

**ABBAY NATIONAL
STERLING CAPITAL PLC**

**Registered in England and Wales
No. 2588224**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2010**

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ABBEY NATIONAL STERLING CAPITAL PLC
COMPANY NUMBER: 2588224

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended 31 December 2010

Principal activity and business review

The principal activity of Abbey National Sterling Capital plc (the "Company") is that of an investment company

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.

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

Principal risks and uncertainties

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.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £123,856 (2009: £66,930).

The Directors do not recommend the payment of a final dividend (2009: £nil).

Directors

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

Brian W Morrison
David M Green
Luis P G P De Sousa

(appointed 17 May 2010)

ABBEEY NATIONAL STERLING CAPITAL PLC
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REPORT OF THE DIRECTORS (continued)

Statement of Directors responsibilities

The Directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 2006.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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 above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 14 and 2 to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk, 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 accounts.

Financial instruments

The Company's risks are managed on a Group level by the ultimate 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, 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.

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 remain in force as at the date of this Report and Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

ABBNEY NATIONAL STERLING CAPITAL PLC
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REPORT OF THE DIRECTORS (continued)

Payment policy

Given the nature of the Company's business, the Company does not have any suppliers and therefore does not operate a payment policy. The Company has no creditors and is unable to quantify the practice on payment of creditors.

Auditors

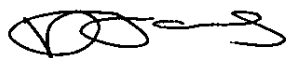
Each of the Directors at the date of approval of this report confirms that

- 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 in order 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.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Company's forthcoming Annual General Meeting.

By Order of the Board



For and on behalf of
Abbey National Nominees Limited, Secretary
31 March 2011

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABBEY NATIONAL STERLING CAPITAL PLC

We have audited the financial statements of Abbey National Sterling Capital plc (the "Company") for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, the Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Matthew Perkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 March 2011

ABBEY NATIONAL STERLING CAPITAL PLC
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FINANCIAL STATEMENTS
For the year ended 31 December 2010

Income Statement
For the year ended 31 December 2010

	Notes	2010 £	2009 £
Continuing operations			
Revenue	3	32,700,659	32,631,679
Finance costs	5	(32,566,817)	(32,538,725)
Profit from operations before tax		133,842	92,954
Tax	6	(9,986)	(26,024)
Net profit attributable to equity holders of the Company		123,856	66,930

The accompanying notes form an integral part of the accounts

Statement of Comprehensive Income
For the year ended 31 December 2010

	2010 £	2009 £
Profit for the year	123,856	66,930
Total comprehensive income for the year	123,856	66,930
Attributable to equity holders of the Company	123,856	66,930

Statement of Changes in Equity
For the year ended 31 December 2010

	Share Capital £	Retained Earnings £	Total £
Balance at 1 January 2009	50,000	2,810,343	2,860,343
Comprehensive income – profit for the year	-	66,930	66,930
Balance at 31 December 2009	50,000	2,877,273	2,927,273
Balance at 1 January 2010	50,000	2,877,273	2,927,273
Comprehensive income – profit for the year	-	123,856	123,856
Balance at 31 December 2010	50,000	3,001,129	3,051,129

Cash Flow Statement
For the year ended 31 December 2010

	Note	2010 £	2009 £
Net cash flows generated from operating activities	12	167,200	167,200
Net increase in cash and cash equivalents		167,200	167,200
Cash and cash equivalents at beginning of the year		3,080,970	2,913,770
Cash and cash equivalents at end of the year		3,248,170	3,080,970

The accompanying notes form an integral part of the accounts

ABBEEY NATIONAL STERLING CAPITAL PLC
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FINANCIAL STATEMENTS
For the year ended 31 December 2010


Balance Sheet
At 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Loans and receivables	7	300,000,000	300,000,000
		300,000,000	300,000,000
Current assets			
Loans and receivables	7	32,382,874	32,382,874
Cash and cash equivalents		3,248,170	3,080,970
		35,631,044	35,463,844
Total assets		335,631,044	335,463,844
Current liabilities			
Financial liabilities – subordinated bonds	8	(32,167,187)	(32,167,187)
Current tax liabilities		(60,900)	-
Other financial liabilities	9	(221,729)	(221,729)
		(32,449,816)	(32,388,916)
Net current assets		3,181,228	3,074,928
Non-current liabilities			
Financial liabilities – subordinated bonds	8	(299,086,088)	(299,002,430)
Other financial liabilities	9	(301,800)	(352,100)
Deferred tax liabilities	10	(742,211)	(793,125)
		(300,130,099)	(300,147,655)
Total liabilities		(332,579,915)	(332,536,571)
Net assets		3,051,129	2,927,273
Equity			
Share capital	11	50,000	50,000
Retained earnings		3,001,129	2,877,273
Equity attributable to equity holders of the Company		3,051,129	2,927,273

The accompanying notes form an integral part of the accounts

The financial statements were approved by the board of directors and authorised for issue on 31 March 2011

They were signed on its behalf by **BRIAN MORRISON**


 Director

ABBEEY NATIONAL STERLING CAPITAL PLC
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union that are effective or available for early adoption at the Company's reporting date. The Company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention and on the going concern basis as disclosed in the Directors' statement of going concern set out in the Report of the Directors.

Future accounting developments

The Company 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 the Company.

- (a) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 and in October 2010, issued an amendment to IFRS 9 which introduce new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 'Financial Instruments Recognition and Measurement' to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Company anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning on or after 1 January 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- (b) IFRS 7 'Financial Instruments: Disclosures' – In October 2010, the IASB issued amendments to IFRS 7 that increase the disclosure requirements for transactions involving transfers of financial assets. The amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.

The Company does not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures regarding transfers of financial assets. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

- (c) IAS 24 'Related Party Transactions' – In November 2009, the IASB issued amendments to IAS 24, effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The revised standard modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24(2009) do not affect the Company because the Company is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods.

ABBEY NATIONAL STERLING CAPITAL PLC

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard

1 Accounting policies (continued)

Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

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 and short-term investments in securities.

Financial assets

The Company classifies its financial assets as loans and receivables. Management determines the classification of its investments at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the entity 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 valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all of the risks and rewards of ownership.

Impairment of financial assets

At each balance sheet date, the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets classified as loans and receivables have become impaired. Evidence of impairment may include indications that the borrower or group of borrowers have defaulted or are experiencing significant financial difficulty.

Impairment losses recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

A write-off is made when all collection procedures have been completed and is charged against previously established provisions for impairment.

Financial liabilities

ABBEY NATIONAL STERLING CAPITAL PLC

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

Financial liabilities are initially recognised when the Company becomes contractually bound to transfer economic benefits in the future and are measured at amortised cost. Financial liabilities are only derecognised once the liability has been extinguished. A liability is only extinguished when either the liability is discharged by payment, or there is a legal release (by law or by the creditor).

1. Accounting policies (continued)

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.

2 Financial risk management

The Company's risk management focuses on the major areas of credit risk, liquidity risk and market risk. Risk management is carried out by the central risk management function of the Santander UK Group. Santander UK'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 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.

The Santander UK Group has three tiers of risk governance.

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

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

The third tier comprises Risk Assurance, who provides independent objective assurance on the effectiveness of the management and control of risk across all of the Santander UK Group. This is provided through the Non-Executive Directors, Internal Audit function and the Audit and Risk Committee.

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 financial assets held relating to amounts receivable from its ultimate UK parent. These amounts have been guaranteed by the ultimate UK parent Company, an AA- rated counterparty.

The maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in note 7 to the financial statements.

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 interest rates. Neither the Company's receivables nor payables are exposed to interest rate movements as these are on fixed interest rates.

Sensitivity analysis

ABBEY NATIONAL STERLING CAPITAL PLC
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NOTES TO THE FINANCIAL STATEMENTS
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The Directors do not consider the fair value interest rate risk to be significant as a majority of the intercompany receivables bear fixed interest rates and the intercompany payables are either non-interest bearing or bear fixed interest rates. For further details refer to notes 7, 8 and 9.

2 Financial risk management (continued)

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.

Maturities of financial liabilities are as follows:

At 31 December 2010	Demand £	Up to 3 months £	1 – 5 years £	Over 5 years £	Total
Interest payable on subordinated guarantee bond	-	32,167,187	130,020,312	156,335,479	318,522,978
Amounts due to parent	171,429	50,300	201,200	100,600	523,529
Amounts due to third party	-	-	-	300,000,000	300,000,000
Total financial liabilities	171,429	32,217,487	130,221,512	456,436,079	619,046,507

3. Revenue

	2010 £	2009 £
Interest receivable from group undertakings	32,700,659	32,631,679

4 Profit from operations before tax

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by its ultimate UK parent company, Santander UK plc. No emoluments were paid by the Company to the Directors during the year (2009 £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 ultimate 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 £11,700 (2009 £11,400).

5 Finance costs

	2010 £	2009 £
Interest payable on subordinated bond	32,566,817	32,538,725

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

6 Tax

	2010 £	2009 £
Current tax		
UK corporation tax on profit of the year	60,900	60,900
Adjustments in respect of prior year	-	(234)
Tax current tax	60,900	60,666
Deferred tax		
Origination and reversal of temporary differences	(23,424)	(34,873)
Adjustments in respect of prior year	-	231
Impact of corporation tax rate change on deferred tax	(27,490)	-
Total deferred tax	(50,914)	(34,642)
Tax charge on profit for the year	9,986	26,024

UK corporation tax is calculated at 28% (2009 28%) of the estimated assessable profits for the year

The Finance (No 2) Act 2010, which provides for a reduction in the main rate of UK corporation tax from 28% to 27% effective from 1 April 2011, was enacted on 27 July 2010. As this change in rate was substantively enacted prior to 31 December 2010, it has been reflected in the deferred tax balance at 31 December 2010.

The UK Budget on 23 March 2011 proposed a further 1% reduction to 26%, effective from 1 April 2011. This further reduction was enacted on 29 March 2011 under the Budget Resolution process in advance of the Finance Act 2011. The UK Government has also indicated that it intends to enact further 1% reductions each year down to 23% by 1 April 2014. These changes in rate had not been substantively enacted at the Balance Sheet date and, therefore, are not included in these financial statements. The estimated financial effect of these changes is insignificant.

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:

	2010 £	2009 £
Profit before tax	133,842	92,954
Tax calculated at tax rate of 28% (2009 28%)	37,476	26,027
Effect of change in tax rate on deferred tax provision	(27,490)	-
Adjustment to prior year provisions	-	(3)
Tax charge for the year	9,986	26,024

7 Loans and receivables

	2010 £	2009 £
Amounts due in more than one year		
Amounts due from ultimate UK parent entity – term debt	300,000,000	300,000,000
Amounts due in less than one year		
Amounts due from ultimate UK parent entity - other	32,382,874	32,382,874
	332,382,874	332,382,874

In accordance with an agreement dated 30 December 1991, Abbey National Sterling Capital plc lent to Santander UK plc the amount of £150 million to be repaid on 4 January 2017 and bearing interest at 11.59% per annum. This loan was made in Pounds Sterling.

In accordance with an agreement dated 4 February 1993, Abbey National Sterling Capital plc lent to Santander UK plc a further amount of £150 million to be repaid on 4 January 2023 bearing interest at 10.18% per annum. This loan was made in Pounds Sterling.

All amounts are subordinated to the other creditors and depositors of Santander UK plc.

The fair value of the amounts due from Santander UK plc approximates £496,634,387 (2009 £498,832,023).

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8 Financial liabilities – subordinated bonds

Subordinated bonds

	2010 £	2009 £
Subordinated guarantee bonds due 2017	166,826,061	166,792,720
Subordinated guarantee bonds due 2023	164,427,214	164,376,897
	331,253,275	331,169,617
These bonds are repayable as follows		
Interest	32,167,187	32,167,187
After five years	299,086,088	299,002,430
	331,253,275	331,169,617

On 30 December 1991, the Company issued £150 million subordinated bonds due 4 January 2017. These bonds were issued in Pounds Sterling. Interest is payable annually in arrears, commencing 4 January 1993 at a rate of 11.5%.

On 4 February 1993, the Company issued a further £150 million of subordinated bonds due 4 January 2023. These bonds were issued in Pounds Sterling. Interest is payable annually in arrears, commencing 4 January 1994 at a rate of 10.125%.

All bonds and notes are subordinated to the interests of the depositors and other creditors of Santander UK plc.

The fair value of the Company's borrowings as follows:

	2010 £	2009 £
Subordinate guarantee bonds	374,470,814	365,065,723

9 Other financial liabilities

	2010 £	2009 £
Amounts falling due within one year		
Amounts due to UK ultimate parent	221,729	50,300
Amounts due to immediate parent company - group relief	-	171,429
	221,729	221,729
Amounts falling due after one year		
Amounts due to UK ultimate parent		
- due in more than one year but not more than two years	50,300	50,300
- due in more than two years but no more than five years	150,900	150,900
- due after five years	100,600	150,900
	301,800	352,100

The Directors consider that the carrying amount of other financial liabilities approximates to their fair value.

The amount due to the ultimate UK parent undertaking is repayable by equal annual instalments of £50,300 per annum. The liability is non-interest bearing.

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:

	2010 £	2009 £
At 1 January	793,125	827,767
Income statement credit	(50,914)	(34,642)
At 31 December	742,211	793,125

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11 Share capital

	2010 £	2009 £
Issued and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000

12 Cash generated from operations

Reconciliation of profit before tax to net cash inflow from operating activities

	2010 £	2009 £
Profit before tax	133,842	92,954
Adjustment for		
Amortisation of premium/discount	83,658	124,546
Changes in operating assets and liabilities		
Change in payables	(50,300)	(50,300)
Cash flows generated from operations	167,200	167,200
Income tax paid	-	-
Cash flows from operating activities	167,200	167,200

13 Related party transactions

Trading transactions

The trading transactions with related parties relate to interest received on amount due from ultimate UK parent company

Related party transactions at balance date are as follows

	Income 2010 £	2009 £	Amounts due from related parties 2010 £	2009 £	Amounts due to related parties 2010 £	2009 £
Parent companies	32,700,659	32,631,679	332,382,874	332,382,874	523,529	573,829

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

14 Capital management and resources

The Company's ultimate UK 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 6.

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15 Parent undertaking and controlling party

The Company's immediate parent company is Abbey National Treasury Services plc, a company registered in England and Wales

The Company's ultimate parent undertaking and controlling party is Banco Santander S A, a company registered in Spain. Banco Santander, S A is the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the Company is a member. Abbey National Treasury Services plc is the immediate parent undertaking of the smallest group of undertakings for which the Group accounts are drawn up and of which the Company is a member.

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