2016 Annual Report

Abbey National Treasury Services plc

PART OF THE SANTANDER GROUP

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Important information for readers
Abbey National Treasury Services plc and its subsidiaries (collectively ANTS or 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 and together with its subsidiaries, ANTS or the ANTS group) 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 75) 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 75 to 80 inclusive comprise the Directors' Report, pages 2 to 3 inclusive 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. 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.

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 guarantees any unsubordinated liabilities of Santander UK plc, which are not debt securities, incurred prior to 30 June 2017 under a deed poll guarantee entered into by the Company on 5 June 2015, as amended (the Upstream Guarantee). Santander UK plc guarantees all the unsubordinated liabilities of the Company incurred prior to 30 June 2017 (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.

Development and performance of our business in 2016
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 2016
Information on our position at the end of the year is set out in the 'Balance sheet review' section of the Financial review.

Customer focused ring-fence model
On 22 December 2016, the Board of Santander UK approved a revised business model and legal entity structure to comply with the ring-fencing requirements in the UK. The revised model provides greater certainty for our customers while ensuring minimal disruption and a smooth transition for those customers impacted. With the Banking Reform Act due for implementation by 1 January 2019, and in light of the changeable macro environment, the Board of Santander UK concluded that we can better serve our customers with a 'wide' ring-fence structure, rather than the 'narrow' ring-fence originally envisaged. Under this model Santander UK plc, the ring-fenced bank, will serve retail, commercial and corporate customers. This also maintains longer term flexibility and leads to lower overall cost with the migration impacting fewer customers. Abbey National Treasury Services plc will no longer constitute the non-ring-fenced bank and its activities will be revised as part of the new ring-fencing model.

We intend to complete the implementation of our ring-fence plans in advance of the 2019 legislative deadline, subject to regulatory and court approvals, and various other authorisations.

Uncertain macro environment
The relatively stable economic backdrop we saw in the first half of 2016 became more volatile as the year progressed with the outcome of the EU referendum in June leading to some short-term market fluctuations. After this initial period, consumer confidence measures recovered and steady economic growth continued in the second half. While the depreciation of sterling may well have a positive effect on the external net trade contribution to economic growth, it is expected to lead to higher inflation. The UK economy ended the year with 16 consecutive quarters of GDP growth, a stable labour market and the unemployment rate around 5% – close to pre-recession levels.

The consensus expectation for 2017 sees slower growth with continued low interest rates alongside the possibility of rising unemployment. Inflation is expected to breach the Bank of England target of 2% in 2017 as the impact of rising oil prices and sterling depreciation is felt. Following an extended period of contraction, bank lending to companies has also increased.

Demanding regulatory change agenda
Regulation in the UK remains focused on three broad objectives – making banks stronger, supporting positive customer outcomes, and encouraging greater competition. We support the objectives of UK policymakers and work hard to ensure we comply with new regulations while welcoming steps to combat customer inertia. During 2016 there were noteworthy developments on several significant issues which remain in focus for UK banks going forward. These include the requirement for large UK banks to ring-fence their retail banking operations and the regulatory requirement to build loss absorbing capacity. We have also worked with regulators throughout 2016 on a number of developments related to payments and innovation. These are intended to make it easier for customers to access banking services. We expect our returns going forward will continue to be impacted by increased regulatory compliance costs as well as the more onerous taxation regime.

2017 outlook remains uncertain
We expect the UK economic slowdown seen in 2016 to continue as economic uncertainties prevail. We expect net interest margin to remain broadly stable, predicated on the Base Rate not reducing further, with continued competitive pressures on asset margins. Cost management remains a key focus as we continue to invest and grow, while capturing future operational efficiencies. We expect our corporate lending to be slower than in recent years, consistent with forecasted slowdown in the UK economic growth and as we actively manage exposures to certain segments in line with our proactive risk management practices.

Our principal risks and uncertainties

Information on our principal risks and uncertainties is set out in the Risk review by type of risk, with more detail by business segment.

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 performance and position of the business of the ANTS group, mainly at a consolidated level, 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 2016 Annual Report, which does not form part of this report.

By Order of the Board

Juan Garrido Otaola
Director
24 February 2017

INCOME STATEMENT REVIEW

SUMMARISED CONSOLIDATED INCOME STATEMENT

	2016 £m	2015 £m
Net interest income	264	272
Non-interest income[1]	327	366
Total operating income	591	638
Operating expenses before impairment losses, provisions and charges	(290)	(255)
Impairment (losses)/releases on loans and advances	(18)	5
Provisions for other liabilities and charges	(16)	(43)
Total operating impairment losses, provisions and charges	(34)	(38)
Profit before tax	267	345
Tax on profit	(86)	(79)
Profit after tax for the year	181	266

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

2016 compared to 2015

Profit before tax decreased by £78m to £267m in 2016 (2015: £345m). By income statement line, the movements were:

- Net interest income decreased by £8m to £264m in 2016 (2015: £272m) mainly reflecting changes in the commercial balance sheet profile and in part an increase in wholesale funding costs. This was partially offset by increases due to continued growth in customer lending and improved cost of funding from higher deposits, as well as ongoing demand for project and acquisition finance, transactional services and factoring products offsetting continued asset margin compression.

- Non-interest income decreased by £39m to £327m in 2016 (2015: £366m) primarily driven by mark-to market movements on certain derivatives and lower asset restructuring and rates management fees. This was partially offset by growth in international fees, ongoing demand for derivative and cash sales activities as well as market making activities.

- Operating expenses before impairment losses, provisions and charges increased by £35m to £290m in 2016 (2015: £255m) largely due to increased project and IT costs as we continue to improve the efficiency of our operating model, as well as increased regulatory compliance and project costs.

- Impairment losses on loans and advances increased by £23m to losses of £18m in 2016 (2015: £5m release) mainly due to a single loan in Global Corporate Banking that moved to non-performance in Q2 2016, partially offset by lower write-offs and charges. Overall, the loan book continued to perform well, supported by our prudent lending policy.

- Provisions for other liabilities and charges decreased by £27m to £16m in 2016 (2015: £43m) primarily reflecting a reduction of the bank levy charge following the transfer of a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

The tax on profit increased by £7m to £86m in 2016 (2015: £79m).

Critical factors affecting results

The preparation of our Consolidated 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 Consolidated Financial Statements.

The rest of this section contains a summary of the results, and commentary thereon, by income statement line item for each segment.

Basis of results presentation

The segmental information in this Annual Report reflects the reporting structure in place at the reporting date in accordance with which the segmental information in Note 2 to the Consolidated Financial Statements has been presented.

PROFIT BEFORE TAX BY SEGMENT

2016	Commercial Banking £m	Global Corporate Banking £m	Corporate Centre £m	Total £m
Net interest income	81	76	107	264
Non-interest income [1]	31	263	33	327
Total operating income	112	339	140	591
Operating expenses before impairment losses, provisions and charges	(23)	(228)	(39)	(290)
Impairment releases/(losses) on loans and advances	4	(22)	-	(18)
Provisions for other liabilities and (charges)/releases	(1)	(16)	1	(16)
Total operating impairment releases/(losses), provisions and charges	3	(38)	1	(34)
Profit before tax	92	73	102	267
2015				
Net interest income	76	73	123	272
Non-interest income[1]	35	251	80	366
Total operating income	111	324	203	638
Operating expenses before impairment losses, provisions and charges	(22)	(200)	(33)	(255)
Impairment releases on loans and advances	5	-	-	5
Provisions for other liabilities and charges	(2)	(12)	(29)	(43)
Total operating impairment releases/(losses), provisions and charges	3	(12)	(29)	(38)
Profit before tax	92	112	141	345

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

COMMERCIAL BANKING

Commercial Banking offers a wide range of products and financial services to customers through a network of regional Corporate Business Centres (CBCs) and through telephony and digital channels. The management of our customers is organised across two relationship teams - the Regional Corporate Bank (RCB) that covers trading businesses with annual turnover from £6.5m to £500m and Specialist Sector Groups (SSG) that cover real estate, housing finance, education, healthcare, and hotels. Commercial Banking products and services include loans, bank accounts, deposits and treasury services.

Summarised income statement

	2016 £m	2015 £m
Net interest income	81	76
Non-interest income	31	35
Total operating income	112	111
Operating expenses before impairment losses, provisions and charges	(23)	(22)
Impairment releases on loans and advances	4	5
Provisions for other liabilities and charges	(1)	(2)
Total operating impairment releases, provisions and charges	3	3
Profit before tax	92	92

2016 compared to 2015

Profit before tax was unchanged at £92m in 2016 (2015: £92m). By income statement line, the movements were:

- Net interest income increased slightly by £5m to £81m in 2016 (2015: £76m) with continued growth in customer lending and improved cost of funding from higher deposits that were driven by the enhanced franchise and broader range of services.
- Non-interest income decreased by £4m to £31m in 2016 (2015: £35m) with lower asset restructuring and rates management fees partially offset by growth in international fees.
- Operating expenses before impairment losses, provisions and charges were broadly flat at £23m in 2016 (2015: £22m), demonstrating our strong cost management focus.
- Impairment releases on loans and advances decreased by £1m to £4m in 2016 (2015: £5m) with the loan book continuing to perform well, supported by our prudent lending policy.
- Provisions for other liabilities and charges decreased to £1m in 2016 (2015: £2m).

GLOBAL CORPORATE BANKING

Global Corporate Banking services corporate clients with a turnover of £500m and above per annum and financial institutions, as well as supporting the rest of Santander UK's business segments. Global Corporate Banking clients require specially tailored solutions and value-added services due to their size, complexity and sophistication. We provide these clients with products to manage currency fluctuations, protect against interest rate risk, and arrange capital markets finance and specialist trade finance solutions.

Summarised income statement

	2016 £m	2015 £m
Net interest income	76	73
Non-interest income	263	251
Total operating income	339	324
Operating expenses before impairment losses, provisions and charges	(228)	(200)
Impairment losses on loans and advances	(22)	-
Provisions for other liabilities and charges	(16)	(12)
Total operating impairment losses, provisions and charges	(38)	(12)
Profit before tax	73	112

2016 compared to 2015

Profit before tax decreased by £39m to £73m in 2016 (2015: £112m). By income statement line, the movements were:

- Net interest income increased by £3m to £76m in 2016 (2015: £73m) with ongoing demand for project and acquisition finance, transactional services and factoring products offsetting continued asset margin compression.
- Non-interest income increased by £12m to £263m in 2016 (2015: £251m), underpinned by ongoing demand for derivative and cash sales activities as well as market making activities.
- Operating expenses before impairment losses, provisions and charges increased by £28m to £228m in 2016 (2015: £200m), largely due to increased project and IT costs as we continue to improve the efficiency of our operating model.
- Impairment losses on loans and advances increased due to the impairment of a single loan that moved to non-performance in Q216.
- Provisions for other liabilities and charges increased by £4m to £16m in 2016 (2015: £12m).

CORPORATE CENTRE

Corporate Centre predominantly consists of the non-core portfolios of Social Housing loans and structured credit assets. Corporate Centre in 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. The non-core portfolios are being run-down and/or managed for value.

Summarised income statement

	2016 £m	2015 £m
Net interest income	107	123
Non-interest income	33	80
Total operating income	140	203
Operating expenses before impairment losses, provisions and charges	(39)	(33)
Provisions for other liabilities and releases/(charges)	1	(29)
Total operating impairment losses, provisions and releases/(charges)	1	(29)
Profit before tax	102	141

2016 compared to 2015

Profit before tax decreased by £39m to £102m (2015: £141m). By income statement line, the movements were:

- Net interest income decreased by £16m to £107m in 2016 (2015: £123m) reflecting changes in the commercial balance sheet profile and in part an increase in wholesale funding costs.

- Non-interest income decreased by £47m to £33m in 2016 (2015: £80m) primarily driven by mark-to market movements on certain derivatives.

- Operating expenses before impairment losses, provisions and charges increased by £6m to £39m in 2016 (2015: £33m), principally due to increased regulatory compliance and project costs.

- Provisions for other liabilities and charges decreased by £30m to releases of £1m in 2016 (2015: £29m charge), primarily reflecting a reduction of the bank levy charge following the transfer of a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

BALANCE SHEET REVIEW

SUMMARISED CONSOLIDATED BALANCE SHEET

	2016 £m	2015 £m
Assets		
Cash and balances at central banks	3,517	2,279
Trading assets	29,682	23,649
Derivative financial instruments	27,954	24,875
Financial assets designated at fair value	1,854	2,130
Loans and advances to banks	10,046	21,544
Loans and advances to customers	15,135	32,455
Loans and receivables securities	219	15
Available-for-sale securities	476	1,168
Macro hedge of interest rate risk	705	521
Property, plant and equipment	9	12
Tax, intangibles and other assets	207	219
Total assets	89,804	108,867
Liabilities		
Deposits by banks	25,326	21,333
Deposits by customers	3,169	2,838
Trading liabilities	15,560	12,722
Derivative financial instruments	31,620	25,178
Financial liabilities designated at fair value	2,119	2,016
Debt securities in issue	7,895	40,811
Macro hedge of interest rate risk	-	-
Tax, other liabilities and provisions	358	326
Total liabilities	86,047	105,224
Equity		
Total shareholders' equity	3,757	3,643
Total equity	3,757	3,643
Total liabilities and equity	89,804	108,867

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

2016 compared to 2015

Assets

Trading assets
Trading assets increased by 26% to £29,682m at 31 December 2016 (2015: £23,649m), reflecting changes in the mix of assets held for liquidity purposes, with higher levels of securities purchased under resale agreements and debt partially offset by decreased holdings of equity securities.

Derivative financial instruments - assets
Derivative assets increased by 12% to £27,954m at 31 December 2016 (2015: £24,875m). The increase 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 through profit or loss
Financial assets designated at fair value through profit or loss decreased by 13% to £1,854m at 31 December 2016 (2015: £2,130m), mainly driven by maturities and redemptions within the portfolio, partially offset by an increase in the valuation of assets. In accordance with ANTS group policy, new loans are no longer being designated at fair value.

Loans and advances to banks
Loans and advances to banks decreased to £10,046m at 31 December 2016 (2015: £21,544m). The decrease was mainly driven by lower balances with Santander UK group undertakings. This was due to the netting and settlement of intercompany balances following the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Loans and advances to customers
Loans and advances to customers decreased by 53% to £15,135m at 31 December 2016 (2015: £32,455m). The decrease was mainly driven by lower intercompany balances with Abbey Covered Bonds LLP following the transfer of the issuer on the €35bn Global Covered Bond Programme from the Company to Santander UK plc.

Available-for-sale securities
Available-for-sale securities decreased by 59% to £476m at 31 December 2016 (2015: £1,168m), largely due to the sale of UK Government bonds as part of normal liquidity asset portfolio management activity.

Macro hedge of interest rate risk - assets
The macro hedge of interest rate risk increased by 35% to £705m at 31 December 2016 (2015: £521m) mainly driven by the lower interest rate environment.

Tax, intangibles and other assets
Tax, intangibles and other assets decreased by 5% to £207m at 31 December 2016 (2015: £219m). The decrease was primarily driven by a decrease in trade and other receivables relating to settlement of transactions partially offset by an increase in prepayments.

Liabilities

Deposits by banks
Deposits by banks increased by 19% to £25,326m at 31 December 2016 (2015: £21,333m). This was due to an increase in intercompany balances as consideration for the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Deposits by customers
Deposits by customers increased by 12% to £3,169m at 31 December 2016 (2015: £2,838m). The increase was mainly due to increased balances with other Santander UK group companies.

Trading liabilities
Trading liabilities increased by 22% to £15,560m at 31 December 2016 (2015: £12,722m) as a result of an increase in collateral held and securities purchased under repurchase agreements, as part of normal trading activity.

Derivative financial instruments - liabilities
Derivative liabilities increased by 26% to £31,620m at 31 December 2016 (2015: £25,178m). The increase was mainly due to volatility in the fair value of interest rate and cross currency derivative liabilities mainly driven by movements in yield curves and foreign exchange rates.

Financial liabilities designated at fair value through profit or loss
Financial liabilities designated at fair value through profit or loss increased by 5% to £2,119m at 31 December 2016 (2015: £2,016m). This was due to the inclusion of a portfolio of structural deposits principally offset by the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Debt securities in issue
Debt securities in issue decreased by 81% to £7,895m at 31 December 2016 (2015: £40,811m). This was due to the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Tax, other liabilities and provisions
Tax, other liabilities and provisions increased by 10% to £358m at 31 December 2016 (2015: £326m). The increase mainly reflected the increase in other liabilities accrued during the year and current tax liabilities attributable to the banking corporation tax surcharge partially offset by a decrease in lower bank levy charges and deferred tax liabilities on cash flow hedges relating to the funding programmes transferred from the Company to Santander UK plc.

Equity
Total shareholders' equity increased by 3% to £3,757 m at 31 December 2016 (2015: £3,643m). The increase was mainly due to the profit for the year partially offset by the transfer of cash flow hedge reserve on the funding programmes from the Company to Santander UK plc.

Risk review

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 Consolidated Financial Statements.

RISK GOVERNANCE

INTRODUCTION (unaudited)

ANTS 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.

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 guarantees any unsubordinated liabilities of Santander UK plc, which are not debt securities, incurred prior to 30 June 2017 under a deed poll guarantee entered into by the Company on 5 June 2015, as amended (the Upstream Guarantee). Santander UK plc guarantees all unsubordinated liabilities of the Company incurred prior to 30 June 2017 (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.

As a subsidiary of Santander UK plc, ANTS has adopted the Santander UK Risk Framework. As a result, the ANTS group's risks are managed at a Santander UK group level in accordance with the Santander UK group's Risk Framework. The Risk review describes the Santander UK group's Risk Framework and includes more detail on the key risks (on a segmental basis or aggregated where relevant) to which the ANTS group is directly exposed. In addition, as a result of the guarantee given by the ANTS group in respect of the unsubordinated liabilities of Santander UK plc, we are indirectly exposed to risks that arise in parts of the Santander UK group that are wholly outside the ANTS group. Those risks consist of retail credit risk and pension obligations risk.

In addition to adopting the Santander UK Risk Framework, and to provide more independent and enhanced risk governance to the ANTS Board, ANTS has adopted certain risk governance arrangements to compliment those of Santander UK. Further to the implementation of the Senior Managers Regime, an ANTS Board Risk Committee has been established to monitor and manage risk on a more segregated basis from the consolidated risk matters considered at the Santander UK Board Risk Committee. In doing so, ANTS has enhanced its alignment to the provisions of the Capital Requirements Directive IV.

The Risk review consists of:
- A description of Santander UK's approach to the management of risk, including its Risk Framework; and
- Further detail on the ANTS group's key risks.

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 described above).

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.

RISK FRAMEWORK

Key elements (unaudited)

The Santander UK Risk Framework sets out how we manage and control risk. As a subsidiary of Santander UK plc, ANTS has adopted this Risk Framework. It is based on the following key elements which we describe in more detail in the next pages:

Section	Content
How we define risk	We describe each of our key risk types.
How we approach risk – our culture and principles	We describe our risk culture and explain how we make it a day-to-day reality across the business.
Our risk governance structure	We describe how we consider risk in all our business decisions as part of our organisational structure, and the responsibilities of our people and our committees.
Our internal control system	We describe our internal control system and how it helps us manage and control risk.

During the year, Santander UK made no significant changes to its Risk Framework, but it made the following refinements:
- Referenced the appointment of the Chief Legal and Regulatory Officer (CLRO) who has overall responsibility for the control and oversight of legal, conduct, regulatory and financial crime risk. The CLRO replaced and consolidated the previous roles of General Counsel and Chief Administrative Office (GC&CAO) and Chief Conduct and Compliance Officer (CCCO).
- Renamed the Executive Risk Committee as the Executive Risk Control Committee, which better reflected the control function it carries out.
- Included the Credit Approval Committee and the Investment Approval Committee as Executive Committees, reflecting the greater importance we placed on their functions.

How we define risk (unaudited)

Risk is any uncertainty about us being able to achieve our business objectives. It can be split into a set of key risk types, each of which could affect our results and our financial resources. Our key risk types are:

Key risk types	Description
Credit	The risk of loss due to the default or credit quality deterioration of a customer or counterparty to which we have provided credit, or for which we have assumed a financial obligation.
Market	Trading market risk – the risk of losses in on and off-balance sheet trading positions, due to movements in market prices or other external factors. Banking market risk – the risk of loss of income or economic value due to changes to interest rates in the banking book or to changes in exchange rates, where such changes would affect our net worth through an adjustment to revenues, assets, liabilities and off-balance sheet exposures in the banking book.
Liquidity	The risk that we do not have sufficient liquid financial resources available to meet our obligations as they fall due, or we can only secure such resources at excessive cost. It is split into three types of risk: – Funding or structural liquidity risk – the risk that we may not have sufficient liquid assets to meet the payments required at a given time due to maturity transformation. – Contingent liquidity risk – the risk that future events may require a larger than expected amount of liquidity i.e. the risk of not having sufficient liquid assets to meet sudden and unexpected short-term obligations. – Market liquidity risk – the risk that assets we hold to mitigate the risk of failing to meet our obligations as they fall due, which are normally liquid, become illiquid when they are needed.
Capital	The risk that we do not have an adequate amount or quality of capital to meet our internal business objectives, regulatory requirements, market expectations and dividend payments.
Conduct	Conduct risk is the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers and that we fail to maintain high standards of market behaviour and integrity.
Other key risks	Strategic risk – the risk of significant loss or damage arising from strategic decisions that impact the long-term interests of our key stakeholders or from an inability to adapt to external developments. Operational risk – the risk of direct, or indirect, loss due to inadequate or failed internal processes, people and systems, or external events. Our top three key operational risks are: – Cyber risk – Third party supplier management – Process and change management. Financial crime risk – the risk that our employees, products, services or third parties facilitate money laundering, financing terrorism, bribery and corruption or evasion of financial sanctions. Model risk – the risk of loss arising from decisions mainly based on results of models, due to errors in their design, application or use. Reputational risk – the risk of damage to the way our reputation and brand are perceived by the public, clients, government, colleagues, investors or any other interested party. Regulatory risk – the risk of loss, financial or reputational, from failing to comply with applicable codes and regulations.

Enterprise wide risk is the aggregate view of all the key risk types described above.

How we approach risk – our culture and principles (unaudited)

The complexity and importance of the financial services industry demands a strong risk culture. We have extensive systems, controls and safeguards in place to manage and control the risks we face, but it is also crucial that everyone takes personal responsibility for managing risk. Our risk culture plays a key role in our aim to be the best bank for our people, customers, shareholders and communities. It is vital that everyone in our business understands that, to achieve this, our people have a strong, shared understanding of what risk is, and what their role is in helping to control it. We express this in the Santander UK Risk Culture Statement:

Risk Culture Statement
Santander UK will only take risks that it understands and will always remain prudent in identifying, assessing, managing and reporting all risks. We proactively encourage our people to take personal responsibility for doing the right thing and to challenge without fear. We ensure decisions take account of the best interests of all our stakeholders and are in line with The Santander Way.

The Santander UK Board reviews and approves our Risk Culture Statement every year. The CEO, Chief Risk Officer (CRO) and other senior executives are responsible for promoting our risk culture from the top. They drive cultural change and increased accountability across the business. We reinforce the Santander UK Risk Culture Statement and embed our risk culture in all our business units through the Santander UK Risk Framework, Risk Attestations and other initiatives. This includes highlighting that:
- It is everyone's personal responsibility to play their part in managing risk
- We must identify, assess, manage and report risk quickly and accurately
- We make risk part of how we assess our people's performance, and how we recruit, develop and reward them
- Our internal control system is essential to make sure we manage and control risk in line with our principles, standards, the Santander UK Risk Appetite and policies.

We use Risk Attestations to confirm how we manage and control risks in line with the Santander UK Risk Framework and within the Santander UK Risk Appetite. As an example, every year, each member of the Santander UK Executive Committee confirms in writing that they have managed risk in line with the Santander UK Risk Framework in the part of the business for which they are responsible. Their attestation lists any exceptions and the agreed actions taken to correct them. This is a very tangible sign of the personal accountability that is such a key part of our risk culture.

Making change happen: I AM Risk – everyone's personal responsibility for managing risk

I AM Risk continues to play a key part in our aim to be the best bank for our people, customers, shareholders and communities. Our I AM Risk approach aims to make sure our people:
- **Identify** risks and opportunities
- **Assess** their probability and impact
- **Manage** the risks and suggest alternatives
- **Report**, challenge, review, learn and 'speak up'.

We use I AM Risk in our risk attestations, policies, frameworks and governance, and in all our risk-related communications. We also include it in mandatory training and induction courses for our staff, in our codes of conduct and in rewards and incentives. We embed the behaviours we want to encourage in key processes and documents.

Among other things, I AM Risk is how we make risk management part of everyone's life as a Santander employee, from how we recruit them and manage their performance to how we develop and reward them. It is also how we encourage people to take personal responsibility for risk, speak up and come up with ideas that help us change. To support this, our I AM Risk learning website includes short films, factsheets and discussion boards.

As part of I AM Risk, we include mandatory risk objectives for all our people – from the Santander UK Executive Risk Control Committee to branch staff. The Santander Way Steering Committee coordinates all our culture initiatives under the sponsorship of the Santander UK CEO.

In 2016, we made good progress with continuing to embed personal accountability for managing risk across the business. For all new and existing employees, we enhanced our mandatory risk training and we ensured that the updated performance management risk objectives were used across the business. In our most recent employment engagement survey, 97% of Santander UK employees acknowledged their personal responsibility for risk management, helping to show how we are successfully embedding risk management in our culture.

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. Their responsibilities cover the ANTS group as a whole.

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 risk management responsibilities: There are senior roles with specific responsibilities for risk
- Risk organisational structure: We have 'three lines of defence' built in to the way we run our business.

Committees

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

Board/Board 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 future strategy and advises the Santander UK Board on both – Reviews the effectiveness of our risk management systems and internal controls.

We expect the ANTS risk governance structure to further develop and mature during 2017.

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 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 effective 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.
Executive Credit Approval Committee	– Approves corporate and wholesale credit transactions which exceed levels delegated to either 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 key 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.

ANTS Chief Risk Officer
Appointed during the year, the ANTS CRO oversees and challenges risk activities from an ANTS perspective with authority delegated from the Santander UK CRO, and ensures new lending decisions are made within the Santander UK Risk Appetite. The ANTS CRO reports to the ANTS Board through the ANTS Board Risk Committee, and also reports directly to the Santander UK CRO for operational purposes. The key responsibilities of the ANTS CRO are to:
– Advise the ANTS CEO, the ANTS Board Risk Committee and ANTS Board on the Santander UK Risk Appetite linked to our strategic business plan and why it is appropriate
– Reassure the ANTS Board and our regulators that we identify, assess and measure risk and that our systems, controls and delegated authorities to manage risk are adequate and effective
– Advise the ANTS CEO, ANTS Board Risk Committee, ANTS Board and our regulators on how we manage key risks and escalate any issues or breaches of the Santander UK Risk Appetite
– Ensure that our culture promotes ethical practices and social responsibility
– 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
– Ensure an appropriate governance structure is in place to make effective credit decisions.

Santander UK 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 directly 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

The ANTS 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.

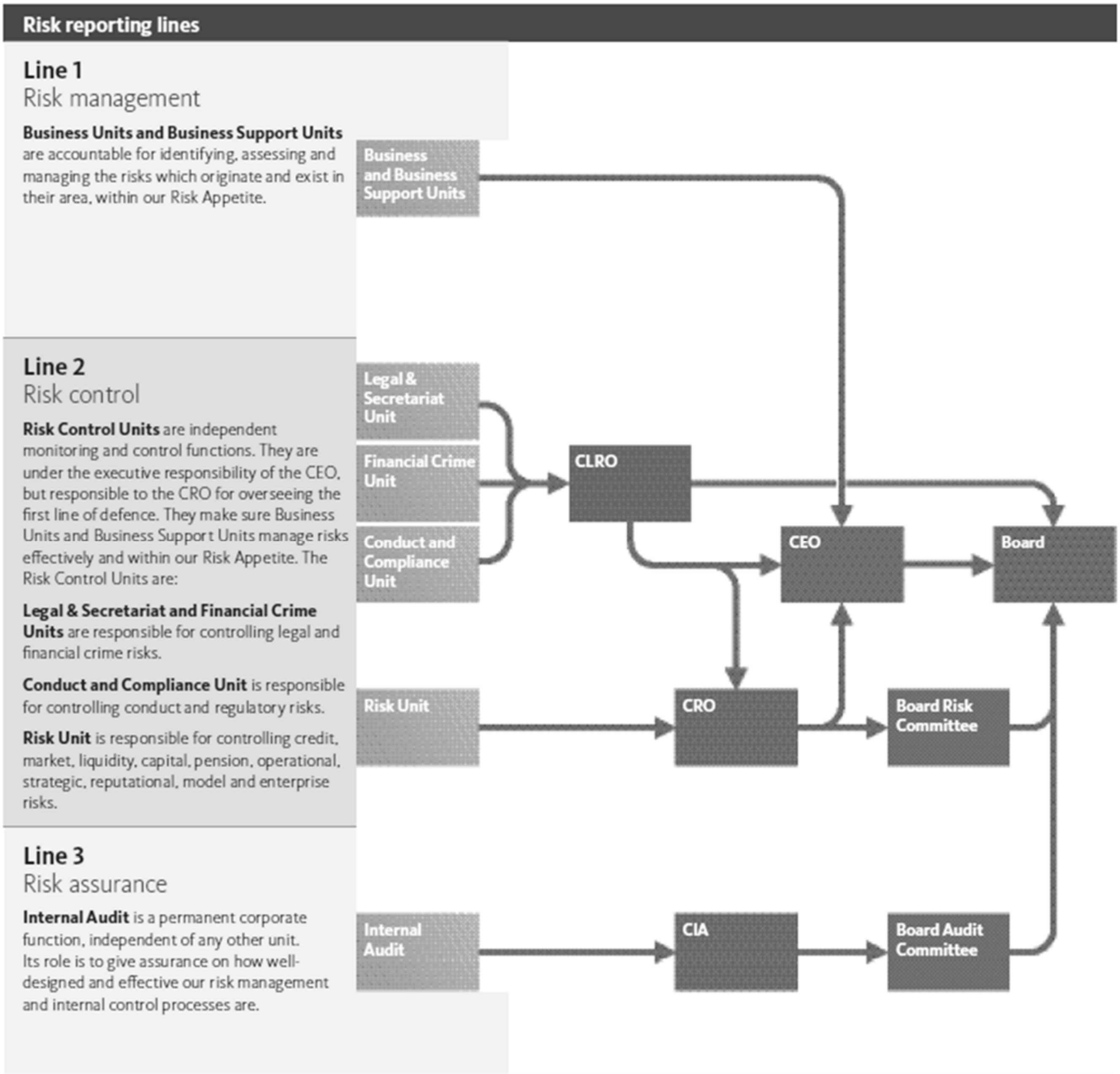
Santander UK Chief Legal and Regulatory Officer
The Santander UK CLRO is responsible for the control and oversight of legal, conduct, regulatory and financial crime risk within the Santander UK group, including ANTS. The key responsibilities of the Santander UK CLRO are to:
– Propose a Santander UK Risk Framework for conduct, regulatory 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, regulatory and financial crime risk, linked to our strategic business plan and why it is approved
– Reassure the Santander UK CRO, the Santander UK Board and our regulators that we identify, assess and measure conduct, regulatory 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, Santander UK Board Risk Committee, Santander UK Board and regulators on how we manage key legal, conduct, regulatory and financial crime risks 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.

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 directly 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.

Risk organisational structure (unaudited)

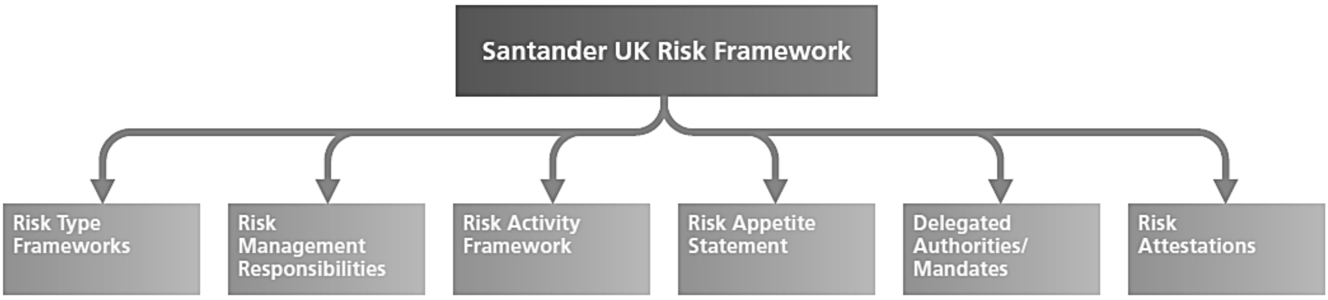
We use the 'three lines of defence' model to manage risk. This model is widely used in the banking industry and has a clear set of principles to implement a cohesive operating model across an organisation. It does this by separating risk management, risk control and risk assurance.

The diagram below shows the reporting lines to the Santander UK Board with respect to risk:



Internal control system (unaudited)

The Santander UK Risk Framework is an overarching view of our internal control system that helps us manage risk across the business. It sets out at a high level the principles, minimum standards, roles and responsibilities, and governance for internal control.



Category	Description
Risk Frameworks	Set out how we should manage and control risk for: – The Santander UK group (overall framework) – Our key risk types (risk type frameworks) – Our key risk activities (risk activity frameworks).
Risk Management Responsibilities	Set out the Line 1 risk management responsibilities for Business Units and Business Support Units.
Risk Appetite Statement	Defines the type and the level of risk that we are willing and able to take on to achieve our business plans. The policies set out what action we must (or must not) take to make sure we stay within the Santander UK Risk Appetite. Risk Control Units set overarching policies. Business and Business Support Units have operational policies, standards and procedures that put these policies into practice. We expect all our people to manage risk within their own work by complying with these policies, standards and procedures.
Delegated Authorities/Mandates	Define who can do what under the authority delegated to the Santander UK CEO by the Santander UK Board.
Risk Attestations	Business Units, Business Support Units or Risk Control Units set out how they have managed and/or controlled risks in line with the risk frameworks and within the Santander UK Risk Appetite. They are completed at least once a year. They also explain any action taken. This process helps ensure people can be held personally accountable.

RISK APPETITE (unaudited)

How we control the risks we are prepared to take

When the Santander UK Board sets our strategic objectives, it is important that we are clear about the risks we are prepared to take to achieve them. We express this through the Santander UK Risk Appetite Statement, which defines the amount and kind of risk we are willing to take. The Santander UK Risk Appetite and strategy are closely linked – our strategy must be achievable within the limits set out in the Santander UK Risk Appetite.

The principles of our Risk Appetite

The Santander UK Risk Appetite Statement lists ten principles that are used to set the Santander UK Risk Appetite.
- We always aim to have enough financial resources to survive severe but plausible stressed economic and business conditions, as well as more extreme conditions that would consume capital
- We should be able to predict how our income and losses might vary – that is, how volatile they are. That applies to all our risks and lines of business
- Our earnings and dividend payments should be stable, and in line with the return we aim to achieve
- We are an autonomous business, so we always aim to have strong capital and liquidity resources
- The way we fund our business should give us diverse sources and duration of funding. This helps us to avoid relying too much on wholesale markets
- We set controls on large concentrations of risk, such as to single customers or specific industries
- There are some key risks we take, but for which we do not actively seek any reward, such as operational, conduct, financial crime, regulatory and reputational risk. We take a risk-averse approach to all such risks
- We comply with all regulations – and aim to exceed the standards they set
- Our pay and bonus schemes should support these principles and our risk culture
- We always aim to earn the trust of our people, customers, shareholders and communities

How we describe the limits in our Risk Appetite

The Santander UK Risk Appetite sets out detailed limits for different types of risk, using metrics and qualitative statements.

Metrics

We use metrics to set limits on losses, capital and liquidity. We set:
- Limits for losses for our most important risks, including credit, market, operational and conduct risk
- Capital limits, reflecting both the capital that regulators expect us to hold (regulatory capital) and our own internal measure (economic capital)
- Liquidity limits according to the most plausible stress scenario for our business.

These limits apply in normal business conditions, but also when we might be experiencing a far more difficult trading environment. A good example of this might be when the UK economy is performing much worse than we expected. We refer to conditions such as this as being under stress.

There is more on economic capital and stress scenarios later in this section.

Qualitative statements

For some risks we also use qualitative statements that describe in words the controls we want to set. For example, in conduct risk, we use them to describe the Santander UK Risk Appetite for products, sales, after-sales service, and culture. We also use them to exclude or restrict risks from some sectors, types of customer and activities.

How we set our Risk Appetite, and stay within it

The Santander UK Risk Appetite is controlled through the Santander UK Risk Appetite Framework. The Santander UK Board approves and oversees the Santander UK Risk Appetite Statement every year. This ensures it is consistent with the strategy and reflects the markets in which we operate. Santander UK's Executive Committee is responsible for ensuring that the risk profile (the level of risk we are prepared to accept) is consistent with the Santander UK Risk Appetite Statement. To do this they monitor performance, business plans and budgets each month. At least every six months, we use stress testing to review how the business plan performs against the Santander UK Risk Appetite Statement. This shows us if we would stay within the Santander UK Risk Appetite under stress conditions. It also helps us to identify any adverse trends or inconsistencies.

We embed the Santander UK Risk Appetite by setting more detailed risk limits for each business unit and key portfolio. These are set in a way so that if we stay within each detailed limit, we will stay within the overall Santander UK Risk Appetite. When we use qualitative statements to describe our appetite for a risk, we link them to lower-level key risk indicators, so that we can monitor and report our performance against them.

We provide a programme of communication and training for our staff which helps ensure that the Santander UK Risk Appetite is well understood.

STRESS TESTING (unaudited)

Stress testing helps us understand how different events and economic conditions could affect our business plan, earnings and risk profile. This helps us plan and manage our business better.

Scenarios for stress testing

To see how we might cope with difficult conditions, we regularly develop challenging scenarios that we might face. We consult a broad range of internal stakeholders, including Santander UK Board members, when we design and choose our most important scenarios. The scenarios cover a wide range of outcomes, risk factors, time horizons and market conditions. They are designed to test:
– The impact of shocks affecting the economy as a whole or the markets we operate in
– Key potential vulnerabilities of our business model
– Potential impacts on specific risk types.

We describe each scenario using a narrative setting out how events might unfold, as well as a market and/or economic context. For example the key economic factors we reflect in the Santander UK ICAAP scenarios include house prices, interest rates, unemployment levels and the size of the UK economy. One scenario looks at what might happen in a recession where the output of the economy shrinks by around 4%, unemployment reaches over 9%, and house prices fall by around 30%. We use a comprehensive suite of stress scenarios to explore sensitivities to market risk, including those based on historic market events.

How we use stress testing

We use stress testing to estimate the effect of these scenarios on our business and financial performance, including:
– Our business plan, and its assessment against the Santander UK Risk Appetite
– Our capital strength, through the Santander UK ICAAP
– Our liquidity position, through the Santander UK Internal Liquidity Adequacy Assessment Process (ILAAP)
– Impacts on other risk types.

We use a wide range of models, approaches and assumptions. These help us interpret the links between factors in markets and the economy, and our financial performance. For example, one model looks at how changes in unemployment rates might affect the number of customers who might fall into arrears on their mortgage.

Our stress testing models are subject to a formal review, independent validation and approval process. We highlight the key weaknesses and related model assumptions in the approval process for each stress test. In some cases, we overlay expert judgement onto the results of our models. Where this is material to the outcome of the stress test, the approving governance committee reviews it.

We take a multi-layered approach to stress testing to capture risks at various levels. This ranges from sensitivity analyses of a single factor to a portfolio, to wider exercises that cover all risks across our entire business. We use stress testing outputs to design action plans that aim to mitigate damaging effects.

We also conduct reverse stress tests. These are tests in which we identify and assess scenarios that are most likely to cause our business model to fail.

Board oversight of stress testing

The Santander UK Executive Risk Control Committee approves the design of the scenarios in the Santander UK ICAAP. The Santander UK Board Risk Committee approves the stress testing framework. The Santander UK Board reviews the outputs of stress testing as part of the approval processes for the Santander UK ICAAP, the Santander UK ILAAP, the Santander UK Risk Appetite and regulatory stress tests.

Regulatory stress tests

Santander UK (including ANTS) takes part in a number of external stress testing exercises. These can include stress tests of the UK banking system conducted by the PRA. We also contribute to stress tests of Banco Santander.

For more on capital and liquidity stress testing, see the ‘Capital risk’ and ‘Liquidity risk’ sections.

HOW RISK IS DISTRIBUTED ACROSS OUR BUSINESS (unaudited)

Economic capital

As well as assessing how much regulatory capital we are required to hold, we use an internal Economic Capital (EC) model to measure our risk.

We use EC to get a consistent measure across different risk types. EC also takes account of how concentrated our portfolios are, and how much diversification there is between our various businesses.

As a consequence we can use EC for a range of risk management activities. For example, we can use it to help us compare requirements in the Santander UK ICAAP or to get a risk-adjusted comparison of income from different activities.

Regulatory capital – risk-weighted assets

The table below shows the proportion of Santander UK's (including ANTS) regulatory capital risk-weighted assets held in different parts of the business at 31 December 2016 and 2015. It is split between credit, market and operational risk against which we hold regulatory capital.

	Santander UK	
	2016 %	2015 %
Credit risk	88	89
Market risk	4	3
Operational risk	8	8

	Retail Banking		Commercial Banking		Global Corporate Banking		Corporate Centre	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Credit risk	44	46	22	21	14	14	8	8
Market risk	-	-	-	-	4	3	-	-
Operational risk	6	6	1	1	1	1	-	-

2016 compared to 2015

Santander UK's distribution of risk across the business was broadly unchanged in the year. The largest category continued to be credit risk in Retail Banking, which accounted for most of Santander UK's risk-weighted assets. This reflects Santander UK's business strategy and balance sheet. Market risk arises primarily as part of trading book activities in Global Corporate Banking. Santander UK's operational risk capital requirements remained small, and were concentrated in Santander UK's Retail Banking activities.

CREDIT RISK

CREDIT RISK – ANTS GROUP LEVEL

Overview

Credit risk management

In this section, we set out our products and services that expose us to credit risk, and we explain how we manage credit risk depending on the type of customer.

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, including the key metrics we use.

Credit risk review

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

ANTS GROUP LEVEL - 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, Commercial Real Estate and Social Housing customers.	- Loans and treasury products, and from treasury markets activities. - We provide these to large corporates, financial institutions, 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 held for liquidity.

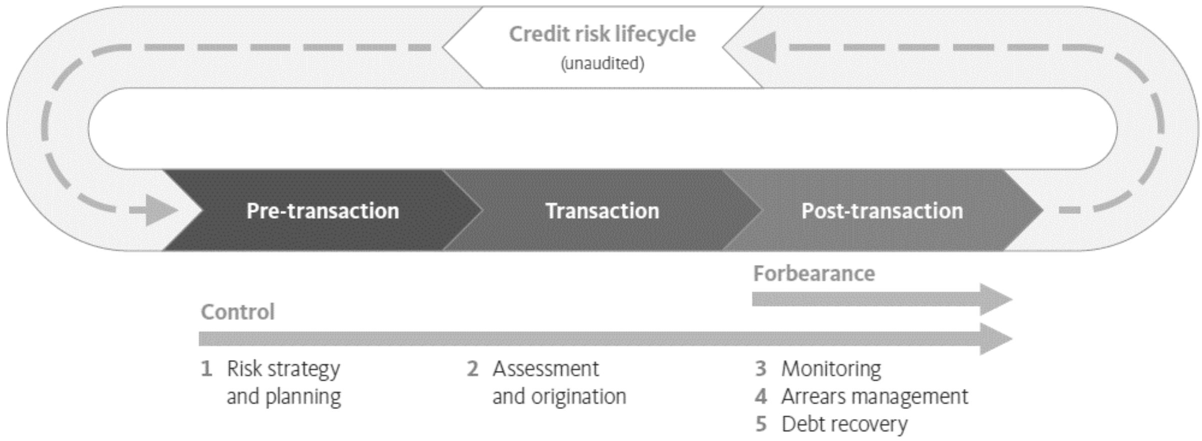
Our types of customer and how we manage them

We manage credit risk across all our business segments in line with the credit risk lifecycle shown in the next section. The Santander UK group (including ANTS) tailors the way it manages risk across the lifecycle to the type of customer. The Santander UK group classifies customers as standardised or non-standardised:

Standardised	Non-standardised
- Mainly individuals and small businesses. Transactions are for relatively small amounts of money, and share similar credit characteristics.	- Mainly medium and large corporate customers and financial institutions. Transactions are for larger amounts of money, and have more diverse credit characteristics.
- We manage risk using automated decision-making tools. These are backed by teams of analysts who specialise in this type of risk.	- We manage risk through expert analysis. This is supported by decision-making tools based on internal risk assessment models.

ANTS classifies all its customers as non-standardised. We have no significant standardised customers.

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 our actual risk profile stays in line with our plans and within our Risk Appetite.

1. Risk strategy and planning

All relevant areas of the business – Risk, Marketing, Products and Finance – work together to create our business plans. Our aim is to balance our strategy, business goals, and financial and technical resources with our attitude towards risk (our Risk Appetite). To do this, we focus particularly on economic and market conditions and forecasts, regulations, conduct considerations and 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 could get.

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

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 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.

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.

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. Whatever we offer, we assess it to make sure the customer can afford the repayments.

Forbearance improves our customer relationships and our credit risk profile. It also means that 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.

In the first half of the year, we changed our policy on forbearance so that customer loans that meet exit criteria will no longer be reported as forborne. In the past, we reported loans as forborne until they were fully repaid or written off. In order to exit from forbearance a loan must now:
– Have been forborne at least two years ago or, where the forbearance was temporary, it must have returned to performing under normal contractual terms for at least two years,
– Have been performing under the forborne terms for at least two years, and
– Not be more than 30 days in arrears.

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.

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 Non-Performing Loans (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 Consolidated Financial Statements. The way we calculate impairment under IFRS will change from 1 January 2018 when IFRS 9 takes 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 Consolidated 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.

Our business segments tailor their approach to credit risk to their own customers. We explain their approaches in the business segment sections later on.

ANTS GROUP LEVEL - 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.

	2016				2015			
	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	3.5	-	3.5	-	2.3	-	2.3	-
Trading assets	24.0	-	24.0	-	16.9	-	16.9	-
Derivative financial instruments	28.0	-	28.0	-	24.9	-	24.9	-
Financial assets designated at fair value	1.9	-	1.9	0.2	2.1	-	2.1	0.3
Loans and advances to banks	10.0	-	10.0	218.4	21.5	-	21.5	170.6
Loans and advances to customers[2]	15.2	(0.1)	15.1	14.2	32.6	(0.1)	32.5	13.7
Loans and receivables securities	0.2	-	0.2	-	-	-	-	-
Available-for-sale debt securities	0.5	-	0.5	-	1.2	-	1.2	-
Total	83.3	(0.1)	83.2	232.8	101.5	(0.1)	101.4	184.6

(1) Off-balance sheet exposure includes the Upstream Guarantee of the liabilities of Santander UK plc as set out in Note 32 to the Consolidated 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 10 every time the grade number drops by 2 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).

ANTS risk grade	PD range			
	Mid %	Lower %	Upper %	S&P equivalent
9	0.010	0.000	0.021	AAA to AA-
8	0.032	0.021	0.066	A+ to A
7	0.100	0.066	0.208	A- to BBB+
6	0.316	0.208	0.658	BBB to BBB-
5	1.000	0.658	2.081	BB+ to BB-
4	3.162	2.081	6.581	B+ to B
3	10.000	6.581	20.811	B- to CCC
2	31.623	20.811	99.999	CC 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. For more on the credit rating profiles of key portfolios, see the 'Credit risk – segments' section.

	ANTS risk grade								
	9 (AAA to AA-)	8 (A+ to A)	7 (A- to BBB+)	6 (BBB to BBB-)	5 (BB+ to BB-)	4 (B+ to B)	1 to 3 (B- to D)	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:									
– Loans and advances to banks	-	2.6	3.9	0.8	0.2	-	-	-	7.5
– Loans and advances to customers	0.8	4.3	4.6	0.5	0.1	-	-	-	10.3
– Debt securities	2.8	1.5	0.3	1.6	-	-	-	-	6.2
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
Loans and receivables securities[2]	0.1	-	0.1	-	-	-	-	-	0.2
Available-for-sale debt securities	0.5	-	-	-	-	-	-	-	0.5
	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
– Loans and receivables securities	0.1	-	0.1	-	-	-	-	-	0.2
– Available-for-sale debt securities	0.5	-	-	-	-	-	-	-	0.5
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.

	ANTS risk grade								
	9 (AAA to AA-)	8 (A+ to A)	7 (A- to BBB+)	6 (BBB to BBB-)	5 (BB+ to BB-)	4 (B+ to B)	1 to 3 (B- to D)	Other[1]	Total
2015	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	2.3	-	-	-	-	-	-	-	2.3
Trading assets:									
– Loans and advances to banks	0.2	1.4	3.5	0.3	-	-	-	-	5.4
– Loans and advances to customers	0.6	3.9	1.3	0.1	-	-	-	0.1	6.0
– Debt securities	1.0	3.1	0.8	0.6	-	-	-	-	5.5
Total trading assets	1.8	8.4	5.6	1.0	-	-	-	0.1	16.9
Derivative financial instruments	0.5	9.3	12.9	1.5	0.6	-	-	0.1	24.9
Financial assets designated at fair value:									
– Loans and advances to customers	0.8	0.4	0.6	-	-	-	-	0.1	1.9
– Debt securities	-	0.2	-	-	-	-	-	-	0.2
Total financial assets designated at fair value	0.8	0.6	0.6	-	-	-	-	0.1	2.1
Loans and advances to banks	1.3	20.1	-	0.1	-	-	-	-	21.5
Loans and advances to customers:[2]									
– Corporate loans	3.2	2.6	2.5	3.5	2.4	0.2	0.1	0.1	14.6
– Amounts due from Santander UK group undertakings	-	-	17.5	-	-	-	-	-	17.5
– Amounts due from Banco Santander undertakings	-	-	-	-	-	-	-	0.5	0.5
Total loans and advances to customers	3.2	2.6	20.0	3.5	2.4	0.2	0.1	0.6	32.6
Loans and receivables securities[2]	-	-	-	-	-	-	-	-	-
Available-for-sale debt securities	1.2	-	-	-	-	-	-	-	1.2
	11.1	41.0	39.1	6.1	3.0	0.2	0.1	0.9	101.5
Impairment loss allowances									(0.1)
Total									101.4
Of which:									
Neither past due nor impaired:									
– Cash and balances at central banks	2.3	-	-	-	-	-	-	-	2.3
– Trading assets	1.8	8.4	5.6	1.0	-	-	-	0.1	16.9
– Derivative financial instruments	0.5	9.3	12.9	1.5	0.6	-	-	0.1	24.9
– Financial assets designated at fair value	0.8	0.6	0.6	-	-	-	-	0.1	2.1
– Loans and advances to banks	1.3	20.1	-	0.1	-	-	-	-	21.5
– Loans and advances to customers	3.2	2.6	20.0	3.5	2.4	0.2	-	0.6	32.5
– Loans and receivables securities	-	-	-	-	-	-	-	-	-
– Available-for-sale debt securities	1.2	-	-	-	-	-	-	-	1.2
Total neither past due nor impaired	11.1	41.0	39.1	6.1	3.0	0.2	-	0.9	101.4
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	-	-	0.1	-	0.1
	11.1	41.0	39.1	6.1	3.0	0.2	0.1	0.9	101.5
Impairment loss allowances									(0.1)
Total									101.4

(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.

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

At 31 December 2016, loans and advances of £62m (2015: £8m) were past due but not impaired and were 3 to 6 months overdue.

Concentrations of credit risk exposures

Managing concentrations of risk is a key part of risk management. We track how concentrated our credit risk portfolios are using various criteria, including geographical areas and countries, economic sectors, products and groups of customers. Although our operations are based mainly in the UK, we have built up exposures to entities around the world. As a result, we are exposed to concentrations of risk related to geographical area and industries.

Geographical concentrations

As part of our approach to credit risk management and the Santander UK Risk Appetite, we set exposure limits to countries and geographical areas. We set our limits with reference to the country limits set by Banco Santander SA. These are determined according to how the country is classified (whether it is a developed OECD country or not), its credit rating, its gross domestic product, and the types of products and services Banco Santander wants to offer in that country. For more geographical information, see 'Other key risks and areas of focus - country risk exposures'.

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 'Other key risks and areas of focus – country risk exposures'.

Credit performance

For more on the credit performance of our key portfolios by business segment, see the 'Credit risk – segments' section that follows.

CREDIT RISK – SEGMENTS

Overview

In Commercial Banking, we offer loans, bank accounts and treasury services. In Global Corporate Banking, we are exposed to credit risk through lending and selling treasury products to large corporates, and through treasury market activities. In Corporate Centre, exposures come from asset and liability management of our balance sheet and our non-core portfolios in run-off.

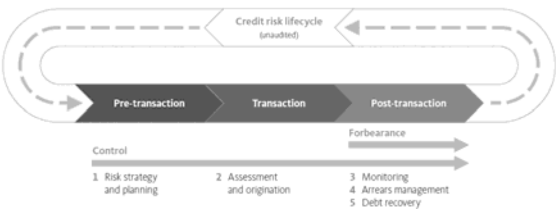
Credit risk management
In this section, we explain how we manage and mitigate credit risk.

Credit risk review
In this section, we analyse our credit risk exposures and how they are performing. We also focus on forbearance and portfolios of particular interest.

Our main portfolios are:

Commercial Banking	Global Corporate Banking	Corporate Centre
– SME and mid corporate – banking, lending and treasury services principally to enterprises with an annual turnover up to £500m. – Commercial Real Estate – lending to UK customers, primarily on tenanted property assets, with a focus on the office, retail, industrial and residential sectors. – Social Housing – lending and treasury services for UK Housing Associations who own portfolios of residential real estate that is rented out.	– Sovereign and Supranational – securities issued by local and central governments, and government guaranteed counterparties. We hold them for liquidity needs and 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, held for liquidity needs. – Structured Products – The ALCO portfolio is high quality assets, chosen for diversification and liquidity. – Derivatives - older total return swaps we held for liquidity, that we are running down. – Social Housing – older Social Housing loans that do not fit with our strategy.

SEGMENTS - CREDIT RISK MANAGEMENT



ANTS classifies all its customers as non-standardised. We have no significant standardised customers. We described how we manage credit risk on non-standardised customers in the previous section 'ANTS group level - credit risk management'.

1. Risk strategy and planning

For details of how we set risk strategy and plans, see the 'ANTS group level – credit risk management' section. For treasury products, we take credit risk up to limits for each client. We control, manage and report risks on a counterparty basis, regardless of which part of our business takes the risk.

2. Assessment and origination

We do a thorough risk assessment to make sure customers can meet their obligations before we approve a credit application. We do this mainly by assigning each customer a credit rating, using our internal rating scale (see 'Credit quality' in 'ANTS group level - credit risk review'). To do this, we look at the customer's financial history and trends in the economy – backed up by the expert judgement of a risk analyst. We review our internal ratings at least every year. We also assess the underlying risk of the transaction, taking into account any mitigating factors (see the following tables) – and how it fits with our risk policies, limits and the Santander UK Risk Appetite, as set by the Santander UK Board. We consider transactions in line with credit limits approved by the relevant credit authority. The Santander UK Executive Risk Control Committee is responsible for setting those limits. In Global Corporate Banking and Corporate Centre, a specialist analyst usually reviews a transaction at the start and over its life. They base their review on the financial strength of the client, its position in its industry, and its management strengths.

Credit risk mitigation

The types of credit risk mitigation, including collateral, across each of our portfolios are as follows.

Commercial Banking:

Portfolio	Description
SME and mid corporate	Includes secured and unsecured lending. We can use covenants (financial or non-financial) to support a customer's credit rating. For example, we can set limits on how much they can spend or borrow, or how they operate as a business. We can take mortgage debentures as collateral. These are charges over a company's assets. We can also take guarantees, but we do not treat them as collateral, and we do not put a cash value on them unless they are secured against a tangible asset. We base our lending decision on the customer's trading cash flow. If they default, we will work with defaulted customers to consider debt restructuring options. We generally do not take control of their assets except when restructuring options have been exhausted or to protect our position in relation to third party claims. In this case, we might appoint an administrator.
Commercial Real Estate	We take a first legal charge on commercial property as collateral. The loan is subject to strict criteria, including the property condition, age and location, tenant quality, lease terms and length, and the sponsor's experience and creditworthiness. Before we agree the loan, we visit the property and get an independent professional valuation. This valuation assesses the property, the tenant and future demand (such as comparing the market rent to the current rent). Loan agreements typically allow us to get revaluations every 24 months, or more frequently if it is likely covenants may be breached. We also view the property each year.
Social Housing	We take a first legal charge on portfolios of residential real estate owned and let by UK Housing Associations as collateral. We revalue this every three to five years (in line with industry practice), using the standard methods for property used for Social Housing. The value would be considerably higher if we based it on normal residential use. The value of the collateral is in all cases more than the loan balance. On average, the loan balance is 25% to 50% of the implied market value, using our LGD methodology. We have not had a default, loss or repossession on Social Housing. Older Social Housing loans that do not fit our current business strategy are managed and reported in Corporate Centre.

Global Corporate Banking:

Portfolio	Description
Sovereign and Supranational	In line with market practice, there is no collateral against these assets.
Large Corporate	Most of these loans and products are unsecured, but we attach covenants to our credit agreements. We monitor whether borrowers keep in line with them so we detect any financial distress early. We also have a small structured finance portfolio, where we hold legal charges over the assets we finance.
Financial Institutions	We use standard legal agreements to reduce credit risk on derivatives, repos and reverse repos, and stock borrowing/lending. We also hold collateral and trade through central counterparties (CCPs) to reduce risk. Netting – We use netting agreements where they have legal force – mainly in the UK, the rest of Europe and the US. These mean that if a counterparty defaults, we can legally offset what we owe them and what they owe us, and settle the net amount. However, netting agreements often do not mean we can offset assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis. In line with market practice, we use standard legal agreements. For derivatives, we use ISDA Master Agreements; for repos and reverse repos, we use Global Master Repurchase Agreements; and for stock borrowing/lending and other securities financing, we use Global Master Securities Lending Agreements. Collateral – We use the Credit Support Annex with the ISDA Master Agreement. This gives us collateral for our net exposures. The collateral can be cash, securities or equities. For stock borrowing/lending, and repos and reverse repos, it includes high-quality liquid debt securities and highly liquid equities listed on major developed markets. For derivatives, it is cash or high quality liquid debt securities. We revalue our exposures and collateral every day and adjust the collateral to reflect any deficits or surpluses. We have processes for controlling how we value and manage collateral. This includes documentation reviews and reporting. Collateral has to meet our 'collateral parameters' policy. This controls the quality and how much of any one kind of collateral we can hold. That gives us confidence we will be able to cash in the collateral when a client defaults. We have these controls for both equities and debt securities. The collateral we hold for reverse repos is worth at least 100% of our exposure. CCPs – These are intermediaries between a buyer and a seller – generally a clearing house. We use CCPs as a way to reduce counterparty credit risk in derivatives.

Corporate Centre:

Portfolio	Description
Sovereign and Supranational	In line with market practice, there is no collateral against these assets.
Structured Products	This is our ALCO portfolio. These assets are unsecured, but benefit from senior positions in the creditor hierarchy. Their credit rating reflects the over-collateralisation in the structure, and the assets that underpin their cash flows and repayment schedules. We use a detailed expected cash flow analysis to assess if there is any impairment. We take into account the structure and assets backing each individual security. We set up an impairment loss allowance if we know an issuer has financial difficulties or they are not keeping to the terms of the contract.
Derivatives	We manage the risk on this portfolio in the same way as for the derivatives in Global Corporate Banking.
Social Housing	We manage the risk on this portfolio in the same way as for the Social Housing portfolio in Commercial Banking.

3. Monitoring

We regularly monitor and report our credit risk by portfolio, segment, industry, location and customer. 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 also 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 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

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

If a customer is having financial difficulty, we will work with them before they actually default to see if the difficulty can be addressed through forbearance. 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.

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

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 the credit risk on treasury products by adding their potential future exposure to market movements over their lives to their fair value. Then we add it to any other exposure and measure the total against our credit limits for each client.

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.

SEGMENTS – CREDIT RISK REVIEW

Credit risk arises on asset balances and off-balance sheet transactions such as credit facilities or guarantees. As a result, committed exposures are typically higher than asset balances.

However, committed exposures can be smaller than the asset balances on the balance sheet due to netting. We show Sovereigns and Supranationals net of short positions and Large Corporate reverse repurchase agreement exposures are shown net of repurchase agreement liabilities and include OTC derivatives. In addition, the derivative and other treasury product exposures (which are classified as 'Financial Institutions') shown are also typically lower than the asset balances. This is because we show our overall risk exposure which takes into account our procedures to mitigate credit risk. The asset balances on our balance sheet only reflect the more restrictive netting permitted by IAS 32.

Segments credit risk – committed exposures

Rating distribution

These tables show our credit risk exposure according to our internal rating scale (see 'Credit quality' in the 'ANTS group level – credit risk review' section) for each portfolio. On this scale, the higher the rating, the better the quality of the counterparty.

	9 (AAA to AA-) £m	8 (A+ to A) £m	7 (A- to BBB+) £m	6 (BBB to BBB-) £m	5 (BB+ to BB-) £m	4 (B+ to B) £m	1 to 3 (B- to D) £m	Other[1] £m	Total £m
2016									
Commercial Banking									
SME and mid corporate	**20**	**111**	**295**	**1,136**	**655**	**114**	**2**	**19**	**2,352**
Commercial Real Estate	**-**	**-**	**302**	**2,639**	**1,186**	**111**	**29**	**-**	**4,267**
Social Housing	**1,355**	**1,499**	**215**	**-**	**-**	**-**	**-**	**-**	**3,069**
	1,375	**1,610**	**812**	**3,775**	**1,841**	**225**	**31**	**19**	**9,688**
Global Corporate Banking									
Sovereign and Supranational	**1,025**	**2,964**	**977**	**-**	**-**	**-**	**-**	**-**	**4,966**
Large Corporate	**204**	**1,591**	**5,001**	**7,920**	**3,339**	**30**	**59**	**1**	**18,145**
Financial Institutions	**439**	**3,428**	**2,566**	**523**	**46**	**-**	**-**	**-**	**7,002**
	1,668	**7,983**	**8,544**	**8,443**	**3,385**	**30**	**59**	**1**	**30,113**
Corporate Centre									
Sovereign and Supranational	**4,607**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,607**
Structured Products	**-**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**30**
Derivatives	**-**	**12**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
Social Housing	**3,313**	**2,707**	**548**	**43**	**-**	**-**	**-**	**-**	**6,611**
	7,920	**2,749**	**548**	**43**	**-**	**-**	**-**	**-**	**11,260**
2015									
Commercial Banking									
SME and mid corporate	13	114	314	791	567	121	7	4	1,931
Commercial Real Estate	-	-	653	2,296	1,271	150	92	2	4,464
Social Housing	970	892	257	50	-	-	-	-	2,169
	983	1,006	1,224	3,137	1,838	271	99	6	8,564
Global Corporate Banking									
Sovereign and Supranational	889	2,766	789	-	-	-	-	-	4,444
Large Corporate	3	1,614	5,042	6,941	2,908	36	4	-	16,548
Financial Institutions	263	3,596	2,786	314	6	-	-	-	6,965
	1,155	7,976	8,617	7,255	2,914	36	4	-	27,957
Corporate Centre									
Sovereign and Supranational	3,611	-	-	-	-	-	-	-	3,611
Structured Products	13	40	37	-	-	-	-	-	90
Derivatives	-	484	-	-	-	-	-	-	484
Social Housing	3,423	2,940	1,072	213	-	-	-	-	7,648
	7,047	3,464	1,109	213	-	-	-	-	11,833

(1) Consists of smaller exposures mainly in the commercial mortgage portfolio. We use scorecards for them, instead of a rating model.

Geographical distribution

We classify geographical location according to country of risk – in other words, the country where each counterparty has its main business activity or assets unless there is a full risk transfer guarantee in place, in which case we use the guarantor's country of domicile instead. If our clients have operations in many countries, we use their country of incorporation.

	UK £m	Peripheral eurozone £m	Rest of Europe £m	US £m	Rest of World £m	Total £m
2016						
Commercial Banking						
SME and mid corporate	2,212	18	65	57	-	2,352
Commercial Real Estate	4,267	-	-	-	-	4,267
Social Housing	3,069	-	-	-	-	3,069
	9,548	18	65	57	-	9,688
Global Corporate Banking						
Sovereign and Supranational	332	977	666	-	2,991	4,966
Large Corporate	15,464	412	2,038	70	161	18,145
Financial Institutions	3,829	398	863	1,138	774	7,002
	19,625	1,787	3,567	1,208	3,926	30,113
Corporate Centre						
Sovereign and Supranational	946	-	-	3,661	-	4,607
Structured Products	30	-	-	-	-	30
Derivatives	-	-	12	-	-	12
Social Housing	6,611	-	-	-	-	6,611
	7,587	-	12	3,661	-	11,260
2015						
Commercial Banking						
SME and mid corporate	1,857	25	47	-	2	1,931
Commercial Real Estate	4,464	-	-	-	-	4,464
Social Housing	2,169	-	-	-	-	2,169
	8,490	25	47	-	2	8,564
Global Corporate Banking						
Sovereign and Supranational	-	789	872	-	2,783	4,444
Large Corporate	14,621	395	1,287	103	142	16,548
Financial Institutions	3,524	625	1,104	1,101	611	6,965
	18,145	1,809	3,263	1,204	3,536	27,957
Corporate Centre						
Sovereign and Supranational	1,190	-	-	2,334	87	3,611
Structured Products	34	-	6	50	-	90
Derivatives	-	-	194	290	-	484
Social Housing	7,648	-	-	-	-	7,648
	8,872	-	200	2,674	87	11,833

2016 compared to 2015 *(unaudited)*

Commercial Banking
In 2016, our committed exposures increased by 13% to £9.7bn (2015: £8.6bn), despite a competitive environment, economic uncertainty and the resulting slowdown in SME activity this year:
- Our SME and mid corporate exposures increased by 22% to £2.4bn (2015: £1.9bn) due to growth in the mid corporate portfolio more than offsetting a slight reduction in SME exposures.
- Our Commercial Real Estate portfolio decreased by 4% to £4.3bn (2015: £4.5bn) as we actively manage exposures to certain segments in line with our proactive risk management practices.
- Our Social Housing portfolio increased by 41% to £3.1bn (2015: £2.2bn), driven by refinancing of longer-dated loans previously managed in Corporate Centre onto shorter maturities (and on current market terms).

Global Corporate Banking
In 2016, our committed exposures increased by 8% to £30.1bn (2015: £28.0bn) mainly due to increases in our Sovereign and Supranational and Large Corporate portfolios:
- Sovereign and Supranational exposures increased by 12% to £5.0bn (2015: £4.4bn). Increased holdings, primarily in UK Government securities, were partly offset by decreases in European government securities as part of normal liquid asset portfolio management and short-term markets trading activity. The portfolio profile stayed mainly short-term (up to one year), reflecting the purpose of the holdings. Our rest of world exposures principally comprised of Japan, as in 2015.
- Large Corporate exposures increased by 10% to £18.1bn (2015: £16.5bn) driven by lending and origination activities relating to project and acquisition finance and transactional services, as well as increased lending to a number of our trading corporate customers. At 31 December 2016, our direct lending committed exposure to oil and gas customers was £1.4bn (2015: £1.1bn) and to mining customers was £1.1bn (2015: £1.0bn). Credit quality remained broadly stable. The portfolio profile stayed mainly short to medium-term (up to five years), reflecting the type of finance we typically provide to support our clients' needs.
- Exposures in our Financial Institutions portfolio remained stable at £7.0bn (2015: £7.0bn).

Corporate Centre
In 2016, committed exposures decreased by 5% to £11.3bn (2015: £11.8bn):
- Exposures in our Sovereign and Supranational portfolio are mainly cash at central banks and highly-rated liquid assets we hold as part of normal liquid asset portfolio management. The increase of 28% in the overall exposure to £4.6bn (2015: £3.6bn) was driven by an increase in deposits in the US.
- Social Housing exposures reduced in 2016 by 14% to £6.6bn (2015: £7.6bn) as we continued to refinance longer-dated loans onto shorter maturities (and on current market terms) that are then managed in Commercial Banking.

Segments – credit risk mitigation

Commercial Banking
At 31 December 2016, the collateral we held against impaired loans was 84% (2015: 100%) of the carrying amount of the impaired loan balances.

Global Corporate Banking
At 31 December 2016 the top 20 clients with derivative exposure made up 71% (2015: 71%) of our total derivative exposure, all of which were banks and CCPs. The weighted-average credit rating was 7.3 (2015: 7.4). At 31 December 2016 and 2015, we held no collateral against impaired loans in the Large Corporate portfolio.

Corporate Centre
We reduce credit risk in derivatives with netting agreements, collateralisation and the use of CCPs.

Segments – credit performance

We monitor exposures that show potentially higher risk characteristics using our Watchlist process (described in 'Risk monitoring' in the 'Credit risk management' section). The table below shows the exposures we monitor, and those we classify as non-performing by portfolio at 31 December 2016 and 2015:

	Committed Exposure					
		Watchlist				
	Performing £m	Enhanced Monitoring £m	Proactive Management £m	Non-performing exposure[1] £m	Total[2] £m	Observed impairment loss allowances £m
2016						
Commercial Banking						
SME and mid corporate	2,117	183	31	21	2,352	6
Commercial Real Estate	4,007	133	36	91	4,267	21
Social Housing	2,930	139	-	-	3,069	-
	9,054	455	67	112	9,688	27
Global Corporate Banking						
Sovereign and Supranational	4,966	-	-	-	4,966	-
Large Corporate	17,527	502	58	58	18,145	23
Financial Institutions	6,803	197	2	-	7,002	-
	29,296	699	60	58	30,113	23
Corporate Centre						
Sovereign and Supranational	4,607	-	-	-	4,607	-
Structured Products	30	-	-	-	30	-
Derivatives	12	-	-	-	12	-
Social Housing	6,447	164	-	-	6,611	-
	11,096	164	-	-	11,260	-
Total observed impairment loss allowances						50
Allowance for IBNO[3]						32
Total impairment loss allowances						82
2015						
Commercial Banking						
SME and mid corporate	1,670	188	66	7	1,931	6
Commercial Real Estate	4,248	66	77	73	4,464	24
Social Housing	2,162	7	-	-	2,169	-
	8,080	261	143	80	8,564	30
Global Corporate Banking						
Sovereign and Supranational	4,444	-	-	-	4,444	-
Large Corporate	15,335	1,159	54	-	16,548	-
Financial Institutions	6,909	4	52	-	6,965	-
	26,688	1,163	106	-	27,957	-
Corporate Centre						
Sovereign and Supranational	3,611	-	-	-	3,611	-
Structured Products	90	-	-	-	90	-
Derivatives	484	-	-	-	484	-
Social Housing	7,574	74	-	-	7,648	-
	11,759	74	-	-	11,833	-
Total observed impairment loss allowances						30
Allowance for IBNO[3]						33
Total impairment loss allowances						63

(1) Non-performing exposure includes committed facilities and derivative exposures. So it can exceed the NPLs in the table on page 38 which only include drawn balances.
(2) Includes committed facilities and derivatives. We define 'Enhanced Monitoring' and 'Proactive Management' in the 'Risk monitoring' section.
(3) Allowance for incurred but not observed (IBNO) losses as described in Note 1 to the Consolidated Financial Statements.

2016 compared to 2015 *(unaudited)*

Commercial Banking
In our SME and mid corporate portfolio, exposures subject to enhanced monitoring decreased by 3% to £183m (2015: £188m), exposures subject to proactive management decreased by 53% to £31m (2015: £66m) and non-performing exposures increased to £21m (2015: £7m). These movements were spread across a number of sectors and related mainly to trading concerns for certain customers.

In our Commercial Real Estate portfolio, exposures subject to enhanced monitoring increased to £133m (2015: £66m) and exposures subject to proactive management decreased to £36m (2015: £77m). Non-performing exposures increased marginally to £91m (2015: £73m) due to a loan of £50m that moved to non-performance which was partially offset by a number of exits on legacy cases. The £50m loan that moved to non-performance has fully repaid in 2017 and without this case non-performing exposures would have decreased at 31 December 2016. The portfolio remains well covered with an NPL coverage ratio of 31% (2015: 44%) and low write-offs of £nil (2015: £9m).

In our Social Housing portfolio, exposures subject to enhanced monitoring increased to £139m (2015: £7m) due to the addition of two customers following governance issues.

Global Corporate Banking
In our Large Corporate portfolio, exposures subject to enhanced monitoring decreased by 57% to £502m (2015: £1,159m) driven by the return of two large cases to performing as a result of improved trading. Exposures subject to proactive management increased to £58m (2015: £54m). Non-performing exposures increased to £58m (2015: £nil) due to the movement of a single exposure to non-performing.

In our Financial Institutions portfolio, exposures subject to enhanced monitoring increased to £197m (2015: £4m) due to concerns over capitalisation and the litigation impact on one of our trading customers.

Corporate Centre
In our Social Housing portfolio, exposures subject to enhanced monitoring increased to £164m (2015: £74m) due to the addition of two customers following governance issues.

Non-performing loans and advances[1][2]

We analyse NPLs for Commercial Banking and Global Corporate Banking below. There were no NPLs in Corporate Centre at 31 December 2016 and 2015.

	Commercial Banking £m	Global Corporate Banking £m
2016		
Loans and advances to customers of which:[2]	3,645	3,699
NPLs[3]	112	52
Impairment loss allowances	35	47
	%	%
NPL ratio[4]	3.07	1.41
Coverage ratio[5]	31	90
2015		
Loans and advances to customers of which:	3,330	3,384
NPLs[3]	79	-
Impairment loss allowances	39	24
	%	%
NPL ratio[4]	2.37	-
Coverage ratio[5]	49	-

(1) We define NPLs in the 'Credit risk management' section.
(2) Includes Social Housing loans and finance leases.
(3) All NPLs continue accruing interest.
(4) NPLs as a percentage of loans and advances to customers.
(5) Impairment loss allowances as a percentage of NPLs. Impairment loss allowances relate to early arrears and performing assets (i.e. the IBNO provision) as well as NPLs, so the ratio can exceed 100%.

NPL movements in 2016

We analyse NPL movements in 2016 below. 'Entries' are loans which we have classified as NPLs in 2016. 'Exits (including repayments)' are the part of loans that has been repaid (in full or in part), plus loans that returned to performing status. 'Write-offs' are the unrecovered part of loans where we have exhausted recovery options, including realising any collateral. Forbearance does not change the NPL status.

	Commercial Banking £m	Global Corporate Banking £m
At 1 January 2016	79	-
Entries	64	52
Exits (including repayments)	(31)	-
Write offs	-	-
At 31 December 2016	112	52

Segments – forbearance

We only make forbearance arrangements for lending to customers. At 31 December 2016 and 2015 there was no forbearance activity in Corporate Centre.

	Commercial Banking £m	Global Corporate Banking £m
2016		
In-flow during the year[1]		
- Term extension	31	11
- Interest-only	-	-
- Other payment rescheduling	14	-
	45	11
Stock[2]		
- Term extension	44	11
- Interest-only	-	-
- Other payment rescheduling	46	-
	90	11
Of which:		
- Non-performing	40	-
- Performing	50	11
	90	11
Proportion of portfolio	0.9%	<0.1%
2015		
In-flow during the year[1]		
- Term extension	-	-
- Interest-only	-	-
- Other payment rescheduling	-	-
	-	-
Stock[2]		
- Term extension	52	-
- Interest-only	-	-
- Other payment rescheduling	46	-
	98	-
Of which:		
- Non-performing	38	-
- Performing	60	-
	98	-
Proportion of portfolio	1.1%	-

(1) The figures reflect the forbearance activity in the year, regardless of whether there was any forbearance on the accounts before.
(2) We base forbearance type on the first forbearance we applied. Tables only show accounts open at the year-end.

2016 compared to 2015 *(unaudited)*

Commercial Banking
At 31 December 2016 and 31 December 2015, we only had forbearance arrangements with our SME and mid corporate and Commercial Real Estate customers. The forbearance started in 2016 was due to activity in a relatively small number of loans.

At 31 December 2016, the cumulative forbearance stock reduced slightly to £90m (2015: £98m). This was due to the application of exit criteria to our forbearance policy in 2016 as described in 'Forbearance' in the 'ANTS group level – credit risk management' section. Applying these exit criteria to our forbearance stock at 31 December 2015, the loans reported as forborne would reduce by £30m to £68m. The exit criteria impact was offset by an increase in the stock position of forbearance due to the inflows in the year in our SME and mid corporate portfolio.

The accounts in forbearance as a percentage of the portfolio reduced to 0.9% (2015: 1.1%). At 31 December 2016, 88% (2015: 84%) of the cumulative forbearance stock had entered forbearance before default.

Global Corporate Banking
At 31 December 2016, there was one forborne case of £11m (2015: £nil), of which £nil (2015: £nil) was classified as NPL.

PORTFOLIOS OF PARTICULAR INTEREST

Introduction (unaudited)

Some types of lending have higher risk and others stand out for different reasons. In the section below we provide further details of our Commercial Real Estate and Social Housing portfolios.

Product	Description
Commercial Real Estate	The Commercial Real Estate market experienced a challenging environment in the immediate years after the last financial crisis and has previously seen regular cyclical downturns. In addition to the disclosures on the Commercial Real Estate portfolio earlier in this section, we include below more detail on credit management, credit performance, and LTV and sector analyses.
Social Housing	The Social Housing sector in the UK is critical in ensuring the supply of affordable housing across the country. Housing associations now play a prominent role in addressing the UK's shortage of housing stock across all tenures. The sector benefits from a zero-loss default history aided by its regulated nature. We hold a significant position in this market. Continued investment in this sector is seen as a direct way to support the UK and, indirectly, the wider community initiatives undertaken by our customers.

Commercial Real Estate

Commercial Real Estate - credit performance

The table below shows the main Commercial Real Estate credit performance metrics at 31 December 2016 and 2015:

	Customer loans	NPLs[(1)(2)]	NPL ratio[(3)]	NPL Coverage[(4)]	Gross write-offs	Impairment loss allowances
	£bn	£m	%	%	£m	£m
2016	3.7	91	2.44	31	-	28
2015	3.7	73	1.94	44	9	32

(1) We define NPLs in the 'Credit risk management' section.
(2) All NPLs continue accruing interest.
(3) NPLs as a percentage of customer loans.
(4) Impairment loss allowances as a percentage of NPLs. Impairment loss allowances relate to early arrears and performing assets (i.e. the IBNO provision) as well as NPLs, so the ratio can exceed 100%.

2016 compared to 2015 *(unaudited)*

At 31 December 2016, our non-performing loan ratio was 2.44% (2015: 1.94%) reflecting our conservative credit risk policy. The increase in ratio was due to a loan of £50m that moved to non-performance which was partially offset by a number of exits on legacy cases. The £50m loan that moved to non-performance has fully repaid in 2017 and without this case non-performing loans would have decreased at 31 December 2016. Commercial Real Estate loans written before 2009 totalled £198m (2015: £241m). The pre-2009 loans were written on market terms which, compared with more recent times and following a significant tightening in our lending criteria, included higher original LTVs, lower interest coverage and exposure to development risk.

Commercial Real Estate – LTV analysis

The tables below show the LTVs (based on the drawn balance and our latest estimate of the property's current value) of the portfolio at 31 December 2016 and 2015:

	2016		2015	
Loans and advances to customers	£m	%	£m	%
<=70%	3,464	93	3,422	92
>70-100%	72	2	116	3
>100% i.e. negative equity	26	1	19	1
Other	47	1	49	1
Total with collateral	3,609	97	3,606	97
Development loans	114	3	108	3
	3,723	100	3,714	100

	2016		2015	
NPLs	£m	%	£m	%
<=70%	-	-	16	22
>70-100%	48	53	21	29
>100% i.e. negative equity	25	27	18	24
Other	-	-	-	-
Total with collateral	73	80	55	75
Development loans	18	20	18	25
	91	100	73	100

Commercial Real Estate - sector analysis

The table below shows the sector analysis of the portfolio at 31 December 2016 and 2015:

	2016		2015	
Sector	£m	%	£m	%
Office	1,240	33	1,058	29
Retail	852	23	912	25
Industrial	551	15	588	16
Residential	199	5	231	6
Mixed use	517	14	453	12
Student accommodation	65	2	53	1
Hotels and leisure	145	4	214	6
Other	154	4	205	5
	3,723	100	3,714	100

2016 compared to 2015 (unaudited)
The Commercial Real Estate portfolio of £3,723m (2015: £3,714m) is well diversified across sectors, with no significant regional or single name concentration.

At 31 December 2016, the LTV profile of the portfolio remained conservative with £3,464m (2015: £3,422m) of the portfolio at or below 70% LTV.

Loans with development risk were only 3% (2015: 3%) of the total Commercial Real Estate portfolio. Development lending is typically on a non-speculative basis with significant pre-lets in place and/or pre-sales in place.

In 2016, no new business was written above 70% LTV, and 100% was at or below 60% LTV. At 31 December 2016, the average LTV of the portfolio, weighted by exposure, was 50% (2015: 53%). The weighted average LTV of new deals in 2016 was 48% (2015: 50%).

The average loan balance at 31 December 2016 was £28.9m (2015: £30.2m) and the top ten exposures made up 19% (2015: 19%) of the total Commercial Real Estate portfolio exposure.

Commercial Real Estate - refinancing risk

As part of our annual review process, for Commercial Real Estate loans approaching maturity, we look at the prospects of refinancing the loan on current market terms and applicable credit policy. Where this seems unlikely we put the case on our Watchlist.

At 31 December 2016, Commercial Real Estate loans of £646m (2015: £687m) were due to mature within 12 months. Of these, £100m, i.e. 15% (2015: £101m, i.e. 15%) had an LTV ratio higher than is acceptable under our current credit policy. At 31 December 2016, 91% (2015: 100%) of this had been put on our Watchlist or recorded as NPL and had an impairment loss allowance of £20m (2015: £13m).

Social Housing

At 31 December 2016 and 2015, our total Social Housing exposure in Commercial Banking and Corporate Centre was:

	2016		2015	
	Drawn £m	Total £m	Drawn[1] £m	Total £m
Commercial Banking	1,897	3,069	1,274	2,169
Corporate Centre	5,442	6,611	6,216	7,648
	7,339	9,680	7,490	9,817

(1) These numbers are unaudited.

MARKET RISK

TRADING MARKET RISK

OUR KEY TRADING MARKET RISKS (unaudited)

Our main exposure to trading market risk is in Global Corporate Banking and is an inherent part of providing financial services for our customers. It comes from providing derivative products and services to corporate and business customers. It also comes from our short-term market activities and hedging of structured products designed for onward sale to retail and wholesale investors. The exposures are mainly affected by market movements in interest rates, equities, credit spreads, and foreign exchange. We have no exposures in Commercial Banking or Corporate Centre.

Trading market risk can reduce our net income. Its effect can be seen in our Consolidated Income Statement, where it appears in the 'Net trading and other income' line, under 'Net trading and funding of other items by the trading book'.

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.

Risk measurement (unaudited)

We have a range of ways of measuring trading market risk, but one of the most important is a statistical measure based on a historical simulation of events called 'Value at Risk' (VaR).

VaR

VaR
– VaR estimates the maximum losses that we might suffer because of unfavourable changes in the markets.
– To calculate VaR we run a historical simulation, at a given confidence level, over a specified time period.
– We use one or two years of daily price history, with each day given equal weighting.
– This means we include most market risk factors that could make a difference, and it gives us a consistent way of assessing risk for all these factors in all our portfolios.
– We work with three main types of VaR, which all use the same calculation models. They are Internal VaR, Regulatory VaR and Stressed VaR. We have governance and controls for all forms of VaR, and we regularly review and assess them.

Internal VaR
– We use this to calculate the total VaR in our trading book. It covers all the risk classes: interest rate, equity, credit (spread) and foreign exchange. We use two years of data for this simulation.
– Like the rest of Banco Santander, we use a time horizon of one day and a confidence level of 99%. For any given day's trading position, we would expect to suffer losses greater than the VaR estimate 1% of the time – once every 100 trading days, or two to three times a year.
– For Internal VaR, we also calculate a time-weighted VaR using Banco Santander's method. This gives more weight to the most recent days in the last two years, which means VaR changes more quickly in line with current market volatility. That gives us a better indication of how the market's behaviour is changing, mitigating some limitations of VaR.
– We measure Internal VaR every day, comparing the equally-weighted result with the time-weighted result and report the higher against the Santander UK and business unit level limits. These Santander UK limits are approved by the Santander UK Executive Risk Control Committee. We also report our equally-weighted VaR against asset class and individual desk level limits. Whenever we find a limit has been exceeded, we report it, following the market risk framework.

Regulatory VaR and Stressed VaR
– We use these VaR models to calculate how much capital we need to hold for trading market risk. For these calculations, we only look at the factors for which we hold approval from the PRA. For credit and foreign exchange – factors which are not approved by the PRA for our VaR capital models – we use the standardised approach to calculate how much capital to hold. For more on this, see the 'Capital requirement measures' section.
– For Regulatory VaR, we use a time horizon of ten days and a confidence level of 99%. To calculate the ten-day time horizon, we use the one-day VaR multiplied by the square root of ten. This is the industry standard approach to scaling known as the 'square root of time' approach. We use the same two years of history as with Internal VaR. Stressed VaR is the same, except that we use only one year of history, from a time when markets were stressed relative to our current portfolio.
– The PRA also assesses Regulatory VaR and Stressed VaR.

The limitations of VaR

The main limitation of VaR is that it assumes what happened in the past is a reliable way to predict what will happen in the future. If something that affected the markets over the past two years is no longer relevant, then the actual value at risk could be much more or less than the VaR predicts. Sometimes it is obvious that the past data will not predict the future: there is unlikely to be enough data on the history of the market if a product is brand new, for example. In that case, we use proxy data – calculations of what might have happened if the product had existed. That helps make VaR data more complete, but it makes it less accurate. We control and keep a record of how we use proxy data.

Another limitation is that VaR is based on positions at the end of the business day. So the actual value at risk at 1pm could be higher than that at the end of the day. And, when we are calculating a ten-day time horizon using the 'square root of time' approach, it means we do not capture the actual ten-day price movements. This can lead to under or over estimating the ten-day result. But we analyse this every quarter and the analysis is also sent to the PRA.

There is also the fact that VaR gives no guide to how big the loss could be on the 1% of trading days that it is greater than the VaR. To make up for that (and for other reasons), we use stress testing and expected shortfall analysis, which we explain later in this section.

Using a time horizon of one day means VaR does not tell us everything about exposures that we cannot liquidate or hedge within a day, or products with infrequent pricing or whose structures are more complex. We monitor those exposures using illiquid risks metrics (explained in 'Other ways of measuring risk') and stress testing. In addition to using the illiquid risks metrics, to ensure such exposures are adequately included in our regulatory capital requirements, we have developed the Risks Not in VaR (RNIV) framework, in line with the regulatory requirement.

In general, VaR takes account of the main ways risk factors affect each other, and the way most market movements affect valuations. But the more complex the products, and the larger the markets' current movements, the less well the model is likely to fare.

Back-testing – comparing VaR estimates with reality

Every day, we back-test the one day 99% Internal and Regulatory VaR. That means looking at the VaR estimates for the last 250 days and seeing how they compare to the actual profits and losses. Or, to be more precise, how they compare to the market risk-related revenue, as the CRR and PRA define it. It is not normally possible to back-test the Stressed VaR model, because it is not intended to tell us anything about our performance in normal conditions.

To back-test VaR, we use a one-day time horizon. Our back-testing looks at two different types of profit and loss metrics:
- Actual: trading profit and loss, less fees, commissions, brokerage, reserves that are not related to market risk, and Day One sales profits
- Hypothetical: like the 'Actual' type but also excluding intra-day figures and the effects of the passage of time. It is, in effect, just leaving the pure market risk driven effects on the profit and loss.

Exceptions

Back-testing allows us to identify exceptions – times when the predictions were out of line with what happened. We can then look for trends in these exceptions, which can help us decide whether we need to recalibrate our VaR model. The CRR sets out criteria for how many exceptions are acceptable in the Regulatory VaR model. The PRA's Supervisory Statements clarify the requirements further. If there are five or more exceptions in 250 days, then points are added to our capital requirement multiplier. In 2016, as in 2015, no points were added to our multiplier, and we did not find any trends in the exceptions we experienced.

Other ways of measuring risk

As well as VaR, we use the following methods to measure risk:

Method	Description
Profit and loss	The value of our tradeable instruments, such as shares and bonds, changes constantly. We report our profits and losses from them every day.
Non-statistical measures	We also have ways of measuring risk that do not depend on statistics. That includes looking at how sensitive we are to the variables we use to value our market risk positions. We record all our market risk exposures, set limits to the sensitivities for each, and then check every day whether we are staying within those limits.
Illiquid risks	The financial instruments that we cannot sell or hedge in a day are classified as 'illiquid risks'. We measure and monitor those differently depending on how long they would take to sell or hedge. There are three categories: less than a month, one to six months, or greater than six months. We check each category every day against our limits.
Expected shortfall (ES) analysis	We also use a measurement called ES analysis. It goes some way to mitigate the limitations of the VaR model. ES allows us to better measure how big the loss could be on the 1% of the trading days that it is greater than VaR.

Stress testing

The Basel Capital Accord underlined that stress testing is an essential part of risk management. It helps us to measure and control the risk of losses in difficult, volatile or unusual markets, and makes us more transparent as the scenarios are easy to understand in headline terms.

Stress testing scenarios

The scenarios we use for stress testing are part of our process for setting our trading market risk appetite, and they are central to the monthly Santander UK Board Risk Appetite reporting. These scenarios are also part of the daily processes for setting and monitoring risk management limits. The scenarios we create are partly inspired by past events, like the global financial crisis. But they also include plausible ways that unusual market conditions could occur in future. This includes changes in interest rates, equity prices, exchange rates and credit spreads.

Some scenarios are more severe than others. We consider them all, along with VaR, so that we have a more complete and accurate idea of our overall risk profile. When we set the sizes of the 'shocks' (sudden market changes) in each scenario, we look at how long each different type of risk would last. This is because we can sell some assets more easily than others. If it would take a long time to sell a particular asset in the stressed circumstances, we need to apply a correspondingly large shock to that asset (as prices will move further over a longer time period). That helps us to see how different amounts of liquidity in the markets would affect us if a 'stress event', such as an equity crash, happened. It is important to make sure that the stress result we report is as realistic as possible.

How we use stress testing

We use limits to manage how much risk we take. They are expressed as how much we could lose in a stress event. We need to make sure the effects of potential poor market conditions do not exceed the Risk Appetite set by the Santander UK Board. Each of our desks uses stress testing as part of their daily risk management metrics. We regularly inform senior managers – including the Santander UK Executive Risk Control Committee and the Santander UK Board Risk Committee – about the results of our stress calculations, based on our current positions.

Capital requirement measures

Whenever we make changes to our models, we assess their effect on our capital requirements. Sometimes that means we need to tell the PRA and get their approval before we can make the change.

Method	Description
The Internal Models Approach (IMA)	The PRA has given us permission to use the IMA, in line with CRR, and every three months the PRA reviews what we are doing. The IMA means we can use Regulatory and Stressed VaR and RNIV to calculate the trading market risk capital requirement for the risk factors and businesses that we have PRA approval for.
The standardised approach	For risk factors and businesses not included in the IMA, we use the standardised approach set out by the CRR and PRA Supervisory Statements. At 31 December 2016, this amounted to 10% of our total market risk capital requirement.
Stressed versus Regulatory VaR	Stressed VaR is the biggest part of our trading market risk capital requirements. In 2016, and 2015 it was an average of five times bigger than the Regulatory VaR part. The factors that had the biggest effect on Stressed VaR in 2016 and 2015 were interest rate delta and interest rate basis. (Further explanation of each of those factors in the footnotes to the table in the 'Trading market risk review' section.) The difference is caused by the way the market was behaving during the time the Stressed VaR data covers. We regularly check the stress period we use, to make sure we are using the worst period of stress since 2007 that is relevant to our portfolio.
Risks Not in VaR (RNIV) risk capital	These risk factors can arise when there is not enough (or no) market data from the past, or when the quality of the data is not good enough. They tend to be for products that are not priced regularly, or whose risk structure is more complex In 2016, RNIV risk factors made up, on average, less than 4% (2015: 5%) of our IMA capital requirements for trading market risk. The biggest individual risk factor is dividend risk, caused by changes in market expectations about dividends. The VaR approach does not capture this risk very well because of the illiquid nature of the risk factor. We normally find new RNIVs by analysing profit and loss, and new products. Then we include them in our calculation of our capital requirement, whether or not they are material at the time, and inform the regulator in the appropriate manner. We can use two approaches to calculate how much RNIV capital we should hold, depending on what kind of market data is available. The first approach means doing a calculation like those for Regulatory VaR and Stressed VaR. For this approach we also use a multiplication factor, following the CRR and PRA rules. The second approach is stress-based, using sensitivities and plausible stressed market moves. At the moment, we only have stress-based RNIVs. And each individual RNIV value is independent, so it does not benefit from diversification in the capital requirements calculation.

Risk mitigation (unaudited)

We manage and control trading market risk within clear parameters. We measure and monitor our risk exposures against these limits. There are specific levels that trigger relevant teams to take action or alert people in other functions. This means we can limit the impact of any negative market movements, while also improving our earnings. We keep the business units that originate trading market risk separate from the functions responsible for managing, controlling and overseeing risk.

Risk monitoring and reporting (unaudited)

We document and maintain a complete set of written policies, procedures and processes to help identify, assess, manage and report trading market risk.

TRADING MARKET RISK REVIEW

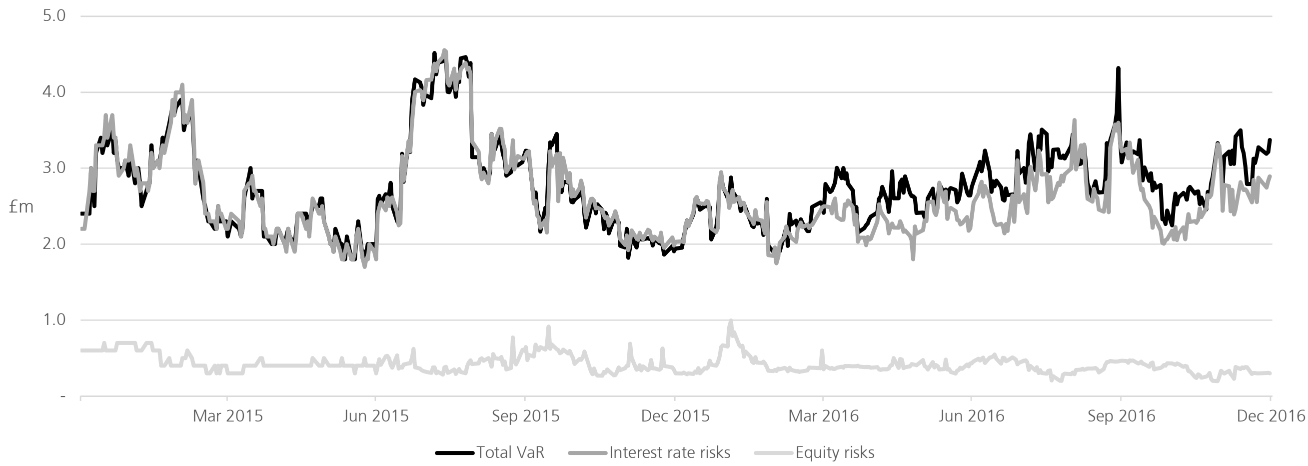
VaR

This table shows our Internal VaR for exposure to each of the main classes of risk for 2016 and 2015. 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	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Interest rate risks[1]	**2.9**	2.0	**2.5**	2.8	**3.6**	4.6	**1.7**	1.7
Equity risks[2]	**0.3**	0.3	**0.4**	0.4	**1.0**	0.9	**0.2**	0.3
Credit (spread) risks[3]	**-**	-	**-**	-	**-**	0.2	**-**	-
Foreign exchange risks	**1.5**	0.1	**1.4**	0.1	**2.2**	0.1	**0.1**	-
Correlation offsets[4]	**(1.3)**	(0.5)	**(1.6)**	(0.5)	**-**	-	**-**	-
Total correlated one-day VaR	**3.4**	1.9	**2.7**	2.8	**4.3**	4.5	**1.8**	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.

Daily total correlated one-day VaR 2016 and 2015 (unaudited)



BANKING MARKET RISK

OUR KEY BANKING MARKET RISKS (unaudited)

Banking market risk mainly comes from providing banking products and services to customers – as well as structural balance sheet exposures. It arises in all of Santander UK's (including ANTS') business segments. In Santander UK's Retail Banking and Commercial Banking it arises as a by-product of writing customer business and we transfer most of these risks to Corporate Centre who manage them. The only types of material banking market risk kept in Santander UK's Retail Banking and Commercial Banking are short-term mismatches due to forecasting variances in prepayment and launch risk – that is, where customers pre-pay loans before their contractual maturity or do not take the expected volume of new products. In Global Corporate Banking, it arises from short term markets and lending to corporates, which we also transfer to Corporate Centre to manage. Corporate Centre also manages our structural balance sheet exposures, such as foreign exchange and income statement volatility risk.

Our key banking market risks are:

Key risks	Description
Interest rate risk	Yield curve risk: comes from timing mismatches in the repricing of fixed and variable rate assets, liabilities and off-balance sheet instruments. It also comes from investing non-interest-bearing liabilities in interest-bearing assets. We mainly measure yield curve risk with Net Interest Margin (NIM) and Economic Value of Equity (EVE) sensitivity analysis. We supplement this with other risk measures, like stress testing, and VaR. The NIM and EVE sensitivities cover all material yield curve risk in the banking book balance sheet. Basis risk: comes from pricing assets using a different rate index to the liabilities funding them. We are exposed to basis risks associated with Base Rate, reserve rate linked assets we deposit with central banks, the Sterling Overnight Index Average (SONIA) rate, and LIBOR rates of different terms. We are particularly exposed to the difference between Base Rate linked rates earned on customer assets, and wholesale (LIBOR-linked) rates paid on liabilities funding those assets.
Inflation and spread risks	This arises when the value of (or income from) our assets or liabilities is affected by changes in inflation and credit spreads. We hold portfolios of securities for liquidity and investment purposes that are exposed to these risks. We account for these as available-for-sale securities. We recognise the volatility in their fair value in Other comprehensive income, until they are sold or unless it reflects an impairment in the asset's fair value, in which case we recognise it in income.
Foreign exchange risk	Our non-trading businesses operate mainly in sterling markets, so we do not create significant foreign exchange exposures. The only exception is money we raise in foreign currencies, which we discuss in the 'Wholesale funding' section.
Income statement volatility risk	Most of our assets and liabilities in our banking book balance sheet are measured at amortised cost. We sometimes manage their risk profile by using derivatives. As all derivatives are accounted for at fair value, the difference in accounting treatment can lead to volatility in the income statement. This happens even where the derivative is an economic hedge of the asset or liability.

BANKING MARKET RISK MANAGEMENT

Risk appetite

Our framework for dealing with market risk is part of the overall Santander UK Risk Framework. The market risk Framework sets out our high-level arrangements and minimum standards for managing, controlling and overseeing 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, and NIM and EVE sensitivity limits set by Banco Santander.

Risk measurement (unaudited)

For banking market risk, we mainly measure our exposures with NIM and EVE sensitivity analysis – supported by the risk measures we explained in the 'Trading market risk management' section. We also monitor our interest rate repricing gap.

NIM and EVE sensitivities

NIM and EVE sensitivity measures are commonly used in the financial services industry. The calculations for NIM and EVE sensitivities involve many assumptions, including expected customer behaviour (such as early repayment of loans) and how interest rates may move. These assumptions are a key part of the overall control framework, so we update and review them regularly. Our NIM and EVE sensitivities include the interest rate risk from all our banking book positions. Our banking book positions generate almost all our reported net interest income.

NIM sensitivity
– NIM sensitivity is an income-based measure we use to forecast the changes to interest income and interest expense in different scenarios. It gives us a combined impact on net interest income over a given period – usually 12 months.
– We calculate NIM sensitivity by simulating the NIM using two yield curves. The difference between the two NIM totals is the NIM sensitivity.
– Our main model assumptions are that: – The balance sheet is dynamic, meaning it includes the run-off of current assets and liabilities as well as retained and new business. – We use a behavioural balance sheet rather than contractual one. This means we adjust balances for behavioural or assumed profile. We do this with most retail products whose behavioural maturity is less than the contractual maturity. This is usually because customers are exercising the option for early withdrawal or prepayment, or there is no contractual maturity.

EVE sensitivity	
–	We calculate EVE as the change in the net present value of all the interest rate sensitive items in the banking book balance sheet for a defined set of instantaneous parallel shifts in the yield curve.
–	We use a static balance sheet, all balance sheet items run-off according to their contractual, behavioural or assumed run-off behaviour (whichever is appropriate), and there is no retained or new business.

The limitations of sensitivities
We use sensitivities to measure the impact of standard, instantaneous, parallel shifts in relevant yield curves, using a 0% interest rate floor where needed. The advantage of using standard parallel shifts is they generally give us a constant measure of the size of our market risk exposure, with a simple and consistent stress. This compares to specific scenarios like 'flat rates'. The magnitude of flat rates depends on the shape of the current curve and the shift required to reach the flat rate scenario. There is one exception to the relative simplicity of parallel shifts. In order to prevent negative interest rates, the yield curve may be 'floored' at 0%. Using material parallel shocks does not always seem realistic, or it might not necessarily test the scenarios that have the most impact on us. So we run non-parallel stress tests too – to calculate the impact of some plausible non-parallel scenarios, and over various time periods for income stresses (usually one or three years).

Other ways of measuring risk

As well as using sensitivities and stress tests, we can measure banking market risk using net notional positions. This can give us a simple expression of our exposure, although it generally needs to be combined with other risk measures to cover all aspects of a risk profile, such as projected changes over time. The final metric we can use is VaR. VaR can be useful because it captures changes in economic values. However, VaR will not reflect the actual impact of most of our banking book assets and liabilities on our income statement. This is because they are accounted for at amortised cost rather than fair value.

Stress testing

We use stress testing of market risk factors to complement the risk measurement we get from standard sensitivities.

Stress testing scenarios
Simple stress tests (like parallel shifts in relevant curves) give us clear measures of risk control and a consistent starting point for setting limits. More complex, multi-factor and multi-time period stress tests can give us information about specific potential events and test various outcomes that we might not capture through parallel stresses or VaR-type measures because of data or model limitations. We can also use stress tests to estimate losses in extreme market events beyond the confidence level used in VaR models. We can adapt stress tests to reflect current concerns or market conditions quicker than we can with other risk measures, like VaR. We can include both individual business area stresses and Santander UK-wide scenarios.

Our stress tests fall into one of these categories:
- Specific, deterministic stress tests that are not referenced to market history or expectations (parallel stresses of a given size, for example)
- Historic, deterministic stress tests with changes in market risk factors based either on specific past events (like the situation in the fourth quarter of 2008) or on our statistical analysis of changes in the past
- Hypothetical, deterministic stress tests with changes in market risk factors based on our judgement of possible future rates in a given scenario.

We can produce stress tests using either income or value measures. They cover one or more categories of exposures accounted for on an accruals basis or at fair value. We use expert judgement both in defining appropriate hypothetical stress tests and any adjusting assumptions based on the balance sheet, management actions and customer behaviour.

How we use stress testing
We discuss stress testing results at senior level management committees. They affect Corporate Centre's decisions by highlighting possible risks in the banking book and the effectiveness of remedial actions we could take. We compare stress test results with stress limits and triggers set by our internal committees, or against metrics set by the PRA. If the results are over our limits or triggers, we take remedial actions and follow an escalation process.

Risk mitigation (unaudited)

We hedge our foreign currency funding positions back to sterling, so our foreign exchange positions tend to be residual exposures that remain after hedging. These positions could be, for example, to 'spot' foreign exchange rates or to cross currency basis. We monitor foreign exchange risk against absolute net exposures and VaR-based limits and triggers. For more, see 'Our funding strategy and structure' and 'Term issuance' in the 'Liquidity risk' section.

We mitigate income statement volatility mainly through hedge accounting. We monitor any hedge accounting ineffectiveness that might lead to income statement volatility, with a VaR measure and trigger, reported monthly. For our accounting policies for derivatives and hedge accounting, see Note 1 to the Consolidated Financial Statements. We typically hedge the interest rate risk of the portfolio of securities we hold for liquidity and investment purposes with interest rate swaps, retaining spread and inflation exposures. These retained exposures are the key drivers of the VaR and stress tests we use to assess the risk of the portfolio.

Risk monitoring and reporting (unaudited)

We monitor the banking market risks of the portfolios held for liquidity and investment purposes using sensitivities, VaR and stress tests. We report them against limits and triggers to senior management daily and to Santander UK's ALCO and Executive Risk Control Committee monthly. The VaR we report captures all key sources of volatility (including interest rate, inflation and credit spread risks) to fully reflect the potential volatility.

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 upwards and downwards) applied instantaneously to the yield curve at 31 December 2016 and 2015. 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.

	2016		2015	
	+50bps £m	-50bps £m	+50bps £m	-50bps £m
NIM sensitivity	240	(82)	131	39
EVE sensitivity (unaudited)	54	(30)	86	(54)

2016 compared to 2015 (unaudited)
The movement in NIM sensitivities in 2016 was largely due to market volatility and reduced levels of the yield curve following the UK referendum on EU membership and the subsequent Base Rate cut. This, combined with savings products re-pricing (including changes to the terms of Santander UK's 1I2I3 Current Account and some variable rate savings products) and changes in underlying management assumptions, has increased NIM sensitivities to both up and down 50bps parallel shocks.

The reduction in EVE sensitivities in 2016 largely reflected our hedging activity to mitigate the risks of a continuing low interest rate environment, the increased volume of fixed rate assets left unhedged as well as the changes in the underlying management assumptions used for risk measurement purposes mentioned above.

We have also taken actions to be prepared for the possibility of negative interest rates in the UK, including a review of our systems and models, and to ensure any potential impact on our customers is appropriately managed.

Basis risk (unaudited)

We measure basis risk using various risk measures, including VaR. The VaR measure uses the same VaR methodology as our trading book. The basis risk VaR for the Santander UK group (including ANTS) reflects our basis risk exposure between the Base Rate, reserve rate linked assets deposited with central banks, the Sterling Overnight Index Average (SONIA) rate and between London Interbank Offered Rates (LIBOR) of different terms.

2016 compared to 2015
The basis risk VaR for the Santander UK group (including ANTS) at 31 December 2016 was £13m (2015: £1m). The increase in 2016 was largely due to underlying net basis position changes as a result of the continued reduction in SVR mortgages and growth in bank account liability volumes.

Interest rate repricing gap (unaudited)

The table below shows the interest rate repricing gap of Santander UK's balance sheet by repricing buckets.

	3 months £m	1 year £m	3 years £m	5 years £m	>5 years £m	Not sensitive £m	Total £m
2016							
Assets	139,262	31,817	54,289	16,883	16,358	17,337	275,946
Liabilities	166,131	20,418	23,231	18,451	25,517	26,000	279,748
Off-balance sheet	(15,463)	7,596	(611)	7,361	4,919	-	3,802
Net gap	(42,332)	18,995	30,447	5,793	(4,240)	(8,663)	-
2015							
Assets	139,374	25,911	49,349	19,414	10,097	16,397	260,542
Liabilities	149,444	23,186	21,304	14,063	24,910	26,801	259,708
Off-balance sheet	(18,615)	1,274	10,799	(1,213)	6,921	-	(834)
Net gap	(28,685)	3,999	38,844	4,138	(7,892)	(10,404)	-

Inflation and spread risks (unaudited)

The VaR of the portfolios of securities the Santander UK group (including ANTS) held for liquidity and investment purposes was £5m at 31 December 2016 (2015: £3m). The main risk factors remain the inflation and spread risk exposures of these positions. The increase in 2016 was mainly as a result of portfolio growth and rebalancing, plus the impact of more volatile market data used in the VaR calculation.

We regularly stress test the portfolio against historical and hypothetical scenarios. Using the possible losses from the stress tests, we establish limits that complement our VaR-based limits. At 31 December 2016, using historic deterministic stress tests, we estimated the worst three month stressed loss for these portfolios to be £280m (2015: £259m). The increase in simulated stress loss from these portfolios was mainly due to portfolio growth from both new asset purchases, and a rise in the GBP value of foreign currency denominated assets, following the fall in the value of GBP after the UK referendum on EU membership.

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 group 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). It is assumed that each member of the DoLSub will support the others by transferring surplus liquidity in times of stress. In considering the liquidity resources available to the ANTS group, both its own liquid assets and also those of the rest of the Santander UK group have been separately presented below.

These stress tests are supplemented with sensitivity analysis for instantaneous liquidity shocks by each major liquidity risk driver to understand the impact on internal liquidity risk appetite and regulatory liquidity metrics.

OUR KEY LIQUIDITY RISKS (unaudited)

Through our liquidity risk appetite framework, we manage our funding or structural contingent and market liquidity risks wherever they arise. This can be in any of the following areas:

Key risks	Description
Retail and corporate deposit outflows	– Outflows if Santander UK is seen as more of a credit risk than our peers.
Wholesale secured and unsecured liquidity outflows	– Wholesale unsecured deposits failing to roll over at maturity date. – An inability to replace wholesale secured funding on maturity.
Off-balance sheet activities	– Collateral outflows if our credit rating was downgraded. Credit rating downgrades could also lead to higher costs or less capacity to raise funding. – Outflows of collateral we owe but that have not yet been called. – Outflows of collateral due to market movements. – Drawdowns on committed facilities based on facility type, and counterparty type and creditworthiness.
Other risks	– Funding concentrations – outflows against concentrations of wholesale secured financing providers. – Intra-day cash flows – shortfall on the liquidity we need to support intra-day needs. – Intra-group commitments and support – cash in our subsidiaries becoming unavailable to the wider Santander UK group and contingent calls for funding from subsidiaries and affiliates. – Franchise retention – outflows we need to support our future business and reputation.

LIQUIDITY RISK MANAGEMENT

Introduction (unaudited)

Santander UK manages liquidity risk on a consolidated basis. It created its governance, oversight and control frameworks, and its liquidity risk appetite (LRA), on the same basis. Under this model, and the PRA's regulatory liquidity rules, Santander UK plc and its subsidiaries Abbey National Treasury Services plc and Cater Allen Limited form the Domestic Liquidity Sub-group (DoLSub). It is assumed that each member of the DoLSub will support the others by transferring surplus liquidity in times of stress. We manage liquidity flows between the DoLSub and other areas of our business efficiently. The same arrangement existed before October 2015 under the Defined Liquidity Group rules of the PRA in place until that date.

Risk appetite

Santander UK's liquidity risk appetite 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.

Santander UK's liquidity management principles are that we:
- Meet or exceed all PRA liquidity requirements
- Ensure that all maturing liabilities can be refinanced as they fall due
- Maintain a level of customer loans versus customer deposits and prevent an over-reliance on wholesale markets
- Maintain enough capacity to realise liquid assets within an appropriate period to support Santander UK's liquidity risk appetite
- Avoid an over-reliance on funding from a single product, customer or counterparty
- Maintain long-term funding to match long-term assets
- Maintain a sufficient level of unencumbered assets to support current and future funding and collateral requirements.

Santander UK's liquidity risk appetite is approved by the Santander UK Board, under advice from the Santander UK Board Risk Committee. Santander UK's liquidity risk appetite, in the context Santander UK's overall Risk Appetite, is reviewed and approved by the Santander UK Board each year, or more often if needed.

Risk measurement (unaudited)

We use a number of metrics to manage liquidity risk. These include metrics that show the difference between cash and collateral inflows and outflows in different time periods. They also include structural metrics.

Stress testing (unaudited)

Santander UK has a liquidity stress test framework in place that includes the most plausible and significant stress scenario. It is approved as part of the Santander UK liquidity risk appetite. To fit with the Santander UK risk appetite, the liquidity outflows that come from this stress test must be fully covered with high-quality liquid assets.

We must cover the outcome of other plausible (but less likely) stress tests with a combination of:
- High-quality liquid assets
- Other liquid assets
- Management actions sanctioned at the right level of governance.

Our Risk division runs our stress tests. They are:

Test	Description
Santander UK liquidity risk appetite stress	A comprehensive stress test that looks at all Santander UK's risks during an idiosyncratic shock in a time of market-wide disruption that causes a loss of confidence in the Santander UK brand. We reviewed and revised our liquidity risk appetite stress in 2016 and have retained the stress scenario whilst updating the calculated outflows resulting from it.
Global economic stress	A stress test that looks at a slowdown in emerging markets that results in a downturn in the UK housing market.
US stress	Stress tests that look at the impact of losing the confidence of US investors, affecting our access to US funding markets.
Acute retail stress	Stress tests that look at the impact of losing the confidence of retail depositors, causing major, acute loss of deposits.
Slow retail stress	Stress tests that look at the impact of a prolonged period of loss of deposits.
Wholesale stress	A stress test that incorporates an adverse assessment of the impact of the UK referendum on EU membership, where losing corporate and wholesale customer confidence causes us a prolonged period of loss of deposits.
Protracted stress	A 12-month stress with a three-month period of severe liquidity constraint and the loss of retail customer confidence and subsequent loss of deposits.
Eurozone stress	A stress test that looks at a scenario in which a major deterioration in the eurozone economies has a knock-on (or contagion) effect on us, causing severe liability outflows and rating agency action.

We also conduct sensitivity analysis and reverse stress testing for instant liquidity shocks by each key liquidity risk. We do this to understand the impacts they would have on the Santander UK liquidity risk appetite and our regulatory liquidity metrics.

Risk mitigation (unaudited)

The Santander UK Board aims to make our balance sheet resilient at all times and for it to be perceived as such by stakeholders. This preserves our short and long-term viability. The Santander UK Board recognises that as we are involved in maturity transformation, we cannot hold enough liquidity to cover all possible stress scenarios. The Santander UK Board requires us to hold enough liquidity to make sure we will survive the most plausible and significant stress scenario. We do this by keeping a prudent balance sheet structure and maintaining our approved liquid resources. We review this scenario regularly to keep it relevant to the current economic and market environment.

Ongoing business management

Within our framework of prudent funding and liquidity management, we manage our activities to minimise our liquidity risk.

We have clear responsibilities for short-term funding, medium-term funding, encumbrance, collateral and liquid asset management. This ensures we manage liquidity risks as part of our ongoing business management and within our daily operations, strategy and planning. We distinguish between short-term and strategic activities as follows:

Short-term tactical liquidity management	
Liquid resources	Santander UK maintains liquid assets, contingent liquidity and defined management actions to source funds. We do this to cover unexpected demands on cash in both a plausible and significant stress scenario and other more distant and severe but less probable scenarios. Santander UK's main stress events are large and unexpected deposit withdrawals by retail customers and the loss of unsecured wholesale funding.
Funding profile	We use metrics to help control outflows in different maturities and concentrations.
Intra-day collateral management	We make sure we have enough collateral to support our involvement in payment and settlement systems.

Strategic funding management	
Structural balance sheet shape	Santander UK manages its maturity transformation, where it invests shorter-term funding in longer-term assets. We also manage our use of wholesale funding for non-marketable assets, and our use of non-marketable assets to generate liquidity.
Wholesale funding strategy	Santander UK avoids relying too much on any individual or groups of customer, currency, market or product that might become highly correlated in a time of stress. We also avoid excessive concentrations in the maturity of our wholesale funding.
Wholesale funding capacity	Santander UK maintains and promotes its client relationships, monitors its line availability and maintains its funding capacity by using lines and markets.

We regularly test the liquidity of our eligible liquidity pool, in line with PRA and Basel rules. We do this by realising some of the assets through repurchase or outright sale to the market. We make sure that over any 12-month period we realise a significant part of our eligible liquidity pool.

As well as our eligible liquidity pool, we hold a portfolio of unencumbered liquid assets at all times. Our LRA and regulatory requirements determine the size and composition of this portfolio. These assets give us a source of contingent liquidity, as we can realise some of them in a time of stress to create liquidity through repurchase or outright sale to the market.

Recovery and resolution framework

In the event of a liquidity or capital stress, Santander UK has developed a series of actions that would be taken that form part of the Recovery and Resolution framework. This enables us to respond to a wide variety of stresses, from mild to severe, in a coordinated and efficient manner. It addresses how a capital or liquidity stress would be managed as part of our wider incident management processes. It defines three stages of severity which are invoked in response to triggers across a range of metrics falling outside threshold levels, or a qualitative assessment of potential serious risks to our financial position and balance sheet strength. All of these metrics are part of our existing risk management processes.

As part of our Recovery and Resolution framework, we also consider our ability to change the amounts and timing of cash flows to respond to unexpected events. To determine our financial adaptability, we consider our ability to:
– Find new sources of finance
– Get financial support from other Banco Santander companies
– Continue in business by reducing our operations or using different resources.

Risk monitoring and reporting (unaudited)

We monitor liquidity risk on a daily, weekly and monthly basis. We do this through different committees and levels of management, including the Santander UK ALCO and the Santander UK Board Risk Committee.

LIQUIDITY RISK REVIEW (unaudited)

LCR eligible liquidity pool

Geographical distribution

This table shows the geographical distribution of the carrying value of the assets in our 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 above) at 31 December 2016 and 2015:

	Held by the ANTS group					Held elsewhere in Santander UK				
	UK	US	EEA	Other	Total	UK	US	EEA	Other	Total
2016	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	-	3.5	-	-	3.5	12.5	-	-	-	12.5
Government bonds(1)	11.2	1.8	1.2(2)	0.7(3)	14.9	11.8	1.1	1.6(2)	0.1	14.6
Supranational bonds and multilateral development banks(4)	-	-	-	0.1	0.1	0.1	0.7	0.1	0.5	1.4
Covered bonds(5)	-	-	-	-	-	0.6	0.1	1.2	1.0	2.9
Asset-backed securities(6)	-	-	-	-	-	0.6	-	0.1	-	0.7
Equities	-	0.1	-	-	0.1	-	-	-	-	-
	11.2	5.4	1.2	0.8	18.6	25.6	1.9	3.0	1.6	32.1
2015										
Cash and balances at central banks	-	2.2	-	-	2.2	13.7	-	-	-	13.7
Government bonds(1)	6.6	4.7	0.4(2)	1.1(3)	12.8	4.0	0.2	1.1(2)	-	5.3
Supranational bonds and multilateral development banks(4)	-	-	-	-	-	0.1	0.6	-	0.5	1.2
Covered bonds(5)	-	-	-	-	-	0.3	0.1	1.1	0.6	2.1
Asset-backed securities(6)	-	-	-	-	-	0.5	-	0.1	0.1	0.7
Corporate bonds(7)	-	-	-	-	-	-	-	0.1	-	0.1
Equities	0.1	-	0.4	0.1	0.6	-	-	-	-	-
	6.7	6.9	0.8	1.2	15.6	18.6	0.9	2.4	1.2	23.1

(1) Consists of AAA rated bonds of £8.6bn (2015: £11.6bn), AA+ rated bonds of £0.3bn (2015: £5.1bn), AA rated bonds of £20.0bn (2015: £0.3bn), AA- rated bonds of £0.2bn (2015: £nil), and A rated bonds of £0.4bn (2015: £1.1bn).
(2) Consists of Germany of £1.8bn (2015: £0.9bn), Netherlands of £0.4bn (2015: £0.2bn), Belgium of £0.2bn (2015: £nil), France of £0.1bn (2015: £0.2bn) and other countries of £0.3bn (2015: £0.2bn).
(3) Consists of Japan of £0.4bn (2015: £1.1bn) and Switzerland of £0.3bn (2015: £nil).
(4) Consists of AAA rated bonds of £1.5bn (2015: £1.2bn).
(5) Consists of AAA rated bonds of £2.9bn (2015: £2.0bn) and AA+ rated bonds of £nil (2015: £0.1bn).
(6) Consists of AAA rated bonds of £0.7bn (2015: £0.7bn).
(7) Consists of AA rated bonds of £nil (2015: £0.1bn).

2016 compared to 2015

Throughout 2016, we maintained robust risk management controls to monitor and manage the levels of our eligible liquidity pool and encumbrance.

OUR FUNDING STRATEGY AND STRUCTURE

Funding strategy (unaudited)

Santander UK's funding strategy continues to be based on maintaining a conservatively structured balance sheet and diverse sources of funding.

Most of Santander UK's funding comes from customer deposits. The rest is sourced from a mix of secured and unsecured funding in the wholesale markets. Overall this means that we do not rely too heavily on wholesale funds. This is reflected in Santander UK's customer loan-to-deposit ratio which is monitored against limits on a monthly basis. At the same time, it makes sure our sources of funding are not too concentrated on any one product. We have checks and controls to limit our asset encumbrance from secured funding operations. As part of maintaining a diverse funding base, we raise funding in a number of currencies, including euro, and convert it into sterling through currency swaps to fund our commercial assets which are largely sterling denominated.

Santander UK's base of stable retail and corporate deposits is a key funding source for us. We leverage our large and diverse customer base to offer products that give us a long-term sustainable source of funding. We do this by focusing on building long-term relationships. More than 90% of Santander UK's total core retail customer liabilities are covered by the Financial Services Compensation Scheme (the FSCS).

Behavioural maturities

The contractual maturity of balance sheet assets and liabilities highlights the maturity transformation that underpins the role of banks to lend long-term, but to fund themselves mostly with shorter-term liabilities, like customer deposits.

Santander UK achieves this by diversifying its funding operations across a wide customer base, both in numbers and by type of depositor. In practice, the behavioural profiles of many liabilities show more stability and longer maturity than the contractual maturity. This is especially true of many types of retail and corporate deposits that, while they may be repayable on demand or at short notice, have shown good stability even in times of stress.

Santander UK models behaviour profiles using its experience of historical customer behaviour. Santander UK uses these behavioural maturities to determine the funds transfer pricing interest rates at which it rewards and charges its business units for sources and uses of funds. It applies this rate until a customer changes onto a different product or service offered by it or by one of its competitors.

Santander UK continues to improve the quality of its retail, commercial and wholesale deposits. Across all customer segments, Santander UK aims to deepen its customer relationships. It does this to lengthen the contractual and behavioural profile of its liability base. In Retail Banking, it supports this aim with attractive products such as the 1I2I3 World offering.

Deposit funding

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

WHOLESALE FUNDING

Composition of wholesale funding (unaudited)

Santander UK is active in the wholesale markets and has direct access to both money market and long-term investors through its funding programmes. This makes its wholesale funding well diversified by product, maturity, geography and currency. This includes currencies available across a range of channels from money markets, repo markets, senior unsecured, secured, medium-term and subordinated debt.

2016 compared to 2015
As part of our ring-fence planning, from 1 June 2016, Santander UK plc became the issuer in respect of the outstanding notes issued by Abbey National Treasury Services plc under its US$30bn Euro Medium Term Note Programme, its Euro 35bn Global Covered Bond Programme, and its US SEC registered debt shelf. Santander UK plc also became the issuer for the following standalone securities: the Euro 60m Guaranteed Step-Down Fixed / Inverse Floating Rate Notes due 2019, and the £166,995,000 Zero Coupon Amortising Guaranteed Notes due 2038.

Except for the covered bonds, which will continue to have the secured guarantee of Abbey Covered Bonds LLP, all notes transferred to Santander UK plc by Abbey National Treasury Services plc and all notes issued by Santander UK plc in the future under these programmes will be the sole liability of Santander UK plc and will not be guaranteed by any other entity.

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 2016 and 2015.

		Balance sheet line item			
2016	Funding analysis £bn	Deposits by banks £bn	Trading liabilities £bn	Financial liabilities at fair value £bn	Debt securities in issue £bn
Deposits by banks	0.4	-	0.4	-	-
Certificates of deposit and commercial paper	8.4	-	-	0.5	7.9
Senior unsecured – public benchmark[1]	-	-	-	-	-
– privately placed	1.1	-	-	1.1	-
Covered bonds	-	-	-	-	-
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	-	-
Foreign exchange and hedge accounting	-	-	-	-	-
Other	31.5	24.6[2]	6.4[3]	0.5	-
Balance sheet total	50.9	25.3	15.6	2.1	7.9
2015 (unaudited)					
Deposits by banks	1.0	-	1.0	-	-
Certificates of deposit and commercial paper	7.2	-	-	-	7.2
Senior unsecured – public benchmark[1]	13.4	-	-	-	13.4
– privately placed	6.0	-	-	2.0	4.0
Covered bonds	16.3	-	-	-	16.3
Securitisation & structured issuance	3.7	2.6	1.1	-	-
Total wholesale funding	47.6	2.6	2.1	2.0	40.9
Repos	7.7	-	7.7	-	-
Foreign exchange and hedge accounting	(0.1)	-	-	-	(0.1)
Other	21.6	18.7[2]	2.9[3]	-	-
Balance sheet total	76.8	21.3	12.7	2.0	40.8

(1) With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under its existing senior unsecured wholesale securities. For more on this see Notes 27 and 28 to the Consolidated Financial Statements.
(2) Mainly amounts due to Santander UK subsidiaries and other deposits. See Note 24 to the Consolidated Financial Statements.
(3) Short positions in securities and unsettled trades, cash collateral and short-term deposits. See Note 26 to the Consolidated 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
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 for 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.
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 following regulators:
- PRA: as a UK authorised banking group
- ECB: as a member of Banco Santander. 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 Banco Santander, we do not have any guarantees 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 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. The basis of consolidation for our capital disclosures is the same one we use for our Consolidated Financial Statements.

2016 compared to 2015 (unaudited)
In December 2016 the Bank of England laid out its plans for setting loss absorbing capacity requirements for large UK banks, including Santander UK, of which ANTS is a significant part. These requirements are applicable from 1 January 2020, and Santander UK currently estimate a transitional MREL recapitalisation requirement of £7bn, in terms of January 2017 Pillar 2A requirements.

CAPITAL RISK MANAGEMENT

Risk appetite

Santander UK's approach to capital management is centralised. We base it on the economic capital requirements of our business and what the regulators ask of us. 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.

Within the Santander UK group, capital is managed on a Santander UK group basis. Santander UK decides how to allocate capital as part of its strategic planning. Santander UK bases its decisions on the relative returns on capital using economic and regulatory capital measures and it balances the return on capital generated by its established retail presence in the UK with its plans to grow its corporate presence. Santander UK achieves the efficient utilisation of economic and regulatory capital through managing return on capital performance against targets, together with central capital management which includes the use of securitisations to reduce risk. The Santander UK Board is responsible for capital management strategy and policy and ensuring that capital resources are appropriately monitored and controlled within internal and regulatory limits. Authority for capital management flows to the Santander UK CEO and from him to specific individuals who are members of the Santander UK Capital Committee.

As we do not benefit from any guarantees from our ultimate parent Banco Santander SA and we are an autonomous subsidiary, the Santander UK Board (and some subsidiary boards) are responsible for managing, controlling and assuring capital risk. Santander UK (including ANTS) quantifies regulatory capital demand for credit, market, operational, pension obligation and securitisation risk in line with what the PRA requires of it.

The Santander UK Capital Committee adopts a centralised capital management approach that is driven by Santander UK's corporate purpose and strategy. This approach takes into account the commercial and regulatory environment in which Santander UK operates, Santander UK's Risk Appetite, the management strategy for each of our material risks (including whether or not capital provides an appropriate risk mitigant) and the impact of appropriate adverse scenarios and stresses on our capital requirements. This approach is reviewed annually as part of the Santander UK ICAAP.

Decisions on the allocation of capital resources are conducted as part of Santander UK's strategic three year planning process based on the relative returns on capital using both economic and regulatory capital measures. Capital allocations are reviewed in response to changes in Risk Appetite and risk management strategy, changes to the commercial environment, changes in key economic indicators or when additional capital requests are received. This combination of regulatory and economic capital ratios and limits, internal buffers and restrictions, together with the relevant costs of differing capital instruments and a consideration of the various other capital management techniques are used to shape the most cost-effective structure to fulfil our capital needs.

Santander UK plc, Abbey National Treasury Services 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.

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 capital.

Stress testing (unaudited)

Santander UK (including ANTS) plans for severe periods of stress and we set out what action we would take if an extremely severe period of stress threatened our viability and solvency. This could include suspending dividends, selling assets, reducing some business activity and issuing more capital.

On an ongoing basis, and in accordance with the latest ICAAP review, we forecast our regulatory and internal capital requirements based on the approved capital volumes allocated to business units as part of our corporate planning process. Each year we create a capital plan, as part of our ICAAP. We forecast our regulatory and internal capital needs and capital resources based on our medium-term business plan.

Alongside this plan, we develop a series of macroeconomic scenarios to stress test our capital requirements and confirm that we have adequate regulatory capital resources to meet our projected and stressed regulatory capital requirement and to meet our obligations as they fall due. Internally assigned buffers augment the various regulatory minimum capital criteria. We hold buffers to ensure there is sufficient time for management actions to be implemented against unexpected movements.

The latest PRA stress test results were released on 30 November 2016. Santander UK (including ANTS) significantly exceeded the PRA's stress test CET1 threshold requirement of 7.3%, with a stressed CET1 ratio of 9.9%. Additionally, Santander UK (including ANTS) exceeded the leverage threshold requirement of 3.0%, with a stressed leverage ratio of 3.6% after allowed management actions. Santander UK were the most resilient of the UK banks with a maximum draw down of 170 basis points on our CET1 ratio. The outcome of the stress test underlines the quality and strength of Santander UK's UK-based balance sheet as well as our strong risk management practices. The Bank of England's CET1 hurdle rate comprises the CRR Pillar 1 minimum of 4.5% and the Pillar 2A CET1 minimum of 2.8%. The latter minimum came into effect on 1 January 2017 and represents an increase of 0.6 percentage points over the previous Pillar 2A CET1 minimum of 2.2%, which was applicable until 31 December 2016.

Risk mitigation

We manage capital transferability between our subsidiaries in line with our business strategy, our risk and capital management policies, and UK laws and regulations. There are no legal restrictions on us moving capital resources promptly, or repaying liabilities, between the Company and its subsidiaries.

Our approach to capital risk
– Strategic capital risk management – each year Santander UK creates a capital plan, as part of its ICAAP. We forecast our regulatory and internal capital needs and capital resources based on our medium-term business plan. We also stress test our capital needs and resources using a set of macroeconomic scenarios.
– Short-term, tactical capital risk management – we monitor and report regularly against our capital plan 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.
– Allocating capital resources – we decide how to allocate capital as part of Santander UK's strategic planning. We base our decisions on the relative returns on capital using economic and regulatory capital measures.
– Planning for severe periods of stress – Santander UK sets out what action we would take if an extremely severe period of stress threatened our viability and solvency. This could include suspending dividends, selling assets, reducing some business activity and issuing more capital.

Risk monitoring and reporting

We monitor and report regularly against our capital plan 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 2016 and 2015. We manage our capital on a CRD IV basis. During the years ended 31 December 2016 and 2015, 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.

	2016 £m	2015 £m
CET1 capital before regulatory adjustments	3,757	3,649
Total regulatory adjustments to CET1 capital	(229)	(263)
CET1 capital	**3,528**	3,386
Total regulatory capital	**3,528**	3,386

CET1 regulatory adjustments

These are adjustments to CET1 capital required by CRD IV.

CONDUCT RISK (unaudited)

OUR KEY CONDUCT RISKS

Conduct risk is a key risk for us. We must comply with our conduct risk strategy and our conduct risk appetite to ensure we meet our aim to be the best bank for our customers. Conduct risk can result from any activity we might engage in that could impact customer outcomes. We see our key exposure to conduct risk through risk of error in: product design; sales practices; post-sale servicing; our operational processes; and complaint handling. All of these may result in the risk that we may sell products that do not meet our customers' needs, align to their expectations or deliver the expected outcomes.

Our conduct risk statement includes four underlying types of risk:

Key risks	Description
Product risk	The risk that we offer products and services that do not result in the right outcomes for customers.
Sales risk	The risk that we sell products and services to customers without giving them enough information to make an informed decision or we do not provide correct advice.
After-sale and servicing risk	The risk that failures of our operations, processes, servicing activity, IT infrastructure or controls result in poor outcomes for customers. This includes the risk that we do not give appropriate after-sale communications to customers, making it difficult for them to contact us, or we fail to treat customers in financial difficulties fairly.
Culture risk	The risk that we do not maintain a culture where the customer is at the centre of what we do.

Our primary regulator for conduct risk is the FCA, which focuses on the regulation of conduct by both retail and wholesale financial services firms, and whose objectives include securing an appropriate degree of protection for customers. For more on our key regulators see the 'Regulatory risk' section.

CONDUCT RISK MANAGEMENT

Risk appetite

We have no appetite to make decisions that lead to poor outcomes for our customers, clients or the market. Our conduct risk appetite is approved at Board level and cascaded to all business units via the conduct risk framework and associated policies.

Risk measurement

To measure conduct risk we have established metrics which are regularly reviewed by Santander UK Executive and Board Committees.

For example, each business unit has a tailored set of key risk indicators (KRIs) according to the conduct risks and policy principles applicable to that business unit. These are monitored through business level dashboards, which cover the end-to-end view of conduct risks (from product, sales, after-sale and servicing) for that business unit in accordance with the conduct risk appetite.

The dashboards take into account a broad range of metrics across common areas such as quality assurance and complaints. For Global Corporate Banking they also include metrics around confidential information, potential conflicts of interest, culture and behaviour.

The second line Conduct and Compliance team undertakes assurance work, which includes qualitative assessments of each business unit's conduct risks.

Risk mitigation

The conduct risk framework and associated policies inform all staff of the guiding principles, minimum standards, roles and responsibilities and governance for conduct risk, such as:

Policies	Description
Product approval	Our product approval process has been established to minimise exposure to conduct, legal, regulatory or reputational risks in the design, marketing, sales and service of new products and services. All products and services are assessed within a formal framework to make sure they are within our risk appetite and any agreed metrics, processes and controls are in place.
Suitable advice	Guidance is provided to advisers and staff on the key principles, minimum requirements and ethical behaviours they must follow when they give advice or conduct a non-advised sale. This ensures our customers are sufficiently informed when they make a buying decision.
Training and competence	In line with regulatory expectations all staff are trained and required to maintain an appropriate standard of competence to ensure customers achieve fair outcomes.
Treating vulnerable customers fairly	Our purpose is to help people and businesses prosper and we always aim to treat customers fairly. Certain customers may be impacted financially or personally as a result of their circumstances. Our guidelines give our business areas a clear and consistent understanding of what could constitute vulnerability and the types of customers that may need additional support. The guidelines also help prevent those customers from entering financial difficulty or any other financial loss. We work with key charities and specialist third parties to develop our understanding of vulnerability. We also consider vulnerability in our product approval process, and have mandatory training on it for all our people.

The conduct risk framework and associated policies are supported by a number of tools that allow us to identify and assess any new and emerging conduct risks. These include:

Key tools	Description
Strategy and business planning	Our Strategy and Corporate Development team help ensure alignment with overall corporate strategy, financial plans, risk appetite and operational capabilities via the annual strategy setting process. Business unit plans are derived from the overall corporate strategy and contain an assessment of conduct risk alongside our other key risk types.
Sales quality assurance	Sales are subject to internal quality assurance and, as appropriate, independent monitoring to ensure the quality of sales and practices.
Operational risk and control assessments	Operational risk and control assessments are carried out by business and business support units to provide a consolidated risk profile view across all business areas. These are completed through a centralised risk management tool to evaluate residual risk exposures and manage them across all areas.
Scenario testing and horizon scanning	Conduct risk is considered within our scenario testing which examines possible root causes and assumptions determining both the likelihood and materiality of impact, along with identification actions to enhance controls where required.
Conduct risk reporting	Dashboards provide an end-to-end view of conduct risks (from product, sales and post-sales and servicing) across all business lines to allow management to apply a lens to the management of conduct risk and understand if it is in line with risk tolerance.
Compliance monitoring	We carry out an annual assurance programme for conduct risk including thematic reviews.

Risk monitoring and reporting

Risk and control forums have been established to support senior management in managing risk and control in the business units they are responsible for.

Reporting includes commentary on trends or root cause issues, where identified, to enable effective management action. The data reported to senior management contains essential information enabling a clear understanding of current and potential emerging conduct risks and issues. Such information is discussed at risk and control forums with upward escalation to Santander UK Executive, Executive Risk Control and Board Committees.

CONDUCT RISK REVIEW

2016 compared to 2015

In 2016, we continued to enhance the way we report and monitor conduct risk. This included improvements to how we assess conduct risk in our business decisions, and carried out related initiatives to continue to improve the outcomes for our customers. These improvements included:

– Appointing the Santander UK CLRO with direct responsibility for control and oversight of legal, conduct, regulatory and financial crime risk
– Continuing to enhance our framework and guidance for how we support vulnerable customers
– Making further improvements to our employee reward schemes to further align them to our strategy for Simple, Personal and Fair
– Enhancing legacy systems and policies and developing better management information across telephony and digital channels to improve our customer journeys.

We also built on improvements made to our conduct risk framework in Global Corporate Banking, including:

– Creating a dedicated first line control team enabling the development of a more holistic approach to managing non-financial risks
– Refreshing the product initiative approval process to ensure robust governance and stakeholder approval arrangements
– Updating employee performance reviews to include conduct metrics such as, but not limited to, completion of mandatory training and fulfilment of block leave requirements.

OTHER KEY RISKS AND AREAS OF FOCUS

STRATEGIC RISK (unaudited)

Similar to other risks, strategic risk can affect the long-term success and value of our business. It can arise from:
- Having a partial picture of our environment. This can include the economy, new rules and regulations, shifting customer expectations, competitor activity and changes in technology
- Our business model becoming out of date due to material changes in our operating environment
- Misjudging our own capabilities, position in the market, or ability to implement our strategy
- Pursuing initiatives like acquisitions that might not fit with our business model, or ignoring opportunities that could boost it.

Strategic risk management
– Risk appetite – we have a low to moderate appetite for strategic risk. This limits the risks we take and the services we are willing to provide, and is aligned to our balanced, customer-centric business model.
– Risk measurement – strategic risks are determined by Board and management decisions about our objectives and direction. Our Board and senior management regularly review key issues we face and potential risks.
– Risk mitigation – we try to reduce risk by having a clear and consistent strategy. Our strategy takes account of our main stakeholders, sets out our vision and priorities, and how we achieve progress towards our goal of becoming the best UK bank. Importantly, our strategy is supported by strong values – what we call 'The Santander Way'. It is based on our aim to be Simple, Personal and Fair in all we do. In 2016, we have continued to embed our culture through a new set of behaviours. These support colleagues in creating an environment in which they can flourish and in turn help us fulfil our aim to be the best bank for our people, customers, shareholders and communities. We like to be prepared, so we try to plan well. We have simple and effective planning processes and regularly review our performance, products/services and strategy. Our planning helps us identify key risks and opportunities. It also helps us use our resources efficiently and find the best way to serve our customers. Customers are at the heart of what we do. So we are constantly thinking about our customers, what they want from a bank, and the best way we can meet their ever-changing needs. We think this is one of the best ways to be a successful bank and manage strategic risks.
– Risk monitoring and reporting – we closely track our business environment – such as changes in the economy, customer expectations, technology, regulatory and government policies. We also look at long-term trends and how they might affect us. We engage stakeholders both inside our business and outside Santander UK (customers, shareholders, communities) to make sure we capture a wide range of views.

2016 compared to 2015
Our business environment is always changing, and this affects how we do business. In 2016, the key changes were:
- The relatively stable economic backdrop we saw in the first half of 2016 began to weaken as the year progressed with the outcome of the UK referendum on EU membership in June leading to some short-term market volatility. This gave way to more stability as markets factored in the changeable macro environment. We are nonetheless entering a period of uncertainty as the UK begins the process of leaving the EU. That said, we are well-placed to manage any potential uncertainties and deliver our strategy. As part of the global Banco Santander group, we have options available to us.
- The post-financial crisis regulatory agenda had led to significant change and with it a relatively high cost of compliance. One notable initiative involves ring-fencing, with major UK banks separating their wholesale and retail operations. With this requirement due for implementation by 1 January 2019, and in light of the changeable macro environment, the Santander UK Board concluded that Santander UK can better serve its customers with a 'wide' ring-fence structure, rather than the 'narrow' ring-fence originally envisaged. Under this model Santander UK plc, the ring-fenced bank, will serve our retail, commercial and corporate customers. This also maintains longer term flexibility and leads to lower overall programme implementation cost with the migration now impacting fewer customers. Abbey National Treasury Services plc will no longer constitute the non-ring-fenced bank and its activities will be revised as part of the new ring-fencing model. We intend to complete the implementation well in advance of the deadline, with implementation subject to regulatory and others approvals.
- We have continued to see marked shifts in customer expectations – adopting new technologies and moving to digital channels. At the same time, the scale and pace of technological change has intensified. We are embracing these changes that offer real benefits to our customers.
- Overall, we embrace change and continue to make good progress towards our strategic goals.

OPERATIONAL RISK (unaudited)

OUR KEY OPERATIONAL RISKS

Operational risk is inherent in our business. As a result, we aim to manage it down to as low a level as possible, rather than eliminate it entirely. Operational risk events can have a financial impact and can also affect our business objectives, customer service and regulatory obligations. Operational risk events can include product misselling, fraud, process failures, system downtime and damage to assets.

Our top three key operational risks are:

Key risks	Description
Cyber risk	The use of technology and the internet have changed the way we live and work. It has allowed us to develop and improve the way we deal with our customers. It is critically important that we give our customers a secure environment in which to deal with us. Failure to protect the information assets of the bank and its customers against theft, damage or destruction from cyber attacks could result in both damage to our reputation and direct financial losses. This applies not only to our own systems but also those of our third party providers and counterparties in the market.
Outsourced and third party supplier management	Santander UK (including ANTS) has arrangements with other Banco Santander companies (including the provision of IT infrastructure, software development, and banking operations) and external outsourced service providers. The failure of a supplier may cause operational disruption, breach of regulation, negative customer impact, financial loss or reputational damage.
Process and change management	A key part of our business strategy is to develop and deliver new banking channels and products. These include mobile banking and third party payment products. The scale and pace of our plans increases our operational risk. We also face a large number of regulatory and legal changes, impacting all areas of our business. There is more on this in the 'Regulatory risk' section. Our business units are reporting operational issues due to the volume and complexity of these changes. These changes could have financial, customer, reputational and regulatory impacts if we do not manage them properly.

OPERATIONAL RISK MANAGEMENT

Risk appetite

Our operational risk appetite is set at a Santander UK level and at a local business unit level. It is expressed through both quantitative and qualitative measures approved by the Santander UK Board. These include Santander UK's operational risk loss appetite and key indicators. They consider each of the seven CRD IV loss event types: internal fraud, external fraud, employment practices and workplace safety, clients, products, and business practices, damage to physical assets, business disruption and systems failures, and execution, delivery, and process management.

Risk measurement and mitigation

The key components of the operational risk toolset we use to measure and mitigate risk are:

Operational risk toolset	Description
Operational risk and control assessments	Our business units identify and assess their operational risks to ensure they are effectively managed and controlled within our operational risk appetite. They also ensure that we prioritise any actions needed. Every area identifies their risks and assesses their controls for adequacy, and formulates a plan to address any deficiencies.
Risk scenario analysis	This is carried out across all of our business units and involves a top down assessment of our most significant operational risks. Each business unit has a set of scenarios that it reviews and refreshes each year. The analysis gives us insight into rare but high impact events. It also allows us to better understand the potential impacts and to remediate issues.
Key indicators	Together with their related tolerance levels, key indicators provide management with an objective view of the degree of risk or the strength of a particular control at any point in time, or provide a trend over a period of time. They also give us early warning of potential risk exposures. The most common types of key indicators we use are key risk indicators, which highlight the degree of risk, and key control indicators, which show the strength and effectiveness of controls. In addition to Santander UK level metrics, we also define our operational risk appetite at the business unit level through the use of business unit level key indicators and tolerance levels.

Operational risk toolset	Description
Operational risk losses	Our operational risk loss appetite determines the level of total operational risk loss (expected and unexpected) in any given year (on a 12 months rolling basis) that we consider to be acceptable.
Incident management	Operational incidents occur when our controls have not operated as intended leading to customer impact, financial loss, regulatory impacts and/or damage to reputation. We have processes to capture and analyse loss events. We use data from these processes to identify and correct control weaknesses. We also use root cause analysis to identify emerging themes, prevent or reduce the impacts of recurrence and to support risk and control assessments, scenario analysis and risk reporting.
Risk based insurance	Where appropriate, we use insurance products along with existing risk mitigation measures.

For our key operational risks we also mitigate risk in the following ways:

Key risks	Risk mitigation
Cyber risk	We operate a layered defence approach to cyber risk, focused on identifying, detecting, preventing, responding to and recovering from cyber attack. We continually review the effectiveness of our controls against globally recognised security standards including the use of maturity assessments and both internal and external threat analysis. Our comprehensive approach to validation of our controls includes tests designed to replicate real-world cyber attacks, findings of which are incorporated into our ongoing plan of improvements.
Outsourced and third party supplier management	We operate a supplier selection process to ensure that those with whom we intend to conduct business meet our risk and control standards. We also monitor and manage our ongoing supplier relationships to ensure our standards continue to be met. We manage our supplier relationships to minimise the possibility of disruption to our business as a result of the failure of a supplier.
Process and change management	Our operational risk exposure is increased where we engage in new activities, develop new products, enter unfamiliar markets or implement new business processes or technology systems. As a result, we conduct operational risk assessments for material change programmes and new product developments before they receive approval to proceed.

Risk monitoring and reporting

Reporting is an integral part of how we manage risk. It ensures we identify, escalate and manage issues on a timely basis. We can identify exposures through operational risk and control assessments, risk scenario analysis, key indicators and incidents. We report exposures for each business unit through monthly risk and control reports. These include details on risk exposures and how we plan to mitigate them. We prioritise events that have a material impact on our finances, reputation, or customers by reporting them to key executives.

We have an overarching crisis management framework in place encompassing all levels, including the Board, senior management and business and support functions. This framework sets out the processes for managing a crisis and major incidents and is tested at least annually. Should an event occur, business continuity plans are in place to recover the services as quickly as possible. These are aligned with our key customer journeys and delivery of critical IT services.

We apply the standardised approach for Pillar 1 operational risk capital needs. We use an internal model aligned to the CRD IV advanced measurement approach to assess Pillar 2 capital needs. We also use it to model operational risk losses we might incur under stressed conditions.

OPERATIONAL RISK REVIEW

2016 compared to 2015

Operational Risk Transformation Programme

Further investment was made in 2016 to complete the implementation phase of the Operational Risk Transformation Programme. A final year of investment is required in 2017 to embed the programme into business as usual and demonstrate effective operational risk management to the regulators. We also migrated our internal controls records onto the new group Operational Risk Management system.

Cyber security

In 2016, in common with other large UK financial institutions, Santander UK (including ANTS) continued to be subject to cyber attack. This included an incident that resulted in a temporary disruption to the service offered via our digital channels, caused by a denial of service attack and launched by an unknown external third party. We continued to improve our systems, processes, controls and staff training to reduce cyber risk and enhance our data security. In addition, during the past four years we have been building world class data centres that will provide our bank with a solid foundation to enable its digital transformation. This will provide some significant benefits to support future growth, including improved resilience and security and reduced legacy issues.

FINANCIAL CRIME RISK (unaudited)

OUR KEY FINANCIAL CRIME RISKS

We are committed to the strongest possible response to financial crime risk. We have always recognised that failure in this area could impact us financially, reputationally and operationally, as well as negatively affecting our customers and wider society. Geopolitical factors and new criminal offending methods can quickly alter the risks we face. In this context, we now consider financial crime risk to be a top risk. Strengthened systems and controls, an updated policy and governance framework, improved training and new intelligence and risk assessment capabilities, as well as our partnership with UK authorities, are supporting us to detect and prevent financial crime.

Our key financial crime risks are:

Key risks	Description
Money laundering	We are used by criminals to transform the proceeds of crime into seemingly legitimate money or other assets.
Terrorist financing	We are used by terrorists to deposit, distribute or collect funds that are used to fund their activity.
Sanctions	We do not identify payments, customers or entities that are subject to economic or international sanctions.
Bribery and corruption	We fail to put in place effective controls to prevent or detect bribery and corruption.

FINANCIAL CRIME RISK MANAGEMENT

Risk appetite

We recognise the critical importance of ensuring we are not used for the purposes of financial crime. We have controls in place to manage this risk as we have a minimal tolerance for residual financial crime risk. We have a zero tolerance for non-compliance with sanctions programs and the restrictions imposed through such instruments. We cascade our risk appetite and policies throughout the business.

Risk measurement

We use a number of different tools to measure our exposure to financial crime risk:
- We conduct risk assessments of customers, sectors, jurisdictions and business units to assess our risk profile and to ensure we comply with all applicable sanctions regimes
- We use monthly key risk indicators to measure and report financial crime risk to senior management
- Our Financial Intelligence Unit conducts assessments of particular types of threat, including drawing on information provided by law enforcement and public authorities.

Risk mitigation

Our financial crime function is focused on predicting, detecting, preventing and, where possible, disrupting financial crime.

We require all our business units to manage their activities in line with the principles and guidance in our financial crime risk framework. These requirements are set out in our anti-money laundering (AML), counter terrorist financing, sanctions, and anti-bribery and corruption policies and standards.

In line with UK and international laws and standards, we adopt a risk-based approach to financial crime risk mitigation. Key elements of this approach include:
- **Risk assessments** – we assess customer, product, business, sector and geographic risk to target efforts to mitigate financial crime most effectively
- **Customer due diligence** – we seek to understand customers' activities and banking requirements and, in order to minimise the risk that we are used for money laundering or terrorist financing, we conduct regular reviews of our higher-risk customer relationships to ensure any new financial crime considerations are identified and addressed.

Risk monitoring and reporting

We monitor key financial crime developments and enhance our controls to comply with new or amended laws, regulations or industry guidance. We produce and report financial crime risk data by business unit which covers all aspects of the business life cycle. Each month we report an analysis of the financial crime key risk indicators to the Santander UK Executive Risk Control Committee together with a directional indication of the risk profile and any significant deterioration of the metrics.

FINANCIAL CRIME RISK REVIEW

2016 compared to 2015
In 2016, we continued to improve the effectiveness of our approach to tackling financial crime.

We made a number of enhancements to our systems and controls. Included in these, we:
- Improved our internal data. As part of this, we introduced key indicators to track performance against our financial crime risk
- Further automated our Suspicious Activity Reporting (SAR) process. This built on positive feedback from the National Crime Agency on the quality of our SAR submissions and improved our ability to provide high quality data.

We continued to review our financial crime policy and standards. We:
- Enhanced our financial crime compliance operating model. We put in place dedicated first line governance and operations, and hired skilled staff to support a more intelligence led second line approach
- Updated our policy and standards to reflect changes to laws and regulations, including the Fourth EU Money Laundering Directive and EU Wire Transfer Regulation 2
- Continued to develop the training we provide to our staff. This included a Financial Crime Awareness Week in July 2016 that allowed over 200 of Santander UK's staff across the country to receive briefings from external experts from government, law firms and law enforcement.

We enhanced our partnerships with public authorities. We:
- Increased our intelligence and risk assessment capabilities including further investment in our Financial Intelligence Unit, improved country risk assessment and greater partnership with public authorities such as through the Joint Money Laundering Intelligence Task Force
- Increased our external engagement with government and at industry level, to ensure we have the most up to date understanding of key financial crime compliance developments and help shape public policy making.

We also strengthened our reporting to senior management. This included enhancing our risk assessment, screening and transaction monitoring, delivered through our Financial Crime Transformation Program.

MODEL RISK (unaudited)

Our key model risks arise from potential flaws in our modelling techniques, or the incorrect use of a model. They include risks arising from model data, systems, development, performance and governance.

Model risk management	
–	Risk appetite – our appetite for model risk is expressed through the risk assessments of our most material risk models. This is agreed by the Santander UK Board at least annually.
–	Risk measurement – we consider both the percentage of models that have been independently assessed, as well the outcome of those reviews, in our measurement of model risk.
–	Risk mitigation – we mitigate model risk through controls over the use of models throughout their lifecycle. We maintain a central model inventory that includes data on owners, uses and key dates. We assess how important each model is to our business. Recommendations arising from independent reviews are tracked through to resolution. We also maintain a single approval body for new model developments, updates and performance tracking.
–	Risk monitoring and reporting – we report model risks and issues using model risk management and control forums. We escalate issues to the Santander UK Executive Risk Control Committee when necessary, or if our risk appetite is breached.

2016 compared to 2015
We continue to identify new models used across the business. We determine their importance in order to compare across the model landscape, and focus management and control, as effectively as possible. We have further enhanced our model risk framework and policy, continuing its extension across the business, and providing more clarity around accountabilities of model owners, developers and reviewers. We continue to independently review the most material models. To improve our controls further, we have established a model risk control forum, reporting directly to the Santander UK Executive Risk Control Committee.

REPUTATIONAL RISK (unaudited)

Our key reputational risks arise from failures in corporate governance or management, failures in treating customers fairly, the actual or perceived way we do business and the sectors and countries we do business with, how our clients and those who represent us conduct themselves, and how business is conducted in our industry. External factors may also present a reputational risk to us, including the macro environment and performance of the sector. Sustained damage to our reputation could have a material impact on our ability to operate fully. In turn, this could affect our financial performance and prospects. Reputational risk is not static; today's decisions may be judged by different standards tomorrow. We build this into our risk culture, evaluation and sanction procedures.

Reputational risk management	
–	Risk appetite – we have a low appetite for reputational risk, expressed in terms of the risk measures set out below, and which is agreed by the Santander UK Board at least annually.
–	Risk measurement – we assess our exposure to reputational risk daily. We base this on analysis of social media, print, and broadcast media as well as political and market commentators. Our analysis considers our activities and those of our UK peers and is designed to help us identify large reputational events, or a prolonged deterioration in our reputation. We measure the perception of Santander UK by key stakeholder groups at least annually, using third party research. This includes employees, media, politicians and customer groups.
–	Risk mitigation – all our business units consider reputational risk as part of their operational risk and control assessments. We also consider reputational risk as part of our new product assessments. The Santander UK Corporate Affairs and Marketing Team, supported by our legal, compliance and risk teams, help our business units to mitigate reputational risk, and agree action plans as required, as part of their overall responsibility to monitor, build and protect our reputation and brand.
–	Risk monitoring and reporting – we monitor and report key reputational risks and issues on a timely basis, escalating them to Santander UK Executive Risk Control Committee, and Santander UK Board Risk Committee as necessary. The Santander UK Corporate Affairs and Marketing Team also reports regularly to the Santander UK Executive Committee on Corporate Social Responsibility, Sustainability and Public Affairs policies. They do this from an environment, community and sector point of view.

2016 compared to 2015

In 2016, we further strengthened governance and culture across the business. We have continued to:
- Work towards our stated corporate goals for 2018. This included improving ways of working, simplifying complex processes as well as developing technology to improve our customers' experience
- Embed the behaviours that support our purpose, aim and values, most notably by including them as part of our performance appraisals. From the mid-year 2016 behaviours will carry equal weighting with achievements in all employees' performance management
- Enhance our reputational risk appetite and agreed escalation processes.

In addition we continued to embed Simple, Personal and Fair across the business through the governance of The Santander Way committee. This included the Santander UK Executive Committee conversations initiative and a series of events that gave employees the opportunity to ask questions about topics that are on their mind.

We worked closely with the business on communication plans for key events such as the UK Referendum on EU membership and Banking Reform. We also promoted the community and wider society support that Santander UK provides through its Corporate Social Responsibility work, and the Santander Cycles Schemes in London and Milton Keynes.

REGULATORY RISK (unaudited)

Our key regulatory risks arise mainly from failing to adhere with relevant laws, regulations and codes which could have serious financial and reputational consequences. We may also be adversely impacted by changes and associated uncertainty relating to UK and international regulatory requirements.

We categorise regulatory risk into financial and non-financial risk as aligned to our primary regulators who are the:
- PRA, which is responsible for the prudential regulation and supervision, and whose general objective is to promote the safety and soundness of the firms it supervises; and
- FCA, which focuses on the regulation of conduct by both retail and wholesale financial services firms, and whose objectives include securing an appropriate degree of protection for customers.

As well as being subject to UK regulation, as part of the Banco Santander group, we are impacted indirectly through regulation by the Banco de España (the Bank of Spain) and, at a corporate level, by the ECB following the introduction of the Single Supervisory Mechanism in November 2014. In addition, our business falls within the scope of US regulation, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, which places certain restrictions on our activities both in the UK and the US. We are also required to adhere to the rules and guidance of other regulators and voluntary code schemes which operate in the UK. We aim to comply with and exceed all regulatory requirements. Due to the close links between regulatory risk and the operational and conduct risk frameworks, the identification, assessment, management and reporting tools for these risks also apply where such exposures and risks have a regulatory risk impact.

2016 compared to 2015

A consistent theme in recent years has been the rate and scope of the change agenda, across both regulatory change and politically driven initiatives. In common with much of the financial services industry, we continue to experience significant levels of regulatory scrutiny. Over the course of the year this included supervisory reviews, meetings and requests for information across business lines and customer sectors.

We carried out a number of regulatory-driven activities in 2016 in response to the evolving regulatory environment. We:
- Made changes to comply with the new requirements of the Senior Managers Regime which came into force on 7 March 2016
- Enhanced the whistleblowing framework in line with the new whistleblowing rules which came into effect on 7 September 2016
- Continued activities to ensure compliance with future regulatory regime and rule changes. These included Banking Reform and the Markets in Financial Instruments Directive II.

COUNTRY 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.

			Financial institutions			
	Governments	Government guaranteed	Banks[1]	Other	Corporate	Total[2]
2016	£bn	£bn	£bn	£bn	£bn	£bn
Eurozone countries:						
Ireland	-	-	0.5	0.4	0.4	1.3
Italy	1.0	-	-	-	-	1.0
Spain (excluding Banco Santander)	-	-	0.3	-	-	0.3
Portugal	-	-	0.1	-	-	0.1
Luxembourg	-	-	-	2.4	-	2.4
France	-	0.3	1.2	0.1	0.1	1.7
Germany	-	-	1.5	-	-	1.5
Other[3]	-	-	0.2	-	1.1	1.3
	1.0	0.3	3.8	2.9	1.6	9.6
All other countries:						
UK	11.2	0.4	9.2	11.8	22.0	54.6
US	3.7	0.2	9.8	2.3	0.1	16.1
Japan[4]	2.8	-	3.2	0.1	1.4	7.5
Switzerland	0.2	-	0.1	-	0.1	0.4
Denmark	-	-	-	-	0.2	0.2
Other	-	-	0.3	0.2	0.8	1.3
	17.9	0.6	22.6	14.4	24.6	80.1
Total	18.9	0.9	26.4	17.3	26.2	89.7
2015						
Eurozone countries:						
Ireland	-	-	-	0.1	0.5	0.6
Italy	0.8	-	0.1	-	-	0.9
Spain (excluding Banco Santander)	-	-	0.2	-	-	0.2
Portugal	-	-	0.1	-	-	0.1
France	-	0.3	1.8	-	1.6	3.7
Germany	-	-	1.3	-	0.4	1.7
Other[3]	0.3	-	0.3	-	1.0	1.6
	1.1	0.3	3.8	0.1	3.5	8.8
All other countries:						
UK	1.7[5]	0.4	7.4	5.4	33.5	48.4
US	2.3	0.2	7.9	3.2	0.2	13.8
Japan[4]	2.7	-	1.0	0.1	1.7	5.5
Switzerland	0.1	-	0.1	-	-	0.2
Denmark	-	-	-	-	0.2	0.2
Other	-	-	0.6	0.4	0.6	1.6
	6.8	0.6	17.0	9.1	36.2	69.7
Total	7.9	0.9	20.8	9.2	39.7	78.5

(1) Excludes balances with central banks.
(2) Excludes cash at hand, macro hedge of interest rate risk, intangible assets, property, plant and equipment, deferred tax assets, and other assets. Loans are included gross of credit provisions.
(3) Includes The Netherlands of £1.1bn (2015: £0.8bn), Cyprus of £nil (2015: £nil), Greece of £nil (2015: £nil), Belgium and Finland. The 2015 balance includes Luxembourg of £0.2bn.
(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.
(5) In 2016, the classification of Social Housing loans was changed from Corporate to Governments. Applying this to balances at 31 December 2015, Corporate would reduce by £9.7bn to £23.8bn and Governments would increase by £9.7bn to £11.4bn.

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 2016 and 2015 we had gross balances with other Santander UK group companies as follows:

	2016			2015		
	Financial institutions			Financial institutions		
	Banks £bn	Other £bn	Total £bn	Banks £bn	Other £bn	Total £bn
Assets:						
UK	11.1	0.5	11.6	22.3	19.0	41.3
	11.1	0.5	11.6	22.3	19.0	41.3
Liabilities:						
UK	30.2	3.3	33.5	22.7	1.3	24.0
	30.2	3.3	33.5	22.7	1.3	24.0

The above balances with other Santander UK group companies at 31 December 2016 and 2015 mainly arose from ANTS's providing treasury support functions for the Santander UK group.

In the first half of the year, Santander UK began repositioning the structure of its funding vehicles in preparation for the Banking Reform Act. On 1 June 2016, the issuer on a number of programmes was transferred to Santander UK plc from Abbey National Treasury Services plc. For more on this, see the Notes to the Consolidated 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 2016 and 2015, we had gross balances with other Banco Santander companies outside the Santander UK group as follows:

	2016			2015		
	Financial institutions			Financial institutions		
	Banks £bn	Other £bn	Total £bn	Banks £bn	Other £bn	Total £bn
Assets:						
Spain	2.1	-	2.1	1.4	-	1.4
Chile	0.1	-	0.1	0.3	-	0.3
UK	-	-	-	-	0.5	0.5
Other <£100m	0.2	-	0.2	0.3	-	0.3
	2.4	-	2.4	2.0	0.5	2.5
Liabilities:						
Spain	2.1	-	2.1	1.9	-	1.9
Uruguay	0.2	-	0.2	-	-	-
Chile	0.1	-	0.1	0.3	-	0.3
Other <£100m	0.2	-	0.2	0.2	0.1	0.3
	2.6	-	2.6	2.4	0.1	2.5

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Simon Lloyd
Chairman

Timothy Simon Lloyd (56) 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. 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 a non-executive director of Milton Keynes University Hospital NHS Foundation Trust and a member of its Audit and Workforce Committee.

Susan Allen
Non-Executive Director

Susan Allen (50) was appointed Non-Executive Director of Abbey National Treasury Services plc on 24 January 2017, and currently Chief Transformation Officer at Santander UK plc since 1 September 2015, previously holding the role of 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 (59) was appointed 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 (46) was appointed as 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 (49) was appointed as an Executive Director 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 (52) was appointed 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.

Corporate governance report

Chair’s report on corporate governance

Overview of the year

High standards of corporate governance underpin the delivery of the Board’s strategic objectives, which includes a strong customer focused culture whist delivering sustainable returns for our shareholder. During the year we have made a number of changes to the composition of the Board to strengthen our governance structure, which reflect the introduction of the Senior Manager Regime (SMR) and alignment to the Capital Requirements Directive IV (CRDIV). In doing so, we have established a Board Risk Committee, Board Audit Committee and Board Nomination Committee, and allocated certain prescribed responsibilities to senior management within the organisation. ANTS plc is a wholly-owned subsidiary company of Santander UK plc and observes the Santander UK Group Framework and standards of corporate governance, for further details see the Annual Report of Santander UK plc. This report sets out our approach to governance in practice, the work of the Board during 2016 and includes reports from the newly established committees. We expect further changes as we align operations and responsibilities under UK Banking Reform.

Board membership

Our current Board comprises a chairman and two further non-executive directors, and three executive directors who undertake the roles of Chief Executive Officer, Chief Finance Officer and Chief Operating Officer.

During the year Simon Lloyd became a non-executive member of the Board and was appointed Chairman on 18 August. Simon retired from Santander UK plc on 31 December, after a distinguished career with the group which began with his appointment to the Alliance & Leicester Building Society, but remains Chairman of ANTS plc and will oversee the re-shaping and transition of the Company as we move towards Banking Reform.

Susan Allen was appointed Non-Executive Director with effect from 24 January 2017.

Juan Garrido was appointed Chief Executive Officer on 23 May, following the resignation of Marcelo Castro Zappa from this position on the same day. Marcelo Castro Zappa stepped down from the Board on 27 June. On 2 September Patrick Flynn joined the Board as COO following the resignation of Abdelkrim Hajjaji on the same day. Chris Sullivan has served as a non-executive director since 1 February and Antonio Roman has held the position of Chief Finance Officer throughout the year and to the date of signing the balance sheet.

Board committees

We have strengthened our corporate governance framework during the year by establishing a Board Risk committee, a Board Audit committee and a Nomination committee. These committees operate and make recommendations to the Board in accordance with their Terms of Reference, an outline of which can be found on page 69. The Committees comprise three non-executive directors. Currently they have common membership of Simon Lloyd, Chris Sullivan and Susan Allen.

Board fees

No member of the Board receives any remuneration in respect of their role as a Board member of ANTS plc or as a member of any Board Committees, with the exception of Simon Lloyd, who provides his services under a service contract.

Board activities

The Chairman, together with the CEO and the Company Secretary, ensures that the Board has an appropriate schedule so that its time is focused on matters of strategic importance to the business and that appropriate monitoring and mitigation of risks is undertaken. The agenda is subject to continuous review.

In July 2016, in addition to regular Board meetings, the Santander UK Board held a strategy day which included reflection on and development of ANTS plc. The outcome of this day has been incorporated into the agenda and actions for the Board and its Committees.

Tailored induction programmes are provided for all Board and Committee members with focus on their role and previous experience. This ensures that they have the necessary understanding of the bank, its activities, core markets and operating environment.

Governance arrangements have been monitored on a continuous basis to ensure appropriate structure and composition in light of the Santander UK group structure, recent changes in regulation, including CRDIV, and legislation, including preparations for Banking Reform. Board composition and potential conflicts arising are also considered upon the appointment or resignation of a member of the Board.

A summary of Board activities in 2016 is set out below:

Activity	Actions taken by the Board and outcomes
Business and customer	– Reviewed, challenged and approved the implementation of the 3-year business plan 2017-2019 and the Budget for 2017, including associated risk assessments and UK-specific material presented at the Banco Santander investor day. – Reviewed the business impacts of the EU referendum, in particular the impact on the 3-year business plan and budget. – Reviewed, challenged and remained appraised of the performance and strategy of Santander Global Corporate Banking. – Reviewed, challenged and remained appraised of the performance and strategy of Santander Corporate and Commercial Banking.
Regulation and capital	– Remained fully appraised of the regulatory dialogue regarding the application of ring-fencing requirements and management proposals for the implementation of ring-fencing. This included the operating model approvals and the approval of associated regulatory submissions. – Considered and approved the ICAAP, ILAAP and Santander UK's Recovery and Resolution Plan. – Challenged and approved the adequacy and effectiveness of stress-testing and capital management. – Reviewed, challenged and approved the Company's wholesale funding programme arrangements. – Reviewed the Company's asset and liability management activities. – Reviewed and approved the payment of dividends. – Remained appraised of regulatory developments – including competition and market reviews and payment systems directive – ensured compliance with regulatory requirements and fully considered all regulatory feedback from the PRA and FCA. – Approved the Company's Annual Report and Accounts.
People	– Received updates on resource requirements in relation to business activities and the strategic direction of the business.
Governance	– Reviewed, challenged and approved the framework defining our relationship and responsibilities with Santander UK. – Renewed a set of strategic priorities for the Board to guide it in discharging its responsibilities. – Reviewed enterprise wide governance arrangements to ensure that governance and controls are robust and support the proposed operating model and structural change resulting from ring-fencing. – Reviewed the Terms of Reference for the Board and established Board Committees for Audit, Risk and Nomination, agreed their Terms of Reference and ensured that members had the necessary skills, experience and time to extinguish their duties as non-executive directors and members of the Board Committees.
Risk and governance	– Received regular enterprise wide risk updates from the Santander UK Chief Risk Officer. – Reviewed, challenged and approved updated risk appetites and monitored performance against them across risk types. – Considered specific issues, including the Santander Global Corporate Banking risk and control environment.

Board and Board Committee responsibilities

	Key responsibilities
Board	– Review, approve and monitor performance in respect of corporate strategy, major plans of action, Risk Appetite and policies, annual budgets and business plans. – Monitor the effectiveness of the Company's governance arrangements. – Ensure that appointments to the Board or its Committees are effected in accordance with the appropriate governance process. – Monitor and manage potential conflicts of interest of management and Board members.
Board Nomination Committee	– Regularly review the structure, size and composition of the Board, including skills, knowledge, experience and diversity. – Consider succession planning for Directors and senior executives. – Identify and nominate candidates to fill Board vacancies as and when they arise. – Regularly assess the performance of the Board. – Review annually whether Non-Executive Directors have dedicated sufficient time to their duties to have been effective in their role. – Oversee the Company's governance arrangements.
Board Risk Committee	– Review those elements of the Santander UK Risk Framework applicable to the Company and recommend them to the Board for approval. – Review and approve the key specific risk type and risk activity frameworks identified in the Santander UK Risk Framework. – Advise the Board on the Company's enterprise-wide risk profile, risk appetite and strategy. – Review the Company's capability to identify and manage new risks and risk types. – Oversee and challenge the day to day risk management actions and oversight arrangements applicable to the Company and adherence to Santander UK's risk frameworks and policies. – Review risk appetite proposals and recommend these to the Board for approval.
Board Audit Committee	– Monitor and review the integrity of the financial statements of the Company. – Assess the performance of the External Auditors in respect of the Company and communicate this to the Board Audit Committee of Santander UK plc. – Keep under review the adequacy and effectiveness of the Company's internal financial controls. – Monitor and review the effectiveness of the Company's Internal Audit function.

Board Risk Committee Chair's report

Membership
The Committee was formally constituted at a meeting of the Board on 7 March 2016. The Committee met once during 2016, following regulatory approval of its members. Members during the year were Simon Lloyd and Chris Sullivan, with both being non-executive members of the Board throughout their tenure. Susan Allen became a Non-Executive Director and member of the Risk Committee on 24 January 2017.

Meeting our key responsibilities in 2016
We addressed our key responsibilities relating to Risk Appetite and the Risk Framework, together with our work on stress testing and individually significant matters principally through the Risk Framework of Santander UK plc, which included presentation and discussion at the Executive and Board Risk Committee meetings of Santander UK plc. In addition, those separately identifiable matters of significance were addressed by the ANTS plc Board Risk Committee, with matters arising escalated to the ANTS plc Board. For information on our responsibilities relating to risk management and internal control see page 16.

Significant areas of focus

Area of focus	Action taken by the Board Risk Committee	Outcome
Risk Appetite	– We principally adopt the Santander UK Risk Appetite whilst also considering the impact of individual transactions at a company level. From this basis we will refine company-level Risk Appetite.	– Requested presentation of transactions representing a significant change in risk profile of the Company or transfer of risk are presented to the Committee for consideration.
	– Reviewed the Risk Appetite of the Company in relation to key transactions.	– Approved a governance framework to monitor and review management's proposed action plans to address the recommendations over the short and medium term, concurring with the decisions made by Santander UK.
Risk Framework	– We adopt the Santander UK Risk Framework and implement controls and attestations in line with Santander UK recommendations.	– Our Risk Framework continues to evolve in response to changes in our business. This ensures that the way we look at risk remains relevant to our business and the economic environment in which we operate.
	– Following an external review of the controls and strategic model of our Global Corporate Banking business segment in 2015, Santander UK monitored progress made by the business segment on a monthly basis to address the consultant's observations and recommendations, and the ANTS plc Board and Board Risk Committee reviewed overall progress. The Committee also received an update in quarter four from PwC on management's progress with the programme.	– Monitored in the implementation of controls recommended following recommendations made by external consultants.
Stress testing	– Stress testing is undertaken at a Santander UK level. It remains a key tool to highlight and manage the impact on capital and profit and loss in stress scenarios. Methodology, governance arrangements and outputs are subject to close monitoring by the Santander UK Board Risk Committee.	– Requested that matters particularly affecting risks relating to ANTS plc are separately identified and presented to the Committee going forward.
Macroeconomic environment	– Our strategy and management is set at a Santander UK level, where net interest income and capital metrics of interest rates remaining lower for longer are reviewed regularly.	– We continue to benefit from the holistic review undertaken by Santander UK and remain alert to changes that particularly impact corporate and commercial credit risk.
Banking Reform	– Santander UK reviewed detailed stress analyses and engaged in wide ranging discussions on the risk assessment of the Banking Reform Programme alternatives presented by management.	Santander UK supported management's proposal to amend the Banking Reform Programme in light of the impact on the top risks and mitigating actions following the UK referendum on EU membership, and continue to oversee the preparation of detailed implementation plans for related adjustments to the Risk Framework.
UK Referendum on EU membership	– Following the result of the EU referendum, Santander UK considered the risks and potential impact to Santander UK of the vote for the UK to leave the EU.	– Santander UK are monitoring closely political and market developments as they progress, and reviewing the scenario planning, stress testing and assessment of models by management in the context of a potential macroeconomic regime change for the UK economy.

Oversight and advice to the Board on ANTS plc's current risk exposure and future risk strategy

During 2016, we reviewed ANTS plc's exposure to the risks outline below and analysed emerging themes which could affect Santander UK's ability to achieve its strategic goals.

Risk	Action taken by the Board Risk Committee	Outcome
Corporate and commercial credit risk	– Reviewed the Global Corporate Banking concentration levels, and sector and geographic exposures. – Reviewed credit risk within the Global Corporate Banking and Commercial Banking with a focus on renewables and commodities. – Monitored the preparations for implementation of IFRS 9.	– Growth in corporate and commercial portfolios and earnings has been achieve within Santander UK approved Risk Appetite.
Market risk	– Reviewed analysis providing detailed VaR reports and stress testing results for a range of macroeconomic scenarios to assess traded market risk exposure.	– Exposures have been maintained well within Risk Appetite. – Assurance was gained over the adequacy of VaR and stress testing.
Liquidity risk	– ANTS plc is a member, together with Santander UK and Cater Allen Limited, of the Domestic Liquidity Sub-group (DoLSub) under the PRA's regulatory liquidity rules and consequently liquidity is managed on a Santander UK basis by the Santander UK Board Risk Committee.	– No changes were made to the DoLSub arrangement during 2016. – See Note 32 to the Consolidated Financial Statements for further information.
Capital risk	– ANTS plc, Santander UK and Cater Allen Limited are parties to a Capital Support Deed and constitute a core UK group as defined by the PRA Rulebook. Exposures of each of these regulated entities is monitored on a regular basis by Santander UK on behalf of all three entities, as well as the ongoing need for such capital arrangements. – Oversight of risks associated with the ICAAP, lower for longer credit provisions, and consideration of the potential impacts of forthcoming regulation on the firm's capital forecasts, including leverage, were addressed by the Santander UK Board Risk Committee, taking into account the impact on each party to the Deed.	– No changes were made to the Capital Support Deed during 2016. – See Note 32 to the Consolidated Financial Statements for further information.
Conduct Risk	– It was confirmed that there have been no conduct matters raised relevant to the Company.	– Commitment to continuous monitoring.

Effectiveness of risk management system and internal controls

Updates on the completion by all business units of their Risk and Control Self Assessments are received by Santander UK. Santander UK also implement key risk and control programmes and considered measures and actions plans to address exposures to related systems and controls. Specific issues relating to ANTS plc were addressed by the ANTS plc Board, and going forward will form part of the agenda of the Board Risk Committee.

Priorities for 2017

The Committee will evolve its membership and agenda during the coming year to reflect the risk profile of the business. In doing so we will have regard for those matters specifically relating to corporate and commercial credit risk. We will also consider the risk appetite in the context of the Company as a standalone entity and the application of the Santander UK Risk Framework.

Board Audit Committee Chair's report

Overview of the year

The Board Audit Committee was established as part of the implementation of governance changes arising from the SMR and CRD IV, and met for the first time as part of the year-end reporting process.

Membership

Membership at inception included the Chair, Simon Lloyd, and our non-executive Director, Chris Sullivan. On 24 January 2017, Susan Allen was appointed to the Board and became a member of the Audit Committee. The Committee met to approve the Annual Report and Financial Statements and to conduct all ancillary related matters to the Annual Report.

Financial reporting

The Committee monitored and reviewed the integrity of the financial statements of the Company. Future Committees will also consider half-year reports and matters relating to Quarterly Management Statements relevant to the business of ANTS plc.

Significant financial reporting issues and judgements

The use of assumptions or estimates and the application of management judgement is an essential part of financial reporting. In 2016, we focused on the following significant reporting matter in relation to financial accounting and disclosure, which were subsequently reported to the Board:

Financial reporting issue or judgement	Action taken by the Board	Outcome
Corporate credit provisions Determining the appropriateness of corporate credit provisions is highly judgemental requiring management to make a number of assumptions.	– Reviewed detailed reports from management on credit provisions relating to corporate lending portfolios. – Reviewed cases that were at risk of being reclassified as NPL, or had been allocated to the Restructuring Team in the period to satisfy ourselves that impairment triggers had been correctly identified. – Discussed exposures to the oil and gas, mining and healthcare sectors and satisfied ourselves that there had been no impairment triggers during the year that warranted any significant adjustment to provision levels.	– Agreed with management's judgement on the level of corporate credit provisions, concluding that provisions remain robust and management's assumptions were appropriate. – We will continue to monitor closely corporate credit provisions to assess any impact of changes in economic circumstances. See 'Critical accounting policies' in Note 1 to the Consolidated Financial Statements. For more, see Note 15 to the Consolidated Financial Statements.

The Committee's focus has been on areas of significant judgement, being those which pose the greatest risk of a material misstatement to the financial statements. In addition to the area of significant judgement set out above, the Committee also considers other higher risk items. During 2016, these included the valuation of financial instruments (including fair value adjustments), hedge accounting, transactions with related parties and the identification and assessment of risks of material misstatement due to fraud or error. For financial instruments held at fair value, we noted the enhancement of the methodology for valuing uncollateralised derivative portfolios to include a funding fair value adjustment, in line with most UK peers; see Note 38 to the Consolidated Financial Statements.

External Auditors

Audit tender and new external auditors

In 2015, Banco Santander took the decision to re-tender the global external audit and the Santander UK Board Audit Committee performed its own UK review of the three firms selected by the Banco Santander group, in support of this. Following the conclusion of the review and with a recommendation from Santander UK, Banco Santander SA confirmed that PwC would become our external auditors for the accounting period from 1 January 2016 AGM, which was subsequently granted.

Oversight of the relationship with our external auditor

Primary oversight of our relationship with our external auditors, PwC, rests with Santander UK; however, our activities included:

- Consideration of their work and opinion relating to management judgements
- Review of the summary of misstatements not corrected by management and satisfied ourselves that they were not quantitatively or qualitatively material, both individually and in aggregate
- Discussion with the external auditors regarding the level of disclosure in the Annual Report to satisfy ourselves that it is appropriate
- Discussion regarding developments in financial reporting including changes to accounting standards, statute and best practice
- A review of reports received from PwC on weaknesses and recommendations on internal control and financial reporting matters identified during the course of the audit and their view of management's progress in resolving them.

Based on the above inputs, which were captured by Santander UK in a formalised assessment, we satisfied ourselves as to the rigour and quality of PwC's audit process.

Non-audit fees
The independence of Deloitte and PwC has been monitored continuously during the course of 2016.

We have a policy on non-audit services which are provided by our auditors, which was updated in 2016 in the context of the revised Ethical Standard issued by the FRC on auditor independence requirements resulting from the new European Audit Regulation and Directive. This policy is the same as that of Santander UK and during 2016 was implemented by the Board Audit Committee.

Internal control
The Board Risk Committee of Santander UK has overall responsibility for the effectiveness of the internal control systems. However, due to the nature of internal control matters, there is a natural overlap in responsibilities with those of the Santander UK Board Audit Committee and this Committee. Where matters arise in relation to internal control over ANTS procedures these will be monitored by the Committee. We recognise that a robust framework of internal control is essential for a complex and changing business environment. Santander UK, of which we are a principal subsidiary, has a comprehensive internal control framework in place, and, during the course of the year, the Santander UK Board Audit Committee received and considered regular reports regarding the operation of and continued enhancement to this framework. This included reports from Internal Audit and the External Auditors and related actions being taken by management. During 2016, the regular reports from Compliance on matters such as key conduct and non-financial regulatory risks migrated to the Santander UK Board Risk Committee. Finance continues to provide updates to the Santander UK Board Audit Committee and this Committee on internal controls over financial reporting. Regular reports have also been provided considering any material litigation cases and their progress. As part of Santander UK we rely on attestations on the adequacy of internal controls made periodically and as part of the financial reporting process. For further details see the Directors' report.

Internal Audit
In 2016, the PRA completed their triennial review of the Santander UK Internal Audit function which recognised the significant progress which has been made over the last three years; the outcome of which was favourable. The two main recommendations of the PRA had previously been identified by the Santander UK Board Audit Committee, and the Internal Audit function was already in the process of addressing them; we have focused particularly on the enhancement of the quality assurance function within Internal Audit and reviewed the calibration of Internal Audit reports.

The Santander UK Board Audit Committee also keeps under review the conclusions and recommendations of an external benchmarking assessment against industry leading practice for Internal Audit, which was last carried out in 2015. The Santander UK Board Audit Committee considers that the changes made in 2015 as part of our continuous improvement programme, have been embedded during 2016 and have further strengthened the Internal Audit function. The Santander UK Board Audit Committee noted strong engagement between the Internal Audit function and the business during 2016. Going forward, matters relating to ANTS will also be considered by this Committee.

The internal audit plan, based on a comprehensive risk assessment, was presented in draft and then final form for challenge and approval by the Santander UK Board Audit Committee. The plan has been updated at regular intervals throughout the year, in response to changes in the business and regulatory environment, and at the request of the Santander UK Board Audit Committee.

The Santander UK Board Audit Committee received regular reports from the Santander UK Head of Internal Audit and monitored findings as part of its oversight. It considered the aggregate number of recommendations, the rationale for any recommendations becoming overdue, and broader root cause analyses. The Santander UK Board Audit Committee also requested that the Santander UK Head of Internal Audit highlight recommendations becoming due. The Santander UK Board Audit Committee has chosen to invite key members of management with past due recommendations to present to it on progress with implementing Internal Audit's recommendations, issues encountered with closing them, key milestones and key dependencies including those relating to Banco Santander. Going forward, where an internal audit report has been made on a business area relating partly or wholly to the activity of ANTS the findings of the report are shared with the Board Audit Committee for consideration and monitoring.

Whistleblowing
Whistleblowing procedures are managed and monitored by Santander UK. Matters relating to ANTS plc are cascaded to this Committee for further consideration as appropriate.

Going concern
We satisfied ourselves that it is appropriate to use the going concern basis of accounting in line with a presentation made on 21 February 2017 to the Santander UK Board Audit Committee by senior finance management. As part of the assessment, we considered whether there are sufficient financial resources, including liquidity and capital, available to continue the operations of the Company. We considered the Company's resilience in the face of stress, prominent events such as the UK's decision to leave the EU and known future challenges.

Priorities for 2017

During 2017, our primary focus will be on accounting judgements and financial reporting issues affecting the Company.

Board Nomination Committee Chair's report

Overview of the year
The Committee met once during the year. Our main focus was the composition of the Board and succession planning, taking into account the requirements of the Senior Manager Regime, the Capital Requirements Directive IV and preparation for UK Banking Reform.

Board and Committee membership
Board membership has seen a number of changes during the year, strengthening its composition to include three non-executive Directors. Chris Sullivan joined the Board as a non-executive director on 1 February and Simon Lloyd joined as the non-executive Chair on 18 August. During the year Simon and Chris were members of the Nomination Committee. Simon Lloyd retired from Santander UK plc on 31 December but retained his position as Chair of ANTS plc, providing stability and deep knowledge of the business as we prepare the Company for its future role in Santander UK that serves our customers, shareholders, people and communities in the way that is best for them once the Banking Reform Act becomes effective. In addition. Susan Allen joined the Board as a non-executive Director as a member of the Nomination Committee on 24 January 2017. Susan brings with her a wealth of experience in retail and corporate banking and in leading Transformation.

Skills and experience
The Committee monitored Board members' skills and experience during the year. New directors were assessed prior to appointment to ensure they possessed the credentials required to perform their role.

Diversity
We remain committed to diversity in all its forms across Santander UK including ANTS plc and currently have one woman on our Board. This means that we have a 17% representation of women on our Board. For further information on all aspects of diversity see the Santander UK Annual Report and Strategic review, which can be found at www.Santander.co.uk.

Succession planning
The Committee is responsible for overseeing the process of succession for the Board directors and senior management. The Committee reviewed the succession plan and progress having regard to the skills, current talent pool, diversity and future leadership needs of the bank. At its meeting of 20 December 2016 the Committee discussed and agreed to appoint Susan Allen as Non-Executive Director, subject to notification to the regulator. This appointment is consistent with the aim of the Committee and of Santander UK to be the best governed bank in the UK.

As we develop our plans under Banking Reform we anticipate further changes to Board composition to reflect the skills and experience required to successfully shape our business and so it can continue to serve our customers in a way that is Simple, Personal and Fair.

Annual review of director interests, time and commitment
Consistent with the terms of reference, the Committee performed an annual review of the directors' interests to ensure any conflicts are managed appropriately and in compliance with CRD IV requirements. The time commitments of the directors were also reviewed to ensure directors have sufficient time available to discharge their responsibilities to be effective members of the Board.

Priorities for 2017
We will continue to review the Company's governance arrangements, the composition of the Board, its effectiveness and requirements as we make arrangements for Banking Reform.

Directors' report

INTRODUCTION

The Directors have pleasure in submitting their report together with the financial statements the year ended 31 December 2016.

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 the ANTS group and the Cater Allen business provided the ANTS group 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 the ANTS group 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, 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. 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.

Exposures to other Banco Santander members are established and managed on an arm's length commercial basis. All intra-group transactions are monitored by the Santander UK and ANTS Board Risk Committees, and transactions which are not in the ordinary course of business must be pre-approved 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 Banco Santander, 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 so as to be able to continue operating as viable standalone businesses.

RESULTS AND DIVIDENDS

The consolidated profit after tax for the year was £181m (2015: £266m). The Directors do not recommend the payment of a final dividend for 2016 (2015: £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 2016 are set out in the Strategic report on page 2 and the Financial review on pages 5 to 11.

EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date.

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	Date of resignation
Susan Allen (Non-Executive)	24 January 2017	
Marcelo Castro Zappa (Chief Executive Officer and Executive Director)	15 July 2015	23 May 2016 and 27 June 2016
Patrick Flynn	2 September 2016	
Juan Garrido Otaola (Chief Executive Officer)	23 May 2016	
Abdelkrim Hajjaji	26 November 2015	2 September 2016
Simon Lloyd (Non-Executive)	11 August 2016	
Antonio Roman	31 July 2014	
Chris Sullivan (Non-Executive)	1 February 2016	

None of the Directors have service contracts with the ANTS group. 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, 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.

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 2016 and 2015 are found in Note 36 to the Consolidated 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 36 to the Consolidated Financial Statements. For a description and details of related party transactions, see Note 37 to the Consolidated Financial Statements.

Directors' indemnities

In addition to Directors' and Officers' liability insurance cover in place throughout 2016, 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

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

The ANTS group 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). 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 also to keep them up to date on financial, economic and other factors which affect the ANTS group's performance. 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 36 to the Consolidated Financial Statements for a description of the plans and the related costs and obligations.

DISABILITY

The ANTS group 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. The ANTS group 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 persons, 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 the ANTS group'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 2016 and 2015, no contributions were made for political purposes and no political expenditure was incurred.

SHARE CAPITAL

Details of the Company's share capital, including the rights and restrictions that apply to each class of shares, can be found in Note 33 to the Consolidated 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 36 to the Consolidated Financial Statements. The powers of the Directors in relation to share capital are set out in the Company's Articles of Association and as determined by the UK Companies Act 2006.

SUBSIDIARIES AND BRANCHES

ANTS has a branch office in the United States and the Cayman Islands. For further information, see the Subsidiaries, joint ventures and associates section of this Annual Report.

FINANCIAL INSTRUMENTS

The ANTS group's risks are managed on a group level by Santander UK plc. The financial risk management objectives and policies of ANTS, the policy for hedging each major type of forecasted transaction for which hedge accounting is used, 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 and develops new products and services in each of its business divisions in the ordinary course of business. All new products, campaigns and business initiatives are reviewed and approved 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. Some of its subsidiaries are also authorised by the PRA or the FCA and regulated by the FCA and/or the PRA.

While the ANTS group 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 49 to 55.

BOARD COMMITTEES

Following the introduction of the Prudential Regulation Authority's Senior Managers Regime (SMR), effective from 7 March 2016, the Board of the Company established a Board Audit Committee, a Board Risk Committee and a Board Nomination Committee. Each Committee is chaired by the company Chair.

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 12 to 65.

Management's report on internal control over financial reporting

Internal control over financial reporting is a component of an overall system of internal control. Santander UK'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.

Santander UK's 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 Santander UK. Management assessed the effectiveness of Santander UK's internal control over financial reporting at 31 December 2016 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 2016, that Santander UK's internal control over financial reporting was effective.

GOING CONCERN

The going concern of the ANTS group is reliant on preserving a sufficient level of capital and adequately funding the balance sheet. The ANTS group's business activities and financial position, together with the factors likely to affect its future development and performance, are set out in the Financial review on pages 5 to 11. The ANTS group'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.

The ANTS group is reliant on Santander UK plc and other companies in the Santander UK group for a significant 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 plc Board has considered the uncertainties within the ANTS group when preparing the forecasts and budgets of the combined business of Santander UK.

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2017 under a deed poll guarantee entered into by the Company on 5 June 2015. On 8 May 2015, Santander UK plc entered into a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 30 June 2017.

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. The same arrangement existed before October 2015 under the Defined Liquidity Group rules of the PRA in place until that date.

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 are required by the International Accounting Standards (IAS) Regulation to prepare the group financial statements under IFRS, as adopted by the EU, and have also elected to prepare the parent company 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. In addition, in order to meet certain US requirements, the Directors are required to prepare the ANTS group's financial statements in accordance with IFRS, as issued by the International Accounting Standards Board (IASB).

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 ANTS group'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 ANTS group'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 have 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

Jason Wright
Company Secretary
24 February 2017
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 ANTS group'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.

Signed on behalf of the Board by

Juan Garrido Otaola
Chief Executive Officer
24 February 2017

Abbey National Treasury Services plc Board of Directors:

Non-Executive Directors
Timothy Simon Lloyd
Susan Mary Allen
Christopher Paul Sullivan

Executive Directors
Juan Garrido Otaola
Antonio Roman
Patrick Flynn

Independent auditors' report to the member of Abbey National Treasury Services Plc

Report on the financial statements

Our opinion

In our opinion:

- Abbey National Treasury Services Plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

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

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2017

CONSOLIDATED INCOME STATEMENT

For the years ended 31 December

	Notes	2016 £m	2015 £m
Interest and similar income		948	1,495
Interest expense and similar charges		(684)	(1,223)
Net interest income	3	264	272
Net fee and commission income	4	122	114
Net trading and other income	5	205	252
Total operating income		591	638
Operating expenses before impairment losses, provisions and charges	6	(290)	(255)
Impairment (losses)/releases on loans and advances	8	(18)	5
Provisions for other liabilities and charges	8	(16)	(43)
Total operating impairment losses, provisions and charges		(34)	(38)
Profit before tax		267	345
Tax on profit	9	(86)	(79)
Profit after tax for the year		181	266
Attributable to:			
Equity holders of the parent		181	266

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December

	Notes	2016 £m	2015 £m
Profit for the year		181	266
Other comprehensive income:			
Other comprehensive income that may be reclassified to profit or loss subsequently:			
Available-for-sale securities:			
- Change in fair value	18	16	4
- Income statement transfers		4	2
- Taxation		(5)	(1)
		15	5
Cash flow hedges:			
- Effective portion of changes in fair value		604	(131)
- Income statement transfers		(713)	135
- Taxation		28	(7)
		(81)	(3)
Currency translation on foreign operations		(1)	(6)
Net other comprehensive income that may be reclassified to profit or loss subsequently		(67)	(4)
Total other comprehensive income for the year net of tax		(67)	(4)
Total comprehensive income for the year		114	262
Attributable to:			
Equity holders of the parent		114	262

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

CONSOLIDATED BALANCE SHEET

At 31 December

	Notes	2016 £m	2015 £m
Assets			
Cash and balances at central banks		3,517	2,279
Trading assets	11	29,682	23,649
Derivative financial instruments	12	27,954	24,875
Financial assets designated at fair value	13	1,854	2,130
Loans and advances to banks	14	10,046	21,544
Loans and advances to customers	15	15,135	32,455
Loans and receivables securities	17	219	15
Available-for-sale securities	18	476	1,168
Macro hedge of interest rate risk		705	521
Intangible assets	20	35	25
Property, plant and equipment	21	9	12
Deferred tax assets	22	8	-
Other assets	23	164	194
Total assets		89,804	108,867
Liabilities			
Deposits by banks	24	25,326	21,333
Deposits by customers	25	3,169	2,838
Trading liabilities	26	15,560	12,722
Derivative financial instruments	12	31,620	25,178
Financial liabilities designated at fair value	27	2,119	2,016
Debt securities in issue	28	7,895	40,811
Other liabilities	29	224	163
Provisions	30	15	44
Current tax liabilities		119	104
Deferred tax liabilities	22	-	15
Total liabilities		86,047	105,224
Equity			
Share capital	33	2,549	2,549
Retained earnings		1,208	1,027
Other reserves		-	67
Total shareholders' equity		3,757	3,643
Total liabilities and equity		89,804	108,867

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

The Financial Statements were approved and authorised for issue by the Board on 24 February 2017 and signed on its behalf by:

Juan Garrido Otaola
Chief Executive Officer

Company Registered Number: 2338548

CONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		181	266
Adjustments for:			
Non-cash items included in profit		(101)	522
Change in operating assets		25,079	(11,619)
Change in operating liabilities		13,908	(940)
Corporation taxes paid		(61)	(202)
Effects of exchange rate differences		1,411	(742)
Net cash flows from operating activities	34	40,417	(12,715)
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		149	-
Purchase of property, plant and equipment and intangible assets	20, 21	(15)	(21)
Proceeds from sale and redemption of available-for-sale securities		700	1,311
Net cash flows from investing activities		834	1,290
Cash flows from financing activities			
Issue of debt securities		4,094	11,165
Issuance costs of debt securities		(6)	(16)
Repayment of debt securities		(39,181)	(8,341)
Net cash flows from financing activities		(35,093)	2,808
Change in cash and cash equivalents		6,158	(8,617)
Cash and cash equivalents at beginning of the year		10,192	18,436
Effects of exchange rate changes on cash and cash equivalents		991	373
Cash and cash equivalents at the end of the year	34	17,341	10,192

CONSOLIDATED 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
1 January 2016	2,549	(20)	81	6	1,027	3,643
Profit for the year	-	-	-	-	181	181
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	15	-	-	-	15
- Cash flow hedges	-	-	(81)	-	-	(81)
- Currency translation on foreign operations	-	-	-	(1)	-	(1)
Total comprehensive income for the year	-	15	(81)	(1)	181	114
31 December 2016	2,549	(5)	-	5	1,208	3,757
1 January 2015	2,549	(25)	84	12	761	3,381
Profit for the year	-	-	-	-	266	266
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	5	-	-	-	5
- Cash flow hedges	-	-	(3)	-	-	(3)
- Currency translation on foreign operations	-	-	-	(6)	-	(6)
Total comprehensive income for the year	-	5	(3)	(6)	266	262
31 December 2015	2,549	(20)	81	6	1,027	3,643

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

COMPANY BALANCE SHEET

At 31 December

	Notes	2016 £m	2015 £m
Assets			
Cash and balances at central banks		3,517	2,279
Trading assets	11	29,682	23,649
Derivative financial instruments	12	27,954	24,875
Financial assets designated at fair value	13	1,854	2,130
Loans and advances to banks	14	9,993	21,521
Loans and advances to customers	15	15,136	32,538
Loans and receivables securities	17	220	16
Available-for-sale securities	18	476	1,168
Macro hedge of interest rate risk		705	521
Interests in other entities	19	57	48
Intangible assets	20	35	25
Property, plant and equipment	21	9	12
Deferred tax assets	22	8	-
Other assets	23	164	93
Total assets		89,810	108,875
Liabilities			
Deposits by banks	24	25,319	21,329
Deposits by customers	25	3,186	3,018
Trading liabilities	26	15,560	12,722
Derivative financial instruments	12	31,620	25,178
Financial liabilities designated at fair value	27	2,119	2,016
Debt securities in issue	28	7,895	40,647
Other liabilities	29	218	159
Provisions	30	15	44
Current tax liabilities		119	104
Deferred tax liabilities	22	-	15
Total liabilities		86,051	105,232
Equity			
Share capital	33	2,549	2,549
Retained earnings		1,205	1,023
Other reserves		5	71
Total shareholders' equity		3,759	3,643
Total liabilities and equity		89,810	108,875

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

The profit after tax of the Company attributable to shareholders was £182m (2015: £277m). As permitted by Section 408 of the UK Companies Act 2006, the Company's individual income statement has not been presented.

The Financial Statements were approved and authorised for issue by the Board on 24 February 2017 and signed on its behalf by:

Juan Garrido Otaola
Chief Executive Officer

Company Registered Number: 2338548

COMPANY CASH FLOW STATEMENT

For the years ended 31 December

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		182	277
Adjustments for:			
Non-cash items included in profit		(110)	544
Change in operating assets		25,237	(11,551)
Change in operating liabilities		13,945	(781)
Corporation taxes paid		(61)	(202)
Effects of exchange rate differences		1,379	(910)
Net cash flows from operating activities	34	40,572	(12,623)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	20, 21	(15)	(21)
Proceeds from sale and redemption of available-for-sale securities		700	1,311
Net cash flows from investing activities		685	1,290
Cash flows from financing activities			
Issue of debt securities		4,094	11,165
Issuance costs of debt securities		(6)	(16)
Repayment of debt securities		(39,181)	(8,341)
Net cash flows from financing activities		(35,093)	2,808
Change in cash and cash equivalents		6,164	(8,525)
Cash and cash equivalents at beginning of the year		10,178	18,383
Effects of exchange rate changes on cash and cash equivalents		991	320
Cash and cash equivalents at the end of the year	34	17,333	10,178

COMPANY 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
1 January 2016	2,549	(20)	81	10	1,023	3,643
Profit for the year	-	-	-	-	182	182
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	15	-	-	-	15
- Cash flow hedges	-	-	(81)	-	-	(81)
- Currency translation on foreign operations	-	-	-	-	-	-
Total comprehensive income for the year	-	15	(81)	-	182	116
31 December 2016	2,549	(5)	-	10	1,205	3,759
1 January 2015	2,549	(25)	84	10	746	3,364
Profit for the year	-	-	-	-	277	277
Other comprehensive income, net of tax:						
- Available-for-sale securities	-	5	-	-	-	5
- Cash flow hedges	-	-	(3)	-	-	(3)
Total comprehensive income for the year	-	5	(3)	-	277	279
31 December 2015	2,549	(20)	81	10	1,023	3,643

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) and the Abbey National Treasury Services plc group (the ANTS group) under the UK Companies Act 2006. The principal activity of the ANTS group is to provide corporate, wholesale banking and treasury services. The ANTS group provides these services to UK clients and also to the wider Santander UK group, of which the ANTS group is a significant part. The ANTS group also provides treasury support functions for the Santander UK group. In this regard, the ANTS group'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.

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 and entities controlled by the Company (its subsidiaries) 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.

Compliance with International Financial Reporting Standards

The ANTS group Consolidated Financial Statements 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). 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.

The Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provision of the UK Companies Act 2006.

Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments can be found in the Risk review which form an integral part of these financial statements.

Future accounting developments

The ANTS group has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective for the ANTS group:

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 will be similar to IAS 39. However, under IFRS 9, embedded derivatives are not separated from host financial assets and equity securities are measured at fair value either through profit or loss or, in certain circumstances, an irrevocable election may be made to present fair value movements in other comprehensive income. The requirements for the classification and measurement of financial liabilities were carried forward unchanged from IAS 39, however, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk and, in particular, the presentation of gains and losses within other comprehensive income. Based on the analysis performed to date, ANTS generally expects:

- The vast majority of financial assets which are classified as loans and receivables under IAS 39 will be continue to be measured at amortised cost under IFRS 9;
- Most debt securities classified as available-for-sale financial assets will be measured at amortised cost or 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 according to the contract and the cash flows which the entity expects to receive. For undrawn loan commitments, an ECL is the current value of the difference between the contractual cash flows owed to the entity and the cash flows which the entity expects to receive if the loan is drawn.
An assessment of each facilities' credit risk profile will determine whether they are to be allocated to one of three stages:

- Stage 1: when it is deemed there has been no significant increase in credit risk since initial recognition, a loss allowance equal to a 12-month ECL – i.e. the proportion of lifetime expected losses resulting from possible default events within 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. Based on the analysis performed to date, the ANTS group expects to continue IAS 39 hedge accounting. No changes are currently being implemented to hedge accounting policies and practices.

Transition: IFRS 9 has been endorsed for use in the European Union. The mandatory effective date of IFRS 9 is 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet at the date of initial application. There is no requirement to restate comparative information. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. ANTS has not elected to early apply the revised presentation of fair value gains and losses relating to its own credit risk on such liabilities in these Consolidated Financial Statements but may elect to apply this presentation in 2017. ANTS is assessing the likely impacts of the new financial asset classification & measurement and impairment requirements. Upon the satisfactory completion of this work, including formal testing of the ECL models during 2017, ANTS will quantify the indicative impact when that information is known or reasonably estimable, and by no later than the end of 2017. It is not yet practicable to quantify the effect of IFRS 9 in these Consolidated Financial Statements.

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 the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. It is expected that a significant proportion of the ANTS group's revenue will be outside the scope of IFRS 15. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 15 on these Consolidated Financial Statements.

c) IFRS 16 'Leases' (IFRS 16) – In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently. At the date of publication of these Consolidated Financial Statements the standard is awaiting EU endorsement. The impact of the standard is currently being assessed, however, it is not yet practicable to quantify the effect of IFRS 16 on these Consolidated Financial Statements.

Consolidation

Subsidiaries

The Consolidated Financial Statements incorporate the financial statements of ANTS plc and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company has (i) power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- Potential voting rights held by the Company, other vote holders or other parties
- Rights arising from other contractual arrangements
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Inter-company transactions, balances and unrealised gains on transactions between ANTS group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The acquisition method of accounting is used to account for the acquisition of subsidiaries which meet the definition of a business. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Acquisition related costs are expensed as incurred. The excess of the cost of acquisition, as well as the fair value of any interest previously held, over the fair value of the ANTS group's share of the identifiable net assets of the acquired subsidiary, associate or business at the date of acquisition is recorded as goodwill. When the ANTS group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 'Financial Instruments: Recognition and Measurement' or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Transactions between entities under common control, i.e. fellow subsidiaries of Santander UK plc are outside the scope of IFRS 3 – 'Business Combinations', and there is no other guidance for such situations under IFRS. The ANTS group elects to account for transactions between entities under common control for cash consideration in a manner consistent with the approach under IFRS 3R, unless the transaction represents a reorganisation of entities within the ANTS group, in which case the transaction is accounted for at its historical cost. Business combinations between entities under common control transacted for non-cash consideration are accounted for by the ANTS group in a manner consistent with group reconstruction relief under UK GAAP (merger accounting).

Interests in subsidiaries are eliminated during the preparation of the Consolidated Financial Statements. Interests in subsidiaries in the Company unconsolidated financial statements are held at cost subject to impairment.

Foreign currency translation

Items included in the financial statements of each entity (including foreign branch operations) in the ANTS group 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 Consolidated 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 the ANTS group'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 consolidated 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 the ANTS group 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, the ANTS group 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
The ANTS group 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 the ANTS group accounts for its contributions as a defined contribution plan. The contribution to be paid by the ANTS group is calculated as the contributions made by Santander UK plc to the schemes in respect of the ANTS group'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 the ANTS group becomes a party to the contractual terms of the instrument. The ANTS group 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. The ANTS group 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. The ANTS group 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 the ANTS group 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) the ANTS group 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.

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 the ANTS group 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, loans and advances to customers, and loans and receivables securities.

c) 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.

d) Borrowings

Borrowings (which include deposits by banks, deposits by customers, debt securities in issue and subordinated liabilities) 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.

e) 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.

f) 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 the ANTS group 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.

g) 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, the ANTS group 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 the ANTS group 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. The ANTS group 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. The ANTS group 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

The ANTS group 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), the ANTS group 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, the ANTS group 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, the ANTS group 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). The ANTS group applies fair value hedge accounting and cash flow hedge accounting but not 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 consolidated 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

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

The ANTS group 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 the ANTS group 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, the ANTS group 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, the ANTS group 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 that are not. A range of forbearance arrangements may be entered into by the ANTS group, reflecting the different risk characteristics of such loans. The ANTS group's forbearance programmes are described in the credit risk section in the Risk review.

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
The ANTS group 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) The ANTS group 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) The ANTS group as lessee
The ANTS group 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 Consolidated 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 the ANTS group is able to control reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. The ANTS group 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 the ANTS group 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. The ANTS group 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 Consolidated Financial Statements requires management to make estimates and judgements that affect the reported amount of assets and liabilities at the date of the Consolidated 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 ANTS group's 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 the ANTS group'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

The ANTS group 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 2016, impairment allowances held against loans and advances to customers totalled £18m (2015: £5m releases). The net impairment loss (i.e. after recoveries) for loans and advances to customers recognised in 2016 was £18m (2015: £5m releases). 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 ANTS group's 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 £51m (2015: £40m), with a consequential increase in profit before tax, or increased by £36m (2015: £19m), with a consequential decrease in profit before tax.

2. SEGMENTS

The principal activity of the ANTS group is financial services. The ANTS group's business is managed and reported on the basis of the following segments:

- Commercial Banking
- Global Corporate Banking
- 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. The ANTS group has three segments:

- Commercial Banking offers a wide range of products and financial services to customers through a network of regional CBCs and through telephony and digital channels. The management of our customers is organised across two relationship teams - the Regional Corporate Bank (RCB) that covers trading businesses with annual turnover from £6.5m to £500m and Specialist Sector Groups (SSG) that cover real estate, housing finance, education, healthcare, and hotels. Commercial Banking products and services include loans, bank accounts, deposits and treasury services. Commercial Banking also includes specialist commercial real estate and Social Housing lending businesses.

- Global Corporate Banking services corporate clients with a turnover of £500m and above per annum and financial institutions, as well as supporting the rest of Santander UK's business segments. Global Corporate Banking clients require specially tailored solutions and value-added services due to their size, complexity and sophistication. We provide these clients with products to manage currency fluctuations, protect against interest rate risk, and arrange capital markets finance and specialist trade finance solutions.

- Corporate Centre predominantly consists of the non-core portfolios of Social Housing loans and structured credit assets. Corporate Centre in 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. The non-core portfolios are being run-down and/or managed for value.

The segmental information below is presented in a manner consistent with the internal reporting provided to the committee which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief operating decision maker. The segmental information is prepared on a statutory basis of accounting.

Transactions between the business segments are on normal commercial terms and conditions. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Internal charges and internal UK transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the ANTS group's cost of wholesale funding.

Interest income and interest expense have not been reported separately. The majority of the revenues from the segments presented below are interest income in nature and net interest income is relied on primarily to assess the performance of the segment and to make decisions regarding allocation of segmental resources.

Geographical information

Geographical analysis of total operating income:	2016 £m	2015 £m
United Kingdom	595	638
Other	(4)	-
	591	638

Geographical analysis of total assets other than financial instruments, current and deferred tax assets and other assets (excluding prepayments):	2016 £m	2015 £m
United Kingdom	108	42
Other	-	-
	108	42

Revenue by products and services

Details of revenue by product or service are disclosed in Notes 3 to 5.

Results by segment

2016	Commercial Banking £m	Global Corporate Banking £m	Corporate Centre £m	Total £m
Net interest income	81	76	107	264
Non-interest income	31	263	33	327
Total operating income	112	339	140	591
Operating expenses before impairment losses, provisions and charges	(23)	(228)	(39)	(290)
Impairment releases/(losses) on loans and advances	4	(22)	-	(18)
Provisions for other liabilities and (charges)/releases	(1)	(16)	1	(16)
Total operating impairment releases/(losses), provisions and charges	3	(38)	1	(34)
Profit before tax	92	73	102	267
Total assets	6,980	39,777	43,047	89,804
Average number of staff[1]	142	856	-	998
2015				
Net interest income	76	73	123	272
Non-interest income	35	251	80	366
Total operating income	111	324	203	638
Operating expenses before impairment losses, provisions and charges	(22)	(200)	(33)	(255)
Impairment releases on loans and advances	5	-	-	5
Provisions for other liabilities and charges	(2)	(12)	(29)	(43)
Total operating impairment releases/(losses), provisions and charges	3	(12)	(29)	(38)
Profit before tax	92	112	141	345
Total assets	6,886	36,593	65,388	108,867
Average number of staff[1]	217	760	-	977

(1) Full-time equivalents

3. NET INTEREST INCOME

	Group 2016 £m	Group 2015 £m
Interest and similar income:		
Loans and advances to Santander UK group undertakings	508	1,196
Loans and advances to Banco Santander SA	-	6
Loans and advances to other Banco Santander group undertakings	-	4
Other interest-earning financial assets	440	289
Total interest and similar income	948	1,495
Interest expense and similar charges:		
Deposits by Santander UK group undertakings	(229)	(203)
Deposits by Banco Santander SA	-	(2)
Deposits by other Banco Santander group undertakings	(5)	(2)
Other interest-bearing financial liabilities	(450)	(1,016)
Total interest expense and similar charges	(684)	(1,223)
Net interest income	264	272

Interest and similar income includes £3m (2015: £nil) on impaired loans.

4. NET FEE AND COMMISSION INCOME

	Group 2016 £m	Group 2015 £m
Fee and commission income:		
Corporate products	125	121
Fee and commission expense:		
Other	(3)	(7)
Net fee and commission income	122	114

5. NET TRADING AND OTHER INCOME

	Group 2016 £m	2015 £m
Net trading and funding of other items by the trading book	115	245
Net gains on assets designated at fair value through profit or loss	214	37
Net gains/(losses) on liabilities designated at fair value through profit or loss	(1)	(65)
Net (losses)/gains on derivatives managed with assets/liabilities held at fair value through profit or loss	(140)	43
Hedge ineffectiveness	(5)	-
Other	22	(8)
	205	252

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.

Exchange rate differences recognised in the Consolidated Income Statement on items not at fair value through profit or loss were £737m expense (2015: £142m income) 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 £713m income (2015: £135m expense) as set out in the Consolidated 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.

6. OPERATING EXPENSES BEFORE IMPAIRMENT LOSSES, PROVISIONS AND CHARGES

	Group 2016 £m	2015 £m
Staff costs:		
Wages and salaries	126	130
Social security costs	15	16
Pensions costs: - defined contribution plans	9	8
Other personnel costs	6	8
	156	162
Other administration expenses:		
Information technology expenses	61	51
Property, plant and equipment expenses	9	9
Other	56	26
	126	86
Depreciation, amortisation and impairment:		
Depreciation of property, plant and equipment	5	5
Amortisation of intangible assets	3	2
	8	7
	290	255

During the year, the Company incurred staff costs of £156m and the average number of full-time equivalent staff was 998.

7. AUDIT AND OTHER SERVICES

The fees for audit and other services payable to the Company's auditor, are analysed as follows:

	Group 2016 £m	2015 £m
Audit fees:		
Fees payable to the Company's auditor(1) and its associates for the audit of the ANTS group's annual accounts	0.8	0.8
Fees payable to the Company's auditor(1) and its associates for other services to the ANTS group:		
- The audit of the ANTS group's subsidiaries	-	0.1
Total audit fees	0.8	0.9
Non-audit fees:		
Audit-related services	0.1	0.4
Total non-audit fees	0.1	0.4

(1) PricewaterhouseCoopers LLP became the ANTS group's principal auditor in 2016. Deloitte LLP was the principal auditor during 2015.

A framework for ensuring auditor's independence has been adopted which defines unacceptable non-audit assignments, pre-approval of acceptable non-audit assignments and procedures for approval of acceptable non-audit assignments and services by the Santander UK plc Board Audit Committee and services provided by the Santander UK group's (including the ANTS group's) external auditor. No services were provided pursuant to contingent fee arrangements.

8. IMPAIRMENT LOSSES AND PROVISIONS

	Group 2016 £m	2015 £m
Impairment losses/(releases) on loans and advances:		
- Loans and advances to customers (Note 15)	18	(5)
Recoveries of loans and advances, net of collection costs (Note 15)	-	-
	18	(5)
Provisions for other liabilities and charges (Note 30)	16	43
Total impairment losses and provisions charged to the income statement	**34**	38

9. TAXATION

	Group 2016 £m	2015 £m
Current tax:		
UK corporation tax on profit for the year	89	81
Adjustments in respect of prior years	(4)	2
Total current tax	**85**	83
Deferred tax:		
Charge for the year	(3)	(2)
Adjustments in respect of prior years	4	(2)
Total deferred tax	**1**	(4)
Tax charge on profit for the year	**86**	79

UK corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was 28% for banking entities and 20% for non-banking entities (2015: 20.25%). The standard rate of UK corporation tax was reduced from 21% to 20% with effect from 1 April 2015 and an 8% surcharge is 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, which was substantively enacted on 26 October 2015, introduced reductions in the corporation tax rate from 20% to 19% by 2017 and to 18% by 2020.

The Finance Act 2016, introduced a further reduction in the corporation tax rate to 17% from 2020. As this further change was substantively enacted on 6 September 2016, the effects are included in the deferred tax balances at 31 December 2016.

The ANTS group's effective tax rate for 2016, based on profit before tax, was 32.2% (2015: 22.9%). 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:

	Group 2016 £m	2015 £m
Profit before tax	**267**	345
Tax calculated at a tax rate of 20% (2015: 20.25%)	54	70
Bank surcharge on profits	21	-
Non-taxable dividend income	-	-
Non-deductible UK Bank Levy	4	9
Other non-equalised items	7	3
Utilisation of capital losses for which credit was not previously recognised	-	-
Effect of change in tax rate on deferred tax provision	-	(3)
Adjustment to prior year provisions	-	-
Tax charge	**86**	79

The increase in effective tax rate from 2015 to 2016 was largely due to the introduction of the 8% surcharge for banking companies. It is anticipated that the ANTS group'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:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Assets	-	-	-	-
Liabilities	(104)	(224)	(104)	(224)
At 1 January	(104)	(224)	(104)	(224)
Income statement	(85)	(83)	(85)	(83)
Other comprehensive income	-	(1)	-	(1)
Corporate income tax paid	61	202	61	202
Other movements	9	2	9	2
	(119)	(104)	(119)	(104)
Assets	-	-	-	-
Liabilities	(119)	(104)	(119)	(104)
At 31 December	(119)	(104)	(119)	(104)

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.

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

The ANTS group adopted the Code of Practice on Taxation for Banks in 2010. More detail on the tax strategy can be found on the Santander UK corporate website www.santander.co.uk

Further information about deferred tax is presented in Note 22.

10. DIVIDENDS

During the years ended 31 December 2016 and 2015, no dividends on ordinary shares were declared.

11. TRADING ASSETS

		Group and Company 2016 £m	Group and Company 2015 £m
Loans and advances to banks -	-securities purchased under resale agreements	2,757	992
	- other[1]	4,721	4,441
Loans and advances to customers	-securities purchased under resale agreements	7,955	4,352
	- other[1]	2,368	1,608
Debt securities		6,248	5,462
Equity securities		5,633	6,794
		29,682	23,649

(1) Total 'other' comprises short-term loans of £920m (2015: £665m) and cash collateral of £6,169m (2015: £5,384m).

Debt securities can be analysed by type of issuer as follows:

	Group and Company 2016 £m	Group and Company 2015 £m
Issued by public bodies:		
- Government securities	5,350	4,494
Issued by other issuers:		
- Fixed and floating rate notes: - Government guaranteed	898	968
	6,248	5,462

Included in the above balances are amounts due from Banco Santander SA of £52m (2015: £126m), fellow subsidiaries of Banco Santander SA of £56m (2015: £91m), Santander UK plc of £nil (2015: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2015: £nil) respectively.

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. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

12. DERIVATIVE FINANCIAL INSTRUMENTS

a) Use of derivatives

The ANTS group transacts derivatives for four primary purposes:

- To manage the portfolio risks arising from customer business
- To manage and hedge the ANTS group'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 the ANTS group 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 13 and 27. The ANTS group'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 the ANTS group 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.

The ANTS group'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, the ANTS group 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 the ANTS group'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 group 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 the ANTS group's balance sheet.

c) Hedging derivatives

The ANTS group 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, fixed-rate asset purchases, medium-term note issues, capital issues, and structural positions. This enables the ANTS group 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.

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.

						Group and Company
		2016				2015
		Fair value			Fair value	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Derivatives held for trading	£m	£m	£m	£m	£m	£m
Exchange rate contracts:						
- Cross-currency swaps	184,228	8,040	11,415	153,258	6,452	6,579
- Foreign exchange swaps, options and forwards	36,423	899	917	35,348	318	532
	220,651	8,939	12,332	188,606	6,770	7,111
Interest rate contracts:						
- Interest rate swaps	875,598	15,174	15,052	770,750	13,790	13,291
- Caps, floors and swaptions	46,704	2,160	2,002	49,714	1,939	1,705
- Futures (exchange traded)	69,501	-	-	38,633	-	1
- Forward rate agreements	106,989	27	79	70,352	6	47
	1,098,792	17,361	17,133	929,449	15,735	15,044
Equity and credit contracts:						
- Equity index swaps and similar products	16,244	1,567	1,190	20,686	1,613	1,664
- Equity index options (exchange traded)	34	-	1	17,742	88	2
- Credit default swaps and similar products	57	5	1	56	5	2
	16,335	1,572	1,192	38,484	1,706	1,668
Commodity contracts:						
- Swaps	-	-	-	-	-	-
	-	-	-	-	-	-
Total derivatives held for trading	1,335,778	27,872	30,657	1,156,539	24,211	23,823
Derivatives held for hedging						
Derivatives designated as fair value hedges:						
Exchange rate contracts:						
- Cross-currency swaps	-	-	-	2,402	115	11
Interest rate contracts:						
- Interest rate swaps	4,159	82	963	8,207	109	736
	4,159	82	963	10,609	224	747
Derivatives designated as cash flow hedges:						
Exchange rate contracts:						
- Cross-currency swaps	-	-	-	12,427	361	570
Interest rate contracts:						
- Interest rate swaps	-	-	-	4,402	79	38
	-	-	-	16,829	440	608
Total derivatives held for hedging	4,159	82	963	27,438	664	1,355
Total derivatives	1,339,937	27,954	31,620	1,183,977	24,875	25,178

Included in the above balances are amounts due from Banco Santander SA of £2,045m (2015: £1,288m), fellow subsidiaries of Banco Santander SA of £272m (2015: £458m), Santander UK plc of £3,228m (2015: £2,877m), and subsidiaries of Santander UK group outside the ANTS group of £348m (2015: £1,645m) respectively and amounts due to Banco Santander SA of £1,823m (2015: £1,487m), fellow subsidiaries of Banco Santander SA of £272m (2015: £427m), Santander UK plc of £6,327m (2015: £3,093m) and subsidiaries of the Santander UK group outside the ANTS group of £2,433m (2015: £792m). The net exposures after collateral to the ultimate parent undertaking and fellow subsidiaries at 31 December 2016 amounted to £nil (2015: £nil) and £3m (2015: £nil) respectively, with collateral held exceeding the net position.

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 39.

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

	Group and Company	
	2016 £m	2015 £m
Fair value hedging:		
- (Losses)/gains on hedging instruments	(167)	111
- Gains/(losses) on hedged items attributable to hedged risks	160	(111)
Fair value hedging ineffectiveness	(7)	-
Cash flow hedging ineffectiveness	2	-
	(5)	-

ANTS hedges its exposures to various risks, including interest rate risk and foreign currency risk, in connection with certain mortgage assets, covered bond issuances, and subordinated and senior debt securities in issue. 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 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.

The following tables show when the hedged cash flows at 31 December 2015 were expected to occur and when they would affect income for designated cash flow hedges.

	Group and Company						
2015	Up to 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	5 - 10 years £m	Total £m
Hedged forecast cash flows expected to occur:							
Forecast receivable cash flows	133	169	173	145	101	213	934
Forecast payable cash flows	(1,606)	(2,189)	(1,739)	(2,035)	(2,038)	(2,674)	(12,281)
Hedged forecast cash flows affect profit or loss:							
Forecast receivable cash flows	137	174	169	141	91	204	916
Forecast payable cash flows	(1,604)	(2,187)	(1,719)	(2,014)	(2,020)	(2,647)	(12,191)

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2015 as a result of the cash flows no longer being expected to occur.

During the year, gains and losses transferred from the cash flow hedging reserve to net interest income were a net gain of £21m (2015: £80m) and to net trading and other income were a net gain of £692m (2015: loss of £215m).

13. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	Group and Company	
	2016 £m	2015 £m
Loans and advances to customers:		
- Loans to housing associations	1,215	1,452
- Other loans	506	438
	1,721	1,890
Debt securities:		
- Mortgage-backed securities	133	209
- Other asset-backed securities	-	31
	133	240
	1,854	2,130

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. Since 2009, the ANTS group's policy has been not to designate similar new loans at fair value through profit or loss.
- Other loans representing a portfolio of roll-up mortgages, 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.

Debt securities comprise holdings of mortgage-backed securities and other asset-backed securities. These securities 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.

Included in the above balances are amounts due from Banco Santander SA of £nil (2015: £nil), fellow subsidiaries of Banco Santander SA of £nil (2015: £nil), Santander UK plc of £nil (2015: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2015: £nil).

The maximum exposure to credit risk on loans and advances designated as held at fair value through profit or loss at the balance sheet date was mitigated by the ANTS group having a charge over the residential properties in respect of lending to housing associations. See 'Maximum exposure to credit risk' in the 'Credit risk review' section of the Risk review.

The net gain during the year attributable to changes in credit risk for loans and advances designated at fair value was £40m (2015: £39m). The cumulative net loss attributable to changes in credit risk for loans and advances designated at fair value at 31 December 2016 was £169m (2015: £209m).

14. LOANS AND ADVANCES TO BANKS

		Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Placements with other banks	- securities purchased under resale agreements	1,462	1,247	1,462	1,247
	- other	715	949	712	943
Amounts due from Banco Santander	- other	-	8	-	8
Amounts due from Santander UK group undertakings	- securities purchased under resale agreements	1,226	2,321	1,225	2,321
	- other	6,643	17,019	6,594	17,002
		10,046	21,544	9,993	21,521

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

The decrease was mainly due to the netting and settlement of intercompany balances following the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as described in Notes 27 and 28, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

During the years ended 31 December 2016 and 2015, no impairment losses were incurred.

Loans and advances to banks are repayable as follows:

	Group		Company	
Repayable:	2016 £m	2015 £m	2016 £m	2015 £m
On demand	651	927	643	911
In not more than 3 months	6,674	4,958	6,674	4,958
In more than 3 months but not more than 1 year	607	5,095	607	5,094
In more than 1 year but not more than 5 years	1,812	7,691	1,767	7,685
In more than 5 years	302	2,873	302	2,873
	10,046	21,544	9,993	21,521

15. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts due from Santander UK group undertakings	102	17,432	109	17,520
Amounts due from Banco Santander subsidiaries and joint ventures	18	508	18	508
Other loans and advances	15,097	14,578	15,095	14,576
Loans and advances to customers	15,217	32,518	15,222	32,604
Less: impairment loss allowances	(82)	(63)	(86)	(66)
Loans and advances to customers, net of impairment loss allowances	15,135	32,455	15,136	32,538

	Group		Company	
Repayable:	2016 £m	2015 £m	2016 £m	2015 £m
On demand	104	6	109	11
In no more than 3 months	222	837	222	837
In more than 3 months but not more than 1 year	1,243	3,741	1,243	3,795
In more than 1 year but not more than 5 years	7,064	13,327	7,064	13,353
In more than 5 years	6,584	14,607	6,584	14,608
Loans and advances to customers	15,217	32,518	15,222	32,604
Less: impairment loss allowances	(82)	(63)	(86)	(66)
Loans and advances to customers, net of impairment loss allowances	15,135	32,455	15,136	32,538

The decrease in 2016 was mainly driven by lower intercompany balances with Abbey Covered Bonds LLP following the transfer of the issuer on the €35bn Global Covered Bond Programme from the Company to Santander UK plc, as described in Notes 27 and 28.

Movement in impairment loss allowances:

	Group	
	2016 £m	2015 £m
At 1 January:		
- Observed	30	41
- Incurred but not yet observed	33	35
	63	76
Charge/(release) to the income statement:		
- Observed	19	(3)
- Individual	19	(3)
- Collective	-	-
- Incurred but not yet observed	(1)	(2)
	18	(5)
Write-offs and other items		
- Observed	1	(8)
- Incurred but not yet observed	-	-
	1	(8)
At 31 December:		
- Observed	50	30
- Incurred but not yet observed	32	33
	82	63

	Company	
	2016 £m	2015 £m
At 1 January	66	80
Charge to the income statement	18	(5)
Write-offs	2	(9)
At 31 December	86	66

Recoveries of loans and advances, net of collection costs:

	Group £m
2016	-
2015	-

16. TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

The ANTS group 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 the ANTS group 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 the ANTS group 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 the ANTS group'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 the ANTS group'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, the ANTS group is unable to use, sell or pledge the transferred assets for the duration of the transaction. The ANTS group 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:

	Group and Company			
	2016	2016	2015	2015
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	347	347	108	108
Securities lending agreements	-	-	181	181
	347	347	289	289

17. LOANS AND RECEIVABLES SECURITIES

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Asset-backed securities	219	15	219	15
Other	-	-	1	1
Loans and receivables securities	219	15	220	16
Less: Impairment allowances	-	-	-	-
Loans and receivables securities, net of impairment allowances	219	15	220	16

18. AVAILABLE-FOR-SALE SECURITIES

	Group and Company	
	2016 £m	2015 £m
Debt securities	476	1,168

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

19. INTERESTS IN OTHER ENTITIES

The movement in interests in subsidiaries was as follows:

			Company
2016	Cost £m	Impairment £m	Net book value £m
At 1 January	**48**	**-**	**48**
Additions	-	-	-
Dissolution	-	-	-
Other	9	-	9
At 31 December	**57**	**-**	**57**
2015			
At 1 January	93	(21)	72
Dissolution	(21)	21	-
Capital reduction of subsidiaries	(24)	-	(24)
At 31 December	48	-	48

In 2015, the movements on interests in subsidiaries principally represented changes in the capital invested in certain subsidiaries as a result of an internal reorganisation within the ANTS group. 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 branch offices in the US and the Cayman Islands.

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

Interests in unconsolidated structured entities

Structured entities sponsored by the ANTS group

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 structured entity sponsored but not consolidated 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 the ANTS group

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 13 and 17. Management has concluded that the ANTS group 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.

20. INTANGIBLE ASSETS

		Group and Company
	2016 £m	2015 £m
Cost		
At 1 January	30	16
Additions	13	14
At 31 December	43	30
Accumulated amortisation		
At 1 January	5	3
Charge for the year	3	2
At 31 December	8	5
Net book value	35	25

Intangible assets consist of computer software.

21. PROPERTY, PLANT AND EQUIPMENT

				Group and Company
	Property	Office fixtures and equipment	Computer software	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2016	2	38	60	100
Additions	-	2	-	2
Disposals	-	-	-	-
At 31 December 2016	2	40	60	102
Accumulated depreciation:				
At 1 January 2016	1	27	60	88
Charge for the year	-	5	-	5
Disposals	-	-	-	-
At 31 December 2016	1	32	60	93
Net book value	1	8	-	9

Cost:				
At 1 January 2015	2	32	60	94
Additions	-	7	-	7
Disposals	-	(1)	-	(1)
At 31 December 2015	2	38	60	100
Accumulated depreciation:				
At 1 January 2015	1	23	60	84
Charge for the year	-	5	-	5
Disposals	-	(1)	-	(1)
At 31 December 2015	1	27	60	88
Net book value	1	11	-	12

At 31 December 2016, capital expenditure contracted but not provided for in respect of property, plant and equipment was £nil (2015: £1m). Of the carrying value at the balance sheet date, none related to assets under construction (2015: £10m).

22. DEFERRED TAX

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

					Group and Company
	Cash flow hedges £m	Available-for-sale £m	Accelerated tax Depreciation £m	Other temporary differences £m	Total £m
At 1 January 2016	(28)	-	1	12	(15)
Income statement charge	-	-	-	(1)	(1)
Charged to other comprehensive income	28	(4)	-	-	24
At 31 December 2016	-	(4)	1	11	8
At 1 January 2015	(21)	-	1	8	(12)
Income statement charge	-	-	-	4	4
Charged to other comprehensive income	(7)	-	-	-	(7)
At 31 December 2015	(28)	-	1	12	(15)

The deferred tax assets/(liabilities) scheduled above have been recognised in both the Company and the ANTS group 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 2016, there were no unrecognised capital losses carried forward (2015: £nil).

In addition, the ANTS group has net operating losses carried forward in the US of $80m (2015: $80m). The deferred tax asset has not been recognised as the ANTS group 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.

23. OTHER ASSETS

		Group		Company
	2016 £m	2015 £m	2016 £m	2015 £m
Trade and other receivables	92	189	92	89
Prepayments	64	5	64	4
Accrued income	8	-	8	-
	164	194	164	93

Included in the above balances are amounts due from Banco Santander SA of £5m (2015: £4m), fellow subsidiaries of Banco Santander SA of £3m (2015: £1m), Santander UK plc of £79m (2015: £79m) and subsidiaries of Santander UK group outside the ANTS group of £10m (2015: £8m) respectively

24. DEPOSITS BY BANKS

		Group		Company
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts due to Santander UK subsidiaries	23,912	17,856	23,909	17,852
Securities sold under repurchase agreements	664	2,321	664	2,321
Amounts due to Banco Santander SA:				
- securities sold under repurchase agreements	-	309	-	309
- other	-	11	-	11
Deposits held as collateral	3	2	3	2
Other deposits	747	834	743	834
	25,326	21,333	25,319	21,329
Repayable:				
On demand	2,165	9,534	2,158	9,530
In not more than 3 months	18,462	5,487	18,462	5,487
In more than 3 months but not more than 1 year	1,132	4,424	1,132	4,424
In more than 1 year but not more than 5 years	2,907	1,473	2,907	1,473
In more than 5 years	660	415	660	415
	25,326	21,333	25,319	21,329

With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the Euro 35bn Global Covered Bond Programme and the US$30bn Euro Medium Term Note Programme, as described in Notes 27 and 28. The consideration for this substitution was an increase in intercompany funding from Santander UK plc.

25. DEPOSITS BY CUSTOMERS

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts due to Santander UK subsidiaries	827	555	844	735
Amounts due to fellow Banco Santander subsidiaries (not Banco Santander SA)	8	3	8	3
Wholesale funds and deposits[1]	2,334	2,280	2,334	2,280
	3,169	2,838	3,186	3,018
Repayable:				
On demand	1,001	494	1,018	510
In no more than 3 months	891	1,132	891	1,296
In more than 3 months but not more than 1 year	536	414	536	414
In more than 1 year but not more than 5 years	641	766	641	766
In more than 5 years	100	32	100	32
	3,169	2,838	3,186	3,018

(1) Consists of equity index-linked deposits of £791m (2015: £1,074m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £791m and £34m, respectively (2015: £1,074m and £50m, respectively).

Wholesale funds and deposits are interest bearing.

26. TRADING LIABILITIES

	Group and Company	
	2016 £m	2015 £m
Deposits by banks - securities sold under repurchase agreements	780	1,148
- other[1]	3,420	1,629
Deposits by customers - securities sold under repurchase agreements	8,018	6,510
- other[1]	541	641
Short positions in securities and unsettled trades	2,801	2,794
	15,560	12,722

(1) Comprises cash collateral of £3,535m (2015: £1,559m) and short-term deposits of £426m (2015: £711m).

Included in the above balances are amounts due to Banco Santander SA of £312m (2015: £nil), fellow subsidiaries of Banco Santander SA of £37m (2015: £126m), Santander UK plc of £nil (2015: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2015: £nil) respectively.

27. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	Group and Company	
	2016 £m	2015 £m
US$10bn Euro Commercial Paper Programme	454	474
US$30bn Euro Medium Term Note Programme	-	223
Euro 10bn Note Certificate and Warrant Programme and Global Structured Solutions Programme	1,137	1,184
Warrants programme	2	10
Eurobonds	-	125
Structured deposits	526	-
	2,119	2,016

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. Since 2009, the ANTS group's policy has been not to designate similar new loans at fair value through profit or loss.

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 the ANTS group's liabilities. The change in fair value attributable to the ANTS group'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 the ANTS group's own credit spread. This methodology is applied consistently across all securities where it is believed that counterparties would consider the ANTS group's creditworthiness when pricing trades.

With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the US$30bn Euro Medium Term Note Programme. This substitution was effected pursuant to a deed of substitution dated 26 April 2016. On and from 1 June 2016, notes issued under the US$30bn Euro Medium Term Note Programme are the sole liability of Santander UK plc and are not guaranteed by any other entity in the Santander UK group. Santander UK plc also became the issuer for the following standalone securities: the Euro 60m Guaranteed Step-Down Fixed/ Inverse Floating Rate Notes due 2019, and the £166,995,000 Zero Coupon Amortising Guaranteed Notes due 2038. These steps were taken as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Details of the main programmes listed above are available on the Santander UK corporate website www.aboutsantander.co.uk.

Included in the above balances are amounts due to Banco Santander SA of £10m (2015: £25m) to fellow subsidiaries of Banco Santander SA of £nil (2015: £nil), Santander UK plc £nil (2015: £nil) and subsidiaries of the Santander UK group outside the ANTS group of £nil (2015: £nil).

Gains and losses arising from changes in the credit spread of securities issued by the ANTS group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount. The net gain during the year attributable to changes in the ANTS group's own credit risk on the above securities was £3m (2015: net gain of £23m). The cumulative net loss attributable to changes in the ANTS group's own credit risk on the above securities at 31 December 2016 was £3m (2015: cumulative net gain of £16m).

At 31 December 2016, the amount that would be required to be contractually paid at maturity of the securities above was £4m lower (2015: £162m higher) than the carrying value.

28. DEBT SECURITIES IN ISSUE

		Group		Company
	2016 £m	2015 £m	2016 £m	2015 £m
Medium term notes:				
- US$30bn Euro Medium Term Note Programme (See Note 27)	-	11,403	-	11,403
- US SEC-registered – Abbey National Treasury Services plc	-	5,585	-	5,585
US$20bn Commercial Paper Programme	2,678	2,270	2,678	2,106
Euro 35bn Global Covered Bond Programme	-	17,080	-	17,080
Certificates of deposit	5,217	4,473	5,217	4,473
	7,895	40,811	7,895	40,647
Repayable:				
On demand	-	-	-	-
In not more than 3 months	5,681	4,973	5,681	4,809
In more than 3 months but not more than 1 year	2,214	6,639	2,214	6,639
In more than 1 year but not more than 5 years	-	18,678	-	18,678
In more than 5 years	-	10,521	-	10,521
	7,895	40,811	7,895	40,647

With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the Euro 35bn Global Covered Bond Programme, US SEC-registered debt shelf and the US$30bn Euro Medium Term Note Programme. This substitution was effected pursuant to a deed of substitution, novation and amendment dated 26 April 2016. On and from 1 June 2016, the Covered Bonds continue to be guaranteed, in respect of payments of interest and principal, by Abbey Covered Bonds LLP, but are not guaranteed by any other entity in the Santander UK group. On and from 1 June 2016, notes issued under the US$30bn Euro Medium Term Note Programme are the sole liability of Santander UK plc and are not guaranteed by any other entity in the Santander UK group. These steps were taken as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

Details of the main programmes listed above are available on the Santander UK corporate website www.aboutsantander.co.uk.

Included in the above balances are amounts due to Banco Santander SA of £nil (2015: £57m), fellow subsidiaries of Banco Santander SA of £162m (2015: £60m), Santander UK plc of £nil (2015: £1,720m) and subsidiaries of Santander UK outside the ANTS group of £nil (2015: £nil) respectively.

29. OTHER LIABILITIES

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade and other payables	76	81	72	79
Accrued expenses	148	82	146	80
	224	163	218	159

Included in the above balances are amounts due to Banco Santander SA of £nil (2015: £nil), fellow subsidiaries of Banco Santander SA of £3m (2015: £12m), Santander UK plc of £nil (2015: £nil) and subsidiaries of Santander UK group outside the ANTS group of £8m (2015: £8m) respectively.

30. PROVISIONS

	Group and Company £m
At 1 January 2016	44
Additional provisions	16
Used during the year	(45)
At 31 December 2016	15
To be settled:	
Within 12 months	15
In more than 12 months	-
	15

At 1 January 2015	32
Additional provisions	43
Used during the year	(31)
At 31 December 2015	44
To be settled:	
Within 12 months	44
In more than 12 months	-
	44

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, the ANTS group had protected deposits within the scope of the FSCS at 31 December 2016 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, which are approximately £16bn, are now assessed at the higher of 12 month LIBOR plus 111 basis points and the relevant gilt rate published by the Debt Management Office. A margin of 100bp was applied to the loan balance up to 29 March 2015.

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 consolidated 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% to 0.18% from 1 January 2016. As a result a rate of 0.18% applied for 2016 (2015: blended rate of 0.1967%). 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. Finance (No.2) Act 2015 also introduced subsequent annual reductions to 0.1% from 1 January 2021. The cost of the UK Bank Levy for 2016 was £14m (2015: £43m).

Other provisions principally comprise amounts in respect of restructuring charges.

31. RETIREMENT BENEFIT PLANS

The ANTS group 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 34 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 the ANTS group accounts for its contributions as a defined contribution plan. The contribution to be paid by the ANTS group is calculated as the contributions made by Santander UK plc to the schemes in respect of employees related to the ANTS group. An expense of £9m (2015: £8m) was recognised for these contributions and is included in staff costs within operating expenses in the income statement.

32. CONTINGENT LIABILITIES AND COMMITMENTS

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Guarantees given on behalf of the Company's immediate UK parent, fellow subsidiaries and subsidiaries	218,049	170,261	218,049	170,425
Guarantees given to third parties	310	313	310	313
Formal standby facilities, credit lines and other commitments with original term to maturity of:				
– One year or less	1,401	1,599	1,401	1,599
– More than one year	12,982	12,411	12,982	12,411
	232,742	184,584	232,742	184,748

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 the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2017 under a deed poll guarantee entered into by the Company on 5 June 2015. A copy of this guarantee is included in the Shareholder Information section.

During the year ended 31 December 2016, the balance increased due to the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc, as Santander UK began repositioning the structure of its funding vehicles in preparation for Banking Reform.

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. Persuant 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)
The Company, Santander UK plc, and Cater Allen Limited form the 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. The same arrangement existed before October 2015 under the Defined Liquidity Group rules of the PRA in place until that date.

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 30 June 2017.

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 30, the ANTS group now 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 group would rise.

Regulatory
The ANTS group engages in discussion, and co-operates, with the FCA and other bodies in their supervision of the ANTS group, 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
The ANTS group engages in discussion, and co-operates, with HM Revenue & Customs in their oversight of the ANTS group's tax matters. The ANTS group 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, the ANTS group 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 35.

Other off-balance sheet commitments
The ANTS group 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

	Group and Company	
	2016 £m	2015 £m
Rental commitments under non-cancellable operating leases:		
- No later than 1 year	8	8
- Later than 1 year but no later than 5 years	33	33
- Later than 5 years	16	24
	57	65

During 2016, ANTS group rental expense amounted to £9m (2015: £9m) in respect of minimum rentals. There was no contingent rent expense included in this rental expense.

33. SHARE CAPITAL

Issued and fully paid share capital	Ordinary shares of £1 each		Tracker shares of £1 each		B Tracker shares of £1 each		Total £m
							Group and Company
	No.	£m	No.	£m	No.	£m	£m
At 1 January 2015, 31 December 2015 and 31 December 2016	2,549,000,000	2,549	1,000	-	1,000	-	2,549

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 cashflows 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 cashflows 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.

34. CASH FLOW STATEMENT

a) Reconciliation of profit after tax to net cash inflow/(outflow) from operating activities:

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Profit for the year	181	266	182	277
Non-cash items included in profit:				
Depreciation and amortisation	8	7	8	7
Amortisation of premiums/(discounts) on debt securities	8	47	8	47
Provisions for other liabilities and charges	16	43	16	44
Impairment losses/(releases)	18	(5)	18	(5)
Corporation tax charge	86	79	86	79
Other non-cash items	(237)	351	(246)	372
	80	788	72	821
Changes in operating assets and liabilities:				
Net change in cash and balances held at central banks	1	(3)	1	(3)
Net change in trading assets	(2,007)	(4,252)	(2,007)	(4,252)
Net change in derivative assets	(3,079)	917	(3,079)	917
Net change in financial assets designated at fair value	275	445	275	445
Net change in loans and advances to banks and customers	29,650	(8,878)	29,766	(8,871)
Net change in other assets	239	152	281	213
Net change in deposits by banks and customers	4,377	2,432	4,211	(933)
Net change in derivative liabilities	6,442	(1,429)	6,442	(1,429)
Net change in trading liabilities	2,837	(2,606)	2,837	(2,606)
Net change in financial liabilities designated at fair value	367	27	367	27
Net change in debt securities in issue	(1,559)	714	(1,362)	4,234
Net change in other liabilities	1,444	(78)	1,450	(74)
Effects of exchange rate differences	1,411	(742)	1,379	(910)
Net cash flows from operating activities before tax	40,478	(12,513)	40,633	(12,421)
Corporation tax paid	(61)	(202)	(61)	(202)
Net cash flows from operating activities	40,417	(12,715)	40,572	(12,623)

b) Analysis of cash and cash equivalents in the balance sheet

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Cash and balances at central banks	3,517	2,279	3,517	2,279
Less: regulatory minimum cash balances	(39)	(40)	(39)	(40)
	3,478	2,239	3,478	2,239
Net trading other cash equivalents	6,537	2,068	6,537	2,068
Net non-trading other cash equivalents	7,326	5,885	7,318	5,871
Cash and cash equivalents	17,341	10,192	17,333	10,178

With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the Euro 35bn Global Covered Bond Programme and the US$30bn Euro Medium Term Note Programme, as described in Notes 27 and 28. The consideration for this substitution was an increase in intercompany funding from Santander UK plc.

c) Sale of subsidiaries, associated undertakings and businesses, and discontinued operations

In 2016, the ANTS group sold a number of subsidiaries for a cash consideration of £149m. The net assets disposed of consisted of other assets and other liabilities of £138m.

35. 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.

	Group and Company	
	2016 £m	2015 £m
On-balance sheet:		
Treasury bills and other eligible securities	4,044	5,224
Cash	3,383	3,450
Debt securities	755	898
Equity securities	5,637	6,178
Loans and advances to customers- ILTR	625	1,514
	14,444	17,264
Off-balance sheet:		
Treasury bills and other eligible securities	17,543	9,887
Debt securities	636	3,622
Equity securities	1,557	709
	19,736	14,218

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

Sale and repurchase agreements
The Company and certain of its subsidiaries enter 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 and subsidiaries provide collateral equal to 100%-131% of the borrowed amount. The carrying amount of assets that were so provided at 31 December 2016 was £12,768m (2015: £9,997m).

Stock borrowing and lending agreements
Asset balances under stock borrowing and lending agreements represent stock lent by the ANTS group. These balances amounted to £18,029m at 31 December 2016 (2015: £18,035m) 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 2016, £3,383m (2015: £3,450m) of such collateral in the form of cash had been provided by the ANTS group 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.

	Group and Company	
	2016 £m	2015 £m
On-balance sheet:		
Trading liabilities	3,535	1,559
Deposits by banks	10	6
	3,545	1,565
Off-balance sheet:		
Trading liabilities	32,623	17,421
Deposits by banks	1,167	499
	33,790	17,920

Purchase and resale agreements
The Company and certain of its subsidiaries also enter 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 and its subsidiaries receive collateral equal to 100%-105% 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 and its subsidiaries are permitted to sell or repledge the collateral held in the absence of default. At 31 December 2016, the fair value of such collateral received was £16,506m (2015: £4,022m). Of the collateral received, almost all was sold or repledged. The Company and its subsidiaries have an obligation to return collateral that they have 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 £17,284m at 31 December 2016 (2015: £13,898m) and are offset by a contractual right to receive stock lent by the ANTS group.

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 2016, £3,545m (2015: £1,565m) of such collateral in the form of cash had been received by the ANTS group and is included in the table above.

Lending activities
In addition to the above collateral held as security for assets, the ANTS group 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.

36. 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 of the ANTS group is set out in aggregate below.

		Group
Directors' remuneration	2016 £	2015 £
Salaries and fees	1,407,666	714,964
Performance-related payments	2,711,667	404,958
Other fixed remuneration (non-cash pension benefits, pension allowance & other allowances)	542,463	119,232
Pension (defined benefit scheme)	-	11,956
Compensation for loss of office	-	306,066
	4,661,796	1,557,176
Directors' and Other Key Management Personnel remuneration		
Short-term employee benefits	4,300,030	1,167,073
Post-employment benefits	361,766	84,037
Termination benefits	-	306,066
Share-based payments	-	20,303
	4,661,796	1,577,479

Of the Directors that served during the year, 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 seven (2015: five) 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 2015 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 2016, the remuneration, excluding pension contributions and compensation for loss of office, of the highest paid Director was £1,532,160 (2015: £338,696) of which £1,051,627 (2015: £147,737) was performance-related. In 2016 and 2015 no amounts were paid with respect to a defined contribution scheme on behalf of the highest paid Director.

At 31 December 2016 and 2015, 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 (2015: one) and one Director (2015: nil) will be receiving benefits under a defined contribution scheme.

c) Santander Long-Term Incentive Plan (LTIP)

In 2016, no Executive Directors (2015: three) and no Other Key Management Personnel (2015: none) were granted conditional awards under the Santander LTIP. No LTIP award was granted in 2016.

37. 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 the ANTS group's 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:

								Group
	Interest, fees and other income received		Interest, fees and other expenses paid		Amounts owed by related parties		Amounts owed to related parties	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Ultimate parent	**(69)**	(61)	**177**	12	**2,102**	1,426	**(2,145)**	(1,889)
Immediate parent	**(3,414)**	(2,551)	**2,288**	2,007	**11,158**	22,281	**(30,039)**	(22,449)
Fellow subsidiaries	**(1,997)**	(2,788)	**2,538**	2,276	**827**	20,159	**(3,951)**	(2,204)
	(5,480)	(5,400)	**5,003**	4,295	**14,087**	43,866	**(36,135)**	(26,542)

								Company
	Interest, fees and other income received		Interest, fees and other expenses paid		Amounts owed by related parties		Amounts owed to related parties	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Ultimate parent	**(69)**	(61)	**177**	12	**2,102**	1,426	**(2,145)**	(1,889)
Immediate parent	**(3,414)**	(2,551)	**2,288**	2,007	**11,112**	22,267	**(30,036)**	(22,445)
Subsidiaries	**(5)**	(3)	**-**	8	**8**	89	**(21)**	(184)
Fellow subsidiaries	**(1,997)**	(2,788)	**2,538**	2,276	**823**	20,156	**(3,947)**	(2,199)
	(5,485)	(5,403)	**5,003**	4,303	**14,045**	43,938	**(36,149)**	(26,717)

With effect on and from 1 June 2016, Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the Euro 35bn Global Covered Bond Programme and the US$30bn Euro Medium Term Note Programme, as described in Notes 27 and 28. The consideration for this substitution was an increase in intercompany funding from Santander UK plc.

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 32. Further information on related party transactions during the year and balances outstanding at the year-end is described in the other Notes.

The above transactions were made in the ordinary course of business and 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.

38. 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:

						Group
			2016			2015
	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	-	3,517	3,517	-	2,279	2,279
Trading assets	29,682	-	29,682	23,649	-	23,649
Derivative financial instruments	27,954	-	27,954	24,875	-	24,875
Financial assets designated at fair value	1,854	-	1,854	2,130	-	2,130
Loans and advances to banks	-	10,046	10,046	-	21,544	21,544
Loans and advances to customers	-	15,135	15,135	-	32,455	32,455
Loans and receivables securities	-	219	219	-	15	15
Available-for-sale securities	476	-	476	1,168	-	1,168
Macro hedge of interest rate risk	-	705	705	-	521	521
	59,966	29,622	89,588	51,822	56,814	108,636
Non-financial assets			216			231
			89,804			108,867
Liabilities						
Deposits by banks	-	25,326	25,326	-	21,333	21,333
Deposits by customers	-	3,169	3,169	-	2,838	2,838
Trading liabilities	15,560	-	15,560	12,722	-	12,722
Derivative financial instruments	31,620	-	31,620	25,178	-	25,178
Financial liabilities designated at fair value	2,119	-	2,119	2,016	-	2,016
Debt securities in issue	-	7,895	7,895	-	40,811	40,811
Macro hedge of interest rate risk	-	-	-	-	-	-
	49,299	36,390	85,689	39,916	64,982	104,898
Non-financial liabilities			358			326
			86,047			105,224

						Company
			2016			2015
	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	-	3,517	3,517	-	2,279	2,279
Trading assets	29,682	-	29,682	23,649	-	23,649
Derivative financial instruments	27,954	-	27,954	24,875	-	24,875
Financial assets designated at fair value	1,854	-	1,854	2,130	-	2,130
Loans and advances to banks	-	9,993	9,993	-	21,521	21,521
Loans and advances to customers	-	15,136	15,136	-	32,538	32,538
Loans and receivables securities	-	220	220	-	16	16
Available-for-sale securities	476	-	476	1,168	-	1,168
Macro hedge of interest rate risk	-	705	705	-	521	521
	59,966	29,571	89,537	51,822	56,875	108,697
Non-financial assets			273			178
			89,810			108,875
Liabilities						
Deposits by banks	-	25,319	25,319	-	21,329	21,329
Deposits by customers	-	3,186	3,186	-	3,018	3,018
Trading liabilities	15,560	-	15,560	12,722	-	12,722
Derivative financial instruments	31,620	-	31,620	25,178	-	25,178
Financial liabilities designated at fair value	2,119	-	2,119	2,016	-	2,016
Debt securities in issue	-	7,895	7,895	-	40,647	40,647
Macro hedge of interest rate risk	-	-	-	-	-	-
	49,299	36,400	85,699	39,916	64,994	104,910
Non-financial liabilities			352			322
			86,051			105,232

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 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

The ANTS group 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.

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 follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market that the ANTS group can access at the measurement date. Level 1 positions include debt securities, equity securities, exchange traded derivatives and short positions in securities.

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 2 positions include loans and advances to banks, loans and advances to customers, equity securities, exchange rate derivatives, interest rate derivatives, equity and credit derivatives, debt securities, deposits by banks, deposits by customers and debt securities in issue.

Level 3: Significant inputs to the pricing or valuation techniques are unobservable. Level 3 positions include exchange rate derivatives, equity and credit derivatives, loans and advances to customers, debt securities, and debt securities in issue.

The ANTS group 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. The ANTS group assesses active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity. The ANTS group 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. The ANTS group 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.

The ANTS group 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 consolidated 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 2016 and 2015, 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.

Group

		2016				2015			
		Fair value				Fair value			
		Level 2	Level 3	Total	Carrying value	Level 2	Level 3	Total	Carrying value
		£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Loans and advances to banks		2,792	7,121	9,913	10,046	3,979	17,454	21,433	21,544
Loans and advances to customers	Corporate loans	6,739	8,335	15,074	15,015	6,426	7,886	14,312	14,515
	Other advances	-	120	120	120	-	17,940	17,940	17,940
		6,739	8,455	15,194	15,135	6,426	25,826	32,252	32,455
Loans and receivables securities		217	-	217	219	13	-	13	15
Liabilities									
Deposits by banks	Securities sold under agreements to repurchase	675	-	675	664	2,665	-	2,665	2,630
	Other deposits	424	24,245	24,669	24,662	505	18,207	18,712	18,703
		1,099	24,245	25,344	25,326	3,170	18,207	21,377	21,333
Deposits by customers	Current and demand accounts	-	835	835	835	-	558	558	558
	Wholesale funds and deposits	-	2,334	2,334	2,334	-	2,280	2,280	2,280
		-	3,169	3,169	3,169	-	2,838	2,838	2,838
Debt securities in issue	Bonds and medium-term notes	7,895	-	7,895	7,895	42,464	-	42,464	40,811

Included in the above table are the following intercompany balances:

Group

	2016				2015			
	Fair value				Fair value			
	Level 2	Level 3	Total	Carrying value	Level 2	Level 3	Total	Carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Loans and advances to banks	1,226	6,643	7,869	7,869	2,321	17,027	19,348	19,348
Loans and advances to customers	-	120	120	120	-	17,940	17,940	17,940
	1,226	6,763	7,989	7,989	2,321	34,967	37,288	37,288
Liabilities								
Deposits by banks	-	23,912	23,912	23,912	309	17,867	18,176	18,176

Company

		2016				2015			
		Fair value				Fair value			
		Level 2	Level 3	Total	Carrying value	Level 2	Level 3	Total	Carrying value
		£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Loans and advances to banks		2,789	7,072	9,861	9,993	3,973	17,437	21,410	21,521
Loans and advances to customers	Corporate loans	6,739	8,333	15,072	15,013	6,426	7,883	14,309	14,514
	Other advances	-	123	123	123	-	18,024	18,024	18,024
		6,739	8,456	15,195	15,136	6,426	25,907	32,333	32,538
Loans and receivables securities		218	-	218	220	14	-	14	16
Liabilities									
Deposits by banks	Securities sold under agreements to repurchase	675	-	675	664	2,664	-	2,664	2,630
	Other deposits	421	24,241	24,662	24,655	505	18,203	18,708	18,699
		1,096	24,241	25,337	25,319	3,169	18,203	21,372	21,329
Deposits by customers	Current and demand accounts	-	852	852	852	-	738	738	738
	Wholesale funds and deposits	-	2,334	2,334	2,334	-	2,280	2,280	2,280
		-	3,186	3,186	3,186	-	3,018	3,018	3,018
Debt securities in issue	Bonds and medium term notes	7,895	-	7,895	7,895	42,300	-	42,300	40,647

Included in the above table are the following intercompany balances:

	Company 2016 Fair value Level 2 £m	Level 3 £m	Total £m	Carrying value £m	2015 Fair value Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets								
Loans and advances to banks	1,225	6,594	7,819	7,819	2,321	17,010	19,331	19,331
Loans and advances to customers	-	123	123	123	-	18,024	18,024	18,024
	1,225	6,717	7,942	7,942	2,321	35,034	37,355	37,355
Liabilities								
Deposits by banks	-	23,909	23,909	23,909	309	17,863	18,172	18,172

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 presented as a single separate line item 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:

Cash and balances at central banks

This consists of demand deposits with the Bank of England and the US Federal Reserve. The carrying amount of cash and balances at central banks is deemed an appropriate approximation of the fair value. These have therefore been excluded from the table above.

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 in the valuation technique section 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. For the performing book, the determination of their fair values takes account of the differential between existing margins and an estimate of 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 of 10-12% sought by distressed bond funds, who are the typical purchaser of the assets.

With respect to Social Housing, part of this portfolio is held for historic reasons at fair value. 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 in the valuation technique section 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.

Loans and receivables securities

These debt 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. Disposals of these securities since 2008 have demonstrated that actual sales prices achieved have been close to fair values estimated under this method.

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 the ANTS group's customers, the Directors believe there is significant value to the ANTS group 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 and subordinated liabilities
Where reliable prices are available, the fair value of debt securities in issue and subordinated liabilities 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 2016 and 2015, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

Group and Company

Balance sheet category		Fair value								
		2016				2015				
		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	-	7,478	-	7,478	-	5,433	-	5,433	A
	Loans and advances to customers	762	9,561	-	10,323	580	5,380	-	5,960	A
	Debt securities	6,248	-	-	6,248	5,462	-	-	5,462	-
	Equity securities	5,633	-	-	5,633	6,794	-	-	6,794	-
Derivative assets	Exchange rate contracts	-	8,917	22	8,939	-	7,191	55	7,246	A
	Interest rate contracts	-	17,424	19	17,443	-	15,905	18	15,923	A & C
	Equity and credit contracts	-	1,274	298	1,572	88	1,275	343	1,706	B & D
	Commodity contracts	-	-	-	-	-	-	-	-	A
Financial assets designated at fair value	Loans and advances to customers	-	1,658	63	1,721	-	1,831	59	1,890	A
	Debt securities	-	133	-	133	-	240	-	240	A
Available-for-sale securities	Debt securities	476	-	-	476	1,168	-	-	1,168	-
Total assets at fair value		13,119	46,445	402	59,966	14,092	37,255	475	51,822	
Liabilities										
Trading liabilities	Deposits by banks	-	4,200	-	4,200	-	2,777	-	2,777	A
	Deposits by customers	-	8,559	-	8,559	-	7,151	-	7,151	A
	Short positions	2,801	-	-	2,801	2,794	-	-	2,794	-
Derivative liabilities	Exchange rate contracts	-	12,310	22	12,332	-	7,637	55	7,692	A
	Interest rate contracts	-	18,085	11	18,096	1	15,807	10	15,818	A & C
	Equity and credit contracts	1	1,149	42	1,192	2	1,620	46	1,668	B & D
	Commodity contracts	-	-	-	-	-	-	-	-	A
Financial liabilities designated at fair value	Debt securities in issue	-	1,593	-	1,593	-	2,011	5	2,016	A
	Structured deposits	-	526	-	526	-	-	-	-	A
Total liabilities at fair value		2,802	46,422	75	49,299	2,797	37,003	116	39,916	

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

In 2015, the following financial instruments were transferred between Level 2 and Level 3:

- Exchange rate contracts - Securitisation cross currency swaps shown in derivative assets and derivative liabilities with fair values of £55m and £55m, respectively, were transferred from Level 2 to Level 3 principally due to a lack of market transactions in these instruments. The valuation techniques applied to estimate the fair value of these financial instruments are described in section i as instruments 2 and 10.

- Interest rate contracts - Securitisation swaps shown in derivative assets and derivative liabilities with fair values of £8m and £6m, respectively, were transferred from Level 2 to Level 3 principally due to a lack of market transactions in these instruments. The valuation techniques applied to estimate the fair value of these financial instruments are described in section i as instruments 4 and 12.

There were no transfers of financial instruments between Levels 1 and 2 in 2015.

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 2016 and 2015 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. The ANTS group did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2016 and 2015.

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 the ANTS group'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.

The ANTS group 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 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:

	2016 £m	2015 £m
Risk-related:		
- Bid-offer and trade specific adjustments	24	46
- Uncertainty	49	42
- Credit risk adjustment	41	20
- Funding fair value adjustment	20	-
	134	108
Model-related	1	6
Day One profit	4	1
	139	115

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.

(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 the ANTS group, 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 the ANTS group 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.

The ANTS group calculates a separate CVA and DVA for each ANTS legal entity, and within each entity for each counterparty to which the entity has exposure. The ANTS group 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, the ANTS group calculates the DVA by applying the PD of the ANTS group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the ANTS group and multiplying the result by the LGD. Both calculations are performed over the life of the potential exposure.

For most products the ANTS group 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, the ANTS group 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. The ANTS group considers that an appropriate adjustment to reflect wrong-way risk is currently £nil (2015: £nil).

(iv) Funding fair value adjustment

In 2016, ANTS group revised its methodology for valuing uncollateralised derivative portfolios by introducing the funding fair value (FFVA) adjustment. 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. Day One profit adjustments remain at a low level.

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, the ANTS group 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 provide an estimate of a realisable value over time. All 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 valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs.

All 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 and 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 then 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, the ANTS group 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 cashflows 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, the ANTS group 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 the ANTS group 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, medium term notes 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. Certain debt securities in issue which represent the more exotic senior debt issuances, consisting of power reverse dual currency (PRDC) notes contain significant unobservable inputs and so are classified as level 3. The valuation of such instruments is further discussed below.

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	2016 £m	2015 £m	2016 £m	2015 £m
1. Derivative assets	Exchange rate contracts	Cross-currency swaps	1	-	1	3
2. Derivative assets	Exchange rate contracts	Securitisation cross currency swaps	21	55	12	-
3. Derivative assets	Interest rate contracts	Bermudan swaptions	7	10	(3)	(9)
4. Derivative assets	Interest rate contracts	Securitisation swaps	12	8	-	-
5. Derivative assets	Equity and credit contracts	Reversionary property interests	36	81	12	2
6. Derivative assets	Credit contracts	Credit default swaps	5	4	1	(2)
7. Derivative assets	Equity contracts	Property-related options and forwards	257	258	(1)	7
8. FVTPL	Loans and advances to customers	Roll-up mortgage portfolio	63	59	4	2
9. Derivative liabilities	Exchange rate contracts	Cross-currency swaps	(1)	-	-	-
10. Derivative liabilities	Exchange rate contracts	Securitisation cross currency swaps	(21)	(55)	(12)	-
11. Derivative liabilities	Interest rate contracts	Bermudan swaptions	(2)	(4)	2	-
12. Derivative liabilities	Interest rate contracts	Securitisation swaps	(9)	(6)	-	-
13. Derivative liabilities	Equity contracts	Property-related options and forwards	(42)	(46)	4	(8)
14. FVTPL	Debt securities in issue	Non-vanilla debt securities	-	(5)	(1)	(4)
Total net assets			327	359		
Total income/(expense)					19	(9)

Valuation techniques

1. Derivative assets - Exchange rate contracts
These are used to hedge the foreign currency risks arising from the PRDC notes issued, 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 the ANTS group'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 Halifax.

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, which is 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 from broker quotes and traded forward contracts. 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, whilst incorporating mean reversion. 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 group'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 but is estimated from the most recent traded values. 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'. The ANTS group 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, the ANTS group 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 P&L £m	Total £m	Derivatives £m	Fair value through P&L £m	Total £m
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)
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the year	(10)	4	(6)	26	(2)	24
At 1 January 2015	368	61	429	(56)	(13)	(69)
Total gains/(losses) recognised in profit/(loss):						
- Fair value movements	1	2	3	(8)	(4)	(12)
Transfers in	63	-	63	(61)	-	(61)
Settlements	(16)	(4)	(20)	14	12	26
At 31 December 2015	416	59	475	(111)	(5)	(116)
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the year	1	2	3	(8)	(4)	(12)

Total gains or losses are included in 'Net trading and other income' (see Note 5).

2016 compared to 2015

Financial instrument assets valued using internal models based on information other than market data were 0.67% (2015: 0.92%) of total assets measured at fair value and 0.45% (2015: 0.40%) of total assets at 31 December 2016.

Financial instrument liabilities valued using internal models based on information other than market data were 0.15% (2015: 0.29%) of total liabilities measured at fair value and 0.09% (2015: 0.11%) of total liabilities at 31 December 2016.

Losses of £10m in respect of derivative assets principally reflected changes in credit spreads and the HPI index and yield curve movements. Gains of £4m in respect of assets designated at fair value through profit or loss primarily reflect the mark-to-market volatility on the portfolio. Gains of £26m in respect of derivative liabilities reflected changes in credit spreads and the HPI index. Losses of £2m in respect of liabilities designated at fair value through profit or loss principally reflected changes in fair value prior to the transfer of the issuer on a number of funding programmes from the Company to Santander UK plc. They are fully matched with derivatives.

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.

2016		Significant unobservable input				Sensitivity	
			Assumption value				
Balance sheet note line item and product	Fair value £m	Assumption description	Range[1]	Weighted average	Shift %	Favourable changes £m	Unfavourable changes £m
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 HPI Spot rate	0%-5% n/a	2.79% 748[2]	1 10	11 9	(11) (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 HPI Spot rate	0%-5% n/a	2.71% 702[2]	1 10	3 12	(3) (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 HPI Spot rate	0%-5% n/a	2.71% 702[2]	1 10	4 8	(4) (9)
2015							
3. Derivative assets – Interest rate contracts: - Bermudan swaptions	10	Mean reversion	0%-4%	2%	1	1	(1)
5. Derivative assets – Equity and credit contracts: - Reversionary property derivatives	81	HPI Forward growth rate HPI Spot rate	0%-5% n/a	2.65% 688[2]	1 10	11 8	(11) (8)
6. Derivative assets – Credit contracts: - Credit default swaps	4	Probability of default	0%-2%	0.38%	20	1	(1)
7. Derivative assets – Equity contracts: - Options and forwards	258	HPI Forward growth rate HPI Spot rate	0%-5% n/a	2.09% 659[2]	1 10	1 2	(1) (1)
8. FVTPL – Loans and advances to customers: - Roll-up mortgage portfolio	59	HPI Forward growth rate	0%-5%	2.79%	1	2	(2)
11. Derivative liabilities – Interest rate contracts: - Bermudan swaptions	(4)	Mean reversion	0%-4%	2%	1	1	(1)
13. Derivative liabilities - Equity contracts: - Options and forwards	(46)	HPI Forward growth rate HPI Spot rate	0%-5% n/a	2.09% 659[2]	1 10	5 13	(5) (13)

(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 2016 and 2015.
(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 the ANTS group 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 the ANTS group.

						Group
2016	On demand £m	In no more than 3 months £m	In more than 3 months but not more than 1 year £m	In more than 1 year but not more than 5 years £m	In more than 5 years £m	Total £m
Liabilities						
Deposits by banks	2,165	18,468	1,142	2,937	671	25,383
Deposits by customers	1,001	894	542	665	105	3,207
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 FVTPL	9	393	229	932	617	2,180
Debt securities in issue	-	5,695	2,230	-	-	7,925
Total financial liabilities	6,792	36,946	6,959	12,553	24,347	87,597
Off-balance sheet commitments given	5	686	710	10,989	1,993	14,383
2015						
Liabilities						
Deposits by banks	9,534	5,506	4,470	1,521	436	21,467
Deposits by customers	494	1,136	422	785	33	2,870
Trading liabilities	1,559	7,727	837	976	1,880	12,979
Derivative financial instruments:						
- Held for trading	28	1,220	1,583	5,021	18,383	26,235
- Held for hedging(1)	-	45	90	482	862	1,479
Financial liabilities designated at FVTPL	-	466	489	574	525	2,054
Debt securities in issue	-	5,399	7,971	21,225	12,001	46,596
Total financial liabilities	11,615	21,499	15,862	30,584	34,120	113,680
Off-balance sheet commitments given	-	322	1,277	10,204	2,207	14,010

(1) Comprises the derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

2016	On demand £m	In no more than 3 months £m	In more than 3 months but not more than 1 year £m	In more than 1 year but not more than 5 years £m	In more than 5 years £m	Company Total £m
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 FVTPL	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
2015						
Liabilities						
Deposits by banks	9,530	5,503	4,465	1,516	433	21,447
Deposits by customers	510	1,299	422	781	33	3,045
Trading liabilities	1,559	7,727	837	976	1,880	12,979
Derivative financial instruments:						
- Held for trading	28	1,220	1,583	5,021	18,383	26,235
- Held for hedging(1)	-	45	90	482	862	1,479
Financial liabilities designated at FVTPL	-	466	489	574	525	2,054
Debt securities in issue	-	5,288	7,971	21,225	12,001	46,485
Total financial liabilities	11,627	21,548	15,857	30,575	34,117	113,724
Off-balance sheet commitments given	-	322	1,277	10,204	2,207	14,010

(1) Comprises the derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

As the above table is based on contractual maturities, no account is taken of a customer's ability to repay early where it exists. In addition, prior to 1 June 2016 when Santander UK plc was substituted in place of Abbey National Treasury Services plc as principal obligor under the ANTS group's mortgage-backed non-recourse finance, no account was taken of the possible early repayment of this finance which was redeemed by the Santander UK group as funds become available from redemptions of the residential mortgages. The Santander UK group has no control over the timing and amount of redemptions of residential mortgages.

39. 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 transaction 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.

The ANTS group 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 the ANTS group’s actual credit exposure.

	Amounts subject to enforceable netting arrangements							Group
	Effects of offsetting on-balance sheet			Related amounts not offset				
2016	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 assets	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	2,688	-	2,688	-	(2,688)	-	-	2,688
Loans and advances to customers and banks[4]	45,778	(23,305)	22,473	-	-	22,473	20	22,493
Total assets	97,694	(34,019)	63,675	(19,474)	(13,617)	30,584	172	63,847
Derivative financial liabilities	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]	50,386	(23,305)	27,081	-	-	27,081	750	27,831
Total liabilities	101,900	(34,019)	67,881	(19,474)	(9,819)	38,588	1,032	68,913
2015								
Derivative financial assets	28,689	(4,861)	23,828	(20,703)	(993)	2,132	1,047	24,875
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	6,860	(1,516)	5,344	(736)	(4,608)	-	-	5,344
- Loans and advances to banks	3,568	-	3,568	-	(3,568)	-	-	3,568
Loans and advances to customers and banks[4]	58,124	(22,592)	35,532	-	-	35,532	14,899	50,431
Total assets	97,241	(28,969)	68,272	(21,439)	(9,169)	37,664	15,946	84,218
Derivative financial liabilities	29,308	(4,861)	24,447	(20,703)	(2,925)	819	731	25,178
Repurchase, securities lending & similar agreements:								
- Trading liabilities	7,757	(1,516)	6,241	(541)	(5,700)	-	1,417	7,658
- Deposits by banks	1,522	-	1,522	(195)	(1,327)	-	1,108	2,630
Deposits by customers and banks[4]	41,017	(22,592)	18,425	-	-	18,425	3,116	21,541
Total liabilities	79,604	(28,969)	50,635	(21,439)	(9,952)	19,244	6,372	57,007

(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.

Company

2016	Amounts subject to enforceable netting arrangements: Effects of offsetting on-balance sheet: Gross amounts £m	Amounts offset £m	Net amounts reported on the balance sheet £m	Related amounts not offset: 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 assets	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 liabilities	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
2015								
Derivative financial assets	28,689	(4,861)	23,828	(20,703)	(993)	2,132	1,047	24,875
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	6,860	(1,516)	5,344	(736)	(4,608)	-	-	5,344
- Loans and advances to banks	3,568	-	3,568	-	(3,568)	-	-	3,568
Loans and advances to customers and banks[4]	58,108	(22,592)	35,516	-	-	35,516	14,975	50,491
Total assets	97,225	(28,969)	68,256	(21,439)	(9,169)	37,648	16,022	84,278
Derivative financial liabilities	29,308	(4,861)	24,447	(20,703)	(2,925)	819	731	25,178
Repurchase, securities lending & similar agreements:								
- Trading liabilities	7,757	(1,516)	6,241	(541)	(5,700)	-	1,417	7,658
- Deposits by banks	1,522	-	1,522	(195)	(1,327)	-	1,108	2,630
Deposits by customers and banks[4]	41,193	(22,592)	18,601	-	-	18,601	3,116	21,717
Total liabilities	79,780	(28,969)	50,811	(21,439)	(9,952)	19,420	6,372	57,183

(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.

40. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 31 December 2016 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Shareholder information

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 2016 is disclosed below. This section forms an integral part of the financial statements.

Subsidiaries

All subsidiaries are consolidated by the ANTS group.

Incorporated and registered in England and Wales:

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

(1) Refer to the key below for the registered office address

Overseas branches

Abbey National Treasury Services plc has branch offices in the US and the Cayman Islands.

Key of registered office addresses

A 2 Triton Square, Regent's Place, London NW1 3AN
B Griffins, Tavistock House South, Tavistock Square, London WC1H 9LG

Guarantees

GUARANTEE

THIS INSTRUMENT by way of deed poll is executed on 5 June 2015 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.

"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 30 June 2017 (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 30 June 2017 as a result of the exercise of any right or option granted by or to Santander UK on or prior to 30 June 2017; 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 30 June 2017) 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; and

(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.

"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 30 June 2017.
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 whereof, this Guarantee has been executed as of the day and year first written above.

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 8 May 2015 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 30 June 2017 (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 30 June 2017 as a result of the exercise of any right or option granted by or to ANTS on or prior to 30 June 2017; 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 30 June 2017) 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 30 June 2017.
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:)

....

Company Secretary

Selected financial data

The financial information set forth below for 2016 and 2015 has been derived from the audited Consolidated Financial Statements of Abbey National Treasury Services plc (the Company) and its subsidiaries (together, the ANTS group) prepared in accordance with IFRS included elsewhere in this Annual Report. The information should be read in connection with, and is qualified in its entirety by reference to, the ANTS group's Consolidated Financial Statements and the Notes thereto.

Financial information set forth below for 2014, 2013 and 2012 has been derived from the audited Consolidated Financial Statements of the ANTS group for 2014, 2013 and 2012 not included in this Annual Report.

The financial information in this selected consolidated financial and statistical data does not constitute statutory accounts within the meaning of the Companies Act 2006.

The auditor's report on the Consolidated Financial Statements for each of the five years ended 31 December 2016 was unmodified and did not include a statement under sections 237(2) and 237(3) of the Companies Act 1985 or sections 498(2) and 498(3) of the Companies Act 2006, as applicable. The Consolidated Financial Statements of the ANTS group for the year ended 31 December 2016 were audited by PwC LLP; 2015, 2014, 2013 and 2012 were audited by Deloitte LLP.

BALANCE SHEETS

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Assets					
Cash and balances at central banks	**3,517**	2,279	4,460	4,911	388
Trading assets	**29,682**	23,649	21,373	21,897	22,498
Derivative financial instruments	**27,954**	24,875	25,792	21,550	33,276
Financial assets designated at fair value	**1,854**	2,130	2,577	2,534	3,531
Loans and advances to banks	**10,046**	21,544	11,344	113,649	106,986
Loans and advances to customers	**15,135**	32,455	38,285	41,108	44,750
Loans and receivables securities	**219**	15	22	128	162
Available-for-sale securities	**476**	1,168	2,525	2,962	5,113
Macro hedge of interest rate risk	**705**	521	935	379	1,171
Intangible assets	**35**	25	13	8	7
Property, plant and equipment	**9**	12	10	6	6
Deferred tax assets	**8**	-	-	15	20
Other assets	**164**	194	133	180	4
Total assets	**89,804**	108,867	107,469	209,327	217,912
Liabilities					
Deposits by banks	**25,326**	21,333	17,416	120,698	114,535
Deposits by customers	**3,169**	2,838	4,523	7,780	6,249
Trading liabilities	**15,560**	12,722	15,333	21,275	21,109
Derivative financial instruments	**31,620**	25,178	26,607	21,496	34,088
Financial liabilities designated at fair value	**2,119**	2,016	2,848	3,407	4,002
Debt securities in issue	**7,895**	40,811	36,799	30,889	33,770
Macro hedge of interest rate risk	**-**	-	39	-	-
Other liabilities	**224**	163	255	368	169
Provisions	**15**	44	32	23	20
Current tax liabilities	**119**	104	224	223	175
Deferred tax liabilities	**-**	15	12	-	-
Total liabilities	**86,047**	105,224	104,088	206,159	214,117
Equity					
Share capital	**2,549**	2,549	2,549	2,549	2,549
Retained earnings	**1,208**	1,027	761	640	1,226
Other reserves	**-**	67	71	(21)	20
Total shareholders' equity	**3,757**	3,643	3,381	3,168	3,795
Total liabilities and equity	**89,804**	108,867	107,469	209,327	217,912

INCOME STATEMENTS

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Net interest income/(expense)	**264**	272	35	(101)	139
Net fee and commission income	**122**	114	122	107	119
Net trading and other income	**205**	252	299	406	304
Total operating income	**591**	638	456	412	562
Operating expenses before impairment losses, provisions and charges	**(290)**	(255)	(256)	(195)	(201)
Impairment losses on loans and advances	**(18)**	5	(30)	(31)	(9)
Provisions for other liabilities and charges	**(16)**	(43)	(32)	(23)	(20)
Total operating impairment losses, provisions and charges	**(34)**	(38)	(62)	(54)	(29)
Profit before tax	**267**	345	138	163	332
Taxation (charge)/credit	**(86)**	(79)	(17)	1	(68)
Profit after tax for the year	**181**	266	121	164	264
Attributable to:					
Equity holders of the parent	**181**	266	121	164	264