2017 Annual Report

Abbey National Treasury Services plc

PART OF THE SANTANDER GROUP

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2017 Annual Report
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Important information for readers
Abbey National Treasury Services plc (the Company or ANTS) and its subsidiaries (collectively the ANTS group) operate primarily in the UK, and are part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Abbey National Treasury Services plc is regulated by the UK Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and certain other companies within the ANTS group are regulated by the FCA.

This Annual Report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements.

For more information see www.aboutsantander.co.uk.

Strategic report

Abbey National Treasury Services plc (the Company or ANTS) is required to set out in this report a fair review of its business and a description of its principal risks and uncertainties, including a balanced and comprehensive analysis of the development and performance of the business in the year and of its position at the end of the year. This information can be found below and in the following sections of this Annual Report, which are incorporated into and form part of this Strategic report.

Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' Report (for which see page 10) and the Strategic report. Under English law, the Directors would be liable to the Company, but not to any third party, if one or more of these reports contained errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would otherwise not be liable. Pages 10 to 15 inclusive comprise the Directors' Report, pages 2 and 3 comprise the Strategic report, each of which have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

The Directors, in preparing this Strategic report, have complied with Section 414C of the Companies Act 2006.

Principal activities and business review

ANTS provides corporate, wholesale banking and treasury services to UK clients and the wider Santander UK group, comprising Santander UK plc and its subsidiaries, of which ANTS is a significant part. However, this is planned to change by the end of 2018, due to the implementation of Santander UK's ring-fencing plan, as described below.

Part of ANTS's role is to provide access to certain financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements. ANTS has entered into agreements to provide capital and/or liquidity to Santander UK plc and other members of the Santander UK group, in order to facilitate efficient intercompany funding arrangements under current regulations. The capital agreement expires on 31 December 2018, and ANTS will withdraw from the liquidity arrangements on the same date. ANTS will then manage its own capital and liquidity separately. For further details, see Note 26 to the Financial Statements.

The Company has also given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 31 December 2018 under a deed poll guarantee entered into by the Company on 11 May 2017 (the Upstream Guarantee). On 11 May 2017, Santander UK plc entered into a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 31 December 2018 (the Downstream Guarantee). Because these guarantees are in place, the results and creditworthiness of ANTS should not be viewed in isolation. Account should also be taken of the position of the Santander UK group into which the assets and liabilities of ANTS are fully consolidated. Santander UK's ring-fencing plan will unwind the Downstream and Upstream Guarantees, releasing each of Santander UK plc and Abbey National Treasury Services plc from all liabilities under those guarantees, with effect from 1 January 2019.

ANTS contains portions of a number of Santander UK's business segments. The booking of transactions in ANTS or another Santander UK group entity reflects historical or operational considerations and does not necessarily reflect any particular business split.

Ring-fencing update

UK legislation establishes new requirements for certain UK banks to ring-fence their retail activities, such as current accounts, savings accounts and payments. The largest UK banking groups, including Santander UK, have to comply with these requirements by 1 January 2019.

Santander UK plc will become the main ring-fenced bank of the Santander UK group. It will serve all our personal customers in the UK and the vast majority of our business customers.

To the extent allowed by the legislation, the ring-fenced bank will also broadly continue to hold and serve our corporate banking business in the UK. There will be some instances where products cannot be offered, or customers cannot be served from within the ring-fence bank. In most of these instances, these products will be provided, or these customers served, by Banco Santander through its London branch. This will include some Global Corporate Banking business and Corporate Banking customers.

As described in Note 33 to the Financial Statements, under the model chosen by the Santander UK group to implement its ring-fencing plan, ANTS will become a wholly-owned direct subsidiary of Santander UK Group Holdings plc, and will be emptied of all material assets, save for a small pool of residual assets. The prohibited business of ANTS, which principally includes our derivatives business with financial institutions, certain corporates and elements of our short term markets business, will transfer to Banco Santander SA or its London branch (SLB). The majority of the permitted business of ANTS will transfer to Santander UK plc, with a small amount of the permitted business of ANTS transferring to SLB. The branch of ANTS in the US will be closed by the end of December 2018.

Development and performance of our business in 2017

Information on the development and performance of our business in the year is set out in the 'Income statement review' section of the Financial review.

Our position at 31 December 2017

Information on our position at the end of the year is set out in the 'Balance sheet review' section of the Financial review.

Uncertain economic environment
We see uncertainty ahead and with a wide range of projections for key economic indicators, such as GDP and house price growth, it's possible that outcome will be significantly different from the current consensus view. The UK economy experienced solid growth in 2017, with record low levels of unemployment. Despite the squeeze on real incomes from rising inflation and muted earnings growth, the Bank of England decided to raise Bank Rate for the first time since July 2007 based, in part, on this solid growth. Business investment has continued to be affected by the ongoing uncertainty in the UK economy, which has impacted corporate borrowing.

We have a track record of consistent profitability, a resilient balance sheet and a relentless focus on customers. We believe that we are well-placed to manage any potential uncertainties and deliver our strategy. In light of the uncertain outlook we continued to control growth in some higher margin business areas where we saw potentially higher risks. We believe that our proactive risk management policies will deliver a resilient performance in the business.

Demanding regulatory change agenda
The regulatory agenda continues to present both risks and opportunities for UK banks. As well as encouraging competition, new entrants and innovation, it also focuses on conduct towards customers and financial stability.

2018 outlook remains uncertain
We anticipate that the UK economy will continue to grow in 2018, although at a slightly subdued pace. Stronger global growth is likely, coming in particular from emerging markets. Nonetheless, for the UK economy, some downside risks could materialise, as a result of higher inflation and low wage growth reducing households' real earnings. This may restrict consumer spending which, when combined with a potentially more challenging macro environment, adds a degree of caution to our outlook.

Our principal risks and uncertainties

Information on our principal risks and uncertainties is set out in the Risk review by type of risk.

Key performance indicators

The directors of the Company's ultimate UK parent, Santander UK Group Holdings plc, manage the operations of the Santander UK Group Holdings plc group (which includes ANTS and its subsidiaries) on a business division basis. Key performance indicators are not set, monitored or managed at the ANTS group level. As a result, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The development performance and position of the business of the Company is set out in the Financial review. The key performance indicators of the Santander UK Group Holdings plc group can be found on page 12 of its 2017 Annual Report, which does not form part of this report.

Managing our environmental impact efficiently

Santander UK's Environmental & Energy Management Systems (EMS & EnMS) provide a framework for defining responsibilities and processes in relation to waste, energy, water, travel and supply chain management at its main offices and data centres in the UK, including those used by ANTS. In 2017, Santander UK successfully recertified the ISO 14001 & ISO 50001 accreditation across all of these properties.

Managing our supply chain responsibly

We buy goods and services from external suppliers and intra-group companies, governed by Santander UK's Cost Management and Procurement Policy, Third Party Risk Management Policy and Conduct in Supplier Relationships Manual.

We meet the Living Wage requirement for employees of suppliers who work at Santander UK sites, and our supplier contracts include specific requirements to respect human rights and ethical labour practice based on the principles of the UN Global Compact.

Santander UK is a signatory to the Business in the Community Access Pledge, a public commitment to a fair and open procurement process for SMEs. In 2017, 80% of Santander UK's new supplier contracts were with businesses with less than £10m annual turnover or 250 employees.

We are committed to high ethical standards

We adhere to laws and regulations, conduct business in a responsible way and treat our stakeholders with honesty and integrity. We review each investment and lending proposal case-by-case, taking account of the potential impact on human rights, public health and the environment. We also consider the ethics of supporting or partnering with particular organisations, governments and projects. Our Code of Ethical Conduct sets out the standards we expect of our people. It supports our commitment to being Simple, Personal and Fair and also helps to protect our reputation by building a culture free from corruption, risk of compromise or conflicts of interest.

See the Directors' report for more on our Code of Ethical Conduct and Anti-Bribery and Corruption Policy.

By Order of the Board

Juan Garrido Otaola
Director
28 February 2018

Financial review

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INCOME STATEMENT REVIEW

SUMMARISED INCOME STATEMENT

	2017 £m	2016 £m
Net interest income	303	264
Non-interest income[1]	290	326
Total operating income	593	590
Operating expenses before impairment losses, provisions and charges	(310)	(288)
Impairment losses on loans and advances	(72)	(18)
Provisions for other liabilities and charges	(19)	(16)
Total operating impairment losses, provisions and charges	(91)	(34)
Profit before tax	192	268
Tax on profit	(60)	(86)
Profit after tax	132	182

(1) Comprised of Net fee and commission income and Net trading and other income.

A more detailed income statement is contained in the Financial Statements.

2017 compared to 2016

Profit before tax decreased by £76m to £192m in 2017 (2016: £268m). By income statement line, the movements were:

- Net interest income increased by £39m to £303m in 2017 (2016: £264m). This increase was mainly due to lending growth in project and acquisition finance, securitisation and transactional services, and a £39m release of accrued interest on a foreign tax liability no longer payable after Q2 2017. This was partially offset by continued asset margin pressures.

- Non-interest income decreased by £36m to £290m in 2017 (2016: £326m). This decrease was driven by lower rates management fees and mark-to-market movements on economic hedges and hedge inefficiencies, partially offset by increases driven by security financing, derivative sales and market making.

- Operating expenses before impairment losses, provisions and charges increased by £22m to £310m in 2017 (2016: £288m), due to a one-off charge for services provided by Banco Santander SA. Going forward, the majority of these charges will be allocated to the London branch of Banco Santander SA under our new ring-fence structure.

- Impairment losses on loans and advances increased by £54m to £72m in 2017 (2016: £18m), primarily relating to Carillion plc exposures.

- The tax on profit decreased by £26m to £60m in 2017 (2016: £86m) due to lower profits. The effective tax rate reduced slightly to 31.3% (2016: 32.2%).

Critical factors affecting results

The preparation of our Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and other factors believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Estimates and judgements that are considered important to the portrayal of our financial condition including, where applicable, quantification of the effects of reasonably possible ranges of such estimates are set out in ‘Critical Accounting Policies and Areas of Significant Management Judgement’ in Note 1 to the Financial Statements.

BALANCE SHEET REVIEW

SUMMARISED BALANCE SHEET

	2017 £m	2016 £m
Assets		
Cash and balances at central banks	5,128	3,517
Trading assets	30,170	29,682
Derivative financial instruments	19,853	27,954
Financial assets designated at fair value	1,152	1,854
Loans and advances to banks	14,892	9,993
Loans and advances to customers	8,267	15,136
Financial investments	255	696
Interest in other entities	57	57
Property, plant and equipment	10	9
Tax, intangibles and other assets	305	912
Total assets	80,089	89,810
Liabilities		
Deposits by banks	14,307	25,319
Deposits by customers	2,448	3,186
Trading liabilities	31,109	15,560
Derivative financial instruments	20,972	31,620
Financial liabilities designated at fair value	1,043	2,119
Debt securities in issue	6,043	7,895
Tax, other liabilities and provisions	285	352
Total liabilities	76,207	86,051
Equity		
Total shareholders' equity	3,882	3,759
Total equity	3,882	3,759
Total liabilities and equity	80,089	89,810

A more detailed balance sheet is contained in the Financial Statements.

2017 compared to 2016

Assets

Cash and balances at central banks
Cash and balances at central increased by 46% to £5,128m at 31 December 2017 (2016: £3,517m). The increase was mainly due to an increase in securities sold under resale agreements as part of ongoing operational liquidity management activity which resulted in the mix of our eligible liquidity pool being weighted more towards cash in 2017 than in 2016.

Derivative financial instruments
Derivative assets decreased by 29% to £19,853m at 31 December 2017 (2016: £27,954m). The decrease was mainly due to volatility in the fair value of interest rate and cross currency derivative assets principally driven by movements in yield curves and foreign exchange rates.

Financial assets designated at fair value
Financial assets designated at fair value through profit or loss decreased by 38% to £1,152m at 31 December 2017 (2016: £1,854m). This was mainly due to the transfer of loans to housing associations from ANTS to Santander UK plc as part of the Santander UK group's ring-fencing plans.

Loans and advances to banks
Loans and advances to banks increased by 49% to £14,892m at 31 December 2017 (2016: £9,993m). The increase was driven by a higher volume of securities purchased under resale agreements due to a change in the mix of assets held for liquidity purposes as part of normal portfolio management activity, offset slightly by a reduction in placements with other banks.

Loans and advances to customers
Loans and advances to customers decreased by 45% to £8,267m at 31 December 2017 (2016: £15,136m). This was mainly due to the transfer of loans to housing associations from ANTS to Santander UK plc as part of the Santander UK group's ring-fencing plans.

Financial investments
Financial investments decreased by 63% to £255m at 31 December 2017 (2016: £696m) due to the maturity of available-for-sale debt securities.

Tax, intangibles and other assets
Tax, intangibles and other assets decreased by 67% to £305m at 31 December 2017 (2016: £912m) mainly due to a decrease in macro hedges relating to interest rate risk and a decrease in prepayments.

Liabilities

Deposits by banks
Deposits by banks decreased by 43% to £14,307m at 31 December 2017 (2016: £25,319m) due to the netting and settlement of intercompany balances mainly as a result of the repositioning and restructuring of the ANTS balance sheet as part of the Santander UK group's ring-fencing plans.

Deposits by customers
Deposits by customers decreased by 23% to £2,448m at 31 December 2017 (2016: £3,186m) mainly due to a reduction in wholesale funds and deposits.

Trading liabilities
Trading liabilities doubled to £31,109m at 31 December 2017 (2016: £15,560m) mainly as a result of an increase in securities sold under resale agreements, partially offset by a reduction in cash collateral and short-term deposits.

Derivative financial instruments
Derivative liabilities decreased by 34% to £20,972m at 31 December 2017 (2016: £31,620m). The decrease was mainly due to volatility in the fair value of interest rate and cross currency derivative liabilities principally driven by movements in yield curves and foreign exchange rates.

Financial liabilities designated at fair value
Financial liabilities designated at fair value through profit or loss decreased by 51% to £1,043m at 31 December 2017 (2016: £2,119m). This decrease was due to the novation of all outstanding structured notes and warrants issued by ANTS under the Structured Notes Programmes and the Warrants Programme to Santander UK plc as part of the Santander UK group's ring-fencing plans.

Debt securities in issue
Debt securities in issue decreased by 23% to £6,043m at 31 December 2017 (2016: £7,895m). This was mainly driven by a reduction in commercial paper and certificate of deposits in ANTS, as new issuances were made out of recently established programmes in Santander UK plc as part of the Santander UK group's ring-fencing plans.

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BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Simon Lloyd
Chairman

Timothy Simon Lloyd (57) was appointed Chairman of Abbey National Treasury Services plc on 11 August 2016. Simon has extensive experience as a Company Secretary and General Counsel in the financial services industry and was the Chief Administration Officer of Santander UK plc until his retirement from that company on 31 December 2016. Previously he occupied the role of Chief People Officer (2008 – 2015) at Santander UK plc and Company Secretary for Alliance & Leicester plc (2003 - 2007). Simon trained as a solicitor and spent seven years in private practice before moving into the financial services industry, where he has also held roles as Company Secretary and General Counsel at Bristol & West plc, and Head of Legal for UK Retail Banking at Lloyds Bank plc. Simon is also Chairman of Milton Keynes University Hospital NHS Foundation Trust.

Susan Allen
Non-Executive Director

Susan Allen (51) was appointed as a Non-Executive Director of Abbey National Treasury Services plc on 24 January 2017, and is currently Head of Retail Distribution at Santander UK plc since 1 March 2017, previously holding the roles of Chief Transformation Officer from 1 September 2015 and Managing Director, UK Banking from March 2015. Prior to this, Susan was the CEO, Customer Solutions Group, Commercial and Private Banking at RBS, which included the UK asset management, invoice finance, cash and trade businesses. Susan has worked in the Financial Services industry for over 25 years and has extensive experience in Retail Banking, Corporate Banking, Global Banking, Operations and Head Office roles.

Chris Sullivan
Non-Executive Director

Chris Sullivan (60) was appointed as a Non-Executive Director of the Company on 1 February 2016. Chris joined Santander UK as our CEO of the Santander UK corporate bank. He brings a wealth of experience to this role having spent 40 years with the Royal Bank of Scotland and NatWest, including as Chief Executive of their Corporate Banking Division between 2009 and 2013. During this period, he rebuilt the RBS Large Corporate and SME Banking businesses, championing the return to professional qualified bankers and introducing new propositions in SME Banking for Entrepreneurs and Women in Business. He also had oversight of Lombard, RBS Invoice Finance and Global Transaction Services.

EXECUTIVE DIRECTORS

Juan Garrido Otaola
Chief Executive Officer

Juan Garrido Otaola (47) was appointed Chief Executive Officer of the Company on 23 May 2016. Juan has extensive experience in financial markets related business in both trading and sales. Juan was appointed to Head of Global Corporate Banking UK of Santander UK plc in February 2017. Previously Juan held the position of Head of Global Banking and Markets for Banco Santander, Mexico in 2012, with the responsibility of leading an Investment Banking team with a top three footprint in Equity and Debt Capital Markets, Mergers & Acquisitions, Project Finance, Trade Finance and Treasury Products. Prior to this, he headed a variety of departments for Banco Santander in Madrid and London, including Head of Spain Corporate Sales (2005-2008) and later Head of European Corporate Sales (2009-2011). Juan began his career at JP Morgan-Chase in London and Madrid after joining their graduate programme in 1995.

Antonio Roman
Chief Financial Officer

Antonio Roman (50) was appointed Chief Financial Officer of the Company on 31 July 2014. He is also Chief Financial Officer of Santander UK plc. Antonio has extensive financial services experience across a wide range of areas including Finance, Investor Relations and Retail Banking. He was appointed Treasurer of Santander UK plc in 2014, with responsibility for the management of interest risk, liquidity, funding, economics and investor relations. Antonio joined Santander UK plc in 2013 as Deputy Treasurer and prior to that held the position of Head of Financial Management at Banco Español de Credito SA.

Patrick Flynn
Chief Operating Officer

Patrick Flynn (53) was appointed as an Executive Director of the Company on 2 September 2016, having joined Santander UK plc in April 2016 as Chief Operating Officer (COO) of the Global Corporate Banking Business. Patrick started his career as an Aircraft Engineering Officer in the British Army before moving into Business & IT Consulting. He has spent the last 18 years in financial services in a wide variety of roles at Lehman Brothers, Nomura and most recently as Global COO for Financing and Risk Solutions at Barclays Investment Bank.

Directors' report

INTRODUCTION

The Directors have pleasure in submitting their report together with the financial statements the year ended 31 December 2017.

HISTORY AND CORPORATE STRUCTURE

ANTS was established in 1989 for the purpose of managing the liquidity, risk management and wholesale banking needs of Abbey National plc (subsequently renamed Santander UK plc) and its subsidiaries (collectively, Santander UK or the Santander UK group).

In 1997, Abbey National plc acquired the business and assets of Cater Allen Holdings plc (CAH) for £195m. The synergies between ANTS and the Cater Allen business provided ANTS with opportunities for growth in strategically important markets with Cater Allen's then principal businesses comprising money markets, a share dealing service and onshore and offshore retail banking.

In 2010, all of the business and assets of Cater Allen International Limited, a subsidiary of CAH, and a significant participant in the repo and wholesale money markets, were transferred to the Company. The principal purpose of the transfer was to increase the efficiency of ANTS and the Santander UK group. No gain or loss was recognised on the transfer.

On 12 November 2004, Banco Santander SA, a company incorporated in Spain, completed the acquisition of the entire issued ordinary share capital of the parent company of ANTS, Santander UK plc, at which point the Company became an indirect subsidiary of Banco Santander SA.

The Company is a wholly-owned subsidiary of Santander UK plc, which is a subsidiary of Santander UK Group Holdings plc which, in turn, is a wholly owned subsidiary of Banco Santander SA. The ordinary shares of the Company are not traded on the London Stock Exchange. A full list of the subsidiaries of the Company, the nature of each subsidiary's business and details of branches is presented in the Shareholder information section of this Annual Report.

Structural relationship of ANTS and Santander UK with Banco Santander– the 'subsidiary model'

Banco Santander operates a 'subsidiary model'. This model involves autonomous units, such as Santander UK (of which ANTS is a part), operating in core markets, with each unit being responsible for its own liquidity, funding and capital management on an ongoing basis. The model is designed to minimise the risk to Banco Santander and all its units from problems arising elsewhere in Banco Santander. The subsidiary model means that Banco Santander SA has no obligation to provide any liquidity, funding or capital assistance, to any of these units, although it enables Banco Santander SA to take advantage selectively of opportunities. As a PRA-regulated entity, ANTS is expected to satisfy the PRA liquidity and capital requirements on a standalone basis.

Under the subsidiary model, ANTS plc generates funding and liquidity through corporate deposits, as well as its own debt programmes and facilities. It does this by relying on the strength of its own balance sheet and profitability, and funding from Santander UK plc. It does not rely on any guarantees from Banco Santander SA, any subsidiaries of the Banco Santander group outside the Santander UK group, or any of its own subsidiaries.

Related party transactions with companies in the Banco Santander group are managed on an arm's length commercial basis except those carried out with Banco Santander SA and Santander UK plc as part of our ring-fencing plans as described in Note 33. All intra-group transactions are monitored by the Santander UK and ANTS Board Risk Committees. Transactions which are not in the ordinary course of business must be approved in advance by the Board. In addition, Santander UK is subject to PRA limits on exposures to, and on liquidity provided to, other members of Banco Santander.

The subsidiary model gives both ANTS and Santander UK considerable financial flexibility, yet enables them to continue to take advantage of the significant synergies and strengths that come from being part of the global Banco Santander group, in brand, products, systems, platforms, development capacity and management capability. In the subsidiary model, Banco Santander facilitates the sharing of best practice and provides common technology, operations and support services to all of its subsidiaries via independent operating entities, themselves established by Banco Santander SA so as to be able to continue operating as viable standalone businesses.

RESULTS AND DIVIDENDS

The profit after tax for the year was £132m (2016: £182m). The Directors do not recommend the payment of a final dividend for 2017 (2016: £nil) on the ordinary shares in issue. No interim dividends were paid on the ordinary shares in issue during the year.

Details of ANTS's activities and business performance during 2017 are set out in the Strategic report on pages 2 to 3, and the Financial review on pages 4 to 7.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no material post balance sheet events.

DIRECTORS

Directors who served during the year and to the date of signing the financial statements were as follows:

Name of Director	Date of appointment
Susan Allen (Non-Executive)	24 January 2017
Patrick Flynn	2 September 2016
Juan Garrido Otaola (Chief Executive Officer)	23 May 2016
Simon Lloyd (Non-Executive)	11 August 2016
Antonio Roman (Chief Financial Officer)	31 July 2014
Chris Sullivan (Non-Executive)	1 February 2016

None of the Directors have service contracts with ANTS. All Directors except the Chairman are employed by companies within Banco Santander and have employment contracts which are for an indefinite term, except for the Chairman who, since retiring from Santander UK plc on 31 December 2016, has served under a contract for services. Directors may be paid instead of being required to work during their notice period. None of the Directors' employment contracts provide for benefits to be paid on termination of employment other than for redundancy.

All Directors are appointed and retired in accordance with the Company's Articles of Association and the UK Companies Act 2006. The Company does not require the Directors to offer themselves for re-election every year, or that new Directors appointed by the Board offer themselves for election at the next Annual General Meeting.

Details of aggregate remuneration received by the Directors of the Company in 2017 and 2016 are found in Note 29 to the Financial Statements. The remuneration, excluding pension contributions, of the highest paid Director and details of Director participation in defined benefit pension schemes are contained in Note 29 to the Financial Statements. For a description and details of related party transactions, see Note 30 to the Financial Statements.

Directors' indemnities

In addition to Directors' and Officers' liability insurance cover in place throughout 2017, individual deeds of indemnity were also in place to provide cover to the Directors for liabilities to the maximum extent permitted by law. These remain in force for the duration of the Directors' period of office from the date of appointment. The Directors of the Company, including former Directors who resigned during the year, benefit from these deeds of indemnity. They constitute qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

Deeds for existing Directors are available for inspection at the Company's registered office.

Santander UK has also granted an indemnity which constitutes 'qualifying third party indemnity provisions' to the Directors of its subsidiary and associated companies, including former Directors who resigned during the year and since the year-end.

EMPLOYEES

The Company's staff have employment contracts with Santander UK plc, rather than with the Company. The cost of their services is recharged by Santander UK plc to the Company.

As part of the Santander UK group, we continue to ensure that our remuneration policies are consistent with our strategic objectives and are designed with the long-term success of the Company in mind. In doing so we aim to attract and retain the most talented and committed people with first class development schemes and a customer-focused culture that empowers people, values individuality and encourages collaboration. A highly motivated and engaged workforce provides the best service for our customers.

Employee involvement

Communication

ANTS participates in Santander UK's policies and wants to involve and inform employees on matters that affect them. The intranet is a focal point for communications with daily updates on what is happening across Santander UK (including ANTS). The 'We are Santander' website connects staff to all the information they need about working for Santander UK (including ANTS). Santander UK (including ANTS) also uses face-to-face communication, such as team meetings, regional roadshows and annual staff conventions for strategic updates. All these channels are designed to keep employees fully informed of news and developments which may have an impact on them, and to keep them up to date on financial, economic and other factors which affect the Company's performance. Santander UK (including ANTS) considers employees' opinions and asks for their views on a range of issues through regular Company-wide surveys.

Consultation

Santander UK (including ANTS) has a successful history of working in partnership with its recognised trade unions, Advance and the Communication Workers Union (CWU). Both trade unions are affiliated to the Trades Union Congress. We consult Advance and the CWU on significant proposals and change initiatives within the business at both national and local levels.

Employee share ownership

Santander UK (including ANTS) continues to operate two all-employee, HMRC-approved share schemes: a Save-As-You-Earn (Sharesave) Scheme and a Share Incentive Plan (SIP), the latter of which allows employees to purchase Banco Santander SA shares from gross salary. Eligible senior management can participate in a Banco Santander long-term incentive plan. See Note 29 to the Financial Statements for a description of the plans and the related costs and obligations.

DISABILITY

Santander UK (including ANTS) is committed to equality of access and quality of service for disabled people and embraces the spirit of the UK Equality Act 2010 throughout its business operations. Santander UK (including ANTS) has processes in place to help train, develop, retain and promote employees with disabilities. It is committed to giving full and fair consideration to applications for employment made by disabled people, having regard to their particular aptitudes and abilities, and for continuing the employment of employees who have become disabled by arranging appropriate training and making reasonable adjustments within the workplace.

CODE OF ETHICAL CONDUCT

Santander UK (including ANTS) is committed to maintaining high ethical standards – adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are further reflected in Santander UK's Code of Ethical Conduct, as updated in December 2015. This sets out the standards expected of all employees, and supports The Santander Way and Santander UK's (including ANTS) commitment to being Simple, Personal and Fair.

Under their terms and conditions of employment, staff are required to act at all times with the highest standards of business conduct in order to protect Santander UK's (including ANTS's) reputation and ensure a Company culture which is free from any risk of corruption, compromise or conflicts of interest. Staff are also required to comply with all Company policies, including the Anti-Bribery and Corruption Policy.

These require employees to:
- Abide by all relevant laws and regulations
- Act with integrity in all their business actions on behalf of Santander UK (including ANTS)
- Not use their authority or office for personal gain
- Conduct business relationships in a transparent manner and
- Reject all improper practices or dealings they may be exposed to.

POLITICAL CONTRIBUTIONS

In 2017 and 2016, no contributions were made for political purposes and no political expenditure was incurred.

SHARE CAPITAL

Details of the structure of the Company's capital, including the rights and obligations attaching apply to each class of share in the Company, can be found in Note 27 to the Financial Statements which are incorporated by reference into this report. Details of employee share schemes and how rights are exercisable can be found in Note 29 to the Financial Statements. The powers of the Directors in relation to share capital are set out in the Company's Articles of Association as determined by the Companies Act 2006.

SUBSIDIARIES AND BRANCHES

ANTS has a branch office in the United States. For further information, see the Subsidiaries, joint ventures and associates section of this Annual Report. As described in Note 33 to the Financial Statements, the branch office will be closed by the end of December 2018.

FINANCIAL INSTRUMENTS

ANTS's risks are managed on a group level by Santander UK plc. The financial risk management objectives and policies of Santander UK (including ANTS), the policy for hedging, and the exposure of ANTS to credit risk, market risk, and liquidity risk are outlined in the Risk review.

RESEARCH AND DEVELOPMENT

ANTS has a comprehensive product approval process and policy. New products, campaigns and business initiatives are reviewed by Santander UK's Product Approval and Oversight Committee.

SUPERVISION AND REGULATION

ANTS is authorised by the PRA and regulated by the FCA and the PRA. While ANTS operates primarily in the UK, it is also subject to the laws and regulations of the other jurisdictions in which it operates.

Further details on the impact of regulatory developments on liquidity and capital can be found in the Risk review on pages 29 to 32.

BOARD COMMITTEES

ANTS maintains a standing Board Audit Committee, Board Risk Committee and Board Nomination Committee. Each Committee is chaired by the Company Chair and met regularly throughout the year.

INTERNAL CONTROLS

Risk management and internal controls

The Board and its Committees are responsible for reviewing and ensuring the effectiveness of management's system of risk management and internal controls.

We have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. For further details see the Risk review on pages 16 to 32.

Management's report on internal control over financial reporting

Internal control over financial reporting is a component of an overall system of internal control. ANTS's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting, and the preparation and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and endorsed by the European Union.

ANTS' internal control over financial reporting includes:

- Policies and procedures that relate to the maintenance of records that fairly and accurately reflect the transactions and dispositions of assets
- Controls providing reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only as authorised by management
- Controls providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, and use of disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or because the degree of compliance with policies or procedures may deteriorate.

Management is responsible for establishing and maintaining adequate internal control over the financial reporting of ANTS. Management assessed the effectiveness of ANTS's internal control over financial reporting at 31 December 2017 based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in May 2013 (the 2013 Framework).

Based on this assessment, management concluded, at 31 December 2017, that ANTS's internal control over financial reporting was effective.

GOING CONCERN

The going concern of ANTS is reliant on preserving a sufficient level of capital and adequately funding the balance sheet. ANTS's business activities and financial position, together with the factors likely to affect its future development and performance, are set out in the Strategic report on pages 2 and 3, and the Financial review on pages 5 to 7. ANTS's objectives, policies and processes for managing the financial risks to which it is exposed, including capital, funding and liquidity, are described in the Risk review.

In assessing going concern, the Directors take account of all information of which they are aware about the future, which is at least, but is not limited to, 12 months from the date that the balance sheet is signed.

While it remains a subsidiary of Santander UK plc, ANTS is reliant on Santander UK plc and other companies in the Santander UK group for a significant proportion of its funding.

As described in Note 33 to the Financial Statements, under the model chosen by the Santander UK group to implement its ring-fencing plan, Abbey National Treasury Services plc will become a wholly-owned direct subsidiary of Santander UK Group Holdings plc, and will be emptied of all material assets, save for a small pool of residual assets. The prohibited business of Abbey National Treasury Services plc, which principally includes our derivatives business with financial institutions, certain corporates and elements of our short term markets business, will transfer to Banco Santander SA or its London branch (SLB). The majority of the permitted business of Abbey National Treasury Services plc will transfer to Santander UK plc, with a small amount of the permitted business of Abbey National Treasury Services plc transferring to SLB. The branch of Abbey National Treasury Services plc in the US will be closed by the end of December 2018. From the point at which ANTS becomes a subsidiary of Santander UK Group Holdings plc, ANTS will be reliant on Santander UK Group Holdings plc for the majority of its funding.

In this context, the Boards of Santander UK Group Holdings plc and Santander UK plc have confirmed that Santander UK Group Holdings plc and Santander UK plc are going concerns, and that they will provide funding to ANTS, in the case of Santander UK Group Holdings plc for the foreseeable future and in the case of Santander UK plc up until the point at which ownership of ANTS is transferred to Santander UK Group Holdings plc. In giving these commitments to provide funding to the ANTS group, the Boards of Santander UK Group Holdings plc and Santander UK plc have considered the uncertainties within ANTS when preparing the forecasts and budgets of the businesses of the Santander UK Group Holdings plc and Santander UK plc groups.

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 31 December 2018 under a deed poll guarantee entered into by the Company on 11 May 2017. On 11 May 2017, Santander UK plc entered into a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 31 December 2018. Santander UK's ring-fencing plan will unwind the Downstream and Upstream Guarantees, releasing each of Santander UK plc and Abbey National Treasury Services plc from all liabilities under those guarantees, with effect from 1 January 2019.

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc. The parties to the Capital Support Deed constitute a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission expires on 31 December 2018. ANTS will then manage its own capital separately from that date or at an earlier date agreed with the PRA.

The Company, Santander UK plc, and Cater Allen Limited form the Domestic Liquidity Sub-group (DoLSub) under the PRA's regulatory liquidity rules. Each member of the DoLSub is required to support the others by transferring surplus liquidity in times of stress. Under the proposed ring-fencing model, ANTS will withdraw from the DoLSub and manage its own liquidity separately by no later than 31 December 2018.

Having assessed the principal risks and the other matters discussed above, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report including the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with IFRS, as adopted by the EU. The financial statements are also required by law to be properly prepared in accordance with the UK Companies Act 2006 and Article 4 of the IAS Regulation.

The Directors acknowledge their responsibility to ensure the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss presented and that the management report, which is incorporated into this report, includes a fair review of the development and performance of the business and a description of the principal risks and uncertainties the business faces.

IAS 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 IASB'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 IFRS. However, the 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 IFRS 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 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 UK 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO 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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the UK Companies Act 2006.

AUDITOR

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

By Order of the Board

Juan Garrido Otaola
Director
28 February 2018
2 Triton Square, Regent's Place, London NW1 3AN

Directors' responsibilities statement

Having taken into account all the matters considered by the Board and brought to its attention during the year, the Directors are satisfied that the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary to assess the Company's performance, strategy and business model.

We confirm to the best of our knowledge that:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. The management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By Order of the Board

Juan Garrido Otaola
Chief Executive Officer
28 February 2018

This Risk review consists of audited financial information, except where it is marked as unaudited. The audited financial information is an integral part of the Financial Statements.

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RISK GOVERNANCE

RISK FRAMEWORK

Our risk governance structure

We are committed to the highest standards of corporate governance in every part of our business. This includes risk management. For details of our governance, including the Board and its Committees, see the 'Governance' section of this Annual Report.

ANTS maintains a standing Board Audit Committee, Board Risk Committee and Board Nomination Committee.

The Board delegates certain responsibilities to Board level Committees as needed and where appropriate. Our risk governance structure strengthens our ability to identify, assess, manage and report risks, as follows:
- Committees: A number of Santander UK Board and Santander UK Executive committees are responsible for specific parts of the Santander UK Risk Framework
- Roles with defined risk management responsibilities: There are senior roles with specific responsibilities for risk
- Risk organisational structure: We have 'three lines of defence' built into the way we run our business.

Committees

The ANTS Board and the ANTS Board Risk Committee responsibilities for risk are:

Board level Committee	Main risk responsibilities
The ANTS Board	– Has overall responsibility for business execution and for managing risk – Reviews ANTS' adherence to the Santander UK Risk Framework and Santander UK Risk Appetite.
ANTS Board Risk Committee	– Assesses ANTS' adherence to the Santander UK Risk Framework – Oversees our exposure to risk and our strategy and advises the Santander UK Board on both – Reviews the effectiveness of our risk management systems and internal controls.

As a consequence of the adoption of the Santander UK Risk Framework, ANTS leverages the Santander UK Executive level committees to monitor and manage risk, in support of the ANTS Board and ANTS Board Risk Committee. The Santander UK Executive level Committee responsibilities for risk are:

Executive level Committees	Main risk responsibilities
Executive Committee	– Reviews and approves business plans in line with the Santander UK Risk Framework and the Santander UK Risk Appetite before they are sent to the Santander UK Board to approve – Receives updates on key risk issues managed by Santander UK CEO-level committees and monitors the actions taken.
Executive Risk Control Committee	– Reviews the Santander UK Risk Appetite proposals before they are sent to the Santander UK Board Risk Committee and the Santander UK Board to approve – Ensures that we comply with the Santander UK Risk Framework, the Santander UK Risk Appetite and risk policies – Reviews and monitors our risk exposures and approves any corrective steps we need to take.
Asset and Liability Committee (ALCO)	– Reviews liquidity risk appetite proposals before they are sent to the Santander UK Board to approve – Ensures we measure and control structural balance sheet risks, including capital, funding and liquidity, in line with the policies, strategies and plans set by the Santander UK Board – Reviews and monitors the key asset and liability management activities of the business to ensure we keep our exposure in line with the Santander UK Risk Appetite.
Capital Committee	– Puts in place risk control processes, reporting systems and processes to make sure capital risks are managed within the Santander UK Risk Framework – Reviews capital adequacy and capital plans, including the Santander UK Internal Capital Adequacy Assessment Process (ICAAP), before they are sent to the Santander UK Board to approve.
Incident Accountability Committee	- Considers, calibrates, challenges and agrees any appropriate individual remuneration adjustments recommended by the Business Accountability Forums - Presents recommendations to the Santander UK Board Remuneration Committee.
Executive Credit Approval Committee	– Approves corporate and wholesale credit transactions which exceed levels delegated to lower level approval forums or individuals
Executive Investment Approval Committee	– Approves equity type investment transactions which exceed levels delegated to lower level approval forums or individuals.

Roles with risk management responsibilities

ANTS Chief Executive Officer
The main risk responsibilities of the ANTS CEO are to:
- Propose our strategy and business plan, put them into practice and manage the risks involved
- Ensure we have a suitable system of controls to manage risk and report to the Santander UK Board on it
- Foster a culture that promotes ethical practices and social responsibility
- Ensure all our staff know about the policies and corporate values approved by the Santander UK Board.

Chief Risk Officer
As the leader of the Santander UK group Risk Division, the Santander UK CRO oversees and challenges risk activities from a consolidated Santander UK perspective (including risk matters pertaining to ANTS), and ensures new lending decisions are made within the Santander UK Risk Appetite. The Santander UK CRO reports to the Santander UK Board through the Santander UK Board Risk Committee, and also reports to the Santander UK CEO for operational purposes. The Santander UK CRO also reports functionally to the global CRO for the Banco Santander group. The key responsibilities of the Santander UK CRO from an ANTS perspective are to propose a Risk Framework to the Santander UK Board (through the Santander UK Board Risk Committee) that sets out how we manage the risks from our business activities within the approved Santander UK Risk Appetite

In addition, in their capacity as the CRO for ANTS, the CRO is responsible for the control and oversight of all risks except for legal, conduct, regulatory and financial crime risk in ANTS. These are the responsibilities of the Santander UK Chief Legal and Regulatory Officer (CLRO). The ANTS CRO has responsibility for reporting risk matters through the ANTS Board Risk Committee to the Board. The Santander UK CLRO reports to the Santander UK Board Risk Committee and the Santander UK Board specifically in respect of legal, conduct, regulatory and financial crime risk.

Santander UK Chief Legal and Regulatory Officer
The Santander UK CLRO is responsible for the control and oversight of legal, conduct, regulatory and financial crime risk within the Santander UK group, including ANTS. The CLRO reports relevant matters to the Santander UK Board Responsible Banking Committee (BRBC), the Santander UK Board Risk Committee and the Santander UK Board. The main responsibilities of the Santander UK CLRO are to:
- Propose a Santander UK Risk Framework for legal, conduct and regulatory, reputational and financial crime risk to the Santander UK Board (through the Santander UK Board Risk Committee and the Santander UK CRO) that sets out how we manage these risks in line with the Santander UK Risk Appetite
- Advise the Santander UK CRO, Santander UK CEO, the Santander UK Board Risk Committee and the Santander UK Board on the Santander UK risk appetite for legal, conduct and regulatory, reputational and financial crime risk, linked to our strategic business plan and why it is approved
- Reassure the Santander UK CRO, the Santander UK BRBC, the Santander UK Board and our regulators that we identify, assess and measure legal, conduct and regulatory, reputational and financial crime risk appropriately and that our systems, controls and delegated authorities to manage risk are adequate and effective
- Advise the Santander UK CRO, Santander UK CEO, the Santander UK Board Risk Committee, the Santander UK BRBC, the Santander UK Board and our regulators on how we manage key legal, conduct and regulatory, reputational and financial crime risk and escalate any issues or breaches of the Santander UK Risk Appetite
- Ensure that our culture promotes ethical practices and social responsibility and contributes to the management of reputational risk
- Ensure that our policies and corporate values approved by the Santander UK Board are communicated so that our culture, values and ethics are aligned to our strategic objectives.
- Provide an assessment on Legal, Conduct & Regulatory, Reputational and Financial Crime risks to Santander UK's CEO, CRO, BRC, BRBC, Board and regulators on how these risks are being managed in the Santander UK Group and escalate to the CRO, BRC and Board any issue or breach of appetite.

Santander UK Chief Internal Auditor
The Chief Internal Auditor (CIA) reports to the Santander UK Board through the Santander UK Board Audit Committee, and also reports to the Santander UK CEO for operational purposes. The CIA also reports functionally to the CIA of Banco Santander SA. The key responsibilities of the CIA are to:
- Ensure the scope of Internal Audit includes each main activity and entity within the Santander UK group, including ANTS
- Design and use an audit system that identifies key risks and evaluates controls
- Develop an audit plan to assess existing risks that involves producing audit, assurance and monitoring reports
- Carry out all audits, special reviews, reports and commissions that the Santander UK Board Audit Committee asks for
- Monitor business activities regularly by consulting with internal control teams and our External Auditors
- Develop and run internal auditor training that includes regular skills assessments.

CREDIT RISK

Overview

Credit risk management

In this section, we set out our products and services that expose us to credit risk. We also set out our approach to credit risk across the credit risk lifecycle. This includes risk strategy and planning, assessment and origination, monitoring, arrears management (including forbearance), and debt recovery. We also explain how we measure and control risk.

Credit risk review

In this section, we analyse our maximum and net exposures to credit risk, including their credit quality and concentrations of risk.

CREDIT RISK MANAGEMENT

Exposures

Exposures to credit risk arise in our business segments from:

Commercial Banking	Global Corporate Banking	Corporate Centre
– Loans, bank accounts, and treasury services. – We provide these to SMEs and mid corporates, as well as Commercial Real Estate customers and Social Housing associations.	– Loans and treasury products, and from treasury markets activities. – We provide these to large corporates, and financial institutions, as well as sovereigns and other international organisations.	– Asset and liability management of our balance sheet, as well as our non-core portfolios being run down. – Exposures include sovereign and other international organisation assets that we hold for liquidity.

Portfolios

Our main portfolios are:

Commercial Banking	Global Corporate Banking	Corporate Centre
– SME and mid corporate – banking, lending and treasury services mainly to enterprises with an annual turnover up to £500m. – Commercial Real Estate – lending to UK customers, mainly on tenanted property. We focus on the office, retail, industrial and residential sectors. – Social Housing – lending and treasury services for UK Housing Associations who own residential real estate for rent.	– Sovereign and Supranational – securities issued by local and central governments, and government guaranteed counterparties. We hold them to help meet our liquidity needs and for short-term trading. – Large Corporate – loans and treasury products for large corporates to support their working capital and liquidity needs. – Financial Institutions – mainly derivatives, repurchase and reverse repurchase transactions (known as repos and reverse repos), and stock borrowing/lending.	– Sovereign and Supranational – securities issued by local and central governments, and government-guaranteed counterparties. We hold them to help meet our liquidity needs. – Structured Products – the ALCO portfolio is high quality assets. We chose them for diversification and liquidity. – Derivatives - older total return swaps we held for liquidity, that we are running down. – Social Housing – legacy Social Housing loans that do not fit with our strategy.

Our approach to credit risk

We manage our portfolios across the credit risk lifecycle, from drawing up our risk strategy, plans, budgets and limits to making sure the actual risk profile of our exposures stays in line with our plans and within our Risk Appetite.

1. Risk strategy and planning

All relevant areas of the business work together to create our business plans. This includes Risk, Marketing, Products and Finance. We aim to balance our strategy, business goals, and financial and technical resources with our attitude to risk (our Risk Appetite). To do this, we focus particularly on economic and market conditions and forecasts, regulations, conduct considerations, profitability, returns and market share. The result is an agreed set of targets and limits that help us direct our business.

2. Assessment and origination

Managing credit risk begins with lending responsibly. That means only lending to customers who can afford to pay us back, even if things get tighter for them, and are committed to paying us back. We undertake a thorough risk assessment to make sure customers can meet their obligations before we approve a credit application. We make these decisions with authority from the Board and we consider:
- The credit quality of the customer
- The underlying risk – and anything that mitigates it, such as netting or collateral
- Our risk policy, limits and appetite
- Whether we can balance the amount of risk we face with the returns we expect.

We also use stress testing, for example to estimate how a customer might be able to cope if interest rates increase.

Credit risk mitigation

We use different types of credit risk mitigation, including collateral, across our portfolios. For lending we can use covenants (financial or non-financial) and we can also take guarantees. For secured lending, collateral can include mortgage debentures, and first legal charges on commercial real estate property or portfolios of residential real estate owned and let by UK Housing Associations. For derivatives, repos and reverse repos, and stock borrowing / lending we use standard legal agreements to reduce credit risk and we also hold collateral and trade through central counterparties (CCPs) to reduce risk.

3. Monitoring

We measure and monitor changes in our credit risk profile on a regular and systematic basis against budgets, limits and benchmarks. We monitor credit performance by portfolio, segment, customer or transaction. If our portfolios do not perform as we expect, we investigate to understand the reasons. Then we take action to mitigate it as far as possible and bring performance back on track.

We monitor and review our risk profile through a formal structure of governance and forums/committees across our business segments. These agree and track any steps we need to take to manage our portfolios, to make sure the impact is prompt and effective. This structure is a vital feedback tool to co-ordinate issues, trends and developments across each part of the credit risk lifecycle.

A core part of our monitoring is credit concentrations, such as the proportion of our lending that goes to specific borrowers, groups or industries. We set concentration limits in line with our Risk Appetite and review them on a regular basis.

We give the Santander UK Executive Risk Control Committee a detailed analysis of our credit exposures and risk trends every month. We also report our larger exposures and risks to the Santander UK Board Risk Committee every month.

Our Watchlist

We use a Watchlist to help us identify potential problem debt early. Just because a customer is on our Watchlist does not mean they have defaulted. It just means that something has happened that has increased the probability of default. There are several reasons we might put customers on this list. For example, if they suffer a downturn in trade, breach a covenant, lose a major contract, slip into early arrears, or their key management resign. Whatever the trigger, we review the case to assess the potential financial impact.

We classify Watchlist cases as:
- Enhanced monitoring: for less urgent cases. If they are significant, we monitor them more often
- Proactive management: for more urgent or serious cases. We may take steps to restructure debt including extending the term, taking more collateral, agreeing a lower credit limit or seeking repayment of the loan through refinancing or other means.

We assess cases on the Watchlist for impairment collectively, unless they are in the hands of our Restructuring & Recoveries team at which point we assess them individually. If a case becomes a Non-Performing Loan (NPL), we take it off the Watchlist and assess it for impairment individually.

When a customer is included in proactive management, we usually review the value of any collateral as part of working out what to do next. We also assess whether we need to set up an impairment loss allowance. This is based on the expected future cash flows and the value of the collateral compared to the loan balance. We also take into account any forbearance we offer (which we describe later on). This includes whether any extra security or guarantees are available, the likelihood of more equity and the potential to enhance value through asset management.

In Global Corporate Banking and Corporate Centre we monitor the credit quality of our portfolios of treasury products daily. We use both internal and third-party data to detect any potential credit deterioration.

4. Arrears management

Sometimes our customers face financial difficulty and they may fall into payment arrears or breach conditions of their credit facility. If this happens, we work with them to get their account back on track. We aim to support our customers and keep our relationship with them. We do this by:
- Finding affordable and sustainable ways of repaying to fit their circumstances
- Monitoring their finances and using models to predict how we think they will cope financially. This helps us design and put in place the right strategy to manage their debt
- Working with them to get their account back to normal as soon as possible in a way that works for them and us
- Monitoring agreements we make to manage their debt so we know they are working.

We identify problem debt by close monitoring, supported by our Watchlist process. When there is a problem, our relationship managers are the first to act, supported by the relevant credit risk expert. If a case becomes more urgent or needs specialist attention, and if it becomes NPL, we transfer it to our Restructuring & Recoveries team.

We aim to act before a customer actually defaults (to prevent it, if possible). The strategy we use depends on the type of customer, their circumstances and the level of risk. We use restructuring and rehabilitation tools to try to help our customers find their own way out of financial difficulty and agree on a plan that works for both of us.

We aim to identify warning signs early by monitoring customers' financial and trading data, checking to make sure they are not breaching any covenants, and by having regular dialogue with them. Once a month, we hold Watchlist meetings to agree a strategy for each portfolio. Our Restructuring & Recoveries team attend these meetings, and we may hand over more serious cases to them.

Forbearance

When a customer gets into financial difficulties, we can change the terms of their loan, either temporarily or permanently. We do this to help customers through temporary periods of financial difficulty so they can get back on to sustainable terms and fully pay off the loan over its lifetime, with support if needed. This is known as forbearance. We try to do this before the customer defaults.

Their problems might be clear from the results of covenant testing, reviews of trading and other data they give us under the terms of their loan or as part of our ongoing conversations with them.

Forbearance improves our customer relationships and our credit risk profile. We only use foreclosure or repossession as a last resort. We review our approach regularly to make sure it is still effective. In a few cases, we can help a customer in this way more than once. This can happen if the plan to repay their debt doesn't work and we have to draw up another one. When this happens more than once in a year, or more than three times in five years, we call it multiple forbearance.

For a loan to exit forbearance all the following conditions must be met:

- The loan has been forborne at least two years ago or, where the forbearance was temporary, must have returned to performing under normal contractual terms for at least two years
- The loan has been performing under the forborne terms for at least two years
- The account is no longer in arrears
- The customer does not have any other debts with us which are more than 30 days in arrears.

We may offer the following types of forbearance. We only do this if our assessments indicate the customer can meet the revised payments:

Action	Description
Term extension	We can extend the term of the loan. At a minimum, we expect the customer to be able to pay the interest in the short-term and have a realistic chance of repaying the full balance in the long-term. We may offer this option if the customer is up-to-date with their payments, but showing signs of financial difficulties. We may also offer this option where the loan is about to mature and near-term refinancing is not possible on market terms.
Interest-only	We can agree to let a customer pay only the interest on the loan for a short time – usually less than a year. We only agree to this if we believe their financial problems are temporary and they are going to recover. After the interest-only period, we expect the customer to go back to making full payments of interest and capital once they are in a stronger financial position. We regularly look at the customer's financial situation to see when they can afford to do that.
Other payment rescheduling (including capitalisation)	If a customer is having cash flow issues, we may agree to lower or stop their payments until they have had time to recover. We may: – Reschedule payments to better match the customers' cash flow – for example if the business is seasonal – Provide a temporary increase in facilities to cover peak demand ahead of the customer's trading improving. We might do this by adding their arrears to their loan balance (we call this arrears capitalisation) or drawing from an overdraft. We may also offer other types of forbearance, including providing new facilities, interest rate concessions, seasonal profiling and interest roll-up. In rare cases, we agree to forgive or reduce part of the debt.

When we agree to any forbearance, we review our impairment loss allowances for them. These accounts may stay in our performing portfolio but we report them separately as forborne. If an account is performing when we agree forbearance and there is clear evidence that the customer is consistently meeting their new terms and the risk profile is improving, we classify the loan as fully performing. If an account is in NPL when we agree forbearance, we keep it in the NPL category. Once we see that the customer is consistently meeting the new terms we reclassify the loan as performing.

Other forms of debt management

When customers are in financial difficulty we can also manage debt in other ways, depending on the facts of the specific case:

Action	Description
Waiving or changing covenants	If a borrower breaks a covenant, we can either waive it or change it, taking their latest and future financial position into account. We may also add a condition on the use of any surplus cash (after operating costs) to pay down their debt to us.
Asking for more collateral or guarantees	If a borrower has unencumbered assets, we may accept new or extra collateral in return for revised financing terms. We may also take a guarantee from other companies in the same group and/or major shareholders. We only do this where we believe the guarantor will be able to meet their commitment.
Asking for more equity	Where a borrower can no longer pay the interest on their debt, we may accept fresh equity capital from new or existing investors to change the capital structure in return for better terms on the existing debt.

5. Debt recovery

Sometimes, even when we have taken all reasonable and responsible steps we can to manage arrears, they prove ineffective. If this happens, we have to end our relationship with the customer and try to recover the whole debt, or as much of it as we can.

Consensual arrangements

Where we cannot find a solution like any of the ones we describe above, we look for an exit. If circumstances permit, we aim to do this by agreeing with the borrower that they will sell some or all of their assets on a voluntary basis or agree to give them time to refinance their debt with another lender.

Enforcement and recovery

Where we cannot find a way forward or reach a consensual arrangement, we consider recovery options. This can be through:
- The insolvency process
- Enforcing over any collateral
- Selling the debt on the secondary market
- Considering other legal action available to recover what we are owed from debtors and guarantors.

If there is a shortfall, we write it off against the impairment loss allowance held, once the sale has gone through. In certain very rare instances we may act as mortgagee in possession of assets held as collateral against non-performing commercial lending. In such cases the assets are carried on our balance sheet and are classified according to our accounting policies.

Risk measurement and control

We measure and control credit risk at all stages across the credit risk lifecycle. We have a range of tools, processes and approaches, but we rely mainly on:
- Credit control: as a core part of risk management we generate, extract and store accurate, comprehensive and timely data to monitor credit limits. We do this using internal data and data from third parties like credit bureaux
- Models: we use models widely to measure credit risk and capital needs. They range from statistical and expert models to benchmarks
- Review: we use formal and informal forums across the business to approve, validate, review and challenge our risk management. We do this to help us predict if our credit risk will worsen.

We use two key metrics to measure and control credit risk: Expected Loss (EL) and NPLs.

Metric	Description
EL	EL tells us what credit risk is likely to cost us. It is the product of: – Probability of default (PD) – how likely customers are to default. We estimate this using customer ratings or the transaction credit scores – Exposure at default (EAD) – how much customers will owe us if they default. We calculate this by comparing how much of their agreed credit (such as an overdraft) customers have used when they default with how much they normally use. This allows us to estimate the final extent of use of credit in the event of default – Loss given default (LGD) – how much we lose when customers actually default. We work this out using the actual losses on loans that default. We take into account the income we receive, including from collateral we held, the costs we incur and the recovery process timing. PD, EAD and LGD are calculated in accordance with CRD IV, and include direct and indirect costs. We base them on our own risk models and our assessment of each customer's credit quality. For the rest of our Risk review, impairments, impairment losses and impairment loss allowances refer to calculations in accordance with IFRS, unless we specifically say they relate to CRD IV. For our IFRS accounting policy on impairment, see Note 1 to the Financial Statements. The way we calculate impairment under IFRS changed from 1 January 2018 when IFRS 9 took effect. It uses an expected credit loss (ECL) model rather than an incurred loss model used by IAS 39. There are also differences between the ECL approach used by IFRS 9 and the EL approach used by CRD IV. For more, see 'Future accounting developments' in Note 1 to the Financial Statements.
NPLs	We use NPLs – and related write-offs and recoveries – to monitor how our portfolios behave. We classify loans as NPLs where customers do not make a payment for three months or more, or if we have data to make us doubt they can keep up with their payments. The data we have on customers typically includes where: – They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as, another lender calls in a loan – Something happens that makes them less likely to be able to pay us – such as they lose an important client or contract – They have regularly missed or delayed payments, even though they have not gone over the three-month limit for NPLs – Their loan is unlikely to be refinanced or repaid in full on maturity – Their loan has an excessive LTV and it is unlikely that it will be resolved, such as by a change in planning policy, pay-downs from rental income, or increases in market values.

We also assess risks from other perspectives. These comprise internal rating deterioration, geographical location, business area, product and process. We do this to identify specific areas we need to focus on. We also use stress testing to establish vulnerabilities to economic deterioration.

We assess our impairment loss allowances regularly and have them independently reviewed. We look at a number of factors, including the:
- Cash flow available to service debt
- Value of collateral, based on third-party professional valuations.

CREDIT RISK REVIEW

Our maximum exposure to credit risk

The table below shows our maximum exposure to credit risk. The table only shows the financial assets that credit risk affects.

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment.

	2017				2016			
	Maximum exposure				Maximum exposure			
	Balance sheet asset				Balance sheet asset			
	Gross amounts £bn	Impairment loss allowances £bn	Net amounts £bn	Off-balance sheet[1] £bn	Gross amounts £bn	Impairment loss allowances £bn	Net amounts £bn	Off-balance sheet[1] £bn
Cash and balances at central banks	5.1	-	5.1	-	3.5	-	3.5	-
Trading assets	21.0	-	21.0	-	24.0	-	24.0	-
Derivative financial instruments	19.9	-	19.9	-	28.0	-	28.0	-
Financial assets designated at fair value	1.2	-	1.2	0.3	1.9	-	1.9	0.2
Loans and advances to banks	14.9	-	14.9	224.6	10.0	-	10.0	218.4
Loans and advances to customers[2]	8.5	(0.2)	8.3	9.3	15.2	(0.1)	15.1	14.2
Financial investments	0.3	-	0.3	-	0.7	-	0.7	-
Total	70.9	(0.2)	70.7	234.2	83.3	(0.1)	83.2	232.8

(1) Off-balance sheet exposure includes the Upstream Guarantee of the liabilities of Santander UK plc as set out in Note 26 to the Financial Statements.
(2) Balances include interest we have charged to the customer's account and accrued interest that we have not charged to the account yet.

Credit quality

Single rating scale (unaudited)

In the table below, we have used a single rating scale to ensure we are consistent across all our credit risk portfolios in how we report the risk of default. It has eight grades for non-defaulted exposures, from 9 (lowest risk) to 2 (highest risk). We define each grade by an upper and lower probability of default (PD) value and we scale the grades so that the default risk increases by a factor of ten every time the grade number drops by two steps. For example, risk grade 9 has an average PD of 0.010%, and risk grade 7 has an average PD of 0.100%. We give defaulted exposures a grade 1 and a PD value of 100%. In the final column of the table we show the approximate equivalent credit rating grade used by Standard & Poor's Ratings Services (S&P).

	PD range			
ANTS risk grade	Mid %	Lower %	Upper %	S&P equivalent
9	0.010	0.000	0.021	AAA to AA+
8	0.032	0.021	0.066	AA to AA-
7	0.100	0.066	0.208	A+ to BBB
6	0.316	0.208	0.658	BBB- to BB
5	1.000	0.658	2.081	BB-
4	3.162	2.081	6.581	B+ to B
3	10.000	6.581	20.811	B-
2	31.623	20.811	99.999	CCC to C
1 (Default)	100.000	100.000	100.000	D

Rating distribution

The tables below show the credit rating of our financial assets subject to credit risk.

	ANTS risk grade								
2017	9 £bn	8 £bn	7 £bn	6 £bn	5 £bn	4 £bn	3 to 1 £bn	Other[1] £bn	Total £bn
Cash and balances at central banks	5.1	-	-	-	-	-	-	-	5.1
Trading assets:									
– Securities purchased under resale agreements	-	5.7	1.5	1.7	-	-	-	-	8.9
– Debt securities	1.2	3.1	0.9	-	-	-	-	-	5.2
– Cash collateral	0.1	0.9	5.1	0.1	-	-	-	-	6.2
– Short-term loans	0.7	-	-	-	-	-	-	-	0.7
Total trading assets	2.0	9.7	7.5	1.8	-	-	-	-	21.0
Derivative financial instruments	0.2	7.5	10.1	1.4	0.4	-	-	0.3	19.9
Financial assets designated at fair value:									
– Loans and advances to customers	0.1	0.7	0.1	-	-	-	-	-	0.9
– Debt securities	0.2	0.1	-	-	-	-	-	-	0.3
Total financial assets designated at fair value	0.3	0.8	0.1	-	-	-	-	-	1.2
Loans and advances to banks	-	1.5	13.1	-	-	-	-	0.3	14.9
Loans and advances to customers:[2]									
– Corporate loans	0.6	1.4	1.2	1.9	2.7	0.3	0.3	0.1	8.5
Total loans and advances to customers	0.6	1.4	1.2	1.9	2.7	0.3	0.3	0.1	8.5
Financial investments[2]	0.2	0.1	-	-	-	-	-	-	0.3
	8.4	21.0	32.0	5.1	3.1	0.3	0.3	0.7	70.9
Impairment loss allowances									(0.2)
Total									70.7
Of which:									
Neither past due nor impaired:									
– Cash and balances at central banks	5.1	-	-	-	-	-	-	-	5.1
– Trading assets	2.0	9.7	7.5	1.8	-	-	-	-	21.0
– Derivative financial instruments	0.2	7.5	10.1	1.4	0.4	-	-	0.3	19.9
– Financial assets designated at fair value	0.3	0.8	0.1	-	-	-	-	-	1.2
– Loans and advances to banks	-	1.5	13.1	-	-	-	-	0.3	14.9
– Loans and advances to customers	0.6	1.4	1.2	1.9	2.7	0.3	-	0.1	8.2
– Financial Investments	0.2	0.1	-	-	-	-	-	-	0.3
Total neither past due nor impaired	8.4	21.0	32.0	5.1	3.1	0.3	-	0.7	70.6
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired[3]	-	-	-	-	-	-	0.3	-	0.3
	8.4	21.0	32.0	5.1	3.1	0.3	0.3	0.7	70.9
Impairment loss allowances									(0.2)
Total									70.7

(1) Other items include smaller cases in the commercial mortgages portfolio. We use scorecards for these items, rather than rating models.
(2) Balances include interest we have charged to the customer's account and accrued interest we have not charged to the account yet.
(3) Impaired loans are loans we have assessed for observed impairment loss allowances. This included loans individually assessed for impairment of £255m.

	ANTS risk grade								
	9	8	7	6	5	4	3 to 1	Other[1]	Total
2016	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	3.5	-	-	-	-	-	-	-	3.5
Trading assets:									
– Securities purchased under resale agreements	-	5.4	4.2	0.9	0.2	-	-	-	10.7
– Debt securities	2.8	1.5	0.3	1.6	-	-	-	-	6.2
– Cash collateral	-	1.5	4.3	0.4	-	-	-	-	6.2
– Short-term loans	0.8	-	-	-	0.1	-	-	-	0.9
Total trading assets	3.6	8.4	8.8	2.9	0.3	-	-	-	24.0
Derivative financial instruments	1.0	9.8	13.0	3.3	0.6	-	-	0.3	28.0
Financial assets designated at fair value:									
– Loans and advances to customers	0.6	0.5	0.6	-	-	-	-	-	1.7
– Debt securities	-	0.1	-	0.1	-	-	-	-	0.2
Total financial assets designated at fair value	0.6	0.6	0.6	0.1	-	-	-	-	1.9
Loans and advances to banks	-	1.1	8.3	0.2	-	-	-	0.4	10.0
Loans and advances to customers:[2]									
– Corporate loans	3.3	3.1	1.4	4.7	2.3	0.2	0.1	-	15.1
– Amounts due from Santander UK group undertakings	-	-	-	-	-	-	-	0.1	0.1
Total loans and advances to customers	3.3	3.1	1.4	4.7	2.3	0.2	0.1	0.1	15.2
Financial investments[2]	0.6	-	0.1	-	-	-	-	-	0.7
	12.6	23.0	32.2	11.2	3.2	0.2	0.1	0.8	83.3
Impairment loss allowances									(0.1)
Total									83.2
Of which:									
Neither past due nor impaired:									
– Cash and balances at central banks	3.5	-	-	-	-	-	-	-	3.5
– Trading assets	3.6	8.4	8.8	2.9	0.3	-	-	-	24.0
– Derivative financial instruments	1.0	9.8	13.0	3.3	0.6	-	-	0.3	28.0
– Financial assets designated at fair value	0.6	0.6	0.6	0.1	-	-	-	-	1.9
– Loans and advances to banks	-	1.1	8.3	0.2	-	-	-	0.4	10.0
– Loans and advances to customers	3.3	3.1	1.4	4.7	2.3	0.1	-	0.1	15.0
– Financial investments	0.6	-	0.1	-	-	-	-	-	0.7
Total neither past due nor impaired	12.6	23.0	32.2	11.2	3.2	0.1	-	0.8	83.1
Past due but not impaired	-	-	-	-	-	0.1	-	-	0.1
Impaired[3]	-	-	-	-	-	-	0.1	-	0.1
	12.6	23.0	32.2	11.2	3.2	0.2	0.1	0.8	83.3
Impairment loss allowances									(0.1)
Total									83.2

(1) Other items include smaller cases in the commercial mortgages portfolio. We use scorecards for these items, rather than rating models.
(2) Balances include interest we have charged to the customer's account and accrued interest we have not charged to the account yet.
(3) Impaired loans are loans we have assessed for observed impairment loss allowances. This included loans individually assessed for impairment of £102m.

Age of loans and advances that are past due but not impaired

At 31 December 2017, loans and advances of £1m (2016: £62m) were past due but not impaired and were 3 to 6 months overdue.

Concentrations of credit risk exposures

We manage our country risk exposure under our global limits framework. Within this framework, we set our Risk Appetite for each country, taking into account factors that may affect its risk profile. These can include political events, macroeconomics and the nature of the risk. We actively manage exposures if we think we need to. We consider Santander UK and Banco Santander related risk separately.

The tables below show our total exposures, which are the total of balance sheet and off-balance sheet values. We calculate balance sheet values in accordance with IFRS (i.e. after netting allowed under IAS 32) except for credit provisions which we add back. Off-balance sheet values are undrawn facilities and letters of credit. We classify location by country of risk – the country where each client has its main business or assets. That is unless there is a full risk transfer guarantee in place, in which case we use the guarantor's country of domicile. If a client has operations in many countries, we use their country of incorporation. The tables below exclude balances with other Santander UK group companies and other Banco Santander companies outside the Santander UK group. We show them separately in the 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander companies outside the Santander UK group' sections.

						2017						2016
			Financial institutions						Financial institutions			
	Governments £bn	Government guaranteed £bn	Banks[1] £bn	Other £bn	Corporate £bn	Total[2] £bn	Governments £bn	Government guaranteed £bn	Banks[1] £bn	Other £bn	Corporate £bn	Total[2] £bn
Eurozone:												
Ireland	-	-	0.2	0.2	0.5	0.9	-	-	0.5	0.4	0.4	1.3
Italy	0.4	-	-	-	-	0.4	1.0	-	-	-	-	1.0
Spain (excl. Banco Santander)	-	-	0.3	-	-	0.3	-	-	0.3	-	-	0.3
Portugal	-	-	0.1	-	-	0.1	-	-	0.1	-	-	0.1
France	-	0.3	1.3	0.2	2.2	4.0	-	0.3	1.2	0.1	0.1	1.7
Luxembourg	-	-	-	1.3	0.1	1.4	-	-	-	2.4	-	2.4
Germany	-	-	1.2	-	0.1	1.3	-	-	1.5	-	-	1.5
Other[3]	-	-	0.3	0.1	1.2	1.6	-	-	0.2	-	1.1	1.3
	0.4	0.3	3.4	1.8	4.1	10.0	1.0	0.3	3.8	2.9	1.6	9.6
Other countries:												
UK	3.0	-	5.8	9.6	19.5	37.9	11.2	0.4	9.2	11.8	22.0	54.6
US	5.3	0.1	7.2	2.1	0.1	14.8	3.7	0.2	9.8	2.3	0.1	16.1
Japan[4]	3.0	-	2.6	0.2	0.8	6.6	2.8	-	3.2	0.1	1.4	7.5
Switzerland	0.2	-	0.2	-	0.1	0.5	0.2	-	0.1	-	0.1	0.4
Denmark	-	-	-	-	0.2	0.2	-	-	-	-	0.2	0.2
Other	-	-	0.3	0.5	0.5	1.3	-	-	0.3	0.2	0.8	1.3
	11.5	0.1	16.1	12.4	21.2	61.3	17.9	0.6	22.6	14.4	24.6	80.1
Total	11.9	0.4	19.5	14.2	25.3	71.3	18.9	0.9	26.4	17.3	26.2	89.7

(1) Excludes balances with central banks.
(2) Excludes cash at hand, intangible assets, property, plant and equipment, deferred tax assets, and other assets. Loans are included gross of credit provisions.
(3) Includes The Netherlands of £1.4bn (2016: £1.1bn), Belgium, Finland and Austria
(4) Balances primarily relate to equity instruments listed in Japan and reverse repos with Japanese banks, held as part of our Short Term Markets business. The equity instrument risk exposures are hedged using derivative instruments and the additional reverse repos are fully collateralised.

Balances with other Santander UK group companies

We enter into transactions with other Santander UK group companies in the ordinary course of business. We provide corporate, wholesale banking and treasury services to the wider Santander UK group, of which we are a significant part. We also provide certain treasury support functions for the Santander UK group. In this regard, our role is to provide access to certain financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements.

Excluding the Upstream Guarantee, at 31 December 2017 and 2016 we had gross balances with other Santander UK group companies as follows:

			2017			2016
	Financial institutions			Financial institutions		
	Banks £bn	Other £bn	Total £bn	Banks £bn	Other £bn	Total £bn
Assets:						
UK	13.8	0.4	14.2	11.1	0.5	11.6
Liabilities:						
UK	14.5	2.5	17.0	30.2	3.3	33.5

The above balances with other Santander UK group companies at 31 December 2017 and 2016 mainly arose from ANTS providing treasury support functions for the Santander UK group.

In 2017, Santander UK continued the repositioning and restructuring of the ANTS balance sheet as part of the Santander UK group's ring-fencing plans. For more on this, see the Notes to the Financial Statements.

Balances with other Banco Santander companies outside the Santander UK group

We deal with other Banco Santander companies outside the Santander UK group in the ordinary course of business. We do this where we have a particular business advantage or expertise and where they can offer us commercial opportunities. This is done on the same terms as for similar transactions with third parties. These transactions also arise where we support the activities of, or with, larger multinational corporate clients and financial institutions which may deal with other Banco Santander companies. We conduct these activities in a way that manages the credit risk within limits acceptable to the PRA.

At 31 December 2017 and 2016, we had gross balances with other Banco Santander companies outside the Santander UK group (all of which are financial institutions – banks) as follows:

	2017 £bn	2016 £bn
Assets:		
Spain	4.4	2.1
Chile	-	0.1
Other <£100m	-	0.2
	4.4	2.4
Liabilities:		
Spain	4.5	2.1
Uruguay	-	0.2
Chile	-	0.1
Other <£100m	-	0.2
	4.5	2.6

Industry concentrations

As part of our approach to credit risk management and the Santander UK Risk Appetite, we set concentration limits by industry sector. These limits are set based on the industry outlook, our strategic aims and desired level of concentration, but also take into account any relevant limit set by Banco Santander SA. For more industry information, see 'Credit Risk Review – Concentrations of credit risk exposures'.

Credit performance

The customer loans in the table below are presented differently from the balances in the Balance Sheet. The main difference is that the customer loans below exclude inter-company balances. We disclose inter-company balances separately in the Notes to the Financial Statements. In addition, customer loans below are presented on an amortised cost basis.

2017	Customer loans[1] £bn	NPLs[2][3] £m	NPL ratio %	NPL coverage[4] %	Gross write-offs £m	Impairment loss allowances £m
Commercial Banking	4.0	20	0.50	130	-	26
Global Corporate Banking	3.4	215	6.32	61	-	131
Corporate Centre	1.6	-	-	-	-	-
	9.0	235	2.61	67	-	157
2016						
Commercial Banking	6.6	112	1.70	35	-	39
Global Corporate Banking	3.7	52	1.41	90	-	47
Corporate Centre	5.4	-	-	-	-	-
	15.7	164	1.04	52	-	86

(1) Includes Social Housing loans and finance leases.
(2) We define NPLs in the 'Credit risk management' section.
(3) All NPLs continue accruing interest.
(4) Impairment loss allowances as a percentage of NPLs. Impairment loss allowances relate to early arrears and performing assets (i.e. the incurred but not observed (IBNO) provision) as well as NPLs, so the ratio can exceed 100%.

MARKET RISK

TRADING MARKET RISK

TRADING MARKET RISK MANAGEMENT

Risk appetite

Our framework for dealing with market risk is part of Santander UK's overall Risk Framework. The Santander UK market risk Framework sets out our high-level arrangements and minimum standards for managing, controlling and overseeing trading market risk. The Santander UK Risk Appetite sets the controls, risk limits and key risk metrics for trading market risk. The key risk metrics include a stress economic loss limit and risk-factor stress scenarios. We report these key metrics to the Santander UK Board Risk Committee and the Santander UK Executive Risk Control Committee each month. A specific stress scenario has been created to report the XVA related risks in a comprehensive way. The stressed scenario will be monitored against the specific trigger that was set by ERCC during the annual limits review for 2018 and will be reported to both the BRC and ERCC periodically.

TRADING MARKET RISK REVIEW

Value at Risk (VaR)

This table shows our Internal VaR for exposure to each of the main classes of risk for 2017 and 2016. The VaR figures show how much the fair values of all our tradeable instruments could have changed. Since trading instruments are recorded at fair value, these are also the amounts by which they could have increased or reduced our net income.

	Year-end exposure		Average exposure		Highest exposure		Lowest exposure	
Trading instruments	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Interest rate risks[1]	2.6	2.9	2.5	2.5	3.5	3.6	1.8	1.7
Equity risks[2]	0.3	0.3	0.5	0.4	2.0	1.0	0.1	0.2
Credit (spread) risks[3]	-	-	-	-	-	-	-	-
Foreign exchange risks	0.3	1.5	0.4	1.4	1.7	2.2	-	0.1
Correlation offsets[4]	(0.7)	(1.3)	(0.7)	(1.6)	-	-	-	-
Total correlated one-day VaR	2.5	3.4	2.7	2.7	3.7	4.3	2.0	1.8

(1) This measures the effect of changes in interest rates and how volatile they are. The effects are on cash instruments, securities and derivatives. This includes swap spread risk (the difference between swap rates and government bond rates), basis risk (changes in interest rate tenor basis) and inflation risk (changes in inflation rates).
(2) This measures the effect of changes in equity prices, volatility and dividends on stock and derivatives.
(3) This measures the effect of changes in the credit spread of corporate bonds and credit derivatives.
(4) The highest and lowest exposures for each risk type did not necessarily happen on the same day as the highest and lowest total correlated one-day VaR. It is impossible to calculate a corresponding correlation offset effect, so we have not included it in the table.

BANKING MARKET RISK

BANKING MARKET RISK MANAGEMENT

Risk appetite

Our framework for dealing with market risk is part of the overall Santander UK Risk Framework. The banking market risk Framework sets out our high-level arrangements and minimum standards to manage, control and oversee banking market risk. The Santander UK Risk Appetite sets the controls, risk limits and key risk metrics for banking market risk. We articulate risk appetite by the income and value sensitivity limits we set in the Santander UK Risk Appetite, at both Santander UK and Banco Santander group levels.

BANKING MARKET RISK REVIEW

Interest rate risk

Yield curve risk

The table below shows how the Santander UK group (including ANTS) base case income and valuation would be affected by a 50 basis point parallel shift (both up and down) applied instantaneously to the yield curve at 31 December 2017 and 2016. Sensitivity to parallel shifts represents the amount of risk in a way that we think is both simple and scalable. 50 basis points is the stress we typically focus on for banking market risk controls, although we also monitor sensitivities to other parallel and non-parallel shifts as well as scenarios.

	2017		2016	
	+50bps £m	-50bps £m	+50bps £m	-50bps £m
Net interest margin sensitivity	212	(125)	240	(82)

LIQUIDITY RISK

One of the functions provided by ANTS is treasury support for the Santander UK group. In this regard, ANTS's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements.

Liquidity and funding risk is managed on a Santander UK group basis and it is therefore not appropriate to consider these risks separately at an ANTS level. In addition, under the PRA's regulatory liquidity regime, Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited form the Domestic Liquidity Sub-group (DoLSub) which allows the entities to collectively meet regulatory requirements. Each member of the DoLSub will support the others by transferring surplus liquidity in times of stress.

ANTS has historically provided treasury support for the Santander UK group, with its role being to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements. As described in Note 33 to the Financial Statements, under the proposed ring-fencing model, ANTS will be emptied of all material assets, save for a small pool of residual business that it is anticipated will not be capable of transfer, and will be held in run-off. It will withdraw from the DoLSub and manage its own liquidity separately.

LIQUIDITY RISK MANAGEMENT

Risk appetite

Santander UK's Liquidity Risk Appetite (LRA) statement is based on the principles of liquidity management it uses to manage its balance sheet. It also supports its need to meet or exceed the rules of its regulators.

In line with Santander UK's liquidity management principles, we:
- Ensure that all maturing liabilities can be financed as they fall due, including across currencies and on an intraday basis
- Maintain a level of customer loans versus customer deposits that prevents an over-reliance on wholesale markets
- Maintain sufficient capacity to monetise liquid assets and other counterbalancing capacity within an appropriate timeframe
- Avoid an over-reliance on funding from a single product, customer or counterparty
- Fund long-term assets with long-term liabilities
- Maintain sufficient unencumbered customer assets to support current and future funding and collateral requirements, including under stress
- Ensure that liquidity costs and benefits are allocated to business activities from which they arose.

The Santander UK Board, under advice from the Santander UK Board Risk Committee, approves Santander UK's LRA. Our LRA, in the context of Santander UK's overall Risk Appetite, is reviewed and approved by the Santander UK Board each year, or more often if needed.

FUNDING RISK MANAGEMENT

Deposit funding

Santander UK's Retail Banking and Commercial Banking activities are mainly funded by customer deposits. The rest is funded through wholesale markets.

WHOLESALE FUNDING

Reconciliation of wholesale funding to the balance sheet

This table shows our main sources of wholesale funding. It does not include securities financing repurchase and reverse repurchase agreements. It also reconciles our wholesale funding to our balance sheet at 31 December 2017 and 2016.

		Balance sheet line item			
2017	Funding analysis £bn	Deposits by banks £bn	Trading liabilities £bn	Financial liabilities designated at fair value £bn	Debt securities in issue £bn
Deposits	0.3	0.2	-	0.1	-
Certificates of deposit and commercial paper	6.4	-	-	0.4	6.0
Securitisation & structured issuance	0.2	0.2	-	-	-
Total wholesale funding	6.9	0.4	-	0.5	6.0
Repos	25.2	-	25.2	-	-
Other	20.3	13.9	5.9	0.5	-
Balance sheet total	52.4	14.3	31.1	1.0	6.0
2016					
Deposits	0.4	-	0.4	-	-
Certificates of deposit and commercial paper	8.4	-	-	0.5	7.9
Senior unsecured – privately placed	1.1	-	-	1.1	-
Securitisation & structured issuance	0.7	0.7	-	-	-
Total wholesale funding	10.6	0.7	0.4	1.6	7.9
Repos	8.8	-	8.8	-	-
Other	31.5	24.6(1)	6.4(2)	0.5	-
Balance sheet total	50.9	25.3	15.6	2.1	7.9

(1) Mainly amounts due to Santander UK subsidiaries and other deposits. See Note 19 to the Financial Statements.
(2) Short positions in securities and unsettled trades, cash collateral and short-term deposits. See Note 21 to the Financial Statements.

As well as deposit and wholesale funding, Santander UK has access to the UK Government schemes included in the table below. For each of these schemes, eligible collateral includes all collateral that is eligible in the Bank of England's Discount Window Facility.

Scheme	Description
Discount Window Facility (DWF)	The DWF is a bilateral on-demand service for firms experiencing either a firm-specific or market-wide shock. It allows firms to borrow highly liquid assets in return for less liquid collateral. This lending can be large in size and for a variable term.
Term Funding Scheme (TFS)	The TFS aims to reinforce the transmission of Base Rate cuts to the interest rates actually faced by households and businesses by providing term funding to banks at rates close to Base Rate. The TFS allows participants to borrow central bank reserves in exchange for eligible collateral. It links the price and quantity of funding to net lending to UK households, the non-financial sector and non-bank credit providers over a specified period.
Funding for Lending Scheme (FLS)	The FLS is designed to boost lending to UK households and non-financial companies. It does this by giving funding to banks and building societies over an extended period – it links both the price and quantity of funding to the net UK non-financial sector lending over a specified period. The FLS lets participants borrow UK Treasury bills in exchange for eligible collateral in a drawdown window. The FLS was closed on 31 January 2018.
Contingent Term Repo Facility (CTRF)	The CTRF will be activated by the Bank of England in response to actual or prospective market-wide stress. It gives short-term liquidity to the market through monthly auctions using eligible collateral as security.
Indexed Long-Term Repo (ILTR)	The ILTR is aimed at banks, building societies and broker-dealers with a predictable need for liquid assets. The Bank of England offers funds via an ILTR operation once each calendar month, normally with a six-month maturity. Participants can borrow using eligible collateral as security.

CAPITAL RISK

THE SCOPE OF OUR CAPITAL ADEQUACY

Regulatory supervision

Abbey National Treasury Services plc is incorporated in the UK. For capital purposes, we are subject to prudential supervision by the:
- PRA: as a UK banking group
- ECB: as a member of the Banco Santander group. The ECB supervises Banco Santander as part of the Single Supervisory Mechanism (SSM).

Although we (and Santander UK plc and Santander UK Group Holding plc) are part of the Banco Santander group, we do not have a guarantee from our ultimate parent Banco Santander SA and we operate as an autonomous subsidiary. As we are regulated by the PRA, we have to meet the PRA capital requirements on a standalone basis. We also have to show the PRA that we can withstand capital stress tests without the support of our ultimate parent. Reinforcing our corporate governance framework, the PRA exercises oversight through its rules and regulations on the Board and senior management appointments.

Santander UK Group Holdings plc is the holding company of Santander UK plc and is the head of the Santander UK group (including ANTS) for regulatory capital and leverage purposes.

CAPITAL RISK MANAGEMENT

The Board is responsible for capital management strategy and policy and ensuring that our capital resources are monitored and controlled within regulatory and internal limits. We manage our funding and maintain capital adequacy on a standalone basis. We operate within the capital risk framework and appetite approved by the Santander UK Board. This takes into account the commercial environment we operate in, our strategy for each of our material risks and the potential impact of any adverse scenarios or stresses on our capital position.

Management of capital requirements

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

- In an adverse economic stress, which we might expect to occur once in 20 years, the firm should maintain an economic capital surplus, and should exceed all regulatory capital minimum criteria at all times
- In a very severe economic stress, which we might expect to occur once in 100 years, and which has been designed to test any specific weaknesses of a firm's business model, the firm should maintain an economic capital surplus, and should meet all regulatory minimums at all times. This is subject to the use of regulatory buffers designed for such a stress.

Management of capital resources

We use a mix of regulatory and economic capital ratios and limits, internal buffers and restrictions to manage our capital resources. We also take account of the costs of differing capital instruments and capital management techniques. We also use these to shape the best structure for our capital needs.

We decide how to allocate our capital resources as part of our strategic planning process. We base this in part on the relative returns on capital using both economic and regulatory capital measures.

We plan for severe stresses and we set out what action we would take if an extremely severe stress threatened our viability and solvency. This could include not paying dividends, selling assets, reducing our business and issuing more capital.

Risk measurement
We apply Banco Santander SA's approach to capital measurement and risk management for CRD IV. As a result, Abbey National Treasury Services plc is classified as a significant subsidiary of Banco Santander SA. For more on the CRD IV risk measurement of our exposures, see Banco Santander SA's Pillar 3 report.

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

Risk mitigation
Santander UK has designed its capital risk framework, policies and procedures to ensure that we operate within our risk appetite.

Santander UK manages capital transferability between its subsidiaries in line with its business strategy, its risk and capital management policies, and UK laws and regulations. There are no legal restrictions on Santander UK moving capital resources promptly, or repaying liabilities, between Santander UK and its subsidiaries.

Santander UK plc, Abbey National Treasury Services plc, and Cater Allen Limited, which are the three PRA-regulated entities in the Santander UK group, are party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc. The parties to the Capital Support Deed form a core UK group as defined in the PRA Rulebook. Exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to support the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group permission expires on 31 December 2018.

Risk monitoring and reporting
We monitor and report regularly against our capital plan. We do this to identify any change in business performance that might affect our capital. Every month, we also review the economic assumptions we use to create and stress test our capital plan. We do this to identify any potential reduction in our capital.

CAPITAL RISK REVIEW

Regulatory capital resources
The table below is consistent with our regulatory filings for 2017 and 2016. We manage our capital on a CRD IV basis. During the years ended 31 December 2017 and 2016, we held capital over and above our regulatory requirements, and managed internal capital allocations and targets in accordance with our capital and risk management policies.

This table shows our regulatory capital.

	2017 £m	2016 £m
CET1 capital before regulatory adjustments	3,882	3,757
Total regulatory adjustments to CET1 capital	(154)	(229)
CET1 capital	3,728	3,528
Total regulatory capital	3,728	3,528

CET1 regulatory adjustments
These are adjustments required by CRD IV.

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Independent auditors' report to the members of Abbey National Treasury Services plc

Report on the audit of the financial statements

Opinion

In our opinion, Abbey National Treasury Services plc'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 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.

We have audited the financial statements, included within 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.

Certain required disclosures have been presented in the Risk review in the Annual Report on pages 16 to 32 rather than in the notes to the financial statements. Except for items marked as unaudited, the Risk review forms an integral part of the financial statements. The information on page 85 concerning subsidiaries is also included in the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

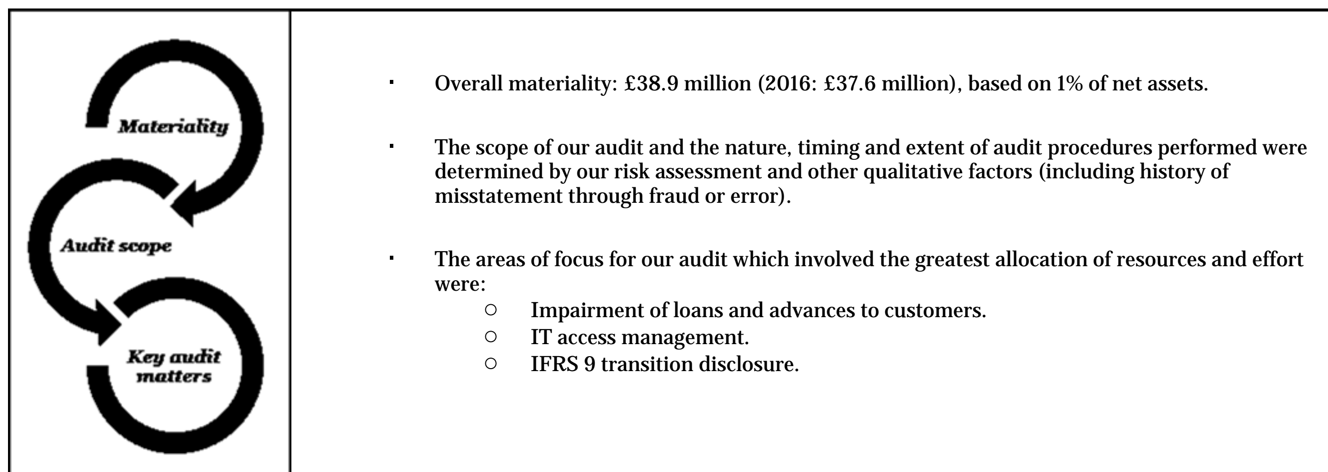
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £38.9 million (2016: £37.6 million), based on 1% of net assets.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error).
- The areas of focus for our audit which involved the greatest allocation of resources and effort were:
  - Impairment of loans and advances to customers.
  - IT access management.
  - IFRS 9 transition disclosure.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations and the Financial Conduct Authority's regulations. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Impairment of loans and advances to customers Impairment allowances represent management's best estimate of credit losses incurred within a portfolio at the balance sheet date. The identification and the determination of allowances is inherently judgemental. In corporate loan portfolios, individual impairment assessments are performed where there are observed impairment indicators. There is significant judgement required for each loan to determine the level of any provision. Our focus was on the timely identification of impaired loans and the principal assumptions applied by management in estimating the impairment allowance such as the value of collateral and forecast cash flows. We paid particular attention to management's assessment of the recoverability of loans to Carillion plc within the Global Corporate Banking (GCB) segment.	We understood and evaluated the design of the key controls over the impairment processes and tested their operating effectiveness. These controls included: • the governance over the impairment provisioning processes; and • timely identification by management of impairment events and relevant loans showing indicators of impairment. We noted no significant exceptions in the design, implementation or operating effectiveness of these controls. Accordingly, we relied on them for the purposes of our audit. In addition, we performed the substantive procedures described below. We tested a sample of performing loans (including loans on management's watch list) to evaluate whether impairment events had been identified by management in a timely manner. We did not identify any further impairment events. For a sample of individually impaired loans, including Carillion plc, we evaluated the specific circumstances of the borrower, including the latest developments, the basis for measuring the impairment provision, and whether key judgements were appropriate. We re-performed management's impairment calculations, testing key inputs such as expected future cash flows and discount rates. We tested the valuation of collateral held and challenged management on subjective estimates and assumptions. We also compared gains and losses realised when a loan is sold or exited to the existing provision. Based on the procedures performed and the evidence obtained, we found management's provisions to be reasonable.

IT access management Controls over access rights to technology platforms ensure that changes to applications and data are authorised and made in an appropriate manner. Specifically, controls to restrict, log and monitor individuals' access to applications and supporting infrastructure components are important. These controls ensure that only appropriate individuals have access and that this access is monitored to mitigate the risk of fraud or error and to ensure the integrity of automated business controls. In the prior year, it was identified that controls over developers' access rights to applications used in financial reporting processes required improvement to ensure that access was sufficiently restricted and monitored. The segment most affected was Global Corporate Banking and the systems impacted included trade processing, settlement systems, reconciliation tools and confirmation systems. Management implemented new access controls in the latter half of 2017. Since effective controls did not operate for the entire audit period, we continued to consider this issue as a key audit matter.	We identified systems, relevant to our audit, affected by the access control issue. We obtained the complete list of individuals with access to these production systems and inspected account privileges to confirm the extent of access and the scope of the issue. We then identified which financial statement line items were impacted and performed an assessment of the risk of misstatement. We tested the procedural change controls over systems and automated business controls relevant for financial reporting and determined we could rely on these controls. We tested compensating IT controls, including controls over granting access and periodic review of access rights. We also tested the new IT controls implemented by management to remediate the access issue which we found to be effective. We tested business compensating controls, including key reconciliations and where relevant increased the extent of our testing. We performed additional substantive procedures on the year-end balance sheet and income statement accounts impacted by the IT access issue. Our additional testing of compensating controls and substantive testing of the balance sheet and income statement was concluded satisfactorily.
IFRS 9 transition disclosure IFRS 9 Financial Instruments is effective from 1 January 2018, replacing the existing financial instruments standard IAS 39. As required by IAS 8 Accounting Policies, Accounting Estimates and Errors, the impact of the new standard is disclosed in the 2017 financial statements. The disclosures are significantly less comprehensive than those which will be made in the 2018 financial statements. IFRS 9 requires the recognition of expected credit losses ('ECL') rather than incurred credit losses and is therefore a fundamentally different approach. Management is required to determine the expected loss that may occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The calculation of ECLs in accordance with IFRS 9 is complex and involves a number of judgmental assumptions. As a result, we consider the disclosure of the estimated transition impact to be a key audit matter. Management has made a number of interpretations and assumptions when designing and implementing models that are compliant with the new standard. The models use risk parameters, such as loss given default ('LGD') and probability of default ('PD') to calculate an ECL based on past experience. Management apply judgement in situations where this past experience is not considered to be reflective of future outcomes due to limited or incomplete data. This includes the use of proxy LGDs relating to corporate loans due to the limited level of historical loss data on the company's portfolios. The following judgements are also key to the determination of the ECL; ▪ Setting of appropriate thresholds for what represents a SICR; ▪ The determination of forward looking macroeconomic scenarios and the probability weights applied to each; ▪ Assessment of model and data limitations and use of post model adjustments ('PMAs') to address such risks.	We understood and tested key transition controls in relation to: ▪ the validation of models and review and approval for use by management; and ▪ review and approval of key assumptions and the output of IFRS 9 models. Our work on these controls allowed us to rely on them for the purposes of our audit of the transitional disclosures. We also performed the following substantive procedures. We understood and critically assessed the ECL models developed and used by the Company using a risk based approach. This included a critical review of accounting policy choices made by management to ensure these were complaint with the requirements of IFRS 9. We used our credit modelling experts to assess the model methodologies for the key risk parameters against the requirements of the standard and industry practice. We tested the models by reperforming model calculations which produce the risk parameter outputs. We critically reviewed management's assumptions in response to data limitations, focusing on the LGD used for corporate loans. We concluded that management's judgements in deriving LGDs were reasonable. We evaluated key assumptions such as the thresholds used to determine SICR and forward looking macroeconomic scenarios including the related weightings. We used PwC credit risk modellers to challenge management's assumptions including the consideration of alternative scenarios and publicly available market consensus data. We considered whether relevant risks were captured in the modelled provisions and the results of model validation testing in challenging management on the completeness and appropriateness of PMAs. We considered whether the PMAs correctly addressed the model and data weaknesses identified and tested the calculation of the adjustments. Based on the evidence obtained we found the methodologies and assumptions used in preparing the IFRS 9 transition disclosure to be reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Processes and controls supporting the Company's operations are also performed at Banco Santander S.A. in Spain, including the hosting and monitoring of certain IT systems. As part of the planning and execution of the audit, we worked closely with the component auditor to ensure that the procedures performed on our behalf were sufficient for our purposes and we reviewed the results of their work.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£38.9 million (2016: £37.6 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	The primary users of the financial statements are the parent company and the regulators who are principally focused on the regulatory capital of the Company. Net assets was chosen as the materiality benchmark as it closely corresponds to regulatory capital.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.9 million (2016: £1.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

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 Directors' Report, 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 Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report 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 Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 15, 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. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not 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.

Appointment

Following a recommendation of the Board, we were first appointed by the members on 31 March 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years.

Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 February 2018

INCOME STATEMENT

For the years ended 31 December

	Notes	2017 £m	2016 £m
Interest and similar income		589	948
Interest expense and similar charges		(286)	(684)
Net interest income	2	303	264
Net fee and commission income	3	114	122
Net trading and other income	4	176	204
Total operating income		593	590
Operating expenses before impairment losses, provisions and charges	5	(310)	(288)
Impairment losses on loans and advances	7	(72)	(18)
Provisions for other liabilities and charges	7	(19)	(16)
Total operating impairment losses, provisions and charges		(91)	(34)
Profit before tax		192	268
Tax on profit	8	(60)	(86)
Profit after tax		132	182
Attributable to:			
Equity holders of the parent		132	182
Profit after tax		132	182

STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	2017 £m	2016 £m
Profit after tax	132	182
Other comprehensive income:		
Other comprehensive income that may be reclassified to profit or loss subsequently:		
Available-for-sale securities:		
– Change in fair value	7	16
– Income statement transfers	-	4
– Taxation	(2)	(5)
	5	15
Cash flow hedges:		
– Effective portion of changes in fair value	-	604
– Income statement transfers	-	(713)
– Taxation	-	28
	-	(81)
Net other comprehensive income that may be reclassified to profit or loss subsequently	5	(66)
Other comprehensive income that will not be reclassified to profit or loss subsequently:		
Own credit adjustment:		
– Transfers	(19)	-
– Taxation	5	-
	(14)	-
Net other comprehensive income that will not be reclassified to profit or loss subsequently	(14)	-
Total other comprehensive income net of tax	(9)	(66)
Total comprehensive income	123	116
Attributable to:		
Equity holders of the parent	123	116
Total comprehensive income	123	116

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

BALANCE SHEET

At 31 December

	Notes	2017 £m	2016 £m
Assets			
Cash and balances at central banks		5,128	3,517
Trading assets	10	30,170	29,682
Derivative financial instruments	11	19,853	27,954
Financial assets designated at fair value	12	1,152	1,854
Loans and advances to banks	13	14,892	9,993
Loans and advances to customers	14	8,267	15,136
Financial investments	16	255	696
Interests in other entities	17	57	57
Intangible assets	18	46	35
Property, plant and equipment		10	9
Deferred tax assets	8	9	8
Other assets		250	869
Total assets		80,089	89,810
Liabilities			
Deposits by banks	19	14,307	25,319
Deposits by customers	20	2,448	3,186
Trading liabilities	21	31,109	15,560
Derivative financial instruments	11	20,972	31,620
Financial liabilities designated at fair value	22	1,043	2,119
Debt securities in issue	23	6,043	7,895
Other liabilities		166	218
Provisions	24	18	15
Current tax liabilities		101	119
Total liabilities		76,207	86,051
Equity			
Share capital	27	250	2,549
Retained earnings		3,622	1,205
Other reserves		10	5
Total shareholders' equity		3,882	3,759
Total liabilities and equity		80,089	89,810

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board on 28 February 2018 and signed on its behalf by:

Juan Garrido Otaola
Chief Executive Officer

Company Registered Number: 2338548

CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit after tax		132	182
Adjustments for:			
Non-cash items included in profit:			
– Depreciation and amortisation		13	8
– Amortisation of premiums on debt securities		2	8
– Provisions for other liabilities and charges		19	16
– Impairment losses		72	18
– Corporation tax charge		60	86
– Other non-cash items		539	(246)
		705	(110)
Net change in operating assets and liabilities			
– Cash and balances at central banks		(2)	1
– Trading assets		(909)	(2,007)
– Derivative assets		8,101	(3,079)
– Financial assets designated at fair value		680	275
– Loans and advances to banks and customers		6,562	29,766
– Other assets		61	281
– Deposits by banks and customers		(11,749)	4,211
– Derivative liabilities		(10,648)	6,442
– Trading liabilities		15,017	2,837
– Financial liabilities designated at fair value		672	367
– Debt securities in issue		(1,469)	(1,362)
– Other liabilities		(89)	1,450
		6,227	39,182
Corporation taxes paid		(68)	(61)
Effects of exchange rate differences		(30)	1,379
Net cash flows from operating activities		6,966	40,572
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	18	(19)	(15)
Proceeds from sale and redemption of financial investments		482	700
Net cash flows from investing activities		463	685
Cash flows from financing activities			
Issue of debt securities		1,866	4,094
Issuance costs of debt securities		-	(6)
Repayment of debt securities		(3,020)	(39,181)
Net cash flows from financing activities		(1,154)	(35,093)
Change in cash and cash equivalents		6,275	6,164
Cash and cash equivalents at beginning of the year		17,333	10,178
Effects of exchange rate changes on cash and cash equivalents		(592)	991
Cash and cash equivalents at the end of the year		23,016	17,333
Cash and cash equivalents consist of:			
Cash and balances at central banks		5,128	3,517
Less: regulatory minimum cash balances		(42)	(39)
		5,086	3,478
Net trading and other cash equivalents		5,954	6,537
Net non-trading other cash equivalents		11,976	7,318
Cash and cash equivalents at the end of the year		23,016	17,333

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December

		Other reserves				
	Share capital £m	Available-for-sale £m	Cash flow hedging £m	Currency translation £m	Retained earnings £m	Total £m
At 1 January 2017	2,549	(5)	-	10	1,205[1]	3,759
Profit after tax	-	-	-	-	132	132
Other comprehensive income, net of tax:						
– Available-for-sale securities	-	5	-	-	-	5
– Own credit adjustment	-	-	-	-	(14)	(14)
Total comprehensive income	-	5	-	-	118	123
Capital reduction	(2,299)	-	-	-	2,299	-
At 31 December 2017	250	-	-	10	3,622	3,882
At 1 January 2016	2,549	(20)	81	10	1,023	3,643
Profit after tax	-	-	-	-	182	182
Other comprehensive income, net of tax:						
– Available-for-sale securities	-	15	-	-	-	15
– Cash flow hedges	-	-	(81)	-	-	(81)
Total comprehensive income	-	15	(81)	-	182	116
At 31 December 2016	2,549	(5)	-	10	1,205	3,759

(1) The impact of the early adoption of IFRS 9 requirements for the presentation of gains and losses on such financial liabilities relating to own credit in other comprehensive income as described in Note 1, was £2m (net of tax).

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

1. ACCOUNTING POLICIES

These financial statements are prepared for Abbey National Treasury Services plc (the Company or ANTS) under the UK Companies Act 2006. The Company is exempt from the requirement to prepare group accounts by virtue of section 400 of Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The principal activity of ANTS is to provide corporate, wholesale banking and treasury services. ANTS provides these services to UK clients and also to the wider Santander UK group, of which ANTS is a significant part. ANTS also provides certain treasury support functions for the Santander UK group. In this regard, ANTS's role is to provide access to certain financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding and balance sheet management requirements.

Abbey National Treasury Services plc is a public limited company incorporated in England and Wales having a registered office at 2 Triton Square, Regent's Place, London, NW1 3AN. It is an operating company undertaking banking and financial services transactions, as well as the holding company of the ANTS group.

BASIS OF PREPARATION

These financial statements incorporate the financial statements of the Company made up to 31 December each year. The financial statements have been prepared on the going concern basis using the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, where applicable. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the Directors' statement of going concern set out in the Directors' Report. The accounting policies set out here have been applied consistently.

Compliance with International Financial Reporting Standards

The financial statements of Abbey National Treasury Services plc have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), including interpretations issued by the IFRS Interpretations Committee (IFRS IC) of the IASB (together IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk review which form an integral part of these financial statements.

ANTS designates certain financial liabilities at fair value through profit or loss where they contain embedded derivatives or where associated derivatives used to economically hedge the risk are held at fair value. Following the endorsement of IFRS 9 'Financial Instruments' by the EU in December 2016, ANTS has elected to early apply from 1 January 2017 the requirements for the presentation of gains and losses on such financial liabilities relating to own credit in other comprehensive income without applying the other requirements in IFRS 9. The own credit component of the cumulative fair value adjustment on financial liabilities designated at fair value through profit or loss as at 1 January 2017 was £2m (net of tax) and is included in opening retained earnings. Comparatives have not been restated.

Future accounting developments

As at 31 December 2017, ANTS 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 ANTS:

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

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

   Classification and measurement of financial assets and financial liabilities: Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. For many financial assets, the classification and measurement outcomes are 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. For ANTS:

   - The vast majority of financial assets which are classified as loans and receivables or held-to-maturity investments under IAS 39 (including certain debt securities) will continue to be measured at amortised cost under IFRS 9;
   - Most debt securities classified as available-for-sale financial assets will be measured at fair value through other comprehensive income, with some being measured at fair value through profit or loss;
   - Treasury and other eligible bills classified as available-for-sale financial assets will be measured at amortised cost or fair value through other comprehensive income depending upon the business model in which they are held; and
   - Certain loans currently designated at fair value through profit or loss under IAS 39 may be reclassified to amortised cost where they are held within a business model whose objective is to hold the assets to collect contractual cash flows and those cash flows represent solely payments of principal and interest on the principal outstanding.

   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.

For financial assets, 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. 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 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 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, requires management judgement and is a key aspect of the IFRS 9 methodology.

Hedge accounting: The general hedge accounting requirements align more closely with risk management practices and establish a more principle-based approach thereby allowing hedge accounting to be applied to a wider variety of hedging instruments and risks. Macro hedge accounting is being dealt with as a separate project. Until such time as that project is complete, and to remove any potential conflict between any existing macro hedge accounting undertaken under IAS 39 and the new general hedge accounting requirements of IFRS 9, entities can choose to continue to apply the existing hedge accounting requirements in IAS 39. ANTS has decided to continue IAS 39 hedge accounting and consequently, there are no changes being implemented to hedge accounting policies and practices.

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. 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 application of IFRS 9 decreases shareholders' equity at 1 January 2018 by £12m (net of tax) comprised of a £22m decrease arising from the application of the new classification and measurement requirements for financial assets (as explained above) and a £5m increase arising from the application of the new ECL impairment methodology, these amounts being partially offset by the resulting deferred tax asset of £5m.

These impacts take into account the narrow-scope amendments made to IFRS 9 by the IASB in October 2017 entitled 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'. These amendments which are not effective until annual periods beginning on or after 1 January 2019 can be adopted early. The amendments permit some prepayable financial assets with negative compensation to be measured at amortised cost that, but for the amendment, would have been measured at fair value through profit or loss. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be "reasonable compensation" for early termination of the contract. The amendments are awaiting EU endorsement.

As referred to in the 'Compliance with International Financial Reporting Standards' section above, ANTS elected to early apply from 1 January 2017 the requirements for the presentation of gains and losses on certain financial liabilities relating to own credit in other comprehensive income. This presentational change had no impact on shareholders' equity.

b) IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2018. The standard establishes a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. Revenue relating to lease contracts, insurance contracts and financial instruments is outside the scope of IFRS 15. For ANTS's fee and commission income, which is within the scope of the standard, income is recognised as services are provided and this continues under the performance obligation approach in IFRS 15. There have been no significant changes in the recognition of in scope income and, consequently, IFRS 15 has no material impact for ANTS.

Subsidiaries

Interests in subsidiaries are held at cost subject to impairment.

Foreign currency translation

Items included in the financial statements of each entity (including foreign branch operations) in ANTS are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The financial statements are presented in sterling, which is the functional currency of the Company.

Income statements and cash flows of foreign entities are translated into ANTS's presentation currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December.

Exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are translated into the functional currency of the entity involved 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 unless recognised in other comprehensive income in connection with a cash flow hedge. Non-monetary items denominated in a foreign currency measured at historical cost are not retranslated. Exchange rate differences arising on non-monetary items measured at fair value are recognised in the income statement except for differences arising on available-for-sale equity securities which are recognised in other comprehensive income.

Revenue recognition

a) Interest income and expense

Interest income on financial assets that are classified as loans and receivables, held-to-maturity investments or available-for-sale securities, and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest rate is the rate that 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 excluding future credit losses.

The calculation includes all amounts paid or received by ANTS that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts. Interest income on assets classified as loans and receivables and available-for-sale, interest expense on liabilities classified at amortised cost, and interest income and expense on hedging derivatives are recognised in interest and similar income and interest expense and similar charges in the income statement.

In accordance with IFRS, ANTS recognises interest income on assets after they have been written down as a result of an impairment loss. Interest continues to be accrued on all loans and the element of interest that is not anticipated to be recovered is provided for. Interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fee and commission income and expense

Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is provided. Fee and commission income which forms an integral part of the effective interest rate of a financial instrument (e.g. certain loan commitment fees) is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

c) Dividend income

Except for equity securities classified as trading assets or financial assets held at fair value through profit or loss, described below, dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

d) Net trading and other income

Net trading and other income comprises all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (including financial assets and liabilities held for trading, trading derivatives and designated as fair value through profit or loss), together with related interest income, expense, dividends and changes in fair value of any derivatives managed in conjunction with these assets and liabilities. Changes in fair value of derivatives in a fair value hedging relationship are also recognised in net trading and other income. Net trading and other income also include income from operating lease assets, and profits/(losses) arising on the sales of property, plant and equipment and subsidiary undertakings.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including computer software, which are assets that necessarily take a substantial period of time to develop for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they occur.

Pensions and other post-retirement benefits

ANTS participates in various Santander UK group defined benefit and defined contribution pension schemes in operation. Details of the schemes are disclosed in the Santander UK plc Annual Report. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore in accordance with IAS 19 the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and ANTS accounts for its contributions as a defined contribution plan. The contribution to be paid by ANTS is calculated as the contributions made by Santander UK plc to the schemes in respect of ANTS's employees.

Intangible assets

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of these products can be measured reliably. These costs include payroll, the costs of materials and services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three to seven years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs associated with maintaining software programmes are expensed as incurred.

Property, plant and equipment

Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in net trading and other income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Internally developed software meeting the criteria set out in 'Intangible assets' above and externally purchased software are classified in property, plant and equipment on the balance sheet where the software is an integral part of the related computer hardware (e.g. operating system of a computer).

Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

Owner-occupied properties	Not exceeding 50 years
Office fixtures and equipment	5 to 8 years
Computer software	3 years

Depreciation is not charged on freehold land and assets under construction.

Financial assets and liabilities

Financial assets and liabilities are initially recognised when ANTS becomes a party to the contractual terms of the instrument. ANTS determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. ANTS does not hold any held to maturity financial assets.

Financial assets that are classified at fair value through profit or loss, which have not been designated as such or are not accounted for as derivatives, or assets classified as available-for-sale, may subsequently in rare circumstances, be reclassified from the fair value through profit or loss category to the loans and receivables, available-for-sale or held to maturity categories. In order to meet the criteria for reclassification, the asset must no longer be held for the purpose of selling or repurchasing in the near term and must also meet the definition of the category into which it is to be reclassified had it not been required to classify it at fair value through profit or loss at initial recognition. The reclassified value is the fair value of the asset at the date of reclassification. ANTS has not utilised this option and therefore has not reclassified any assets from the fair value through profit or loss category that were classified as such at initial recognition.

Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition.

Financial assets are derecognised when the rights to receive cash flows have expired or ANTS has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) ANTS has neither retained nor transferred substantially all of the risks and rewards, but has transferred control. Financial liabilities are derecognised when extinguished, cancelled or expired.

A regular way purchase is a purchase of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the market place concerned. Regular way purchases of financial assets classified as loans and receivables, issues of equity or financial liabilities measured at amortised cost are recognised on settlement date; all other regular way purchases and issues are recognised on trade date.

a) Financial assets and liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances financial assets and financial liabilities other than those that are held for trading are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets or liabilities are managed and their performance evaluated on a fair value basis, or where a financial asset or financial liability contains one or more embedded derivatives which are not closely related to the host contract.

Financial assets and financial liabilities classified as fair value through profit or loss are initially recognised 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 except for gains and losses on financial liabilities designated at fair value through profit or loss relating to own credit which are presented in other comprehensive income.

Derivative financial instruments, trading assets and liabilities and financial assets and liabilities designated at fair value are classified as fair value through profit or loss.

b) Loans and receivables

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 or fair value through profit or loss. They arise when ANTS 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. Loans and receivables consist of loans and advances to banks and loans and advances to customers.

c) Financial investments

Financial investments comprise loans and receivables securities and available-for-sale financial assets.

Loans and receivable securities

Loans and receivable securities are securities where there is no quoted price in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories described. 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 of available-for-sale securities are recognised in other comprehensive income until sale or until determined to be impaired when the cumulative gain or loss or impairment losses are transferred to the income statement. Where the financial asset is interest-bearing, interest is determined using the effective interest method.

Income on investments in equity shares, debt instruments and other similar interests is recognised in the income statement as and when dividends are declared and interest is accrued. Impairment losses and foreign exchange translation differences on monetary items are recognised in the income statement.

c) Borrowings

Borrowings (which include deposits by banks, deposits by customers and debt securities in issue) are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost or fair value through profit or loss dependent on designation at initial recognition.

Preference shares which carry a contractual obligation to transfer economic benefits are classified as financial liabilities and are presented in subordinated liabilities. The coupon on these preference shares is recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

d) Other financial liabilities

All other financial liabilities are initially recognised at fair value net of transaction costs incurred. They are subsequently stated at amortised cost, using the effective interest method.

Contracts involving the receipt of cash on which customers receive an index-linked return are accounted for as equity index-linked deposits. The principal products are Capital Guaranteed/Protected Products which give the customers a limited participation in the upside growth of an equity index. In the event the index falls in price, a cash principal element is guaranteed/protected. The equity index-linked deposits contain embedded derivatives. These embedded derivatives, in combination with the principal cash deposit element, are designed to replicate the investment performance profile tailored to the return agreed in the contracts with customers. The cash principal element is accounted for as deposits by customers at amortised cost. The embedded derivatives are separated from the host instrument and are separately accounted for as derivative financial instruments.

e) Sale and repurchase agreements (including stock borrowing and lending)

Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by ANTS remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an asset. The difference between the sale and repurchase price is treated as trading income in the income statement, except where the repo is not treated as part of the trading book, in which case the difference is recorded in interest income or expense.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. Securities lent or borrowed are not reflected on the balance sheet. Collateral in the form of cash received or advanced is recorded as a deposit or a loan. Collateral in the form of securities is not recognised.

f) Day One profit adjustments

The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, ANTS recognises a trading gain or loss at inception (day 1 gain or loss), being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or ANTS enters into an offsetting transaction.

Derivative financial instruments

Derivative financial instruments (derivatives) are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in interest rate, cross currency, equity, residential property and other index-related swaps, forwards, caps, floors, swaptions, as well as credit default and total return swaps, equity index contracts and exchange traded interest rate futures, and equity index options.

Derivatives are held for trading or for risk management purposes. Derivatives are classified as held for trading unless they are designated as being in a hedge relationship. ANTS chooses to designate certain derivatives as in a hedging relationship if they meet specific criteria, as further described within 'hedge accounting' below.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow and option pricing models.

Derivatives may be embedded in other financial instruments, such as the conversion option in a convertible bond. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Contracts containing embedded derivatives are not subsequently reassessed for separation unless either there has been a change in the terms of the contract which significantly modifies the cash flows (in which case the contract is reassessed at the time of modification) or the contract has been reclassified (in which case the contract is reassessed at the time of reclassification).

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement, and included within net trading and other income.

Offsetting financial assets and liabilities

Financial assets and liabilities including derivatives are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. ANTS is party to a number of arrangements, including master netting arrangements under industry standard agreements which facilitate netting of transactions in jurisdictions where netting agreements are recognised and have legal force. The netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis.

Hedge accounting

ANTS applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates, exchange rates and certain indices such as retail price indices.

At the time a financial instrument is designated as a hedge (i.e. at the inception of the hedge), ANTS formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, ANTS formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, ANTS can expect, and actual results indicate, that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges); or (iii) a hedge of a net investment in a foreign operation (net investment hedges). ANTS applies fair value hedge accounting, but ceased to apply cash flow hedging in 2016 following the transfer of certain finding programmes from the Company to Santander UK plc. ANTS does not apply hedging of a net investment in a foreign operation.

a) Fair value hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Where the hedged item is measured at amortised cost, the fair value changes due to the hedged risk adjust the carrying amount of the hedged asset or liability. Changes in the fair value of portfolio hedged items are presented separately in the balance sheet in macro hedge of interest rate risk and recognised in the income statement within net trading and other income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. For fair value hedges of interest rate risk, the cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity. For portfolio hedged items, the cumulative adjustment is amortised to the income statement using the straight line method over the period to maturity.

b) Cash flow hedge accounting

In 2016 the effective portion of changes in the fair value of qualifying cash flow hedges was recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion was recognised immediately in the income statement. Amounts accumulated in equity were reclassified to the income statement in the periods in which the hedged item affected profit or loss. When a hedging instrument expired or was sold, or when a hedge no longer met the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remained in equity and was recognised in the income statement when the forecast transaction was ultimately recognised in the income statement. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to the income statement.

ANTS is exposed to cash flow interest rate risk on its floating rate assets and foreign currency risk on its fixed rate debt issuances denominated in foreign currency. Cash flow hedging is used to hedge the variability in cash flows arising from both these risks. During the year ended 31 December 2016, the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc resulted in the discontinuance of the Company's cash flow hedges and the release of the associated cash flow hedging reserve.

Impairment of financial assets

At each balance sheet date ANTS assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and advances, loans and receivables securities and held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

More detailed policies for certain portfolios measured at amortised cost are described below.

a) Loans and advances

Impairment loss allowances for loans and advances, less amounts released and recoveries of amounts written off are charged to the line item 'Impairment losses on loans and advances' in the income statement. The impairment loss allowances are deducted from the 'Loans and advances to banks', 'Loans and advances to customers' and 'Loans and receivables securities' line items on the balance sheet.

i) Corporate assets
Impairment losses are assessed individually for corporate assets that are individually significant and collectively for corporate assets that are not individually significant.

Individual assessment
At each balance sheet date, ANTS conducts impairment reviews to assess whether there is objective evidence of impairment for individually significant corporate assets. A specific observed impairment is established for all individually significant loans that have experienced a loss event such as where:
- An asset has a payment default which has been outstanding for three months or more
- Non-payment defaults have occurred but where it has become evident that a forbearance exercise will be undertaken due to the inability of the borrower to meet its current contractual repayment schedule
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The borrower has a winding up notice issued or insolvency event
- The borrower has had event(s) occur which are likely to adversely impact upon their ability to meet their financial obligations (e.g. Where a customer loses a key client or contract)
- The borrower has regularly and persistently missed/delayed payments but where the account has been maintained below three months past due
- The customer loan is due to mature within six months and where the prospects of achieving a refinancing are considered low.

In such situations the asset is transferred to the Commercial Banking Restructuring & Recoveries team. As part of their impairment reviews, an assessment is undertaken of the expected future cash flows (including, where appropriate, cash flows through enforcement of any applicable security held) in relation to the relevant asset, discounted at the loan's original effective interest rate. The result is compared to the current carrying value of the asset. Any shortfall evidenced as a result of such a review will be assessed and recorded as an observed specific impairment loss allowance.

Collective assessment
Observed impairment loss allowances
A collective impairment loss allowance is established for loans which are not individually significant and have suffered a loss event. These non-individually significant loans are grouped together according to their credit risk characteristics and the allowance for observed losses is determined on a collective basis by applying loss rates (i.e. estimated loss given default) derived from analysis of historical loss data of observed losses.

IBNO impairment loss allowances
Loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an IBNO allowance for incurred inherent losses. Such losses will only be individually identified in the future. As soon as information becomes available which identifies incurred losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment or included in the observed collective assessment above depending on their individual significance.

The allowance for IBNO losses is determined on a portfolio basis using the following factors:
- Historical loss experience in portfolios of similar credit risk characteristics (for example, by product)
- The estimated period between an impairment event occurring and the loss being identified and evidenced by the establishment of an observed loss allowance against the individual loan (known as the emergence period, as discussed below)
- Management's judgement as to whether current economic and credit conditions are such that the actual level of incurred inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Emergence period
This is the period in which losses that had been incurred but have not been separately identified become evident. The emergence period spans between six to twelve months according to the corporate portfolio being assessed and is estimated having regard to historic experience and loan characteristics across the portfolio. The factors considered in determining the length of the emergence period include the frequency of the management information received or any change in account utilisation behaviour.

ii) Assets subject to forbearance
To support corporate customers that encounter actual or apparent financial difficulties, ANTS may grant a concession, whether temporary or permanent, to amend contractual amounts or timings where a customer's financial distress indicates a potential that satisfactory repayment may not be made within the original terms and conditions of the contract. These arrangements are known as forbearance.

There are different risk characteristics associated with loans that are subject to forbearance as compared to loans are not. A range of forbearance arrangements may be entered into by ANTS, reflecting the different risk characteristics of such loans.

For corporate borrowers, the main types of forbearance offered are term extensions or interest only concessions and in limited circumstances, other forms of forbearance options (including debt-for-equity swaps), subject to customer negotiation and vetting.

If such accounts were classified in the 'non-performing' loan category prior to the forbearance, they continue to be classified as non-performing until evidence of compliance with the new terms is demonstrated (typically over a period of at least three months) before being reclassified as 'substandard'. If the account was categorised as performing at the time the revised arrangements were agreed, the case is reclassified to 'substandard' upon completion of the forbearance agreement.

Once a substandard asset has demonstrated continued compliance with the new terms and the risk profile is deemed to have improved it may be reclassified as a 'performing asset'. Until then, impairment loss allowances for such loans are assessed individually, taking into account the value of collateral held as confirmed by third party professional valuations and the available cash flow to service debt over the period of the forbearance. These impairment loss allowances are assessed and reviewed regularly. In the case of a debt for equity conversion, the converted debt is written off against the existing impairment loss allowance at the point forbearance is granted.

iii) Reversals of impairment
If in a subsequent period, the amount of an impairment loss reduces and the reduction can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment loss allowance accordingly. The write-back is recognised in the income statement.

iv) Write-off

For secured loans, a write-off is only made when all collection procedures have been exhausted and the security has been sold or from claiming on any mortgage indemnity guarantee or other insurance. There may be occasions where a write-off occurs for other reasons, for example, following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than the face value of the debt.

There is no threshold based on past due status beyond which all secured or unsecured loans are written off. The write-off policy is regularly reviewed. Write-offs are charged against previously established impairment loss allowances.

v) Recoveries

Recoveries of impairment losses are not included in the impairment loss allowance, but are taken to income and offset against impairment losses. Recoveries of impairment losses are classified in the income statement as 'Impairment losses on loans and advances'.

b) Loans and receivables securities

Loans and receivables securities are assessed individually for impairment. An impairment loss is incurred if there is objective evidence that a loss event has occurred since initial recognition of the assets that has an impact on the estimated future cash flows of the asset. Potential indicators of loss events include significant financial distress of the issuer and default or delinquency in interest and principal payments (breach of contractual terms).

Loans and receivables securities are monitored for potential impairment through a detailed expected cash flow analysis, where appropriate, taking into account the structure and underlying assets of each individual security. Once specific events give rise to a reasonable expectation that future anticipated cash flows may not be received, the asset originating these doubtful cash flows will be deemed to be impaired with the impairment loss being measured as the difference between the expected future cash flows discounted at the original effective interest rate and the carrying value of the asset.

c) Assets classified as available-for-sale

ANTS assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. In addition to the criteria for loans and advances and loans and receivables securities set out above, the assessment involves reviewing the financial circumstances (including creditworthiness) and future prospects of the issuer, assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the security below its cost. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously reported in the income statement and is removed from other comprehensive income and recognised in the income statement. For impaired debt instruments, further impairment losses are recognised where there has been a further negative impact on expected future cash flows.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase is due to an event occurring after the impairment loss was recognised in the income statement (with objective evidence to support this), the impairment loss is reversed through the income statement.

If, in a subsequent period, the fair value of an equity instrument classified as available-for-sale increases, all such increases in the fair value are treated as a revaluation, and are recognised in other comprehensive income. Impairment losses recognised on equity instruments are not reversed through the income statement.

Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to property, plant and equipment may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the property, plant and equipment's recoverable amount. The carrying amount of the property, plant and equipment will only be increased up to the amount that would have been had the original impairment not been recognised.

Leases

a) ANTS as lessor

Operating lease assets are recorded at cost and depreciated over the life of the asset after taking into account anticipated residual values. Operating lease rental income and depreciation is recognised on a straight-line basis over the life of the asset.

b) ANTS as lessee

ANTS enters into operating leases for the rental of equipment or real estate. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The corresponding rental obligations are recorded as borrowings. The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income taxes, including deferred taxes
The tax expense represents the sum of the income tax currently payable and deferred income tax.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A current tax liability for the current or prior period is measured at the amount expected to be paid to the tax authorities. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the liability recognised is the most likely outcome. Where a most likely outcome cannot be determined, a weighted average basis is applied.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse. Such deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognised from the initial recognition of other assets (other than in a business combination) and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where ANTS is able to control reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. ANTS reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax relating to actuarial gains and losses on defined benefits is recognised in other comprehensive income. Deferred tax relating to fair value re-measurements of available-for sale investments and cash flow hedging instruments is charged or credited directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

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 and short-term investments in securities.

Balances with central banks represent amounts held at the Bank of England and the US Federal Reserve as part of the Santander UK group's liquidity management activities. In addition, it includes certain minimum cash balances held for regulatory purposes required to be maintained with the Bank of England.

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

Conduct provisions are made for the estimated cost of making redress payments with respect to the past sales of products, based on conclusions regarding the number of claims that will be received, including the number of those that will be upheld, the estimated average settlement per case and other related costs. Provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists. An obligation exists when ANTS has a detailed formal plan for restructuring a business, has raised valid expectations in those affected by the restructuring, and has started to implement the plan or announce its main features.

When a leasehold property ceases to be used in the business, provision is made where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for irrevocable loan commitments, other than those classified as held for trading, within impairment loss allowances if it is probable that the facility will be drawn and the resulting loan will be recognised at a value less than the cash advanced.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

Financial guarantee contracts
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. ANTS accounts for guarantees that meet the definition of a financial guarantee contract at fair value on initial recognition. In subsequent periods, these guarantees are measured at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised as a provision in accordance with IAS 37.

Share capital
a) Share issue costs
Incremental external costs directly attributable to the issue of new shares are deducted from equity net of related income taxes.

b) Dividends
Dividends on ordinary shares are recognised in equity in the period in which the right to receive payment is established.

CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the Financial Statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important to the portrayal of the financial results and financial condition because: (i) they are highly susceptible to change from period to period as assumptions are made to calculate the estimates, and (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on ANTS's future financial results and financial condition.

In calculating each estimate, a range of outcomes was calculated based principally on management's conclusions regarding the input assumptions relative to historic experience. The actual estimates were based on what management concluded to be the most probable assumptions within the range of reasonably possible assumptions.

Impairment loss allowances for loans and advances to customers

ANTS estimates impairment losses for loans and advances to customers, loans and receivables securities, and loans and advances to banks as described in the accounting policy 'Impairment of financial assets'. Management's assumptions about impairment losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

At 31 December 2017, impairment allowances held against loans and advances to customers totalled £157m (2016: £86m). The net impairment loss (i.e. after recoveries) for loans and advances to customers recognised in 2017 was £72m (2016: £18m). In calculating impairment loss allowances, a range of outcomes was calculated, either for each individual loan or by portfolio taking account of the uncertainty relating to economic conditions. The range reflects different realisation assumptions in respect of collateral held.

If management had used different assumptions, a larger or smaller impairment loss allowance would have resulted that could have had a material impact on the reported profit before tax. Specifically, if management's conclusions were different, but within the range of what management deemed to be reasonably possible, the impairment loss for loans and advances could have decreased by £44m (2016: £51m), with a consequential increase in profit before tax, or increased by £82m (2016: £36m), with a consequential decrease in profit before tax.

2. NET INTEREST INCOME

	2017 £m	2016 £m
Interest and similar income:		
Loans and advances to Santander UK group undertakings	136	513
Loans and advances to Banco Santander SA	1	-
Loans and advances to other Banco Santander SA group undertakings	1	-
Other	451	435
Total interest and similar income	589	948
Interest expense and similar charges:		
Deposits by Santander UK group undertakings	(167)	(229)
Deposits by other Banco Santander SA group undertakings	(1)	(5)
Other	(118)	(450)
Total interest expense and similar charges	(286)	(684)
Net interest income	303	264

Interest and similar income includes £11m (2016: £3m) on impaired loans.

3. NET FEE AND COMMISSION INCOME

	2017 £m	2016 £m
Fee and commission income:		
Corporate products	116	125
Fee and commission expense:		
Other	(2)	(3)
Net fee and commission income	114	122

4. NET TRADING AND OTHER INCOME

	2017 £m	2016 £m
Net trading and funding of other items by the trading book	199	115
Net gains on assets designated at fair value through profit or loss	56	214
Net losses on liabilities designated at fair value through profit or loss	(98)	(1)
Net gains/(losses) on derivatives managed with assets/liabilities held at fair value through profit or loss	17	(140)
Hedge ineffectiveness	6	(5)
Other	(4)	21
	176	204

Exchange rate differences recognised in the Income Statement on items not at fair value through profit or loss were £nil (2016: £737m expense) and are presented in the line 'Net trading and funding of other items by the trading book.' These are principally offset by related releases from the cash flow hedge reserve of £nil (2016: £713m income) as set out in the Statement of Comprehensive Income, which are also presented in 'Net trading and funding of other items by the trading book'. Exchange rate differences on items measured at fair value through profit or loss are included in the line items relating to changes in fair value.

In May 2016, as part of a liability management exercise, certain debt instruments were purchased pursuant to a tender offer. These had no significant impact on the income statement.

5. OPERATING EXPENSES BEFORE IMPAIRMENT LOSSES, PROVISIONS AND CHARGES

	2017 £m	2016 £m
Staff costs:		
Wages and salaries	145	126
Social security costs	18	15
Pensions costs – defined contribution plans	9	9
Other personnel costs	6	6
	178	156
Other administration expenses	119	124
Depreciation, amortisation and impairment	13	8
	310	288

The Company's staff have employment contracts with Santander UK plc, rather than with the Company. The cost of their services is recharged by Santander UK plc to the Company, and classified in these financial statements as staff costs.

During the year the average number of full-time equivalent staff was 1,047 (2016: 998).

6. AUDIT AND OTHER SERVICES

	2017 £m	2016 £m
Audit fees:		
Fees payable to the Company's auditor and its associates for the audit of the annual accounts	1.6	0.8
Total audit fees[1]	1.6	0.8
Non-audit fees:		
Audit-related assurance services	0.1	0.1
Total non-audit fees	0.1	0.1

(1) The 2017 audit fees included £0.4m (2016: £nil) which related to the prior year.

Total audit fees of £1.6m include fees of £0.1m in respect of the audit of the application of IFRS 9.

7. IMPAIRMENT LOSSES AND PROVISIONS

	2017 £m	2016 £m
Impairment losses on loans and advances:		
Loans and advances to customers (See Note 14)	72	18
Provisions for other liabilities and charges (See Note 24)	19	16
	91	34

There were no impairment losses on loans and advances to banks and financial investments.

Impairment losses on loans and advances increased by £54m to £72m in 2017 (2016: £18m), primarily relating to Carillion plc exposures.

8. TAXATION

	2017 £m	2016 £m
Current tax:		
UK corporation tax on profit for the year	69	89
Adjustments in respect of prior years	(11)	(4)
Total current tax	58	85
Deferred tax:		
Credit for the year	(4)	(3)
Adjustments in respect of prior years	6	4
Total deferred tax	2	1
Tax on profit	60	86

The standard rate of UK corporation tax was 27.25% for banking entities (2016: 28.00%) following the introduction of an 8% surcharge to be applied to banking companies from 1 January 2016. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. The Finance (No.2) Act 2015 introduced reductions in the corporation tax rate from 20% to 19% in 2017 and 18% by 2020. The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the standard rate of corporation tax rate to 17% from 2020. The effects of the changes in tax rates are included in the deferred tax balances at both 31 December 2017 and 2016.

The effective tax rate for 2017, based on profit before tax, was 31.3% (2016: 32.2%). The tax on profit before tax differs from the theoretical amount that would arise using the basic corporation tax rate of the Company as follows:

	2017 £m	2016 £m
Profit before tax	192	268
Tax calculated at a tax rate of 19.25% (2016: 20.00%)	37	54
Bank surcharge on profits	15	21
Non-deductible UK Bank Levy	5	4
Other non-equalised items	8	7
Adjustment to prior year provisions	(5)	-
Tax charge	60	86

The decrease in effective tax rate from 2016 to 2017 is largely due to the reduction in the statutory tax rate and releases in respect of accruals for prior periods. It is anticipated that ANTS's effective tax rate in future periods will continue to be impacted by the 8% surcharge, changes to the cost of the Bank Levy and reductions in the statutory rate as noted above.

Current tax assets and liabilities

Movements in current tax assets and liabilities during the year were as follows:

	2017 £m	2016 £m
Liabilities	(119)	(104)
At 1 January	(119)	(104)
Income statement	(58)	(85)
Corporate income tax paid	68	61
Other movements	8	9
	(101)	(119)
Liabilities	(101)	(119)
At 31 December	(101)	(119)

Other movements include current tax amounts relating to amounts settled by intercompany group relief.

The amount of corporation income tax paid differs from the tax charge for the period as a result of the timing of payments due to the tax authorities together with the effects of movements in temporary differences, adjustments to prior period current tax provisions and current tax recognised directly in other comprehensive income.

ANTS proactively engages with HM Revenue & Customs to resolve tax matters relating to prior years. The accounting policy for recognising provisions for such matters are described in Note 1 to the Financial Statements. It is not expected that there will be any material movement in such provisions within the next twelve months.

ANTS adopted the Code of Practice on Taxation for Banks in 2010.

Deferred tax

The table below shows the deferred tax assets and liabilities including the movement in the deferred tax account during the year:

	Cash flow hedges £m	Available-for-sale £m	Accelerated tax depreciation £m	Other temporary differences £m	Total £m
At 1 January 2017	-	(4)	1	11	8
Income statement credit/(charge)	-	-	1	(3)	(2)
Credited/(charged) to other comprehensive income	-	4	-	(1)	3
At 31 December 2017	-	-	2	7	9
At 1 January 2016	(28)	-	1	12	(15)
Income statement charge	-	-	-	(1)	(1)
Credited/(charged) to other comprehensive income	28	(4)	-	-	24
At 31 December 2016	-	(4)	1	11	8

The deferred tax assets/(liabilities) scheduled above have been recognised on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse.

At 31 December 2017, there were no unrecognised capital losses carried forward (2016: £nil).

In addition, ANTS has net operating losses carried forward in the US of $76m (2016: $80m). A deferred tax asset on these losses has not been recognised as ANTS does not currently anticipate being able to offset the losses against future profits or gains in order to realise any economic benefit in the foreseeable future and in particular these losses will expire on closure of the ANTS US Branch.

9. DIVIDENDS ON ORDINARY SHARES

During the years ended 31 December 2017 and 2016, no dividends on ordinary shares were declared.

10. TRADING ASSETS

	2017 £m	2016 £m
Securities purchased under resale agreements	8,870	10,712
Debt securities	5,156	6,248
Equity securities	9,277	5,633
Cash collateral	6,156	6,169
Short-term loans	711	920
	30,170	29,682

A significant portion of the debt and equity securities are held in our eligible liquidity pool. They comprise mainly of government bonds and quoted stocks.

11. DERIVATIVE FINANCIAL INSTRUMENTS

a) Use of derivatives

ANTS transacts derivatives for four primary purposes:
- To manage the portfolio risks arising from customer business
- To manage and hedge ANTS's own risks
- To create risk management solutions for customers
- To generate profits through sales activities.

Under IAS 39, all derivatives are classified as 'held for trading' (except for derivatives which are designated as effective hedging instruments in accordance with the detailed requirements of IAS 39) even if this is not the purpose of the transaction. The held for trading classification therefore includes two types of derivatives:
- Those used in sales activities and those providing risk solutions for customers
- Those used for own risk management purposes but, for various reasons, either ANTS does not elect to claim hedge accounting for or they do not meet the qualifying criteria for hedge accounting. These consist of:
  - Non-qualifying hedging derivatives (economic hedges), whose terms match other on-balance sheet instruments but do not meet the technical criteria for hedge accounting, or which use natural offsets within other on-balance sheet instruments containing the same risk features as part of an integrated approach to risk management, and hence do not require the application of hedge accounting to achieve a reduction in income statement volatility
  - Derivatives managed in conjunction with financial instruments designated at fair value (the fair value option). The fair value option is described more fully in the Accounting Policy 'Financial assets' and Notes 12 and 22. ANTS's business model is primarily structured to maximise use of the fair value option, rather than electing to apply hedge accounting, in order to reduce the administrative burden on ANTS associated with complying with the detailed hedge accounting requirements of IAS 39
  - Derivatives that do not meet the qualifying criteria for hedge accounting, including ineffective hedging derivatives and any components of hedging derivatives that are excluded from assessing hedge effectiveness
  - Derivative contracts that represent the closing-out of existing positions through the use of matching deals.

The following table summarises the activities undertaken, the related risks associated with such activities and the types of derivatives used in managing such risks. These risks may also be managed using on-balance sheet instruments as part of an integrated approach to risk management.

Activity	Risk	Type of derivative
Management of the return on variable rate assets financed by shareholders' funds and net non-interest-bearing liabilities.	Reduced profitability due to falls in interest rates.	Receive fixed interest rate swaps.
Management of the basis between administered rate assets and liabilities and wholesale market rates.	Reduced profitability due to adverse changes in the basis spread.	Basis swaps.
Management of repricing profile of wholesale funding.	Reduced profitability due to adverse movement in wholesale interest rates when large volumes of wholesale funding are repriced.	Forward rate agreements.
Fixed rate lending and investments.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps.
Fixed rate retail and wholesale funding.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Equity-linked retail funding.	Sensitivity to increases in equity market indices.	Receive equity swaps.
Management of other net interest income on retail activities.	Sensitivity of income to changes in interest rates.	Interest rate swaps.
Issuance of products with embedded equity options.	Sensitivity to changes in underlying index and index volatility causing option exercise.	Interest rate swaps combined with equity options.
Lending and investments.	Sensitivity to weakening credit quality.	Purchase credit default swaps and total return swaps.
Borrowing funds in foreign currencies.	Sensitivity to changes in foreign exchange rates.	Cross currency swaps.
Lending and issuance of products with embedded interest rate options.	Sensitivity to changes in underlying rate and rate volatility causing option exercise.	Interest rate swaps plus caps/floors.
Investment in, and issuance of, bonds with put/call features.	Sensitivity to changes in rates causing option exercise.	Interest rate swaps combined with swaptions[1] and other matched options.

(1) A swaption is an option on a swap that gives the holder the right but not the obligation to buy or sell a swap.

ANTS's derivative activities do not give rise to significant open positions in portfolios of derivatives. Any residual position is managed to ensure that it remains within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, ANTS employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

b) Trading derivatives

Most of ANTS's derivative transactions relate to sales activities and derivative contracts that represent the closing-out of existing positions through the use of matching deals. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Limited positions may be traded actively or be held over a period of time to benefit from expected changes in exchange rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

Commercial Banking and Global Corporate Banking deal with customers who wish to enter into derivative contracts. Any market risk arising from such transactions is hedged by Global Corporate Banking. Global Corporate Banking is responsible for implementing ANTS derivative hedging with the external market together with its own trading activities. For trading activities, its objectives are to gain value by:
– Marketing derivatives to end users and hedging the resulting exposures efficiently
– The management of trading exposure reflected on ANTS's balance sheet.

c) Hedging derivatives

ANTS uses derivatives (principally interest rate swaps and cross-currency swaps) for hedging purposes in the management of its own asset and liability portfolios, including fixed-rate lending and fixed-rate asset purchases. This enables ANTS to optimise the overall cost to it of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities. Such risks may also be managed using natural offsets within other on-balance sheet instruments as part of an integrated approach to risk management.

Derivative products which are combinations of more basic derivatives (such as swaps with embedded option features), or which have leverage features, may be used in circumstances where the underlying position being hedged contains the same risk features. In such cases, the derivative used will be structured to match the risks of the underlying asset or liability. Exposure to market risk on such contracts is therefore hedged.

d) Analysis of derivative financial instruments

The contract/notional amounts of derivatives in the tables below indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent actual exposures.

			2017			2016
		Fair value			Fair value	
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Derivatives held for trading:						
Exchange rate contracts	175,846	5,011	6,775	220,651	8,939	12,332
Interest rate contracts	888,415	13,985	13,018	1,098,792	17,361	17,133
Equity and credit contracts	18,546	830	968	16,335	1,572	1,192
Total derivatives held for trading	1,082,807	19,826	20,761	1,335,778	27,872	30,657
Derivatives designated as fair value hedges:						
Interest rate contracts	1,289	27	211	4,159	82	963
Total derivatives held for hedging	1,289	27	211	4,159	82	963
Total derivative financial instruments	1,084,096	19,853	20,972	1,339,937	27,954	31,620

Derivative assets and liabilities are reported on a gross basis on the balance sheet unless there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Further information about offsetting is presented in Note 32.

e) Analysis of derivatives designated as hedges

Net gains or losses arising from fair value and cash flow hedges included in net trading and other income

	2017 £m	2016 £m
Fair value hedging:		
Gains/(losses) on hedging instruments	134	(167)
(Losses)/gains on hedged items attributable to hedged risks	(128)	160
Fair value hedging ineffectiveness	6	(7)
Cash flow hedging ineffectiveness	-	2
	6	(5)

ANTS hedges its exposures to various risks, primarily interest rate risk in connection with corporate loans. The gains or losses arising on these assets and liabilities are presented in the table above on a combined basis.

Hedged cash flows

During the year, gains and losses transferred from the cash flow hedging reserve to net interest income were a net gain of £nil (2016: £21m) and to net trading and other income were £nil (2016: £692m gain).

12. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	2017 £m	2016 £m
Loans and advances to customers:		
Loans to housing associations	330	1,215
Other loans	505	506
	835	1,721
Debt securities	317	133
	1,152	1,854

Loans and advances to customers represent loans to housing associations secured on residential property and other loans.

- Loans to housing associations secured on residential property which, at the date of their origination, were managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them was provided on that basis to management. In 2017, loans to housing associations decreased following the transfer of loans to Santander UK plc as part of our ongoing ring-fencing plans. For more information on our ring-fencing plans, see Note 33.
- Other loans representing a portfolio of roll-up mortgages and associated receivables, are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them is provided on that basis to management. Since 2009, ANTS's policy has been not to designate similar new loans at fair value through profit or loss.

The net gain during the year attributable to changes in credit risk for loans and advances designated at fair value was £45m (2016: £40m). The cumulative net loss attributable to changes in credit risk for loans and advances designated at fair value at 31 December 2017 was £124m (2016: £169m).

13. LOANS AND ADVANCES TO BANKS

	2017 £m	2016 £m
Securities purchased under resale agreements	8,632	2,687
Placements with other banks	6,260	7,306
	14,892	9,993

A majority of the loans and advances to banks are transactions with other Santander UK group companies in the ordinary course of business.

14. LOANS AND ADVANCES TO CUSTOMERS

	2017 £m	2016 £m
Amounts due from Santander UK group undertakings	9	109
Amounts due from Banco Santander subsidiaries and joint ventures	16	18
Other loans and advances	8,399	15,095
Loans and advances to customers	8,424	15,222
Impairment loss allowances	(157)	(86)
Net loans and advances to customers	8,267	15,136

Movement in impairment loss allowances:

	2017 £m	2016 £m
At 1 January	86	66
Charge to the income statement	72	18
Write-offs	(1)	2
At 31 December	157	86

In 2017, other loans and advances decreased following the transfer of loans to housing associations to Santander UK plc as part of our ring-fencing plans. For more information on our ring-fencing plans, see Note 33.

Impairment losses on loans and advances increased by £54m to £72m in 2017 (2016: £18m), primarily relating to Carillion plc exposures.

15. TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

ANTS enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to structured entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned.

- Full derecognition occurs when ANTS transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when ANTS sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of ANTS's continuing involvement. There are no assets subject to partial derecognition.

Financial assets that do not qualify for derecognition consist of (i) securities held by counterparties as collateral under repurchase agreements and (ii) securities lent under securities lending agreements.

As the substance of the sale and repurchase and securities lending transactions is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting ANTS's obligation to repurchase the transferred assets for a fixed price at a future date is recognised in deposits from banks or customers, as appropriate. As a result of these transactions, ANTS is unable to use, sell or pledge the transferred assets for the duration of the transaction. ANTS remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The following table analyses the carrying amount of financial assets that did not qualify for derecognition and their associated financial liabilities:

	2017		2016	
Nature of transaction	Carrying amount of transferred assets £m	Carrying amount of associated liabilities £m	Carrying amount of transferred assets £m	Carrying amount of associated liabilities £m
Sale and repurchase agreements	243	(218)	347	(347)
Securities lending agreements	118	(118)	-	-
	361	(336)	347	(347)

16. FINANCIAL INVESTMENTS

	2017 £m	2016 £m
Loans and receivables securities	255	220
Available-for-sale debt securities	-	476
	255	696

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds.

17. INTERESTS IN OTHER ENTITIES

The movement in interests in subsidiaries was as follows:

	Cost £m	Impairment £m	Net book value £m
At 1 January 2017 and 31 December 2017	57	-	57
At 1 January 2016	48	-	48
Other	9	-	9
At 31 December 2016	57	-	57

The Company has no associates or joint ventures.

Subsidiaries

The ANTS group consists of a parent company, Abbey National Treasury Services plc, incorporated in the United Kingdom and a number of subsidiaries and associates held directly and indirectly by Abbey National Treasury Services plc. Abbey National Treasury Services plc holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate principally in their country of incorporation or registration. The Company has a branch office in the US.

Details of subsidiary undertakings are set out in the Shareholder Information section and form an integral part of these financial statements.

In January 2018, as part of our ring-fencing plans, Santander Equity Investments Limited (a subsidiary of ANTS plc) acquired 100% of the share capital of four subsidiaries of Santander UK plc, with net assets of less than £1m at the acquisition date. In addition, Santander Equity Investments Limited acquired 100% of the share capital of six subsidiaries of ANTS plc, with net assets of less than £1m at the acquisition date. For more information on our ring-fencing plans, see Note 33.

Interests in unconsolidated structured entities

As described in Note 1, ANTS no longer prepares consolidated financial statements, but has interests in the following unconsolidated structured entities.

Structured entities sponsored by ANTS

ANTS has an interest in a structured entity which it sponsors but does not control. ANTS considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The unconsolidated structured entity sponsored is set out below.

Grafton

In December 2016, ANTS plc established Grafton CLO 2016-1 Designated Activity Company (Grafton), a private limited liability company incorporated in Ireland, to issue a £100m Credit Linked Note to third party investors which references a portfolio of ANTS' loans. Concurrently, Grafton sold credit protection to ANTS in respect of that portfolio and, in return for a fee, is liable to make protection payment amounts to ANTS upon the occurrence of a credit event in relation to any of the referenced entities. Because the third party investors have exposure, or rights, to the variable returns from Grafton, the company is not consolidated by ANTS. The maximum exposure to loss is equal to any unamortised fees paid to Grafton in connection with the credit protection outlined above.

Structured entities not sponsored by ANTS

ANTS also has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage and other asset-backed securities issued by entities that were established and/or sponsored by other unrelated financial institutions. Details of these securities are set out in Notes 12 and 16. Management has concluded that ANTS has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss.

18. INTANGIBLE ASSETS

	Cost £m	Accumulated amortisation £m	Net book value £m
At 1 January 2017	43	(8)	35
Additions	19	-	19
Charge	-	(8)	(8)
At 31 December 2017	62	(16)	46
At 1 January 2016	30	(5)	25
Additions	13	-	13
Charge	-	(3)	(3)
At 31 December 2016	43	(8)	35

Intangible assets consist of computer software.

19. DEPOSITS BY BANKS

	2017 £m	2016 £m
Amounts due to Santander UK subsidiaries	12,491	23,909
Securities sold under repurchase agreements	223	664
Amounts due to Banco Santander SA – other	13	-
Deposits held as collateral	-	3
Other deposits	1,580	743
	14,307	25,319

20. DEPOSITS BY CUSTOMERS

	2017 £m	2016 £m
Amounts due to Santander UK subsidiaries and joint ventures	749	844
Amounts due to fellow Banco Santander subsidiaries (not Banco Santander SA)	-	8
Wholesale funds and deposits(1)	1,699	2,334
	2,448	3,186

(1) Includes equity index-linked deposits of £682m (2016: £791m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £682m and £24m, respectively (2016: £791m and £34m, respectively).

Wholesale funds and deposits are interest bearing.

21. TRADING LIABILITIES

	2017 £m	2016 £m
Securities sold under repurchase agreements	25,504	8,798
Short positions in securities and unsettled trades	3,694	2,801
Cash collateral	1,911	3,535
Short-term deposits	-	426
	31,109	15,560

22. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2017 £m	2016 £m
US$10bn Euro Commercial Paper Programme	387	454
Structured Notes Programmes	-	1,137
Warrants programme	-	2
Structured deposits	656	526
	1,043	2,119

Historically, financial liabilities were designated at fair value through profit or loss where they would otherwise be measured at amortised cost, and any embedded derivatives or associated derivatives used to economically hedge the risk are held at fair value.

The fair value is based on quoted prices in an active market for the specific instrument concerned, if available. When quoted market prices are unavailable, the fair value is estimated using valuation techniques, the inputs for which are either based upon quoted prices in an inactive market for the instrument, or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to ANTS's liabilities. The change in fair value attributable to ANTS's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer or credit default swaps. Each security is then valued using discounted cash flows, incorporating a LIBOR-based discount curve. The difference in the valuations is attributable to ANTS's own credit spread. This methodology is applied consistently across all securities where it is believed that counterparties would consider ANTS's creditworthiness when pricing trades.

As part of our ring-fencing plans, with effect from 1 November 2017, all outstanding structured notes and warrants issued by ANTS under the Structured Notes Programmes and the Warrants Programme were novated to Santander UK plc. All rights, obligations and liabilities of ANTS under these structured notes and warrants have been taken over and assumed by Santander UK plc and all future structured notes will be issued by Santander UK plc. For more information on our ring-fencing plans, see Note 33.

Gains and losses arising from changes in the credit spread of securities issued by ANTS reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount. The net loss during the year attributable to changes in ANTS's own credit risk on the above securities was £19m (2016: net gain of £3m). The cumulative net loss attributable to changes in ANTS's own credit risk on the above securities at 31 December 2017 was £38m (2016: £3m).

Of the change in carrying value in 2017, cash and non-cash changes amounted to £(1,154)m and £78m respectively. Non-cash changes consist of £(45)m of unrealised foreign exchange differences, £16m of changes in fair value and £107m of other changes, mainly accrued interest.

At 31 December 2017, the amount that would be required to be contractually paid at maturity of the securities above was £6m higher (2016: £4m lower) than the carrying value.

23. DEBT SECURITIES IN ISSUE

	2017 £m	2016 £m
US$20bn Commercial Paper Programme	2,760	2,678
Certificates of deposit	3,283	5,217
	6,043	7,895

Of the change in carrying value in 2017, cash and non-cash changes amounted to £(1,306)m and £(546)m respectively. Non-cash changes comprised £(554)m of unrealised foreign exchange differences and £8m of other changes, mainly accrued interest.

24. PROVISIONS

	2017 £m	2016 £m
At 1 January	15	44
Additional provisions	19	16
Utilisation	(16)	(45)
At 31 December	18	15
To be settled:		
– Within 12 months	18	15
	18	15

Financial Services Compensation Scheme (FSCS)

Following the update of the UK's special resolution regime in 2016 in order to transpose the EU's Bank Recovery and Resolution Directive, the wholesale-only bank depositor protection exemption no longer exists. As a result, ANTS had protected deposits within the scope of the FSCS at 31 December 2017 and will make future contributions towards the management expense levies in proportion to its share of total protected deposits.

The FSCS is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS is funded by levies on the industry (and recoveries and borrowings where appropriate). The levies raised comprise both management expenses levies and, where necessary, compensation levies on authorised firms.

Each deposit-taking institution contributes towards the management expenses levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March. In determining an appropriate accrual in respect of the management expenses levy, certain assumptions have been made, based on information received from the FSCS.

Following the default of a number of deposit takers since 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. The interest on the borrowings with HM Treasury is now assessed at the higher of 12 month LIBOR plus 111 basis points and the relevant rate published by the Debt Management Office.

Whilst it is expected that the substantial majority of the principal will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, to the extent that there remains a shortfall, the FSCS can recover any shortfall of the principal by levying the deposit-taking sector in instalments.

The FSCS and HM Treasury have agreed that the terms of the repayment of the borrowings will be reviewed every three years in light of market conditions and of the actual repayment from the estates of failed banks. The ultimate amount of any compensation levies to be charged in future years also depends on a number of factors including the level of protected deposits and the population of deposit-taking participants and will be determined at a later date.

UK Bank Levy

The Finance Act 2011 introduced an annual bank levy in the UK. The UK Bank Levy is based on the total chargeable equity and liabilities as reported in the balance sheet of a Relevant Group at the end of a chargeable period. The Relevant Group for this purpose is a Foreign Banking Group whose ultimate parent is Banco Santander SA. The UK Bank Levy is calculated principally on the balance sheet of the UK sub-group parented by Santander UK Group Holdings plc, of which this Company is part. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain 'protected deposits' (for example those protected under the FSCS); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; FSCS liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the UK Bank Levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities.

It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the PRA definition); and repo liabilities secured against sovereign and supranational debt.

In addition to changes in corporation tax rates, Finance (No.2) Act 2015 reduced the UK Bank Levy rate from 0.21% via subsequent annual reductions to 0.10% from 1 January 2021. As a result a rate of 0.17% applies for 2017 (2016: 0.18%). Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The UK Bank Levy is not charged on the first £20bn of chargeable equity and liabilities. The cost of the UK Bank Levy for 2017 was £19m (2016: £14m).

Other provisions principally comprise amounts in respect of restructuring charges.

25. RETIREMENT BENEFIT PLANS

ANTS has exposure to various Santander UK defined benefit and defined contribution pension schemes in operation. Details of each scheme required by IAS 19 are disclosed in Note 28 in the Annual Report of Santander UK plc. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore, in accordance with IAS 19, the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and ANTS accounts for its contributions as a defined contribution plan. The contribution to be paid by ANTS is calculated as the contributions made by Santander UK plc to the schemes in respect of employees related to ANTS. An expense of £9m (2016: £9m) was recognised for these contributions and is included in staff costs within operating expenses in the income statement.

26. CONTINGENT LIABILITIES AND COMMITMENTS

	2017 £m	2016 £m
Guarantees given on behalf of the Company's immediate UK parent, fellow subsidiaries and subsidiaries	224,629	218,049
Guarantees given to third parties	307	310
Formal standby facilities, credit lines and other commitments with original term to maturity of:		
– One year or less	1,041	1,401
– Later than one year	8,295	12,982
	234,272	232,742

Where the items set out below can be reliably estimated, they are disclosed in the table above.

Guarantees given on behalf of the Company's immediate UK parent

The Company has given a full and unconditional guarantee in respect of certain unsubordinated liabilities of Santander UK plc (excluding debt securities) incurred prior to 31 December 2018 under a deed poll guarantee entered into by the Company on 11 May 2017. A copy of this guarantee is included in the Shareholder Information section.

Capital Support Deed

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 23 December 2015 (the Capital Support Deed) with certain other non-regulated subsidiaries of Santander UK plc and Santander UK Group Holdings plc. The parties to the Capital Support Deed constitute a core UK group as defined in the PRA Rulebook. Pursuant to a PRA permission, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. The core UK group PRA permission expires on 31 December 2018.

Domestic Liquidity Sub-group (DoLSub)

As a firm subject to the liquidity obligations in the Capital Requirements Regulation (CRR) Santander UK plc applied for, and were granted, a CRR Article 8 DoLSub CRR permission (DoLSub Article 8 permission). This waiver is effective until 31 December 2018.

The DoLSub waiver replaces the requirement for liquidity adequacy and reporting on an individual basis. Consolidated reporting requirements are currently met at a Banco Santander SA. level. The UK DoLSub comprises the entities Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited.

Guarantees given to fellow subsidiaries

Via the guarantee given to the Company's parent described above, the Company has also indirectly guaranteed the obligations of Cater Allen Limited that have been or will be incurred before 31 December 2018.

Guarantees given to third parties

Guarantees given to third parties consist primarily of letters of credit, bonds and guarantees granted as part of normal product facilities which are offered to customers.

Formal standby facilities, credit lines and other commitments

Standby facilities, credit lines and other commitments are also granted as part of normal product facilities which are offered to customers. Corporate facilities can comprise standby and revolving facilities which are subject to ongoing compliance with covenants and the provision of agreed security. Failure to comply with these terms can result in the withdrawal of the unutilised facility headroom.

FSCS

As described in Note 24, ANTS participates in the UK's national resolution scheme, the FSCS, and is thus subject to levies to fund the FSCS. In the event that the FSCS significantly increase the levies to be paid by firms the associated costs to ANTS would rise.

Regulatory

ANTS engages in discussion, and co-operates, with the FCA and other bodies in their supervision of ANTS, including reviews exercised under statutory powers, regarding its interaction with past and present customers, both as part of general thematic work and in relation to specific products and services. A provision established with respect to interest rate derivatives is held by Santander UK plc.

Taxation

ANTS engages in discussion, and co-operates, with HM Revenue & Customs in their oversight of ANTS's tax matters. ANTS adopted the UK's Code of Practice on Taxation for Banks in 2010.

Other

As part of the sale of subsidiaries, businesses and other entities, and as is normal in such circumstances, ANTS has given warranties and indemnities to the purchasers.

Obligations under stock borrowing and lending agreements

Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations are offset by a contractual right to receive stock under other contractual agreements. See Note 28.

Other off-balance sheet commitments

ANTS has commitments to lend at fixed interest rates which expose it to interest rate risk. For further information, see the Risk review.

Operating lease commitments

Rental commitments under non-cancellable operating leases	2017 £m	2016 £m
Later than one year and not later than five years	1	2
	1	2

During 2017, ANTS rental expense amounted to £0.4m (2016: £0.4m) in respect of minimum rentals. There was no contingent rent expense included in this rental expense.

27. SHARE CAPITAL

	Ordinary shares of £1 each		Tracker shares of £1 each		B Tracker shares of £1 each		Total
Issued and fully paid share capital	No.	£m	No.	£m	No.	£m	£m
At 31 December 2016 and 1 January 2017	2,549,000,000	2,549	1,000	-	1,000	-	2,549
Cancellation and extinguishment of shares	(2,299,002,000)	(2,299)	-	-	-	-	(2,299)
At 31 December 2017	249,998,000	250	1,000	-	1,000	-	250

In 2008, the Company issued 1,000 Tracker Shares of £1 each at par to its parent company for £1,000. The Tracker Shares entitled the holders to dividends related to certain cash flows that were received by the Company in the period up to 7 April 2010. The Tracker Shares are not redeemable and do not confer any rights to participate in the assets of the Company on winding up (beyond the amount subscribed). The Tracker Shares carry no voting rights.

In 2010, the Company issued 1,000 B Tracker Shares of £1 each at par to its parent company for £1,000. The B Tracker Shares entitled the holders to dividends related to certain cash flows that were received by the Company in the year up to 31 December 2011. The B Tracker Shares are not redeemable and do not confer any rights to participate in the assets of the Company on a winding up (beyond the amount subscribed). The B Tracker Shares carry no voting rights.

On 14 December 2017, the issued share capital of the Company was reduced to £250,000,000 by cancelling and extinguishing 2,299,002,000 ordinary shares of £1 each. This capital reduction gives effect to the order made by the High Court and an amount of £2,299,002,000 was credited to the Company's retained earnings and forms part of the Company's distributable reserves.

28. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following transactions are conducted under terms that are usual and customary to collateralised transactions, including, where relevant, standard securities lending and repurchase agreements.

a) Assets charged as security for liabilities

The financial assets below are analysed between those assets accounted for on-balance sheet and off-balance sheet in accordance with IFRS.

	2017 £m	2016 £m
On-balance sheet:		
Treasury bills and other eligible securities	3,899	4,044
Cash	2,512	3,383
Loans and advances to customers- ILTR	-	625
Debt securities	106	755
Equity securities	8,498	5,637
Total on-balance sheet	15,015	14,444
Off-balance sheet:		
Treasury bills and other eligible securities	38,659	17,543
Debt securities	350	636
Equity securities	2,063	1,557
Total off-balance sheet	41,072	19,736

ANTS provides assets as collateral in the following areas of the business.

Sale and repurchase agreements

The Company enters into sale and repurchase agreements and similar transactions of equity and debt securities, which are accounted for as secured borrowings. Upon entering into such transactions, the Company provides collateral in excess of the borrowed amount. The carrying amount of assets that were so provided at 31 December 2017 was £31,947m (2016: £12,768m).

Stock borrowing and lending agreements

Asset balances under stock borrowing and lending agreements represent stock lent by ANTS. These balances amounted to £21,628m at 31 December 2017 (2016: £18,029m) and are offset by contractual commitments to return stock borrowed or cash received.

Derivatives business

In addition to the arrangements described above, collateral is also provided in the normal course of derivative business to counterparties. At 31 December 2017, £2,512m (2016: £3,383m) of such collateral in the form of cash had been provided by ANTS and is included in the table above.

b) Collateral accepted as security for assets

The collateral held as security for assets below are analysed between those liabilities accounted for on the balance sheet and off-balance sheet in accordance with IFRS.

	2017 £m	2016 £m
On-balance sheet:		
Trading liabilities	1,911	3,535
Deposits by banks	-	10
Deposits by customers	8	-
Total on-balance sheet	1,919	3,545
Off-balance sheet:		
Trading liabilities	40,599	32,623
Deposits by banks	1,625	1,167
Total off-balance sheet	42,224	33,790

Purchase and resale agreements

The Company also enters into purchase and resale agreements and similar transactions of equity and debt securities, which are accounted for as collateralised loans. Upon entering into such transactions, the Company receives collateral in excess of the loan amount. The level of collateral held is monitored daily and if required, further calls are made to ensure the market values of collateral remains at least equal to the loan balance. The Company is permitted to sell or repledge the collateral held in the absence of default. At 31 December 2017, the fair value of such collateral received was £25,381m (2016: £16,506m). Of the collateral received, almost all was sold or repledged. The Company has an obligation to return collateral that it has sold or pledged.

Stock borrowing and lending agreements

Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations totalled £16,843m at 31 December 2017 (2016: £17,284m) and are offset by a contractual right to receive stock lent by ANTS.

Derivatives business
In addition to the arrangements described above, collateral is also received from counterparties in the normal course of derivative business. At 31 December 2017, £1,919m (2016: £3,545m) of such collateral in the form of cash had been received by ANTS and is included in the table above.

Lending activities
In addition to the above collateral held as security for assets, ANTS may obtain a charge over a customer's property in connection with its lending activities. Details of these arrangements are set out in the 'Credit risk' section of the Risk review.

29. TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a) Remuneration of Directors and Other Key Management Personnel

The remuneration of the Directors and Other Key Management Personnel is set out in aggregate below.

Directors' remuneration	2017 £	2016 £
Salaries and fees	1,010,569	1,407,666
Performance-related payments	1,463,265	2,711,667
Other fixed remuneration (pension and other allowances & non-cash pension benefits)	224,197	542,463
Total remuneration	**2,698,031**	4,661,796

Directors' and Other Key Management Personnel compensation	2017 £	2016 £
Short-term employee benefits	2,487,497	4,300,030
Post-employment benefits	208,787	361,766
Total compensation	**2,696,284**	4,661,796

Of the Directors that served during the year, six (2016: seven) were remunerated in relation to their services as Directors of this Company and the amounts included above are based on an estimated time allocation basis. The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander SA and Santander UK plc. Salaries and performance-related payments comprise payments to six (2016: seven) Directors serving during the year.

The Company ensures that it is compliant with the mandatory deferral requirements of the PRA's Remuneration Rules and Remuneration Code for staff who meet the relevant criteria (Code Staff) and the amount of bonus to be deferred is based on the total variable pay received. The PRA Remuneration Rules and Remuneration Code prescribes that at least 40% of variable pay must be made over a period of at least three, five or seven years and, for staff earning more than £500,000 in variable remuneration, at least 60% of a bonus must be deferred over the same period.

All UK bonus awards in 2017 and 2016 are subject to deferral principles that have been set at Banco Santander group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK Board Remuneration Committee and can be overridden by UK national requirements to meet any criteria set by the PRA or other regulator/law. However, the general deferral principles are as follows:
- Any deferred amount will be issued over a three, five or seven year period as an award comprising 50% in shares and 50% in cash
- Deferrals are subject to continued employment with the Banco Santander group in the UK and on the condition that none of the prescribed circumstances of forfeiture occur.

In 2017, the remuneration, excluding pension contributions and compensation for loss of office, of the highest paid Director was £1,678,972 (2016: £1,532,160) of which £1,100,000 (2016: £1,051,627) was performance-related. In 2017 and 2016 no amounts were paid with respect to a defined contribution scheme on behalf of the highest paid Director.

At 31 December 2017 and 2016, there was no accrued pension benefit for the highest paid Director and there was no lump sum accrued by the highest paid Director.

b) Retirement benefits

No Director will be receiving benefits under a defined benefit scheme (2016: none) and three Directors (2016: one) will be receiving benefits under a defined contribution scheme.

c) Santander Long-Term Incentive Plan (LTIP)

In 2017, no Executive Directors (2016: none) and no Other Key Management Personnel (2016: none) were granted conditional awards under the Santander LTIP. No LTIP award was granted in 2017 (2016: none).

30. RELATED PARTY DISCLOSURES

a) Parent undertaking and controlling party

The Company's immediate parent is Santander UK plc, a company incorporated in England and Wales. The ultimate parent and controlling party is Banco Santander SA, a company incorporated in Spain. The smallest and largest groups into which ANTS's, and all of its subsidiary undertakings', results are included are the group accounts of Santander UK plc and Banco Santander SA, respectively, copies of which may be obtained from Shareholder Relations, 2 Triton Square, Regent's Place, London NW1 3AN, on the corporate website (www.santander.co.uk) or on the Banco Santander corporate website (www.santander.com).

b) Transactions with related parties

Transactions with related parties during the year and balances outstanding at the year-end:

	Interest, fees and other income received		Interest, fees and other expenses paid		Amounts owed by related parties		Amounts owed to related parties	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Ultimate parent	**(57)**	(69)	**334**	177	**4,276**	2,102	**(4,393)**	(2,145)
Immediate parent	**(554)**	(3,414)	**170**	2,288	**13,857**	11,112	**(14,293)**	(30,036)
Subsidiaries	**-**	(5)	**-**	-	**8**	8	**(24)**	(21)
Fellow subsidiaries	**(138)**	(1,997)	**56**	2,538	**467**	823	**(2,789)**	(3,947)
	(749)	(5,485)	**560**	5,003	**18,608**	14,045	**(21,499)**	(36,149)

Further information on balances due from/(to) other Banco Santander companies is set out in the sections 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander companies outside the Santander UK group' in the Risk review. In addition, details of guarantees given on behalf of the Company's parent, the Capital Support Deed, the DoLSub liquidity facility and guarantees given to fellow subsidiaries are described in Note 26.

The reduction in the amounts owed to Santander UK plc was due to the netting and settlement of intercompany balances mainly as a result of the repositioning and restructuring of the ANTS balance sheet as part of the Santander UK group's ring-fencing plans. The increase in amounts owed by Santander UK plc was driven by higher volumes of securities purchased under resale agreements due to a change in the mix of assets held for liquidity purposes as part of normal portfolio management activity.

The above transactions were made in the ordinary course of business and substantially on the same terms as for comparable transactions with third party counterparties, except those carried out with Banco Santander SA and Santander UK plc as part of our ring-fencing plans as described in Note 33, and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features.

In addition, and as described in Note 33, on 16 October 2017 Santander UK plc, Abbey National Treasury Services plc, Santander UK Group Holdings plc and Banco Santander SA entered into a ring-fencing transfer scheme which formalised the business transfers required to implement the planned ring-fenced structure.

31. FINANCIAL INSTRUMENTS

a) Measurement basis of financial assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse financial instruments into those measured at fair value and those measured at amortised cost in the balance sheet:

	2017			2016		
	Held at fair value £m	Held at amortised cost £m	Total £m	Held at fair value £m	Held at amortised cost £m	Total £m
Assets						
Cash and balances at central banks	-	5,128	5,128	-	3,517	3,517
Trading assets	30,170	-	30,170	29,682	-	29,682
Derivative financial instruments	19,853	-	19,853	27,954	-	27,954
Financial assets designated at fair value	1,152	-	1,152	1,854	-	1,854
Loans and advances to banks	-	14,892	14,892	-	9,993	9,993
Loans and advances to customers	-	8,267	8,267	-	15,136	15,136
Financial investments	-	255	255	476	220	696
	51,175	28,542	79,717	59,966	28,866	88,832
Non-financial assets			372			978
Total assets			80,089			89,810
Liabilities						
Deposits by banks	-	14,307	14,307	-	25,319	25,319
Deposits by customers	-	2,448	2,448	-	3,186	3,186
Trading liabilities	31,109	-	31,109	15,560	-	15,560
Derivative financial instruments	20,972	-	20,972	31,620	-	31,620
Financial liabilities designated at fair value	1,043	-	1,043	2,119	-	2,119
Debt securities in issue	-	6,043	6,043	-	7,895	7,895
	53,124	22,798	75,922	49,299	36,400	85,699
Non-financial liabilities			285			352
Total liabilities			76,207			86,051

b) Valuation of financial instruments

Financial instruments that are classified or designated at fair value through profit or loss, including those held for trading purposes, or available-for-sale, and all derivatives are stated at fair value. The fair value of such financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Santander UK group has access at that date. The fair value of a liability reflects its non-performance risk.

Changes in the valuation of such financial instruments, including derivatives, are included in the line item 'Net trading and other income' in the income statement or in 'Other comprehensive income' in the statement of comprehensive income as applicable.

(i) Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the valuation 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 or 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.

(ii) Subsequent measurement

ANTS applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability. ANTS categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in an active market that ANTS can access at the measurement date.

Level 2 Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3 Significant inputs to the pricing or valuation techniques are unobservable.

ANTS assesses active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. ANTS assesses active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity. ANTS assesses active markets for exchange traded derivatives based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument.

Market activity and liquidity is discussed in the relevant monthly Risk Forum as well as being part of the daily update given by each business at the start of the trading day. This information, together with the observation of active trading and the magnitude of the bid-offer spreads allow consideration of the liquidity of a financial instrument.

Underlying assets and liabilities are reviewed to consider the appropriate adjustment to mark the mid-price reported in the trading systems to a fair value. This process takes into account the liquidity of the position in the size of the adjustment required. These liquidity adjustments are presented and discussed at the monthly Risk Forum.

The appropriate measurement levels are regularly reviewed. Underlying assets and liabilities are regularly reviewed to determine whether a position should be regarded as illiquid; the most important practical consideration being the observability of trading. Where the bid-offer spread is observable, this is tested against actual trades. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. ANTS recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

ANTS manages certain groups of financial assets and liabilities on the basis of its net exposure to either market risks or credit risk. As a result it has elected to use the exception under IFRS 13 which permits the fair value measurement of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position for a particular risk exposure or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated as the current bid price multiplied by the number of units of the instrument held.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

Unrecognised gains as a result of the use of valuation models using unobservable inputs (Day One profits)

The timing of recognition of deferred Day One profit and loss is determined individually. It is deferred until either the instrument's fair value can be determined using market observable inputs or is realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred Day One profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without immediate reversal of deferred Day One profits and losses.

c) Fair values of financial instruments carried at amortised cost

The following tables analyse the fair value of the financial instruments carried at amortised cost at 31 December 2017 and 2016, including their levels in the fair value hierarchy – Level 1, Level 2 and Level 3. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value. Cash and balances at central banks which comprise of demand deposits with the Bank of England and the US Federal Reserve have been excluded from the table, as the carrying amount of cash and balances at central banks is deemed an appropriate approximation of fair value. There were no financial instruments carried at amortised cost whose fair values would be classified in Level 1.

				2017				2016
	Fair value				Fair value			
	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets								
Loans and advances to banks	9,095	5,784	14,879	14,892	2,789	7,072	9,861	9,993
Loans and advances to customers	1,714	6,561	8,275	8,267	6,739	8,456	15,195	15,136
Financial investments	256	1	257	255	218	-	218	220
	11,065	12,346	23,411	23,414	9,746	15,528	25,274	25,349
Liabilities								
Deposits by banks	1,328	12,998	14,326	14,307	1,096	24,241	25,337	25,319
Deposits by customers	-	2,448	2,448	2,448	-	3,186	3,186	3,186
Debt securities in issue	6,043	-	6,043	6,043	7,895	-	7,895	7,895
	7,371	15,446	22,817	22,798	8,991	27,427	36,418	36,400

Included in the above table are the following intercompany balances:

	2017				2016			
	Fair value				Fair value			
	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets								
Loans and advances to banks	6,643	5,334	11,977	11,977	1,225	6,594	7,819	7,819
Loans and advances to customers	-	25	25	25	-	123	123	123
	6,643	5,359	12,002	12,002	1,225	6,717	7,942	7,942
Liabilities								
Deposits by banks	-	12,504	12,504	12,504	-	23,909	23,909	23,909

The carrying value above of any financial assets and liabilities that are designated as hedged items in a portfolio (or macro) fair value hedge relationship excludes gains and losses attributable to the hedged risk, as this is included in other assets on the balance sheet.

Valuation methodology

The fair value of financial instruments is the estimated price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. Where quoted market prices are not available, fair value is determined using pricing models which use a mathematical methodology based on accepted financial theories, depending on the product type and its components. Further information on fair value measurement can be found in Note 1 and the valuation techniques section below.

Fair value management

The fair value exposures set out in the tables above are managed by using a combination of hedging derivatives and offsetting on-balance sheet positions. The approach to specific categories of financial instruments is described below.

Assets:

Loans and advances to banks

These comprise secured loans, short-term placements with banks including collateral and unsettled financial transactions. The secured loans have been valued on the basis of spreads on credit default swaps for the term of the loans using valuation technique A as described below. The carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are very short-term in duration. This includes intercompany balances.

Loans and advances to customers

The approach to estimating the fair value of loans and advances to customers has been determined by discounting expected cash flows to reflect current market rates for lending of a similar credit quality. The determination of their fair values is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour.

The corporate loan portfolio is stratified by product. The determination of the fair values of performing loans takes account of the differential between existing margins and estimated new business rates for similar loans in terms of segment, maturity and structure. Provisions are considered appropriate for the book that is not impaired. A discount has been applied to impaired loans. Although exits have generally been achieved at carrying value, this does not reflect the discount a purchaser would require. A discount has therefore been applied based on the target return sought by distressed bond funds, who are the typical purchaser of the assets.

With respect to Social Housing, part of this portfolio is held at fair value for historic reasons. The same methodology has been applied to calculate the fair value of loans held at amortised cost. The fair value of this portion of the portfolio has been determined using valuation technique A as described below.

With respect to intercompany loans, the carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are either short-term in duration or subject to fair value hedges.

Financial investments

Loans and receivable securities consist of asset-backed securities. These are complex products and are valued with the assistance of an independent, specialist valuation firm. These fair values are determined using industry-standard valuation techniques, including discounted cash-flow models. The inputs to these models used in these valuation techniques include quotes from market makers, prices of similar assets, adjustments for differences in credit spreads, and additional quantitative and qualitative research.

Liabilities:

Deposits by banks
The fair value of deposits by banks, including repos, has been estimated using valuation technique A as described below. The carrying amount of the intercompany items is deemed a reasonable approximation of their fair value, as the transactions are short-term in duration.

Deposits by customers
The majority of deposit liabilities are payable on demand and therefore can be deemed short-term in nature with the fair value equal to the carrying value. However, given the long-term and continuing nature of the relationships with ANTS's customers, the Directors believe there is significant value to ANTS in this source of funds. Certain of the deposit liabilities are at a fixed rate until maturity. The deficit/surplus of fair value over carrying value of these liabilities has been estimated by reference to the market rates available at the balance sheet date for similar deposit liabilities of similar maturities. The fair value of such deposits liabilities has been estimated using valuation technique A as described below.

Debt securities in issue
Where reliable prices are available, the fair value of debt securities in issue has been calculated using quoted market prices. Other market values have been determined using valuation technique A as described below.

d) Fair values of financial instruments measured at fair value on a recurring basis

The following tables summarise the fair values of the financial assets and liabilities accounted for at fair value at 31 December 2017 and 2016, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

		2017				2016				
		Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Valuation technique
Assets										
Trading assets	Loans and advances to banks	-	6,897	-	6,897	-	7,478	-	7,478	A
	Loans and advances to customers	656	8,184	-	8,840	762	9,561	-	10,323	A
	Debt securities	5,156	-	-	5,156	6,248	-	-	6,248	-
	Equity securities	9,277	-	-	9,277	5,633	-	-	5,633	-
		15,089	15,081	-	30,170	12,643	17,039	-	29,682	
Derivative financial instruments	Exchange rate contracts	-	4,996	15	5,011	-	8,917	22	8,939	A
	Interest rate contracts	-	14,000	12	14,012	-	17,424	19	17,443	A & C
	Equity and credit contracts	-	794	36	830	-	1,274	298	1,572	B & D
		-	19,790	63	19,853	-	27,615	339	27,954	
Financial assets designated at fair value	Loans and advances to customers	-	771	64	835	-	1,658	63	1,721	A
	Debt securities	184	133	-	317	-	133	-	133	A
		184	904	64	1,152	-	1,791	63	1,854	
Financial investments	Available-for-sale debt securities	-	-	-	-	476	-	-	476	-
Total assets at fair value		15,273	35,775	127	51,175	13,119	46,445	402	59,966	
Liabilities										
Trading liabilities	Deposits by banks	-	1,885	-	1,885	-	4,200	-	4,200	A
	Deposits by customers	-	25,530	-	25,530	-	8,559	-	8,559	A
	Short positions	3,694	-	-	3,694	2,801	-	-	2,801	-
		3,694	27,415	-	31,109	2,801	12,759	-	15,560	
Derivative financial instruments	Exchange rate contracts	-	6,760	15	6,775	-	12,310	22	12,332	A
	Interest rate contracts	-	13,224	5	13,229	-	18,085	11	18,096	A & C
	Equity and credit contracts	1	929	38	968	1	1,149	42	1,192	B & D
		1	20,913	58	20,972	1	31,544	75	31,620	
Financial liabilities designated at fair value	Debt securities in issue	-	387	-	387	-	1,593	-	1,593	A
	Structured deposits	-	656	-	656	-	526	-	526	A
		-	1,043	-	1,043	-	2,119	-	2,119	
Total liabilities at fair value		3,695	49,371	58	53,124	2,802	46,422	75	49,299	

Transfers between levels of the fair value hierarchy
Transfers between levels of the fair value hierarchy are reported at the beginning of the period in which they occur.

During 2017 and 2016, there were no transfers of financial instruments between Levels 1, 2 and 3.

e) Valuation techniques

The main valuation techniques employed in internal models to measure the fair value of the financial instruments disclosed above at 31 December 2017 and 2016 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. ANTS did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2017 and 2016.

A In the valuation of financial instruments requiring static hedging (for example interest rate, currency derivatives and commodity swaps) and in the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies or forward commodity prices. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments. The forward commodity prices are generally observable market data.

B In the valuation of equity financial instruments requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary local volatility and stochastic volatility models are used. These types of models are widely accepted in the financial services industry. Observable market inputs used in these models include the bid-offer spread, foreign currency exchange rates, volatility and correlation between indices. In limited circumstances, other inputs may be used in these models that are based on data other than observable market data, such as the Halifax's UK House Price Index (HPI) volatility, HPI forward growth, HPI spot rate, mortality, and mean reversion.

C In the valuation of financial instruments exposed to interest rate risk that require either static or dynamic hedging (such as interest rate futures, caps and floors, and options), the present value method (futures), Black's model (caps/floors) and the Hull/White and Markov functional models (Bermudan options) are used. These types of models are widely accepted in the financial services industry. The significant inputs used in these models are observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates. In limited circumstances, other inputs may be used in these models that are based on data other than observable market data, such as HPI volatility, HPI forward growth, HPI spot rate, and mortality.

D In the valuation of linear instruments such as credit risk and fixed-income derivatives, credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk such as credit derivatives, the probability of default is determined using the par spread level. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair values of the financial instruments arising from ANTS's internal models take into account, among other things, contract terms and observable market data, which include such factors as bid-offer spread, interest rates, credit risk, exchange rates, the quoted market price of raw materials and equity securities, volatility and prepayments. In all cases, when it is not possible to derive a valuation for a particular feature of an instrument, management uses judgement to determine the fair value of the particular feature. In exercising this judgement, a variety of tools are used including proxy observable data, historical data and extrapolation techniques. Extrapolation techniques take into account behavioural characteristics of equity markets that have been observed over time, and for which there is a strong case to support an expectation of a continuing trend in the future. Estimates are calibrated to observable market prices when they become available.

ANTS believes its valuation methods are appropriate and consistent with other market participants. Nevertheless, the use of different valuation methods or assumptions, including imprecision in estimating unobservable market inputs, to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date and the amount of gain or loss recorded for a particular instrument. Most of the valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities, where available.

f) Fair value adjustments

The internal models incorporate assumptions that ANTS believes would be made by a market participant to establish fair value. Fair value adjustments are adopted when ANTS considers that there are additional factors that would be considered by a market participant that are not incorporated in the valuation model.

ANTS classifies fair value adjustments as either 'risk-related' or 'model-related'. The fair value adjustments form part of the portfolio fair value and are included in the balance sheet values of the product types to which they have been applied. The majority of these adjustments relate to Global Corporate Banking. The magnitude and types of fair value adjustment adopted by Global Corporate Banking are listed in the following table:

	2017 £m	2016 £m
Risk-related:		
– Bid-offer and trade specific adjustments	22	24
– Uncertainty	43	49
– Credit risk adjustment	29	41
– Funding fair value adjustment	6	20
	100	134
Model-related	8	1
Day One profit	1	4
	109	139

Risk-related adjustments

Risk-related adjustments are driven, in part, by the magnitude of ANTS's market or credit risk exposure, and by external market factors, such as the size of market spreads.

(i) Bid-offer and trade specific adjustments

IFRS 13 requires that portfolios are marked at bid or offer, as appropriate. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the cost that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position. The majority of the bid-offer adjustment relates to OTC derivative portfolios. For each portfolio, the major risk types are identified. For each risk type, the net portfolio risks are first classified into buckets, and then a bid-offer spread is applied to each risk bucket based upon the market bid-offer spread for the relevant hedging instrument.

The grouping of risk categories is dependent on the sensitivity factors of the trading portfolio. For example, interest rate risk will be by tenor and options will be by strikes. The granularity of the risk bucketing is principally determined by reference to the risk management practice undertaken by ANTS, the granularity of risk bucketing in the risk reporting process, and the extent of correlation between risk buckets. Within a risk type, the bid-offer adjustment for each risk bucket may be aggregated without offset or limited netting may be applied to reflect correlation between buckets. There is no netting applied between risk types or between portfolios that are not managed together for risk management purposes. There is no netting across legal entities.

(ii) Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

(iii) Credit risk adjustment

Credit risk adjustments comprise credit and debit valuation adjustments. The credit valuation adjustment (CVA) is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default, and ANTS may not receive the full market value of the transactions. The debit valuation adjustment (DVA) is an adjustment to the valuation of the OTC derivative contracts to reflect within the fair value the possibility that the Santander UK group may default, and that the Santander UK group may not pay full market value of the transactions.

ANTS calculates a separate CVA and DVA for each counterparty to which it has exposure. ANTS calculates the CVA by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default (i.e. the loss given default (LGD)). Conversely, ANTS calculates the DVA by applying the PD of ANTS, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to ANTS and multiplying the result by the LGD. Both calculations are performed over the life of the potential exposure.

For most products ANTS uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

For certain types of exotic derivatives where the products are not currently supported by the standard methodology, ANTS adopts alternative methodologies. These may involve mapping transactions against the results for similar products which are valued using the standard methodology. In other cases, a simplified version of the standard methodology is applied. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the standard methodology.

The methodologies do not, in general, account for wrong-way risk. Wrong-way risk arises where the underlying value of the derivative prior to any credit risk adjustment is positively correlated to the probability of default of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation. Exposure to wrong-way risk is limited via internal governance processes and deal pricing. ANTS considers that an appropriate adjustment to reflect wrong-way risk is currently £nil (2016: £nil).

(iv) Funding fair value adjustment (FFVA)

The FFVA is an adjustment to the valuation of OTC derivative positions to include the net cost of funding uncollateralised derivative positions. This is calculated by applying a suitable funding cost to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio.

Model-related adjustments

Models used for portfolio valuation purposes, may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. The Quantitative Risk Group (QRG), an independent quantitative support function reporting into the Risk Department, highlights the requirement for model limitation adjustments and develops the methodologies employed. As model development progresses, model limitations are addressed within the core revaluation models and a model limitation adjustment is no longer needed.

Day one profit adjustments

Day one profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs. Day One profit adjustments are calculated and reported on a portfolio basis.

g) Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies jointly with the Risk Department and the Finance Department. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, ANTS will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The factors that are considered in this regard include:
- The extent to which prices may be expected to represent genuine traded or tradeable prices
- The degree of similarity between financial instruments
- The degree of consistency between different sources
- The process followed by the pricing provider to derive the data
- The elapsed time between the date to which the market data relates and the balance sheet date
- The manner in which the data was sourced.

The source of pricing data is considered as part of the process that determines the classification of the level of a financial instrument. 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 estimate a realisable value over time. Adjustments for illiquid positions are regularly reviewed to reflect changing market conditions.

Internal valuation model review

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of: (i) the logic within the models; (ii) the inputs to those models; (iii) any adjustments required outside the models; and (iv) where possible, model outputs. Internal valuation models are validated independently by QRG. A validation report is produced for each model-derived valuation that assesses the mathematical assumptions behind the model, the implementation of the model and its integration within the trading system. Where there is observable market data, the models calibrate to market. Where pricing data is unobservable, the input parameters are regularly reviewed by QRG. The results of the independent valuation process and any changes to the fair value adjustments methodology are approved in line with the model risk framework and policy.

h) Internal models based on observable market data (Level 2)

1. Trading assets and liabilities

Loans and advances to banks and loans and advances to customers - securities purchased under resale agreements

These consist of repos and reverse repos as part of trading activities. The fair value is estimated by using the 'present value' method. Future cash flows are evaluated taking into consideration any derivative features of the reverse repos and are then discounted using the appropriate market rates for the applicable maturity and currency. Under these agreements, ANTS receives collateral with a market value equal to, or in excess of, the principal amount loaned. The level of collateral held is monitored daily and if required, further calls are made to ensure the market values of collateral remains at least equal to the loan balance. As a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of the counterparty related to these agreements. As the inputs are based on observable market data, these reverse repos are classified as Level 2.

Loans and advances to banks and loans and advances to customers - other

These consist of term deposits placed which are short-term in nature and are both utilised and managed as part of the funding requirements of the trading book. The fair value is estimated using the 'present value' method. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments. As the inputs are based on observable market data, these loans are classified as Level 2.

Deposits by banks and deposits by customers - securities sold under repurchase agreements

These consist of repos with both professional non-bank customers and bank counterparties as part of trading activities. The fair value of repos is estimated using the same technique as those reverse repos in trading assets discussed above. Under these agreements, ANTS is required to provide and maintain collateral with a market value equal to, or in excess of, the principal amount borrowed. As a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of ANTS related to these agreements. As the inputs are based on observable market data, these repos are classified as Level 2.

Deposits by banks and deposits by customers - other

These consist of certain term and time deposits which tend to be short-term in nature and are both utilised and managed as part of the funding requirements of the trading book. These instruments are valued using the same techniques as those instruments in trading assets - loans and advances to banks and loans and advances to customers discussed above. As the inputs are based on observable market data, these deposits are classified as Level 2.

2. Derivative assets and liabilities

These consist of exchange rate, interest rate, equity and credit contracts. The models used in estimating the fair value of these derivatives do not contain a high level of subjectivity as the methodologies used do not require significant judgement, and the inputs used are observable market data such as plain vanilla interest rate swaps and option contracts. As the inputs are based on observable market data, these derivatives are classified as Level 2.

Certain cross currency swaps, reversionary property interests, credit default swaps and options and forwards contain significant unobservable inputs or are traded less actively or traded in less-developed markets, and so are classified as Level 3. The valuation of such instruments is further discussed in the 'internal models based on information other than market data' section below.

3. Financial assets and liabilities at fair value through profit or loss (FVTPL)

Loans and advances to customers
These consist of loans secured on residential property to housing associations. The fair value of these loans is estimated using the 'present value' model based on a credit curve derived from current market spreads observable in the Social Housing loan data. Observable market data include current market spreads for new accepted mandates and bids for comparable loans and are used to support or challenge the benchmark level. This provides a range of reasonably possible estimates of fair value. As the inputs are based on market observable data, these loans are classified as Level 2. Certain loans and advances to customers which represent a portfolio of roll-up mortgages contain significant unobservable inputs and so are classified as Level 3. The valuation of such instruments is further discussed below.

Debt securities
These consist of holdings of asset-backed securities. A significant portion of these securities are priced using the 'present value' models, based on observable market data e.g. LIBOR, credit spreads. Where there are quoted prices, the model value is checked against the quoted prices for reference purposes, but is not used as the fair value as the market for these instruments is lacking in liquidity and depth. As the inputs are based on observable market data, these debt securities are classified as Level 2. Certain debt securities which represent reversionary property securities and securities issued by Banco Santander entities contain significant unobservable inputs, and so are classified as Level 3. The valuation of such instruments is further discussed below.

Debt securities in issue
These include commercial paper and other bonds and are valued using the same techniques as those instruments in financial assets at FVTPL - debt securities discussed above. As the inputs used are based on observable market data, these debt securities are classified as Level 2.

Structured deposits
These consist of certain structured term deposits utilised and managed as part of the funding requirements of the trading book. These instruments are valued using the same techniques as those instruments in trading assets - loans and advances to banks and loans and advances to customers discussed above. As the inputs are based on observable market data, these deposits are classified as Level 2.

i) Internal models based on information other than market data (Level 3)

The table below provides an analysis of financial instruments valued using internal models based on information other than market data together with the subsequent valuation technique used for each type of instrument. Each instrument is initially valued at transaction price:

			Balance sheet value		Fair value movements recognised in profit/(loss)	
Balance sheet line item	Category	Financial instrument product type	2017 £m	2016 £m	2017 £m	2016 £m
1. Derivative assets	Exchange rate contracts	Cross-currency swaps	-	1	-	1
2. Derivative assets	Exchange rate contracts	Securitisation cross currency swaps	15	21	(11)	12
3. Derivative assets	Interest rate contracts	Bermudan swaptions	6	7	(1)	(3)
4. Derivative assets	Interest rate contracts	Securitisation swaps	6	12	(8)	-
5. Derivative assets	Equity and credit contracts	Reversionary property interests	31	36	(6)	12
6. Derivative assets	Credit contracts	Credit default swaps	-	5	(5)	1
7. Derivative assets	Equity contracts	Property-related options and forwards	5	257	(2)	(1)
8. FVTPL	Loans and advances to customers	Roll-up mortgage portfolio	64	63	2	4
9. Derivative liabilities	Exchange rate contracts	Cross-currency swaps	-	(1)	-	-
10. Derivative liabilities	Exchange rate contracts	Securitisation cross currency swaps	(15)	(21)	11	(12)
11. Derivative liabilities	Interest rate contracts	Bermudan swaptions	(1)	(2)	1	2
12. Derivative liabilities	Interest rate contracts	Securitisation swaps	(4)	(9)	7	-
13. Derivative liabilities	Equity contracts	Property-related options and forwards	(38)	(42)	-	4
14. FVTPL	Debt securities in issue	Non-vanilla debt securities	-	-	-	(1)
Total net assets			**69**	327		
Total (expense)/income					**(12)**	19

Valuation techniques

1. Derivative assets - Exchange rate contracts
These are used to hedge the foreign currency risks arising from power reverse dual currency (PRDC) notes issued by Santander UK plc, as described in Instrument 14 below. These derivatives are valued using a standard valuation model valuing each leg of the swap, with expected future cash flows less notional amount exchanged at maturity date discounted using an appropriate floating rate. The floating rate is adjusted by the relevant cross currency basis spread. Interest rates, foreign exchange rates, cross currency basis spread and long-dated foreign exchange (FX) volatility are used as inputs to determine fair value. Interest rates, foreign exchange rates are market observable. Cross currency spreads may be market observable or unobservable depending on the liquidity of the cross currency pair. As the Japanese Yen-US dollar cross currency pair related to the PRDC notes is liquid, the cross currency spreads (including long-dated cross currency spread) for these swaps are market observable.

The significant unobservable inputs are the long-dated FX volatility and the correlation between the underlying assets. The correlation between the underlying assets is assumed to be zero, as there are no actively traded options from which correlations between the underlying assets could be implied. Furthermore, the zero correlation assumption implies that the sources of the long-dated FX volatility are independent.

Long-dated FX volatility - Long-dated FX volatility is extrapolated from shorter-dated FX volatilities which are market observable. Short-dated FX volatility is observable from the trading of FX options. As there is no active market for FX options with maturities greater than five years (long-dated FX options), long-dated FX volatility is not market observable. Furthermore, as historical prices are not relevant in determining the cost of hedging long-dated FX risk, long-dated FX volatility cannot be inferred from historical volatility. The long-dated FX volatility is extrapolated from the shorter-dated FX volatilities using Black's model. FX volatility is modelled as the composition of the domestic interest rate, foreign interest rates and FX spot volatilities using standard Hull-White formulae. The Hull-White approach is used for estimating the future distribution of domestic and foreign zero-coupon rates, constructed from the relevant yield curves. Using short-dated FX options, the FX spot volatility is calculated which is then extrapolated to derive the long-dated FX volatility.

2. Derivative assets - Exchange rate contracts

These are securitisation based swaps for which the notional amount is adjusted to match the changes in the outstanding reference mortgage portfolio with time. These swap are valued using a standard valuation model for which the main inputs used are market observable information in the vanilla swap market and a prepayment parameter. The significant unobservable input for the valuation of these financial instruments is prepayment.

Prepayment - This captures the prepayment, default and arrears of the reference portfolio and is modelled using an analysis of the underlying portfolio plus observed historical market data.

3. Derivative assets - Interest rate contracts

These are options giving the holder the right to enter into an interest rate swap on any one of a number of predetermined dates. These Bermudan swaptions are valued using a standard valuation model.

In valuing the Bermudan swaptions, the main inputs used are market observable information in the vanilla swaption market and a mean reversion parameter. The significant unobservable input for the valuation of these financial instruments is mean reversion.

Mean reversion - The input used reflects the level of de-correlation in the swaption market. This parameter is not directly observable in the market but can be deduced from broker quotes or using expert judgement. An adjustment is made to reflect this uncertainty by stressing the parameter.

4. Derivative assets - Interest rate contracts

These derivatives are the same as Instrument 2.

5. Derivative assets - Equity and credit contracts

These are valued using a probability weighted set of HPI forward prices, which are assumed to be a reasonable representation of the increase in value of ANTS's reversionary interest portfolio underlying the derivatives. The probability used reflects the likelihood of the home owner vacating the property and is calculated from mortality rates and acceleration rates which are a function of age and gender, obtained from the relevant mortality tables. Indexing is felt to be appropriate due to the size and geographical dispersion of the reversionary interest portfolio. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. The Halifax's UK HPI is the UK's longest running monthly house price data series covering the whole country. The indices calculated are standardised and represent the price of a typically transacted house. Both national and regional HPI are published. The national HPI is published monthly. The regional HPI reflects the national HPI disaggregated into 12 UK regions and is published quarterly. Both indices are published on two bases, including and excluding seasonal adjustments in the housing market. Non-seasonally adjusted (NSA) national and regional HPI are used in the valuation model to avoid any subjective judgement in the adjustment process which is made by MarkIt (which now publishes the Halifax House Price Index).

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

HPI Spot Rate - The HPI spot rate used is a weighted average of NSA regional HPI spot rates i.e. adjusted for difference in the actual regional composition of the property underlying the reversionary interest portfolio and the composition of the published regional indices. 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 growth rate over the relevant time period inferred from the national HPI spot rates (which are observable market data and published monthly) to the most recently calculated weighted average regional HPI spot rate based on published regional indices.

An adjustment is also made to reflect the specific property risk i.e. possible deviation between the actual growth in the house prices underlying the reversionary interest portfolio and their assumed index-linked growth, based on the regional HPI. This adjustment is based on the average historical deviation of price changes of the actual property portfolio from that of the published indices over the time period since the last valuation date.

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.

Mortality Rate - Mortality rates are obtained from tables published by the UK Institute and Faculty of Actuaries. These mortality rates are adjusted by acceleration rates to reflect the mortality profile of the holders of ANTS's reversionary property products underlying the derivatives. Mortality rates do not have a significant effect on the value of the instruments.

6. Derivative assets – Credit contracts
These are credit default swaps held against certain bonds. The credit default swaps are valued using the credit spreads of the referenced bonds. These referenced bonds are valued with the assistance of valuations prepared by an independent, specialist valuation firm as a deep and liquid market does not exist.

In valuing the credit default swaps, the main inputs used to determine the underlying cost of credit are quoted risk premiums and the correlation between the quoted credit derivatives of various issuers. The assumptions relating to the correlation between the values of quoted and unquoted assets are based on historical correlations between the impact of adverse changes in market variables and the corresponding valuation of the associated unquoted assets. The measurement of the assets will vary depending on whether a more or less conservative scenario is selected. The other main input is the probability of default of the referenced bonds. The significant unobservable input for the valuation of these financial instruments is the probability of default.

Probability of default - The probability of default is assessed by considering the credit quality of the underlying referenced bonds. However, as no deep and liquid market exists for these assets the assessment of the probability of default is not directly observable and instead an estimate is calculated using the Standard Gaussian Copula model.

7. Derivative assets – Equity contracts
There are three types of derivatives within this category:

European options - These are valued using a modified Black-Scholes model where the HPI is log-normally distributed with the forward rates determined from the HPI forward growth.
Asian options - Asian (or average value) options are valued using a modified Black-Scholes model, with an amended strike price and volatility assumption to account for the average exercise period, through a closed form adjustment that reflects the strike price relative to the distribution of stock prices at each relevant date. This is also known as the Curran model.
Forward contracts - Forward contracts are valued using a standard forward pricing model.
The inputs used to determine the value of the above instruments are HPI spot rate, HPI forward growth rate and HPI volatility. The principal pricing parameter is HPI forward growth rate.

HPI Spot Rate - The HPI spot rate used is the NSA national HPI spot rate which is published monthly and directly observable in the market. This HPI rate used is different from the weighted average regional HPI spot rate used in the valuation of Instrument 5 above, as the underlying of these derivatives is the UK national HPI spot rate.

HPI Forward Growth Rate - The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 5 above.

HPI Volatility - Long-dated HPI volatility is not directly observable in the market and is estimated. An adjustment is applied to the long-dated HPI volatility rate to reflect the uncertainty surrounding long-dated data. This adjustment is based on the empirical standard deviation of historical volatility over a range of time horizons. HPI volatility rates do not have a significant effect on the value of the instruments.

8. FVTPL – Loans and advances to customers
These represent roll-up mortgages (sometimes referred to as lifetime mortgages), which are an equity release scheme under which a property owner takes out a loan secured against their home. The owner does not make any interest payments during their lifetime and the fixed interest payments are rolled up into the mortgage. The loan or mortgage (capital and rolled-up interest) is repaid upon the owner's vacation of the property and the value of the loan is only repaid from the value of the property. This is known as a 'no negative pledge'. ANTS suffers a loss if the sale proceeds from the property are insufficient to repay the loan, as it is unable to pursue the homeowner's estate or beneficiaries for the shortfall.

The value of the mortgage 'rolls up' or accretes until the owner vacates the property. In order to value the roll-up mortgages, ANTS uses a probability-weighted set of European option prices (puts) determined using the Black-Scholes model, in which the 'no negative pledges' are valued as short put options. The probability weighting applied is calculated from mortality rates and acceleration rates as a function of age and gender, taken from mortality tables.

The inputs used to determine the value of these instruments are HPI spot, HPI forward growth, HPI volatility, mortality rates and repayment rates. The principal pricing parameter is HPI forward growth. The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 5 above. The other parameters do not have a significant effect on the value of the instruments.

9. Derivative liabilities - Exchange rate contracts
These derivatives are the same as Instrument 1 with the exception that they have a negative fair value.

10. Derivative liabilities – Exchange rate contracts
These derivatives are the same as Instrument 2 with the exception that they have a negative fair value.

11. Derivative liabilities - Interest rate contracts
These derivatives are the same as Instrument 3 with the exception that they have a negative fair value.

12. Derivative liabilities - Interest rate contracts
These derivatives are the same as Instrument 2 with the exception that they have a negative fair value.

13. Derivative liabilities - Equity contracts
These derivatives are the same as Instrument 7 with the exception that they have a negative fair value.

14. FVTPL - Debt securities in issue

These are PRDC notes that were transferred to Santander UK plc in 2016. These notes are financial structured products where an investor is seeking a better return and a borrower/issuer a lower rate by taking advantage of the interest rate differential between two countries. The note pays a foreign interest rate in the investor's domestic currency. The power component of the name denotes higher initial coupons and the fact that coupons rise as the domestic/foreign exchange rate depreciates. The power feature comes with a higher risk for the investor. Cash flows may have a digital cap feature where the rate gets locked once it reaches a certain threshold. Other add-on features are barriers such as knockouts and cancellation provisions for the issuer.

These debt securities in issue are valued using a three-factor Gaussian Model. The three factors used in the valuation are domestic interest rates, foreign interest rates and foreign exchange rates. The correlations between the factors are assumed to be zero within the valuation.

The Hull-White approach is used for estimating the future distribution of domestic and foreign zero-coupon rates, constructed from the relevant yield curves. A Geometric Brownian Motion model is used for estimating the future distribution of spot foreign exchange rates. The foreign exchange and interest rate volatilities are the most crucial pricing parameters; the model calibrates to the relevant swaption volatility surface.

The significant unobservable inputs for the valuation of these financial instruments are the long dated FX volatility and the correlation between the underlying assets and are the same as Instrument 1.

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:

	Assets			Liabilities		
	Derivatives £m	Fair value through profit and loss £m	Total £m	Derivatives £m	Fair value through profit and loss £m	Total £m
At 1 January 2017	339	63	402	(75)	-	(75)
Total (losses)/gains recognised in profit/(loss):						
– Fair value movements	(33)	2	(31)	19	-	19
– Foreign exchange and other movements	32	-	32	(32)	-	(32)
Additions	9	-	9	(2)	-	(2)
Settlements	(284)	(1)	(285)	32	-	32
At 31 December 2017	63	64	127	(58)	-	(58)
(Losses)/gains recognised in profit/(loss) relating to assets and liabilities held at the end of the year	(1)	2	1	(13)	-	(13)
At 1 January 2016	416	59	475	(111)	(5)	(116)
Total gains/(losses) recognised in profit/(loss):						
– Fair value movements	22	4	26	(6)	(1)	(7)
– Foreign exchange and other movements	(32)	-	(32)	32	(1)	31
Additions	4	-	4	(4)	-	(4)
Settlements	(71)	-	(71)	14	7	21
At 31 December 2016	339	63	402	(75)	-	(75)
(Losses)/gains recognised in profit/(loss) relating to assets and liabilities held at the end of the year	(10)	4	(6)	26	(2)	24

Total gains or losses are included in 'Net trading and other income' (see Note 4).

Effect of changes in significant unobservable assumptions to reasonably possible alternatives (Level 3)

As discussed above, the fair value of financial instruments are, 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 hedged positions.

		Significant unobservable input				Sensitivity	
			Assumption value				
2017	Fair value £m	Assumption description	Range[(1)]	Weighted average	Shift	Favourable changes £m	Unfavourable changes £m
3. Derivative assets – Interest rate contracts: – Bermudan swaptions	6	Mean reversion	(2)% - 2%	0%	(2)%	1	(1)
5. Derivative assets – Equity and credit contracts: – Reversionary property derivatives	31	HPI Forward growth rate	0% - 5%	2.42%	1%	10	(10)
		HPI Spot rate	n/a	773[(2)]	10%	8	(8)
7. Derivative assets – Equity contracts: – Options and forwards	5	HPI Forward growth rate	0% - 5%	2.32%	1%	1	(1)
		HPI Spot rate	n/a	727[(2)]	10%	2	-
8. FVTPL – Loans and advances to customers: – Roll-up mortgage portfolio	64	HPI Forward growth rate	0% - 5%	2.57%	1%	2	(2)
11. Derivative liabilities – Interest rate contracts: – Bermudan swaptions	(1)	Mean reversion	(2)% - 2%	0%	(2)%	1	(1)
13. Derivative liabilities – Equity contracts: – Options and forwards	(38)	HPI Forward growth rate	0% - 5%	2.32%	1%	3	(3)
		HPI Spot rate	n/a	727[(2)]	10%	7	(8)
2016							
3. Derivative assets – Interest rate contracts: – Bermudan swaptions	7	Mean reversion	(2)% - 2%	0%	(2)%	1	(1)
5. Derivative assets – Equity and credit contracts: – Reversionary property derivatives	36	HPI Forward growth rate	0% - 5%	2.79%	1%	11	(11)
		HPI Spot rate	n/a	748[(2)]	10%	9	(9)
6. Derivative assets – Credit contracts: – Credit default swaps	5	Probability of default	0% - 5%	0.39%	20%	1	(1)
7. Derivative assets – Equity contracts: – Options and forwards	257	HPI Forward growth rate	0% - 5%	2.71%	1%	3	(3)
		HPI Spot rate	n/a	702[(2)]	10%	12	(11)
8. FVTPL – Loans and advances to customers: – Roll-up mortgage portfolio	63	HPI Forward growth rate	0% - 5%	2.84%	1%	2	(2)
11. Derivative liabilities – Interest rate contracts: – Bermudan swaptions	(2)	Mean reversion	(2)% - 2%	0%	(2)%	1	(1)
13. Derivative liabilities – Equity contracts: – Options and forwards	(42)	HPI Forward growth rate	0% - 5%	2.71%	1%	4	(4)
		HPI Spot rate	n/a	702[(2)]	10%	8	(9)

(1) The range of actual assumption values used to calculate the weighted average disclosure.
(2) Represents the HPI spot rate index level at 31 December 2017 and 2016.
(3) Gains and losses arising from changes in the fair values of assets and liabilities shown in the tables above are recognised in the income statement.

No sensitivities are presented for Derivative assets – cross currency swaps (instrument 1), Derivative assets – securitisation cross currency swaps (instrument 2), Derivative assets – securitisation swaps (instrument 4) and the FVTPL - debt securities in issue (instrument 14), and related exchange rate and interest rate derivatives (instruments 9, 10 and 12) as the terms of these instruments are fully matched. As a result, any changes in the valuation of the debt securities in issue would be exactly offset by an equal and opposite change in the valuation of the exchange rate derivatives.

j) Maturities of financial liabilities and off-balance sheet commitments

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities and off-balance sheet commitments of ANTS based on the remaining period to the contractual maturity date at the balance sheet date.

There are no significant financial liabilities related to financial guarantee contracts. This table is not intended to show the liquidity of ANTS.

2017	On demand £m	Not later than three months £m	Later than three months and not later than one year £m	Later than one year and not later than five years £m	Later than five years £m	Total £m
Liabilities						
Deposits by banks	1,109	10,159	2,194	665	209	14,336
Deposits by customers	1,070	607	51	743	-	2,471
Trading liabilities	1,520	26,914	152	161	2,580	31,327
Derivative financial instruments:						
– Held for trading	5	1,031	1,602	4,355	15,081	22,074
– Held for hedging[1]	-	1	-	20	206	227
Financial liabilities designated at fair value	-	521	141	362	27	1,051
Debt securities in issue	-	4,864	1,199	-	-	6,063
Total financial liabilities	3,704	44,097	5,339	6,306	18,103	77,549
Off-balance sheet commitments given	-	588	452	7,643	653	9,336
2016						
Liabilities						
Deposits by banks	2,158	18,468	1,142	2,937	671	25,376
Deposits by customers	1,018	894	539	665	105	3,221
Trading liabilities	3,535	10,042	21	602	1,474	15,674
Derivative financial instruments:						
– Held for trading	82	1,454	2,791	7,324	20,549	32,200
– Held for hedging[1]	-	-	4	93	931	1,028
Financial liabilities designated at fair value	9	393	229	932	617	2,180
Debt securities in issue	-	5,695	2,230	-	-	7,925
Total financial liabilities	6,802	36,946	6,956	12,553	24,347	87,604
Off-balance sheet commitments given	5	686	710	10,989	1,993	14,383

32. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are reported on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following tables show the impact of netting arrangements on:

- All financial assets and liabilities that are reported net on the balance sheet
- All derivative financial instruments and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements described above.

For derivative contracts, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

For repurchase and reverse repurchase agreements and other similar secured lending and borrowing, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

ANTS engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables below do not purport to represent ANTS's actual credit exposure.

	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on-balance sheet			Related amounts not offset				
2017	Gross amounts £m	Amounts offset £m	Net amounts reported on the balance sheet £m	Financial instruments £m	Financial collateral[1] £m	Net amount £m	Assets not subject to enforceable netting arrangements[2] £m	Balance sheet total[3] £m
Derivative financial instruments	28,756	(9,160)	19,596	(16,575)	(1,140)	1,881	257	19,853
Reverse repurchase, securities borrowing & similar agreements:								
– Trading assets	15,224	(6,354)	8,870	(205)	(8,665)	-	-	8,870
– Loans and advances to banks	8,632	-	8,632	-	(8,632)	-	-	8,632
Loans and advances to customers and banks[4]	37,999	(31,714)	6,285	-	-	6,285	8,242	14,527
Total assets	90,611	(47,228)	43,383	(16,780)	(18,437)	8,166	8,499	51,882
Derivative financial instruments	29,893	(9,160)	20,733	(16,575)	(1,941)	2,217	239	20,972
Repurchase, securities lending & similar agreements:								
– Trading liabilities	31,858	(6,354)	25,504	(205)	(25,299)	-	-	25,504
– Deposits by banks	223	-	223	-	(223)	-	-	223
Deposits by customers and banks[4]	46,653	(31,714)	14,939	-	-	14,939	1,593	16,532
Total liabilities	108,627	(47,228)	61,399	(16,780)	(27,463)	17,156	1,832	63,231
2016								
Derivative financial instruments	36,621	(8,819)	27,802	(17,361)	(2,330)	8,111	152	27,954
Reverse repurchase, securities borrowing & similar agreements:								
– Trading assets	12,607	(1,895)	10,712	(2,113)	(8,599)	-	-	10,712
– Loans and advances to banks	2,687	-	2,687	-	(2,687)	-	-	2,687
Loans and advances to customers and banks[4]	45,724	(23,305)	22,419	-	-	22,419	23	22,442
Total assets	97,639	(34,019)	63,620	(19,474)	(13,616)	30,530	175	63,795
Derivative financial instruments	40,157	(8,819)	31,338	(17,361)	(2,470)	11,507	282	31,620
Repurchase, securities lending & similar agreements:								
– Trading liabilities	10,693	(1,895)	8,798	(2,113)	(6,685)	-	-	8,798
– Deposits by banks	664	-	664	-	(664)	-	-	664
Deposits by customers and banks[4]	50,400	(23,305)	27,095	-	-	27,095	746	27,841
Total liabilities	101,914	(34,019)	67,895	(19,474)	(9,819)	38,602	1,028	68,923

(1) Financial collateral is reflected at its fair value, but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.
(2) This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.
(3) The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.
(4) The amounts offset within loans and advances to customers/banks or deposits by customers/banks relate to intercompany balances that are subject to netting.

33. RING-FENCING

Regulation

The Financial Services (Banking Reform) Act 2013 inserted provisions into the Financial Services and Markets Act 2000 (FSMA) and related legislation (the Banking Reform Legislation) requiring the Santander UK group amongst a number of other UK banking groups, to operationally and legally separate certain retail banking activities from certain wholesale or investment banking activities by 1 January 2019. This is known as 'ring-fencing'. The Banking Reform Legislation specifies:

- Certain banking services or activities, the performance of which will cause a UK bank to be a ring-fenced bank (RFB); and
- Certain banking services and activities, along with certain types of credit risk exposure or off-balance sheet items, which an RFB will be prohibited from carrying on or incurring (prohibited business).

As a result, under the ring-fencing regime, an RFB is only permitted to carry on banking services or activities that are not prohibited (permitted business).

Proposed Santander UK group model

Under the model chosen by the Santander UK group to implement its ring-fencing plan:

- Santander UK plc will be the primary RFB within an RFB sub-group, will continue to be a subsidiary of Santander UK Group Holdings plc, will continue to accept deposits from the public and will be the holding company of the Santander UK RFB sub-group. Cater Allen Limited will also be an RFB and part of the Santander UK RFB sub-group. Neither Santander UK plc nor Cater Allen Limited will conduct prohibited business;
- The business of the Crown Dependency branches (Jersey and Isle of Man) of Santander UK plc will be transferred outside the Santander UK plc group pursuant to transfer schemes effected under relevant Jersey and Isle of Man law;
- ANTS will become a wholly-owned direct subsidiary of Santander UK Group Holdings plc, and will be emptied of all material assets, save for a small pool of residual assets. The prohibited business of ANTS, which principally includes our derivatives business with financial institutions, certain corporates and elements of our short term markets business, will transfer to Banco Santander SA or its London branch (SLB). The majority of the permitted business of ANTS will transfer to Santander UK plc, with a small amount of the permitted business of ANTS transferring to SLB. The branch of ANTS in the US will be closed by the end of December 2018; and
- Except for the business of the Crown Dependency branches, SLB will carry on all business that constitutes prohibited business, save for a small pool of assets in ANTS.

Implementation plan

The Santander UK group is on track to enable the ring-fencing structure to be implemented in advance of the regulatory deadline.

On 16 October 2017, Santander UK plc, ANTS, Santander UK Group Holdings plc and Banco Santander S.A. entered into a ring-fencing transfer scheme (RFTS) which formalised the business transfers required to implement the planned ring-fenced structure. These business transfers will be made at book value which represents appropriate and reasonable compensation and a fair value for the Santander UK group.

The RFTS is a transfer scheme under Part VII of FSMA that enables UK banks to implement the ring-fencing requirements. This is a court process that requires (i) the PRA to approve the scheme (in consultation with the FCA); (ii) the appropriate regulatory authority in respect of each transferee to provide a certificate of adequate financial resources in relation to that transferee; and (iii) an independent expert (approved by the PRA, after consultation with the FCA) to provide a scheme report stating whether any adverse effect on persons affected by the scheme is likely to be greater than is reasonably necessary to achieve the ring-fencing purposes of the scheme.

For the prohibited business transfers, additional approvals will be required from the Spanish Ministry of Economy, the Bank of Spain and the European Central Bank. In the case of the Crown Dependency branches, approvals will be required from either the Jersey Financial Services Commission and the Royal Court of Jersey, or the Isle of Man Financial Services Authority and the Isle of Man High Court of Justice.

In January 2018, the PRA approved the application to the court, and in February 2018 the court approved the communication of the proposed scheme to relevant stakeholders to allow them to express their views in court in relation to the scheme. However, until final court approvals have been obtained, which is not expected until the end of the second quarter of 2018, there remains uncertainty regarding the final ring-fenced structure of the Santander UK group.

The RFTS will also unwind the cross guarantees, releasing each of Santander UK plc and ANTS from all liabilities under those guarantees, with effect from 1 January 2019.

In addition to the transfers above, a small number of business transfers will be effected in advance where court or regulator approvals are not required. Negotiations with counterparties are ongoing, and until those negotiations are complete, uncertainty remains about the mechanisms by which those transfers will be effected.

As a result of these uncertainties, management considers that no transfers have reached the stage of being regarded as highly probable and, as such, assets and liabilities associated with those proposed transfers have not been classified as held for sale at 31 December 2017.

Furthermore, the management of certain banking services or activities, typically short term markets activities, will be transferred by concurrently running-off existing business in ANTS and writing new business in Santander UK plc or SLB.

Balance sheet impact

As a result of ring-fencing, it is intended that ANTS will be emptied of all material assets, save for a small pool of residual assets that will remain in ANTS. Almost all prohibited business will be moved to SLB, and almost all the permitted business will move to Santander UK plc. At 31 December 2017:

- The prohibited business that is expected to move to SLB mainly comprised:
  - A small number of those trading assets of £30bn and trading liabilities of £31bn that related to prohibited business.
  - £17bn of the derivative assets of £20bn and £18bn of the derivative liabilities of £21bn which related to the derivatives business with financial institutions.
  - A small amount (less than £1bn) of loans and advances to customers of £8bn relating to prohibited corporate loans.
- The permitted business that is expected to move to Santander UK plc mainly comprised:
  - All the remaining non-prohibited trading assets of £30bn and trading liabilities of £31bn that related to the permitted elements of ANT's short term markets business.
  - All the remaining loans and advances to customers of ANTS of £8bn that related to permitted corporate loans.
  - £2bn of the derivative assets of £20bn and £1bn of the derivative liabilities of £21bn which related to the derivatives business with financial institutions.
  - Most of the £1bn of financial liabilities designated at fair value and £6bn of debt securities in issue that related to short term funding in ANTS.
- The small pool of residual business that it is anticipated will not be capable of transfer mainly comprised net assets of less than £1bn.

34. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 31 December 2017 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

85 Subsidiaries
86 Guarantees

Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a list of Abbey National Treasury Services plc's subsidiaries, the country of incorporation and the effective percentage of equity owned at 31 December 2017 is disclosed below. This section forms an integral part of the financial statements.

Subsidiaries

Incorporated and registered in England and Wales:

Name of subsidiary	Registered office	Direct/indirect ownership	Share class though which ownership is held	Proportion of ownership interest %	Ultimate proportion of ownership %
Abbey National Treasury Services Investments Limited	(1)	Direct	Ordinary £1	100	100
Cater Allen Holdings Limited	(1)	Direct	Ordinary £1	100	100
Cater Allen International Limited	(1)	Direct	Ordinary £1	100	100
Cater Allen Lloyd's Holdings Limited	(1)	Direct	Ordinary £1	100	100
Cater Allen Syndicate Management Limited	(1)	Indirect	Ordinary £1 Preference £1	-	100
Santander Equity Investments Limited	(1)	Direct	Ordinary £1	100	100
Santander Secretariat Services Limited	(1)	Direct	A Ordinary USD $0.01	100	100
Sheppards Moneybrokers Limited	(1)	Direct	A Ordinary £1 Non-voting Preference £1	100	100

(1) The registered office address is 2 Triton Square, Regent's Place, London NW1 3AN.

Overseas branches

The Company has a branch office in the US.

Guarantees

GUARANTEE

THIS INSTRUMENT by way of deed poll is executed on 11 May 2017 by **ABBEY NATIONAL TREASURY SERVICES plc** (registered in England No. 2338548) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN (the "**Guarantor**").

WHEREAS:
Santander UK plc, a company incorporated in England (number 2294747) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN ("**Santander UK**"), has requested the Guarantor and the Guarantor has agreed to guarantee payment of all Obligations (as hereinafter defined) in accordance with, and as limited by, the terms and conditions of this Deed (this "**Guarantee**").

NOW THEREOF the Guarantor hereby covenants and agrees as follows:

1. In this Guarantee, unless the context otherwise requires:

"**Creditor**" means any person (other than Santander UK or any subsidiary of Santander UK (as defined in section 1159 of the Companies Act 2006 (the "**Act**")) or any individual who is a connected person of Santander UK (within the meaning of section 254 of the Act)) to whom an Obligation is from time to time owed.

"**Debt Securities**" means any indebtedness which is in the form of, or represented or evidenced by bonds, notes, debentures, debenture stock, loan stock or other securities (in each case, whether under a debt issuance programme or otherwise) whether or not such bonds, notes, debentures, debenture stock, loan stock or other securities are or are intended or capable of being listed, quoted, dealt in or traded on any stock exchange, or securities market.

"**Obligation**" means any obligation or liability (whether actual or contingent or for the payment of any amount or delivery of any property) incurred by Santander UK (whether as principal or surety) to any person on or before 31 December 2018 (whether before or after the execution of this Guarantee) under or in respect of any dealing, transaction or engagement whatsoever, including without prejudice to the generality of the foregoing, for:

(i) any moneys lent, advanced or otherwise made available to Santander UK (including, without limitation to the generality of the foregoing, the liability of Santander UK for drawing or issuing bills of exchange, promissory notes, bonds, debentures, certificates of deposit, commercial paper or other negotiable instruments or securities);

(ii) any moneys lent, advanced or otherwise made available to any person, the repayment or payments in respect of which have been guaranteed by Santander UK or in respect of which Santander UK has given an indemnity (including, without limitation to the generality of the foregoing, guarantees and letters of credit issued by Santander UK and bills of exchange or other negotiable instruments accepted or endorsed by Santander UK);

(iii) any moneys which any person shall pay or become liable to pay, for or on account of Santander UK, by reason of entering into or being party to any bond, indemnity, bill of exchange, guarantee, letter of credit or other engagement for the benefit or at the request of Santander UK;

(iv) deposits made with Santander UK (including, without limitation of the generality of the foregoing, certificates of deposit issued by Santander UK);

(v) any rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option ,equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, collar transaction, floor transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell back transaction, securities lending transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any such transactions) or any other derivative transaction on one or more rates, currencies , commodities, equity securities or other equity instruments, debt securities or other debt instruments, indices, or measures of economic risk or value, in each case, to which Santander UK is party (including, for the avoidance of doubt, any obligation or liability under any master agreement that governs any such transactions);

(vi) any such obligation or liability assumed under or incurred pursuant to any novation, transfer, assignment or other similar agreement between Santander UK and any other person;

(vii) any obligation or liability under any transaction entered into by Santander UK after 31 December 2018 as a result of the exercise of any right or option granted by or to Santander UK on or prior to 31 December 2018; and

(viii) any payments of interest due from Santander UK with respect to any of the foregoing transactions (whether or not the liability to pay such interest arises on or before 31 December 2018) together with all reasonable costs, commissions and other expenses incurred by any person in connection with the enforcement of this Guarantee,

but excluding:

(a) any such obligations or liabilities of Santander UK (including under any guarantee or indemnity given by Santander UK) which by their terms are expressed (in whatever manner) to be conditional upon the solvency of Santander UK or subordinated to, or payable only after full satisfaction of, all or any obligations of Santander UK to all or any of its unsubordinated creditors;

(b) any such obligations or liabilities of Santander UK transferred to, or assumed by, any other person whether pursuant to any novation or transfer or other similar agreement, any statutory transfer (pursuant to Part VII of The Financial Services and Markets Act 2000 or otherwise), any scheme of arrangement or otherwise; and

(c) any such obligations or liabilities of Santander UK as the issuer and/or principal obligor in respect of any Debt Securities issued, incurred, acquired, or assumed by or transferred or novated to, Santander UK, in each case, after 25 April 2016 including, without limitation and for the avoidance of doubt, any Debt Securities transferred from the Guarantor (as the issuer and/or principal obligor) to Santander UK.

"**person**" means any person, firm, trust estate, corporation, association, cooperative, government or government agency or other entity.

2. (a) The Guarantor hereby unconditionally and irrevocably guarantees, for the benefit of each Creditor, in accordance with the terms and conditions of this Guarantee, the full payment or performance by Santander UK when due (whether at stated maturity, upon acceleration or otherwise) of each and every Obligation and in the event that Santander UK shall default in the due and punctual payment or performance of any Obligation, undertakes to pay, or procure the payment of, such Obligation in the currency in which the particular Obligation is denominated in the case of a payment or perform, or procure the performance of such Obligation, upon written demand being made under this Guarantee by the relevant Creditor.

   (b) The Guarantor waives any right it may have of first requiring any Creditor to make demand, proceed or enforce any rights or security against Santander UK or any other person before making a claim against the Guarantor under this Guarantee.

3. A Creditor shall only be entitled to take or obtain the benefit of this Guarantee upon the condition that, after receipt by the Guarantor of a written demand from the Creditor, the Guarantor shall be entitled to deal with the Creditor, and the Creditor shall be obliged to deal with the Guarantor with respect to the Obligation due to the Creditor and this Guarantee without the necessity or duty to rely on, act through or otherwise involve or deal with Santander UK to the intent that the Guarantor and the Creditor shall deal with one another as principals in relation to the same provided that the rights, powers, privileges and remedies of the Creditor under this Guarantee shall not thereby be in any way limited or otherwise affected.

4. No delay or omission on the part of the Creditor in exercising any right, power, privilege or remedy (hereinafter together called "**Rights**") in respect of this Guarantee shall impair any such Rights or be construed as a waiver of any thereof nor shall any single or partial exercise of any such Rights preclude any further exercise of any other Rights. The Rights herein provided are cumulative and not exclusive of any rights, powers, privileges or remedies provided by law. Nothing in this Guarantee shall be construed as voiding, negating or restricting any right of set-off or any other right whatsoever existing in favour of a Creditor or arising at common law, by statute or otherwise howsoever.

5. This Guarantee is a continuing guarantee and shall not be satisfied, discharged or affected by any intermediate payment or settlement of account.

6. The Guarantor will not exercise any rights of subrogation or any other rights or remedy (including, without limiting the generality of the foregoing, the benefit of any security or right of set-off) which it may acquire due to its payment or performance of any Obligation pursuant to the terms of this Guarantee and will not prove in the liquidation of Santander UK in competition with any Creditor unless and until all Obligations in respect of the relevant Creditor hereby guaranteed have been satisfied in full by the Guarantor or Santander UK. In the event that the Guarantor shall receive any payment on account of such rights while any Obligation remains outstanding, the Guarantor shall pay all amounts so received to the relevant Creditor.

7. Payments hereunder shall be made free and clear of any deduction or withholding other than those required by law and in that event the Guarantor shall pay such additional amount to the relevant Creditor as may be necessary in order that the actual amount received after all such deductions and withholdings shall equal the amount that would have been received if no such deduction or withholding were required provided that the Guarantor shall not be obliged to pay any such additional amount which would not have been payable if the payment which is the subject of the withholding or deduction had been made by Santander UK. If the Guarantor makes a payment of an additional amount in compliance with its obligations under this paragraph and the Creditor determines that it has received or been granted a credit against or relief or payment of any tax paid or payable by it in respect thereof the Creditor shall to the extent that it can do so without prejudice to the retention of the amount of such credit, relief or repayment pay to the Guarantor such amount as shall be attributable to such deduction provided that nothing contained in this paragraph shall interfere with the right of any Creditor to arrange its tax affairs in whatsoever manner it thinks fit and, in particular, no Creditor shall be under any obligation to claim relief in respect of any such deduction in priority to any other claims for relief available to it.
8. Any demand or notice hereunder shall be given in writing or by cable, telex or facsimile transmission addressed to the Guarantor or to the person to or upon whom the demand is to be made or the notice served at the registered or principal office or last known place of abode of the Guarantor or of such person, as the case may be. A demand so made shall be deemed to have been duly made if left at such address on the day it was so left or, if sent by post, two working days after the time when the same was put in the post and in proving delivery it shall be sufficient to prove that the same was properly addressed and put in the post. Any such demand sent by cable, telex or facsimile transmission shall be deemed to have been duly made at the time of despatch.
9. The liability of the Guarantor under this Guarantee shall not be affected by the liquidation, winding-up or other incapacity of Santander UK. In the event that any payment or delivery to a Creditor from Santander UK in respect of an Obligation is avoided or reduced by virtue of any enactments for the time being in force relating to liquidation or insolvency of Santander UK, the Creditor shall be entitled to recover the value or amount thereof from the Guarantor as if such payment or delivery by Santander UK had not been made.
10. This Guarantee shall remain in full force and effect irrespective of:
    (a) the validity, regularity, legality or enforceability against Santander UK of, or of any defence or counter-claim whatsoever available to Santander UK in relation to, any Obligation;
    (b) whether or not any action has been taken to enforce any Obligation or any judgement obtained against Santander UK or any other person;
    (c) whether or not the terms of any Obligation has been modified, supplemented, extended or restated in any way (in each case, however fundamental and of whatsoever nature);
    (d) whether or not any time or indulgence has been granted to Santander UK or any other person by or on behalf of any Creditor;
    (e) whether or not there have been any dealings or transactions between Santander UK or any other person and any Creditor;
    (f) whether or not Santander UK or any other person has been dissolved, liquidated, merged, consolidated, become bankrupt or has changed its status, functions, control or ownership;
    (g) whether or not Santander UK or any other person has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation; and
    (h) whether or not any circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor.
11. This Guarantee shall remain in full force and effect in relation to an Obligation notwithstanding that it becomes due for payment or performance after 31 December 2018.
12. In the event that any of the terms or provisions of this Guarantee are or shall become invalid, illegal or unenforceable, the remaining terms and provisions hereof shall survive unaffected.
13. The Guarantor shall be permitted from time to time and at any time to amend or vary the terms of this Guarantee PROVIDED THAT the liability of the Guarantor to a Creditor in respect of any Obligation incurred before, or arising out of an Obligation entered into before, the date of such variation or amendment, shall not be in any way reduced or limited by such variation or amendment. Any person shall be entitled to rely on a certificate given by a director or other duly authorised officer of the Guarantor as to the existence and extent of this Guarantee and any such variation and/or amendment of this Guarantee on entering into any dealing, transaction or arrangement with Santander UK under or in respect of which an Obligation would or might be incurred by Santander UK to that person.
14. This Guarantee and any non-contractual obligations arising out of or in connection with this Guarantee are governed by, and shall be construed in accordance with, the laws of England and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) and accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) shall be brought in such courts.

IN WITNESS of which this Deed has been executed as a deed and delivered on the date stated at the beginning of this Deed.

THE COMMON SEAL of)
ABBEY NATIONAL)
TREASURY SERVICES PLC)
was hereunto affixed)
in the presence of:)

....

Company Secretary

GUARANTEE

THIS INSTRUMENT by way of deed poll is executed on 11 May 2017 by **SANTANDER UK plc** (registered in England No. 2294747) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN (the "**Guarantor**")

WHEREAS:

Abbey National Treasury Services plc, a company incorporated in England (number 2338548) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN ("**ANTS**"), has requested the Guarantor and the Guarantor has agreed to guarantee payment of all Obligations (as hereinafter defined) in accordance with, and as limited by, the terms and conditions of this Deed (this "**Guarantee**").

NOW THEREOF the Guarantor hereby covenants and agrees as follows:

1. In this Guarantee, unless the context otherwise requires:

   "**Creditor**" means any person (other than the Guarantor or any subsidiary of ANTS (as defined in section 1159 of the Companies Act 2006 (the "**Act**")) or any individual who is a connected person of ANTS (within the meaning of section 254 of the Act)) to whom an Obligation is from time to time owed.

   "**Obligation**" means any obligation or liability (whether actual or contingent or for the payment of any amount or delivery of any property) incurred by ANTS (whether as principal or surety) to any person on or before 31 December 2018 (whether before or after the execution of this Guarantee) under or in respect of any dealing, transaction or engagement whatsoever, including without prejudice to the generality of the foregoing, for:

   (i) any moneys lent, advanced or otherwise made available to ANTS (including, without limitation to the generality of the foregoing, the liability of ANTS for drawing or issuing bills of exchange, promissory notes, bonds, debentures, certificates of deposit, commercial paper or other negotiable instruments or securities);

   (ii) any moneys lent, advanced or otherwise made available to any person, the repayment or payments in respect of which have been guaranteed by ANTS or in respect of which ANTS has given an indemnity (including, without limitation to the generality of the foregoing, guarantees and letters of credit issued by ANTS and bills of exchange or other negotiable instruments accepted or endorsed by ANTS);

   (iii) any moneys which any person shall pay or become liable to pay, for or on account of ANTS, by reason of entering into or being party to any bond, indemnity, bill of exchange, guarantee, letter of credit or other engagement for the benefit or at the request of ANTS;

   (iv) deposits made with ANTS (including, without limitation of the generality of the foregoing, certificates of deposit issued by ANTS);

   (v) any rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, collar transaction, floor transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell back transaction, securities lending transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any such transactions) or any other derivative transaction on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, indices, or measures of economic risk or value, in each case, to which ANTS is party (including, for the avoidance of doubt, any obligation or liability under any master agreement that governs any such transactions);

   (vi) any such obligation or liability assumed under or incurred pursuant to any novation, transfer, assignment or other similar agreement between ANTS and any other person;

   (vii) any obligation or liability under any transaction entered into by ANTS after 31 December 2018 as a result of the exercise of any right or option granted by or to ANTS on or prior to 31 December 2018; and

   (viii) any payments of interest due from ANTS with respect to any of the foregoing transactions (whether or not the liability to pay such interest arises on or before 31 December 2018) together with all reasonable costs, commissions and other expenses incurred by any person in connection with the enforcement of this Guarantee,

   but excluding:

   (a) any such obligations or liabilities of ANTS (including under any guarantee or indemnity given by ANTS) which by their terms are expressed (in whatever manner) to be conditional upon the solvency of ANTS or subordinated to, or payable only after full satisfaction of, all or any obligations of ANTS to all or any of its unsubordinated creditors; and

   (b) any such obligations or liabilities of ANTS transferred to, or assumed by, any other person whether pursuant to any novation or transfer or other similar agreement, any statutory transfer (pursuant to Part VII of The Financial Services and Markets Act 2000 or otherwise), any scheme of arrangement or otherwise.

   "**person**" means any person, firm, trust estate, corporation, association, cooperative, government or government agency or other entity.

2. (a) The Guarantor hereby unconditionally and irrevocably guarantees, for the benefit of each Creditor, in accordance with the terms and conditions of this Guarantee, the full payment or performance by ANTS when due (whether at stated maturity, upon acceleration or otherwise) of each and every Obligation and in the event that ANTS shall default in the due and punctual payment or performance of any Obligation, undertakes to pay, or procure the payment of, such Obligation in the currency in which the particular Obligation is denominated in the case of a payment or perform, or procure the performance of such Obligation, upon written demand being made under this Guarantee by the relevant Creditor.

   (b) The Guarantor waives any right it may have of first requiring any Creditor to make demand, proceed or enforce any rights or security against ANTS or any other person before making a claim against the Guarantor under this Guarantee.

3. A Creditor shall only be entitled to take or obtain the benefit of this Guarantee upon the condition that, after receipt by the Guarantor of a written demand from the Creditor, the Guarantor shall be entitled to deal with the Creditor, and the Creditor shall be obliged to deal with the Guarantor with respect to the Obligation due to the Creditor and this Guarantee without the necessity or duty to rely on, act through or otherwise involve or deal with ANTS to the intent that the Guarantor and the Creditor shall deal with one another as principals in relation to the same provided that the rights, powers, privileges and remedies of the Creditor under this Guarantee shall not thereby be in any way limited or otherwise affected.

4. No delay or omission on the part of the Creditor in exercising any right, power, privilege or remedy (hereinafter together called "**Rights**") in respect of this Guarantee shall impair any such Rights or be construed as a waiver of any thereof nor shall any single or partial exercise of any such Rights preclude any further exercise of any other Rights. The Rights herein provided are cumulative and not exclusive of any rights, powers, privileges or remedies provided by law. Nothing in this Guarantee shall be construed as voiding, negating or restricting any right of set-off or any other right whatsoever existing in favour of a Creditor or arising at common law, by statute or otherwise howsoever.

5. This Guarantee is a continuing guarantee and shall not be satisfied, discharged or affected by any intermediate payment or settlement of account.

6. The Guarantor will not exercise any rights of subrogation or any other rights or remedy (including, without limiting the generality of the foregoing, the benefit of any security or right of set-off) which it may acquire due to its payment or performance of any Obligation pursuant to the terms of this Guarantee and will not prove in the liquidation of ANTS in competition with any Creditor unless and until all Obligations in respect of the relevant Creditor hereby guaranteed have been satisfied in full by the Guarantor or ANTS. In the event that the Guarantor shall receive any payment on account of such rights while any Obligation remains outstanding, the Guarantor shall pay all amounts so received to the relevant Creditor.

7. Payments hereunder shall be made free and clear of any deduction or withholding other than those required by law and in that event the Guarantor shall pay such additional amount to the relevant Creditor as may be necessary in order that the actual amount received after all such deductions and withholdings shall equal the amount that would have been received if no such deduction or withholding were required provided that the Guarantor shall not be obliged to pay any such additional amount which would not have been payable if the payment which is the subject of the withholding or deduction had been made by ANTS. If the Guarantor makes a payment of an additional amount in compliance with its obligations under this paragraph and the Creditor determines that it has received or been granted a credit against or relief or payment of any tax paid or payable by it in respect thereof the Creditor shall to the extent that it can do so without prejudice to the retention of the amount of such credit, relief or repayment pay to the Guarantor such amount as shall be attributable to such deduction provided that nothing contained in this paragraph shall interfere with the right of any Creditor to arrange its tax affairs in whatsoever manner it thinks fit and, in particular, no Creditor shall be under any obligation to claim relief in respect of any such deduction in priority to any other claims for relief available to it.
8. Any demand or notice hereunder shall be given in writing or by cable, telex or facsimile transmission addressed to the Guarantor or to the person to or upon whom the demand is to be made or the notice served at the registered or principal office or last known place of abode of the Guarantor or of such person, as the case may be. A demand so made shall be deemed to have been duly made if left at such address on the day it was so left or, if sent by post, two working days after the time when the same was put in the post and in proving delivery it shall be sufficient to prove that the same was properly addressed and put in the post. Any such demand sent by cable, telex or facsimile transmission shall be deemed to have been duly made at the time of despatch.
9. The liability of the Guarantor under this Guarantee shall not be affected by the liquidation, winding up or other incapacity of ANTS. In the event that any payment or delivery to a Creditor from ANTS in respect of an Obligation is avoided or reduced by virtue of any enactments for the time being in force relating to liquidation or insolvency of ANTS, the Creditor shall be entitled to recover the value or amount thereof from the Guarantor as if such payment or delivery by ANTS had not been made.
10. This Guarantee shall remain in full force and effect irrespective of:
    (a) the validity, regularity, legality or enforceability against ANTS of, or of any defence or counter-claim whatsoever available to ANTS in relation to, any Obligation;
    (b) whether or not any action has been taken to enforce any Obligation or any judgement obtained against ANTS or any other person;
    (c) whether or not the terms of any Obligation has been modified, supplemented, extended or restated in any way (in each case, however fundamental and of whatsoever nature);
    (d) whether or not any time or indulgence has been granted to ANTS or any other person by or on behalf of any Creditor;
    (e) whether or not there have been any dealings or transactions between ANTS or any other person and any Creditor;
    (f) whether or not ANTS or any other person has been dissolved, liquidated, merged, consolidated, become bankrupt or has changed its status, functions, control or ownership;
    (g) whether or not ANTS or any other person has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation; and
    (h) whether or not any circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor.
11. This Guarantee shall remain in full force and effect in relation to an Obligation notwithstanding that it becomes due for payment or performance after 31 December 2018.
12. In the event that any of the terms or provisions of this Guarantee are or shall become invalid, illegal or unenforceable, the remaining terms and provisions hereof shall survive unaffected.
13. The Guarantor shall be permitted from time to time and at any time to amend or vary the terms of this Guarantee PROVIDED THAT the liability of the Guarantor to a Creditor in respect of any Obligation incurred before, or arising out of an Obligation entered into before, the date of such variation or amendment, shall not be in any way reduced or limited by such variation or amendment. Any person shall be entitled to rely on a certificate given by a director or other duly authorised officer of the Guarantor as to the existence and extent of this Guarantee and any such variation and/or amendment of this Guarantee on entering into any dealing, transaction or arrangement with ANTS under or in respect of which an Obligation would or might be incurred by ANTS to that person.
14. This Guarantee and any non-contractual obligations arising out of or in connection with this Guarantee are governed by, and shall be construed in accordance with, the laws of England and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) and accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) shall be brought in such courts.

IN WITNESS whereof, this Guarantee has been executed as of the day and year first written above.

THE COMMON SEAL of)
SANTANDER UK PLC)
was hereunto affixed)
in the presence of:)

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Company Secretary