

Santander UK Group Holdings plc

Strategic Report 2015

Simple Personal Fair
What a bank should be



Santander UK

Simple Personal Fair | What a bank should be

About this report

The Strategic Report outlines the key elements of the 2015 Annual Report. We produce it to help readers easily assess our performance and future prospects. It also explains Santander UK today and how we see our place in the UK banking market.

We are committed to high ethical standards in everything we do and we take our responsibility to the environment seriously. As such, the sustainability of our business is not separated from our strategic direction. We have therefore chosen to integrate our sustainability reporting into our Strategic Report and in this section we outline key information previously reported in a separate Corporate Social Responsibility report.

By order of the Board.
Nathan Bostock
Chief Executive Officer
24 February 2016

Our purpose:
to help people and businesses prosper

Our aim:
to become the best bank for
all our stakeholders



Our strategic priorities for 2016 to 2018:

1 Customer loyalty and market share growth



2 Operational and digital excellence



3 Consistent and growing profitability and a strong balance sheet



4 Live The Santander Way through our behaviours



5 Support communities through skills, knowledge and innovation



Important information for readers

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

This report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See Forward-looking statements on page 359 of the Santander UK Group Holdings plc 2015 Annual Report (the 2015 Annual Report).

 For more information see www.aboutsantander.co.uk

Santander UK Group Holdings plc (the 'Company') is the immediate parent company of Santander UK plc. The Company and Santander UK plc operate on the basis of a unified business strategy and have common Boards, albeit the principal business activities of the Santander UK group are currently carried on by Santander UK plc and its subsidiaries (the 'Santander UK plc group'). The Company has adopted Santander UK plc's Corporate Governance and Risk Frameworks to ensure consistency of application. However, the Frameworks are applied from the level of Santander UK plc across the Santander UK plc group. 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 as operating within the Company.

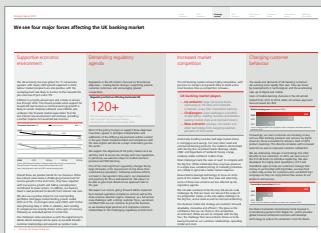
A comprehensive glossary to the terms and acronyms used in this report can be found on our website.

In this year's report

Our environment

sets the context to our strategy. The UK backdrop is a supportive economic environment, a demanding regulatory agenda, increased market competition and changing customer behaviour.

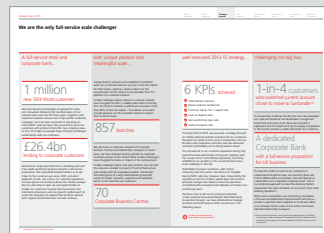
Read more on [page 6](#)



Our competitive position

is built on the delivery of our 2015 strategic priorities. We are now a full-service scale challenger and look ahead to being even more diversified and customer focused.

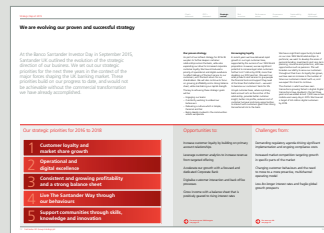
Read more on [page 8](#)



Our refined strategy

is an evolution of our proven approach. We are focused on delivering the best service to our customers, at the best price for our shareholders, while maintaining stable profitability and a strong, low-risk balance sheet.

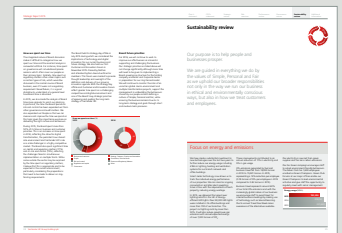
Read more on [page 12](#)



Our stakeholder focus

supports our strategic priorities and value creation. It is underpinned by a culture of Simple, Personal and Fair, while being deeply engaged in the communities where we operate.

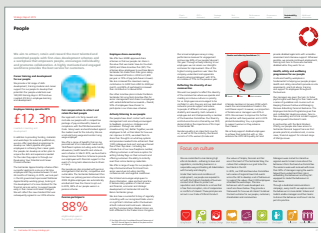
Read more on [page 25](#)



Spotlight on sustainable business

Our people

Read more on [page 26](#)



Our customers

Read more on [page 28](#)



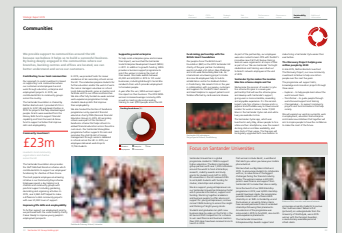
Our shareholders

Read more on [page 30](#)



Our communities

Read more on [page 32](#)



Strategic Report

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Chair's statement

■ ■ *My first ten months as Chair have affirmed my view that Santander UK is true in its intent to be a bank that is Simple, Personal and Fair, but is not complacent about the effort and length of the endeavour. ■ ■*

Shruti Vadera

Shruti Vadera

Chair

24 February 2016



My first ten months as Chair have affirmed my view that Santander UK is true in its intent to be a bank that is Simple, Personal and Fair, but is not complacent about the effort and length of the endeavour.

UK banks need to continue their transformation, focusing more on the needs of people and businesses in the real economy and regaining the trust of customers, investors, regulators, policy makers and the wider public. The UK cannot claim to be a leading global financial centre until it provides its own economy with world-class service.

Santander UK can play a key role in this transformation through its unique position as the only full-service 'scale challenger'. We have greater reach, high street presence and brand recognition than niche players whilst our market position relative to the 'big four' ensures we maintain our incentive to win the loyalty of customers and challenge the incumbents' ways of doing business. We have demonstrated this, for example, by launching innovative products such as the 11213 World Current Account and our unique international trade proposition which provides the only UK bank export scheme targeted at SMEs. We have sustained our position in the highly competitive mortgage market from our building society heritage,

but in other segments Santander UK is still a challenger bank. We have the need and ability to innovate and compete and that is integral to our approach in improving the way we serve our customers.

Transformation on multiple fronts

I do not underestimate the significant challenges our people and systems face in simultaneous implementation on multiple fronts. This ranges from regulatory changes to our balance sheet and operations, to 'ring-fencing' our business into a Retail Bank for personal and small business customers, and a unique dedicated Corporate Bank for our business customers from SMEs to the FTSE 100. It includes embedding cultural change, deepening our relationships with customers, innovating and delivering the very best digital banking services. All this needs to be done while ensuring we remain profitable in a persistent low interest rate environment, manage risk effectively in unpredictable markets and a highly uncertain world and continue to win competitive market share.

I am very confident in the ability of Nathan Bostock, our CEO, to deliver his 3-year strategy and lead this multiple transformation with his senior executives and our dedicated and committed employees. He has been left a strong legacy by Ana Botín from her time as CEO. Her continued presence on the Santander UK Board as a Non-Executive Director demonstrates the strength we gain from the strategic and operational resources of our shareholder.

Embedding the behaviours that underpin our culture

One of the most important programmes we initiated was defining the set of behaviours that underpins the culture we want. It has been an extraordinary task that has taken the senior executives across the country to engage directly with almost 2,000 of our people. Together, they have defined and articulated the behaviours **they** have said embody our values of Simple, Personal and Fair. We are starting to embed these behaviours in how we operate everyday and this has been a great example of the collaborative and inclusive leadership for which I commend Nathan.

Embracing digital opportunities

In the last few years, the way our customers use digital technology in their daily lives has changed at a significant pace. More than two thirds of British adults own a smartphone and use it more than any other device to access the internet. Our customers quite rightly expect to be able to deal with their bank through their channel of choice. We have looked ahead to 2025 to begin to put together a strategy, discussed regularly by the Board, which starts with a vision of enabling customers to do their banking in the way that is most convenient for them. Recent examples of our drive to provide innovative and customer-oriented solutions are our new mobile banking app, Spendlytics, our early adoption of Apple Pay and our active involvement in Banco Santander's InnoVentures Fin-Tech fund.

Board changes

I would like to pay tribute to my predecessor Lord Burns for his strategic leadership and judgement over 14 years that saw the creation of Santander UK and its safe steering through the financial crisis. I am personally very grateful for the enormous support and advice he has provided me during and since the period of transition.

2015 has been a year of significant transformation of the Board. Three long-standing Non-Executive Directors, José María Carballo, Rosemary Thorne and Roy Brown, retired from the Board having completed over or close to nine years' service. In addition, Antonio Escámez and Mike Amato stood down with effect from 31 December 2015. As José María Fuster leaves his Banco Santander executive role, he will no longer be a Banco Santander nominated Non-Executive Director in the UK as of 1 April 2016. I would like to thank the out-going Non-Executive Directors for their commitment and dedication through formative and challenging times.

I would also like to thank the two Executive Directors who left us during 2015, Steve Pateman, responsible for UK Banking and Stephen Jones, Chief Financial Officer, for their significant contribution to our successes.

Four new Independent Non-Executive Directors were appointed: Chris Jones and Genevieve Shore joined the Board in March 2015. Chris is our designated financial expert and Chair of Board Audit Committee. Ed Giera joined the Board in August 2015 and Annemarie Durbin in January 2016. Ed took over as the Chair of Board Risk Committee in October 2015 from Bruce Carnegie-Brown who I am very pleased remains on the Board as a Banco Santander nominated Non-Executive Director, following his appointment as Lead Independent Director of Banco Santander. Scott Whewey, who has been a Non-Executive Director since October 2013, was appointed as our first Senior Independent Director and is acting as Chair of the Remuneration Committee. In addition, Peter Jackson⁽¹⁾ will join the Board from 1 April 2016 as a Banco Santander nominated Non-Executive Director when he replaces José María Fuster in his group executive function.

As a result of these changes, our Board gender diversity increased from 13% in 2014 to 31% in January 2016. The representation of Independent Non-Executive Directors⁽²⁾ increased from 38% in 2014 to 54% in January 2016.

I believe this Board has the calibre, skills and judgement to meet our stated goal to be the best governed bank in the UK, and to support our business in its ambition to be the best bank for our people, customers, shareholders and communities.

(1) Subject to regulatory approvals, as needed.

(2) As described in our UK Group Framework on page 22.

Chief Executive Officer's statement



■ ■ *As I reflect back over 2015, I am pleased to report solid results, underpinned by strong business momentum.*

We delivered this against a backdrop of continued regulatory uncertainty, changing customer behaviour, and wider geopolitical and market-related risks.

We also introduced a new set of behaviours for our people, further improved customer experience, refreshed our strategic plan, and launched an exciting new community programme.

Our purpose is to help people and businesses prosper – a bank that is Simple, Personal and Fair – and we feel confident about how our business can address the balance of challenges and opportunities that lie ahead. ■ ■

A handwritten signature in black ink that reads "N. Bostock". The signature is written in a cursive, slightly stylized font and is underlined with a single horizontal stroke.

Nathan Bostock
Chief Executive Officer
24 February 2016



For more on our new behaviours, see page 26

Solid results and business momentum in 2015

Our 2015 results demonstrate the continued good progress we are making in our commercial transformation. We now have 4.6 million 11213 World customers, exceeding our 2015 target of 4 million. Loyal retail customers increased to 3.7 million, up from 3.3 million at the end of 2014 but slightly shy of our overall 4 million target for 2015. Furthermore, we maintained our strong support for UK companies with 10% growth in lending, continuing the double-digit average growth over the last three years.

We are particularly proud to have been voted the high street bank with the best current account service according to the Money Savings Expert poll – and with the best products.

In 2015, despite increased regulatory costs and pressure on income, we reported strong profitability, and a steady cost-to-income ratio. We also maintained our strong balance sheet with a Common Equity Tier 1 ratio of 11.6% and improved credit quality across all of our loan books.

Returns and capital were, however, both adversely impacted by a £450m conduct remediation charge related to payment protection insurance.

Challenging the status quo in UK banking

As the only full-service scale challenger, we are proud of our achievements and the delivery of our 2013-15 strategy. However, with the incumbents refocusing on the UK and an increasing number of new entrants, we cannot stand still. We must constantly innovate and strive to be the best in the market whether that be in digital, in-branch customer service or relationship banking.

In 2015, we largely completed our investment to establish a banking business to serve our corporate customers with a differentiated and innovative proposition. We have generated full-service banking relationships with many new-to-bank corporate customers, including major household names.

Our business customers in the UK who have been looking to expand globally have benefited from our unique international proposition including the Trade Portal, the Santander Passport and our Foreign Exchange online portal.

Our pioneering Breakthrough programme aims to help ambitious UK businesses succeed. Breakthrough supported the creation of almost 2,100 jobs in 2015 and provided 33 SMEs with £55m of growth capital and £102m of other growth-related finance.

We have expanded our support for communities by investing in higher education, through Santander Universities. This is a key differentiator and our partnership with over 80 universities is a source of immense pride. We are absolutely committed to continuing this good work.

In 2015, we strengthened the links between these two innovative programmes. More than 2,000 Santander University undergraduates completed an internship with SMEs from our Breakthrough programme, gaining valuable skills and contributing to fast-growth UK companies.

Significantly improved customer experience

We continued to build on our progress in customer satisfaction this year, and in November 2015 reached our highest ever score. The gap between us and the average of the three highest-performing peers was closed, successfully achieving our goal.⁽¹⁾

2016 will see us continuing to work hard to reduce complaints and further improve our customers' experience. We intend to challenge ourselves further while focusing on meeting customers' needs, and earning their trust and loyalty.

Innovating through digital

In 2015, we continued to invest in digital technology to automate our back-office activities and made a number of improvements to our platforms. In July 2015, we were one of the first UK banks to adopt the Apple Pay service. We launched new apps such as Spendlytics and KiTTi, and an online mortgage decision in principle tool. In August 2015, as part of our Go Smart programme, we introduced tablets into our branches to enhance the customer experience.

Customers using our digital services now stand at 3.7 million, up from 3.0 million at the end of 2014. We have a target to grow further and to reach 6.5 million digital customers by 2018. Today, around 45% of our active current account customers are digital users, and this growth trend is set to continue.

Leadership team changes

We strengthened the executive team in 2015. Antonio Roman was appointed Chief Financial Officer and we further strengthened the Executive Committee by the appointment of Susan Allen as Head of Transformation, Vicky Wallis as Head of Human Resources, and Sigga Sigurdardottir as Head of Customer Innovation. Javier San Félix joined from the Banco Santander group as the head of our retail business. As we ended 2015, Chris Sullivan was confirmed as our new Head of Corporate Banking. The new team is ideally suited to implement our new strategy.

New behaviours for our people

One of my key priorities for 2015 was to define a set of organisational behaviours that would help us live The Santander Way. I engaged with colleagues across the UK to help create and communicate these behaviours that will become part of our DNA.

When these behaviours are embedded across the business they will help to create an environment where our Simple, Personal and Fair values can flourish and be sustained. We believe this will make us an organisation in which we all feel we can play our part to secure the best outcomes for our customers.

The Discovery Project

We launched our new flagship community programme, The Discovery Project, in late 2015. The programme will help people in our communities discover new opportunities and to make the most of their future.

The Discovery Project adds some exciting new initiatives to the best of our current community activities, which helped over 100,000 people during 2015. Our goal is to help one million people by 2020. For more on The Discovery Project, see page 33.

Refreshed priorities for 2018

We delivered well on our 2015 commitments and have now refreshed our targets and plans towards 2018. The result will be a growing UK bank, delivering recurrent returns with a strong balance sheet and a profitable customer franchise.

The backdrop to our plans and our refreshed strategic priorities are outlined in more detail in the following pages.

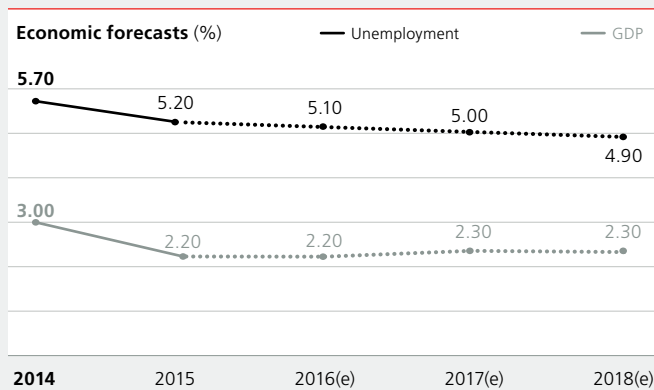
⁽¹⁾ Customer satisfaction as measured by the Financial Research Survey (FRS) run by GfK, December 2015. See glossary on the inside back cover for customer satisfaction definition.

We see four major forces affecting the UK banking market

Supportive economic environment

The UK economy has now grown for 11 consecutive quarters with steady GDP growth expected in 2016. Labour market prospects are also positive, with the unemployment rate likely to decline further towards the pre-crisis low of just under 5%.

Inflation is currently around zero and is likely to remain low through 2016. This should provide some support for household real incomes as nominal earnings growth is likely to remain relatively subdued. Low inflation also underpins the financial market expectation that the low interest rate environment will continue, providing a further impetus to household real incomes.



Source: HM Treasury Comparison, Forecasts for the UK economy: a comparison of External Economic Forecasts, January 2016 and November 2015
 Note: Unemployment is year end, GDP is annual average growth

Overall these are positive trends for our business. While low interest rates create a challenging environment for income growth in the short term, they have, together with house price growth and falling unemployment, contributed to lower arrears. In addition, our balance sheet is well positioned to benefit from interest rate rises.

We also see a positive impact in our main lending portfolios. Mortgage market lending growth ended 2015 at 2.7%, its strongest since early 2009, with further strengthening likely in 2016. In addition, bank lending to companies has recently shown some signs of recovery following an extended period of contraction.

Our challenger status provides us with the opportunity to deliver above average volume gains as we build broader customer relationships and expand our product suite.

Demanding regulatory agenda

Regulation in the UK remains focused on three broad objectives – making banks stronger, supporting positive customer outcomes, and encouraging greater competition.

Regulatory initiatives affecting Santander UK

120+

The UK banking industry is subject to close scrutiny with more than 120 reviews and policy developments underway (at December 2015).

Most of the policy changes to support these objectives have been agreed in principle. Interpretation and calibration of the differing requirements will be needed in the year ahead. Implementation and compliance with the new regime will also be a major undertaking across the sector.

We support the objectives of UK policy makers and are working hard to ensure we comply with new regulations. In particular, we welcome steps to combat inertia in personal and SME banking.

One of the most significant regulatory changes facing large UK banks is the requirement to ring-fence their retail banking operations. Following extensive efforts, not least in management time spent, our preparation and planning for this is well advanced. We expect to be able to give more details of our approach later in the year.

We expect our returns going forward will be impacted by increased regulatory compliance costs as well as the more onerous taxation regime. However, as a full-service scale challenger with a strong customer focus, we remain confident that we can continue to grow the business as we develop loyal personal and corporate customer relationships in this challenging regulatory environment.

Increased market competition

The UK banking market remains highly competitive, with pressure on margins and growth likely to build across most business lines as competition increases.

UK banking market players

- **Incumbents:** large full-service banks refocusing on UK retail and corporate customers, away from investment banking
- **Challengers:** scale challengers and other smaller banks, building societies and retailers seeking market share and improved returns
- **New entrants:** startups, non-banks and other technology firms targeting selected elements of the market

Historically, building societies had large market shares in mortgages and savings. For most other retail and commercial banking products, the market is concentrated with the big four incumbent banks (Barclays, Lloyds, HSBC and Royal Bank of Scotland) having a large, relatively stable combined market share.

Most challengers lack the scale or reach to compete with the big four. While individually they may have presence in a single area, unilateral pricing or marketing initiatives are unlikely to generate a wider market response.

New entrants leverage technology to focus on niche parts of the market. Given their scale and selectivity, some of these new entrants are less affected by the regulatory agenda.

We consider ourselves to be the only full-service scale challenger. By that we mean our size and the scope of our proposition makes us the only viable challenger to the big four, across retail as well as commercial banking.

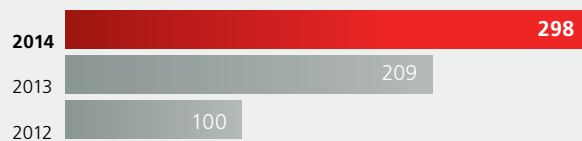
Our business model and strategy are customer focused, adaptable, innovative and efficient. This gives us the confidence that we can thrive in this competitive environment. While we aim to compete with the big four, the challenge from new entrants forces us to be keenly focused on our customer relationships, operating model and costs.

Changing customer behaviour

The needs and demands of UK banking customers are evolving more rapidly than ever. They are driven by developments in technological and the accelerating take-up of digital and mobile.

Users of mobile banking channels in the UK almost trebled from 2012 to 2014, while contactless payments have increased ten-fold.

Mobile banking users (indexed to 2012)

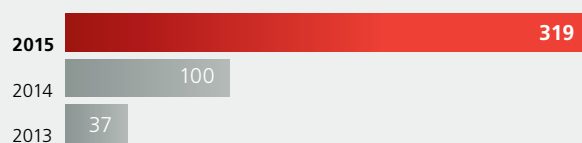


Source: Finalta Annual UK Survey (digital is online, smartphone and tablet platforms), September 2015

Increasingly, our own customers are choosing to buy and use their banking products and services via digital channels, these accounted for almost a third of 2015 product openings. This directly correlates with increased retention as well as improved customer satisfaction.

We are embracing changes in technology that offer benefits to our customers. In 2015, we were one of the first UK banks to introduce Apple Pay. We also developed the highly-rated Spendlytics, KiTTi and SmartBank apps to help our customers manage their money. In partnership with SignVideo, we launched a video relay service for customers who use British Sign Language so they can enjoy barrier-free access to our products and services.

Contactless transactions (million)



Source: UK Cards Association (debit and credit cards), September 2015

Our Banco Santander InnoVentures fund invested in international payments firm Ripple Inc., which provides global financial settlement solutions and develops technology to reduce the settlement costs for banks.

We are the only full-service scale challenger

A full-service retail and corporate bank...

1 million

new 11213 World customers

We have become increasingly recognised for value and innovation following the transformation of our retail business over the last three years. Together with improved customer service and a high-profile marketing campaign, we have been successful in growing our 11213 World customer base. We are proud to serve our customers with products that offer real, ongoing value. In turn, this helps our people forge stronger and deeper relationships with our customers.

£26.4bn

lending to corporate customers

We built our corporate bank from a standing start and have made significant progress towards a full-service proposition. Our expanded footprint allows us to get closer to the customers we serve. With a prudent approach to risk, and a focus on customer experience, we have grown our business above the market average. We can also help to open up new opportunities to enable our customers to grow their businesses. Our international business uses our parent's global reach to assist UK companies to expand their business abroad, with support and introduction to trade contacts.

with unique position and meaningful scale...

A large branch network and established IT platform work act as effective barriers to entry to the UK market. For that reason, making a serious impact on the concentration of the market is only possible from the platform of a national network.

Smaller challenger banks without a national network have struggled to offer a credible alternative to the big four. Our branch network is optimised and covers more than 80% of the UK market – that allows us to exert enough pressure on the incumbent banks to impact their customer base.

857 branches

We also have an extensive network of Corporate Business Centres and relationship managers. In recent years, we have achieved lending growth to corporate customers ahead of the market while smaller challengers have struggled to make an impact at the national level.

Smaller challenger banks and new entrants can also lack the resources needed to invest in IT and infrastructure and comply with the regulatory burden. We benefit from being part of a large international group with access to shared resources, expertise and capability which in turn benefits our customers.

70

Corporate Business Centres

well-executed 2013-15 strategy...

6 KPIs achieved


- ✓ 11213 World customers
- ✓ Retail customer satisfaction
- ✓ Common Equity Tier 1 capital ratio
- ✓ Loan-to-deposit ratio
- ✓ Non-performing loan ratio
- ✓ Dividend payout ratio

Through 2013 to 2015, we executed a strategy focused on Simple, Personal and Fair outcomes for our customers. We grew our retail current account proposition and our business with corporate customers and also delivered consistent profitability and a strong balance sheet.

The turnaround in our customer experience during this period has been particularly strong and, together with the success of our 11213 World proposition, has firmly established our position as the successful full-service scale challenger in the UK.

Profitability has been consistent, with returns increasing over the period. Our Return on Tangible Equity (RoTE) ratio has, however, been impacted by the regulatory need for a higher capital base and conduct provision charges. Our balance sheet has also been strengthened by increased retail deposits and lower non-performing loans.

We have more to do on our journey to become a fully customer-focused and better diversified bank. As we look forward, we have refreshed our strategic priorities and 2018 targets which are set out in the following pages.

 For more on our performance against KPIs see pages 20 and 21

challenging the big four.

1-in-4 customers who switched current account chose to move to Santander⁽¹⁾

To successfully challenge the big four we have leveraged our scale and presence and developed a recognised brand that consumers trust. We have invested in expansion and innovation and, by increasing competition in the market, provide a viable alternative for customers.

A dedicated Corporate Bank with a full-service proposition for UK business

To meet the distinct needs of our customers in a balanced and optimal way, we intend to grow and further differentiate our business. We will operate as a Retail Bank and a separate Corporate Bank. This is our preferred approach to meet the Banking Reform requirement for large UK banks to ring-fence their retail banking operations.

While some competitors are retrenching, we believe a focused and dedicated corporate bank will help us provide a seamless client experience. It will also allow us to develop further scale and to attract and retain talented relationship managers.

(1) Bacs (previously Payments Council) data for the industry shows 2,313,450 full switches were completed between 16 September 2013 and 31 December 2015. Santander UK management information identifies 610,550 full switchers in the same period.

We create value by doing things differently

Over the last three years we have undergone a significant commercial transformation. Building on the legacy of our building society heritage, we have created a dynamic brand with a reputation for innovation.

We use a balanced scorecard, the Compass, to align our day-to-day activities with the overarching strategy of the bank. It helps us measure progress towards our strategic priorities and our aim of being the best bank for our stakeholders

Challenging the retail market

The 11213 World remains central to our strategy

- A focus on customer satisfaction and loyalty
- Investment in analytics and infrastructure to offer a differentiated and targeted experience
- Supporting customers with products that offer ongoing value through their different life stages
- Driving more transactional relationships
- Improving liquidity, reducing funding costs and creating a more stable savings book
- Enabling pricing flexibility to react to different economic and interest rate outlooks
- Raising brand awareness and the engagement of our employees
- Offering a competitive advantage which is difficult for other banks to copy

Challenging the corporate market

Building a strong and sustainable business

- Improved client satisfaction, targeting above peer average
- A client-centric infrastructure delivered by our regional Corporate Business Centre network
- An extensive product suite to help UK companies and support growing businesses
- A differentiated and innovative proposition adapted to industry segments
- Relationship managers across the UK, local to their clients, supported by local risk managers
- International expertise to help UK companies as they expand overseas

The Compass sets out our KPIs across four quadrants – one for each stakeholder group to ensure we are:

Creating value for our people

To attract and retain the most talented and committed people we offer first-class professional development opportunities and a competitive package of pay and benefits. We value individuality, empowerment and collaboration and carefully foster a Simple, Personal and Fair culture.

A highly motivated and engaged workforce provides excellent customer service, and our people are effective advocates of our bank. We can only become the best bank for our customers if we are the best bank for our people.

Creating value for our customers

We provide products and services that we believe people want and need, with transparent benefits and fees. In this way

we aim to build more lasting relationships with our customers. By being a bank which is Simple, Personal and Fair we believe we will become a bank that our customers will want to do more business with.

We understand that customers will only be loyal if we provide them with excellent service. This is why customer satisfaction and advocacy remains central to the success of our strategy going forward.

Creating value for our shareholders

We have a track record of generating value for our shareholders. We have maintained this by paying dividends every year since 2007. The Banco Santander group operates in 10 main geographical areas and the UK business remained one of the most significant contributors to its results in 2015.

We are committed to continue operating in the most efficient way, both for our shareholders and the wider environment. By taking into account the impact of our

business on the world around us, we can benefit from cost efficiencies, effective risk management and an enhanced reputation.

Only if we continue to deliver a long-term, sustainable return for our shareholders can we continue to invest in our customers, people and communities.

Creating value for our communities

We have a diverse programme of community engagement which includes funding for local and national charities as well as employee volunteering. In 2015, we announced a new community venture, The Discovery Project.

Our people help to decide which initiatives we will support and are active participants in a wide range of these community activities. Being more closely engaged with the communities where our branches, Corporate Business Centres and offices are located also helps us to serve our customers better.

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 bank 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.

To help people and businesses prosper



To become the best bank for all our stakeholders

We are evolving our proven and successful strategy

At the Banco Santander Investor Day in September 2015, Santander UK outlined the evolution of the strategic direction of our business. We set out our strategic priorities for the next three years in the context of the major forces shaping the UK banking market. These priorities build on our progress to date, and would not be achievable without the commercial transformation we have already accomplished.

Our strategic priorities for 2016 to 2018

1 Customer loyalty and market share growth

2 Operational and digital excellence

3 Consistent and growing profitability and a strong balance sheet

4 Live The Santander Way through our behaviours

5 Support communities through skills, knowledge and innovation

Our proven strategy

As part of our refined strategy for 2016-18 we plan to further deepen customer relationships across the bank, while also expanding our drive for increased corporate customer loyalty. We have introduced a priority of operational and digital excellence to reflect delivery of the best service to our customers, with the best return for our shareholders. We will also continue to focus on growing profitability and a strong balance sheet, while maintaining our capital strength.

The key to achieving these strategic goals will be:

- Engaging our teams
- Constantly working to embed our behaviours
- Delivering a culture which is Simple, Personal and Fair
- Being deeply involved in the communities where we operate.

Encouraging loyalty

In recent years we have delivered rapid growth in our loyal customer base, supported by the success of our 11213 World proposition. However, we see significant potential to increase loyal retail customers further to 4.7 million by 2018, more than doubling our 2012 position. We want our retail products and services to give people the financial tools and support they need at the times that matter most – we want to become our customers' bank for life.

A loyal customer base, where a primary bank account acts as the anchor of the relationship, provides better customer insight, better risk profile, reduced cost of customer turnover and many opportunities to interact with customers given their strong transactional link to the bank.

We have a significant opportunity to build on our core 11213 World relationships. In particular, we want to develop the areas of personal lending, investments and long-term planning, insurance and protection, and new opportunities such as pensions. This will broaden our ability to serve our customers throughout their lives. As loyalty has grown, we have seen an increase in the number of times our customers interact with us, and we expect this trend to continue.

The channel in which we have seen transactions growing fastest is digital. Digital transactions have doubled in the last three years and we added almost 1,500 new active mobile users every day in 2015. We have set a target of 6.5 million digital customers by 2018.

Opportunities to:

Increase customer loyalty by building on primary account relationships

Leverage customer analytics to increase revenue from targeted offering

Accelerate our growth with a focused and dedicated Corporate Bank

Digitalise customer interaction and back office processes

Grow income with a balance sheet that is positively geared to rising interest rates

Challenges from:

Demanding regulatory agenda driving significant implementation and ongoing compliance costs

Increased market competition targeting growth in specific parts of the market

Changing customer behaviours and the need to move to a more proactive, multichannel operating model

Low-for-longer interest rates and fragile global growth prospects

Leveraging infrastructure investment to serve corporate customers better

The investment in our corporate bank is largely complete. We are now turning our focus to improving customer satisfaction further and increasing the productivity of our relationship managers and Corporate Business Centres.

Around 15% of our relationship managers have been with us for less than a year and a further 50% for less than three years. These relationship managers are building business portfolios that should grow materially in the years ahead. This growth reflects the increase in productivity and returns we have already achieved in our more mature centres.

Executing this should enable us to deliver asset growth over five percentage points above the market over the next three years. It will also allow us to reach our 2018 target of 308,000 loyal SME and corporate customers.

Operational and digital excellence

Simplicity is at the heart of our culture. We aim to deliver the best service to our customers, with the best return for our shareholders.

To give our customers a choice of how they interact with us, we intend to use digital and mobile technology, building on our track record of innovation. We expect that applications and servicing via digital channels will continue to increase, as will retention. Giving customers more choice across multiple channels should help us to provide a better customer experience overall.

In the next three years we intend to continue our simplification programme. We want to extend the approach from our product range to our end-to-end processes. Initially within our mortgage business, we are embracing digitalisation through a focus on mobile experience and re-engineering our operating model using technologies such as biometrics.

Technological innovation and simplification should enable us to work more efficiently, and allow us to make cost savings across the business. This supports our targeted cost-to-income ratio of below 50%. Achieving this will be important in helping us become a more dynamic and agile organisation, in this changing environment.

Delivering solid results

In a period of significant change, and some uncertainty, we have delivered consistent profitability and a strong balance sheet. We have a sustainable business with low earnings volatility and a low risk profile.

In the next three years, we are targeting a RoTE ratio of 12% to 14%, which is above our estimated cost of equity. We intend to maintain our dividend policy, with a payout ratio of 50%. At the same time we have a target CET 1 capital ratio of c. 12% and a non-performing loan ratio of less than 1.50%.



Banco Santander Investor Day London, September 2015

We have introduced a target to increase fee income by a compound annual growth rate (CAGR) of 5% to 10% between 2015 and 2018. We intend to achieve this through business growth and deeper customer relationships, and by building on the investments we have made in the last three years.

A Simple, Personal and Fair culture

In 2015, we developed and rolled out a set of behaviours for all our people to embed our Simple, Personal and Fair culture. Alongside this, we further developed our extensive I AM Risk programme to instil personal awareness and responsibility throughout the business.

We are confident that by maintaining an excellent level of staff engagement we will be able to further improve the service we deliver for our customers. Our goal is to continue to be one of the Top 3 UK banks

for colleague engagement as well as a Top 3 bank for retail customer satisfaction and advocacy, as measured by the GfK Financial Research Survey.

For more on our people, see page 26.

Support for communities in the UK

We focus our support on education, enterprise and employment. In the last three years, we contributed £67m to community groups across the country, and supported 500,000 people through our programmes.

Santander Universities, together with Breakthrough, are giving thousands of students their first opportunity in the job market, with paid internships in SMEs as well as work placements for undergraduates.

In late 2015, we launched The Discovery Project, an exciting new programme of help and support for our communities, with a goal to help one million people by 2020.

The Discovery Project is aimed at giving people skills, knowledge and support so they have the confidence to make the most of their future.

In the next three years we plan to support initiatives that will have a positive impact on 600,000 people.

For more on our communities, see page 32.

2018 targets



For the basis of our targets, see the glossary

Communities

People supported (2016-2018)	600,000
Scholarships (2016-2018)	24,100

People

Colleague engagement	Top 3 UK Bank
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Shareholders

Return on tangible equity	12% – 14%
Cost-to-income ratio	< 50%
CET 1 capital ratio	c. 12%
Non-performing loan ratio	< 1.50%
Dividend payout ratio	50%

Customers

Loyal retail customers	4.7 million
Loyal SME and corporate customers	308,000
Customer satisfaction and advocacy (FRS)	Top 3
Digital customers	6.5 million
Fee income CAGR (2015-2018)	5% – 10%



Risk management is at the heart of our culture

Sound risk management is at the centre of our day-to-day activities. It benefits our business by ensuring balanced growth and stability of earnings while also protecting the sustainability of our future prospects.



- IDENTIFY
- ASSESS
- MANAGE
- REPORT

Delivering our strategic priorities relies on the successful identification, assessment, management and reporting of risk. We focus on the top risks that impact our business, and also monitor emerging risks that might affect us in the future.

Top risks we focus on

Credit (NPL ratio %)



Capital (CET 1 capital ratio %)



Banking market (NIM sensitivity -50bps £m)



Pension (Defined benefit pension scheme surplus £m)



Liquidity (LCR %)



Operational (Operational risk losses £m)



Conduct (Remaining provision £m)





Fostering a risk management culture

We believe that everyone across the business needs to take personal responsibility for managing risk. This responsibility complements and supports our objective to become Simple, Personal and Fair.

In 2015, we made significant progress to embed our Risk Framework across the business. In particular, we continued the roll-out of our I AM RISK programme to raise awareness of personal accountability for risk management. For more on I AM RISK, see page 45.

Our financial resilience endorsed

Like all banks, we are subject to regular and rigorous monitoring by external parties. In 2015, two of these affirmed our balance sheet strength, credit worthiness and resilience to potential external shocks.

We passed the 2015 PRA stress tests with a stressed CET 1 capital ratio of 9.5%, which exceeded the 4.5% threshold requirement.

The credit rating agency, Moody's, upgraded our long-term rating following improvements in our stand alone strength. This was demonstrated by our improved credit quality and PRA end point Tier 1 leverage ratio.

Improving credit quality

Credit quality across our main portfolios remained robust, with the NPL ratio improving to 1.54% from 1.80%. This was achieved through prudent lending and a supportive economic environment. Low interest rates and unemployment have contributed to historically low rates of arrears.

Challenging rate environment

The current low interest rate environment continues to set challenges for both our net interest margin (NIM) performance and the risk associated with our pension fund. In 2015, we took the decision to alter the terms of our 11213 product offerings. We are carefully monitoring both the effect of this decision on our customers, and the impact

of interest rate forecasts in managing our retail product offerings.

FCA consultation on PPI

In response to the recent FCA consultation paper on PPI and the Supreme Court judgment in Plevin v Paragon Personal Finance Limited (Plevin), we provided £450m for the fourth quarter of 2015. This charge represents our current best estimate of the remaining redress and costs, notwithstanding the ongoing nature of the consultation. For more on this, see page 19.

Balance sheet strength

The CET 1 capital ratio remained strong at 11.6% at 31 December 2015, but was adversely impacted by the PPI conduct remediation charge of £450m. Risk weighted assets increased in line with growth in customer assets, in part due to the PSA cooperation which began in February 2015.

Our LCR remained in excess of 100% throughout 2015.

Emerging risks we monitor

Economic environment	Regulatory development	Market competition	Customer behaviour
<ul style="list-style-type: none"> — Interest rates could continue to remain lower than we currently envisage and this could restrict income growth — Global economic pressures could affect the health of the UK economy, adversely impacting our customers' creditworthiness — The forthcoming referendum on the UK membership of the EU could affect the business environment, and our access to markets 	<ul style="list-style-type: none"> — The demanding regulatory agenda will continue to focus on financial strength, customer experience and competition. Compliance with new rules as they come into force could affect our ability to grow the business — While the requirements for Banking Reform have become clearer during this year, considerable challenges remain for us to implement a business model that both meets the regulatory demands and delivers our strategic aims 	<ul style="list-style-type: none"> — Established incumbent competitors are refocusing on core UK banking markets, which could place pressure on both our growth aspirations and forecasted margins — Challenger banks are competing for growth and new entrants are leveraging technology. These have the potential to disrupt our markets, and will require an equal focus on our part on technological advances 	<ul style="list-style-type: none"> — Customer needs are rapidly evolving, especially in digital channels, constantly raising the bar to improve the customer experience; this will demand an agile and innovative response — The growing customer take-up of mobile and digital channels creates new operational risks, which will require careful management

Chief Financial Officer's review



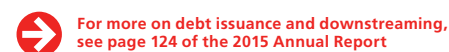
■ ■ 2015 was an important year for Santander UK. We refreshed our strategic plan to see us through to the end of 2018 and achieved some important milestones in our capital and funding plan to meet future regulatory requirements.

Business momentum was evident in asset growth across all our customer segments, supported by our prudent lending approach and relentless focus on customer experience.

Looking ahead, we will continue to focus on customer loyalty, operational and digital excellence, as well as growing profitability and maintaining our balance sheet strength. ■ ■

A handwritten signature in black ink, appearing to be 'AR' with a stylized flourish.

Antonio Roman
Chief Financial Officer
24 February 2016



Business momentum underpins 2015 results

We delivered solid financial results in 2015, although profit before tax of £1,342m was impacted by a conduct remediation charge of £450m relating to PPI.

Net interest income rose 4% due to liability margin improvements and increased retail and corporate loans. Non-interest income fell 4% with lower net banking and lending fees.

Operating expenses were broadly flat as we continued to absorb investment in business growth, regulatory compliance project costs (including Banking Reform), and continued enhancements to our digital channels.

Impairment losses on loans and advances fell 74%, with retail and corporate loans performing well in a supportive economic environment. Provisions for other liabilities and charges were 83% higher, largely due to the conduct remediation charge outlined in more detail below.

Conduct remediation update

In November 2015, the FCA published a consultation paper relating to the introduction of a deadline for customer PPI complaints. It also proposed rules and guidance on the application of the Plevin case.

Following our review of the consultation paper and its potential impact, we made a conduct remediation charge of £450m for the fourth quarter of 2015. This charge represents our best estimate of redress and costs, notwithstanding the ongoing nature of the consultation.

The total provision for PPI redress and related costs amounted to £465m at 31 December 2015. We will continue to review our provision levels in respect of recent claims experiences and the observed impact of the proposal to introduce a two year deadline for claims.

Maintaining a strong balance sheet

CET 1 capital increased slightly during 2015 to £10.0bn, while risk-weighted assets increased by £3.5bn to £85.8bn. The growth in risk-weighted assets largely reflected customer asset growth and in particular an additional £2.5bn of consumer finance assets

from the start of the PSA cooperation in February 2015.

We finished the year with a CET 1 capital ratio of 11.6%, which was also adversely impacted by the £450m PPI conduct remediation charge. The PRA end-point Tier 1 leverage ratio improved to 4.0%, up from 3.8% a year ago, largely due to £750m of Additional Tier 1 (AT1) issuance in June 2015.

Building a foundation for future regulatory requirements

During the last two years our corporate structure and balance sheet have been through a significant evolution in response to regulatory changes following the financial crisis.

The first milestone on this journey was the creation of a new holding company, Santander UK Group Holdings plc, in January 2014. The holding company was established as a separate resolution group, with the Bank of England acting as the Resolution Authority.

The second milestone followed in 2015 when we completed the steps necessary to allow the public issuance of debt securities by our holding company. These were the publication of the first Santander UK Group Holdings plc Annual Report, attainment of credit ratings and the granting of UK and US regulatory approvals.

Our intention going forward is to issue all capital from our holding company. Senior unsecured funding will be issued from both the holding company and our operating companies.

Successful holding company issuances

The first issuance from Santander UK Group Holdings plc took place in 2014, when we issued two AT1 private placements, totalling £800m, to our parent Banco Santander SA.

Our first public AT1 issuance of £750m took place in June 2015. All three AT1 issuances were downstreamed to our operating company, Santander UK plc, as AT1 instruments.

In September 2015, we issued US\$1.5bn of Tier 2 securities across two tranches (10 and 30 year). These were downstreamed to Santander UK plc as Tier 2 instruments.

In the third quarter of 2015, we issued our inaugural US\$1bn 5 year senior unsecured SEC registered benchmark followed by ¥30bn senior unsecured probond across two tranches (3 and 5 year). These were both issued from Santander UK Group Holdings plc and downstreamed to Santander UK plc in the form of senior loans that rank pari passu with other external senior unsecured debt.

Evolving capital requirements

During 2015, we received further clarity regarding the total loss absorbing capacity (TLAC) requirement and the minimum requirement for own funds and eligible liabilities (MREL). We believe the most efficient way for us to meet all our requirements will be through the issuance of senior unsecured debt from our holding company and transparent downstreaming to our operating company in a compliant form.

We have an established presence in the debt capital markets, with total issuance in 2015 of £10.3bn, including £7.1bn of senior unsecured debt. As such, we feel we are well-positioned to meet both our capital and leverage requirements in the evolving regulatory regime.

Looking ahead

We anticipate that the UK economy will remain supportive of our business and credit performance, but remain conscious of the recent market volatility from macro and geopolitical factors, uncertain prospects for policy interest rates and the upcoming UK referendum on EU membership.

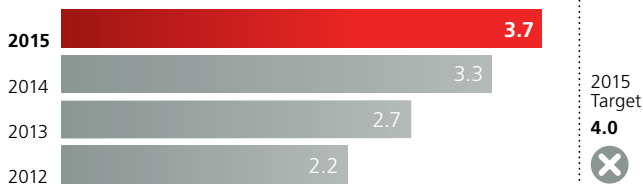
In January 2016, we increased the monthly fee on the 11213 Current Account and 11213 Credit Card. The impact on customer acquisition, loyalty and satisfaction will become clearer during the year ahead. Nonetheless, we believe this account will continue to offer significant value to our customers.

We will continue to work on our Banking Reform plans, in line with our 2018 strategy. We are confident that our full-service scale challenger position means that we can continue to innovate, satisfy customers' new expectations, and to grow.

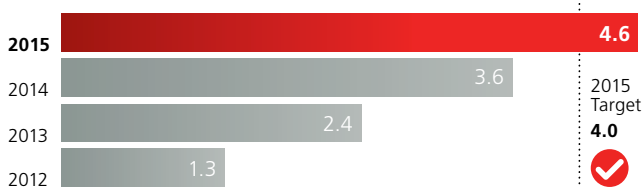
A well-executed 2013-15 strategy

1 Loyal and satisfied retail customers

Loyal customers (million)



11213 World customers (million)



Customer satisfaction (Financial Research Survey⁽¹⁾) (%)



Deepening customer loyalty by meeting their changing needs

The turnaround in customer satisfaction¹ in the last three years has been particularly strong. In addition, the success of the 11213 World proposition has firmly established us as the full-service scale challenger in the UK.

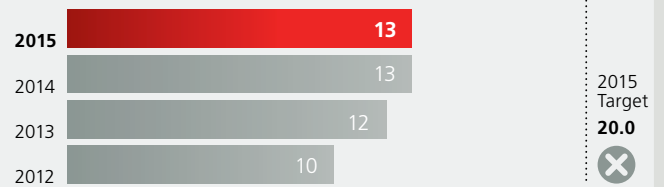
We have achieved significant and rapid growth, while also improving the loyalty of our customer base. This transformation has been led by the 11213 World, with 3.3 million new 11213 World customers in three years, achieving our 2015 target ahead of schedule.

The number of loyal customers increased by 1.5 million over the same period, and although this fell just short of our challenging target of 1.8 million, growing the volume of loyal customers remains at the heart of our plans.

(1) Customer satisfaction measured by the GfK Financial Research Survey, December 2015.

2 Bank of Choice for UK companies

Corporate loans percentage of total customer loans (%)



Corporate loans

	Balance £bn	NPL %
2015	26.4	2.26
2014	23.9	3.01
2013	22.1	3.02
2012	19.6	4.26

Growing business with corporate customers with a broader proposition

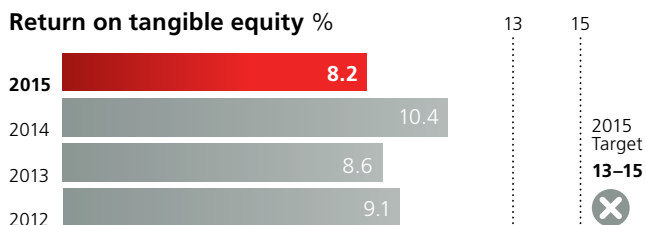
In 2012, after deciding not to proceed with an acquisition, we embarked on a strategy of organic growth for our corporate business. In the years since, we have made significant progress in building a full-service proposition for our corporate customers.

Corporate customer assets have seen double digit average growth between 2012 and 2015, while the market overall contracted. We decided to maintain our prudent risk management and returns objectives, at the expense of further growth. As a result we fell short of our target for corporate loans as a percentage of total customer loans.

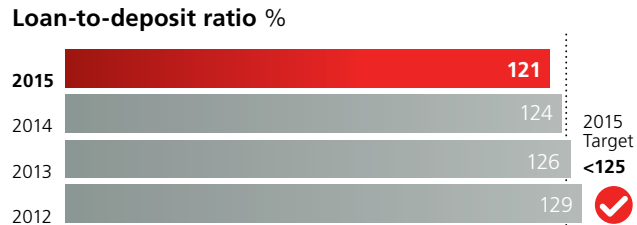
However, our investment in building this business is now largely complete. This gives us a unique opportunity to materially increase our productivity and returns, as income grows and incremental costs remain low.

3 Consistent profitability and a strong balance sheet

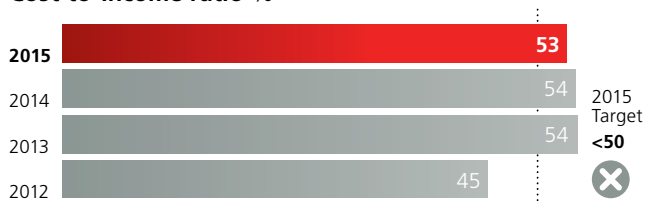
Return on tangible equity %



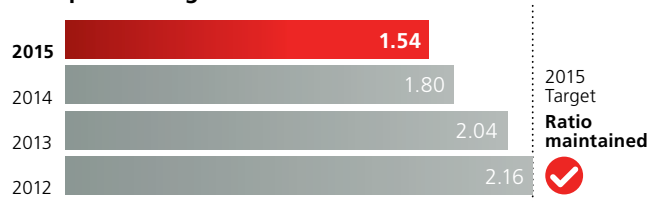
Loan-to-deposit ratio %



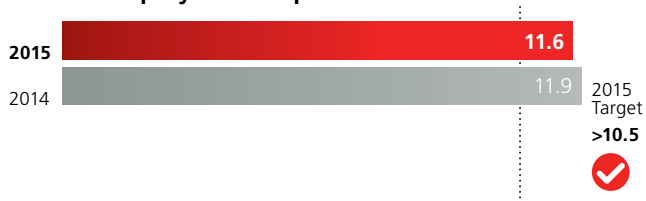
Cost-to-income ratio %



Non-performing loan ratio %



Common Equity Tier 1 capital ratio⁽¹⁾ %



Dividend payout ratio %



Providing our shareholders with a sustainable return on their investment

When our 2015 targets were set in 2012, the regulatory backdrop was far less demanding. Capital requirements were much lower than they are today and our original 2015 CET 1 capital ratio target was 10.5%. Since then, interest rates have remained lower for much longer than expected and lending in the UK has been well below long-term trends. The costs of regulatory compliance have also increased materially. Taken together, these factors have had a significant impact on our profitability and RoTE.

RoTE of 8.2% fell short of our 2015 target. This was due to lower returns and the evolving requirements for banks to hold more capital. In particular, our 2015 returns were adversely affected by the £450m PPI conduct remediation charge. Despite this, we continued our track record of dividend payments.

(1) The Company was not part of the regulated group before 10 January 2014.

The cost-to-income ratio of 53% fell short of our challenging 2015 target. Income has been affected by low interest rates, lower net banking fees, a focus on reducing potential future conduct remediation charges and changes to interchange fees. We have remained focused on managing costs in spite of a need to invest in business growth as well as digital and mobile infrastructure, alongside increased regulatory compliance costs.

The CET 1 capital ratio of 11.6% exceeded our original 2015 target of 10.5%. Capital requirements have increased significantly, and the introduction of the leverage ratio adds another dimension to capital management.

With a loan-to-deposit ratio of 121%, we met our 2015 target through modest loan growth and significant deposit growth through the 11213 Current Account. Retail current account balances have reached £53bn, growing £1bn a month on average since 2012.

The non-performing loans ratio has fallen significantly and a supportive economic environment as well as our prudent lending criteria.

Corporate governance review

“The Board has been guided in its changes by a desire to improve continuously the assurance and oversight that our investors, customers and regulators rely on as well as the challenge, support and guidance management expect of us.”

Shriti Vadera
Chair

Ambition

Our ambition is to be the best governed bank in the UK that supports Santander UK’s aspiration to become the best retail and commercial bank. 2015 has been a year of significant transformation in our governance. We articulated more clearly the terms of our relationship with our parent, made a number of changes to the Board’s composition and improved our way of working as an effective governing body. The Board has been guided in its changes by a desire to improve continuously the assurance and oversight that our investors, customers and regulators rely on as well as the challenge, support and guidance management expect of us.

UK Group Framework

The first element of change has been to define clearly our responsibilities and relationship with Banco Santander, our sole shareholder, through a UK Group Framework agreed by Santander UK and Banco Santander. This provides Banco

Santander with the oversight and controls they need while discharging our responsibilities in the UK in line with best practice as an independent Board. Clarity of roles and responsibilities is key to ensuring proper accountability for decisions and outcomes. The UK Group Framework therefore sets out, amongst other elements:

- The principle that, except for periods of transition or handover, at least 50% of the Board should be Independent Non-Executive Directors (INEDs) and the other 50% either Executive Directors or Banco Santander nominated Non-Executive Directors
- The definition of independence⁽¹⁾, in recognition of our ownership, is a Director who has no current or recent relationship with the Banco Santander group and Santander UK other than through the UK Board role
- The manner in which the Chair, Executive Directors, INEDs, and Banco Santander nominated Non-Executive Directors will be appointed
- The iterative process by which strategy and annual budgets will be approved by Banco Santander and the Santander UK Board
- How remuneration of key executives will be determined.

Board composition at January 2016⁽²⁾

Shriti Vadera Chair Chair of Nomination Committee					
Independent Non-Executive Directors					
Scott Wheway Senior Independent Director Chair of Remuneration Committee	Ed Giera Chair of Risk Committee	Chris Jones Chair of Audit Committee	Alain Dromer	Annemarie Durbin	Genevieve Shore
Banco Santander nominated Non-Executive Directors					Executive Director
Ana Botín	Bruce Carnegie-Brown	José María Fuster⁽²⁾	Juan Rodríguez Inciarte	Manuel Soto	Nathan Bostock

(1) In this Strategic Report, the terms ‘independence’ and ‘independent’ are, unless otherwise stated, defined in accordance with our UK Group Framework.

(2) Peter Jackson will join the Board from 1 April 2016 as a Banco Santander nominated Non-Executive Director, subject to regulatory approvals as needed. José María Fuster will step down from the Board with effect from 1 April 2016.

Board composition and skills

It is our view that 10-14 is the optimal Board size for Santander UK. Our Board is currently 13 compared to 16 during 2014. Seven, or 54%, including the current Chair are Independent compared to 38% during 2014 and four are women, improving our Board gender diversity to 31% women from 13% in 2014.

The year saw a significant change in the membership of the Board, with a number of long serving Directors stepping down, as set out in my statement on pages 2 and 3. New appointments were based on wide searches conducted by external firms and focused on ensuring the right mix of skills and experience on the Board as a whole and, critically, enabling the diversity of thinking that underpins the Board's ability to provide effective challenge and oversight. Across the Board table, we have a core of banking skills combined with recent and relevant financial expertise, complemented with financial markets, retail, wealth management, digital, economics and Government experience. The new INEDs have spent significant time on their induction and we have instituted regular workshops for all Directors to deepen and refresh our understanding of key business issues.

We appointed, for the first time, a Senior Independent Director in Scott Wheway who has served on the Board since October 2013.

In light of the number of Board members retiring, the average tenure of Board Directors has gone from five⁽¹⁾ years in 2014 to three years in 2015. We will be ensuring a phased approach to tenure going forward to allow for smooth transitions between Directors.

Board Committees

All Committees are chaired by INEDs (including myself for Board Nomination Committee) and all have a sizeable majority of INEDs. We have constituted the membership of the Committees so that all INEDs are members of the Board Audit, Board Risk and Board Remuneration Committees to provide efficient working and effective oversight.

We reviewed all the Terms of Reference of the Board Committees in line with best practice. Most notably we significantly enhanced the Terms of Reference of the Board Remuneration Committee to enable an active and strengthened function, reflecting the agreement in the UK Group Framework and a changed environment of executive remuneration in the financial services sector. As a result, the Committee was also renamed from Board Remuneration Oversight Committee to Board Remuneration Committee.

Board fees

We reviewed all Board and Board Committee fees with no changes made except to remove the payment of fees for Board Nomination Committee members which is increasingly the market norm; and increase the fees of Board Remuneration Committee members to bring it into line with that of Board Audit and Board Risk Committees, reflecting better its enhanced role and time commitment.

Board fees are set out on page 194 of the 2015 Annual Report.

Board effectiveness

Following an external board effectiveness review in 2013, we conducted an internal review to help us develop our plans for continuous improvement for the year ahead. We will conduct a full external review of board effectiveness during 2016.

The Board agreed in June 2015 a set of five strategic priorities focused on: long term strategy; regulatory trust; customer focus; embedding culture; and talent and succession planning. These are not intended to set the strategy or priorities of the business but to act as a guide to help the Board with what we need to keep front of mind in our deliberations and discussions.

Female Board members

December 2014

13%
(2/16)

January 2016

31%
(4/13)

Independent Board members

December 2014

38%
(6/16)

January 2016

54%
(7/13)

(1) Board tenure of Santander UK plc Directors.

How we spent our time

The integrated nature of Board discussion makes it difficult to categorise how we spent our time and the resultant analysis is somewhat artificial. For instance, time spent on governance will include Board private sessions which often cover our people as their primary topic. Similarly, time spent on regulatory matters often covers topics such as certain types of risk, which would be discussed in the normal course of Board business, even if it were not a regulatory requirement. Nevertheless, it is a good discipline to understand at a general level how Board time is allocated.

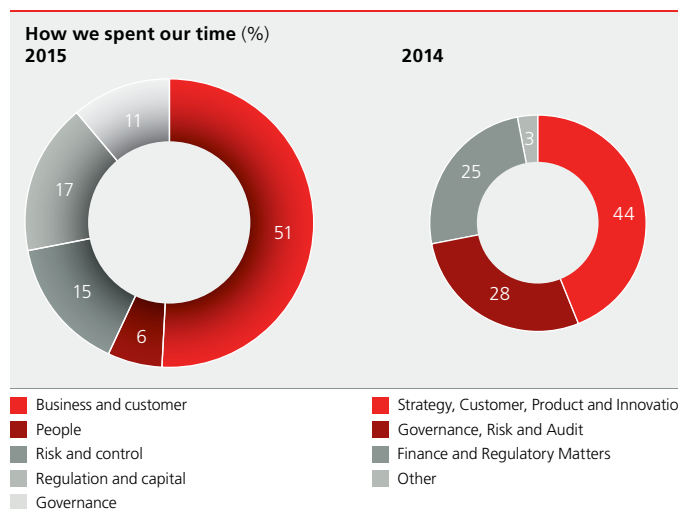
In 2015, we also made the analysis of Board time more granular to assist our planning. In particular, the time the Board spends on risk and control has been separated out from other governance and audit matters. We also separated out People so that we can measure and improve the time we spend on this topic given the importance we place on delivering the right culture and behaviours.

During 2015, the Board spent more than 50% of its time on business and customer priorities. This is an increase on time spent in 2014, reflecting the drive for digital transformation, the persistent low interest rate environment and Santander UK's role as a scale challenger in a highly competitive market. The Board also spent significant time on capital and regulatory matters (17%) and on risk and control (15%), reflecting the challenges faced in simultaneous implementation on multiple fronts. While some outside the sector may be surprised by the time spent on regulatory matters, I believe that this is appropriate and to be expected in the current environment, particularly considering the preparations that need to be made to deliver on ring-fencing requirements.

The Board held its strategy day offsite in July 2015 during which we considered the implications of technology and digital innovation for our current business and future strategy. We also held our first Customer and Innovation Forum in November 2015 chaired by Nathan and attended by Non-Executive Director members. This forum was created to provide thought leadership and oversight of the definition and delivery of our growing innovation agenda. Both the strategy day offsite and Customer and Innovation Forum reflect greater time spent on a challenging competitive and digital environment and one of the Board's key strategic priorities of agreeing and guiding the long-term strategy of Santander UK.

Board future priorities

For 2016, we will continue to work to improve our effectiveness as a board in supporting and challenging the business. Our strategic priorities as stated above will not change significantly although more time will need to be given to implementing a Board governance structure for the holding company and Retail and Corporate banks in preparation for our ring-fenced model. We will continue to monitor the risks of an uncertain global macro-environment and multiple transformation projects, support the management in embedding the behaviours chosen by our people as best defining a culture of Simple, Personal and Fair, while ensuring the business remains true to its long-term strategy and goals through short and medium-term pressures.



Sustainability review



Our purpose is to help people and businesses prosper.

We are guided in everything we do by the values of Simple, Personal and Fair as we uphold our broader responsibilities not only in the way we run our business in ethical and environmentally conscious ways, but also in how we treat customers and employees.

Focus on energy and emissions

We have made a substantial investment in new technologies over the last two years to further reduce our energy usage including £18m in lighting, heating and ventilation systems for our branch network and office buildings.

Smart meter technology now allows us to track the individual energy performance of our properties. We can monitor ongoing consumption and alter plant operating times in line with the requirements of each property, reducing energy wastage.

In 2015, we delivered the largest ever lighting retrofit in the UK of energy-efficient LED lights. Over 90,000 LED lights were installed in 16 office buildings and more than 700 of our branches. The project cut lighting costs by more than 50%. It will also reduce greenhouse gas emissions with annual expected savings of over 7,000 tonnes of CO₂.

These improvements contributed to an annual reduction of 11% in electricity and 9% in gas usage.

CO₂ emissions generated by fuel and business travel fell from 18,459 tonnes in 2013 to 15,921 tonnes. In 2015, representing a 13% reduction per employee (0.76 tonnes of CO₂ per employee in 2013 compared to 0.65 tonnes in 2015).

Business travel represents around 60% of our total CO₂ emissions and with the increasingly global nature of our business we encourage staff to avoid travel for internal business meetings by making use of technology such as teleconferencing. Our bi-annual Travel Free Week raises awareness of the alternatives available.

Our electricity is sourced from green supplies and has zero carbon emissions.

Our Go Green campaign encourages staff to adopt environment-friendly behaviours. The Green Club has 1,690 employees enrolled as Green Champions. Green Club Forums at our major offices enable our Green Champions to lead environmental activities and give staff the opportunity to regularly meet with senior management.

Energy usage (MWh)



People

We aim to attract, retain and reward the most talented and committed people with first-class development schemes and a workplace that empowers people, encourages individuality and promotes collaboration. A highly motivated and engaged workforce provides the best service for customers.

Career training and development for our people

We provide a full range of skills development, training modules and career support for our people to develop their potential. Our people undertook over 140,000 training days in 2015 and we invested £12.3m in employee learning and development.



Employee training spend in 2015

£12.3m

invested in learning and development

In addition to providing funding, materials and workshops for external qualifications, we also offer specialised programmes to develop our talent pipeline and guide employees in achieving their career goals. Our people can develop an action plan to acquire the skills and experience needed for the roles they aspire to through our Developing Your Potential and Career Choices schemes.

The Santander Apprenticeship scheme offers successful applicants a role as a full-time employee and they receive between 12 and 24 months of training. In 2015, we took part in the UK government-sponsored Trailblazer Apprenticeship working group, looking at the development of a new standard for the financial services sector, to support people early in their career and career changers. We will reflect the new standard that was subsequently agreed in our 2016 scheme.

Fair compensation to attract and retain the best people

Our approach is to fairly reward and motivate our people with a competitive package of pay and benefits, based on compliance with the PRA Remuneration Code. Salary levels are benchmarked against the median level for the industry. We are a national living wage and London living wage employer.

We offer a range of benefits that can be personalised to an individual's needs with 18 different options including extra holiday allowances, health benefits and a bike-4-work scheme. In March 2015, we launched a Group Income Protection Scheme to provide our employees with financial support in the event of a long-term absence due to illness or injury.

Our people are also provided with pension arrangements that are fair, competitive and sustainable. The Santander Retirement Plan has been our primary pension scheme since 2009. Eligible employees are automatically enrolled and have the choice to opt-out. In 2015, 88% of our people were in a pension scheme.

Pension participants

88%

eligible employees in the pension scheme

Employee share-ownership

We offer two HMRC-approved share schemes so that our people can share in the value that we create: Save-As-You-Earn (SAYE) and Share Incentive Plan (SIP). The schemes allow employees to purchase Banco Santander SA shares from their gross salary. We increased SIP limits in 2014 to £1,800 per year or 10% of pay (whichever is lower). We also increased the maximum saving contribution to SAYE from £250 to £500 per month, and 28% of participants increased their contribution to above £250.

Our other incentive plans include the Banco Santander SA Long-Term Incentive Plan for senior management and shares to employees with vested deferred bonus awards.⁽¹⁾ Overall, 50% of employees have chosen to participate in our share save schemes.

Actively listening to our people

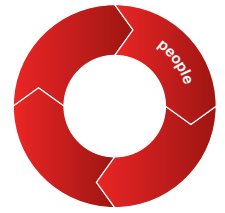
Our people have direct contact with senior management and are actively encouraged to feedback on policies, strategies and procedures. Through our online crowdsourcing tool, Better Together, we ask employees to tell us their ideas for how we can improve. In 2015, we asked them to share their thoughts on what key systems and processes needed to be enhanced. Over 1,000 colleagues took part and we actioned five of their top ideas – including the introduction of our new freephone number, offering customers a self-service option for setting holiday flags on their accounts and offering customers the ability to instantly reset their online banking credentials.

We offer a range of ways for our people to stay informed and hear first-hand from senior executives including monthly conference calls and regional roadshows.

Our intranet encourages employees to share information, ideas and best practice. It features daily updates of internal news and financial, economic and strategic developments at Santander UK and the Banco Santander group.

We also have a successful history of regularly consulting with our recognised trade unions on significant initiatives within the business at both national and local levels. Advance and the Communication Workers Union are both affiliated to the Trades Union Congress.

(1) See Note 40 to the Consolidated Financial Statements of the 2015 Annual Report for details of the plans and the related costs and obligations.

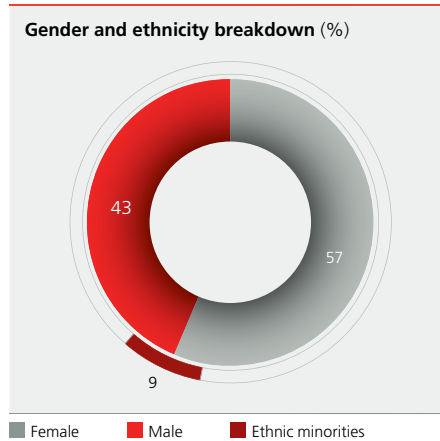


Our annual employee survey is a key performance measure for engagement and we saw 83% of our people take part this year. Through actively listening to our employees we can assess our strengths and areas for improvement. One of the highest scoring questions was 'does the company understand and appreciate diversity among employees' with 91%, an increase of 11% on the previous year.

Reflecting the diversity of our communities

We want our people to reflect the diversity of the communities where we operate and creating an inclusive culture is a priority for us. Employees are encouraged to be confident in who they are and our dedicated networks provide support and advice to people of different cultures, gender, disability and sexuality. Each network is employee-led and championed by a member of the Executive Committee. Our Diversity and Inclusion Forum is chaired by our CEO, demonstrating the importance of this topic to Santander UK.

Gender equality is an important issue for us, as well as for the industry. Our Board consists of 31% women (9 male and



4 female members at January 2016) which meets the recommendations made in the Lord Davies report. However, our proportion of female senior managers was 20% in 2015. We are keen to improve this further. We partner with Everywoman and in 2015 piloted Accelerating You, a programme to support women as they advance their careers.

We actively support disabled employees to achieve their potential with us. We embrace the 2010 UK Equality Act and

provide disabled applicants with accessible assessment and interview support. Wherever possible, we provide continued employment, training and care to those who become disabled while they work for us.

Health, safety and wellbeing programmes for our people

A safe and healthy workplace is fundamental to helping our people prosper. Health and safety consultants provide on-site assessments, practical advice, training and support to employees throughout the business.

Our managers are given the tools to foster psychological well-being for their teams with a series of guidelines and courses such as Keeping Pressure Positive and Managing Pressure & Building Personal Resilience. The Employee Assistance Programme gives free and confidential telephone advice, face-to-face counselling and critical incident support, following events like branch raids.

In partnership with the Bank Workers Charity, our people also have access to Santander Personal Support Services that provide practical, emotional and, in some cases, financial support for a broad range of lifestyle issues.

Focus on culture

We are committed to maintaining high ethical standards – adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity.

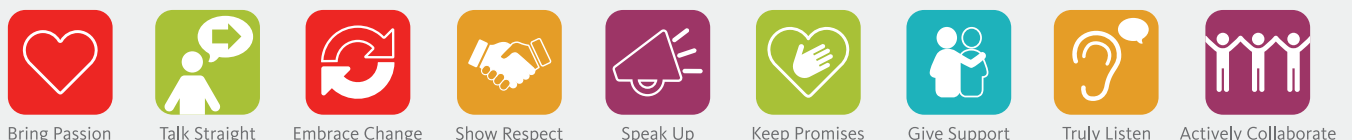
Under their terms and conditions of employment, our people are required to act with the highest standards of business conduct at all times to protect our reputation and contribute to a culture that is free from corruption, risk of compromise or conflicts of interest. These principles are set out in our Code of Ethical Conduct.

Our values of Simple, Personal and Fair are at the heart of The Santander Way, the culture that underpins our goal to be the best bank in the UK.

In 2015, our CEO and Executive Committee led a series of regional town hall events across the UK to develop a set of behaviours to support the values. Over 2,000 employees attended the workshops. The nine behaviours which were developed as a result are shown below. They provide a framework for how we all interact to deliver the best outcome for our people, customers, shareholders and communities.

Managers were invited to interactive regional events to learn more about the behaviours from the Executive Committee. The sessions were well received with more than 90% of managers saying the events helped them understand their role in embedding the behaviours and they felt equipped to model the behaviours in their teams.

Through a dedicated communications campaign, every month we explore one of the behaviours in more detail. Videos and toolkits enable managers and their teams to discuss the behaviour and how it can be put into practice.



Customers

We aim to build lasting relationships with our customers based on what they want: a bank that is Simple, Personal and Fair. By providing innovative, market-leading products and continuing to invest in our network and first-class customer service, we aim to be the best bank in the UK.

Helping our customers make the most of their money

Over 4.6 million of our customers are now part of the Santander 11213 World. Our 11213 products provide ongoing value to individuals and families that help our customers make the most of their money.

11213 World customers

4.6 million

The 11213 Current Account pays cashback on household bill direct debits and up to 3% interest when the account is in credit on balances up to £20,000. The monthly fee on the 11213 Current Account increased in January 2016 while the rates of interest paid and cashback remained unchanged and the account continues to offer value for customers.

We remained the first choice for customers switching their current account provider in 2015. Since the introduction of the Current Account Switch Service (CASS) in September 2013, one-in-four customers who moved their current account chose Santander UK.

In 2015, we helped UK homebuyers with gross mortgage lending of £26.5bn, including £4.5bn to first-time buyers. Although we withdrew from the UK Government's Help to Buy scheme in September, we continued to offer mortgages under the same terms with a LTV of over 90%, and in November we launched a Help to Buy ISA. The government will contribute a 25% bonus (max £3,000 on £12,000 of savings) when a customer uses their ISA savings to purchase their first home.

Investing in technology to give our customers convenience

We have 3.7 million digital customers and expect this to double in the next three years.

Our investment in technology has given customers the choice of how, when and where they can access and manage their money.

Customers can stay on top of their account balance with free text and email alerts to provide an early warning when nearing an overdraft limit, or if an available balance won't cover a standing order, direct debit or upcoming payment.

The Santander UK mobile banking app allows customers to transfer money and make payments with a simple log in process and straightforward navigation.

We launched a series of apps in 2015 to further help our customers manage their money including Spendlytics that tracks and analyses spending on Santander cards; Paym, a service to securely send and receive money using a mobile number; and KITTi a virtual cash kitty to manage shared finances, such as flat share bills and coffee clubs.



Santander UK was also one of the first UK banks to offer Apple Pay in July 2015. Both debit and credit card customers can make use of easy and secure contactless payment options for in-store purchases under £30.

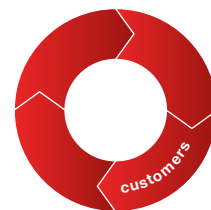
We protect our customers against fraud with security measures such as a one-time passcode for telephone and online banking. Our online security centre also offers tips for staying safe online and we regularly send our customers advice on how to improve their account security.

Listening to our customers, managing complaints and customer satisfaction

To earn our customers loyalty we must offer more than just the products they need and so our focus is also to provide the service our customers want. Over the last three years we have invested in improving our customer satisfaction. We continued to build on our progress in customer satisfaction this year, and in November 2015 reached our highest ever score.⁽¹⁾

Improved management of customer complaints has also helped to make our customer experience better. We monitor the effectiveness of our processes by measuring the number of FCA reportable complaints, Financial Ombudsman Service (FOS) referrals and customer satisfaction with complaint handling. Our FCA reportable complaints fell from 353,766 in 2013 to 223,235 in 2015.

(1) Customer satisfaction as measured by the Financial Research Survey (FRS) run by GfK, December 2015.



Helping customers through financial difficulties

A dedicated team provides intensive support to those customers facing financial difficulty by helping them regain control of their finances with tailored solutions such as refinancing options, long-term arrangements and breathing space on payments. Services include an online debt advice tool, a budget planner and signposting to free and impartial debt advice experts such as StepChange.

In 2015, the number of our customers struggling to meet mortgage payments reduced and the number of properties repossessed in the year also reduced. Repossession is always a last resort and we strive to find alternative solutions for customers based on their individual circumstances.



Access to financial services for all sections of society

As a major high street bank, we have a duty to serve all sections of society. For customers that cannot access our main banking products, we provide specialised services and products including a basic bank account and a preloaded debit card. Basic accounts allow customers to receive payments, pay in cheques, make withdrawals and set up payments. They do not have an overdraft facility.

The preloaded card was introduced following a 2015 government and financial industry agreement to help low income customers manage their finances.

From November 2015, users of British Sign Language can now access our products and services via relay video calls with an interpreter through our new partnership with SignVideo.

Improving our branch service to maintain face-to-face banking

Although customer habits are changing, we recognise that our branches remain important to many of our customers. An ongoing refurbishment programme is making them brighter, warmer and more accessible and through them we offer a broader range of services including digital ATMs and Wi-Fi.

Through the BBA Access to Banking Protocol, the industry has agreed to work with customers and communities to minimise the impact of branch closures. We continue to review our branch network by reducing duplication and increasing alternative points of contact to support customers who need face-to-face banking. In 2015, we closed 67 branches and opened two new branches. Our customers are able to carry out a range of banking services at the Post Office.

Focus on SMEs

Our 70 Corporate Business Centres provide support to local businesses around the UK. In addition to our banking products, we offer a range of complementary services and funding to support the businesses that sustain our local communities.

Santander Breakthrough focuses on five pillars of support to help ambitious businesses achieve their growth plans – Talent, International, Connections, Knowledge and Finance.

Over 5,000 businesses benefited from Breakthrough Connections events in 2015. SME Summits and Red Box events provided peer-to-peer networking and learning opportunities. Over 70 SME delegates attended our Iconic Masterclass events that provide specialised courses taught by market leaders including Saatchi Masius, Jaguar Land Rover and McLaren.

With the help of Banco Santander group offices and UK Trade & Investment, 40 of our SME customers attended trade missions to Spain, Poland, Mexico, UAE and USA to meet potential customers and identify new opportunities for growth.

Some of our customers have the potential for significant growth and require capital as well as advice. Since its launch in 2012, our Growth Capital Finance has provided £92m of growth capital and £162m of senior debt to 73 SMEs, without diluting company equity. The Santander SME housebuilder scheme dedicated £100m in 2015 to support a market segment where access to finance is a primary constraint and our US\$100m InnoVenture capital fund provides seed money for financial technology firms. Social & Sustainable Capital set up a Third Sector Loan Fund in the year with a £13.5m contribution from Santander for growth finance for charities and social enterprises.

We refer SME customers that we cannot directly assist to our partner Funding Circle, the peer-to-peer lending specialist.



Breakthrough Red Box, Cardiff

Shareholders

We aim to deliver a long-term, sustainable return for our shareholders while taking account of the impact of our business on the world around us. By managing our environmental impacts and supply chain, we benefit from improved efficiencies, effectively manage risk and ultimately protect our reputation.

An important part of a global bank

We are a subsidiary of Banco Santander SA, part of the Banco Santander group. Our parent is a leading retail and commercial bank, founded in 1857 and head-quartered in Spain. It has meaningful market share in 10 countries in Europe and the Americas.

At the end of 2015, Banco Santander SA had euro 1.51t in managed funds, 13,000 branches and 194,000 employees. It was also the largest bank in the euro zone and among the world's top banks, by market capitalisation. It made attributable profit of euro 5,966m in 2015, up 3% on 2014.

The benefits of being an independent subsidiary

The Banco Santander group operates a subsidiary model to minimise the risk of problems in one part of the organisation spreading to another. This means that autonomous subsidiaries, like us, are responsible for their own liquidity, funding and capital management.

The subsidiary model gives us considerable financial flexibility while also allowing us to take advantage of the significant synergies and strengths that come from being part of a major, well-diversified banking group.

In particular, we benefit from the Banco Santander group's brand, products and platforms as well as their systems development capacity.

We also utilise common technology, operations and support services, provided by independent operating entities in place across the Banco Santander group. Taken together, these constitute a major competitive advantage for us.

Continued support by our parent

Our ordinary shares are all held by Banco Santander group companies and are not listed. Our preference shares, however, are listed on the London Stock Exchange.

We also have other equity instruments, in the form of three AT1 securities. The initial issuances, in 2014, were 100% subscribed by our parent. In 2015, we issued a further AT1, which was 10% subscribed by our parent and 90% subscribed by third parties.

Consistent shareholder returns

Since the end of 2012, we have remained consistently profitable with a strong capital position and a conservative risk profile. Our profitability has been built on the strength of our retail product offering, improved returns

in our corporate bank following a period of investment, and a relentless focus on cost and risk management.

Our track record of profitability continued through the financial crisis and since 2007 we have paid a dividend every year. Our policy is to declare a dividend of 50% of earnings attributable to ordinary shareholders.

Effective investor engagement

There is a large retail shareholder base in the UK, from our former building society heritage. The Banco Santander group's Shareholder Relations team provide help and support for these shareholders and manage all engagement with them.

Our UK Investor Relations team actively engages with institutional investors across the globe. In 2015, we held over 200 meetings with existing and prospective debt and equity investors, broadly in line with 2014 activity.

During 2015, we also attended mainstream investor conferences and presented our strategic update at the Banco Santander group investor day in London. Our investors continued to focus on the operating environment, including competition and regulation, as well as our debt issuance plans, business momentum and growth. Our well-executed capital and debt issuance programmes and improved credit ratings are, in part, due to our successful engagement programme. It also reflects the investor support and interest in our proposition as an independent entity and a core geography of the Banco Santander group.

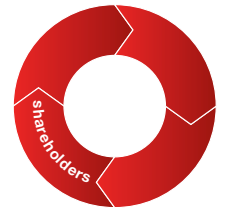
Creating a sustainable business for our shareholders

Banco Santander has a strong commitment to responsible business, through its financial activities, by supporting social development and reducing its impact on the environment. At Santander UK, we share that commitment and embrace projects to reduce our energy consumption, waste and CO₂ emissions. These have created year-on-year savings and identified investments that provide our shareholders with consistent returns.

Our Environmental Management System (EMS) provides a framework for defining responsibilities and processes in relation to waste, energy, water, travel and supply chain management at our 14 main offices in the UK. Our head office in London is accredited to the ISO14001 standard.



Santander UK Head Office, Triton Square, London – ISO14001 accredited



Managing resources for efficiency

About 99% of the waste generated by our operations, primarily paper, aluminium, plastic, glass and food, is either recycled or diverted from landfill. The waste is processed through facilities like Material Recovery, Energy from Waste, and Energy Recovery so that very little is sent to landfill sites.

In the last two years, we cut our paper usage by 24%, or 1,585 tonnes, mainly by reducing office printing, photocopying, and customer marketing literature. Paperless statements are the default option for online banking customers and we continue to look for ways to reduce paper usage further. Our print suppliers have ISO14001 certification and maintain full FSC chain of custody.

Supply chain management, responsible and economical sourcing

We work with around 1,800 external suppliers and other parts of the Banco Santander group to purchase the goods and services we need to run our business. Supplier costs accounted for £1.7bn of our total costs in 2015.

Our procurement principles are governed by the Cost Management & Procurement Policy which covers receiving supplier proposals

and the use of e-auctions to minimise subjectivity. The Manual of Conduct in Supplier Relationships guides our people to be unbiased and avoid conflicts of interest when negotiating with suppliers.

We are a signatory to the Business in the Community Access Pledge, and regularly review our procurement policies to ensure there is a level playing field for small companies bidding for contracts. In 2015, over £24m or 58% of our new supplier contracts were with small companies.

As a Prompt Payment Code signatory, we endeavour to reduce delay in payment of supplier invoices. Our standard payment terms are 30 days. In 2015, we paid invoices on average 15 days beyond term (2014: 10 days). We have made a commitment to address our payment performance in 2016 and we aim to pay all our suppliers to terms.

Contracts awarded to SMEs

58%

Representing over £24m of sales

Treating our supply chain fairly

In 2014, we implemented the Living Wage requirement for employees of suppliers who work at Santander UK sites. Contracts negotiated in 2015 incorporated the living wage requirement for security, catering, cleaning and reception staff, benefiting some 1,600 people.

Our supplier contracts include specific requirements to respect human rights and ethical labour practice based on the principles of the UN Global Compact:

- Suppliers are required to support and respect the protection of internationally proclaimed human rights and ensure they are not complicit in human rights abuses
- Businesses should uphold the freedom of association and the elimination of all forms of forced and compulsory labour.

In 2016, we will further review our supply chain management policies and processes to identify if further action is needed to comply with the 2015 Modern Slavery Act. Modern slavery is the abuse of human rights and includes slavery, servitude and forced or compulsory labour and human trafficking.

Focus on green financing

We are one of the largest UK renewable energy market financiers. In 2015, we financed £50m in assets that generate bilateral renewable energy and other energy efficiencies. Our Renewable Energy team focuses on offering non-recourse project finance loans to mid-market wind, solar and hydro developments.

Established in 2013 by local farmer Andrew Stewart, Stewart Energy has three wind turbine sites spanning his family's Lanarkshire farms. We provided Stewart Energy with £6.5m of an £8.3m funding package. The balance was supplied by the Scottish Government's Renewable Energy Investment Fund (REIF) and in exchange the Stewart family gifted 25% of their ownership to the Lesmahagow Development Trust, a local community organisation.

The wind farm began operations in September 2015 and is expected to deliver seven figures in annual turnover over the next 25 years, creating a sustainable

income stream for the family and the Trust that is independent of the cyclical farm business. Stewart Energy is the first time the REIF has sponsored minority ownership of a project by a community organisation and this deal is expected to serve as a template for future transactions.

The trust's equity ownership is used to support projects in South Lanarkshire. The flagship project has already funded investment of several million pounds in the local economy and social causes, including improvements to childcare and new sports facilities, as well as a crafts market.



Wind turbine groundworks, Stewart Energy

Communities

We provide support to communities around the UK because we believe it helps us to build a successful business. By being deeply engaged in the communities where our branches, banking centres and offices are located, we can better understand and serve our customers.

Contributing to our local communities

Our approach to social investment is based on supporting local communities where our customers and employees live and work through education, enterprise and employment projects. In 2015, we contributed £23m to community groups across the country.

The Santander Foundation is chaired by Nathan Bostock and it provided £5.7m in grants to 3,291 UK-registered charities in 2015 for projects that help disadvantaged people. Grants were awarded from the Money Skills fund to support financial capability and from the Learn & Grow fund to support activities that improve skills and employability.

Community investment

£23m

invested in local community organisations and charities across the UK

The Santander Foundation also provides the Staff Matched Donation scheme which contributed £2m to support our employees' fundraising for charities of their choice.

The most popular employee volunteering initiative is our Community Days scheme. Employees spend a day helping local charities and community groups with practical support including gardening, decorating and organising activities. In 2015, over 3,960 staff helped to make a difference to 363 community projects with over 31,000 hours of support.

Improving life skills and employability

To further support our employment priority, we partnered with the social mobility charity Career Ready to improve young people's employment prospects.

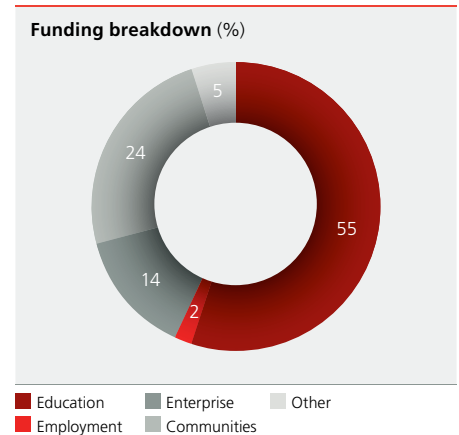
In 2015, we provided funds for career academies at ten secondary schools across the UK. The academies prepare students for further education and/or the world of work. Our senior managers volunteer on school Local Advisory Boards, serve as mentors and facilitate visits to our offices and branches. We also offer fully funded six-week summer work-experience programmes to help students develop skills that improve their employability.

We also funded the Centres of Excellence programme run by specialist financial education charity PFE (Personal Financial Education Group). In 2015, 40 secondary schools were part of the Centres of Excellence scheme that helps schools to embed financial education across the entire curriculum. Our Santander MoneyWise programme further supports this aim and promotes the vital life skill of money management through sessions delivered in schools across the UK. In 2015, our employees delivered workshops to 11,756 students.

Supporting social enterprise

To help social enterprises grow and increase their impact, we launched the Santander Social Enterprise Development Award (SEDA) in 2011. In addition to growth funding, SEDA provides a business support programme to assist the winner in making the most of their award. We made awards between £5,000 and £20,000 in 2015 to 101 social businesses, including Edinburgh's Social Bite sandwich chain which provides employment to homeless people.

A year after the win, SEDA winners report the impact on their business. The 2014 SEDA winners increased average income by 43% as well as creating jobs and providing training to over 3,000 people across the UK.



Parklands Primary School, Leicester



Fundraising partnership with the British Heart Foundation

Our people chose The British Heart Foundation (BHF) as the 2015 Santander UK charity of the year partner. Fundraising events included a 50 million Step Challenge and a UK-wide Flame Relay bike ride. An international volunteering project in India also saw 36 employees help to build a rehabilitation centre for disabled children in Pondicherry. We raised £1.2m in the year in collaboration with our people, customers and suppliers for the BHF's heart research and Heart Helpline to support patients and families affected by cardiovascular disease.



Santander UK volunteers, Satya Special School, Pondicherry

As part of the partnership, our employees were also invited to learn CPR with the BHF's innovative new Call Push Rescue training. Sessions were organised in all major offices as part of our 'We are Santander' fortnight celebrations and training was rolled out to branch network employees at the end of 2015.

Santander Cycles makes the London bike hire scheme simple and fun

We became the sponsor of London's cycle hire scheme this year in a seven-year partnership that will see the scheme grow and develop with Santander's support, giving users a more accessible, rewarding and enjoyable experience. It is the second-largest cycle hire scheme in Europe and is a popular and affordable way to travel around London for work or leisure. Some 11,500 bikes in the Santander Cycles red-and-white livery are available to hire.

The Santander Cycles app, which was launched in early May, allows people to hire a bike via their smartphone, view the nearest docking station and bike availability, and keep track of their usage. The free app will be regularly upgraded with new features to

make hiring a Santander Cycle easier than ever before.

The Discovery Project: helping one million people by 2020

In late 2015, Nathan Bostock launched The Discovery Project, our new community investment initiative to help one million people over the next five years.

The programme will support skills, knowledge and innovation projects through three areas:

- Explorer – to help people learn about the world around them
- Transformer – to guide people through work-focused support and training
- Changemaker – to support community projects and fund innovations that help society.

We will expand our existing successful work in employment, education and enterprise and create new initiatives that together will aim to inspire people to have the confidence to make the most of the future.

Focus on Santander Universities

Santander Universities is a global programme created in 1996 to support higher education. The Banco Santander group partners with over 1,200 institutions around the world to fund scholarships, research, mobility awards and study grants for students and staff. In 2015, 80 universities in the UK received £12m to aid 6,640 students with funding for studies, internships and enterprise.

We also support young entrepreneurs via our Santander Universities Enterprise Portal which provides information, support and funding. We bring together academics and business people to offer advice and support for young entrepreneurs, and we connect SMEs looking to access the insight and thinking of bright young minds.

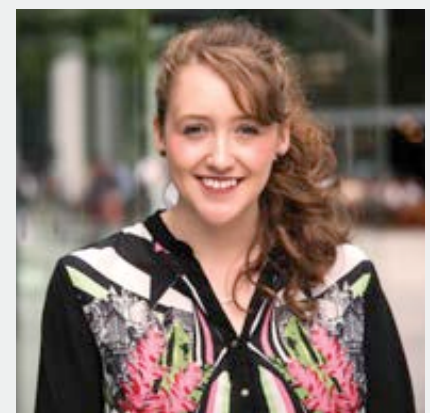
Students and graduates can pitch new business ideas by video on the Portal in the 60 Second Pitch competition for a chance to win seed finance and business mentors. Over 200 ideas have been received since its launch in 2014.

Past winners include Recall, a wristband that alerts you when you leave your mobile phone behind.

We launched our Big Ideas initiative in 2015, to encourage students to collaborate with us, to solve some of the biggest challenges facing the financial industry today. The winners receive a £20,000 prize in seed finance and support from Santander UK to make their idea a reality.

Since the launch of our SME Internship programme in 2012, over 6,000 internship awards have been made. Our programme provides students with a three-month internship in an SME co-funded by us and the business or university. Many interns have secured permanent roles or extended internships following their placements. An extension of the programme was announced in 2015 to fund 500, one-month work-experience placements.

The Santander Universities Entrepreneurship Awards support and



Rebecca Pick, inventor and award winner

encourage university students to pursue their business ideas. Rebecca Pick (pictured), an undergraduate from the University of Strathclyde, was a 2015 winner with the Personal Guardian, a revolutionary wearable personal attack alarm.

Key metrics

	Notes	2015	2014	2013
People				
Full-time equivalent employees (fte)	1	19,992	20,676	19,822
Employee turnover		14%	13%	13%
Salary and other staff costs		£1,118m	£860m	£978m
Training days per employee		5.90	4.55	4.12
Customers				
Loyal customers	KPI	3.7 million	3.3 million	2.7 million
1213 World customers	KPI	4.6 million	3.6 million	2.4 million
Corporate loans percentage of total customer loans	KPI	13%	13%	12%
Customer satisfaction (Financial Research Survey)	KPI 2	62.9%	59.7%	58.0%
Customer complaints	3	223,235	260,440	353,766
Branches		857	921	1,010
Corporate Business Centres		70	66	50
Shareholders				
Return on tangible equity	KPI	8.2%	10.4%	8.6%
Cost-to-income ratio	KPI	53%	54%	54%
Common Equity Tier 1 capital ratio	KPI	11.6%	11.9%	n/a
Loan-to-deposit ratio	KPI	121%	124%	126%
Non-performing loan ratio	KPI	1.54%	1.80%	2.04%
Dividend payout ratio	KPI	50%	46%	51%
Number of suppliers		1,887	2,612	2,047
% of contracts awarded to small businesses	4	58%	40%	35%
Electricity/Gas (MWh)		185,246	208,141	221,669
Oil (litres)		77,064	64,746	66,365
Water (m ³)		301,308	296,986	300,485
Waste collected (tonnes)		4,537	4,899	6,391
Paper (tonnes)		5,135	5,713	6,720
CO ₂ from fuel (tonnes)	5	6,425	7,017	8,009
CO ₂ from business travel (tonnes)		9,496	10,353	10,450
CO ₂ per employee (tonnes)		0.65	0.71	0.76
Communities				
Support to communities		£23.4m	£21.9m	£21.6m
UK taxes paid		£791m	£525m	£467m
Number of volunteers		5,080	4,221	1,779
Santander Foundation – value of grants		£5.7m	£5.3m	£5.8m
– number of grants		3,291	2,729	2,556
Santander Universities – value of donations		£11.9m	£11.0m	£8.5m
– number of donations		6,640	4,793	2,857
Santander Breakthrough – value of support		£1.3m	£1.4m	£1.9m
– businesses supported		5,292	370	370

KPIs – See pages 20 and 21 for more on 2012 to 2015 Key Performance Indicators

- (1) Santander UK employees at 31 December
- (2) Customer satisfaction as measured by the Financial Research Survey (FRS) run by GfK, December 2015. See glossary for customer satisfaction definition
- (3) FCA reportable complaints
- (4) Small businesses have less than £10m turnover or less than 250 employees
- (5) 2015 Defra conversion factors

Awards and recognition in 2015



Summarised consolidated income statement⁽¹⁾

For the years ended 31 December	2015 £m	2014 £m
Net interest income	3,575	3,434
Non-interest income ⁽²⁾	998	1,036
Total operating income	4,573	4,470
Operating expenses before impairment losses, provisions and charges	(2,403)	(2,397)
Impairment losses on loans and advances	(66)	(258)
Provisions for other liabilities and charges – of which PPI	(762) (450)	(416) (95)
Total operating impairment losses, provisions and charges	(828)	(674)
Profit before tax	1,342	1,399
Tax on profit	(380)	(289)
Profit after tax for the year	962	1,110

- (1) Extracted from the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2015 (Santander UK Q4'15 QMS). See Appendix 1 of the Santander UK Q4'15 QMS for notes and definitions.
- (2) Comprised of 'Net fee and commission income' and 'Net trading and other income'.



Summary of segmental balance sheet assets and liabilities⁽¹⁾

At 31 December	2015 £bn	2014 £bn
Customer loans		
Retail Banking	164.8	158.5
Commercial Banking	20.9	18.7
Global Corporate Banking	5.5	5.2
Corporate Centre	7.4	8.3
Total customer loans	198.6	190.7
Other assets	82.8	85.3
Total assets	281.4	276.0
Customer deposits		
Retail Banking	137.3	129.6
Commercial Banking	18.1	15.3
Global Corporate Banking	3.0	2.3
Corporate Centre	3.9	5.2
Total customer deposits	162.3	152.4
Medium Term Funding	50.4	51.5
Other liabilities	53.0	57.9
Total liabilities	265.7	261.8
Shareholders' equity	15.3	13.9
Non-controlling interest ²	0.4	0.3
Total liabilities and equity	281.4	276.0

Summarised consolidated capital, leverage, liquidity and funding⁽¹⁾

At 31 December	2015 £bn	2014 £bn
Capital and leverage		
CET1 capital	10.0	9.8
Total qualifying regulatory capital	14.9	14.3
Risk Weighted Assets	85.8	82.3
CET1 capital ratio	11.6%	11.9%
Total capital ratio	17.4%	17.3%
PRA end point Tier 1 leverage ratio	4.0%	3.8%
Liquidity		
Liquidity Coverage Ratio	120%	110%
LCR eligible liquidity pool	38.7	39.5
Funding		
Total wholesale funding	64.7	66.2
– of which with a residual maturity of less than one year	21.1	23.1
Liquid assets coverage of wholesale funding with a residual maturity of less than one year	183%	171%

(1) Extracted from the Santander UK Q4'15 QMS. See Appendix 1 of the Santander UK Q4'15 QMS for notes and definitions.

(2) Non-controlling interest refers to other equity instruments issued by Santander UK plc and PSA Finance UK Limited, a cooperation between Santander Consumer (UK) plc and Banque PSA Finance, S.A. (accounted for as a subsidiary).

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.

Further information

Contact us

Customer services

For further information about products and services, please visit our website: www.santander.co.uk

Telephone: +44 (0)870 6076000
customerservices@santander.co.uk

Shareholders

Information for UK shareholders of Banco Santander can be found at our website: www.santandershareholder.co.uk

By post, please write to:
Santander Nominee Service
Aspect House
Spencer Road
Lancing BN99 6NZ

By telephone: +44 (0)371 3842000
From outside the UK: +44 (0)121 415718

By email:
santandershareholders@equiniti.com

Community involvement

To find out more about applying for donations and the Santander UK Foundation, please visit our website: www.santanderfoundation.org.uk

Media centre

Contacts for the media relations team are available at our website via the media section: www.aboutsantander.co.uk

By email: 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:

www.aboutsantander.co.uk

By email: ir@santander.co.uk

Key Dates

27 April 2016	Q1 2016 results
27 July 2016	Q2 2016 results
26 October 2016	Q3 2016 results

Glossary

Retail customer satisfaction

The Financial Research Survey (FRS) is a monthly personal finance survey of around 5,000 consumers prepared by the independent market research agency, GfK. The 'Overall Satisfaction' score refers to proportion of extremely and very satisfied customers 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. Data shown is for the twelve months ending 31 December 2015 and compared against twelve months ending data for the period as indicated. The competitor set included in this analysis for the 2015 target is Barclays, Halifax, HSBC, Lloyds Bank and NatWest.

2016-2018 KPIs and targets

These KPIs were established at the 2015 Banco Santander Investor Day and set for the period 2016-2018, based on the forecast and outlook we then had in place. All KPIs will be measured on year end balances, with the exception of the cost-to-income ratio, fee income CAGR, RoTE, customer satisfaction and colleague engagement metrics, which are based on performance in the period or year. Customer satisfaction will be measured on a rolling 12-month average. Advocacy will be measured from 2016, and refers to net promoter scores. Both customer satisfaction and advocacy will be as measured by the FRS across the same markets and with the same weightings. The number of people supported will be based on the period from 1 January 2016 to 31 December 2018.

