

# CATER ALLEN LLOYD'S HOLDINGS LIMITED

Registered in England and Wales  
Company Number 02140745

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 DECEMBER 2016

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## REPORT OF THE DIRECTORS

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

*This Report of the Directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions under Sections 415A (1) & (2) of the Companies Act 2006. The Company is also exempt from preparing a Strategic Report in accordance with Section 414B of the Companies Act 2006.*

### Principal activity and review of the year

The principal activity of Cater Allen Lloyd's Holdings Limited ("the Company") is to act as a holding company to Cater Allen Syndicate Management Limited.

### Result and dividends

The profit for the year after taxation amounted to £1,027,512 (2015: profit of £130,510). The Directors do not recommend the payment of a final dividend (2015: £nil).

### Directors

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

Andrew R Honey	
Richard C Truelove	(resigned 30 November 2016)
Rachel J Morrison	(appointed 23 March 2016)

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

*Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:*

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 2 and 16 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. However as a result of a subsidiary optimisation programme undertaken by the parent during the previous year, a decision has been made to liquidate the Company in the near future. As required by IAS 1 'Presentation of Financial Statements', management has prepared the financial statements on the basis that the Company is no longer a going concern. Preparation of the financial statements on an "other than going concern" basis has had no impact on the amounts reported.

### Qualifying third party indemnities

Enhanced indemnities are provided to the Directors of the Company by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. All of the indemnities remain in force as at the date of this report and financial statements. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

## REPORT OF THE DIRECTORS (continued)

### Independent Auditors

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

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

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

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

By order of the Board

A handwritten signature in black ink, appearing to read 'Jennifer Cheung', is written over a stylized, abstract mark that resembles a large 'J' or a series of connected loops.

For and on behalf of  
Santander Secretariat Services Limited, Secretary

27 July 2017

Registered office address: 2 Triton Square, Regent's Place, London NW1 3AN

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CATER ALLEN LLOYD'S HOLDINGS LIMITED

### Report on the financial statements

#### Our opinion

In our opinion, Cater Allen Lloyd's Holdings Limited's financial statements (the "financial statements"):

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

#### Emphasis of matter - Basis of preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the basis of preparation. As a result of a subsidiary optimisation programme undertaken by the parent company during the previous financial year, a decision has been taken to liquidate the Company in the near future. Accordingly, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a basis other than going concern as described in note 1 to the financial statements. Adjustments were made in the prior year financial statements to reclassify fixed assets as current assets.

#### What we have audited

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

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

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

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

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

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

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

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CATER ALLEN LLOYD'S HOLDINGS LIMITED (continued)

### 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.

### Entitlement to exemptions

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

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

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

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

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

#### What an audit of financial statements involves

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

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

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

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

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



Hamish Anderson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 July 2017

## INCOME STATEMENT

For the year ended 31 December

Continuing Operations	Notes	2016 £	2015 £
Interest income	3	105,849	106,490
Other operating income	4	-	355,554
Administrative expenses	5	(26,329)	(324,097)
Reversal of impairment in subsidiary	9	943,610	-
Profit before tax		1,023,130	137,947
Tax	7	4,382	(7,437)
Net profit for the year		1,027,512	130,510

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

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2016 £	2015 £
Profit for the year	1,027,512	130,510
Total comprehensive income for the year	1,027,512	130,510
Attributable to equity holders of the Company	1,027,512	130,510

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

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital £	Accumulated losses £	Total equity £
Balance at 1 January 2015	10,730,000	(19,520,867)	(8,790,867)
Profit for the year	-	130,510	130,510
Balance at 31 December 2015	10,730,000	(19,390,357)	(8,660,357)
Balance at 1 January 2016	10,730,000	(19,390,357)	(8,660,357)
Profit for the year	-	1,027,512	1,027,512
Balance at 31 December 2016	10,730,000	(18,362,845)	(7,632,845)

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

## CASH FLOW STATEMENT

For the year ended 31 December

	Notes	2016 £	2015 <sup>(1)</sup> £
Net cash flows (used in)/generated from operating activities	13	(72,615)	(90,834)
Net (decrease)/increase in cash and cash equivalents		(72,615)	(90,834)
Cash and cash equivalents at beginning of year		1,247,409	1,338,243
Cash and cash equivalents at end of year		1,174,794	1,247,409

(1) As restated, see Note 15.

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

**BALANCE SHEET**

As at 31 December

	Notes	2016 £	Restated 2015 <sup>(1)</sup> £
<b>Current assets</b>			
Loans and receivables	8	1,362,801	1,211,303
Corporation tax		4,500	-
Investment in subsidiary undertaking	9	943,610	-
Deferred tax assets	10	403	521
Cash and cash equivalents		1,174,794	1,247,409
<b>Total current assets</b>		<b>3,486,108</b>	<b>2,459,233</b>
<b>Current liabilities</b>			
Trade and other payables	11	(11,118,953)	(11,112,338)
Corporation tax		-	(7,252)
<b>Total current liabilities</b>		<b>(11,118,953)</b>	<b>(11,119,590)</b>
<b>Net liabilities</b>		<b>(7,632,845)</b>	<b>(8,660,357)</b>
<b>Equity</b>			
Share capital	12	10,730,000	10,730,000
Accumulated losses		(18,362,845)	(19,390,357)
<b>Total equity</b>		<b>(7,632,845)</b>	<b>(8,660,357)</b>

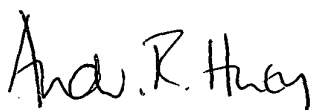
(1) As restated, see Note 15.

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

The prior year has been restated. Further information is contained under note 15 to these financial statements.

These financial statements have been prepared in accordance with the special provisions relating to the small companies regime and the directors make this statement in accordance with section 414(3) of the Companies Act 2006.

The financial statements were approved by the Board of Directors, authorised for issue and signed on its behalf by:



Andrew R Honey  
Director  
27 July 2017

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

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

#### General information

The Company is a limited company, domiciled and incorporated in the United Kingdom and is part of a European listed group whose ultimate parent is Banco Santander SA.

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The company is a wholly owned subsidiary of Abbey National Treasury Services plc and of its ultimate parent, Banco Santander SA. It is included in the consolidated financial statements of Banco Santander SA which are publically available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The functional and presentation currency of the Company is sterling.

IAS 1 requires that financial statements for any Company that has ceased to trade, or where there is an intention for the Company to cease to trade in the next twelve months, are prepared on an "other than going concern" basis. Accordingly the financial statements have been prepared on an "other than going concern" basis as disclosed in the Director's statement of going concern set out in the Report of the Directors, using the historical cost convention. As a result of preparing the financial statements on an "other than going concern" basis, the amounts disclosed within the primary financial statements are presented at their fair value.

#### Future accounting developments

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

- a) IFRS 9 'Financial Instruments' (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.

*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 a the next 12-months – will be applied;
- Stage 2: when it is deemed there has been a significant increase in credit risk since initial recognition, but no credit impairment has materialised, a loss allowance equal to the lifetime ECL – i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility – will be applied; and
- Stage 3: when 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.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

#### Future accounting developments (continued)

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.

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

#### Revenue recognition

Rental income is recognised on an accrual basis in accordance with the lease agreements.

*Interest income is accrued daily, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.*

#### Leasehold property rental costs

Where the Company is committed under non-cancellable property leases to pay rentals in excess of current market levels, provision is made for the full amount of the excess over the life of the lease. The provision is released to the profit and loss account in instalments over the same period.

#### 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, net loans and advances to banks, net securities financing amounts and short-term investments in securities.

#### Financial assets

The Company classifies its financial assets, including intercompany financial assets, as loans and receivables. Management determines the classification at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the entity provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all of the risks and rewards of ownership.

#### Impairment of financial assets

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

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

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

#### Investment in subsidiary undertaking

Investment in subsidiary undertaking is carried at cost less any provision for impairment.

#### Financial liabilities

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. ACCOUNTING POLICIES (continued)

#### 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 benefit will be necessary to settle the obligation, and it can be reliably estimated.

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.

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 the likelihood of a transfer of economic benefit is considered remote.

#### Income taxes, including deferred income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

In the application of the Company's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements that the directors have made in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in financial statements.

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 2. FINANCIAL RISK MANAGEMENT

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk. The Company manages its risk in line with the central risk management function of the Santander UK Group. Santander UK Group's Risk Framework ensures that risk is managed and controlled on behalf of shareholders, customers, depositors, employees and the Santander UK Group's regulators. Effective and efficient risk governance and oversight provide management with assurance that the Santander UK Group's business activities will not be adversely impacted by risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the Santander UK Group's strategic objectives.

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from him to specific individuals. Formal standing committees are maintained for effective management of oversight. Their authority is derived from the person they are intended to assist. Further information can be found in the Santander UK Plc. annual report which does not form part of this report.

#### Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Company losing the principal amount lent, the interest accrued and any unrealised gains, less any security held. It occurs in intercompany assets held by the Company.

Maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in note 8 to the financial statements.

#### Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the Company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company manages liquidity risk with the support of its parent company, ensuring that the Company will have sufficient liquid resources to meet its obligations as they fall due.

Amounts due to parent and fellow subsidiary companies are repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. FINANCIAL RISK MANAGEMENT (continued)

## Market risk

Market risk is the potential for loss of income or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The majority of market risk arises as a result of interest rates.

A small proportion of the Company's income is exposed to movements in LIBOR interest rate. The remaining interest income is of fixed coupon derived from the preference shares carried at amortised cost.

## Sensitivity analysis

A 50 basis point adverse movement in interest rates would result in a reduction in operating profit of £4,349 (2015: £4,990) and a corresponding reduction in net assets. A 50 basis point positive movement in interest rates would result in an increase in operating profit of £6,470 (2015: £7,010) and a corresponding increase in net assets.

## 3. INTEREST INCOME

	2016 £	2015 £
Interest received on preference shares	101,500	101,500
Interest received on amounts due from group related entities	4,349	4,990
	105,849	106,490

## 4. OTHER OPERATING INCOME

	2016 £	2015 £
Recoveries from other allowances	-	355,554
	-	355,554

## 5. ADMINISTRATIVE EXPENSES

	2016 £	2015 £
Expenses on sublet property	26,329	324,097
	26,329	324,097

## 6. PROFIT FROM OPERATIONS

No Directors were remunerated for their services to the Company (2015: nil). Directors' emoluments are borne by the intermediate UK parent company, Santander UK plc. The Directors' services to the Company are an incidental part of their duties. No emoluments were paid by the Company to the Directors during the year (2015: £nil).

The Company had no employees in the current or previous financial year.

The statutory audit fee for the current and prior year has been paid on the Company's behalf by the intermediate UK parent company, Santander UK plc, and in accordance with Company policy no recharge has been made. The statutory audit fee for the current year is £5,000 (2015: £5,227).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 7. TAX

	2016 £	2015 £
Current tax:		
UK corporation tax on profit for the year	(4,500)	7,252
Total current tax	(4,500)	7,252
Deferred tax:		
Origination and reversal of temporary differences	104	129
Change in rate of UK corporation tax	14	56
Total deferred tax	118	185
Tax (credit) / charge on profit for the year	(4,382)	7,437

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 reduced from 21% to 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015.

The Finance Act 2016, which was substantively enacted on 6 September 2016, introduced a further reduction in the corporation tax rate to 17% from 2020. Since this further change was substantively enacted prior to 31 December 2016, the effects have been reflected in the deferred tax balances at the balance sheet date.

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

	2016 £	2015 £
Profit before tax:	1,023,130	137,947
Tax calculated at a tax rate of 20% (2015: 20.25%)	204,626	27,934
Non-taxable reversal of impairment in subsidiary	(188,722)	-
Non-taxable dividend income	(20,300)	(20,553)
Effect of change in tax rate on deferred tax provision	14	56
Tax (credit) / charge for the year	(4,382)	7,437

## 8. LOANS AND RECEIVABLES

	2016 £	Restated 2015 <sup>(1)</sup> £
Preference shares held in subsidiary	1,015,000	1,015,000
Amounts due from group companies	347,801	196,303
	1,362,801	1,211,303

(1) As restated, see Note 15.

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

The preference shares bear a fixed coupon of 10% and are redeemable at par any time at the option of the subsidiary, but subject to the consent of the Council of Lloyds.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. INVESTMENT IN SUBSIDIARY UNDERTAKING

	2016 £	Restated 2015 <sup>(1)</sup> £
<b>Costs:</b>		
At 1 January	6,197,382	6,197,382
At 31 December	6,197,382	6,197,382
<b>Provision for impairment:</b>		
At 1 January	(6,197,382)	(6,197,382)
Movement in provision	943,610	-
At 31 December	(5,253,772)	(6,197,382)
<b>Net book value</b>	<b>943,610</b>	<b>-</b>

(1) As restated, see Note 15.

Details of subsidiaries, as at the year-end, are as follows:

Name of subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Method used to account for investment	Principal activity
<b>Directly held:</b>					
Cater Allen Syndicate Management Limited	England and Wales	100	100	Cost less provision for impairment	Trading

The registered office address of the above subsidiary is 2 Triton Square, Regent's Place, London, NW1 3AN:

In the opinion of the Directors, the fair value of the equity investment in subsidiary undertakings is not less than the book value.

## 10. DEFERRED TAX ASSETS

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The movement on the deferred tax account was as follows:

	2016 £	Restated 2015 <sup>(1)</sup> £
At 1 January	521	706
Income statement charge	(118)	(185)
At 31 December	403	521

(1) As restated, see Note 15.

Deferred tax assets are attributable to the following items:

	2016 Balance Sheet £	Income Statement £	2015 Balance Sheet £	Income Statement £
Deferred tax assets				
Accelerated book depreciation	403	(118)	521	(185)
	403	(118)	521	(185)

The deferred tax assets scheduled above have been recognised in the Company 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.

## 11. TRADE AND OTHER PAYABLES

	2016 £	2015 £
Amounts due to parent company	3,505,480	6,446,386
Amounts due to fellow group companies	7,613,473	4,665,952
	11,118,953	11,112,338

The Directors consider that the carrying amount of payables approximates to their fair value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. SHARE CAPITAL

	2016 £	2015 £
Issued and fully paid:		
10,730,000 ordinary shares of £1 each	10,730,000	10,730,000

## 13. CASH FLOW STATEMENT

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

	2016 £	2015 <sup>(i)</sup> £
Profit for the year	1,027,512	130,510
Add back tax	(4,382)	7,437
Profit before tax	1,023,130	137,947
Non-cash adjustments:		
Net change in impairment of investments	(943,610)	-
Cash flows from operating activities	79,520	137,947
Adjustments for:		
Net change in receivables	(151,498)	(119,829)
Net change in payables	(637)	(108,952)
Net cash flows (used in)/generated from operating activities	(72,615)	(90,834)

(i) As restated, see Note 15.

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

## 14. RELATED PARTY TRANSACTIONS

## Trading transactions

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

Related party transactions at balance date are as follows:

	Income		Amounts due from related parties		Amounts due to related parties	
	2016 £	2015 £	2016 £	2015 <sup>(i)</sup> £	2016 £	2015 £
Immediate parent company	-	-	-	-	3,505,480	6,446,386
Fellow group companies	105,849	106,490	2,537,595	2,458,712	7,613,473	4,665,952
	105,849	106,490	2,537,595	2,458,712	11,118,953	11,112,338

(i) As restated, see Note 15.

No Director or management personnel received any remuneration (2015: £nil).

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

## 15. PRIOR YEAR RESTATEMENT

The restatement is as a result of a change in the classification of an intercompany account from cash and cash equivalents to trade and other receivables, the total amount under the reclassified account being £165,752. The amount under trade and other receivables has therefore increased from £1,045,551 to £1,211,303 and cash and cash equivalents has reduced from £1,413,161 to 1,247,409. There is no impact on the results of the Company.

In addition, the Balance Sheet in the 2015 Annual Report and Financial Statements included the preference shares held in investment in subsidiary undertaking and deferred tax assets under non-current assets. However, as the accounts were prepared under an "other than going concern" basis as stated in the Accounting Policies note, these should have been included under current assets. Therefore, the prior year balances in the Balance Sheet have been restated. This has no impact on the results of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16. CAPITAL MANAGEMENT AND RESOURCES

The Company's intermediate parent company, Santander UK plc ("Santander UK"), adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Santander UK Group's capital management can be found in the Santander UK annual report and financial statements.

Capital held by the Company and managed centrally as part of the Santander UK Group, comprises share capital and reserves which can be found in the Balance Sheet on page 6.

### 17. PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

Copies of all sets of group financial statements, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regents Place, London NW1 3AN.