2014 Annual Report

Abbey National Treasury Services plc

PART OF THE SANTANDER GROUP

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Abbey National Treasury Services plc
2014 Annual Report
Index

About us
Our Business and our Corporate Purpose 2
Our Strategy 3

Financial Review 4

Risk Review 24

Governance
Directors 90
Strategic report 91
Directors' report 92
Directors' Responsibilities Statement 98

Financial Statements
Independent Auditor's Report 100
Primary Financial Statements 101
Notes to the Financial Statements 108

Shareholder Information
Risk Factors 170
Contact and Other Information 189
Guarantees 190

Forward-looking Statements 194

Selected Financial Data 195

This Annual Report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See 'Forward-looking statements' on page 194.

Our Business and our Corporate Purpose

Our heritage

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

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

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

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

The Banco Santander group operates a 'subsidiary model'. This model involves autonomous units, such as the Santander UK group (of which ANTS is a part) operating in core markets with each unit being responsible for its own liquidity, funding and capital management on an ongoing basis. The model is designed to minimise the risk to the Banco Santander group and all its units from problems arising elsewhere in the Banco Santander group. For more information, see Directors' Report on page 92.

(1) Abbey National Treasury Services plc is a subsidiary of Santander UK plc.
(2) The cross guarantees have the effect of aligning the interests of the class of creditors covered by the cross guarantees across the operating companies. The current cross guarantees expire on 30 June 2015.

Our strategy

ANTS today

ANTS is regulated by the UK Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and is part of the Santander UK group which is, in turn, part of the Banco Santander, S.A. group (comprising Banco Santander, S.A. and its subsidiaries, the 'Banco Santander group'). Banco Santander, S.A. is incorporated in Spain and is the ultimate parent company of ANTS.

Corporate purpose

ANTS provides treasury, corporate and wholesale banking services. ANTS provides these services to UK clients and also to the wider Santander UK group, of which ANTS is a significant part. ANTS is also the treasury support function for the Santander UK group. In this regard, ANTS's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding, capital and balance sheet management requirements. As such, ANTS is one of the main debt issuance vehicles in the Santander UK group.

ANTS contains part of a number of Santander UK's business segments. Whether transactions are booked in ANTS or another Santander UK group entity is for historic or operational reasons and does not necessarily reflect any particular business split.

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2015 under a deed poll guarantee entered into by the Company on 10 May 2012. Santander UK plc has given a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 30 June 2015.

As a result of these guarantees, the results and creditworthiness of ANTS should not be viewed in isolation. Account should also be taken of the position of the Santander UK group into which the assets and liabilities of ANTS are fully consolidated.

ANTS has also entered into agreements to provide capital and/or liquidity to Santander UK plc and other members of the Santander UK group, in accordance with UK regulatory requirements. For further details, see Note 42 to the Consolidated Financial Statements.

Our businesses

ANTS is headed by Jacques Ripoll, Chief Executive Officer, and operates three business divisions as follows:

Business division	About
Commercial Banking	Provides banking services to companies with a turnover of between £250,000 and £500m per annum through our enhanced platform, distribution capability and product suite through a network of regional business centres and through telephony and e-commerce channels, and commercial real estate and Social Housing. Commercial Banking products and services include loans, bank accounts, deposits, and treasury services.
Corporate & Institutional Banking	A financial markets business focused on providing value added financial services to large corporates, with an annual turnover above £500m, and financial institutions, where they can be best serviced in terms of their more specialised and tailored product needs, and benefit from the Banco Santander group's global capability. It also serves the rest of Santander UK's business (including the Retail Banking and Commercial Banking divisions). It is structured into five main product areas: Rates, Foreign exchange and money markets, Equity, Credit and Transaction Banking. In addition, large and complex clients are covered by teams organised along industry lines. Rates covers sales and trading activity for fixed income products. Foreign exchange offers a range of foreign exchange products and money markets runs securities lending/borrowing and repo businesses. Equity covers equity derivatives, property derivatives and commodities. Equity derivatives activities include the manufacture of structured products sold to retail and corporate customers of both Santander UK and of other financial institutions who sell them on to their customers. Credit originates loan and bond transactions in primary markets as well as their intermediation in secondary markets. Transaction Banking provides lending and deposit taking and trade finance.
Corporate Centre	Consists of Financial Management & Investor Relations ('FMIR') and the non-core portfolios of Social Housing loans and structured credit assets. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Santander UK group. The non-core portfolios are being run-down and/or managed for value.

Our strategy

ANTS's strategy is to continue to provide treasury support functions for the Santander UK group and continue to provide treasury, corporate and wholesale banking services to UK clients and the wider Santander UK group.

5 **Income statement review**
5 Summarised Consolidated Income Statement
7 Profit before tax by segment
8 - Commercial Banking
9 - Corporate & Institutional Banking
10 - Corporate Centre
11 **Balance sheet review**
11 Summarised Consolidated Balance Sheet
13 Reconciliation to classifications in the Consolidated Balance Sheet
14 Securities
15 Loans and advances to banks
16 Loans and advances to customers
17 Derivative assets and liabilities
17 Tangible fixed assets
18 Deposits by banks
18 Deposits by customers
19 Short-term borrowings
20 Debt securities in issue
20 Contractual obligations
20 Off-balance sheet arrangements
21 Interest rate sensitivity
22 Average balance sheet
23 **Cash flows**

INCOME STATEMENT REVIEW

KEY PERFORMANCE INDICATORS

Key performance indicators are set at the Santander UK group level, rather than separately for the ANTS group.

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Net interest income/(expense)	**35**	(101)	139
Non-interest income	**421**	513	423
Total operating income	**456**	412	562
Administrative expenses	**(252)**	(192)	(198)
Depreciation, amortisation and impairment	**(4)**	(3)	(3)
Total operating expenses excluding impairment losses, provisions and charges	**(256)**	(195)	(201)
Impairment losses on loans and advances	**(30)**	(31)	(9)
Provisions for other liabilities and charges	**(32)**	(23)	(20)
Total operating impairment losses, provisions and charges	**(62)**	(54)	(29)
Profit before tax	**138**	163	332
Taxation (charge)/credit	**(17)**	1	(68)
Profit after tax for the year	**121**	164	264

2014 compared to 2013

Profit before tax decreased by £25m to £138m (2013: £163m). By income statement line, the movements were:

> Net interest income increased by £136m to £35m in 2014 (2013: expense of £101m) reflecting lower funding costs on new medium term issuance in the Corporate Centre together with improved margins in Commercial Banking and Corporate & Institutional Banking.

> Non-interest income decreased by £92m to £421m in 2014 (2013: £513m) principally due to lower mark-to-market gains on certain derivatives which are only treated as hedging for Santander UK group purposes in the Corporate Centre and a lower demand for interest rate and foreign exchange risk management products and a risk reduction strategy in the second half of the year in Corporate & Institutional Banking.

> Administrative expenses increased by £60m to £252m in 2014 (2013: £192m) reflecting additional regulatory and other project costs borne in the Corporate Centre and investment in product capabilities in Corporate & Institutional Banking.

> Depreciation, amortisation and impairment costs were largely unchanged at £4m in 2014 (2013: £3m).

> Impairment losses on loans and advances decreased by £1m to £30m in 2014 (2013: £31m). Credit quality in the loan books continued to be good, supported by the improving economic environment and our cautious lending policy.

> Provisions for other liabilities and charges increased by £9m to £32m in 2014 (2013: £23m) and primarily reflected provisions made in respect of the UK Bank Levy with the increase due a combination of higher rate charged and change in short term funding.

The taxation charge increased by £18m to a charge of £17m in 2014 (2013: credit of £1m) principally due to credits in respect of non-equalised items (principally index-linked gilts) and adjustments with respect to prior year provisions.

2013 compared to 2012

Profit before tax decreased by £169m to £163m in 2013 (2012: £332m). By income statement line, the movements were:

> Net interest income decreased by £240m to net interest expense of £101m in 2013 (2012: income of £139m) primarily as a consequence of the continued low interest rate environment. This reflected the increased drag from the run-off of the structural hedge put in place in previous years. This decrease was partially offset by continued growth in Commercial Banking customer loans.
>
> In Corporate & Institutional Banking, net interest income increased by £8m, primarily due to a decrease in funding costs.

> Non-interest income increased by £90m to £513m in 2013 (2012: £423m) principally due to mark-to-market gains on certain derivatives, which are only treated as hedging for Santander UK group purposes, partially offset by a decrease of £104m in non-interest income in Corporate & Institutional Banking reflecting a return to more normalised levels of market-making activity.

> Administrative expenses decreased by £6m to £192m in 2013 (2012: £198m) principally due to effective cost control and reduced variable remuneration partially offset by the continued investment in Commercial Banking and Corporate & Institutional Banking.

> Depreciation, amortisation and impairment costs were unchanged at £3m in 2013 (2012: £3m).

- Impairment losses on loans and advances increased by £22m to £31m in 2013 (2012: £9m) principally due to provisions in 2013 related to real estate business written before 2009 with the credit quality of business written from 2009 onwards continuing to perform well.

- Provisions for other liabilities and charges increased by £3m to £23m in 2013 (2012: £20m) and primarily reflected provisions made in respect of the UK Bank Levy.

The taxation charge decreased by £69m to a credit of £1m in 2013 (2012: charge of £68m) principally due to credits in respect of non-equalised items (principally index-linked gilts) and adjustments with respect to prior year provisions.

THE ECONOMY

The UK economic climate in 2014 was more positive than it has been for several years. Economic growth strengthened to 2.6%, the unemployment rate fell much faster than the Bank of England expected and inflation ran below the 2% target throughout the year. Falling oil prices meant that inflation hit a 14-year low at the end of 2014. At the same time there were some signs of a steadying in the corporate lending market. Nonetheless, lending activity for UK banks as a whole remains subdued relative to the pre-recession pace and we have done well to maintain the growth of our retail and commercial businesses with a conservative risk appetite.

LOOKING AHEAD

Economic growth strengthened in 2014 and there were improvements in the labour market and in consumer and business confidence. However, the economic outlook remains subject to uncertainty, and recent falls in inflation, and financial market volatility have affected policy expectations. We look forward to continued improvement in the UK economy which remains supportive of our business, and prompt completion of the banking reforms underway which will help us to contribute fully to the UK's economic recovery.

Critical factors affecting results

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

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

Basis of results presentation

The segmental information in this Annual Report reflects the reporting structure in place at the reporting date in accordance with which the segmental information in Note 2 to the Consolidated Financial Statements has been presented. The Company's board of directors (the 'Board') is the chief operating decision maker for ANTS. The segmental information below is presented on the basis used by the Board to evaluate performance and allocate resources. The Board reviews discrete financial information for each segment of the business which follows ANTS's normal accounting policies and principles, including measures of operating results, assets and liabilities. As described in Note 2 to the Consolidated Financial Statements, following a strategic review, the segmental financial information reported to the Board was revised in the fourth quarter of 2014, and prior periods restated, to designate two distinct main customer business segments, which reflect how we now manage and operate the bank: Commercial Banking and Corporate & Institutional Banking; and allocate indirect income, expenses and charges previously held at the Corporate Centre, which can be attributed to the two customer segments. This included a review of the internal transfer pricing policy, which resulted in a further allocation of funding and liquidity costs, central operating expenses and other provisions.

With the allocation of indirect income, expenses and charges from the Corporate Centre and with the two distinct main customer business segments at differing stages of commercial maturity, we are now able to identify better and drive with greater granularity the key drivers of our business performance. This enables a more targeted apportionment of capital and other resources in line with the individual strategies and objectives of each business segment.

Commercial Banking provides banking services to companies with a turnover of between £250,000 and £500m per annum through our enhanced platform, distribution capability and product suite. Large corporates, with an annual turnover above £500m, are now managed in our Corporate & Institutional Banking segment, where they can be best serviced in terms of their more specialised and tailored product needs, and benefit from the Banco Santander group's global capability. Corporate Centre now predominantly consists of the the non-core portfolios of social housing loans and structured credit assets, mark-to-market gains/losses arising from banking book activities and residual term mismatches.

PROFIT BEFORE TAX BY SEGMENT

31 December 2014	Commercial Banking £m	Corporate & Institutional Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	**92**	**66**	**(123)**	**35**
Non-interest income	**36**	**265**	**120**	**421**
Total operating income/(expense)	**128**	**331**	**(3)**	**456**
Administration expenses	**(23)**	**(194)**	**(35)**	**(252)**
Depreciation, amortisation and impairment	**-**	**(4)**	**-**	**(4)**
Total operating expenses excluding impairment losses, provisions and charges	**(23)**	**(198)**	**(35)**	**(256)**
Impairment losses on loans and advances	**(30)**	**-**	**-**	**(30)**
Provisions for other liabilities and charges	**-**	**(9)**	**(23)**	**(32)**
Total operating impairment losses, provisions and charges	**(30)**	**(9)**	**(23)**	**(62)**
Profit/(loss) before tax	**75**	**124**	**(61)**	**138**

31 December 2013				
Net interest income/(expense)	74	56	(231)	(101)
Non-interest income	36	298	179	513
Total operating income/(expense)	110	354	(52)	412
Administration expenses	(19)	(168)	(5)	(192)
Depreciation, amortisation and impairment	-	(3)	-	(3)
Total operating expenses excluding impairment losses, provisions and charges	(19)	(171)	(5)	(195)
Impairment losses on loans and advances	(31)	-	-	(31)
Provisions for other liabilities and charges	-	(7)	(16)	(23)
Total operating impairment losses, provisions and charges	(31)	(7)	(16)	(54)
Profit/(loss) before tax	60	176	(73)	163

31 December 2012				
Net interest income	57	21	61	139
Non-interest income/(expense)	41	402	(20)	423
Total operating income	98	423	41	562
Administration expenses	(16)	(166)	(16)	(198)
Depreciation, amortisation and impairment	-	(3)	-	(3)
Total operating expenses excluding impairment losses, provisions and charges	(16)	(169)	(16)	(201)
Impairment losses on loans and advances	(9)	-	-	(9)
Provisions for other liabilities and charges	-	(8)	(12)	(20)
Total operating impairment losses, provisions and charges	(9)	(8)	(12)	(29)
Profit before tax	73	246	13	332

COMMERCIAL BANKING

Commercial Banking provides banking services to companies with a turnover of between £250,000 and £500m per annum through our enhanced platform, distribution capability and product suite through a network of regional business centres and through telephony and e-commerce channels, and commercial real estate and Social Housing. Commercial Banking products and services include loans, bank accounts, deposits, and treasury services.

Summarised income statement

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Net interest income	**92**	74	57
Non-interest income	**36**	36	41
Total operating income	**128**	110	98
Administration expenses	**(23)**	(19)	(16)
Depreciation, amortisation and impairment	**-**	-	-
Total operating expenses excluding impairment losses, provisions and charges	**(23)**	(19)	(16)
Impairment losses on loans and advances	**(30)**	(31)	(9)
Provisions for other liabilities and charges	**-**	-	-
Total operating impairment losses, provisions and charges	**(30)**	(31)	(9)
Profit before tax	**75**	60	73

2014 compared to 2013

Profit before tax increased by £15m to £75m in 2014 (2013: £60m). By income statement line, the movements were:

> Net interest income increased by £18m to £92m in 2014 (2013: £74m) principally as a result of improved margins on customer loans due to the maturity of older loans written at lower spreads.

> Non-interest income was unchanged at £36m in 2014 (2013: £36m) with reduced volume of interest rate hedging services, driven by the continued low interest rate environment being offset by increased revenue from new business activities.

> Administration expenses increased by £4m to £23m in 2014 (2013: £19m) reflecting continued investment in the growth of the businesses supporting the larger commercial banking customers through increased relationship managers and the enhancement of product capabilities.

> Depreciation and amortisation were unchanged at £nil in 2014 (2013: £nil).

> Impairment losses on loans and advances decreased slightly by £1m to £30m in 2014 (2013: £31m). Credit quality in the loan books continued to be good, supported by the improving economic environment and our cautious lending policy.

2013 compared to 2012

Profit before tax decreased by £13m to £60m in 2013 (2012: £73m). By income statement line, the movements were:

> Net interest income increased by £17m to £74m in 2013 (2012: £57m), principally as a result of continued growth in customer loans. Net interest income also benefitted from the impact of improving new business margins.

> Non-interest income decreased by £5m to £36m in 2013 (2012: £41m) reflecting a reduced volume of interest rate hedging services, driven by the continued low interest rate environment.

> Administration expenses increased by £3m to £19m in 2013 (2012: £16m), reflecting the continued investment in the business supporting the larger commercial banking customers through increased product capabilities and systems development.

> Depreciation and amortisation were unchanged at £nil in 2013 (2012: £nil).

> Impairment losses on loans and advances increased by £22m to £31m in 2013 (2012: £9m) increased principally due to provisions in 2013 related to real estate business written before 2009 with the credit quality of business written from 2009 onwards continuing to perform well.

CORPORATE & INSTITUTIONAL BANKING

Corporate & Institutional Banking is a financial markets business focused on providing value added financial services to large corporates, with an annual turnover above £500m, and financial institutions, where they can be best serviced in terms of their more specialised and tailored product needs, and benefit from the Banco Santander group's global capability. It also serves the rest of Santander UK's business (including the Retail Banking and Commercial Banking divisions). It is structured into five main product areas: Rates, Foreign exchange and money markets, Equity, Credit and Transaction Banking. In addition, large and complex clients are covered by teams organised along industry lines. Rates covers sales and trading activity for fixed income products. Foreign exchange offers a range of foreign exchange products and money markets runs securities lending/borrowing and repo businesses. Equity covers equity derivatives, property derivatives and commodities. Equity derivatives activities include the manufacture of structured products sold to retail and corporate customers of both Santander UK and of other financial institutions who sell them on to their customers. Credit originates loan and bond transactions in primary markets as well as their intermediation in secondary markets. Transaction Banking provides lending and deposit taking and trade finance.

Summarised income statement

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Net interest income	**66**	56	21
Non-interest income	**265**	298	402
Total operating income	**331**	354	423
Administration expenses	**(194)**	(168)	(166)
Depreciation, amortisation and impairment	**(4)**	(3)	(3)
Total operating expenses excluding impairment losses	**(198)**	(171)	(169)
Impairment losses on loans and advances	**-**	-	-
Provisions for other liabilities and charges	**(9)**	(7)	(8)
Total operating impairment losses	**(9)**	(7)	(8)
Profit before tax	**124**	176	246

2014 compared to 2013

Profit before tax decreased by £52m to £124m in 2014 (2013: £176m). By income statement line, the movements were:

> Net interest income increased by £10m to £66m in 2014 (2013: £56m) driven by higher lending and the impact of new business margin improvement.

> Non-interest income decreased by £33m to £265m in 2014 (2013: £298m) principally due to a lower demand for interest rate and foreign exchange risk management products and a risk reduction strategy in the second half of the year. This was partially offset by an increase in the short-term markets activity of clients.

> Administration expenses increased by £26m to £194m in 2014 (2013: £168m), reflecting investment in developing transactional, interest rate and fixed income capabilities (including a new cash management platform, specific foreign exchange tools and infrastructure for supply chain finance), as well as the related controls, systems and processes.

> Depreciation and amortisation remained broadly stable at £4m in 2014 (2013: £3m).

> Provisions for other liabilities and charges were largely unchanged at £9m in 2014 (2013: £7m).

2013 compared to 2012

Profit before tax decreased by £70m to £176m in 2013 (2012: £246m). By income statement line, the movements were:

> Net interest income increased by £35m to £56m in 2013 (2012: £21m), principally as a result of continued growth in customer loans generated through our trade finance business (invoice discounting programmes) and credit business with large corporates and a decrease in funding costs.

> Non-interest income decreased by £104m to £298m in 2013 (2012: £402m), reflecting lower income from large corporates, notably as a result of lower demand for interest rate and foreign exchange risk management products. Furthermore, fixed income sales and money market transactions decreased reflecting reduced market activity compared to a particularly strong performance in 2012. The decrease also reflected a return to more normalised levels of market-making activity with reduced customer activity in a relatively stable, low interest rate environment. Market-making businesses (particularly in equity markets) also suffered lower levels of activity.

> Administration expenses of £168m remained broadly in line with the prior year (2012: £166m), reflecting investment in growth opportunities for large corporates and the development of interest rate and foreign exchange product capabilities offset by tight cost control and reduced variable remuneration.

> Depreciation and amortisation remained unchanged at £3m in 2013 (2012: £3m).

> Provisions for other liabilities and charges were largely unchanged at £7m in 2013 (2012: £8m).

CORPORATE CENTRE

Corporate Centre consists of Financial Management & Investor Relations ('FMIR') and the non-core portfolios of social housing loans and structured credit assets. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Santander UK group. The non-core portfolios are being run-down and/or managed for value.

Summarised income statement

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Net interest (expense)/income	**(123)**	(231)	61
Non-interest income/(expense)	**120**	179	(20)
Total operating (expense)/income	**(3)**	(52)	41
Administration expenses	**(35)**	(5)	(16)
Depreciation, amortisation and impairment	**-**	-	-
Total operating expenses excluding impairment losses, provisions and charges	**(35)**	(5)	(16)
Provisions for other liabilities and charges	**(23)**	(16)	(12)
Total operating impairment losses, provisions and charges	**(23)**	(16)	(12)
(Loss)/profit before tax	**(61)**	(73)	13

2014 compared to 2013

Loss before tax decreased by £12m to £61m (2013: £73m). By income statement line, the movements were:

> Net interest expense decreased by £108m to £123m in 2014 (2013: expense of £231m) reflecting lower funding costs on new medium term issuance.

> Non-interest income decreased by £59m to £120m in 2014 (2013: £179m) principally due to lower mark-to-market gains on certain derivatives which are only treated as hedging for Santander UK group purposes.

> Administration expenses increased by £30m to £35m in 2014 (2013: £5m) reflecting additional regulatory and other project costs borne centrally.

> Provisions for other liabilities and charges increased by £7m to £23m in 2014 (2013: £16m). The change principally reflects the increase in regulatory costs relating to the UK Bank Levy.

2013 compared to 2012

Loss before tax increased by £86m to £73m (2012: profit £13m). By income statement line, the movements were:

> Net interest expense increased by £292m to £231m in 2013 (2012: income of £61m) as a consequence of the continued low interest rate environment. This reflected the increased drag from the run-off of the structural hedge put in place in previous years.

> Non-interest income increased by £199m to income of £179m in 2013 (2012: expense of £20m) principally due to mark-to-market gains on certain derivatives, which are only treated as hedging for Santander UK group purposes. This was partially offset by the £38m credit arising from the debit valuation adjustment on derivatives written by ANTS. This debit valuation adjustment was introduced in accordance with the requirements of IFRS 13.

> Administration expenses decreased by £11m to £5m in 2013 (2012: £16m), reflecting effective cost control and reduced variable remuneration.

> Provisions for other liabilities and charges increased by £4m to £16m (2012: £12m). The charge primarily reflected provisions made in respect of the UK Bank Levy with the increase due the higher rate charged.

BALANCE SHEET REVIEW

This Financial Review describes the ANTS group's significant assets and liabilities and its strategy and reasons for entering into such transactions. Throughout this section, references to UK and non-UK, in the geographical analysis, refer to the location of the office where the transaction is recorded.

SUMMARISED CONSOLIDATED BALANCE SHEET

	2014 £m	2013 £m
Assets		
Cash and balances at central banks	**4,460**	4,911
Trading assets	**21,373**	21,897
Derivative financial instruments	**25,792**	21,550
Financial assets designated at fair value	**2,577**	2,534
Loans and advances to banks	**11,344**	113,649
Loans and advances to customers	**38,285**	41,108
Loans and receivables securities	**22**	128
Available for sale securities	**2,525**	2,962
Macro hedge of interest rate risk	**935**	379
Property, plant and equipment	**10**	6
Tax, intangibles and other assets	**146**	203
Total assets	**107,469**	209,327
Liabilities		
Deposits by banks	**17,416**	120,698
Deposits by customers	**4,523**	7,780
Trading liabilities	**15,333**	21,275
Derivative financial instruments	**26,607**	21,496
Financial liabilities designated at fair value	**2,848**	3,407
Debt securities in issue	**36,799**	30,889
Macro hedge of interest rate risk	**39**	-
Tax, other liabilities and provisions	**523**	614
Total liabilities	**104,088**	206,159
Equity		
Total shareholders' equity	**3,381**	3,168
Total equity	**3,381**	3,168
Total liabilities and equity	**107,469**	209,327

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

31 December 2014 compared to 31 December 2013

Assets

Cash and balances at central banks

Cash and balances held at central banks decreased by 9% to £4,460m at 31 December 2014 (2013: £4,911m). The decrease was due to lower cash placed with the Federal Reserve Bank of New York as part of normal liquid asset portfolio management activity.

Trading assets

Trading assets decreased by 2% to £21,373m at 31 December 2014 (2013: £21,897m) reflecting lower levels of activity relating to securities purchased under resale agreements to both banks and customers offset by increased holdings of £4,139m of equity instruments as part of short term markets trading activity.

Derivative financial instruments - assets

Derivative assets increased by 20% to £25,792m at 31 December 2014 (2013: £21,550m). The increase was mainly attributable to the increase in fair values of interest rate and cross currency derivative assets mainly driven by movements in yield curves and foreign exchange.

Financial assets designated at fair value through profit and loss

Financial assets designated at fair value slightly increased by 2% to £2,577m at 31 December 2014 (2013: £2,534m). The increase was primarily attributable to the increase in fair value of the debt securities portfolio and UK Social Housing association loans, offset by the maturity of loans to UK Social Housing associations and new loans no longer being designated at fair value, in accordance with ANTS group's policy.

Loans and advances to banks

Loans and advances to banks decreased by 90% to £11,344m at 31 December 2014 (2013: £113,649m). The decrease was due a change in the intercompany funding arrangement between ANTS plc and its immediate parent company Santander UK plc whereby only the net funding requirement of the commercial bank is passed between Santander UK plc and ANTS plc rather than the gross funding requirement as previously. The effect of this change was to reduce the intercompany balances between Santander UK plc and ANTS plc by approximately £100bn. For additional information, see Note 16 to the Consolidated Financial Statements.

Loans and advances to customers
Loans and advances to customers decreased by 7% to £38,285m at 31 December 2014 (2013: £41,108m) principally due reduced on-lending of covered bond issuances

Loans and receivables securities
Loans and receivables securities decreased by 83% to £22m at 31 December 2014 (2013: £128m). The decrease was attributable to the disposal of legacy Treasury asset portfolio.

Available for sale securities
Available for sale securities decreased by 15% to £2,525m at 31 December 2014 (2013: £2,962m) largely due to the sale and redemption of UK Government bonds as part of normal liquid asset portfolio management activity.

Macro hedge of interest rate risk
The macro (or portfolio) hedge of interest rate risk increased to £935m at 31 December 2014 (2013: £379m) mainly driven by movements in yield curves and foreign exchange movements.

Tax, intangibles and other assets
Tax, intangibles and other assets decreased by 28% to £146m at 31 December 2014 (2013: £203m) reflecting lower balances with Santander UK group companies.

Liabilities

Deposits by banks
Deposits by banks decreased by 86% to £17,416m at 31 December 2014 (2013: £120,698m). The decrease was due a change in the intercompany funding arrangement between ANTS plc and its immediate parent company Santander UK plc whereby only the net funding requirement of the commercial bank is passed between Santander UK plc and ANTS plc rather than the gross funding requirement as previously. The effect of this change was to reduce the intercompany balances between Santander UK plc and ANTS plc by approximately £100bn. For additional information, see Note 26 to the Consolidated Financial Statements.

Deposits by customers
Deposits by customers decreased by 42% to £4,523m at 31 December 2014 (2013: £7,780m). The decrease was attributable to lower levels of deposits from both third party customers and other Santander UK group companies.

Trading liabilities
Trading liabilities decreased by 28% to £15,333m at 31 December 2014 (2013: £21,275m). A decrease in securities sold under repurchase activities and the cash collateral received as part of normal trading activity were offset by an increase in short-term deposits, short positions in securities.

Derivative financial instruments - liabilities
Derivative liabilities increased by 24% to £26,607m at 31 December 2014 (2013: £21,496m). The increase was mainly attributable to the increase in fair values of interest rate and cross currency derivative liabilities mainly driven by movements in yield curves and foreign exchange.

Financial liabilities designated at fair value through profit and loss
Financial liabilities designated at fair value decreased by 16% to £2,848m at 31 December 2014 (2013: £3,407m). The decrease principally reflected reduced issuances in financial liabilities designated at fair value through profit or loss, with new issuances at amortised cost in debt securities in issue.

Debt securities in issue
Debt securities in issue increased by 19% to £36,799m at 31 December 2014 (2013: £30,889m), reflecting increased issuances in short-term funding through the Commercial Paper Programme and Certificate of Deposits, partially offset by maturities of medium term notes.

Tax, other liabilities and provisions
Tax, other liabilities and provisions decreased by 15% to £523m at 31 December 2014 (2013: £614m). The decrease principally reflected the decrease in unsettled financial transactions.

Equity

Total shareholders' equity increased by 7% to £3,381m at 31 December 2014 (2013: £3,168m). The increase was principally attributable to the valuation of cashflow hedges and retained profit for the year of £121m.

RECONCILIATION TO CLASSIFICATIONS IN THE CONSOLIDATED BALANCE SHEET

In the remaining sections of the Financial Review, the principal assets and liabilities are summarised by their nature, rather than by their classification in the Consolidated Balance Sheet. The classifications of assets and liabilities in the consolidated balance sheet, including the note reference, and in the Financial Review may be reconciled as follows:

31 December 2014

		Financial review section						
Balance sheet line item	Note	**Securities £m**	**Loans and advances to banks £m**	**Loans and advances to customers £m**	**Derivatives £m**	**Tangible fixed assets £m**	**Other £m**	**Balance sheet total £m**
Assets								
Cash and balances at central banks	12	**-**	**-**	**-**	**-**	**-**	**4,460**	**4,460**
Trading assets	13	**12,430**	**5,936**	**3,007**	**-**	**-**	**-**	**21,373**
Derivative financial instruments	14	**-**	**-**	**-**	**25,792**	**-**	**-**	**25,792**
Financial assets designated at fair value	15	**318**	**-**	**2,259**	**-**	**-**	**-**	**2,577**
Loans and advances to banks	16	**-**	**11,344**	**-**	**-**	**-**	**-**	**11,344**
Loans and advances to customers	17	**-**	**-**	**38,285**	**-**	**-**	**-**	**38,285**
Loans and receivables securities	19	**-**	**-**	**22**	**-**	**-**	**-**	**22**
Available for sale securities	20	**2,525**	**-**	**-**	**-**	**-**	**-**	**2,525**
Macro hedge of interest rate risk		**-**	**-**	**-**	**-**	**-**	**935**	**935**
Property, plant and equipment	23	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Tax, intangibles and other assets		**-**	**-**	**-**	**-**	**-**	**146**	**146**
		15,273	**17,280**	**43,573**	**25,792**	**10**	**5,541**	**107,469**

			Deposits by banks £m	**Deposits by customers £m**	**Debt securities in issue £m**	**Derivatives £m**	**Other £m**	**Balance sheet total £m**
Liabilities								
Deposits by banks	26		**17,416**	**-**	**-**	**-**	**-**	**17,416**
Deposits by customers	27		**-**	**4,523**	**-**	**-**	**-**	**4,523**
Trading liabilities	28		**7,223**	**4,899**	**3,211**	**-**	**-**	**15,333**
Derivative financial instruments	14		**-**	**-**	**-**	**26,607**	**-**	**26,607**
Financial liabilities designated at fair value	29		**-**	**-**	**2,848**	**-**	**-**	**2,848**
Debt securities in issue	30		**-**	**-**	**36,799**	**-**	**-**	**36,799**
Macro hedge of interest rate risk			**-**	**-**	**-**	**-**	**39**	**39**
Tax, other liabilities and provisions			**-**	**-**	**-**	**-**	**523**	**523**
			24,639	**9,422**	**42,858**	**26,607**	**562**	**104,088**

31 December 2013

		Financial review section						
Balance sheet line item	Note	Securities £m	Loans and advances to banks £m	Loans and advances to customers £m	Derivatives £m	Tangible fixed assets £m	Other £m	Balance sheet total £m
Assets								
Cash and balances at central banks	12	-	-	-	-	-	4,911	4,911
Trading assets	13	8,169	9,326	4,402	-	-	-	21,897
Derivative financial instruments	14	-	-	-	21,550	-	-	21,550
Financial assets designated at fair value	15	316	-	2,218	-	-	-	2,534
Loans and advances to banks	16	-	113,649	-	-	-	-	113,649
Loans and advances to customers	17	-	-	41,108	-	-	-	41,108
Loans and receivables securities	19	-	-	128	-	-	-	128
Available for sale securities	20	2,962	-	-	-	-	-	2,962
Macro hedge of interest rate risk		-	-	-	-	-	379	379
Property, plant and equipment	23	-	-	-	-	6	-	6
Tax, intangibles and other assets		-	-	-	-	-	203	203
		11,447	122,975	47,856	21,550	6	5,493	209,327

			Deposits by banks £m	Deposits by customers £m	Debt securities in issue £m	Derivatives £m	Other £m	Balance sheet total £m
Liabilities								
Deposits by banks	26		120,698	-	-	-	-	120,698
Deposits by customers	27		-	7,780	-	-	-	7,780
Trading liabilities	28		11,289	7,069	2,917	-	-	21,275
Derivative financial instruments	14		-	-	-	21,496	-	21,496
Financial liabilities designated at fair value	29		-	-	3,407	-	-	3,407
Debt securities in issue	30		-	-	30,889	-	-	30,889
Tax, other liabilities and provisions			-	-	-	-	614	614
			131,987	14,849	37,213	21,496	614	206,159

SECURITIES

The ANTS group's holdings of securities only represent a small proportion of its total assets. ANTS holds securities principally in its trading portfolio or classified as available-for-sale.

Securities analysis by type of issuer

The following table sets out the book and market values of securities at 31 December 2014, 2013 and 2012. For further information, see the Notes to the Consolidated Financial Statements.

	2014 £m	2013 £m	2012 £m
Trading portfolio			
Debt securities:			
UK Government	**905**	989	1,817
US Treasury and other US Government agencies and corporations	**309**	399	31
Other OECD governments	**5,788**	5,243	2,069
Bank and building society:			
- Certificates of deposit and bonds	**-**	-	13
Other issuers:			
- Fixed and floating rate notes – Government guaranteed	**979**	1,081	426
- Fixed and floating rate notes - Other	**-**	147	138
Ordinary shares and similar securities	**4,449**	310	464
	12,430	8,169	4,958
Available for sale securities			
Debt securities:			
UK Government	**2,445**	2,664	3,844
US Treasury and other US Government agencies and corporations	**-**	-	363
Other OECD governments	**-**	-	906
Banks	**80**	298	-
	2,525	2,962	5,113
Financial assets designated at fair value through profit and loss			
Debt securities:			
- Mortgage-backed securities	**226**	229	250
- Other asset-backed securities	**92**	87	78
	318	316	328
	15,273	11,447	10,399

UK Government

UK Government securities represent Treasury Bills and UK Government guaranteed issues by other UK banks. These securities are held for trading and liquidity purposes. For further information, see 'Country Risk Exposure' in the Risk Review.

US Treasury and other US Government agencies and corporations

US Treasury and other US Government agencies' and corporations' securities represent US Treasury Bills, including cash management bills. These securities are held for trading and liquidity purposes. For further information, see 'Country Risk Exposure' in the Risk Review.

Other OECD governments

Other OECD government securities represent issues by OECD governments, other than the US and UK Governments, principally Japan, Italy and Switzerland (2013: principally Japan, Italy and Switzerland). These securities are held for trading and liquidity management purposes. For further information, see 'Country Risk Exposure' in the Risk Review.

Bank and building society certificates of deposit and bonds

Bank bonds represent fixed securities with short to medium-term maturities issued by banks. These were managed within the overall position for the relevant book. These securities were held for liquidity purposes.

Fixed and floating rate notes

Fixed and floating rate notes have regular interest rate profiles and are either managed within the overall position for the relevant book or are hedged into one of the main currencies. These securities are held for trading and yield purposes. For further information on Government-guaranteed fixed and floating rate notes, see 'Country Risk Exposure' in the Risk Review.

Mortgage-backed securities

This category principally comprises UK residential mortgage-backed securities. These securities are of good quality and contain no sub-prime element. These securities are held as part of the FMIR portfolio. See Note 15 to the Consolidated Financial Statements.

Other asset-backed securities

This category principally comprises a range of mostly floating-rate asset-backed securities. See Note 15 to the Consolidated Financial Statements.

Contractual maturities of securities

Contractual maturities for available-for-sale debt securities and contractual maturities of investments held for trading or classified as fair value through profit or loss are set out in Notes 20 and 40 to the Consolidated Financial Statements, respectively.

Significant exposures

The following table sets forth the book value (which equals market value) of securities of individual counterparties where the aggregate amount of those securities exceeded 10% of the ANTS group's shareholders' funds at 31 December 2014 as set out in the Consolidated Balance Sheet. The table also sets forth the classification of the securities in the Consolidated Balance Sheet.

	Trading assets £m	Available-for-sale assets £m	Total £m
UK Government and UK Government guaranteed	**1,884**	**2,445**	**4,329**
Japanese Government	**3,783**	**-**	**3,783**

LOANS AND ADVANCES TO BANKS

Loans and advances to banks principally comprise loans to Santander UK plc, but also include loans to banks and building societies and balances with central banks (excluding those central bank balances which can be withdrawn on demand).

Loans and advances to banks geographical analysis

The geographical analysis of loans and advances presented in the following table is based on the location of the office from which the loans and advances are made, rather than the domicile of the borrower. The balances below include loans and advances to banks that are classified in the balance sheet as trading assets, financial assets designated at fair value, or loans and receivables securities.

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
UK	**12,186**	118,728	115,044	118,176	153,030
Non-UK	**5,094**	4,247	1,930	1,402	1,661
	17,280	122,975	116,974	119,578	154,691

Further geographical analysis of loans and advances to banks based on the country of domicile of the borrower rather than the office of lending is contained in 'Country Risk Exposure' in the Risk Review, including details of balances with other Santander UK group companies and other Banco Santander group companies.

Loans and advances to banks maturity analysis

The following table sets forth loans and advances to banks by maturity at 31 December 2014.

	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years but not more than ten years £m	In more than ten years £m	Total £m
UK	**10,064**	**786**	**450**	**270**	**330**	**286**	**12,186**
Non-UK	**2,808**	**2,286**	**-**	**-**	**-**	**-**	**5,094**
	12,872	**3,072**	**450**	**270**	**330**	**286**	**17,280**
Of which:							
– Fixed interest rate	**7,764**	**3,072**	**450**	**270**	**330**	**286**	**12,172**
– Variable interest rate	**5,108**	**-**	**-**	**-**	**-**	**-**	**5,108**
	12,872	**3,072**	**450**	**270**	**330**	**286**	**17,280**

LOANS AND ADVANCES TO CUSTOMERS

ANTS provides lending facilities primarily to corporate customers and to the wider Santander UK group. Purchase and resale agreements represent sale and repurchase activity with professional non-bank customers by the short term markets business.

Loans and advances to customers geographical analysis

The geographical analysis of loans and advances presented in the following table is based on the location of the office from which the loans and advances are made. Further geographical analysis of loans and advances to customers based on the country of domicile of the borrower rather than the office of lending is contained in 'Country Risk Exposure' in the Risk Review, including details of balances with other Banco Santander group companies.

The balances below are stated before the deduction for impairment loss allowances and include loans and advances to customers that are classified in the balance sheet as trading assets, financial assets designated at fair value, or loans and receivables securities.

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
UK					
Corporate loans	**15,487**	15,655	15,476	15,170	13,129
Other secured advances	**-**	21	-	-	-
Other unsecured advances	**807**	161	64	349	7
Purchase and resale agreements	**1,387**	4,210	2,512	6,150	8,634
Loans and receivables securities	**4**	3	162	66	79
Amounts due from Banco Santander group undertakings	**66**	153	5	5	8
Amounts due from Santander UK group undertakings	**24,917**	27,560	32,584	27,831	26,942
Total UK	**42,668**	47,763	50,803	49,571	48,799
Non-UK					
Other unsecured advances	**-**	31	25	-	-
Purchase and resale agreements	**963**	-	4,951	188	18
Loans and receivable securities	**18**	125	-	-	-
Total non-UK	**981**	156	4,976	188	18
Total	**43,649**	47,919	55,779	49,759	48,817
Less: impairment loss allowances	**(76)**	(63)	(112)	(130)	(108)
Total, net of impairment loss allowances	**43,573**	47,856	55,667	49,629	48,709

Detailed analysis of the loans and receivables securities included in the table above is set out in Note 19 to the Consolidated Financial Statements. Further analysis of the impairment loss allowance is set out in Note 17 to the Consolidated Financial Statements.

No single concentration of loans and advances, with the exception of corporate loans and amounts due from Santander UK group undertakings as disclosed in the table above, accounts for more than 10% of total loans and advances and no individual country, other than the UK accounts for more than 5% of total loans and advances.

Loans and advances to customers maturity analysis

The following table sets out loans and advances to customers by maturity at 31 December 2014. Overdrafts are included in the 'on-demand' category. Loans and advances are included at their contractual maturity; no account is taken of a customer's ability to repay early where it exists.

	On demand £m	**In not more than three months £m**	**In more than three months but not more than one year £m**	**In more than one year but not more than five years £m**	**In more than five years but not more than ten years £m**	**In more than ten years £m**	**Total £m**
UK							
Corporate loans	**5**	**227**	**716**	**5,827**	**1,439**	**7,273**	**15,487**
Other unsecured advances	**599**	**197**	**11**	**-**	**-**	**-**	**807**
Purchase and resale agreements	**-**	**1,007**	**230**	**150**	**-**	**-**	**1,387**
Loans and receivables securities	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Amounts due from Banco Santander group undertakings	**-**	**-**	**-**	**52**	**14**	**-**	**66**
Amounts due from Santander UK group undertakings	**-**	**2,626**	**3,845**	**9,815**	**8,631**	**-**	**24,917**
Total UK	**604**	**4,057**	**4,802**	**15,844**	**10,084**	**7,277**	**42,668**
Non-UK							
Purchase and resale agreements	**-**	**963**	**-**	**-**	**-**	**-**	**963**
Loans and receivables securities	**-**	**-**	**-**	**-**	**-**	**18**	**18**
Total non-UK	**-**	**963**	**-**	**-**	**-**	**18**	**981**
Total	**604**	**5,020**	**4,802**	**15,844**	**10,084**	**7,295**	**43,649**
Of which:							
– Fixed interest rate	**603**	**2,197**	**3,056**	**7,862**	**9,181**	**4,585**	**27,484**
– Variable interest rate	**1**	**2,823**	**1,746**	**7,982**	**903**	**2,710**	**16,165**
	604	**5,020**	**4,802**	**15,844**	**10,084**	**7,295**	**43,649**

The ANTS group's policy is to hedge all fixed-rate loans and advances to customers using derivative instruments, or by matching with other on-balance sheet interest rate exposures.

The balance sheet is managed on a behavioural basis, rather than on the basis of contractual maturity, with many loans being prepaid prior to their legal maturity.

Impairment loss allowances on loans and advances to customers

Details of the ANTS group's impairment loss allowances policy are set out in Note 1 to the Consolidated Financial Statements. An analysis of impairment loss allowances on loans and advances to customers, including movements in impairment loss allowances, is set out in Note 17 to the Consolidated Financial Statements.

DERIVATIVE ASSETS AND LIABILITIES

	2014 £m	2013 £m	2012 £m
Assets			
- held for trading	**25,133**	20,910	32,873
- held for hedging	**659**	640	403
	25,792	21,550	33,276
Liabilities			
- held for trading	**25,046**	20,285	32,493
- held for hedging	**1,561**	1,211	1,595
	26,607	21,496	34,088

Derivatives are held for trading or for risk management purposes. All derivatives are classified as held at fair value through profit or loss. For accounting purposes, ANTS chooses to designate certain derivatives in a hedging relationship if they meet specific criteria. The main hedging derivatives are interest rate and cross-currency swaps, which are used to hedge fixed-rate lending and structured savings products and medium-term note issuances, capital issuances and other capital markets funding.

Commercial Banking and Corporate & Institutional Banking deal with commercial customers who wish to enter into derivative contracts. Any market risk arising from such transactions is hedged by Corporate & Institutional Banking. Corporate & Institutional Banking is responsible for implementing ANTS group derivative hedging with the external market together with its own trading activities. Further detail on market risk is set out in the Risk Review. A summary of the ANTS group's derivative activities, the related risks associated with such activities and the types of hedging derivatives used in managing such risks, as well as notional amounts and assets and liabilities analysed by contract type are contained in Note 14 of the Consolidated Financial Statements.

TANGIBLE FIXED ASSETS

	2014 £m	2013 £m	2012 £m
Property, plant and equipment	**10**	6	6
Capital expenditure incurred during the year	**7**	3	4

Details of capital expenditure contracted but not provided for in respect of tangible fixed assets are set out in Note 23 to the Consolidated Financial Statements. The ANTS group had no property interests at 31 December 2014 (2013: none).

At 31 December 2014, the ANTS group operated from two principal Santander UK sites including its headquarters (2013: two). They are used for its significant business operations, including Technology and Operations; People and Talent; Commercial Banking; Corporate & Institutional Banking; Finance; Compliance; Marketing; and IT operations including Data Centres.

Management believes its existing properties and those under construction, together with those it leases, are adequate and suitable for its business as presently conducted and to meet future business needs. All properties are adequately maintained.

DEPOSITS BY BANKS[1]

The balances below include deposits by banks that are classified in the balance sheet as trading liabilities and financial liabilities designated at fair value.

	2014 £m	2013 £m	2012 £m
Year-end balance	**24,639**	131,987	124,277
Average balance[1]	**117,065**	131,402	141,318
Average interest rate[1]	**1.27%**	1.31%	1.83%

(1) Calculated using monthly data.

At 31 December 2014, deposits by foreign banks amounted to £1,708m (2013: £12,756m, 2012: £9,232m).

The following tables set forth the average balances of deposits by banks by geography.

	Average: year ended 31 December		
	2014 £m	2013 £m	2012 £m
UK	**116,933**	131,314	141,171
Non-UK	**132**	88	147
	117,065	131,402	141,318

DEPOSITS BY CUSTOMERS

The balances below include deposits by customers that are classified in the balance sheet as trading liabilities and financial liabilities designated at fair value.

	2014 £m	2013 £m	2012 £m
Year-end balance	**9,422**	14,849	13,497
Average balance[1]	**9,948**	11,235	16,720
Average interest rate[1]	**0.63%**	1.19%	1.38%

(1) Calculated using monthly data.

The following tables set forth the average balances of deposits by geography and customer type.

	Average: year ended 31 December		
	2014 £m	2013 £m	2012 £m
UK			
Wholesale deposits	**6,875**	8,035	15,492
	6,875	8,035	15,492
Non-UK			
Wholesale deposits	**3,073**	3,200	1,228
	3,073	3,200	1,228
	9,948	11,235	16,720

Wholesale deposits are those which either are obtained through the money markets or for which interest rates are quoted on request rather than being publicly advertised. These deposits are of fixed maturity and bear interest rates that reflect the inter-bank money market rates.

SHORT-TERM BORROWINGS

ANTS includes short-term borrowings within deposits by banks, trading liabilities, financial liabilities designated at fair value and debt securities in issue and does not show short-term borrowings separately on the balance sheet. Short-term borrowings are defined by the US Securities and Exchange Commission (the 'SEC') as amounts payable for short-term obligations that are US Federal funds purchased and securities sold under repurchase agreements, commercial paper, borrowings from banks, borrowings from factors or other financial institutions and any other short-term borrowings reflected on the ANTS group's balance sheet. The ANTS group's only significant short-term borrowings are securities sold under repurchase agreements, commercial paper, borrowings from banks, negotiable certificates of deposit, and certain other debt securities in issue. Additional information on short-term borrowings is provided in the table below for each of the years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
Securities sold under repurchase agreements			
- Year-end balance	**9,418**	14,172	23,433
- Year-end interest rate	**0.35%**	0.45%	0.38%
- Average balance[1]	**16,661**	19,560	29,486
- Average interest rate[1]	**0.34%**	0.55%	0.38%
- Maximum balance[1]	**21,756**	24,810	37,621
Commercial paper			
- Year-end balance	**4,364**	3,996	3,697
- Year-end interest rate	**0.24%**	0.27%	0.37%
- Average balance[1]	**4,404**	4,453	3,742
- Average interest rate[1]	**0.29%**	0.28%	0.61%
- Maximum balance[1]	**5,412**	5,291	3,921
Borrowings from banks (Deposits by banks)			
- Year-end balance	**927**	499	256
- Year-end interest rate	**1.84%**	0.05%	0.54%
- Average balance[1]	**628**	521	513
- Average interest rate[1]	**1.19%**	0.01%	1.44%
- Maximum balance[1]	**1,649**	1,149	2,262
Negotiable certificates of deposit			
- Year-end balance	**3,806**	2,646	4,499
- Year-end interest rate	**0.36%**	0.41 %	0.61%
- Average balance[1]	**4,044**	2,529	2,208
- Average interest rate[1]	**0.39%**	1.51%	1.39%
- Maximum balance[1]	**5,142**	3,173	4,499
Other debt securities in issue			
- Year-end balance	**4,333**	5,392	2,305
- Year-end interest rate	**2.52%**	3.39%	2.46%
- Average balance[1]	**4,769**	4,728	4,757
- Average interest rate[1]	**2.90%**	3.10%	2.54%
- Maximum balance[1]	**5,938**	6,824	5,619

(1) Calculated using monthly data.

Commercial paper is issued by ANTS and Abbey National North America LLC. Abbey National Treasury Services plc issues commercial paper with a minimum issuance amount of Euro 100,000 with a maximum maturity of 364 days. Abbey National North America LLC, a subsidiary of ANTS issues commercial paper with minimum denominations of US$100,000 with maturity of up to 270 days from the date of issue.

Certificates of deposit and certain time deposits

The following table sets forth the maturities of the ANTS group's certificates of deposit and other large wholesale time deposits from non-bank counterparties in excess of £50,000 (or the non-sterling equivalent of £50,000) at 31 December 2014.

Furthermore, the customers may withdraw their funds on demand upon payment of an interest penalty. For these reasons, no maturity analysis is presented for such deposits.

	Not more than three months £m	**In more than three months but not more than six months £m**	**In more than six months but not more than one year £m**	**In more than one year £m**	**Total £m**
Certificates of deposit:					
- UK	**1,683**	**583**	**277**	**-**	**2,543**
- Non-UK	**1,197**	**33**	**33**	**204**	**1,467**
Wholesale time deposits:					
- UK	**639**	**30**	**99**	**101**	**869**
	3,519	**646**	**409**	**305**	**4,879**

At 31 December 2014, an additional £nil (2013: £14m) of wholesale deposits were repayable on demand.

DEBT SECURITIES IN ISSUE

ANTS has issued debt securities in a range of maturities, interest rate structures and currencies, for purposes of meeting liquidity, funding and capital needs.

	Note	**2014 £m**	2013 £m	2012 £m
Trading liabilities	28	**3,211**	2,917	4,119
Financial liabilities designated at fair value	29	**2,848**	3,407	4,002
Debt securities in issue	30	**36,799**	30,889	33,770
		42,858	37,213	41,891

Most of the debt securities that ANTS has issued are classified as 'Debt securities in issue' in the balance sheet. The remaining debt securities issued by ANTS are classified separately in the balance sheet, either because they qualify as 'Trading liabilities' or were designated upon initial recognition as 'Financial liabilities designated at fair value'. Further information is set out in Notes 28 to 30 to the Consolidated Financial Statements.

ANTS enters into cross-currency derivatives in connection with all funding raised through the issuance of debt securities in currencies other than sterling (principally euro, US dollars and Japanese yen) which swap foreign currency liabilities back into sterling as the ANTS group's commercial balance sheet is almost entirely denominated in sterling.

CONTRACTUAL OBLIGATIONS

The amounts and maturities of contractual obligations in respect of guarantees are described in Note 34 to the Consolidated Financial Statements. Other contractual obligations, including payments of principal and interest where applicable, are set out in the table below. Interest payments are included in the maturity column of the interest payments themselves, and are calculated using current interest rates:

		Payments due by period			
	Total £m	Less than 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m
Deposits by banks [1] [2]	**24,639**	**19,255**	**4,090**	**460**	**834**
Deposits by customers - repos[1]	**4,040**	**4,040**	**-**	**-**	**-**
Deposits by customers - other[2]	**5,382**	**4,262**	**609**	**225**	**286**
Derivative financial instruments	**26,607**	**3,087**	**2,754**	**2,609**	**18,157**
Debt securities in issue[3]	**42,858**	**13,214**	**10,717**	**6,061**	**12,866**
Operating lease obligations	**72**	**8**	**16**	**16**	**32**
Purchase obligations	**31**	**31**	**-**	**-**	**-**
	103,629	**43,897**	**18,186**	**9,371**	**32,175**

(1) Securities sold under repurchase agreements.
(2) Includes deposits by banks and deposits by customers that are classified in the balance sheet as trading liabilities.
(3) Includes debt securities in issue that are classified in the balance sheet as trading liabilities and financial liabilities designated at fair value.

The repayment terms of the debt securities may be accelerated in line with the covenants contained within the individual loan agreements. Details of deposits by banks and deposits by customers can be found in Notes 26 and 27 to the Consolidated Financial Statements. The ANTS group has entered into outsourcing contracts where, in some circumstances, there is no minimum specified spending requirement. In these cases, anticipated spending volumes have been included within purchase obligations.

Under current conditions, the ANTS group's working capital is expected to be sufficient for its present requirements and to pursue its planned business strategies.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2015 under a deed poll guarantee entered into by the Company on 10 May 2012. Santander UK plc has given a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 30 June 2015.

In addition, in the ordinary course of business, the ANTS group issues guarantees on behalf of customers. The significant types of guarantees are standby letters of credit which represent the taking on of credit on behalf of customers when actual funding is not required, normally because a third party is not prepared to accept the credit risk of the ANTS group's customer. These are included in the normal impairment loss allowance assessment alongside other forms of credit exposure.

In addition, the ANTS group, as is normal in such activity, gives representations, indemnities and warranties on the sale of subsidiaries, businesses and other assets. The maximum potential amount of any claims made against these is usually significantly higher than actual settlements. Provisions are made with respect to management's best estimate of the likely outcome, either at the time of sale, or subsequently if additional information becomes available.

See Note 21 to the Consolidated Financial Statements for further information regarding off-balance sheet arrangements. See Note 34 to the Consolidated Financial Statements for additional information regarding the ANTS group's guarantees, commitments and contingencies.

INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the relationship between interest rates and net interest income resulting from the periodic repricing of assets and liabilities. ANTS seeks to manage the risks associated with movements in interest rates as part of its management of the overall non-trading position. This is done within limits as described in the Risk Review.

Changes in net interest income - volume and rate analysis

The following table allocates changes in interest income, interest expense and net interest income between changes in volume and changes in rate for the years ended 31 December 2014, 2013 and 2012. Volume and rate variances have been calculated on the movement in the average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities. The variance caused by changes in both volume and rate has been allocated to rate changes.

	2014/2013			2013/2012		
	Total change	**Changes due to increase/(decrease) in**		Total change	Changes due to increase/(decrease) in	
		Volume	**Rate**		Volume	Rate
	£m	**£m**	**£m**	£m	£m	£m
Interest income						
Loans and advances to banks:						
- UK	**(54)**	**(199)**	**145**	(1,153)	(295)	(858)
- Non-UK	**8**	**10**	**(2)**	9	20	(11)
Loans and advances to customers:						
- UK	**(123)**	**(8)**	**(115)**	(32)	(115)	83
Other interest earning financial assets:						
- UK	**(8)**	**(13)**	**5**	2	2	-
- Non-UK	**(2)**	**(2)**	**-**	1	1	-
Total interest income						
- UK	**(185)**	**(220)**	**35**	(1,183)	(408)	(775)
- Non-UK	**6**	**8**	**(2)**	10	21	(11)
	(179)	**(212)**	**33**	(1,173)	(387)	(786)
Interest expense						
Deposits by banks:						
- UK	**(133)**	**(141)**	**8**	(961)	(287)	(674)
Deposits by customers – wholesale deposits:						
- UK	**(58)**	**(17)**	**(41)**	31	(14)	45
- Non-UK	**-**	**1**	**(1)**	1	-	1
Debt securities in issue:						
- UK	**(118)**	**162**	**(280)**	4	(103)	107
- Non UK	**(6)**	**1**	**(7)**	(8)	12	(20)
Total interest expense						
- UK	**(309)**	**4**	**(313)**	(926)	(404)	(522)
- Non-UK	**(6)**	**2**	**(8)**	(7)	12	(19)
	(315)	**6**	**(321)**	(933)	(392)	(541)
Net interest income	**136**	**(218)**	**354**	(240)	5	(245)

AVERAGE BALANCE SHEET

As year-end statements may not be representative of activity throughout the year, average balance sheets are presented below. The average balance sheets summarise the significant categories of assets and liabilities, together with average interest rates.

	2014			2013			2012		
	Average Balance[1] £m	**Interest[4] [5] £m**	**Average rate %**	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Assets									
Loans and advances to banks:									
- UK	**92,372**	**1,513**	**1.64**	105,816	1,567	1.48	118,670	2,720	2.29
- Non-UK	**12,234**	**29**	**0.24**	8,382	21	0.25	3,113	12	0.39
Loans and advances to customers:[3]									
- UK	**39,454**	**944**	**2.39**	39,738	1,067	2.70	44,368	1,099	2.48
Other interest-earning financial assets									
- UK	**2,653**	**32**	**1.21**	3,955	40	1.01	3,760	38	1.01
- Non UK	**-**	**-**	**-**	166	2	1.20	92	1	1.09
Total average interest-earning assets, interest income[2]	**146,713**	**2,518**	**1.72**	158,057	2,697	1.71	170,003	3,870	2.28
Impairment loss allowances	**(54)**	**-**	**-**	(105)	-	-	(142)	-	-
Trading business	**18,233**	**-**	**-**	25,032	-	-	26,444	-	-
Assets designated at FVTPL	**2,573**	**-**	**-**	2,888	-	-	4,152	-	-
Other non-interest-earning assets	**30,214**	**-**	**-**	33,955	-	-	39,971	-	-
Total average assets	**197,679**	**-**	**-**	219,827	-	-	240,428	-	-
Non-UK assets as a % of total	**6.19%**	**-**	**-**	3.89%	-	-	1.33%	-	-
Liabilities									
Deposits by banks:									
- UK	**(102,617)**	**(1,365)**	**1.33**	(113,290)	(1,498)	1.32	(128,254)	(2,459)	1.92
- Non-UK	**(73)**	**-**	**-**	(14)	-	-	(90)	-	-
Deposits by customers – wholesale:									
- UK	**(4,559)**	**(41)**	**0.90**	(5,492)	(99)	1.80	(6,879)	(68)	0.99
- Non-UK	**(1,141)**	**(1)**	**0.13**	(628)	(1)	0.16	(68)	-	-
Bonds and medium-term notes:									
- UK	**(29,676)**	**(1,065)**	**3.59**	(26,097)	(1,183)	4.53	(28,605)	(1,179)	4.12
- Non-UK	**(4,730)**	**(11)**	**0.23**	(4,512)	(17)	0.38	(3,043)	(25)	0.82
Dated and undated loan capital and other subordinated liabilities:									
- UK	**-**	**-**	**-**	-	-	-	-	-	-
Total average interest-bearing liabilities, interest expense[2]	**(142,796)**	**(2,483)**	**1.74**	(150,033)	(2,798)	1.86	(166,939)	(3,731)	2.23
Trading business	**(23,262)**	**-**	**-**	(30,343)	-	-	(27,947)	-	-
Liabilities designated at FVTPL	**(3,556)**	**-**	**-**	(4,997)	-	-	(5,152)	-	-
Non-interest-bearing liabilities:					-	-		-	-
- Other	**(24,759)**	**-**	**-**	(30,541)	-	-	(36,654)	-	-
- Shareholders' funds	**(3,306)**	**-**	**-**	(3,913)	-	-	(3,736)	-	-
Total average liabilities and shareholders' funds	**(197,679)**	**-**	**-**	(219,827)	-	-	(240,428)	-	-
Non-UK liabilities as a % of total	**3.01%**	**-**	**-**	2.34%	-	-	1.33%	-	-

(1) Average balances are based upon monthly data.
(2) The ratio of average interest-earning assets to interest-bearing liabilities for the year ended 31 December 2014 was 102.74% (2013: 105.35%, 2012: 101.84%).
(3) Loans and advances to customers include non-performing loans. See the 'Credit Risk' section of the Risk Review.
(4) The net interest margin for the year ended 31 December 2014 was 0.02% (2013: (0.06)%, 2012: 0.08%). Net interest margin is calculated as net interest income divided by average interest-earning assets.
(5) The interest spread for the year ended 31 December 2014 was (0.02)% (2013: (0.16)%, 2012: 0.04%). Interest spread is the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.

CASH FLOWS

	2014	2013	2012
	£m	£m	£m
Net cash (outflow)/inflow from operating activities	**(90,215)**	23,964	2,388
Net cash inflow/(outflow) from investing activities	**403**	3,196	(5,134)
Net cash inflow/(outflow) from financing activities	**5,041**	(2,652)	2,926
(Decrease)/increase in cash and cash equivalents	**(84,771)**	24,508	180

The major activities and transactions that affected the ANTS group's cash flows during 2014, 2013 and 2012 were as follows:

In 2014, the net cash outflow from operating activities of £90,215m primarily due to the revision of the legal agreements for intercompany funding arrangements between the Company and Santander UK plc as a result of which only trades that generate the actual net funding requirement are reported, as disclosed in Notes 16 and 26. The effect of this change on the ANTS group was to reduce intercompany balances in 2014, including intercompany loans that qualified as cash equivalents, thereby reducing the cash and cash equivalents balance, as well as loans and advances to banks and deposits by banks and hence cash flows from operating activities. In 2014, the net cash inflow from investing activities of £403m resulted principally from the sale and redemption of available-for-sale securities. In 2014, the net cash inflow from financing activities of £5,041m reflected new issues of loan capital of £18,929m offset by repayments of debt securities maturing in the year of £13,888m.

In 2013, the net cash inflow from operating activities of £23,964m resulted from the ANTS group's continued deleveraging process of legacy portfolios in run-off and increased deposits from other banks. In 2013, the net cash inflow from investing activities of £3,196m resulted primarily from the net proceeds of acquisitions and disposals of UK Treasury bills and the disposal of the investment in Abbey National Treasury Services Overseas Holdings Limited. In 2013, the net cash outflow from financing activities of £2,652m reflected repayments of loans capital maturing in the year of £25,467m offset by new issues of loan capital of £23,565m and payment of £750m dividends on ordinary shares. In 2013, cash and cash equivalents increased by £16,390m principally from continued de-leveraging process of legacy portfolios in run-off.

In 2012, the net cash inflow from operating activities of £2,388m resulted from the ANTS group's continued de-leveraging process of legacy portfolios in run-off, partially offset by the increase in securities held for trading. In 2012, the net cash outflow from investing activities of £5,134m resulted primarily from the acquisition of UK Treasury bills. In 2012, the net cash inflow from financing activities of £2,926m reflected new issues of loan capital of £31,314m offset by repayments of loan capital maturing in the year of £28,388m. In 2012, cash and cash equivalents increased by £180m principally from the issue of new loan capital and the continued de-leveraging process of legacy portfolios in run-off offset by the purchase of Treasury bills.

25 **Risk governance**
25 Risk Framework
31 Risk Appetite (unaudited)
32 Stress testing (unaudited)
32 Economic capital (unaudited)
33 Distribution of risk (unaudited)
34 **Credit risk**
34 - Credit risk management
42 - Credit risk review
42 - ANTS group exposure
46 - Commercial Banking
53 - Corporate & Institutional Banking
56 - Corporate Centre
58 **Market risk**
58 - Trading market risk
63 **Balance sheet management risk**
63 - Banking market risk
66 - Liquidity risk
74 - Capital risk (unaudited)
75 **Other risks**
75 - Operational risk (unaudited)
77 - Conduct risk (unaudited)
78 - Regulatory risk (unaudited)
79 - Legal risk (unaudited)
80 - Strategic risk (unaudited)
81 - Reputational risk (unaudited)
82 - Model risk (unaudited)
83 **Areas of focus and other items**
83 - Country risk exposure

This Risk review contains audited financial information, except as otherwise marked as unaudited. The audited financial information in this Risk review forms an integral part of the Consolidated Financial Statements

Following a strategic review, the segmental financial information reported to the Board (ANTS's chief operating decision maker) was revised in the fourth quarter of 2014, and prior periods restated, principally to designate two distinct main customer business segments, which reflect how we now manage and operate: Commercial Banking and Corporate & Institutional Banking, as well as Corporate Centre. The financial information in this Risk Review has been presented on this basis for all periods. See Note 2 to the Consolidated Financial Statements.

The ANTS group provides treasury, corporate and wholesale banking services to UK clients and also to the wider Santander UK group, of which ANTS is a significant part. ANTS is also the treasury support function for the Santander UK group. In this regard, ANTS's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding, capital and balance sheet management requirements. As such, ANTS is one of the main debt issuance vehicles in the Santander UK group.

ANTS contains part of a number of Santander UK's business segments. Specifically, ANTS consists of part of the Santander UK group's Commercial Banking, Corporate & Institutional Banking, and Corporate Centre business segments. Whether transactions are booked in ANTS or another Santander UK group entity reflects historical or operational reasons and does not necessarily reflect any particular business split.

Santander UK plc has given a full and unconditional guarantee in respect of the unsubordinated liabilities of ANTS incurred up to 30 June 2015. The Company has given a reciprocal guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred up to 30 June 2015. As a consequence of the reciprocal guarantee given by the Company in respect of the unsubordinated liabilities of Santander UK plc, the Company is exposed to the same risks as the Santander UK group, of which the Company and the ANTS group are part.

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

The Risk review consists of:

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

Throughout the Risk Review, except where stated otherwise, references to Santander UK should be taken to include the ANTS group (reflecting both the risks that ANTS is directly exposed to through its own activities and the risks arising elsewhere in the Santander UK group that ANTS is indirectly exposed to due to the existence of the cross guarantees described above).

RISK GOVERNANCE

As a significant financial services provider, risk is at the core of Santander UK's day-to-day activities. The understanding and control of risk on an enterprise-wide basis is critical for the effective management of the business. Santander UK aims to employ a prudent approach and advanced risk management techniques to facilitate the delivery of robust financial performance, and ultimately build sustainable value for all our stakeholders. Santander UK aims to maintain a predictable medium-low risk profile, consistent with its business model, which is key to the successful achievement of its strategic objectives.

RISK FRAMEWORK

In December 2013, the Board of Santander UK plc (the 'Santander UK Board') approved an updated Risk Framework, which was implemented and embedded during 2014. **As a subsidiary of Santander UK plc, ANTS has adopted this Risk Framework** This framework was not significantly changed from the framework set out in the 2013 Annual Report. The key components include:

> Risk definition;
> Risk culture, overriding principles and minimum standards;
> Governance, roles and responsibilities; and
> Internal control system.

Good progress has been made in implementing the Santander UK Risk Framework and embedding enterprise-wide risk management. Progress has been reviewed by Santander UK Board Risk Committee, linked to annual Risk Framework attestations which are evidence based and approved by Santander UK Executive Committee members. Risk management is becoming more effective as a result through the improved identification, assessment, management and reporting of risk.

The key changes introduced as part of this new framework included improvements to the risk definitions, including a simplification of the key risk types, and enhancements of the governance structure, including a streamlining of the lines of defence model. There was no change to the overriding principles. The main changes were:

With respect to risk definition and structure:

> The main risks types were simplified as: Credit, Trading Market, Balance Sheet Management (previously known as Structural) including Banking Market (previously known as Non-traded Market), Operational, Conduct, Regulatory and Legal; and
> The additional classification of financial / non-financial risks was removed as this was deemed as unnecessary.

With respect to governance, roles and responsibilities:

> A Risk Culture Statement was included in order to formalise standards across Santander UK; and
> The three lines of defence model was simplified.

Further updates to the Risk Framework were approved by the Santander UK Board in December 2014, and included:

> The addition of Strategic, Reputational and Model risk as risk types; and
> The rationalisation of the risk management committee structure.

Risk definition

Risk is defined as the uncertainty around Santander UK's ability to achieve its business objectives. It specifically equates to a number of risk factors that have the potential to adversely impact Santander UK's financial resources. Enterprise-wide risk ('EWR') is defined as the overall combined set of risks to the objectives of the enterprise. The main risks are:

Risk	Definition
Credit risk	The risk of financial loss arising from the default or credit quality deterioration of a customer or counterparty to which ANTS has directly provided credit, or for which it has assumed a financial obligation.
Market risk	**Trading market risk** is the risk of losses in on- and off-balance sheet trading positions, arising from movements in market prices or other external factors.
Balance sheet management risk	Balance sheet management risk comprises banking market risk, liquidity risk and capital risk. **Banking market risk** is the risk of loss of income or economic value arising from changes to interest rates in the banking book or to changes in exchange rates, where such changes would affect ANTS's net worth through an adjustment to revenues, assets, liabilities and off-balance sheet exposures in the banking book. **Liquidity risk** is the risk that ANTS, although solvent, does not have sufficient liquid financial resources available to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost. It is generally split into three types of risk: > **Funding or structural liquidity risk** is the risk that ANTS may not have sufficient liquid assets to meet the payments required at a given time due to maturity transformation. > **Contingent liquidity risk** is the risk that future events may require a larger than expected amount of liquidity i.e. the risk of not having sufficient liquid assets to meet sudden and unexpected short-term obligations. > **Market liquidity risk** is the risk that assets, held by ANTS to mitigate the risk of failing to meet its obligations as they fall due, which are normally liquid become illiquid when they are needed. **Capital risk** is the risk of Santander UK not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements and market expectations.
Operational risk	The risk of direct, or indirect, loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Conduct risk	The risk that ANTS's decisions and behaviours lead to a detriment or poor outcomes for our customers and that the Santander UK group fails to hold to and maintain high standards of market integrity.
Regulatory risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from failing to comply with applicable codes and regulatory rules.
Legal risk	The risk of an impact arising from legal deficiencies in ANTS's contracts, its failure to take appropriate measures to protect its assets, its failure to manage legal disputes appropriately or its failure to assess or implement the requirements of a change in law.
Strategic risk	The risk of not achieving the strategic business plan due to strategic decisions taken or the inability to respond to changes in the business environment.
Reputational risk	The risk of damage to the way ANTS's is perceived by the public, clients, investors, or any other interested party.
Model risk	The risk of loss arising from decisions mainly based on results of models, due to errors in the design, application or usage of such models.

Risk culture, overriding principles and minimum standards (unaudited)

Objectives

Risk culture plays a significant role in Santander UK's (including ANTS's) aim to be the best bank for our people, customers, shareholders and communities. Having a strong unified culture is critical to success and was a key focus throughout 2014 ensuring risk culture is fully embedded on an enterprise-wide basis through the emphasis on the importance of the identification, assessment, management and reporting of all risks. Risk culture is embedded into all business units through the implementation of the Santander UK Risk Framework, Risk Attestations and initiatives aligned to the Santander UK Risk Culture Statement.

The following overriding principles and minimum standards underpin the Risk Framework:

- Every business unit is accountable for the management of the risks arising from its activities;
- Risk needs to be considered as part of the governance around any and every business decision;
- All material risk exposures must be identified, assessed, managed and reported in a timely and accurate manner;
- A comprehensive internal control system must be in place to ensure that risk management and control is executed in accordance with the agreed overriding principles, minimum standards, risk appetite, policies, mandates and delegated authorities; and
- Risk needs to be included within objective setting, performance management and variable remuneration to ensure a balanced approach to risk taking at all levels and in all parts of Santander UK, including ANTS.

The Santander UK CEO, Santander UK Chief Risk Officer ('CRO') and other senior executives are responsible for promoting a corporate culture from the top, driving cultural change and increased accountability across the Santander UK group.

The Risk Culture Statement confirms that "Santander UK will only take risks that it understands and will always remain prudent in identifying, assessing, managing and reporting all risks. We actively encourage our people to take personal responsibility for doing the right thing and to challenge without fear. We ensure decisions are taken in the best interests of all our stakeholders." The Santander UK Risk Culture Statement is agreed by the Santander UK Board, communicated to, and by, line management and is reviewed annually by the Risk Division.

People, performance, remuneration and training

During 2014, a programme of initiatives was delivered to help strengthen and further embed a risk management culture aligned to the Risk Framework principles and Risk Culture Statement. This included embedding risk management competencies into the whole employee lifecycle including recruitment, performance management, training and development, and reward. We actively encourage our people to speak up and raise ideas, suggestions and issues resulting in proactive changes.

A training programme to help embed risk management across the ANTS group was delivered during 2014 highlighting personal accountability for managing risk at all levels of Santander UK (including ANTS). The strong culture of risk management and control provides the foundation for improving performance and delivering future success.

Mandatory risk management training and other online and face to face training were completed throughout the year to promote the understanding of the ANTS group's values and risk culture.

Governance, roles and responsibilities

Santander UK (including ANTS) is committed to achieving the highest standards of corporate governance in every aspect of the business, including risk management. Details of ANTS's governance arrangements, including a description of the Board, are set out in the Governance section of this Annual Report. Santander UK plc maintains a standing Board Audit Committee, Board Risk Committee, Board Remuneration Oversight Committee and Board Nomination Committee, the responsibilities of which cover the Santander UK group as a whole, including ANTS.

The growing complexity and importance of the financial services industry demands a strong risk culture. Santander UK's risk governance structure strengthens risk identification, assessment, management and reporting. To enable the Santander UK Board to achieve its objectives, it delegates authority to various committees as required and appropriate. Furthermore, a number of Board and Executive committees specifically consider risk across the Santander UK group:

The key risk responsibilities of the Santander UK Board and its Risk Committee include:

Board/Board Committee	Main risk responsibilities
The Board	> Overall responsibility for business execution and risk management. > Review and approval of the Santander UK Risk Framework and Santander UK Risk Appetite.
Board Risk Committee	> Assess, review and recommend the Risk Framework to the Santander UK Board for approval. > Advise the Santander UK Board on Santander UK's overall Risk Appetite, tolerance and strategy. > Oversee and advise the Santander UK Board on Santander UK's current risk exposures and future risk strategy. > Review the effectiveness of the risk management systems and internal controls.

The key risk responsibilities of the Santander UK Executive Level Committees include:

Executive Committees	Main risk responsibilities
Executive Committee	> Consider and approve business plans aligned with Risk Framework and Risk Appetite prior to submission to the Santander UK Board for approval. > Receive updates from CEO-level committees on key risk issues and monitor actions taken.
Executive Risk Committee	> Review Santander UK's Risk Appetite proposal prior to recommendation to the Santander UK Board Risk Committee and the Santander UK Board. > Monitor compliance with the Santander UK Risk Framework, Risk Appetite and risk policies. > Review and monitor risk exposures and approve any corrective action required.
Asset and Liability Committee	> Review liquidity risk appetite proposals. > Ensure proactive measurement and control of structural balance sheet risks, capital, funding and liquidity, in accordance with the policies, strategies and future plans set by the Santander UK Board. > Review and monitor Financial Management & Investor Relations ('FMIR') and ensure any exposures in excess of the Risk Appetite are appropriately dealt with.
Strategic Pensions Committee	> Review pension risk appetite proposals. > Approve actuarial valuations and related impacts on Santander UK's contributions, capital and funding arrangements. > Consult with the pension scheme trustees on scheme investment strategy.

In addition, risk management committees and forums ensure that effective risk control frameworks are in place and risk is managed within the Risk Appetite limits set by the Board.

Risk management

The Santander UK Board delegates full responsibility to the Santander UK CEO for the execution of business activities and the management of risk on a day-to-day basis. As the leader of the Risk Division, the Santander UK CRO provides oversight and challenge. The CRO reports to the Santander UK Board through the Santander UK Board Risk Committee, and also reports to the Santander UK CEO for operational purposes. The Chief Internal Auditor ('CIA') reports to the Santander UK Board through the Santander UK Board Audit Committee, and also reports to the Santander UK CEO for operational purposes. The CIA also has a direct reporting line to the CIA of Banco Santander, S.A..

Santander UK Chief Executive Officer

The key risk responsibilities of the CEO are to:

> Propose and execute a strategy and business plan for Santander UK and manage the risks that arise in the execution of this strategy and business plan with delegated authority from the Santander UK Board for this purpose.
> Ensure that an appropriate system of risk management controls is in place and report to the Santander UK Board on the management of risk.
> Promote a corporate culture ensuring ethical practices and social responsibility are fostered, and that the policies and corporate values approved by the Santander UK Board are effectively communicated throughout Santander UK.

Santander UK Chief Risk Officer
The key risk responsibilities of the CRO are to:

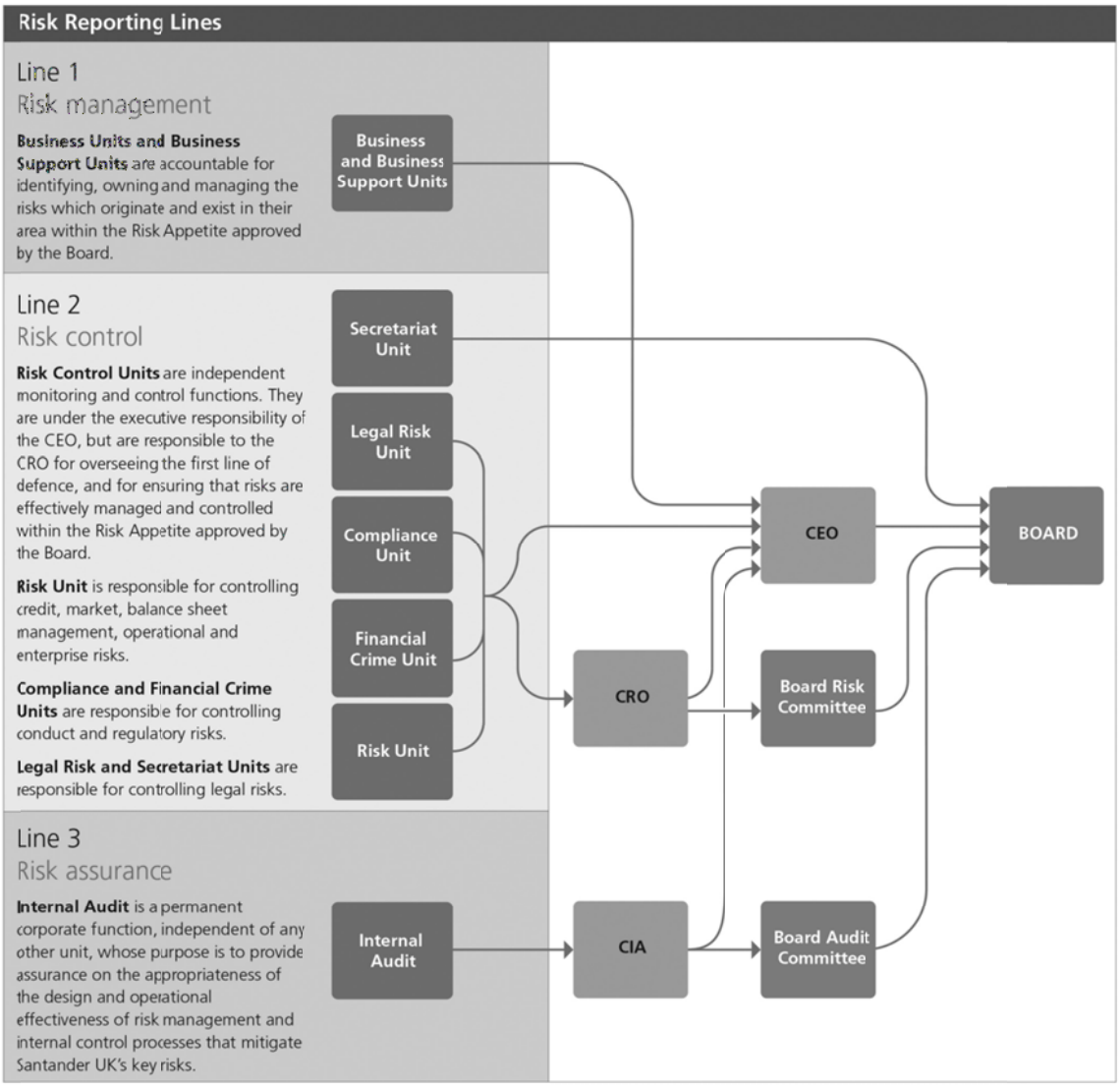
- Propose to the Santander UK Board, via the Santander UK Board Risk Committee, a Risk Framework which sets out how the risks arising from Santander UK's activities are managed within the Santander UK Board-approved Risk Appetite.
- Provide advice to the CEO, the Santander UK Board Risk Committee and Santander UK Board on the Risk Appetite associated with the strategic business plan and on its appropriateness.
- Provide assurance to the Santander UK Board and external regulators that Santander UK's material risks are appropriately identified, assessed, measured and reported and that the systems, controls and delegated authorities for the management of these risks are adequate and effective.
- Provide an assessment on key risks to the Santander UK CEO, Santander UK Board Risk Committee, Santander UK Board and Santander UK's regulators on how risk is being managed, and escalate issues and breaches of appetite as necessary.

Santander UK Chief Internal Auditor
The main responsibilities of the CIA are to:

- Ensure that every significant activity and entity is within the scope of Internal Audit.
- Design and implement a suitable audit methodology that identifies key risks and evaluates controls.
- Develop an audit plan based on evaluation of existing risks and deliver it through issuing of audit and other assurance and monitoring reports.
- Undertake all audits, special reviews, reports and commissions requested by the Santander UK Board Audit Committee.
- Undertake regular business monitoring through engagement with internal control functions and external audit.
- Develop and implement an internal auditor training plan with regular skills assessment.

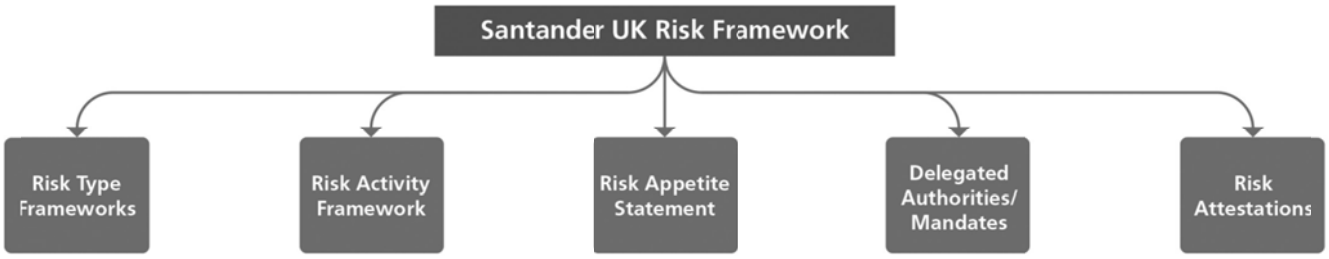
Risk organisational structure

The three lines of defence is an industry-wide model for the management of risk, understood as a clear set of principles by which to implement a cohesive operating model across an organisation. The reporting lines with respect to the management of risk are set out below:



Internal control system

The Santander UK Risk Framework provides an overarching view of the internal control system which supports the management of risk on an enterprise-wide basis across Santander UK. It sets out at a high level the overriding guiding principles, the minimum standards, the roles and responsibilities and the governance for internal control. The internal control system is split into the following categories:



Category	Description
Risk Frameworks	Set out how risk should be managed and controlled for: > The Santander UK group (overall framework); > Key risks (risk type frameworks); and > Key risk activities (risk activity frameworks).
Risk Appetite Statement	Defines the type and the level of risk that the Santander UK group is willing and able to accept in pursuit of its strategic objectives as expressed in business plans. Policies set out what action must (or must not) be taken to ensure the Santander UK group remains within agreed Risk Appetite. Overarching policies are set by Risk Control Units. Business and Business Support Units have operational policies, standards and procedures in place which align with and support the implementation of these overarching policies.
Delegated Authorities / Mandates	Define who can do what under the authority delegated to the Santander UK CEO by the Santander UK Board.
Risk Attestations	Set out how risks have been managed and/or controlled in line with the requirements set out in the risk frameworks and within the agreed Risk Appetite, noting any remedial action required of the Business Units, Business Support Units or Risk Control Unit. These are fundamental processes designed to enforce personal accountability.

RISK APPETITE (unaudited)

The Santander UK Risk Appetite defines the type and the level of risk that Santander UK (including ANTS) is willing and able to accept in pursuit of its strategic objectives. The Santander UK Risk Appetite is set on an enterprise-wide basis and is closely linked with the strategy of Santander UK. The strategy must be achievable within the agreed boundaries determined by the Risk Appetite.

The Santander UK Risk Appetite is expressed through the principles, metrics, and qualitative statements contained within our Risk Appetite Statement.

Principles

The principles that govern the Santander UK Risk Appetite Statement, which are based on Santander UK's strategic objectives and the Risk Framework, require that Santander UK (including ANTS) should maintain:

> A strong foundation of financial resources, capable of successfully withstanding severe but plausible stressed conditions.
> A risk profile that delivers predictable income and loss volatility, on an enterprise-wide basis across all business lines and risks.
> Stability in earnings and disbursements, commensurate with the desired level of return.
> Strong capital and liquidity ratios as an autonomous subsidiary.
> A funding strategy that avoids excessive reliance on wholesale funding, and provides effective diversification in sources and tenor.
> Control over large concentrations to single obligors and industry sectors.
> A risk-averse approach to Operational, Conduct, Regulatory and Legal risk.
> Compliance with, and exceed, all regulatory requirements.
> Remuneration and incentive schemes that support the wider risk management principles and Risk Culture Statements.
> The trust of its people, customers, shareholders and communities.

Primary metrics

These metrics are the primary articulation of the Santander UK Risk Appetite. Limits are set covering losses, capital adequacy and liquidity under stress conditions. The scope of the limits for losses covers all appropriate key risk types including credit risk, market risk, operational risk and conduct risk. Capital limits consider both regulatory and economic capital, whilst liquidity risk appetite is set with reference to the current most plausible stress scenario.

Complementary metrics

The main objective of these metrics is to control risk concentrations. Their scope includes limits around large and single-name exposures, products, sectors, sovereigns and certain geographical regions.

Qualitative statements

For aspects of risk that do not lend themselves to expression through metrics, qualitative statements are employed. For example, in the case of conduct risk, qualitative statements express our risk appetite around products, sales, after sales servicing and culture. Statements are also used to cover specific exclusions and restrictions in respect of certain sectors, types of customer and business activities.

The Santander UK Board approves and oversees the annual formulation of the Santander UK Risk Appetite Statement, ensuring that it continues to be consistent with our strategy, and reflective of the markets in which we operate.

It is the responsibility of executive management to ensure the risk profile of Santander UK (including ANTS), reflected in the annual budget and business plan, remains consistent with the Santander UK Risk Appetite Statement. Monthly monitoring is undertaken to support this. In addition, at least semi-annually, the performance of the business plan against the Santander UK Risk Appetite under stressed conditions is assessed to detect any adverse trends or inconsistencies.

After the Santander UK Risk Appetite has been set, it is cascaded down to business unit or portfolio level as appropriate ensuring enterprise-wide coverage. To help ensure the Santander UK Risk Appetite is properly communicated and embedded, lower level limits and thresholds are set at a business unit or portfolio level, which are linked to the Santander UK Risk Appetite Statement. For risk types where the Santander UK Risk Appetite is expressed through qualitative statements, appropriate lower level Key Risk Indicators are used, so that performance against the statements can also be monitored and reported.

STRESS TESTING (unaudited)

Santander UK (including ANTS) uses stress testing as a risk management tool in order to improve business planning and enterprise-wide risk management. The main objective of stress testing is to enhance senior management's understanding of the sensitivity of Santander UK's business plan, earnings and risk profile to stressed conditions.

Governance

Santander UK's Stress Testing Framework has been designed to ensure that stress testing has enterprise-wide coverage and is an integral part of:

> Risk identification, assessment, management and reporting

> Business and capital planning;

> Risk Appetite;

> Liquidity and contingency planning; and

> Compliance with prevailing regulatory requirements.

Various governance committees are involved in the review and challenge of stress testing. The Board considers stress testing outputs during the approval processes for the ICAAP, the ILAA and the Santander UK Risk Appetite. It is supported by the Santander UK Board Risk Committee which approves the Stress Testing Framework and the annual programme of stress testing to be conducted. The Santander UK Executive Risk Committee is responsible for ensuring the integrity of the stress testing approaches, processes and results as well as the overall adherence to the Stress Testing Framework.

For more details on capital and liquidity stress testing, see the 'Capital risk' and 'Liquidity risk' sections of the Risk review.

Scenarios

Santander UK regularly develops forward-looking hypothetical stress scenarios. These consider a broad range of potential outcomes, exploring both the key vulnerabilities of Santander UK's business model, as well as external economic shocks. The scenario design and selection process engages a broad range of internal stakeholders, including Santander UK Board members. In addition to a descriptive narrative, the scenarios are defined using projections for key economic variables such as GDP, house price indices, unemployment and interest rates. The range of scenarios features diverse severities and time horizons of typically between three and five years. For example, one scenario considers an economic recession in which GDP suffers an overall contraction of approximately 4% with unemployment reaching rates as high as 12% and housing prices falling by up to 35% from their peak level.

Models, approaches and assumptions

A range of quantitative models, approaches and assumptions are used to estimate forecasted stressed results. These include the linkages between underlying economic factors and stressed risk parameters, as well as those for the balance sheet and income statement. Where stress testing models are deemed material they are subject to a formal review, independent validation and approval process. The key weaknesses and associated assumptions of the models are highlighted during the approval process for the stress test in question. In some cases, the results generated by the stress testing models will be supplemented with expert management judgement. Where this is material to the outcome of the stress test, it is subject to review by the approving governance committee.

A multi-layered approach to stress testing has been designed in order to capture risks at various levels; this extends from sensitivity analyses of a single risk factor to an individual portfolio, through to comprehensive exercises that cover all risk types across the entire business. Stress testing outputs form the basis for designing appropriate action plans aimed at mitigating potentially damaging effects.

Santander UK (including ANTS) also conducts reverse stress tests. These are tests in which Santander UK is required to identify and assess scenarios that are most likely to cause the failure of its current business model. The results of the reverse stress test are reviewed and approved by senior management and ultimately by the Santander UK Board.

External stress testing exercises

Santander UK (including ANTS) also takes part in a number of external stress testing exercises. During 2014, these included the concurrent stress test of the UK banking system conducted by the PRA, as well as contributing to the stress test of Banco Santander, S.A. orchestrated by the EBA as part of their test of the resilience of banks in the EU.

ECONOMIC CAPITAL (unaudited)

The Economic Capital ('EC') model is used as an internal measure of risk to which Santander UK is exposed. It is used as a risk management tool alongside approaches such as stress testing, and complements the assessment of regulatory capital requirements. The model has been developed internally in conjunction with Banco Santander, S.A., and is regularly monitored and updated as required. It has been subject to independent validation, and formal review and approval.

The model allows for consistent assessment across various risk types, including credit risk, trading market risk, banking market risk, pension risk, operational risk and strategic risk. Critically, the model also considers portfolio concentration and diversification between businesses. The time horizon and confidence interval of the model can be adjusted to allow it to be used for a variety of risk management purposes. For example, EC is used to supplement the analysis of regulatory capital within the Santander UK ICAAP, and also to compare the risk-adjusted returns of business lines and individual transactions.

DISTRIBUTION OF RISK (unaudited)

As homogenous measures of risk, both EC and regulatory capital can be used to illustrate the distribution of risk across those risk types for which capital is considered an effective mitigant. The table below sets out the distribution of regulatory Risk Weighted Assets ('RWAs') across Santander UK at 31 December 2014 and 2013, by key risk type and by business unit.

As described on page 25, the Company is exposed to the same risks as the Santander UK group, of which the Company and the rest of the ANTS group are part.

Risk type	Santander UK 2014 %	Santander UK 2013 %
Credit risk	**87**	85
Market risk	**5**	6
Operational risk	**8**	9

Risk type	Retail Banking 2014 %	Retail Banking 2013 %	Commercial Banking 2014 %	Commercial Banking 2013 %	Corporate & Institutional Banking 2014 %	Corporate & Institutional Banking 2013 %	Corporate Centre 2014 %	Corporate Centre 2013 %
Credit risk	**47**	45	**23**	21	**14**	14	**3**	5
Market risk	**-**	-	**-**	-	**5**	6	**-**	-
Operational risk	**6**	7	**1**	1	**1**	1	**-**	-

During 2014, the relative distribution of risk across Santander UK, as measured by regulatory RWAs, was broadly unchanged. Credit risk in Retail Banking remained the largest consumer of RWAs, reflecting our balance sheet structure and business strategy.

CREDIT RISK

CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss arising from the default or credit quality deterioration of a customer or counterparty to which ANTS has directly provided credit, or for which ANTS has assumed a financial obligation.

Exposures to credit risk arise in the following businesses:

COMMERCIAL BANKING	CORPORATE & INSTITUTIONAL BANKING	CORPORATE CENTRE
> Exposures arise from loans, bank accounts, and treasury instruments. These services are provided to corporates, including UK SMEs, and commercial real estate and Social Housing.	> Exposures arise from lending and treasury products provided to large corporates, and from treasury markets activities with financial institutions.	> Exposures arise from asset and liability management of the balance sheet, as well as the non-core and legacy portfolios being run down.

The credit risk arising in each of these businesses is covered in further detail in subsequent sections. The management of credit risk is tailored according to the type of customers, who are typically classified as either standardised or non-standardised as follows:

STANDARDISED CUSTOMERS	NON-STANDARDISED CUSTOMERS
> Consist primarily of individuals and small businesses. Risk management is based on expert internal risk assessment and automated decision-making models, supported by teams of analysts specialising in this type of risk.	> Consist mostly of medium and large corporate customers and financial institutions where risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models.
> Approach applied by Commercial Banking, and Corporate Centre (for non-core portfolios).	> Approach applied by Commercial Banking, Corporate & Institutional Banking, and Corporate Centre.

APPROACH TO CREDIT RISK

Risk limit planning and setting

Risk limit planning and setting is a dynamic process involving the discussion of business proposals and the attitude to risk. This process culminates in an agreed risk limit plan, which is a comprehensive document used for the integrated management of the balance sheet and its inherent risks. All risk limit plans are monitored with management actions taken to deliver the plan, as necessary.

Risk analysis and credit rating process

Risk analysis is performed to establish the customer's ability to meet its obligations. The analysis includes a review of customer credit quality, associated operational risk, and risk-adjusted returns. To aid this analysis, ANTS uses a number of proprietary internal measurement tools including statistical models and rating systems. These are used for internal credit risk assessment and informing lending decisions, and are tailored to each risk classification.

For standardised customers, statistical models are typically employed that automatically assign a score to the proposed transaction or customer. Such scorecards typically work in conjunction with other policy rules, supported by credit references. Most decisions are automated although, in some cases, manual intervention is necessary. Risk assessment is not constrained to decisions at origination, as often scorecards exist across the customer lifecycle.

For non-standardised customers, specific proprietary rating systems are used. For many non-standardised counterparties with a global footprint, ANTS employs rating tools, co-ordinated on a global basis by the Banco Santander group. Portfolios of this nature include sovereigns, large corporates and certain financial institutions. Risk assessment involves the analysis of the customer's financial performance compared with macro-economic data, supplemented with an analyst's expert judgement. Customer ratings are reviewed at least annually and more frequently in cases where monitoring indicates this is appropriate. The rating tools are regularly reviewed.

Transaction decision-making

Having analysed a credit transaction and rated the customer, a decision is then made about whether or not to approve the transaction. This decision-making process takes account of the credit quality of the customer, the underlying risk of the transaction (and the extent of any risk mitigation such as collateral); the associated risk policy, limits and appetite; and achievement of the desired balance between risk and associated return. All decisions to approve credit transactions are made under authority delegated by the Santander UK Board. The approach to the decision-making process differs according to risk classification. For standardised customers, automated decision models are used to manage large volumes of credit transactions. In certain cases this is supplemented by the use of manual underwriting to ensure adherence to risk policy. For non-standardised customers, credit approval decisions are made under a system of delegated authorities to individuals. Larger transactions above pre-defined limits are referred to governance committees.

Risk monitoring

Monitoring is conducted at a portfolio, segment, customer and transaction level. Mitigating actions are proposed if deterioration is detected. Credit concentrations are also monitored. Concentration limits as defined by the Santander UK Risk Appetite are reviewed and approved as necessary.

For standardised customers (principally SME customers), scorecards and policies are monitored frequently, using both quantitative and qualitative key risk indicators in order to detect any variance in portfolio performance compared to forecasts. Adjustments to models and policy are made as required to bring portfolio performance back in line with expectations.

For non-standardised customers, monitoring is undertaken using a Watchlist process. There are a range of indicators that may trigger a case being added to the Watchlist, including downturn in trade, covenant breaches, major contract loss, early arrears or persistent excesses and resignation of key management. Such cases are assessed to determine the potential financial implications of these trigger events. The Watchlist uses the classifications of 'enhanced monitoring' and, for cases warranting more significant actions, 'proactive management'. Proactive management strategies can range from an agreed reduction in credit exposure to the negotiation of additional security or the cancellation of exposure. Inclusion on the Watchlist indicates that a potential impairment event has been observed but it does not automatically mean there has been a default. Cases on the Watchlist are assessed for impairment collectively, unless the debt management activity has been transferred to the Restructuring & Recoveries team, at which point impairment is assessed individually. Cases that become non-performing are no longer included on the Watchlist and are also assessed for impairment individually.

Risk measurement and control

Changes in ANTS's credit risk position are measured and controlled against budgets, limits and benchmarks. The potential future impact of any changes arising from either strategic decisions or the external operating environment is assessed to establish any mitigating action. Several metrics are used to measure and control credit risk in this regard. The key metrics for risk management purposes:

Metric	Description
Expected loss ('EL')	This metric provides an indication of the likely future costs of credit risk and is the product of the probability of default ('PD'), the exposure at default ('EAD') and the loss given default ('LGD'), all of which are parameters based on internal risk models and the CRD IV assessment of customers or transactions that constitutes a judgement of their credit quality: > PD is calculated by observing the cases of new defaults in relation to the final rating assigned to customers or to the scoring assigned to the related transactions. > EAD is calculated by comparing the use of committed facilities at the time of default and their use under normal (i.e. performing) circumstances, so as to estimate the eventual extent of use of the facilities in the event of default. > LGD is calculated by observing the recoveries of defaulted loans, taking into account the income and expenses associated with the recovery process, as well as the timing and the indirect costs arising from the recovery process.
Net movement in NPLs	This metric and its components (including write-offs and recoveries) are used to monitor changes in the behaviour of portfolios. Loans and advances are classified as NPLs typically when a counterparty fails to make payments for three months or longer, or where there is information available which indicates that there are significant doubts regarding the customer's ability to meet forthcoming contractual payments. This information typically includes circumstances where a customer: > Has a winding up notice issued or suffers an insolvency event; > Has had event(s) occur which are likely to adversely impact upon their ability to meet financial obligations (e.g. where a customer loses a key client or contract); > Has regularly and persistently missed/delayed payments but where the account has been maintained below 90 days past due; > Is due to mature within six months and where the prospects of achieving a refinancing are considered low; and/or > Has an excessive LTV with little prospect of this being rectified.

ANTS uses a number of measurement tools for assessing credit risk, making lending decisions and calculating regulatory capital in accordance with CRD IV requirements, but these are not used in the calculation of impairment loss allowances for accounting purposes under IFRS. For the remainder of the Risk Review, impairments, impairment losses and impairment loss allowances refer to calculations in accordance with IFRS unless specified as relating to CRD IV. For details of the accounting policies for impairment calculated in accordance with IFRS, see Note 1 to the Consolidated Financial Statements.

Risks are also assessed from various complementary perspectives, including internal rating deterioration, geographical location, business area, product and process, in order to identify specific areas requiring remediation. Stress testing techniques are also employed to establish vulnerabilities to economic deterioration.

DEBT MANAGEMENT

Debt management is fundamental to our business, and is deployed through specialist units. It is a strategic, integrated business activity that aims to deal fairly but efficiently with customers that are experiencing financial difficulties. Effective debt management is dependent on:

- Supporting the customer with affordable and sustainable repayment solutions based on their individual circumstances;
- Predicting customer behaviours and treating customers fairly by monitoring and modelling customer profiles and financial performance, and designing and implementing appropriate customer communication and debt management strategies;
- On-going dialogue and negotiation with the customer to return the account to normal status in the shortest affordable and sustainable period; and
- Monitoring and evaluating debt management agreements to ensure they are producing the desired outcomes.

Debt management activity consists of the following phases, which are tailored to each business segment and are discussed in the sections that follow: Arrears management; Forbearance; Other forms of debt management and Exit strategies.

CREDIT RISK MANAGEMENT – COMMERCIAL BANKING

APPROACH TO CREDIT RISK	
>	Risk analysis is performed to establish the customer's ability to meet its obligations through the term of the credit facility. Lending is based on robust credit policies, and risk appetite limits and portfolio monitoring and management.
>	All transactions are considered using credit limits approved by the appropriate credit authority. The most senior risk committee in Santander UK in this respect is the Executive Risk Committee which reviews and approves the highest value transactions.
>	All customers are assigned a credit rating employing specific, internally-developed rating systems (see 'credit quality' in the 'ANTS group exposure' section that follows). The tools utilised contain both quantitative and qualitative components through the analysis of the relative financial performance of the customer supplemented by an analyst's expert judgement. Internal ratings are reviewed at least annually.
>	Risk appetite limits are used to measure and control exposures. Credit policies are designed to support lending within the approved limits.
>	Credit risk is measured on a regular basis and reporting covers individual exposures as well as exposures by industries, geographical areas, products and other relevant concentrations. A detailed analysis of credit exposures and credit risk trends is reported on a monthly basis to the Santander UK Executive Risk Committee, and larger exposures are reported monthly to the Santander UK Board Risk Committee.

CREDIT RISK MANAGEMENT AND MITIGATION

PORTFOLIO	DESCRIPTION
> **Mid-Corporate and SME**	Typically incorporates secured and unsecured lending, with the credit worthiness of the customer underpinned by financial and non-financial covenants, and debenture security. Guarantees are not classified as collateral and value is not attributed to them unless supported by tangible security. Lending decisions are assessed against trading cash flows and in the event of a default ANTS does not typically take possession of the business' assets, although an administrator may be appointed in more severe cases.
> **Commercial Real Estate**	Collateral is in the form of a first charge over commercial real estate assets. Lending is undertaken against stringent policy criteria that include the condition, age and location of the property, the quality of the tenant, the terms and length of the lease, and the experience and creditworthiness of the sponsors. Properties are viewed by ANTS prior to lending and annually thereafter. An independent professional valuation is obtained prior to lending, providing both a value and an assessment of the property, the tenant and future demand for the property (e.g. market rent compared to the current rent). Loan agreements typically permit bi-annual valuations thereafter or more frequently if it is likely that the covenants may be breached. When a loan is transferred to the Watchlist, ANTS typically undertakes a revaluation of the collateral as part of the process for determining the strategy to be pursued. An assessment is made of the need to establish an impairment loss allowance based on the valuation in relation to the loan amount outstanding while also taking into consideration any forbearance solution to be adopted (e.g. whether provision of additional security or guarantees is available, the prospects of additional equity and the ability to enhance value through asset management initiatives). Collateral is rarely taken into possession.
> **Social Housing**	The Social Housing portfolio is secured by a first legal charge on portfolios of residential real estate owned and let by UK Housing Associations. This collateral is re-valued at least every five years (in line with industry norms) and the valuation is based on standard social housing methodologies, which generally involve the properties' continued use as social housing. If the valuation were based upon normal residential use the value would be considerably higher. To date, ANTS has suffered no defaults or losses on this type of lending and has not had to take possession of any collateral. The value of the collateral is in all cases in excess of the loan balance. Typically, the loan balance represents 25% to 50% of the implied market value of collateral using ANTS's LGD methodology. Older social housing loans that are not consistent with ANTS's business strategy are managed and reported in Corporate Centre.

DEBT MANAGEMENT

Problem debt is identified through close monitoring and is supported by the Watchlist process. Debt management activity is performed initially by the relationship manager supported by the relevant credit risk expert, and subsequently by the Restructuring & Recoveries team if the circumstances of the case become more acute or specialist expertise is required and where the case becomes non-performing.

Debt management strategies typically start prior to actual payment default and can continue through to legal action. Different strategies are applied to different segments of the portfolio subject to the perceived levels of risk and the individual circumstances of each case.

Wherever possible, rehabilitation tools are used to encourage customers to find their own way out of financial difficulties with a solution agreeable to ANTS. Customer retention, where appropriate, is important and helping customers through difficult times can improve loyalty.

Arrears management

ANTS seeks to detect weakening financial performance early through close monitoring of regular financial and trading information, periodic testing to ensure compliance with both financial and non-financial covenants and regular dialogue with corporate clients. The Watchlist process

is used proactively on cases which need enhanced management activity ranging from increased frequency and intensity of monitoring through to more specific activities to reduce exposure, enhance security or in some cases seek to exit the position altogether.

Once categorised as Watchlist, a strategy is agreed with Credit Risk and monitored through monthly Watchlist meetings attended by Restructuring & Recoveries for each portfolio. Where the issues identified are perceived to have become more acute or longer term, a recommendation may be made for the case to be transferred to Restructuring & Recoveries. Once a case enters NPL status, it is removed from the Watchlist and transferred to Restructuring & Recoveries.

Forbearance

Forbearance occurs where ANTS agrees a temporary or permanent change of contractually agreed terms and conditions with a borrower who has been identified as being in financial difficulty. The factors considered when concluding whether a borrower is experiencing financial difficulties can include the results of covenant testing, reviews of trading and management information provided under the loan terms or directly from the customer as part of ANTS's ongoing relationship dialogue. The aim of such concessions is to bring the account back on to sustainable terms where the loan can be fully serviced over its lifetime. ANTS's policies and practices are based on criteria which, in the judgment of management, indicate that repayment is likely to continue and that after the initial period of financial difficulties the customer can revert to the previous terms, with appropriate support where necessary.

Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible where the loan is secured, avoid foreclosure or repossession. The effectiveness of our forbearance approach is kept under review.

ANTS may offer the following forbearance solutions provided that the affordability assessments indicate that the borrower will be able to meet the revised payment arrangements:

ACTION	DESCRIPTION
> **Term extension**	The term of the credit facility may be extended to reduce the regular periodic repayments and where, as a minimum, the interest can be serviced and there is a realistic prospect of full or improved recoveries. Customers may be offered a term extension where they are up-to-date but showing evidence of financial difficulties, or where the loan is about to mature and near term refinancing is not possible on current market terms.
> **Interest-only**	Regular periodic repayment may be reduced to interest payment only for a limited period with capital repayment deferred where other options are not available and the issues are viewed as temporary. The customer's financial situation is regularly reviewed to assess when they can afford to return to the repayment method.
> **Payment rescheduling**	Payment terms may be varied through lowering the level of near term obligations to provide time for a business to address issues that may temporarily be affecting its cashflow before being restored to higher levels once the borrower's payment capacity has recovered. This may also include capitalisation of arrears or incorporating into an overdraft facility.

Accounts subject to such concessions which are granted due to financial difficulties are subsequently reported as forborne. Many of these accounts remain in the performing portfolio but are identified and reported separately from the other performing accounts, and are subject to higher provisioning rates. Where a case which is subject to forbearance is already in NPLs at the point the forbearance is agreed, the case is initially retained in the NPL category, until evidence of consistent compliance with the new terms is demonstrated before being reclassified out of NPLs (typically timely repayments for a minimum of three months).

Other forborne loans (i.e. those performing at the time of forbearance), are typically classified as sub-standard for an initial period and once the case has demonstrated continued compliance with the new terms and the risk profile is deemed to have improved, it may be reclassified as fully performing. Under ANTS's forbearance methodology, a case remains classified as forborne until full repayment is achieved.

In limited circumstances, a customer may have their loan forborne more than once, when an agreed plan to mitigate the customer's financial difficulty has not achieved the intended or desired result and an alternative plan is required. Customers that have more than one forbearance event in a given year or more than three events in any rolling five year period are classified as multiple forbearance.

Loan loss allowances are assessed taking into account, amongst other factors, the value of collateral held as confirmed by third party professional valuations and the cash flow available to service debt over the period of forbearance. Loan loss allowances are assessed regularly and are independently reviewed.

Other forms of debt management

In addition to forbearance, ANTS uses other forms of debt management which can include:

ACTION	DESCRIPTION
> Covenant variations	Financial covenants breaches may be waived or covenant levels reset at levels which more accurately reflect the current and forecast trading position of the borrower. This may also be accompanied by a requirement for all surplus cash after operating costs to be trapped and used in reduction of ANTS's lending.
> Payment agreements	Payments from a borrower may on rare occasions be varied such that an element of the debt and or interest is forgiven or reduced. This may involve debt-for-equity swaps for larger companies.
> Obtaining additional security or guarantees	Where a borrower has unencumbered assets, these may be charged as new or additional security in return for ANTS changing contractual terms to existing facilities. Alternatively, ANTS may take a guarantee from other companies within the borrower's group and/or major shareholders provided it can be established the proposed guarantor has the resources to support such a commitment.
> Seeking additional equity	Where a business is over-leveraged, fresh equity capital will be sought from existing or new investors to adjust the capital structure in conjunction with ANTS agreeing to forbear the residual debt.

Only a very limited number of debt-for-equity swaps have been undertaken. Under these arrangements, the converted debt is written off (net of existing loan loss allowances) upon completion of the debt conversion. The value of the equity acquired is initially held at nil value and reassessed periodically in light of subsequent performance of the borrower.

Exit strategies

Consensual arrangements
Where it is not possible to agree a forbearance arrangement, ANTS may seek to exit the position by agreeing with the borrower an orderly sale of assets outside insolvency to pay down the debt, or arranging for the refinance of the debt with another lender.

Enforcement and recovery
Where it is not possible to agree a forbearance arrangement or to exit the position consensually, ANTS will pursue recovery through an insolvency process, through the sale of any collateral held, or through a sale of the debt on the secondary market. A loan loss allowance is raised where a shortfall is identified between sale proceeds and the outstanding loan balance. Any shortfall is written off upon sale.

HIGHER RISK LOANS AND OTHER SEGMENTS OF PARTICULAR INTEREST

The Commercial Real Estate market has experienced a particularly challenging environment over recent years following the financial crisis. Further analysis is provided on this sector in the section 'Credit Risk – Commercial Banking'.

CREDIT RISK MANAGEMENT – CORPORATE & INSTITUTIONAL BANKING

APPROACH TO CREDIT RISK	
>	Corporate & Institutional Banking supports lending to large corporates and treasury markets activities with financial institutions.
>	The approach to credit risk in Corporate & Institutional Banking is consistent with the approach in Commercial Banking, as set out in 'Credit risk management – Commercial Banking'.
>	Credit risk on derivatives is taken under specific limits approved for each counterparty, and is controlled, managed and reported on a counterparty basis, regardless of whether the exposure is incurred by Corporate & Institutional Banking or by Corporate Centre. Credit risk on derivatives is calculated by adding the potential future exposure of the instruments to market movements over their lives to their current fair value. This is then included against the credit limits for individual counterparties along with other non-derivative exposures.

CREDIT RISK MANAGEMENT AND MITIGATION

PORTFOLIO	DESCRIPTION
> **Sovereign and Supranational**	The portfolio includes assets issued by local and central governments, and government guaranteed counterparties. It is normal market practice that there is no collateral associated with these assets.
> **Large Corporate**	The portfolio consists of multinational companies and large UK counterparties. The credit risk is primarily concentrated on lending and treasury products to support working capital and liquidity needs. The majority of the portfolio consists of unsecured exposure, but credit agreements are underpinned by both financial and non-financial covenants. The initial, and on-going, lending decision is typically evaluated by a specialised analyst based upon factors including the financial strength of the client, its position in its industry and its management strengths.
> **Financial institutions**	The portfolio consists primarily of derivatives and stock borrowing/lending transactions. Derivatives are governed by standard legal agreements provided by the International Swaps and Derivatives Association Inc. ('ISDA'), which mitigate the credit risk derived from this type of instrument. Credit risk is further mitigated by the use of collateralisation and central counterparties. **Netting arrangements** Credit risk is mitigated by entering into transactions under industry standard agreements which facilitate netting of transactions in the jurisdictions where netting agreements are recognised and have legal force (primarily in the UK, the rest of Europe and the US). Netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis. However, the credit risk associated with contracts may be reduced by netting arrangements embodied in the agreements to the extent that if an event of default occurs, all amounts with the counterparty under the specific agreement can be terminated and settled on a net basis. In line with industry practice, Santander UK executes the standard documentation according to the type of contract being entered into. For example, derivatives will be contracted under the ISDA Master Agreements, repurchase and reverse repurchase transactions will be governed by Global Master Repurchase Agreement ('GMRA'), and stock borrowing/lending transactions and other securities financing transactions are covered by Global Master Securities Lending Agreement ('GMSLA'). **Collateralisation** We also mitigate credit risk to financial instrument counterparties through collateralisation, using industry standard agreements (i.e. the Credit Support Annex ('CSA')) in conjunction with the ISDA Master Agreement, whereby net exposures are collateralised with cash, securities or equities. For stock borrowing/lending and repo/reverse repo transactions collateral includes high quality and liquid debt securities and highly liquid equities listed in major developed markets. For derivatives collateral is cash or high quality liquid debt securities. Exposures and collateral are generally re-valued daily and collateral is adjusted accordingly to reflect deficits/surpluses. Processes exist to control collateral valuation and management, including documentation reviews and reporting collateral level differences. Collateral taken must comply with Santander UK's collateral parameters policy, designed to control the quality and concentration risk of collateral taken such that collateral held can be liquidated when a counterparty defaults. Liquidity concentration restrictions are specified for both equities and debt securities. Collateral obtained in respect of purchase and resale agreements (including securities financing) is equal to at least 100% of the exposure. **Use of Central Counterparties ('CCPs')** CCPs are intermediaries between a buyer and a seller (generally a clearing house). ANTS uses CCPs as an additional means to mitigate counterparty credit risk in derivatives.

DEBT MANAGEMENT

Arrears management and forbearance

The approach to arrears management and forbearance in Corporate & Institutional Banking is the same as for Commercial Banking.

CREDIT RISK MANAGEMENT – CORPORATE CENTRE

APPROACH TO CREDIT RISK	
>	Corporate Centre manages capital and funding, balance sheet composition and structure and strategic liquidity risk for Santander UK. It also manages non-core corporate and legacy portfolios that include older Social Housing loans and residual legacy assets from the acquisition of Alliance & Leicester plc not consistent with Santander UK's business strategy. The approach to credit risk arising from this activity is consistent with the approach in Commercial Banking, as set out in 'Credit risk management – Commercial Banking'.
>	The approach to credit risk on derivatives is consistent with the approach in Corporate & Institutional Banking, as set out in 'Credit risk management – Corporate & Institutional Banking'.

CREDIT RISK MANAGEMENT AND MITIGATION

PORTFOLIO	DESCRIPTION
> **Sovereign and Supranational**	The portfolio includes assets issued by local and central governments, and government guaranteed counterparties. It is normal market practice that there is no collateral associated with these assets.
> **Structured products**	The portfolio contains the legacy Treasury asset portfolio that is being managed out for value over time. The Treasury asset portfolio is monitored for potential impairment through a detailed expected cashflow analysis taking into account the structure and underlying assets of each individual security. Once specific events give rise to a reasonable expectation that future anticipated cash flows may not be received, the asset originating these doubtful cash flows is deemed to be impaired. Objective evidence of loss events includes significant financial difficulties of the issuer and default or delinquency in interest and principal payments (breach of contractual terms).
> **Derivatives**	The portfolio consists primarily of historical total return swaps for liquidity purposes, and is being run off. Credit risk in derivatives is mitigated by netting agreements, collateralisation and the use of CCPs. For more details, see 'Credit Risk Management – Corporate & Institutional Banking'.
> **Social Housing**	The Social Housing portfolio in Corporate Centre comprises older social housing loans that are not consistent with ANTS's business strategy. The approach to credit risk arising from these loans is consistent with the approach to the Social Housing portfolio in Commercial Banking, as set out in 'Credit risk management – Commercial Banking'.

DEBT MANAGEMENT

Arrears management and forbearance

The approach to arrears management and forbearance in Corporate Centre is the same as for Commercial Banking.

CREDIT RISK REVIEW

ANTS GROUP EXPOSURE

Maximum exposure to credit risk

The tables below set out the ANTS group's maximum exposure to credit risk. For balance sheet assets, the maximum exposure to credit risk represents the carrying value after allowance for impairment. Off-balance sheet exposures comprise guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that ANTS would have to pay if the guarantees were to be called upon. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

The tables presented below include only those financial assets subject to credit risk.

	2014		2013	
	Maximum exposure		Maximum exposure	
	Balance sheet asset £bn	**Off-balance sheet[1] £bn**	Balance sheet asset £bn	Off-balance sheet[1] £bn
Cash and balances at central banks	**4.5**	**-**	4.9	-
Trading assets	**16.9**	**-**	21.6	-
Financial assets designated at fair value	**2.6**	**0.2**	2.5	0.2
Available-for-sale debt securities	**2.5**	**-**	3.0	-
Derivative financial instruments	**25.8**	**-**	21.6	-
Loans and advances to banks	**11.3**	**157.2**	113.6	149.9
Loans and advances to customers	**38.3**	**12.4**	41.1	10.7
Loans and receivables securities	**-**	**-**	0.1	-
Total	**101.9**	**169.8**	208.4	160.8

(1) Off balance sheet exposure includes the cross guarantee of the liabilities of Santander UK plc, as set out in Note 34 to the Consolidated Financial Statements.

Credit quality

ANTS uses a single rating scale to provide a consistent approach for reporting default risk across all the credit risk portfolios. The scale is comprised of eight grades for non-defaulted exposures numbered from 9 (lowest risk) to 2 (highest risk). Each grade is defined by an upper and lower probability of default ('PD') value and is scaled so that the default risk increases by a factor of 10 for every 2 step reduction in the grade number. For example, risk grade 9 equates to an average PD of 0.01%, and risk grade 7 equates to an average PD of 0.1%. Defaulted exposures are assigned to grade 1 and a PD value of 100%. An approximation to the equivalent credit rating grade used by Standard and Poor's Ratings Services ('S&P') is shown in the final column of the table.

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

The tables below set out the distribution across the credit rating master scale for those financial assets subject to credit risk. For further detail and commentary on the credit rating profiles of key portfolios, see the Commercial Banking, Corporate & Institutional Banking and Corporate Centre sections, respectively.

31 December 2014	ANTS rating guide								
	9 (AAA to AA-)	8 (A+ to A)	7 (A- to BBB+)	6 (BBB to BBB-)	5 (BB+ to BB-)	4 (B+ to B)	1 to 3 (B- to D)	Other[1]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	**4,460**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,460**
Trading assets:									
- Loans and advances to banks	**97**	**1,187**	**4,579**	**34**	**30**	**-**	**9**	**-**	**5,936**
- Loans and advances to customers	**53**	**2,073**	**674**	**207**	**-**	**-**	**-**	**-**	**3,007**
- Debt securities	**2,287**	**3,988**	**1,147**	**559**	**-**	**-**	**-**	**-**	**7,981**
Total trading assets	**2,437**	**7,248**	**6,400**	**800**	**30**	**-**	**9**	**-**	**16,924**
Financial assets designated at fair value:									
- Loans and advances to customers	**376**	**765**	**909**	**140**	**7**	**-**	**62**	**-**	**2,259**
- Debt securities	**3**	**243**	**72**	**-**	**-**	**-**	**-**	**-**	**318**
Total financial assets designated at fair value	**379**	**1,008**	**981**	**140**	**7**	**-**	**62**	**-**	**2,577**
Available-for-sale debt securities	**2,525**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,525**
Derivative financial instruments	**423**	**10,026**	**13,349**	**1,398**	**275**	**4**	**14**	**303**	**25,792**
Loans and advances to banks	**-**	**10,426**	**833**	**85**	**-**	**-**	**-**	**-**	**11,344**
Loans and advances to customers[1]:									
- Corporate loans	**2,196**	**3,475**	**2,192**	**3,381**	**1,873**	**101**	**130**	**28**	**13,376**
- Amounts due from subsidiaries	**-**	**-**	**24,919**	**-**	**-**	**-**	**-**	**-**	**24,919**
- Amounts due from Banco Santander group undertakings	**-**	**-**	**-**	**-**	**66**	**-**	**-**	**-**	**66**
Total loans and advances to customers	**2,196**	**3,475**	**27,111**	**3,381**	**1,939**	**101**	**130**	**28**	**38,361**
Loans and receivables securities[1]	**21**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**22**
	12,441	**32,183**	**48,675**	**5,804**	**2,251**	**105**	**215**	**331**	**102,005**
Loan loss allowance									**(76)**
Total									**101,929**
Of which:									
Neither past due nor impaired:									
- Cash and balances at central banks	**4,460**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,460**
- Trading assets	**2,437**	**7,248**	**6,400**	**800**	**30**	**-**	**9**	**-**	**16,924**
- Financial assets designated at fair value	**379**	**1,008**	**981**	**140**	**7**	**-**	**62**	**-**	**2,577**
- Available-for-sale debt securities	**2,525**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,525**
- Derivative financial instruments	**423**	**10,026**	**13,349**	**1,398**	**275**	**4**	**14**	**303**	**25,792**
- Loans and advances to banks	**-**	**10,426**	**833**	**85**	**-**	**-**	**-**	**-**	**11,344**
- Loans and advances to customers	**2,196**	**3,475**	**27,111**	**3,381**	**1,939**	**65**	**35**	**28**	**38,230**
- Loans and receivables securities	**21**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**22**
Total neither past due nor impaired	**12,441**	**32,183**	**48,675**	**5,804**	**2,251**	**69**	**120**	**331**	**101,874**
Past due but not impaired	**-**	**-**	**-**	**-**	**-**	**-**	**23**	**-**	**23**
Impaired[2]	**-**	**-**	**-**	**-**	**-**	**36**	**72**	**-**	**108**
Total	**12,441**	**32,183**	**48,675**	**5,804**	**2,251**	**105**	**215**	**331**	**102,005**
Loan loss allowance									**(76)**
Total									**101,929**

(1) Loans and advances to customers and loans and receivables securities are presented gross of loan loss allowances, and include interest charged to the customer's account and interest accrued but not yet charged to the account.
(2) Impaired loans consists of loans individually assessed for observed impairment loss allowances.

31 December 2013	ANTS rating guide								
	9 (AAA to AA-)	**8 (A+ to A)**	**7 (A- to BBB+)**	**6 (BBB to BBB-)**	**5 (BB+ to BB-)**	**4 (B+ to B)**	**1 to 3 (B- to D)**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and balances at central banks	4,911	-	-	-	-	-	-	-	4,911
Trading assets:									
- Loans and advances to banks	2,490	3,952	2,771	96	17	-	-	-	9,326
- Loans and advances to customers	265	3,730	407	-	-	-	-	-	4,402
- Debt securities	3,089	3,833	895	42	-	-	-	-	7,859
Total trading assets	5,844	11,515	4,073	138	17	-	-	-	21,587
Financial assets designated at fair value:									
- Loans and advances to customers	499	1,000	666	12	-	-	-	41	2,218
- Debt securities	278	35	3	-	-	-	-	-	316
Total financial assets designated at fair value	777	1,035	669	12	-	-	-	41	2534
Available-for-sale debt securities	2,962	-	-	-	-	-	-	-	2,962
Derivative financial instruments	258	7,295	12,193	1,067	194	12	19	512	21,550
Loans and advances to banks	494	112,068	953	134	-	-	-	-	113,649
Loans and advances to customers[1]:									
- Corporate loans	2,141	3,438	3,039	2,992	1,664	153	113	1	13,541
- Amounts due from subsidiaries	-	-	27,477	-	-	-	-	-	27,477
- Amounts due from Banco Santander group undertakings	-	-	-	-	153	-	-	-	153
Total loans and advances to customers	2,141	3,438	30,516	2,992	1,817	153	113	1	41,171
Loans and receivables securities[1]	91	22	-	15	-	-	-	-	128
	17,478	135,373	48,404	4,358	2,028	165	132	554	208,492
Loan loss allowance									(63)
Total									208,429
Of which:									
Neither past due nor impaired:									
- Cash and balances at central banks	4,911	-	-	-	-	-	-	-	4,911
- Trading assets	5,844	11,515	4,073	138	17	-	-	-	21,587
- Financial assets designated at fair value	777	1,035	669	12	-	-	-	41	2,534
- Available-for-sale debt securities	2,962	-	-	-	-	-	-	-	2,962
- Derivative financial instruments	258	7,295	12,193	1,067	194	12	19	512	21,550
- Loans and advances to banks	494	112,068	953	134	-	-	-	-	113,649
- Loans and advances to customers	2,141	3,438	30,516	2,992	1,810	76	8	1	40,982
- Loans and receivables securities	91	22	-	15	-	-	-	-	128
Total neither past due nor impaired	17,478	135,373	48,404	4,358	2,021	88	27	554	208,303
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired[2]	-	-	-	-	7	77	105	-	189
	17,478	135,373	48,404	4,358	2,028	165	132	554	208,492
Loan loss allowance									(63)
Total									208,429

(1) Loans and advances to customers and loans and receivables securities are presented gross of loan loss allowances, and include interest charged to the customer's account and interest accrued but not yet charged to the account.
(2) Impaired loans consists of loans individually assessed for observed impairment loss allowances.

At 31 December 2014, loans and advances of £23m (2013: £nil) were past due but not impaired and had a maturity after six months.

Re-categorisation of loans and loan loss allowances

During 2014, loans and loan loss allowances were re-categorised to align definitions with industry practices and which also conform to changes in regulatory definitions. There was no change in the total amount of impairment loss allowances, and the change did not reflect any change in credit quality. Impaired loans at 31 December 2013 in the previous table have been adjusted for comparability, resulting in a decrease of £536m, from £725m as previously published, to £189m.

Corporate loans in arrears are regarded as impaired where they are three months or more past due, or if they are individually assessed sub-standard loans. Such loans are classified as individually impaired and are assessed as part of the observed provision. Previously, corporate loans which were exhibiting earlier signs of stress (i.e. included on the Watchlist or collectively assessed sub-standard loans) were classified as individually impaired and the associated loan loss allowances presented as part of the observed provision (collective). Impairment loss allowances on advances in early arrears are now presented as part of the IBNO provision. The effect of the re-categorisation on the related loan loss allowances was not significant.

NON-PERFORMING LOANS AND ADVANCES[1]

An analysis of ANTS's NPLs is presented below. The information is presented for Commercial Banking only as there are no NPLs in other business divisions.

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Loans and advances to customers[6] of which:	**3,534**	3,327	6,356	6,370	5,270
Customers in arrears[2]	**131**	94	173	266	287
NPLs[2]	**131**	94	264	361	371
Total impairment loan loss allowances	**52**	63	112	130	108
	%	%	%	%	%
Arrears ratio[3]	**3.70**	2.82	2.72	4.18	5.45
NPLs ratio[4]	**3.70**	2.82	4.16	5.67	7.05
Coverage ratio[5]	**40**	67	42	36	29

(1) Loans and advances are classified as non-performing in accordance with the definitions provided in the 'Credit risk management' section.
(2) All NPL balances are UK and continue accruing interest. For the data presented, the balances include interest charged to the customer's account, but exclude interest accrued but not yet charged to the account.
(3) Loans and advances to customers in arrears as a percentage of loans and advances to customers.
(4) NPLs as a percentage of loans and advances to customers.
(5) Impairment loan loss allowances as a percentage of NPLs.
(6) Loans and advances to customers for 2012, 2011 and 2010 do not reflect the segmental changes referred to on page 25 of the Risk Review as the data cannot be re-presented without undue effort and expense.

Concentrations of credit risk exposures

The management of risk concentration is a key part of risk management. ANTS tracks the degree of concentration of its credit risk portfolios using various criteria, including geographical areas and countries, economic sectors, products and groups of customers. Although ANTS's operations are based mainly in the UK, it has built up exposures to various entities around the world and is therefore exposed to concentrations of risk related to geographical area.

Geographical concentrations
As part of its approach credit risk management and risk appetite, ANTS sets exposure limits to countries and certain geographical areas. These limits are set with reference to the country limits set by Banco Santander, S.A. These are determined according to the classification of the country (whether it is a developed OECD country or not), the rating of the country, its gross domestic product and the type of business activities and products the Banco Santander group wishes to engage in within that country. For additional geographical information, see 'Country Risk Exposure'.

Credit risk exposures by industry
As part of its approach to credit risk management and risk appetite, ANTS sets exposure limits to certain key industry sectors. For additional industry information, see 'Country Risk Exposure'.

Forbearance summary

Commercial Banking is the only business division that has undertaken forbearance activities. Discussion and analysis of forbearance activities in Commercial Banking are set out in the 'Commercial Banking loans – forbearance' section of the Risk Review.

CREDIT RISK – COMMERCIAL BANKING

In Commercial Banking, credit risk arises on asset balances and off-balance sheet transactions such as credit facilities or guarantees. Consequently, committed exposures are typically higher than asset balances.

COMMERCIAL BANKING - COMMITTED EXPOSURES

Rating distribution

The rating distribution tables show the credit risk exposure by ANTS's internal rating scale (see the 'Credit quality' section) for each portfolio. Within this scale, the higher the rating, the better the quality of the counterparty.

2014	Mid Corporate and SME £m	Commercial Real Estate £m	Social Housing £m	Total £m
9	**22**	**-**	**378**	**400**
8	**140**	**247**	**611**	**998**
7	**268**	**532**	**234**	**1,034**
6	**869**	**2,101**	**60**	**3,030**
5	**329**	**1,297**	**-**	**1,626**
4	**88**	**105**	**-**	**193**
1 to 3	**14**	**95**	**-**	**109**
Other	**3**	**1**	**-**	**4**
	1,733	**4,378**	**1,283**	**7,394**

2013				
9	139	126	263	528
8	112	278	359	749
7	192	1,419	231	1,842
6	828	1,797	115	2,740
5	373	1,061	-	1,434
4	30	200	-	230
1 to 3	10	112	-	122
Other	10	1	-	11
	1,694	4,994	968	7,656

Geographical distribution

The geographical location is classified by country of risk, being the country where each counterparty's main business activity or assets are located. For clients whose operations are more geographically dispersed, the country of incorporation is applied.

2014	Mid Corporate and SME £m	Commercial Real Estate £m	Social Housing £m	Total £m
UK	**1,660**	**4,378**	**1,283**	**7,321**
Peripheral eurozone	**17**	**-**	**-**	**17**
Rest of Europe	**40**	**-**	**-**	**40**
US	**-**	**-**	**-**	**-**
Rest of world	**16**	**-**	**-**	**16**
	1,733	**4,378**	**1,283**	**7,394**

2013				
UK	1,602	4,994	968	7,564
Peripheral eurozone	18	-	-	18
Rest of Europe	54	-	-	54
US	-	-	-	-
Rest of world	20	-	-	20
	1,694	4,994	968	7,656

2014 compared to 2013 (unaudited)

During 2014, total committed exposures decreased by £0.3bn or 3% to £7.4bn principally due to the growth achieved in the Mid Corporate and SME and Social Housing portfolios being more than offset by a decrease in the Commercial Real Estate portfolio. Our lending to Commercial Banking customers has grown consistently since 2008, and we continue to operate within our prudent risk appetite parameters. The Commercial Banking portfolio is 99% concentrated in UK-based counterparties.

Mid Corporate and SME exposures increased by 2% in 2014, reflecting the continued development of our franchise in the UK, not only in terms of broadening our distribution capabilities, but also in terms of the range of products and services available to UK companies.

The Commercial Real Estate portfolio decreased by 12% in 2014 with new business being more than offset by repayments of maturing loans which saw a greater proportion of higher-rated exposure repaid as investors sought to realise gains on higher-performing assets.

Social Housing exposures increased by 33% in 2014, through selective opportunities to write new business with highly-rated-counterparties.

COMMERCIAL BANKING - CREDIT RISK MITIGATION

At 31 December 2014, collateral held against impaired loans amounted to 69% (2013: 69%) of the carrying amount of impaired loan balances.

COMMERCIAL BANKING – CREDIT PERFORMANCE

Exposures exhibiting potentially higher risk characteristics are subject to risk monitoring under the Watchlist process (described in 'Risk monitoring' in the 'Credit risk management' section). The table below sets out the portfolio showing exposures subject to risk monitoring under the Watchlist process and those classified as non-performing by portfolio at 31 December 2014 and 2013:

2014	Mid Corporate and SME £m	Commercial Real Estate £m	Social Housing £m	Total £m
Total Committed Exposure of which:[1]	**1,733**	**4,378**	**1,283**	**7,394**
-Performing (Non-Watchlist)	**1,555**	**3,998**	**1,253**	**6,806**
-Watchlist: Enhanced Monitoring	**70**	**252**	**30**	**352**
-Watchlist: Proactive Management	**102**	**-**	**-**	**102**
Non-performing exposure[2]	**6**	**128**	**-**	**134**
Total impaired exposure of which:	**6**	**128**	**-**	**134**
-Performing	**-**	**-**	**-**	**-**
-Non-Performing[2]	**6**	**128**	**-**	**134**
Total Observed impairment loss allowances of which:	**6**	**35**	**-**	**41**
-Performing	**-**	**-**	**-**	**-**
-Non-performing[2]	**6**	**35**	**-**	**41**
IBNO[3]				**11**
Total impairment loss allowance				**52**
2013				
Total Committed Exposure of which:[1]	1,694	4,994	968	7,656
-Performing (Non-Watchlist)	1,509	4,582	933	7,024
-Watchlist: Enhanced Monitoring	103	130	35	268
-Watchlist: Proactive Management	77	193	-	270
Non-performing exposure[2]	5	89	-	94
Total impaired exposure of which:	5	184	-	189
-Performing	-	95	-	95
-Non-performing[2]	5	89	-	94
Total Observed impairment loss allowances of which:	5	53	-	58
-Performing	-	15	-	15
-Non-performing[2]	5	38	-	43
IBNO[3]				5
Total impairment loss allowance				63

(1) Includes committed facilities and derivatives. The terms 'Enhanced Monitoring' and 'Proactive Management' are defined in the 'Risk Monitoring' section of the Risk Review.

(2) Non-performing exposure in the table above include committed facilities and derivative exposures and therefore can be larger than the NPLs in the table below which only include drawn balances.

(3) Allowance for incurred inherent losses (i.e. incurred but not observed ('IBNO')) as described in Note 1 to the Consolidated Financial Statements.

Non-performing loans and advances [1]

An analysis of Commercial Banking NPLs is presented below.

	2014 £m	2013 £m
Loans and advances to customers of which:	**3,534**	3,327
Customers in arrears[2]	**131**	94
NPLs[2]	**131**	94
Impairment loan loss allowances	**52**	63
	%	%
Arrears ratio[3]	**3.70**	2.82
NPLs ratio[4]	**3.70**	2.82
Coverage ratio[5]	**40**	67

(1) Loans and advances are classified as non-performing in accordance with the definitions provided in the 'Credit risk management' section.
(2) All NPL balances are UK based and continue accruing interest. For the data presented, the balances include interest charged to the customer's account, but exclude interest accrued but not yet charged to the account.
(3) Loans and advances to customers in arrears as a percentage of loans and advances to customers.
(4) NPLs as a percentage of loans and advances to customers.
(5) Impairment loan loss allowances as a percentage of NPLs.

An analysis of the NPL movements during 2014 is presented below. 'Transfers in – Entries' represent loans which have become classified as NPLs during the year. 'Exits (including repayments)' represent loans that have been repaid (in full or in part) plus those returned to performing status. 'Write-offs' represent the unrecovered element of a loan where recovery options, including realisation of any collateral, have been exhausted. Forbearance activity does not result in a change in the NPL status.

	2014 £m
At 1 January 2014	**94**
Transfers in – Entries	**151**
Transfers Out:	
- Exits (including repayments)	**(96)**
- Write-offs	**(18)**
At 31 December 2014	**131**

2014 compared to 2013 (unaudited)

Watchlist exposures subject to proactive management reduced to £102m at 31 December 2014 (2013: £270m). The reduction in the Commercial Real Estate portfolio more than offset the increase in the Mid Corporate and SME portfolio.

Watchlist exposures subject to enhanced monitoring decreased in all portfolios except Commercial Real Estate. There was a modest decrease in the Mid Corporate and SME portfolio. The increase in the Commercial Real Estate portfolio principally reflected prudent policy requirements as transactions that have six months to maturity and no definitive exit or refinance plan in place, irrespective of their LTV ratio, are now automatically added to the Watchlist. In the Social Housing portfolio, there were no exposures subject to proactive management. At 31 December 2014, only 2.3% (2013: 3.6%) of portfolio exposures were subject to enhanced monitoring.

Loans and advances to customers in arrears increased to £131m at 31 December 2014 (2013: £94m), as a result of a small number of pre-2009 Commercial Real Estate cases. The arrears ratio increased to 3.70% (2013: 2.82%). The NPL ratio increased to 3.70% at 31 December 2014 (2013: 2.82%) for similar reasons.

In 2014, interest income recognised on impaired loans amounted to £2m (2013: £1m, 2012: £5m).

COMMERCIAL BANKING LOANS - FORBEARANCE

Forbearance commenced during the year [1]

No forbearance arrangements have been necessary with respect to Social Housing counterparties. The exposures that entered forbearance during the years ended 31 December 2014 and 2013 were:

	2014			2013		
	Mid Corporate and SME	**Commercial Real Estate**	**Total**	Mid Corporate and SME	Commercial Real Estate	Total
	£m	**£m**	**£m**	£m	£m	£m
Payment rescheduling	**32**	**21**	**53**	-	-	-
Term extension	**-**	**51**	**51**	-	101	101
Interest - only	**-**	**-**	**-**	-	2	2
	32	**72**	**104**	-	103	103

(1) The figures by year reflect the amount of forbearance activity undertaken during the year irrespective of whether any forbearance activity has previously been undertaken on the forborne accounts.

Forbearance cumulative position

At 31 December 2014, 82% of the forbearance related to the Commercial Real Estate portfolio (2013: 98%).

a) Performance status when entering forbearance

The forborne exposures at 31 December 2014 and 2013 when they originally entered forbearance, analysed by their payment status, were:

2014[1]	**Payment rescheduling £m**	**Term extension £m**	**Interest-only £m**	**Total £m**	**Impairment allowance £m**
Forbearance of NPL	**-**	**37**	**-**	**37**	**4**
Forbearance of Non-NPL	**32**	**73**	**36**	**141**	**8**
	32	**110**	**36**	**178**	**12**
2013[1]					
Forbearance of NPL	-	50	1	51	19
Forbearance of Non-NPL	-	124	77	201	13
	-	174	78	252	32

(1) Forbearance type categorisation is based on the first forbearance activity undertaken on the accounts. Tables contain only open accounts at the end of the year.

b) Performance status at the year-end

The current status of forborne exposures analysed by their payment status, at 31 December 2014 and 2013 was:

2014[1]	**Payment rescheduling £m**	**Term extension £m**	**Interest-only £m**	**Total £m**	**Impairment allowance £m**
Non-performing	**-**	**73**	**-**	**73**	**12**
Performing	**32**	**37**	**36**	**105[2]**	**-**
	32	**110**	**36**	**178**	**12**
Proportion of portfolio	**0.4%**	**1.5%**	**0.5%**	**2.4%**	**0.2%**
2013[1]					
Non-performing	-	50	1	51	19
Performing	-	124	77	201[2]	13
Total	-	174	78	252	32
Proportion of portfolio	-	2.3%	1.0%	3.3%	0.4%

(1) Forbearance type categorisation is based on the first forbearance activity undertaken on the accounts. Tables contain only open accounts at the end of the year.
(2) This represents the carrying amount of financial assets that may otherwise be past due or impaired whose terms have been forborne.

2014 compared to 2013 (unaudited)

The incidence of forbearance that commenced in the year increased slightly compared to 2013. This was primarily in the Mid Corporate and SME portfolio offset by a reduction in Commercial Real Estate. However, the cumulative forbearance stock decreased, as older vintages in the Commercial Real Estate portfolio that subsequently suffered financial distress continue to work their way through the forbearance process (see 'Higher risk loans and other segments of particular interest' on page 51). The proportion of forbearance as a percentage of the portfolio decreased slightly to 2.4% (2013: 3.3%).

Accounts that are in forbearance continue to be closely monitored, to ensure that the forbearance arrangements are sustainable. Not all forbearance will prove effective, and in certain circumstances, market conditions may lead either to a case remaining in NPL even post-forbearance or to the need for a second forbearance action. At 31 December 2014, 59% (2013: 80%) of total forborne exposure was performing in accordance with the revised terms agreed under the forbearance arrangements.

The level of compliance with revised terms agreed under forbearance arrangements is influenced by market conditions. Those cases where forbearance occurs prior to default, which at 31 December 2014 represented 79% (2013: 80%) of exposure, are generally more effective.

Forborne exposures are assessed for observed impairment loss allowances. The greater probability of a loss when compared to the performing book is reflected in the calculation of impairment loss allowances. A customer's ability to adhere to any revised terms agreed is an indicator of the sustainability of ANTS's forbearance arrangements, although the forbearance is unlikely to be successful in all cases.

Debt-for-equity swaps (unaudited)

In addition to the forbearance activities shown above, ANTS has on occasion entered into a small number of transactions where, ANTS agreed to exchange a proportion of the amount owed by the borrower for equity in that borrower. This arises in circumstances where a borrower's balance sheet is materially over-leveraged but the underlying business is viewed as capable of being turned around. This will typically only be done alongside new cash equity being raised, the implementation of a detailed business plan to effect a turnaround in the prospects of the business, and satisfaction with management's ability to deliver the strategy.

There were no debt-for-equity swaps at 31 December 2014 (2013: £34m).

HIGHER RISK LOANS AND OTHER SEGMENTS OF PARTICULAR INTEREST

Commercial Real Estate

The Commercial Real Estate market has experienced a particularly challenging environment over recent years following the financial crisis and has been prone to regular cyclical downturns as most recently demonstrated in 2008.

Credit performance

Commercial Real Estate non-performing exposures and weighted average LTVs at 31 December 2014 and 2013 may be further analysed between loans originated pre-2009 and thereafter as follows:

	2014			2013		
	Original vintage			Original vintage		
	Pre-2009	2009 onwards	Total	Pre-2009	2009 onwards	Total
Total committed exposure	**£586m**	**£3,792m**	**£4,378m**	£684m	£4,310m	£4,994m
Non-performing exposure ratio	**22.3%**	**-**	**3.0%**	13.0%	-	1.8%
Weighted average LTV	**65%**	**53%**	**55%**	69%	54%	56%

2014 compared to 2013 (unaudited)

At 31 December 2014 and 2013, all of the non-performing exposures related to deals originated pre-2009. The pre-2009 vintage loans were written on terms prevailing in the market at that time which, compared to more recent times, included higher original LTVs, lower interest coverage and exposure to development or letting risk. Following the significant downturn in the Commercial Real Estate market in 2008 and 2009, some of these customers suffered financial stress resulting in their inability to meet the contractual payment terms, comply with covenants, or achieve refinancing/repayment at maturity. As a result, the pre-2009 sub-portfolio has experienced higher non-performing rates in recent years. At 31 December 2014, the non-performing exposure ratio of the pre-2009 sub-portfolio was 22.3% (2013: 13.0%).

In light of the market deterioration, ANTS's lending criteria were significantly tightened from 2009 onwards, with lower LTVs and the avoidance of transactions with material letting or development risks. As a result, the sub-portfolio representing loans originating from 2009 onwards continues to perform significantly better than the pre-2009 sub-portfolio. At 31 December 2014, the pre-2009 sub-portfolio represented less than 13% (2013: 14%) of the total Commercial Real Estate portfolio.

Further detail on the entire Commercial Real Estate portfolio is contained in the following section.

Sector analysis

The Commercial Real Estate portfolio remained well diversified by sector at 31 December 2014 and 2013, as set out below.

Sector	2014 %	2013 %
Office	**22**	27
Retail	**31**	28
Industrial	**15**	13
Residential	**6**	4
Mixed use	**12**	9
Student accommodation	**3**	7
Hotels & Leisure	**5**	6
Other	**6**	6
	100	100

Loan-to-value analysis

In Commercial Real Estate lending, the main form of credit mitigation is collateral. The table below analyses the LTV of loans within the Commercial Real Estate portfolio at 31 December 2014 and 2013.

	2014		2013	
	Stock %	**New business %**	Stock %	New business %
Up to 50%	**33**	**28**	36	23
50% to 60%	**37**	**53**	34	54
60% to 70%	**23**	**19**	15	12
70% to 80%	**4**	**-**	7	11
80% to 90%	**1**	**-**	4	-
90% to 100%	**1**	**-**	-	-
> 100% i.e. negative equity	**1**	**-**	4	-
	100	**100**	100	100

2014 compared to 2013 (unaudited)

At 31 December 2014, the LTV profile of the portfolio remained conservative with 70% (2013: 70%) of the portfolio at or below 60% LTV. This reflected the more recent vintage of the portfolio with 87% (2013: 86%) originated in 2009 or subsequent years. The majority of higher LTV deals represent older deals which remain in the portfolio.

No new business was written above 70% LTV in 2014, with 81% written below 60% LTV. The majority of the cases with negative equity form part of the forborne element of the portfolio and are managed by the Restructuring & Recoveries team.

At 31 December 2014 the average LTV, weighted by exposure, was 55% (2013: 56%). The weighted average LTV of new deals written in 2014 was 53% (2013: 57%).

Refinancing risk

As part of the annual review process, for Commercial Real Estate loans that are approaching maturity, consideration is given to the prospects of refinancing the loan at prevailing market terms and applicable credit policy. The review will consider this and other aspects (e.g. covenant compliance) which could result in the case being placed on the Watchlist. Additionally, where an acceptable refinancing proposal has not been received within six months prior to maturity, the case will be placed on the Watchlist.

At 31 December 2014, there was £758m (2013: £620m) of Commercial Real Estate loans due to mature within 12 months. Of these, £68m i.e. 9% (2013: £153m i.e. 25%) have an LTV ratio above that which would be considered acceptable under current credit policy, all of which (2013: £313m) has been placed on the Watchlist or recorded as NPL and has an impairment loss allowance of £19m (2013: £27m) associated with it.

CREDIT RISK – CORPORATE & INSTITUTIONAL BANKING

In Corporate & Institutional Banking, credit risk arises on asset balances and off-balance sheet transactions such as credit facilities or guarantees. Consequently, committed exposures are typically higher than asset balances. However, in the following committed exposures tables, Sovereigns and Supranationals are presented net of short positions and include Sovereign and Supranational exposures established for liquidity management purposes managed by Short Term Markets on behalf of Corporate Centre. Large Corporate reverse repurchase agreement exposures are presented net of repurchase agreement liabilities and include OTC derivatives. As a result, the committed exposures can be smaller than the asset balances recognised on the balance sheet. In addition, the derivative risk exposures in the tables below (which are classified as 'Financial Institutions') are lower than the balance sheet position because the overall risk exposure is monitored and therefore consideration is taken of margin posted, CSAs in ISDA Master Agreements, and master netting agreements and other financial instruments which reduce the ANTS group's exposures. Derivative asset balances recognised on the balance sheet reflect only the more restrictive netting permitted by IAS 32.

CORPORATE & INSTITUTIONAL BANKING – COMMITTED EXPOSURES

Rating distribution

The rating distribution tables show the credit risk exposure by ANTS's internal rating scale (see the 'Credit quality' section) for each portfolio. Within this scale, the higher the rating, the better the quality of the counterparty.

2014	Sovereign and Supranational £m	Large Corporate £m	Financial Institutions £m	Total £m
9	**1,734**	**21**	**121**	**1,876**
8	**3,905**	**1,449**	**3,209**	**8,563**
7	**928**	**3,468**	**2,587**	**6,983**
6	**-**	**6,172**	**206**	**6,378**
5	**-**	**2,293**	**79**	**2,372**
4	**-**	**4**	**-**	**4**
1 to 3	**-**	**48**	**97**	**145**
Other	**-**	**-**	**-**	**-**
Total	**6,567**	**13,455**	**6,299**	**26,321**
2013				
9	1,296	-	72	1,368
8	3,893	1,165	3,396	8,454
7	860	3,930	2,612	7,402
6	-	5,415	142	5,557
5	-	1,862	18	1,880
4	-	54	-	54
1 to 3	-	-	28	28
Other	-	2	-	2
Total	6,049	12,428	6,268	24,745

Geographical distribution

The geographical location is classified by country of risk, being the country where each counterparty's main business activity or assets are located, except where a full risk transfer guarantee is in place, in which case the country of domicile of the guarantor is used. For clients whose operations are more geographically dispersed, the country of incorporation is applied.

2014	Sovereign and Supranational £m	Large Corporate £m	Financial Institutions £m	Total £m
UK	**-**	**12,011**	**3,146**	**15,157**
Peripheral eurozone	**928**	**281**	**657**	**1,866**
Rest of Europe	**1,622**	**1,061**	**916**	**3,599**
US	**-**	**30**	**1,331**	**1,361**
Rest of world	**4,017**	**72**	**249**	**4,338**
Total	**6,567**	**13,455**	**6,299**	**26,321**
2013				
UK	-	11,060	3,038	14,098
Peripheral eurozone	860	310	606	1,776
Rest of Europe	1,029	788	1,185	3,002
US	-	-	1,281	1,281
Rest of world	4,160	270	158	4,588
Total	6,049	12,428	6,268	24,745

2014 compared to 2013 (unaudited)
During 2014, total committed exposures increased by £1.6bn or 6% to £26.3bn principally within the Sovereign and Supranational, and Large Corporate portfolios.

Sovereign and Supranational exposures increased by 9% in 2014, reflecting the continued development of the business in this area. The increased exposures were mainly in the rating 9 category, most of which were in Denmark and Germany Sovereigns, as part of normal liquid asset portfolio management. The portfolio profile remained primarily short-term (up to 1 year), reflecting the purpose of the holdings as part of normal liquid asset portfolio management and short-term markets trading activity.

Large Corporate exposures increased by 8% in 2014, as a result of the continued development of the franchise focused on high-rated multinational companies. Growth was focused on the UK, with some diversification in other countries with counterparties with good credit quality. The portfolio profile remained primarily short to medium-term (up to 5 years), reflecting the type of finance provided to support the working capital and liquidity needs of our clients.

CORPORATE & INSTITUTIONAL BANKING - CREDIT RISK MITIGATION

Credit risk to counterparties on derivative products is mitigated through netting arrangements, collateralisation and the use of CCPs. For details of the approach to credit risk mitigation, see 'Credit Risk Management – Corporate & Institutional Banking'. The top 20 clients with which Santander UK had the biggest derivative exposures were banks and CCPs. These top 20 clients' derivative exposure accounted for 71% of the total derivative exposure in Corporate & Institutional Banking at 31 December 2014 (2013: 90%). The risk exposure weighted-average credit rating was 7.6 (2013: 7.6).

CORPORATE & INSTITUTIONAL BANKING - CREDIT PERFORMANCE

Exposures exhibiting potentially higher risk characteristics are subject to risk monitoring under the Watchlist process (described in 'Risk monitoring' in the 'Credit risk management' section). The table below sets out the portfolio showing exposures subject to risk monitoring under the Watchlist process and those classified as non-performing by portfolio at 31 December 2014 and 2013:

2014	Sovereign and Supranational £m	Large Corporate £m	Financial Institutions £m	Total £m
Total Committed Exposure of which:[1]	**6,567**	**13,455**	**6,299**	**26,321**
- Performing (Non-Watchlist)	**6,567**	**12,690**	**6,233**	**25,490**
- Watchlist: Enhanced Monitoring	**-**	**765**	**5**	**770**
- Watchlist: Proactive Management	**-**	**-**	**61**	**61**
- Non-performing exposure[2]	**-**	**-**	**-**	**-**
Total impaired exposure of which:	**-**	**-**	**-**	**-**
- Performing	**-**	**-**	**-**	**-**
- Non-performing[2]	**-**	**-**	**-**	**-**
Total Observed impairment loss allowances of which:	**-**	**-**	**-**	**-**
-Performing	**-**	**-**	**-**	**-**
-Non-performing[2]	**-**	**-**	**-**	**-**
IBNO[3]				**24**
Total impairment loss allowance				**24**
2013				
Total Committed Exposure of which:[1]	6,049	12,428	6,268	24,745
- Performing (Non-Watchlist)	6,049	12,278	6,206	24,533
- Watchlist: Enhanced Monitoring	-	150	26	176
- Watchlist: Proactive Management	-	-	36	36
- Non-performing exposure[2]	-	-	-	-
Total impaired exposure of which:	-	-	-	-
-Performing	-	-	-	-
-Non-performing[2]	-	-	-	-
Total Observed impairment loss allowances of which:	-	-	-	-
-Performing	-	-	-	-
-Non-performing[2]	-	-	-	-
IBNO[3]				-
Total impairment loss allowance				-

(1) Includes committed facilities and derivatives. The terms 'Enhanced Monitoring' and 'Proactive Management' are defined in the 'Risk monitoring' section of the Risk review.
(2) Non-performing exposure in the table above include committed facilities and derivative exposures and therefore can be larger than the NPLs in the table on page 54 which only include drawn balances.
(3) Allowance for incurred inherent losses (i.e. incurred but not observed ('IBNO')) as described in Note 1 to the Consolidated Financial Statements.

2014 compared to 2013 (unaudited)
Watchlist exposures subject to proactive management increased slightly to £61m at 31 December 2014 (2013: £36m), reflecting an increase in the Financial Institutions portfolio.

Watchlist exposures subject to enhanced monitoring increased in the Large Corporate portfolio due to increased monitoring in the oil and the UK supermarket sectors. There was a modest reduction in Financial Institutions. In the Sovereign and Supranational portfolio, there were no exposures subject to proactive management or enhanced monitoring.

Non-performing loans and advances

At 31 December 2014 and 2013, there were no non-performing loans in Corporate & Institutional Banking.

CORPORATE & INSTITUTIONAL BANKING - FORBEARANCE

At 31 December 2014 and 2013, there was no forbearance activity in Corporate & Institutional Banking.

CREDIT RISK - CORPORATE CENTRE

Credit risk arises on assets in the balance sheet and in off-balance sheet transactions. Consequently, the committed exposure (which takes into account credit mitigation procedures) is shown in the tables below. It also excludes Sovereign exposures managed by Short Term Markets within Corporate & Institutional Banking.

CORPORATE CENTRE – COMMITTED EXPOSURES

Rating distribution

The rating distribution tables below show the credit risk exposure by ANTS's internal rating scale (see the 'Credit quality' section) for each portfolio. Within this scale, the higher the rating, the better the quality of the counterparty.

2014	Sovereign and Supranational £m	Structured Products £m	Derivatives £m	Social Housing £m	Total £m
9	**7,175**	**18**	**-**	**2,784**	**9,977**
8	**-**	**45**	**581**	**4,215**	**4,841**
7	**-**	**40**	**276**	**1,485**	**1,801**
6	**-**	**-**	**-**	**223**	**223**
5	**-**	**2**	**-**	**-**	**2**
4	**-**	**-**	**-**	**-**	**-**
1 to 3	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
	7,175	**105**	**857**	**8,707**	**16,844**
2013					
9	8,305	84	-	2,654	11,043
8	-	104	901	4,382	5,387
7	-	14	-	1,713	1,727
6	-	4	14	238	256
5	-	5	1	-	6
4	-	46	-	-	46
1 to 3	-	3	-	-	3
Other	-	1	2	-	3
	8,305	261	918	8,987	18,471

Geographical distribution

The geographical location is classified by country of risk, being the country where each counterparty's main business activity or assets are located. For clients whose operations are more geographically dispersed, the country of incorporation is applied.

2014	Sovereign and Supranational £m	Structured Products £m	Derivatives £m	Social Housing £m	Total £m
UK	**2,574**	**43**	**-**	**8,707**	**11,324**
Peripheral eurozone	**-**	**56**	**-**	**-**	**56**
Rest of Europe	**-**	**6**	**581**	**-**	**587**
US	**4,514**	**-**	**276**	**-**	**4,790**
Rest of world	**87**	**-**	**-**	**-**	**87**
	7,175	**105**	**857**	**8,707**	**16,844**
2013					
UK	2,777	107	15	8,987	11,886
Peripheral eurozone	-	69	-	-	69
Rest of Europe	-	85	601	-	686
US	5,230	-	300	-	5,530
Rest of world	298	-	2	-	300
	8,305	261	918	8,987	18,471

2014 compared to 2013 (unaudited)

During 2014, total committed exposures decreased by £1.6bn or 9% to £16.8bn principally within the Sovereign and Supranational and Structured Products portfolios.

Sovereign and Supranationals exposures principally reflect cash at central banks and holdings of highly-rated liquid assets as part of normal liquid asset portfolio management, and remained concentrated in the UK and US in 2014. Exposures to the UK and the US decreased as increased exposures to the rest of Europe were taken in 2014, mainly related to bonds guaranteed by the German Government. The increase in exposures to the Rest of World reflected additional exposures to highly-rated Supranationals.

Structured Products exposures represent holdings of good credit quality rated covered bonds, floating rate notes and residential mortgage backed securities as part of normal liquid asset portfolio management. The decrease in exposures in 2014 reflected the exit from some legacy residential mortgage backed securities and a reduction in exposures to CCPs.

Derivative exposures decreased in the year due to the continued managed reduction of the portfolio.

Social Housing exposures reduced in 2014 as a result of on-going refinancing of longer-dated loans onto shorter maturities and on current market terms.

CORPORATE CENTRE - CREDIT RISK MITIGATION

Structured Products are unsecured but benefit from senior positions in the creditor cascade. Credit risk in derivatives is mitigated by netting agreements, collateralisation and the use of CCPs. For details of the approach to credit risk mitigation, see 'Credit Risk Management – Corporate & Institutional Banking'.

CORPORATE CENTRE - CREDIT PERFORMANCE

Exposures exhibiting potentially higher risk characteristics are subject to risk monitoring under the Watchlist process (described in 'Risk monitoring' in the 'Credit risk management' section). The table below sets out the portfolio showing exposures subject to risk monitoring under the Watchlist process and those classified as non-performing by portfolio at 31 December 2014 and 2013.

2014	Sovereign and Supranational £m	Structured Products £m	Derivatives £m	Social Housing £m	Total £m
Total Committed Exposure of which:[1]	**7,175**	**105**	**857**	**8,707**	**16,844**
- Performing (Non-Watchlist)	**7,175**	**105**	**857**	**8,707**	**16,844**
- Watchlist: Enhanced Monitoring	**-**	**-**	**-**	**-**	**-**
- Watchlist: Proactive Management	**-**	**-**	**-**	**-**	**-**
- Non-performing exposure	**-**	**-**	**-**	**-**	**-**
Total Impaired Exposure of which:	**-**	**-**	**-**	**-**	**-**
- Performing	**-**	**-**	**-**	**-**	**-**
- Non-performing	**-**	**-**	**-**	**-**	**-**
Total Observed impairment loss allowances of which:	**-**	**-**	**-**	**-**	**-**
- Performing	**-**	**-**	**-**	**-**	**-**
- Non-performing	**-**	**-**	**-**	**-**	**-**
IBNO[2]					**-**
Total impairment loss allowance					**-**

2013					
Total Committed Exposure of which:[1]	8,305	261	918	8,987	18,471
- Performing (Non-Watchlist)	8,305	261	918	8,869	18,353
- Watchlist: Enhanced Monitoring	-	-	-	118	118
- Watchlist: Proactive Management	-	-	-	-	-
- Non-performing exposure	-	-	-	-	-
Total Impaired Exposure of which:	-	-	-	-	-
- Performing	-	-	-	-	-
- Non-performing	-	-	-	-	-
Total Observed impairment loss allowances of which:	-	-	-	-	-
- Performing	-	-	-	-	-
- Non-performing	-	-	-	-	-
IBNO[2]					-
Total impairment loss allowance					-

(1) includes committed facilities and derivatives. The terms 'Enhanced Monitoring' and 'Proactive Management' are defined in the 'Risk Monitoring 'section of the Risk Review.
(2) Allowance for incurred inherent losses (i.e. incurred but not observed ('IBNO')) as described in Note 1 to the Consolidated Financial Statements.

2014 compared to 2013 (unaudited)
The only Watchlist exposures arose in 2013 in Social Housing. Social Housing exposures subject to enhanced monitoring decreased to £nil in 2014 following the resolution of governance issues as anticipated.

Non-performing loans and advances

At 31 December 2014 and 2013, there were no non-performing loans in Corporate Centre.

CORPORATE CENTRE- FORBEARANCE

At 31 December 2014 and 2013, there was no forbearance activity in Corporate Centre.

MARKET RISK

Market risk comprises trading market risk and banking market risk. Trading market risk is the risk of losses in balance sheet and off-balance sheet positions arising from movements in market prices. Banking market risk includes exposures arising as a result of the structure of portfolios of assets and liabilities. Banking market risk is classified as a balance sheet management risk and is discussed in the balance sheet management risk section. ANTS's exposure to market risk arises in the following business segments:

Trading market risk Exposures arise in Corporate & Institutional Banking in the short-term markets business and from trading activity and the creation and risk management of structured products for the personal financial services market. The principal exposures are interest rate, equity, property, credit (spread), and foreign exchange risks. There are no exposures in Commercial Banking, or Corporate Centre.

Banking market risk Exposures arise in Commercial Banking as a by-product of providing banking products and services to business and corporate and commercial customers. The principal exposures are interest rate (yield and basis), inflation and spread risks. Banking market risks arising from Commercial Banking are substantially transferred to, and managed by, Corporate Centre. In addition, structural exposures arising in the balance sheet are managed by Corporate Centre (e.g. foreign exchange and income statement volatility risks). There are no exposures in Corporate & Institutional Banking.

APPROACH TO MARKET RISK	
>	Market risk operates within the Santander UK Risk Appetite Framework. Specific Risk Appetite limits, controls and management are in place for trading and banking market risk.
>	ANTS actively manages and controls market risk within clearly defined parameters by limiting the impact of adverse market movements whilst seeking to enhance earnings. The organisational structure ensures a segregation of responsibilities between the functions responsible for market risk origination, risk management and control, and risk oversight.
>	A comprehensive set of Santander UK-wide policies, procedures and processes has been developed and implemented to identify, assess, manage and report market risk.
>	Market risk limits are approved under Santander UK Board-delegated authority, and within the market risk appetite. Risk exposures are measured and monitored against limits and triggers for action and/or escalation.

TRADING MARKET RISK

Trading market risk arises in connection with the provision of financial services for customers and the buying, selling and positioning mainly in fixed income, equities, foreign exchange and property markets. This trading activity may lead to a potential decline in net income due to variations in market factors including interest rates, inflation rates, equity indices, exchange rates, credit spreads, bond prices and property indices. Trading market risk is principally linked to potential variability in the 'Net trading and funding of other items by the trading book' element of the 'Net trading and other income' line in the Consolidated Income Statement.

Risk management and control	
>	The Santander UK Market Risk Framework cascades down from the Santander UK Risk Framework and defines the high level arrangements and minimum standards for the management, control and oversight specific to trading market risk.
>	The Santander UK Risk Appetite is cascaded down and embedded into the controls, risk limits and key risk metrics of the Trading Market Risk Division.
>	Key metrics, which include the utilisation of a stress economic loss limit and risk factor stress scenarios, are reported to the Santander UK Board on a monthly basis. Key risk metrics are also regularly reported to the Executive Risk Committee.

Risk measures

ANTS uses a comprehensive and complementary set of methodologies and techniques to measure trading market risk. One of the primary tools to measure and control market risk is a statistical risk measure, value at risk ('VaR').

VaR	
>	VaR is a statistical estimate of the potential losses that would be recognised in the income statement arising from unfavourable market moves. VaR is measured at a given confidence level over a specified time horizon and is calculated using a historical simulation method with two years of daily price history, equally weighted. VaR incorporates the majority of material market risk factors and provides a framework for assessing the risk using a consistent approach across these risk factors and portfolios.
>	ANTS uses the historical simulation approach in its VaR models, which all use the same corporate calculation models. The main types of VaR are Internal VaR, Regulatory VaR ('RVaR') and Stressed VaR ('SVaR'), which are described in more detail below.
>	The Internal VaR approach above is used to calculate the total trading book VaR. It covers all trading book risk classes - interest rate, equity, property, credit (spread), and foreign exchange. In accordance with the standard used throughout the Banco Santander group, the Internal VaR uses a one day time horizon and a 99% confidence level. This means that conditional on today's position, ANTS would expect to incur losses exceeding the predicted VaR estimate one in every 100 trading days, or about two to three times a year. Internal VaR is measured and monitored against Santander UK Board-approved limits daily, and aggregated at different levels, including by business, asset class and individual desk levels, for reporting purposes. Limit breaches are reported and escalated in accordance with the Santander UK Risk Framework.
>	RVaR and SVaR are the models used for the calculation of the capital requirement for trading market risk. Only risk factors with PRA approval are included in these calculations. For those risk factors that are out of scope, the standardised approach for calculating the capital requirement is used. See the 'Capital requirement measures' section for further details on trading book capital requirement. Out of scope VaR risk factors are credit, foreign exchange and property.
>	RVaR uses a ten day time horizon and a 99% confidence level. It uses the same two years of daily price history, equally weighted, as Internal VaR. To calculate the ten day time horizon, a 'square root of time' approach is used.
>	SVaR also uses a ten day time horizon, 99% confidence level and square root of time approach. However, only one year of daily price history, equally weighted, is required and it must be from a period of stressed market conditions.
>	Internal VaR, RVaR and SVaR are subject to governance, controls, regular reviews and internal assessments. RVaR and SVaR are also subject to assessments by the PRA.

Limitations of VaR	
>	General limitations of VaR arise from the use of historical changes and the assumption that these historical changes are an indicator of the future market moves. In addition, VaR does not capture intra-day risk taking as it is based on positions as at close of business.
>	The use of a 99% confidence level does not capture the potential loss beyond that level. This risk is addressed by stress testing and the expected shortfall metric (see 'Additional risk measures' below).
>	The use of a one day time horizon does not fully capture the income statement implications of exposures that cannot be liquidated or hedged in one day. These exposures are monitored using illiquid risk metrics (see 'Additional risk measures' below) and stress testing.
>	Although VaR models aim to capture the main relationships between risk factors and the valuation impact across a wide range of market movements, some potential inaccuracy can arise particularly for complex products and from large market movements.
>	The ANTS group VaR model has the following limitations: > ANTS uses the previous two years data, which can lead to inflated VaR levels driven by historical events that are no longer representative of current market conditions. This can mask actual levels of short-term risk; > Proxy data is used for new products where there is insufficient market data history. Proxies allow new risk factors to be incorporated into VaR measures for completeness, but can reduce accuracy. The usage and impact of proxy data is monitored and controlled; > VaR uses close of business positions. Intra-day trading and intra-day price changes are not captured by the model; and > The use of a square root of time approach to create RVaR and SVaR means actual ten day price movements are not captured in the calculation. However, ANTS performs monthly analysis on this particular methodology which is reviewed by the PRA quarterly.

Back-testing	
>	Daily back-testing of Internal VaR and RVaR is performed against market risk related revenue (as defined by the PRA). Back-testing compares the daily VaR estimates of the last 250 days to the actual profit and loss of the following day. The inclusion of intra-day profit and loss within the back-testing goes some way towards mitigating the absence of intra-day trading limits and non-capture within VaR. A one day time horizon variant of RVaR is used for back-testing purposes. It is not possible to meaningfully back-test the SVaR model as it is not sensitive to current market conditions and requires more proxy data than the RVaR and Internal VaR models.
>	Backtesting is performed against both 'clean' profit and loss (trading profit and loss less fees, commissions, brokerage, reserves not related to market risk and day one profits/losses) and also 'hypothetical' profit and loss (which is the clean profit and loss excluding intra-day and the effects of time decay).
>	The Capital Requirements Regulation ('CRR') sets out the criteria for acceptable levels of back-testing exceptions, which is further clarified by the PRA rules. If there are five or more back-testing exceptions in a 250 day continuous period, points will be added to the capital requirement multiplier. A model with fewer than five will not have any added points. No points have been added to ANTS's capital multiplier.
>	There was no trend evident in the back-testing model exceptions identified in 2014. Any exception that occurred was isolated.

Stress testing	
>	Stress testing is a fundamental risk requirement under the Basel Capital Accords and is a major component of risk management in Santander UK (including ANTS) to increase transparency, and measure and control risk of losses in stressed markets.
>	Stress scenarios are used in the Santander UK Trading Market Risk Appetite setting process and monthly analysis for Santander UK Risk Appetite reporting. These stress scenarios are also embedded within the core risk management limits setting and monitoring daily processes.
>	Bespoke scenarios are considered in order to replicate past events but also to create plausible abnormal market conditions from changes in financial prices including interest rates, equity, exchange rates and credit spreads. Various degrees of severity are considered which, together with VaR, make it possible to obtain a more complete spectrum of the risk profile. Scenario shocks assuming different holding periods are used to illustrate stress exposures to various degrees of market liquidity.
>	Limits are used to manage ANTS's exposure to stress events and restrict the impact of stressed market conditions. Stress testing is employed in cross-business risk management at desk level. The results of stress calculations, trends and explanations based on current market risk positions are regularly reported to senior management including the Santander UK Executive Risk Committee and Santander UK Board Risk Committee.
>	In addition to the internal stress testing framework, Santander UK (including ANTS) took part in the PRA's stress test of the UK banking system, an industry-wide external stress test conducted by the EBA on the EU banking system.

Additional risk measures	
>	The value of instruments held for trading purposes can change daily and the resulting profits and losses are reported and monitored daily.
>	Non-statistical risk measures include sensitivities to variables that are used to value ANTS's market risk positions. As part of a comprehensive framework, ANTS captures all market risk exposures, assigns limits to the associated sensitivities, and monitors adherence to these limits on a daily basis.
>	All new or amended derivatives pricing models are validated and approved in accordance with formalised standards. All models are subject to annual review.
>	Illiquid risks arise from exposures that cannot be liquidated or hedged within one day. These risks are measured and monitored based on the estimated time horizon it would take to hedge or exit the exposure. There are three time horizon categories: <1 month, 1 to 6 months, and >6 months. Each category is monitored daily against limits.
>	Expected Shortfall ('ES') analysis is an additional metric introduced in 2013 for analysis purposes, ahead of the Basel Committee's Fundamental Review of the Trading Book ('FRTB') requirements. ES is calculated using VaR vectors and measures the size of the tail risk above a 97.5% confidence level.
>	A time weighted VaR is calculated using the Banco Santander group methodology. This applies a greater weighting to the most recent days within the two year historical series and so the VaR level responds more quickly to current market volatility and provides a greater indication of changes in market behaviour.
>	For RVaR and SVaR, risk factors that are not fully captured for capital assessment purposes are assessed under the Risks Not in VaR ('RNIV') Framework. These risk factors can arise if there is a lack of historical market data or the data quality is deemed insufficient and tend to be for products with very infrequent pricing or where the risk structure is more complex. These risk factors are generally included under the illiquid risk metrics for risk reporting and monitoring purposes as described above. The RNIV Framework is part of the approved internal model for trading market risk capital requirements. See 'Capital requirement measures' below for additional information on RNIV.

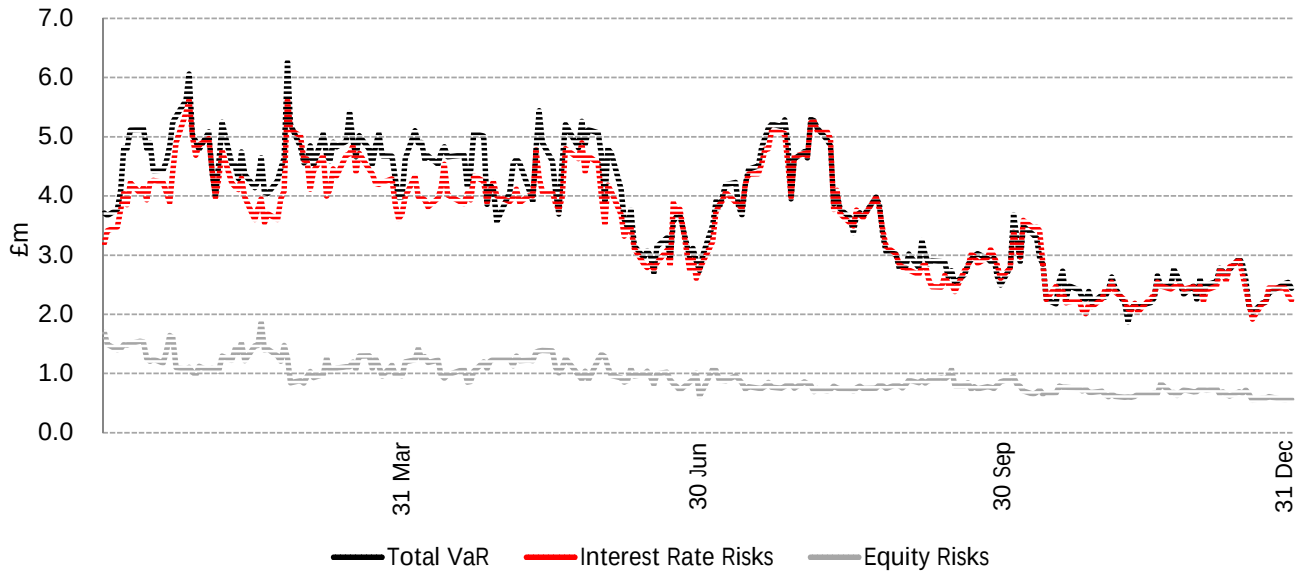
Capital requirement measures (unaudited)	
>	Trading market risk uses RVaR, SVaR and RNIV (the Internal Models Approach as per the CRR) for the calculation of capital requirements for those risk factors and businesses with PRA permission. For risk factors and businesses outside the internal models permission scope, the standardised approach (as prescribed by the CRR and the PRA rules) is used. As part of the approval for using the IM approach, Santander UK (including ANTS) is subject to a quarterly review by the PRA.
>	The standardised approach calculation equated to 11% of the total trading market risk capital requirement at 31 December 2014.
>	ANTS's stress period is reviewed regularly to ensure the most penal period of stress since 2007 relevant to ANTS's portfolio is used.
>	SVaR is the largest component of trading market risk capital requirements and for 2014 was, on average, five times larger than the RVaR component. The largest drivers of SVaR in 2014 were interest rate delta, interest rate basis and equity volatility risks (see the table below for more explanation of individual risk factors). This was in line with the historical market moves seen during the SVaR dataset period compared with the lower level of volatility seen in more recent historical series data.
>	RNIV risk factors comprise less than 4% on average of the trading market risk IM capital requirements. The largest driver in the RNIV capital requirement calculation is dividend risk exposure. Dividend risk arises from a change in future dividend expectations. This risk is not captured well under a VaR model approach due to the structure of the underlying market data.
>	New RNIVs are identified through analysis of profit and loss, new products, and are included in the capital requirement calculation, regardless of materiality.
>	Two approaches are used to calculate RNIV capital levels, depending on market data availability and characteristics: A VaR type approach (which requires an RVaR and SVaR type calculation) and a stress based approach. The VaR approach is also subject to a multiplication factor (as prescribed by the CRR and the PRA rules). Stress-based RNIVs use sensitivities and plausible stressed market moves. ANTS currently only has stress-based RNIVs.
>	Each individual RNIV value is standalone and does not benefit from diversification in the capital requirements calculation.
>	Any changes to the models are assessed for their capital requirement impact. The outcome will indicate whether pre-notification and approval by the PRA will be required before the change can be implemented.

The following table shows the Internal VaR-based consolidated exposures for the major risk classes at 31 December 2014, 2013 and 2012, together with the highest, lowest and average exposures for each year. Exposures within each risk class reflect a range of exposures associated with movements in that financial market. The VaR amounts represent the potential change in fair values of trading instruments. Since trading instruments are recorded at fair value, these amounts also represent the potential effect on income.

	Year-end exposure			Average exposure			Highest exposure			Lowest exposure		
Trading instruments	**2014 £m**	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m
Interest rate risks[1]	**2.2**	3.0	3.8	**3.6**	4.7	4.1	**5.6**	7.6	7.5	**1.9**	2.9	2.7
Equity risks[2]	**0.6**	1.4	1.8	**1.0**	1.9	2.2	**1.9**	4.6	5.0	**0.5**	0.7	1.4
Property risks[3]	**0.1**	0.1	0.1	**0.1**	0.1	0.1	**0.1**	0.2	0.2	**0.1**	-	0.1
Credit (spread) risks[4]	**-**	0.3	0.2	**0.2**	0.4	0.2	**0.6**	1.0	0.8	**-**	0.2	-
Other risks[5]	**0.1**	-	0.5	**-**	0.1	0.8	**0.1**	0.5	2.3	**-**	-	0.4
Correlation offsets[6]	**(0.6)**	(1.5)	(2.1)	**(1.1)**	(2.2)	(2.7)	**-**	-	-	**-**	-	-
Total correlated one-day VaR	**2.4**	3.3	4.3	**3.8**	5.0	4.7	**6.3**	8.0	8.3	**1.9**	3.0	2.7

(1) Interest rate risk measures the impact of interest rate and volatility changes on cash instruments, securities and derivatives. This includes swap spread risk (the difference between swap rates and the government bond rates), basis risk (changes in interest rate tenor basis) and inflation risk (changes in inflation rates).
(2) Equity risk measures the impact on equity stocks and derivatives from changes in equity prices, volatilities and dividends.
(3) Property risk measures the impact of changes in the property indices.
(4) Spread risk measures the impact of changes in the credit spread of corporate bonds or credit derivatives.
(5) Other risks include foreign exchange risk. Foreign exchange risk measures the impact of changes in foreign exchange rates and volatilities.
(6) The highest and lowest exposure figures reported for each risk type did not necessarily occur on the same day as the highest and lowest total correlated one-day VaR. A corresponding correlation offset effect cannot be calculated and is therefore omitted from the above table.

Daily total correlated one day VaR 2014 (unaudited)



BALANCE SHEET MANAGEMENT RISK

Balance sheet management risk arises as a result of the structure of portfolios of assets and liabilities, or where the liquidity of the market is such that the exposure could not be closed out over a short-time horizon. The risk exposure is generated by features inherent in either a product or portfolio and normally presented over the life of the product or portfolio. Such exposures are a result of the decision to undertake specific business activities, can take a number of different forms, and are generally managed over a longer-time horizon. Balance sheet management risks are transferred from the originating business to FMIR in Corporate Centre where they are monitored, controlled and managed in conjunction with exposures arising from the funding and liquidity or capital management activities of FMIR.

The key areas of balance sheet management risk, which are discussed in the sections that follow, are:

> Banking market risk;
> Liquidity risk; and
> Capital risk.

BANKING MARKET RISK

Banking market risk mainly arises through the provision of banking products and services to personal and corporate customers, as well as structural exposures arising in Santander UK's balance sheet. Banking market risk arises in Santander UK's Retail Banking, Commercial Banking and Corporate Centre. Banking market risks are originated in Santander UK's Retail Banking and Commercial Banking only as a by-product of writing customer business and are typically transferred from the originating business to Corporate Centre. Funds received with respect to deposits taken are lent on to Corporate Centre on matching terms as regards interest rate re-pricing and maturity. In a similar manner, loans are funded through matching borrowings. Market risks arising from structured products, including exposure to changes in the levels of equity markets, are hedged with Corporate & Institutional Banking. Material banking market risk exposures are transferred to and reside in Corporate Centre. Only short-term mismatches due to forecasting variances in prepayment and launch risk (i.e. where customers pre-pay loans before their contractual maturity or may not take the expected volume of new products) are retained in Santander UK's Retail Banking and Commercial Banking. In addition, structural exposures arising in the balance sheet are managed by Corporate Centre (e.g. foreign exchange and income statement volatility risk).

The principal exposures to banking market risks arise from:

KEY RISKS	DESCRIPTION
Interest rate risk	The most significant interest rate factors are: > **Yield curve risk** - arises from the timing mismatch in the re-pricing of fixed and variable rate assets, liabilities and off-balance sheet instruments, as well as the investment of non-interest-bearing liabilities in interest-bearing assets. Yield curve risk is predominantly measured with both Net Interest Margin ('NIM') and Economic Value of Equity ('EVE') sensitivity analysis supplemented by the other risk measures, such as stress testing, and VaR. The NIM and EVE sensitivities cover all material yield curve risk in the banking book balance sheet. > **Basis risk** - arises when assets are priced using a different rate index than the liabilities funding them. In particular, a potential exposure to basis risk arises from the divergence between base rate linked rates earned on customer assets and wholesale (LIBOR-linked) rates paid on liabilities funding those assets.
Inflation and spread risks	These arise where the value of, or income from, assets or liabilities can change due to changes in the market levels of inflation and spreads. Santander UK holds portfolios of securities for liquidity and investment purposes which are exposed to these risks. Assets in these portfolios are accounted for as available-for-sale securities, and volatility in their fair value is recognised in Other Comprehensive Income, until the asset is sold or unless it reflects impairment in the asset's fair value, at which point it is recognised in the Income Statement. The market risks of these portfolios are monitored through sensitivities, VaR and stress tests which are reported daily against limits and triggers to senior management and monthly to ALCO and Risk Management Committee. The VaR measures reported capture all key sources of volatility, including interest rate risk as well as inflation and spread risks, to fully reflect the potential available-for-sale volatility.
Foreign exchange risk	Santander UK's non-trading businesses operate mainly in sterling markets and therefore, with the exception of funding raised in foreign currencies (see the 'Wholesale Funding' section), do not originate significant foreign exchange exposures. Foreign currency funding positions are hedged back to sterling. Any foreign exchange positions (either for instance to 'spot' foreign exchange rates or to cross currency basis) are typically residual exposures remaining after hedging. Foreign exchange risk is monitored against absolute net exposures and VaR-based limits and triggers. See 'Redenomination risk' in the 'Country risk exposure' section and 'Term Issuance' in the 'Wholesale Funding' section.
Income statement volatility risk	The majority of assets and liabilities in the banking book balance sheet are accrual accounted. The risk profile from these assets and liabilities is in some cases managed with the use of derivatives. As all derivatives are accounted for at fair value, this difference in accounting treatment can lead to reported volatility in the income statement, even where the derivative is an economic hedge of the asset or liability. This volatility is largely mitigated through hedge accounting. Any hedge accounting ineffectiveness which may lead to income statement volatility is monitored using a VaR measure and trigger, reported monthly. The accounting policies for derivatives and hedge accounting are set out in Note 1 to the Consolidated Financial Statements.

Risk management and control	
>	Banking market risk is controlled in line with the Balance Sheet Management Risk Framework. Risk Appetite is articulated by both the income and value sensitivity limits set in accordance with the Santander UK Risk Appetite and by the limits for NIM and EVE sensitivities set by the Banco Santander group.
>	ALCO is responsible for managing the risk exposure of Santander UK within limits. In addition, a series of lower level risk limits and triggers are used to highlight when exposures are nearing limits and to control other material risk types, such as basis risk.
>	To manage interest rate risk in the banking book balance sheet, a combination of derivatives (typically interest rate swaps) and natural offsets between asset and liability positions are used. Positions are reported monthly to ALCO and the Santander UK Board Risk Committee.

Risk measures

For banking market risk, Santander UK (including ANTS) predominantly measures its market risk exposures with both NIM and EVE sensitivity analysis supplemented by the risk measures described in the Trading market risk section. NIM and EVE sensitivity measures are commonly used throughout the financial services industry. The calculations for NIM and EVE sensitivities involve many assumptions, including expected customer behaviour (e.g. early repayment of loans) and how interest rates may evolve. These assumptions form a key part of the overall control framework and are updated and reviewed on an on-going basis. The NIM and EVE sensitivities include the interest rate risk from all material Santander UK banking book positions. The banking book positions generate almost all the reported net interest income in Santander UK.

NIM sensitivity	
>	NIM sensitivity is an income-based measure and is used to forecast the changes to interest income and interest expense in different scenarios to provide a combined impact on net interest income over a given period, usually 12 months.
>	NIM sensitivity is calculated by simulating the net interest margin using current yield curve and net interest margin following a change in yield curves. The difference between the two net interest margin totals is the NIM sensitivity.
>	The main model assumptions are that the balance sheet is dynamic (it includes the run-off of current assets and liabilities as well as retained and new business) and a behavioural rather than contractual balance sheet is used (balances are adjusted for behavioural or assumed profile for most retail products where the behavioural maturity of products is less than the contractual maturity due to customers exercising the option for early withdrawal or prepayment, or where there is no contractual maturity).

EVE sensitivity	
>	EVE is calculated as the change in the net present value of all the interest rate sensitive items in the banking book balance sheet for a defined set of instantaneous parallel shifts in the yield curve. A static balance sheet is used, i.e. all balance sheet items run-off according to their contractual, behavioural or assumed run-off behaviour, as appropriate, and there is no retained or new business.

Limitations of sensitivities	
>	Sensitivities measure the impact of standard instantaneous parallel shifts in relevant yield curves (subject to a 0% interest rate floor where applicable). The advantage of using standard parallel shifts is that generally they provide a constant measure of the size of market risk exposure, with a simple and consistent stress. This compares to specific scenarios such as 'flat rates', the magnitude of which will depend on the shape of the current curve and hence shift required to reach the flat rate scenario. An exception to the relative simplicity of parallel shifts can arise when the yield curve is 'floored' at 0%, which can result in non-parallel down shifts.
>	The use of material parallel shocks may not be perceived as realistic, or necessarily test the scenarios that have the most impact on Santander UK (including ANTS). As a result, non-parallel stress tests are also run to calculate the impact of a range of plausible non-parallel scenarios, and over a range of time periods for income stresses (typically either one or three years).

Stress testing	
>	Stress testing of market risk factors is used to complement the risk measurement provided by standard sensitivities. Simple stress tests, such as parallel shifts in relevant curves, provide transparent measures of risk control and provide a consistent starting point for limit setting. More complex, multi-factor and multi-time period stress tests can provide information about specific potential events, and test a range of outcomes that may not be captured through parallel stresses, or VaR-type measures due to data or model limitations. Stress tests can also be used to estimate losses in extreme market events beyond the confidence level used in VaR models.
>	Stress testing results are discussed at senior level management committees. They influence decision making by Corporate Centre by highlighting potential risks in the banking book and the impact of remedial actions that could be taken to mitigate risks. The stress test results are contrasted against stress limits and triggers set by Santander UK internal committees, or against metrics set by the PRA. If results are to be found in excess of the limits or triggers, remedial actions and an escalation process are followed. Stress tests can be adapted to reflect current concerns or market conditions more rapidly than other risk measures such as VaR. Stress testing can include both individual business area stresses and Santander UK-wide scenarios.
>	Within Santander UK, stress tests are either: a) specific, deterministic stress tests not referenced to market history or expectations (e.g. parallel stresses of a given size), b) historic deterministic stress tests, with changes in market risk factors either based on specific events in the past (e.g. the situation in the fourth quarter of 2008) or based on a statistical analysis of changes in the past, or c) hypothetical deterministic stress tests, with the change in market risk factors based on a judgement of potential future rates in a given scenario.
>	Stress tests can be produced using either income or value measures. They may cover one or more categories of exposures accounted for on an accruals basis or at fair value. Expert judgement is used both in defining appropriate hypothetical stress tests and any adjusting assumptions regarding the balance sheet, management actions and customer behaviour.

Additional risk measures	
>	In addition to sensitivities and stress tests, banking market risk can be measured using net notional positions. This can provide a simple expression of exposure, although it typically needs to be combined with other risk measures to reflect all aspects of a risk profile such as projected changes over time.
>	The main remaining metric to quantify market risk is VaR. Whilst VaR measures can be a useful risk metric as they capture changes in economic values, VaR won't reflect the actual impact on the income statement of the majority of the assets and liabilities on the banking book balance sheet as they are accounted for at amortised cost rather than fair value.

Interest rate risk

Yield curve risk

The table below reflects how base case income and valuation across Santander UK (including ANTS) would be affected by a 50 basis point parallel shift (both upwards and downwards) applied instantaneously to the yield curve at 31 December 2014 and 2013. Sensitivity to parallel shifts represents the quantum of risk in a manner that is considered to be both simple and scaleable. 50 basis points is the stress which is now typically focussed on for banking market risk controls across Santander UK, although sensitivities to other parallel shifts are also regularly monitored. This is a change from 2013 when sensitivities to a 100 basis point shift were shown, as the changing market conditions and the lower yield curve mean sensitivity to a 50 basis point shift is now considered a more appropriate risk measure.

	31 December 2014		31 December 2013	
	+50bps	**-50bps**	+50bps	-50bps
	£m	**£m**	£m	£m
NIM sensitivity	**15**	**5**	90	85
EVE sensitivity	**103**	**(195)**	26	65

The change in sensitivities in 2014 was largely attributable to a change in balance sheet product mix, and a change in the modelling of the underlying pricing assumptions for administered rate products during the year to reflect current market conditions. This was partially offset by a rise in the volume of fixed rate assets left un-hedged.

Basis risk

Santander UK (including ANTS) is exposed to basis risks associated with Bank of England Base Rate, reserve rate linked assets deposited with central banks, the Sterling Overnight Index Average ('SONIA') rate, and between LIBOR rates of different terms. Basis risk is measured using a variety of risk measures, including VaR. The VaR measure uses the same VaR methodology as that for the trading book. The Basis Risk VaR at 31 December 2014 was £3m (2013: £8m). It reflects the basis risk exposure between Bank of England Base Rate and LIBOR. The decrease in Basis VaR during 2014 was largely due to the natural evolution of the balance sheet leading to a reduced underlying net basis position.

Inflation and spread risks

The VaR of the portfolios of securities held for liquidity and investment purposes at 31 December 2014 was £5m (2013: £5m). The main risk factors are inflation and spread risk exposures of these positions. These portfolios are regularly stress tested against a variety of historical and hypothetical scenarios. There are limits established against the potential losses estimated by the stress tests that complement the VaR-based limits discussed above. At 31 December 2014, the worst three month stressed loss for these portfolios was estimated to be £218m (2013: £139m) using historic deterministic stress tests. The increase in stressed loss in 2014 was due to more severe stresses being applied to the underlying market risk factors to reflect increased macro-economic uncertainties as well as changes in the composition of the bond portfolio as part of normal liquidity management activities.

LIQUIDITY RISK

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

Liquidity and funding risk is managed on a Santander UK group basis and it is therefore not appropriate to consider these risks separately at an ANTS group level. In addition, under the PRA's regulatory liquidity regime, Santander UK and ANTS together with Cater Allen Limited, a fellow subsidiary of Santander UK plc, form the Santander UK Defined Liquidity Group ('DLG'). Under these arrangements, each member of the DLG is liable to support each other in terms of transferring or receiving surplus liquidity in times of stress. In considering the liquidity resources available to the ANTS group, both its own liquid assets and also those of rest of the Santander UK group have been separately presented below.

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

INTRODUCTION

Liquidity risk is the risk that, although solvent, Santander UK (including ANTS) either does not have sufficient liquid financial resources available to meet its obligations as they fall due, or can only secure such resources at excessive cost. The Santander UK Risk Framework splits this into three elements. Firstly, funding or structural liquidity risk,relating to the capacity to raise sufficient liquid resources to meet payments required due to the maturity transformation required to lend long-term, but to fund predominantly through short-term liabilities (such as customer deposits). The second, market liquidity risk, is the risk that assets, held to mitigate the risk of failing to meet obligations as they fall due, which are normally liquid, become illiquid when they are needed. Finally, contingent liquidity risk is the risk that abnormal future events may require a larger than expected amount of liquidity than originally projected.

Primary sources and uses of liquidity

Santander UK is primarily funded by retail deposits. This, together with corporate deposits, forms its commercial bank franchise, which attracts deposits through a variety of entities. More than three quarters of Santander UK's customer lending is financed by customer deposits, primarily originating from the retail business. Although largely callable, these funds provide a stable and predictable core of funding due to the nature of the retail accounts and the breadth of personal customer relationships. Additionally, Santander UK has a strong wholesale funding base, which is diversified across product types and geography.

Through the wholesale markets, Santander UK has active relationships with many counterparties across a range of sectors, including banks, other financial institutions, corporates and investment funds. Other sources of funding include collateralised borrowings, mortgage securitisations and long-term debt issuance. Short-term funding is accessed through money market instruments, including time deposits, certificates of deposit and commercial paper. Medium to long-term funding is accessed primarily through asset securitisation and covered bond arrangements and Santander UK's euro and US dollar medium-term note programmes. The major debt issuance programmes are managed by, and in the name of, Abbey National Treasury Services plc on its own behalf (except for the US commercial paper programme, which is in the name of, Abbey National North America LLC, a guaranteed subsidiary of Santander UK plc) and are set out in Note 30 to the Consolidated Financial Statements.

The principal uses of liquidity for Santander UK are the funding of the lending of Retail Banking and Commercial Banking, payment of interest expenses, dividends paid to shareholders, the repayment of debt and consideration for business combinations. Santander UK's ability to pay dividends depends on a number of factors, including Santander UK's regulatory capital requirements, distributable reserves and financial performance.

Santander UK generates funding on the strength of its balance sheet, its profitability and its own network of investors. It does not rely on a guarantee from Banco Santander, S.A. or any other member of the Banco Santander group. Santander UK does not raise funds to finance other members of the Banco Santander group or guarantee the debts of other members of the Banco Santander group (other than certain of Santander UK plc's own subsidiaries, such as ANTS). As a PRA regulated group, Santander UK is expected to satisfy the PRA liquidity requirements on a standalone basis.

Whilst Santander UK manages its funding and maintains adequate liquidity on a stand-alone basis, Santander UK coordinates issuance plans with the Banco Santander group where appropriate. In addition to Santander UK's liquidity risk being consolidated and centrally controlled, liquidity risk is also measured, monitored and controlled within the specific business area or the subsidiary where it arises.

Key risks

Santander UK's key ongoing liquidity risks are:

KEY LIQUIDITY RISK	DEFINITION
> Retail deposit outflows	Risk of retail deposit outflows as Santander UK is seen as a greater credit risk than competitors.
> Corporate deposit outflows	Risk of corporate deposit outflows as Santander UK is seen as a greater credit risk than competitors.
> Wholesale secured and unsecured liquidity outflows	> Risk of wholesale unsecured deposits failing to roll over at maturity date. > Risk of wholesale secured funding with less liquid collateral failing to roll over at maturity date, or roll over of funding requiring additional highly liquid collateral.
> Off balance sheet activities	> Risk of collateral outflows due to credit rating downgrade of Santander UK. Credit rating downgrades could also result in increased costs or reduced capacity to raise funding. > Risk of outflows of collateral owed to counterparties but not yet called. > Risk of outflows of collateral due to market movements. > Risk of drawdowns on committed facilities based on facility type, and counterparty type and creditworthiness.
> Other risks	> Funding concentrations – risk of outflows recognised against concentration of providers of wholesale secured financing. > Intra-day cash flows – risk of shortfall of liquidity required to support intra-day requirements. > Intra-group commitments and support – risk of cash in subsidiaries of Santander UK becoming unavailable to the wider Santander UK group and contingent calls for funding from subsidiaries and affiliates. > Non-contractual outflows – risk of liquidity outflows required to meet outflows that are non-contractual in nature but necessary in order to support Santander UK's ongoing business and reputation.

LIQUIDITY RISK MANAGEMENT

Santander UK manages liquidity risk on a consolidated basis, and has created governance, oversight arrangements, its Liquidity Risk Appetite and associated control framework on this basis. Within this model, and under the PRA's regulatory liquidity regime, Santander UK and its subsidiaries Abbey National Treasury Services plc and Cater Allen Limited form the Santander UK Defined Liquidity Group ('DLG'). Under these arrangements, each member of the DLG is liable to support the others in terms of transferring or receiving surplus liquidity in times of stress. Santander UK ensures that liquidity flows between the DLG and other business areas within the Santander UK group are managed efficiently.

APPROACH TO LIQUIDITY RISK

>	Liquidity risks are identified, assessed, managed and encompassed within Santander UK's Risk Framework.
>	The primary objective of liquidity risk management is to ensure that Santander UK is liquidity risk resilient and compliant with the internal Liquidity Risk Appetite and regulatory requirements. This involves maintaining prudent levels of highly liquid assets, managing potential cash outflows and ensuring that access to funding is available from a diverse range of sources.
>	The Santander UK Board delegates responsibility for liquidity risk to the Santander UK CEO. The Santander UK CEO has in turn delegated the responsibilities for liquidity risk: > management to the Santander UK CFO (who in turn delegates to the Santander UK Finance Director); and > control and oversight to the Santander UK CRO supported by the Santander UK deputy CRMO and the Risk Division.
>	Santander UK maintains, as part of its overall liquidity and funding risk management framework, strong operational and management governance that seeks to make the Santander UK strategy as resilient as possible to potential liquidity and funding stresses by structuring the balance sheet in a prudent and sensible way. The framework applies to all aspects of liquidity risk, is in line with the Liquidity Risk Appetite and is monitored on a daily, weekly and monthly basis through different committees and levels of management, including ALCO and the Santander UK Board Risk Committee. Within liquidity risk management the Santander UK Finance Director delegates responsibility as follows: > Liquidity management to the Head of Liquidity to ensure that the business remains within appetite. Responsibilities include: > The proposition of the Liquidity Risk Appetite; > The design and maintenance of the Recovery Framework which forms part of Santander UK's Recovery and Resolution Plan. This includes the governance processes for managing a liquidity stress situation and the actions that would be taken to raise liquidity in order to alleviate the stress; > Liquidity regulatory reporting; and > The creation and maintenance of the funding plan. > Day-to-day operational liquidity management to the Head of Short Term Markets. This encompasses collateral management of highly liquid resources including central bank reserves and intra-day liquidity. > All aspects of short and term funding in both secured and unsecured markets to the Director, Funding and Collateral Management delivering Santander UK's strategic funding requirements in line with its detailed funding plan and risk appetite principles. The Director, Funding and Collateral Management ensures that Santander UK has active involvement in a range of wholesale funding markets ensuring that sources of funding can be maximised and so a conservative level of diversification of the balance sheet across product and average maturity is maintained.

Within the framework of prudent funding and liquidity management, Santander UK manages its activities to minimise liquidity risk, differentiating between short-term and strategic activities.

Short-term tactical liquidity management		
>	Liquid resources	Liquid assets, contingent liquidity and defined management actions to source liquidity are maintained to cover unexpected demands on cash in a most likely plausible stress scenario and other more distant and severe but less probable scenarios. In Santander UK's case, the most significant stress events include large and unexpected deposit withdrawals by retail customers and a loss of unsecured wholesale funding.
>	Funding profile	Metrics to help control the level of outflow within different maturity buckets.
>	Intra-day collateral management	To ensure that adequate collateral is available to support Santander UK's participation in various payment and settlement systems.

Strategic funding management		
>	Structural balance sheet shape	To manage the extent of maturity transformation (investment of shorter term funding in longer term assets), the funding of non-marketable assets with wholesale funding and the extent to which non-marketable assets can be used to generate liquidity.
>	Wholesale funding strategy	To avoid over-reliance on any individual counterparty, currency, market or product, or group of counterparties, currencies, markets or products that may become highly correlated in a stress scenario; and to avoid excessive concentrations in the maturity of wholesale funding.
>	Wholesale funding capacity	To maintain and promote counterparty relationships, monitor line availability and ensure funding capacity is maintained through ongoing use of lines and markets.

Risk limits and triggers are set for the key tactical and strategic liquidity risk drivers. These are monitored by and reported monthly to oversight committees and the Santander UK Board.

Financial adaptability (unaudited)

Santander UK also considers its ability to take effective action to alter the amounts and timing of cash flows so that it can respond to unexpected needs or opportunities. In determining its financial adaptability, Santander UK has considered its ability to:

- Obtain new sources of finance;
- Obtain financial support from other Banco Santander group companies; and
- Continue in business by making reductions in operations or using alternative resources.

LIQUIDITY RISK APPETITE (unaudited)

The Santander UK Board's risk objective is to be a risk resilient institution at all times, and to be perceived as such by stakeholders, preserving the short and long-term viability of Santander UK. The Santander UK Board recognises that a bank engaging in maturity transformation cannot hold sufficient liquidity to cover all possible stress scenarios but requires Santander UK to hold sufficient liquidity to ensure that it will survive the current most plausible stress scenario through a prudent balance sheet structure and the maintenance of approved liquid resources. The scenario is regularly reviewed to ensure that it reflects the current economic and market environment.

The Santander UK Board's Liquidity Risk Appetite statement is set in the context of principles of liquidity management, by which Santander UK chooses to manage its balance sheet, and the desire to meet or exceed regulatory requirements. The liquidity management principles include:

- Implementation of a funding structure that is consistent with the composition of the asset base;
- Maintenance of an appropriate retail deposit base by attracting stable deposits whilst avoiding over reliance on balances for products that have shown a propensity in the past to instability at times of stress;
- Well-balanced growth of assets and liabilities;
- Implementation of a funding strategy that:
  - avoids excessive reliance on short-term wholesale funding;
  - attracts sustainable commercial deposits;
  - provides effective diversification in the sources, products and tenor of funding; and
  - complies with internal encumbrance policy;
- Use of short-term funding to manage short-term commitments and volatility in funding; and
- Use of long-term funding to provide diversification, manage the liquidity structure of the balance sheet and support liquid resources.

The Liquidity Risk Appetite has been recommended by the Santander UK CEO and approved by the Santander UK Board, under advice from the Santander UK Board Risk Committee. The Liquidity Risk Appetite, within the context of the overall Risk Appetite, is reviewed and approved by the Santander UK Board at least annually or more frequently if necessary (e.g. in the case of significant methodological or business change). This is designed to ensure that the Liquidity Risk Appetite will continue to be consistent with Santander UK's current and planned business activities.

The Santander UK CEO, under advice from the Santander UK Board Risk Committee, approves more detailed allocation of liquidity risk limits. The Santander UK CRO, supported by the Risk Division (including the Santander UK CRMO and the Santander UK Director of Liquidity and Banking Market Risk), is responsible for monitoring the ongoing compliance with the liquidity risk appetite.

In addition to the Liquidity Risk Appetite, Santander UK also complies with regulatory requirements set by the PRA, other regulatory bodies and Banco Santander group standards.

STRESS TESTING (unaudited)

A liquidity stress test framework is in place. This incorporates the current most plausible stress scenario approved as part of the Santander UK Liquidity Risk Appetite. The liquidity outflows that result from this stress test must, in accordance with the Risk Appetite, be fully covered with high quality liquid assets. The outcome of a series of other plausible but less likely stress tests must be covered with a combination of high quality liquid assets, other assets and management actions sanctioned at the appropriate level of governance. These stress tests are run independently by the Risk Division and are as follows:

ACTIVITY	DESCRIPTION
> Santander UK Liquidity Risk Appetite stress	Comprehensive stress test considering all risk drivers applicable to Santander UK during an idiosyncratic shock experienced during a period of market-wide disruption which results in a loss of confidence in the brand.
> Consolidated stress	A severe stress test considering all risk drivers applicable to Santander UK during a protracted period of combined idiosyncratic and market shock resulting in significant ratings actions, outflow of funds and disruption across all main funding markets.
> US stress	Stress tests designed to examine the impact of a loss of US investor confidence materially affecting Santander UK's ability to access US funding markets.
> Acute retail stress	Stress tests examining the impact of a loss of retail depositor confidence, leading to significant and acute deposit outflows.
> Slow bleed stress	Stress tests designed to examine the impact of a protracted leakage of deposits.
> Wholesale stress	A stress test where a loss of corporate and wholesale customer confidence in Santander UK results in a protracted leakage of deposits.
> Eurozone stress	A stress test to review the impact of a significant but not severe stress resulting from a deterioration in confidence in the eurozone.
> Eurozone severe stress	A stress test considering a more extreme scenario where a significant deterioration in the eurozone economies has a knock-on (or contagion) effect to Santander UK, leading to severe liability outflows and rating agency action.

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

LIQUIDITY POOL

Santander UK holds, at all times, a portfolio of unencumbered liquid assets to mitigate liquidity risk. The size and composition of this portfolio is determined by Santander UK's Liquidity Risk Appetite and regulatory requirements.

Eligible liquidity pool

The table below shows the geographical distribution of the carrying value of the eligible liquidity pool held by the ANTS group and additional liquid assets held by the rest of the Santander UK group (to which the ANTS group has access through the cross guarantee and Defined Liquidity Group arrangements described above) at 31 December 2014 and 2013:

	Held by the ANTS group					Held elsewhere in Santander UK				
2014	**UK £bn**	**USA £bn**	**EEA £bn**	**Other £bn**	**Total £bn**	**UK £bn**	**USA £bn**	**EEA £bn**	**Other £bn**	**Total £bn**
Cash and deposits with central banks	**-**	**4.4**	**-**	**-**	**4.4**	**18.1**	**-**	**-**	**-**	**18.1**
Government bonds[5]	**5.3**	**3.2**	**0.1**[1]	**0.1**[2]	**8.7**	**3.9**	**-**	**0.5**[1]	**-**	**4.4**
Supranational bonds and multilateral development banks[6]	**-**	**-**	**-**	**-**	**-**	**-**	**0.5**	**0.5**	**-**	**1.0**
Covered bonds[7]	**-**	**-**	**-**	**-**	**-**	**0.3**	**-**	**1.4**	**0.1**	**1.8**
Asset-backed securities[8]	**-**	**-**	**-**	**-**	**-**	**0.3**	**-**	**0.2**	**-**	**0.5**
Corporate bonds[9]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equities	**0.4**	**-**	**0.1**	**0.1**	**0.6**	**-**	**-**	**-**	**-**	**-**
Eligible liquidity pool	**5.7**	**7.6**	**0.2**	**0.2**	**13.7**	**22.6**	**0.5**	**2.6**	**0.1**	**25.8**
2013										
Cash and deposits with central banks	-	4.9	-	-	4.9	21.1	-	-	-	21.1
Government bonds[5]	1.8	1.9	0.4[3]	0.3[4]	4.4	-	-	-	-	-
Supranational bonds and multilateral development banks[6]	-	-	-	-	-	-	-	0.1	-	0.1
Covered bonds[7]	-	-	-	-	-	0.4	-	0.9	-	1.3
Asset-backed securities[8]	-	-	-	-	-	0.1	-	-	-	0.1
Corporate bonds[9]	-	-	-	-	-	0.5	-	-	-	0.5
Equities	0.2	-	-	0.2	0.4	-	-	-	-	-
Eligible liquidity pool	2.0	6.8	0.4	0.5	9.7	22.1	-	1.0	-	23.1

(1) Consists of Germany
(2) Consists of Switzerland
(3) Consists of Denmark, Germany and European Investment Bank
(4) Consists of Japan and Canada
(5) Consists of AAA rated bonds of £13.1bn (2013: £2.6bn) and AA+ to AA- rated bonds of £nil (2013: £1.8bn)
(6) Consists of A- or above rated bonds of £1.0bn (2013: £0.1bn)
(7) Consists of A- or above rated bonds of £1.8bn (2013: £1.3bn)
(8) Consists of AA- or above rated bonds of £0.5bn (2013: £0.1bn)
(9) Consists of A+ bonds of £nil (2013: £0.5bn))

The eligible liquidity pool consists of assets which, according to Santander UK's interpretation at 31 December 2014, are eligible for inclusion in the Liquidity Coverage Ratio ('LCR') as high quality liquid assets. Key qualifying criteria are listed below:

- Government bonds or government-guaranteed bonds but only where the issuer is a central government, central bank, local authority or a regional government of the European Economic Area and other sovereigns subject to minimum credit ratings;
- Supranational bonds and multilateral development banks subject to minimum credit ratings;
- Covered bonds subject to minimum credit ratings or RWAs, asset coverage levels, issue size and additional criteria regarding local regulation
- Senior tranches of asset-backed securities including RMBSs issued by a European Economic Area country subject to minimum credit ratings, loan-to-value levels, residual weighted average lives and exposure levels
- Corporate bonds subject to minimum credit ratings, maximum tenor on issuance and issuance size; and
- Equity shares listed on major stock indices and subject to type of issuer and minimum price volatility levels.

Santander UK periodically tests the liquidity of the eligible liquidity pool it holds, in accordance with the PRA and Basel requirements to realise a proportion of these assets through repurchase or outright sale to the market. Santander UK ensures that the cumulative effect of its periodic realisation over any twelve month period is that a significant proportion of the assets in its eligible liquidity pool is realised.

In deciding on the precise composition of its eligible liquidity pool, Santander UK ensures that it tailors the contents of the portfolio to the needs of its business and the liquidity risk that it potentially faces. In particular, Santander UK ensures that it holds assets in its eligible liquidity pool which can be realised with the speed necessary to meet its liabilities as they fall due.

In addition to the eligible liquidity pool, Santander UK has access to other unencumbered assets which provide a source of contingent liquidity. A portion of these assets may be realised in a stress scenario to generate liquidity through either repurchase or outright sale to the market.

Liquidity developments in 2014 (unaudited)
2014 was characterised by steadily improving sentiment regarding the UK and US economies. Confidence in the eurozone economies has been slow to recover and remains volatile. In addition, overall investor sentiment continued to strengthen. A developing trend towards the search for enhanced yield and increased risk appetite was observed through the year.

During 2014, Santander UK benefited from low wholesale, unsecured and secured medium-term funding ('MTF') rates and increased confidence both in the UK banking sector and wider economic environment. This allowed a beneficial mix of MTF to be issued in line with funding plans.

Throughout 2014, Santander UK continued to maintain a strong liquidity position and a conservative balance sheet structure as well as robust risk management controls to monitor and manage the levels of the eligible liquidity pool and encumbrance. The eligible liquidity pool continued to significantly exceed wholesale funding of less than one year, with a coverage ratio of 171% at 31 December 2014 (2013: 155%). The change in the ratio (which is expected to be volatile due to the management of normal short term business commitments) was driven by an increase in eligible liquidity pool assets by £6.7bn to £39.5bn at 31 December 2014 (2013: £32.8bn) offset by an increase in wholesale funding with a residual maturity of less than one year of £1.9bn to £23.1bn at 31 December 2014 (2013: £21.2bn), due partly to the timing of secured funding maturities. In addition, the LCR was 110% at 31 December 2014 (2013: 103%).

FUNDING STRATEGY AND STRUCTURE (unaudited)

Santander UK's funding strategy continues to be based upon the maintenance of a conservatively structured balance sheet. The majority of Santander UK's funding is sourced from customer deposits; the balance is sourced from a mix of secured and unsecured funding in wholesale markets. This strategy avoids an over-reliance on wholesale funds, both medium and short-term, whilst at the same time ensuring that sources of funding are not overly concentrated in relation to one particular product. Santander UK maintains checks and controls to limit the level of asset encumbrance from secured funding operations.

A key source of funding for Santander UK is its significant base of stable retail and corporate deposits. Santander UK leverages its large and diverse customer base to offer products that provide a long term sustainable source of funding through an emphasis on the building of long term relationships.

Behavioural maturities

The contractual maturity of balance sheet assets and liabilities highlights the maturity transformation which underpins the role of banks to lend long-term, but to fund themselves predominantly through short-term liabilities such as customer deposits. This is achieved through the diversified funding franchise of the Santander UK group across an extensive customer base, both numerically and by depositor type. In practice, the behavioural profiles of many liabilities exhibit greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, whilst they may be repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of stress.

Santander UK models behaviour profiles using our experience of historical customer behaviour. These behavioural maturities are used to determine funds transfer pricing interest rates at which businesses are rewarded and charged for sources and uses of funds in connection with newly originated business prior to a customer contracting to an alternative product or service offered by Santander UK or by a competitor.

DEPOSIT FUNDING

Santander UK's Retail Banking and Commercial Banking activities are largely funded by customer deposits with the remaining funded with long-term debt and equity (including funding secured against customer loans and advances).

WHOLESALE FUNDING

Composition of wholesale funding

Santander UK continues to have access to a variety of sources of wholesale funding in a range of currencies, including those available from money markets, repo markets, medium term and subordinated debt investors, across a variety of distribution channels. Santander UK is an active participant in the wholesale markets and has direct access to both money market and long-term investors through its range of funding programmes. As a result, wholesale funding is well diversified by product, maturity, geography and currency.

Reconciliation of wholesale funding to the balance sheet

The table below shows ANTS's primary wholesale funding sources, excluding short-term repurchase agreements, together with a reconciliation of wholesale funding to the balance sheet at 31 December 2014 and 2013.

31 December 2014

		Balance sheet line item				
	Funding analysis £bn	**Deposits by banks £bn**	**Deposits by customers[2] £bn**	**Debt securities in issue £bn**	**Financial liabilities at fair value £bn**	**Trading liabilities £bn**
Deposits by banks (non-customer deposits)	**1.9**	**-**	**-**	**-**	**-**	**1.9**
CDs and Commercial Paper	**8.4**	**-**	**-**	**8.1**	**0.3**	**-**
Senior unsecured - public benchmark	**8.9**	**-**	**-**	**8.9**	**-**	**-**
- privately placed	**5.0**	**-**	**-**	**2.4**	**2.6**	**-**
Covered bonds	**17.8**	**-**	**-**	**17.8**	**-**	**-**
Securitisation & Structured issuance	**4.2**	**4.0**	**-**	**-**	**-**	**0.2**
Total wholesale funding	**46.2**	**4.0**	**-**	**37.2**	**2.9**	**2.1**
Repos	**8.4**	**-**	**-**	**-**	**-**	**8.4**
Foreign exchange and hedge accounting	**(0.4)**	**-**	**-**	**(0.4)**	**-**	**-**
Other	**18.2**	**13.4[1]**	**-**	**-**	**-**	**4.8[3]**
Balance sheet total	**72.4**	**17.4**	**-**	**36.8**	**2.9**	**15.3**

31 December 2013

		Balance sheet line item				
	Funding analysis £bn	Deposits by banks £bn	Deposits by customers[2] £bn	Debt securities in issue £bn	Financial liabilities at fair value £bn	Trading liabilities £bn
Deposits by banks (non-customer deposits)	1.3	-	-	-	-	1.3
CDs and Commercial Paper	6.6	-	-	5.8	0.8	-
Senior unsecured - public benchmark	7.5	-	-	7.5	-	-
- privately placed	2.9	-	-	0.3	2.6	-
Covered bonds	17.0	-	-	17.0	-	-
Securitisation & Structured issuance	4.6	4.2	0.4	-	-	-
Total wholesale funding	39.9	4.2	0.4	30.6	3.4	1.3
Repos	12.9	-	-	-	-	12.9
Foreign exchange and hedge accounting	0.3	-	-	0.3	-	-
Other	123.6	116.5[1]	-	-	-	7.1[3]
Balance sheet total	176.7	120.7	0.4	30.9	3.4	21.3

(1) Principally consists of amounts due to Santander UK subsidiaries, see Note 26 to the Consolidated Financial Statements. Also includes items in the course of transmission and other deposits.
(2) Included in the balance sheet total of £4,523m (2013: £7,780m).
(3) Consists of short positions in securities and unsettled trades, cash collateral and short-term deposits. See Note 28 to the Consolidated Financial Statements.

In addition to deposit and wholesale funding, Santander UK has access to the following UK Government schemes:

i) Funding for Lending Scheme ('FLS')
This Bank of England and HM Treasury scheme is designed to boost lending to UK households and non-financial companies, by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to the net lending to the UK non-financial sector over a specified period. The FLS allows participants to borrow UK Treasury bills in exchange for eligible collateral during a drawdown window. Eligible collateral consists of all collateral eligible in the Bank of England's Discount Window Facility.

ii) Contingent Term Repo Facility ('CTRF')
The CTRF provides short-term liquidity to the market through monthly auctions and using eligible collateral as security. Eligible collateral consists of all collateral eligible in the Bank of England's Discount Window Facility.

iii) Indexed Long-Term Repo ('ILTR')
These Bank of England operations are aimed at banks, building societies and broker-dealers with a predictable need for liquid assets. The Bank of England offers funds via an ILTR operation once each calendar month, normally with a six-month maturity. Participants are able to borrow using eligible collateral as security. Eligible collateral consists of all collateral eligible in the Bank of England's Discount Window Facility.

Funding developments in 2014 (unaudited)
Our overall funding strategy is to develop and maintain a diversified funding base, which allows us access to a variety of funding sources. As part of this strategy, Santander UK raises funding in a number of currencies, including US dollars and euro, and converts these back into sterling to fund its commercial assets which are largely sterling denominated. Where Santander UK raises term funding in foreign currencies, cross currency matched swaps are used to convert the foreign currency into sterling.

In keeping with the pattern of new issuance in 2013, the focus of Santander UK's new issuance in 2014 was in the unsecured markets. In total, we issued six public US dollar unsecured securities and one public euro unsecured security. In addition to the unsecured issuance, we issued residential mortgage-backed securities and two benchmark Sterling covered bonds, forms of financing that permit us to benefit from our prime UK mortgage assets. The improvement in market sentiment over the medium term continued in 2014. The wholesale funding markets that we operate in, whilst subject to some limited short term volatility, continued to be stable, offering us economically viable sources of funding. This stable market backdrop allowed Santander UK to continue to have a more balanced mix of wholesale unsecured and secured new issuance than in recent years. Overall, the cost of wholesale funding continued to fall due to the replacement of expensive MTF maturities with lower cost new issuance in the now more stable capital markets environment.

In 2014, Santander UK's MTF issuance was £12.9bn (2013: £6.6bn). In June and December 2014, respectively, £500m and £300m of Perpetual Capital Securities were issued to Santander UK's immediate parent holding company, which issued similar securities to Banco Santander, S.A. In addition, £2.2bn of Treasury bills were drawn under the FLS.

CAPITAL RISK (unaudited)

Santander UK (of which ANTS is a part) adopts a centralised capital management approach, based on an assessment of both regulatory requirements and the economic capital impacts of our businesses. This approach operates within the Santander UK Board-approved Risk Appetite, and takes into account the commercial environment in which ANTS operates, management's strategy for each of its material risks and the potential impact of adverse scenarios and stresses on the capital position. Details of ANTS's objectives, policies and processes for managing capital can be found in Note 42 to the Consolidated Financial Statements.

Capital risk is the risk of ANTS not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements and market expectations.

Whilst the Company and its parent Santander UK plc are part of the wider Banco Santander group, both the Company and Santander UK plc are incorporated in the UK, regulated by the PRA and do not benefit from guarantees from Banco Santander, S.A. and Santander UK plc operates as an autonomous subsidiary. As such, responsibility for the management, control and assurance of capital risk lies with the Santander UK Board, and the ANTS Board with respect to its own capital. The ANTS Board delegates day-to-day responsibility for capital risk to the ANTS CEO.

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 14 December 2012 (the 'Capital Support Deed') with certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed constitute a core UK group for the purposes of the PRA's rules. Under the PRA's rules, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. From January 1 2014, the applicable PRA rules were replaced by Article 113 (6) of CRR.

The Santander UK Capital Risk Framework (which ANTS has adopted), reviewed by the Santander UK Board annually, describes the high level arrangements for identifying, assessing, managing and reporting Santander UK capital risk.

CAPITAL RISK MANAGEMENT

The key elements of Santander UK's capital management are:

APPROACH TO CAPITAL RISK	
>	**Strategic capital risk management** where, in the form of an annual capital plan (contained within the Internal Capital Adequacy Assessment Process ('ICAAP')), the regulatory and internal capital requirements and capital resources are forecasted based on the medium term business plan. Alongside this capital plan, Santander UK stresses the capital requirements and resources using a suite of macroeconomic scenarios.
>	**Short term, tactical capital risk management**, where frequent monitoring and reporting against the capital plan is performed to detect where any deterioration or change in the planned business performance may impact the capital levels. Additionally, monthly monitoring of the economic assumptions used to create and stress the capital plan against economic reality is undertaken to detect potential deterioration in the capital levels.
>	Decisions on the allocation of capital resources are conducted as part of Santander UK's strategic planning process based on the relative returns on capital using both economic and regulatory capital measures.
>	Santander UK also defines management actions in the event that an extremely severe period of stress threatens its viability and solvency. These include, but are not limited to: suspension of disbursements; divestment of assets; selective reduction in new business activity and capital issuances.

ANTS manages its capital based on an assessment of both regulatory requirements and the economic capital impacts of our businesses. The regulatory capital position at 31 December 2014 is based on the CRD IV rules, which implement Basel III in the EU and came into force on 1 January 2014. Regulatory capital demand is quantified for credit, trading market, banking market, operational, pension obligation and securitisation risk in accordance with PRA requirements. Santander UK produces and shares with the PRA its Internal Capital Adequacy Assessment Process document, which informs the supervisory review and evaluation process by the PRA which can result in additional capital requirements.

Capital regulation developments in 2014 (unaudited)

The Bank of England, acting through the FPC, undertook a review of the leverage ratio during 2014, the results of which were published on 31 October 2014. It recommended that a minimum leverage ratio requirement should be set at 3%, with additional supplementary leverage and countercyclical leverage ratio buffers to be held. These buffers would be set equal to 35% of the risk-weighted systemic buffer and countercyclical buffer respectively. This framework will supersede the current supervisory expectation that a 3% leverage ratio is maintained.

The Basel Committee on Banking Supervision also produced a range of proposals for revisions to the capital treatment of trading book market risk, operational risk, credit risk standardised approaches and capital floors. These proposals have the potential to significantly impact the measurement of risk weighted assets ('RWAs') for these risk types. In addition, the European Banking Authority is continuing to develop and finalise a range of Regulatory Technical Standards which extend the CRD IV rules.

OPERATIONAL RISK (unaudited)

Operational risk is the risk of direct, or indirect, loss to ANTS resulting from inadequate or failed internal processes, people and systems, or from external events. As operational risk is inherent in the processes ANTS operates, in order to provide services to customers and generate profit for investors, an objective of operational risk management is not to eliminate operational risk altogether, but to manage the risk within an acceptable level, taking into account the cost/benefits of risk optimisation. When operational risks materialise, they can have not only immediate financial consequences for ANTS, but also an effect on its business objectives, customer service and regulatory responsibilities. Examples of operational risks include fraud, process failures, system downtime or damage to assets due to fire or flood.

Operational Risk Framework

The Operational Risk Framework represents the operating model and explains how Santander UK (including ANTS) controls and manages its operational risks within the appetite agreed by the Santander UK Board and helps everyone understand their responsibilities. It is a core component of the overall Risk Framework and facilitates the ongoing identification, assessment, management and reporting of operational risk, to ensure that Santander UK (including ANTS) manages its risks at all times in line with its business objectives and within its risk appetite. Santander UK's priority is to identify and optimise the risk of loss wherever appropriate, irrespective of whether losses have materialised. Measurement of the risk contributes to the establishment of priorities in operational risk management.

Operational risk management and tools

The following table sets out the key operational risk management tools:

KEY TOOLS		DESCRIPTION
>	Scenario analysis	Santander UK (including ANTS) performs scenario analysis of the most significant operational risk exposures in the processes and activities within business areas. Each business area has a set of scenarios that is reviewed and refreshed on an annual basis, taking into account changes to the business' risk profile, the operating environment of the business and potential breaches of the Risk Appetite. The analysis provides insight into low frequency, high impact events, and allows management to better understand the potential impacts and remediate issues by: > Identifying the events that would cause most damage from a financial, regulatory or reputational perspective; > Ensuring that remedial actions are taken where control and assurance around a scenario is not sufficient; and > Facilitating the assessment of capital adequacy.
>	Operational risk assessments	Business units identify and assess their operational risks to ensure they are being effectively managed and controlled, and aligned to Santander UK's risk appetite with any actions prioritised.
>	Key risk indicators and key control indicators	Key indicator performance is monitored against tolerances and trigger points that prompt an early warning to potential exposures, whilst the creation of mitigation strategies help address potential concerns. Indicator metrics are used to provide insight into Santander UK's (including ANTS) changing risk profile and are also used to assess the performance of key controls.
>	Loss data collection and incident management	Loss data capture and analysis processes exist to capture all operational risk loss events. The data is used to identify and correct control weaknesses using root cause analysis to identify emerging themes, prevent or reduce the impacts of recurrence, and inform risk and control assessments, scenario analysis and risk reporting. Escalation of single or aggregated events to senior management and appropriate committees is determined by threshold breaches.
>	Reporting	Reporting forms an integral part of operational risk management ensuring that issues are identified, escalated and managed on a timely basis. Exposures for each business area are reported through monthly risk and control reports which include details on risk exposures and mitigating plans. Events that have a material impact on Santander UK's finances, reputation, or customers are prioritised and reported immediately to key executives.

Where appropriate, insurance products are utilised to complement existing risk mitigation measures.

Key risks

Santander UK (including ANTS) manages its key operational risks in the interests of all its stakeholders, responding to critical developments both within Santander UK and in the environment in which it operates. Risk events and any required changes to management controls are reported through the governance structure. These key risks are set out in the table below:

KEY RISKS	DESCRIPTION
> **Cyber-attack**	Cyber-attacks refer to the risks involving electronic storage, communication networks and infrastructure, and may fall under the general categories of cyber-crime, sabotage, data leakage or espionage. Cyber-attack methods and targets change rapidly and are increasing in frequency and sophistication. Santander UK works closely with other financial organisations, government bodies and security specialists to constantly review and improve operational resilience, share intelligence and deploy preventative measures in a timely manner, and continues to focus investment on technology and process control improvements and education programmes to reduce cyber risk and enhance data security.
> **Supplier risk**	Supplier risk is the risk of reductions in earnings and/or value, through financial or reputational loss associated with the failure of a service or goods provision by a third party organisation. Santander UK has arrangements with Banco Santander group companies (including the provision of IT infrastructure, software development and banking operations) and external outsourced service providers. A comprehensive supplier risk management and control policy applies to the management of all suppliers contracted by ANTS to provide services or goods. ANTS uses written service level agreements with these entities that include key service performance metrics. ANTS works closely with outsourced service providers via the application of appropriate processes and procedures designed to ensure the business resilience of critical services.
> **Fraud risk**	Fraud risk is the risk of reductions in earnings and/or value through activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion. ANTS has continued to invest in staff education and improved external and internal fraud detection and prevention systems, in order to counter the increasing threat of financial crime. The introduction of sophisticated internet fraud prevention solutions and use of mandatory identification numbers for payments has reduced the risk of fraudulent account takeovers by organised criminals, enhancing our customer identification protocols in a customer-friendly manner. The fraud prevention functions continually monitor emerging fraud trends and losses on a case-by-case basis. Action plans are formulated and tracked to ensure root causes have been identified and effective remediation conducted.

Capital and modelling

Santander UK (including ANTS) applies the standardised approach for Pillar 1 operational risk capital requirements. In addition, an internal model has been developed to assess the Pillar 2 capital requirements. In 2014, we further enhanced our approach to the statistical modelling of operational risk losses developing an improved engine which is now aligned with the CRD IV advanced measurement approach.

Operational risk developments in 2014 (unaudited)

A revised Operational Risk Framework was approved in January 2014. To support the delivery of this revised framework a phased Operational Risk Transformation Programme ('ORTP') running through to 2016 has been developed. Included within the ORTP are significant developments in the key components of Operational Risk Assessments, scenario analysis, key risk indicator monitoring, change assessments and loss/incident data collection, all of which build on the work undertaken during the Santander UK-wide cultural risk change initiative programmes to strengthen and further embed a risk management culture. The key operational risk indicators, defined as part of Santander UK Operational Risk Appetite, are monitored on a monthly basis and escalated to the Santander UK Board Risk Committee when they exceed certain pre-agreed thresholds.

CONDUCT RISK (unaudited)

Conduct risk is the risk that ANTS's decisions and behaviours lead to a detriment or poor outcomes for our customers and that the ANTS group fails to hold to and maintain high standards of market integrity. As part of this risk definition, the following sub-types have been identified:

KEY RISKS	DEFINITION
> **Product risk**	The risk that ANTS puts on sale products and services that do not meet customer needs.
> **Sales risk**	The risk that ANTS sells unsuitable products and services to customers or provides insufficient information to allow customers to make an informed decision.
> **Post sales & servicing risk**	The risk that ANTS does not: > have robust processes and systems, resulting in poor customer outcomes; > communicate properly with its customers after-sale and creates unreasonable barriers for customers; or > work appropriately with customers in financial difficulty resulting in poor and/or unsustainable outcomes.
> **Culture risk**	The risk that ANTS does not sustain a culture where success is achieved by being Simple, Personal, and Fair to its customers.

ANTS also aligns these sub-types under the operational risk category 'Clients, Product & Business Practices'.

Santander UK (including ANTS) considers conduct risk to be a primary risk type and takes a forward-looking approach to managing the risk in alignment with the Conduct Risk Framework. This framework has been developed through Santander UK's overall Risk Framework and Operational Risk Framework, which include the core principles of risk management and control activities.

The Conduct Risk Framework defines the overriding principles and responsibilities for the identification, assessment, management, and reporting of conduct risk. It is the operation of, and outputs from, these risk management activities that enable Santander UK to manage conduct risk exposures. Business units are required to manage their activities in accordance with the principles and guidelines set out in the Conduct Risk Framework, together with those detailed in the Santander UK Risk and Operational Risk Frameworks.

Key business decisions, including product approval, business strategy developments and conduct related remediation programmes are monitored and reported through formal governance committees.

APPROACH TO CONDUCT RISK
> ANTS takes a robust and pro-active approach to managing conduct risk in accordance with the Santander UK Conduct Risk Framework and has embedded the key principles necessary for managing conduct risk effectively in its strategy of being Simple, Personal and Fair to its customers. The approach is supported by 'the Santander Way', a cultural programme which defines the values that are expected throughout the organisation.
> In line with other banks, Santander UK (including ANTS) has undertaken a series of activities to enhance the management of its conduct risks, which culminated in the Santander UK Conduct Risk Programme. This has focused on the development of four key elements: Risk Framework and Policy, Products, Governance and Reporting, and Culture. Changes have been made to specific business processes, as well as to the way the business considers, manages and reports conduct risks. In particular, enhancements continue to be made to the product governance and underlying sales processes to ensure that new products are appropriately designed and sold, with risks of customer detriment having been considered and mitigated prior to launch.
> The Santander UK conduct risk appetite defines the type and level of: > Inherent conduct risk (Low – Medium) that Santander UK (including ANTS) is willing and able to accept in the pursuit of its strategic objectives, as expressed in business plans; > Residual conduct risk (Minimal) that Santander UK (including ANTS) is willing to tolerate in the pursuit of its strategic objectives; and > The principles of business that Santander UK (including ANTS) will adopt in order to manage its business to a minimal tolerance for the residual risk. The Santander UK Conduct Risk Appetite is accompanied by an inherent conduct risk matrix, which articulates the business model features associated to different level of inherent conduct risk.

Conduct risk developments in 2014 (unaudited)

During 2014, the Santander UK Conduct Risk Strategy programme strengthened the Santander UK Conduct Risk Management Framework through enhanced reporting and monitoring, and clearer consideration of conduct risk in material business decisions. Work continues to embed this framework in the business.

REGULATORY RISK (unaudited)

Regulatory risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from failing to comply with applicable codes and regulatory rules. ANTS seeks to ensure it fully meets all its regulatory obligations. Regulatory risk arises principally from the potential non-adherence to specific regulations and the requirements of the following regulators and their rules and guidance:

- FCA, including Anti-Money Laundering and Anti-Bribery Regulations;
- PRA;
- Information Commission Officer;
- Lending Standards Board;
- Financial Ombudsman Service ('FOS');
- Advertising Standards Authority;
- Competition and Markets Authority ('CMA');
- Finance and Leasing Association; and
- Payment Systems Regulator.

APPROACH TO REGULATORY RISK	
>	Santander UK (including ANTS) takes compliance with regulatory requirements seriously and manages its arrangements in accordance with the Santander UK Regulatory Risk Framework. This framework has been developed through Santander UK's overall Risk Framework and Operational Risk Framework, which include the core principles of risk management and control activities.
>	The Santander UK Regulatory Risk Framework defines the overriding principles and responsibilities for the identification, assessment, management, and reporting of regulatory risk. It is the operation of, and outputs from, these risk management activities that enables Santander UK to manage regulatory risk exposures.
>	All Business Units are expected to manage their team activities and processes in accordance with the principles and guidelines in the Santander UK Regulatory Risk Framework, the Santander UK Risk Framework and the Santander UK Operational Risk Framework.
>	Key regulatory developments are monitored and reported through formal governance committees. Reporting captures all material regulatory reviews and investigations and upstream regulatory developments, as well as tracking the status of, and trends in key regulatory relationships.

Regulatory risk developments in 2014 (unaudited)

There are a number of legislative and regulatory developments both in the UK and abroad going through consultation and implementation processes, which may impact ANTS's approach to regulatory risk. Key developments at varying stages of the UK regulatory consultation process which are expected to have a significant impact include the implementation of ring-fencing and new accountability regimes (senior managers and certification regimes) following the passing of the Banking Reform Act in 2013.

In addition, there were a number of UK regulatory developments in 2014. The most significant were the implementation of the Mortgage Market Review and the transfer of consumer credit regulation from the OFT to the FCA, both of which became effective in April 2014. Santander UK (including ANTS) managed these changes and has in a place a robust approach to identifying, assessing, managing and reporting any additional risks emerging from the new requirements.

Further information on regulatory developments is set out in 'Risk Factors' section.

LEGAL RISK (unaudited)

Legal risk is the risk of an impact arising from legal deficiencies in Santander UK's (including ANTS's) contracts, its failure to take appropriate measures to protect its assets, its failure to manage legal disputes appropriately or its failure to assess or implement the requirements of a change in law.

Legal risk arises from the following main sources:

- **Documentation used for our customer business:** inadequate, incomplete or inaccurate documentation may not protect the interests of either Santander UK or our customers;
- **Failure to ensure that Santander UK's security interests are registered:** a failure to properly register a legal charge, such as a mortgage, or other security interest, will leave Santander UK exposed; and
- **The pace of regulatory change:** which may result in failure to be compliant with new laws in their entirety on the date they come into force.

APPROACH TO LEGAL RISK	
>	Santander UK (including ANTS) takes a robust approach to managing legal risk in accordance with the Legal Risk Framework. This framework has been developed through Santander UK's overall Risk Framework, which includes the core principles of risk management and control activities.
>	The Santander UK Legal Risk Framework defines the overriding principles and responsibilities for the identification, assessment, management, and reporting of legal risk. It is the operation of, and outputs from, these risk management activities that enables Santander UK to manage legal risk exposures within the tolerances outlined in the Santander UK Risk Appetite statement.
>	All Business Units are expected to manage their team activities and processes in accordance with the principles and guidelines in the Santander UK Legal Risk Framework, the Santander UK Risk Framework and the Santander UK Operational Risk Framework.

Santander UK (including ANTS) continues to monitor, assess and respond to developments concerning legal requirements intended to prevent future financial crises or otherwise assure the stability of financial institutions.

Legal risk developments in 2014 (unaudited)

Effective management of legal risk continued and was expanded throughout 2014 as it remained a key area of focus. The scale and pace of regulatory change continued to be a challenge together with other related changes in the law. As noted under regulatory risk, key regulatory developments were regularly identified, assessed, managed and reported in line with Santander UK's Risk Framework. The key risk indicator of 'aggregated value at risk of all managed legal claims' remained stable during the year, at a level well below the threshold triggers and represented a significant reduction on the average 2013 levels.

STRATEGIC RISK (unaudited)

Strategic risk is the risk of not achieving the strategic business plan due to strategic decisions taken or the inability to respond to changes in the business environment.

Strategic risk can conceptually arise from the following main sources:

- An incomplete evidence base on which to base our decisions regarding the current and future operating conditions including the macroeconomic and regulatory environment, changing customer expectations, actions by competitors, and rapid technological change.
- A partial view of our own capabilities, positioning in the market place, and / or of our ability to implement our chosen strategy

Effective management of strategic risk is central to ANTS maintaining its market share, revenues and returns to our shareholders.

APPROACH TO STRATEGIC RISK	
>	Key risks are discussed and managed on a regular basis through Santander UK's governance structure including the Santander UK Executive Committee and Santander UK Board, the Santander UK Board Risk Committee and the Santander UK Executive Risk Committee. As part of this, management assesses relevant information across the whole business which may highlight either risks to the implementation of Santander UK's (including ANTS) strategy.
>	There is a detailed planning cycle centred on three year financial plans, performed once a year. It sets out Santander UK's objectives in detailed plans which also take account of the likely business and regulatory environment, and are subject to business plan testing to ensure that Santander UK stays within its Risk Appetite. As part of this process, we also conduct deep dives into specific business areas where appropriate to articulate and define our strategy in this particular area and determine how it relates to Santander UK's (including ANTS) wider strategy.
>	We strive to reduce risks by having a clear strategic framework in place (for more detail please refer to the Strategic Report). This framework maps our principal stakeholders (Employees, Customers, Shareholders and Communities) and measures our progress towards Santander UK's goal of becoming the best bank for our stakeholders. We aim to achieve this through the 'Santander Way', which centres on building a bank that is simple, personal and fair in how it treats its people, cares for its customers, serves its shareholders and supports its communities.
>	Santander UK has developed specific targets and key performance indicators ('KPIs') that underpin this framework and help measure our progress against our strategic priorities. Santander UK management reviews the KPIs and tracks their performance against clear targets at a Santander group level, and routinely reports on how Santander UK performs against them. Deviations from expected values or targets are analysed to ascertain the underlying causes and explore potential mitigants. We also monitor a wide range of external economic and market metrics and reporting, and internal financial, regulatory and business measures to track changes in the operating environment and our business performance.

Strategic risk developments in 2014 (unaudited)

Risks to banks' strategies continued in 2014, as factors such as regulatory, economic and to some degree political uncertainty, technological change and the emergence of new bank business models challenged the industry. Regulatory initiatives including the implementation of UK bank 'ring-fencing' legislation, the recently announced market investigation by the Competition and Markets Authority, and other macro-prudential, micro-prudential and conduct-related announcements continued to affect banks' operating environment.

During 2014, we made continued progress towards achieving our strategic objectives. Santander UK's strategic model, with its customer focus and low risk approach, helps us respond to the above challenges and meet our strategic goals.

REPUTATIONAL RISK (unaudited)

Reputational risk is the risk of brand damage and potential financial loss if ANTS fails to meet stakeholders' expectations of its conduct and performance. Stakeholders include colleagues, customers, clients, shareholders, investors, rating agencies, regulators, media, special interest and consumer groups, and the general public. Reputational risk encompasses negative reaction not only to activities which may be illegal or against regulations, but also to activities that may not be fully aligned to society's standards, values and expectations.

Reputational risk arises from a wide variety of causes, including:

> **How we conduct our customer business:** and the way in which clients to whom we provide financial services, and bodies who represent ANTS, conduct themselves.

> **Failures in corporate governance or management:** past, present or potential non-performance or non-compliance.

> **How we conduct our business or how business activities are conducted in the banking and financial industry**: the actual or perceived manner in which ANTS or other participants in the financial services industry conduct themselves.

APPROACH TO REPUTATIONAL RISK	
>	ANTS rigorously manages risks that may affect its reputation and which may in turn detract from its ability to achieve its strategic objectives. Reputational considerations are built into all the key risk and issue assessment tools, and the governance structure provides the vehicle through which these considerations are addressed.
>	Policies to guide subsidiary companies and management at all levels in the conduct of business to safeguard Santander UK's reputation are established by the Santander UK Board and its committees.
>	Reputational risk is managed by every member of staff and is covered by policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk, with the objective of ensuring that all decision-making includes an evaluation of the reputational risk and that, where material risk is identified, it is managed at the appropriate level of seniority and in a timely way.
>	Every member of ANTS staff is responsible for managing the reputational risk associated with their decisions and actions. The implementation of Simple, Personal, Fair: The Santander Way, which is Santander UK's framework for how we do business, encourages colleagues to speak up if they encounter decisions or behaviours which are not in keeping with Santander UK's purpose and values, and promotes a more open culture conducive to the identification, assessment, management and reporting of risks.
>	Reputational risks can also arise from environmental, social and governance issues, as a consequence of operational risk events and as a result of employees acting in a manner inconsistent with Santander UK's (including ANTS's) values. Reputational risk may also cause damage to ANTS's image, through association with clients, their transactions or projects if these are perceived by external stakeholders to be socially, ethically or environmentally damaging. As part of the Banco Santander group, we comply with the Equator Principles (see www.equator-principles.com), factoring social, ethical and environmental impacts into our risk analysis and financial decision-making process.

ANTS regularly reviews its policies and procedures for safeguarding against reputational risk. This is an evolutionary process which takes account of industry guidance, best practice and society's expectations.

Reputational risk developments in 2014 (unaudited)

During 2014, Santander UK (including ANTS) undertook a range of initiatives to strengthen governance and drive positive cultural change through the organisation. Governance around the management of reputational risk was enhanced to promote such a consistent approach and a risk-aware culture across Santander UK (including ANTS), including a substantial increase in resources and investment allocated to the Compliance Division, as well as an increase in dedicated resources in the Risk Division. This was supported more widely across Santander UK by the continued roll-out of Simple, Personal, Fair – The Santander Way.

MODEL RISK (unaudited)

Model risk is the risk of loss arising from decisions mainly based on results of models, due to errors in the design, application or usage of such models. Model risk arises from the following main sources:

>	**Modelling limitations:** Limitations or approximations in the modelling techniques that have been employed. This risk is mitigated by the appropriate control environment and model governance.
>	**Potential inappropriate use of a model:** This is considered as an operational risk scenario.

APPROACH TO MODEL RISK

>	ANTS mitigates model risk through a control environment and governance protocol that manages models throughout their lifecycle. The key elements of this control environment are included in management policies and procedures, and include: > The collation and maintenance of a central model inventory; > The assignment of a materiality for each model in the model inventory – an assessment of the relative criticality of the model to the organisation; > The identification of key model stakeholders (owners, developers and independent reviewers) and assignment of their associated responsibilities; > The establishment of a robust governance protocol to manage model risk and to act as the single approval body for model developments and enhancements as well as the tracking of model performance, model-related actions and issues, and agreement and prioritisation of development plans; > The inclusion of model risk updates at the appropriate fora and committee levels including risk metrics in the Risk Appetite statement; and > The inclusion of a model performance escalation process via which senior management and/or committees can be informed of any significant deterioration in a given model's performance.
>	A specialised independent model validation unit reviews models and helps ensure that appropriate rigour is deployed in the independent review process, to help further mitigate model risk. Typical validations incorporate not only the core model methodology but a wider range of investigations, including checks on data (quality, reliability, and coverage), use of the model, control environment, technology deployed, surrounding documentation, sensitivities, assumptions and boundaries. The output from validations is regularly presented to the appropriate committees.

Model risk developments in 2014 (unaudited)

During 2014, Santander UK (including ANTS) reviewed and strengthened its approach and governance of model risk management across the Risk division. This is planned to be extended into other divisions during 2015.

AREAS OF FOCUS AND OTHER ITEMS

1. COUNTRY RISK EXPOSURE

The ANTS group manages its country risk exposure under its global limits framework. Within this framework, the ANTS group sets its individual risk appetite for each country, taking into account any factors that may influence the risk profile of each country, including political events, the macro-economic situation and the nature of the risk incurred. Exposures are actively managed if it is considered appropriate. Accordingly, and over recent years, ANTS has intensified its monitoring of exposures to sovereigns and counterparties in eurozone countries, and has proceeded to selectively divest assets directly or indirectly affected by events in those countries. **Santander UK group and Banco Santander group-related risk is considered separately.**

The country risk tables below show the ANTS group's exposures to central and local governments, government guaranteed counterparties, banks, other financial institutions and corporate customers at 31 December 2014 and 2013. Total exposures consist of the total of balance sheet values and off-balance sheet values. Balance sheet values are calculated in accordance with IFRS (i.e. after the effect of netting agreements recognised in accordance with the requirements of IFRS), except for credit provisions which have been added back. Off balance sheet values consist of undrawn facilities and letters of credit.

The country of exposure has been assigned based on the counterparty's country of incorporation except where the ANTS group is aware that a guarantee is in place, in which case the country of incorporation of the guarantor has been used. The exposures are presented by type of counterparty other than where the specific exposures have been guaranteed by a sovereign counterparty in which case they are presented within the 'Government guaranteed' category.

Given the ongoing interest in eurozone economies, disclosures relating to those economies are presented first and highlighted separately.

The tables exclude credit risk exposures to other Santander UK group companies and other Banco Santander group companies, which are presented separately in the 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander group companies' sections.

31 December 2014	Central and local governments £bn	Government guaranteed £bn	Banks [2] £bn	Other financial institutions £bn	Corporate £bn	Total[1] £bn
Eurozone:						
Peripheral eurozone countries:						
Portugal	-	-	-	-	-	-
Ireland	-	-	-	-	0.3	0.3
Italy	0.9	-	0.1	-	-	1.0
Spain (excluding Santander)	-	-	0.2	-	-	0.2
Greece	-	-	-	-	-	-
Other eurozone countries:						
Germany	0.2	-	1.5	-	0.3	2.0
France	-	0.4	1.7	-	-	2.1
All other eurozone[3]	-	-	0.3	-	1.1	1.4
	1.1	0.4	3.8	-	1.7	7.0
All other countries:						
UK	3.4	0.4	9.1	4.6	28.2	45.7
US	4.7	0.2	9.6	1.0	0.1	15.6
Switzerland	0.7	-	0.4	-	-	1.1
Denmark	0.3	-	0.1	-	0.2	0.6
Japan	3.8	-	0.1	0.1	1.1	5.1
All others[4]	-	-	0.5	0.1	1.9	2.5
	12.9	0.6	19.8	5.8	31.5	70.6
Total	14.0	1.0	23.6	5.8	33.2	77.6

(1) Credit exposures exclude cash at hand, the macro hedge of interest rate risk, intangible assets, property, plant and equipment, current and deferred tax assets, and other assets. Loans and advances to customers are included gross of loan loss allowances.
(2) Excludes balances with central banks.
(3) Consists of Luxembourg, Netherlands, Belgium and Finland, as well as Cyprus of £nil.
(4) Includes Russia of £nil and Ukraine of £nil.

31 December 2013	Central and local governments £bn	Government guaranteed £bn	Banks [2] £bn	Other financial institutions £bn	Corporate £bn	Total[1] £bn
Eurozone:						
Peripheral eurozone countries:						
Portugal	-	-	-	-	0.1	0.1
Ireland	-	-	-	-	0.1	0.1
Italy	0.8	-	0.1	-	0.1	1.0
Spain (excluding Santander)	-	-	0.1	-	-	0.1
Greece	-	-	-	-	-	-
Other eurozone countries:						
Germany	-	-	1.5	-	0.1	1.6
France	-	0.4	1.6	-	-	2.0
All other eurozone[3]	0.1	0.2	1.0	-	1.2	2.5
	0.9	0.6	4.3	-	1.6	7.4
All other countries:						
UK	3.7	0.4	10.2	4.9	25.4	44.6
US	5.3	-	8.1	0.1	0.1	13.6
Switzerland	0.5	-	1.0	-	0.1	1.6
Denmark	-	-	1.4	-	-	1.4
Japan	3.8	-	0.1	-	0.1	4.0
All others[4]	-	-	0.4	0.1	1.5	2.0
	13.3	0.4	21.2	5.1	27.2	67.2
Total	14.2	1.0	25.5	5.1	28.8	74.6

(1) Credit exposures exclude cash at hand, the macro hedge of interest rate risk, intangible assets, property, plant and equipment, current and deferred tax assets, and other assets. Loans and advances to customers are included gross of loan loss allowances.
(2) Excludes balances with central banks.
(3) Consists of Luxembourg, Netherlands, Belgium and Finland, as well as Cyprus of £nil.
(4) Includes Russia of £nil and Ukraine of £nil.

2014 compared to 2013 (unaudited)

Key changes in sovereign and other country risk exposures during the year ended 31 December 2014 were as follows:

> An increase of £1.1bn in exposure to the UK to £45.7bn (2013: £44.6bn). This was largely due to an increase in commitments and undrawn facilities with corporate customers.

> An increase of £2.0bn in exposure to the US to £15.6bn (2013: £13.6bn). This was primarily due to increased securities purchased under resale activity partially offset by a decrease in deposits at the US Federal Reserve as part of normal liquid asset portfolio management activity.

> A decrease of £0.5bn in exposure to Switzerland to £1.1bn (2013: £1.6bn). This was due to lower gross derivative exposures.

> An increase of £0.4bn in exposure to Germany to £2.0bn (2013: £1.6bn). This was due to increased securities purchased under resale activity and increased trading assets held at fair value with corporate customers.

> An increase of £1.1bn in exposure to Japan to £5.1bn (2013: £4.0bn). This was primarily due to increased securities purchased under resale activity.

> A decrease of £0.8bn in exposures to Denmark to £0.6bn (2013: £1.4bn). This was principally due to the disposal of securities purchased under resale activity and reduced corporate facilities provided.

> Movements in remaining country risk exposures were minimal and exposures to these countries remained at low levels.

Further analysis of sovereign debt and other country risk exposures, including peripheral eurozone exposures

Presented below for sovereign debt and other country risk exposures is additional analysis of exposures into those that are accounted for on-balance sheet (further analysed into those measured at amortised cost and those measured at fair value) and those that are off-balance sheet.

The assets held at amortised cost are principally classified as loans and advances to banks, loans and advances to customers and loans and receivables securities. The ANTS group has no held-to-maturity securities.

The assets held at fair value are classified as either trading assets or have been designated as held at fair value through profit or loss, with the exception of government debt held for liquidity purposes, which are classified as available-for-sale securities.

The ANTS group has made no reclassifications to/from the assets which are held at fair value from/to any other category.

Sovereign debt

31 December 2014	**Assets held at amortised cost**			**Assets held at fair value**					
	Central and local governments £bn	**Government guaranteed £bn**	**Total £bn**	**Central and local governments £bn**	**Government guaranteed £bn**	**Total £bn**	**Total balance sheet asset £bn**	**Commitments and undrawn facilities £bn**	**Total £bn**
Eurozone countries:									
France	-	-	-	-	**0.4**	**0.4**	**0.4**	-	**0.4**
Italy	-	-	-	**0.9**	**-**	**0.9**	**0.9**	-	**0.9**
Germany	-	-	-	**0.2**	**-**	**0.2**	**0.2**	-	**0.2**
All other eurozone	-	-	-	**-**	**-**	**-**	**-**	-	-
	-	-	-	**1.1**	**0.4**	**1.5**	**1.5**	-	**1.5**
All other countries:									
UK	-	-	-	**3.4**	**0.4**	**3.8**	**3.8**	-	**3.8**
Japan	-	-	-	**3.8**	**-**	**3.8**	**3.8**	-	**3.8**
US	**4.4**	-	**4.4**	**0.3**	**0.2**	**0.5**	**4.9**	-	**4.9**
Switzerland	-	-	-	**0.7**	**-**	**0.7**	**0.7**	-	**0.7**
Denmark	-	-	-	**0.3**	**-**	**0.3**	**0.3**	-	**0.3**
	4.4	-	**4.4**	**8.5**	**0.6**	**9.1**	**13.5**	-	**13.5**

31 December 2013	Assets held at amortised cost			Assets held at fair value					
	Central and local governments £bn	Government guaranteed £bn	Total £bn	Central and local governments £bn	Government guaranteed £bn	Total £bn	Total Balance sheet asset £bn	Commitments and undrawn facilities £bn	Total £bn
Eurozone countries:									
France	-	-	-	-	0.4	0.4	0.4	-	0.4
Italy	-	-	-	0.8	-	0.8	0.8	-	0.8
Germany	-	-	-	-	-	-	-	-	-
All other eurozone	-	-	-	0.1	0.2	0.3	0.3	-	0.3
	-	-	-	0.9	0.6	1.5	1.5	-	1.5
All other countries:									
UK	-	-	-	3.7	0.4	4.1	4.1	-	4.1
Japan	-	-	-	3.8	-	3.8	3.8	-	3.8
US	4.9	-	4.9	0.4	-	0.4	5.3	-	5.3
Switzerland	-	-	-	0.5	-	0.5	0.5	-	0.5
Denmark	-	-	-	-	-	-	-	-	-
	4.9	-	4.9	8.4	0.4	8.8	13.7	-	13.7

The ANTS group has no direct sovereign exposures to any other countries. The ANTS group has not recognised any impairment losses against sovereign debt which is held at amortised cost. The ANTS group has no exposures to credit default swaps (either written or purchased) which are directly referenced to sovereign debt or other instruments that are directly referenced to sovereign debt.

Other country risk exposures[1]

31 December 2014	Assets held at amortised cost				Assets held at fair value[2]						
	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn	Total balance sheet asset £bn	Commitments and undrawn facilities £bn[3]	Total £bn
Eurozone:											
Peripheral eurozone countries:											
Spain	-	-	-	-	0.2	-	-	0.2	0.2	-	0.2
Ireland	-	-	0.1	0.1	-	-	0.1	0.1	0.2	0.1	0.3
Italy	-	-	-	-	0.1	-	-	0.1	0.1	-	0.1
Portugal	-	-	-	-	-	-	-	-	-	-	-
Other eurozone countries:									-		
Germany	-	-	0.1	0.1	1.5	-	0.2	1.7	1.8	-	1.8
France	-	-	-	-	1.7	-	-	1.7	1.7	-	1.7
Other	-	-	0.3	0.3	0.3	-	0.1	0.4	0.7	0.7	1.4
	-	-	0.5	0.5	3.8	-	0.4	4.2	4.7	0.8	5.5
All other countries:											
UK	0.7	0.4	11.4	12.5	8.4	3.8	6.4	18.6	31.1	10.8	41.9
US	0.7	-	-	0.7	8.9	1.0	-	9.9	10.6	0.1	10.7
Switzerland	-	-	-	-	0.4	-	-	0.4	0.4	-	0.4
Denmark	-	-	-	-	0.1	-	-	0.1	0.1	0.2	0.3
Japan	-	-	-	-	0.1	0.1	1.1	1.3	1.3	-	1.3
Other	-	0.1	1.1	1.2	0.5	-	0.2	0.7	1.9	0.6	2.5
	1.4	0.5	12.5	14.4	18.4	4.9	7.7	31.0	45.4	11.7	57.1

(1) Excluding other Banco Santander group companies.
(2) The assets held at fair value were presented as either trading assets or designated as held at fair value through profit or loss. The ANTS group did not hold any significant available-for-sale securities, with the exception of government debt held for liquidity purposes, as described on the previous page.
(3) Includes £12.1bn presented in Corporate and £0.4bn presented in Other financial institutions.

31 December 2013	Assets held at amortised cost				Assets held at fair value[2]						
	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn	Total balance sheet asset £bn	Commitments and undrawn facilities £bn[3]	Total £bn
Eurozone:											
Peripheral eurozone countries:											
Spain	-	-	-	-	0.1	-	-	0.1	0.1	-	0.1
Ireland	-	-	0.1	0.1	-	-	-	-	0.1	-	0.1
Italy	-	-	0.1	0.1	0.1	-	-	0.1	0.2	-	0.2
Portugal	-	-	0.1	0.1	-	-	-	-	0.1	-	0.1
Other eurozone countries:											
Germany	0.1	-	0.1	0.2	1.4	-	-	1.4	1.6	-	1.6
France	-	-	-	-	1.6	-	-	1.6	1.6	-	1.6
Other	-	-	0.4	0.4	1.0	-	-	1.0	1.4	0.8	2.2
	0.1	-	0.8	0.9	4.2	-	-	4.2	5.1	0.8	5.9
All other countries:											
UK	0.8	-	11.7	12.5	9.4	4.7	4.4	18.5	31.0	9.5	40.5
US	0.5	-	0.1	0.6	7.6	0.1	-	7.7	8.3	-	8.3
Switzerland	-	-	0.1	0.1	1.0	-	-	1.0	1.1	-	1.1
Denmark	-	-	-	-	1.4	-	-	1.4	1.4	-	1.4
Japan	-	-	-	-	0.1	-	0.1	0.2	0.2	-	0.2
Other	-	-	1.1	1.1	0.4	0.1	-	0.5	1.6	0.4	2.0
	1.3	-	13.0	14.3	19.9	4.9	4.5	29.3	43.6	9.9	53.5

(1) Excluding other Banco Santander group companies.
(2) The assets held at fair value were presented as either trading assets or designated as held at fair value through profit or loss. The ANTS group did not hold any significant available-for-sale securities, with the exception of government debt held for liquidity purposes, as described on the previous page.
(3) Includes £10.6bn presented in Corporate and £0.1bn presented in Other financial institutions.

Commitments and undrawn facilities principally consist of formal standby facilities and credit lines in the ANTS group's Commercial Banking operations. A summary of the key terms and a maturity analysis of formal standby facilities, credit lines and other commitments are set out in Note 34 to the Consolidated Financial Statements.

Maturity analyses of the ANTS group's assets held at amortised cost are set out in Note 40 to the Consolidated Financial Statements.

Peripheral eurozone countries

This section discusses ANTS's direct exposure to peripheral eurozone countries at 31 December 2014 and 2013 by type of financial instrument. **It excludes balances with other Santander UK group and other Banco Santander group companies which are presented separately below.** This section also discusses our indirect exposures to peripheral eurozone countries

Direct and indirect risk exposures to peripheral eurozone countries arise primarily in the large corporate element of the portfolio via large multinational companies and financial institutions, which are monitored on a regular basis by the Wholesale Credit Risk Department as part of the overall risk management process. The corporate portfolio is mainly comprised of multinational UK companies which are considered to be geographically well diversified in terms of their assets, operations and profits. The remainder of the Commercial Banking portfolio is predominantly UK based with no material peripheral eurozone exposure. In addition, the risk is further mitigated by the fact that credit agreements are underpinned by both financial and non-financial covenants.

The risk arising from indirect exposures from our transactions with financial institutions is mitigated by the short-term tenor of the transactions, and by the fact that many such transactions contain margin calls and/or collateral requirements, and are subject to standard ISDA Master Agreements permitting offsetting.

The risk arising from indirect exposures from our transactions with other corporates is mitigated by standard financial and non-financial guarantees and the fact that the companies are geographically well diversified in terms of their assets, operations and profits.

Direct exposures to peripheral eurozone countries

Balances with respect to Italy at 31 December 2014 comprised trading assets issued by central and local governments of £0.9bn (2013: £0.8bn); derivative assets issued by banks of £0.1bn (2013: £0.1bn) and loans and advances to corporate customers of £nil (2013: £0.1bn). Balances with respect to Spain at 31 December 2014 comprised derivative assets issued by banks of £0.2bn (2013: £0.1bn). Balances with respect to Ireland at 31 December 2014 comprised trading assets issued by corporate institutions of £0.1bn (2013: £nil), commitments and undrawn facilities with corporate customers of £0.1bn (2013: £nil) and loans and advances to corporate customers of £0.1bn (2013: £0.1bn). Balances with respect to Portugal at 31 December 2014 comprised of loans and advances to corporate customers of £nil (2013: £0.1bn).

Indirect exposures to peripheral eurozone countries

Indirect exposures to peripheral eurozone countries are considered to exist where our direct counterparties outside the peripheral eurozone countries themselves have a direct exposure to one or more peripheral eurozone countries. Indirect exposures are identified as part of our ongoing credit analysis and monitoring of our counterparty base by the review of available financial information to determine the countries where the material parts of a counterparty's assets, operations or profits arise. Our indirect exposures to peripheral eurozone countries consist of a small number of corporate loans to large multinational companies based in the UK that derive a proportion of their profits from one or more peripheral eurozone countries; trading transactions and hedging transactions with financial institutions based in the UK and Europe that derive a proportion of their profits from or have a proportion of their assets in one or more peripheral eurozone countries; and a small number of loans to other corporate entities which have either a proportion of their operations within, or profits from, one or more peripheral eurozone countries.

Balances with other Santander UK group companies

The ANTS group enters into transactions with other Santander UK group companies in the ordinary course of business. ANTS provides treasury, corporate and wholesale banking services to the wider Santander UK group, of which ANTS is a significant part. ANTS is also the treasury support function for the Santander UK group. In this regard, ANTS's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding, capital and balance sheet management requirements. As such, ANTS is one of the main debt issuance vehicles in the Santander UK group. Excluding the cross guarantee given on behalf of the Company's parent, at 31 December 2014 and 2013 the ANTS group had gross balances with other Santander UK group companies as follows:

31 December 2014	**Banks £bn**	**Other financial institutions £bn**	**Corporate £bn**	**Total £bn**
Assets:				
- UK	**12.0**	**26.7**	**-**	**38.7**
	12.0	**26.7**	**-**	**38.7**
Liabilities:				
- UK	**(13.4)**	**(1.9)**	**-**	**(15.3)**
- Jersey	**(2.2)**	**-**	**-**	**(2.2)**
- Other < £100m	**-**	**-**	**-**	**-**
	(15.6)	**(1.9)**	**-**	**(17.5)**

31 December 2013	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn
Assets:				
- UK	113.8	28.8	-	142.6
	113.8	28.8	-	142.6
Liabilities:				
- UK	(115.5)	(3.3)	-	(118.8)
- Jersey	(2.5)	-	-	(2.5)
- Other < £100m	(0.1)	-	-	(0.1)
	(118.1)	(3.3)	-	(121.4)

The above balances with other Santander UK group companies at 31 December 2014 and 2013 principally arose from ANTS's role as treasury support function for the Santander UK group.

As part of the banking reform programme, the intercompany funding arrangements between the Company and its immediate parent Santander UK plc have been amended so that only the net funding requirement of the commercial bank is passed between Santander UK plc and the Company rather than the gross funding requirements as previously. In preparation for this change, a rationalisation of the current booking model was carried out in 2014. Following this, the legal agreements between Santander UK plc and the Company were changed. As a result, only trades that generate the actual net funding requirement are reported. The effect of this change was to reduce intercompany balances between Santander UK plc and the Company by approximately £100bn.

The above activities are conducted in a manner that appropriately manages the credit risk arising against such other Santander UK group companies within limits acceptable to the PRA. The tables below further analyse the balances with other Santander UK group companies at 31 December 2014 and 2013 by type of financial instrument and country of the counterparty, including the additional mitigating impact of collateral repo arrangements which are accounted for off-balance sheet.

UK

31 December 2014	**Banks £bn**	**Other financial institutions £bn**	**Corporate £bn**	**Total £bn**
Loans and advances	**9.6**	**24.9**	**-**	**34.5**
Repurchase agreements				
- Asset balance - reverse repo	**0.4**	**-**	**-**	**0.4**
- Net repo asset	**0.4**	**-**	**-**	**0.4**
- Liability balance - repo	**(1.0)**	**-**	**-**	**(1.0)**
- Net repo	**(1.0)**	**-**	**-**	**(1.0)**
Net repurchase agreement position	**(0.6)**	**-**	**-**	**(0.6)**
Derivatives				
- Derivative assets	**2.0**	**1.8**	**-**	**3.8**
- Derivative liabilities	**(3.2)**	**(1.0)**	**-**	**(4.2)**
Net derivatives position	**(1.2)**	**0.8**	**-**	**(0.4)**
Total assets, after the impact of collateral	**7.8**	**25.7**	**-**	**33.5**
Deposits by customers	**-**	**(0.9)**		**(0.9)**
Deposits by banks	**(9.2)**	**-**	**-**	**(9.2)**
Other liabilities	**-**	**-**	**-**	**-**
Total liabilities	**(9.2)**	**(0.9)**	**-**	**(10.1)**
Net balance	**(1.4)**	**24.8**	**-**	**23.4**

31 December 2013	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn
Loans and advances	111.7	27.6	-	139.3
Repurchase agreements				
- Asset balance - reverse repo	0.5	-	-	0.5
- Net repo asset	0.5	-	-	0.5
- Liability balance - repo	(1.0)	-	-	(1.0)
- Net repo	(1.0)	-	-	(1.0)
Net repurchase agreement position	(0.5)	-	-	(0.5)
Derivatives				
- Derivative assets	1.6	1.2	-	2.8
- Derivative liabilities	(2.1)	(0.8)	-	(2.9)
Net derivatives position	(0.5)	0.4	-	(0.1)
Total assets, after the impact of collateral	110.7	28.0	-	138.7
Deposits by customers	-	(2.4)	-	(2.4)
Deposits by banks	(112.4)	-	-	(112.4)
Other liabilities	-	(0.1)	-	(0.1)
Total liabilities	(112.4)	(2.5)	-	(114.9)
Net balance	(1.7)	25.5	-	23.8

Other countries

Balances with respect to Jersey at 31 December 2014 comprised deposits by banks of £2.2bn (2013: £2.5bn).

Balances with other Banco Santander group companies outside the Santander UK group

The ANTS group enters into transactions with other Banco Santander group companies outside the Santander UK group in the ordinary course of business. Such transactions are undertaken in areas of business where the ANTS group has a particular advantage or expertise and where Banco Santander group companies can offer commercial opportunities, substantially on the same terms as for comparable transactions with third party counterparties. These transactions also arise in support of the activities of, or with, larger multinational corporate clients and financial institutions which may have relationships with a number of entities in the Banco Santander group.

These activities are conducted in a manner that appropriately manages the credit risk arising against such other Banco Santander group companies within limits acceptable to the PRA. At 31 December 2014 and 2013, the ANTS group had gross balances with other Banco Santander group companies outside the Santander UK group as follows:

31 December 2014	**Banks £bn**	**Other financial institutions £bn**	**Corporate £bn**	**Total £bn**
Assets:				
- Spain	**2.1**	**0.1**	-	**2.2**
- Chile	**0.2**	-	-	**0.2**
- Ireland	**0.1**	-	-	**0.1**
- Norway	**0.1**	-	-	**0.1**
- Other < £100m Individually	**0.1**	**0.1**	-	**0.2**
	2.6	**0.2**	-	**2.8**
Liabilities:				
- Spain	**(2.3)**	-	-	**(2.3)**
- Ireland	**(0.1)**	-	-	**(0.1)**
- Italy	**(0.1)**	-	-	**(0.1)**
- Chile	**(0.2)**	-	-	**(0.2)**
- Norway	**(0.1)**	-	-	**(0.1)**
- Other < £100m Individually	-	**(0.1)**	-	**(0.1)**
	(2.8)	**(0.1)**	-	**(2.9)**

31 December 2013	Banks £bn	Other financial institutions £bn	Corporate £bn	Total £bn
Assets:				
- Spain	2.2	0.1	-	2.3
- Chile	0.1	-	-	0.1
- Ireland	-	-	-	-
- Norway	-	-	-	-
- Other < £100m Individually	0.1	-	0.1	0.2
	2.4	0.1	0.1	2.6
Liabilities:				
- Spain	(2.2)	(0.1)	-	(2.3)
- Ireland	-	-	-	-
- Italy	-	(0.2)	-	(0.2)
- Chile	(0.1)	-	-	(0.1)
- Norway	-	-	-	-
- Other < £100m Individually	(0.1)	-	-	(0.1)
	(2.4)	(0.3)	-	(2.7)

Redenomination risk (unaudited)

ANTS considers the total dissolution of the eurozone to be extremely unlikely and therefore believes widespread redenomination of its euro denominated assets and liabilities to be highly improbable. However, for contingency planning purposes it has analysed the redenomination risk that might arise from an exit of a member state from the euro or a total dissolution of the euro and how that exit or dissolution would be implemented. It is not possible to predict what the total financial impact on ANTS might be of a eurozone member state exit or the dissolution of the euro.

The determination of which assets and liabilities would be legally redenominated is potentially complex and depends on a number of factors, including the precise exit scenario, as the consequences on external contracts of a disorderly exit or one sanctioned under EU law may be different. ANTS has already identified and is monitoring these risks and has taken steps to mitigate them and/or reduce ANTS's overall exposure to losses that might arise in the event of a redenomination, which include reducing ANTS's exposures and funding mismatches. As part of its objective of maintaining a diversified funding base, ANTS raises funding in a number of currencies, including euro, and converts these back into sterling, to fund its commercial assets which are largely sterling denominated.

ANTS's net liability position denominated in euro, reflecting assets and liabilities and associated swaps (which primarily comprise cross-currency derivatives entered into to swap funding raised in euro back into sterling for reasons set out above) arising in connection with contracts denominated in euro, amounted to net liabilities of £1.9bn at 31 December 2014 (2013: £0.5bn). This comprised debt securities (covered bonds) of £20.0bn (2013: £17.4bn) issued by ANTS as part of its medium term funding activities, net loans and advances of £15.8bn (2013: £13.6bn) to other Santander UK group companies (principally representing the on lending of these net funds to other Santander UK group companies), net repo liabilities of £2.8bn (2013: £2.7bn), other deposits of £7.8bn (2013: £nil), other loans and securities of £2.9bn (2013: £1.4bn), and related cross-currency swap assets of £10.0bn (2013: £4.6bn) which swap the resultant euro exposures back into sterling in order to ensure that assets and liabilities are currency matched in sterling.

Disclosures of ANTS's exposure to individual eurozone countries and total exposures to counterparties in those countries, which amounts include any euro-denominated contracts with those counterparties, are set out on pages 82 to 88.

Directors

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Jacques Ripoll
Chief Executive Officer
Jacques Ripoll (age 49) is Chief Executive Officer of the Company and Head of Santander Global Banking & Markets, UK. He was appointed Executive Director of the Company on 11 September 2013. He is also a member of the Executive Committee of Santander UK plc. Jacques joined Santander from Société Générale, where he held a number of management positions spanning 20 years; the latest being the Head of Asset Management, Private Banking and Investor Services. Jacques was also a Member of Société Générale's Group Executive Committee. At Société Générale, he also held the positions of Head of Group Corporate Strategy, Global Head of Sales & Trading (Non-US Equities) and Global Head of Equity Finance. Jacques was appointed Global Head of Global Banking & Markets Division at Banco Santander S.A. with effect from 1 January 2015 and will resign as Chief Executive Officer upon appointment of his successor.

David Green
Director
David Green (age 59) was appointed as an Executive Director of the Company on 28 February 2008. He is also Director of Finance Projects for Santander UK plc. David qualified as a Chartered Accountant with Touche Ross & Co (now Deloitte LLP) and then worked for First National Bank of Chicago, and Lloyds Bank before becoming Financial Controller and then Director of Finance and Operations for Guinness Mahon (1995-1998). David joined the Company in 1998 as Head of Financial Reporting.

John Hennessy
Director
John Hennessy (age 51) was appointed as an Executive Director of the Company on 23 July 2013. He is the Chief Risk Management Officer (Wholesale) for the Santander UK group. He is also a member of the Executive Committee of Santander UK plc. He joined Santander UK plc in 2006 as Chief Risk Officer (Wholesale) and prior to that worked for Banco Santander, S.A. in their New York Branch as Chief Risk Officer and in their Madrid office as Head of Credit, International.

Stephen Jones
Director
Stephen Jones (age 50) was appointed as an Executive Director of the Company on 30 August 2013 and is the Principal Financial Officer of the Company. He joined Santander UK plc in 2011 as Head of Strategy, Corporate Development & Regulatory Affairs and was subsequently appointed Chief Financial Officer. He has extensive financial services experience focussed on senior roles in Finance and Investor Relations. Previously he held a number of senior management positions at Barclays Bank plc including Head of Investor Relations, Head of Corporate Debt Capital Markets and Equity Capital Markets and Co-Head of Corporate Investment Banking, Barclays Capital EMEA.

Steve Pateman
Director
Steve Pateman (age 51) was appointed as an Executive Director of the Company on 3 June 2009. He is also responsible for UK Banking at Santander UK plc and has extensive financial services experience. Steve joined Santander UK plc in June 2008 as Head of UK Corporate and Commercial Banking and an Executive Committee member. Previously he worked at National Westminster Bank plc and The Royal Bank of Scotland plc where he had responsibility for Business Banking, Commercial Banking and Corporate Banking. Steve also worked on a variety of financings, restructurings, capital market and equity issues during his time in NatWest Markets, where he specialised in the leisure and retail sectors.

Antonio Roman
Director
Antonio Roman (age 47) was appointed as an Executive Director of the Company on 31 July 2014. He was also appointed Finance Director of Santander UK plc in July 2014 with responsibility for the management of interest risk, liquidity, funding, economics and investor relations. He is also a member of the Executive Committee of Santander UK plc. He obtained an MBA in Business Administration at Drake University (Iowa, USA) after graduating in Economics at Madrid's Complutense University and began his career in the banking industry, specifically in retail business, financial control and financial management. He joined Banco Español de Crédito, S.A. (part of the Banco Santander, S.A. group) in 2011 as Head of Financial Management and an Executive Committee member.

Strategic Report

Principal activities and business review

The principal activity of the ANTS group continues to be providing treasury, corporate and wholesale banking services to clients and also to the wider Santander UK group of which ANTS is a significant part. ANTS is also the treasury support function for the Santander UK group. In this regard, ANTS's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding, capital and balance sheet management requirements. As such ANTS is one of the main debt issuance vehicles in the Santander UK group. The Company is authorised and regulated by the FCA and the PRA.

The Company is required to set out in this report a fair review of the ANTS UK group's business and a description of the principal risks and uncertainties facing the ANTS group, including a balanced and comprehensive analysis of the development and performance of the business of the ANTS group during the year ended 31 December 2014 and of the position of the ANTS group at the end of the year. The information that fulfils this requirement can be found in the following sections of this Annual Report, which are incorporated into and form part of this Strategic Report.

Development and performance of the business during the year ended 31 December 2014

Information on the development and performance of the business of the ANTS group, principally at a consolidated level, is set out in the Financial Review.

Position of the ANTS group at 31 December 2014

Information on the position of the ANTS group is set out in the Financial Review.

Future outlook

The Company is expected to continue with its principal activity to provide treasury, corporate and wholesale banking services to clients and also to the wider Santander UK group of which ANTS is a significant part. It is also expected that ANTS will continue to act as the treasury support function for the Santander UK group.

Principal risks and uncertainties facing the ANTS group

Information on the principal risks and uncertainties facing the ANTS group is set out in:

> The Risk Review by type of risk, including further analysis by business segment; and
> Material risk factors are described in the Risk Factors section of the Shareholder Information.

When reading the Risk Review, the Risk Factors and the other sections of the Annual Report, reference should be made to the Forward-looking statements section of the Shareholder Information.

Key performance indicators

The directors of Santander UK plc manage the Santander UK group's operations on a business division basis. As a result, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The development and performance of the business of the ANTS group, principally at a consolidated level, is set out in the Financial Review. The Key Performance Indicators of Santander UK plc can be found on pages 10 to 11 of its Annual Report, which do not form part of this report.

Environmental matters

The Company faces the same environmental risks as its immediate parent company, Santander UK plc, and therefore operates environmental policies in line with Santander UK. For further information on the Santander UK group's environmental risks, policies and impact, refer to the Santander UK 2014 Annual Report.

Employee matters

Information on employee matters is set out in the 'Directors' Report' section of the Governance report.

By Order of the Board

Jacques Ripoll
Director
27 February 2015

Directors' Report

INTRODUCTION

The Directors have pleasure in submitting their report together with the financial statements for Abbey National Treasury Services plc (the 'Company') company number 2338548, and its subsidiaries (together 'ANTS' or the 'ANTS group') for the year ended 31 December 2014.

The purpose of this report is to provide information to the member of the Company and as such it is only addressed to that member. The report may contain certain forward-looking statements with respect to the operations, performance and financial conditions of the ANTS group. 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.

CORPORATE STRUCTURE

The Company is a wholly-owned subsidiary of Santander UK plc, which is a subsidiary of Santander UK Group Holdings Limited which, in turn, is a wholly owned subsidiary of Banco Santander, S.A.. The ordinary shares of the Company are not traded on the London Stock Exchange. Note 21 to the Consolidated Financial Statements provides a list of the principal subsidiaries of the Company, the nature of each subsidiary's business and details of branches.

The structural relationship of ANTS and Santander UK with the Banco Santander group – the 'subsidiary model'

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

Under the subsidiary model, Santander UK primarily generates funding and liquidity through UK retail and corporate deposits, as well as in the financial markets through its own debt programmes and facilities to support its business activities and liquidity requirements. It does this by relying on the strength of its own balance sheet and profitability and its own network of investors. Santander UK does not rely on a guarantee from Banco Santander, S.A. or any other member of the Banco Santander group (other than certain of Santander UK plc's own subsidiaries) to generate this funding or liquidity. Santander UK does not raise funds to finance other members of the Banco Santander group or guarantee the debts of other members of the Banco Santander group (other than certain of Santander UK plc's own subsidiaries).

Exposures to other Banco Santander group members are established and managed on an arm's length commercial basis. All intergroup transactions are monitored by the Santander UK Board Risk Committee and transactions which are not in the ordinary course of business must be pre-approved by the Board. In addition, Santander UK is subject to PRA limits on exposures to, and on liquidity provided to, other members of the Banco Santander group.

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

BUSINESS REVIEW

Details of ANTS's activities and business performance during 2014 are set out in the Strategic Report on page 90 and the Financial Review on pages 5 to 23.

PROFIT AND DIVIDENDS

The consolidated profit after tax for the year was £121m (2013: £164m). The Directors do not recommend the payment of a final dividend for 2014 (2013: £nil) on the ordinary shares in issue. An interim dividend of £nil (2013: £750m) was paid on the ordinary shares in issue during the year.

EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date.

SHARE CAPITAL

Details of the Company's share capital, including the rights and restrictions that apply to each class of shares, can be found in Note 35 to the Consolidated Financial Statements which are incorporated by reference into this report. The powers of the Directors in relation to share capital are set out in the Company's Articles of Association and as determined by the UK Companies Act 2006.

RESEARCH AND DEVELOPMENT

ANTS has a comprehensive product approval process and policy and develops new products and services in each of its business divisions in the ordinary course of business. All new products, campaigns and business initiatives are reviewed and approved by Santander UK's Product Approval and Oversight Committee.

FINANCIAL INSTRUMENTS

The ANTS group's risks are managed on a group level by Santander UK plc. The financial risk management objectives and policies of the ANTS group, the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure of ANTS to credit risk, market risk, and liquidity risk are outlined in the Risk Review.

DIRECTORS

The names and biographical details of the current Directors are set out on page 89 and are incorporated into this report by reference. The details of their remuneration are set out in the notes as indicated below. At 31 December 2014, the Board comprised six Executive Directors, including the Chief Executive Officer.

For each Director, the date of appointment is shown below:

Name of Director	Date of appointment
Jacques Ripoll	11 September 2013
David Green	28 February 2008
John Hennessy	23 July 2013
Stephen Jones	30 August 2013
Steve Pateman	3 June 2009
Antonio Roman	31 July 2014

During the year, the following directors resigned:

Name of Director	Title	Date of resignation
Justo Gómez López	Director	30 June 2014
Jorge de la Vega	Non-Executive Director	16 July 2014

None of the Directors have service contracts with the ANTS group. All are employed by companies within the Banco Santander, S.A. group and have employment contracts which are for an indefinite term. A Director may be paid instead of being required to work during their notice period. None of the Directors' employment contracts provide for benefits to be paid on termination of employment other than for redundancy.

DIRECTORS' REMUNERATION, RETIREMENT BENEFITS, INTERESTS AND RELATED PARTY TRANSACTIONS (audited)

Details of aggregate remuneration received by the Directors of the Company in 2014 and 2013 are found in Note 38 to the Consolidated Financial Statements. The remuneration, excluding pension contributions, of the highest paid Director and details of Director participation in defined benefit pension schemes are contained in Note 38 to the Consolidated Financial Statements. For a description and details of related party transactions, see Note 39 to the Consolidated Financial Statements.

DIRECTORS' INDEMNITIES

Indemnities are provided to the Directors of the Company, its subsidiaries and associated companies by Santander UK plc against liabilities and associated costs which they could incur in the course of their duties to the Company. A copy of each of the indemnities is kept at the Company's registered address shown in 'Contact and Other Information' in the 'Shareholder Information' section of this Annual Report.

BOARD COMMITTEES

Santander UK plc maintains a standing Board Audit Committee, Board Risk Committee, Board Remuneration Oversight Committee and Board Nomination Committee, the responsibilities of which cover the Santander UK group as a whole, including the Company. Further information regarding these committees and their membership is included in the Annual Report of Santander UK plc.

Directors' Report continued

EMPLOYEES

The goal of Santander UK (including ANTS) to be the best bank for our customers is only achievable if we reach our aspiration to be the best bank for our people. An environment that provides excellent opportunities for career progression, and a culture that recognises individual needs and encourages accountability and teamwork are key to achieving this goal.

Employee involvement

Communication

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

Consultation

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

Employee share ownership

Santander UK (including ANTS) continues to operate two all-employee, HMRC-approved share schemes: a Save-As-You-Earn ('Sharesave') Scheme and a Share Incentive Plan ('SIP'), the latter of which allows employees to purchase Banco Santander, S.A. shares from gross salary. Eligible senior management can participate in a Banco Santander group long-term incentive plan. See Note 38 to the Consolidated Financial Statements for a description of the plans and the related costs and obligations.

DISABILITY

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

ETHICAL CODE OF CONDUCT

Santander UK (including ANTS) is committed to maintaining high ethical standards – adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are further reflected in Santander UK's Ethical Code of Conduct published in March 2014, which sets out the standards expected of all employees, and supports the Santander Way and Santander UK's (including ANTS) commitment to being Simple, Personal and Fair.

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

These terms and conditions require that employees must:

> Abide by all relevant laws and regulations;
> Act with integrity in all their business actions on the ANTS group's behalf;
> Not use their authority or office for personal gain;
> Conduct business relationships in a transparent manner; and
> Reject all improper practices or dealings they may be exposed to.

The SEC requires companies to disclose whether they have a code of ethics that applies to the CEO and senior financial officers which promotes honest and ethical conduct, full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, prompt internal reporting of violations and accountability for adherence to such a code of ethics.

Santander UK (including ANTS) meets these requirements through its Ethical Code of Conduct, the Anti-Bribery and Corruption Policy, the Whistleblowing Policy, the FCA's Principles for Business, and the FCA's Principles and Code of Practice for Approved Persons, with which the CEO and senior financial officers must comply. These include requirements to manage conflicts of interest appropriately and to disclose any information the FCA may want to know about. ANTS provides a copy of these documents to anyone, free of charge, on application to the address on page 189.

POLITICAL CONTRIBUTIONS

In 2014 and 2013, no contributions were made for political purposes and no political expenditure was incurred.

SUPERVISION AND REGULATION

Under the terms of the Financial Services Act (2012), the Financial Services Authority ('FSA') was replaced by two regulatory bodies, the PRA, which has responsibility for the prudential regulation of deposit takers and insurance companies, and the FCA, which supervises the conduct of business, and seeks to improve outcomes for consumers.

Since the enactment of the changes, Santander UK (including ANTS) is now authorised by the PRA and authorised and regulated by the FCA and is subject to UK financial services laws and regulations. The key regulatory requirements as related to its material risk factors (including supervision and regulatory risks and risks relating to taxation) are described in the Risk Factors section on pages 170 to 188.

Further details on the impact of regulatory developments on liquidity and capital can be found in the Risk Review on pages 25 to 88. While Santander UK (including ANTS) operates primarily in the UK, it is also subject to the laws and regulations of the other jurisdictions in which it operates, such as the requirements of the SEC for its activities in the US.

RISK MANAGEMENT AND INTERNAL CONTROLS

The ANTS group's risks are managed on a group level by Santander UK plc. Details of the Risk Framework and system of internal controls for risk management can be found in the Risk Review.

DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

The ANTS group has evaluated, with the participation of its Chief Executive Officer and Principal Financial Officer the effectiveness of the ANTS group's disclosure controls and procedures at 31 December 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon the ANTS group's evaluation, the Chief Executive Officer and the Principal Financial Officer have concluded that, at 31 December 2014, the ANTS group's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the ANTS group in the reports that the ANTS group files and submits under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to the ANTS group's management, including the Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The ANTS group's internal control over financial reporting includes:

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

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

Management is responsible for establishing and maintaining adequate internal control over the financial reporting of the ANTS group. Management assessed the effectiveness of the ANTS group's internal control over financial reporting at 31 December 2014 based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in May 2013 (the '2013 Framework'). The 2013 Framework superseded the original framework issued by COSO in 1992 on 15 December 2014. ANTS adopted the 2013 Framework from 15 December 2014. Further details of the changes made are set out below.

Based on this assessment, management believes that, at 31 December 2014, ANTS's internal control over financial reporting was effective.

Directors' Report continued

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

As part of the implementation of the 2013 Framework, management undertook a full review of the existing financial control model to ensure compliance with the requirements of the 2013 Framework. As part of this review the existing financial control model was updated and enhanced to recognise the additional requirements of the new Framework. All controls have been tested and certified as part of the Year-End Control Self-Assessment process. Management believes these controls are effective and will continue to enhance the application of the 2013 Framework across the full control model in 2015.

GOING CONCERN

The Directors confirm that they are satisfied that the ANTS group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt a going concern basis of accounting in preparing the financial statements.

As outlined above, the ANTS group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report section of the Governance report. The financial position of the ANTS group, its cash flows, liquidity position and borrowing facilities are set out in the Financial Review. In addition, Note 42 to the Consolidated Financial Statements includes the ANTS group's objectives, policies and processes for managing its capital. As also outlined above, in respect of the principal risks and uncertainties facing the ANTS group, both financial and non-financial risks are described in the Risk Review, and material risk factors are described in the Risk Factors in the Shareholder Information section of this Annual Report.

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

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2015 under a deed poll guarantee entered into by the Company on 10 May 2012. Santander UK plc has given a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 30 June 2015.

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 14 December 2012 (the 'Capital Support Deed') with certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed constitute a core UK group for the purposes of the PRA's rules. Under section 10.8 of the PRA's rules, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements.

In addition, the Company, Santander UK plc, and Cater Allen Limited are party to a defined liquidity group facility agreement dated 28 May 2010 (the 'DLG Facility Agreement'). The DLG Facility Agreement supports a defined liquidity group for the purposes of the PRA's regulatory liquidity regime. The PRA's rules permits a member of a defined liquidity group to rely on the liquid resources of other members of the defined liquidity group to comply with the liquidity adequacy requirements under the PRA's rules. Under the DLG Facility Agreement, each party agrees to lend, subject to certain conditions and limitations, its excess liquidity to each other party.

After making enquiries, the Directors have a reasonable expectation that the Company and the ANTS group have 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.

RELEVANT AUDIT INFORMATION

Each of the Directors at the date of approval of this report confirms that:

> So far as the Director is aware, there is no relevant audit information of which the ANTS group's auditor is unaware; and

> The Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the ANTS group's auditor is aware of that information.

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

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report including the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the International Accounting Standards ('IAS') Regulation to prepare the group financial statements under IFRS, as adopted by the EU, and have also elected to prepare the parent company financial statements in accordance with IFRS, as adopted by the EU. The financial statements are also required by law to be properly prepared in accordance with the UK Companies Act 2006 and Article 4 of the IAS Regulation. In addition, in order to meet certain US requirements, the Directors are required to prepare the ANTS group's financial statements in accordance with IFRS, as issued by the International Accounting Standards Board ('IASB').

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

IAS 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB's 'Framework for the preparation and presentation of financial statements'.

Directors' Report continued

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, the Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

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

AUDITOR

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

By Order of the Board

Shaun Coles
Company Secretary
27 February 2015
2 Triton Square, Regent's Place, London NW1 3AN

Directors' Responsibilities Statement

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

We confirm to the best of our knowledge that:

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

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

By Order of the Board

Jacques Ripoll
Director
27 February 2015

100 Independent Auditor's Report to the Members of Abbey National Treasury Services plc
101 Consolidated Income Statement for the years ended 31 December 2014, 2013 and 2012
101 Consolidated Statement of Comprehensive Income for the years ended 31 December 2014, 2013 and 2012
102 Consolidated Balance Sheet at 31 December 2014 and 2013
103 Consolidated Statement of Changes in Equity for the years ended 31 December 2014, 2013 and 2012
104 Consolidated Cash Flow Statement for the years ended 31 December 2014, 2013 and 2012
105 Company Balance Sheet at 31 December 2014 and 2013
106 Company Statement of Changes in Equity for the years ended 31 December 2014, 2013 and 2012
107 Company Cash Flow Statement for the years ended 31 December 2014, 2013 and 2012
108 Notes to the Financial Statements

Independent Auditor's Report to the Members of Abbey National Treasury Services plc

We have audited the financial statements of Abbey National Treasury Services plc (the 'Company' and together with its subsidiaries the 'Group') for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity the Consolidated and Company Cash Flow Statements and the related Notes 1 to 44 and the Risk Review, except for those items marked as unaudited. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the UK Companies Act 2006.

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the UK Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member 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 group's and the parent 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 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.

Opinion on financial statements

In our opinion:

> the financial statements give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
> the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
> the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Group 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 Strategic Report and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
> the parent company 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, UK
27 February 2015

Primary Financial Statements

CONSOLIDATED INCOME STATEMENT

For the years ended 31 December 2014, 2013 and 2012

	Notes	**2014 £m**	2013 £m	2012 £m
Interest and similar income		**2,518**	2,697	3,870
Interest expense and similar charges		**(2,483)**	(2,798)	(3,731)
Net interest income/(expense)	3	**35**	(101)	139
Net fee and commission income	4	**122**	107	119
Net trading and other income	5	**299**	406	304
Total operating income		**456**	412	562
Administration expenses	6	**(252)**	(192)	(198)
Depreciation and amortisation	7	**(4)**	(3)	(3)
Total operating expenses excluding impairment losses, provisions and charges		**(256)**	(195)	(201)
Impairment losses on loans and advances	8	**(30)**	(31)	(9)
Provisions for other liabilities and charges	8	**(32)**	(23)	(20)
Total operating impairment losses, provisions and charges		**(62)**	(54)	(29)
Profit before tax		**138**	163	332
Taxation (charge)/credit	11	**(17)**	1	(68)
Profit after tax for the year		**121**	164	264
Attributable to:				
Equity holders of the parent		**121**	164	264

All profits during the year were generated from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2014, 2013 and 2012

	Notes	**2014 £m**	2013 £m	2012 £m
Profit for the year		**121**	164	264
Other comprehensive income/(expense):				
Other comprehensive income that may be reclassified to profit or loss subsequently:				
Available-for-sale securities				
- Net (losses)/gains on available-for-sale securities	20	**(22)**	10	5
- Net gains on available-for-sale securities transferred to profit or loss on sale		**19**	(45)	-
- Tax on above items	10	**1**	8	(1)
		(2)	(27)	4
Cash flow hedges				
- Net gains/(losses) on cash flow hedges		**91**	(68)	-
- Net losses on cash flow hedges transferred to profit or loss		**31**	50	-
- Tax on above items	10	**(24)**	4	-
		98	(14)	-
Exchange differences on translation of foreign operations		**(4)**	-	-
Net other comprehensive income/(expense) that may be reclassified to profit or loss subsequently		**92**	(41)	4
Total other comprehensive income/(expense) for the year net of tax		**92**	(41)	4
Total comprehensive income for the year		**213**	123	268
Attributable to:				
Equity holders of the parent		**213**	123	268

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Consolidated Financial Statements.

Primary Financial Statements continued

CONSOLIDATED BALANCE SHEET

At 31 December 2014 and 2013

	Notes	2014 £m	2013 £m
Assets			
Cash and balances at central banks	12	**4,460**	4,911
Trading assets	13	**21,373**	21,897
Derivative financial instruments	14	**25,792**	21,550
Financial assets designated at fair value	15	**2,577**	2,534
Loans and advances to banks	16	**11,344**	113,649
Loans and advances to customers	17	**38,285**	41,108
Loans and receivables securities	18	**22**	128
Available-for-sale securities	20	**2,525**	2,962
Macro hedge of interest rate risk		**935**	379
Intangible assets	22	**13**	8
Property, plant and equipment	23	**10**	6
Deferred tax assets	24	**-**	15
Other assets	25	**133**	180
Total assets		**107,469**	209,327
Liabilities			
Deposits by banks	26	**17,416**	120,698
Deposits by customers	27	**4,523**	7,780
Trading liabilities	28	**15,333**	21,275
Derivative financial instruments	14	**26,607**	21,496
Financial liabilities designated at fair value	29	**2,848**	3,407
Debt securities in issue	30	**36,799**	30,889
Macro hedge of interest rate risk		**39**	-
Other liabilities	31	**255**	368
Provisions	32	**32**	23
Current tax liabilities		**224**	223
Deferred tax liabilities		**12**	-
Total liabilities		**104,088**	206,159
Equity			
Share capital	35	**2,549**	2,549
Retained earnings		**761**	640
Other reserves		**71**	(21)
Total shareholders' equity		**3,381**	3,168
Total liabilities and equity		**107,469**	209,327

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Consolidated Financial Statements.

The Primary Financial Statements and the accompanying Notes to the Financial Statements were approved and authorised for issue by the Board on 27 February 2015 and signed on its behalf by:

Jacques Ripoll
Director

Company Registered Number: 2338548

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2014, 2013 and 2012

		Other reserves				
	Share capital £m	Available for sale reserve £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
1 January 2014	**2,549**	**(23)**	**(14)**	**16**	**640**	**3,168**
Total comprehensive income/(expense):						
- Profit for the year	**-**	**-**	**-**	**-**	**121**	**121**
Other comprehensive expense for the year:						
- Net losses on available-for-sale securities	**-**	**(22)**	**-**	**-**	**-**	**(22)**
- Net gains on available-for-sale securities transferred to profit or loss on sale	**-**	**19**	**-**	**-**	**-**	**19**
- Net gains on cash flow hedges	**-**	**-**	**91**	**-**	**-**	**91**
- Net losses on cash flow hedges transferred to profit or loss	**-**	**-**	**31**	**-**	**-**	**31**
- Exchange differences on translation of foreign operations	**-**	**-**	**-**	**(4)**	**-**	**(4)**
- Tax on other comprehensive income/(expenses)	**-**	**1**	**(24)**	**-**	**-**	**(23)**
Other comprehensive income/(expense) net of tax	**-**	**(2)**	**98**	**(4)**	**-**	**92**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2014	**2,549**	**(25)**	**84**	**12**	**761**	**3,381**
1 January 2013	2,549	4	-	16	1,226	3,795
Total comprehensive income/(expense):						
- Profit for the year	-	-	-	-	164	164
Other comprehensive expense for the year:						
- Net gains on available-for-sale securities	-	10	-	-	-	10
- Net gains on available-for-sale securities transferred to profit or loss on sale	-	(45)	-	-	-	(45)
- Net losses on cash flow hedges	-	-	(68)	-	-	(68)
- Net losses on cash flow hedges transferred to profit or loss	-	-	50	-	-	50
- Tax on other comprehensive income/(expenses)	-	8	4	-	-	12
Other comprehensive income/(expense) net of tax	-	(27)	(14)	-	-	(41)
Dividends	-	-	-	-	(750)	(750)
31 December 2013	2,549	(23)	(14)	16	640	3,168
1 January 2012	2,549	-	-	16	962	3,527
Total comprehensive income:						
- Profit for the year	-	-	-	-	264	264
Other comprehensive income for the year:						
- Net gains on available-for-sale securities	-	5	-	-	-	5
- Tax on other comprehensive income/(expenses)	-	(1)	-	-	-	(1)
Other comprehensive income/(expense) net of tax	-	4	-	-	-	4
Dividends	-	-	-	-	-	-
31 December 2012	2,549	4	-	16	1,226	3,795

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Consolidated Financial Statements.

Primary Financial Statements continued

CONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 December 2014, 2013 and 2012

	Notes	**2014 £m**	2013 £m	2012 £m
Cash flows from/(used in) operating activities				
Profit for the year		**121**	164	264
Adjustments for:				
Non cash items included in profit		**(423)**	816	160
Change in operating assets		**17,449**	28,677	7,402
Change in operating liabilities		**(106,420)**	(6,243)	(4,543)
Corporation taxes paid		**(5)**	(4)	(42)
Effects of exchange rate differences		**(937)**	554	(853)
Net cash flow (used in)/from operating activities	36	**(90,215)**	23,964	2,388
Cash flows from/(used in) investing activities				
Disposal of subsidiaries, net of cash disposed		**-**	1,084	-
Purchase of property, plant and equipment and intangible assets	22, 23	**(13)**	(4)	(10)
Proceeds from sale of property, plant and equipment and intangible assets		**-**	-	2
Purchase of available-for-sale securities		**-**	(1,227)	(5,990)
Proceeds from sale and redemption of available-for-sale securities		**416**	3,343	864
Net cash flow from/(used in) investing activities		**403**	3,196	(5,134)
Cash flows (used in)/from financing activities				
Issue of debt securities		**18,929**	23,565	31,314
Repayments of debt securities		**(13,888)**	(25,467)	(28,388)
Dividends paid		**-**	(750)	-
Net cash flow from/(used in) financing activities		**5,041**	(2,652)	2,926
Net decrease)/increase in cash and cash equivalents		**(84,771)**	24,508	180
Cash and cash equivalents at beginning of the year		**102,951**	79,414	79,858
Effects of exchange rate changes on cash and cash equivalents		**256**	(971)	(624)
Cash and cash equivalents at the end of the year	36	**18,436**	102,951	79,414

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Consolidated Financial Statements.

COMPANY BALANCE SHEET

At 31 December 2014 and 2013

	Notes	2014 £m	2013 £m
Assets			
Cash and balances at central banks	12	**4,460**	4,911
Trading assets	13	**21,373**	21,897
Derivative financial instruments	14	**25,792**	21,550
Financial assets designated at fair value	15	**2,577**	2,534
Loans and advances to banks	16	**11,290**	113,642
Loans and advances to customers	17	**38,310**	41,118
Loans and receivables securities	18	**23**	128
Available-for-sale securities	20	**2,525**	2,962
Macro hedge of interest rate risk		**935**	379
Interests in other entities	21	**72**	46
Intangible assets	22	**13**	8
Property, plant and equipment	23	**10**	6
Deferred tax assets	24	**-**	15
Other assets	25	**96**	180
Total assets		**107,476**	209,376
Liabilities			
Deposits by banks	26	**17,415**	120,697
Deposits by customers	27	**8,067**	10,973
Trading liabilities	28	**15,333**	21,275
Derivative financial instruments	14	**26,607**	21,496
Financial liabilities designated at fair value	29	**2,848**	3,407
Debt securities in issue	30	**33,289**	27,758
Macro hedge of interest rate risk		**39**	-
Other liabilities	31	**246**	364
Provisions	32	**32**	23
Current tax liabilities		**224**	223
Deferred tax liabilities		**12**	-
Total liabilities		**104,112**	206,216
Equity			
Share capital	35	**2,549**	2,549
Retained earnings		**746**	631
Other reserves		**69**	(20)
Total shareholders' equity		**3,364**	3,160
Total liabilities and equity		**107,476**	209,376

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Financial Statements.

The Primary Financial Statements and the accompanying Notes to the Financial Statements were approved and authorised for issue by the Board on 27 February 2015 and signed on its behalf by:

Jacques Ripoll
Director

Company Registered Number: 2338548

Primary Financial Statements continued

COMPANY STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2014, 2013 and 2012

	Notes	Share capital £m	Other reserves: Available for sale reserve £m	Other reserves: Cash flow hedging reserve £m	Other reserves: Foreign currency translation reserve £m	Retained earnings £m	Total £m
1 January 2014		**2,549**	**(23)**	**(14)**	**17**	**631**	**3,160**
Total comprehensive income for the year:							
- Profit for the year		**-**	**-**	**-**	**-**	**115**	**115**
Other comprehensive income for the year:							
- Net loss on available-for-sale securities		**-**	**(22)**	**-**	**-**	**-**	**(22)**
- Net gains on available for-sale-securities transferred to profit or loss		**-**	**19**	**-**	**-**	**-**	**19**
- Net gains on cash flow hedges		**-**	**-**	**91**	**-**	**-**	**91**
- Net losses on cash flow hedges transferred to profit or loss		**-**	**-**	**31**	**-**	**-**	**31**
- Exchange differences on translation of foreign operations		**-**	**-**	**-**	**(7)**	**-**	**(7)**
- Tax on other comprehensive income		**-**	**1**	**(24)**	**-**	**-**	**(23)**
Other comprehensive income for the year net of tax		**-**	**(2)**	**98**	**(7)**	**-**	**89**
Dividends		**-**	**-**	**-**	**-**	**-**	**-**
31 December 2014		**2,549**	**(25)**	**84**	**10**	**746**	**3,364**
1 January 2013		2,549	4	-	15	1,140	3,708
Total comprehensive income for the year:							
- Profit for the year		-	-	-	-	241	241
Other comprehensive income for the year:							
- Net gains on available-for-sale securities		-	10	-	-	-	10
- Net gains on available for-sale-securities transferred to profit or loss		-	(45)	-	-	-	(45)
- Net losses on cash flow hedges		-	-	(68)	-	-	(68)
- Net gains on cash flow hedges transferred to profit or loss		-	-	50	-	-	50
- Exchange differences on translation of foreign operations		-	-	-	2	-	2
- Tax on other comprehensive income		-	8	4	-	-	12
Other comprehensive income for the year net of tax		-	(27)	(14)	2	-	(39)
Dividends		-	-	-	-	(750)	(750)
31 December 2013		2,549	(23)	(14)	17	631	3,160
1 January 2012		2,549	-	-	14	914	3,477
Total comprehensive income for the year:							
- Profit for the year		-	-	-	-	226	226
Other comprehensive income for the year:							
- Net gains on available-for-sale securities		-	5	-	-	-	5
- Exchange differences on translation of foreign operations		-	-	-	1	-	1
- Tax on other comprehensive income		-	(1)	-	-	-	(1)
Other comprehensive income for the year net of tax		-	4	-	1	-	5
Dividends		-	-	-	-	-	-
31 December 2012		2,549	4	-	15	1,140	3,708

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Financial Statements.

COMPANY CASH FLOW STATEMENT

For the years ended 31 December 2014, 2013 and 2012

	Notes	**2014 £m**	2013 £m	2012 £m
Cash flows from/(used in) operating activities				
Profit for the year		**115**	241	226
Adjustments for:				
Non cash items included in profit		**(423)**	2,122	177
Change in operating assets		**25,748**	21,537	7,622
Change in operating liabilities		**(106,259)**	(8,428)	(4,705)
Corporation taxes paid		**(5)**	(4)	(12)
Effects of exchange rate differences		**(1,131)**	597	(598)
Net cash flow (used in)/from operating activities	36	**(81,955)**	16,065	2,710
Cash flows (used in)/from investing activities				
Purchase of property, plant and equipment and intangible assets		**(13)**	(4)	(9)
Disposal of subsidiaries, net of cash disposed	22, 23	**-**	1,018	-
Proceeds from sale of property, plant and equipment and intangible assets		**-**	-	2
Investment in other entities		**(26)**	(166)	3
Purchase of available-for-sale securities		**-**	(1,227)	(5,990)
Proceeds from sale and redemption of available-for-sale securities		**416**	3,343	863
Net cash flow from/(used in) investing activities		**377**	2,964	(5,131)
Cash flows from/(used in) financing activities				
Issue of debt securities		**18,929**	23,565	31,314
Repayments of debt securities		**(13,888)**	(25,435)	(28,364)
Dividends paid		**-**	(750)	-
Net cash flow from/(used in) financing activities		**5,041**	(2,620)	2,950
Net (decrease)/increase in cash and cash equivalents		**(76,537)**	16,409	529
Cash and cash equivalents at beginning of the year		**94,826**	79,400	79,747
Effects of exchange rate changes on cash and cash equivalents	36	**94**	(983)	(876)
Cash and cash equivalents at the end of the year	36	**18,383**	94,826	79,400

The accompanying Notes to the Financial Statements and the audited sections of the Risk Review form an integral part of these Financial Statements.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

These financial statements are prepared for Abbey National Treasury Services plc (the 'Company') and the Abbey National Treasury Services plc group (the 'ANTS group') under the UK Companies Act 2006. The principal activity of the ANTS group is to provide treasury, corporate and wholesale banking services. The ANTS group provides these services to UK clients and also to the wider Santander UK group, of which the ANTS group is a significant part. The ANTS group is also the treasury support function for the Santander UK group. In this regard, the ANTS group's role is to provide access to financial markets and central bank facilities in order to meet the Santander UK group's liquidity, funding, capital and balance sheet management requirements. As such, ANTS is one of the main debt issuance vehicles in the Santander UK group.

Abbey National Treasury Services plc is a public limited company incorporated in England and Wales having a registered office in England. It is an operating company undertaking banking and financial services transactions, as well as the holding company of the ANTS group.

BASIS OF PREPARATION

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

Compliance with International Financial Reporting Standards

The ANTS group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee ('IFRIC') of the IASB (together 'IFRS'). The ANTS group has also complied with its legal obligation to comply with International Financial Reporting Standards as adopted by the European Union as there are no applicable differences between the two frameworks for the periods presented.

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

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

Recent accounting developments

In 2014, the ANTS group adopted the following new accounting pronouncements and amendments to standards which became effective for financial years beginning on 1 January 2014.

a) IAS 32 'Financial Instruments: Presentation' – In December 2011, the IASB issued amendments to IAS 32 entitled '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 amendments did not have a material effect on the Consolidated Financial Statements.

b) There are a number of other changes to IFRS that were effective from 1 January 2014. Those changes did not have a significant impact on the ANTS group's financial statements.

Notes to the Financial Statements continued

Future accounting developments

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

a) IFRS 9 'Financial Instruments' ('IFRS 9') – In July 2014, the IASB issued the final version of IFRS 9 which includes the completion of all phases of the project to replace IAS 39 'Financial Instruments: Recognition and Measurement' as discussed below.

Phase 1: Classification and measurement of financial assets and financial liabilities. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The standard also introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. 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.

Phase 2: Impairment methodology. IFRS 9 fundamentally changes the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. It is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting. These requirements align hedge accounting more closely with risk management and establish a more principle-based approach to hedge accounting. Dynamic hedging of open portfolios is being dealt with as a separate project and until such time as that project is complete, entities can choose between applying the hedge accounting requirements of IFRS 9 or to continue to apply the existing hedge accounting requirements in IAS 39. The revised hedge accounting requirements in IFRS 9 are applied prospectively.

The effective date of IFRS 9 is 1 January 2018. For annual periods beginning before 1 January 2018, an entity may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. At the date of publication of these Consolidated Financial Statements the standard is awaiting EU endorsement and the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 9 on these Consolidated Financial Statements.

b) IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') – In May 2014, the IASB issued IFRS 15. The effective date of IFRS 15 is 1 January 2017. The standard establishes the principles that shall be applied in connection with revenue from contracts with customers including the core principle that the recognition of revenue must depict the transfer of promised goods or services to customers in an amount that reflects the entitlement to consideration in exchange for those goods and services. IFRS 15 applies to all contracts with customers but does not apply to lease contracts, insurance contracts, financial instruments and certain non-monetary exchanges. At the date of publication of these Consolidated Financial Statements the standard is awaiting EU endorsement. Whilst it is expected that a significant proportion of the ANTS group's revenue will be outside the scope of IFRS 15, the impact of the standard is currently being assessed. It is not yet practicable to quantify the effect of IFRS 15 on these Consolidated Financial Statements.

c) 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 ANTS group's financial statements until a detailed review has been completed.

Comparative information

As required by US public company reporting requirements, these financial statements include two years of comparative information for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related Notes.

Notes to the Financial Statements continued

Consolidation

a) Subsidiaries

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

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

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

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

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

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

b) Associates and joint ventures

Associates are entities over which the ANTS group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Unrealised gains on transactions between the ANTS group and its associates are eliminated to the extent of the ANTS group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The ANTS group's investment in associates includes goodwill on acquisition.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Accounting policies have been aligned to the extent there are differences from the ANTS group's policies.

The ANTS group's investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recorded at cost and adjusted each year to reflect the ANTS group's share of the post-acquisition results of the joint venture or associate. When the ANTS group's share of losses of an associate or a joint venture exceeds the ANTS group's interest in that associate or joint venture, the ANTS group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the ANTS group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Foreign currency translation

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

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

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

Foreign currency transactions are translated into the functional currency of the entity involved at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement unless recognised in other comprehensive income in connection with a cash flow hedge. Non-monetary items denominated in a foreign currency measured at historical cost are not re-translated. Exchange rate differences arising on non-monetary items measured at fair value are recognised in the consolidated income statement except for differences arising on available-for-sale equity securities which are recognised in other comprehensive income.

Exchange rate differences recognised in the consolidated income statement on items not at fair value through profit and loss were £809m income (2013: £(344)m expense, 2012: £649m income) and are presented in the line net trading and other income (see Note 5). Exchange rate differences on items measured at fair value through profit or loss are included in the changes to fair value as presented in net trading and other income.

Notes to the Financial Statements continued

Revenue recognition

a) Interest income and expense

Interest income on financial assets that are classified as loans and receivables or available-for-sale, and interest expense on financial liabilities other than those at fair value through profit and loss are determined using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument excluding future credit losses. The calculation includes all amounts paid or received by the ANTS group that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of the financial instrument and all other premiums or discounts. Interest income on assets classified as loans and receivables and available-for-sale, interest expense on liabilities classified at amortised cost, and interest income and expense on hedging derivatives are recognised in interest and similar income and interest expense and similar charges in the income statement.

In accordance with IFRS, the ANTS group recognises interest income on assets after they have been written down as a result of an impairment loss. Interest continues to be accrued on all loans and the element of interest that is not anticipated to be recovered is provided for.

b) Fee and commission income and expense

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

c) Dividend income

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

d) Net trading and other income

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

Borrowing costs

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

Pensions and other post-retirement benefits

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

Intangible assets

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

Property, plant and equipment

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

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

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

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

Notes to the Financial Statements continued

Financial assets and liabilities

Financial assets and liabilities are initially recognised when the ANTS group becomes a party to the contractual terms of the instrument. The ANTS group determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity financial assets. Financial assets that are classified at fair value through profit or loss, which have not been designated as such or are not accounted for as derivatives, or assets classified as available-for-sale, may subsequently in rare circumstances, be reclassified from the fair value through profit or loss category to the loans and receivables, available-for-sale or held to maturity categories. In order to meet the criteria for reclassification, the asset must no longer be held for the purpose of selling or repurchasing in the near term and must also meet the definition of the category into which it is to be reclassified had it not been required to classify it at fair value through profit or loss at initial recognition. The reclassified value is the fair value of the asset at the date of reclassification. The ANTS group has not utilised this option and therefore has not reclassified any assets from the fair value through profit or loss category that were classified as such at initial recognition. Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition. Financial liabilities are derecognised when extinguished, cancelled or expire.

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

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

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

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

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

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

Financial assets and financial liabilities classified as fair value through profit or loss are initially recognised at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement.

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or fair value through profit or loss. They arise when the ANTS group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. Loans and receivables consist of loans and advances to banks, loans and advances to customers, and loans and receivables securities.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories described. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value of available-for-sale securities are recognised in other comprehensive income until sale or until determined to be impaired when the cumulative gain or loss or impairment losses are transferred to the income statement. Where the financial asset is interest-bearing, interest is determined using the effective interest method.

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

Notes to the Financial Statements continued

d) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, are initially recognised at fair value and are subsequently valued at amortised cost, using the effective interest method. The ANTS group does not hold any held to maturity financial assets.

e) Borrowings

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

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

f) Other financial liabilities

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

Offsetting financial assets and liabilities

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

Notes to the Financial Statements continued

Hedge accounting

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

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

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

a) Fair value hedge accounting

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

b) Cash flow hedge accounting

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

The ANTS group is exposed to cash flow interest rate risk on its floating rate assets and foreign currency risk on its fixed rate debt issuances denominated in foreign currency. Cash flow hedging is used to hedge the variability in cash flows arising from both these risks.

Impairment of financial assets

At each balance sheet date the ANTS group assesses 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 advances, loans and receivables securities or available-for-sale financial assets have become impaired. Evidence of impairment varies across different portfolios and may include indications that the borrower or group of borrowers have defaulted, are experiencing significant financial difficulty, or the debt has been restructured potentially reducing the burden to the borrower. Impairment losses are recorded as charges in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an impairment loss allowance. Impairment loss allowances are maintained at the level that management deems sufficient to absorb incurred losses. Losses expected from future events are not recognised.

a) Loans and advances

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

i) Corporate assets

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

Notes to the Financial Statements continued

Individual assessment

At each balance sheet data, the ANTS group conducts impairment reviews to assess whether there is objective evidence of impairment for individually significant corporate assets. A specific observed impairment is established for all individually significant loans that have experienced a loss event such as:

- where an asset has a payment default which has been outstanding for three months or more;
- where non-payment defaults have occurred but where it has become evident that a forbearance exercise will be undertaken due to the inability of the borrower to meet its current contractual repayment schedule;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- where the borrower has a winding up notice issued or insolvency event;
- where the borrower has had event(s) occur which are likely to adversely impact upon their ability to meet their financial obligations (e.g. where a customer loses a key client or contract);
- where the borrower has regularly and persistently missed/delayed payments but where the account has been maintained below three months past due;
- where the customer loan is due to mature within six months and where the prospects of achieving a refinancing are considered low.

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

Collective assessment

Observed impairment loss allowances

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

IBNO impairment loss allowances

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

The allowance for IBNO losses is determined on a portfolio basis using the following factors:

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

Emergence period

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

ii) Assets subject to forbearance

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

There are different risk characteristics associated with loans that are subject to forbearance as compared to loans that are not. A range of forbearance arrangements may be entered into by the ANTS group, reflecting the different risk characteristics of such loans. The ANTS group's forbearance programmes are described in the credit risk section in the Risk Review.

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

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

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

Notes to the Financial Statements continued

iii) Reversals of impairment

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

iv) Write-off

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

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

v) Recoveries

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

b) Loans and receivables securities

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

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

c) Available-for-sale financial assets

The ANTS group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In assessing whether assets are impaired, a significant or prolonged decline in the fair value of the security below its cost is considered evidence. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously reported in the income statement and is removed from other comprehensive income and recognised in the income statement.

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

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

Impairment of non-financial assets

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

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

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

The carrying values of property, plant and equipment, goodwill and other intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to property, plant and equipment may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the property, plant and equipment's recoverable amount. The carrying amount of the property, plant and equipment will only be increased up to the amount that would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For conducting goodwill impairment reviews, cash generating units are the lowest level at which management monitors the return on investment on assets.

Notes to the Financial Statements continued

Leases

a) The ANTS group as lessor

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

b) The ANTS group as lessee

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

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

Income taxes, including deferred taxes

The tax expense represents the sum of the income tax currently payable and deferred income tax.

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

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

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

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

Cash and cash equivalents

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

Provisions

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

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

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

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

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

Financial guarantee contracts

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

Share capital

a) Share issue costs

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

b) Dividends

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

Notes to the Financial Statements continued

CRITICAL ACCOUNTING POLICIES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

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

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

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

Valuation of financial instruments

The ANTS group trades in a wide variety of financial instruments in the major financial markets. When estimating the value of its financial instruments, including derivatives where quoted market prices are not available, management therefore considers a range of interest rates, volatility, exchange rates, counterparty credit ratings, valuation adjustments and other similar inputs, all of which vary across maturity bands. These are chosen to best reflect the particular characteristics of each transaction based on observable inputs and adjustment to these inputs for Level 2 instruments or unobservable inputs for Level 3 instruments. See Note 40 for further details.

Had management used different assumptions, a larger or smaller change in the valuation of financial instruments including derivatives where quoted market prices are not available would have resulted that could have had a material impact on the ANTS group's reported profit before tax.

Detailed disclosures on financial instruments, including sensitivities, can be found in Note 40. Further information about sensitivities to market risk (including VaR) arising from financial instrument trading activities can be found in the Market Risk section of the Risk Review.

Notes to the Financial Statements continued

2. SEGMENTS

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

> Commercial Banking;
> Corporate & Institutional Banking; and
> Corporate Centre.

Following a strategic review, the segmental financial information reported to the Board (the ANTS group's chief operating decision maker) was revised in the fourth quarter of 2014, and prior periods restated, principally to designate two distinct main customer business segments, which reflect how we now manage and operate: Commercial Banking and Corporate & Institutional Banking; and allocate indirect income, expenses and charges previously held at the Corporate Centre, which can be attributed to the other customer segments. This included a review of the internal transfer pricing policy, which resulted in a further allocation of funding and liquidity costs, central operating expenses and other provisions.

With the allocation of indirect income, expenses and charges from the Corporate Centre and with the other distinct customer business segments at differing stages of commercial maturity, we are now able to identify better and drive with greater granularity the key drivers of our business performance. This enables a more targeted apportionment of capital and other resources in line with the individual strategies and objectives of each business segment. The segmental analyses for prior years have been adjusted to reflect these changes.

The ANTS group's segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The ANTS group has three segments:

> **Commercial Banking** provides banking services to companies with a turnover of between £250,000 and £500m per annum through our enhanced platform, distribution capability and product suite through a network of regional business centres and through telephony and e-commerce channels, and commercial real estate and Social Housing. Commercial Banking products and services include loans, bank accounts, deposits and treasury services.

> **Corporate & Institutional Banking** is a financial markets business focused on providing value added financial services to large corporates, with an annual turnover above £500m, and financial institutions, where they can be best serviced in terms of their more specialised and tailored product needs, and benefit from the Banco Santander group's global capability. It also serves the rest of Santander UK's business (including the Retail Banking and Commercial Banking divisions). It is structured into five main product areas: Rates, Foreign exchange and money markets, Equity, Credit and Transaction Banking. In addition, large and complex clients are covered by teams organised along industry lines. Rates covers sales and trading activity for fixed income products. Foreign exchange offers a range of foreign exchange products and money markets runs securities lending/borrowing and repo businesses. Equity covers equity derivatives, property derivatives and commodities. Equity derivatives activities include the manufacture of structured products sold to retail and corporate customers of both Santander UK and of other financial institutions who sell them on to their customers. Credit originates loan and bond transactions in primary markets as well as their intermediation in secondary markets. Transaction Banking provides lending and deposit taking and trade finance.

> **Corporate Centre** consists of Financial Management & Investor Relations ('FMIR') and the non-core portfolios of Social Housing loans and structured credit assets. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Santander UK group. The non-core portfolios are being run-down and/or managed for value.

The segment information below is presented on the basis used by the Board to evaluate performance and allocate resources. The Board reviews discrete financial information for each segment of the business, including measures of operating results, assets and liabilities. The segment information reviewed by the Board is prepared on a statutory basis of accounting.

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

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

Notes to the Financial Statements continued

2014	Commercial Banking £m	Corporate & Institutional Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	**92**	**66**	**(123)**	**35**
Non-interest income	**36**	**265**	**120**	**421**
Total operating income/(expense)	**128**	**331**	**(3)**	**456**
Administration expenses	**(23)**	**(194)**	**(35)**	**(252)**
Depreciation, amortisation, and impairment	**-**	**(4)**	**-**	**(4)**
Total operating expenses excluding impairment losses, provisions and charges	**(23)**	**(198)**	**(35)**	**(256)**
Impairment losses on loans and advances	**(30)**	**-**	**-**	**(30)**
Provisions for other liabilities and charges	**-**	**(9)**	**(23)**	**(32)**
Total operating impairment losses, provisions and charges	**(30)**	**(9)**	**(23)**	**(62)**
Profit/(loss) before tax	**75**	**124**	**(61)**	**138**
Total assets	**6,340**	**38,301**	**62,828**	**107,469**
Average number of staff[1]	**517**	**193**	**152**	**862**

(1) Full-time equivalents.

2013	Commercial Banking £m	Corporate & Institutional Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	74	56	(231)	(101)
Non-interest income	36	298	179	513
Total operating income/(expense)	110	354	(52)	412
Administration expenses	(19)	(168)	(5)	(192)
Depreciation, amortisation and impairment	-	(3)	-	(3)
Total operating expenses excluding impairment losses, provisions and charges	(19)	(171)	(5)	(195)
Impairment losses on loans and advances	(31)	-	-	(31)
Provisions for other liabilities and charges	-	(7)	(16)	(23)
Total operating impairment losses, provisions and charges	(31)	(7)	(16)	(54)
Profit/(loss) before tax	60	176	(73)	163
Total assets	6,739	37,851	164,737	209,327
Average number of staff[1]	400	166	155	721

(1) Full-time equivalents.

2012	Commercial Banking £m	Corporate & Institutional Banking £m	Corporate Centre £m	Total £m
Net interest income	57	21	61	139
Non-interest income/(expense)	41	402	(20)	423
Total operating income	98	423	41	562
Administration expenses	(16)	(166)	(16)	(198)
Depreciation, amortisation and impairment	-	(3)	-	(3)
Total operating expenses excluding impairment losses, provisions and charges	(16)	(169)	(16)	(201)
Impairment losses on loans and advances	(9)	-	-	(9)
Provisions for other liabilities and charges	-	(8)	(12)	(20)
Total operating impairment losses, provisions and charges	(9)	(8)	(12)	(29)
Profit before tax	73	246	13	332
Total assets	6,524	48,373	163,015	217,912
Average number of staff[1]	387	193	122	702

(1) Full-time equivalents

Revenue by products and services

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

Geographical information

A geographical analysis of total operating income is presented below:

	Group		
	2014 £m	2013 £m	2012 £m
United Kingdom	**452**	411	566
Other	**4**	1	(4)
	456	412	562

A geographical analysis of total assets other than financial instruments and current and deferred tax assets is presented below:

	2014 £m	2013 £m
United Kingdom	**27**	14
Other	**1**	-
	28	14

3. NET INTEREST INCOME

	Group		
	2014 £m	2013 £m	2012 £m
Interest and similar income:			
Loans and advances to Santander UK group undertakings	**2,089**	2,250	3,415
Loans and advances to Banco Santander, S.A.	**-**	-	4
Loans and advances to other Banco Santander group undertakings	**-**	7	1
Other interest earning financial assets	**429**	440	450
Total interest and similar income	**2,518**	2,697	3,870
Interest expense and similar charges:			
Deposits by Santander UK group undertakings	**(1,348)**	(1,435)	(2,326)
Deposits by Banco Santander, S.A.	**-**	(14)	(30)
Deposits by other Banco Santander group undertakings	**-**	(4)	(4)
Other interest bearing financial liabilities	**(1,135)**	(1,345)	(1,371)
Total interest expense and similar charges	**(2,483)**	(2,798)	(3,731)
Net interest income/(expense)	**35**	(101)	139

4. NET FEE AND COMMISSION INCOME

	Group		
	2014 £m	2013 £m	2012 £m
Fee and commission income:			
Corporate products	**122**	107	119
Fee and commission expense:			
Other fees paid	**-**	-	-
Net fee and commission income	**122**	107	119

5. NET TRADING AND OTHER INCOME

	Group		
	2014 £m	2013 £m	2012 £m
Net trading and funding of other items by the trading book	**404**	353	344
Net gains on assets designated at fair value through profit or loss	**224**	40	545
Net losses on liabilities designated at fair value through profit or loss	**(123)**	(139)	(180)
Net (losses)/gains on derivatives managed with assets/liabilities held at fair value through profit or loss	**(203)**	155	(439)
Net share of profit/(loss) from associates and joint ventures	**-**	-	-
Net profit on sale of available for sale assets	**1**	45	7
Net loss on sale of property, plant and equipment and intangible fixed assets	**-**	-	-
Hedge ineffectiveness and other	**(4)**	(48)	27
	299	406	304

'Net trading and funding of other items by the trading book' includes fair value losses of £22m (2013: £58m, 2012: £149m) on embedded derivatives bifurcated from certain equity index-linked deposits, as described in the derivative financial instruments section of the Accounting Policies. The embedded derivatives are economically hedged internally with the equity derivatives trading desk. These transactions are managed as part of the overall positions of the equity derivatives trading desk, the results of which are also included in this line item, and amounted to gains of £24m (2013: £59m, 2012: £150m). As a result, the net fair value movements recognised on the equity index-linked deposits and the related economic hedges were net gains of £2m (2013: £1m, 2012: £1m).

Notes to the Financial Statements continued

6. ADMINISTRATION EXPENSES

	Group		
	2014 £m	2013 £m	2012 £m
Staff costs:			
Wages and salaries	**137**	101	111
Social security costs	**18**	13	15
Pensions costs:			
- defined contribution plans	**7**	6	6
Other personnel costs	**5**	4	7
	167	124	139
Property, plant and equipment expenses	**8**	7	7
Information technology expenses	**56**	44	44
Other administration expenses	**21**	17	8
	252	192	198

7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	Group		
	2014 £m	2013 £m	2012 £m
Depreciation of property, plant and equipment	**3**	3	3
Amortisation of intangible assets	**1**	-	-
	4	3	3

8. IMPAIRMENT LOSSES AND PROVISIONS

	Group		
	2014 £m	2013 £m	2012 £m
Impairment losses on loans and advances:			
- loans and advances to customers (Note 17)	**31**	31	9
Recoveries of loans and advances	**(1)**	-	-
	30	31	9
Provisions for other liabilities and charges:			
- New and increased allowances (Note 32)	**32**	23	20
Total impairment losses and provisions charged to the income statement	**62**	54	29

9. AUDIT AND OTHER SERVICES

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

	Group		
	2014 £m	2013 £m	2012 £m
Audit fees:			
Fees payable to the Company's auditor and its associates for the audit of the ANTS group's annual accounts	**0.8**	0.7	0.6
Fees payable to the Company's auditor and its associates for other services to the ANTS group:			
- The audit of the ANTS group's subsidiaries	**0.1**	0.1	0.1
Total audit fees	**0.9**	0.8	0.7
Non-audit fees:			
Audit-related assurance services	**0.6**	0.6	0.7
Total non-audit fees	**0.6**	0.6	0.7

Audit-related assurance services relate to services performed in connection with the statutory and regulatory filings of the Company and its associates. Audit-related assurance services accord with the definition of 'Audit related fees' per US Securities and Exchange Commission ('SEC') guidance and relate to services performed in connection with securitization, debt issuance and related work and assurance reporting to prudential regulators.

No information technology, internal audit, valuation and actuarial, litigation, recruitment and remuneration or corporate finance services were provided by the external auditor during these years. A framework for ensuring auditor's independence has been adopted which defines unacceptable non-audit assignments, pre-approval of acceptable non-audit assignments and procedures for approval of acceptable non-audit assignments by the Santander UK plc Board Audit Committee. Services provided by the Santander UK group's external auditor are subject to approval by the Santander UK plc Board Audit Committee. No services were provided pursuant to contingent fee arrangements.

10. TAXATION

	Group		
	2014 £m	2013 £m	2012 £m
Current tax:			
UK corporation tax on profit for the year	**31**	18	42
Adjustments in respect of prior years	**(17)**	(29)	30
Total current tax charge/(credit)	**14**	(11)	72
Deferred tax (Note 24)			
Origination and reversal of temporary differences	**2**	4	4
Change in rate of UK corporation tax	**-**	2	1
Adjustments in respect of prior years	**1**	4	(9)
Total deferred tax charge/(credit)	**3**	10	(4)
Tax expense/(credit) on profit for the year	**17**	(1)	68

UK corporation tax is calculated at 21.5% (2013: 23.25%, 2012: 24.5%) of the estimated assessable profits for the year. The standard rate of UK corporation tax was reduced from 23% to 21% with effect from 1 April 2014. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Finance Act 2013, which provides for a reduction in the main rate of UK corporation tax to 21% effective from 1 April 2014 and 20% effective from 1 April 2015 was enacted on 17 July 2013. As the changes in rates were substantively enacted prior to 31 December 2014, they have been reflected in the deferred tax balance at 31 December 2014.

The effective tax rate for 2014, based on profit before tax, was 12.3% (2013: (0.6)%, 2012: 20.5%). The tax on profit before tax differs from the theoretical amount that would arise using the basic corporation tax rate of the Company as follows:

	Group		
	2014 £m	2013 £m	2012 £m
Profit before tax	**138**	163	332
Tax calculated at a tax rate of 21.5% (2013: 23.25%, 2012: 24.5%)	**30**	38	81
Non-taxable dividend income	**-**	(3)	(3)
Non-deductible UK Bank Levy	**7**	5	5
Other non-equalised items (including index-linked gilts)	**(4)**	(15)	(29)
Utilisation of capital losses for which credit was not previously recognised	**-**	(3)	(8)
Effect of change in tax rate on deferred tax provision	**-**	2	1
Adjustment to prior year provisions	**(16)**	(25)	21
Tax expense/(credit)	**17**	(1)	68

In addition to the corporation tax expense charged to profit or loss, tax of £23m (2013: credited £12m, 2012: credited £1m) has been charged in other comprehensive income in the year, as follows:

2014

		Group		
		Before tax amount £m	**Total tax £m**	**After tax amount £m**
Net gains/(losses) on cash flow hedging		**122**	**(24)**	**98**
Movements in available-for-sale securities:	- Losses due to changes in fair value	**(1)**	**-**	**(1)**
	- Gains transferred to profit or loss on sale	**(2)**	**1**	**(1)**
Exchange differences on translation of foreign operations		**(4)**	**-**	**(4)**
Other comprehensive income		**115**	**(23)**	**92**

2013

		Group		
		Before tax amount £m	Total tax £m	After tax amount £m
Net gains/(losses) on cash flow hedging		(18)	4	(14)
Movements in available-for-sale securities:	- Gains due to changes in fair value	10	(2)	8
	- Gains transferred to profit or loss on sale	(45)	10	(35)
Other comprehensive income		(53)	12	(41)

2012

		Group		
		Before tax amount £m	Total tax £m	After tax amount £m
Movements in available-for-sale securities:	- Gains due to changes in fair value	5	(1)	4
Other comprehensive income		5	(1)	(4)

Notes to the Financial Statements continued

Current tax assets and liabilities

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Assets	**-**	-	**-**	-
Liabilities	**(223)**	(175)	**(223)**	(175)
At 1 January	**(223)**	(175)	**(223)**	(175)
Income statement	**(14)**	11	**(14)**	8
Other comprehensive income	**1**	8	**1**	7
Corporate income tax paid	**4**	4	**4**	4
Other movements	**8**	(71)	**8**	(67)
	(224)	(223)	**(224)**	(223)
Assets	**-**	-	**-**	-
Liabilities	**(224)**	(223)	**(224)**	(223)
At 31 December	**(224)**	(223)	**(224)**	(223)

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

The Santander UK group (including ANTS) has proactively engaged with HM Revenue & Customs to resolve a number of outstanding legacy tax matters. It has not however been possible to satisfactorily resolve all of these matters and as a result litigation proceedings have commenced in relation to a small number of remaining issues. All of these items relate to periods prior to Santander UK's adoption of the Code of Practice on Taxation for Banks in 2010. A provision for the full amount of tax in dispute has been made through the tax charge in previous years.

Further information about deferred tax is presented in Note 25.

11. DIVIDENDS

Ordinary dividends declared and authorised during the year were as follows:

	Group and Company			Group and Company		
	2014 Pence per share	2013 Pence per share	2012 Pence per share	**2014 £m**	2013 £m	2012 £m
Ordinary shares (equity):						
In respect of current year – interim	**-**	29.42	-	**-**	750	-
	-	29.42	-	**-**	750	-

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Company	
	2014 £m	2013 £m
Balances with central banks	**4,460**	4,911

Balances with central banks above represent amounts held at the Bank of England and the US Federal Reserve as part of the Santander UK group's liquidity management activities. This is described further in the Risk Review. In addition, it includes certain minimum cash balances held for regulatory purposes required to be maintained with the Bank of England. At 31 December 2014, these amounted to £37m (2013: £37m) for the ANTS group and £37m (2013: £37m) for the Company.

13. TRADING ASSETS

	Group and Company	
	2014 £m	2013 £m
Loans and advances to banks – securities purchased under resale agreements	**785**	4,219
- other[1]	**5,151**	5,107
Loans and advances to customers – securities purchased under resale agreements	**2,200**	4,210
- other[1]	**807**	192
Debt securities	**7,981**	7,859
Equity securities	**4,449**	310
	21,373	21,897

(1) Total 'other' comprises short-term loans of £816m (2013: £193m) and cash collateral of £5,142m (2013: £5,106m).

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

	Group and Company	
	2014 £m	2013 £m
Issued by public bodies:		
- Government securities	**7,002**	6,631
Issued by other issuers:		
- Fixed and floating rate notes[1]: Government guaranteed	**979**	1,081
- Fixed and floating rate notes[1]: Other	**-**	147
	7,981	7,859

(1) The FRNs are rated 43% AA+, 57%% AA- (2013: 25% AAA, 39% AA+ and 36% AA-).

Debt securities and equity securities can be analysed by listing status as follows:

	Group and Company	
	2014 £m	2013 £m
Debt securities:		
- Listed in the UK	**1,315**	1,489
- Listed elsewhere	**1,906**	1,582
- Unlisted[1]	**4,760**	4,788
	7,981	7,859
Equity securities:		
- Listed in the UK	**2,842**	248
- Listed elsewhere	**1,607**	62
	4,449	310

(1) These largely represent Japanese Treasury bonds for which there is no financial listing.

Included in the above balances are amounts owed to the ANTS group by Banco Santander, S.A. of £48m (2013: £80m), fellow subsidiaries of Banco Santander, S.A. of £73m (2013: £32m), Santander UK plc of £nil (2013: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2013: £nil) respectively.

Notes to the Financial Statements continued

14. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose value is derived from the price of one or more underlying items such as equities, equity indices, interest rates, foreign exchange rates, property indices, commodities and credit spreads. Derivatives enable users to manage exposure to credit or market risks. The ANTS group sells derivatives to its customers and uses derivatives to manage its own exposure to credit and market risks.

a) Use of derivatives

The ANTS group transacts derivatives for four primary purposes:

> to create risk management solutions for customers;
> to manage the portfolio risks arising from customer business;
> to manage and hedge the ANTS group's own risks; and
> to generate profits through sales activities.

Under IAS 39, all derivatives are classified as 'held for trading' (except for derivatives which are designated as effective hedging instruments in accordance with the detailed requirements of IAS 39) even if this is not the purpose of the transaction. The held for trading classification therefore includes two types of derivatives:

> those used in sales activities, and
> those used for risk management purposes but, for various reasons, either the ANTS group does not elect to claim hedge accounting for or they do not meet the qualifying criteria for hedge accounting. These consist of:
  > non-qualifying hedging derivatives (known as 'economic hedges'), whose terms match other on-balance sheet instruments but do not meet the technical criteria for hedge accounting, or which use natural offsets within other on-balance sheet instruments containing the same risk features as part of an integrated approach to risk management, and hence do not require the application of hedge accounting to achieve a reduction in income statement volatility;
  > derivatives managed in conjunction with financial instruments designated at fair value (known as the 'fair value option'). The fair value option is described more fully in the Accounting Policy 'Financial assets' and Notes 15 and 29. The ANTS group's business model is primarily structured to maximise use of the fair value option, rather than electing to apply hedge accounting, in order to reduce the administrative burden on the ANTS group associated with complying with the detailed hedge accounting requirements of IAS 39;
  > derivatives that do not meet the qualifying criteria for hedge accounting, including ineffective hedging derivatives and any components of hedging derivatives that are excluded from assessing hedge effectiveness; and
  > derivative contracts that represent the closing-out of existing positions through the use of matching deals.

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

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

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

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

The hedging classification consists of derivatives that the ANTS group has chosen to designate as in a hedging relationship because they meet the specific criteria in IAS 39.

All derivatives are required to be held at fair value through profit or loss, and shown in the balance sheet as separate totals of assets and liabilities. A description of how the fair values of derivatives are derived is set out in Note 40. This is described in more detail in the accounting policies 'Derivative financial instruments' and 'Hedge accounting'. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off or netting exists and the cash flows are intended to be settled on a net basis.

b) Trading derivatives

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

Trading derivatives include interest rate, cross currency, equity, property and other index related swaps, forwards, caps, floors, swaptions, as well as credit default and total return swaps, equity index contracts and exchange traded interest rate futures and options and equity index options.

Commercial Banking and Corporate & Institutional Banking deal with customers who wish to enter into derivative contracts. Any market risk arising from such transactions is hedged by Corporate & Institutional Banking. Corporate & Institutional Banking is responsible for implementing ANTS group derivative hedging with the external market together with its own trading activities. For trading activities, its objectives are to gain value by:

> Marketing derivatives to end users and hedging the resulting exposures efficiently; and
> The management of trading exposure reflected on the ANTS group's balance sheet.

As mentioned above, other derivatives classified as held for trading include non-qualifying hedging derivatives (economic hedges), ineffective hedging derivatives and any components of hedging derivatives that are excluded from assessing hedge effectiveness, derivatives managed in conjunction with financial instruments designated at fair value and derivative contracts that represent the closing-out of existing positions through the use of matching deals.

c) Hedging derivatives

The ANTS group uses derivatives (principally interest rate swaps and cross-currency swaps) for hedging purposes in the management of its own asset and liability portfolios, including fixed-rate lending, fixed-rate asset purchases, medium-term note issues, capital issues, and structural positions. This enables the ANTS group to optimise the overall cost to it of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting for these derivatives is described in the accounting policy 'Hedge accounting' in Note 1. Such risks may also be managed using natural offsets within other on-balance sheet instruments as part of an integrated approach to risk management.

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

The fair values of derivative instruments classified as held for trading and hedging purposes are set out in the following tables. The tables show the contract or underlying principal amounts, and positive and negative fair values of derivatives analysed by contract. The contract/notional amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent actual exposures. The fair values represent the price that would be received to sell the derivative asset or paid to transfer the derivative liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

As described above, derivatives classified as held for trading consist of those used in sales and trading activities, and those used for risk management purposes, either for which the ANTS group does not elect to claim hedge accounting or which do not meet the qualifying criteria for hedge accounting. Derivatives classified as held for hedging in the table below consist of those that have been designated as in a hedging relationship in accordance with IAS 39.

Group and Company

	2014			2013		
		Fair value			Fair value	
Derivatives held for trading	**Notional amount £m**	**Assets £m**	**Liabilities £m**	Notional amount £m	Assets £m	Liabilities £m
Exchange rate contracts:						
- Cross-currency swaps	**137,645**	**3,815**	**4,821**	131,609	2,553	3,321
- Foreign exchange swaps, options and forwards	**42,367**	**1,061**	**505**	40,131	1,110	393
	180,012	**4,876**	**5,326**	171,740	3,663	3,714
Interest rate contracts:						
- Interest rate swaps	**697,624**	**15,908**	**15,181**	622,441	12,647	11,646
- Caps, floors and swaptions	**53,321**	**2,081**	**1,988**	56,239	1,910	1,878
- Futures (exchange traded)	**68,434**	**4**	**8**	31,137	11	30
- Forward rate agreements	**91,353**	**7**	**42**	29,379	1	1
	910,732	**18,000**	**17,219**	739,196	14,569	13,555
Equity and credit contracts:						
- Equity index swaps and similar products	**27,963**	**2,081**	**2,496**	33,430	2,333	3,010
- Equity index options (exchange traded)	**10,681**	**149**	**1**	13,115	311	1
- Credit default swaps and similar products	**66**	**25**	**2**	158	32	3
	38,710	**2,255**	**2,499**	46,703	2,676	3,014
Commodity contracts:						
- OTC swaps	**18**	**2**	**2**	54	2	2
	18	**2**	**2**	54	2	2
Total derivative assets and liabilities held for trading	**1,129,472**	**25,133**	**25,046**	957,693	20,910	20,285

Notes to the Financial Statements continued

Derivatives held for hedging						
Derivatives designated as fair value hedges:						
Exchange rate contracts:						
- Cross-currency swaps	**2,536**	**33**	**85**	2,545	3	190
Interest rate contracts:						
- Interest rate swaps	**57,210**	**366**	**1,263**	86,079	612	960
	59,746	**399**	**1,348**	88,624	615	1,150
Derivatives designated as cash flow hedges:						
Exchange rate contracts:						
- Cross-currency swaps	**8,251**	**162**	**168**	2,068	22	56
Interest rate contracts:						
- Interest rate swaps	**5,212**	**98**	**45**	2,079	3	5
	13,463	**260**	**213**	4,147	25	61
Total derivative assets and liabilities held for hedging	**73,209**	**659**	**1,561**	92,771	640	1,211
Total recognised derivative assets and liabilities	**1,202,681**	**25,792**	**26,607**	1,050,464	21,550	21,496

Included in the above balances are amounts owed to the ANTS group by Banco Santander, S.A. of £2,040m (2013: £2,053m), fellow subsidiaries of Banco Santander, S.A. of £475m (2013: £165m), Santander UK plc of £2,001m (2013: £1,617m), and subsidiaries of Santander UK group outside the ANTS group of £1,769m (2013: £1,198m) respectively and amounts owed by the ANTS group to Banco Santander, S.A. of £1,717m (2013: £1,932m), fellow subsidiaries of Banco Santander, S.A. of £485m (2013: £192m), Santander UK plc of £3,121m (2013: £2,047m) and subsidiaries of the Santander UK group outside the ANTS group of £1,004m (2013: £882m). The net exposures after collateral to Banco Santander, S.A. and fellow subsidiaries of Banco Santander, S.A. outside the ANTS group at 31 December 2014 amounted to £nil (2013: £520m) and £nil (2013: £nil) respectively, with collateral held exceeding the net position.

In addition, in the ordinary course of business, the ANTS group entered into long-term interest rate contracts as economic hedges with five investment vehicles whose underlying assets comprise debt securities, bank loans and energy and infrastructure financings. Although the vehicles themselves are not externally rated, the counterparty exposure ranks super-senior to the most senior notes issued by the vehicles and these notes are rated AAA or AA. The total mark-to-market exposure at 31 December 2014 was £18m (2013: £34m). These long-term interest rate contracts are included within 'derivatives held for trading - interest rate contracts' shown above.

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

			Group
	2014 £m	2013 £m	2012 £m
Fair value hedging:			
- (Losses)/gains on hedging instruments	**(577)**	483	(100)
- Gains/(losses) on hedged items attributable to hedged risks	**574**	(522)	169
Fair value hedging ineffectiveness	**(3)**	(39)	69
Cash flow hedging ineffectiveness	**9**	1	-
	6	(38)	69

The ANTS group hedges its exposures to various risks, including interest rate risk and foreign currency risk, in connection with covered bond issuances, and subordinated and senior debt securities in issue. The gains or losses arising on these assets and liabilities are presented in the table above on a combined basis.

Hedged cash flows

The following tables show when the ANTS group and Company's hedged cash flows are expected to occur and when they will affect income for designated cash flow hedges.

							Group and Company
2014	**Up to 1 year £m**	**1 - 2 years £m**	**2 - 3 years £m**	**3 - 4 years £m**	**4 - 5 years £m**	**5 - 10 years £m**	**Total £m**
Hedged forecast cash flows expected to occur:							
Forecast receivable cash flows	**69**	**87**	**108**	**98**	**60**	**114**	**536**
Forecast payable cash flows	**(108)**	**(1,638)**	**(762)**	**(1,530)**	**(1,750)**	**(2,148)**	**(7,936)**
Hedged forecast cash flows affect profit or loss:							
Forecast receivable cash flows	**66**	**87**	**108**	**98**	**60**	**114**	**533**
Forecast payable cash flows	**(88)**	**(1,631)**	**(762)**	**(1,530)**	**(1,750)**	**(2,148)**	**(7,909)**

							Group and Company
2013	Up to 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	5 - 10 years £m	Total £m
Hedged forecast cash flows expected to occur:							
Forecast receivable cash flows	43	54	75	93	67	90	422
Forecast payable cash flows	(50)	(50)	(50)	(49)	(1,490)	(660)	(2,349)
Hedged forecast cash flows affect profit or loss:							
Forecast receivable cash flows	43	54	75	93	63	87	415
Forecast payable cash flows	(50)	(50)	(50)	(49)	(1,470)	(652)	(2,321)

There were no transactions for which cash flow hedge accounting had to be ceased during the years ended 31 December 2014 and 2013 as a result of the highly probable cash flows no longer being expected to occur.

During the year, gains and losses transferred from the cash flow hedging reserve to net interest income were a net gain of £49m (2013: gain of £13m, 2012: £nil) and to net trading and other income were a net loss of £80m (2013: £63m loss, 2012: £nil).

15. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	Group and Company	
	2014 £m	2013 £m
Loans and advances to customers	**2,259**	2,218
Debt securities	**318**	316
	2,577	2,534

Financial assets are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or where the assets are managed and their performance evaluated on a fair value basis.

The following assets have been designated at fair value through profit or loss:

- **Loans and advances to customers,** representing loans to housing associations secured on residential property of £1,826m (2013: £1,847m) and other loans of £433m (2013: £371m):
  - Loans to housing associations secured on residential property of £1,826m (2013: £1,847m) which, at the date of their origination, were managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them was provided on that basis to management. Since 2009, the ANTS group's policy has been not to designate similar new loans at fair value through profit or loss.
  - Other loans of £433m (2013: £371m), representing a portfolio of roll-up mortgages, are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them is provided on that basis to management.
- **Debt securities**, representing holdings of asset-backed securities of £318m (2013: £316m):
  - Mortgage-backed securities of £226m (2013: £229m) and other asset backed debt securities of £36m (2013: £29m) are managed and their performance evaluated on a fair value basis in accordance with a documented strategy, and information about them is provided on that basis to management.
  - Other asset-backed securities of £56m (2013: £58m) which were issued by Banco Santander entities in Spain. At the date of their acquisition, they were managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them was provided on that basis to management. Almost all of these securities are now managed on an accruals basis, but are not eligible for reclassification under IAS 39.

Included in the above balances are amounts owed to the ANTS group by Banco Santander, S.A. of £nil (2013: £nil), fellow subsidiaries of Banco Santander, S.A. of £54m (2013: £56m), Santander UK plc of £nil (2013: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2013: £nil).

Notes to the Financial Statements continued

The maximum exposure to credit risk on loans and advances designated as held at fair value through profit or loss at the balance sheet date was mitigated by the ANTS group having a charge over the residential properties in respect of lending to housing associations. See 'Maximum exposure to credit risk' on page 42.

The net gain during the year attributable to changes in credit risk for loans and advances designated at fair value was £10m (2013: net loss of £98m, 2012: net loss of £182m) for the ANTS group. The cumulative net loss attributable to changes in credit risk for loans and advances designated at fair value at 31 December 2014 was £248m (2013: cumulative net loss of £258m).

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

	Group and Company	
	2014 £m	2013 £m
Mortgage-backed securities	**226**	229
Other asset-backed securities	**92**	87
	318	316

Debt securities can be analysed by listing status as follows:

	Group and Company	
	2014 £m	2013 £m
Listed in the UK	**219**	218
Listed elsewhere	**92**	88
Unlisted[1]	**7**	10
	318	316

(1) Comprises Social Housing.

Asset-backed securities can be analysed by the geographical location of the issuer or counterparty as follows:

	31 December 2014				31 December 2013				Income statement	
	Nominal value	**Book value**	**Fair value**	**Fair value as % of nominal**	Nominal value	Book value	Fair value	Fair value as % of nominal	**2014**	2013
Country	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%	**£m**	£m
UK										
MBS	**170**	**218**	**218**	**128**	171	218	218	127	**(18)**	2
	170	**218**	**218**	**128**	171	218	218	127	**(18)**	2
US										
MBS	**7**	**8**	**8**	**114**	7	10	10	143	**1**	-
	7	**8**	**8**	**114**	7	10	10	143	**1**	-
Rest of Europe										
ABS	**84**	**92**	**92**	**110**	96	87	87	91	**(17)**	(13)
MBS	**-**	**-**	**-**	**-**	1	1	1	100	**-**	-
	84	**92**	**92**	**110**	97	88	88	91	**(17)**	(13)
Total	**261**	**318**	**318**	**122**	275	316	316	115	**(34)**	(11)

Asset-backed securities can be analysed by the credit rating of the issuer or counterparty as follows:

	31 December 2014				31 December 2013				Income statement	
	Nominal value	**Book value**	**Fair value**	**Fair value as % of nominal**	Nominal value	Book value	Fair value	Fair value as % of nominal	**2014**	2013
Credit rating[1]	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%	**£m**	£m
AAA										
ABS	**-**	**-**	**-**	**-**	-	-	-	-	**-**	-
MBS	**157**	**199**	**199**	**127**	157	203	203	129	**(13)**	1
	157	**199**	**199**	**127**	157	203	203	129	**(13)**	1
AA										
ABS	**14**	**13**	**13**	**93**	54	51	51	94	**(3)**	(4)
MBS	**20**	**27**	**27**	**135**	20	24	24	120	**(4)**	1
	34	**40**	**40**	**118**	74	75	75	101	**(7)**	(3)
A										
ABS	**65**	**75**	**75**	**115**	40	34	34	85	**(14)**	(9)
MBS	**-**	**-**	**-**	**-**	1	1	1	100	**-**	-
	65	**75**	**75**	**115**	41	35	35	85	**(14)**	(9)
BBB										
ABS	**5**	**4**	**4**	**80**	2	2	2	100	**-**	-
MBS	**-**	**-**	**-**	**-**	1	1	1	100	**-**	-
	5	**4**	**4**	**80**	3	3	3	100	**-**	-
Total	**261**	**318**	**318**	**122**	275	316	316	115	**(34)**	(11)

(1) All exposures are internally rated. External ratings are taken into consideration in the rating process, where available.

16. LOANS AND ADVANCES TO BANKS

		Group		Company	
		2014 £m	2013 £m	**2014 £m**	2013 £m
Placements with other banks	- securities purchased under resale agreements	**272**	273	**272**	273
	- other	**1,107**	1,257	**1,057**	1,253
Amounts due from Banco Santander	- securities purchased under resale agreements	**-**	50	**-**	50
	- other	**3**	-	**3**	-
Amounts due from Santander UK group undertakings	- securities purchased under resale agreements	**404**	468	**404**	468
	- other	**9,558**	111,601	**9,554**	111,598
		11,344	113,649	**11,290**	113,642

Almost all of the ANTS group's loans and advances to banks are transactions with other Santander UK group companies in the ordinary course of business. ANTS provides treasury, corporate and wholesale banking services to the wider Santander UK group. The ANTS group is also the treasury support function for the Santander UK group.

As part of the banking reform programme, the intercompany funding arrangements between Abbey National Treasury Services plc and its immediate parent Santander UK plc have been amended so that only the net funding requirement of the commercial bank is passed between Santander UK plc and Abbey National Treasury Services plc rather than the gross funding requirements as previously. In preparation for this change, a rationalisation of the current booking model was carried out in 2014. Following this, the legal agreements between Santander UK plc and Abbey National Treasury Services plc were changed. As a result, only trades that generate the actual net funding requirement are reported. The intercompany balances between Santander UK plc and Abbey National Treasury Services plc reduced by £100bn predominantly due to this change.

During the years ended 31 December 2014, 2013 and 2012, no impairment losses were incurred.

Loans and advances to banks are repayable as follows:

	Group		Company	
Repayable:	**2014 £m**	2013 £m	**2014 £m**	2013 £m
On demand	**7,723**	28,927	**7,670**	28,920
In not more than 3 months	**2,285**	51,090	**2,285**	51,090
In more than 3 months but not more than 1 year	**450**	13,455	**450**	13,455
In more than 1 year but not more than 5 years	**270**	9,485	**269**	9,485
In more than 5 years	**616**	10,692	**616**	10,692
	11,344	113,649	**11,290**	113,642

Loans and advances to banks can be analysed by the geographical location of the issuer or counterparty as follows:

	Group	
Country	**2014 £m**	2013 £m
UK	**10,705**	112,907
Spain	**3**	54
France	**-**	62
Rest of Europe	**-**	99
US	**636**	527
	11,344	113,649

Loans and advances to banks can be analysed by the credit rating of the issuer or counterparty as follows:

	Group	
Credit rating[1]	**2014 £m**	2013 £m
AA	**-**	133
AA-	**-**	361
A+	**159**	2
A	**10,267**	112,066
A-	**833**	953
BBB	**85**	134
	11,344	113,649

(1) All exposures are internally rated. External ratings are taken into consideration in the rating process, where available.

Notes to the Financial Statements continued

17. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amounts due from Santander UK group undertakings	**24,919**	27,477	**24,952**	27,492
Amounts due from Banco Santander group undertakings	**66**	153	**66**	153
Other loans and advances	**13,376**	13,541	**13,372**	13,536
Loans and advances to customers	**38,361**	41,171	**38,390**	41,181
Less: impairment loss allowances	**(76)**	(63)	**(80)**	(63)
Loans and advances to customers, net of impairment loss allowances	**38,285**	41,108	**38,310**	41,118

	Group		Company	
Repayable:	**2014 £m**	2013 £m	**2014 £m**	2013 £m
On demand	**36**	1	**28**	10
In no more than 3 months	**2,815**	2,923	**2,855**	2,926
In more than 3 months but not more than 1 year	**4,547**	4,364	**4,545**	4,362
In more than 1 year but not more than 5 years	**15,740**	18,072	**15,740**	18,070
In more than 5 years	**15,223**	15,811	**15,222**	15,813
Loans and advances to customers	**38,361**	41,171	**38,390**	41,181
Less: impairment loss allowances	**(76)**	(63)	**(80)**	(63)
Loans and advances to customers, net of impairment loss allowances	**38,285**	41,108	**38,310**	41,118

The loans and advances to customers in the above table have the following interest rate structure:

	Group		Company	
	2014 £m	2013 £m	**2014** £m	2013 £m
Fixed rate	**22,160**	23,243	**22,200**	23,258
Variable rate	**16,201**	17,928	**16,190**	17,923
Less: impairment loss allowances	**(76)**	(63)	**(80)**	(63)
	38,285	41,108	**38,310**	41,118

Movement in impairment loss allowances:

	Group		
	2014 £m	2013 £m	2012 £m
At 1 January:			
- Observed	**61**	110	97
- Incurred but not yet observed	**2**	2	33
	63	112	130
Charge/(release) to the income statement:			
- Observed	**(2)**	31	40
- Individual	**(2)**	37	32
- Collective	**-**	(6)	8
- Incurred but not yet observed	**33**	-	(31)
	31	31	9
Write offs:			
- Observed	**(18)**	(80)	(27)
- Incurred but not yet observed	**-**	-	-
	(18)	(80)	(27)
At 31 December:			
- Observed	**41**	61	110
- Incurred but not yet observed	**35**	2	2
	76	63	112

	Company		
	2014 £m	2013 £m	2012 £m
At 1 January	**63**	112	130
Charge to the income statement	**35**	31	9
Write offs	**(18)**	(80)	(27)
At 31 December	**80**	63	112

Recoveries:

	Group
	Corporate Loans £m
2014	**1**
2013	-
2012	-

18. TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

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

> Full derecognition occurs when the ANTS group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

> Partial derecognition occurs when the ANTS group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the ANTS group's continuing involvement. There are no assets subject to partial derecognition.

Financial assets that do not qualify for derecognition consist of (i) securities held by counterparties as collateral under repurchase agreements, (ii) securities lent under securities lending agreements, and (iii) loans that have been securitised under arrangements by which the ANTS group retains a continuing involvement in such transferred assets.

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

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

			Group and Company	
	2014 £m	**2014 £m**	2013 £m	2013 £m
Nature of transaction	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	Carrying amount of transferred assets	Carrying amount of associated liabilities
Sale and repurchase agreements	**2,023**	**1,831**	1,770	1,758
Securities lending agreements	**42**	**38**	428	423
	2,065	**1,869**	2,198	2,181

19. LOANS AND RECEIVABLES SECURITIES

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Asset-backed securities	**22**	128	**22**	128
Other	**-**	-	**1**	-
Loans and receivables securities, net of impairment allowances	**22**	128	**23**	128

These asset-backed securities were acquired as part of an alignment of portfolios across the Banco Santander group in 2010 and are being run down. Detailed analysis of these securities is set out below.

Asset-backed securities can be analysed by the geographical location of the issuer or counterparty as follows:

	31 December 2014				31 December 2013				Income statement	
	Nominal value	**Book value**	**Fair value**	**Fair value as % of nominal**	Nominal value	Book value	Fair value	Fair value as % of nominal	**2014**	2013
Country	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%	**£m**	£m
UK										
MBS	**4**	**4**	**4**	**100**	5	5	5	100	**-**	-
	4	**4**	**4**	**100**	5	5	5	100	**-**	-
US										
ABS	**13**	**11**	**14**	**108**	23	18	19	83	**-**	-
	13	**11**	**14**	**108**	23	18	19	83	**-**	-
Rest of Europe										
MBS	**-**	**-**	**-**	**-**	102	97	96	94	**-**	2
	-	**-**	**-**	**-**	102	97	96	94	**-**	2
Rest of world										
ABS	**8**	**7**	**4**	**50**	9	8	6	67	**-**	-
	8	**7**	**4**	**50**	9	8	6	67	**-**	-
	25	**22**	**22**	**88**	139	128	126	91	**-**	2

Notes to the Financial Statements continued

Asset-backed securities can be analysed by the credit rating of the issuer or counterparty as follows:

	31 December 2014				31 December 2013				Income statement	
	Nominal value	**Book value**	**Fair value**	**Fair value as % of nominal**	Nominal value	Book value	Fair value	Fair value as % of nominal	**2014**	2013
Credit rating[1]	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%	**£m**	£m
AAA										
ABS	**19**	**16**	**14**	**74**	1	1	1	100	**-**	-
MBS	**-**	**-**	**-**	**-**	78	74	75	96	**-**	1
	19	**16**	**14**	**74**	79	75	76	96	**-**	1
AA										
ABS	**2**	**2**	**4**	**200**	-	-	-	-		
MBS	**3**	**3**	**2**	**67**	17	16	14	82	**-**	1
	5	**5**	**6**	**120**	17	16	14	82	**-**	1
A										
ABS	**-**	**-**	**-**	**-**	12	10	10	83	**-**	-
MBS	**-**	**-**	**-**	**-**	12	12	12	100	**-**	-
	-	**-**	**-**	**-**	24	22	22	92	**-**	-
BBB										
ABS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MBS	**1**	**1**	**2**	**200**	**-**	**-**	**-**	**-**	**-**	**-**
	1	**1**	**2**	**200**	-	-	-	-	-	-
Below BBB										
ABS	**-**	**-**	**-**	**-**	19	15	14	74	**-**	-
	-	**-**	**-**	**-**	19	15	14	74	**-**	-
	25	**22**	**22**	**88**	139	128	126	91	**-**	2

(1) All exposures are internally rated. External ratings are taken into consideration in the rating process, where available.

Asset-backed securities above include the following:

> **ALT-A US asset-backed securities** – the ANTS group holds no ALT-A US asset-backed securities.

> **Monoline insurer exposures** - the ANTS group has a £nil (2013: £30m) exposure to corporate bonds and securitisations which are wrapped by monoline insurers. The principal risk exposures are recorded against the securitisations, with the monoline wraps being viewed as secondary sources of repayment.

20. AVAILABLE-FOR-SALE SECURITIES

	Group and Company	
	2014 £m	2013 £m
Debt securities	**2,525**	2,962

Debt securities can be analysed by listing status as follows:

	Group and Company	
	2014 £m	2013 £m
Listed in the UK	**2,438**	2,664
Listed elsewhere	**87**	298
	2,525	2,962

Debt securities can be analysed by contractual maturity and the related weighted average yield for the year as follows:

2014

										Group
	On demand £m	**Within 1 month £m**	**1-3 months £m**	**3-6 months £m**	**6-9 months £m**	**9 months to 1 year £m**	**1-2 years £m**	**2-5 years £m**	**Over 5 years £m**	**Total £m**
Issued by public bodies:										
- UK Government	-	-	-	-	-	-	**1,459**	**189**	**797**	**2,445**
Banks	-	-	-	-	-	-	**-**	**80**	**-**	**80**
	-	-	-	-	-	-	**1,459**	**269**	**797**	**2,525**
Weighted average yield	-	-	-	-	-	-	**2.51%**	**1.27%**	**2.50%**	**2.08%**

2013

										Group
	On demand £m	Within 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9 months to 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Issued by public bodies:										
- UK Government	-	-	-	-	-	-	-	2,284	380	2,664
- Other OECD	-	-	-	-	-	-	-	201	97	298
	-	-	-	-	-	-	-	2,485	477	2,962
Weighted average yield	-	-	-	-	-	-	-	1.96%	2.20%	2.00%

The movement in available-for-sale securities can be summarised as follows:

	Group and Company		
	2014 £m	2013 £m	2012 £m
At 1 January	**2,962**	5,113	-
Additions	**-**	1,227	5,990
Redemptions and maturities	**(415)**	(3,343)	(869)
Amortisation of discount	**-**	(45)	-
Exchange adjustments	**-**	-	(13)
Movement in fair value	**(22)**	10	5
At 31 December	**2,525**	2,962	5,113

21. INTERESTS IN OTHER ENTITIES

Interests in subsidiaries are held at cost subject to impairment. The movement in interests in subsidiaries was as follows:

	Company		
2014	**Cost £m**	**Impairment £m**	**Net book value £m**
At 1 January	**67**	**(21)**	**46**
Additions	**26**	**-**	**26**
At 31 December	**93**	**(21)**	**72**

	Company		
2013	Cost £m	Impairment £m	Net book value £m
At 1 January	2,205	(21)	2,184
Additions	166	-	166
Disposal	(1,018)	-	(1,018)
Capital reduction of subsidiaries	(1,286)	-	(1,286)
At 31 December	67	(21)	46

In 2013, the movements on interests in subsidiaries principally represented changes in the capital invested in certain subsidiaries as a result of an internal reorganisation within the ANTS group. In addition, in December 2013, ANTS entered into a share sale agreement with its parent company, Santander UK plc and sold 100% of the issued share capital of Abbey National Treasury Services Overseas Holdings.

Principal subsidiaries

The principal subsidiary of the Company that comprises a related undertaking under the UK Companies Act 2006 (and so excludes certain securitisation companies) at 31 December 2014 is Abbey National North America LLC, which is indirectly held through subsidiary companies, and is unlisted. Abbey National North America LLC is included in the Consolidated Financial Statements. The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. In accordance with Section 410(2) of the UK Companies Act 2006, the following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the results of the ANTS group. Full particulars of all subsidiary undertakings will be annexed to the Company's next annual return in accordance with Section 410(3)(b) of the UK Companies Act 2006. All companies operate principally in their country of incorporation or registration. The Company also has a branch office in the US and the Cayman Islands.

Interests in unconsolidated structured entities

Structured entities sponsored by the ANTS group

The ANTS group also has interests in structured entities which it sponsors but does not control. The ANTS group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. Other than as set out below, no significant judgements were required with respect to control or significant influence.

The only structured entities sponsored but not consolidated by the ANTS group are structured entities which issue shares that back retail structured products. At 31 December 2014, the total value of products issued by these entities was £nil (2013: £11m). The ANTS group's arrangements with these entities comprise the provision of equity derivatives and a secondary market-making service to those retail customers who wish to exit early from these products. The maximum exposure to these structured entities consists of trading assets (Repurchases held by the ANTS group) of £nil (2013: £9m). The ANTS group holds no interest in these vehicles, nor does it have any control over or exposure to the variable returns, and therefore these entities have not been consolidated.

Structured entities not sponsored by the ANTS group

The ANTS group also has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage and other asset-backed securities issued by entities that were established and/or sponsored by other unrelated financial institutions. Details of these securities are set out in Note 15 'Financial assets designated at fair value' and Note 19 'Loans and receivables securities'. Management has concluded that the ANTS group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss.

Notes to the Financial Statements continued

22. INTANGIBLE ASSETS

	Group and Company	
	2014	2013
	£m	£m
Cost		
At 1 January	**9**	8
Additions	**6**	1
At 31 December	**15**	9
Accumulated amortisation / depreciation		
At 1 January	**1**	1
Charge for the year	**1**	-
31 December	**2**	1
Net book value	**13**	8

The intangible assets of the ANTS group and the Company consist of computer software.

23. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Property	**Office fixtures and equipment**	**Computer software**	**Operating lease assets**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cost					
At 1 January 2014	**1**	**27**	**61**	**-**	**89**
Additions	**-**	**6**	**-**	**1**	**7**
At 31 December 2014	**1**	**33**	**61**	**1**	**96**
Accumulated depreciation					
At 1 January 2014	**1**	**22**	**60**	**-**	**83**
Charge for the year	**-**	**3**	**-**	**-**	**3**
At 31 December 2014	**1**	**25**	**60**	**-**	**86**
Net book value	**-**	**8**	**1**	**1**	**10**
Cost					
At 1 January 2013	1	24	61	-	86
Additions	-	3	-	-	3
At 31 December 2013	1	27	61	-	89
Accumulated depreciation					
At 1 January 2013	1	19	60	-	80
Charge for the year	-	3	-	-	3
At 31 December 2013	1	22	60	-	83
Net book value	-	5	1	-	6

	Property £m	Office fixtures and equipment £m	Computer software £m	Operating lease assets £m	Company Total £m
Cost					
At 1 January 2014	**-**	**24**	**60**	**-**	**84**
Additions	**-**	**6**	**-**	**1**	**7**
At 31 December 2014	**-**	**30**	**60**	**1**	**91**
Accumulated depreciation					
At 1 January 2014	**-**	**19**	**59**	**-**	**78**
Charge for the year	**-**	**3**	**-**	**-**	**3**
At 31 December 2014	**-**	**22**	**59**	**-**	**81**
Net book value	**-**	**8**	**1**	**1**	**10**
Cost					
At 1 January 2013	-	21	60	-	81
Additions	-	3	-	-	3
At 31 December 2013	-	24	60	-	84
Accumulated depreciation					
At 1 January 2013	-	16	59	-	75
Charge for the year	-	3	-	-	3
At 31 December 2013	-	19	59	-	78
Net book value	-	5	1	-	6

At 31 December 2014 and 2013, there was no capital expenditure contracted, but not provided for in respect of property, plant and equipment. Of the carrying value at the balance sheet date, £1m (2013:£nil) related to assets under construction.

24. DEFERRED TAX

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:

	Group and Company 2014 £m	2013 £m
At 1 January	**15**	20
Income statement charge	**(3)**	(10)
(Charged)/credited to other comprehensive income:		
- available-for-sale financial assets	**-**	1
- cash flow hedges	**(24)**	4
At 31 December	**(12)**	15

Deferred tax balances are presented in the balance sheet after offsetting assets and liabilities where the ANTS group and Company has the legal right to off set and intends to settle on a net basis. The deferred tax assets and liabilities are attributable to the following items:

	Group and Company 2014 £m	2013 £m
Deferred tax assets/(liabilities)		
Accelerated book depreciation	**1**	1
IFRS transitional adjustments	**1**	3
Other temporary differences	**(14)**	11
	(12)	15

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

The deferred tax (credit)/charge in the income statement comprises the following temporary differences:

	Group 2014 £m	2013 £m	2012 £m
Accelerated tax depreciation	**-**	-	1
IFRS transitional adjustments	**1**	2	2
Other temporary differences	**2**	8	(7)
	3	10	(4)

Notes to the Financial Statements continued

25. OTHER ASSETS

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trade and other receivables	**127**	180	**96**	180
Prepayments	**5**	-	**-**	-
Accrued income	**1**	-	**-**	-
	133	180	**96**	180

Included in the above balances are amounts due to the ANTS group by Banco Santander, S.A. of £5m (2013: £2m), fellow subsidiaries of Banco Santander, S.A. of £nil (2013: £11m), Santander UK plc of £84m (2013: £89m) and subsidiaries of Santander UK group outside the ANTS group of £6m (2013: £69m) respectively.

26. DEPOSITS BY BANKS

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amounts due to Santander UK subsidiaries	**12,485**	115,986	**12,484**	115,985
Securities sold under repurchase agreements	**4,015**	4,164	**4,015**	4,164
Amounts due to Banco Santander, S.A. - securities sold under repurchase agreements	**-**	49	**-**	49
- Other	**21**	7	**21**	7
Deposits held as collateral	**3**	-	**3**	-
Other deposits	**892**	492	**892**	492
	17,416	120,698	**17,415**	120,697
Repayable:				
On demand	**5,056**	17,921	**5,055**	17,921
In not more than 3 months	**4,957**	14,741	**4,957**	14,741
In more than 3 months but not more than 1 year	**2,020**	30,001	**2,020**	30,001
In more than 1 year but not more than 5 years	**4,549**	38,627	**4,549**	38,626
In more than 5 years	**834**	19,408	**834**	19,408
	17,416	120,698	**17,415**	120,697

As part of the banking reform programme, the intercompany funding arrangements between Abbey National Treasury Services plc and its immediate parent Santander UK plc have been amended so that only the net funding requirement of the commercial bank is passed between Santander UK plc and Abbey National Treasury Services plc rather than the gross funding requirements as previously. In preparation for this change, a rationalisation of the current booking model was carried out in 2014. Following this, the legal agreements between Santander UK plc and Abbey National Treasury Services plc were changed. As a result, only trades that generate the actual net funding requirement are reported. The intercompany balances between Santander UK plc and Abbey National Treasury Services plc reduced by £100bn predominantly due to this change.

27. DEPOSITS BY CUSTOMERS

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amounts due to Santander UK subsidiaries	**873**	2,317	**4,417**	5,510
Amounts due to fellow Banco Santander subsidiaries (not Banco Santander, S.A.)	**-**	-	**-**	-
Securities sold under repurchase agreements	**-**	418	**-**	418
Wholesale funds and deposits[1]	**3,650**	5,045	**3,650**	5,045
	4,523	7,780	**8,067**	10,973
Repayable:				
On demand	**675**	134	**671**	149
In no more than 3 months	**2,197**	2,292	**4,971**	4,601
In more than 3 months but not more than 1 year	**633**	2,120	**1,369**	2,989
In more than 1 year but not more than 5 years	**742**	2,279	**749**	2,279
In more than 5 years	**276**	955	**307**	955
	4,523	7,780	**8,067**	10,973

(1) Consists of equity index-linked deposits of £1,963m (2013: £2,962m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £1,963m and £107m, respectively (2013: £2,962m and £121m, respectively).

Wholesale funds and deposits are interest bearing.

28. TRADING LIABILITIES

	Group and Company	
	2014 £m	2013 £m
Deposits by banks - securities sold under repurchase agreements	**4,508**	7,793
- other[1]	**2,715**	3,496
Deposits by customers - securities sold under repurchase agreements	**4,040**	6,329
- other[2]	**859**	740
Short positions in securities and unsettled trades	**3,211**	2,917
	15,333	21,275

(1) Comprises cash collateral of £1,905m (2013: £1,841m) and short-term deposits of £1,669m (2013: £2,336m).
(2) Includes equity index-linked deposits of £nil (2013: £59m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £nil for both commitments (2013: £127m and £17m, respectively).

Included in the above balances are amounts owed by the ANTS group to Banco Santander, S.A. of £433m (2013: £193m), fellow subsidiaries of Banco Santander, S.A. of £84m (2013: £13m), Santander UK plc of £nil (2013: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2013: £nil) respectively.

29. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	Group and Company	
	2014 £m	2013 £m
Debt securities in issue:		
- US$10bn Euro Commercial Paper Programme	**854**	865
- US$20bn Euro Medium Term Note Programme	**464**	591
- Euro 10bn Note, Certificate and Warrant Programme and Global Structured Solutions Programme	**1,517**	1,832
Warrants programme	**13**	119
	2,848	3,407

Financial liabilities are designated at fair value through profit or loss where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on a different basis or where a contract contains one or more embedded derivatives that would otherwise require separate recognition. The 'fair value option' has been used where debt securities in issue and warrants would otherwise be measured at amortised cost and any embedded derivatives or associated derivatives used to economically hedge the risk are held at fair value.

Where the ANTS group records its own debt securities in issue at fair value, the fair value is based on quoted prices in an active market for the specific instrument concerned, if available. When quoted market prices are unavailable, the own debt security in issue is valued using valuation techniques, the inputs for which are either based upon quoted prices in an inactive market for the instrument, or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to the ANTS group's liabilities.

The change in fair value of issued debt securities attributable to the ANTS group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer or credit default swaps. Each security is then valued using discounted cash flows, incorporating a LIBOR-based discount curve. The difference in the valuations is attributable to the ANTS group's own credit spread. This methodology is applied consistently across all securities where it is believed that counterparties would consider the ANTS group's creditworthiness when pricing trades.

Included in the above balances are amounts owed by the ANTS group to Banco Santander, S.A. of £29m (2013: £17m) to fellow subsidiaries of Banco Santander S.A. of £67m (2013: £172m), Santander UK plc £nil (2013: £nil) and subsidiaries of the Santander UK group outside the ANTS group of £nil (2013: £nil).

Gains and losses arising from changes in the credit spread of liabilities issued by the ANTS group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount. The net loss during the year attributable to changes in the ANTS group's own credit risk on the above debt securities in issue was £1m (2013: net loss of £13m, 2012: net loss of £86m). The cumulative net loss attributable to changes in the ANTS group's own credit risk on the above debt securities in issue at 31 December 2014 was £7m (2013: cumulative net loss of £6m).

At 31 December 2014, the amount that would be required to be contractually paid at maturity of the debt securities in issue above was £165m (2013: £216m) higher than the carrying value.

US$10bn Euro Commercial Paper Programme

The Company may from time to time issue commercial paper under the US$10bn Euro Commercial Paper Programme that may be denominated in any currency as agreed between the Company and the relevant dealer. The commercial paper ranks at least pari passu with all other unsecured and unsubordinated obligations of the Company. The payments of all amounts due in respect of the commercial paper have been unconditionally and irrevocably guaranteed by Santander UK plc.

The commercial paper is issued in bearer form, subject to a minimum maturity of 1 day and a maximum maturity of 364 days. The commercial paper may be issued on a discounted basis or may bear fixed or floating rate interest or a coupon calculated by reference to an index or formula. The maximum aggregate nominal amount of all commercial paper outstanding from time to time under the Programme will not exceed US$10bn (or its equivalent in other currencies). The commercial paper is not listed on any stock exchange.

Notes to the Financial Statements continued

US$20bn Euro Medium Term Note Programme

The Company may from time to time issue notes denominated in any currency as agreed between the issuer and the relevant dealer under the US$20bn Euro Medium Term Note Programme. The payment of all amounts payable in respect of the notes is unconditionally and irrevocably guaranteed by Santander UK plc. The programme provides for issuance of fixed rate notes, floating rate notes, variable interest notes and zero coupon/discount notes.

The maximum aggregate nominal amount of all notes outstanding under the programme may not exceed US$20bn (or its equivalent in other currencies) subject to any modifications in accordance with the terms of the programme agreement. Notes may be issued in bearer or registered form and can be listed on the London Stock Exchange or any other stock exchange(s) as agreed.

Euro 10bn Note, Certificate and Warrant Programme and Global Structured Solutions Programme

The Company may from time to time issue structured notes and redeemable certificates (together the 'N&C Securities') and warrants (together with the N&C Securities, the 'Securities') denominated in any currency as agreed between the Company and the relevant dealers under the Note, Certificate and Warrant programme and the Global Structured Solutions Programmes (the 'Structured Securities Programmes'). The securities are direct, senior and unsecured obligations of the Company that rank pari passu without preference among themselves and, subject as to any applicable statutory provisions or judicial order, at least equally with all other present and future senior and unsecured obligations of the Company. The payment of all amounts due in respect of the Securities has been unconditionally and irrevocably guaranteed by Santander UK plc.

The Structured Securities Programmes provide for the issuance of commodity linked N&C Securities, credit-linked N&C Securities, currency-linked Securities, equity-linked Securities, equity index-linked Securities, fixed rate N&C Securities, floating rate N&C Securities, fund-linked Securities, inflation-linked Securities, property-linked Securities, zero-coupon/discount N&C Securities and any other structured Securities as agreed between the Company and the relevant dealers. Securities issued under the Structured Securities Programmes are governed by English law.

The maximum aggregate outstanding nominal amount of all N&C Securities and the aggregate issue prices of outstanding warrants from time to time issued under the Structured Securities Programmes will not exceed euro 10bn (or its equivalent in other currencies).

Warrants programme

The Company established a warrants programme (the 'Warrants Programme') in 2009 for the issuance of structured warrants denominated in any currency as agreed between the Company and the relevant dealers under the Warrants Programme. Warrants are direct, unsecured and unconditional obligations of the Company that rank pari passu without preference among themselves and, subject as to any applicable statutory provisions or judicial order, rank at least equally with all other present and future unsecured and unsubordinated obligations of the Company.

As at the date of this report, the Company discontinued the issue of new warrants under the Warrants Programme as new issuances are being made under the Structured Securities Programmes. The payments of all amounts due in respect of the previously issued warrants have been unconditionally and irrevocably guaranteed by Santander UK plc.

30. DEBT SECURITIES IN ISSUE

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Euro 35bn Global Covered Bond Programme	**17,494**	17,422	**17,494**	17,422
US$20bn Euro Medium Term Note Programme (See Note 28)	**11,785**	7,690	**11,785**	7,690
US$20bn Commercial Paper Programme	**3,510**	3,131	**-**	-
Euro 5bn Guaranteed French Certificates of Deposit Programme	**968**	890	**968**	890
Certificates of deposit	**3,042**	1,756	**3,042**	1,756
	36,799	30,889	**33,289**	27,758

Included in the above balances are amounts owed by the ANTS group to Banco Santander, S.A. of £60m (2013: £29m), fellow subsidiaries of Banco Santander, S.A. of £67m (2013: £74m), Santander UK plc of £nil (2013: £nil) and subsidiaries of Santander UK group outside the ANTS group of £nil (2013: £nil) respectively.

Euro 35bn Global Covered Bond Programme

The Company issues covered bonds under the euro 35bn Global Covered Bond Programme that may be denominated in any currency as agreed between the Company and the relevant dealers. The programme provides that covered bonds may be listed or admitted to trading, on the official list of the UK Listing Authority and on the London Stock Exchange's Regulated Market or any other stock exchanges or regulated or unregulated markets. The Company may also issue unlisted covered bonds and/or covered bonds not admitted to trading on any regulated or unregulated market.

The payments of all amounts due in respect of the covered bonds have been unconditionally guaranteed by Santander UK plc. Abbey Covered Bonds LLP (the 'LLP'), together with Santander UK plc has guaranteed payments of interest and principal under the covered bonds pursuant to a guarantee which is secured over the LLP's portfolio of mortgages and its other assets. Recourse against the LLP under its guarantee is limited to its portfolio of mortgages and such assets.

Covered bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all covered bonds from time to time outstanding under the programme will not exceed euro 35bn (or its equivalent in other currencies), subject to any modifications in accordance with the programme. On 11 November 2008, the Company was admitted to the register of issuers and the programme and the covered bonds issued previously under the programme were admitted to the register of regulated covered bonds, pursuant to Regulation 14 of the Regulated Covered Bonds Regulations 2008 (SI 2008/346).

Notes to the Financial Statements continued

US$20bn Commercial Paper Programme

Abbey National North America LLC may from time to time issue unsecured notes denominated in United States dollars as agreed between Abbey National North America LLC and the relevant dealers under the US$20bn US commercial paper programme. The Notes will rank at least pari passu with all other unsecured and unsubordinated indebtedness of Abbey National North America LLC and Santander UK plc. The payments of all amounts due in respect of the Notes have been unconditionally and irrevocably guaranteed by Santander UK plc. The Notes are not redeemable prior to maturity or subject to voluntary prepayment. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$20bn (or its equivalent in other currencies).

US SEC registered debt shelf

Abbey National Treasury Services plc issues notes in the US from time to time pursuant to a shelf registration statement on Form F-3 filed with the US Securities and Exchange Commission. The notes may be issued in any currency agreed between Abbey National Treasury Services plc and the relevant underwriters in any particular issuance under the registration statement and are issued under the US$20bn Euro Medium Term Note Programme.

Euro5bn Guaranteed French Certificates of Deposit Programme

The Company may from time to time issue certificates of deposit under the Euro5bn Guaranteed French Certificates of Deposit Programme that may be denominated in any currency as agreed between the Company and the relevant dealer. The certificates of deposit rank at least pari passu with all other unsecured and unsubordinated obligations of the Company. The payments of all amounts due in respect of the certificates of deposit have been unconditionally and irrevocably guaranteed by Santander UK plc. The certificates of deposit are issued in bearer form, subject to a maximum maturity of 365 days or 366 days in a leap year. The certificates of deposit may bear fixed or floating rate interest. The maximum aggregate nominal amount of all certificates of deposit outstanding from time to time under the programme will not exceed euro 5bn (or its equivalent in other currencies). The certificates of deposit are not listed on any stock exchange.

Certificates of deposit

The Company may from time to time issue certificates of deposit that may be denominated in any currency as agreed between the parties. The certificates of deposit rank at least pari passu with all other unsecured and unsubordinated obligations of the Company. The payments of all amounts due in respect of the certificates of deposit have been unconditionally and irrevocably guaranteed by Santander UK plc. The certificates of deposit are issued in bearer form and may bear fixed or floating rate interest. The certificates of deposit are not listed on any stock exchange.

An analysis of the above debt securities in issue by issue currency, interest rate and maturity is as follows:

			Group		Company	
			2014	2013	**2014**	2013
	Interest Rate	Maturity	**£m**	£m	**£m**	£m
Euro	0.00% - 3.99%	Up to 2014	**-**	1,894	**-**	1,894
		Up to 2015	**4,018**	3,214	**4,018**	3,214
		2016 – 2019	**8,674**	4,713	**8,674**	4,713
		2020 – 2029	**3,072**	2,371	**3,072**	2,371
		2030 – 2059	**87**	194	**87**	194
	4.00% - 4.99%	Up to 2014	**-**	866	**-**	866
		Up to 2015	**-**	-	**-**	-
		2016 – 2019	**889**	949	**889**	949
		2020 – 2029	**2,042**	1,819	**2,042**	1,819
		2030 – 2059	**166**	76	**166**	76
US dollar	0.00% - 3.99%	Up to 2014	**19**	6,018	**19**	2,887
		Up to 2015	**4,825**	-	**1,315**	-
		2016 – 2019	**2,944**	609	**2,944**	609
	4.00% - 5.99%	Up to 2015	**-**	-	**-**	-
		2016 – 2019	**660**	632	**660**	632
		2020 – 2029	**650**	-	**650**	-
Pounds sterling	0.00% - 3.99%	Up to 2014	**-**	1,165	**-**	1,165
		Up to 2015	**2,311**	854	**2,311**	854
		2016 – 2019	**1,975**	958	**1,975**	958
		2020 – 2029	**616**	75	**616**	75
	4.00% - 5.99%	Up to 2014	**-**	601	**-**	601
		2016 – 2019	**417**	413	**417**	413
		2020 – 2029	**3,113**	3,116	**3,113**	3,116
Other currencies	0.00% - 5.99%	Up to 2015	**182**	192	**182**	192
		2016 – 2019	**-**	-	**-**	-
		2020 – 2029	**139**	160	**139**	160
			36,799	30,889	**33,289**	27,758

Notes to the Financial Statements continued

31. OTHER LIABILITIES

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trade and other payables	**122**	225	**116**	221
Accrued expense	**133**	143	**130**	143
	255	368	**246**	364

Included in the above balances are amounts owed by the ANTS group to Banco Santander, S.A. of £nil (2013: £nil), fellow subsidiaries of Banco Santander S.A. of £10m (2013: £2m), Santander UK plc of £nil (2013: £nil) and subsidiaries of Santander UK group outside the ANTS group of £39m (2013: £144m) respectively.

32. PROVISIONS

	Group and Company **£m**
At 1 January 2014	**23**
Additional provisions	**32**
Used during the year	**(23)**
At 31 December 2014	**32**
To be settled:	
Within 12 months	**32**
In more than 12 months	**-**
	32

At 1 January 2013	20
Additional provisions	23
Used during the year	(20)
At 31 December 2013	23
To be settled:	
Within 12 months	23
In more than 12 months	-
	23

UK Bank Levy

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

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

During 2014 a rate of 0.156% was applied (2013: 0.130%). Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The UK Bank Levy is not charged on the first £20bn of chargeable liabilities.

The cost of the UK Bank Levy for 2014 was £32m (2013: £23m).

33. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The ANTS group participates in various Santander UK defined benefit and defined contribution pension schemes in operation. Details of each scheme required by IAS 19 are disclosed in Note 36 in the Annual Report of Santander UK plc. There is no contractual agreement of stated policy for charging the net defined benefit cost of the Santander UK defined benefit schemes. Therefore, in accordance with IAS 19, the defined benefit asset or liability has been recognised in the financial statements of the sponsoring employer of the scheme and the ANTS group accounts for its contributions as a defined contribution scheme. The contribution to be paid by the ANTS group is calculated as the contributions made by Santander UK plc to the schemes in respect of the ANTS group's employees. An expense of £7m (2013: £6m, 2012: £6m) was recognised for these contributions and is included in staff costs within administration expenses in the income statement.

34. CONTINGENT LIABILITIES AND COMMITMENTS

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Guarantees given on behalf of the Company's immediate UK parent, fellow subsidiaries and subsidiaries	**157,154**	149,891	**160,664**	153,022
Guarantees given to third parties	**311**	367	**311**	367
Formal standby facilities, credit lines and other commitments with original term to maturity of:				
– One year or less	**1,055**	739	**1,055**	739
– More than one year	**11,263**	9,766	**11,263**	9,766
	169,783	160,763	**173,293**	163,894

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

Guarantees given on behalf of the Company's parent

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2015 under a deed poll guarantee entered into by the Company on 10 May 2012. A copy of this guarantee is included in the Shareholder Information section.

Capital Support Deed

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 14 December 2012 (the 'Capital Support Deed') with certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed constitute a core UK group for the purposes of the PRA's rules. Under the PRA's rules, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. From January 1 2014, the applicable PRA rules were replaced by Article 113 (6) of CRR.

Defined Liquidity Group liquidity facility

The Company, Santander UK plc, and Cater Allen Limited are party to a defined liquidity group liquidity facility agreement dated 28 May 2010 (the 'DLG Facility Agreement'). The DLG Facility Agreement supports a defined liquidity group for the purposes of the PRA's rules. The PRA's rules permit a member of a defined liquidity group to rely on the liquid resources of other members of the defined liquidity group to comply with the PRA's liquidity adequacy requirements. Under the DLG Facility Agreement, each party agrees to lend, subject to certain conditions and limitations, its excess liquidity to each other party.

Guarantees given to fellow subsidiaries

Via the guarantee given to the Company's parent described above, the Company has also indirectly guaranteed the obligations of Cater Allen Limited and Abbey National International Limited that have been or will be incurred before 30 June 2015.

Guarantees given to third parties

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

Formal standby facilities, credit lines and other commitments

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

Regulatory

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

Taxation

The ANTS group engages in discussion, and co-operates, with HM Revenue & Customs in their oversight of the ANTS group's tax matters. The ANTS group adopted the UK's Code of Practice on Taxation for Banks in 2010 and during 2013 re-confirmed its unconditional adoption of this code.

Other

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

Obligations under stock borrowing and lending agreements

Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations are offset by a contractual right to receive stock under other contractual agreements. See Note 37.

Notes to the Financial Statements continued

Other off-balance sheet commitments

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

Operating lease commitments

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Rental commitments under non-cancellable operating leases:				
- No later than 1 year	**8**	7	**8**	7
- Later than 1 year but no later than 5 years	**32**	28	**32**	28
- Later than 5 years	**32**	27	**32**	27
	72	62	**72**	62

ANTS group rental expense comprises:

	Group		
	2014 £m	2013 £m	2012 £m
In respect of minimum rentals	**8**	7	7
Less: sub-lease rentals	**-**	-	-
	8	7	7

In 2014 and 2013, there was no contingent rent expense included in the above ANTS group rental expense.

35. SHARE CAPITAL

	Group and Company						
Issued and fully paid share capital	**Ordinary shares of £1 each**		**Tracker shares of £1 each**		**B Tracker shares of £1 each**		**Total £m**
	No.	**£m**	**No.**	**£m**	**No.**	**£m**	**£m**
At 1 January 2013, 31 December 2013 and 31 December 2014	**2,549,000,000**	**2,549**	**1,000**	**-**	**1,000**	**-**	**2,549**

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

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

36. CASH FLOW STATEMENT

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

	Group			Company		
	2014 £m	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m
Profit for the year	**121**	164	264	**115**	241	226
Non-cash items included in net profit:						
Depreciation and amortisation	**4**	3	3	**4**	3	3
Amortisation of premiums/(discounts) on debt securities	**-**	45	18	**-**	45	18
Provisions for liabilities and charges	**32**	23	20	**32**	23	20
Impairment losses	**31**	31	9	**31**	1,323	9
Corporation tax charge/(credit)	**17**	(1)	68	**17**	2	88
Other non-cash items	**(507)**	715	42	**(507)**	726	39
	(302)	980	424	**(308)**	2,363	403
Changes in operating assets and liabilities:						
Net change in cash and balances held at central banks	**-**	(14)	(5)	**-**	(14)	(5)
Net change in trading assets	**(5,059)**	(251)	(2,787)	**(5,059)**	(185)	(2,682)
Net change in derivative assets	**(4,242)**	11,726	(52)	**(4,242)**	11,762	(70)
Net change in financial assets designated at fair value	**(42)**	996	898	**(42)**	996	898
Net change in loans and advances to banks and customers	**26,756**	16,282	9,427	**35,017**	9,035	9,562
Net change in other assets	**36**	(62)	(79)	**74**	(57)	(81)
Net change in deposits by banks and customers	**(106,407)**	7,863	(250)	**(106,057)**	6,704	(1,060)
Net change in derivative liabilities	**5,111**	(12,504)	(1,329)	**5,111**	(12,592)	(1,329)
Net change in trading liabilities	**(5,940)**	169	(4,629)	**(5,940)**	167	(4,629)
Net change in financial liabilities designated at fair value	**240**	(39)	(22)	**240**	(70)	9
Net change in debt securities in issue	**737**	(1,499)	1,806	**552**	(2,382)	2,462
Net change in other liabilities	**(161)**	(233)	(119)	**(165)**	(255)	(158)
Effects of exchange rate differences	**(937)**	554	(853)	**(1,131)**	597	(598)
Net cash flow (used in)/from operating activities before tax	**(90,210)**	23,968	2,430	**(81,950)**	16,069	2,722
Corporation tax paid	**(5)**	(4)	(42)	**(5)**	(4)	(12)
Net cash flow (used in)/from operating activities	**(90,215)**	23,964	2,388	**(81,955)**	16,065	2,710

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash and balances at central banks	**4,460**	4,911	**4,460**	4,911
Less: regulatory minimum cash balances (See Note 12)	**(37)**	(37)	**(37)**	(37)
	4,423	4,874	**4,423**	4,874
Net trading other cash equivalents	**3,966**	9,853	**3,966**	9,853
Net non-trading other cash equivalents	**10,047**	88,224	**9,994**	80,099
Cash and cash equivalents	**18,436**	102,951	**18,383**	94,826

Cash and cash equivalents decreased in 2014 primarily due to the revision of the legal agreements for intercompany funding arrangements between the Company and Santander UK plc as a result of which only trades that generate the actual net funding requirement are reported, as disclosed in Notes 16 and 26. The effect of this change on both the Company and the ANTS group was to reduce intercompany balances in 2014, including intercompany loans that qualified as cash equivalents, thereby reducing the cash and cash equivalents balance, as well as loans and advances to banks and deposits by banks and hence cash flows from operating activities.

Notes to the Financial Statements continued

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

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

a) Assets charged as security for liabilities

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

	Group and Company	
	2014 £m	2013 £m
On balance sheet:		
Treasury bills and other eligible securities	**8,024**	7,037
Cash	**2,950**	2,175
Debt securities	**916**	753
Equity securities	**4,032**	324
	15,922	10,289
Off balance sheet:		
Treasury bills and other eligible securities	**17,482**	23,040
Debt securities	**5,020**	6,075
Equity securities	**1,333**	99
	23,835	29,214

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

Sale and repurchase agreements

The Company and certain of its subsidiaries enter into sale and repurchase agreements and similar transactions of equity and debt securities, which are accounted for as secured borrowings. Upon entering into such transactions, the Company and subsidiaries provide collateral equal to 100%-131% of the borrowed amount. The carrying amount of assets that were so provided at 31 December 2014 was £17,934m (2013: £24,838m).

Stock borrowing and lending agreements

Asset balances under stock borrowing and lending agreements represent stock lent by the ANTS group. These balances amounted to £18,873m at 31 December 2014 (2013: £12,490m) and are offset by contractual commitments to return stock borrowed or cash received.

Derivatives business

In addition to the arrangements described above, collateral is also provided in the normal course of derivative business to counterparties. At 31 December 2014, £2,950m (2013: £2,175m) of such collateral in the form of cash had been provided by the ANTS group and is included in the table above. Customised

b) Collateral accepted security for assets

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

	Group and Company	
	2014 £m	2013 £m
On balance sheet:		
Trading liabilities	**1,905**	1,841
Deposits by banks	**3**	-
	1,908	1,841
Off balance sheet:		
Trading liabilities	**34,878**	32,222
Deposits by banks	**-**	-
	34,878	32,222

Purchase and resale agreements

The Company and certain of its subsidiaries also enter into purchase and resale agreements and similar transactions of equity and debt securities, which are accounted for as collateralised loans. Upon entering into such transactions, the Company and its subsidiaries receive collateral equal to 100%-105% of the loan amount. The level of collateral held is monitored daily and if required, further calls are made to ensure the market values of collateral remains at least equal to the loan balance. The Company and its subsidiaries are permitted to sell or repledge the collateral held in the absence of default. At 31 December 2014, the fair value of such collateral received was £12,177m (2013: £15,922m). Of the collateral received, almost all was sold or repledged. The Company and its subsidiaries have an obligation to return collateral that they have sold or pledged.

Stock borrowing and lending agreements

Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations totalled £22,701m at 31 December 2014 (2013: £16,300m) and are offset by a contractual right to receive stock lent by the ANTS group.

Derivatives business
In addition to the arrangements described above, collateral is also received from counterparties in the normal course of derivative business. At 31 December 2014, £1,908m (2013: £1,841m) of such collateral in the form of cash had been received by the ANTS group and is included in the table above.

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

38. TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a) Remuneration of Directors and Other Key Management Personnel

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

			Group
	2014	2013	2012
Directors' remuneration	**£**	£	£
Salaries and fees	**2,076,673**	678,267	640,914
Performance-related payments	**2,069,000**	663,355	858,387
Total remuneration excluding pension contributions	**4,145,673**	1,341,622	1,499,301
Pension contributions	**11,480**	21,775	79,889
	4,157,153	1,363,397	1,579,190
Directors' and Other Key Management Personnel remuneration			
Short-term employee benefits	**4,073,798**	2,269,311	1,499,301
Post employment benefits	**83,355**	21,775	79,889
Share-based payments	**39,278**	8,459	32,927
Other long term benefits	**-**	-	-
Termination benefits	**-**	-	-
	4,196,431	2,299,545	1,612,117

Of the Directors that served during the year, four were remunerated in relation to their services as directors of this Company and the amounts included above are based on an estimated time allocation basis. The aggregate emoluments above exclude emoluments received by Directors in respect of their primary duties as Directors or officers of Banco Santander, S.A. and Santander UK plc. Salaries and performance-related payments comprise payments to four (2013: three, 2012: three) Directors serving during the year.

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

All UK bonus awards in 2014 are subject to deferral principles that have been set at Banco Santander, S.A. group level. Such principles, as applied to the Company, are subject to ratification by the Santander UK Board Remuneration Oversight Committee and can be overridden by UK national requirements to meet any criteria set by the PRA or other regulator/law. However, the general deferral principles are as follows:

> a proportion of an individual's bonus (on a sliding scale) will become subject to deferral if the bonus exceeds certain levels depending on the nature of the role;

> any deferred amount will be issued over a three year period (in three equal deferral tranches) as an award comprising 50% in shares and 50% in cash; and

> deferrals are subject to continued employment with the Banco Santander, S.A. group in the UK and on the condition that none of the prescribed circumstances of forfeiture occur.

The remuneration, excluding pension contributions, of the highest paid Director was £2,221,296 (2013: £780,102, 2012: £1,045,170) of which £1,369,000 (2013: £521,255, 2012: £625,000) was performance-related. In 2014, 2013 and 2012, no amounts were paid with respect to a defined contribution scheme on behalf of the highest paid director.

At 31 December 2014, 2013 and 2012, there was no accrued pension benefit for the highest paid Director and there was no lump sum accrued by the highest paid director.

b) Retirement benefits

One Director will be receiving benefits under a defined benefit scheme (2013: one, 2012: one) and no Director (2013: nil, 2012: nil) will be receiving benefits under a defined contribution scheme.

Notes to the Financial Statements continued

c) Santander Long-Term Incentive Plan ('LTIP')

In 2014, four Executive Directors (2013: none, 2012: none) and no Other Key Management Personnel (2013: none, 2012: none) were granted conditional awards under the Santander LTIP. Under the Santander LTIPs granted on 1 July 2010 and 1 July 2009 certain Executive Directors, Key Management Personnel (as defined in this Note) and other nominated individuals were granted conditional awards of shares in Banco Santander, S.A.

In the case of the 2014 LTIP, employees were allocated an initial award determined in GBP in 2014 which was converted into shares in Banco Santander, S.A. at the time of vesting, in January 2015. The 2014 LTIP vested at 100% based on Banco Santander, S.A.'s relative TSR performance in 2014 versus a comparator group. The vested award will be deferred and payable in equal tranches in 2016, 2017 and 2018 subject to Banco Santander, S.A.'s continuing relative TSR performance to comparators. 0% of the 2010 conditional award vested in July 2013 and 0% of the 2011 conditional award vested in July 2014. In 2014, no LTIP shares awarded in 2011 vested for any Director (2013: none).

39. RELATED PARTY DISCLOSURES

a) Parent undertaking and controlling party

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

b) Transactions with related parties

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

Group

	Interest, fees and other income received			Interest, fees and other expense paid			Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Ultimate parent company	**(375)**	(405)	(53)	**3**	68	151	**2,096**	2,185	**(2,260)**	(2,227)
Immediate parent	**(3,527)**	(4,980)	(2,687)	**4,277**	3,552	2,010	**12,040**	113,769	**(8,633)**	(110,804)
Fellow subsidiaries	**(2,417)**	(3,511)	(1,210)	**1,504**	3,325	458	**27,369**	29,250	**(9,602)**	(11,025)
	(6,319)	(8,896)	(3,950)	**5,784**	6,945	2,619	**41,505**	145,204	**(20,495)**	(124,056)

Company

	Interest, fees and other income received			Interest, fees and other expense paid			Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	2012 £m	**2014 £m**	2013 £m	2012 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Ultimate parent company	**(375)**	(1,861)	(53)	**3**	1,524	151	**2,096**	2,185	**(2,260)**	(2,227)
Immediate parent	**(3,527)**	(4,980)	(2,687)	**4,277**	3,552	2,010	**12,040**	113,769	**(8,632)**	(110,803)
Subsidiaries	**-**	-	(4)	**7**	15	22	**35**	16	**(3,547)**	(3,197)
Fellow subsidiaries	**(2,425)**	(3,510)	(1,210)	**1,504**	3,325	458	**27,365**	29,247	**(9,598)**	(11,021)
	(6,327)	(10,351)	(3,954)	**5,791**	8,416	2,641	**41,536**	145,217	**(24,037)**	(127,248)

As part of the banking reform programme, the intercompany funding arrangements between Abbey National Treasury Services plc and its immediate parent Santander UK plc have been amended so that only the net funding requirement of the commercial bank is passed between Santander UK plc and Abbey National Treasury Services plc rather than the gross funding requirements as previously. In preparation for this change, a rationalisation of the current booking model was carried out in 2014. Following this, the legal agreements between Santander UK plc and Abbey National Treasury Services plc were changed. As a result, only trades that generate the actual net funding requirement are reported. The intercompany balances between Santander UK plc and Abbey National Treasury Services plc reduced by £100bn predominantly due to this change.

Further information on balances due from/(to) other Banco Santander group companies is set out in the section 'Balances with other Santander UK group companies' and 'Balances with other Banco Santander group companies' section of the Risk Review. In addition, details of guarantees given on behalf of the Company's parent, the Capital Support Deed, the Defined Liquidity Group liquidity facility and guarantees given to fellow subsidiaries are described in Note 34. Further information on related party transactions during the year and balances outstanding at the year-end is described in the other Notes.

The above transactions were made in the ordinary course of business and substantially on the same terms as for comparable transactions with third party counterparties and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features.

40. FINANCIAL INSTRUMENTS

a) Measurement basis of financial assets and liabilities

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

Group

31 December 2014	Held at fair value				Held at amortised cost		Non-financial assets/ liabilities	Total
	Trading	Derivatives designated as hedges	Designated at fair value through P&L	Available-for-sale	Financial assets at amortised cost	Financial liabilities at amortised cost		
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash & balances at central banks	**-**	**-**	**-**	**-**	**4,460**	**-**	**-**	**4,460**
Trading assets	**21,373**	**-**	**-**	**-**	**-**	**-**	**-**	**21,373**
Derivative financial instruments	**25,133**	**659**	**-**	**-**	**-**	**-**	**-**	**25,792**
Financial assets designated at FVTPL	**-**	**-**	**2,577**	**-**	**-**	**-**	**-**	**2,577**
Loans and advances to banks	**-**	**-**	**-**	**-**	**11,344**	**-**	**-**	**11,344**
Loans and advances to customers	**-**	**-**	**-**	**-**	**38,285**	**-**	**-**	**38,285**
Loans and receivables securities	**-**	**-**	**-**	**-**	**22**	**-**	**-**	**22**
Available-for-sale securities	**-**	**-**	**-**	**2,525**	**-**	**-**	**-**	**2,525**
Macro hedge of interest rate risk	**-**	**-**	**-**	**-**	**935**	**-**	**-**	**935**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**13**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**10**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**133**	**133**
	46,506	**659**	**2,577**	**2,525**	**55,046**	**-**	**156**	**107,469**
Liabilities								
Deposits by banks	**-**	**-**	**-**	**-**	**-**	**17,416**	**-**	**17,416**
Deposits by customers	**-**	**-**	**-**	**-**	**-**	**4,523**	**-**	**4,523**
Trading liabilities	**15,333**	**-**	**-**	**-**	**-**	**-**	**-**	**15,333**
Derivative financial liabilities	**25,046**	**1,561**	**-**	**-**	**-**	**-**	**-**	**26,607**
Financial liabilities designated at FVTPL	**-**	**-**	**2,848**	**-**	**-**	**-**	**-**	**2,848**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**36,799**	**-**	**36,799**
Macro hedge of interest rate risk	**-**	**-**	**-**	**-**	**-**	**39**	**-**	**39**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**255**	**255**
Provisions	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**224**	**224**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**12**	**12**
	40,379	**1,561**	**2,848**	**-**	**-**	**58,777**	**523**	**104,088**

31 December 2013								
Assets								
Cash & balances at central banks	-	-	-	-	4,911	-	-	4,911
Trading assets	21,897	-	-	-	-	-	-	21,897
Derivative financial instruments	20,910	640	-	-	-	-	-	21,550
Financial assets designated at FVTPL	-	-	2,534	-	-	-	-	2,534
Loans and advances to banks	-	-	-	-	113,649	-	-	113,649
Loans and advances to customers	-	-	-	-	41,108	-	-	41,108
Loans and receivables securities	-	-	-	-	128	-	-	128
Available-for-sale securities	-	-	-	2,962	-	-	-	2,962
Macro hedge of interest rate risk	-	-	-	-	379	-	-	379
Intangible assets	-	-	-	-	-	-	8	8
Property, plant and equipment	-	-	-	-	-	-	6	6
Deferred tax assets	-	-	-	-	-	-	15	15
Other assets	-	-	-	-	-	-	180	180
	42,807	640	2,534	2,962	160,175	-	209	209,327
Liabilities								
Deposits by banks	-	-	-	-	-	120,698	-	120,698
Deposits by customers	-	-	-	-	-	7,780	-	7,780
Trading liabilities	21,275	-	-	-	-	-	-	21,275
Derivative financial liabilities	20,285	1,211	-	-	-	-	-	21,496
Financial liabilities designated at FVTPL	-	-	3,407	-	-	-	-	3,407
Debt securities in issue	-	-	-	-	-	30,889	-	30,889
Other liabilities	-	-	-	-	-	-	368	368
Provisions	-	-	-	-	-	-	23	23
Current tax liabilities	-	-	-	-	-	-	223	223
	41,560	1,211	3,407	-	-	159,367	614	206,159

Notes to the Financial Statements continued

Company

31 December 2014	Held at fair value				Held at amortised cost		Non-financial assets/ liabilities	Total
	Trading	Derivatives designated as hedges	Designated at fair value through P&L	Available-for-sale	Financial assets at amortised cost	Financial liabilities at amortised cost		
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash & balances at central banks	**-**	**-**	**-**	**-**	**4,460**	**-**	**-**	**4,460**
Trading assets	**21,373**	**-**	**-**	**-**	**-**	**-**	**-**	**21,373**
Derivative financial instruments	**25,133**	**659**	**-**	**-**	**-**	**-**	**-**	**25,792**
Financial assets designated at FVTPL	**-**	**-**	**2,577**	**-**	**-**	**-**	**-**	**2,577**
Loans and advances to banks	**-**	**-**	**-**	**-**	**11,290**	**-**	**-**	**11,290**
Loans and advances to customers	**-**	**-**	**-**	**-**	**38,310**	**-**	**-**	**38,310**
Loans and receivables securities	**-**	**-**	**-**	**-**	**23**	**-**	**-**	**23**
Available-for-sale securities	**-**	**-**	**-**	**2,525**	**-**	**-**	**-**	**2,525**
Macro hedge of interest rate risk	**-**	**-**	**-**	**-**	**935**	**-**	**-**	**935**
Interests in other entities	**-**	**-**	**-**	**-**	**-**	**-**	**72**	**72**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**13**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**10**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**96**	**96**
	46,506	**659**	**2,577**	**2,525**	**55,018**	**-**	**191**	**107,476**
Liabilities								
Deposits by banks	**-**	**-**	**-**	**-**	**-**	**17,415**	**-**	**17,415**
Deposits by customers	**-**	**-**	**-**	**-**	**-**	**8,067**	**-**	**8,067**
Trading liabilities	**15,333**	**-**	**-**	**-**	**-**	**-**	**-**	**15,333**
Derivative financial liabilities	**25,046**	**1,561**	**-**	**-**	**-**	**-**	**-**	**26,607**
Financial liabilities designated at FVTPL	**-**	**-**	**2,848**	**-**	**-**	**-**	**-**	**2,848**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**33,289**	**-**	**33,289**
Macro hedge of interest rate risk	**-**	**-**	**-**	**-**	**-**	**39**	**-**	**39**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**246**	**246**
Provisions	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**224**	**224**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**12**	**12**
	40,379	**1,561**	**2,848**	**-**	**-**	**58,810**	**514**	**104,112**

31 December 2013								
Assets								
Cash & balances at central banks	-	-	-	-	4,911	-	-	4,911
Trading assets	21,897	-	-	-	-	-	-	21,897
Derivative financial instruments	20,910	640	-	-	-	-	-	21,550
Financial assets designated at FVTPL	-	-	2,534	-	-	-	-	2,534
Loans and advances to banks	-	-	-	-	113,642	-	-	113,642
Loans and advances to customers	-	-	-	-	41,118	-	-	41,118
Loans and receivables securities	-	-	-	-	128	-	-	128
Available-for-sale securities	-	-	-	2,962	-	-	-	2,962
Macro hedge of interest rate risk	-	-	-	-	379	-	-	379
Interest in other entities	-	-	-	-	-	-	46	46
Intangible assets	-	-	-	-	-	-	8	8
Property, plant and equipment	-	-	-	-	-	-	6	6
Deferred tax assets	-	-	-	-	-	-	15	15
Other assets	-	-	-	-	-	-	180	180
	42,807	640	2,534	2,962	160,178	-	255	209,376
Liabilities								
Deposits by banks	-	-	-	-	-	120,697	-	120,697
Deposits by customers	-	-	-	-	-	10,973	-	10,973
Trading liabilities	21,275	-	-	-	-	-	-	21,275
Derivative financial liabilities	20,285	1,211	-	-	-	-	-	21,496
Financial liabilities at FVTPL	-	-	3,407	-	-	-	-	3,407
Debt securities in issue	-	-	-	-	-	27,758	-	27,758
Other liabilities	-	-	-	-	-	-	364	364
Provisions	-	-	-	-	-	-	23	23
Current tax liabilities	-	-	-	-	-	-	223	223
	41,560	1,211	3,407	-	-	159,428	610	206,216

Notes to the Financial Statements continued

b) Valuation of financial instruments

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

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

(i) Initial measurement

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the valuation is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include significant data from observable markets. Any difference between the transaction price and the value based on a valuation technique where the inputs are not based on data from observable current markets is not recognised in profit or loss on initial recognition. Subsequent gains or losses are only recognised to the extent that they arise from a change in a factor that market participants would consider in setting a price.

(ii) Subsequent measurement

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

The ANTS group categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

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

Level 2: Quoted prices in non-active markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability. Level 2 positions include loans and advances to banks, loans and advances to customers, equity securities, exchange rate derivatives, interest rate derivatives, equity and credit derivatives, debt securities, deposits by banks, deposits by customers and debt securities in issue.

Level 3: Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable. Level 3 positions include exchange rate derivatives, equity and credit derivatives, loans and advances to customers, debt securities, and debt securities in issue.

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

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

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

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

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

Financial instruments valued using observable market prices

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

Notes to the Financial Statements continued

Financial instruments valued using a valuation technique

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

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

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

c) Fair values of financial instruments carried at amortised cost

The following tables analyse the fair value of the financial instruments carried at amortised cost at 31 December 2014 and 2013, including their levels in the fair value hierarchy – level 1, level 2 and level 3. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value.

Group

Balance sheet category		2014					2013				
		Fair value				Carrying value	Fair value				Carrying value
		Level 1 £m	Level 2 £m	Level 3 £m	Total £m	£m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	£m
Assets											
Loans and advances to banks		**-**	**1,102**	**10,189**	**11,291**	**11,344**	-	1,283	112,326	113,609	113,649
Loans and advances to customers	Corporate loans	**-**	**5,671**	**7,573**	**13,244**	**13,300**	-	5,219	7,905	13,124	13,478
	Other advances	**-**	**-**	**24,985**	**24,985**	**24,985**	-	-	27,630	27,630	27,630
		-	**5,671**	**32,558**	**38,229**	**38,285**	-	5,219	35,535	40,754	41,108
Loans and receivables securities		**-**	**22**	**-**	**22**	**22**	-	126	-	126	128
Liabilities											
Deposits by banks	Securities sold under repurchase agreements	**-**	**4,101**	**-**	**4,101**	**4,015**	-	4,316	-	4,316	4,164
	Other deposits	**-**	**529**	**12,872**	**13,401**	**13,401**	-	524	116,010	116,534	116,534
		-	**4,630**	**12,872**	**17,502**	**17,416**	-	4,840	116,010	120,850	120,698
Deposits by customers	Current and demand accounts	**-**	**-**	**873**	**873**	**873**	-	-	2,317	2,317	2,317
	Wholesale funds and deposits	**-**	**-**	**3,650**	**3,650**	**3,650**	-	-	5,045	5,045	5,045
	Securities sold under repurchase agreements	**-**	**-**	**-**	**-**	**-**	-	425	-	425	418
		-	**-**	**4,523**	**4,523**	**4,523**	-	425	7,362	7,787	7,780
Debt securities in issue	Bonds and medium term notes	**-**	**38,956**	**-**	**38,956**	**36,799**	-	32,344	-	32,344	30,889

Included in the above table are the following intercompany balances:

Group

Balance sheet category	2014					2013				
	Fair value				Carrying value	Fair value				Carrying value
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	£m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	£m
Assets										
Loans and advances to banks	**-**	**404**	**9,561**	**9,965**	**9,965**	-	518	111,601	112,119	112,119
Loans and advances to customers	**-**	**-**	**24,985**	**24,985**	**24,985**	-	-	27,630	27,630	27,630
	-	**404**	**34,546**	**34,950**	**34,950**	-	518	139,231	139,749	139,749
Liabilities										
Deposits by banks	**-**	**-**	**12,506**	**12,506**	**12,506**	-	49	115,993	116,042	116,042

Notes to the Financial Statements continued

Balance sheet category		2014 Fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Company 2013 Fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets											
Loans and advances to banks		**-**	**1,058**	**10,179**	**11,237**	**11,290**	-	1,771	111,871	113,642	113,642
Loans and advances to customers	Corporate loans	**-**	**5,671**	**7,569**	**13,240**	**13,296**	-	5,219	7,900	13,119	13,473
	Other advances	**-**	**-**	**25,014**	**25,014**	**25,014**	-	-	27,645	27,645	27,645
		-	**5,671**	**32,583**	**38,254**	**38,310**	-	5,219	35,545	40,764	41,118
Loans and receivables securities		**-**	**22**	**-**	**22**	**23**	-	126	-	126	128
Liabilities											
Deposits by banks	Securities sold under agreements to repurchase	**-**	**4,101**	**-**	**4,101**	**4,015**	-	4,316	-	4,316	4,164
	Other deposits	**-**	**529**	**12,871**	**13,400**	**13,400**	-	524	116,009	116,533	116,533
		-	**4,630**	**12,871**	**17,501**	**17,415**	-	4,840	116,009	120,849	120,697
Deposits by customers	Current and demand accounts	**-**	**-**	**4,417**	**4,417**	**4,417**	-	-	5,510	5,510	5,510
	Wholesale funds and deposits	**-**	**-**	**3,650**	**3,650**	**3,650**	-	-	5,045	5,045	5,045
	Securities sold under agreements to repurchase	**-**	**-**	**-**	**-**	**-**	-	425	-	425	418
		-	**-**	**8,067**	**8,067**	**8,067**	-	425	10,555	10,980	10,973
Debt securities in issue	Bonds and medium term notes	**-**	**35,446**	**-**	**35,446**	**33,289**	-	29,212	-	29,212	27,758

Included in the above table are the following intercompany balances:

Balance sheet category	2014 Fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m	Company 2013 Fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Carrying value £m
Assets										
Loans and advances to banks	**-**	**404**	**9,557**	**9,961**	**9,961**	-	518	111,598	112,116	112,116
Loans and advances to customers	**-**	**-**	**25,018**	**25,018**	**25,018**	-	-	27,645	27,645	27,645
	-	**404**	**34,575**	**34,979**	**34,979**	-	518	139,243	139,761	139,761
Liabilities										
Deposits by banks	**-**	**-**	**12,505**	**12,505**	**12,505**	-	-	27,645	27,645	27,645

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

Valuation methodology

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

Fair value management

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

Assets:

Cash and balances at central banks

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

Loans and advances to banks

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

Loans and advances to customers

The approach to estimating the fair value of the principal products and portfolios of loans and advances to customers has been set out below. This is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour.

Notes to the Financial Statements continued

The corporate loan portfolio has been stratified by product. For the performing book, the fair values have been estimated by comparing existing margins with an estimation of new business rates for similar loans in terms of segment, maturity and structure. Provisions are considered appropriate for the book that is not impaired. A discount has been applied to impaired loans. Although exits have generally been achieved at carrying value, this does not reflect the discount a purchaser would require. A discount has therefore been applied based on the target return of 10-12% sought by distressed bond funds, who are the typical purchaser of the assets.

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

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

Loans and receivables securities

These debt securities consist primarily of floating rate notes, asset-backed securities and collateralised loan obligations. The fair values of the floating rate notes have been determined using 'valuation technique A' as described in the valuation technique section below. The asset-backed securities and collateralised loan obligations are more complex products and are valued with the assistance of an independent, specialist valuation firm. These fair values are determined using industry-standard valuation techniques, including discounted cash-flow models. The inputs to these models used in these valuation techniques include quotes from market makers, prices of similar assets, adjustments for differences in credit spreads, and additional quantitative and qualitative research. Disposals of these securities since 2008 have demonstrated that actual sales prices achieved have been close to fair values estimated under this method.

Liabilities:

Deposits by banks

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

Deposits by customers

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

Debt securities in issue and subordinated liabilities

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

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

The following tables summarise the fair values of the financial asset and liability classes accounted for at fair value at 31 December 2014 and 2013, analysed by the valuation methodology used by the ANTS group to determine their fair value, including their levels in the fair value hierarchy – level 1, level 2 and level 3.

Transfers between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the year, the following financial instruments were transferred between Level 2 and Level 3 in the fair value hierarchy:

> Bermudan swaptions shown within derivative assets and derivative liabilities with fair values of £29m and £10m, respectively, were transferred from Level 2 to Level 3 principally due to a lack of market transactions in these instruments. The valuation techniques applied to estimate the fair value of these financial instruments are described in section i below as 'instruments 2 and 9'.

> Certain asset-backed securities issued by Banco Santander group entities, with a fair value of £58m designated as fair value through profit and loss, were transferred from Level 3 to Level 2 principally due to improved transparency of market prices as a result of market transactions in these instruments. The valuation technique applied to estimate the fair value of these financial instruments is described in section i below as 'instrument 8'.

During the year ended 31 December 2013, there were no transfers of financial instruments between Levels 2 and 3.

During 2014, there were no transfers of financial instruments between Levels 1 and 2 (2013: Nil).

Notes to the Financial Statements continued

Group and Company

Balance sheet category		Fair value 2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m	2013 Level 1 £m	2013 Level 2 £m	2013 Level 3 £m	2013 Total £m	Valuation technique
Assets										
Trading assets	Loans and advances to banks	**-**	**5,936**	**-**	**5,936**	-	9,326	-	9,326	**A**
	Loans and advances to customers	**-**	**3,007**	**-**	**3,007**	-	4,402	-	4,402	**A**
	Debt securities	**7,981**	**-**	**-**	**7,981**	7,859	-	-	7,859	**-**
	Equity securities	**4,449**	**-**	**-**	**4,449**	310	-	-	310	**-**
Derivative assets	Exchange rate contracts	**-**	**5,066**	**5**	**5,071**	-	3,674	14	3,688	**A**
	Interest rate contracts	**4**	**18,440**	**20**	**18,464**	11	15,173	-	15,184	**A & C**
	Equity and credit contracts	**149**	**1,763**	**343**	**2,255**	311	2,032	333	2,676	**B & D**
	Commodity contracts	**-**	**2**	**-**	**2**	-	2	-	2	**A**
Financial assets at FVTPL	Loans and advances to customers	**-**	**2,198**	**61**	**2,259**	-	2,167	51	2,218	**A**
	Debt securities	**-**	**318**	**-**	**318**	-	258	58	316	**A**
AFS financial assets	Debt securities	**2,525**	**-**	**-**	**2,525**	2,962	-	-	2,962	**-**
Total assets at fair value		**15,108**	**36,730**	**429**	**52,267**	11,453	37,034	456	48,943	
Liabilities										
Trading liabilities	Deposits by banks	**-**	**7,223**	**-**	**7,223**	-	11,289	-	11,289	**A**
	Deposits by customers	**-**	**4,899**	**-**	**4,899**	-	7,069	-	7,069	**A**
	Short positions	**3,211**	**-**	**-**	**3,211**	2,917	-	-	2,917	**-**
Derivative liabilities	Exchange rate contracts	**-**	**5,579**	**-**	**5,579**	-	3,960	-	3,960	**A**
	Interest rate contracts	**8**	**18,513**	**6**	**18,527**	30	14,490	-	14,520	**A & C**
	Equity and credit contracts	**1**	**2,448**	**50**	**2,499**	771	2,175	68	3,014	**B & D**
	Commodity contracts	**-**	**2**	**-**	**2**	-	2	-	2	**A**
Financial liabilities at FVTPL	Debt securities in issue	**-**	**2,835**	**13**	**2,848**	-	3,370	37	3,407	**A**
Total liabilities at fair value		**3,220**	**41,499**	**69**	**44,788**	3,718	42,355	105	46,178	

Notes to the Financial Statements continued

d) Valuation techniques

The main valuation techniques employed in the ANTS group's internal models to measure the fair value of the financial instruments disclosed above at 31 December 2014 and 2013 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. The ANTS group did not make any material changes to the valuation techniques and internal models it used during the years ended 31 December 2014, 2013 and 2012.

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

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

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

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

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

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

e) Fair value adjustments

The internal models incorporate assumptions that the ANTS group believes would be made by a market participant to establish fair value. Fair value adjustments are adopted when the ANTS group considers that there are additional factors that would be considered by a market participant in the determination of fair value of the instrument that are not incorporated in the valuation model. The magnitude of fair value adjustments depends upon many entity-specific factors, including modelling sophistication, the nature of products traded, and the size and type of risk exposures. For this reason, fair value adjustments may not be comparable across the banking industry.

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

	2014 £m	2013 £m
Risk-related:		
- Bid-offer and trade specific adjustments	**34**	27
- Uncertainty	**18**	18
- Credit risk adjustment	**26**	45
	78	90
Model-related:		
- Model limitation	**11**	12
Day One profits	**2**	-
	91	102

Risk-related adjustments

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

(i) Bid-offer and trade specific adjustments

IAS 39 requires that portfolios are marked at bid or offer, as appropriate. Bid prices represent the price at which a long position could be sold and offer prices represent the price at which a short position could be bought back. Valuation models will typically generate mid market values. The bid-offer adjustment reflects the cost that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the actual position.

The majority of the bid-offer adjustment relates to OTC derivative portfolios. For each portfolio, the major risk types are identified. These may include, inter alia, delta (the sensitivity to changes in the price of an underlying), vega (the sensitivity to changes in volatilities) and basis risk (the sensitivity to changes in the spread between two rates). For each risk type, the net portfolio risks are first classified into buckets, and then a bid-offer spread is applied to each risk bucket based upon the market bid-offer spread for the relevant hedging instrument.

The grouping of risk categories is dependent on the sensitivity factors of the trading portfolio. For example, interest rate risk will be by tenor and options will be by strikes.

The granularity of the risk bucketing is determined by reference to several factors, including the actual risk management practice undertaken by the ANTS group, the granularity of risk bucketing within the risk reporting process, and the extent of correlation between risk buckets. Within a risk type, the bid-offer adjustment for each risk bucket may be aggregated without offset or limited netting may be applied to reflect correlation between buckets. There is no netting applied between risk types or between portfolios that are not managed together for risk management purposes. There is no netting across legal entities.

As bid-offer spreads vary by maturity and risk type to reflect different spreads in the market, for positions where there is no observable quote, a trade specific adjustment is further made. This is to reflect widened spreads in comparison to proxies due to reduced liquidity or observability. Trade specific adjustments can also be made to incorporate liquidity triggers whereby wider spreads are applied to risks above pre-defined thresholds or on exotic products to ensure overall reserves match market close-out costs. These market close-out costs inherently incorporate risk decay and cross-effects which are unlikely to be adequately reflected in the static hedge based on vanilla instruments.

(ii) Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective, with less market evidence available from which to determine general market practice. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt rather more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model. Uncertainty adjustments are derived by considering the potential range of derivative portfolio valuation given the available market data. The objective of an uncertainty adjustment is to arrive at a fair value that is not overly prudent but rather reflects a level of prudence believed to be consistent with market pricing practice.

Uncertainty adjustments are applied to various types of exotic OTC derivative. For example, the mean reversion speed of interest rates may be an important component of an exotic derivative value and an uncertainty adjustment may be taken to reflect the range of possible values that market participants may assume for this parameter.

(iii) Credit risk adjustment

Credit risk adjustments comprise credit valuation adjustments and, with effect from 1 January 2013, debit valuation adjustments:

Credit valuation adjustment

The ANTS group adopts a credit risk adjustment (also frequently known as a 'credit valuation adjustment') against OTC derivative transactions to reflect within fair value the possibility that the counterparty may default, and the ANTS group may not receive the full market value of the transactions. The ANTS group calculates a separate credit risk adjustment for each ANTS legal entity, and within each entity for each counterparty to which the entity has exposure. The ANTS group attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. The net counterparty exposure (i.e. counterparty positions netted by offsetting transactions and both cash and securities collateral) is then assessed for counterparty creditworthiness. The ANTS group has only a limited exposure to monolines, consisting of exposure to securitisations which are wrapped by monoline insurers. The principal risk exposures are recorded against the securitisations, with the monoline wraps being viewed as secondary sources of repayment, as described in Note 19. The description below relates to the credit risk adjustment taken against counterparties other than monolines.

The ANTS group calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default (i.e. the loss given default ('LGD')). The timing of the expected losses is reflected by using a discount factor. The calculation is performed over the life of the potential exposure i.e. the credit risk adjustment is measured as a lifetime expected loss.

The expected positive exposure is calculated at a trade level. The main drivers of the expected positive exposure are the size of the risk position with the counterparty along with the prevailing market environment. Probabilities of default are calculated using credit default swap prices where available. Where these are not available, probabilities of default are based upon analysis of historic default rates. The credit rating used for a particular counterparty is that determined by the ANTS group's internal credit process. The LGD is calculated at the facility level and takes into account the counterparty characteristics. Credit ratings and LGD are updated by the credit team as new relevant information becomes available and at periodic reviews performed at least annually.

Debit valuation adjustment

The ANTS group also considers its own creditworthiness when determining the fair value of an instrument, including OTC derivative instruments and financial liabilities held at fair value through profit or loss if the ANTS group believes market participants would take that into account when transacting the respective instrument. In accordance with the requirements of IFRS 13, with effect from 1 January 2013, the approach to measuring the impact of the ANTS group's credit risk on an instrument is the same as for third party credit risk. The impact of the ANTS group's credit risk is considered when calculating the fair value of an instrument, even when credit risk is not readily observable such as in OTC derivatives. Consequently, the ANTS group's adjustment against derivative liabilities, often referred to as a 'debit valuation adjustment' was £41m at 31 December 2014 (2013: £38m).

Notes to the Financial Statements continued

For certain types of exotic derivatives where the products are not currently supported by the standard methodology, the ANTS group adopts an alternative methodology. Alternative methodologies used by the ANTS group fall into two categories. One method maps transactions against the results for similar products which are accommodated by the standard methodology. Where such a mapping approach is not appropriate, a bespoke methodology is used, generally following the same principles as the standard methodology, reflecting the key characteristics of the instruments but in a manner that is computationally less intensive. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the standard methodology described previously.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any credit risk adjustment is related to the probability of default of the counterparty. A more detailed description of wrong-way risk is set out below.

The ANTS group includes all third-party counterparties in the credit risk adjustment calculation and the ANTS group does not net credit risk adjustments across ANTS group entities.

Wrong-way risk

Wrong-way risk arises when there is a strong correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. Wrong-way risk can be seen in the following examples:

> When the counterparty is resident and/or incorporated in an emerging market and seeks to sell a non-domestic currency in exchange for its home currency;
> When the trade involves the purchase of an equity put option from a counterparty whose shares are the subject of the option;
> The purchase of credit protection from a counterparty who is closely associated with the reference entity of the credit default swap or total return swap; and
> The purchase of credit protection on an asset type which is highly concentrated in the exposure of the counterparty selling the credit protection.

Exposure to 'wrong-way risk' is limited via internal governance processes and deal pricing. The ANTS group considers that an appropriate adjustment to reflect wrong-way risk is currently £nil (2013: £nil).

Model-related adjustments

These adjustments are primarily related to internal factors, such as the ability of the ANTS group's models to incorporate all material market characteristics. A description of each adjustment type is given below:

(i) Model limitation

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

Day One profits adjustments

Day One profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs, in accordance with IAS 39. Day One profits adjustments are amounts that have yet to be recognised in the income statement, which represent the difference between a transaction price (i.e. the fair value at initial recognition) and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition), less amounts subsequently recognised. Day One profits adjustments are calculated and reported on a portfolio basis. The Day One profits adjustments at 31 December 2014 were £2m (2013 and 2012: less than £1m).

f) Control framework

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

The factors that are considered in this regard include:

> The extent to which prices may be expected to represent genuine traded or tradeable prices;
> The degree of similarity between financial instruments;
> The degree of consistency between different sources;
> The process followed by the pricing provider to derive the data;
> The elapsed time between the date to which the market data relates and the balance sheet date; and
> The manner in which the data was sourced.

The source of pricing data is considered as part of the process that determines the classification of the level of a financial instrument. Consideration is given to the quality of the information available that provides the current mark-to-model valuation and estimates of how different these valuations could be on an actual trade, taking into consideration how active the market is. For spot assets that cannot be sold due to illiquidity, forward estimates are discounted to provide an estimate of a realisable value over time. All adjustments for illiquid positions are regularly reviewed to reflect changing market conditions.

Internal valuation model review

Models provide a logical framework for the capture and processing of necessary valuation inputs. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of:

> The logic within valuation models;
> The inputs to those models;
> Any adjustments required outside the valuation models; and
> Where possible, model outputs.

All internal valuation models are validated independently by QRG. A validation report is produced for each model-derived valuation that assesses the mathematical assumptions behind the model and the implementation of the model and its integration within the trading system. Where there is observable market data, the models calibrate to market. Where pricing data is unobservable then the input parameters are regularly reviewed by QRG.

The results of the independent valuation process are presented to the Models Committee UK for formal approval. Various Risk functions are represented including QRG and Trading Market Risk in addition to senior management. The members of the Models Committee UK consider the appropriateness of the model and whether model risk fair value adjustments are required. Any changes to the fair value adjustments methodology must also be approved by the Models Committee UK.

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

1. Trading Assets

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

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

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

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

2. Derivative assets and liabilities

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

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

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

Loans and advances to customers

These instruments consist of loans secured on residential property to housing associations. The fair value of these social housing loans is estimated using the 'present value' model based on a credit curve derived from current market spreads observable in the social housing loan data. Observable market data include current market spreads for new accepted mandates and bids for comparable loans and are used to support or challenge the benchmark level.

This provides a range of reasonably possible estimates of fair value. As the inputs used in the valuation are based on market observable data, these loans are classified within level 2 of the valuation hierarchy.

Certain loans and advances to customers which represent a portfolio of roll-up mortgages contain significant unobservable inputs and so are classified within level 3 of the valuation hierarchy. The valuation of such instruments is further discussed below.

Notes to the Financial Statements continued

Debt securities

These instruments consist of holdings of asset-backed securities. A significant portion of these securities are priced using the 'present value' models, based on observable market data e.g. LIBOR, credit spreads. Where there are quoted prices for these instruments, the model value is checked against the quoted prices for reference purposes, but is not used as the fair value as the market for these instruments are lacking in liquidity and depth. As the inputs used in the valuation are based on observable market data, these debt securities are classified within level 2 of the valuation hierarchy.

Certain debt securities which represent reversionary property securities and securities issued by Banco Santander entities contain significant unobservable inputs, and so are classified within level 3 of the valuation hierarchy. The valuation of such instruments is further discussed below.

4. Trading liabilities

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

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

Deposits by banks and deposits by customers - other

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

5. Financial liabilities at FVTPL

Debt securities in issue

These instruments include commercial paper, medium term notes and other bonds and are valued using the same techniques as those instruments in financial assets at FVTPL - debt securities discussed above. As the inputs used in the valuation are based on observable market data, these debt securities are classified within level 2 of the valuation hierarchy.

Certain debt securities in issue which represent the more exotic senior debt issuances, consisting of power reverse dual currency ('PRDC') notes contain significant unobservable inputs and so are classified within level 3 of the valuation hierarchy. The valuation of such instruments is further discussed below.

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

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

			Balance sheet value		Amount recognised in income/(expense)		
Balance sheet line item	Category	Financial instrument product type	**2014 £m**	2013 £m	**2014 £m**	2013 £m	2012 £m
1. Derivative assets	Exchange rate contracts	Cross-currency swaps	**5**	14	**(1)**	(7)	(5)
2. Derivative assets	Interest rate contracts	Bermudan swaptions	**20**	-	**(5)**	-	-
3. Derivative assets	Equity and credit contracts	Reversionary property interests	**84**	71	**18**	(5)	2
4. Derivative assets	Credit contracts	Credit default swaps	**5**	13	**(7)**	(4)	1
5. Derivative assets	Equity contracts	Options and forwards	**254**	249	**6**	6	6
6. FVTPL	Loans and advances to customers	Roll-up mortgage portfolio	**61**	51	**15**	(6)	3
7. FVTPL	Debt securities	Asset-backed securities	**-**	58	**-**	13	4
8. Derivative liabilities	Interest rate contracts	Bermudan swaptions	**(6)**	-	**4**	-	-
9. Derivative liabilities	Equity contracts	Options and forwards	**(50)**	(68)	**3**	8	3
10. FVTPL	Debt securities in issue	Non-vanilla debt securities	**(13)**	(37)	**1**	7	7
Total net assets			**360**	351			
Total income/(expense)					**34**	12	21

Valuation techniques

1. Derivative assets - Exchange rate contracts

These cross currency swaps are used to hedge the foreign currency risks arising from the PRDC notes issued by the ANTS group, as described in Instrument 10 below. These derivatives are valued using a standard valuation model valuing each leg of the swap, with expected future cash flows less notional amount exchanged at maturity date discounted using an appropriate floating rate. The floating rate is adjusted by the relevant cross currency basis spread. Interest rates, foreign exchange rates, cross currency basis spread and long-dated foreign exchange ('FX') volatility are used as inputs to determine fair value. Interest rates, foreign exchange rates are observable on the market. Cross currency spreads may be market observable or unobservable depending on the liquidity of the cross currency pair. As the Japanese Yen-US dollar cross currency pair related to the PRDC notes is liquid, the cross currency spreads (including long-dated cross currency spread) for these swaps are market observable.

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

Long-dated FX volatility
Long-dated FX volatility is extrapolated from shorter-dated FX volatilities which are directly observable on the market. Short dated FX volatility is observable from the trading of FX options. As there is no active market for FX options with maturities greater than five years (long-dated FX options), long-dated FX volatility is not market observable. Furthermore, as historical prices are not relevant in determining the cost of hedging long-dated FX risk, long-dated FX volatility cannot be inferred from historical volatility. The ANTS group extrapolates the long-dated FX volatility from the shorter-dated FX volatilities using Black's model.

FX volatility is modelled as the composition of the domestic interest rate, foreign interest rates and FX spot volatilities using standard Hull-White formulae. The Hull-White approach is used for estimating the future distribution of domestic and foreign zero-coupon rates, constructed from the relevant yield curves. Using short dated FX options, the FX spot volatility is calculated which is then extrapolated to derive the long-dated FX volatility.

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

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

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

3. Derivative assets - Equity and credit contracts
These reversionary property derivatives are valued using a probability weighted set of HPI forward prices, which are assumed to be a reasonable representation of the increase in value of the ANTS group's reversionary interest portfolio underlying the derivatives. The probability used reflects the likelihood of the home owner vacating the property and is calculated from mortality rates and acceleration rates which are a function of age and gender, obtained from the relevant mortality tables. Indexing is felt to be appropriate due to the size and geographical dispersion of the ANTS group's reversionary interest portfolio. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. Launched in 1984, the Halifax's UK HPI is the UK's longest running monthly house price data series covering the whole country. The indices calculated are standardised and represent the price of a typically transacted house. Both national and regional HPI are published. The national HPI is published monthly. The regional HPI reflects the national HPI disaggregated into 12 UK regions and is published quarterly. Both indices are published on two bases, including and excluding seasonal adjustments in the housing market. The ANTS group uses the non-seasonally adjusted ('NSA') national and regional HPI in its valuation model to avoid any subjective judgement in the adjustment process which is made by Halifax.

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

HPI Spot Rate
The HPI spot rate used in the model is a weighted average of NSA regional HPI spot rates i.e. adjusted for difference in the actual regional composition of the property underlying the ANTS group's reversionary interest portfolio and the composition of the published regional indices. The regional HPI spot rate (which is observable market data) is only published on specific quarterly dates. In between these dates, its value is estimated by applying the growth rate over the relevant time period inferred from the national HPI spot rates (which are observable market data and published monthly) to the most recently calculated weighted average regional HPI spot rate based on published regional indices.

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

HPI Forward Growth Rate
Long-dated HPI forward growth rate is not directly observable in the market but is estimated from broker quotes and traded forward contracts. A specific spread is applied to the long-dated forward growth rate to reflect the uncertainty surrounding long-dated data. This spread is calculated by analysing the historical volatility of the HPI, whilst incorporating mean reversion. An adjustment is made to reflect the specific property risk as for the HPI spot rate above.

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

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

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

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

Notes to the Financial Statements continued

5. Derivative assets – Equity contracts

There are three types of derivatives within this category:

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

HPI Spot Rate
The HPI spot rate used is the NSA national HPI spot rate which is published monthly and directly observable in the market. This HPI rate used is different from the weighted average regional HPI spot rate used in the valuation of Instrument 3 above, as the underlying of these derivatives is the UK national HPI spot rate.

HPI Forward Growth Rate
The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 3 above.

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

6. FVTPL – Loans and advances to customers

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

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

The inputs used to determine the value of these instruments are HPI spot, HPI forward growth, HPI volatility, mortality rates and repayment rates. The principal pricing parameter is HPI forward growth. The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 3 above. The other parameters do not have a significant effect on the value of the instruments.

7. FVTPL – Debt securities

These securities consist of asset-backed securities issued by Banco Santander group entities. Each instrument is valued with reference to the price from a consensus pricing service. This is then corroborated against the price from another consensus pricing service due to the lack of depth in the number of available market quotes. An average price is used where there is a more than insignificant difference between the two sources. The significant unobservable input is the adjustment to the credit spread embedded in the pricing consensus quotes.

8. Derivative liabilities – Interest rate contracts

These derivatives are the same as Instrument 2 with the exception that they have a negative fair value.

9. Derivative liabilities - Equity contracts

These derivatives are the same as Instrument 5 with the exception that they have a negative fair value.

10. FVTPL - Debt securities in issue

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

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

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

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

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Assets			Liabilities		
	Derivatives £m	Fair value through P&L £m	Total £m	Derivatives £m	Fair value through P&L £m	Total £m
At 1 January 2014	**347**	**109**	**456**	**(68)**	**(37)**	**(105)**
Total gains/(losses) recognised in profit/(loss):						
- Fair value movements	**11**	**15**	**26**	**7**	**1**	**8**
- Foreign exchange and other movements	**(7)**	**(1)**	**(8)**	**-**	**-**	**-**
Transfers in	**29**	**-**	**29**	**(10)**	**-**	**(10)**
Transfers out	**-**	**(58)**	**(58)**	**-**	**-**	**-**
Settlements	**(12)**	**(4)**	**(16)**	**15**	**23**	**38**
At 31 December 2014	**368**	**61**	**429**	**(56)**	**(13)**	**(69)**
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the year	**4**	**14**	**18**	**7**	**1**	**8**

	Assets			Liabilities		
	Derivatives £m	Fair value through P&L £m	Total £m	Derivatives £m	Fair value through P&L £m	Total £m
At 1 January 2013	408	110	518	(72)	(86)	(158)
Total gains/(losses) recognised in profit/(loss):						
- Fair value movements	(10)	7	(3)	8	7	15
- Foreign exchange and other movements	(11)	6	(5)	(12)	12	-
Settlements	(40)	(14)	(54)	8	30	38
At 31 December 2013	347	109	456	(68)	(37)	(105)
Gains/(losses) recognised in profit/(loss) relating to assets and liabilities held at the end of the year	(21)	13	(8)	(4)	19	15

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

Financial instrument assets and liabilities at 31 December 2014

Financial instrument assets valued using internal models based on information other than market data were 0.8% (2013: 0.9%) of total assets measured at fair value and 0.4% (2013: 0.2%) of total assets at 31 December 2014.

Derivative assets decreased in 2014 principally due to settlements and foreign exchange and fair value movements. Assets designated at fair value through profit or loss decreased marginally in 2014 principally due to settlements.

Financial instrument liabilities valued using internal models based on information other than market data were 0.15% (2013: 0.2%) of total liabilities measured at fair value and 0.07% (2013: 0.01%) of total liabilities at 31 December 2014.

Derivative liabilities decreased in 2014 primarily due to settlements and fair value movements. Liabilities designated at fair value through profit or loss decreased in 2014 principally due to settlements.

Financial instrument assets and liabilities at 31 December 2013

Financial instrument assets valued using internal models based on information other than market data were 0.9% (2012: 1%) of total assets measured at fair value and 0.2% (2012: 0.2%) of total assets at 31 December 2013.

Derivative assets decreased in 2013 principally due to settlements and foreign exchange and fair value movements. Assets designated at fair value through profit or loss decreased marginally in 2013 principally due to settlements.

Financial instrument liabilities valued using internal models based on information other than market data were 0.2% (2012: 0.3%) of total liabilities measured at fair value and 0.01% (2012: 0.1%) of total liabilities at 31 December 2013.

Derivative liabilities decreased in 2013 primarily due to settlements and fair value movements. Liabilities designated at fair value through profit or loss decreased in 2013 principally due to settlements.

Gains and losses for the year ended 31 December 2014

Gains of £4m in respect of derivatives assets principally reflected changes in credit spreads and the HPI Index partially offset by unfavourable movements in foreign exchange rates. Gains of £14m in respect of assets designated at fair value through profit or loss primarily reflect the mark-to-market volatility on the portfolio.

Gains of £7m in respect of derivatives liabilities reflected changes in credit spreads and the HPI Index. Gains of £1m in respect of liabilities designated at fair value through profit or loss reflected changes in fair value. They are fully matched with derivatives.

Gains and losses for the year ended 31 December 2013

Losses of £21m in respect of derivatives assets principally reflected changes in credit spreads and the HPI Index and unfavourable movements in foreign exchange rates. Gains of £13m in respect of assets designated at fair value through profit or loss primarily reflects the mark to market volatility on a reduced portfolio of mortgage backed securities.

Losses of £4m in respect of derivatives liabilities principally reflected changes in credit spreads and the HPI Index. Gains of £19m in respect of liabilities designated at fair value through profit or loss principally reflected changes in foreign exchange. They are fully matched with derivatives.

Notes to the Financial Statements continued

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

As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any hedged positions.

31 December 2014

Balance sheet note line item and product	Fair value £m	Significant unobservable input			Shift	Reflected in income statement	
		Assumption description	Assumption value			Favourable changes	Unfavourable changes
			Range[1]	Weighted average		£m	£m
2. Derivative assets – Interest rate contracts: - Bermudan swaptions	**20**	Mean reversion	**0%-4%**	**4%**	**1%**	**2**	**(2)**
3. Derivative assets – Equity and credit contracts: - Reversionary property derivatives	**84**	HPI Forward growth rate HPI Spot rate	**0%-5%** **n/a**	**2.63%** **630[2]**	**1%** **10%**	**11** **8**	**(11)** **(8)**
4. Derivative assets – Credit contracts: - Credit default swaps	**5**	Probability of default	**0.1%-0.9%**	**0.2%**	**20%**	**1**	**(1)**
5. Derivative assets – Equity contracts: - Options and forwards	**254**	HPI Forward growth rate HPI Spot rate	**0%-5%** **n/a**	**2.14%** **607[2]**	**1%** **10%**	**3** **1**	**(3)** **-**
6. FVTPL – Loans and advances to customers: - Roll-up mortgage portfolio	**61**	HPI Forward growth rate	**0%-5%**	**2.78%**	**1%**	**2**	**(2)**
8. Derivative liabilities – Interest rate contracts: - Bermudan swaptions	**(6)**	Mean reversion	**0%-4%**	**4%**	**1%**	**1**	**(1)**
9. Derivative liabilities - Equity contracts: - Options and forwards	**(50)**	HPI Forward growth rate HPI Spot rate	**0%-5%** **n/a**	**2.14%** **607[2]**	**1%** **10%**	**4** **14**	**(4)** **(16)**
31 December 2013							
3. Derivative assets – Equity and credit contracts: – Reversionary property derivatives	71	HPI Forward growth rate HPI Spot rate	0%-5% n/a	2.67% 578[2]	1% 10%	11 8	(11) (8)
4. Derivative assets – Credit contracts: – Credit default swaps	13	Probability of default	0.1%-1.2%	0.7%	20%	3	(3)
5. Derivative assets – Equity contracts: – Options and forwards	249	HPI Forward growth rate HPI Spot rate	0%-5% n/a	1.62% 565[2]	1% 10%	5 11	(5) (10)
6. FVTPL – Loans and advances to customers: – Roll-up mortgage portfolio	51	HPI Forward growth rate	0%-5%	2.85%	1%	1	(1)
7. FVTPL – Debt securities: – Mortgage-backed securities	58	Credit spread	0%-15%	5%	10%	6	(6)
9. Derivative liabilities - Equity and credit contracts: – Options and forwards	(68)	HPI Forward growth rate HPI Spot rate	0%-5% n/a	1.62% 565[2]	1% 10%	2 7	(2) (10)

(1) The range of actual assumption values used to calculate the weighted average disclosure.
(2) Represents the HPI spot rate index level at 31 December 2014 and 2013.

No sensitivities are presented for the FVTPL - debt securities in issue (instrument 10) and related exchange rate derivatives (instrument 1) as the terms of these instruments are fully matched. As a result, any changes in the valuation of the debt securities in issue would be exactly offset by an equal and opposite change in the valuation of the exchange rate derivatives.

i) Maturities of financial assets, liabilities and off-balance sheet commitments

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

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

31 December 2014										Group
	On Demand £m	**Within 1 month £m**	**1-3 months £m**	**3-6 months £m**	**6-9 months £m**	**9 months to 1 year £m**	**1-2 years £m**	**2-5 years £m**	**Over 5 years £m**	**Total £m**
Assets										
Cash and balances at central banks	**4,423**	**-**	**-**	**-**	**37**	**-**	**-**	**-**	**-**	**4,460**
Trading assets	**5,749**	**608**	**4,981**	**796**	**1,445**	**1,410**	**449**	**830**	**5,639**	**21,907**
Derivative financial instruments	**47**	**582**	**433**	**442**	**507**	**849**	**1,791**	**3,875**	**19,057**	**27,583**
Financial assets designated at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**248**	**2,550**	**2,802**
Loans and advances to banks	**11,404**	**1,096**	**1,378**	**557**	**-**	**-**	**245**	**339**	**2,818**	**17,837**
Loans and advances to customers	**36**	**1,112**	**1,750**	**3,034**	**592**	**944**	**9,925**	**16,303**	**5,996**	**39,692**
Loans and receivables securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23**	**23**
Available-for-sale securities	**-**	**-**	**-**	**-**	**-**	**-**	**1,514**	**280**	**946**	**2,740**
Macro hedge of interest rate risk	**-**	**1**	**2**	**2**	**3**	**7**	**44**	**215**	**733**	**1,007**
Total financial assets	**21,659**	**3,399**	**8,544**	**4,831**	**2,584**	**3,210**	**13,972**	**22,090**	**37,762**	**118,051**
Liabilities										
Deposits by banks	**5,055**	**4,682**	**292**	**818**	**832**	**430**	**3,668**	**972**	**877**	**17,626**
Deposits by customers	**675**	**1,835**	**366**	**217**	**178**	**246**	**394**	**371**	**290**	**4,572**
Trading liabilities	**3,594**	**5,991**	**2,904**	**36**	**100**	**1**	**15**	**492**	**2,224**	**15,357**
Derivative financial instruments:										
- Held for trading	**342**	**398**	**324**	**380**	**608**	**967**	**1,631**	**3,440**	**18,694**	**26,784**
- Held for hedging[1]	**-**	**5**	**16**	**25**	**17**	**15**	**112**	**349**	**1,133**	**1,672**
Financial liabilities designated at FVTPL	**-**	**313**	**707**	**227**	**108**	**77**	**331**	**457**	**686**	**2,906**
Debt securities in issue	**-**	**2,133**	**4,667**	**3,711**	**632**	**1,190**	**5,148**	**12,218**	**11,396**	**41,095**
Macro hedge of interest rate risk	**-**	**-**	**-**	**1**	**5**	**3**	**29**	**1**	**-**	**39**
Total financial liabilities	**9,666**	**15,357**	**9,276**	**5,415**	**2,480**	**2,929**	**11,328**	**18,300**	**35,300**	**110,051**
Off-balance sheet commitments given	**-**	**44**	**144**	**541**	**100**	**226**	**1,072**	**8,224**	**1,967**	**12,318**

31 December 2013										
Assets										
Cash and balances at central banks	4,874	-	-	-	37	-	-	-	-	4,911
Trading assets	5,411	-	-	-	-	32	14,209	1,677	1,233	22,562
Derivative financial instruments	176	311	486	685	729	1,708	1,395	12,947	11,693	30,130
Financial assets designated at FVTPL	-	-	-	-	-	-	2	27	2,948	2,977
Loans and advances to banks	28,927	10,885	40,318	7,312	5,104	1,141	1,052	8,893	11,875	115,507
Loans and advances to customers	1	5,409	2,671	1,840	225	2,134	4,114	10,485	18,343	45,222
Loans and receivables securities	-	-	-	-	-	-	-	-	151	151
Available-for-sale securities	-	-	-	-	-	-	-	2,077	1,146	3,223
Macro hedge of interest rate risk	-	1	2	9	24	9	19	52	460	576
Total financial assets	39,389	16,606	43,477	9,846	6,119	5,024	20,791	36,158	47,849	225,259
Liabilities										
Deposits by banks	17,921	2,942	12,050	18,660	9,506	2,607	12,458	28,136	20,594	124,874
Deposits by customers	134	1,831	471	546	-	1,602	55	2,326	1,001	7,966
Trading liabilities	1,883	11,504	4,631	255	204	304	277	1,279	1,224	21,561
Derivative financial instruments:										
- Held for trading	206	263	357	348	471	750	1,949	3,757	14,180	22,281
- Held for hedging[1]	-	9	29	39	45	28	175	295	695	1,315
Financial liabilities designated at FVTPL	-	141	584	214	107	434	370	738	907	3,495
Debt securities in issue	-	2,201	2,862	3,229	2,140	1,491	4,790	9,517	9,282	35,512
Total financial liabilities	20,144	18,891	20,984	23,291	12,473	7,216	20,074	46,048	47,883	217,004
Off-balance sheet commitments given	-	26	112	230	75	295	1,514	6,370	1,882	10,504

(1) Comprises the derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.
(2) Equity has no maturity and therefore has been classified in the 'over five years' column.

Notes to the Financial Statements continued

31 December 2014 Company

	On Demand £m	Within 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9 months to 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Assets										
Cash and balances at central banks	**4,423**	**-**	**-**	**-**	**37**	**-**	**-**	**-**	**-**	**4,460**
Trading assets	**5,749**	**608**	**4,981**	**796**	**1,445**	**1,410**	**449**	**830**	**5,639**	**21,907**
Derivative financial instruments	**47**	**582**	**433**	**442**	**507**	**849**	**1,791**	**3,875**	**19,057**	**27,583**
Financial assets designated at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**248**	**2,550**	**2,802**
Loans and advances to banks	**13,032**	**1,174**	**-**	**-**	**611**	**-**	**461**	**-**	**2,818**	**18,096**
Loans and advances to customers	**28**	**1,111**	**1,749**	**3,032**	**289**	**943**	**9,925**	**16,304**	**6,042**	**39,423**
Loans and receivables securities	**-**	**-**	**-**	**-**	**-**	**-**			**24**	**24**
Available-for-sale securities	**-**	**-**	**-**	**-**	**-**	**-**	**1,514**	**280**	**946**	**2,740**
Macro hedge of interest rate risk	**-**	**1**	**2**	**2**	**3**	**7**	**44**	**215**	**733**	**1,007**
Total financial assets	**23,279**	**3,476**	**7,165**	**4,272**	**2,892**	**3,209**	**14,188**	**21,752**	**37,809**	**118,042**
Liabilities										
Deposits by banks	**5,054**	**4,681**	**291**	**815**	**829**	**428**	**3,661**	**966**	**871**	**17,596**
Deposits by customers	**671**	**3,218**	**1,759**	**689**	**442**	**242**	**392**	**374**	**318**	**8,105**
Trading liabilities	**3,594**	**5,991**	**2,904**	**36**	**100**	**1**	**15**	**492**	**2,224**	**15,357**
Derivative financial instruments:										
- Held for trading	**342**	**398**	**324**	**380**	**608**	**967**	**1,631**	**3,440**	**18,694**	**26,784**
- Held for hedging[1]	**-**	**5**	**16**	**25**	**17**	**15**	**112**	**349**	**1,133**	**1,672**
Financial liabilities designated at fair value	**-**	**313**	**707**	**227**	**108**	**77**	**331**	**457**	**686**	**2,906**
Debt securities in issue	**-**	**748**	**3,276**	**3,246**	**362**	**1,190**	**5,148**	**12,218**	**11,396**	**37,584**
Macro hedge of interest rate risk	**-**	**-**	**-**	**1**	**5**	**3**	**29**	**1**	**-**	**39**
Total financial liabilities	**9,661**	**15,354**	**9,277**	**5,419**	**2,471**	**2,923**	**11,319**	**18,297**	**35,322**	**110,043**
Off-balance sheet commitments given	**-**	**44**	**144**	**541**	**100**	**226**	**1,072**	**8,224**	**1,967**	**12,318**

31 December 2013

Assets										
Cash and balances at central banks	4,874	-	-	-	37	-	-	-	-	4,911
Trading assets	5,411	-	-	-	-	32	14,209	1,677	1,233	22,562
Derivative financial instruments	176	311	486	685	729	1,708	1,395	13,945	11,693	31,128
Financial assets designated at FVTPL	-	-	-	-	-	-	2	27	2,948	2,977
Loans and advances to banks	28,920	10,885	40,219	7,272	5,057	1,126	1,029	8,456	10,692	113,656
Loans and advances to customers	10	5,412	2,659	1,822	222	2,083	3,952	9,580	15,257	40,997
Loans and receivables securities	-	-	-	-	-	-	-	-	151	151
Available-for-sale securities	-	-	-	-	-	-	-	2,077	1,146	3,223
Macro hedge of interest rate risk	-	1	2	9	24	9	19	52	460	576
Total financial assets	39,391	16,609	43,366	9,788	6,069	4,958	20,606	35,814	43,580	220,181
Liabilities										
Deposits by banks	17,921	2,942	12,050	18,660	9,506	2,607	12,458	28,136	20,594	124,874
Deposits by customers	149	3,254	1,359	1,250	163	1,587	50	2,310	991	11,113
Trading liabilities	1,883	11,504	4,631	255	204	304	277	1,279	1,224	21,561
Derivative financial instruments:										
- Held for trading	206	263	357	348	471	750	1,949	3,757	14,180	22,281
- Held for hedging[1]	-	9	29	39	45	28	175	295	695	1,315
Financial liabilities designated at fair value	-	141	584	214	107	434	370	738	907	3,495
Debt securities in issue	-	790	1,851	2,561	1,922	1,491	4,790	9,517	9,282	32,204
Total financial liabilities	20,159	18,903	20,861	23,327	12,418	7,201	20,069	46,032	47,873	216,843
Off-balance sheet commitments given	-	26	112	230	75	295	1,514	6,370	1,882	10,504

(1) Comprises the derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.
(2) Equity has no maturity and therefore has been classified in the 'over five years' column.

As the above table is based on contractual maturities, no account is taken of a customer's ability to repay early where it exists. The repayment terms of debt securities may be accelerated in line with the covenants described in Note 30. In addition, no account is taken of the possible early repayment of the ANTS group's mortgage-backed non-recourse finance which is redeemed by the Santander UK group as funds become available from redemptions of the residential mortgages. The Santander UK group has no control over the timing and amount of redemptions of residential mortgages.

41. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

In accordance with IAS 32 Financial Instruments: Presentation, the ANTS group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on:

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

The table identifies the amounts that have been offset in the balance sheet and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of IAS 32 described above.

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

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

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

Group

31 December 2014	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on balance sheet			Related amounts not offset				
	Gross amounts £m	Amounts offset £m	Net amounts reported on the balance sheet £m	Financial instruments £m	Financial collateral[1] £m	Net amount £m	Assets not subject to enforceable netting arrangements[2] £m	Balance sheet total[3] £m
Derivative financial assets	**30,163**	**(4,879)**	**25,284**	**(24,473)**	**(2,418)**	**(1,607)**	**508**	**25,792**
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	**8,487**	**(5,502)**	**2,985**	**(810)**	**(2,175)**	**-**	**-**	**2,985**
- Loans and advances to banks	**676**	**-**	**676**	**-**	**(676)**	**-**	**-**	**676**
Loans and advances to customers and banks[4]	**53,335**	**(18,355)**	**34,980**	**-**	**-**	**34,980**	**13,973**	**48,953**
Total assets	**92,661**	**(28,736)**	**63,925**	**(25,283)**	**(5,269)**	**33,373**	**14,481**	**78,406**
Derivative financial liabilities	**30,754**	**(4,879)**	**25,875**	**(24,473)**	**(1,271)**	**131**	**732**	**26,607**
Repurchase, securities lending & similar agreements:								
- Trading liabilities	**13,577**	**(5,502)**	**8,075**	**(810)**	**(7,265)**	**-**	**473**	**8,548**
- Deposits by banks	**4,015**	**-**	**4,015**	**-**	**(4,015)**	**-**	**-**	**4,015**
Deposits by customers and banks[4]	**35,277**	**(18,355)**	**16,922**	**-**	**-**	**16,922**	**1,002**	**17,924**
Total liabilities	**83,623**	**(28,736)**	**54,887**	**(25,283)**	**(12,551)**	**17,053**	**2,207**	**57,094**
31 December 2013								
Derivative financial assets	23,129	(1,832)	21,297	(15,413)	(1,455)	4,429	253	21,550
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	18,622	(10,215)	8,407	(3,372)	(5,035)	-	22	8,429
- Loans and advances to banks	516	-	516	(466)	(50)	-	275	791
Loans and advances to customers and banks[4]	241,520	(129,919)	111,601	(107,751)	-	3,850	42,365	153,966
Total assets	283,787	(141,966)	141,821	(127,002)	(6,540)	8,279	42,915	184,736
Derivative financial liabilities	23,181	(1,832)	21,349	(15,413)	(1,798)	4,138	147	21,496
Repurchase, securities lending & similar agreements:								
- Trading liabilities	23,837	(10,215)	13,622	(3,235)	(10,387)	-	500	14,122
- Deposits by banks	5,636	-	5,636	(137)	(5,499)	-	-	5,636
Deposits by customers and banks[4]	244,900	(129,919)	114,981	(107,751)	-	7,230	7,861	122,842
Total liabilities	297,554	(141,966)	155,588	(126,536)	(17,684)	11,368	8,508	164,096

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

Notes to the Financial Statements continued

Company

31 December 2014	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on balance sheet			Related amounts not offset				
	Gross amounts £m	Amounts offset £m	Net amounts reported on the balance sheet £m	Financial instruments £m	Financial collateral[1] £m	Net amount £m	Assets not subject to enforceable netting arrangements[2] £m	Balance sheet total[3] £m
Derivative financial assets	**30,163**	**(4,879)**	**25,284**	**(24,473)**	**(2,418)**	**(1,607)**	**508**	**25,792**
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	**8,487**	**(5,502)**	**2,985**	**(810)**	**(2,175)**	**-**	**-**	**2,985**
- Loans and advances to banks	**676**	**-**	**676**	**-**	**(676)**	**-**	**-**	**676**
Loans and advances to customers and banks[4]	**53,335**	**(18,355)**	**34,980**	**-**	**-**	**34,980**	**13,944**	**48,924**
Total assets	**92,661**	**(28,736)**	**63,925**	**(25,283)**	**(5,269)**	**33,373**	**14,452**	**78,377**
Derivative financial liabilities	**30,754**	**(4,879)**	**25,875**	**(24,473)**	**(1,271)**	**131**	**732**	**26,607**
Repurchase, securities lending & similar agreements:								
- Trading liabilities	**13,576**	**(5,502)**	**8,074**	**(810)**	**(7,264)**	**-**	**474**	**8,548**
- Deposits by banks	**4,015**	**-**	**4,015**	**-**	**(4,015)**	**-**	**-**	**4,015**
Deposits by customers and banks[4]	**35,277**	**(18,355)**	**16,922**	**-**	**-**	**16,922**	**4,545**	**21,467**
Total liabilities	**83,622**	**(28,736)**	**54,886**	**(25,283)**	**(12,550)**	**17,053**	**5,751**	**60,637**
31 December 2013								
Derivative financial assets	22,736	(1,832)	20,904	(15,413)	(1,455)	4,036	646	21,550
Reverse repurchase, securities borrowing & similar agreements:								
- Trading assets	18,622	(10,215)	8,407	(3,372)	(5,035)	-	22	8,429
- Loans and advances to banks	516	-	516	(466)	(50)	-	275	791
Loans and advances to customers and banks[4]	241,517	(129,920)	111,597	(107,751)	-	3,846	42,372	153,969
Total assets	283,391	(141,967)	141,424	(127,002)	(6,540)	7,882	43,315	184,739
Derivative financial liabilities	23,102	(1,832)	21,270	(15,413)	(1,798)	4,059	226	21,496
Repurchase, securities lending & similar agreements:								
- Trading liabilities	23,837	(10,215)	13,622	(3,235)	(10,387)	-	500	14,122
- Deposits by banks	5,636	-	5,636	(137)	(5,499)	-	-	5,636
Deposits by customers and banks[4]	244,900	(129,920)	114,980	(107,751)	-	7,229	11,054	126,034
Total liabilities	297,475	(141,967)	155,508	(126,536)	(17,684)	11,288	11,780	167,288

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

As part of the banking reform programme, the intercompany funding arrangements between Abbey National Treasury Services plc and its immediate parent Santander UK plc have been amended so that only the net funding requirement of the commercial bank is passed between Santander UK plc and Abbey National Treasury Services plc rather than the gross funding requirements as previously. In preparation for this change, a rationalisation of the current booking model was carried out in 2014. Following this, the legal agreements between Santander UK plc and Abbey National Treasury Services plc were changed. As a result, only trades that generate the actual net funding requirement are reported. The intercompany balances between Santander UK plc and Abbey National Treasury Services plc reduced by £100bn predominantly due to this change.

42. CAPITAL MANAGEMENT AND RESOURCES

This note reflects the transactions and amounts reported on a basis consistent with the ANTS group's regulatory filings at 31 December 2014, following the adoption of CRD IV with effect from 1 January 2014. The amounts presented for 2013 have been prepared on a consistent basis, to aid comparability.

Capital management and capital allocation

Within the Santander UK group, capital is managed on a Santander UK group basis. The Santander UK Board is responsible for capital management strategy and policy and ensuring that capital resources are appropriately monitored and controlled within regulatory and internal limits. Authority for capital management flows to the Santander UK Chief Executive Officer and from him to specific individuals who are members of the Santander UK Capital Committee.

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

The Santander UK group manages its capital requirements, debt funding and liquidity on the basis of policies and plans reviewed regularly by the Capital Committee. Capital requirements are also reviewed as part of the ICAAP while debt funding and liquidity are also reviewed as part of the Internal Liquidity Adequacy Assessment ('ILAA') process. To support its capital and senior debt issuance programmes, the Company is rated on a stand-alone basis.

On an ongoing basis, and in accordance with the latest ICAAP review, the Santander UK group forecasts its regulatory and internal capital requirements based on the approved capital volumes allocated to business units as part of the corporate planning process which generates the Santander UK group's strategic 3-Year Plan. Alongside this plan, the Santander UK group develops a series of macro-economic scenarios to stress test its capital requirements and confirm that it has adequate regulatory capital resources to meet its projected and stressed regulatory capital requirement and to meet its obligations as they fall due. Internally assigned buffers augment the various regulatory minimum capital criteria. Buffers are held in order to ensure there is sufficient time for management actions to be implemented against unexpected movements.

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

Capital adequacy

The ANTS group manages its capital on a Basel III basis. During the years ended 31 December 2014 and 2013, ANTS held capital over and above its regulatory requirements, and managed internal capital allocations and targets in accordance with its capital and risk management policies.

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 14 December 2012 (the 'Capital Support Deed') with certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed constitute a core UK group for the purposes of the large exposures provisions of CRD IV. Under article 4001(f) of the Capital Requirements Regulations, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements. As a subsidiary of Santander UK plc, ANTS only has CET 1 capital.

Group capital

	2014 £m	2013 £m
Core Equity Tier 1 ('CET 1') capital before regulatory adjustments	**3,191**	3,059
Regulatory adjustments to CET 1 capital	**(25)**	(14)
CET 1 capital	**3,166**	3,045
Total capital	**3,166**	3,045

CET 1 capital includes audited profits for the years ended 31 December 2014 and 2013 after adjustment to comply with PRA rules. Regulatory adjustments relate to intangible assets and expected losses.

43. EVENTS AFTER THE BALANCE SHEET DATE

None.

44. PROFIT AFTER TAX OF THE COMPANY

The profit after tax of the Company attributable to shareholders was £115m (2013: £241m, 2012: £226m). As permitted by Section 408 of the UK Companies Act 2006, the Company's individual income statement has not been presented.

Risk Factors

An investment in Abbey National Treasury Services plc (the "Company") and its subsidiaries ("us", "we" or "ANTS group") involves a number of risks, the material ones of which are set out below. As a consequence of the reciprocal guarantee given by the Company in respect of the liabilities of Santander UK plc, we are exposed to the same risk factors as Santander UK, of which we are a significant part.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel

Our continued success depends in part on the continued service of key members of our management team. The ability to continue to attract, train, motivate and retain highly qualified and talented professionals is a key element of our strategy. The successful implementation of our growth strategy depends on the availability of skilled management, both at our head office and in each of our business units. If we or one of our business units or other functions fails to staff its operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, our business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on our ability to hire or retain the most qualified employees. If we fail or are unable to attract and appropriately train, motivate and retain qualified professionals, our business may also be adversely affected.

We are vulnerable to disruptions and volatility in the global financial markets

Over the past seven years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to reduced liquidity, greater volatility (such as volatility in spreads) and, in some cases, a lack of price transparency on interbank lending rates. Uncertainties remain concerning the outlook and the future economic environment despite recent improvements in certain segments of the global economy, including the United Kingdom (the "UK"). There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly or at all. Such economic uncertainties could have a negative impact on our business and results of operations. The acute economic risks in the eurozone are being addressed by on-going policy initiatives, and the prospects for many of the European economies are improving. Investors remain cautious and a slowing or failing of the economic recovery would likely aggravate the adverse effects of difficult economic and market conditions on us and on others in the financial services industry.

In particular, we may face, among others, the following risks related to any future economic downturn:

- Increased regulation of our industry. Compliance with such regulation may increase our costs, may affect the pricing of our products and services, and limit our ability to pursue business opportunities.
- Reduced demand for our products and services.
- Inability of our borrowers to comply fully or in a timely manner with their existing obligations.
- The process we use to estimate losses inherent in our credit exposure requires complex judgements, including forecasts of economic conditions and how such economic conditions may impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the sufficiency of our loan loss allowances.
- The value and liquidity of the portfolio of investment securities that we hold may be adversely affected.
- Any worsening of the global economic conditions may delay the recovery of the international financial industry and impact our operating results, financial condition and prospects.
- Adverse macroeconomic shocks may negatively impact the household income of our retail customers, which may adversely affect the recoverability of our retail loans, and result in increased loan losses.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to we may become available, or becomes excessively expensive, Santander UK may be forced to raise the rates it pays on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on Santander UK's interest margins, liquidity and profitability.

If all or some of the foregoing risks were to materialise, this could have a material adverse effect on us.

Our operating results, financial condition and prospects may be materially impacted by economic conditions in the UK

Santander UK's business activities are concentrated in the UK and we offer a range of banking and financial products and services to UK retail and corporate customers. As a consequence, our operating results, financial condition and prospects are significantly affected by the general economic conditions in the UK.

Our financial performance is intrinsically linked to the UK economy and the economic confidence of consumers and businesses. The UK economic recovery, along with its concomitant impacts on our profitability, remain a risk. Conversely, a strengthened UK economic performance may increase the possibility of a higher interest rate environment. In such a scenario other market participants might offer more competitive product pricing resulting in increased customer attrition.

Adverse changes in global growth may pose the risk of a further slowdown in the UK's principal export markets which would have an adverse effect on the broader UK economy.

In addition, adverse changes in the credit quality of our and Santander UK's borrowers and counterparties or a general deterioration in UK or global economic conditions could reduce the recoverability and value of our and Santander UK's assets and require an increase in the level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for our and Santander UK's products and services could negatively impact our business and financial condition. UK economic conditions and uncertainties may have an adverse effect on the quality of our and Santander UK's loan portfolio and may result in a rise in delinquency and default rates. There can be no assurance that we will not have to increase our provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond our control. Material increases in our provisions for loan losses and write-offs/charge-offs could have an adverse effect on our operating results, financial condition and prospects.

The UK government has taken measures to address the rising and high level of national debt, including reducing its borrowing and public spending cuts. Credit quality could be adversely affected by a renewed increase in unemployment. Any related significant reduction in the demand for our products and services could have a material adverse effect on our and Santander UK's operating results, financial condition and prospects.

Exposure to UK political developments could have a material adverse effect on us

Any significant changes in UK government policies or political structure could have an impact on our business, including as a result of the UK general election in 2015. In particular, the second half of 2014 saw increased debate around the UK's relationship with the European Union ("EU"), including in the context of the general election. The outcome of any future UK political developments, including but not limited to any changes in government structure and policies, could affect the fiscal, monetary and regulatory landscape to which we are subject and therefore no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted as a result.

We are subject to regulatory capital and leverage requirements that could limit our operations, and changes to these requirements may further limit and adversely affect our operating results, financial condition and prospects

We are subject to capital adequacy requirements applicable to banks and banking groups under directly applicable EU legislation and as adopted by the Prudential Regulation Authority ("PRA") of the Bank of England. We are required to maintain a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets (instead of Core Tier 1 capital to risk-weighted assets), Tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and Tier 1 capital to total adjusted assets for leverage monitoring purposes. Any failure by us to maintain such ratios may result in administrative actions or sanctions; these could potentially include requirements on us to cease all or certain lines of new business, to raise new capital resources or, in certain circumstances, a requirement for our existing capital instruments (potentially including our debt securities) to be subjected to bail-in or write down (see the Risk Factor entitled "Bail-in and write down powers under the Banking Act and the BRRD" on page 183 and 184 for further detail).

The PRA requires the capital resources of large UK banks to be maintained at levels which exceed the base capital requirements prescribed by its rules, and following the PRA 2013 capital shortfall exercise, we have been required to hold Common Equity Tier 1 capital reserves equivalent to at least 7 per cent. of our risk-weighted assets and to maintain a minimum 3 per cent. Tier 1 leverage ratio. From 1 January 2015 further increases to capital requirements have been implemented by the PRA, partly informed by the concurrent stress testing process conducted by the PRA in 2014 and planned to be conducted annually thereafter. In the future, the PRA could, through supervisory actions (beyond the changes described below), require UK banks, including us, to increase their capital resources further, and could also increase capital ratios as part of the exercise of UK macro-prudential capital regulation tools.

The Capital Requirements Directive IV ("CRD IV Directive") and the Capital Requirements Regulation (together "CRD IV") legislative package implemented the changes prepared by the Basel Committee on Banking Supervision (the "Basel Committee") to the capital adequacy framework, known as "Basel III" in the European Union. The CRD IV Regulation is directly applicable in each member state of the European Union (each a "Member State") and does not therefore require national implementing measures, whilst the CRD IV Directive must be implemented by Member States. CRD IV was published in the Official Journal on 27 June 2013 and came into effect on 1 January 2014, with particular requirements to be effective by 2019. CRD IV substantially reflects the Basel III capital and liquidity standards and facilitates the applicable implementation timeframes. On 19 December 2013, the PRA published its rules and supervisory statements associated with the implementation of CRD IV, which cover prudential rules for banks, building societies and investment firms. Certain issues, however, continue to remain under discussion and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority, which creates uncertainty as to the final impact of CRD IV capital requirements on us.

The Financial Policy Committee of the Bank of England ("FPC") set the counter-cyclical capital buffer rate at 0 per cent. from October 2014 and then subsequently announced on 16 December 2014 that the counter-cyclical buffer rate would remain at 0 per cent. The UK Government has stated that it intends that the FPC should also be able to require the PRA to impose additional specific capital requirements on banks to address risks to the UK market for banking services and the UK Government has indicated that it intends to provide the FPC with powers to direct the PRA to set leverage ratio requirements and buffers. The Bank of England, acting through the FPC, undertook a review of the leverage ratio during 2014, the results of which were published on 31 October 2014. The FPC recommended that it should have the power to direct the PRA to set (i) a minimum leverage ratio requirement; (ii) a supplementary leverage ratio buffer; and (iii) a countercyclical leverage ratio buffer and recommended that the PRA establish a supplementary leverage ratio buffer requirement for major domestic UK banks equal to 35 per cent. of each bank's risk-weighted systemic buffer. HM Treasury has consulted on draft legislation granting the FPC new powers of direction over the PRA in line with the FPC's recommendations and published a paper, dated January 2014, explaining the outcome of this consultation. The final scope of this framework, and the precise timing for its introduction, is currently unclear, however the FPC has recommended that its leverage ratio framework should be applied to systemically important institutions as soon as practicable, and to all other PRA-regulated firms in 2018, subject to a review of international progress in 2017. The FPC published a draft policy statement in February 2015 to be considered alongside Parliament's scrutiny of the associated secondary legislation. Action taken in the future by the FPC in exercise of any such powers could result in the regulatory capital requirements applied to us being increased.

Regulators in the UK and worldwide have also proposed that additional capital requirements should be applied to systemically important institutions to ensure that there is sufficient loss absorbing and recapitalisation capacity available in resolution. The Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act") amended the Financial Services and Markets Act 2000 ("FSMA") and provides HM Treasury with the power to require a bank to issue any type of debt instruments or to ensure that any part of its debt consists of debt instruments of a particular kind. This power is in addition to the regulatory capital requirements under CRD IV. HM Treasury has indicated that it intends to use this power, as appropriate, to impose requirements for firms to meet total loss-absorbing capital ("TLAC") requirements proposed by the Financial Stability Board or, in accordance with the EU Bank Recovery and Resolution Directive ("BRRD") and Minimum Requirement for Eligible Liabilities ("MREL") requirements. HM Treasury has consulted on a draft Order that will regulate the exercise of this power on institutions, although in July 2014 it announced that the finalisation of detailed requirements would be delayed pending international agreement in relation to TLAC and MREL requirements. The power is expected to become exercisable on or before 1 January 2016, at which time the power may be used to introduce TLAC and MREL requirements affecting us. In addition, since 31 December 2014, the PRA has had the power under the FSMA to make rules requiring a parent undertaking of a bank to make arrangements to facilitate the exercise of resolution powers, including a power to require a group to issue debt instruments. Such powers could have an impact on the liquidity of our debt instruments and could materially increase our cost of funding.

In addition to the above, regulators in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could force us to comply with certain operational restrictions or take steps to raise further capital, or could increase our expenses, or otherwise adversely affect our operating results, financial condition and prospects. These include:

- the introduction of recovery and resolution planning requirements (popularly known as "living wills") for banks and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system, as set out in the PRA's final rules on recovery and resolution planning which came into force on 1 January 2014;
- the introduction of more regular and detailed reporting obligations;
- a move to pre-funding of the deposit protection scheme in the UK, which affects Santander UK as a whole;

Risk Factors continued

> proposed revisions to the approaches for determining trading book capital requirements and banking book risk-weighted assets from the Basel Committee; and
> proposed revisions to the standardised approach to credit risk ("Standardised Approach") by the Basel Committee to address certain weaknesses in the Standardised Approach identified by the Basel Committee. These weaknesses include an over-reliance on external credit ratings, a lack of risk sensitivity and a lack of comparability and misalignment of treatment with exposures risk weighted under the internal ratings-based ("IRB") approach to credit risk. Among other revisions, the Basel Committee is proposing to impose a Standardised Approach floor on modelled credit risk capital requirements with the aims of: (i) constraining variation in risk-weighted assets across banks using the IRB approach (with respect to portfolios with similar risk profiles); and (ii) protecting against the risk that modelled parameters result in capital requirements that are too low.

These measures could have a material adverse effect on our operating results, and consequently, on our business, financial condition and prospects. There is a risk that changes to the UK's capital adequacy regime (including any increase to the minimum leverage ratio) may result in increased minimum capital requirements, which could reduce available capital for business purposes and thereby adversely affect our cost of funding, profitability and ability to pay dividends, continue organic growth (including increased lending), or pursue acquisitions or other strategic opportunities (alternatively we could restructure our balance sheet to reduce the capital charges incurred pursuant to the PRA's rules in relation to the assets held, or raise additional capital but at increased cost and subject to prevailing market conditions). In addition, changes to the eligibility criteria for Tier 1 and Tier 2 capital may affect our ability to raise Tier 1 and Tier 2 capital and impact the recognition of existing Tier 1 and Tier 2 capital resources in the calculation of our capital position. Furthermore increased capital requirements may negatively affect our return on equity and other financial performance indicators.

Our business could be affected if our capital is not managed effectively or if these measures limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms. Effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. For additional information about our capital position and capital management, see 'Risk Review - Capital Risk' on page 74.

We are subject to liquidity requirements that could limit our operations, and changes to these requirements may further limit and adversely affect our operating results, financial condition and prospects

On 5 October 2009, the FSA published liquidity rules that significantly broadened the scope of the existing liquidity regime. These were designed to enhance regulated firms' liquidity risk management practices. As part of these reforms, the FSA implemented requirements for financial institutions to hold prescribed levels of specified liquid assets and have in place other sources of liquidity to address institution-specific and market-wide liquidity risks that institutions may face in short-term and prolonged stress scenarios. These rules have applied to us since June 2010 with some subsequent technical revisions. These rules will continue to apply to us until implementation of the Basel III standards.

As from 1 April 2013, the PRA, an independent subsidiary of the Bank of England, took over the responsibility for micro-prudential regulation of financial institutions from the FSA. The PRA currently operates its own liquidity rules based on the following elements:

> principles of self-sufficiency and adequacy of liquidity resources;
> enhanced systems and control requirements;
> quantitative requirements, including Individual Liquidity Adequacy Standards, coupled with a narrow definition of liquid assets; and
> frequent regulatory reporting.

Santander UK currently meets the minimum requirements set by the PRA. However, there can be no assurance that future changes to such requirements would not adversely impact on our operating results financial condition and prospects.

Under CRD IV, banks will be required to meet two new liquidity standards, comprising the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") metrics, which are aimed to promote:

> the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and
> a longer-term resilience by creating incentives for banks to fund their activities with more stable sources of funding on an on-going basis.

LCR

The LCR is intended to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets which can be used to offset the net cash outflows the bank could encounter under a short-term significant liquidity stress scenario.

The LCR will be introduced in 2015 and the minimum requirement under CRD IV will begin at 60 per cent. on 1 October 2015, rising by 10 percentage points on each of 1 January 2016 and 1 January 2017 and by 20 percentage points to reach 100 per cent. on 1 January 2018. The PRA published a consultation on implementation of the liquidity rules in November 2014, which proposes that an 80 per cent. requirement should apply from October 2015, rising to 90% on 1 January 2017. This consultation will close on 27 February 2015.

NSFR

In October 2014, the Basel Committee published its final standard of the NSFR which will take effect on 1 January 2018. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. Banks are expected to hold a NSFR of at least 100 per cent. on an on-going basis and report its NSFR at least quarterly. Ahead of its planned implementation on 1 January 2018, the NSFR will remain subject to an observation period.

There is a risk that implementing and maintaining existing and new liquidity requirements, such as through enhanced liquidity risk management systems, may incur significant costs, and more stringent requirements to hold liquid assets may materially affect our lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability. This could in turn adversely impact our operating results, financial condition and prospects.

Exposure to UK Government debt could have a material adverse effect on us

Like many other UK banks, Santander UK invests in debt securities of the UK Government largely for liquidity purposes. As of 31 December 2014, approximately 1 per cent. of our total assets and 22 per cent. of its securities portfolio were comprised of debt securities issued by the UK

Government. Any failure by the UK Government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

We may suffer adverse effects as a result of the economic and sovereign debt tensions in the eurozone

Eurozone markets and economies continue to show signs of fragility and volatility, with recession in some national economies. Interest rate differentials among eurozone countries indicate continued doubts about some governments' ability to fund themselves and affect borrowing rates in those economies. Further, the possibility remains that one or more eurozone countries could depart from the euro or that the euro could be abandoned as a currency altogether, which could have negative effects on both existing contractual relations and the fulfilment of obligations by us, our counterparties and/or our customers. This in turn would have a material adverse effect on our operating results, financial condition and prospects.

There is currently no established legal or practical framework to facilitate a Member State's exit from the euro. Apart from the exit process, uncertainties that heighten the risk of re-denomination include how an exiting Member State would deal with its existing euro-denominated assets and liabilities and the valuation of any newly-adopted currency against the euro. A break-up of the eurozone could be associated with a deterioration in the economic and financial environment in the UK and could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. This could materially and adversely affect our operating results, financial condition and prospects.

The European Central Bank ("ECB") and European Council have taken actions in 2012 and 2013 with the aim of reducing the risk of contagion in the eurozone and beyond. These included the creation of the Open Market Transaction facility of the ECB and the decision by eurozone governments to progress towards the creation of a banking union. In January 2015, the ECB announced an extensive quantitative easing scheme. The scheme comprises a €60bn-a-month bond-buying programme across the eurozone, such programme to last until at least September 2016, with a potential for extension if inflation in the eurozone does not meet the ECB target of 2 per cent. Notwithstanding these measures, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by eurozone nations, which are under financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the recent economic crisis.

The high cost of capital for some European governments impacted the wholesale markets in the UK, which resulted in an increase in the cost of retail funding and greater competition in the savings market. In the absence of a permanent resolution of the eurozone crisis, conditions could deteriorate.

Although we conduct the majority of our business in the UK, we have direct and indirect exposure to financial and economic conditions throughout the eurozone economies. For further description of our country risk exposures, including eurozone and peripheral eurozone exposures and redenomination risk, see the "Country Risk Exposure" section in the Risk Review on pages 83 to 89. In addition, general financial and economic conditions in the UK, which directly affect our operating results, financial condition and prospects, may deteriorate as a result of conditions in the eurozone.

We are exposed to risks faced by other financial institutions

We routinely transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumours or questions about the solvency of certain financial institutions and the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. The European sovereign debt crisis and the risk it poses to financial institutions throughout Europe have had, and may continue to have, an adverse effect on interbank financial transactions in general. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on us.

Liquidity and funding risks are inherent in our business and could have a material adverse effect on us

Liquidity risk is the risk that we, although solvent, either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business as carried out by Santander UK and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While we implement liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse constraints in the supply of liquidity, including inter-bank lending, which arose between 2009 and 2013, materially and adversely affected the cost of funding our business, and extreme liquidity constraints affected may affect our operations and limited growth. There can be no assurance that such constraints will not reoccur.

Disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

Our cost of obtaining funding is directly related to prevailing market interest rates and to our credit spreads. Increases in interest rates and our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads are market-driven, and may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on our ability to access liquidity and cost of funding (whether directly or indirectly).

Although central banks around the world have made coordinated efforts to increase liquidity in the financial markets and have in place additional facilities, by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and ensuring that currency swaps markets remain liquid, it is only gradually becoming known internationally how long these central bank schemes will continue or on what terms. The ECB has yet to clarify its long-term approach to liquidity support, although in the second half of 2014 it initiated the purchase of covered bonds and asset backed securities. In January 2015, the ECB announced an extensive quantitative easing scheme. The scheme comprises a €60bn-a-month bond-buying programme across the eurozone, such programme to last until at least September 2016, with a potential for extension if inflation in the eurozone does not meet the ECB target of 2 per cent.

In October 2013, the Bank of England updated its Sterling Monetary Framework to provide more transparent liquidity insurance support in exceptional circumstances. The Indexed Long-Term Repo Facility will now be available to support regular bank requirements for

Risk Factors continued

liquidity while the Discount Window Facility has been reinforced as support for banks experiencing idiosyncratic stress. The Collateralised Term Repo Facility will be made available to support markets in the event of a market wide liquidity stress.

The Bank of England and HM Treasury announced changes to the terms of the Funding for Lending Scheme ("FLS") on 28 November 2013 to re-focus its incentives in the revised scheme towards supporting business lending in 2014. The FLS extension allowed participants to draw from the scheme from February 2014 until January 2015, but household lending in 2014 no longer generated any additional borrowing allowances as it did in the initial scheme. Instead, additional allowances only reflected lending to businesses in 2014. Any initial borrowing allowances in the FLS extension already earned by household and business lending in 2013 were unaffected. On 2 December 2014, the Bank of England and HM Treasury announced a further extension of the FLS to allow participants to borrow from the FLS until January 2016, with incentives to boost lending skewed towards small and medium sized enterprises. As at 31 December 2014, Santander UK plc had drawn £2.2bn of UK treasury bills under the FLS.

The availability of Bank of England facilities for UK financial institutions, to the extent that they provide us with access to cheaper and more attractive funding than other sources, reduces our reliance on retail and/or wholesale markets. To the extent that we make use of Bank of England facilities, any significant reduction or withdrawal of those facilities would increase our funding costs.

Each of the factors described above: the persistence or worsening of adverse market conditions, and the lack of availability, or withdrawal, of such central bank schemes or an increase in base interest rates, could have a material adverse effect on our liquidity and the cost of funding (whether directly or indirectly).

We aim for a funding structure that is consistent with our assets, avoids excessive reliance on short term wholesale funding, attracts enduring commercial deposits and provides diversification in products and tenor. We therefore rely, and will continue to rely, on commercial deposits to fund a significant proportion of lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of commercial depositors in the economy, in general, and in the financial services industry, and the availability and extent of deposit guarantees, as well as competition between banks for deposits. Any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing our ability to access commercial deposit funding on appropriate terms, or at all, in the future.

For additional information about our liquidity position and other liquidity matters, including the policies and procedures we use to manage our liquidity risks, see 'Risk Review – Liquidity Risk' on pages 66 to 73.

A sudden or unexpected shortage of funds in the banking system could lead to increased funding costs, a reduction in the term of funding instruments or require us to liquidate certain assets. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

An adverse movement in our external credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations

Credit ratings can in some instances affect the cost and other terms upon which we are able to obtain funding. Credit rating agencies regularly evaluate us or Santander UK, and their credit ratings of us, Santander UK and our debt in issue are based on a number of factors, including our financial strength and that of the UK economy and conditions affecting the financial services industry generally.

Any downgrade in our credit ratings could increase our borrowing costs and could require us to post additional collateral or take other actions under some of our derivative contracts, and could limit our access to capital markets and adversely affect our commercial business. For example, a credit rating downgrade could adversely affect our ability to sell or market certain of our products, engage in certain longer-term transactions and derivatives transactions and retain our customers, particularly customers who need a minimum rating threshold in order to invest.

In addition, under the terms of certain of our derivative contracts, we may be required to maintain a minimum credit rating or otherwise our counterparties may be able to terminate such contracts. Any of these results of a credit rating downgrade could, in turn, reduce our liquidity and have an adverse effect on us, including our operating results, financial condition and prospects. For example, Santander UK estimates that as at 31 December 2014, if Fitch, Moody's and Standard & Poor were concurrently to downgrade its long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in an outflow of £5.9bn of cash and collateral. A hypothetical two notch downgrade would result in a further outflow of £1.2bn of cash and collateral.

However, while certain potential impacts are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from a loss of unsecured funding (such as from money market funds) or loss of secured funding capacity.

Although unsecured and secured funding stresses are included in Santander UK's stress testing scenarios and a portion of Santander UK's total liquid assets is held against these risks, it is still the case that a credit rating downgrade could have a material adverse effect on us. In addition, if certain counterparties terminated derivative contracts with us or other Santander UK group members and we or other Santander group members were unable to replace such contracts, our market risk profile could be altered.

Included in the current long-term credit ratings of Santander UK plc, which cross guarantees the Company, from Moody's and Standard & Poor's are two credit rating notches of ratings support, arising from an assumption by the rating agencies of UK Government intervention and of support for the bank should it be at risk of failing. On 3 February 2015, Standard & Poor's placed on CreditWatch with negative implications the long-term ratings of Santander UK plc and many other banks in the UK, Germany and Austria, including those of our main UK peers. CreditWatch with negative implications highlights Standard & Poor's opinion regarding the potential direction of a rating. These rating actions followed Standard & Poor's review of government support in countries which had fully implemented the BRRD. Standard & Poor's view is that there is a reduced likelihood of extraordinary government support being made available to UK banks in the future. It is therefore possible that Santander UK plc's long-term credit rating could be downgraded by up to two credit rating notches by Standard & Poor's in the first half of 2015. If a downgrade of our or Santander UK's long-term credit ratings (whether by Standard & Poor's and/or other rating agencies) were to occur, it could also impact our short-term credit ratings. With the removal of systemic support by the UK Government, all things being equal, the impact on our or Santander UK's long-term credit-rating could potentially increase the cost of some of our wholesale borrowing and our ability to secure both long-term and short-term funding may be reduced.

Likewise, a downgrade of the UK sovereign credit rating, or the perception that such a downgrade may occur, may have a material adverse effect on our operating results, financial condition, prospects and the marketability and trading value of our securities. This might also impact on our own credit rating, borrowing costs and our ability to secure funding. A UK sovereign credit rating downgrade or the perception

that such a downgrade may occur could also have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment and/or reducing asset prices.

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the credit rating agencies will maintain our current credit ratings or outlooks. Our failure to maintain favourable credit ratings and outlooks could increase our cost of funding and adversely affect our interest margins, which could have a material adverse effect on us.

Our financial results are subject to fluctuations in interest rates and other market conditions, which may materially adversely affect us

Market risk refers to the probability of variations in our net interest income or in the market value of our assets and liabilities due to volatility of interest rates, exchange rates or equity prices. Changes in interest rates would affect the following areas, among others, of our business:

> net interest income;
> the volume of loans originated;
> the market value of our securities holdings;
> gains from sales of loans and securities; and
> gains and losses from derivatives.

Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue, reducing our growth rate and potentially resulting in losses. When interest rates rise, we may be required to pay higher interest on our floating-rate borrowings while interest earned on our fixed-rate assets does not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Interest rates are highly sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of our customers to prepay or refinance fixed-rate loans, reduce the value of our financial assets and reduce gains or require us to record losses on sales of our loans or securities.

If interest rates decrease, although this is likely to reduce our funding costs, it is likely to compress our interest margin, as well as adversely impact our income from investments in securities and loans with similar maturities, which could have a negative effect on our operating results, financial condition and prospects.

The market value of a security with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of re-pricing terms or an inability to refinance at lower rates.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and value of our assets and securities. Our capital is stated in pound sterling and we do not fully hedge our capital position against changes in currency exchange rates. Although we seek to hedge most of our currency risk, through hedging and purchase of cross-currency swaps, these hedges do not eliminate currency risk and we can make no assurance that we will not suffer adverse financial consequences as a result of currency fluctuations. Significant exchange rate volatility and the depreciation of the pound sterling in particular could have an adverse impact on our results of operations and our ability to meet our US dollar and euro-denominated obligations, and which could have a material adverse effect on our operating results, financial condition and prospects.

We are also exposed to equity price risk in connection with our trading investments in equity securities as part of our normal course of business as a commercial bank. The performance of financial markets may cause changes in the value of our investment and trading portfolios. The volatility of world equity markets, due to the continued economic uncertainty and sovereign debt tensions, has had a particularly strong impact on the financial sector. Continued volatility may affect the value of our investments in entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment, which would be subject to write-offs against our results. To the extent any of these risks materialise, our net interest income or the market value of our assets and liabilities could be adversely affected.

Market conditions have resulted in, and could continue to result in, material changes to the estimated fair values of our financial assets. Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects

In the past seven years, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposures to securities, loans and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by us on disposal may be lower than the current fair value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition and prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets and in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgements and estimates in order to establish fair value.

This is a challenging task as reliable assumptions are difficult to make and are inherently uncertain. Moreover, valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

Failure to successfully implement and continue to improve our credit risk management systems could materially and adversely affect our business

As a commercial bank, one of the main types of risks inherent in our business is credit risk. For example, an important feature of our credit risk management system is to employ our own credit rating system to assess the particular risk profile of a customer. This system is primarily generated internally but, in the case of counterparties with a global presence, also builds off the credit assessment assigned by other Banco

Risk Factors continued

Santander group members. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgement, our employees may not always be able to assign a correct credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we have refined our credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to detect these risks before they occur, or our employees may not be able to effectively implement our credit policies and guidelines due to limited tools available to us, which may increase our credit risk. Failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for us, which could have a material adverse effect on us.

We are subject to various risks associated with our derivative transactions that could have a material adverse effect on us

We enter into derivative transactions for trading purposes as well as for hedging purposes. We are subject to various risks associated with these transactions, including market risk, operational risk, basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or counterparty risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

Market practices and documentation for derivative transactions in the UK may differ from those in other countries. In addition, the execution and performance of these transactions depends on our ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, our ability to adequately monitor, analyse and report derivative transactions continues to depend, to a great extent, on our information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on us.

Operational risks, including risks relating to data and information collection, processing, storage and security are inherent in our business

Our businesses depend on the ability to process a large number of transactions efficiently and accurately, and on our ability to rely on our people, digital technologies, computer and email services, software and networks, as well as the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. Losses can result from inadequate personnel, human error, inadequate or failed internal control processes and systems or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures prove to be inadequate or are circumvented. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against information security risk, we routinely exchange personal, confidential and proprietary information by electronic means, and we may be the target of attempted hacking. If we cannot maintain an effective data collection, management and processing system, we may be materially and adversely affected.

Infrastructure and technology resilience

We take protective measures and continuously monitor and develop our systems to safeguard our technology infrastructure and data from misappropriation or corruption, but our systems, software and networks nevertheless may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. Furthermore, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures. There can be no assurance that we will not suffer material losses from operational risks in the future, including those relating to any security breaches.

Cyber security

In particular, we have seen in recent years computer systems of companies and organisations being targeted, not only by cyber criminals, but also by activists and rogue states. We continue to face a host of cyber threats and as attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach. If we fail to effectively manage our cyber security risk, e.g. by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects.

Procedure and policy compliance

We also manage and hold confidential personal information of customers in the conduct of our banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorised disclosures could subject us to legal actions and administrative sanctions as well as damages that could materially and adversely affect our operating results, financial condition and prospects.

Further, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter or prevent employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective.

We may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorised access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us

Our businesses and our ability to remain competitive depends to a significant extent upon the functionality of our information technology systems (including Partenon, the global banking information technology platform utilised by Santander UK and Banco Santander, S.A), and on our ability to upgrade and expand the capacity of our information technology on a timely and cost-effective basis. The proper functioning of our financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between the Santander UK branches and main data processing centres, are critical to our businesses and our ability to compete. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. We cannot be certain that in the future we will be able to maintain the level of capital expenditure necessary to support the improvement, expansion or upgrading of our information technology infrastructure as effectively as our competitors; this may result in a loss of the competitive advantages that we believe our information technology systems provide. Any failure to effectively improve, expand or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

We may be exposed to unidentified or unanticipated risks despite our risk management policies, procedures and methods

The management of risk is an integral part of our activities. We seek to monitor and manage our risk exposure through a variety of risk reporting systems. For further description of our risk management policies see the Risk Review on pages 24 to 89. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate.

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behaviour. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modelling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material, unanticipated losses. If existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could have a material adverse effect on our operating results, financial condition and prospects.

Competition with other financial institutions could adversely affect us

Santander UK faces substantial competition in all parts of its business, including in originating loans and in attracting deposits. The competition in originating loans comes principally from other domestic and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other lenders and purchasers of loans. The market for UK financial services is highly competitive and the recent financial crisis continues to reshape the banking landscape in the UK, particularly the financial services and mortgage markets, reinforcing both the importance of a retail deposit funding base and the strong capitalisation of an institution. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers and there is strong competition for these customers. The supply of credit is more limited for those potential customers without a large deposit or good credit history.

We expect competition to intensify in response to consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. In particular, the Independent Commission on Banking (the "ICB"), chaired by Sir John Vickers, recommended that steps be taken to increase competition in the personal and small business banking sector (including, for example, strengthening the objectives of the Financial Conduct Authority (the "FCA") (as successor to the FSA) for the role of conduct supervision, such that it is obliged to regulate in a manner which promotes competition). On 19 December 2011, HM Treasury published its response to the ICB report, agreeing with the majority of the ICB's recommendations. The Financial Services Act 2012 has amended the FSMA with effect from 1 April 2013 to include in the FCA's operational objectives the objective of promoting effective competition in the interests of consumers in the markets for regulated financial services. A strong political and regulatory will to foster consumer choice in retail financial services could lead to even greater competition in the UK personal and small business banking sectors (for further detail, see the section on competition under the Risk Factor entitled "We are subject to substantial regulation and government oversight which could adversely affect our business and operations" on page 179).

Increasing competition could require that Santander UK increases its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on us, including our profitability. It may also negatively affect Santander UK's business results and prospects by, among other things, limiting its ability to increase our customer base and expand our operations and increasing competition for investment opportunities.

In addition, if Santander UK's customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If Santander UK is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on our operating results, financial condition and prospects.

If financial markets remain unstable, financial institution consolidation may continue. Financial institution consolidation could also result from the UK Government disposing of its stake in those financial institutions it currently controls. Such consolidation could adversely affect our operating results, financial condition and prospects. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations. Santander UK also faces competition from non-bank competitors, such as supermarkets, department stores and technology firms, and generally from other loan or credit providers.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our customers and our ability to continue offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services that could have a material adverse effect on us

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our customers. However, we cannot guarantee that our new products and services will be responsive to customer demands or successful once they are offered to our customers, or that they will be successful in the future. In addition, our customers' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive, and we may not be able to develop new products that meet our customers' changing needs. If we cannot respond in a timely fashion to the changing needs of our customers, we may lose customers, which could in turn materially and adversely affect us.

Risk Factors continued

As we expand the range of our products and services, some of which may be at an early stage of development in the UK market, we will be exposed to new and potentially increasingly complex risks, including conduct risk and development expenses. Our employees and risk management systems, as well as our experience and that of our partners, may not be sufficient or adequate to enable us to properly handle or manage such risks. In addition, the cost of developing products that are not launched is likely to affect our operating results.

Further, our customers may raise complaints and seek redress if they consider that they have suffered loss from our products and services; for example, as a result of any alleged misselling or incorrect application of the terms and conditions of a particular product. This could in turn subject us to the risk of potential legal action by our customers and intervention by our regulators. For further detail on our legal and regulatory risk exposures, please see the Risk Factor entitled "We are exposed to risk of loss from legal and regulatory proceedings" on page 181 and the Risk Factor entitled "Potential intervention by the FCA, the PRA or an overseas regulator may occur, particularly in response to customer complaints" on page 182.

Any or all of the above factors, individually or collectively, could have a material adverse effect on us.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on us

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Non-performing or low credit quality loans have in the past, and can continue to, negatively impact our operating results, financial condition and prospects. We cannot be sure that we will be able to effectively control the level of impaired loans in our total loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future, or factors beyond our control, such as adverse changes in the credit quality of our borrowers and counterparties, a general deterioration in the UK or global economic conditions, the impact of political events, events affecting certain industries or events affecting financial markets and global economies.

Our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our loan loss reserves are based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realisable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. As a result, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves will be sufficient to cover actual losses.

If our assessment of and expectations concerning the above mentioned factors differ from actual developments, if the quality of our total loan portfolio deteriorates, for any reason, or if the future actual losses exceed our estimates of incurred losses, we may be required to increase our loan loss reserves, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, this could have a material adverse effect on us

Interest rates payable on a significant portion of Santander UK's outstanding mortgage loan products fluctuate over time due to, among other factors, changes in the Bank of England base rate. As a result borrowers with variable interest rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward. Similarly, borrowers of mortgage loans with fixed or introductory rates adjusting to variable rates after an initial period are exposed to the risk of increased monthly payments at the end of this period. Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers of new loans and those repaying existing variable rate loans regardless of special or introductory rates. Future increases in borrowers' required monthly payments may result in higher delinquency rates and losses in the future. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. These events, alone or in combination, may contribute to higher delinquency rates and losses for us.

Our loan portfolio is subject to risk of prepayment, which could have a material adverse effect on us

Our loan portfolio is subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and could have a material adverse effect on us. We would also be required to amortise net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralised mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in our funding obligations and reinvestment at lower yields. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

The value of the collateral, including real estate, securing Santander UK's loans may not be sufficient, and we may be unable to realise the full value of the collateral securing its loan portfolio

The value of the collateral securing Santander UK's loan portfolio may significantly fluctuate or decline due to factors beyond its control, including macroeconomic factors affecting the UK's economy. Our residential mortgage loan portfolio is one of Santander UK's principal assets, comprising 79 per cent. of its loan portfolio as of 31 December 2014. As a result, it is highly exposed to developments in the residential property market in the UK.

The housing market has performed stronger than anticipated in 2014, with an increase in both house prices and the volume of property transactions. However, these increases have not so far resulted in strong growth in net mortgage lending in the market. Any further increase in house prices may be limited by the high level of prices relative to household earnings given the continued weakness seen in real earnings growth. The depth of the previous house price declines as well as the continuing uncertainty as to the extent and sustainability of the UK economic recovery will mean that losses could be incurred on loans should they go into possession.

The value of the collateral securing Santander UK's loan portfolio may also be adversely affected by force majeure events such as natural disasters like floods or landslides. Any force majeure event may cause widespread damage and could have an adverse impact on the economy of the affected region and may therefore impair the asset quality of Santander UK's loan portfolio in that area.

Santander UK may also not have sufficiently up-to-date information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If any of the above were to occur, Santander UK may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our operating results, financial condition and prospects.

We have a core strategy to develop our operations organically and through acquisitions, but if we are unable to manage such development effectively, this could have an adverse impact on our profitability

We allocate management and planning resources to develop strategic plans for organic development, and to identify possible acquisitions and disposals and areas for restructuring our businesses. We cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic development objectives. Challenges that may result from our strategic development decisions include our ability to:

> manage efficiently our operations and employees of expanding businesses;
> maintain or grow our existing customer base;
> assess the value, strengths and weaknesses of investment or acquisition candidates;
> finance strategic opportunities, investments or acquisitions;
> fully integrate strategic investments, or newly-established entities or acquisitions, in line with our strategy;
> align our current information technology systems adequately with those of an enlarged group;
> apply our risk management policy effectively to an enlarged group; and
> manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage our development effectively, including any or all of the above challenges associated with our development plans, could have a material adverse effect on our operating results, financial condition and prospects.

From time to time, we evaluate acquisition and partnership opportunities that we believe could offer additional value to our shareholders and are consistent with our business strategy. However, we may not be able to identify suitable acquisition or partnership candidates, and we may not be able to acquire promising targets or form partnerships on favourable terms or at all. Furthermore preparations for acquisitions that we do not complete can be disruptive. We base our assessment of potential acquisitions and partnerships on limited and potentially inexact information and on assumptions with respect to value, operations, profitability and other matters that may prove to be incorrect. Our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. Such integration entails significant risks such as challenges in retaining the customers and employees of the acquired businesses, unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies such as legal claims. We can give no assurances that our expectations with regards to integration and synergies will materialise. In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond our control. Any or all of these factors, individually or collectively, could have a material adverse effect on us.

Goodwill impairments may be required in relation to acquired businesses

Santander UK has made business acquisitions in recent years and may make further acquisitions in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written-down if its valuation assumptions are required to be reassessed as a result of any deterioration in their underlying profitability, asset quality and other relevant matters. Impairment testing in respect of goodwill is performed annually, more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. Goodwill impairment does not however affect Santander UK's regulatory capital. Whilst no impairment of goodwill was recognised in 2013 or 2014, there can be no assurances that Santander UK will not have to write down the value attributed to goodwill in the future, which would adversely affect our results and net assets.

We are subject to substantial regulation and governmental oversight which could adversely affect our business and operations

Supervision and new regulation

As a financial institution, we are subject to extensive financial services laws, regulations, administrative actions and policies in the UK, the European Union and each other location in which we operate, including in the United States. As well as being subject to UK regulation, as part of the Banco Santander group, we are also impacted indirectly through regulation by the Banco de España (the Bank of Spain) and, at a corporate level, by the ECB (following the introduction of the Single Supervisory Mechanism in November 2014). The statutes, regulations and policies to which we are subject may be changed at any time. In addition, the interpretation and the application of those laws and regulations by regulators are also subject to change. Extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect our business, including Spain, the United States, the European Union, Latin America and other jurisdictions, and new regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the UK, we may face higher compliance costs. Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue business opportunities in which we might otherwise consider engaging and limit our ability to provide certain products and services. They may also affect the value of assets that we hold, requiring us to increase our prices and therefore reduce demand for our products, impose additional compliance and other costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

During recent periods of market turmoil, there have been unprecedented levels of government and regulatory intervention and scrutiny, and changes to the regulations governing financial institutions and the conduct of business. In addition, in light of the financial crisis, regulatory and governmental authorities are considering, or may consider, further enhanced or new legal or regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. This intensive approach to supervision has been maintained by the PRA and the FCA (as successor regulatory authorities to the FSA).

Recent proposals and measures taken by governmental, tax and regulatory authorities and further future changes in supervision and regulation, in particular in the UK, which are beyond our control, could materially affect our business, the value of assets and operations and result in significant increases in operational costs. Products and services offered by us could also be affected. Changes in UK legislation and regulation to address the stability of the financial sector may also affect the competitive position of Santander UK, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry, for instance in relation to capital requirements, including leverage and TLAC requirements (and the MREL), liquidity risk management and also the UK Government's introduction of the bank levy. Although we work closely with our regulators and continually monitor the situation, future changes in law, regulation, fiscal or other

Risk Factors continued

policies can be unpredictable and are beyond our control. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on our business.

Banking Reform

On 18 December 2013, the Banking Reform Act was enacted. Among other things, the Banking Reform Act either directly, or through amendments to FSMA:

- provides HM Treasury and the PRA powers to implement the ICB recommendations including by introducing requirements for ring-fencing of core retail banking activities pursuant to which UK banks that undertake significant retail deposit taking activities (including us) will be required to place these deposit taking activities into a ring-fenced bank;
- introduces a Senior Managers Regime and Certification Regime, replacing the Approved Persons Regime established under FSMA (as amended by the Financial Services Act 2012);
- introduces a new criminal offence for reckless misconduct in the management of a bank;
- establishes a new Payment Systems Regulator; and
- amends the Banking Act 2009 (the "Banking Act") to include a bail-in stabilisation power forming part of the special resolution regime (see the Risk Factor entitled "Bail-in and write-down powers under the Banking Reform Act and the BRRD" on page 183 and 184 for further detail).

Secondary legislation setting out the scope of the ring fence required by the Banking Reform Act was adopted in 2014, and the PRA and the FCA are currently developing their rules in relation to the ring-fencing requirements. In January 2015, affected banks submitted preliminary plans for ring-fencing to the PRA and the FCA in response to their consultation paper on legal structure, governance and the continuity of services and facilities. Further consultations containing key details of the regime are expected in late 2015, with final rules anticipated in 2016. As the regulatory framework is still being developed, there remain key uncertainties around the final scope and effect of the requirements and, consequently, as to the specific effect on us, including in relation to the scope of permissible intragroup exposures. Consequently, it is too early to assess the full impact of the Banking Reform Act and any ancillary secondary legislation. However, it is expected that changes to our structure and business, for example, will be necessary for us to comply with the Banking Reform Act, and such changes could have an adverse effect on our operating results, financial condition and prospects.

Further detail on the potential risks posed by the Banking Reform Act can be found in the Risk Factors entitled "The Banking Act may adversely affect our business" and "Bail-in and write-down powers under the Banking Act and the BRRD".

European Structural Reform

On 29 January 2014, the European Commission (the "Commission") published proposals on structural measures to improve the resilience of EU credit institutions which included potential separation of certain trading activities from retail banking activities and a ban on proprietary trading. The proposal currently contemplates that Member States that have already implemented ring-fencing legislation, such as the UK, may apply for a derogation from the separation of trading activities provisions included in the proposals if they can satisfy the Commission that such local legislation meets the objectives and requirements set out in the EU proposal. On 7 January 2015, the European Parliament's Committee on Economic and Monetary Affairs published a draft report proposing amendments to the Commission's proposal, including a proposed removal of the derogation. The Commission proposal envisages that the draft Regulation will be adopted by June 2015 and that the separation requirements will become effective on 1 July 2018. The adoption of this proposal in its current, or in an amended, form may require further changes to our structure and business and could require us to modify our plans in connection with compliance with the Banking Reform Act.

US Regulation

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enacted in 2010, has been implemented in part and continues to be implemented by various US federal regulatory agencies. The Dodd-Frank Act, among other things, imposes a new regulatory framework on swap transactions, including swaps of the sort that we enter into, requires regulators to adopt new rules governing the retention of credit risk by securitisers or originators of securitisations and significantly expands the coverage and scope of regulations that limit affiliate transactions within a banking organisation. Abbey National Treasury Services plc became provisionally registered as a swap dealer with the CFTC on 4 November 2013. Although many significant regulations applicable to swap dealers are already in effect, some of the most important rules, such as margin requirements for uncleared swaps, have not yet been implemented and we continue to assess how compliance with these new rules will affect our business.

In October 2014, US regulators adopted a joint final rule requiring sponsors of asset-backed securitisation transactions, which would include Santander UK in relation to its residential mortgage-backed securities programmes, to retain 5 per cent. of the credit risk of the assets subject to the securitisation. At a general level, the rule permits sponsors to satisfy the risk retention requirement through the acquisition and retention of either 5 per cent. (measured by fair value) of the most subordinated interest in the securitisation, or 5 per cent. (measured by nominal value) of each tranche of interests issued by the securitisation, or some combination of the two. The rule also permits certain exceptions and methods of compliance in respect of specific types of asset-backed securities transactions. The final rule will take effect for residential mortgage-backed securities transactions on 24 December 2015, and on 24 December 2016 for other securitisation transactions.

Within the Dodd-Frank Act, the so-called Volcker Rule prohibits 'banking entities', including Santander UK, from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain exemptions, including exemptions permitting foreign banking entities to engage in trading and fund activities that take place solely outside of the United States. The final rules contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in US government and agency obligations as well as certain foreign government obligations, trading solely outside the US, and also permit ownership interests in certain types of funds to be retained. On 10 December 2013, the US bank regulators issued final regulations implementing the Volcker Rule, and the Federal Reserve also issued an order extending the conformance period for all banking entities until 21 July 2015. On 18 December 2014 the US Federal Reserve announced an additional extension of the conformance period that would give banking entities until 21 July 2016 to conform investments in and relationships with covered funds and foreign funds that may be subject to the Volcker Rule and that were in place prior to 31 December 2013,and additional extensions are possible. Banking entities must bring their activities and investments into compliance with the requirements of the Volcker Rule by the end of the applicable conformance period. We are assessing how the final implementing regulations for the Volcker Rule will affect our businesses and have been developing and implementing plans to bring affected businesses into compliance.

Each of these aspects of the Dodd-Frank Act, as well as the changes in the US banking regulations, may directly and indirectly impact various aspects of our business. The full spectrum of risks that the Dodd-Frank Act, including the Volcker Rule, pose to us is not yet known, however, such risks could be material and we could be materially and adversely affected by them.

Competition

In the UK and elsewhere, there is continuing political, competitive and regulatory scrutiny of the banking industry and, in particular, retail banking. Political involvement in the regulatory process, in the behaviour and governance of the UK banking sector and in the major financial institutions in which the UK Government has a direct financial interest is likely to continue. Under the Enterprise Regulatory Reform Act 2013 the Office of Fair Trading ("OFT") and the Competition Commission were replaced by the Competition and Markets Authority ("CMA") on 1 April 2014. The CMA is now the UK's main competition authority responsible for ensuring that competition and markets work well for consumers. In addition, under the Banking Reform Act, the FCA will have new powers from 1 April 2015 to enforce against breaches of the Competition Act 1998 and to refer markets to the CMA for in-depth investigation in the areas of financial services in the UK.

Following a market study and review, the CMA is currently undertaking a Market Investigation into competition in the personal current account and SME retail banking markets that has a statutory deadline of May 2016. Given the wide ranging powers available to the CMA, this investigation may result in significant industry-wide remedies. In addition, the FCA has recently undertaken, and is undertaking, a number of competition related studies and reviews. When it becomes operational on 1 April 2015 the Payments Systems Regulator will also have an objective and powers equivalent to those of the FCA to promote competition in the payments industry. The resolution of a number of issues, including regulatory reforms, investigations and reviews and court cases, affecting the UK financial services industry, could have an adverse effect on our operating results, financial condition and prospects, or our relations with our customers and potential customers.

The structure of the financial regulatory authorities in the UK and the UK regulatory framework that applies to us has been reformed and reorganised and we are subject to any potential resulting uncertainty and changes to the UK regulatory regime in general

Under the Financial Services Act 2012, the UK Government introduced a range of structural reforms to UK financial regulatory bodies. As a result of those reforms, as of 1 April 2013, Santander UK's primary micro-prudential supervisor is the PRA, while its conduct supervisor is the FCA. Key changes which took effect in 2014 included the transfer of consumer credit regulation to the FCA from the OFT on 1 April 2014, and the creation of the Payment Systems Regulator as an autonomous subsidiary of the FCA on 1 April 2014, which will take effect as an economic regulator from 1 April 2015.

Within the current regulatory framework Santander UK is subject to each regulator's respective supervisory regimes and approaches, and any policy development, change or new regulation which may be brought in. In turn the UK regulatory framework is subject to amendment or change by the UK Government (as occurred following the 2010 General Election, when the FSA was abolished and replaced by the current PRA/FCA structure).

The Financial Services Act 2012 also established the FPC within the Bank of England responsible for macro-prudential regulation and with a statutory objective to contribute to the achievement by the Bank of England of its financial stability objective and otherwise supporting the UK Government's economic policy. In addition to monitoring the stability of the UK financial system, the FPC may exercise its statutory powers to give directions or make recommendations to the PRA and/or FCA. While the FPC is not permitted to give directions or make recommendations in relation to a specific regulated institution, any such directions and/or recommendations could impact on the UK banking sector, which includes Santander UK.

Various reforms to the mortgage lending and personal loans market have been proposed which could require significant implementation costs or changes to our business strategy

Mortgage Lending

In December 2011, the FSA published a consultation paper that consolidated proposals arising out of its wide-ranging "mortgage market review", which was launched in October 2009 to consider strengthening rules and guidance on, among other things, affordability assessments, product regulation, arrears charges and responsible lending.

The final rules in relation to the FCA Mortgage Market Review ("MMR") came into force on 26 April 2014. These rules require a number of material changes to the mortgages sales process both in terms of advice provision in nearly all scenarios and significantly enhanced affordability assessment and evidencing. The new rules permit interest-only loans. However, there is a clear requirement for a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan).

The impact of the changes is now largely clear and in line with other lenders, the reforms presaged a period of significant change for the mortgage lending business requiring changes to mortgage sales delivery systems, associated documentation and the risk assessment of prospective mortgage customers. Santander UK plc has implemented certain changes to implement the MMR requirements. However, there can be no assurance that it will not make any future changes to its mortgage lending business, whether as a result of the MMR or other mortgage lending reforms, and that such changes would not adversely affect it.

In March 2011, the Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers (the "Mortgage Credit Directive"). The Mortgage Credit Directive was published in the Official Journal on 28 February 2014 and must be implemented by Member States by 21 March 2016. The Mortgage Credit Directive requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. HM Treasury and the FCA each published consultations in September 2014 on the necessary legislation and rules required to implement the Mortgage Credit Directive in the UK. They have indicated that they intend to adopt final versions of the necessary legislation and rules by the end of March 2015, and HM Treasury published a consultation response and final draft legislation in January 2015. Until the UK implementing legislation is adopted and the FCA rules are finalised, it is not certain what effect the adoption and implementation of the Mortgage Credit Directive will have on Santander UK's mortgage business. As a result, Santander UK may be required to make further changes to its mortgage lending business to comply with the reforms and such reforms could therefore have an adverse effect on Santander UK's operating results, financial condition and prospects.

Risk Factors continued

Consumer Credit

On 1 April 2014, consumer credit regulation (which includes regulation of new and existing second charge mortgages), was transferred from the OFT to the FCA in accordance with the provisions under the Financial Services Act 2012. Firms that held an OFT licence and had registered with the FCA by 31 March 2014, including Santander UK plc, have been granted an interim permission under the new regime and must apply to the FCA for full authorisation during an application period notified by the FCA. Under the new regime: (i) carrying on certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (ii) the FCA has the power to make rules providing that contracts made in contravention of its rules on cost and duration of credit agreements, or in contravention of its product intervention rules, are unenforceable. If Santander UK plc is not granted full authorisation by the FCA, or if the FCA were to impose certain conditions attached to such authorisation, this could have an adverse effect on our operating results, financial condition and prospects.

We are exposed to risk of loss from legal and regulatory proceedings

We face various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues, including inappropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could result in claims against us or subject us to regulatory enforcement actions, fines and/or penalties. The current regulatory environment, with its increased supervisory focus and associated enforcement activity, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs. These include the risk that:

- the Bank of England, the PRA and the FCA, HM Treasury, HM Revenue & Customs ("HMRC"), the CMA, the Information Commissioner's Office, the Financial Ombudsman Service ("FOS") or the courts, may determine that certain aspects of our business have not been or are not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion;
- the alleged misselling of financial products, such as Payment Protection Insurance ("PPI"), including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, results in Enforcement action (including fines) or requires us to amend sales processes, withdraw products or provide restitution to affected customers, all of which may require additional provisions to be recorded in our financial statements and could adversely impact future revenues from affected products;
- we hold accounts for entities that might be or are subject to interest from various regulators, including the UK's Serious Fraud Office, regulators in the US and elsewhere. We are not currently subject to any investigation into us as a result of any such enquiries, but cannot exclude the possibility of our conduct being reviewed as part of any such investigation; and
- we may be liable for damages to third parties harmed by the conduct of our business.

We are from time to time subject to certain claims and party to certain legal proceedings in the normal course of our business, including in connection with our lending activities, relationships with our employees and other commercial or tax matters. These can be brought against us under UK regulatory processes or in the UK courts, or under regulatory processes in other jurisdictions, such as the European Union and the United States, where some Santander UK group entities operate. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines and/or penalties related to each pending matter may be and these pending matters are not disclosed by name because they are under assessment. We believe that we have made adequate provisions related to these various claims and legal proceedings. These provisions are reviewed periodically. However, in light of the uncertainties involved in such claims and proceedings, there can be no assurance that the ultimate resolution of these matters will not exceed the provisions currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period.

The FCA carries out regular and frequent reviews of the conduct of business by financial institutions including banks. An adverse finding by a regulator could result in the need for extensive changes in systems and controls, business policies, and practices coupled with suspension of sales, withdrawal of services, customer redress, fines and reputational damage.

Failure to manage these risks adequately could have a material adverse effect on our reputation, operating results, financial condition and prospects.

Potential intervention by the FCA, the PRA or an overseas regulator may occur, particularly in response to customer complaints

The PRA and the FCA now have a more outcome-focused regulatory approach than their predecessor the FSA. This involves more proactive enforcement and more punitive penalties for infringement. As a result, we and other PRA and/or FCA-authorised firms face increased supervisory intrusion and scrutiny (resulting in increasing internal compliance costs and supervision fees), and in the event of a breach of their regulatory obligations are likely to face more stringent penalties.

In particular, the FCA has a strong focus on consumer protection, and it is taking a more interventionist approach in its increasing scrutiny of product terms and conditions. FSMA (as amended by the Financial Services Act 2012) gives the FCA the power to make temporary product intervention rules either to improve a firm's systems and controls in relation to product design, product management and implementation, or to address problems identified with products which may potentially cause significant detriment to consumers because of certain product features or firms' flawed governance and distribution strategies. Such rules may prevent firms from entering into product agreements with consumers until such problems have been rectified.

The regulatory regime requires us to be in compliance across all aspects of our business, including the training, authorisation and supervision of personnel, systems, processes and documentation. If we fail to be compliant with relevant regulations, there is a risk of an adverse impact on our business from sanctions, fines or other action imposed by the regulatory authorities. Customers of financial services institutions, including our customers, may seek redress if they consider that they have suffered loss as a result of the misselling of a particular product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and the evolution of judgements by the FOS, it is possible that an adverse outcome in some matters could have a material adverse effect on our operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action.

Under the Financial Services Act 2010, the FCA has the power to require authorised firms, including us, to establish a customer redress scheme if it considers that consumers have suffered loss or damage as a consequence of a regulatory failing, including misselling.

In recent years there have been several industry-wide issues in which the FSA (now the FCA) has intervened directly. One such issue is the misselling of PPI. In August 2010, the FSA published a policy statement entitled "The assessment and redress of Payment Protection

Insurance complaints" (the "Policy Statement"). The Policy Statement contained rules which altered the basis on which regulated firms (including Santander UK plc and certain members of our group) must consider and deal with complaints in relation to the sale of PPI and potentially increased the amount of compensation payable to customers whose complaints are upheld. A legal challenge of these rules by the British Bankers' Association was unsuccessful. In light of this and the consequential increase in claims levels Santander UK performed a detailed review of our provision requirements in the first half of 2011 and, as a result, revised its provision for PPI complaint liabilities to reflect the new information. The overall effect of the above was a substantial increase in the provision requirement for 2011. No additional provisions were made for PPI in 2012 or in 2013. In 2014, a total charge of £140m, including related costs, was made for further conduct remediation. Of this, £95m related to PPI, following a review of recent claims activity, which indicated that claims are now expected to continue for longer than originally anticipated. The FCA has announced that it will gather evidence on current trends in PPI to assess the current process for PPI complaints. It will consider whether any new intervention is necessary and report on the matter in the summer of 2015.

Given the above, the ultimate financial impact on Santander UK of the claims arising from PPI complaints is still uncertain and will depend on a number of factors, including the implementation of the Policy Statement, the rate at which new complaints arise, the length of any complaints, the content and quality of the complaints (including the availability of supporting evidence) and the average uphold rates and redress costs. Santander UK can make no assurance that expenses associated with PPI complaints will not exceed the provision it has made relating to these claims. More generally, Santander UK can make no assurance that our estimates for potential liabilities, based on the key assumptions it used, are correct, and the reserves taken as a result may prove inadequate. If Santander UK were to incur additional expenses that exceed provisions for PPI liabilities or other provisions, these expenses could have a material adverse effect on our operating results, financial condition and prospects.

All the above is similarly relevant to any future industry-wide misselling or other issues that could affect Santander UK, such as the sale of other retail financial products and interest-rate derivative products sold to SMEs. This may lead from time to time to: (i) significant direct costs or liabilities (including in relation to misselling); and (ii) changes in the practices of such businesses which benefit customers at a cost to shareholders.

Decisions taken by the FOS (or any overseas equivalent that has jurisdiction) could, if applied to a wider class or grouping of customers, have a material adverse effect on our operating results, financial condition and prospects.

The Financial Services and Markets Act 2000 (Designated Consumer Bodies) Order 2013 (the "Order") was made on 16 December 2013 and came into force on 1 January 2014. The Order designates the National Association of Citizens Advice Bureaux, the Consumers' Association, the General Consumer Council for Northern Ireland and the National Federation of Self Employed and Small Businesses as consumer bodies that may submit a super-complaint to the FCA on behalf of consumers of financial services where it considers that a feature, or a combination of features, of the market for financial services in the UK is seriously damaging the interests of these customers. Complaints about damage to the interests of individual consumers will continue to be dealt with by the FOS. If a "super-complaint" were made against Santander UK by a designated consumer body under this Order, any response published or action taken by the FCA could have a material adverse effect on its operating results, financial condition and prospects.

The Banking Act may adversely affect our business

The Banking Act came into force on 21 February 2009. The special resolution regime set out in the Banking Act provides HM Treasury, the Bank of England, the PRA and the FCA (and their successor bodies) with a variety of powers for dealing with UK deposit taking institutions (and, in certain circumstances, their holding companies) that are failing or likely to fail, including: (i) to take a bank or bank holding company into temporary public ownership; (ii) to transfer all or part of the business of a bank to a private sector purchaser; or (iii) to transfer all or part of the business of a bank to a "bridge bank". The special resolution regime also comprises a separate insolvency procedure and administration procedure each of which is of specific application to banks. These insolvency and administration measures may be invoked prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

In addition, pursuant to recent amendments made to the Banking Act, which came into force on 1 August 2014, provision has been made for, various tools to be used in respect of a wider range of UK entities, including investment firms and certain banking group companies, provided that certain conditions are met. Secondary legislation specifies that the Banking Act powers can be applied to investment firms that are required to hold initial capital of €730,000 and to certain UK incorporated non-bank companies in our group.

If an instrument or order were made under the Banking Act in respect of the Company, such instrument or order (as the case may be) may (among other things): (i) result in a compulsory transfer of shares or other securities or property of the Company; (ii) impact on the rights of the holders of shares or other securities in the Company or result in the nullification or modification of the terms and conditions of such shares or securities; or (iii) result in the de-listing of the Company's shares and/or other securities. In addition, such an order may affect matters in respect of the Company and/or other aspects of the Company's shares or other securities, which may negatively affect the ability of the Company to meet its obligations in respect of such shares or securities.

Further, amendments to the Insolvency Act 1986 and secondary legislation have introduced changes to the treatment and ranking of certain debts with the result that certain eligible deposits will rank in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency. This may negatively affect the ability of the Company to meet its obligations in respect of its unsecured creditors in an insolvency scenario.

Bail-in and write down powers under the Banking Act and the BRRD

The Banking Reform Act as of 31 December 2014 amended the Banking Act to introduce a UK 'bail-in power'. On 6 May 2014, the EU Council of the European Union adopted the BRRD, which contains a similar bail-in power and requires Member States to provide resolution authorities with the power to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity (subject to certain parameters). The BRRD provides that resolution authorities shall not exercise these write down or conversion powers in relation to secured liabilities. The UK Government decided to implement the BRRD bail-in power from 1 January 2015 (with the exception of provisions requiring contractual recognition of UK bail-in powers in foreign law governed liabilities which will be implemented through FCA and PRA rules between February 2015 and 1 January 2016) and has introduced secondary legislation which came into force on 1 January 2015 to amend the UK bail-in power to implement the BRRD.

The UK bail-in power is an additional power available to the UK resolution authorities under the special resolution regime provided for in the Banking Act to enable them to recapitalise a failed institution by allocating losses to such institution's shareholders and unsecured creditors subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favourable treatment than they would have received, had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write down (in whole or in part) certain liabilities or modify the terms of certain contracts for the purposes of reducing or deferring the liabilities of a UK bank under resolution and the power to convert certain liabilities from one form to another. The conditions for use of the UK bail-in power are generally that

Risk Factors continued

(i) the regulator determines the relevant UK bank is failing or likely to fail; (ii) it is not reasonably likely that any other action can be taken to avoid such a UK bank's failure; and (iii) the relevant UK resolution authority determines that it is in the public interest to exercise the bail-in power. Certain liabilities are excluded from the scope of the bail-in powers, including liabilities to the extent that they are secured.

According to the Banking Act, as well as similar principles in the BRRD, the relevant UK resolution authority should have regard to the insolvency treatment principles when exercising the UK bail-in power. The insolvency treatment principles are that (i) the exercise of the UK bail-in power should be consistent with treating all liabilities of the bank in accordance with the priority that they would enjoy on a liquidation and (ii) any creditors who would have equal priority on a liquidation should bear losses on an equal footing with each other. HM Treasury may, by order, specify further matters or principles to which the relevant UK resolution authority must have regard when exercising the UK bail-in power. These principles may be specified in addition to, or instead of the insolvency treatment principles. If the relevant UK resolution authority departs from the insolvency treatment principles when exercising the UK bail-in power, it must report to the Chancellor of the Exchequer stating the reasons for its departure.

The bail-in power under the Banking Act and the BRRD may potentially be exercised in respect of any unsecured debt securities issued by a financial institution under resolution or by a relevant member of our group, regardless of when they were issued. Accordingly, the bail-in power under the Banking Act and the BRRD could be exercised in respect of our debt securities. The occurrence of circumstances in which bail-in powers would need to be exercised in respect of us would likely have a negative impact on our business.

The BRRD also contains a mandatory write down power which requires Member States to grant powers to resolution authorities to recapitalise institutions and/or their EEA parent holding companies that are in severe financial difficulty or at the point of non-viability by permanently writing down Tier 1 or Tier 2 capital instruments issued by such institutions and/or their EEA parent holding companies, or converting those capital instruments into shares. The mandatory write down provision has been implemented in the UK through the Banking Act. Before determining that any institution has reached a point of non-viability (and accordingly, before taking any form of resolution action or applying any resolution power set out in the BRRD), the UK resolution authorities have the power (and are obliged when specified conditions are determined to have been met) to write down, or convert Tier 1 and Tier 2 capital instruments issued by that institution into CET1 capital instruments. These measures could be applied to certain of our debt securities; the occurrence of circumstances in which write down powers would need to be exercised in respect of us would be likely to have a negative impact on our business.

In addition, the BRRD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. If used in respect of the Company, Santander UK or its holding company, these ex ante powers could have a negative impact on our business.

Santander UK is responsible for contributing to compensation schemes in the UK in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers

In the UK, the Financial Services Compensation Scheme ("FSCS") was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a PRA or FCA-authorised firm is unable, or likely to be unable, to pay claims against it (for instance, an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the PRA or the FCA, including members of our group.

Following the default of a number of authorised financial services firms since 2008, the FSCS borrowed funds totalling approximately £18bn from HM Treasury to meet the compensation costs for customers of those firms. It is expected that the substantial majority of the principal will be repaid from funds the FSCS levies from asset sales, surplus cash flow or other recoveries in relation to assets of the firms that defaulted. However, the FSCS estimates that the assets of these failed institutions are insufficient, and, to the extent that there remains a shortfall, is recovering this shortfall by levying firms authorised by the PRA or the FCA in instalments. The first instalment was in scheme year 2013/14, and Santander UK made a first capital contribution in August 2013. The second instalment was in scheme year 2014/15, and Santander UK made a second capital contribution in August 2014. For the year ended 31 December 2014, Santander UK charged £91m to the income statement in respect of the costs of the FSCS.

In the event that the FSCS raises further funds from authorised firms or increases the levies to be paid by such firms or the frequency at which the levies are to be paid, the associated cost to Santander UK may have a material adverse effect on our operating results, financial condition and prospects. The recent measures taken to protect the depositors of deposit-taking institutions involving the FSCS, such as the borrowing from HM Treasury mentioned above, have resulted in a significant increase in the levies made by the FSCS on the industry and such levies may continue to go up if similar measures are required to protect depositors of other institutions. In addition, following amendments to the preferred credit status of depositors that came into force on 31 December 2014, the FSCS stands in the place of depositors of a failing institution and has preferred status over an institution's other creditors.

In addition, regulatory reform initiatives in the UK and internationally may result in further changes to the FSCS, which could result in additional costs and risks for us. For instance, in July 2013, the Council of the European Union announced its intention that revisions to the EU Deposit Guarantee Scheme Directive should be adopted by the end of 2013. The recast EU Deposit Guarantee Scheme Directive (the "DGSD"), which was published in the Official Journal on 12 June 2014 and entered into force on 2 July 2014, introduced a tighter definition of deposits and includes a requirement that the Deposit Guarantee Scheme pay customers within a week and a requirement that banks must be able to provide information on the aggregated deposits of a depositor. These revisions are likely to affect the methodology employed by the FSCS for determining levies on institutions. In addition, the DGSD also requires Member States to ensure that by 3 July 2014 the available financial means of deposit guarantee schemes reach a minimum target level of 0.8 per cent. of the covered deposits of their members and requires deposit guarantee schemes to be ex-ante funded. In October 2014, the PRA published a consultation paper on the implementation of the DGSD. In its consultation paper, the PRA confirmed the UK Government's announced intention to use the existing bank levy to meet the ex-ante funding requirements in the DGSD. Changes as a result of this may affect the profitability of members of our group required to contribute to the FSCS).

FSCS levies are collected by the FCA as part of a single payment by firms covering the FCA, the PRA, the FOS and the FSCS fees. It is possible that future policy of the FSCS and future levies on the firms authorised by the FCA or PRA may differ from those at present and that this could lead to a period of some uncertainty for members of our group. In addition, it is possible that other jurisdictions where we operate could introduce or amend their similar compensation, contributory or reimbursement schemes. As a result of any such developments, Santander UK may incur additional costs and liabilities which may adversely affect our operating results, financial condition and prospects.

Risk Factors continued

We may fail to detect or prevent money laundering and other financial crime activities due to not correctly identifying our financial crime risks and failing to implement effective controls to mitigate those risks. This could expose us to heavy fines, additional regulatory scrutiny, increased liability and reputational risk.

We are obligated to comply with applicable anti-money laundering ("AML"), anti-terrorism, sanctions and other laws and regulations in the jurisdictions in which we operate. These laws and regulations require us, among other things, to conduct full customer due diligence regarding sanctions and politically-exposed person screening, keep our customer, account and transaction information up to date and have implemented effective financial crime policies and procedures detailing what is required from those responsible. Our requirements also include AML training for our staff, reporting suspicious transactions and activity to appropriate law enforcement following full investigation by the Suspicious Activity Reporting Unit.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML sanctions, laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

We have developed policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and financial crime related activities. These require implementation and embedding within the business effective controls and monitoring which require on-going changes to systems and operational activities. Financial crime is continually evolving, and the expectation of regulators is increasing. This requires similarly proactive and adaptable responses from us so that we are able to effectively deter threats and criminality. Even known threats can never be fully eliminated, and there will be instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, we rely heavily on our staff to assist us by spotting such activities and reporting them, and our staff have varying degrees of experience in recognising criminal tactics and understanding the level of sophistication of criminal organisations. Where we outsource any of our customer due diligence, customer screening or anti financial crime operations, we remain responsible and accountable for full compliance and any breaches. Where we are unable to apply the necessary scrutiny and oversight there remains a risk of regulatory breach.

Where we are unable to fully comply with applicable laws, regulations and expectations our regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on us, including requiring a complete review of our business systems, day to day supervision by external consultants and ultimately the revocation of our banking licence.

The reputational damage to our business and global brand would be severe if we were found to have breached AML or sanctions requirements. Our reputation could also suffer if we are unable to protect our customers or our business from being used by criminals for illegal or improper purposes.

Changes in taxes and other assessments may adversely affect us

The tax and other assessment regimes to which our customers and we are subject are regularly reformed, or subject to proposed reforms. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which may be earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon our business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing credit portfolio.

The following paragraphs discuss three major reforms (the Bank Levy, FATCA and possible future changes in the taxation of banking groups in the European Union) which could have a material adverse effect on our operating results, financial condition and prospects, and the competitive position of UK banks, including Santander UK.

Bank Levy

HM Treasury introduced an annual UK bank levy (the "Bank Levy") via legislation in the Finance Act 2011. The Bank Levy is imposed on (amongst other entities) UK banking groups and subsidiaries, and therefore applies to Santander UK. The amount of the Bank Levy is based on a bank's total liabilities, excluding (amongst other things) Tier 1 capital, insured retail deposits and repos secured on sovereign debt. A reduced rate is applied to longer-term liabilities. The UK Government intends that the Bank Levy should raise at least £2.5bn each year. To offset the shortfall in Bank Levy receipts, and also to take account of the benefit to the banking sector of reductions in the rate of corporation tax, the rate of the Bank Levy was increased on 1 January 2012 and again on 1 January 2013. In December 2013, it was further announced that on 1 January 2014, the rate of the Bank Levy would rise to 0.156 per cent. in order to raise an estimated £2.7bn between 2014 and 2015 and an estimated £2.9bn each year between 2015 to 2016.

FATCA

Sections 1471 through 1474 of the US Internal Revenue Code of 1986 ("FATCA") impose a reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to any non-US financial institution (a "foreign financial institution" or "FFI" (as defined by FATCA)) that (i) does not become a "Participating FFI" by entering into an agreement with the US Internal Revenue Service (the "IRS") to provide the IRS with certain information in respect of its account holders and investors; or (ii) is not otherwise exempt from or in deemed compliance with FATCA. Santander UK plc and Abbey National Treasury Services plc are classified as FFI's.

Final regulations implementing FATCA were enacted in 2013. The new reporting and withholding regime will be phased in over time. Withholding began on 1 July 2014 for certain payments from sources within the United States and it will begin on 1 January 2017 for payments of gross proceeds on assets that could generate US source dividend or interest and as early as 1 January 2017 for "foreign passthru payments" (a term not yet defined).

The United States and the UK have entered into an agreement for the implementation of FATCA (the "US-UK IGA") under which Santander UK plc and Abbey National Treasury Services plc will be treated as Reporting Financial Institutions (as defined therein). We do not anticipate that these entities will be required to deduct any tax under FATCA from payments on the securities that we issue. Each relevant member of the our group subject to the US-UK IGA will, however, need to comply with certain due diligence and reporting requirements to HMRC. There can be no assurance that any such member of our group will be treated as a Reporting Financial Institution or that in the future we would not be required to deduct tax under FATCA from payments we make on certain financial products.

Further, additional rules similar to FATCA have been implemented in other jurisdictions and the UK has entered into information sharing agreements based on FATCA with its Crown Dependencies and Overseas Territories. The Crown Dependency and Gibraltar agreements

Risk Factors continued

are reciprocal and will require UK Financial Institutions to identify customers who are tax residents of the Crown Dependencies and Gibraltar (and vice versa). The commencement date for these agreements was the same as for FATCA i.e., 1 July 2014.

Similarly, the Organisation for Economic Co-operation and Development ("OECD") has developed a draft common reporting standard and model competent authority agreement to enable the multilateral, automatic exchange of financial account information. Under the OECD Common Reporting Standard ("CRS") Financial Institutions will be required to identify and report the tax residence status of customers in the 90 plus countries that have endorsed the plans. 58 countries have committed to be early adopters going live in 2016. The required systemic solutions to meet this multilateral context require significant lead times to build and implement.

Unlike FATCA, CRS does not include a potential withholding element. Therefore our main risks are reputational and commercial.

European Taxation

As of 1 August 2012, pursuant to the French amending finance law for 2012, a financial transaction tax in France was introduced (the "French Financial Transaction Tax"). The French Financial Transaction Tax is set to be imposed on certain transactions, referenced to, or in relation with, French listed shares where the relevant issuer's stock market capitalisation exceeds one billion euro. The French Financial Transaction Tax rate is 0.2 per cent. of the sale price of the transaction.

Similarly, on 24 December 2012, pursuant to paragraphs 491 to 500 of Article 1 of the Italian Law 288, a financial transaction tax in Italy was introduced (the "Italian Financial Transaction Tax"). The Italian Financial Transaction Tax commenced on 1 March 2013 for transactions in Italian equity instruments from 1 July 2013 for Italian equity derivatives. The Italian Financial Transaction Tax rate is between 0.12 per cent. and 0.22 per cent. of the sale price of the transaction reducing to between 0.2 per cent. and 0.1 per cent., respectively, from 1 January 2014.

On 14 February 2013, the Commission published a proposal (the "Commission Proposal") for a Directive for a common system of financial transactions taxes ("EU Financial Transaction Tax" or "FTT") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "Participating Member States"). Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally it would apply to certain dealings in securities where at least one party to the transaction is a financial institution established in a Participating Member State. A financial institution may be, or may be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a Participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a Participating Member State. Whilst the UK is not a Participating Member State, the directive proposals are broad and as such may impact transactions completed by financial institutions operating in non-Participating Member States. We are still assessing the proposals to determine the likely impact on us.

A joint statement issued in May 2014 by ten of the eleven Participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. Such an FTT initial implementation may not apply to dealings in shares. The FTT proposal remains subject to negotiation between the Participating Member States. It may therefore be altered prior to any implementation. Additional Member States may decide to participate. Banco Santander, S.A. is still assessing the proposal and the likely impact on us.

Changes in Santander UK's pension liabilities and obligations could have a materially adverse effect on us

We provide retirement benefits for many of our former and current employees in the UK through a number of defined benefit pension schemes established under trust. Santander UK plc is the principal employer under these schemes, but it has only limited control over the rate at which it pays into such schemes. Under the UK statutory funding requirements employers are usually required to contribute to the schemes at the rate they agree with the scheme trustees, although if they cannot agree, such rate can be set by the Pensions Regulator. The scheme trustees may, in the course of discussions about future valuations, seek higher employer contributions. The scheme trustees' power in relation to the payment of pension contributions depends on the terms of the trust deed and rules governing the pension schemes.

The Pensions Regulator has the power to issue a financial support direction to companies within a group in respect of the liability of employers participating in the UK defined benefit pension plans where that employer is a service company, or is otherwise "insufficiently resourced" (as defined for the purposes of the relevant legislation). As some of the employers within our group are service companies, if they become insufficiently resourced, other companies within our group which are connected with or an associate of those employers are at risk of a financial support direction in respect of those employers' liabilities to the defined benefit pension schemes in circumstances where the Pensions Regulator properly considers it reasonable to issue one. Such a financial support direction could require the companies to guarantee or provide security for the pension liabilities of those employers, or could require additional amounts to be paid into the relevant pension schemes in respect of them.

The Pensions Regulator can also issue contribution notices if it is of the opinion that an employer has taken actions, or failed to take actions, deliberately designed to avoid meeting its pension promises or which are materially detrimental to the scheme's ability to meet its pension promises. A contribution notice can be moved to any company that is connected with or an associate of such employer in circumstances where the Regulator considers it reasonable to issue. The risk of a contribution notice being imposed may inhibit our freedom to restructure or to undertake certain corporate activities.

In a judgment handed down on 18 December 2013, the UK High Court has held that, where multiple group companies are potential targets for the Pensions Regulator's power to issue contribution notices, the aggregate total of the contributions required by those notices was not limited to the amount required to fully fund the deficit in the relevant pension scheme under section 75 of the Pensions Act 1995 ("Section 75"). Although such a limit still applies in relation to a single contribution notice, this judgment means that, where there is more than one target for the Pensions Regulator's powers, each of the contribution notices it could issue to those targets can be for the full amount of the Section 75 funding deficit and, further, the scheme may, under such multiple contribution notices, recover more than the actual or notional employer debt, potentially creating a surplus for the scheme. The UK High Court's decision reopens the issue of schemes having a superior priority position over other creditors and further legal developments are expected as a result of the December 2013 judgement.

Should the value of assets to liabilities in respect of the defined benefit schemes operated by Santander UK record a deficit, due to a reduction in the value of the pension fund assets (depending on the performance of financial markets) or an increase in the pension fund liabilities due to changes in mortality assumptions, the rate of increase of salaries, discount rate assumptions, inflation, the expected rate of return on plan assets, or other factors, could result in Santander UK having to make increased contributions to reduce or satisfy the deficits which would divert resources from use in other areas of its business and reduce its capital resources. While Santander UK can control a number of the above factors, there are some over which it has no or limited control. Although the trustees of the defined benefit pension schemes are obliged to consult with Santander UK before changing the pension schemes' investment strategy, the trustees have the final say and ultimate responsibility for investment strategy rests with them. Santander UK's principal defined pension scheme is the Santander (UK) Group Pension Scheme and its corporate trustee is Santander (UK) Group Pension Scheme Trustee Limited (the "Pension Scheme Trustee"), a wholly-owned

subsidiary of Santander UK. As at 31 December 2014, the Pension Scheme Trustee had 14 directors, comprising seven Santander-UK appointed directors and seven member-elected directors. Investment decisions are delegated by the Pension Scheme Trustee to a common investment fund, managed by Santander (CF) Trustee Limited, a private limited company owned by seven Pension Scheme Trustee directors, four appointed by Santander UK and three by the Pension Scheme Trustee. The Pension Scheme Trustee directors' principal duty, within the investment powers delegated to them, is to act in the best interest of the members of the Santander UK group Pension Scheme and not that of Santander UK. Any increase in our pension liabilities and obligations could have a material adverse effect on our operating results, financial condition and prospects.

The ongoing changes in the UK supervision and regulatory regime and particularly the implementation of the ICB's recommendations may require Santander UK to make changes to its structure and business which could have an impact on its pension schemes or liabilities. For a discussion of the ICB's recommendations see "We are subject to substantial regulation and governmental oversight which could adversely affect our business and operations" on pages 179 and 180.

Damage to our reputation could cause harm to our business prospects

Maintaining a positive reputation is critical to us attracting and maintaining customers, investors and employees and conducting business transactions with counterparties. Damage to reputation of Santander UK or Banco Santander, S.A. (as the majority shareholder in Santander UK), the reputation of affiliates operating under the "Santander" brand or any of our other brands or the reputation of the UK or Spain could therefore cause significant harm to our business and prospects. Harm to our reputation can arise directly or indirectly from numerous sources, including, among others, employee misconduct, litigation, failure to deliver minimum standards of service and quality, compliance failures, breach of legal or regulatory requirements, unethical behaviour (including adopting inappropriate sales and trading practices), and the activities of customers and counterparties. Further, negative publicity regarding us, whether or not true, may result in harm to our operating results, financial condition and prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect our reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift towards increasing regulatory supervision and enforcement has caused public perception of us and others in the financial services industry to decline.

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities through more transactions, obligations and interests with and among our customers. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of customers to deal with us, or give rise to litigation or enforcement actions against us. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

Our financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of our operations and financial condition

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial condition, based upon materiality and significant judgements and estimates, include impairment of loans and advances, valuation of financial instruments, goodwill impairment, provision for conduct remediation and pensions.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of our operations and financial condition could be materially misstated if the estimates and assumptions used prove to be inaccurate.

If the judgement, estimates and assumptions we use in preparing our consolidated financial statements are subsequently found to be incorrect, there could be a material effect on our results of operations and a corresponding effect on our funding requirements and capital ratios.

Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud

Disclosure controls and procedures over financial reporting are designed to reasonably assure that information required to be disclosed by us in reports filed or submitted under the US Securities Exchange Act of 1934, as amended (the "Exchange Act") is accumulated and communicated to management, and recorded, processed, summarised and reported within the time periods specified in the US Securities and Exchange Commission's rules and forms. We adopted the Committee of Sponsoring Organisations of the Treadway Commission internal control – integrated framework with effect from 15 December 2014, replacing the previous framework. The revised framework is designed to recognise the many changes in business and operating environments since the issuance of the original framework and is intended to broaden and enhance the application of controls over financial reporting.

There are however inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Consequently, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective. As a result of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

Changes in accounting standards could impact reported earnings

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

Risk Factors continued

We rely on third parties for important infrastructure support, products and services

Third party vendors provide key components of our business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of them not providing us their services for any reason, or performing their services poorly, could adversely affect our ability to deliver products and services to customers and otherwise conduct business. Replacing these third party vendors could also entail significant delays and expense.

We engage in transactions with our subsidiaries or affiliates that others may not consider to be on an arm's-length basis

We and our subsidiaries and affiliates have entered into a number of services agreements pursuant to which we render services, such as administrative, accounting, finance, treasury, legal services and others. We rely upon certain outsourced services (including information technology support, maintenance and consultancy services in connection with Partenon) provided by certain other members of the Banco Santander group.

English law applicable to public companies and financial groups and institutions, as well as our articles of association, provide for several procedures designed to ensure that the transactions entered into, with or among our financial subsidiaries, do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions. We are likely to continue to engage in transactions with our subsidiaries or affiliates (including our controlling shareholder). Future conflicts of interests between us and any of our subsidiaries or affiliates, or among our subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in our favour.

Different disclosure and accounting principles between the UK and the United States may provide you with different or less information about us than you expect

There may be less publicly available information about us than is regularly published about companies in the United States. Issuers of securities in the UK are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in countries with a relatively more developed capital market, including the United States. While we are subject to the periodic reporting requirements of the Exchange Act, we are not subject to the same disclosure requirements in the United States as a domestic US registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic US registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about us available to you will not be the same as the information available to holders of securities of a US company and may be reported in a manner that you are not familiar with.

Risks concerning enforcement of judgements made in the United States

The Company is a public limited company registered in England and Wales. All of the Company's directors live outside the United States. As a result, it may not be possible to serve process on such persons in the United States or to enforce judgements obtained in US courts against them or us based on the civil liability provisions of the US federal securities laws or other laws of the United States or any state thereof. The Directors' Report on pages 92 to 97 and the Strategic Report on page 91 of our 2014 Annual Report (together the "Reports") have been prepared and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those Reports shall be subject to the limitations and restrictions provided by such law. Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' Report on pages 92 to 97 and the Strategic Report on on page 91 of our 2014 Annual Report. Under this safe harbour, the Directors would only be liable to the Company (and not to any third party) if either or both Reports contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact.

Contact and Other Information

Abbey National Treasury Services plc registered office and principal office

2 Triton Square
Regent's Place
London, NW1 3AN

Phone number:
0870-607-6000

Designated agent

The designated agent for service of process on ANTS in the United States is Abbey National Treasury Services plc (Connecticut branch), 400 Atlantic Street, Stamford, CT 06901.

Santander Shareholder Relations

2 Triton Square
Regent's Place
London, NW1 3AN

Phone numbers:
0871-384-2000
+44 (0) 121-415-7188 (outside the UK)

Email:
shareholders@santander.com

Other information

Documents on display

The Company is subject to the information requirements of the US Securities Exchange Act of 1934. In accordance with these requirements, the Company files its Annual Report and other related documents with the US Securities and Exchange Commission. These documents may be inspected by US investors at the US Securities and Exchange Commission's public reference rooms, which are located at 100 F Street NE, Room 1580, Washington, DC 20549-0102. Information on the operation of the public reference rooms can be obtained by calling the US Securities and Exchange Commission on +1-202-551-8090 or by looking at the US Securities and Exchange Commission's website at www.sec.gov.

Legal proceedings

ANTS is party to various legal proceedings in the ordinary course of business, the ultimate resolution of which is not expected to have a material adverse effect on the financial position or the results of operations of ANTS. See Note 34 to the Consolidated Financial Statements.

Material contracts

ANTS is party to various contracts in the ordinary course of business. For the three years ended 31 December 2014 there have been no material contracts entered into outside the ordinary course of business, except for the contracts described below.

The Company has given a full and unconditional guarantee in respect of the unsubordinated liabilities of Santander UK plc incurred prior to 30 June 2015 under a deed poll guarantee entered into by the Company on 10 May 2012. Santander UK plc has given a reciprocal guarantee in respect of the unsubordinated liabilities of the Company incurred prior to 30 June 2015.

The Company, Santander UK plc, and Cater Allen Limited, which are the three PRA-regulated entities within the Santander UK group, are party to a capital support deed dated 14 December 2012 (the 'Capital Support Deed') with certain other non-regulated subsidiaries of Santander UK plc. The parties to the Capital Support Deed constitute a core UK group for the purposes of the PRA's rules. Under the PRA's rules, exposures of each of the three regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply. The purpose of the Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated parties to any of the regulated parties in the event that one of the regulated parties has breached or is at risk of breaching its capital resources requirements or risk concentrations requirements.

The Company, Santander UK plc, and Cater Allen Limited are party to a defined liquidity group liquidity facility agreement dated 28 May 2010 (the 'DLG Facility Agreement'). The DLG Facility Agreement supports a defined liquidity group for the purposes of the PRA's rules. The PRA's rules permit a member of a defined liquidity group to rely on the liquid resources of other members of the defined liquidity group to comply with the PRA's liquidity adequacy requirements. Under the DLG Facility Agreement, each party agrees to lend, subject to certain conditions and limitations, its excess liquidity to each other party.

Audit fees

See Note 9 to the Consolidated Financial Statements

Profit on sale of subsidiaries

No profits arose on sales of ANTS group undertakings during the three years ended 31 December 2014.

Significant acquisitions and disposals

The results were not materially affected by acquisitions and disposals during the three years ended 31 December 2014.

Accounting developments under IFRS

See Note 1 to the Consolidated Financial Statements.

Guarantees

GUARANTEE of Santander UK plc by Abbey National Treasury Services plc

THIS INSTRUMENT by way of deed poll is executed on 10 May 2012 by ABBEY NATIONAL TREASURY SERVICES plc (registered in England No. 2338548) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN (the 'Guarantor')

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

NOW THEREOF the Guarantor hereby covenants and agrees as follows:

1. In this Guarantee, unless the context otherwise requires:
   - 'Creditor' means any person (other than Santander UK or any subsidiary of Santander UK (as defined in section 1159 of the Companies Act 2006 (the 'Act')) or any individual who is a connected person of Santander UK (within the meaning of section 254 of the Act)) to whom an Obligation is from time to time owed.
   - 'Obligation' means any obligation or liability (whether actual or contingent or for the payment of any amount or delivery of any property) incurred by Santander UK (whether as principal or surety) to any person on or before 30 June 2015 (whether before or after the execution of this Guarantee) under or in respect of any dealing, transaction or engagement whatsoever, including without prejudice to the generality of the foregoing, for:
     (i) any moneys lent, advanced or otherwise made available to Santander UK (including, without limitation to the generality of the foregoing, the liability of Santander UK for drawing or issuing bills of exchange, promissory notes, bonds, debentures, certificates of deposit, commercial paper or other negotiable instruments or securities);
     (ii) any moneys lent, advanced or otherwise made available to any person, the repayment or payments in respect of which have been guaranteed by Santander UK or in respect of which Santander UK has given an indemnity (including, without limitation to the generality of the foregoing, guarantees and letters of credit issued by Santander UK and bills of exchange or other negotiable instruments accepted or endorsed by Santander UK);
     (iii) any moneys which any person shall pay or become liable to pay, for or on account of Santander UK, by reason of entering into or being party to any bond, indemnity, bill of exchange, guarantee, letter of credit or other engagement for the benefit or at the request of Santander UK;
     (iv) deposits made with Santander UK (including, without limitation of the generality of the foregoing, certificates of deposit issued by Santander UK);
     (v) any rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, collar transaction, floor transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell back transaction, securities lending transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any such transactions) or any other derivative transaction on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, indices, or measures of economic risk or value, in each case, to which Santander UK is party (including, for the avoidance of doubt, any obligation or liability under any master agreement that governs any such transactions);
     (vi) any such obligation or liability assumed under or incurred pursuant to any novation, transfer, assignment or other similar agreement between Santander UK and any other person;
     (vii) any obligation or liability under any transaction entered into by Santander UK after 30 June 2015 as a result of the exercise of any right or option granted by or to Santander UK on or prior to 30 June 2015; and
     (viii) any payments of interest due from Santander UK with respect to any of the foregoing transactions (whether or not the liability to pay such interest arises on or before 30 June 2015) together with all reasonable costs, commissions and other expenses incurred by any person in connection with the enforcement of this Guarantee, but excluding:
       (a) any such obligations or liabilities of Santander UK (including under any guarantee or indemnity given by Santander UK) which by their terms are expressed (in whatever manner) to be conditional upon the solvency of Santander UK or subordinated to, or payable only after full satisfaction of, all or any obligations of Santander UK to all or any of its unsubordinated creditors; and
       (b) any such obligations or liabilities of Santander UK transferred to, or assumed by, any other person whether pursuant to any novation or transfer or other similar agreement, any statutory transfer (pursuant to Part VII of The Financial Services and Markets Act 2000 or otherwise), any scheme of arrangement or otherwise.
   - 'person' means any person, firm, trust estate, corporation, association, cooperative, government or government agency or other entity.
2. (a) The Guarantor hereby unconditionally and irrevocably guarantees, for the benefit of each Creditor, in accordance with the terms and conditions of this Guarantee, the full payment or performance by Santander UK when due (whether at stated maturity, upon acceleration or otherwise) of each and every Obligation and in the event that Santander UK shall default in the due and punctual payment or performance of any Obligation, undertakes to pay, or procure the payment of, such Obligation in the currency in which the particular Obligation is denominated in the case of a payment or perform, or procure the performance of such Obligation, upon written demand being made under this Guarantee by the relevant Creditor.
   (b) The Guarantor waives any right it may have of first requiring any Creditor to make demand, proceed or enforce any rights or security against Santander UK or any other person before making a claim against the Guarantor under this Guarantee.
3. A Creditor shall only be entitled to take or obtain the benefit of this Guarantee upon the condition that, after receipt by the Guarantor of a written demand from the Creditor, the Guarantor shall be entitled to deal with the Creditor, and the Creditor shall be obliged to deal with the Guarantor with respect to the Obligation due to the Creditor and this Guarantee without the necessity or duty to rely on, act through or otherwise involve or deal with Santander UK to the intent that the Guarantor and the Creditor shall deal with one another as principals in relation to the same provided that the rights, powers, privileges and remedies of the Creditor under this Guarantee shall not thereby be in any way limited or otherwise affected.

Guarantees continued

4. No delay or omission on the part of the Creditor in exercising any right, power, privilege or remedy (hereinafter together called 'Rights') in respect of this Guarantee shall impair any such Rights or be construed as a waiver of any thereof nor shall any single or partial exercise of any such Rights preclude any further exercise of any other Rights. The Rights herein provided are cumulative and not exclusive of any rights, powers, privileges or remedies provided by law. Nothing in this Guarantee shall be construed as voiding, negating or restricting any right of set-off or any other right whatsoever existing in favour of a Creditor or arising at common law, by statute or otherwise howsoever.
5. This Guarantee is a continuing guarantee and shall not be satisfied, discharged or affected by any intermediate payment or settlement of account.
6. The Guarantor will not exercise any rights of subrogation or any other rights or remedy (including, without limiting the generality of the foregoing, the benefit of any security or right of set-off) which it may acquire due to its payment or performance of any Obligation pursuant to the terms of this Guarantee and will not prove in the liquidation of Santander UK in competition with any Creditor unless and until all Obligations in respect of the relevant Creditor hereby guaranteed have been satisfied in full by the Guarantor or Santander UK. In the event that the Guarantor shall receive any payment on account of such rights while any Obligation remains outstanding, the Guarantor shall pay all amounts so received to the relevant Creditor.
7. Payments hereunder shall be made free and clear of any deduction or withholding other than those required by law and in that event the Guarantor shall pay such additional amount to the relevant Creditor as may be necessary in order that the actual amount received after all such deductions and withholdings shall equal the amount that would have been received if no such deduction or withholding were required provided that the Guarantor shall not be obliged to pay any such additional amount which would not have been payable if the payment which is the subject of the withholding or deduction had been made by Santander UK. If the Guarantor makes a payment of an additional amount in compliance with its obligations under this paragraph and the Creditor determines that it has received or been granted a credit against or relief or payment of any tax paid or payable by it in respect thereof the Creditor shall to the extent that it can do so without prejudice to the retention of the amount of such credit, relief or repayment pay to the Guarantor such amount as shall be attributable to such deduction provided that nothing contained in this paragraph shall interfere with the right of any Creditor to arrange its tax affairs in whatsoever manner it thinks fit and, in particular, no Creditor shall be under any obligation to claim relief in respect of any such deduction in priority to any other claims for relief available to it.
8. Any demand or notice hereunder shall be given in writing or by cable, telex or facsimile transmission addressed to the Guarantor or to the person to or upon whom the demand is to be made or the notice served at the registered or principal office or last known place of abode of the Guarantor or of such person, as the case may be. A demand so made shall be deemed to have been duly made if left at such address on the day it was so left or, if sent by post, two working days after the time when the same was put in the post and in proving delivery it shall be sufficient to prove that the same was properly addressed and put in the post. Any such demand sent by cable, telex or facsimile transmission shall be deemed to have been duly made at the time of despatch.
9. The liability of the Guarantor under this Guarantee shall not be affected by the liquidation, winding-up or other incapacity of Santander UK. In the event that any payment or delivery to a Creditor from Santander UK in respect of an Obligation is avoided or reduced by virtue of any enactments for the time being in force relating to liquidation or insolvency of Santander UK, the Creditor shall be entitled to recover the value or amount thereof from the Guarantor as if such payment or delivery by Santander UK had not been made.
10. This Guarantee shall remain in full force and effect irrespective of:
    a) the validity, regularity, legality or enforceability against Santander UK of, or of any defence or counter-claim whatsoever available to Santander UK in relation to, any Obligation;
    b) whether or not any action has been taken to enforce any Obligation or any judgement obtained against Santander UK or any other person;
    c) whether or not the terms of any Obligation has been modified, supplemented, extended or restated in any way (in each case, however fundamental and of whatsoever nature);
    d) whether or not any time or indulgence has been granted to Santander UK or any other person by or on behalf of any Creditor;
    e) whether or not there have been any dealings or transactions between Santander UK or any other person and any Creditor;
    f) whether or not Santander UK or any other person has been dissolved, liquidated, merged, consolidated, become bankrupt or has changed its status, functions, control or ownership;
    g) whether or not Santander UK or any other person has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation; and
    h) whether or not any circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor.
11. This Guarantee shall remain in full force and effect in relation to an Obligation notwithstanding that it becomes due for payment or performance after 30 June 2015.
12. In the event that any of the terms or provisions of this Guarantee are or shall become invalid, illegal or unenforceable, the remaining terms and provisions hereof shall survive unaffected.
13. The Guarantor shall be permitted from time to time and at any time to amend or vary the terms of this Guarantee PROVIDED THAT the liability of the Guarantor to a Creditor in respect of any Obligation incurred before, or arising out of an Obligation entered into before, the date of such variation or amendment, shall not be in any way reduced or limited by such variation or amendment. Any person shall be entitled to rely on a certificate given by a director or other duly authorised officer of the Guarantor as to the existence and extent of this Guarantee and any such variation and/or amendment of this Guarantee on entering into any dealing, transaction or arrangement with Santander UK under or in respect of which an Obligation would or might be incurred by Santander UK to that person.
14. This Guarantee and any non-contractual obligations arising out of or in connection with this Guarantee are governed by, and shall be construed in accordance with, the laws of England and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) and accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) shall be brought in such courts.

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

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

Deputy Company Secretary

Guarantees continued

GUARANTEE of Abbey National Treasury Services plc by Santander UK plc

THIS INSTRUMENT by way of deed poll is executed on 10 May 2012 by SANTANDER UK plc (registered in England No. 2294747) whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN (the 'Guarantor').

WHEREAS:

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

NOW THEREOF the Guarantor hereby covenants and agrees as follows:

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

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

'Obligation' means any obligation or liability, (whether actual or contingent or for the payment of any amount or delivery of any property) incurred by ANTS (whether as principal or surety) to any person on or before 30 June 2015 (whether before or after the execution of this Guarantee) under or in respect of any dealing, transaction or engagement whatsoever, including without prejudice to the generality of the foregoing, for

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

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

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

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

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

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

(vii) any obligation or liability under any transaction entered into by ANTS after 30 June 2015 as a result of the exercise of any right or option granted by or to ANTS on or prior to 30 June 2015;

(vii) any payments of interest due from ANTS with respect to any of the foregoing transactions (whether or not the liability to pay such interest arises on or before 30 June 2015) together with all reasonable costs, commissions and other expenses incurred by any person in connection with the enforcement of this Guarantee,

but excluding:

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

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

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

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

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

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

Guarantees continued

4. No delay or omission on the part of the Creditor in exercising any right, power, privilege or remedy (hereinafter together called 'Rights') in respect of this Guarantee shall impair any such Rights or be construed as a waiver of any thereof nor shall any single or partial exercise of any such Rights preclude any further exercise of any other Rights. The Rights herein provided are cumulative and not exclusive of any rights, powers, privileges or remedies provided by law. Nothing in this Guarantee shall be construed as voiding, negating or restricting any right of set-off or any other right whatsoever existing in favour of a Creditor or arising at common law, by statute or otherwise howsoever.
5. This Guarantee is a continuing guarantee and shall not be satisfied, discharged or affected by any intermediate payment or settlement of account.
6. The Guarantor will not exercise any rights of subrogation or any other rights or remedy (including, without limiting the generality of the foregoing, the benefit of any security or right of set-off) which it may acquire due to its payment of any Obligation pursuant to the terms of this Guarantee and will not prove in the liquidation of ANTS in competition with any Creditor unless and until all Obligations in respect of the relevant Creditor hereby guaranteed have been satisfied in full by the Guarantor or ANTS. In the event that the Guarantor shall receive any payment on account of such rights while any Obligation remains outstanding, the Guarantor shall pay all amounts so received to the relevant Creditor.
7. Payments hereunder shall be made free and clear of any deduction or withholdings other than those required by law and in that event the Guarantor shall pay such additional amount to the relevant Creditor as may be necessary in order that the actual amount received after all such deductions and withholdings shall equal the amount that would have been received if no such deduction or withholding were required provided that the Guarantor shall not be obliged to pay any such additional amount which would not have been payable if the payment which is the subject of the withholding or deduction had been made by ANTS. If the Guarantor makes a payment of an additional amount in compliance with its obligations under this paragraph and the Creditor determines that it has received or been granted a credit against or relief or payment of any tax paid or payable by it in respect thereof the Creditor shall to the extent that it can do so without prejudice to the retention of the amount of such credit, relief or repayment pay to the Guarantor such amount as shall be attributable to such deduction provided that nothing contained in this paragraph shall interfere with the right of any Creditor to arrange its tax affairs in whatsoever manner it thinks fit and, in particular, no Creditor shall be under any obligation to claim relief in respect of any such deduction in priority to any other claims for relief available to it.
8. Any demand or notice hereunder shall be given in writing or by cable, telex or facsimile transmission addressed to the Guarantor or to the person to or upon whom the demand is to be made or the notice served at the registered or principal office or last known place of abode of the Guarantor or of such person, as the case may be. A demand so made shall be deemed to have been duly made if left at such address on the day it was so left or, if sent by post, two working days after the time when the same was put in the post and in proving delivery it shall be sufficient to prove that the same was properly addressed and put in the post. Any such demand sent by cable, telex or facsimile transmission shall be deemed to have been duly made at the time of despatch.
9. The liability of the Guarantor under this Guarantee shall not be affected by the liquidation, winding-up or other incapacity of ANTS. In the event that any payment or delivery to a Creditor from ANTS in respect of an Obligation is avoided or reduced by virtue of any enactments for the time being in force relating to liquidation or insolvency of ANTS, the Creditor shall be entitled to recover the value or amount thereof from the Guarantor as if such payment or delivery by ANTS had not been made.
10. This Guarantee shall remain in full force and effect irrespective of:
    a) the validity, regularity, legality or enforceability against ANTS of, or of any defence or counter-claim whatsoever available to ANTS in relation to, any Obligation;
    b) whether or not any action has been taken to enforce any Obligation or any judgement obtained against ANTS or any other person;
    c) whether or not the terms of any Obligation has been modified, supplemented, extended or restated in any way (in each case, however fundamental and of whatsoever nature);
    d) whether or not any time or indulgence has been granted to ANTS or any other person by or on behalf of any Creditor;
    e) whether or not there have been any dealings or transactions between ANTS or any other person and any Creditor;
    f) whether or not ANTS or any other person has been dissolved, liquidated, merged, consolidated, become bankrupt or has changed its status, functions, control or ownership;
    g) whether or not ANTS or any other person has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation; and
    h) whether or not any circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor.
11. This Guarantee shall remain in full force and effect in relation to an Obligation notwithstanding that it becomes due for payment or performance after 30 June 2015.
12. In the event that any of the terms or provisions of this Guarantee are or shall become invalid, illegal or unenforceable, the remaining terms and provisions hereof shall survive unaffected.
13. The Guarantor shall be permitted from time to time and at any time to amend or vary the terms of this Guarantee PROVIDED THAT the liability of the Guarantor to a Creditor in respect of any Obligation incurred before, or arising out of an Obligation entered into before, the date of such variation or amendment, shall not be in any way reduced or limited by such variation or amendment. Any person shall be entitled to rely on a certificate given by a director or other duly authorised officer of the Guarantor as to the existence and extent of this Guarantee and any such variation and/or amendment of this Guarantee on entering into any dealing, transaction or arrangement with ANTS under or in respect of which an Obligation would or might be incurred by ANTS to that person.
14. This Guarantee and any non-contractual obligations arising out of or in connection with this Guarantee are governed by, and shall be construed in accordance with, the laws of England and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) and accordingly any suit, action or proceedings arising out of or in connection with this Guarantee (including in respect of any non-contractual obligations arising out of or in connection with this Guarantee) shall be brought in such courts.

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

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

Deputy Company Secretary

Forward-looking Statements

Abbey National Treasury Services plc (the 'Company') and its subsidiaries (together 'ANTS' or the 'ANTS group') may from time to time make written or oral forward-looking statements. The Company makes written forward-looking statements in this Annual Report and may also make forward-looking statements in its periodic reports to the SEC on Forms 20-F and 6-K, in its offering circulars and prospectuses, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Examples of such forward-looking statements include, but are not limited to:

> projections or expectations of revenues, costs, profit (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
> statements of plans, objectives or goals of ANTS or its management, including those related to products or services;
> statements of future economic performance; and
> statements of assumptions underlying such statements.

Words such as 'believes', 'anticipates', 'expects', 'intends', 'aims', 'plans', 'targets' and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. ANTS cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by ANTS or on ANTS' behalf. Some of these factors, which could affect the business, financial condition and/or results of operations of the Santander UK group (of which ANTS is a significant part), are considered in detail in the Risk Review and the 'Risk Factors' section in the Shareholder Information section and they include:

> our ability to recruit, retain and develop appropriate senior management and skilled personnel;
> the disruptions and volatility in the global financial markets;
> the effects of UK economic conditions;
> our exposure to UK political developments;
> the extent to which regulatory capital and leverage requirements and any changes to these requirements may limit our operations;
> the extent to which liquidity requirements and any changes to these requirements may limit the our operations;
> Santander UK's exposure to UK Government debt;
> the effects of the ongoing economic and sovereign debt tensions in the eurozone;
> our exposure to risks faced by other financial institutions;
> our ability to access liquidity and funding on acceptable financial terms ;
> the effects of an adverse movement in external credit rating assigned to the Santander UK group, any Santander UK group member or any of their respective debt securities;
> the effects of fluctuations in interest rates and other market conditions;
> the extent to which we may be required to record negative fair value adjustments for our financial assets due to changes in market conditions;
> the risk of failing to successfully implement and continue to improve our credit risk management systems;
> the risks associated with our derivative transactions;
> the extent to which we may be exposed to operational risks, including risks relating to data and information collection, processing, storage and security;
> the risk of failing to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner;
> our exposure to unidentified or unanticipated risks despite our risk management policies, procedures and methods;
> the effects of competition, or intensification of such competition, in the financial services markets in which Santander UK conducts business and the impact of customer perception of Santander UK's customer service levels on existing or potential business;
> the various risks facing us as we expand our range of products and services (e.g. risk of new products and services not being responsive to customer demands or successful, risk of changing customer needs);
> Santander UK's ability to control the level of non-performing or poor quality loans and whether Santander UK's loan reserves are sufficient;
> the extent to which our loan portfolio is subject to prepayment risk;
> our ability to manage any future development effectively (e.g. efficiently managing the operations and employees of expanding businesses and maintaining or growing our existing customer base);
> the risk that the value of the collateral, including real estate, securing Santander UK's loans may not be sufficient and Santander UK may be unable to realise the full value of the collateral securing its loan portfolio;
> the ability of Santander UK to realise the anticipated benefits of its business combinations and the exposure, if any, of Santander UK to any unknown liabilities or goodwill impairments relating to acquired businesses;
> the effects of the financial services laws, regulations, governmental oversight, administrative actions and policies and any changes thereto in each location or market in which Santander UK operates;
> our exposure to any potential uncertainly and changes to the UK regulatory regime as a result of the reform and reorganisation of the UK financial regulatory authorities and the UK regulatory framework;
> the effects of any new reforms to the UK mortgage lending and the personal loans market;
> our exposure to any risk of loss from legal and regulatory proceedings;
> the power of the FCA, the PRA or an overseas regulator to potentially intervene in response to e.g. attempts by customers to seek redress from financial service institutions, including Santander UK, in case of industry-wide issues;
> the effects which the Banking Act 2009 may have on Santander UK's business;
> the effects which the bail-in and write down powers under the Banking Act 2009 and the BRRD may have on Santander UK's business;
> the extent to which members of the Santander UK group may be responsible for contributing to compensation schemes in the UK in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers;
> the risk of third parties using us as a conduit for illegal or improper activities without our knowledge;
> the effects of taxation requirements and other assessments and any changes thereto in each location in which Santander UK operates;
> the effects of any changes in the pension liabilities and obligations of Santander UK;
> the effects of any changes to the reputation of the Santander UK group, any Santander UK group member or any affiliate operating under the Santander UK brands;
> the basis of the preparation of the Company's and the Santander UK group's financial statements and information available about the Santander UK group, including the extent to which assumptions and estimates made during such preparation are accurate;
> the extent to which disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud;
> the extent to which changes in accounting standards could impact our reported earnings;
> the extent to which Santander UK rely on third parties for important infrastructure support, products and services;
> the possibility of risk arising in the future in relation to transactions between the Company and its parent, subsidiaries or affiliates; and
> our success at managing the risks to which it is exposed, including the items above.

Undue reliance should not be placed on forward-looking statements when making decisions with respect to ANTS and/or its securities. Investors and others should take into account the inherent risks and uncertainties of forward-looking statements and should carefully consider the foregoing non-exhaustive list of important factors. Forward-looking statements speak only as of the date on which they are made and are based on the knowledge, information available and views taken on the date on which they are made; such knowledge, information and views may change at any time. ANTS does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Selected Financial Data

The financial information set forth below for the years ended 31 December 2014, 2013 and 2012 and at 31 December 2014 and 2013 has been derived from the audited Consolidated Financial Statements of Abbey National Treasury Services plc (the 'Company') and its subsidiaries (together, the 'ANTS group') prepared in accordance with IFRS included elsewhere in this Annual Report. The information should be read in connection with, and is qualified in its entirety by reference to, the ANTS group's Consolidated Financial Statements and the notes thereto. Financial information set forth below for the years ended 31 December 2011 and 2010, and at 31 December 2012, 2011 and 2010, has been derived from the audited Consolidated Financial Statements of the ANTS group for 2012, 2011 and 2010 not included in this Annual Report. The financial information in this selected consolidated financial and statistical data does not constitute statutory accounts within the meaning of the Companies Act 2006. The auditor's report on the Consolidated Financial Statements for each of the five years ended 31 December 2014 was unmodified and did not include a statement under sections 237(2) and 237(3) of the Companies Act 1985 or sections 498(2) and 498(3) of the Companies Act 2006, as applicable. The Consolidated Financial Statements of the ANTS group for the years ended 31 December 2014, 2013, 2012, 2011 and 2010 were audited by Deloitte LLP.

BALANCE SHEETS

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	**4,460**	4,911	388	7,013	5,088
Trading assets	**21,373**	21,897	22,498	21,891	35,461
Derivative financial instruments	**25,792**	21,550	33,276	33,224	23,237
Financial assets designated at fair value	**2,577**	2,534	3,531	4,429	6,468
Loans and advances to banks	**11,344**	113,649	106,986	113,222	146,412
Loans and advances to customers	**38,285**	41,108	44,750	38,826	34,550
Held-to-maturity securities	**-**	-	-	-	331
Loans and receivables securities	**22**	128	162	278	626
Available-for-sale securities	**2,525**	2,962	5,113	-	-
Macro hedge of interest rate risk	**935**	379	1,171	1,141	908
Intangible assets	**13**	8	7	3	26
Property, plant and equipment	**10**	6	6	5	22
Current tax assets	**-**	-	-	-	40
Deferred tax assets	**-**	15	20	17	26
Other assets	**133**	180	4	43	65
Total assets	**107,469**	209,327	217,912	220,092	253,260
Liabilities					
Deposits by banks	**17,416**	120,698	114,535	114,019	136,753
Deposits by customers	**4,523**	7,780	6,249	7,114	7,061
Trading liabilities	**15,333**	21,275	21,109	25,745	42,827
Derivative financial instruments	**26,607**	21,496	34,088	35,417	25,043
Financial liabilities designated at fair value	**2,848**	3,407	4,002	6,836	3,657
Debt securities in issue	**36,799**	30,889	33,770	26,943	33,659
Macro hedge of interest rate risk	**39**	-	-	-	-
Subordinated liabilities	**-**	-	-	-	331
Other liabilities	**255**	368	169	142	191
Provisions	**32**	23	20	20	-
Current tax liabilities	**224**	223	175	329	374
Deferred tax liabilities	**12**	-	-	-	1
Total liabilities	**104,088**	206,159	214,117	216,565	249,897
Equity					
Share capital	**2,549**	2,549	2,549	2,549	2,549
Retained earnings	**761**	640	1,226	962	798
Other reserves	**71**	(21)	20	16	16
Total shareholders' equity	**3,381**	3,168	3,795	3,527	3,363
Total liabilities and equity	**107,469**	209,327	217,912	220,092	253,260

Selected Financial Data continued

INCOME STATEMENTS

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Net interest income	**35**	(101)	139	511	403
Net fee and commission income	**122**	107	119	113	28
Net trading and other income	**299**	406	304	(46)	462
Total operating income	**456**	412	562	578	893
Administration expenses	**(252)**	(192)	(198)	(229)	(209)
Depreciation, amortisation and impairment	**(4)**	(3)	(3)	(7)	(6)
Total operating expenses excluding impairment losses, provisions and charges	**(256)**	(195)	(201)	(236)	(215)
Impairment losses on loans and advances	**(30)**	(31)	(9)	(54)	(69)
Provisions for other liabilities and charges	**(32)**	(23)	(20)	(20)	-
Total operating impairment losses, provisions and charges	**(62)**	(54)	(29)	(74)	(69)
Profit before tax	**138**	163	332	268	609
Taxation (charge)/credit	**(17)**	1	(68)	(104)	(149)
Profit after tax for the year	**121**	164	264	164	460
Attributable to:					
Equity holders of the parent	**121**	164	264	164	460

SELECTED STATISTICAL INFORMATION

	2014	2013	2012	2011	2010
	%	%	%	%	%
Profitability ratios:					
Return on assets [(1)]	**0.06**	0.07	0.11	0.06	0.17
Dividend payout ratio[(2)]	**-**	457	-	-	130
Return on ordinary shareholder's funds[(3)]	**3.66**	4.19	7.07	4.65	13.4
Capital ratios:					
Equity to assets ratio[(4)]	**1.67**	1.78	1.55	1.36	1.28
Ratio of earnings to fixed charges[(5)]	**106**	106	109	108	123

(1) Profit after tax divided by average total assets.
(2) Ordinary equity dividends declared divided by profit after tax
(3) Profit after tax divided by average ordinary shareholders' funds.
(4) Average ordinary shareholders' funds divided by average total assets.
(5) For the purpose of calculating the ratio of earnings to fixed charges, earnings consist of profit before tax plus fixed charges. Fixed charges consist of interest payable, including the amortisation of discounts and premiums on debt securities in issue.