

# **ABBEY NATIONAL PROPERTY INVESTMENTS**

**Registered in England and Wales  
No. 02412672**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2017**

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## STRATEGIC REPORT

The Directors submit the Strategic report together with their Report of Directors and the audited financial statements for the year ended 31 December 2017.

### Fair review of the Company's business

The Company holds a portfolio of reversionary interests in properties. These reversionary interests are realised when a property is sold by a third party and the applicable percentage share is received by the Company. The reversionary interests are part of a transaction that is managed on a fair value basis by the Santander UK plc group (the "Group") at a Group level and therefore the reversionary interests are reported, and their performance evaluated, by the Directors on a fair value basis. The fair value is calculated as the applicable percentage of the estimated net present value of the property value at the expected date of reversion. The Company is not purchasing any additional property reversions; as a result the Directors continue to focus on managing the existing portfolio to maximise value.

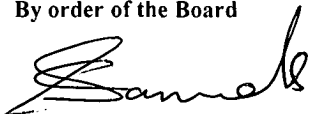
The Santander UK plc group (the Group) manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business.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

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

### Principal risks and uncertainties facing the Company

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

By order of the Board



Santander Secretariat Services Limited, Secretary

14 August 2018

Registered office: 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 2017.

### Principal Activity

The principal activity of Abbey National Property Investments (the “Company”) is that of a property investment company.

### Likely future developments

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

### Results and dividends

The loss for the year after taxation amounted to £22,949 (2016: profit £22,606,921). During the year, property valuations slowed in line with the Halifax regional index which saw growth slow from 10% in 2016 to 3% in 2017. In addition some of the individual properties deviated from the overall index performance because of their condition and location resulting in lower/higher growth rates compared with the Halifax regional index growth rate. The result of these two factors was that property valuations during the current year resulted in a loss of £2,973,449 (2016: profit of £23,743,007).

The Directors do not recommend the payment of a final dividend on ordinary shares (2016: £nil).

### Post Balance Sheet events

There were no post balance sheet events.

### Directors

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

AR Honey  
RJ Morrison

### Statement of directors’ responsibilities

The directors are responsible for preparing the Strategic Report, Report of Directors 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 and Financial Management

The Company’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 18 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, liquidity risk and market 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 the foreseeable future. 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; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the Group to price risk, credit risk and liquidity risk and cash flow risk are outlined in the Group 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 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.

### Statement of disclosure of information to 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 deemed to have been re-appointed as the Company's Auditor.

By order of the board



Santander Secretariat Services Limited, Secretary

14 August 2018

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

## ***INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL PROPERTY INVESTMENTS***

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Abbey National Property Investments's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

#### **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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL PROPERTY INVESTMENTS (CONTINUED)**

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of the Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Lawrence Wilkinson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

15 August 2018

## PRIMARY FINANCIAL STATEMENTS

### INCOME STATEMENT

For the years ended 31 December

	Note	2017 £	2016 £
<b>Continuing operations</b>			
(Loss)/income from financial assets designated at fair value through profit and Loss	3	(2,972,778)	23,743,007
Interest and other income	4	2,583,036	1,516,576
<b>(Loss)/profit before tax</b>	5	<b>(389,742)</b>	<b>25,259,583</b>
Tax	6	366,793	(2,652,662)
<b>(Loss)/profit after tax for the year</b>		<b>(22,949)</b>	<b>22,606,921</b>

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

### STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Note	2017 £	2016 £
<b>(Loss)/profit for the year</b>		<b>(22,949)</b>	<b>22,606,921</b>
<b>Other comprehensive income/(loss) that may be reclassified to profit and loss subsequently:</b>			
Gain/(loss) on available-for-sale financial assets	13	1,222	(45,912)
Deferred tax on items taken directly to equity	13	(208)	9,490
<b>Total other comprehensive income/(loss)</b>		<b>1,014</b>	<b>(36,422)</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(21,935)</b>	<b>22,570,499</b>

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

### STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

	Share capital £	Available - For - sale reserve £	Non - Distributable capital reserve £	Retained earnings £	Total Equity £
Balance at 1 January 2016	138,180,520	138,148	5,199,480	302,729,291	446,247,439
Profit for the year	-	-	-	22,606,921	22,606,921
Other comprehensive loss	-	(36,422)	-	-	(36,422)
<b>Balance at 31 December 2016</b>	<b>138,180,520</b>	<b>101,726</b>	<b>5,199,480</b>	<b>325,336,212</b>	<b>468,817,938</b>
Balance at 1 January 2017	138,180,520	101,726	5,199,480	325,336,212	468,817,938
Loss for the year	-	-	-	(22,949)	(22,949)
Other comprehensive income	-	1,014	-	-	1,014
<b>Balance at 31 December 2017</b>	<b>138,180,520</b>	<b>102,740</b>	<b>5,199,480</b>	<b>325,313,263</b>	<b>468,796,003</b>

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

### CASH FLOW STATEMENT

For the years ended 31 December

	Note	2017 £	2016 £
<b>Net cash generated from operating activities</b>	15	<b>29,255,577</b>	<b>26,182,082</b>
Net increase in cash and cash equivalents		29,255,577	26,182,082
Cash and cash equivalents at beginning of year		297,614,400	271,432,318
<b>Cash and cash equivalents at end of year</b>	15	<b>326,869,977</b>	<b>297,614,400</b>

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

**PRIMARY FINANCIAL STATEMENTS** *(continued)*

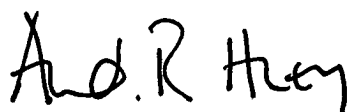
**BALANCE SHEET**

As at 31 December

	Note	2017 £	Restated 2016 £
<b>Non-current assets</b>			
Financial assets at fair value through profit and loss	8	171,619,556	200,847,277
<b>Total non-current assets</b>		<b>171,619,556</b>	<b>200,847,277</b>
<b>Current assets</b>			
Available-for-sale financial assets	7	224,802	223,580
Loans and receivables	9	320,169,277	301,471,763
Cash	15	8,515,587	-
<b>Total current assets</b>		<b>328,909,666</b>	<b>301,695,343</b>
<b>Total assets</b>		<b>500,529,222</b>	<b>502,542,620</b>
<b>Current liabilities</b>			
Trade and other payables	10	(516,536)	(98,267)
Current tax liabilities		(6,925,879)	(4,188,863)
Bank overdraft	15	-	(2,043,147)
<b>Total current liabilities</b>		<b>(7,442,415)</b>	<b>(6,330,277)</b>
<b>Non-current liabilities</b>			
Deferred tax	11	(24,290,804)	(27,394,405)
<b>Total non-current liabilities</b>		<b>(24,290,804)</b>	<b>(27,394,405)</b>
<b>Total liabilities</b>		<b>(31,733,219)</b>	<b>(33,724,682)</b>
<b>Net assets</b>		<b>468,796,003</b>	<b>468,817,938</b>
<b>Equity</b>			
Share capital	12	138,180,520	138,180,520
Available-for-sale reserve	13	102,740	101,726
Non-distributable capital reserve	14	5,199,480	5,199,480
Retained earnings		325,313,263	325,336,212
<b>Total equity</b>		<b>468,796,003</b>	<b>468,817,938</b>

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:



**Andrew Honey**  
Director

14 August 2018



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 1. ACCOUNTING POLICIES

The Company is an unlimited private company with shares, incorporated and domiciled in England and Wales. The registered office is 2 Triton Square, Regent's Place, London, NW1 3AN.

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

#### Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) 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 financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company (the functional currency). The financial statements are presented in Sterling, which is the functional currency of the Company.

#### Future accounting developments

At 31 December 2017, Abbey National Property Investments has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for Abbey National Property Investments:

- 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. Both tests were applied to financial assets at 31 December 2017, and gave rise to no classification and measurement changes for Abbey National Property Investments.

**Impairment:** IFRS 9 introduces fundamental changes to the impairment of financial assets measured at amortised cost or at fair value through other comprehensive income, lease receivables and certain commitments to extend credit and financial guarantee contracts. It is no longer necessary for losses to be incurred before credit losses are recognised. Instead, under IFRS 9, an entity always accounts for expected credit losses (ECLs), and any changes in those ECLs. The ECL approach must reflect both current and forecast changes in macroeconomic data over a horizon that extends from 12 months to the remaining life of the asset if a borrower's credit risk is deemed to have deteriorated significantly at the reporting date compared to the origination date. The estimate of ECLs should reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information at the reporting date. Similar to the current incurred credit loss provisioning approach, management will exercise judgement as to whether additional adjustments are required in order to adequately reflect possible events or current conditions that could affect credit risk.

*Transition and impact:* IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. For the Abbey National Property Investments, the application of IFRS 9 resulted in no changes to shareholders' equity at 1 January 2018.

- b) A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current accounting period. None of these are expected to have a material impact on the financial statements of the Company.

#### Revenue recognition

Income from financial assets designated at fair value through profit and loss comprises all gains and losses from changes in the fair value of financial assets held at fair value through profit and loss, together with related income and expenses.

Interest income is accrued daily, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit and loss account, available-for-sale financial assets and loans and receivables. Management determines the classification of its investments at initial recognition.

#### Financial assets at fair value through the profit and loss

Financial assets classified in this category are designated as held at fair value on inception. The Company has designated the assets at fair value through profit and loss as they are managed, evaluated and reported on a fair value basis in accordance with documented risk management strategy. The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement as investment income. The assets are derecognised when the rights to receive cash flows have expired or the entity has transferred substantially all the risks and rewards of ownership.

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

For the year ended 31 December 2017

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

#### Available-for-sale

Available-for-sale investments are non-derivative financial investments that are designated as available-for-sale and are not categorised into any other category. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Dividends are recognised in the profit and loss when received. Impairment losses and translation differences on monetary items are recognised in the income statement. The investments are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active financial market and which are not classified as available-for-sale. They arise when the Company provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method, described above. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership.

#### Impairment of financial assets

At each balance sheet date the Company assesses whether, because of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower.

Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement 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.

#### Valuation of financial instruments

Financial instruments that are classified at fair value through profit and loss and those held for available-for-sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing, knowledgeable parties, other than in a forced or liquidation sale.

#### Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in profit and loss on initial recognition. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

#### Subsequent measurement

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) and, 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 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 Group has the ability to access at the measurement date. Level 1 positions include debt securities and equity securities.

##### Level 2:

Quoted prices in markets that are not active, 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:

Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset are unobservable. Level 3 positions include reversionary property interests.

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

For the year ended 31 December 2017

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

#### 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. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

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

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

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, short term investments in securities and bank overdrafts repayable on demand.

#### Financial liabilities

Trade and other payables are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost and the redemption value recognised in the income statement over the period of the liability using the effective interest rate method.

#### Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Shares are recognised in accordance with the substance of the transaction. Shares which have a contractual obligation to deliver cash or other financial assets to the preference shareholders are classified as debt. Otherwise, they are classified as equity instruments.

#### Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared and approved.

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

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

#### Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. Market risk arises as a result of interest rates and exposures to changes in equity markets.

#### Financial assets held at fair value through profit and loss

Financial assets held at fair value through profit and loss are managed on a fair value basis and are subject to movements in market interest rates, market prices (relating to the UK house price index) and prepayment risk. These risks are managed at a Group level by the use of derivative contracts held by other group companies.

#### (a) Fair value estimation

The fair value of a property reversion is the applicable percentage share of the estimated net present value of the property value at the expected date of the reversion of the property. This is calculated using an internally developed model applying forward growth estimates to current market values until the expected date of reversion.

Current market values are based on valuations by experienced property valuers. The estimated growth of the property value is based on assumptions relating to the growth in the house price index. The expected dates of reversion are based on the estimated length of time a property will be occupied. The interest rate used to discount the future value is based on the funding rates for the Group.

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

For the year ended 31 December 2017

### 2. FINANCIAL RISK MANAGEMENT *(continued)*

#### Financial assets held at fair value through profit and loss *(continued)*

The main valuation technique employed in the Company's internal model to measure the fair value of the financial asset are valued using probability weighted set of the Halifax's UK House Price Index ('HPI') forward prices. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. Launched in 1984, the Halifax House Price Index is based on the lending of the UK's largest mortgage lender and provides the longest unbroken monthly data series of any UK housing index. The indices calculated are standardised and represent the price of a typically transacted house. Regional and national HPI indices are published, which are similar except that the former reflects the national HPI indices disaggregated into 12 UK regions and is published quarterly. The national indices are published monthly.

The inputs used to determine the value of the reversionary property interests are HPI spot, HPI forward growth and mortality rates. The principal pricing parameter is HPI forward growth.

#### *HPI spot rate*

The regional HPI spot rate (which is observable market data) is only published on specific quarterly dates. In between these dates, its value is estimated by applying the changes in the national HPI spot rate (which is also observable market data and published monthly) to the most recently available regional HPI spot rate. An adjustment is made to reflect the specific property risk i.e. the difference in the actual regional composition of the property underlying the Group's reversionary interest portfolio and the composition of the published regional indices. This adjustment is based on the average historical deviation of price changes of the Group's actual property portfolio from that of the published indices.

#### *HPI forward growth rate*

Long-dated HPI forward growth rate is not directly observable in the market but is estimated. A specific spread is applied to the long-dated forward growth rate to reflect the uncertainty surrounding long-dated data. This spread is calculated by analysing the historical volatility of the HPI. An adjustment is made to reflect the specific property risk as for the HPI spot rate above.

#### *Internal valuation review*

In all instances, risk control teams review positions to assess a realistic realisable value for the position and develop a methodology for any adjustment to fair value which marks the position to that value using information relevant to that asset. Consideration is given to the quality of the information available that provides the current mark-to-model valuation and estimates of how different these valuations could be on an actual trade, taking into consideration how active the market is. For spot assets that cannot be sold due to illiquidity, forward estimates are discounted to provide an estimate of a realisable value over time.

#### **(b) Fair value interest rate risk**

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant the Company's net loss would increase by £1.8 million (2016: profit decrease by £6.8 million).

#### **(c) House price index risk**

The Company is exposed to House Price Index risk arising from the property reversionary interests. Property reversionary interests are held for strategic rather than trading purposes. The Company does not actively trade these interests. The sensitivity analyses below have been determined based on the exposures to HPI risk at the reporting date.

At the reporting date, if the HPI forward growth inputs to the valuation model had been 1 percent higher (on a relative basis) while all other variables were held constant, the Company's loss would decrease by £2.8 million (2016: profit would increase by £12.2 million). If the HPI forward growth inputs to the valuation model had been 1 percent lower (on a relative basis) while all other variables were held constant the Company's loss would increase by £2.8 million (2016: profit would decrease by £12.2 million).

The Company's sensitivity to house price risk has decreased due to the flattening of the forecast HPI curve used.

#### Amounts due to/from group companies

The majority of market risk on amounts due to/from group companies arises as a result of interest rate risk as interest is charged at a rate based on LIBOR.

#### Sensitivity analysis

A 50 basis point adverse movement in interest rates would result in a reduction in operating profit of £1.1m (2016: £1.3m) and a corresponding reduction in net assets. A 50 basis point positive movement in interest rates would result in an increase in operating profit of £1.5m (2016: £1.4m) and a corresponding increase in net assets.

#### *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. It occurs in intercompany assets and financial assets held by the Company. The maximum exposure to credit risk on intercompany asset is represented by the carrying amount of each financial asset in the balance sheet, refer to note 9 for details.

The financial assets held by the Company are reversionary interests in property. When the property is sold the Company receives the funds through a third party. The Company is therefore exposed to settlement risk relating to the funds held by the third party not transferred to the Company. The amount of funds held by the third party at any given time is not material and therefore the Company does not use credit derivatives to mitigate the exposure to credit risk.

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

For the year ended 31 December 2017

### 2. FINANCIAL RISK MANAGEMENT *(continued)*

#### Financial assets held at fair value through profit and loss *(continued)*

As at 31 December 2017 there were no assets that were either past due or impaired (2016: £nil).

#### 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.

Maturity of financial liabilities can be found in note 10 to the financial statements. The maturity profile of the bank overdraft is less than 90 days.

### 3. INCOME FROM FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	2017 £	2016 £
(Loss)/income from financial assets designated at fair value through profit and Loss	(2,973,449)	23,743,007
Dividend income	671	-
	(2,972,778)	23,743,007

### 4. INTEREST AND OTHER INCOME

	2017 £	2016 £
Interest received from group companies	1,079,723	1,516,576
Other fees received	1,503,313	-
	2,583,036	1,516,576

### 5. (LOSS)/PROFIT BEFORE TAX

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the intermediate UK parent company, Santander UK plc. No emoluments were paid by the Company to the Directors during the year (2016: £nil).

The Company had no employees in the current or previous financial year.

The statutory audit fee for the current and prior year has been paid on the Company's behalf by its intermediate UK parent company, Santander UK plc, in accordance with Company policy, for which no recharge has been made. The statutory audit fee for the current year is £33,400 (2016: £30,000).

### 6. TAX

	Note	2017 £	2016 £
<b>Current tax:</b>			
UK corporation tax for the year		2,737,016	4,188,658
Adjustments in respect of prior years		-	45
<b>Total current tax</b>		<b>2,737,016</b>	<b>4,188,703</b>
<b>Deferred tax:</b>			
Origination and reversal of temporary differences		(3,514,607)	82,410
Change in rate of UK corporation tax		410,798	(1,618,451)
<b>Total deferred tax</b>	11	<b>(3,103,809)</b>	<b>(1,536,041)</b>
<b>Tax (credit)/charge for the year</b>		<b>(366,793)</b>	<b>2,652,662</b>

UK corporation tax is calculated at 19.25% (2016: 20.00%) of the estimated assessable profits for the year.

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 2017, the effects have been reflected in the deferred tax balances at the balance sheet date.

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

For the year ended 31 December 2017

### 6. TAX *(continued)*

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:

	2017 £	2016 £
(Loss)/profit before tax	(389,742)	25,259,583
Tax calculated at a tax rate of 19.25% (2016: 20.00%)	(75,025)	5,051,916
Chargeable gains indexation	(702,566)	(780,848)
Effect of change in tax rate on deferred tax provision	410,798	(1,618,451)
Adjustments in respect of prior years	-	45
Tax (credit)/charge for the year	(366,793)	2,652,662

### 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 £	2016 £
Equity investments	224,802	223,580

The equity investments are listed on a recognised stock exchange. The fair value of the investments is based on the quoted market price and they are re-valued on a regular basis throughout the year. On this basis they are classified as Level 1 under the IFRS hierarchy.

### 8. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2017 £	2016 £
Debt securities - interest in property reversions	171,619,556	200,847,277

The interests in property reversions have no fixed maturity date. The contractual maturity of the reversions is based on third party sales of property over a period estimated to be greater than five years. The financial assets held at fair value through profit and loss are classified as Level 3 under the IFRS 7 hierarchy.

The Company has designated the assets at fair value through profit and loss as they are managed, evaluated and reported on a fair value basis in accordance with a documented risk management strategy.

### 9. LOANS AND RECEIVABLES

	2017 £	Restated 2016 £
<b>Current</b>		
Amounts due from group companies	318,354,390	299,657,547
Amounts due from group companies – group relief	1,814,216	1,814,216
Other assets	671	-
<b>Total</b>	<b>320,169,277</b>	<b>301,471,763</b>

	2017 £	Effective interest %	2016 £	Effective interest %
Amounts due in less than one year – interest bearing, floating interest rate	318,354,390	0.52	299,657,547	0.36

The Directors consider that the carrying amount of amounts due from group companies approximates to their fair value. Amounts due from group companies are repayable on demand and interest is at 3 months LIBOR.

Amounts due from group companies relating to Group tax relief are repayable on demand.

The loans and receivables are classified as Level 3 under the IFRS 7 hierarchy.

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

For the year ended 31 December 2017

### 10. TRADE AND OTHER PAYABLES

	2017 £	Restated 2016 £
Amounts due to group companies	516,458	98,189
Amounts due to third parties	78	78
	516,536	98,267

The Directors consider that the carrying amount of trade payables approximates to their fair value. The amounts are non-interest bearing and repayable on demand (2016: non-interest bearing and repayable on demand).

### 11. DEFERRED TAX

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

	2017 £	2016 £
At 1 January	27,394,405	28,939,936
Income statement credit	(3,103,809)	(1,536,041)
Charged/ (credit) to equity:		
Available-for-sale financial assets	208	(9,490)
At 31 December	24,290,804	27,394,405

The deferred tax liability arises on the difference between the accounting and tax treatment of fair value movements on financial assets.

### 12. SHARE CAPITAL

	2017 £	2016 £
Issued and fully paid:		
Ordinary shares of £1 each	138,180,520	138,180,520

### 13. AVAILABLE-FOR-SALE RESERVE

	2017 £	2016 £
At 1 January	101,726	138,148
Gain/(loss) on revaluation of available-for-sale investments taken to equity	1,222	(45,912)
Tax on items taken directly to equity - current year	(208)	9,490
Balance at 31 December	102,740	101,726

### 14. NON-DISTRIBUTABLE CAPITAL RESERVE

	2017 £	2016 £
Balance at 1 January & 31 December	5,199,480	5,199,480

The non-distributable capital reserve relates to special dividends paid on the irredeemable preference shares.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

### 15. NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of profit before tax to net cash outflow from operating activities:

	2017 £	2016 £
(Loss)/Profit for the year	(22,949)	22,606,921
Add/(deduct) back tax	(366,793)	2,652,662
<b>(Loss)/profit before tax</b>	<b>(389,742)</b>	<b>25,259,583</b>
Net proceeds from sale of interests in property reversions	26,254,272	30,512,026
Fair value movements in investments	2,973,449	(23,743,007)
Deferred tax movement	(3,103,809)	(1,545,531)
Operating cash flows before movements in working capital	25,734,170	30,483,071
Increase in operating receivables	(671)	-
Increase/(decrease) in operating payables	3,522,078	(4,300,989)
<b>Net cash flow used in operating activities</b>	<b>29,255,577</b>	<b>26,182,082</b>

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

Reconciliation of cash and cash equivalents:

	2017 £	2016 £
Cash (excluding bank overdrafts)	8,515,587	-
Bank overdraft	-	(2,043,147)
Loans and receivables	318,354,390	299,657,547
<b>Cash and cash equivalents</b>	<b>326,869,977</b>	<b>297,614,400</b>

### 16. RELATED PARTY TRANSACTIONS

#### Trading transactions

The trading transactions with related parties relate to interest received and paid on amounts due from and due to related group entities.

	Income		Amounts due from related parties		Amounts due to related parties	
	2017	2016	2017	Restated 2016	2017	Restated 2016
	£	£	£	£	£	£
Immediate parent company	1,079,722	1,516,576	318,354,391	299,657,547	98,137	98,137
Fellow subsidiaries	1,503,314	-	1,814,216	1,814,216	418,321	52
	<b>2,583,036</b>	<b>1,516,576</b>	<b>320,168,607</b>	<b>301,471,763</b>	<b>516,458</b>	<b>98,189</b>

The 2016 numbers for amounts due from related parties has been restated to include amounts due from group companies in relation to group relief and amounts due to related parties has been restated to exclude corporation tax liabilities which had been incorrectly recorded as amounts due in relation to group relief.

During the year the Company received interest from group companies.

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



# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

## 17. FINANCIAL INSTRUMENTS

The following tables summarise the fair values at 31 December 2017 and 31 December 2016 of the asset and liability classes accounted for at fair value, by the valuation methodology used by the Company to determine their fair value. The tables also disclose the percentages that the recorded fair values of financial assets and liabilities represent of the total assets and liabilities, respectively, that are recorded at fair value in the balance sheet:

### At 31 December 2017

At 31 December 2017							
Balance sheet category	Note	Level 1 Quoted prices in active markets		Level 3 Internal models based on significant unobservable data		Total	
		£	%	£	%	£	%
Assets							
Available-for-sale financial assets	7	224,802	0.13	-	-	224,802	0.13
Financial assets designated at fair value through profit and loss	8	-	-	171,619,556	99.87	171,619,556	99.87
Total assets at fair value		224,802	0.13	171,619,556	99.87	171,844,358	100.00

### At 31 December 2016

At 31 December 2010

Balance sheet category	Note	Level 1		Level 3		Total	
		Quoted prices in active markets		Internal models based on significant unobservable data			
		£	%	£	%	£	%
<b>Assets</b>							
Available-for-sale financial assets	7	223,580	0.11	-	-	223,580	0.11
Financial assets designated at fair value through profit and loss	8	-	-	200,847,277	99.89	200,847,277	99.89
<b>Total assets at fair value</b>		<b>223,580</b>	<b>0.11</b>	<b>200,847,277</b>	<b>99.89</b>	<b>201,070,857</b>	<b>100.00</b>

### Valuation techniques

The valuation technique employed by the Company to measure the fair value of the financial instruments disclosed above at 31 December 2017 and 31 December 2016 is set out in Note 2. The Company did not make any material changes to the valuation techniques and internal models it used previously.

### Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Financial assets designated at fair value through profit and loss	
	2017 £	2016 £
At 1 January	200,847,277	207,616,296
Total gains recognised in profit:		
- Fair value movements	(2,973,449)	23,743,007
Sales	(26,254,272)	(30,512,026)
At 31 December	171,619,556	200,847,277
<b>Total (loss)/gain recognised in profit relating to those assets held at the end of the year</b>	<b>(2,973,449)</b>	<b>23,743,007</b>

### Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As discussed above, the fair value of financial instruments is, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any offsetting or hedged positions.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

### 17. FINANCIAL INSTRUMENTS (continued)

As at 31 December 2017

Balance sheet note line item and product	Fair value £	Assumptions	Shift	Reflected in income statement	
				Favourable changes £m	Unfavourable changes £m
Financial assets designated at fair value through profit and loss - reversionary property securities	171,619,556	HPI forward growth rate	1%	2.8	2.8
		HPI spot rate	10%	11.1	11.1

As at 31 December 2016

Balance sheet note line item and product	Fair value £	Assumptions	Shift	Reflected in income statement	
				Favourable changes £m	Unfavourable changes £m
Financial assets designated at fair value through profit and loss - reversionary property securities	200,847,277	HPI forward growth rate	1%	12.2	12.2
		HPI spot rate	10%	18.1	18.1
		Mortality rate*	2 yrs	2.0	2.3

\*The structure of the financial instruments were changed during the year as part of the banking reform project being undertaken by the parent company. The impact of this has resulted in mortality risk becoming an insignificant risk to the Company.

### 18. CAPITAL MANAGEMENT AND RESOURCES

The Company's parent company, Santander UK plc, adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Santander UK Group's capital management can be found in the Santander UK annual report and accounts.

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 7.

### 19. PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

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

### 20. POST BALANCE SHEET EVENTS

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

### 21. RESTATEMENTS

The following restatements have been made to prior year results as previously reported:

Balance sheet	2016 (original) £	Restatement £	2016 Restated £
Loans and receivables	299,657,547	1,814,216	301,471,763
Trade and other payables	(2,472,914)	2,374,647	(98,267)
Corporation tax liability	-	(4,188,863)	(4,188,863)

The restatement has occurred because in 2016 external tax liabilities owed to HMRC were incorrectly offset against group relief tax assets, with the net balance being presented in trade and other payables. Group relief is where tax losses from one company are utilised by another company within the Santander Group. In 2016 there were insufficient tax losses in the Santander Group with which the Company could offset its tax charge against, in which case the Company was required to settle this balance directly with HMRC. The tax losses from 2015 which were utilised by the UK group have been restated to be disclosed within loans and receivables.