Half Yearly Financial Report 2017

Abbey National Treasury Services plc

PART OF THE BANCO SANTANDER GROUP

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Principal activities and business review

Abbey National Treasury Services plc (the Company) and its subsidiaries (collectively, ANTS or the ANTS group) provides corporate, wholesale banking and treasury services. ANTS provides these services to UK clients and also to the wider Santander UK group (comprising Santander UK plc and its subsidiaries), of which ANTS is a significant part. ANTS 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. The Company is authorised and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

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.

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 (the Upstream Guarantee). Santander UK plc has fully and unconditionally guaranteed the unsubordinated liabilities of the Company that have been or will be incurred before 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.

ANTS has also 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. For further details, see Note 32 to the Consolidated Financial Statements in the 2016 Annual Report.

Customer focused ring fencing model

Santander UK is progressing well with the implementation of a 'wide' ring-fence structure that will serve its retail, commercial and corporate customers. We believe this model provides greater certainty for our customers, while ensuring minimal disruption as we implement the changes required. This also maintains longer-term flexibility for Santander UK, while lowering the overall programme implementation costs with the creation of the ring-fence now involving the transfer of fewer customers.

The majority of Santander UK's customer loans and assets as well as customer deposits and liabilities will remain within Santander UK plc, Santander UK's principal ring-fenced bank. Prohibited activities which cannot be transacted from within the ring-fence, principally include our derivatives business with financial institutions and certain corporates, elements of our short term markets business, Santander UK plc's branches in Jersey and Isle of Man, and our branch in the US.

Customers who cannot be served from and services which are not permitted within a ring-fenced bank will be transferred to Banco Santander SA, or its London branch. Santander UK intends to use a Part VII Ring-Fence Transfer Scheme to transfer the majority of the prohibited business of the Santander UK group to Banco Santander. Santander UK is on track to complete the implementation in advance of the legislative deadline of 1 January 2019, with implementation subject to regulatory and court approvals and various other authorisations.

Development and performance of our business in H117

Information on the development and performance of our business in H117 is set out in the 'Income statement review' section of the Financial review.

2017 outlook

We expect solid UK economic growth in 2017. However, we see greater uncertainty in the outlook, with the concern that some downside risks could materialise later this year and into 2018. The labour market remains strong, but higher inflation, largely from the lower value of sterling, is now reducing households' real earnings. This is likely to result in lower consumer spending growth which, when combined with a potentially more challenging macro environment, adds a degree of caution to our outlook.

We have therefore deliberately controlled growth in certain business areas and in particular those with higher margins and the potential for higher risk. We believe that our proactive risk management policies and low risk appetite will deliver resilient performance going forward.

Our principal risks and uncertainties

Information on our principal risks and uncertainties is set out in the Risk review by type of risk. Except where noted, there has been no significant change to the description of these risks or key mitigating actions as set out in the 2016 Annual Report.

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 the ANTS group) 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 and performance of the business of the ANTS group is set out in the 'Income statement review' section of the Financial review. The key performance indicators of the Santander UK Group Holdings plc group can be found on page 4 of its 2017 Half Yearly Financial Report, which does not form part of this report.

By Order of the Board

Juan Garrido Otaola
Director
19 September 2017

Directors’ responsibilities statement

The Directors confirm that to the best of their knowledge these Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union, and that the half-year management report herein includes a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R, namely:

- An indication of important events that have occurred during the six months ended 30 June 2017 and their impact on the Condensed Consolidated Interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and

- Material related party transactions in the six months ended 30 June 2017 and any material changes in the related party transactions described in the last Annual Report.

By Order of the Board

Juan Garrido Otaola
Chief Executive Officer
19 September 2017

INCOME STATEMENT REVIEW

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Net interest income	145	106
Non-interest income[1]	206	135
Total operating income	351	241
Operating expenses before impairment losses	(152)	(129)
Impairment losses on loans and advances	-	(25)
Total operating impairment losses	-	(25)
Profit before tax	199	87
Tax on profit	(59)	(27)
Profit after tax for the period	140	60

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

H117 compared to H116

Profit before tax increased by £112m to £199m in H117 (H116: £87m). By income statement line, the movements were:

- Net interest income increased by £39m to £145m, due to the release of interest accrued in relation to a certain foreign tax liability and other associated amounts, where the period to make claim expired in H117.

- Non-interest income increased by £71m to £206m, due to loan restructures and mark-to-market movements on fair value accounted portfolios as well as an increase in client activity in market-making activities.

- Operating expenses before impairment losses, provisions and charges increased by 18% to £152m, due to an increase in staff costs, predominantly relating to variable compensation and inflationary increases, as well as increased depreciation from higher investment in business systems.

- Impairment losses on loans and advances decreased to £nil. In H116 there was an impairment of a single loan in Global Corporate Banking that moved to non-performance. Overall, corporate loans continue to perform well.

- Tax on profit increased by £32m to £59m, driven by higher profits. The effective tax rate decreased to 30% from 31% due to the reduction in the standard rate of UK corporation tax.

RISK GOVERNANCE

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.

Throughout the Risk review, except where we say otherwise, references to Santander UK should be taken to include the ANTS group (reflecting both the risks that we are directly exposed to through our own activities and the risks arising elsewhere in the Santander UK group that we are indirectly exposed to due to the existence of the Upstream Guarantee. For more on the Upstream Guarantee, see the 2016 Annual Report and Note 12 to the Condensed Consolidated Interim Financial Statements.

As a financial services provider, managing risk is a core part of our day-to-day activities. To be able to manage our business effectively, it is critical that we understand and control risk in everything we do. We aim to use a prudent approach and advanced risk management techniques to help us deliver robust financial performance and build sustainable value for our stakeholders.

We aim to keep a predictable medium-low risk profile, consistent with our business model. This is key to achieving our strategic objectives.

30 June 2017 compared to 31 December 2016
There were no significant changes in our risk governance as described in the 2016 Annual Report.

CREDIT RISK

There were no significant changes in the way we manage credit risk as described in the 2016 Annual Report.

Credit performance

The customer loans in the table below are presented differently from the balances in the Condensed Consolidated 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 Condensed Consolidated Interim Financial Statements. In addition, customer loans below are presented on an amortised cost basis.

	Customer loans[1]	NPLs[2][3]	NPL ratio	NPL coverage[4]	Gross write-offs[5]	Impairment loss allowances
	£bn	£m	%	%	£m	£m
30 June 2017						
Commercial Banking	6.6	36	0.55	78	6	28
Global Corporate Banking	4.5	50	1.11	92	-	46
Corporate Centre	5.1	-	-	-	-	-
	16.2	86	0.53	86	6	74
31 December 2016						
Commercial Banking	6.6	112	1.70	31	-	35
Global Corporate Banking	3.7	52	1.41	90	-	47
Corporate Centre	5.4	-	-	-	-	-
	15.7	164	1.04	50	-	82

(1) Includes Social Housing loans and finance leases.
(2) We define NPLs in the 'Credit risk management' section in the 2016 Annual Report.
(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%.
(5) 30 June 2017 reflects 6 months of gross write-offs and 31 December 2016 reflects 12 months of gross write-offs.

30 June 2017 compared to 31 December 2016

The NPL ratio for Commercial Banking decreased to 0.55% (2016: 1.70%), primarily due to the full repayment of two impaired loans, as well as the write-off of a pre-2009 Real Estate case.

In Global Corporate Banking, the NPL ratio decreased to 1.11% (2016: 1.41%) driven by asset growth.

MARKET RISK

There were no significant changes in the way we manage market risk as described in the 2016 Annual Report.

TRADING MARKET RISK

VaR

At 30 June 2017 the total correlated internal VaR exposure for ANTS, using a time horizon of one day and a confidence level of 99%, remained stable at £3.3m (2016: £3.4m).

BANKING MARKET RISK

Interest rate 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 upwards and downwards) applied instantaneously to the yield curve at 30 June 2017 and 31 December 2016.

	30 June 2017		31 December 2016	
	+50bps £m	-50bps £m	+50bps £m	-50bps £m
NIM sensitivity	241	(114)	240	(82)
EVE sensitivity	159	(270)	54	(30)

30 June 2017 compared to 31 December 2016

The movement in NIM and EVE sensitivities in H117 was largely due to changes in our underlying models used for risk measurement purposes. The models have been updated to better reflect the risks inherent in the current low interest rate environment, including the possibility of negative interest rates in the UK. On a comparative basis against the year-end, there was no significant change in the underlying risk position in H117.

LIQUIDITY RISK

There were no significant changes in the way we manage liquidity risk as described in the 2016 Annual Report.

Eligible liquidity pool

This table shows the carrying value of the assets in our LCR eligible liquidity pool held by the ANTS group and additional liquid assets held by the rest of the Santander UK group (to which the ANTS group has access through the intercompany guarantee and DoLSub arrangements described in the liquidity risk section of the Risk review in the 2016 Annual Report) at 30 June 2017 and 31 December 2016:

	30 June 2017			31 December 2016		
	Held by ANTS £bn	Held elsewhere in Santander UK £bn	Total £bn	Held by ANTS £bn	Held elsewhere in Santander UK £bn	Total £bn
LCR eligible liquidity pool	23.4	26.7	50.1	18.6	32.1	50.7

CAPITAL RISK

There were no significant changes in the way we manage capital risk as described in the 2016 Annual Report.

Regulatory capital resources

	30 June 2017 £m	31 December 2016 £m
CET1 capital before regulatory adjustments	3,889	3,757
Total regulatory adjustments to CET1 capital	(291)	(229)
CET1 capital	3,598	3,528
Total regulatory capital	3,598	3,528

Independent review report to Abbey National Treasury Services plc

Report on the Condensed Consolidated Interim Financial Statements

Our conclusion

We have reviewed Abbey National Treasury Services plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Yearly Financial Report of Abbey National Treasury Services plc for the 6 month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Yearly Financial Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the Condensed Consolidated Interim Financial Statements and the review

Our responsibilities and those of the directors

The Half Yearly Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Yearly Financial Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Half Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of the Condensed Consolidated Interim Financial Statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants
London

19 September 2017

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (unaudited)

For the half year to 30 June 2017 and the half year to 30 June 2016

	Notes	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Interest and similar income		247	678
Interest expense and similar charges		(102)	(572)
Net interest income		145	106
Net fee and commission income		63	64
Net trading and other income	3	143	71
Total operating income		351	241
Operating expenses before impairment losses		(152)	(129)
Impairment losses on loans and advances	4	-	(25)
Total operating impairment losses		-	(25)
Profit before tax		199	87
Tax on profit	5	(59)	(27)
Profit after tax for the period		140	60
Attributable to:			
Equity holders of the parent		140	60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

For the half year to 30 June 2017 and the half year to 30 June 2016

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Profit for the period	140	60
Other comprehensive income:		
Other comprehensive income that may be reclassified to profit or loss subsequently:		
Available-for-sale securities:		
- Change in fair value	4	11
- Income statement transfers	-	1
- Taxation	(1)	(2)
	3	10
Cash flow hedges:		
- Effective portion of changes in fair value	-	604
- Income statement transfers	-	(713)
- Taxation	-	28
	-	(81)
Currency translation on foreign operations	-	(2)
Net other comprehensive income that may be reclassified to profit or loss subsequently	3	(73)
Other comprehensive income that will not be reclassified to profit or loss subsequently:		
Own credit adjustment:		
- Transfers	(15)	-
- Taxation	4	-
	(11)	-
Net other comprehensive income that will not be reclassified to profit or loss subsequently	(11)	-
Total other comprehensive income for the period net of tax	(8)	(73)
Total comprehensive income for the period	132	(13)
Attributable to:		
Equity holders of the parent	132	(13)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (unaudited)

At 30 June 2017 and 31 December 2016

	Notes	30 June 2017 £m	31 December 2016 £m
Assets			
Cash and balances at central banks		3,927	3,517
Trading assets	7	34,061	29,682
Derivative financial instruments	8	22,105	27,954
Financial assets designated at fair value		1,886	1,854
Loans and advances to banks		9,387	10,046
Loans and advances to customers	9	15,242	15,135
Loans and receivables securities		267	219
Available-for-sale securities		476	476
Macro hedge of interest rate risk		618	705
Intangible assets		38	35
Property, plant and equipment		9	9
Deferred tax assets		11	8
Other assets		141	164
Total assets		88,168	89,804
Liabilities			
Deposits by banks	10	25,937	25,326
Deposits by customers		3,352	3,169
Trading liabilities	11	21,490	15,560
Derivative financial instruments	8	23,840	31,620
Financial liabilities designated at fair value		2,637	2,119
Debt securities in issue		6,659	7,895
Other liabilities		172	224
Provisions		15	15
Current tax liabilities		177	119
Total liabilities		84,279	86,047
Equity			
Share capital		2,549	2,549
Retained earnings		1,337	1,208
Other reserves		3	-
Total shareholders' equity		3,889	3,757
Total liabilities and equity		88,168	89,804

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT (unaudited)

For the half year to 30 June 2017 and the half year to 30 June 2016

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Cash flows from operating activities		
Profit for the period	140	60
Adjustments for:		
Non-cash items included in profit	141	(300)
Change in operating assets	1,517	16,061
Change in operating liabilities	(1,884)	22,531
Effects of exchange rate differences	(23)	1,103
Net cash flows from operating activities	(109)	39,455
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(7)	(6)
Proceeds from sale and redemption of available-for-sale securities	2	612
Net cash flows from investing activities	(5)	606
Cash flows from financing activities		
Issue of debt securities	1,222	3,645
Issuance costs of debt securities	-	(5)
Repayment of debt securities	(950)	(38,582)
Net cash flows from financing activities	272	(34,942)
Change in cash and cash equivalents	158	5,119
Cash and cash equivalents at beginning of the period	17,341	10,192
Effects of exchange rate changes on cash and cash equivalents	(239)	948
Cash and cash equivalents at the end of the period	17,260	16,259

Cash and cash equivalents consist of:

	30 June 2017 £m	30 June 2016 £m
Cash and balances at central banks	3,927	3,499
Less: regulatory minimum cash balances	(39)	(26)
	3,888	3,473
Net trading other cash equivalents	6,774	5,440
Net non-trading other cash equivalents	6,598	7,346
Cash and cash equivalents	17,260	16,259

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

For the half year to 30 June 2017 and the half year to 30 June 2016

		Other reserves				
	Share capital £m	Available- for-sale £m	Cash flow hedging £m	Currency translation £m	Retained earnings £m	Total £m
1 January 2017	2,549	(5)	-	5	1,208[1]	3,757
Profit for the period	-	-	-	-	140	140
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	3	-	-	-	3
- Own credit adjustment	-	-	-	-	(11)	(11)
Total comprehensive income for the period	-	3	-	-	129	132
30 June 2017	2,549	(2)	-	5	1,337	3,889
1 January 2016	2,549	(20)	81	6	1,027	3,643
Profit for the period	-	-	-	-	60	60
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	10	-	-	-	10
- Cash flow hedges	-	-	(81)	-	-	(81)
- Currency translation on foreign operations	-	-	-	(2)	-	(2)
Total comprehensive income for the period	-	10	(81)	(2)	60	(13)
30 June 2016	2,549	(10)	-	4	1,087	3,630

(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).

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial information in these Condensed Consolidated Interim Financial Statements does not constitute statutory accounts as defined in section 434 of the UK Companies Act 2006. Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) of the UK Companies Act 2006.

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA). They do not include all the information and disclosures normally required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the ANTS group for the year ended 31 December 2016 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Those Consolidated Financial Statements were also prepared in accordance with International Financial Reporting Standards as issued by the IASB including interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB (together IFRS). The ANTS group has also complied with its legal obligation to comply with International Financial Reporting Standards as adopted by the European Union as there are no applicable differences between the two frameworks for the periods presented.

In preparing the Condensed Consolidated Interim Financial Statements management makes judgements, estimates and assumptions which impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Because of the inherent uncertainty in making estimates, actual results reported in future periods may differ. Management continually evaluates the judgements, estimates and assumptions applied, including expectations of future events that are believed to be reasonable under the circumstances.

Except as noted below, the same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the presentation of the ANTS group's 2016 Annual Report. Copies of the ANTS group's 2016 Annual Report are available on the Santander UK group's website or upon request from Investor Relations, Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN.

The ANTS group 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, the ANTS group 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.

Except as noted below, there have been no other significant changes arising from new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the ANTS group as were set out in the 2016 Annual Report.

Future accounting developments

IFRS 9 Financial Instruments – In the 2016 Annual Report, ANTS provided detailed descriptions and explanations on how key IFRS 9 concepts will be implemented and included details of our proposed approaches for classification and measurement of financial assets and liabilities and hedge accounting and, in respect of the expected credit loss (ECL) methodology, proposed modelling techniques, judgements, and proposals for the incorporation of forward-looking information and the determination of a significant increase in credit risk.

ANTS continues to make progress on developing and testing our ECL impairment models across the range of in-scope portfolios and formalising the governance framework to support the new operating model. A parallel-run will take place during H217 to provide assurances on the accuracy and completeness of the modelling process, whilst we implement the new operating model to ensure we can meet our range of disclosures relating to IFRS 9. We are also finalising the determination of the classification and measurement of financial assets. We expect to continue to apply IAS 39 hedge accounting until such time as further changes for macro hedge accounting rules are applicable.

It is not yet practicable to quantify the effect of IFRS 9 on these Condensed Consolidated Interim Financial Statements. ANTS group expects to quantify the effect of IFRS 9 during H217 and by no later than the end of the year.

IFRS 15 Revenue from Contracts with Customers – In the 2016 Annual Report, ANTS explained that revenue relating to lease contracts, insurance contracts and financial instruments is outside the scope of IFRS 15. In addition, a significant proportion of the recognition of ANTS group's fee and commission income that is within the scope of the standard is not expected to change. Whilst the standard is not expected to have a significant impact on the ANTS group's profitability, the impact of the standard is still being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these Condensed Consolidated Interim Financial Statements.

Going concern

The ANTS group's objectives, policies and processes for managing its capital are described in the capital risk section of the Risk review in the 2016 Annual Report. Details of the ANTS group's financial risk management objectives, its financial instruments and hedging activities; and its exposures to credit risk, interest rate risk, liquidity risk, operational risk and other risks are set out in the Risk review in the 2016 Annual Report.

The ANTS group is reliant on Santander UK plc and other companies in the Santander UK group of companies for a proportion of its funding. The Santander UK Board has confirmed that Santander UK plc is a going concern, and that it will provide funding to the ANTS group for the foreseeable future. In giving this commitment to provide funding to the ANTS group, the Santander UK Board has considered the uncertainties that affect the ANTS group when preparing the forecasts and budgets of the combined business of Santander UK.

The Company guarantees any unsubordinated liabilities of Santander UK plc, which are not debt securities, incurred prior to 31 December 2018 under a deed poll guarantee entered into by the Company on 11 May 2017. Santander UK plc guarantees all the unsubordinated liabilities of the Company incurred prior to 31 December 2018.

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.

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.

After making enquiries, the Directors have a reasonable expectation that the ANTS group has adequate resources to continue in operational existence for at least twelve months from the date that the balance sheet is signed. For this reason, they continue to adopt the 'going concern' basis of accounting for preparing the Condensed Consolidated Interim Financial Statements.

CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the Condensed Consolidated Interim 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.

There have been no significant changes in the basis upon which estimates have been determined, compared to that applied in the 2016 Annual Report.

2. SEGMENTS

The ANTS group's business is managed and reported on the basis of the following segments: Commercial Banking, Global Corporate Banking and Corporate Centre. The ANTS group's segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. There has been no change to the descriptions of these segments and segmental accounting as set out in Note 2 in the Consolidated Financial Statements of the 2016 Annual Report.

Half year to 30 June 2017	Commercial Banking £m	Global Corporate Banking £m	Corporate Centre £m	Total £m
Profit before tax	40	97	62	199
Total assets	6,606	43,808	37,754	88,168
Half year to 30 June 2016				
Profit/(loss) before tax	39	70	(22)	87
31 December 2016				
Total assets	6,980	39,777	43,047	89,804

3. NET TRADING AND OTHER INCOME

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Net trading and other income	143	71

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

4. IMPAIRMENT LOSSES AND PROVISIONS

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Impairment losses on loans and advances:		
- Loans and advances to customers (Note 9)	-	25
	-	25

In H117 and H116, there were no impairment losses on loans and advances to banks, loans and receivables securities and available-for-sale securities, no recoveries of loans and advances, and no provisions for other liabilities and charges.

5. TAXATION

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:

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Profit before tax	199	87
Tax calculated at a tax rate of 19.25% (H116: 20%)	38	17
Bank surcharge on profits	16	7
Net disallowable items and non-taxable income	3	(1)
Non-deductible UK Bank Levy	2	4
Tax charge	59	27

Interim period corporation tax is accrued based on the estimated average annual effective corporation tax rate for the year of 29.6% (2016: 31.0%).

The standard rate of UK corporation tax was 27.25% for banking entities and 19.25% for non-banking entities (2016: 28% for banking entities and 20% for non-banking entities) 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. 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 30 June 2017 and 31 December 2016.

6. DIVIDENDS

No dividends on the Company's ordinary shares were declared during H117 and H116.

7. TRADING ASSETS

		30 June 2017 £m	31 December 2016 £m
Loans and advances to banks -	-securities purchased under resale agreements	1,580	2,757
	- other[1]	4,502	4,721
Loans and advances to customers	-securities purchased under resale agreements	14,315	7,955
	- other[1]	1,768	2,368
Debt securities		4,507	6,248
Equity securities		7,389	5,633
		34,061	29,682

(1) Total 'other' comprises short-term loans of £1,279m (2016: £920m) and cash collateral of £4,991m (2016: £6,169m).

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.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2017			31 December 2016		
		Fair value			Fair value	
Derivatives held for trading	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Exchange rate contracts	195,539	6,618	8,970	220,651	8,939	12,332
Interest rate contracts	1,020,785	13,963	13,118	1,098,792	17,361	17,133
Equity and credit contracts	19,360	1,448	878	16,335	1,572	1,192
Total derivatives held for trading	1,235,684	22,029	22,966	1,335,778	27,872	30,657
Derivatives held for hedging						
Derivatives designated as fair value hedges:						
Interest rate contracts	4,290	76	874	4,159	82	963
Total derivatives held for hedging	4,290	76	874	4,159	82	963
Total derivatives	1,239,974	22,105	23,840	1,339,937	27,954	31,620

9. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2017 £m	31 December 2016 £m
Amounts due from Santander UK group undertakings	101	102
Amounts due from Banco Santander subsidiaries and joint ventures	17	18
Other loans and advances	15,198	15,097
Loans and advances to customers	15,316	15,217
Less: impairment loss allowances	(74)	(82)
Net loans and advances to customers	15,242	15,135

Movement in impairment loss allowances:

	30 June 2017 £m	30 June 2016 £m
At 1 January	82	63
Charge to the income statement	-	25
Write-offs	(8)	-
At 30 June	74	88

10. DEPOSITS BY BANKS

	30 June 2017 £m	31 December 2016 £m
Amounts due to Santander UK subsidiaries	24,615	23,912
Securities sold under repurchase agreements	220	664
Amounts due to Banco Santander SA - other	21	-
Deposits held as collateral	-	3
Other deposits	1,081	747
	25,937	25,326

11. TRADING LIABILITIES

		30 June 2017 £m	31 December 2016 £m
Deposits by banks	- securities sold under repurchase agreements	676	780
	- other[(1)]	2,969	3,420
Deposits by customers	- securities sold under repurchase agreements	13,928	8,018
	- other[(1)]	407	541
Short positions in securities and unsettled trades		3,510	2,801
		21,490	15,560

(1) Comprises cash collateral of £3,371m (2016: £3,535m) and short-term deposits of £5m (2016: £426m).

12. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2017 £m	31 December 2016 £m
Guarantees given on behalf of the Company's immediate UK parent, fellow subsidiaries and subsidiaries	218,944	218,049
Guarantees given to third parties	301	310
Formal standby facilities, credit lines and other commitments	14,717	14,383
	233,962	232,742

There have been no significant changes to the contingent liabilities as set out in Note 32 to the Consolidated Financial Statements in the 2016 Annual Report except as follows:

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.

13. FINANCIAL INSTRUMENTS

a) Measurement basis of financial assets and liabilities

The ANTS group categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as described in Note 38(a) to the Consolidated Financial Statements in the 2016 Annual Report.

b) Fair values of financial instruments carried at amortised cost

The following table analyses the fair value of the financial instruments carried at amortised cost at 30 June 2017 and 31 December 2016. 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. Details of the valuation methodology of the financial assets and financial liabilities carried at amortised cost can be found in Note 38(c) to the Consolidated Financial Statements in the 2016 Annual Report.

		30 June 2017		31 December 2016	
Balance sheet category		Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Assets					
Loans and advances to banks		9,334	9,387	9,913	10,046
Loans and advances to customers	Corporate loans	15,151	15,125	15,074	15,015
	Other advances	117	117	120	120
		15,268	15,242	15,194	15,135
Loans and receivables securities		265	267	217	219
Liabilities					
Deposits by banks	Securities sold under agreements to repurchase	228	220	675	664
	Other deposits	25,731	25,717	24,669	24,662
		25,959	25,937	25,344	25,326
Deposits by customers	Current and demand accounts	1,524	1,524	835	835
	Wholesale funds and deposits	1,828	1,828	2,334	2,334
		3,352	3,352	3,169	3,169
Debt securities in issue	Bonds and medium-term notes	6,659	6,659	7,895	7,895

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

The following table summarises the fair values of the financial assets and liabilities accounted for at fair value at 30 June 2017 and 31 December 2016, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

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 H117 and 2016 there were no transfers of financial instruments between Levels 1, 2 and 3 in the fair value hierarchy.

Balance sheet category		30 June 2017 Level 1 £m	Level 2 £m	Level 3 £m	Total £m	31 December 2016 Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Valuation technique
Assets										
Trading assets	Loans and advances to banks	-	6,082	-	6,082	-	7,478	-	7,478	A
	Loans and advances to customers	1,202	14,881	-	16,083	762	9,561	-	10,323	A
	Debt securities	4,507	-	-	4,507	6,248	-	-	6,248	-
	Equity securities	7,389	-	-	7,389	5,633	-	-	5,633	-
Derivative assets	Exchange rate contracts	-	6,597	21	6,618	-	8,917	22	8,939	A
	Interest rate contracts	-	14,024	15	14,039	-	17,424	19	17,443	A & C
	Equity and credit contracts	-	1,148	300	1,448	-	1,274	298	1,572	B & D
Financial assets designated at fair value	Loans and advances to customers	-	1,499	64	1,563	-	1,658	63	1,721	A
	Debt securities	-	323	-	323	-	133	-	133	A
Available-for-sale securities	Debt securities	476	-	-	476	476	-	-	476	-
Total assets at fair value		13,574	44,554	400	58,528	13,119	46,445	402	59,966	
Liabilities										
Trading liabilities	Deposits by banks	-	3,645	-	3,645	-	4,200	-	4,200	A
	Deposits by customers	-	14,335	-	14,335	-	8,559	-	8,559	A
	Short positions	3,510	-	-	3,510	2,801	-	-	2,801	-
Derivative liabilities	Exchange rate contracts	-	8,949	21	8,970	-	12,310	22	12,332	A
	Interest rate contracts	-	13,985	7	13,992	-	18,085	11	18,096	A & C
	Equity and credit contracts	-	836	42	878	1	1,149	42	1,192	B & D
Financial liabilities designated at fair value	Debt securities in issue	-	1,828	-	1,828	-	1,593	-	1,593	A
	Structured deposits	-	809	-	809	-	526	-	526	A
Total liabilities at fair value		3,510	44,387	70	47,967	2,802	46,422	75	49,299	

d) Valuation techniques

The main valuation techniques employed in internal models to measure the fair value of the financial instruments are disclosed in Note 38(e) to the Consolidated Financial Statements in the 2016 Annual Report. The ANTS group did not make any material changes to the valuation techniques and internal models it used during H117.

e) Fair value adjustments

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

The ANTS group 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:

	30 June 2017 £m	31 December 2016 £m
Risk-related:		
- Bid-offer and trade specific adjustments	31	24
- Uncertainty	43	49
- Credit risk adjustment	33	41
- Funding fair value adjustment	10	20
	117	134
Model-related	2	1
Day One profit	1	4
	120	139

Risk-related adjustments

Risk-related adjustments are driven, in part, by the magnitude of the ANTS group's market or credit risk exposure, and by external market factors, such as the size of market spreads. For further details, see the 'Risk-related adjustments' in Note 38(f) to the Consolidated Financial Statements in the 2016 Annual Report.

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

Valuation techniques

There have been no significant changes to the valuation techniques as set out in Note 38(i) to the Consolidated Financial Statements in the 2016 Annual Report.

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 P&L £m	Total £m	Derivatives £m	Fair value through P&L £m	Total £m
At 1 January 2017	339	63	402	(75)	-	(75)
Total gains/(losses) recognised in profit/(loss):						
- Fair value movements	11	1	12	(7)	-	(7)
- Foreign exchange and other movements	(5)	-	(5)	5	-	5
Settlements	(9)	-	(9)	7	-	7
At 30 June 2017	336	64	400	(70)	-	(70)
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the period	6	1	7	(2)	-	(2)
At 1 January 2016	416	59	475	(111)	(5)	(116)
Total gains/(losses) recognised in profit/(loss):						
- Fair value movements	7	12	19	15	(1)	14
- Foreign exchange and other movements	1	-	1	-	(1)	(1)
Settlements	(18)	-	(18)	11	-	11
At 30 June 2016	406	71	477	(85)	(7)	(92)
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the period	8	12	20	15	(2)	13

Total gains or losses are included in 'Net trading and other income'.

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. There has been no significant change to the unobservable inputs and sensitivities used in Level 3 fair values as set out in Note 38(i) to the Consolidated Financial Statements in the 2016 Annual Report.

14. RELATED PARTY DISCLOSURES

The financial position and performance of the ANTS group have not been materially affected in H117 by any related party transactions, or changes to related party transactions. These transactions were made in the ordinary course of business and substantially on the same terms as for comparable transactions with third party counterparties and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features.

15. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 30 June 2017 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.