

# **ALLIANCE & LEICESTER LIMITED**

**Registered in England and Wales  
Company Number 03263713**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2016**

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## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions provided in section 414B (as incorporated to the Act by the Strategic Report and Director's Report Regulations 2013) of the Act.

### Principal activity and review of the year

The principal activity of Alliance & Leicester Limited (the "Company") is to make and hold loans.

### Results and dividends

The profit for the year on ordinary activities after taxation amounted to £7,927 (2015: £2,778).

The Directors do not recommend the payment of a final dividend (2015: nil). The Company did not pay an interim dividend for the year (2015: £nil).

### Post Balance Sheet Events

No adjusting or significant non-adjusting events have occurred between the 31 December 2016 and the date of authorisation of the financial statements.

### Directors

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

MA Hill	(resigned 18 February 2016)
AR Honey	
RJ Morrison	(appointed 14 March 2016)
JL Wright	(appointed 14 March 2016)

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Report of the 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

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 9 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 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. However as a result of a subsidiary optimisation programme undertaken by the parent, a decision has been made to liquidate the company in the near future. As required by IAS 1 'Presentation of Financial Statements', management has prepared the financial statements on the basis that the company is no longer a going concern. Preparation of the financial statements on an "other than going concern" basis has resulted in some assets being classified as current.

### 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.

## REPORT OF THE DIRECTORS (*continued*)

### Independent Auditors


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

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

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

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

### By order of the Board



Jennifer Cheung

For and on behalf of  
Santander Secretariat Services Limited, Secretary

19 July 2017

Registered office address: Carlton Park, Narborough, Leicester, LE19 0AL

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER LIMITED**

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Alliance & Leicester Limited's financial statements (the "financial statements"):

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

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### **Emphasis of matter - Basis of preparation**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the basis of preparation. As a result of a subsidiary optimisation programme undertaken by the parent company during the year, a decision has been made to liquidate the company in near future. Accordingly, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a basis other than going concern as described in note 1 to the financial statements. Adjustments were necessary in these financial statements to reduce assets to their realisable values, to provide for liabilities arising from the decision or to reclassify fixed assets and long-term liabilities as current assets and liabilities.

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### **What we have audited**

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

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

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

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

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## **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

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## **Other matters on which we are required to report by exception**

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

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

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

We have no exceptions to report arising from this responsibility.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER LIMITED (CONTINUED)

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### Directors' remuneration

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

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### Entitlement to exemptions.

Under the Companies Act 2006 we are required to report to you if in our opinion, the Directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 1, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### What an audit of financial statements involves

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

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

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

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

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



Daniel Brydon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
19 July 2017

**STATEMENT OF COMPREHENSIVE INCOME**

For the years ended 31 December

	Note	2016 £	2015 £
<b>Discontinued operations</b>			
Interest income		838	1,531
Net trading and other income		9,071	1,683
<b>Total operating income</b>		<b>9,909</b>	<b>3,214</b>
<b>Profit before tax</b>		<b>9,909</b>	<b>3,214</b>
Tax	4	(1,982)	(436)
<b>Profit after tax for the year</b>		<b>7,927</b>	<b>2,778</b>

The Company has no comprehensive income or expenses attributable to the equity holders other than the profit of £7,927 (2015: £2,778) for the current and previous year.

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

**STATEMENT OF CHANGES IN EQUITY**

For the years ended 31 December

	Share capital £	Retained earnings £	Total equity £
Balance as at 1 January 2015	100	3,005,181	3,005,281
Profit and total comprehensive income for the year	-	2,778	2,778
Balance as at 31 December 2015	100	3,007,959	3,008,059
Balance as at 1 January 2016	100	3,007,959	3,008,059
Profit and total comprehensive income for the year	-	7,927	7,927
Balance as at 31 December 2016	100	3,015,886	3,015,986

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

**CASH FLOW STATEMENT**

For the years ended 31 December

	Note	2016 £	Restated 2015 £
Net cash generated from/(used in) operating activities	7	9,258	(5,586)
Net increase/(decrease) in cash and cash equivalents		9,258	(5,586)
Cash and cash equivalents at beginning of the year		3,004,894	3,010,480
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>3,014,152</b>	<b>3,004,894</b>

The 2015 disclosures have been restated to include loans and receivables which were repayable on demand.

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

**BALANCE SHEET**

As at 31 December

	Note	2016 £	Restated 2015 £
<b>Current assets</b>			
Loans and advances to customers		3,816	3,816
Cash		267,826	-
Loans and receivables	5	2,746,326	3,004,894
<b>Total current assets</b>		<b>3,017,968</b>	<b>3,008,710</b>
<b>Total assets</b>		<b>3,017,968</b>	<b>3,008,710</b>
<b>Current liabilities</b>			
Amount due to related companies - group relief		(1,982)	(651)
<b>Total current liabilities</b>		<b>(1,982)</b>	<b>(651)</b>
<b>Total liabilities</b>		<b>(1,982)</b>	<b>(651)</b>
<b>Net assets</b>		<b>3,015,986</b>	<b>3,008,059</b>
<b>Equity</b>			
Share capital	6	100	100
Retained earnings		3,015,886	3,007,959
<b>Total equity</b>		<b>3,015,986</b>	<b>3,008,059</b>

The disclosure relating to loans and receivables has been restated for 2015 because the maturity profile of these balances are due on demand. This has resulted in the 2015 non-current asset for £3,004,894 being restated as current. In addition loans and advances to customers have been restated as current in 2015 because the financial statements are being prepared on an other than going concern basis.

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:



Jason L Wright  
Director  
19 July 2017

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. ACCOUNTING POLICIES

Alliance & Leicester Limited is a private company limited by shares, incorporated and domiciled in England and Wales. The registered office is Carlton Park, Narborough, Leicester, LE19 0AL.

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.

IAS 1 requires that financial statements for any Company that has ceased to trade, or where there is an intention for the Company to cease to trade in the foreseeable future, are prepared on an "other than going concern" basis. Accordingly the financial statements have been prepared on an "other than going concern" basis as disclosed in the Director's statement of going concern set out in the Report of the Directors. This has resulted in all assets and liabilities being classified as current.

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

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:

- 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', in accordance with the guidelines which were prepared during the G-20 meeting in April 2009.

IFRS 9 sets out the requirements for recognition and measurement of both financial instruments and certain types of contracts for the sale of non-financial items. The main new developments of the standard are discussed below.

*Classification and measurement of financial assets and financial liabilities:* Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes will be similar to IAS 39. However, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at fair value either through profit or loss or, in certain circumstances, an irrevocable election may be made to present fair value movements in other comprehensive income. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income.

*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. These macroeconomic forecasts are required to be unbiased and probability weighted amounts 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.

For financial assets, an ECL is the current value of the difference between the contractual cash flows owed to the entity according to the contract and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.

An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL – i.e. the proportion of lifetime expected losses resulting from possible default events within a the next 12-months - will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL – i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility – will be applied; and
- Stage 3: when it has been deemed there has been a significant increase in credit risk since initial recognition, and the facility is considered credit impaired, a loss allowance equal to the lifetime ECL will be applied. Similar to incurred losses under IAS 39, objective evidence of credit impairment is required.

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



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

For the year ended 31 December 2016

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

#### Future accounting developments *(continued)*

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

- b) 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 and expense 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, short term investments in securities and bank overdrafts repayable on demand.

#### Financial assets

The Company classifies its financial assets, including intercompany financial assets as loans and receivables. Management determines the classification 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 Company has transferred substantially all of the risks and rewards of ownership. Loans and receivables consist of Loans and advances to banks, Loans and advances to customers and Loans and receivables securities.

#### Impairment of financial assets

At each balance sheet date, the Company assess 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 are recognised in the Statement of comprehensive income 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

The Company classifies its financial liabilities, including intercompany financial liabilities, as deposits and payables which are held at amortised cost unless designated as held at fair value through profit and loss. The carrying value of financial liabilities is a fair approximation of their fair values.

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

For the year ended 31 December 2016

### 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.

#### Dividends

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

#### Foreign currency translation

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances ('the functional currency'). The financial statements are presented in pounds sterling, which is the functional currency of the Company. Foreign currency transactions are translated into the functional currency of the Company at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### Critical accounting judgements and key sources of estimation uncertainty

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements. There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 2. RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are credit risk and market 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.

#### 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 held by the Company.

Maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in notes 5 and 9 to the financial statements.

As at 31 December 2016 there were no assets that were either past due or impaired (2015: £nil).

#### 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 result of interest rates. The Company's income is exposed to movements in the LIBOR interest rate charged on loans and receivables relating to amounts due by group companies.

#### Sensitivity analysis

A 50 basis point adverse movement in interest rates would result in a fall in operating profit of £838 (2015: £1,531) and a 50 basis point favourable movement in interest rates would result in an increase in operating profit of £15,905 (2015: £15,053). The fall in operating profit is not linear with the increase in operating profit because interest rate decreases are capped at zero.

### 3. RESULT FROM OPERATIONS

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the UK parent company, Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the Directors during the year (2015: £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 the immediate UK parent undertaking, Santander UK plc, in accordance with company policy and no recharge has been made. The statutory audit fee for the current year is £5,000 (2015: £5,227).

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

For the year ended 31 December 2016

**4. TAX**

	2016 £	2015 £
<b>Current tax:</b>		
UK corporation tax for the year	1,982	651
Adjustments in respect of prior years	-	(215)
<b>Tax charge for the year</b>	<b>1,982</b>	<b>436</b>

UK corporation tax is calculated at 20.00% (2015: 20.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 21.00% to 20.00% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19.00% effective from 1 April 2017 and to 18.00% 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 17.00% from 2020.

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

	2016 £	2015 £
<b>Profit before tax:</b>	<b>9,909</b>	<b>3,214</b>
Tax calculated at a tax rate of 20.00% (2015: 20.25%)	1,982	651
Adjustments in respect of prior years	-	(215)
<b>Tax charge for the year</b>	<b>1,982</b>	<b>436</b>

**5. LOANS AND RECEIVABLES**

	2016 £	Restated 2015 £
<b>Current:</b>		
Amounts due from group companies	2,746,326	3,004,894
<b>Total</b>	<b>2,746,326</b>	<b>3,004,894</b>

The Directors consider that the carrying amount of loans and receivables approximates to their fair value.

Amounts due from group companies are repayable on demand and are non-interest bearing (2015: £2,737,254 was non-interest bearing and £267,640 was interest bearing with interest being fixed quarterly based at three month LIBOR).

The disclosure relating to loans and receivables has been restated for 2015 because the maturity profile of these balances are due on demand. This has resulted in the 2015 non-current asset for £3,004,894 being restated as current.

**6. SHARE CAPITAL**

	2016 £	2015 £
<b>Issued and fully paid:</b>		
200 (2015: 200) ordinary shares at £0.50 each	100	100

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

For the year ended 31 December 2016

**7. NOTE TO THE CASH FLOW STATEMENT**

	2016	Restated 2015
	£	£
<b>Profit after tax for the year</b>	<b>7,927</b>	<b>2,778</b>
Add back tax charge	1,982	436
Profit before tax	9,909	3,214
Changes in operating assets and liabilities:		
Change in receivables	-	1,910
Change in payables	(651)	(10,710)
<b>Cash flows generated from/(used in) operating activities</b>	<b>9,258</b>	<b>(5,586)</b>
Tax paid	-	-
<b>Net cash generated from/(used in) operating activities</b>	<b>9,258</b>	<b>(5,586)</b>

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

Reconciliation of cash and cash equivalents:

	2016	Restated 2015
	£	£
Cash (excluding bank overdrafts)	267,826	-
Loans and receivables	2,746,326	3,004,894
<b>Cash and cash equivalents</b>	<b>3,014,152</b>	<b>3,004,894</b>

The disclosure for 2015 has been restated to include loans and receivables due from Santander UK plc, this balance is considered to form part of cash and cash equivalents for the Company on the basis that this is repayable on demand.

**8. RELATED PARTY TRANSACTIONS****Trading transactions**

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

Related party transactions at balance sheet date are as follows:

	Income		Amounts due from related parties		Amounts due to related parties	
	2016	2015	2016	2015	2016	2015
	£	£	£	£	£	£
Immediate UK parent company	838	1,531	2,750,142	3,008,710	1,982	651

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.

**9. CAPITAL MANAGEMENT AND RESOURCES**

The Company's immediate UK parent, 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 Group's capital management can be found in the Santander UK plc annual report and financial statements.

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.

**10. 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 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.

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

For the year ended 31 December 2016

**11. POST BALANCE SHEET EVENTS**

No adjusting or significant non-adjusting events have occurred between the 31 December 2016 and the date of authorisation of the financial statements.