



Here to help
you prosper



Santander UK

We help our customers at the moments that matter most. We champion British businesses and help them to grow sustainably. Our customer focus helps us to develop more loyal and lasting relationships.

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About this report

The Strategic Report outlines the key elements of the Annual Report and provides context for the related financial statements. It is also designed to help members of the company assess how the Directors have performed their duty under section 172 of the Companies Act 2006.

The report highlights key financial and non-financial metrics which help to explain the business's performance over the past year. It also highlights the external environmental factors affecting the business along with Santander UK's position in the UK banking market.

At all times we try to treat our stakeholders fairly and meet our environmental responsibilities. Sustainability and our strategic direction are inseparable, and we continue to embed sustainability across our business. We have included information to demonstrate this within our Strategic Report and further information is also available in our ESG Supplement.

By order of the Board.

Shriti Vadera
Chair
2 March 2020

Important information for readers

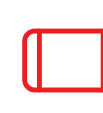
Santander UK Group Holdings plc (the Company) and its subsidiaries (collectively Santander UK or the Santander UK group) operate primarily in the UK, and are part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Santander UK plc and Santander Financial Services plc are regulated by the UK Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Certain other companies within the Santander UK group are regulated by the FCA and the PRA. 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 of the Santander Group Holdings plc 2019 Annual Report (2019 Annual Report).

The Company is the immediate parent company of Santander UK plc. The two companies operate on the basis of a unified business strategy, albeit the principal business activities of the Santander UK group are carried on by Santander UK plc and its subsidiaries (the Santander UK plc group). The Board and Committees of the two companies run substantially simultaneously to ensure efficiency and effectiveness, whilst ensuring the independence and autonomy of Santander UK plc, our ring-fenced bank, are appropriately protected.

The Company's Corporate Governance and Risk Frameworks have been adopted by its subsidiaries to ensure consistency of application. Prior to November 2018, the Corporate Governance and Risk Frameworks were applied from the level of Santander UK plc across the Santander UK plc group and adopted by the Company.

As a result, the review of the business and principal risks and uncertainties facing the Company, and the description of the Company's Corporate Governance, including the activities of the Board and risk management arrangements, are integrated with those of Santander UK plc and are reported in this document, and in the 2019 Annual Report, as operating within the Company for all periods presented.

Highlights 2019

	14.4 million active customers (2018: 14.7 million)		5.8 million digital customers (2018: 5.5 million)
	1,700 new active mobile users per day (2018: 1,400)		60% mortgage loans refinanced online (2018: 55%)
	£165.4bn UK mortgage loans (2018: £158.0bn)		£22.3bn UK corporate loans (2018: £24.1bn)
	£981m profit before tax (2018: £1,567m)		£155m Transformation investment in 2019
	14.3% CET1 capital ratio (2018: 13.2%)		1.15% Stage 3 ratio (2018: 1.29%)
	100% renewable electricity used (2018: 100%)		99.6% of waste recycled or diverted from landfill (2018: 99.8%)



Throughout the report look out for this symbol to find out more in our case studies



For more information see aboutsantander.co.uk

Chair's statement



2019 marked the first year of delivery of a multi-year transformation to make us simpler, more agile and better able to continually improve our customer service.

Refined strategy

In 2019, we began to implement a refined strategy that focuses on core business and customer experience in mortgage provision, trade and SME banking, supported by investment in our technology platform.

We have accelerated the pace at which we are embedding social, ethical and environmental impacts in all aspects of our decision-making, risk analysis and financial transactions, the results of which have included increasing our support for renewable energy. We know that loyalty and trust is increasingly won by companies which make sustainable investments in customers' own financial resilience, and the environmental and economic resilience of wider society. The focus of our communities programme remains supporting financial inclusion, literacy and education. For example, the Santander Universities programme is the largest private sector contributor to UK universities, donating £88m over the past 12 years. We have a team of Relationship Managers across our 85 university partners to support students and the university community.

A low risk strategy is integral to our business and we have maintained prudent risk management, high credit quality and balance sheet resilience throughout the year. This was reflected in the Bank of England 2019 stress test results, where the impact on Santander UK's CET1 capital ratio⁽¹⁾ was the lowest of all participating banks.

2019, however, saw a 37% decline in profit before tax as a result of the adverse impact of a combination of factors. These include margin pressures within the mortgage market, the costs of addressing PPI claims and our upfront investment in transformation. In addition, the operational costs of continuing regulatory changes disproportionately affect scale challengers such as Santander UK.

Transformation programme

The year saw our CEO, Nathan Bostock, and his leadership team deliver significant progress in this transformation as we reshape the bank to support our customers better. Technology is

changing the way our customers want to engage with us. The volume of transactions carried out through Santander UK branches has fallen by 41% over the past three years, while transactions through digital channels have grown by 93% over the same period. We now have 5.8 million digital customers⁽²⁾ and 62% of 2019⁽³⁾ account openings were digital.

In adapting to how our customers are choosing to engage with us, we have restructured and reduced our branch network by 140 to 616 branches as part of our multi-year programme to simplify and digitise the business. We are focused on investing to improve our systems, processes and infrastructure through innovation to increase efficiency and deepen engagement with our customers, while continuing to allow them to choose how they transact with us. We are also leveraging new technology developed within Banco Santander, our shareholder, to increase our ability to deliver exceptional outcomes for our customers.

(2) We define a 'digital customer' as someone who has logged on to digital banking (either via the mobile app or online bank) in the last month.
(3) Refers to all new Retail & SME1 products opened

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The commitment of our people is helping to transform the business and make us better able to serve our customers going forward.

Continuing to create the right culture

Having the right culture is essential to our success in transforming the bank, and we have made steady progress so far. However, we need to remain relentless in our commitment to embedding the right values and behaviours across all aspects of our business. Our employee engagement surveys provide the Board with an understanding of the progress we are making in building a diverse and inclusive bank and helps to inform our priorities. Our Board Responsible Banking Committee continues to develop metrics that enable it to monitor cultural change and help ensure that we remain on track.

As we enter a period of significant change, we remain committed to ensuring the well-being of our people through fostering a culture of speaking up and supporting initiatives such as the promotion of mental health.

The flow and volume of regulatory change

The flow and volume of regulatory change continues to pose significant challenges and operational risks to the sector, not least for scale challengers like Santander UK. We have continued to manage a large volume of over one hundred different regulatory initiatives that are driven by a number of separate regulatory bodies. The co-ordination of this activity remains a concern for the sector given the need to respond to increasing threats of economic and cyber-crime. I am pleased that HM Treasury is undertaking a review of the regulatory framework, as announced last summer. The right recommendations from the review have the potential to strengthen the resilience and competitiveness of the sector and I look forward to its conclusions.

Ring-fencing

During the year we developed a revised strategy for Santander Financial Services plc (SFS), formerly Abbey National Treasury Services plc (ANTS), in effect our non-ring-fenced bank, which will be completed in 2020. As a result, in order to comply with regulatory requirements, we are required to make certain changes to our governance arrangements,

including the composition of our holding company and ring-fenced bank Boards.

In December 2019, Susan Allen, Gerry Byrne, Garrett Curran, Annemarie Durbin, Dirk Marzluf and Genevieve Shore stepped down from the Board of Santander UK Group Holdings plc, but remain Directors of the ring-fenced bank, Santander UK plc. In order to ensure efficiency and effectiveness, the Santander UK Group Holdings plc and Santander UK plc Board meetings are run largely simultaneously. Changes to governance and ring-fencing arrangements are described further in my report on corporate governance on page 36 of the 2019 Annual Report.

Board changes in 2019

We appointed Susan Allen as Executive Director and Head of Retail and Business Banking with effect from 1 January 2019, replacing Javier San Felix who returned to a Group role at Banco Santander at the end of 2018, as reported last year. On 7 May 2019, we appointed Garrett Curran as an INED replacing Julie Chakraverty and Dirk Marzluf (Banco Santander Group Head of Technology and Operations) as Group nominated Non-Executive Director (GNED) who took the place of Lindsey Argalas. Duke Dayal (Chief Financial Officer) was appointed to the Board on 16 September 2019 as Executive Director, replacing Antonio Roman who moved to a role at Banco Santander. Bruce Carnegie-Brown also re-joined the Board on that date as a GNED replacing Juan Inciarte who had stepped down at the end of 2018. These appointments maintain the Board's skills and experience in financial services, digital and innovation, strategy and transformation and our connectivity with our shareholder. On behalf of the Board, I would like to thank Lindsey Argalas, Julie Chakraverty and Antonio Roman who stood down in 2019 for their invaluable service to the Board and the Company.

As I will be stepping down as Chair before the end of 2020, I would like to take this opportunity to extend my gratitude to the Board, Nathan Bostock, his leadership team, and all our people for their continued commitment to serving our customers and communities. It has been an enormous privilege to work with all my colleagues and serve the Company. I have every confidence that the dedication of our teams will ensure its future success.

Shriti Vadera

Shriti Vadera
Chair
2 March 2020



Simple | Personal | Fair
Our culture is built on doing things The Santander Way

Simple

We offer our customers products that are easy to understand and a service which is convenient, no matter when or how they want to engage with us. We make our processes better so they are easy and clear for our customers and our people.

Personal

We treat our customers as valued individuals, providing a professional service they can trust. We support our colleagues to develop their skills and achieve their ambitions.

Fair

We are open, honest and treat others as we would like to be treated. We earn our investors a sustainable return and do our part to support our communities.

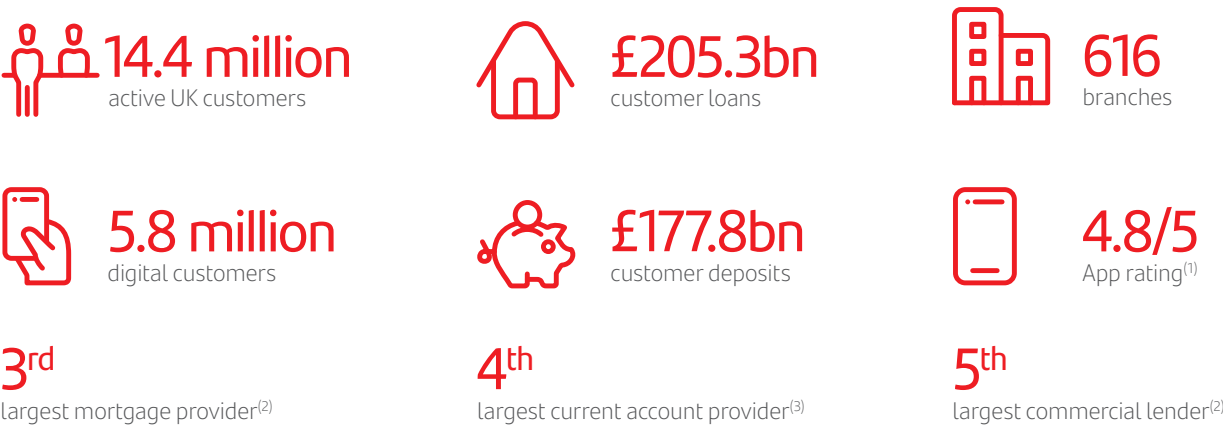


Santander UK at a glance

We are uniquely placed as a leading
scale challenger bank

Our business model focuses on customer
loyalty and our core business franchise

We provide high quality, seamless service across our branch network,
digital and telephony channels



(1) iOS app rating.
(2) Santander UK analysis of UK institutions.
(3) CACI's CSDB Current Account Stock, Volume, December 2019.

We offer innovative products and services to help people and businesses prosper

We are a large customer-focused bank and possess the scale and breadth of proposition to challenge the big four UK banks. We serve our customers through digital channels, alongside a network of branches and Corporate Business Centres.

We play an important role in the UK economy and in the communities in which we operate. We help people purchase their home, save for the future and support business growth. We employ 23,500 people and we paid £309m of corporation tax and £90m through the UK Bank Levy in 2019.

Our innovative international proposition facilitates access to a range of markets and offers invaluable expertise and insight.

First time buyer events
As part of our work to champion first-time buyers, we launched regular in-branch events to help people access information about the home-buying process. Held in branches across the UK, the events are free of charge.

Read more on page 27.

11213 Business Current Account
Our SME offering continues to go from strength to strength. Aside from winning best Business Bank of the Year for the fifth consecutive year at the Business Moneyfacts Awards, we picked up an award for best innovation in the SME Finance Sector for our 11213 Business Current Account.

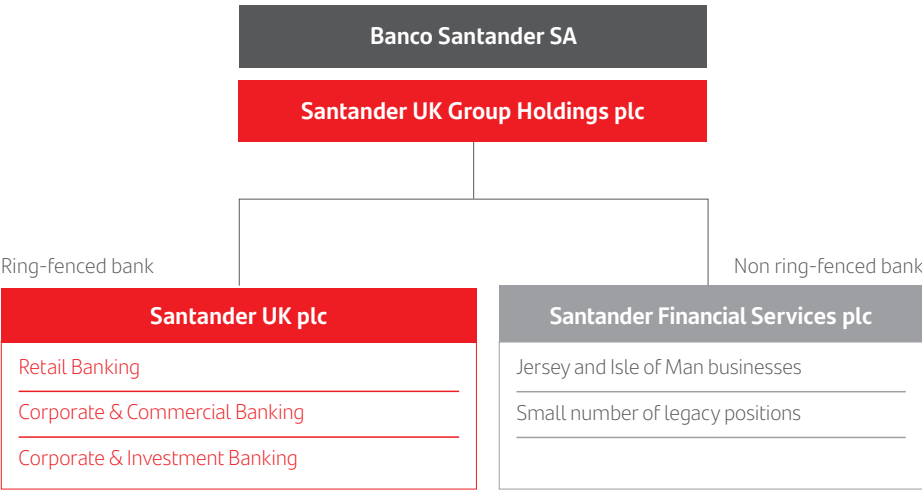
Santander university support
This year we announced funding to help establish MK:U, the UK's first university focused on digital skills, further strengthening Milton Keynes' position as Europe's leading Smart City. MK:U is expected to serve at least 5,000 students and be open by 2023.

Cyber security and fraud awareness
We are working to help educate our customers about how to avoid becoming victims of scams. In 2019 we launched 'For Your Eyes Alone', a campaign designed to reach the under 25 audience to help them to understand the importance of keeping personal data 'for your eyes alone'.

Our Santander Behaviours outline how we bring to life The Santander Way: Simple, Personal and Fair



Our structure – we manage our bank through three customer business segments supported by the Corporate Centre



Our refined strategy



Read more in our
Sustainability review
on pages 26-31

More than a café and more than a bank

In July we opened our first Work Café in Leeds. The Work Café concept adds a new banking experience, reflecting our commitment to bringing innovation and investment to our branch network. It is an innovative space that brings together a bank, co-working area and café.

The concept was first developed by Santander in Chile in 2016 and the UK opening means there are now over 50 Work Cafés across six countries.

The Work Café offers state-of-the-art banking facilities alongside free co-working spaces and meeting rooms for local businesses and entrepreneurs. Both Santander and non-Santander customers are welcome.

Since opening, over 30,000 visitors have enjoyed using the Work Café facilities whether just for a coffee, to co-work, use the meeting rooms, attend events or discuss banking needs. Feedback has been extremely positive, with the café receiving a five star review in Modern Work Magazine. We have also hosted over 40 Work Café Talks and Events with a focus on supporting small business owners and entrepreneurs with growing their businesses.



CEO review



Nathan Bostock
Chief Executive Officer

Our 2019 results were impacted by the ongoing income pressure on mortgages and legacy PPI charges, but they also include the investment we are making as part of our plan to transform the bank for the future, driven by our focus on delivering great products and service to our customers.

Today, consumers face greater choice of banking provider than ever before, yet relative uniformity in products and services. This competitive challenge for the banking sector has been compounded by a lack of economic confidence and slower rate of growth; inevitably impacting performance. Our 2019 results, with 37% reduction in profit before tax, further reflect the ongoing income pressure on mortgages and PPI charges, alongside the important investment we are making in transforming our bank for the future. In recent years, we have purposefully operated a low risk strategy; making prudent investments in our core competencies, and embedding sustainable, long-term value across all our business activities. In doing this, we will enhance our standing as a responsible and resilient choice for our retail customers, and also position ourselves well to support the growth and trading strategies of our business customers.

Our cautious approach to risk has been affirmed by the Bank of England's stress tests, which illustrate our bank's resilience to a significant economic downturn. We remain focused on restoring our return on tangible equity to our target range over the medium-term, and I'm pleased that our CET1 capital ratio has increased to 14.3% through capital accretion and strong capital discipline. This has been done without compromising dividend payments or our credit quality, while delivering our strategy of selective growth.

In the current environment, taking the time to leverage effectively our competitive points of difference has never been more important in earning and retaining customer loyalty. This is at the heart of our bank's strategic priorities; providing a comprehensive retail offering, as well as growth-focused support for business and corporate customers, while developing products which make banking simpler, fairer, and far more personalised than ever before.

We are building on our depth of expertise in key market segments such as residential mortgage and SME banking in order to ensure innovation is truly customer-centric, better integrated across our own and related industries, and supported with first class customer service.

We have a particular focus on helping people across the country achieve their homeownership dream and, in 2019, supported over 37,000 first time buyers; up 47% in three years. We also increased simplicity and ease of online mortgage services, with 60% of customers choosing to retain their mortgage online; up from 41% in 2016. This has all helped reinforce our position as the third largest mortgage lender; achieving £7.4bn net mortgage growth in 2019, which is our strongest for a decade. Meanwhile, customer deposits have increased by £5.7bn; our highest growth in three years, thanks to a successful ISA

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We are confident in our ability to succeed by providing our customers with an experience that is second to none, through a relentless focus on improving our efficiency and competitiveness.

campaign, 11213 Business Current Account inflows and strong performance in our corporate business.

Fundamentally, the products and services which provide financial security and prosperity to retail and business customers, also generate greater resilience and sustainable growth for our bank. All high-performing business activity stems from sustainable goals and, as a responsible business, we know the paramount importance of allocating capital and financing the transition towards a low carbon and more inclusive economy. In recent times, extreme weather events and other consequences of the climate crisis have reinforced a business-critical need to protect our communities and environment. The PRA, FCA and Task Force on Climate-related Financial Disclosures have rightly called for far greater effort and, in advance of the UN Climate Change Conference in the UK this year, we are committed to the UK's ongoing climate goals, as well as Banco Santander's target to raise and facilitate €120bn in green finance by 2025.

In 2019, our Corporate and Investment Banking (CIB) and Corporate and Commercial Banking (CCB) units originated business for renewable energy transactions in excess of £1bn; ranking as the third highest financial lender in Europe for the renewables market. Along with Banco Santander, we were also ranked the number one financial adviser in Europe for wind, solar and biofuel projects.

We want to represent the sustainable choice for all customers and colleagues, from macro-financial activity, to the way we run our own business. For example, we are pleased to source 100% of our electricity from green supplies, such as biomass, wind and water. In 2019, we reduced electricity use by 6.6% and aim to do the same again this year, as well as maintaining our green energy certification for using solely renewable electricity.

As you would expect, our sustainability strategy underpins the analysis and evolution of our core business propositions, through a £400m, multi-year transformation programme. To date, we have invested £155m on restructuring the branch network, reshaping our corporate business, and simplifying, digitising and automating the bank. This has already realised over £80m in savings through increased efficiency and, as programme momentum continues to build, we expect efficiency improvements to offset inflationary and other cost pressures.

We know that being fit for the immediate and long-term future means making strides in our sector's use of new technologies to augment the customer experience in their channel of choice, in order to bring genuine, inclusive benefit to all, and as a driver for efficiency. 2019 saw a strong increase in our ability to fulfil customers' changing expectations, with a 21% increase in total digital interactions. This encompasses a 5% year-on-year increase in online mortgage

Our Santander behaviours in action

Four years ago, we launched the Santander behaviours to create an environment where our Simple, Personal, Fair values can flourish and be sustained. The culture that they have achieved has never been so relevant today with the opportunities and challenges we face, our behaviours continue to underpin everything we do.

Each day when I talk to our colleagues, I hear and see inspiring stories of how we support our customers alongside our communities and how our behaviours guide those interactions. It's that sense of purpose that makes me proud to be leading a workforce committed to deliver the very best experience for our customers.

As we transform the organisation, it is more important than ever that we hold firm to the principles that make Santander a great place to work. While transformation brings opportunities, the journey of change is rarely easy. Our set of behaviours are intricately embedded in our approach to both building a bank and workforce of the future. A bank of the future that is driven by outcomes, breaking down silos and delivering an agile working environment. A workforce of the future that has determination, collaboration and resilience that can sustain the pace of change with a relentless focus on our customers.

I want Santander to be a company of choice for people, attracting and retaining key talent and skills, who share our values and passion for helping people and businesses prosper. This is crucial for our future success and the culture we have is key in achieving this. We will continue to embrace our behaviours through transformation and in our everyday interactions in order to maintain and build upon the culture that we have at Santander, one that I am very proud of.

We have made fantastic progress in embedding the right culture within the organisation, and through our Board Responsible Banking Committee we continue to monitor this cultural change to help ensure that we remain on track.

CEO review continued

retention, and 8% year-on-year increase in retail current account openings. Our pioneering use of financial technology will support this upward trajectory, including the launch of 'Mortgage Engine' in November 2019: a platform we built and financed which, for the first time, enables intermediaries to source simultaneous decisions in principle from multiple lenders. The pilot phase currently connects 22% of the market, and we have ambitious targets for 2020.

Through innovative, intuitive digital products and services such as these, together with targeted support and campaigns, we want to continue improving our customer experience. In 2019, our Net Promoter Score (NPS) places us in the top four for Retail customer satisfaction, and I am delighted that our NPS ranks us first for Business and Corporate customer satisfaction. This reflects the invaluable contribution of programmes

such as 'Breakthrough', which provides advice, workshops and growth opportunities to thousands of start-ups and small businesses. Breakthrough's beneficiaries include those supported in collaboration with the British Library Business and Intellectual Property Centre, with whom we have signed a new three year partnership. We are also helping to meet the ambitions of UK Government's Investing in Women Code with a new 'Women in Business' mentoring programme, supporting female founders and company leaders across the UK.

In recent years, many UK small and medium-sized enterprises have been buffeted by sterling volatility and weakness, whilst a prolonged lack of clarity has made it difficult to make long-term investment and planning decisions. Our international proposition is therefore an important investment in businesses with high-growth

potential which are helping to expand the UK economy, namely trade and export led SMEs. Through our exceptional depth and breadth of market knowledge and connectivity, we aim to get businesses operations-ready within six months of introduction to a new market. We provide a pioneering suite of support for trailblazing businesses through regular trade missions, SME-targeted research in our biannual Trade Barometer, and facilitation of seamless financial and related services through Banco Santander and in-market partners.

In addition, in October 2019, we launched the Trade Club Alliance of fourteen global banks across 60 countries; cooperating via a digital platform to fulfil or signpost the facilitation of trade. Of course, the strength of our international proposition in the UK is reinforced by the global strength of Banco Santander, whose resource and reach benefit our customers. For example, its recent investment in UK FinTech and global transaction banking platform, 'Ebury', in order to further simplify the process for all businesses aspiring to enter or expand their operations in global markets.

With rapid industry evolution due to new regulation, technology, innovation and competition, there are a host of new ways to manage everyday banking, but also new areas of vulnerability for the customer. That is why we are rethinking our digital, physical and community infrastructure, and refining our customer offer with bold solutions. This includes making tough decisions, such as closing 140 branches, in order to reinvest in the branch offerings of the future. For example, our first 'Work Café' which launched in Leeds in July 2019 and hosted over 30,000 people last year for a combination of branch, business creation and networking services.

We are also tailoring our provision of customer education and support through events such as First Time Buyer Classes and Scam Avoidance Schools. As those aged 18-24 are particularly susceptible to online fraud and scams, we launched a ground-breaking social media campaign for this audience in July 2019. In partnership with characters from the BBC's 'Krupt FM', well-known by our target audience, we reached millions of young people with educational films focused on personal financial and data security. This followed

66 We are embedding sustainability across our business and in everything we do and remain well-placed to meet our medium-term goals.



on from our 2018 campaign for the over 60s, which focused on helping older people who are vulnerable to falling victim to fraudsters and scammers. Meanwhile, in partnership with Age UK and the Alzheimer's Society, we developed a module to help older customers feel more confident with digital banking. We aim to become the UK's best digitally dementia-friendly bank; supported by dementia ambassadors in every branch region and contact centre.

Going forward, we are equipping our people with the necessary knowledge and skills to deploy digital capabilities effectively; ensuring artificial intelligence and machine-learning are carefully managed to increase efficiencies, improve quality and reduce risks. To this end, we recently signed a partnership with the renowned digital skills platform 'Pluralsight', and are hosting a large and growing number of digital apprenticeships. We also launched the new 'MIO' internal training tool in order to provide ongoing learning which is tailored to colleagues' individual skills needs. Our eight employee networks, with around 40% of all colleagues in membership, are also invaluable forums for support and development. Each is focused on a particular aspect of diversity and inclusion, and sponsored by one of my executive team. This is an important investment in all our people, which is supporting talent across business disciplines.

Meanwhile, Santander Universities UK is continuing to make an invaluable investment in the next generation of talent. In addition to the thousands of student entrepreneurs and ME-internships supported across the UK,

we launched in July 2019 the first STEMships programme to support more female engineering students to enter directly related careers, including the data science required urgently in financial services. I feel strongly that this kind of investment in higher, applied and technical education is business-critical, and we must work more closely with colleges and universities to support development of the skills we need. That is why we are pioneering a new model for partnership between business and academia through our multi-million pound investment in MK:U, the first UK University for digital skills.

As a scale challenger, we want to inject true market competition in fostering a healthy banking culture, supporting small businesses to create jobs, helping more people to access finance easily and safely, and investing in the low carbon economy. This means significant introspection and willingness to do things differently, and it also means taking a stand on matters of the greatest importance for our sector and the people we serve. We are pleased, for example, that our call for greater regulatory coordination has been heard by Government, and we are continuing to spearhead new industry solutions in partnership with peers and regulators.

With this in mind, I would like to take this opportunity to thank our outgoing CFO, Antonio Roman, for his invaluable leadership throughout the ring-fencing process and other structural changes. He returns to Spain as Head of Retail and Commercial Banking for Santander Spain, and I am glad to welcome Duke Dayal, formerly CFO of Santander Holdings USA and President and CEO for Santander Bank NA, as his replacement.

As the regulatory, technological and wider geopolitical world evolves at pace, we have an important role to play in empowering and safeguarding our customers, colleagues and wider stakeholders. I believe that shrewd investments in our core competencies will position us as a trusted point of knowledge and support, and the bank of choice for the broadest spectrum of society. This year, we were proud to be placed in the top 20 organisations in the Social Mobility Employer Index 2019, just one of the ways we have been recognised for our commitment to being an inclusive employer. We have always prided ourselves on doing business in a way that is simple, personal and fair, and our customers can rely on us when they take their next financial steps for the future.

N. Bostock

Nathan Bostock
Chief Executive Officer
2 March 2020

Market overview



1

Five major forces continue to shape the UK banking market

Changing customer behaviour

2

Strong market competition

3

Rapid technological change

4

Demanding regulatory agenda

5

Uncertain economic environment



As part of Banco Santander, we are helping to establish a key role in the fight against climate change

Protecting ecosystems, promoting financial empowerment and furthering gender equality are among the 17 Sustainable Development Goals defined by the United Nations to protect the planet and foster social well-being. The United Nations Principles for Responsible Banking were developed to engage the financial sector in achieving these objectives. Banco Santander, as a company committed to people, businesses and the planet, is a founding signatory of the initiative.

The signing of the Responsible Banking Principles marked the most significant cooperation between the global banking industry and the United Nations to date. More than 130 banks from all over the world, including Santander, representing US \$47tn in capital, have committed to assume a key role in achieving a sustainable and inclusive future.

These principles will influence how the global banking industry behaves and will help to shape the banking market of the future.

3.1 million users

Exclusively using mobile app

What we have seen

As customer behaviours change, banks are re-evaluating their service and operating models. The move away from traditional in-branch banking towards online 24-hour service continues. Customers are demanding more customised products and, with more information to hand, are increasingly likely to shop around for products that meet a particular need, rather than relying on their main bank to provide everything. This in turn creates the need for banks to be competitive across all areas of their offering, ensuring they create a range of products that meet a variety of customer needs.

Our response and looking ahead

We aim to serve our customers through the most suitable channel, whether that be through mobile, online, branch or telephone.

The number of transactions carried out via Santander branches has fallen by 41% over the past three years, while transactions via digital channels have grown by 93% over the same period. In response to the changes in how customers are choosing to carry out their banking, this year we have re-shaped our branch network and closed 140 branches. We have also begun to refurbish 100 branches with a focus on personal service, convenience and community engagement.

For our corporate customers we have a network of Corporate Business Centres (CBCs) across the UK and have recently opened our first Work Café, offering an innovative space for clients and non-customers, which brings a bank, co-working area and coffee house together in a single place.

81bps

Average net mortgage margin for 2019⁽¹⁾

What we have seen

The UK banking sector remains highly competitive with continuing pressure on margins experienced throughout the year. Competition in the mortgage market has continued to be intense with rates for fixed term products decreasing since the start of the year.

There have been new entrants into the banking market, challenging existing providers in areas such as current accounts and savings products. This has put pressure on non-interest generated income along with rates paid on savings accounts.

Our response and looking ahead

As a leading scale challenger we are well-positioned despite a competitive market. We are focusing on our core franchises and in mortgages delivered our best net mortgage lending for a decade. This year we launched an innovative advertising campaign featuring Ant and Dec, initially focused on mortgage lending and raising brand awareness.

We understand the importance of knowing our customers and responding to their changing needs through continuous innovation of products and services.

We have begun a multi-year transformation programme to reduce costs and improve returns. Decisive actions will translate into improved efficiency in the medium-term along with a better customer experience.

⁽¹⁾ Bank of England 2 year fixed 75% LTV less Bloomberg average 2 year swap rate.

2/3

UK adults now use contactless payments⁽¹⁾

What we have seen

Technology continues to advance rapidly across the financial services sector. Offering digital platforms has become essential, not only for day-to-day banking but for all banking needs, including mortgage applications and investment advice and servicing.

Disruptors are challenging the way banks traditionally serve their customers. They are increasing digital interaction through the use of innovative technology and data from multiple sources such as Open Banking.

Cyber security remains a key priority as customers move towards more digital activity. The ability to adapt to new risks is essential to meet new challenges faced across the industry.

Our response and looking ahead

Recognising the changing behaviour of customers, we are focused on digitally transforming the business. By utilising innovative digital solutions allied with our customer-centric approach, we aim to deliver excellence in customer experience.

We collaborate with FinTech companies through open IT architecture to help bring greater personalisation to our services. We benefit from our relationships with a number of innovative technology companies which Banco Santander's \$200m Santander InnoVentures fund invests in.

⁽¹⁾ UK Finance (2019). UK Payment Markets Summary 2019.

Over 100

Regulatory initiatives in progress

What we have seen

Regulation in the UK remains focused on promoting positive customer outcomes by raising awareness, encouraging the financial education of customers and promoting competition. By removing barriers to exit for customers they can more easily change products and services to suit their needs.

The changes in the UK banking sector bring both risks and opportunities to existing providers. Advances in technology enable both start-ups and established banks to better tailor their offerings to their customers.

In 2019, the FCA announced measures to change the way banks and building societies charge their customers for using overdrafts. They will no longer be able to charge higher fees for unarranged overdrafts than for arranged overdrafts. The new rules will come into force in 2020.

Our response and looking ahead

We expect the regulatory agenda to continue to evolve and encourage more competition in the banking sector, opening it up further to new entrants. We also expect increased regulatory compliance costs as new regulation is implemented.

In 2020 we announced changes to the way we charge our customers for using overdrafts. From 6 April 2020, we will introduce a single interest rate for an arranged overdraft on all adult accounts, making the cost of using an overdraft more proportionate to the amount borrowed.

+0.5% to +1.9%

Range of HM Treasury consensus for 2020 growth in annual GDP⁽¹⁾

What we have seen

The UK economy has experienced volatile activity due to pre-Brexit preparations with an average 0.2% quarterly growth in 2019, roughly half the pace seen in the previous two years. In January 2020, the UK left the EU and has entered a period of negotiation on a future trading relationship.

The Bank of England base rate remained flat in 2019 at 0.75%, due to slower global growth and Brexit uncertainties. The rate rose 25bps in both 2017 and 2018.

Our response and looking ahead

We expect UK growth to remain relatively subdued in 2020, with continued Brexit uncertainty and a weaker global economy. UK inflation is expected to remain below the 2% target in the near-term, with lower energy price inflation the main driver.

In early 2020 we announced changes to the 11213 Current Account as a result of a number of factors, including a persistently low interest rate environment.

In our core lending markets we anticipate modest growth, with the mortgage market continuing to grow at c3%, with weaker buyer demand and subdued house price growth likely to continue. The corporate borrowing market is also expected to grow by c4%, as uncertainty continues to dampen investment intentions.

⁽¹⁾ HM Treasury Forecasts for the UK economy: a comparison of independent forecasts.

Business model

Our purpose is to help people and businesses prosper

Our aim is to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our stakeholders

Our resources

- 

People
Our 23,500 people bring skills relevant to all aspects of our business, from deep personal relationships with customers to the innovative approach necessary to drive growth and efficiency
- 

Infrastructure
Our technology, operating centres and optimised branch network serve customers and their rapidly changing needs
- 

Banco Santander family
Being an important part of a well-diversified global bank, sharing management experience and providing synergies by leveraging group technology and brand
- 

UK presence
Our established presence in the UK and our valuable relationships with our people, customers, suppliers and partners as well as regulators and the government
- 

Financial
Customer deposits, funds raised in the wholesale markets and reinvested profit, along with a resilient balance sheet and prudent liquidity

What we do

- Provide financial products and services**
Mortgages, consumer auto finance, unsecured loans, credit cards, banking and savings accounts, investment and insurance products for individuals and specialised services for companies

How we do it
- Build strong customer relationships**
Leveraging our experience and scale to drive customer loyalty

Offer a differentiated proposition
Anticipating customer needs and tailoring our products and services to be more meaningful and relevant

Take a prudent approach to risk
Making the right lending decisions. Identifying, assessing, managing and reporting the risks which could impact our business, results, reputation or sustainability

Do things The Santander Way
Living the Santander behaviours in how we interact with all our stakeholders, ensuring everything we do is simple, personal and fair

Our competitive advantage
- Leading scale challenger bank**
An optimised footprint and scale in our core banking businesses combined with an innovative mindset

Resilient balance sheet and prudent approach
Strength of capital and liquidity demonstrated by the lowest CET1 drawdown in the 2019 BoE stress tests

International expertise for UK companies
Helping UK companies expand into overseas markets

Value creation

- 

Customers

£7.4bn
Net mortgage lending, strongest in over a decade

17
Trade corridors to help businesses bolster global trade
- 

Shareholders

50%
Annual dividend payout policy to ordinary shareholders

12 years
Profitable and dividend paid every year
- 

People

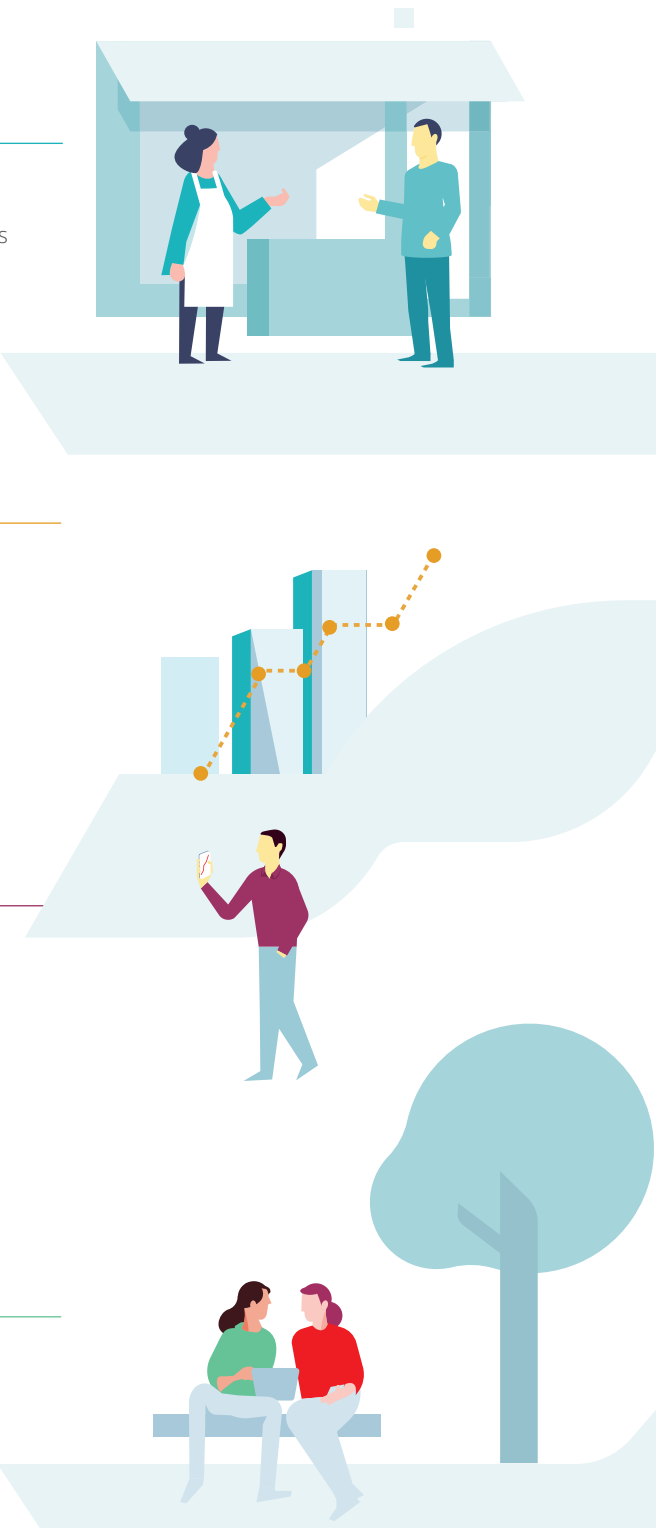
£10.6m
Employee training and development in 2019

144,703 days
Employee training in 2019
- 

Communities

£12.7m
Support for communities in 2019

248,100
People financially empowered in 2019



Strategic review

Our refined strategy

Our refined priorities are aligned to Banco Santander's European strategy announced in April 2019. We are focused on customer loyalty, simplification, improved efficiency and sustainable growth, while being the best bank for all our stakeholders. Our four strategic priorities are set out below along with corresponding KPIs on pages 16 and 17.

Our strategic priorities

1

Grow customer loyalty by providing an outstanding customer experience

- Connect our physical and digital channels for seamless customer experience
- Focus on core franchise optimisation
- Profitable growth in retail banking
- Improve returns in corporate banking
- New and evolving revenue sources including global group projects

2

Simplify and digitise the business for improved efficiency and returns

- Continue simplifying, digitising and automating the bank
- Radically improve our technology and operations through innovation and optimisation
- Ensure capital discipline and RWA management
- Maintain prudent approach to risk

3

Invest in our people and ensure they have the skills and knowledge to thrive

- Enable our people to meet their full potential
- Provide training and development opportunities to deliver a workforce for the future
- Ensure all aspects of diversity remain front of mind

Top risks	Top risks actively monitored in 2019 include:	– Brexit – Ring-fencing – Capital strength – Pension risk – Financial crime	– Complex change agenda – Cyber-attacks – Conduct risks – Third party risks
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Becoming a more responsible bank

At Santander UK we understand that the decisions we take have an impact on society, the UK economy, and our environment. We continue to embed sustainability across our business, focusing on four pillars, which are explained below with links to the relevant United Nations Sustainable Development Goals. To find out more, see our 2019 ESG Supplement.

4

Further embed sustainability across our business

- Act responsibly in everything we do
- Grow our business sustainably
- Create value for all our stakeholders

Create a thriving workplace that attracts, retains and rewards the most talented and committed people

5 10

- Employee development
- Diversity and inclusion
- Compensation and benefits
- Employee engagement and wellbeing

Drive sustainable economic growth, financial inclusion and positive socio-economic impact

1 3 4 5 7 8 10 11 12 13 17

- Climate change and greenhouse gasses
- Financial inclusion

Drive inclusive digitalisation and use technology in a way that creates value for all of our stakeholders

1 9 10

- Privacy and data security
- Digitalisation

Uphold the highest ethical standards and fight financial crime

1 4 5 8 10 12 16

- Financial crime
- Ethics and corporate culture
- Reputation

Key to United Nations Sustainable Development Goals



Strategic review

We have taken decisive steps in 2019 to progress our strategic priorities and our focus on cost efficiency is starting to deliver tangible benefits.

We are confident in our ability to succeed through a relentless focus on improving our efficiency and competitiveness.

Key Performance Indicator ⁽¹⁾		2019 result	Why it matters and how we performed	Results
Customers 	Loyal customers	32%	Loyal customers (as a % of Active customers) measures the proportion of our customers who have a primary banking relationship with us alongside another product. Loyal customers stay with us longer and their current account usage gives us in-depth insight which allows us to tailor our services to their needs. Loyal customers increased in 2019, building on previous years progress and laying a solid foundation for us to achieve our target of 34% in the medium-term.	201830% 201932%
	Digital customers	5.8 million	Digital customers are increasingly important given the benefits that mobile and digital can bring to customer experience alongside more efficient operational delivery of 24/7 service. Customers in the UK are increasingly moving towards mobile and digital banking and we have increased digital customers to 5.8 million in 2019.	20185.5 20195.8
	Retail NPS ⁽²⁾	Top 4	Retail net promoter score is a widely-used measure of customer experience and customer advocacy of our retail customers. We ranked in the top four amongst our peers as we focus on building stronger customer relationships and a seamless customer experience.	Top 4 out of 9 competitors
	Business and corporate NPS ⁽²⁾	1st	Business and corporate net promoter score is a widely-used measure of customer experience and advocacy for our business and corporate customers. We ranked first amongst our peers, a testament to the comprehensive proposition and our focus on small and medium-sized businesses.	1st out of 6 competitors
Shareholders 	Adjusted RoTE ⁽³⁾	7.8%	Adjusted RoTE is a measure of income generation on shareholder investment. The adjusted RoTE of 7.8% in 2019 was lower than 2018 due to ongoing mortgage income pressure, partially offset by low credit costs which reflect our prudent risk management. We are focused on improving returns through our multi-year transformation programme to achieve a 9-11% adjusted RoTE in the medium-term.	201810.2 20197.8
	Adjusted cost-to-income ratio ⁽³⁾	59%	Adjusted cost-to-income ratio is an efficiency measure to capture the amount spent to generate income. Adjusted cost-to-income ratio increased to 59% in 2019 largely due to income pressure. In the low rate environment, we are focused on costs as we invest in our multi-year transformation programme to improve returns going forward.	201854 201959
People 	Top 10 company to work for	Accreditation aim over the medium-term	Top 10 company to work for is an important measure of employee satisfaction and our participation forms part of a wider Banco Santander goal. To measure this we will seek to participate in an industry-wide ranking survey for accreditation in 2022 to check our progress towards our over arching global medium-term target. In 2019, Santander UK was accredited in the Top Employers Survey for 2020.	
Communities 	Financially empowered people	248,100	Financially empowered people are those unbanked, underbanked or vulnerable people who we are supporting with access to the financial system, tailored products and financial education. In 2019, we continued to support and invest in communities across the UK to foster sustainable economic growth, contributing to Banco Santander's target to financially empower 10 million people by 2025.	2019248,100

(1) See page 33 for KPI definitions.
(2) NPS measure became a KPI during 2019, replacing customer satisfaction to incorporate a broader measure of advocacy.
(3) See 'Alternative Performance Measures' on page 169 of the 2019 Annual Report for details and reconciliation to the nearest IFRS measure for return on ordinary shareholders' equity (RoE) and cost-to-income ratio. 2019 RoE was 4.8% and cost-to-income ratio was 61%.

Risk management overview

Sound risk management is at the centre of our day-to-day activities. It benefits our business and our customers by helping to ensure balanced and responsible growth.

Top risks

We regularly review the top risks that could impact our customers and shareholders. Risks actively monitored over 2019 include:

Brexit

We continue to monitor Brexit as a top risk, following the UK's exit from the EU on 31 January 2020. Our Brexit planning is now focused on the potential outcomes of the UK and EU negotiations in respect of a Free Trade Agreement (FTA) and equivalence in financial services, by the end of 2020. We are also maintaining and refining existing plans to address a number of areas requiring cross-divisional communication including financial markets infrastructure, data, payments, third-party services, cyber, and internal and external communications. For more details on our assessment and management of Brexit risks, see page 19.

Ring-fencing implementation

We executed our ring-fencing plans, in order to meet the 1 January 2019 legislative deadline. The majority of customer assets and liabilities remain within the ring-fenced bank, providing longer-term flexibility with minimal disruption for our customers. Corporate and wholesale markets business, which is prohibited from inclusion in the ring-fenced bank, was transferred to Banco Santander London Branch. Ring-fencing resulted in significant change to our structure, people and operations, and we have retained it as a top risk to ensure continued focus on the ongoing embedding of ring-fencing culture throughout our governance and operations. This has included continued emphasis on related controls, procedures, reporting, and additional internal communications and staff training.

Building and maintaining capital strength

Regulatory uncertainty arising from decisions made by regulators on the implementation and interpretation of capital rules and on macro-prudential issues can impact upon our capital management. We continuously review our capital position on a forward looking basis, and it is also subject to the Bank of England's stress testing regime. Publication

of the 2019 stress test results showed that we passed the stress tests, and were not required to undertake any capital actions.

For the fourth year in a row, we had the lowest stressed CET1 capital ratio impact of all participating firms, demonstrating our resilient balance sheet and prudent approach to risk, in an extremely competitive and uncertain environment. On both IFRS 9 transitional and non-transitional bases, our lowest post-stress end-point CET1 capital ratio, before and after management actions, was in excess of the CET1 hurdle rates established by the Bank of England. On both IFRS 9 bases, but after management actions, our lowest post-stress end-point leverage ratio also exceeded the Bank of England hurdle rates. Given the composition of our balance sheet, the leverage ratio is growing in importance, in terms of the binding capital constraint for our business.

Pension risk

Over the course of the past two years a number of de-risking actions have been undertaken including execution of various hedging strategies and strategic asset reallocation which has reduced the fund's exposure to pro-cyclical assets, and improved the fund's resilience. Despite falls in long term interest rates, the funding deficit position (2016 valuation basis) was broadly stable over the year as long term inflation also fell and asset values increased. The IAS 19 accounting position did however worsen, as in addition to these factors credit spreads narrowed, increasing the value of the liabilities. During the year we completed and agreed the Triennial Valuation process with the Trustees, which resulted in a lower funding deficit on the updated valuation basis. We have also continued to take actions to improve risk management and control, along with the associated governance procedures.

Financial crime

We recognise that financial crime activities can have a significant impact on our customers. Criminals are also increasingly using the financial system to launder the profits of illegal activity such as human

trafficking and terrorism. Significant investment in ongoing enhancement continues to be made to our financial crime control framework, and to key controls including anti-bribery and corruption measures, customer risk assessment, and screening and transaction monitoring.

Managing a complex change agenda

As part of our business planning strategy we have continued to invest in a project portfolio that supports risk, regulatory and growth requirements. In order to effectively manage our complex change agenda, we have established robust processes and controls that allow us to track any potential issues and mitigate implementation risk. In delivering key projects, we keep pace with developments in the regulatory environment and technological advances, whilst focusing on maintaining our market position and remaining competitive.

Cyber-attacks

In 2019, threats from the external cyber environment continued to evolve, due to heightened geopolitical tension, and active well-established cyber-crime groups. We monitor a range of cyber threats including attacks on payment systems, ATM networks and customer data where insider threat and network intrusion are the most common attack methods; an emerging threat from a new method, aimed at breaching organisations' on-line customer services, (such as internet banking) and causing denial of service. In addition, Data Security and General Data Protection Regulation (GDPR) compliance continue to be key areas of concern. We have taken mitigating actions against these various threats including deployment of a cyber threat intelligence platform, increased intelligence through chairing the Geopolitical Financial Services working group and robust online service access construction utilising anti Distributed Denial of Service (DDoS) techniques. The mitigants implemented in our Cyber Security Plans are proving effective and we have experienced no significant disruption to date.

Conduct risks

Like all UK banks we continue to see a demanding regulatory agenda focused on fair customer outcomes, avoiding customer harm (including from inertia), vulnerability and consumer protection in general. We aim to comply with all applicable regulatory requirements and we have no appetite to operate in a way that leads to unfair outcomes for our customers or that negatively impacts the market or breaches regulatory or legislative requirements. A major conduct issue that has impacted UK banks over the past few years related to Payment Protection Insurance (PPI). A deadline for customer complaints at the end of August 2019 was set by the FCA, and in the run up to this date we saw an uplift in the volume of claims to unprecedented levels, which resulted in us making an additional provision of £70m in Q2 2019 and £99m in Q3 2019 to cover this. When implementing regulatory change we are focused on ensuring that our strategy, leadership, governance arrangements, and approach to managing and rewarding staff does not lead to a detrimental impact on our customers, competition, or to market integrity. We expect all people in our organisation to take responsibility for managing risk through our I AM Risk programme.

Third party risks

Like other banks, we rely on a number of major suppliers, in order to continue to deliver products and services to our customers. The complexity and criticality of services provided by third-parties to the industry is a key operational risk that has been recognised by us, our peers, and the regulators. We carefully assess and monitor the degree of risk associated with our suppliers on an ongoing basis, supported by key operational risk indicators and monthly dashboards submitted by our business units. We place emphasis on a carefully controlled and managed Third Party Supplier Risk Framework, and we are enhancing resources in this area in order to manage this risk. This framework ensures that those with whom we intend to conduct business meet our risk and control standards throughout the life of our relationship with them. We monitor and manage our ongoing supplier relationships to ensure our standards and contracted service performance continues to be met.



Brexit

With the general election behind us, there is less uncertainty and more clarity in the political environment. Following the UK's exit from the EU on 31 January 2020, early indications are that the UK may seek a degree of divergence from the status quo, in its pursuit of a Free Trade Agreement. The UK and the EU will also be assessing their regulatory equivalence, in order to determine the level of access afforded to financial markets. Given the limited time available, and the Government's stance that it does not want an extension beyond the end of 2020, a 'no deal' Brexit remains a risk.

Experience has shown that trading concerns for businesses and investors can have negative consequences for the economic outlook and also impact the market's perception of future interest rates. There was a bias towards monetary easing by global central banks during the latter half of 2019, and this bias still remains at the beginning of 2020.

However, the Conservative Government's election pledge to inject stimulus into the UK economy to smooth the UK's exit from the EU could, if it materialises, temper the market's expectations for lower interest rates in the future. Should rates remain relatively low for an extended period, it could prove challenging for the banking industry to achieve the longer term targets set out in their business plans.

We have executed interest rate hedging programmes for both our Balance Sheet and Pension Fund to help mitigate exposure to lower rates over the medium-term.

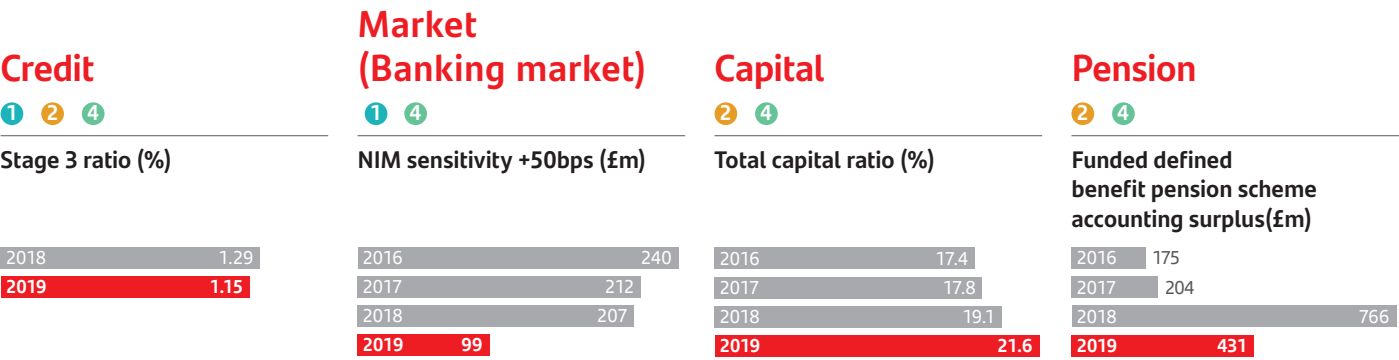
There are additional risks that may arise for our customers as a result of Brexit, in both Northern Ireland and Scotland. The arrangements for Northern Ireland could have impacts on its economy and could lead to a referendum on independence. In the longer term, our business interests in Scotland could also be impacted, should momentum for a second referendum on Scottish independence re-emerge. There have been renewed calls for a second vote, but the UK Prime Minister has since re-iterated his commitment to strengthening the Union.

Our Brexit planning is overseen by the Board, Board Risk Committee and Senior Management Committee. Our Brexit Working Group, comprised of representatives from across the business and support functions, completed our preparations and ensured operational readiness ahead of previous potential 'no deal' risk junctures in 2019. These plans will be maintained should they be required again in preparation for a 'no-deal' scenario later this year. Further plans will be developed when there is clarity on the future trading arrangements and their potential impacts on the bank and its customers.

Risk management overview continued

Risk types

All our activities involve identifying, assessing, managing and reporting risks. Of the Risk Types covered here several also have Top Risks associated with them, including Operational, Capital, Pension, Conduct, and Financial Crime risk.



What we have seen
Credit quality remained strong, supported by our prudent approach to risk, proactive management actions as well as the ongoing resilience of the UK economy. Low interest rates and falling unemployment have contributed to a benign credit environment resulting in low levels of default in both the mortgage and corporate portfolios. This has also been reflected in a low cost of credit of 11bps compared to the more normalised average of 20bps to 30bps. Whilst the market continues to show resilience, we are cautious on the outlook in light of ongoing market uncertainty.

How we mitigate the risk
We manage our exposures carefully to ensure we stay within our risk appetite and agreed concentration limits. We have thorough credit checking and approval processes to understand the risk we take on when we lend.

We closely monitor the economy and where we see areas of stress we take action to reduce our exposure or to adapt our pricing to adequately reflect the risk.

What we have seen
2019 saw yields in the UK begin to fall in the second half of the year. The market started pricing in up to two base rate cuts on renewed fears of global slowdown, trade wars and Brexit. Though the Bank of England has kept BoE rates steady at 0.75%, we saw swap rates significantly lower than the beginning of the year. Market expectations are for future rate cuts over the next year or so, depending on the performance of the UK economy, trade deal with the EU and the wider global economic outlook.

Our balance sheet is positioned to benefit from a rising interest rate environment, while at the same time protecting NII in the case of a low for longer scenario.

How we mitigate the risk
We use a variety of approaches to protect the bank from interest rate risk. These include using financial instruments or by matching fixed rate deposits with fixed rate loans of a similar term.

In addition, stress testing is an essential part of our risk management, helping us to measure and evaluate the potential impact of extreme events or market moves.

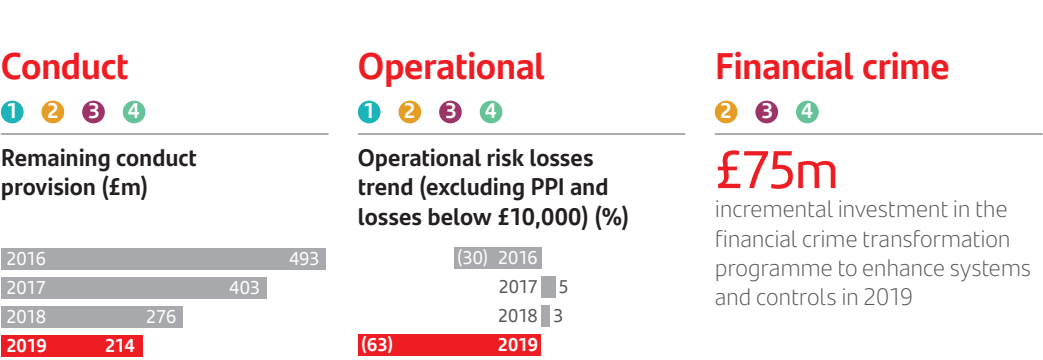
What we have seen
Regulatory capital requirements, including leverage, have continued to increase. This trend is set to continue across the course of 2020, with the forecast increase in the Countercyclical Capital Buffer.

We have generated capital consistently, whilst undertaking risk management initiatives, including securitisations, to further strengthen our capital position.

How we mitigate the risk
We utilise a capital risk framework that informs and monitors our capital risk appetite. Capital and leverage ratios are monitored to ensure we meet current and future regulatory requirements. We also undertake wide-ranging stress testing analyses to confirm our capital adequacy under various adverse scenarios.

What we have seen
In recent years, UK pension funds have experienced headwinds as a result of falling long-term gilt yields driving an increase in the value of pension liabilities. In many cases these increases in liability values have only been partially offset by increases in the value of hedging assets and return-seeking assets. Where funding positions have deteriorated, additional contributions may be required. The accounting position has been affected by falls in corporate bond yields driving an increase in the value of pension liabilities.

How we mitigate the risk
We monitor pension risk on both the accounting and funding bases monthly against the overall risk appetite set by the Board. A range of investment strategies are used to generate income and capital growth to contribute to the funding of the scheme benefits. Hedging strategies are used to mitigate the impact of inflation and changing interest rates, as well as currency movements and falls in equity values.



What we have seen
In recent years, a major conduct issue faced by banks related to PPI, with significant provisions set aside by the industry for redress. Following the FCA deadline in August 2019, we are now working through the outstanding stock of enquiries and complaints from unprecedented volumes received around the deadline with a view to completion in 2020.

How we mitigate the risk
Our culture of Simple, Personal and Fair, underpinned by our nine behaviours, enables us to embed a conduct strategy within the business where we place the fair treatment of customers at the heart of what we do. We always look to improve our processes and training to ensure this, integrating fair treatment into our product and service design reviews.

What we have seen
Cyber risk has become an increasingly prominent issue, with various well-known companies targeted by sophisticated cyber-attacks, malware and phishing attacks.

In May 2019, the Contingent Reimbursement Model (CRM) Code for Authorised Push Payments (APP) came into effect, the main change being that where neither bank nor customer is to blame in a case of fraud, the bank will refund the customer.

How we mitigate the risk
As one of the top three risks we face, we use separate but complementary approaches to cyber risk. We operate a layered defence, focused on identifying, detecting, preventing, responding to and recovering from cyber-attacks, including simulation tests.

To support the CRM code, we have improved our customers' online payment journey by adding validation and improved visibility on payment destinations. Across digital channels, branches and by telephone, we have provided more than 55 million warning messages, and many customers have been refunded.

What we have seen
UK regulatory change post Brexit may add further complexity to Financial Crime Risk Management. Measures are currently before Parliament for implementation of the UK AML and Sanctions Act and new UK Money Laundering Regulations will be issued in 2020. Material changes to global sanctions regimes are also a key area of focus. Santander UK is engaging with the Government on these issues.

How we mitigate the risk
We are committed to the strongest possible response to financial crime risks having made a number of enhancements to our systems and controls in recent years through the implementation of our Financial Crime Transformation Program. We have also undertaken a series of initiatives to enhance training and awareness, underpinned by an anti-financial crime culture agenda. In parallel, we contribute to the wider economic crime strategy, as participants in the public-private sector partnership, working closely with law enforcement and government agencies, as well as NGOs. As part of these activities, we are also strong contributors to the Government's Economic Crime Plan.

- Strategic priority key:**
- 1 Grow customer loyalty by providing an outstanding customer experience
 - 2 Simplify and digitise the business for improved efficiency and returns
 - 3 Invest in our people and ensure they have the skills and knowledge to thrive
 - 4 Further embed sustainability across our business

Risk management overview continued

Emerging risks in 2019

We regularly review emerging risks that could impact our business and our customers. We maintain an active dialogue with key Corporate customers to aid our overall understanding of the issues that could arise. As well as those risks identified below, we also consider the potential impacts of various economic scenarios that could arise from other factors, for example a global health emergency (such as the recent coronavirus outbreak), geopolitical conflicts or other significant global events. During the year we reviewed a range of risks associated with LIBOR transition, which are being actively managed at the Asset and Liability Committee (ALCO).

Changing customer behaviour

Customer loyalty is diluting across the Banking industry, as expectations are shifting and population demographics evolve. Increasingly customers require first class digital experiences when interacting with their banking services provider, as their expectations are increasingly defined by experiences outside of banking. This is causing disruption to the banking sector with higher demands for: digital product offerings and solutions to manage customer finances; data security and trustworthiness; immediacy and convenience; tailored value products in return for loyalty; price transparency and comparisons across providers. Santander's customer-centric transformation is well underway, with further digital enhancements planned for deployment in 2020, truly designed around customer needs.

Rapid technological change

Successful financial service providers will be those that invest in platforms that satisfy customer expectations and at the same time deliver substantial cost reduction in order to sustain profitability. Santander UK continues to increase its number of digital customers, develop new digital channels, and improve existing digital services, as well as automating existing physical channels. We also place a high priority on technology risk management, especially cyber security, in order to protect our customers and our reputation.

Strong market competition

The UK banking market continues to be highly competitive, with an increasing concentration of revenues in mortgages. At present, our main competition comes from incumbent banks who have strengthened and restructured their activity, and also from building societies. Margins across the industry, particularly in mortgages, continue to come under pressure as a result of this

competitive environment, and this trend is expected to continue for several years ahead. Competition for deposits also remains intense and may escalate as many challenger and specialist banks need to replace funding from Government schemes in the near future. In the longer term, there is also potential for new types of competitors, such as scale digital players, to gain market presence by leveraging their large customer bases and digital customer interfaces. Digital banks are emerging globally, with many targeting the UK, as London is seen as Europe's FinTech hub. We are focused on delivering sustainable, predictable growth in a responsible manner, and achieving consistent profitability through balance sheet strength.

Demanding regulatory agenda

We continue to face a complex regulatory change agenda. The FCA, PRA and other regulatory bodies have been progressing industry reviews across a number of areas during the year. Some key areas of focus include: PPI; High Cost of Credit Review involving the reform of overdraft charges and contingent reimbursement model for authorised push payment fraud. We are focused on managing our regulatory risks, coordinated and prioritised through specific project groups with both risk and regulatory oversight.

Uncertain economic and geopolitical environment

UK economic growth was lower in 2019, compared to 2018, as uncertainty over Brexit continued to subdue business confidence and investment. However, unemployment remains at historical lows and strong real wage growth has continued to support consumption. UK Housing market indicators have generally shown signs of improvement, in the early part of this year, including the level of transactions and price growth. The performance of the broader UK economy during the year, and the government's housing policies, will likely have an impact upon the full extent and duration of these improvements.

Various global institutions have cited potential emerging risks to the global economic and financial system during the year, including: increasing levels of Corporate Sector Debt; a tightening of financial conditions in repo markets; China's financial imbalances; and limited capacity of central banks going forward to prevent a fall in economic growth. Many of the risks regularly cited by these institutions may not have a direct impact on Santander UK, however they

could result in an increase in the cost of funding generally in the wholesale markets. We maintain prudent and resilient Funding and Liquidity Policies to protect the bank and our customers.

LIBOR transition

In Q4 2018, we launched our LIBOR transition programme, which includes identified Senior Managers within the bank who oversee the implementation of our transition plans. The Project has the full support of the Board and Executive Management across the bank. We recognise that there are potential risks to our customers as we transition from LIBOR to risk free rates going forward. Our LIBOR transition programme is in place to ensure a smooth transition, and to anticipate and address any potential customer and conduct related issues that could arise from the change. There are also a number of other thematic risks involved including; legal and compliance; reputational; operational and financial accounting and control. There is also some uncertainty about the likely path of evolution for the set of non-LIBOR benchmarks and markets for non-LIBOR products (including liquidity or illiquidity related issues).

In January 2020, the Working Group on Sterling Risk-Free Reference Rates set targets for 2020, including ceasing the issuance of sterling LIBOR-based cash products maturing beyond 2021 by the end of Q3 2020. The FCA and Bank of England have stated their support for these targets. We have established detailed plan timelines and milestones, including a Project Governance structure, to enable the transition to alternative rates ahead of the end of 2021.

Climate change risk

Reflecting the significant potential risks posed by Climate Change to the economy and to the financial system, in April 2019, the PRA became the first regulator in the world to publish supervisory expectations setting out how banks need to develop an enhanced approach to managing the financial risks from Climate Change. In 2019, our programme of work focused on enhancing our understanding of the most material climate change related drivers of our business model, and producing an implementation plan to fully deliver the PRA's expectations under Supervisory Statement (SS) 3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. We are addressing climate change related risk issues through ongoing engagement across our business and support functions, co-ordinated and led by the Risk Division. Our focus will be on implementation of the plan that we delivered to the PRA in October 2019.

Task Force on Climate-related Financial Disclosures

Introduction

As a group, Banco Santander supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which were published with the aim of improving disclosure of climate financial risk and opportunities. As part of our strategy in the UK we have prioritised embedding sustainability in everything we do and welcome the developments of the PRA and FCA to improve management and disclosure of climate change related risks.

In October 2019, we submitted an initial UK implementation plan to the PRA to address the expectations set out in SS 3/19. Alongside this plan, responsibility for climate related financial risks was added to the Statement of Responsibility of the Chief Risk Officer (CRO) as Senior Management Function (SMF) holder. Delivering on our plan will be a multi-year programme. We are targeting the end of 2022 to achieve full adoption, aligned to the implementation path as set out in the TCFD recommendations. We are working alongside Banco Santander with a shared ambition of being a leading global bank for tackling climate change.

Governance

The CRO, as the SMF holder, is responsible for climate-related financial risks. The management of these risks lies in the first line of defence. It is therefore expected that the CRO will be supported by the business division heads to fulfil these responsibilities.

To address TCFD recommendations and PRA expectations, a Climate Change Working Group (CCWG) was launched in 2019 and re-launched in Q1 2020. This CCWG co-ordinates the efforts to deliver the implementation plan and will report on progress to the CRO, Executive Risk Control Committee and Board Risk Committee.

The first half of 2020 will see the documentation of firm-wide climate change risk management governance arrangements. This will articulate the roles and responsibilities and the committees involved across the three lines of defence.

During the second half of 2020, the link between climate change related metrics and remuneration will be defined.

(1) Inframation league tables 2019, combining both Banco Santander and Santander UK.

Strategy

In 2019, we have developed a high-level analysis of our credit portfolios based on various climate scenarios: a business-as-usual (BAU) scenario (which trends towards 3.7°C of average global warming by 2100) and a low-carbon transition scenario (which trends towards 2°C of warming). This analysis is referred to as the 'Climate Portfolio Screen'.

The aim of the Climate Portfolio Screen was to identify sectors and segments of the Santander UK lending book where there could be greater potential opportunities and risks associated with both the transition to a lower carbon economy and changes in physical climatic conditions.

According to this analysis, the sectors of most concern based on exposure and or potential risks are mortgages, real estate, consumer finance and automobiles. For the mortgage portfolio, we are working on a project that will help us understand the physical and transition risks in our mortgage book under different climate scenarios.

We are committed to strategically aligning our business with the UN Sustainable Development Goals and the Paris Agreement. This means recognising the opportunities for climate financing. In October 2019, Banco Santander issued a €1bn green bond, focused on financing renewable energy projects from wind and solar.

Banco Santander is one of the largest renewable energy financiers, ranking as the 3rd largest lender to the sector by volume (2nd by number) of transactions in 2019 in the UK, and also ranked 1st by volume for advisory services in Europe and the UK⁽¹⁾. Santander UK originated £1.09bn of debt financing to 21 renewable energy projects in 2019.

Risk Management

Climate-related risks could eventually manifest in credit, market and operational risks for financial institutions. We are reviewing the appropriate parts of the Risk Framework, Risk Type Frameworks (in particular Credit and Operational risk) and the Risk Appetite Statement to explicitly include climate-related risks.

Our commitment to fight climate change is articulated in the Banco Santander and Santander UK Energy, Mining and Metals and Soft Commodities sector policies. The policies apply strict criteria to transactions related to fossil fuels, for example, prohibiting the financing of any new project for coal power plants or thermal coal mines. In 2020 we will review and update the UK Environmental Policy and Sustainability Policy to reflect climate considerations.

Metrics and targets

In disclosing metrics and targets we will look to cover both internal environmental footprint as well as the climate-related risks and opportunities of our lending activities. We aim to expand on the latter metrics in 2020 following further analysis and developments with our strategy and risk appetite.

We use 100% renewable electricity and target to maintain this for 2020. We report annually on greenhouse gas emissions, including Scope 3, in our ESG Supplement 2019. Santander in the UK will also contribute to Banco Santander's global renewable financing target of over €120bn in green finance from 2019 to 2025.



Financial overview

We are improving efficiency while actively managing our funding and liquidity portfolios and capital consumption

Our 2019 financial results reflect competitive and regulatory pressures

Profit before tax was £981m, down 37% from £1,567m in 2018. Profitability was impacted by the ongoing competitive income pressure on mortgages and PPI charges, but also includes the investment we are making as part of our plan to transform the bank for the future. In what was a competitive and uncertain environment, adjusted profit before tax was £1,300m, down 24% from £1,707m in 2018. This was largely due to mortgage income pressure and was reflected in the Banking NIM of 1.64% (2018: 1.80%) and adjusted return on tangible equity⁽²⁾ of 7.8% (2018: 10.2%).

Net interest income was down 9%, largely impacted by mortgage back book pressure and £3.9bn of SVR attrition (2018: £4.9bn).

Non-interest income was down 7%, largely due to £58m of ring-fencing perimeter changes in 2018, partially offset by £15m additional Vocalink consideration received in Q2 2019.

Operating expenses before credit impairment losses, provisions and charges were down 1%, with the absence of £48m of ring-fencing perimeter changes, £40m of GMP equalisation costs and £38m of Banking Reform costs all

incurred in 2018. This was partially offset by £50m transformation costs⁽³⁾ in 2019 and £40m higher operating lease depreciation.

Credit impairment losses were up 44% to £220m, largely due to lower mortgage releases as well as a few single name corporate exposures.

Provisions for other liabilities and charges were up £183m to £443m, largely due to additional PPI provisions of £169m and £105m of transformation programme charges⁽³⁾ (predominantly restructuring costs) as well as an additional £10m other provision charge in 2019 pertaining to our retail credit business operations. Other adjustments to provisions amounted to £80m in 2018.

Supporting our customers while growing our business

Customer loans increased £5.4bn, with mortgage lending in Retail Banking up £7.4bn. This was partially offset by a reduction in corporate lending which included managed reductions in Commercial Real Estate (CRE) of £1.1bn. Customer deposits increased £5.7bn, with £3.0bn growth in Retail Banking supported by a successful ISA campaign and 11213 Business Current Account inflows. Corporate deposits also increased as we focused on building strong customer relationships.

Maintaining balance sheet strength

CET1 capital was stable at £10.4bn, with ongoing capital accretion through profits retained after dividend payments, offset by market-driven pension movements. RWAs reduced largely as a result of significant risk transfer (SRT) securitisations and lower corporate lending as we continue to focus on risk-weighted returns. This was partially offset by increased RWAs in Retail Banking in line with mortgage lending growth. The CET1 capital ratio increased 110bps to 14.3%, through active RWA management. The UK leverage ratio increased 20bps to 4.7%. The quality and strength of our balance sheet was again demonstrated by the Bank of England stress test results.

Financial highlights

1.64%

Banking NIM
(2018: 1.80%)

61%

Cost-to-income ratio
(2018: 56%)

£165.4bn

UK mortgage loans
(2018: £158.0bn)

£68.7bn

Retail Banking current account balances
(2018: £68.4bn)

£7.9bn

MREL eligible senior unsecured debt
(2018: £9.2bn)

£73.2bn

Risk-weighted assets (RWAs)
(2018: £78.8bn)

The Stage 3 ratio of 1.15% (2018: 1.29%) and cost of risk of 11bps (2018: 8bps) demonstrate our prudent approach to risk.

2019 funding

In late 2018 and early 2019 there was a market expectation that a disorderly Brexit was a likely outcome. As a result we pre-funded our issuance in 2018 and held extra liquidity throughout the year to prepare for potential market disruption. This meant that we had a relatively light funding plan for 2019 with issuance of around £4.0bn, well below normal levels.

We are well placed to meet MREL requirements, with £7.9bn of senior unsecured funding from our holding company issued to date. Total wholesale funding decreased in 2019, reflecting maturities in the period, partially offset by covered bond issuances of £1bn in February 2019, €1bn in May 2019 and £1bn in November 2019, along with a senior unsecured issuance of \$1bn in June 2019. In August 2019, we increased our AT1 outstanding by £200m via the issuance of a new £500m 6.3% AT1 to Banco Santander and the repurchase of the £300m 7.6% AT1 from Banco Santander.

2020 outlook

We expect our net mortgage lending to be in line with market growth, as we focus on quality customer service, retention and our

comprehensive proposition for first-time buyers. We will continue to actively manage our CRE exposures and focus on supporting our non-CRE trading business customers.

We expect pressures on Banking NIM to continue, although at a slower rate and predicated on a stable rate environment. With the SVR portfolio now 9% of the total mortgage book, we expect SVR attrition to be proportionally lower along with signs of front book margins improving. Recently announced changes to deposit pricing should also begin to offset some of these pressures in the second half of 2020. Lastly, the implementation of regulatory changes regarding the high cost of credit will also increase net interest income, although it is worth noting that this will be more than offset by a reduction in non-interest income.

We expect adjusted operating expenses to be lower in 2020 as the momentum behind our transformation programme builds and improved efficiency begins to outweigh inflationary and other pressures.

Credit impairments are likely to increase from the very low levels seen in recent years, although we do not anticipate a material worsening of credit quality given our prudent approach to risk and the supportive environment.

Since 31 December 2019, trends evident in the business operating results have not changed significantly.



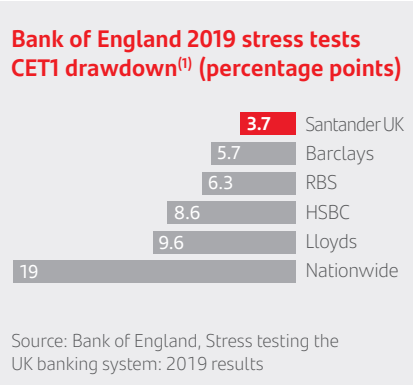
Santander UK passes the 2019 Bank of England stress test

The results of the latest Bank of England stress tests were released in December 2019. The parameters of the stress scenario were very similar to the 2018 stress test, with severe downturns in GDP of 4.7% and house prices of 33% along with a sharp increase in unemployment to 9.2%. Additionally, the stress scenario reflects the expected result of such a downturn with bank rate increasing to 4% in response.

With a stressed CET1 ratio of 10.8% after allowed management actions and on an IFRS 9 transitional basis, we were well above the threshold requirement of 8.1%. Additionally, with a stressed leverage ratio of 3.8% after allowed management actions, we were above the threshold requirement of 3.57%.

As a result of the exercise, the Bank of England did not require Santander UK to undertake any actions.

The outcome of the stress test underlines the quality of our UK-based balance sheet as well as our strong risk management practices.



(1) CET1 ratio drawdown is defined as CET1 ratio at 31 Dec 18 less minimum stressed CET1 ratio (before strategic management actions or AT1 conversions)

Sustainability review

We believe that our business performance should not be considered separately from the prosperity of all our stakeholders and sustainability of the wider environment.



We want to help people and businesses prosper and aim to do so by being Simple, Personal and Fair in everything we do.

Inclusive digitalisation

We continue to innovate to make our digital offerings more customer-friendly, secure and accessible. In 2019, Santander became the first UK high street bank to introduce tailored fraud warnings on our mobile app. We've also introduced customer-friendly authentication, including the ability to authorise online shopping transactions using a fingerprint or facial recognition. We have extended these authentication capabilities to customers initiating payment requests via Online Banking.

In 2020, we'll launch a quicker online banking logon experience. Following the launch of Voice ID in April 2019, 226,490 customers have registered with over 1.4m Voice ID

verifications during 2019. Our mobile banking app scores highly with users, ranking 4.8 on iOS and 4.5 on Android, both out of 5.0. In Q4 2019 we completed the work to deliver card controls to our mobile app, including the ability for customers to temporarily block their card when lost or stolen. This was piloted in 2019 and will be fully rolled out in the first quarter of 2020. Customers can also apply blocks to online, contactless, international and gambling transactions.

In 2019, we launched Santander Chat to all Online Banking customers, made up of an automated virtual assistant 'Bot' and messaging via a live agent. This provides an authenticated platform for secure conversations and transactions. In 2020, we plan to bring this service to our mobile app, and increase the end-to-end transactions that the Bot can perform on behalf of customers.

Cyber security collaboration

We recognise that, in parallel with the increase in digital banking, we must continually improve our cyber defences and data protection. Our response to the cyber threat is to continue to implement a global, multilayered and agile resilience framework.

Improved awareness is the foundation of cyber defence so we engage with customers, regulators, partners and everyone across the organisation to enhance their understanding of cyber security. We hosted nine Cyber Awareness workshop sessions across our branch network in 2019 to help educate our

customers on the threats they face online. We continued to invest in emerging cyber security talent, and the first cohort of our Digital Apprentices will graduate in 2020 with the skills to become the next generation of cyber experts.

Transforming our branch network

The way customers are choosing to bank with us is changing. With more people choosing to engage through our digital platforms, there's been an impact on the use of our branch network. We conducted an extensive review of the network to reshape it to meet our customer needs. Our network is evolving, made up of a combination of larger branches offering community facilities to support local businesses and customers as well as smaller branches using the latest technology to offer customers more convenient access to banking services. As part of this, we've refurbished 87% of our network.

The introduction of Work Café demonstrates how we're exploring different ways to use our branches to meet customer needs. Santander opened its first UK Work Café in Leeds in July 2019. Since launch we've had 30,000 customer visits to use the co-working and bookable rooms, attend an event, or talk to our specialists.

We're a signatory to the Access to Banking Standard which ensures open and fair communication where banks close branches. In 2019, we closed 140 branches in line with this standard, following reviews to ensure our

resources are targeted to meet the changing needs of customers. We've signed up to the Banking Framework 2, an agreement that allows customers to access 11,000 Post Office outlets to take out or pay in cash and cheques and obtain a balance. We're also working with UK Finance and other banks to support communities' access to cash.

Supporting our vulnerable customers

Building capability across the bank to better support vulnerable customers is a focus of our Vulnerable Customer Strategy. In 2019, we launched an award-winning internal training programme, 'Perspectives', featuring real customer stories. This covers dementia, autism, PTSD, financial abuse and confusion and aims to raise awareness, reduce stigma and equip colleagues to better identify and respond to those who need support. Since launch in May 2019 these films were viewed 46,755 times.

We have been working with Alzheimer's Society to become a more dementia-friendly bank, auditing our branches and improving our products and services for people living with dementia (find out more on page 30).

We've also been working with charities and industry forums to respond to challenges such as harmful gambling and financial abuse. Our approach to tackling harmful gambling is informed by a bespoke social insights approach in collaboration with gambling charities, the gambling industry and people with first-hand experience. This allows us to better understand our role in this area and how we can be effective in the detection and prevention of gambling-related financial harm.

Throughout 2020 we will continue our work on the underlying initiatives that support our overall Vulnerable Customer Strategy, providing colleagues the tools and support they need to deliver for all our customers.

Championing ambitious SMEs

SMEs are at the heart of our country's economy, but starting and running a business presents a wide range of challenges. Santander Breakthrough is designed to provide support at every step through events, insights and partnerships. In 2019, we supported over 5,600 businesses from their light bulb moment through to starting up, scaling up and beyond. Our Growth Capital Team provided financial support with £24.3m of growth capital and £90.8m of senior debt to 27 companies.



Supporting first time buyers

Offering unparalleled support to new buyers

First time buyers (FTBs) are a key strategic focus for us, and in 2019 we were proud to win Your Mortgage's Best First-Time Buyer lender. In 2019, we helped over 37,000 customers into their new home by lending £5.5bn, supporting 37% more customers than the year before. In 2019, Santander was the first lender to launch a free home condition report that helps FTBs identify any potential issues with the home before they buy, avoiding unexpected costs. We also continued to improve our online mortgage servicing hub, including the retention service, with 60% of customers choosing to change their deal online, an increase of 10% from 2018. The convenience of online mortgage services means over 50% of regular overpayments are now made online. Our ambition is for branches to become an integral part of the local community providing unbiased financial education. Since launch in September 2019, we've completed over 1,000 FTB events in our branches, providing unbiased advice for those interested in buying their first home.

Sustainability review continued



Shareholders

We aim to deliver a long-term, sustainable return for our shareholders while helping people and businesses prosper.

Part of a global bank

We are a subsidiary of Banco Santander SA and part of the Banco Santander group, a leading retail and commercial bank headquartered in Spain. Our ordinary shares are all held by Banco Santander group companies and are not listed, although our preference shares are listed on the London Stock Exchange. We also have other equity instruments in the form of AT1 securities issued in 2014, 2015, 2017 and 2019.

Under the subsidiary model operated by Banco Santander, autonomous subsidiaries are responsible for their own liquidity, capital management and funding. This not only mitigates the risk of difficulties in one subsidiary affecting another, it allows local market knowledge and expertise to be utilised and provides considerable operational flexibility.

We benefit from the strong Santander brand along with experience and expertise from a global banking group. Systems development capacity can be shared along with common technology platforms and innovations, creating a significant competitive advantage.

Consistent shareholder returns

Our consistent profitability has enabled us to pay a dividend every year since 2008. Our policy is to declare a dividend of 50% of earnings attributable to ordinary shareholders.

In 2019, we began a multi-year transformation programme to reshape the bank to support our customers better. By focusing on simplification, digitisation and customer experience, we aim to improve returns in the medium-term.

Investor engagement

Our UK Investor Relations team actively engages with institutional investors across the globe, working alongside our funding and capital teams for new issuances and building and maintaining relationships with fixed income investors and analysts.

The UK Investor Relations team provides a two-way link between investors and senior management, focusing on both external messaging and communication whilst providing feedback from investors to the Board.



Fair pay

We offer our people a fair and competitive reward package

Our Reward Framework is reviewed annually against the external marketplace. Salary reviews, and changes to reward policies, are assessed for any adverse impacts on a particular group.

Salary ranges and Pay Progression arrangements are visible to all colleagues. We embrace transparent reporting, evidenced by our detailed Gender Pay Gap report, voluntary disclosure of our CEO pay ratio in our Remuneration Implementation Report, input to government consultations on ethnicity pay reporting, and testing of potential reporting methodology.

We work in partnership with recognised trade unions and consult on any changes to our Reward Framework. We are proud to have been an accredited Real Living Wage employer since 2015. Recent pay changes for colleagues include increases to entry level starting salaries, and improvements to our Pay Progression scheme.



People

We aim to create a thriving workplace that attracts, retains and rewards talented and committed people. Our culture promotes inclusion and diversity, prioritises wellbeing and develops the skills of our people.

Culture

Our culture of Simple, Personal and Fair is underpinned by our nine behaviours, enabling our colleagues to thrive. In 2019, we were again recognised as a Top Employer by the Top Employers Institute.

Our goal to be a high-performing and responsible business is reflected in the 2019 Global Engagement Survey (GES) with 85% of colleagues feeling 'We act responsibly and make a positive contribution to society', 13% above the external benchmark⁽¹⁾. In 2020, we will focus on transformation through simplification, driving a learning culture and being an inclusive and responsible organisation.

Employee engagement

We foster an open dialogue between employees and our Executive Committee. In 2019, we held a series of internal roadshows and a virtual 'Santander Conversation', reaching over 2,800 employees. This gave the Executive Committee the opportunity to discuss our vision and roadmap and hear from colleagues. Colleague engagement levels remained relatively stable in a period of transformation and change. Additionally, 992 colleagues participated in virtual focus groups in 2019 to help better understand employee experience.

Building a bank for everyone

Our approach to Inclusion and Diversity is to be a workplace where anyone and everyone can learn, grow and succeed, while being themselves. In 2019, our employee survey results showed that 88% of employees felt positive that their line manager is open and inclusive, promoting diversity. We have seven

(1) Financial sector benchmark taken from the survey provider Mercer Sirota. The financial services sector norms are based on more than one million employees answering 114 surveys over the last five years.

employee-led diversity networks, which collectively have over 10,000 members across the bank. This year we launched our network for Social Mobility to help create a level playing field for all colleagues irrespective of their background. We are a signatory to the Social Mobility Pledge and benchmark as a top 20 employer in the Social Mobility Index (up from 49th in 2018).

We continued with a number of targeted actions to improve our gender diversity. Our progress is detailed in our latest Gender Pay Gap report. Women made up 32.1% of senior managers, 26.7% of our Executive Committee and 25% of our Board (including Executive and Non-Executive Directors) at 31 December 2019. For the Business in the Community (BiTC) 'Race at Work Charter, One Year on', we continue to make good progress, having achieved two actions. We also were the headline sponsor of Pride:MK, the first Pride event in Milton Keynes, and were classed as a Top Ten Employer at the British LGBT Awards.

We support a range of apprenticeship schemes up to degree level and provide a graduate development programme 'Accelerating Capability'. We have 421 apprentices, of which 46% are female, and recruited 97 graduates, of which 59% are female, through partnerships with 86 UK universities.

Learning

In 2019, our people undertook 144,703 training days and we invested £10.6m, equipping them with the skills they need for now and in the future, including digital skills. We launched a new learning platform, MIO, which is a key enabler of a continuous learning environment. MIO provides a variety of training styles, from 2-3 minute bursts to themed box set content to support colleagues. In 2019, 484 people managers

completed our new 'Leading our Future' toolkit for building inclusive and resilient teams. Our Leadership Development focus was on digital knowledge and skills, leading change and transformation capability and driving collaboration, with initiatives including a Digital Leaders Academy for senior leaders.

Prioritising wellbeing

In a time of change at Santander and in financial services, we aim to help colleagues build personal resilience and feel supported. In 2019, we repositioned our wellbeing proposition to cover Physical, Mental, Financial and Social Wellbeing and held a number of wellbeing events. We supported Public Health England's Every Mind Matters Campaign and signed the BiTC Mental Health at Work Commitment at launch. We're building a Wellbeing Hub that brings all of our support into one place. This will help colleagues to proactively access support and information across diverse topics such as nutrition, sleep, stress, finances, body image and more. Our Mental Wellbeing colleague network now has over 2,190 members.

Working in partnership

During 2019, we consulted our recognised trade unions Advance and Communication Workers Union (CWU) on restructuring proposals as the bank simplifies to become more efficient. Our mutual focus is to minimise job losses by prioritising redeployment or re-training of colleagues affected. Outplacement support is offered to all colleagues affected by change.



85%

Of employees felt positive that Santander has created an environment where people of diverse backgrounds can succeed.



Sustainability review continued



We support and invest in communities across the UK to foster sustainable economic growth.

Helping our communities prosper

We're changing the way we partner with charities to ensure strategic collaborations which help us to become a more responsible bank. On top of employee fundraising and volunteering, we have developed joint strategic initiatives to address pressing challenges. For instance, in January 2019 we appointed Alzheimer's Society as our new charity partner for 2019-2021. Our aim is to leverage the charity's expertise to help us become a digitally dementia-friendly bank.

Financial inclusion and literacy

Financial inclusion and literacy are critical elements of our strategy. Santander colleagues supported over 25,000 students through our in-school mentoring programme focused on money management, digital skills and careers. We also reached almost 200,000 young people during My Money Week, helping 4 – 19 year olds to gain confidence in money matters.

We used our UEFA Champions League flagship sponsorship and partnered with National Numeracy to bring the power of football and education together and tackle the fact that 40% of people in the UK don't feel 'fully confident' with everyday budgeting and money management. We created The Numbers Game: 13 UK-wide roadshows through which we engaged over 20,000 children, families and young adults, resulting in over 11,900 people completing the experience.

Use of National Numeracy online learning materials increased 31% since we started our tour, doubling their engagement rate. Our on-site research showed that 85% of people gained a better understanding of the importance of numbers in everyday life, while 87% believed that being confident with numbers helped them to manage their money better.

Innovative fraud and scams education

In June 2019, Santander teamed up with Kuru FM from BAFTA-winning BBC TV show People Just Do Nothing to create its latest fraud awareness campaign, 'MC Grindah's Deadliest Dupes'. Statistics show

that Generation Z are among the most likely to fall victim to scams, and their behaviours online can make them vulnerable to fraudsters. In the last year, identity theft among people under 21 has risen by 26% while 50% of money mules are aged 26 or under and 27% are aged 21 or under.

We partnered with Barnardo's to deliver the content we created with Kuru FM to some of the most vulnerable young people, reaching approximately 220,000 in their network. We ran seven workshops with Barnardo's, resulting in 83% of attendees saying they now felt more confident on how to avoid these scams.

In 2019, the Santander Foundation, a separate legal entity that operates independently from Santander UK, reviewed its strategy and explored how to deliver a greater positive impact within our communities. Following this, the Foundation will launch a new Grants Giving programme in 2020 to support digital and financial skills. During 2019, the Foundation continued to support local charities via the Matched Donations programme, approving 1,694 in employee-submitted requests.

Santander Universities

Santander Universities is our global programme supporting education, employability and entrepreneurship across students in higher education. Since 2002 Banco Santander has donated over €1.7bn to universities, making us one of the largest global corporate contributors to higher education. In the UK, we donated over £88m to 86 partner universities in the last 12 years.

Our Vision 2020 goal is to provide life-changing opportunities, ensuring by the end of 2020 that 80% of individual recipients are from widening participation backgrounds and aspiring to an equal gender balance. In 2019, we directly supported more than 15,000 students. Over 1,400 SMEs have benefited from the Santander Universities Internship scheme with 1,700 student interns, of which over 50% went on to employment, exceeding our target.

In 2019, we launched the Santander Universities two year Women in Engineering Programme. This initiative focuses on dedicated support for women undertaking an engineering degree, addressing the gender gap in engineering studies. Of the 81 female students supported, 30 were selected for a scholarship, an internship and a trip to the USA to an engineering company.



Becoming the best dementia-friendly bank in the UK

850,000 people are estimated to be living with dementia in the UK, a figure set to increase. In 2019, we launched a three year partnership with leading dementia charity Alzheimer's Society and Alzheimer Scotland, aiming to fundraise £1.5m and leverage their expertise to become the most dementia-friendly bank in the UK. In 2019, Alzheimer's Society audited a cross-section of our branches and contact centres to help us better support customers affected by dementia. In 2020 we'll implement their recommendations, including training three Dementia Ambassadors in each branch region and contact centre. We're also using Alzheimer's Society expertise to improve our products, services and digital access. In 2019, we created Santander's dementia steering group made up of people living with and caring for people with dementia. This permanent group will continue to advise us on how to become a more dementia friendly bank, including a review of our ATM journey.



£745,000

Raised for Alzheimer's Society in the first year of partnership, exceeding our target with record employee engagement.



Ethics and Environment

We are committed to upholding the highest ethical standards.

Responsible lending

As part of the Banco Santander group, we comply with the Equator Principles, factoring social, ethical and environmental impacts into our risk analysis and decision making process for financial transactions. These principles address climate change, prevention of pollution and toxic waste emissions, biodiversity, indigenous peoples and human rights.

Our policy on Aerospace and Defence, Energy, Mining & Metals and Soft Commodities and our Sensitive Social and Ethical Sectors policy continue to define our approach towards creating long-term value while managing reputational, social and environmental risks.

In 2019, we further improved these policies by introducing prohibitions and strengthening restrictions on a range of activities. Prohibited activities now include the provision of products or services for new Coal Fired Power Plant (CFPP) projects and taking on new clients with existing CFPPs. Restricted activities include transactions specific to CFPPs for existing clients which do not significantly improve environmental impacts, such as a significant reduction of CO₂. Our Reputational Risk Forum reviews and approves all restricted activities to ensure that they fall within our risk appetite. This forum reviews, monitors and escalates key decisions around financial and non-financial reputational risks to the Board.

Renewable financing

In 2019, Santander was the 3rd largest lender among renewable energy financiers in the sector by volume (2nd by number of transactions) in the UK, and also ranked first by volume for advisory services in Europe and the UK⁽¹⁾. As part of this, Santander UK originated £1.09bn of debt financing to 21 renewable energy projects in 2019. We provide advisory and financing solutions for renewable and alternative energy clients across a range of renewable schemes, including onshore and offshore wind, solar and biofuel projects. In 2019, we further

enhanced our services by increasing the range of technologies we support and at the same time introduced a number of innovative funding structures. In particular, Santander advised in the refinancing and acquisition of 2 offshore wind farms in the UK and 2 onshore wind portfolio financings across the whole of Europe, which will afford clients flexibility to fund their future growth in this sector.

Environmental performance

We strive to reduce our operational impact on the environment. In 2019, our offices and data centres successfully recertified for ISO 14001 and transitioned to the new ISO 50001 standard.

Our energy data platforms allow us to accurately manage each of our properties that have a smart meter installed, and we reduced electricity use by 6.6% and gas usage by 10.7% in 2019. We also use lifecycle assessment to maximise energy saving opportunities when upgrading facilities. Our water use also reduced by 8.3% in 2019 with installation of efficient water fittings in three offices. We have a network of over 2,800 Green Champions to embed sustainability and green behaviour into site culture. These Champions ran 12 roadshows across our offices in 2019.

Ethical supply chain

We want to do business with companies who share our values. Our standard supplier contracts include specific requirements to respect human rights and ethical labour practice based on the principles of the UN Global Compact.

In 2019 we improved our Third-Party Risk Management (TPRM) framework, processes and policies, including enhancements to meet new European Banking Authority outsourcing requirements. Our third-party policy reflects our Board-approved Risk Appetite Statements, including specific provisions on forced labour. Our Third-Party Code of Conduct was launched this year, with reference to Banco Santander group Human Rights Policy and International Labor Organization (ILO) standards.

We completed a full review and update of our third-party supplier control assessment approach as part of improvements to third-party due diligence. The new framework was effective in August 2019 and with an

external partner we completed 15 on-site suppliers assessments in 2019, with further assessments scheduled for 2020.

Anti-Financial Crime, Anti-Bribery and Corruption

Our Anti-Financial Crime (AFC) strategy is set around the three principles of 'Deter, Detect and Disrupt'. In 2019, we continued to drive a culture of AFC across the business and with partners. We ran 10 events for the UK's Regional Organised Crime Units to better work with law enforcement to protect customers. We also held 8 AFC Culture roadshows with 510 colleagues attending, of which 96% better understood the AFC Vision and 69% said they will change behaviour.

We enhanced our governance of AFC by launching a Strategy & Policy forum in September covering strategy, anti-money laundering, counter-terrorism financing and sanctions. We also engaged with government and law enforcement stakeholders to shape the reforms that are part of the government's Economic Crime Plan, which aims to improve the resilience of the UK's overall defences against financial crime.



Tackling modern slavery and human trafficking

This year we worked with non-profit 'Stop the Traffik' to raise awareness and expertise in Santander on modern slavery and human trafficking (MSHT). As a financial institution, we are uniquely placed to deter, detect and disrupt those profiting from this criminal industry. We ran a targeted campaign with Stop the Traffik to raise awareness and capability in branch staff in a location at high risk for MSHT. Stop the Traffik also held masterclasses at our AFC roadshows. We work closely with law enforcement and the Joint Money Laundering Intelligence Taskforce (JMLIT). In 2019 our Financial Crime team were actively involved in cases, including one which resulted in the arrest of suspects after migrants were found in the back of a lorry. Our Modern Slavery Statement is published online and subject to approval from the Board and Responsible Banking Committee.

(1) Inframation league tables 2019, combining both Banco Santander and Santander UK.

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006. Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Strategic Report. Under English law the Directors would be liable to the Company, but not to any third party, if this report contained errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would otherwise not be liable. The Strategic Report has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

Section 172 statement

The Directors consider the views of all impacted stakeholders whilst acting in the best interests of the Company and its members as a whole. The table below includes ways in which they believe they have done so in accordance with their duties under s172:

Section 172 requirement	Examples of how the Board’s discussions and decision-making have taken this into account	Where in the 2019 Annual Report
(a) likely consequences of any decision in the long term	- Investing in a substantial transformation programme including digitising and streamlining our branch network. - Repurposing of certain branches and development of the Work Café concept to adapt to changes in working practices and the growth in the SME economy. - Funding decisions based on sustainable economic entities with due consideration for the impact of funding decisions on the environment.	Sustainability review p. 26 Task Force on Climate-related Financial Disclosures p. 23
(b) interests of the company’s employees	- Emphasis on employee engagement. - Emphasis on employee personal development/training. - Determination to ensure fair remuneration, at least the Living Wage. - A positive working environment by embedding the Santander Behaviours.	Employees: Fair pay p. 28 People p. 29 Remuneration Committee report p. 56 (see 2019 Annual Report)
(c) need to foster the company’s business relationships with suppliers, customers and others	- The focus of the Company’s activities is on its customers, and the Board actively monitors changing needs and customer feedback, to adjust its offering. - Provision of services to customers is dependent on dedicated, suitably qualified employees but also the value added by suppliers, both contractors working in-house and those providing discrete services. - The Company works closely with the regulatory authorities to ensure the integrity of its services. - The Company is a significant member of the Banco Santander group and contributes to multi-national and global banking initiatives.	Suppliers: Ethical Supply Chain p. 31 Third Party p. 153 (see 2019 Annual Report) Customers: Supporting our vulnerable customers p. 27 Supporting first time buyers p. 27 Customers with Dementia p. 30 Transforming our branch network p. 26 Inclusive digitalisation p. 26 Financial Inclusion and Literacy p. 30
(d) impact of the company’s operations on the community and the environment	- The Company is conscious of its importance in the communities it serves and has carefully considered the impact of certain business decisions on affected communities. - It has also carefully considered the needs of our society as a whole and endeavoured to identify sectors with additional needs, such as the increasing number struggling with Alzheimer’s and similar illnesses, that can be helped by measures identified through co-operation with related parties.	Communities: Cyber security collaboration p. 26 Responsible lending p. 31 Environmental performance p. 31 Anti-Financial crime p. 31 Innovative Fraud and scams education p. 30
(e) desirability of the company maintaining a reputation for high standards of business conduct	The integrity of the banking system is of paramount importance. The Board is committed to complying with applicable regulation, support law enforcement agencies and pro-actively identify wrong-doing to maintain its trustworthy reputation.	Cyber security collaboration p. 26 Anti-financial crime p. 31 Combatting modern slavery p. 31 Successful Public Private Partnerships p. 157 (see 2019 Annual Report)
(f) need to act fairly as between members of the company	The Company is ultimately owned by Banco Santander SA.	Shareholders p. 28

Non-financial information statement

This section is produced to comply with s414CA and s414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. Additional non-financial information can be found in our 2019 ESG Supplement.

Reporting requirement	Policies and standards	Information necessary to understand our business and its impact
Environmental matters	Environmental Policy	Market overview, page 10. Risk management overview: TCFD, page 23. Sustainability Review: Ethics and environment, page 31. Directors’ report: CO ₂ emissions, page 66 (see 2019 Annual Report).
Employees	People Policies Whistleblowing Policy Ethical Code of Conduct	Chair’s statement: Continuing to create the right culture, page 3; Simple I Personal I Fair, page 3. Sustainability review: Fair pay, page 28; People, page 29. Board Audit Committee Chair’s report: Whistleblowing, page 53 (see 2019 Annual Report). Board Responsible Banking Committee Chair’s report, page 54 (see 2019 Annual Report). Directors’ report: Ethical Code of Conduct, page 66 (see 2019 Annual Report).
Human rights	Human Rights Policy	Ethics and environment, page 31.
Social matters	Social Ethical Policy	Sustainability review: Communities, page 30; Ethics and environment, page 31. Board Responsible Banking Committee Chair’s report, page 54 (see 2019 Annual Report).
Anti-corruption and anti-bribery	Anti-Bribery & Corruption Policy Ethical Code of Conduct	Ethics and environment page 31. Board Responsible Banking Committee Chair’s report, page 54 (see 2019 Annual Report). Directors’ report: Ethical Code of Conduct, page 66 (see 2019 Annual Report).
Principal risks and impact of business activity		Risk management overview pages 18-23.
Description of business model		Business model pages 12-13.
Non-financial key performance indicators		Strategic review pages 14-17.

Glossary

Our glossary of industry and other main terms is available on our website: www.santander.co.uk/about-santander/investor-relations/glossary.

The definitions of our KPIs are included in the table below. KPIs are presented at 31 December in the periods indicated and are based on spot balances at these dates, except for:

- The adjusted CIR, adjusted RoTE, retail NPS and business and corporate NPS, which are based on performance in the relevant period
- Top 10 company to work for, which we aim to gain accreditation for over the medium-term
- Financially empowered people, which is a cumulative figure from the start of 2019.

KPI	Definition
Loyal customers	Loyal customers are defined as primary banking current account customers who hold an additional product.
Net Promoter Score	Measured by the MarketVue Business Banking from Savanta. This is an ongoing telephone based survey designed to monitor usage and attitude of UK businesses towards banks. Structured telephone interviews are conducted each year among businesses of all sizes from new start-ups to large corporates and are weighted by region and turnover to be representative of businesses in Great Britain. NPS – recommendation score is based on an 11 point scale (%Top 2 – %Bottom 7).
– Business and corporate	
Net Promoter Score	The Financial Research Survey (FRS) is a monthly personal finance survey of around 5,000 consumers prepared by the independent market research agency, IPSOS MORI. The NPS is based on a 11-point scale (%Top2 – %Bottom 7) across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands.
– Retail	
Digital customers	Digital customers reflect the number of customers who have logged onto Retail or Business online banking or mobile app(s) (Retail Mobile includes SanWallet & OnePayFX) at least once in the month.
Adjusted RoTE	The adjusted profit after tax attributable to equity holders of the parent divided by average shareholders’ equity less non-controlling interests, other equity instruments and average goodwill and intangible assets.
Adjusted cost to income ratio	Adjusted total operating expenses before credit impairment losses and provisions for other liabilities and charges as a percentage of adjusted total operating income.
Top 10 company to work for	In line with Banco Santander’s aspiration, we will aim to achieve the accreditation of a Top 10 company to work for, as measured by an industry-wide benchmarking survey, over the medium-term.
Financially empowered people	The number of people we are supporting who are unbanked, underbanked or in a situation of vulnerability to get access to the financial system, receive tailored finance and increase their knowledge and resilience through financial education. In 2019 we started to contribute to Banco Santander’s target to financially empower 10m people by 2025.

Further
Information

Contact us

Customer services

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Shareholders

Information for UK shareholders of Banco Santander can be found at our website:

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Community involvement

To find out more about applying for donations and the Santander UK Foundation, please visit our website:

 santanderfoundation.org.uk

Media centre

Contacts for the media relations team are available at our website via the media section:

 aboutsantander.co.uk
mediarelations@santander.co.uk

Investor relations

For financial results and presentations, stock exchange announcements, credit ratings and information for debt investors, please visit the investor relations section of our website:

 [santander.co.uk/about-santander/](https://santander.co.uk/about-santander/investor-relations)
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Key dates

28 April 2020	Q1 2020 results
29 July 2020	Q2 2020 results
28 October 2020	Q3 2020 results

Glossary

For a glossary of terms used in this report:

[www.santander.co.uk/about-santander/](https://www.santander.co.uk/about-santander/investor-relations/glossary)
[investor-relations/glossary](https://www.santander.co.uk/about-santander/investor-relations/glossary)



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