This risk posture is then reviewed monthly to understand if there have been any events that would require an update to the risk profile. IT risks are not wholly within the Company's control since the Company relies on the IT systems within the Group. During May 2021, there was a significant systems outage within Santander UK plc, which also affected the Company's customers. The Group has initiated a reaching programme to address the root causes, which is expected to deliver risk improvement over a three-year horizon. The Company engages with Group in respect of this matter.

- People – People risk include all risks related to employees and third parties working for the Company, covering resource management, health & safety and employee relations.

- Third party – The risk that may arise when the Company uses third-party suppliers to provide goods, services or activities.
  The Company relies extensively on third parties, both within the Banco Santander group and outside of it, for a range of services. These include outsourced services, such as IT infrastructure and banking operations. Regulatory requirements relating to the management of our outsourced services continue to increase, with the PRA publishing their Supervisory Statement on Outsourcing and Third Party Risk Management in March 2021. These require the Company to use certain internal governance arrangements, including sound risk management, whenever functions are outsourced. These also complement the above-mentioned requirements and expectations on operational resilience, including the management of third parties relating to the Company's Important Business Services. The Group is progressing with a programme of work to review and enhance governance arrangements ahead of the 31 March 2022 implementation deadline.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Conduct and regulatory risk

Conduct risk arises as a result of actions taken by the Company that leads to customer detriment or poor outcome for our customers. Regulatory risk is the risk of financial or reputational loss, or imposition of or conditions on regulatory permission, as a result of failing to comply with applicable codes, regulator's rules, guidance and regulatory expectations. The key underlying types of risk are:

Regulatory:
The risk that the Company fails to adhere to relevant laws, regulations and codes which could have serious financial, reputational and customer impacts. This includes the risk that the Company may be adversely impacted by changes and related uncertainty around UK and international regulations. As well as being subject to UK regulation, as part of the Banco Santander Group, the Company is impacted indirectly through regulation by the Banco de España (the Bank of Spain).

Product:
The risk that the Company offers products and services that do not result in the right outcomes for its customers. The Group level product approval process aims to minimise conduct, legal, regulatory or reputational risks in the design, marketing, sales and service of new products and services. The Company assess all our products and services within a formal framework to ensure they meet the needs and expectations of its customers, are within the Company's risk appetite and agreed metrics, and to ensure that processes and controls are in place.

Sales, culture and Controls:
Sales is the risk that the Company sells products and services to its customers without giving them enough information to make an informed decision or the Company does not provide correct advice. Culture is the risk that the Company does not maintain a culture that encourages the right behaviours and puts the customer at the heart of what it does. Controls is the risk that the Company does not supervise and monitor its people effectively or does not have robust systems and controls in place to prevent and detect misconduct.

In line with the expectations of the Group's regulators, The Company trains colleagues and require them to maintain an appropriate level of competence (in line with their role and responsibilities) to ensure customers achieve fair outcomes. The Company invests in its people to ensure that it achieves mandatory risk objectives and that everyone acknowledges their personal responsibility to manage risk through our I AM Risk approach. Further information on I AM Risk can be found in the 2021 Santander UK plc Annual Report.

Reputational risk

Reputational risk is the risk of damage to the way the Company's reputation and brand are perceived by the public, clients, government, colleagues, investors, or any other interested party. The Company considers reputational risk as part of the operational risk and control assessments. The Company also considers it as part of its new product assessments. The Group's Corporate Communications and Responsible Banking, Legal and Regulatory Affairs and Marketing team helps the Company to mitigate the risk and agree action plans as needed. They do this as part of their role to monitor, build and protect the reputation and brand of both the Group and the Company.

Financial crime risk

Financial crime risk is the risk that the Company is used to further financial crime, including money laundering, sanctions evasion, terrorist financing, facilitation of tax evasion and bribery and corruption.

The Company together with the Group takes a proactive approach to mitigating financial crime risk. The Group's financial crime risk frameworks are supported by policies and standards which explain the requirements for mitigating money laundering, terrorist financing, sanctions compliance risks, bribery and corruption, and facilitation of tax evasion risks. These are updated regularly to ensure they reflect new requirements and industry best practice. The Company supports its colleagues to make sure they can make the right decisions at the right time. The Company raises awareness and provides role-specific training to build knowledge of emerging risks. Key elements of the financial crime risk mitigation approach that are taken include:

- Undertaking customer due diligence measures for new and existing customers, which include understanding their activities and banking needs
- Conducting risk assessments of customers, products, businesses, sectors and geographic risks to tailor for mitigation efforts
- Ensuring all the Company's colleagues complete mandatory financial crime training and, where required, role-based specialist training
- Deploying new systems to better capture, analyse and act on data to mitigate financial crime risks
- Partnering with public authorities, the Home Office and the wider financial services industry to pool expertise and data. We are also involved in partnerships such as the Joint Money Laundering Intelligence Taskforce (JMLIT) which supports public-private collaboration to tackle financial crime.

The mission to effectively Deter, Detect and Disrupt Financial Crime remains a key priority for the Company. The Board provides oversight and continues to prioritise resources and investment in progressing its multi-year Financial Crime transformation effort to enhance systems and controls, modernise the technology and data capabilities and to ensure the firm can operate sustainably within its stated risk appetite.

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.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Credit risk management

Credit risk is managed in line with Santander UK plc policy. The company offers no arranged overdrafts or lending facilities. A legacy element of overdrawn accounts totaling £41K (2020: £51K) still remains. However 100% of these loans have been 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 £5,128m (2020: £5,329m).

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 2021, no credit impairment losses were recognised against loans and advances to Group companies.

Loans and advances to banks do not pose any significant risk to the Company, since the counterparty is primarily Santander UK plc and other subsidiaries of the Banco Santander SA Group. As at the balance sheet date in 2021 and 2020, there were no debtor balances with third parties.

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 bulk of the Company's market risk comprises of interest rate risk and currency risk.

Interest Rate Risk

Interest rate risk originates from providing banking products and services to our customers.

Yield curve risk arises from timing mismatches in repricing of customer deposits. In general repricing of customer deposits usually aligns to changes in the Bank of England (BoE) base rate where permissible and the majority of placements to Santander UK plc are also sensitive to changes in the BoE rate. However, this risk is also reduced by the Company only holding a small portion of customer deposits at a fixed rate of interest.

Basis risk arises as a result of pricing customer liabilities using a different rate index to the placements with Santander UK plc. The Company has no material exposure to basis risk as the majority of customer deposits are in pounds sterling and their subsequent placements to Santander UK plc use the BoE rate. Furthermore, changes in the BoE base rate are not likely to present an adverse risk given the base rates so far have been close to zero. Base rates increased during the latter part of 2021, with further increases expected during 2022.

Interest rate sensitivity

Interest rate sensitivity occurs due to timing differences between changes in the base rate and changes arising from deposit and internal repricing. Managing sensitivity is not always within the Company's control, for example changes to the base rates or internal pricing rates, the latter set at the Group level. The Company can only manage sensitivity from deposit repricing.

The Company no longer offers or manages products where the interest rate is linked to a market index, following a final maturity in March 2021.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Currency Risk

The main operating or "functional" currency of the Company's operations is pounds sterling. There are also some balances in Euro and US dollars. As the Company prepares its financial statements in pounds 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 and the currency customer deposits representing only a small portion of the Company's entire customer portfolio. Taking these into account, the Company did not have a material financial exposure to foreign exchange gains and losses in either the year ended 31 December 2021 or the year ended 31 December 2020.

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

	2021 Euro £000	2021 US Dollars £000	2020 Euro £000	2020 US Dollars £000
Loans and advances to group companies	74,104	48,149	75,089	48,389
Total assets	74,104	48,149	75,089	48,389
Customer accounts	73,727	47,222	74,109	48,360
Other liabilities	-	-	8	4
Total liabilities	73,727	47,222	74,117	48,364

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 25.

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.

Legal Risk

Legal risk includes the legal consequences of operational risk, such as breach of contract, and operational risk with legal origins, such as a legally defective contract. Legal risk is managed as a standalone risk type to reflect the continued pace and breadth of regulatory change across financial services. The Group's Legal teams provide specialist advice and support to the Company to ensure we effectively manage legal risk. They help to implement a strong legal risk culture throughout our business using guidelines, templates, policies and procedures and specific support on a product, service, transaction or arrangement basis and decide whether legal advice should be sourced internally or externally.

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:

At 31 December 2021	On demand £000	Up-to 3 months £000	3-12 months £000	1-5 years £000	Total £000
Deposits by banks	2,783	-	-	-	2,783
Customer accounts	4,539,873	1,004	1,847	1,500	4,544,224
Amounts due to group companies	-	1,873	-	-	1,873
Total financial liabilities	4,542,656	2,877	1,847	1,500	4,548,880

At 31 December 2020	On demand £000	Up-to 3 months £000	3-12 months £000	1-5 years £000	Total £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

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Capital risk

THE SCOPE OF CAPITAL ADEQUACY

Regulatory supervision

For capital purposes, Santander UK plc is subject to prudential supervision by the PRA, as a UK bank, and by the European Central Bank (ECB) as part of the Banco Santander group. The ECB supervises Banco Santander as part of the Single Supervisory Mechanism (SSM). Although Santander UK plc is part of the Banco Santander group, it does not have a guarantee from its ultimate parent Banco Santander SA and is operated as a standalone subsidiary. As Santander UK plc is regulated by the PRA, it has to meet the PRA capital requirements on a standalone basis. Santander UK plc also has to show the PRA that it can withstand capital stress tests without the support of its ultimate parent. Reinforcing Santander UK plc's corporate governance framework, the PRA exercises oversight through its rules and regulations on the Board and senior management appointments.

Santander UK plc is the head of the ring-fenced bank sub-group and is the parent company of the Company, who itself is subject to regulatory capital and leverage rules in relation to that sub-group. The Company's capital which comprises its share capital and reserves is managed centrally by the Group.

Capital risk management

The Santander UK plc Board is responsible for capital management strategy and policy and ensuring that capital resources are monitored and controlled within regulatory and internal limits. The capital risk framework and appetite operated is approved by the Santander UK Board. This reflects the business environment that Santander UK operates in, the strategy for each material risk and the potential impact of any adverse scenarios or stresses on its capital position.

Management of capital requirements

Capital risk appetite aims to maintain capital levels appropriate to the level of stress applied, and the expected regulatory response. In:

- An adverse economic stress, which might be expected to occur once in 20 years, the firm should remain profitable and exceed all regulatory capital minimums at all times.
- A very severe economic stress, which might be expected to occur once in 100 years, and which has been designed to test any specific weaknesses of a firm's business model, the firm should meet all regulatory capital minimums at all times. This is subject to the use of regulatory buffers designed to absorb losses in such a stress.

Management of capital resources

A mix of regulatory and Economic Capital (EC) ratios and limits, internal buffers and restrictions are used to manage the Company's and Santander UK's capital resources. The differing costs of capital instruments and capital management techniques are taken into account. These are also used to shape the best structure for the Group's capital needs. As part of the strategic planning process, Santander UK decides how to allocate its capital resources. This is based in part on the relative returns on capital using both EC and regulatory capital measures. Severe stresses are planned for and what actions would be taken are set out if an extremely severe stress threatened the Company's or Santander UK's viability and solvency. This could include not paying dividends, selling assets, reducing our business and issuing more capital.

Risk measurement

Banco Santander's approach is applied to capital measurement and risk management for CRD IV. For more on the CRD IV risk measurement of Santander UK's exposures, see Banco Santander's Pillar 3 report.

The main metrics used to measure capital risk are CET1 capital and total regulatory capital.

Each year a capital plan is created, as part of the ICAAP. The ICAAP is shared with the PRA. The PRA then informs the Company and Santander UK how much capital (Pillar 2A), and of what quality, it thinks it should hold on top of its Pillar 1 requirements and buffer levels. A series of economic scenarios to stress test our capital needs are developed and confirm that the Company and Santander UK has enough regulatory capital to meet its projected and stressed capital needs and to meet its obligations as they fall due. Regulatory minimum capital is augmented with internal buffers. Buffers are held to ensure that there is enough time to take action against unexpected movements.

Risk mitigation

Santander UK has designed its capital risk framework, policies and procedures to ensure that it operates within its Risk Appetite. Santander UK manages capital transferability between its subsidiaries in line with its business strategy, its risk and capital management policies, and UK laws and regulations.

There are no legal restrictions on the Company (or Santander UK plc) moving capital resources promptly, or repaying liabilities, between Santander UK plc and its subsidiaries except for loans and distributions between Santander UK entities in the ring-fenced bank sub-group and Santander UK entities that are not members of the ring-fenced bank sub-group, where the PRA is required to assess the impact of proposed distribution prior to payment.

The Company is also party to the Capital Support Deed to facilitate the holding of sufficient capital resources to meet regulatory requirements. Further information can be found under note 25.

2. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

Risk monitoring and reporting

Monitoring and reporting occurs regularly against Santander UK's capital plan. This is done to identify any change in business performance that might affect its capital. Each month, the economic assumptions used to create and stress test the capital plan are reviewed. This is done to identify any potential reduction in Santander UK plc's capital (and that of the Company).

Capital adequacy

The Company's capital is managed on a Basel III basis. Throughout 2021 and 2020, the Group managed internal capital allocations and targets in accordance with its capital and risk management policies.

Capital

	2021 £000	2020 £000
Total Tier 1 Capital*	575,515	545,542
Deductions from Tier 1	(38,473)	(41,378)
Total Capital Resources (Tier 1)	537,042	504,164
Total Capital Resources	537,042	504,164

* 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

	2021 £000	2020 £000
Interest and similar income:		
Loans and advances to banks and fellow subsidiaries	57,544	69,896
Total interest and similar income	57,544	69,896
Interest and similar charges		
Deposits by customers	(3,162)	(9,357)
Total interest and similar charges	(3,162)	(9,357)
Net interest income	54,382	60,539

4. NET FEE AND COMMISSION INCOME/ (EXPENSE)

	2021 £000	2020 £000
Fee and commission income:		
Foreign currency and current account fees	3,147	2,096
Total fee and commission income	3,147	2,096
Fee and commission expense:		
Intermediary fees	(855)	(948)
Processing fees	(1,258)	(1,353)
Total fee and commission expense	(2,113)	(2,301)
Net fee and commission income/ (expense)	1,034	(205)

5. OTHER OPERATING RESULT

	2021 £000	2020 £000
Fair value gains on derivative financial instruments	18	4,513
Fair value losses on derivative financial instruments	(18)	(4,513)
Other income	479	-
Total other operating income	479	-

6. OPERATING EXPENSES

	2021 £000	2020 £000
Colleague costs:		
Wages and salaries	4,544	4,755
Social security costs	317	277
Other pension costs:		
- defined contribution plans	195	169
- defined benefit plans	100	91
Other personnel costs	110	86
	5,266	5,378
Property and equipment expenses	257	257
Other administrative expenses	8,109	10,188
Total operating expenses	13,632	15,823
Amortisation of intangible assets	2,905	2,977

Other administrative expenses consist largely of costs in relation to IT support and maintenance totalling £5.7m (2020: 6.8m). It also comprises management recharges from Santander UK plc.

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

	2021 Number	2020 Number
Administrative colleagues	41	63
Sales colleagues	34	21
Monthly average number of colleagues	75	84

7. DIRECTORS' EMOLUMENTS

Fees totalling £15,000 (2020: £15,000) were payable to Annemarie Verna Florence Durbin in respect of her position as the Chair of the Company.

No other (2020: 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 (2020: £nil).

8. AUDIT AND OTHER SERVICES

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

	2021 £000	2020 £000
Audit services:		
Statutory audit fees for the audit of Company's financial statements	85	88
Non audit fees:		
Audit-related assurance services	-	13
Total audit fees	85	101

There were no fees for non-statutory audit services in the current year as a result of exemption from a Client Assets Sourcebook (CASS) audit.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities:	2021 Notional amount £000	2021 Fair value £000	2020 Notional amount £000	2020 Fair value £000
Customer accounts – equity index-linked balances (Note 20)	-	-	1,478	-
Amounts due to group company – equity index-linked balances (Note 21)	-	-	1,078	-
Derivative financial instruments	-	-	-	10
	-	-	2,556	10

The Company offered and managed third party equity index-linked products with returns linked to indexes such as FTSE. The remaining balances matured during March 2021.

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

	2021 £000	2020 £000
Amounts due from group company – equity index-linked balances	-	2,572

'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. These remaining balances matured in March 2021.

Further information in relation to the measurement and valuation of the financial instruments can be found in Note 27.

11. TAXATION EXPENSE

	2021 £000	2020 £000
Current tax:		
UK corporation tax on profit of the year	10,623	11,210
Adjustments in respect of prior years	-	9
Total current tax	10,623	11,219
Deferred tax (Note 12):		
Origination and reversal of temporary differences	4	5
Change in rate of UK corporation tax	(4)	(2)
Adjustments in respect of prior years	-	(9)
Total deferred tax	-	(6)
Tax charge on profit for the year	10,623	11,213

UK corporation tax is calculated at 19.00% (2020: 19.00%) of the estimated assessable profits for the year.

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. This change was substantively enacted on 24 May 2021 and, as a result, the effect has been reflected in the closing deferred tax position included in these financial statements. The comparative 2020 results reflected an increase in tax rates by 2% following an announcement in the 2020 budget to reverse a previously planned rate reduction from April 2020.

A reduction in the Bank Surcharge rate from 8% to 3% was announced in October 2021 to be effective from 1 April 2023. This change was substantively enacted on 2 February 2022 and as a result, the effects of this change have not been reflected in the closing balance sheet position for deferred tax. The effect of the change, had it been substantively enacted by the balance sheet date, would be to increase both the tax expense for the period and reduce the deferred tax asset by £3,306.

11. TAXATION EXPENSE (continued)

The tax on the Company's profit before tax differs (2020: differs) from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2021 £000	2020 £000
Profit before tax	39,358	41,534
Tax calculated at a tax rate of 19.00% (2020: 19.00%)	**7,478**	7,891
Bank surcharge of 8% on profits	**3,149**	3,323
Effect of change in tax rate on deferred tax provision	**(4)**	(1)
Tax charge for the year	10,623	11,213

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:

	2021 £000	2020 £000
At 1 January	22	16
Income statement credit	-	6
At 31 December	22	22

Deferred tax assets are attributable to the following items:

	Balance Sheet		Income Statement	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Deferred tax assets				
Accelerated book depreciation	22	22	-	(3)
Other temporary differences	-	-	-	9
	22	22	-	6

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

	2021 £000	2020 £000
Amounts due from group companies	5,128,808	5,329,187
	5,128,808	5,329,187

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

	2021 £000	2020 £000
Repayable:		
On demand	5,081,771	5,280,744
In not more than three months	47,037	48,443
	5,128,808	5,329,187

The majority of this balance represents placements on overnight deposit with the parent or represent intercompany debtor balances with the parent or group companies. These balances include operational bank accounts, that are managed by Santander UK plc. Loans and advances to banks represent liquid assets that are repayable on demand or within three months and hence 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 are all at variable rate (2020: all at variable rate).

14. LOANS AND ADVANCES TO CUSTOMERS

	2021 £000	2020 £000
Other unsecured advances	41	51
Loans and advances to customers	**41**	51
Less: Credit impairment loss allowance	(41)	(51)
Loans and advances to customers, net of loss allowance	**-**	-

The loans to customers in the above table are at a variable rate of interest set at nil % (2020: Variable at nil %) and are all repayable on demand (2020: repayable on demand).

The net book value of loans and advances to customers equals their fair value.

Movement in loan loss allowances:

	2021 Other Unsecured advances £000	2020 Other Unsecured advances £000
As at 1 January	(51)	(76)
Net reversal of impairment during the year	10	24
Amounts written off during the year	-	1
At 31 December	(41)	(51)

No bad debts that had been previously written off were recovered during the year (2020: £nil).

15. GOODWILL

	2021 £000	2020 £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.

In 2021 and 2020, no impairment of goodwill was recognised. Impairment testing in respect of the goodwill is performed by Santander UK plc. Santander UK plc defines the specific cash generating units (CGU's). The Company represents one standalone 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 30 June and 31 December. Goodwill is tested for impairment if reviews identify an impairment indicator or when events or changes in circumstances dictate. Impairment is required where the book value of goodwill exceeds its recoverable amount.

The annual review identified the continuing uncertainty due to the Covid-19 pandemic and its potential impact on the carrying value of goodwill as impairment indicators for the CGU. As a result, management updated the impairment test at 31 December 2021 for all CGUs.

Basis of the recoverable amount

The recoverable amount of the CGU was determined based on its value in use (VIU) at each testing date for 2021 and 2020. The VIU is calculated by discounting management's 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:

	2021 %	2020 %
Pre-tax discount rate	16.3	8.9
Growth rate beyond initial cashflow projections	1.6	1.6

15. GOODWILL (continued)

Sensitivity analysis

Although there was no impairment of goodwill at 31 December 2021 or 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 to nil (2020: reduce headroom by 30%). The change in the sensitivity analysis table for 2021 to present the effect of an elimination of all headroom was undertaken to align to presentation as used in the 2021 Santander UK Group Holdings plc Annual Report. The decrease in the VIU against the prior period is due to a higher assumed capital requirement following an updated modelling approach and lower profit forecasts.

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
2021:	£000	£000	£000	bps	%
CA Premier Banking Limited	604,045	716,340	112,295	886	16
2020:					
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 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 the Company's base case economic scenario. For more on the forecasting approach and the assumptions in place at 31 December 2021, further information can be found within the 2021 Santander UK Group Holdings plc Annual Report, under Credit risk - Santander UK group level section of the Risk review.

Cash flow projections for the purpose of impairment testing do not take account of any adverse outcomes arising from contingent liabilities (see Note 25), whose existence will be confirmed by uncertain future events or where any obligation is not probable or otherwise cannot be measured reliably.

Discount rate

The approach taken to estimate the Company's discount rate was refined in 2021. The rate used to discount the cash flows for 2021 is based on the cost of equity assigned to each CGU, which is derived using a capital asset pricing model (CAPM). The CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. In determining the discount rate, management have identified the cost of equity associated with market participants that closely resemble our CGUs and adjusted them for tax to arrive at the pre-tax equivalent rate. As the discount rate is derived from market data, it takes into account the likely impact of future climate change.

In the prior year, the rate used to discount cashflows was 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 was difficult to obtain. There is significant judgement used in deriving the discount rate (Note 1). Furthermore, the sensitivity analysis for the prior year 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 rate beyond initial cash flow projections

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. The estimated UK long-term average GDP growth rate has regard to the long-term impact of inherent uncertainties, such as Brexit, climate change and Covid-19.

16. PROPERTY, PLANT AND EQUIPMENT

	2021 Office fixtures and equipment £000	2020 Office fixtures and equipment £000
Cost:		
At 1 January and 31 December	2,999	2,999
Accumulated depreciation:		
At 1 January and 31 December	(2,993)	(2,993)
Net book value	6	6

The net book value of property, plant and equipment relates to art and memorabilia.

17. INTANGIBLE ASSETS

Software:	2021 £000	2020 £000
Cost:		
At 1 January	14,526	14,526
At 31 December	14,526	14,526
Accumulated amortisation:		
At 1 January	(3,147)	(170)
Charge in year	(2,905)	(2,977)
At 31 December	(6,052)	(3,147)
Net book value	8,474	11,379

The intangible asset relates to the new Core Banking Platform which also provides enhanced Digital and Open Banking capabilities to the customer base. Amortisation is over a five-year period commencing from December 2019.

18. OTHER ASSETS

	2021 £000	2020 £000
Items in the course of collection	-	24
Other accruals	170	70
	170	94

A re-presentation has been reflected against the prior year to show the deferred tax asset as a separate line item on the balance sheet.

The book value of other assets equals their fair value.

19. DEPOSITS BY BANKS

	2021 £000	2020 £000
Amounts due to Santander UK plc	2,783	5,130
Total deposits by banks	2,783	5,130
Repayable:		
On demand	2,783	5,130
	2,783	5,130

The deposits by banks are all at variable rate (2020: variable rate).

The fair value of deposits by banks equals book value.

20. CUSTOMER ACCOUNTS

	2021 £000	2020 £000
Amounts due to fellow subsidiaries	420	420
Retail deposits	4,543,804	4,774,661
Equity index-linked deposits	-	1,478
Deposits by customers	4,544,224	4,776,559
Derivative financial instruments (Note 9)	-	10
Total deposits by customers	4,544,224	4,776,569

	2021 £000	2020 £000
Repayable:		
On demand	4,539,873	4,756,540
Not more than three months	1,004	6,736
More than three months but not more than one year	1,847	9,157
More than one year but not more than five years	1,500	4,136
	4,544,224	4,776,569

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, where applicable. The book value of customer accounts approximately equals their fair value.

21. AMOUNTS DUE TO GROUP COMPANIES

	2021 £000	2020 £000
Santander UK plc – customer repurchase of Equity index-linked products	-	1,078
Santander UK plc – recharges	1,870	-
Santander UK Technology Limited	-	1,851
Gesban UK Limited	-	84
Santander Global Technology SL	3	-
	1,873	3,013

22. OTHER LIABILITIES

	2021 £000	2020 £000
Accrued expenses	112	235
Items in the course of transmission	2,690	783
Other	1,130	1,010
Total other liabilities	3,932	2,028
Current tax – corporation tax	10,623	11,210

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. SHARE CAPITAL

	2021 £	2020 £
Issued and fully paid:		
100,000,000 (2020: 100,000,000) ordinary shares of £1 each	100,000,000	100,000,000
100 (2020: 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:

a) receive such dividends as the Directors approve out of profits remaining after payment of the preferred dividend;
b) one vote for every share held in respect of resolutions proposed at general meetings; and
c) 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:

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

24. CASHFLOW STATEMENT

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

	2021 £000	2020 £000
Profit before tax	39,358	41,534
Amortisation of intangible assets	2,905	2,977
Impairment reversal	(10)	(25)
Finance write-backs	(479)	-
Net cash flow from trading activities	41,774	44,486
Changes in operating assets and liabilities		
Increase/ (decrease) in items in course of transmission by other banks	1,907	(2,603)
Decrease in loans and advances to customers	10	30
(Increase)/ decrease in other assets	(76)	519
Decrease in derivative financial liabilities	(10)	(2,407)
Decrease in financial assets at fair value through profit or loss	2,572	16,768
Decrease in customer accounts	(232,334)	(228,596)
Decrease in deposits by banks	(2,347)	(10,757)
(Decrease)/ increase in amounts due to other group companies	(1,140)	748
Increase/ (decrease) in other liabilities and provisions	475	(4,046)
Settlement to Santander UK plc in respect of Corporation Tax	(11,210)	(18,863)
Net cash used in from operating activities	(200,379)	(204,721)

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

	2021 £000	2020 £000
Loans and advances to banks (Note 13)	5,128,808	5,329,187

25. CONTINGENT LIABILITIES AND COMMITMENTS

Capital support arrangements

At 31 December 2021, Santander UK plc, Cater Allen Limited and certain other non-regulated subsidiaries within the RFB were party to a capital support deed dated 13 November 2018 (the RFB Sub-Group Capital Support Deed). These parties were permitted by the PRA to form a core UK group as defined in the PRA Rulebook, a permission which expired on 31st December 2021. Exposures of each of the regulated entities to other members of the core UK group were exempt from large exposure limits that would otherwise apply and these exposures were risk-weighted at 0%. The purpose of the RFB Sub-Group Capital Support Deed was to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties breached or was at risk of breaching its capital resources or risk concentrations requirements.

A new RFB Sub-Group Capital Support Deed was entered into on 17 December 2021 and effective from 1 January 2022. This reflected the latest version of associated regulation and the addition of two further Santander UK plc subsidiaries including Santander ISA Managers Limited, an entity regulated by the FCA. The parties to the new RFB Sub-Group Capital Support Deed were granted a new permission by the PRA to form a core UK group from 1 January 2022 to 31 December 2024, following expiry of the previous core UK group permission on 31 December 2021. Where applicable this new permission also provides for intra-group exposures to be excluded from the leverage exposure measure.

Liquidity support arrangements

The Company's exposure to liquidity risk is managed with Santander UK plc. Under this model and PRA's liquidity rules, the Company, together with Santander UK plc form the RFB Domestic Liquidity Sub-Group (the RFB DolSub), which allows the entities to collectively meet regulatory requirements for the purpose of managing liquidity risk. Each member of the RFB DolSub will support the other by transferring surplus liquidity in times of stress.

26. 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 (2020: £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.

The provision of IT support services to the Company were previously provided to the Company by Santander UK Technology Limited in the prior year and are now provided by Santander UK plc following an internal Group level reorganisation. For the current year, expenditure and liabilities in regard to IT support services are now presented against Santander UK plc – management fees and recharges in the table below. For the current year, IT support expenses in regard to the above move totalled £2,367,000 (2020: £1,851,000) and liabilities at the balance sheet date were £1,870,000 (2020: £1,851,000).

26. RELATED PARTY TRANSACTIONS (continued)

During the year, the Company entered into no transactions with Directors of the Company (2020: £nil).

	Income		Expenditure		Amounts due from related parties		Amounts due to related parties	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Santander UK plc – retail deposits	-	-	-	-	5,006,513	5,207,591	-	-
Santander UK plc – retail deposit interest	5,229	12,055	-	-	-	-	-	-
Santander UK plc – Bank account	-	-	-	-	118,438	117,697	-	-
Santander UK plc – management fees and recharges	-	-	5,970	4,034	-	-	4,653	5,130
Santander UK plc – transfer pricing	52,315	57,840	-	-	3,857	4,670	-	-
Santander UK plc – Equity index-linked balances [1]	8	2,096	18	2,441	-	2,689	-	1,195
Santander UK Technology Limited	-	-	-	1,851	-	-	-	1,851
Gesban UK Limited	-	-	84	84	-	-	-	84
Santander Global Technology SL	-	-	3	-	-	-	3	-
Cater Allen Lloyds Holdings Limited – customer accounts	-	-	-	-	-	-	358	358
Cater Allen Syndicate Management Limited – customer accounts	-	-	-	-	-	-	62	62
	57,552	71,991	6,075	8,410	5,128,808	5,332,647	5,076	8,680

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

27. 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.

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.

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

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 2021 and 2020 are set out below. Santander UK plc did not make any material changes to the valuation techniques and internal models it used in 2021 and 2020.

- 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 2021 and 2020, 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	2021 Total £000	Level 1 £000	Level 2 £000	Level 3 £000	2020 Total £000
Assets								
Other financial assets at FVTPL (Note 10)	-	-	-	-	-	2,572	-	2,572
	-	-	-	-	-	2,572	-	2,572
Liabilities								
Derivative financial instruments (Note 9)	-	-	-	-	-	10	-	10
	-	-	-	-	-	10	-	10

28. 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 colleagues 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 2021 Annual Report.

Pension costs are included in colleague 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 2021 (2020: £nil).

29. 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.