

# SANTANDER INSURANCE SERVICES UK LIMITED

Registered in England and Wales  
Company number 01492302

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 DECEMBER 2016

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## STRATEGIC REPORT

The Directors submit the Strategic Report together with their Report of the Directors and the audited financial statements for the year ended 31 December 2016.

### Fair review of the Company's Business

The principal activity of Santander Insurance Services UK Limited (the Company) is the provision of General Insurance services and related products. The Company is authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) for its insurance mediation activities.

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

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

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

### Principal risks and uncertainties facing the company

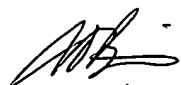
The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in Note 2.

### Payment Policy

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

It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions. The Company's practice on payment of creditors has been quantified under the terms of Schedule 7 of the Accounting Regulations. Based on the ratio of the aggregate amounts owed to trade creditors at the end of the year to the aggregate amounts invoiced by suppliers during the year at 31 December 2016, trade creditor days for the Company were 36 days (2015: 31 days).

By Order of the Board



ALEXANDER O'BRIEN

For and on behalf of  
Santander Secretariat Services Limited  
Secretary

24 May 2017

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 2016.

### Likely future developments

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

### Results and dividends

The profit for the year amounted to £605,000 (2015: £530,000).

The Directors do not recommend the payment of a final dividend (2015: £nil).

### Subsequent Events

There are no subsequent events.

### Directors

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

F del Cura Ayuso  
R Al-Dabbagh  
DJ Hickman  
JAS Moodie  
AL Rodriguez (resigned 16 June 2016)  
A Wakelin (resigned 30 September 2016)  
R Attar-Zadeh

### Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### 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 and 15 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk, market risk, liquidity risk.

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

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

## REPORT OF THE DIRECTORS (*continued*)

### Qualifying Third Party Indemnities

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

### Independent Auditors


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

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

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

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

By Order of the Board



ALEXANDER O'BRIEN

For and on behalf of  
Santander Secretariat Services Limited  
Secretary

24 May 2017

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER INSURANCE SERVICES UK LIMITED

### REPORT ON THE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, Santander Insurance Services UK Limited's financial statements (the financial statements):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### What we have audited

The financial statements, included within the Annual Report and Financial Statements, comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

### OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

#### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANTANDER INSURANCE SERVICES UK LIMITED (*continued*)

### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

#### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

#### What an audit of financial statements involves

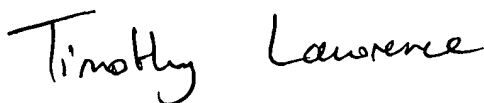
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Timothy Lawrence (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
24 May 2017

# STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

Continuing operations	Notes	2016 £000	2015 £000
Commission income		79,670	86,836
Commission expense		(60,821)	(68,015)
Gross profit		18,849	18,821
Administrative expenses		(18,389)	(18,362)
Operating profit		460	459
Interest income	6	233	294
Profit before tax		693	753
Tax charge on profit for the year	7	(88)	(223)
Profit for the year		605	530
Total comprehensive income for the year		605	530

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

**BALANCE SHEET**

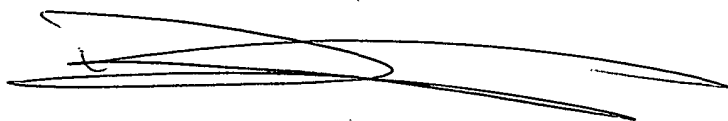
As at 31 December 2016

	Notes	2016 £000	2015 (restated)* £000
<b>Assets</b>			
Cash and cash equivalents	8	33,833	41,551
Amounts owed by group undertakings	14	2,810	4,440
Trade and other receivables	9	11,401	4,267
Deferred tax	10	29	13
<b>Total assets</b>		<b>48,073</b>	<b>50,271</b>
<b>Liabilities</b>			
Amounts owed to group undertakings	14	(6,163)	(7,605)
Provisions	11	(2,736)	(3,998)
Trade and other payables	12	(4,401)	(4,500)
<b>Total liabilities</b>		<b>(13,300)</b>	<b>(16,103)</b>
<b>Net assets</b>		<b>34,773</b>	<b>34,168</b>
<b>Equity</b>			
Share capital	13	25,000	25,000
Retained earnings		9,773	9,168
<b>Total equity</b>		<b>34,773</b>	<b>34,168</b>

\* See note 1.

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

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



Richard Al-Dabbagh  
Director  
24 May 2017



## STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share Capital £000	Retained earnings £000	Total equity £000
At 1 January 2015	25,000	8,638	33,638
Profit for the financial year and total comprehensive income	-	530	530
At 31 December 2015 and 1 January 2016	25,000	9,168	34,168
Profit for the financial year and total comprehensive income	-	605	605
At 31 December 2016	25,000	9,773	34,773

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

## CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2016 £000	2015 (restated)* £000
Operating profit		460	459
Decrease in provisions		(1,262)	(883)
Decrease in amounts owed by group undertakings		1,630	698
Decrease in amounts owed to group undertakings		(1,546)	(407)
(Increase)/ decrease in other assets		(7,136)	65
Decrease in other liabilities		(97)	(8,188)
Net cash used by operating activities		(7,951)	(8,256)
Investing activities			
Interest received		233	294
Net cash generated by investing activities		233	294
Net decrease in cash and cash equivalents		(7,718)	(7,962)
Cash and cash equivalents at beginning of year		41,551	49,513
Cash and cash equivalents at end of year	8	33,833	41,551

\* See note 1.

Cash and cash equivalents comprise cash at bank.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

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

#### General information

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

#### Basis of preparation

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

The Financial Statements have been prepared under the historical cost convention and on a going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

The functional and presentation currency of the Company is sterling.

#### Future accounting developments

- a) IFRS 9 'Financial Instruments' (IFRS 9) – In July 2014, the International Accounting Standards Board (IASB) approved IFRS 9 to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 sets out the requirements for recognition and measurement of financial instruments. The main new developments of the standard are discussed below.

Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes will be similar to IAS 39. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

The assessment of whether a significant increase in credit risk has occurred since initial recognition involves the application of both quantitative measures and qualitative factors, requires management judgement and is a key aspect of the IFRS 9 methodology.

Transition: IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application. There is no requirement to restate comparative information. The Company is assessing the likely impacts of the new financial asset classification & measurement and impairment requirements. Upon the satisfactory completion of this work, including formal testing of the ECL models during 2017, the Company will quantify the indicative impact when that information is known or reasonably estimable, and by no later than the end of 2017. It is not yet practicable to quantify the effect of IFRS 9 in these Financial Statements.

- b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. It is expected that a significant proportion of the Santander UK group's revenue will be outside the scope of IFRS 15. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 15 on these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. ACCOUNTING POLICIES *(continued)*

#### Revenue Recognition

The Company's revenue is guaranteed by contract and is the amount equivalent to the operational expenses incurred plus 2.5%.

#### Fee and commission income

Commission income is recognised at the later of the policy inception date or when the policy placement has been completed and confirmed. Any adjustments to commission arising from premium additions or reductions are recognised as and when they are notified by third parties.

Profit commission is recognised when the amount can be reliably estimated, with a reasonable degree of certainty, and is equivalent to the minimum value expected to be received.

Where contractual obligations exist for the performance of post placement activities, and the cost of these activities is not expected to be covered by future revenue, a relevant proportion of revenue received on placement is deferred and recognised over the period during which the activities are performed.

#### Interest income

Interest income consists of interest income receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-restricted balances held with banks.

#### Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### Provisions and contingent liabilities

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

Provisions are recognised for the estimated amount of cancellations (clawback provisions) that may arise during the term the insurance policies are in force.

#### Income taxes, including deferred income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. 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 income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

#### Financial liabilities

The entity classifies its financial liabilities, including intercompany financial liabilities, as payables and other financial liabilities, which are held at cost. The carrying values of financial liabilities are a fair approximation of their fair values.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1. ACCOUNTING POLICIES *(continued)*

#### Pensions and other post retirement benefits

The Company participates in the following pension scheme:

##### *Santander UK Group Defined Contribution Scheme*

During 2010, the Company ceased to make contributions to the Santander UK Group defined benefit pension scheme and made contributions to a Santander UK group defined contribution scheme from this date. The contribution to be paid by the Company is calculated as the contributions made by Santander UK to the schemes in respect of the Company's employees. Details of the scheme appear in the financial statements of Santander UK plc which are available from Secretariat Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.

#### Critical accounting policies and areas of significant management judgement

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

##### *Clawback provisions:*

In determining the provision for estimated cancellations, management first estimate the number of cancellations and this is based upon past experience. The actual number of cancellations from preceeding months within the reporting year, or cancellations that arose during preceeding reporting years are used to determine the overall provision.

##### *Correction of an accounting error*

The prior period Balance Sheet has been restated to take into consideration estimated clawbacks that may arise during the term of the insurance policies. This has resulted in the recognition of a provision and a corresponding balance from Santander UK plc, whom will fully reimburse the Company for clawbacks. Neither the net assets nor the overall retained earnings at the reporting date have been affected by this reclassification and therefore an opening comparative balance sheet has not been presented. Further detail can be found under note 11. The following items on the balance sheet have been affected by this change:

	2015 (Restated)	2015 (As previously reported)
	£000	£000
Amounts owed by group undertakings (note 14)	4,440	442
Provisions	(3,998)	-

The cashflow for the prior period has also been adjusted to reflect the restated movement in amounts owed by group undertakings and provisions.

### 2. FINANCIAL RISK MANAGEMENT

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

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

The Company's risk management focuses on the major areas of credit, liquidity, marketing and operational risk. Risk management is carried out by the central risk management function of the Banco Santander SA Group. Authority flows from the Banco Santander SA Board to the Chief Executive Officer and from her to her direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management of oversight.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*2. FINANCIAL RISK MANAGEMENT *(continued)*

## Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations. It occurs where the Company has significant financial exposure to amounts due from third parties and fellow group companies. The credit risk arising from group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the inter group loans, and the fact that these loans are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties. The Company's management of credit risk is carried out in accordance with the group credit risk policy.

Amounts due from third parties consist of commission and profitsharing income from insurer underwriters and brokers. These counterparties comprise of high quality major brand name insurance companies. The significance of credit risk arising from these third parties is considered to be remote.

Maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in note 9 to the financial statements, trade and other receivables.

## Liquidity risk

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

The Company manages liquidity risk by maintaining sufficient liquid resources to ensure it can meet its obligations as they fall due. The Company regularly monitors its current and future liquidity requirements, and incorporates this into its decision making process to ensure it always maintains sufficient liquid resources.

## Maturities of financial liabilities

Current financial liabilities consist of intercompany and third party creditors. These do not have a specific maturity date stated within the contract although they are all payable on demand and are likely to be settled in their entirety within 2017.

## Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk arises as a result of changes to base rates of interest that affect the bank interest income earned by the Company. Whilst we do not hedge this risk with derivatives or any other products, we are constantly monitoring our investment exposure to interest rate changes.

A 0.25% adverse movement in interest rates would result in a reduction in operating profit of £94,230 (2015: £113,830) and a reduction in net assets of £94,230 (2015: £113,830).

## 3. DIRECTORS' EMOLUMENTS AND INTERESTS

The aggregate emoluments received by the Directors of the Company were:

	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Salaries and fees	426,264	300,955
Performance related payments	199,510	112,458
Total emoluments excluding pension contributions	625,774	413,413
Pension contributions	3,617	33,422
Total	629,391	446,835

The salary of one director whose primary responsibilities relate to Santander UK plc has had a portion of their salary apportioned to the Company.

The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander SA and Santander UK plc.

## Remuneration of highest paid Director

The emoluments excluding pension contributions of the highest paid Director were £306,340 (2015: £193,864) of which £98,880 was performance related (2015: £54,444). The accrued pension benefit for the highest paid Director was £nil (2015: £858). One Director will be receiving benefits under a defined benefits scheme and none of these Directors will be receiving benefits under a defined contribution scheme.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*3. DIRECTORS' EMOLUMENTS AND INTERESTS *(continued)*

## Directors' emoluments and interests

The Company did not enter into any loans, quasi loans or credit transactions with persons who are or were Directors, connected persons or officers of the Company in the current year.

No Director had a material interest in any contract with the Company or any of its subsidiaries at any time during the year. None of the Directors had an interest in the share capital of the Company.

## 4. STAFF COSTS

	2016 £000	2015 £000
Wages and salaries	3,542	3,493
Social security costs	361	327
Pension costs: - defined contribution plans	382	446
Other personnel costs	313	205
<b>Total</b>	<b>4,598</b>	<b>4,471</b>

Staff costs include recharged salary costs from Santander UK plc.

	2016 Number	2015 Number
Number of employees – average for the year		
Sales and Marketing	13	18
Product Development	6	5
Finance and Commercial	11	11
Pricing	6	4
Insurance Management	6	6
<b>Total</b>	<b>42</b>	<b>44</b>

## 5. OPERATING PROFIT

The operating profit is stated after charging:

	2016 £000	2015 £000
Auditor fee for statutory audit (excluding VAT)	21	36

## 6. INTEREST INCOME

	2016 £000	2015 £000
Interest on bank deposits	233	294
<b>Total</b>	<b>233</b>	<b>294</b>

Interest income comprises interest earned on the Company's bank accounts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

## 7. TAX

	2016 £000	2015 £000
Current tax:		
UK corporation tax on profit of the year	117	(339)
Adjustments in respect of prior years	(13)	281
Total current tax	104	(58)
Deferred tax:		
Origination and reversal of temporary differences	21	547
Change in rate of UK Corporation tax	-	(5)
Adjustments in respect of prior years	(37)	(261)
Total deferred tax	(16)	281
Tax charge on profit for the year	88	223

UK corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 21% to 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015.

The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17% from 2020. Since this further change was substantively enacted prior to 31 December 2016, the effects have been reflected in the deferred tax balances at the balance sheet date.

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

	2016 £000	2015 £000
Profit before tax	693	753
Tax calculated at a tax rate of 20% (2015: 20.25%)	138	152
Non deductible expenses	-	57
Effect of change in tax rate on deferred tax provision	-	(5)
Adjustment in relation to prior years	(50)	19
Tax charge for the year	88	223

## 8. CASH AND CASH EQUIVALENTS

	2016 £000	2015 £000
Cash and cash equivalents	33,833	41,551
	33,833	41,551

Cash and cash equivalents consist of funds held in bank accounts operated by Santander UK plc.

## 9. TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Trade and other receivables	11,401	4,267
	11,401	4,267

These items are all classified as loans and receivables under IFRS 7.



NOTES TO THE FINANCIAL STATEMENTS *(continued)*

## 10. DEFERRED TAX

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2016 £000	2015 £000
At 1 January	13	294
Income statement credit/ (charge)	16	(281)
At 31 December	29	13

Deferred tax assets are attributable to the following items:

	Provided		Provided	
	Balance Sheet 2016 £000	Income Statement 2016 £000	Balance Sheet 2015 £000	Income Statement 2015 £000
Other temporary differences	29	16	13	(281)
	29	16	13	(281)

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.

## 11. PROVISIONS

	Clawback provisions £000	Total £000
At 1 January 2015	4,881	4,881
Movement during the year	(883)	(883)
At 31 December 2015 and 1 January 2016	3,998	3,998
Movement during the year	(1,262)	(1,262)
At 31 December 2016	2,736	2,736

	Total £000
Non-current	1,598
Current	1,138
As at 31 December 2016	2,736

Provisions are recognised for the estimated number of cancellations of insurance policies during the term in which those insurance policies are in force. Upon recognition of a clawback provision, an equal and opposite amount is recognised under amounts owed by group undertakings. Santander UK plc whom are the ultimate recipients of the insurance commission income on which the provision is based, bear the ultimate charge for these clawback provisions. The Company's profit before tax is therefore not impacted by the recognition of clawback provisions.

Provisions are written back in full since insurance commission received from the insurers is paid net of any cancellations that have taken place.

## 12. TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Other liabilities	4,401	4,500
	4,401	4,500

The carrying amount of payable and other financial liabilities approximates to fair value. No specific maturity date has been stated within the contracts relating to these liabilities, however they are likely to be settled within the next year. These items are all classified as financial liabilities at amortised cost under IFRS 7.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

## 13. SHARE CAPITAL

	2016 £000	2015 £000
Issued and fully paid:		
25,000,000 (2015: 25,000,000) ordinary shares of £1 each	25,000	25,000

Holders of ordinary shares are entitled to:

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

## 14. RELATED PARTY TRANSACTIONS

## Remuneration of directors and other key management personnel

The remuneration of the Directors and key management personnel of the Company, is set out in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in note 3.

Key management compensation	2016 £000	2015 £000
Short-term employee benefits	567	433
Post employment benefits	62	66
Share-based payments	-	8
Total key management compensation	629	507

Of the key management personnel that served during the year, three Directors were remunerated in relation to their services as Directors of the Company.

## Long-Term Incentive Plan

The LTIP was reintroduced in 2014 and amended for 2015 awards under which conditional cash awards were made to certain Executive Directors, Key Management Personnel and other nominated individuals which are converted into shares in Banco Santander SA at the time of vesting and deferred for three years. There was no LTIP awarded in 2016 due to the introduction of a single variable remuneration framework across the Banco Santander group.

The LTIP plans granted in 2015 and 2014 involve a one-year performance cycle for vesting with further three-year performance conditions applied to the deferral of 2015 awards. Beneficiaries were allocated an initial award determined in GBP which was converted into shares in Banco Santander SA in January 2015 and January 2016 respectively. The 2014 LTIP vested at 100% in January 2015 based on Banco Santander SA's relative Total Shareholder Return (TSR) performance in 2014 versus a comparator group and deferred over three years. The 2015 LTIP vested at 91.5% in January 2016 based on Banco Santander SA's Earnings Per Share (EPS) and Return on Tangible Equity (RoTE) performance against budget in 2015 and was deferred for three years.

In 2016, no Executive Directors (2015: none) or Other Key Management Personnel (2015: none) were granted conditional awards under the Santander LTIP.

No LTIP award was granted in 2016.

## 2015 LTIP

Employees were allocated an initial award determined in GBP in 2015 which was converted into shares in Banco Santander SA, in January 2016. The 2015 LTIP vested at 91.5% based on Banco Santander SA's relative EPS and RoTE performance in 2015 versus a comparator group. The vested award will be deferred over three years and payable in 2019 subject to Banco Santander SA's continuing relative performance to comparators of EPS, RoTE and other non-financial measures such as Top 3 best bank to work for, Top 3 in customer satisfaction and loyal customers as well as continuing employment.

## 2014 LTIP

Employees were allocated an initial award determined in GBP in 2014 which was converted into shares in Banco Santander SA in January 2015. The 2014 LTIP vested at 100% based on Banco Santander SA's relative TSR performance in 2014 versus a comparator group. The vested award will be deferred over three years and payable in equal tranches in 2016, 2017 and 2018 subject to Banco Santander SA's continuing relative TSR performance to comparators and continuing employment.

## Cash Incentive Plan

Under the 2013 Cash Incentive Plan (CIP) granted in 2013, no Directors (2015: none) and no Other Key Management Personnel (2015: one) were granted conditional awards which vested in 2016. For the Cash Incentive Plan (CIP) 2014 granted in 2014, no Directors and no Other Key Management Personnel were granted conditional awards which vested in 2016. No Cash Incentive Plans were awarded in 2015 and 2016.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*14. RELATED PARTY TRANSACTIONS *(continued)*

## Related party transactions

There were no related party transactions during the year, or balances existing at the balance sheet date, with the Company's or parent Company's key management personnel (2015: nil).

## Trading transactions

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

	Income		Expenditure		Amounts due from related parties		Amounts due to related parties	
	2016	2015	2016	2015	2016	2015 (restated)*	2016	2015
	£000	£000	£000	£000	£000	£000	£000	£000
Santander UK plc – other creditors and debtors	-	-	2,618	220	2,810	4,101	4,868	6,504
Santander UK plc – insurance commission	-	-	60,821	68,015	-	-	-	-
Santander UK plc – bank account and bank interest	233	294	-	-	33,833	41,551	-	-
Produban UK Limited	-	-	1,566	1,736	-	-	-	10
Geoban UK Limited	-	-	530	1,360	-	-	-	-
Isban Spain SA	-	-	727	1,008	-	-	392	541
Isban UK Limited	-	-	2,872	2,400	-	-	786	550
Gesban UK Limited	-	-	47	47	-	-	-	-
Abbey National Treasury Services plc	-	-	-	-	-	339	117	-
	233	294	69,181	74,786	36,643	45,991	6,163	7,605

\* See note 1.

Amounts due to Abbey National Treasury Services plc of £117,115 (2015: Amounts due from Abbey National Treasury Services plc of £338,553), relate to group relief.

All amounts due to and due from related parties are unsecured and repayable on demand.

With the exception of the bank account held with Santander UK plc, all related party balances are not interest bearing.

## 15. CAPITAL MANAGEMENT AND RESOURCES

The Company is 100% owned by Santander Insurance Holdings SL. Control of its capital structure will therefore be dictated at board level, and additional capital issue would require approval from the board of Santander Insurance Holdings SL. Short term treasury management is delegated from board level to the finance team.

The Company is funded by capital in the form of £25 million of equity shares.

The PRA dictate that at any one time the Company must hold 2.5% of annual income as capital. The Santander Insurance Services (UK) finance team will monitor this on an ongoing basis, in conjunction with the Santander actuarial team in Glasgow that will provide updated forecast data on a regular basis. Regular internal reporting will ensure that this will not be breached. The Company is required to report this solvency margin to the FCA on a twice yearly basis.

If the Company were to be non-compliant with FCA rules then the penalties can range from fines to revocation of the regulatory authorisation.

## 16. PARENT UNDERTAKING AND CONTROLLING PARTY

Santander Insurance Services UK Ltd is domiciled in the United Kingdom.

The Company's immediate parent company is Santander Insurance Holdings SL a company registered in Spain. Santander Insurance Holdings SL holds all of the issued share capital of the Company.

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

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