

ABBAY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

**Registered in England and Wales
No. 3002815**

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2012**

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ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

COMPANY NUMBER: 3002815

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended 31 December 2012

Principal activity and business review

The principal activity of Abbey National Treasury Services Overseas Holdings (the "Company") is to act as an investment company

The Santander UK plc Group (the "Group") manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the divisions of Santander UK plc, which include the Company, are discussed in the Group's Annual Report which does not form part of this Report.

The purpose of this Report is to provide information to the members of the Company and as such it is only addressed to those members. The Report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. Members should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and the Company undertakes no obligation to update any forward-looking statement during the year. Nothing in this Report should be construed as a profit forecast.

The Directors do not expect any significant change in the level of business in the foreseeable future.

Principal risks and uncertainties

The Company's principal risks and uncertainties together with the processes that are in place to monitor and mitigate those risks where possible can be found in note 2.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £31,953,563 (2011: £38,484,359). The Directors do not recommend the payment of a final dividend (2011: £nil).

The Company paid interim dividends of £nil (2011: £65,000,000).

Directors

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

David M Green
Mark C Jackson
Richard C Truelove

Statement of Directors' responsibilities

The Directors are responsible for preparing the report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, 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, International Accounting Standard 1 requires that directors:

- 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 IFRSs 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.

ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

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REPORT OF THE DIRECTORS (continued)

Statement of Directors' responsibilities (continued)

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and to 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 19 and 2 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 liquidity risk, credit risk and market risk.

The Company is part of the Santander UK group. The Directors have taken account of the fact that the Board of Santander UK plc has confirmed that Santander UK plc is a going concern. The Company has adequate financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

Financial instruments

The Company's risks are managed on a Group level by the ultimate UK parent company, Santander UK plc.

The financial risk management objectives of and policies of the Group, the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure of the Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Group financial statements.

Further disclosures regarding financial risk management objectives and policies and the Company's exposure to principal risks can be found in note 2.

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 Accounts. A copy of each of the indemnities is kept at the registered office address of Santander UK plc.

Payment policy

Given the nature of the Company's business the Company does not have any suppliers and therefore does not operate a payment policy. The Company has no creditors and is unable to quantify the practice on payment of creditors.

ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS
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REPORT OF THE DIRECTORS (continued)

Auditors

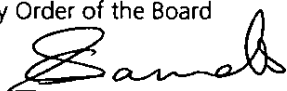
Each of the Directors at the date of approval of this report has confirmed that

- 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 Section 418 of the Companies Act 2006

In accordance with Sections 485 and 487 of the Companies Act 2006, Deloitte LLP are deemed to have been re-appointed as auditors of the Company

By Order of the Board



For and on behalf of
Santander Secretariat Services Limited, Secretary

26 March 2013

Registered Office Address 2 Triton Square, Regent's Place, NW1 3AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

We have audited the financial statements of Abbey National Treasury Services Overseas Holdings (the "Company") for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, the Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Tom Millar (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 March 2013

ABBEEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS
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FINANCIAL STATEMENTS

For the year ended 31 December 2012

Income Statement

For the year ended 31 December 2012

	Notes	2012 £	2011 £
Continuing operations			
Interest receivable	3	637	628
Interest expense	3	(9,683)	(3,148)
Investment income	5	10,031,743	24,457,813
Profit before tax		10,022,697	24,455,293
Tax	6	21,930,866	14,029,066
Net profit attributable to equity holders of the Company		31,953,563	38,484,359

The accompanying notes form an integral part of the financial statements

Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 £	2011 £
Profit for the year	31,953,563	38,484,359
Total comprehensive income for the year	31,953,563	38,484,359
Attributable to equity holders of the Company	31,953,563	38,484,359

Statement of Changes in Equity

For the year ended 31 December 2012

	Share Capital £	Distributable Capital Reserve £	Capital Contribution Reserve £	Retained Earnings £	Total £
Balance at 1 January 2011	868,350,000	150,000,000	875,088	50,662,651	1,069,887,739
Comprehensive income – profit for the year	-	-	-	38,484,359	38,484,359
Dividends paid	-	-	-	(65,000,000)	(65,000,000)
Balance at 31 December 2011	868,350,000	150,000,000	875,088	24,147,010	1,043,372,098
Balance at 1 January 2012	868,350,000	150,000,000	875,088	24,147,010	1,043,372,098
Comprehensive income – profit for the year	-	-	-	31,953,563	31,953,563
Balance at 31 December 2012	868,350,000	150,000,000	875,088	56,100,573	1,075,325,661

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FINANCIAL STATEMENTS

For the year ended 31 December 2012

Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 £	2011 £
Net cash generated from operating activities	17	424,231	65,594,138
Financing activities			
Dividends paid		-	(65,000,000)
Net cash used in financing activities		-	(65,000,000)
Net increase in cash and cash equivalents		424,231	594,138
Cash and cash equivalents at beginning of year		771,457	177,319
Cash and cash equivalents at end of year		1,195,688	771,457

The accompanying notes form an integral part of the financial statements

Balance Sheet

At 31 December 2012

	Notes	2012 £	2011 £
Non-current assets			
Investment in subsidiary undertakings	7	85,929,725	85,929,725
Financial assets designated at fair value through profit and loss	8	671,011,110	624,685,895
Loans and receivables	10	12,759	12,732
		756,953,594	710,628,352
Current assets			
Cash		1,195,688	771,457
Financial assets designated at fair value through profit and loss	8	343,347,213	327,574,125
Loans and receivables	10	23,925,941	33,093,299
Deferred tax assets	11	477,093	691,439
		368,945,935	362,130,320
Total assets		1,125,899,529	1,072,758,672
Current liabilities			
Derivatives held at fair value through profit or loss	13	(36,165,493)	(18,614,658)
Trade and other payables	12	(14,408,375)	(1,681,721)
Current tax liability		-	(9,090,195)
		(50,573,868)	(29,386,574)
Net assets		1,075,325,661	1,043,372,098
Equity			
Capital and Reserves			
Share capital	14	868,350,000	868,350,000
Distributable capital reserve	15	150,000,000	150,000,000
Capital contribution reserve	16	875,088	875,088
Retained earnings		56,100,573	24,147,010
Total equity attributable to equity holders of the Company		1,075,325,661	1,043,372,098

The accompanying notes form an integral part of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 26 March 2013. They were signed on its behalf by *M. Jackson*

M. L. Jackson

Director

ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union that are effective or available for early adoption at the Company's reporting date. The Company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments, as modified by the revaluation of financial assets held at fair value through profit or loss and all derivative contracts and on the going concern basis as disclosed in the Directors' Statement of Going Concern set out in the Report of the Directors.

Recent accounting developments

There are a number of other changes to IFRS that were effective from 1 January 2012. Those changes did not have a significant impact on the Company's financial statements.

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) IAS 1 'Presentation of Financial Statements' – In June 2011, the IASB issued amendments to IAS 1 that retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (i) items that will not be reclassified subsequently to profit or loss, and (ii) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.

The Company anticipates that IAS 1 (2011) will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard will modify the presentation of items of other comprehensive income accordingly. Retrospective application is required. The Company does not anticipate that these amendments to IAS 1 will have a significant impact on the Company's disclosures.

- (b) IFRS 13 'Fair Value Measurement' – In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance for fair value measurement. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current accounting standards. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which it is adopted.

The Company anticipates that IFRS 13 will be adopted in the Company's financial statements for the annual period beginning on 1 January 2013. The Company does not anticipate that the application of the new standards will have a significant impact on its profit or loss, financial position or disclosures.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. Accounting policies (continued)

Future accounting developments (continued)

- (c) IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

The second and third phases in the IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting.

The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2012 to address practice and other issues, with an exposure draft of revised proposals issued in November 2012.

The Company anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning on 1 January 2015 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- (d) In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.
- (e) In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.
- The Company is currently assessing the impact of these clarifications but it is not practicable to quantify the effect as at the date of the publication of these financial statements.
- (f) There are a number of other standards which have been issued or amended that are expected to be effective in future periods. However, it is not practicable to provide a reasonable estimate of their effects on the Company's financial statements until a detailed review has been completed.

Foreign currency translation

Items included in the financial statements of the entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Company ("the functional currency"). The financial statements are presented in Pounds Sterling, which is the functional currency of the immediate parent.

Foreign currency transactions are translated into the functional currency 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.

Revenue recognition

Investment income comprises all gains and losses from changes in the fair value of financial assets held at fair value through profit or loss, together with related income, expense and dividends. Changes in fair value of derivatives are also recognised in investment income.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1 Accounting policies (continued)

Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash and non restricted balances with central banks treasury bills and other eligible bills loans and advances to banks amounts due from other banks and short term investments in securities

Investment in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less any provision for impairment

Financial assets

The Company classifies its financial assets in the following categories financial assets at fair value through profit or loss account and loans and receivables Management determines the classification of its investments at initial recognition

Financial assets classified as fair value through profit or loss are designated as held at fair value on inception The assets are recognised initially 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 as investment income The assets are derecognised when the rights to receive cash flows have expired or the entity has transferred substantially all the risks and rewards of ownership

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company 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 measured at amortised cost, using the effective interest method, described above 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 The carrying value of financial assets is a fair approximation of their fair value

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative with the fair value movement going to the income statement

Impairment of financial assets

At each balance sheet date the entity assesses whether, because of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired Evidence of impairment may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured to reduce the burden to the borrower

Financial assets carried at amortised cost

Impairment losses are assessed individually for the financial assets that are individually significant and individually or collectively for assets that are not individually significant For individually assessed assets, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of the estimated future cash flows from the asset or group of assets discounted at the original effective interest rate of the asset

In making collective assessment for impairment, financial assets are assessed for each portfolio segmented by similar risk characteristics For each risk segment, future cash flows from these portfolios are estimated through the use of historical loss experience The historical loss experience is adjusted for current observable data, to reflect the effects of current conditions not affecting the period of historical experience The loss is discounted at the effective interest rate, except where portfolios meet the criteria for short-term receivables The impact of the discounting is reported through interest receivable within the income statement and represents the unwind of the discount

Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on an effective interest rate basis

ABBEY NATIONAL TREASURY SERVICES OVERSEAS HOLDINGS

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1 Accounting policies (continued)

Impairment of financial assets (continued)

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.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss and available-for-sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing, knowledgeable parties, other than in a forced or liquidation sale.

Initial measurement

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

Subsequent measurement

The Company 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) and, 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 Company categorises assets 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 Group has the ability to access at the measurement date. Level 1 position include equity securities and derivatives. |
| Level 2 | Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset are unobservable. |

Financial liabilities

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

Offsetting financial instruments

Financial assets and liabilities 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1 Accounting policies (continued)

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.

Dividends

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

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Shares are recognised in accordance with the substance of the transaction. Shares which have a contractual obligation to deliver cash or other financial assets to the preference share holders are classified as debt. Otherwise, they are classified as equity instruments.

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

Authority flows from the Santander UK plc Board to the Chief Executive Officer and from her 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.

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 by maintaining sufficient liquid resources to ensure it can meet its obligations as they fall due.

The contractual maturities of financial liabilities are detailed as follows:

	Demand £	Up to 3 months £	3 – 12 months £	1 – 5 years £	Over 5 years £	Total £
At 31 December 2012						
Derivative financial instruments	-	-	-	36,165,493	-	36,165,493
Trade and other payables	-	14,408,375	-	-	-	14,408,375
Total financial liabilities	-	14,408,375	-	36,165,493	-	50,573,868

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

2. Financial risk management (continued)

At 31 December 2011	Demand £	Up to 3 months £	3 – 12 months £	1 – 5 years £	Over 5 years £	Total £
Derivative financial instruments	-	-	-	18,614,658	-	18,614,658
Trade and other payables	19,022	1,662,721	-	-	-	1,681,743
Total financial liabilities	19,022	1,662,721	-	18,614,658	-	20,296,401

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

The Company is exposed to credit risk on its loans and receivables relating to amounts receivable from its immediate parent company and fellow subsidiaries. The maximum exposure to credit risk without taking into account collateral or credit enhancements can be found in note 8 and 10 to the financial statements

The Company does not use credit derivatives to hedge credit exposure. There has been no cumulative change in the fair value of loans and receivables attributable to changes in credit risk and there has been no change in the current period

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. Market risk arises as a result of interest rates and exposures to changes in equity markets

The Company's income is exposed to increments in the LIBOR interest rate on receivables relating to amounts due by group companies

A 50 basis point adverse movement in interest rates would result in a reduction in operating profit of £3,191,600 (2011 £3,383,446) 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 £3,191,600 (2011 £3,383,446) and a corresponding increase in net assets

Investments held at fair value through profit and loss are subject to movements in quoted market prices. The Company has entered into a put/call option to manage the exposure to movements in market prices. Available-for-sale investments are non-interest bearing and have been written down to £nil therefore have no market risk exposure

Fair value estimation

Equity investments held at fair value through profit or loss are valued based on quoted market prices. In the valuation of amounts due from parent company, the 'present value' method is used. 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 the quoted interest rates in appropriate time bandings, which match the timings of the cashflows and maturities of the instruments

3 Interest

	2012 £	2011 £
Interest receivable from group companies	637	628
Interest payable to group companies	(9,683)	(3,148)

4 Profit from operations

No Directors were remunerated for their services to the Company. Directors' emoluments are borne by the ultimate UK parent company Santander UK plc. No emoluments were paid by the Company to the Directors during the year (2011 £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 ultimate UK parent company, Santander UK plc, in accordance with Company policy, for which no recharge has been made. The statutory audit fee for the current year is £31,300 (2011 £28,170)

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5 Investment income

	2012 £	2011 £
Dividends received from subsidiary	-	15,000,000
Net gain/(loss) on investments held at fair value through profit or loss	33,996,451	(4,822,401)
Net (loss)/gain on derivatives	(23,964,708)	14,280,214
	10,031,743	24,457,813

6 Tax

	2012 £	2011 £
Current tax		
UK corporation tax on profit of the year	(8,821,652)	2,748,773
Adjustments in respect of prior year	(13,323,560)	(17,046,514)
Total current tax	(22,145,212)	(14,297,741)
Deferred tax		
Origination and reversal of temporary differences	169,403	183,231
Change in rate of UK Corporation tax	44,943	58,773
Adjustments in respect of prior years	-	26,671
Total deferred tax	214,346	268,675
	(21,930,866)	(14,029,066)
Tax credit on profit for the year	(21,930,866)	(14,029,066)

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 26% to 24% with effect from 1 April 2012.

The Finance Act 2012, which provides for a reduction in the main rate of UK corporation tax to 23% effective from 1 April 2013, was enacted on 17 July 2012. As this change in rate was substantively enacted prior to 31 December 2012, it has been reflected in the deferred tax asset at 31 December 2012. The UK Government has also indicated that it intends to enact further reductions in the main tax rate, to 21% by 1 April 2014, and then to 20% by 1 April 2015.

These changes to the main tax rate have not been substantively enacted at the Balance Sheet date and, therefore, are not included in these financial statements.

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:

	2012 £	2011 £
Profit before tax	10,022,697	24,455,293
Tax calculated at tax rate of 24.5% (2011: 26.5%)	2,455,561	6,480,653
Non deductible expenses	8,705	1,813,999
Non taxable income	(3,585,938)	(5,362,648)
Capital losses surrendered to group companies	(7,530,577)	-
Effect of change in tax rate on deferred tax provision	44,943	58,773
Adjustment to prior year provisions	(13,323,560)	(17,019,843)
Tax credit for the year	(21,930,866)	(14,029,066)

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7. Investment in subsidiary undertakings

	2012 £	2011 £
Balance at 1 January	85,929,725	85,929,725
Balance at 31 December	85,929,725	85,929,725

The following is a list of the subsidiary undertakings of the Company

Name of subsidiaries	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
Directly Held					
Cater Allen Holdings Limited	England and Wales	100	100	Cost less provision for impairment	Holding Company
Indirectly Held					
Cater Allen International Limited	England and Wales	100	100	Cost less provision for impairment	Securities Financing
Cater Allen Lloyd's Holdings Limited	England and Wales	100	100	Cost less provision for impairment	Holding Company
Cater Allen Syndicate Management Limited	England and Wales	100	100	Cost less provision for impairment	Non-trading
Sheppards Moneybrokers Limited	England and Wales	100	100	Cost less provision for impairment	Dormant

Investments in subsidiary companies are shown at cost less provision for impairment. The Company has exercised the exemption under Section 400 of the Companies Act 2006, which dispenses with the requirement to prepare group accounts. This is also in line with the exemption in IAS 27 'Consolidated and Separate Financial Statements'.

8. Financial assets designated at fair value through profit and loss

	2012 £	2011 £
Amount due from parent company - non-current	671,011,110	624,685,895
Equity investments - current	343,347,213	327,574,125
Total	1,014,358,323	952,260,020

The Company has designated its equity investments as fair value through profit or loss on the basis that doing so significantly reduces a measurement inconsistency that would otherwise arise from measuring these assets on a different basis from the derivatives that economically hedge the investments.

The fair value of equity investments is based on the quoted market price and they are revalued on a regular basis throughout the year. On this basis, they are classified as level 1 under the IFRS 7 hierarchy.

Amounts due from parent company of £671,011,110 bear a variable rate based on LIBOR and are receivable within five years (2011 £624,685,895 bear a variable rate based on LIBOR and are receivable within five years) and are classified as level 2 under the IFRS 7 hierarchy.

9 Investments

	2012 £	2011 £
Investments – at cost	1,049,420	1,049,420
Investments – provision	(1,049,420)	(1,049,420)
	-	-

The investment securities relate to unlisted equity securities which have been subsequently impaired due to a decline in market value.

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10. Loans and receivables

	2012 £	2011 £
Current		
Amounts due from immediate parent company	-	4,673,494
Amounts due from fellow subsidiaries	15,104,289	15,119,805
Amounts due from immediate parent company – group relief	8,821,652	13,300,000
	23,925,941	33,093,299
Non-current		
Amounts due from fellow subsidiaries	12,759	12,732
Total	23,938,700	33,106,031

£12,759 (2011 £12,732) preference shares entitle the holder to a 5% annualised non-cumulative dividend

The preference shares are classified as loans and receivables and are held at amortised cost

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

Amounts due from fellow subsidiaries of £15,104,289 (2011 £15,119,805) is non-interest bearing and repayable on demand. The amount due from immediate parent company of £4,673,494 in 2011 was repayable within 3 months and bore a fixed rate ranging 0.20% to 1.070%. Amounts due from immediate parent company – group relief was non interest bearing and repayable on demand.

11 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:

	2012 £	2011 £
At 1 January	691,439	960,114
Income statement charge	(214,346)	(268,675)
At 31 December 2012	477,093	691,439

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.

12 Trade and other payables

	2012 £	2011 £
Amounts due to group entities	14,408,375	1,681,721

The Directors consider that the carrying amount of trade payables approximates to their fair value. Amounts due to group companies bear a fixed rate of one month LIBOR and are repayable within 3 months (2011 Amounts due to group companies bears a fixed rate of 1.067% and are repayable within 3 months).

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13 Derivatives held at fair value through profit or loss

	2012 £	2011 £
Net derivatives liabilities held at fair value	36,165,493	18,614,658

The Company enters into a variety of derivative contracts, predominately with a view to hedge market risk exposure. At balance sheet date, the derivatives held are as follows:

At 31 December 2012	Contract/notional amount £	Fair value assets £	Fair value liabilities £
Equity contracts			
Options	300,103,709	-	36,165,493
Total	300,103,709	-	36,165,493

At 31 December 2011	Contract/notional amount £	Fair value assets £	Fair value liabilities £
Equity contracts			
Options	300,103,709	-	18,614,658
Total	300,103,709	-	18,614,658

The derivatives are classified as level 1 under the IFRS 7 hierarchy.

14. Share capital

	2012 £	2011 £
Issued and fully paid		
50,000 minority shares of £1 each	50,000	50,000
335,000,000 non-redeemable preference shares of £1 each	335,000,000	335,000,000
533,300,000 Ordinary shares of £1 each	533,300,000	533,300,000
	868,350,000	868,350,000

The holders of preference shares are not entitled to receive any dividends. On a return of capital on a winding-up, the holders of preference shares are entitled to £1 per share in priority to holders of ordinary shares. No voting rights are attached to these shares unless a resolution is proposed affecting the rights of this class of shareholders.

The minority shares represent a class of ordinary share capital and do not represent a minority interest. On a return of capital on a winding-up, the holders of minority shares carry the same rights as the holders of ordinary shares. The minority shares carry limited voting rights. The Company holds a call option over the minority shares which can be exercised at any time.

15. Distributable capital reserve

	Total £
Balance at 1 January 2011	150,000,000
Balance at 31 December 2011	150,000,000
Balance at 1 January 2012	150,000,000
Balance at 31 December 2012	150,000,000

The distributable capital reserve represents the value of ordinary shares cancelled.

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16. Capital contribution reserve

	Total £
Balance at 1 January 2011	875,088
Balance at 31 December 2011	875,088
Balance at 1 January 2012	875,088
Balance at 31 December 2012	875,088

The capital contribution reserve represents the amount of cash contributed to the Company by the immediate parent company, Abbey National Treasury Services plc

17 Cash generated from operations

Reconciliation of profit before tax to net cash flow from operating activities

	2012 £	2011 £
Profit before tax	10,022,697	24,455,293
Changes in operating assets and liabilities		
Change in investments	(44,547,468)	52,359,855
Change in loans and receivables	9,167,331	30,727,312
Change in trade and other payables	25,781,671	(41,948,322)
Net cash flow generated from operating activities	424,231	65,594,138

Where tax assets have been group relieved, they are accounted for as operating assets/operating payables

18. Related party transactions

Trading transactions

The trading transactions with related parties relate to interest received and dividends from related group entities

Related party transactions at balance date are as follows

	Income		Expenditure		Amounts due from related parties		Amounts due to related parties	
	2012 £	2011 £	2012 £	2011 £	2012 £	2011 £	2012 £	2011 £
Immediate parent	1,809,775	4,747,420	9,683	3,148	679,832,762	642,659,389	50,573,868	20,296,379
Fellow subsidiary	637	15,000,628	-	-	15,117,048	15,132,537	-	-
	1,810,412	19,748,048	9,683	3,148	694,949,810	657,791,926	50,573,868	20,296,379

No Director or management personnel received any remuneration (2011 £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

19 Capital management and resources

The Company's ultimate UK parent, Santander UK plc, adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of businesses in the Santander UK Group. The Company has no non-centralised process for managing its own capital. Disclosures relating to the Group's capital management can be found in the Santander UK Annual Report and Accounts.

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 7.

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20 Contingent liability

The Company, along with certain other subsidiaries of Santander UK plc, is a party to a capital support deed dated 14 December 2012 with Santander UK plc, Abbey National Treasury Services plc and Cater Allen Limited (each a "regulated entity"). The Capital Support Deed supports a core UK group for the purposes of section 10 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") of the FSA Handbook. Under section 10.8 of BIPRU, exposures of each regulated entity to other members of the core UK group, including the Company, 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 or repayment of liabilities to a regulated entity to ensure that a regulated entity continues to comply with requirements relating to capital resources and risk concentrations. The amount of any transfer is limited to the sum of the Company's capital resources which would not cause the value of its liabilities to exceed the value of its assets, taking into account all of its contingent and prospective liabilities. The Capital Support Deed also provides that, in certain circumstances, funding received by the Company from other parties to the Capital Support Deed becomes repayable on demand, such repayment being limited to the Company's available resources.

21 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, S.A., a company registered in Spain. Banco Santander, S.A. is the parent undertaking of the largest group of undertakings for which group accounts 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 accounts are drawn up and of which the Company is a member.

Copies of all sets of group accounts, which include the results of the Company, are available from Secretariat, Santander UK plc, 2 Triton Square, Regent's Place, London, NW1 3AN.