Strategic Report 2018

Here to help you prosper

Santander

Santander UK

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

Throughout the report look out for this symbol to read our case studies

Strategic Report contents

About this report

The Strategic Report outlines the key elements of the Santander UK Group Holding plc 2018 Annual Report (2018 Annual Report) to help readers more easily access our performance and future prospects. It explains Santander UK today and our place in the UK banking market.

We try at all times to treat all of our stakeholders fairly and meet our environmental responsibilities. The sustainability of our business and our strategic direction are therefore inseparable and we have included key information from our sustainability reporting in our Strategic Report.

By order of the Board.

Shriti Vadera
Chair
26 February 2019

For more information see
aboutsantander.co.uk

Important information for readers
Santander UK Group Holdings plc (the Company) and its subsidiaries (collectively Santander UK or the Santander UK group) operate primarily in the UK, and are part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Santander UK plc 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 Strategic 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 243 of the 2018 Annual Report.

The Company is the immediate parent company of Santander UK plc. The two companies operate on the basis of a unified business strategy and have common Boards, albeit the principal business activities of the Santander UK group are carried on by Santander UK plc and its subsidiaries (the Santander UK plc group).

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

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

See how we are helping our customers prosper

Read more in our **Stakeholder Review**

Highlights 2018

15 million
active customers
(stable vs 2017)

£158.0bn
UK mortgage loans
(2017: £154.7bn)

£24.1bn
UK corporate loans
(2017: £27.3bn)

5.5 million
digital customers
(2017: 5.0 million)

1,385
new active mobile users per day
(2017: 1,400)

55%
mortgage loans refinanced online
(2017: 49%)

£1,567m
profit before tax
(2017: £1,814m)

13.2%
CET1 capital ratio
(2017: 12.2%)

56%
cost-to-income ratio
(2017: 51%)

c50%
of colleagues involved in volunteering
(2017: c38%)

99.8%
of waste recycled or diverted from landfill
(2017: 99.6%)

73,900
training days for our employees
(2017: 104,800)

Strategic priorities

Customers
Read more on **p24**

Shareholders
Read more on **p25**

People
Read more on **p26**

Communities
Read more on **p27**

Chair's statement

Santander UK's business performance in 2018 reflects our prudent approach with a strategy of selective growth given the uncertain macroeconomic and political environment.

Business performance

Santander UK's business performance in 2018 reflects our prudent approach, led by our CEO Nathan Bostock and his management team, to prioritise credit quality, selective growth and meeting our target returns to our shareholder in an uncertain macroeconomic and political environment.

This year has seen strong growth in the bank's core business of mortgages, including lending to 27,200 first-time buyers over the period, an increase of 14% on 2017. The bank has continued to increase its lending to SMEs and support to businesses that trade internationally, as well as launching the innovative 1I2I3 Business Current Account.

I am pleased with the continued improvement in our customer experience, which is vital to the long-term success of our business and a credit to the relentless customer focus of our people. Our externally measured customer satisfaction scores rank us in line with the average of our three highest performing peers for retail customer satisfaction overall and 7pp above the market average for corporate customer satisfaction.

Throughout the year, we have maintained prudent risk management and balance sheet strength. This was demonstrated by the results of the Bank of England's stress test in November, under which Santander UK experienced the lowest impact on its stressed capital ratios compared to any other of the major UK banks for the third consecutive year.

Digital transformation

We have continued our digital transformation through 2018 to improve the way that we engage with our customers. For example, we will soon enable technology that allows customers to verify and identify themselves without the need to remember PIN codes or passwords. We are also making further progress in using artificial intelligence to better assist with customer queries online. This is in addition to new digital services for our customers, such as a new Digital Investment Advisor tool and additional features to our highly-rated mobile app.

Digital transformation is not just about the products and services we offer to customers, but also about transforming the way we use technology to make the bank more efficient, agile, innovative and fit for the future. We have made good progress toward this goal in 2018. Continued improvements to our systems, infrastructure and processes will remain a priority in the next three years.

Delivering the right culture

Cultural change is a continuous process that requires commitment and focus over many years and I am pleased at the progress we have made through our efforts to embed the right culture.

> "The dedication and commitment of our people is the driving force of our success and will continue to be the source of our strength in the years ahead."

Simple | Personal | Fair

Our culture is built on doing things The Santander Way

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

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

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

The Board Responsible Banking Committee, which we set up in 2017, has continued to work on the perennial challenge of measuring and monitoring cultural change.

In 2018, we have focused on increasing the internal resonance of our values and awareness of our expectations of behaviours throughout the organisation. We have also continued to make excellent progress in helping to build a diverse and inclusive culture across the bank, with our six employee-led diversity and support networks growing further.

Ring-fencing implementation

The business achievements of the last year have been delivered in the context of significant organisational change as we prepared for the start of ring-fencing in January 2019. The transition to ring-fencing is a result of four years of intensive effort and commitment from management and our people, and has been the largest single change programme delivered by Santander UK in recent years.

Market competitiveness

The last year has seen competitive pressures in the market increase as the Big Four banks have refocused on the domestic market and used their dominant scale and lower cost of funds, to absorb sector-wide change and regulatory costs and attempt to increase market share.

The flow and volume of regulatory change

Competitive pressure from the incumbents has been compounded by the flow and volume of regulatory projects which impact the whole sector but which proportionally have a greater impact on challenger banks, even those of our scale.

In 2018, banks have had to implement ring-fencing, MiFID II, PSD2, Open Banking, GDPR, IFRS 9 and various initiatives on Anti-Money Laundering and fraud protection and prevention. We are currently implementing c90 separate regulatory, risk and control projects, 19 of which are in the areas of payments alone and are being driven by six separate authorities. We remain strongly supportive of the role of regulation and regulators in driving the change essential for the sector's prudential stability and conduct standards. However, improving customer services, competition and ensuring operational resilience needs greater coordination between various regulators and policymakers.

This is especially so given that the volume of regulatory initiatives takes up systems capability that would otherwise be deployed for improvements to processes and infrastructure and provide a more innovative, digital experience that a majority of our customers expect.

Board changes

During the year, we appointed Susan Allen as an Executive Director and Head of Retail and Business Banking with effect from 1 January 2019, to replace Javier San Felix who returned to a role at Banco Santander SA. We also appointed Julie Chakraverty as an Independent Non-Executive Director (INED) on 11 June 2018. The appointments add to the Board's skills and experience in financial services, digital and innovation and risk management.

> "High quality customer experience is vital to our long-term success."

During the year, two of our Non-Executive Directors stepped down from the Board. Alain Dromer, an INED, resigned with effect from 31 August 2018 after 5 years. Juan Inciarte, one of our Banco Santander nominated Non-Executive Directors, retired on 31 December 2018 having been a Director of the bank since Banco Santander's acquisition of Abbey National plc in 2004.

On behalf of the Board, I would like to thank Juan Inciarte, Javier San Felix and Alain Dromer for their invaluable service to the Board and the Company.

Finally, I would like to thank all our people across the country for their contribution in what has been a challenging and uncertain external environment. The dedication and commitment of our people has been the driving force of our success in 2018 and will continue to be the source of our strength in the years ahead.

Shriti Vadera

Shriti Vadera
Chair
26 February 2019

Santander UK at a glance

We are uniquely placed as a leading scale challenger.

We have a simple and straightforward business model which focuses on retail and commercial banking customers.

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

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

We are a large customer-focused bank and possess the scale and breadth of proposition to challenge the big four UK banks. With our omni-channel approach, we serve our customers through digital channels, in particular mobile, alongside a network of branches and Corporate Business Centres all supported by telephone call centres.

We play an important role in the UK economy and in the communities in which we operate. We help people purchase their home, save for the future and support business growth. We employ c23,800 people and we paid £445m of corporation tax and £86m through the UK Bank Levy in 2018.

UK Market position

3rd
largest mortgage provider(1)

4th
largest current account provider(2)

5th
largest commercial lender(1)

(1) Santander UK analysis
(2) CACI's CSDB Current Account Stock, Volume, December 2018

15 million
active UK customers

755
branches(3)

64
Corporate Business Centres

£199.9bn
customer loans

£172.1bn
customer deposits

Digital Investment Adviser
Our Investment Hub platform now offers easy access to online investment advice, investing as little as £20 per month up to a maximum investment of £20,000. In less than 30 minutes, customers can receive a personal investment recommendation.

Read more in the panel on the **opposite page**.

1|2|3 Business Current Account
SMEs have traditionally been underserved by banks in the UK, which we aim to change. We introduced a dedicated current account for small businesses and expanded our support by providing access to our branch network.

Santander Chatbot
Machine learning increasingly plays a role in helping to better serve customer needs. Following a pilot in April, we introduced Santander Chatbot, which is designed to provide quick and relevant solutions to our online banking customers.

Investing in our future
We are building new state-of-the-art offices in Milton Keynes and Bootle, using sustainable materials and consolidating our existing offices in these areas under one roof to create our flagship technology hub. The new campus in Milton Keynes will house over 5,000 people, and we plan to include community facilities and workspaces for local businesses.

(3) As at 31 December 2018. Branches include 52 university branches.

A simple tool for a new type of investor, our Digital Investment Adviser

Making our products more accessible for all our customers is a key priority. To further improve this, we have introduced a new investment advice service, our Digital Investment Adviser. This is an online service to provide affordable high-quality investment advice to customers who have less experience with investing and it leverages our Investment Hub platform, the service we set up last year providing access to more than 1,300 investment funds. We also offer a Financial Planning service for customers who want face-to-face advice.

Our Digital Investment Adviser provides easy access to investment advice and helps to establish whether investing is right for the customer, recommending alternative savings options in case it is not. In less than 30 minutes, through the completion of simple and interactive activities, a personal savings recommendation is offered with the potential to invest from £20 per month up to a maximum investment of £20,000.

We do things The Santander Way: Simple, Personal and Fair

Our customers are at the heart of everything we do
We believe a motivated and engaged workforce provides the best customer service and embedding the right culture and behaviours is crucial to this. The nine behaviours, chosen and defined by our people to represent our values, are now embedded in how we measure performance and determine reward for our people and the management team.

Read more on **page 7**

We have a culture of personal responsibility
Each of us does our part to:

- Identify risks and opportunities
- Assess their probability and impact
- Manage the risks and suggest alternatives
- Report, challenge, review, learn and 'speak up'.

IDENTIFY
ASSESS
MANAGE
REPORT

Read more on **page 17**

Our ring-fenced bank is managed through three customer business segments, supported by the Corporate Centre

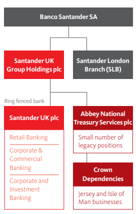
Retail Banking
Mortgages, savings, investments, current accounts, credit cards, personal loans and insurance for individuals and small businesses with an annual turnover of up to £6.5m.

Corporate & Commercial Banking
Products and services including loans, bank accounts, deposits, treasury services, trade and asset finance for SME and corporate customers with annual turnover of £6.5m to £500m.

Corporate & Investment Banking
Tailored services and solutions for corporate customers with annual turnover above £500m.

Corporate Centre
Management of capital, funding, balance sheet, pension and liquidity risk. Includes treasury, non-core corporate and legacy portfolios, including our Jersey and Isle of Man branches.

Ring-fence implementation



Read more on **page 22**

Our consistent strategy underpins our business

Customers
Grow customer loyalty and market share. Deliver operational and digital excellence.

Shareholders
Achieve consistent, growing profitability and a strong balance sheet.

People
Live The Santander Way through our behaviours.

Communities
Support communities through skills, knowledge and innovation.

Read more in our **Stakeholder Review on pages 24-27**

CEO review

We have achieved much as a business in 2018 and continue to help our customers at the moments that matter most to them.

Q. 2018 marks the end of your three-year targets. What progress have you made towards meeting them, and how does this deliver against your overall purpose?
A. We have made significant progress in our ambition to become the best retail and commercial bank in the UK. I am proud of what we have achieved across all areas of the business, including meeting the majority of our targets set in 2015, despite the uncertain and competitive operating environment.

I am also pleased with the overall progress of our digital transformation, with 41% growth in digital customers. Although this did not reach our ambitious 2018 digital customer target, we benefitted from having a bold goal to work towards. For example, following the roll out of NeoCRM in 2017, we are facilitating greater digital adoption through a seamless, joined-up service across all our channels.

We want to help people and businesses prosper, through our ongoing commitment to deliver customer-centric products and services, and bringing competition to the market. Recent launches of innovative digital products and services have improved our customer experience, as demonstrated by our strong customer satisfaction scores. Our loyal SME and corporate customers increased 5% to 320,000; achieving our 2018 target early in the year and ahead of time. This clearly demonstrates the value of our targeted digital investments, which are an overriding priority for our business.

We have also delivered for our shareholders with a return on tangible equity within our target range and a CET1 capital ratio in excess of 13%. This has been done without compromising dividend payments or our credit quality, while delivering our strategy of selective growth.

Q. Given the uncertain UK environment, how are you building resilience for the bank and its customers?
A. This has been a particularly challenging period for the banking industry and many of the business and personal customers we support. We have not been immune from these issues, as shown by a 14% reduction in profits for 2018, but there has been encouraging results in our targeted growth areas.

Net mortgage lending in 2018 was £3.3bn, our strongest in more than three years. We also achieved solid growth in lending to trading businesses and continue to support export ambitions of UK SMEs. Meanwhile, we have managed down our exposure to Commercial Real Estate by focusing on risk-weighted returns.

For our retail customers, we recently launched our Digital Investment Adviser – transforming investment choices for those who would not normally invest their money via an online platform. I'm extremely proud of this innovative, customer-centric product, which offers something truly different to the rest of the market.

Our ring-fencing structure is now in place with all required transfers from Santander UK to the Banco Santander group completed, which alongside a risk management initiative, resulted in a £2.7bn reduction in customer loans.

13.2%
CET1 capital ratio

Our Santander Behaviours

Living The Santander Way

The Santander Behaviours describe how we should interact day-to-day with our colleagues, customers, shareholders and communities to bring Simple, Personal and Fair to life.

Bring Passion and energy and give my best

Embrace Change and look for better ways to do things

Actively Collaborate with others to get the best outcome for the customer

Give Support to colleagues by taking a genuine interest in them and appreciating their contribution

Speak Up and challenge where necessary

Show Respect including through the little things

Truly Listen for different and new opinions and am open to challenge

Talk Straight and think about the impact of my words

Keep Promises and make decisions

> I am proud of what we have achieved across all areas of the business, including meeting the majority of our targets set in 2015."

The current operating environment remains uncertain, which requires extensive planning to build resilience within the business. There is no more obvious example of this than our preparations for Brexit. We are planning for all potential outcomes, including a no-deal Brexit, so that we can give our customers the best service possible. But we are in a strong position, as demonstrated in the latest PRA stress test, which confirmed our readiness to deal with any sudden changes to the UK economy.

Q. What have been the key areas of challenge and opportunity for Santander UK over the past year?
A. Given the current environment, we have worked particularly closely with our SME customers, in order to alleviate uncertainty and to identify opportunities for growth and trade. The business environment and customer behaviour is continuing to change in response to rapid technological developments. That is why we are also undertaking a significant transformation to meet our aim of becoming the UK's best open financial services platform.

We need to become leaner and more agile, focusing on our core business areas and becoming a simpler, more automated and digital business. This means providing more personalisation, 24/7 availability and immediate delivery of products and services. We plan to utilise digital and automated solutions to maximise our efficiency, optimise systems and processes, delivering operational excellence.

We have launched comprehensive programmes across the bank to transform our cost base and intend to increase our usage of cloud-based solutions to reduce costs.

We have also initiated changes in our branch network which has included closing those branches that are not fully utilised. I fully appreciate how this impacts customers and how difficult these decisions are for our own people, but these changes will enable us to focus our resources on those key branches that serve the broadest spectrum of our individual and business customers. The branch network will continue to play a crucial role in how we deliver products and services, with a renewed focus on personal service, convenience and social engagement.

There is always more to do and more to learn, in order to serve our customers better. There are lessons to be learnt from the FCA's investigation into our probate and bereavement processes, and subsequent fine, which served as a sharp reminder of what can happen to our customers when our systems do not work as they should.

Q. How are you supporting the UK's business community?
A. Our business customers benefit from a bank which is UK-focused, yet part of wider global group. This provides them with personal and efficient access to expertise, experience and technology across the Banco Santander group. Our International team has leveraged Banco Santander's footprint in 10 markets, and wider network of partnership banks, to create robust trade channels into new markets for UK SMEs.

We are helping UK businesses explore new export opportunities through trade corridors, together with our virtual Trade Missions, Webinars and Inward Trade visits. Last year alone, we ran international trade missions to India, Poland, Singapore, Argentina, the US, China, Chile and the UAE, establishing three new trade corridors. We are also proud of our innovative SME products; such as the new 1I2I3 Business Current Account, which has attracted over 8,000 new customers since its launch last October. Meanwhile, our participation in the Business Banking Switch is expected to attract many more new customers who would benefit from our unique proposition.

Q. How are you nurturing a healthy business culture at Santander UK; supporting your people and communities?
A. Three years ago we launched the Santander Behaviours to embed our values – Simple, Personal and Fair – into everything we do. We want our customers to trust us to do the right thing, to be a company who our people are proud to work for and know they are valued.

I believe sustainability is an important measure of success, in how we support our staff, customers and communities. That is why we have begun work to integrate sustainable goals and perspectives into every single aspect of our business.

We want Santander UK to be the bank of choice for everyone – individuals who trust us to manage their financial health and security, businesses who rely on our support for their strength and growth, and young people looking to enhance their knowledge and skills.

I am incredibly grateful for the hard work of all those who are making our bank a trusted and valued partner for customers and communities across the UK.

N. Bostock

Nathan Bostock
Chief Executive Officer
26 February 2019

Market overview

Five major forces continue to shape the UK banking market.

Preparing for Brexit

The UK is due to leave the European Union on 29 March 2019. While uncertainty around Brexit remains, we are preparing for a number of outcomes in order to minimise the impact on our business and our customers.

Our Brexit preparations are comprehensive and we have dedicated significant focus to ensure we can continue to serve our customers whatever the outcome. In particular we have taken account of the nationality and location of our people and customers, contract continuity, financial markets infrastructure such as clearing, access to Euro payment systems as well as third party services and flows of data into and out of the European Economic Area.

We expect the direct impact on our business to be somewhat lower than for other more diversified UK banks and corporates, given our UK focus (98% of our retail and corporate assets are UK based). We also expect to benefit from being part of the Banco Santander group, the largest bank in the Eurozone (by market capitalisation) with major subsidiaries outside Europe, which will help us to continue to serve our customers' domestic and international banking needs.

The wider impact on our business remains uncertain and will be linked to the wider UK economic outturn in the years ahead. Nonetheless, we believe we are well prepared and continue to be positioned prudently as evidenced in the 2018 PRA stress test results.

1 Changing customer behaviour

Customer expectations and behaviours are evolving as new technologies are more widely adopted and through changes in the UK's demographics

2.5 million users
Exclusively using mobile app

What we have seen

The profile and behaviour of customers has continued to change which presents new challenges and opportunities to the banking sector. Customers' expectations have changed in the digital age; frictionless access and real-time feedback are now minimum expectations for the products and services they use. In response, banks are re-evaluating their service and operating models. This has resulted in a need to increase digital capacity and a consequent decline in the numbers of branches across the UK.

Our response and looking ahead

We understand that our customers have different needs and therefore we serve them through the most suitable channel for them. For our retail customers this can be through mobile, online, branch or telephone. For our corporate customers we have a network of Corporate Business Centres (CBCs) across the UK.

Our NeoCRM relationship management tool for retail customers allows seamless conversations with customers across different channels. We have also invested in technology like our Investment Hub to help our customers manage their money flexibly for the longer term. We need to digitally transform the business to deliver to the heightened expectations of customers. In 2019, we announced plans to reshape our branch network and close 140 branches in response to changes in how customers are choosing to carry out their banking.

2 Strong market competition

The UK banking market remains highly competitive, with pressure on margins and an ongoing focus on ownership of customer relationships and data

↓23bps
Average net mortgage margin for 2018 vs 2017(1)

What we have seen

Demand for new mortgages has been below long-term averages, although this has improved from the levels seen shortly after the financial crisis. Together with much lower rates for fixed mortgage products, this has led to a highly competitive environment. Demand for consumer credit has remained high, particularly for auto finance. Recently, we have also seen new entrants into the retail savings market, increasing the level of competition and putting pressure on the rates paid on savings accounts.

The Term Funding Scheme (TFS) introduced by the Bank of England in 2016, and which ended in February 2018, has helped to keep the cost of funding low, contributing to an overall increase in lending by UK banks while lowering the rates offered for deposits.

Our response and looking ahead

As a leading scale challenger we are well-positioned to succeed despite a competitive market. We have continued to closely manage new mortgage lending. We adjusted our lending appetite accordingly when we felt the trade-off between risk and return was particularly low. Similarly we have managed down our exposures in commercial real estate and consumer credit through our prudent underwriting criteria and our proactive risk management policies. We need to have good products at competitive prices and deliver the best experience.

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

3

Rapid technological change

Technology is at the core of the changing way we interact with customers. It offers improved experience and convenience – driving a move to digital channels

97%

Increase in use of contactless payments in the UK in 2017[(1)]

What we have seen

Using digital platforms has become integral to many customers' day-to-day banking, and 5.5 million customers are now using our digital services. Technology presents opportunities and challenges in our relationships with customers, and will also shape our organisation going forward.

Society is becoming increasingly cashless with debit cards now being used more often for payments than cash, each representing around a third of all payments. This is in contrast to 2007 where cash was used in over half of payments, and over the next ten years it is expected to continue to decline to 16% of all payments.[(1)] Almost two thirds of people in the UK now use contactless technology to make payments, and it is expected that this will make up 36% of all payments in 2027.[(1)]

Our response and looking ahead

By utilising innovative digital solutions allied with our customer-centric approach, we aim to deliver excellence in customer experience.

Our ongoing collaboration with FinTech companies through open IT architecture will allow us to bring greater personalisation to our services, anticipating our customers' needs, and providing a frictionless experience. We are looking to adopt new ways of working to be able to respond quicker to our customer needs, leveraging the latest technologies and accelerating our own digital transformation.

4

Demanding regulatory agenda

Regulation in the UK remains focused on making banks stronger, supporting positive customer outcomes, and encouraging greater competition

c90

Regulatory initiatives in progress

What we have seen

UK banks have undergone significant structural change and invested considerable resources to ensure compliance with ring-fencing legislation, ahead of the deadline of 1 January 2019.

Digital advances and Open Banking have opened up the door of financial services for both start-ups and established technology companies, to leverage customer data and improve competition, efficiency and stimulate innovation.

In 2018, we have also seen the implementation of three major pieces of regulation in General Data Protection Regulation (GDPR), Second Payment Services Directive (PSD2) and Markets in Financial Instruments Directive (MiFID II), and received confirmation of two more: non-binding indicative minimum requirement for own funds and eligible liabilities (MREL) requirements and the final rules and guidance on Payment Protection Insurance (PPI) from the FCA.

Our response and looking ahead

We expect our returns to continue to be impacted by increased regulatory compliance costs and the demanding regulatory change agenda, including the transfer of business for ring-fencing. However, we remain confident that we continue to have a profitable and resilient business.

5

Uncertain economic environment

Despite a relatively stable economy in 2018, the outlook for the UK remains uncertain

+0.8% to +1.9%

Range of HMT consensus for 2019 growth in annual GDP

What we have seen

The UK economy has experienced moderate growth over the past three years, coupled with record low levels of unemployment. Inflation was very low in 2016, but has since risen above 2% which prompted the Bank of England to increase the Bank Rate twice by 25bps, in both 2017 and 2018, to 0.75%.

House price growth has also slowed from high single digit figures to a much more modest level, with Buy-to-Let (BTL) lending in particular slowing largely due to changes in tax legislation.

Business investment has continued to be affected by the ongoing uncertainty in the UK economy following the UK's referendum on EU membership, which has dampened corporate borrowing.

Our response and looking ahead

We have a track record of being consistently profitable, with a resilient balance sheet and a relentless focus on customers. We believe that we are well-placed to manage any potential uncertainties and deliver for our stakeholders.

In light of the uncertain outlook we continued a strategy of selective growth. We believe that our proactive risk management policies and medium-low risk profile will deliver a resilient performance in the business.

(1) UK Finance. (2018). UK Payment Markets 2018

Business model

Our purpose is to help people and businesses prosper.

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

What we do

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

Generate sustainable profit
Earn margin on products, charge fees for services, efficiently manage infrastructure

Build a resilient business
Invest in robust systems with enough capital and liquidity for times of stress and through the economic cycle

An excellent, seamless experience
Across all our channels, no matter how our customers choose to engage with us

Take a prudent approach to risk
Make the right lending decisions whilst mitigating the risks we face

Do things The Santander Way
Live the Santander behaviours in our interactions with our stakeholders

How we do it

Use funding from diversified sources
Retail and corporate deposits via current and saving accounts; wholesale funding through a range of debt programmes and market facilities

Maintain financial strength and resilience
Well capitalised with a medium-low risk profile and a track record of profitability

Simple structure
Single point of entry resolution entity, involving minimal disruption for our customers

Offer a differentiated proposition
Products and services tailored to be more meaningful and relevant to customers' needs

Identify, assess, manage and report risks
Which could impact our results, reputation or the sustainability of our business

Aim to be the best open financial services platform
Anticipate changing customer needs in an already disrupted market

2016–18 Strategic priorities

Customers
Grow customer loyalty and market share. Deliver operational and digital excellence.

Shareholders
Achieve consistent, growing profitability and a strong balance sheet.

People
Live The Santander Way through our behaviours.

How we stand out

Build strong customer relationships
Drive loyal relationships with personal and corporate customers, leveraging our experience and scale

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

Being an important part of a well-diversified global bank
Shared management experience with synergies from leveraging group technology

Improving customer service
For retail and corporate customers, with further improvement at the heart of our plans

Most resilient UK bank
Lowest CET1 drawdown for three years running in the annual PRA stress tests

Communities
Support communities through skills, knowledge and innovation.

Value creation

Customers
We help our customers prosper, by supporting our personal customers through all the stages of their lives and championing British businesses.

£3.3bn
Net mortgage lending strongest in over three years

>£600m
Growth Capital Finance to SMEs since 2012

Shareholders
We remain consistently profitable with a strong balance sheet.

50%
Target annual dividend payout

11 years
Profitability and dividend paid every year

People
We offer first-class professional development opportunities and competitive pay and benefits.

£10.6m
Employee training and development in 2018

73,900 days
Employee training in 2018

Communities
Our people are active participants in a wide range of community volunteering and charitable activities and help to decide which we support.

£22.9m
Support for communities

397,500
People supported in 2018

See how we measure success **on page 12**
See how we manage risk **on page 16**
See our new Sustainability approach **on page 15**

Strategic review

We achieved the majority of our strategic targets, which we set in 2015.

Although we made significant progress, we continue to aspire to deliver more to help people and businesses prosper.

Key Performance Indicator[1]		2018 result	2018 target
Customers	Loyal retail customers (million)	4.1 million	4.7 million Not achieved
	Loyal SME and corporate customers	320,000	308,000 Achieved
	Retail customer satisfaction[2] (FRS %)	Top 3	Top 3 Achieved
	Digital customers (million)	5.5 million	6.5 million Not achieved
	Fee income (2015-2018, CAGR[3] %)	2%	5–10% Not achieved
Shareholders	Return on tangible equity[4] (%)	9.0%	9–10% Achieved
	Cost-to-income ratio (%)	56%	50–52% Not achieved
	CET1 capital ratio (%)	13.2%	c12% Achieved
	NPL ratio (%)	1.20%	< 2.00% Achieved
	Dividend payout ratio[4] (%)	47%	50% Achieved
People	Colleague engagement[5] (%)	Top 3 UK Bank	Top 3 UK Bank Achieved
Communities	People supported (cumulative from 2016 to 2018)	875,400	600,000 2016–18 Achieved

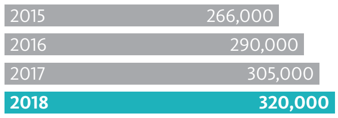
(1) See page 29 for KPI definitions.
(2) Customer satisfaction as measured by the Financial Research Survey (FRS) run by Ipsos MORI.
(3) CAGR (Compound annual growth rate) is measured between 31 December 2015 and 31 December 2018.
(4) Non-IFRS, see page 29 for nearest IFRS measures. Reconciliation of the 2018 targets to equivalent targets for the nearest IFRS measures are not available without unreasonable efforts.
(5) Colleague engagement 2018 target relates to the Best Companies Index run by The Sunday Times.

How we performed

Results

Loyal retail customers increased over the past three years although we did not achieve our 2018 target, as growth was impacted by competitive market for higher interest rate products and management pricing actions.

Loyal SME and corporate customers increased as we continued to develop and improve our customer experience and our products and services. We also expanded our international proposition with eight UK trade corridors now established to enable cross-border client referrals.

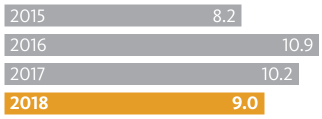


Retail customer satisfaction was in line with the average of our three highest performing peers where we ranked second, on a rolling 12-month basis at 31 December 2018. Also, on a Net Promoter Score basis, we are ranked in the top three highest performing peers.

Digital customers continued to grow, as digital acquisition and adoption continues to drive change in the organisation. Although we have not achieved our aspirational target set in 2015, overall growth in digital customers was 41% and has led to an improved customer experience.

Net fee and commission income remained positive but was below our target range largely due to regulatory changes which significantly impacted the ability to generate fee income growth.

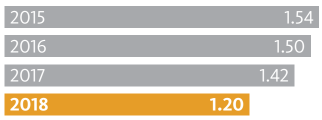
RoTE was within our target range, delivering shareholder value despite the competitive and uncertain environment, while managing to higher capital requirements.



Cost-to-income increased in 2018 with income pressure and increased regulatory, risk and control costs, and therefore we were not within our 2018 target range. Cost management remains a priority as we invest further in our business transformation and deliver operational efficiencies.

CET1 capital ratio improved with ongoing capital accretion and risk management initiatives, leaving us strongly capitalised in the current environment.

NPL ratio improved, with credit quality remaining strong supported by our prudent approach to risk, proactive management actions and the ongoing resilience of the UK economy. The improvement was also driven by the write-off of the Carillion plc exposures.



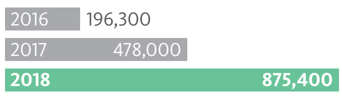
Dividend payout ratio, we maintained our dividend policy (50% of recurring earnings) and declared £455m of ordinary dividends for the year.

Note dividend payout ratio excludes £668m dividend payment associated with ring-fence transfers.

Colleague engagement was broadly stable and we achieved our 2018 target of being a top 3 UK bank. We have seen high positive response scores particularly in relation to Line Manager effectiveness, Risk Culture and Fairness.

People supported through employee participation and sponsored schemes greatly surpassed our 2018 target. We supported people through a range of programmes designed to build skills, knowledge and experience, as well as encourage innovation.

Note chart shows cumulative progress to target.



The next phase in our strategy

We are further developing our strategy, with a focus on our core franchises and enhanced returns.

Evolving our strategy

Our strategy set in 2015 built upon the significant commercial transformation over the previous three years. We are further honing our strategic priorities and leveraging the changes we have delivered over the past three years.

We are facing a competitive and uncertain external environment, which has placed various pressures on UK banks. These pressures, and the challenges they present, require us to continue to evolve and adapt to our operating environment in order to become fit for the future.

The vast majority of our assets are within our ring-fenced bank, Santander UK plc, which gives us a robust platform to deliver the next phase in our strategy.

Our long-term vision remains unchanged

Our strategy is evolving to focus on our core franchise and enhanced returns. Back in 2015, we set out our purpose which is to help people and business prosper – this vision remains unchanged. Building upon this customer-centric approach, we aim to deliver sustainable returns in a responsible manner.

Our approach has enabled us to build a strong platform to continue towards our long-term vision of becoming the UK's best open financial services platform. We need to meet the needs and expectations of our customers which are being driven by the standards set by the largest digital companies across the world. This will mean increasing the level of personalisation, making our services available 24/7 and ensuring instant delivery for all our products and services.

Generate growth through valuable and loyal relationships across chosen business segments

This means focusing more on our core business. We are engaging even more with our retail customers, gaining greater insights into what they need, utilising analytics such as our NeoCRM tool. Alongside this, we are continuing to deploy our omni-channel model. Whether it is to our digital, contact centre or branch channel, we are continually upgrading and enhancing our platform to provide a better service.

We are also increasing the specialisation of our corporate business to be able to better serve our customers. Our focus will be on developing propositions, such as our asset finance and trade finance businesses. Another important strand to our corporate strategy will be leveraging our international franchise, where we have already established eight trade corridors. These improvements will help drive customer primacy, leveraging our relationship model, local presence and expertise.

Deliver operational excellence by maximising efficiency and customer satisfaction through digital transformation

To support our ambition, we will need to become a more agile organisation. This will involve further simplification, automation and digitalisation of the bank. These initiatives will enable us to maximise efficiency and deliver operational excellence.

To transform our cost base, we have initiated comprehensive programmes across the bank. We will look to optimise operating models and systems, utilising automation and robotics to improve productivity with increased usage of paperless and cloud-based solutions to reduce overheads.

Being part of a global group is expected to help us in making these changes, as we can leverage technology and best practices used globally through the Banco Santander group.

Consistent profitability and prudent risk management

Generating growth through customer loyalty requires the delivery of the products and services our customers need and demand. Growth in our core retail business and greater specialisation in our corporate business will help improve returns. Together with operational excellence, we aim to have the solid foundations needed to remain consistently profitable and to deliver improved returns.

We have a prudent and proactive approach to risk management, and this means continually upgrading our skills and infrastructure to support both the evolution of the business and our capability to deal with emerging threats, such as cybersecurity.

Flagship technology hub, supporting innovation

As part of our continued investment in our people and technology, we are building a new campus in Milton Keynes. The building will be constructed using sustainable materials and run with minimal environmental impact.

This facility will become our flagship technology hub, supporting collaboration and innovation across the bank. When it opens in 2022 this will be home to over 5,000 staff and its state of the art facilities will include a walking and running track, a fitness centre, workspaces for local businesses, areas for the community and facilities for staff training and development.

This investment and commitment in the region is part of a significant local regeneration programme to form an important science and technology corridor, dubbed 'the silicon arc' spanning Cambridge, Milton Keynes and Oxford.

> We will accelerate the execution of our strategy."

Be the best bank to work for and have a strong internal culture

We need to make sure that our organisation is ready for the future whilst ensuring we attract, develop and retain the best people. For example, we are looking at new digital recruitment approaches, leveraging our partnerships with universities. We want to create a bank that is representative of the society we operate in, and foster a culture which promotes diversity and inclusion.

Our investments in the future will help us enable agile ways of working and we aspire to stand out as an employer of choice. By helping to balance work and home lives, supporting mental and physical wellbeing and enabling our people to keep growing and developing, we can ultimately create a culture and environment where everyone can thrive.

Supporting communities

Our ambition to make a positive difference to our communities remains a crucial part of our work. As part of our sustainability strategy we aim to go beyond traditional volunteering and fundraising to deliver long-term, meaningful value to society. Through our initiatives and programmes, such as DigiWise and our fraud and scam workshops, we want to help improve the financial resilience to our communities.

Our sustainability strategy

"A successful business is one that creates sustainable growth and takes decisions thinking not only about our customers and business, but the wider economy and the environment.

As CEO of Santander UK, I want those decisions to help drive prosperity for current and future generations."

Nathan Bostock, Chief Executive Officer

Embedding our sustainability approach

We know that financial institutions have an important role to play in addressing areas such as financial crime and financial inclusion, as well as broader systemic issues such as the effect that technological change and climate change are having on our lives, our communities and our planet.

At Santander UK we understand that the decisions we take have an impact on society, the UK economy, and our environment. This is why in 2017 we embarked on an exciting journey, to embed our purpose in every business decision. In 2018, we used artificial intelligence to understand which social and environmental challenges are most important to our customers, shareholders, people and communities, and where we can have a real impact.

Our new sustainability approach sets a framework for action around these issues.

See more on our new sustainability approach on **page 25**

- Create a thriving workplace
- Driving sustainable economic growth and financial inclusion
- Driving inclusive digitalisation
- Upholding the highest ethical standards and fighting financial crime

Risk management overview

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

Top risks

We regularly review the top risks which could impact our stakeholders. Risks we actively monitored over the course of 2018 included:

Brexit

The UK is scheduled to leave the EU on 29 March 2019. Due to our main risk exposures arising in the UK retail and commercial banking market, we consider our Brexit-related risks to be manageable. However, given the ongoing uncertainty, we have continued to focus on the refinement of our Brexit contingency plans and also separately on actions that we would take, in the event of a no-deal Brexit. In such a scenario, we could experience increased levels of activity, as our customers seek to deal with changes in their financial circumstances. Our planning has included testing our operational readiness to ensure that we can continue to operate effectively in the event of this heightened activity. We have also undertaken stress tests to ensure we remain financially resilient, in the event of an economic shock following Brexit. We are also working with our regulators and industry bodies to manage relevant changes to the regulatory frameworks.

Mitigating the impact of a low rate environment

In August 2018, the Bank of England increased Bank Rate from 50bps to 75bps. The path of any future rate increases, according to the Bank of England, is currently expected to be gradual, particularly given ongoing uncertainties over future relationship with the EU. In comparison to 2017, the prospects for further rate increases, however gradual, mean that our risk exposure to lower interest rates has reduced. We assess the potential impacts of future rate increases on our customers to help ensure their borrowing remains affordable.

Ring-fencing implementation

We have executed our ring-fence plans in order to meet the 1 January 2019 legislative deadline. The majority of customer assets and liabilities remain within the ring-fenced bank with minimal disruption for our customers. Corporate and wholesale markets business, which is prohibited from inclusion in the ring-fenced bank, was transferred to Banco Santander London Branch.

Building and maintaining capital strength

Decisions made by regulators on the implementation and interpretation of capital rules and on macro-prudential issues can impact our capital management, such as adjustments to the countercyclical capital buffer. We continuously review our capital position on a forward-looking basis, and it is also subject to the Bank of England's stress testing regime. The stress test results published in November 2018, showed that we exceeded the regulatory hurdle rate set by the PRA for our projected CET1 and UK leverage ratios.

Pension scheme

During 2018, a number of actions have been taken to reduce the level of risk. These included the execution of hedging strategies and asset reallocation, which reduced the pension scheme exposure to pro-cyclical assets. The IAS 19 accounting position improved during the year, and also to a lesser degree, the funding position. Following the High Court judgement concluding that defined benefit schemes should equalise pension benefits for men and women in relation to Guaranteed Minimum Pension (GMP) equalisation, we have reflected the impact of this decision in operating expenses and in retirement benefit assets.

Financial crime

Aligned with the evolving regulatory environment in the UK, we continued to upgrade our Financial Crime control framework. A centralised Santander UK-wide programme with direct oversight and governance has been established, including review by the Board Responsible Banking Committee. We enhanced systems and controls to aid compliance with our legal and regulatory obligations.

Managing a complex change agenda

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

Cyber-attacks

In 2018, threats from the external cyber environment continued to evolve, due to heightened geo-political tension, and active well-established cyber-crime groups. There were also high profile incidents during the year impacting airlines, social media services and other UK banks. Specific mitigants implemented in our Cyber Security Plans are currently proving effective and we have experienced no significant disruption to date. We also help our customers stay safe online through a range of our own and industry-wide initiatives.

Conduct risks

We are subject to a demanding regulatory agenda, combined with uncertainty over outcomes in several areas. Implementation of new, often complex, regulatory changes can affect all areas of our business, including operational resilience, products and services; risk management and controls; and culture and behaviours. When implementing regulatory change we focus on ensuring that our strategy, leadership, governance, and approach to managing and rewarding staff do not lead to poor outcomes for our customers, competition, or to market integrity. We expect all our people to take personal responsibility for managing risk through our I AM Risk programme.

Third party risks

In common with other UK banks, we rely on a number of major suppliers, to continue to deliver products and services to our customers. The complexity and criticality of services provided by third-parties to the industry is a key operational risk that has been recognised by ourselves, our peers, and the regulators. We place emphasis on a carefully controlled and managed Third Party Supplier Risk

Climate change risk

Climate change has become a focus of the Bank of England and other regulators, with both the PRA and FCA publishing papers in October 2018 on climate change risk management. These build on the Financial Stability Board's Task Force (TCFD) recommendations on the disclosure of climate related financial information.

The PRA draft supervisory statement sets out expectations regarding firms' approaches to managing the financial risks from climate change. This includes embedding climate change risks in governance arrangements and risk management practice, using scenario analysis to inform strategy setting and risk assessment, and the development of disclosures on climate change risk.

We recognise that climate change is a significant global issue and we support the objectives of the Paris Climate Agreement on limiting emissions. We welcome an industry-wide approach to enhancing our climate risk management practices, governance and disclosure statements. We are working alongside other industry participants as well as engaging with our investors and other stakeholders to shape the disclosure framework in this emerging area.

$43tn

Estimated global costs resulting from 6°C of warming

The cost of inaction: Recognising the value at risk from climate change, The Economist

Framework, and are enhancing our resources in this area in order to manage this risk. This framework seeks to ensure that those with whom we intend to conduct business meet our risk and control standards throughout the life of our relationship with them. We monitor and manage our ongoing supplier relationships to ensure our standards and contracted service performance continue to be met.

Emerging risks in 2018

We regularly review the emerging risks that could impact our stakeholders. Risks actively monitored over 2018 included:

Changing customer behaviour

There are signs that customer loyalty is diluting across the banking industry, as expectations shift and population demographics evolve. Increasingly, customers require greater accessibility, simplicity, customer-centricity and automation when interacting with their banking services provider, which has the potential to disrupt the banking sector. Our customer centric transformation is well underway, with further digital enhancements planned for deployment in 2019 designed around customer needs.

Strong market competition

The UK banking market continues to be highly competitive. At present, our main competition comes from incumbent banks who have strengthened and restructured their activity with a greater focus on the UK, and building societies. New entrants are also making progress, with lower barriers to entry and reduced customer inertia. Margins across the industry continue to come under pressure as a result of this competitive environment. Areas of particular competitive focus include mortgages, a significant driver of profits in the UK retail banking industry, and costs, as a key strategic lever in protecting or improving financial returns. Competition for deposits also remains intense and may escalate as competitors replace funding received from Government schemes. In the longer term, there is also potential for new types of competitors, such as major digital organisations, to gain market presence by leveraging their large customer bases and digital customer interfaces.

Rapid technological change

Consumer expectations are being reshaped by technology-enabled experiences, including those from other industries. Successful organisations will be those that invest in platforms that satisfy customers expectations and at the same time deliver substantial cost reduction in order to sustain profitability. We continue to grow our digital customer base, develop new digital channels, and improve existing digital services, as well as automating physical channels. We also place a high priority on cyber security, including obsolescence management, in order to protect our customers and our reputation.

Demanding regulatory agenda

We continue to face a complex regulatory change agenda. The FCA has been carrying out a number of significant reviews such as a Strategic Review of Retail Banking Models, which will impact our business. The conduct regulator also continues to progress a heavy policy agenda, with proposals at varying stages including but not limited to, a basic savings rate and duty of care. The implementation of PSD2 and Open Banking remains a key focus in the competition and payments agenda. The Payment Systems Regulator is progressing the development of a contingent reimbursement model for victims of authorised push payment fraud. The Bank of England and PRA are working with other regulators to develop the supervisory framework for operational resilience, climate change risk management. We are focused on managing our regulatory risks, coordinated and prioritised through specific project groups with both risk and regulatory oversight.

I AM RISK – our Risk Culture

I AM RISK

At Santander UK every one of us takes personal responsibility for managing risk by doing our part to:

- Identify risks and opportunities
- Assess their probability and impact
- Manage the risks and suggest alternatives
- Report, challenge, review, learn and 'speak up'.

Uncertain economic environment

UK economic growth was lower in 2018, compared to 2017, as uncertainty over Brexit adversely impacted upon business confidence, with industry investment plans being delayed. Unemployment remains low and average weekly earnings have continued to trend higher since early 2017. Arrears remain at historically low levels, with good credit quality being maintained across our lending portfolios, supported by our prudent approach to lending. Some normalisation from these cyclically low levels could arise over the medium term, should the credit cycle reach a turning point. Regulatory bodies have cited potential emerging risks to the global financial system from leveraged loans in the Corporate Debt markets, contagion from high levels of non-performing loans in the Eurozone, and a general repricing of risk premia in the markets. Wholesale funding costs for banks have increased as long-term funding spreads widened in 2018 due to the pace and scale of banks' debt issuance.

Risk overview continued

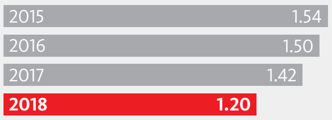
Risk types

All our activities involve identifying, assessing, managing and reporting risks.

Credit

1 3

NPL ratio (%)



What we have seen

Credit quality remained strong supported by our prudent approach to risk, proactive management actions as well as the ongoing resilience of the UK economy. Low interest rates and falling unemployment have contributed to a benign credit environment resulting in low levels of default in both the mortgage and corporate portfolios. This has also been reflected in a low cost of credit of 0.10% compared to the medium-term average of 0.20% to 0.30%. Whilst the market continues to show resilience, we are cautious on the outlook in light of growing market uncertainty.

The introduction of IFRS 9 has changed how credit impairments are recognised, with impairment charges recognised according to projected losses, whereas previously this was only when the losses actually incurred.

How do we mitigate the risk

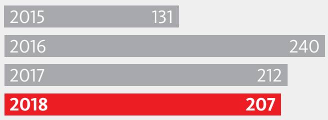
We manage our exposures carefully to ensure we stay within our risk appetite and agreed concentration limits. We have thorough credit checking and approval processes to understand the risk we take on when we lend.

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

Market (Banking market)

3

NIM sensitivity +50 bps (£m)



What we have seen

Interest rates in the UK began to rise following a prolonged low and stable interest rate environment. Bank rate rose for the first time in ten years in November 2017 from 0.25% to 0.50% and rose 25bps again in August 2018 to 0.75%. Market expectations, supported by Bank of England guidance, are for future rate increases to be gradual in nature, depending on the performance of the UK economy, and predicated on an orderly exit from the European Union and the wider global economic outlook.

Our balance sheet is positioned to benefit from a rising interest rate environment, although the pace and scale of expected change will moderate any impact on income.

How do we mitigate the risk

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

Capital

3

Total capital ratio (%)

What we have seen

Regulatory capital requirements have continued to increase and UK banks have grown capital to meet the higher requirements. We have generated capital consistently, whilst undertaking risk management initiatives, including securitisations, to further strengthen our capital position.

How do we mitigate the risk

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

Strategic priority key:

1 Grow customer loyalty and market share

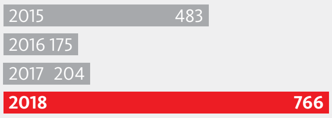
2 Deliver operational and digital excellence

3 Achieve consistent, growing profitability and a strong balance sheet

Pension

3

Funded defined benefit pension scheme accounting surplus (£m)



What we have seen

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

The accounting surplus was impacted by falls in discount rates over the period although this reversed slightly in 2018. Deficit contributions also contributed to the increased surplus.

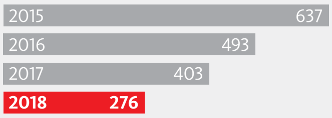
How do we mitigate the risk

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

Conduct

1 2 3

Remaining conduct provision (£m)



What we have seen

In recent years, a major conduct issue faced by banks relates to PPI, with significant provisions set aside by the industry for redress. Following confirmation by the FCA of the deadline for customer complaints relating to PPI, banks are now funding advertising campaigns to inform customers who may be eligible for redress.

We made no additional PPI charges in 2018, based on our recent claims experience, and having considered the FCA's Consultation Paper 18/33 issued on 7 November 2018. We will continue to monitor our provision levels, and take account of the impact of any further change in claims received and FCA guidance. Other conduct provisions primarily relate to the sale of interest rate derivatives.

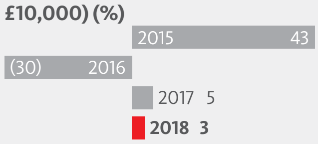
How do we mitigate the risk

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

Operational

1 2 3

Operational risk losses trend (excluding PPI and losses below £10,000) (%)



What we have seen

Cyber risk has become an increasingly prominent issue, with various well-known companies targeted with sophisticated cyber-attacks, including Distributed Denial of Service (DDoS) attacks, malware and phishing attacks.

How do we mitigate the risk

As one of the top three risks we face, we utilise separate but complementary approaches. We operate a layered defence approach to cyber risk, focused on identifying, detecting, preventing, responding to and recovering from cyber-attacks, including simulation tests. We carefully select our suppliers and manage our ongoing relationships diligently. Before we engage in new activities, develop new products, enter unfamiliar markets or utilise new technology, we conduct operational risk assessments before we proceed.

Financial crime

2 3

£51m

incremental investment in the financial crime transformation programme to enhance systems and controls in 2018

What we have seen

We have made a number of enhancements to our systems and controls in recent years. We enhanced our partnerships with public authorities and strengthened our reporting to senior management. This includes implementing our Financial Crime Transformation Program, which is improving our risk assessment, key systems and controls including screening and transaction monitoring.

How do we mitigate the risk

We are committed to the strongest possible response to financial crime risks. We carry out risk assessments for customer, product, business, sector and geographic risk and also perform due diligence to understand our customers' activities and banking requirements. This targeted approach allows us to predict, detect, prevent and, where possible, disrupt financial crime. We are committed to the public-private partnership in combatting economic crime, working closely with law enforcement and government agencies to stop the threat and protect customers.

CFO review

We made solid progress towards our strategic and operational goals in 2018, delivering shareholder value despite the competitive and uncertain environment.

Prudently positioned in an uncertain and competitive environment
Income pressures continue to be felt, mainly from the competitive mortgage market, and costs were impacted by regulatory projects completed this year.

The business performed well despite the competitive market. Net mortgage growth was £3.3bn, our strongest lending in over three years, and we continued to see lending growth to non-CRE trading businesses whilst we managed down our CRE exposure.

We completed a significant milestone this year with the implementation of our ring-fence structure and the transfers to Banco Santander London Branch. This means that our 2018 financial results reflect the new statutory perimeter within which we will operate going forwards.

Profit before tax was £1,567m, down 14% from £1,814m in 2017. The generation of sustainable earnings and reduced RWAs meant our CET1 capital ratio increased 100bps to 13.2%. The quality and strength of our balance sheet was again demonstrated in the Bank of England stress test results. For the third year running, we were the most resilient of the UK banks with the lowest drawdown of 1.4% on our CET1 ratio.[2]

Delivering shareholder value
Net interest income was down 5%, impacted by lower new mortgage margins, Standard Variable Rate (SVR) mortgage attrition and the £39m of accrued interest release on a foreign tax liability in 2017, which was not repeated in 2018. These were partially offset by management pricing actions on customer deposits and strong mortgage lending volumes.

Summarised consolidated income statement

For the years ended 31 December	2018 £m	2017 £m
Net interest income	**3,606**	3,803
Non-interest income[1]	**937**	1,109
Total operating income	**4,543**	4,912
Operating expenses before impairment losses, provisions and charges	**(2,563)**	(2,502)
Credit impairment losses	**(153)**	(203)
Provisions for other liabilities and charges	**(260)**	(393)
Total operating impairment losses, provisions and charges	**(413)**	(596)
Profit before tax	**1,567**	1,814
Tax on profit	**(446)**	(560)
Profit after tax for the year	**1,121**	1,254

(1) Comprised of 'Net fee and commission income' and 'Net trading and other income'.
(2) CET1 drawdown is defined as CET1 ratio at 31 December 2018 less minimum stress ratio on an IFRS 9 basis (before the impact of 'strategic' management actions and conversion of AT1).

Key performance highlights

1.80%
Banking NIM
(2017: 1.90%)

£1,567m
Profit before tax
(2017: £1,814m)

£158.0bn
UK mortgage loans
(2017: £154.7bn)

£68.4bn
Retail Banking current account balances
(2017: £67.5bn)

£9.2bn
MREL eligible senior unsecured debt issued
(2017: £6.2bn)

£78.8bn
Risk-weighted assets (RWAs)
(2017: £87.0bn)

Non-interest income was down 16% impacted by a gain of £48m following the sale of our shareholding in Vocalink Holdings Limited in 2017, which was not repeated in 2018, and regulatory changes in overdrafts. This was partially offset by increased income in consumer (auto) finance and asset finance.

Operating expenses before credit impairment losses, provisions and charges increased 2%. The impact of higher regulatory, risk and control costs and £40m of costs relating to GMP equalisation were partially offset by cost management programmes and operational and digital efficiencies, as well as lower Banking Reform costs.

Credit impairment losses were down 25%, with Carillion plc charges in 2017, partially offset by a number of charges and lower releases across portfolios in 2018. All portfolios continue to perform well, supported by our prudent approach to risk and the resilience of the UK economy. The NPL ratio improved to 1.20%, down 22bps from 2017.

Provisions for other liabilities and charges decreased 34%, largely due to £109m PPI and £35m other conduct provision charges in 2017, which were not repeated in 2018. These were partially offset by provision charges in Q418 of £58m in relation to our consumer credit business operations and £33m relating to historical probate and bereavement processes.

We are delivering shareholder value despite the competitive and uncertain environment, with return on ordinary shareholders' equity of 7.9% (2017: 8.9%), and return on tangible equity of 9.0% (2017: 10.2%).

Strategy of selective growth

Customer loans decreased slightly to £199.9bn (2017: £200.3bn), largely due to managed reductions of £1.1bn in Commercial Real Estate (CRE) and £1.4bn in non-core loans, as well as £1.4bn of ring-fence transfers. In Sep18, we also transferred £1.3bn of customer loans to Banco Santander London Branch under a risk management initiative. Lending growth of £3.3bn in mortgages and lending growth to non-CRE trading businesses partially offset these decreases.

Customer deposits decreased to £172.1bn (2017: £175.9bn) and the loan-to-deposit ratio increased to 116% (2017: 113%). This was due to lower corporate deposits and management pricing actions resulting in a reduction in retail savings products. This was partially offset by a £0.9bn increase in personal current account balances.

Summary of segmental balance sheet assets and liabilities

At 31 December	2018 £bn	2017 £bn
Customer loans		
Retail Banking	**172.8**	168.7
Corporate & Commercial Banking	**17.7**	19.4
Corporate & Investment Banking	**4.6**	6.0
Corporate Centre	**4.8**	6.2
Total customer loans	**199.9**	200.3
Other assets	**89.5**	114.5
Total assets	**289.4**	314.8
Customer deposits		
Retail Banking	**142.1**	143.8
Corporate & Commercial Banking	**17.6**	17.8
Corporate & Investment Banking	**4.8**	4.5
Corporate Centre	**7.6**	9.8
Total customer deposits	**172.1**	175.9
Medium-Term Funding	**49.0**	40.6
Other liabilities	**52.1**	82.1
Total liabilities	**273.2**	298.6
Shareholders' equity	**15.8**	15.8
Non-controlling interest[1]	**0.4**	0.4
Total liabilities and equity	**289.4**	314.8

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

CFO review continued

> 98% of our assets and liabilities are within the ring-fenced bank."

Other assets and liabilities both decreased predominantly due to ring-fence transfers of derivatives contracts to Banco Santander London Branch. Shareholders' equity remained broadly flat with ongoing capital accretion through retained profits offset by dividend payments.

Maintaining balance sheet strength

The CET1 capital ratio increased 100bps to 13.2%. This reflected steady profit growth and risk weighted assets which reduced by £8.2bn to £78.8bn. RWAs decreased largely as a result of ring-fence transfers (£5.5bn), risk management initiatives, including securitisations (£3.0bn), and the widening of scope of our large corporate risk model earlier in the year. The UK leverage ratio remained stable at 4.5%.

Wholesale funding with a residual maturity of less than one year increased to £16.8bn and the liquidity coverage ratio (LCR) increased 44 percentage points to 164%. This reflected prudent planning and some pre-funding of our 2019 wholesale funding requirements, in light of potential market disruption from Brexit.

Robust funding plan executed in 2018

We issued £14.8bn of medium-term funding, of which £2.7bn (sterling equivalent) was senior unsecured notes from our holding company, £4.5bn from our operating company, £4.3bn were covered bonds, £2.2bn were securitised funding and £1.1bn from other secured funding. We are well placed to meet MREL requirements, with £9.2bn of senior unsecured funding from our holding company issued to date. Medium-term funding is likely to be lower in 2019 given the pre-funding completed in 2018.

Our Brexit preparations

The UK is due to leave the European Union on 29 March 2019. While uncertainty around Brexit remains we are preparing for a number of outcomes in order to minimise the impact on our customers and our business. Our Brexit preparations are comprehensive and we have dedicated significant focus to ensure we can continue to serve our customers whatever the outcome. In particular we have taken account of the nationality and location of our people and customers, contract continuity, financial markets infrastructure such as clearing, access to Euro payment systems as well as third party services and flows of data into and out of the European Economic Area.

Ring-fence implementation

As part of ring-fencing implementation, in July 2018 we transferred £1.4bn of customer loans, £21.5bn of other assets and £20.7bn of liabilities from Santander UK to Banco Santander

Our ring-fence structure

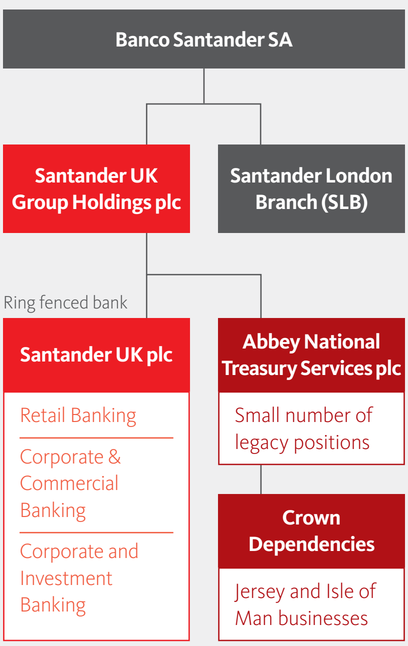
In 2013, UK legislation established a new requirement for certain UK banks to ring-fence their retail activities by 1 January 2019. The intention was to enhance the resilience of the largest UK banks and to reduce the possibility of essential banking services being disrupted in the event of a large bank getting into financial difficulty.

We are now compliant with this legislation, following the conclusion in 2018 of the required transfers from Santander UK to Banco Santander London Branch.

Under our current model, Santander UK plc is the ring-fenced bank of the Santander UK group. It serves all our personal customers in the UK and the vast majority of our business customers. Any service or products which cannot be offered, or customers that cannot be served by the ring-fenced bank, are now catered to through Banco Santander London Branch.

Additionally, in 2018 Abbey National Treasury Services plc (ANTS) became a subsidiary of Santander UK Group Holdings plc (formerly a subsidiary of Santander UK plc). ANTS holds only a small number of legacy positions and the business of our Jersey and Isle of Man branches.

Ring-fencing has been the biggest project that we have ever undertaken, involving significant effort over a number of years. In total, it has cost c£240m and at its peak around 1,000 people were working to ensure the business was ready in time.



London Branch, which included £19.7bn of assets and £18.8bn of liabilities related to our derivatives business. These transfers reduced RWAs by £5.5bn and we paid an associated dividend of £668m. In June 2018, we also transferred £1.3bn of customer assets to Banco Santander London Branch under a risk management initiative, which reduced RWAs by £1.2bn.

2019 outlook remains uncertain

We expect global economic activity to continue to expand in 2019, albeit at a slower pace with a number of heightened risks to the outlook from the ongoing imposition of trade restrictions, geopolitical tensions and slower growth in developed economies. These risks, together with the uncertain environment, highly competitive banking market and demanding regulatory agenda in the UK, mean we are cautious in our outlook.

In our core lending markets, we anticipate modest growth, with mortgage market growth of c3%, with weaker buyer demand and subdued house price growth likely to continue. Corporate borrowing market growth is expected to slow to c2%, as uncertainty continues to dampen investment intentions, particularly in the short term

Our base case anticipates a slight improvement in economic growth, predicated on the UK's orderly exit from the European Union. The low levels of unemployment should continue with inflation on a downward path which, coupled with rising wages, should result in real earnings growth. Extrapolating from the economic outlook at the end of 2018, our assumption is that there will be a 25bps rise in base rate in H219.

Banking NIM is expected to be lower than the 1.80% seen in 2018, as a result of competition in new mortgage pricing, SVR attrition and limited capacity for further liability margin improvement. SVR attrition is expected to be lower than the net £4.9bn reduction in 2018.

We expect costs to increase slightly as we invest further in our business transformation, face an intensifying regulatory change agenda and manage inflationary pressures. Incremental digital and strategic investments in process automation as well as system and platform rationalisation are also planned. These actions, together with global Banco Santander group initiatives, will improve our customer experience and deliver operational efficiencies over time. We expect to provide further guidance on cost management initiatives in the next few months.

We expect our net mortgage lending to be broadly in line with 2018, as we focus on quality customer service, retention and improved proposition for first-time buyers. We will continue to actively manage our CRE exposures while our lending growth to non-CRE trading business customers is expected to remain robust.

Over the last few years, in addition to the significant changes we implemented for ring-fence compliance, we have taken a number of actions to position the bank for the uncertain environment. I believe these actions together with our prudent approach to risk leave us well placed for the future.

Antonio Roman
Chief Financial Officer
26 February 2019

2018 PRA stress test: Santander UK most resilient of UK banks

The results of the latest PRA stress tests were released in November 2018. The parameters of the stress scenario were very similar to the 2017 stress test, with severe downturns in GDP of 4.75% and house prices of 33% along with a sharp increase in unemployment to 9.5%. Additionally, the stress scenario reflects the expected result of such a downturn with bank rate increasing to 4% in response.

With a stressed CET1 ratio of 10.8% before allowed management actions, on an IFRS 9 transitional basis, we significantly exceeded the PRA threshold requirement of 7.5%. Additionally, with a stressed leverage ratio of 3.9% we exceeded the PRA threshold requirement of 3.26%.

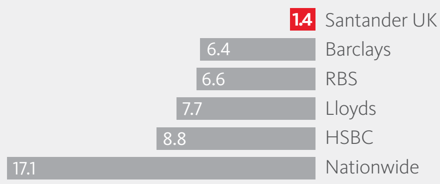
As a result of the exercise, the Bank of England did not require Santander UK to undertake any actions.

For the third year in a row, we were the most resilient of the UK banks with the lowest drawdown of 1.4% on our CET1 ratio.[1]

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

(1) CET1 drawdown is defined as CET1 ratio at 31 December 2018 less minimum stressed ratio on an IFRS 9 transitional basis (before the impact of 'strategic' management actions and conversion of AT1).

Bank of England 2018 stress tests CET1 drawdown (percentage points)



Source: Bank of England, Stress testing the UK banking system: 2018 results

Stakeholder review

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

Customers

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

Digital innovation

In 2018 we launched a new mortgage servicing hub in online banking, to give customers more control and flexibility to manage their mortgage online. As well as providing real-time information about their mortgage, customers can now make one-off extra payments, saving them money over the life of their mortgage. This service has been well-received, with over £3m of payments made by our customers in the first two weeks. We also continue to see more customers choosing to stay with us with 55% choosing to take a new deal online, up 7pp on 2017.

As more of our customers choose to bank online, our aim is to give them more options and flexibility in managing their money. We have enabled the setting up of regular overpayments, instant decisions in principle on an additional loan, and notifications of when their mortgage deal is coming to an end. Alongside other digital innovations such as our Digital Investment Advisor and Santander Chatbot, we have continued to improve our banking app, which resulted in our iOS rating improving to 4.8 in Dec18, based on 181,000 reviews.

Optimising our branch network

We continued to invest in our branch network across the UK, completing the refurbishment of over 72% of our branches since 2013. We also updated our 52 University branches by introducing more digital services.

We are a signatory to the Access to Banking Standard which ensures open and fair communication where banks decide to close branches. In 2018 we closed 46 branches in line with this standard, following ongoing reviews to ensure our resources are targeted efficiently to best meet the changing needs of customers.

We have embraced the joint initiative between HM Treasury and UK banks to raise awareness and confidence in everyday banking services available at the Post Office by jointly funding a marketing campaign 'Bank at your local Post Office' and increasing the prominence of the Post Office services on our website and branch literature. In areas where we close branches, our branch teams work closely with the local Post Office to ensure customers are aware of the banking services available locally.

In early 2019, we announced plans on reshaping our branch network and closing 140 branches, in response to changes in how customers are choosing to carry out their banking. We plan to have a combination of larger branches and smaller branches to offer customers more convenient access to banking services. Furthermore, in order to deliver a branch network for the future we are refurbishing 100 branches over the next two years through a £55m investment.

Supporting our vulnerable customers

We remain committed to providing support for our vulnerable customers and have continued to progress in this area in 2018. Rolling out our Specialist Support Team to all branch colleagues has been a key focus. The team provide dedicated support to over 7,500 branch colleagues when they are dealing with customers who have complex needs and are in vulnerable situations. In 2018, we have supported almost 900 customers with this specialist approach.

We are also active members of the Financial Abuse Working Party, through UK Finance, and have committed to the resulting Code of Practice to better support and protect victims of financial abuse.

We are championing British businesses

Santander Breakthrough helps ambitious businesses grow and prosper through a range of activities focused on building connections, gaining knowledge, finding and retaining talent, international growth and finance. During 2018, we were proud to have supported 7,902 businesses across all of our Breakthrough activities. This included more than 4,200 attendees joining 193 Breakthrough in Branch events, which continue to connect business owners to their local business community.

We know how challenging it can be to start and grow a business. Our Liverpool City Incubator helps steer start-up founders in the right direction and throughout 2018 provided tailored support to 28 businesses. More than 1,700 SMEs have benefited from the Santander Universities Internship Programme with access to subsidised internships from one of more than 80 partner universities. Some of our customers have the potential for significant growth and require capital as well as non-financial support. In 2018, our Growth Capital Team provided £20.7m of growth capital and £100.7m of senior debt to 35 SMEs.

The four pillars of our sustainability strategy

Help people and businesses prosper by:

Creating a thriving workplace	Driving sustainable economic growth and financial inclusion	Driving inclusive digitalisation	Upholding the highest ethical standards and fighting financial crime

This will help us deliver on our strategic priorities and create value for all our stakeholders:

Customer loyalty and market share growth; Operational and digital excellence; Consistent and growing profitability and strong balance sheet; Strong internal culture; Support to communities

While driving customer satisfaction and strengthening our reputation

Shareholders

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

Being an important part of a global bank

We are a subsidiary of Banco Santander SA and part of the Banco Santander group. Alongside its London Branch and Wealth Management business, we form its UK presence. The Banco Santander group is a leading retail and commercial bank, founded in 1857, head-quartered in Spain. As of 31 December, it was the largest bank in the eurozone by market capitalisation (€64.5bn) and 16th in the world and maintains a leadership position in our local markets in Europe and the Americas.

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 four AT1 securities issued in 2014, 2015 and 2017.

Consistent shareholder returns

Santander UK has a track record of consistent profitability which is built on the strength of our proposition, cost discipline and our prudent approach to risk.

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

Benefiting from being an independent subsidiary of a large group

The Banco Santander group has a well-balanced distribution across mature and developing markets, and mix of products for individuals and companies. Our model of legally independent subsidiaries, autonomous in liquidity and capital, means that we can mitigate the risk that difficulties affecting one subsidiary impact another. Subsidiaries are managed locally, so that the expertise and knowledge of local markets is fully utilised, with each subsidiary also having its own resolution plan.

The subsidiary model gives us considerable financial and operational 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.

Importantly we benefit from Banco Santander's strong brand, products and platforms as well as their systems development capacity – we utilise common technology platforms. Taken together, these constitute a major competitive advantage for us.

£1,121m
profit after tax
(2017: £1,254m)

Innovative banking products for SMEs

SMEs employ more than 16 million people in the UK and have created three times as many jobs in the past five years as the country's largest firms. Despite their importance, SMEs have long been underserved by the banking sector.

In 2018 we launched the new 1|2|3 Business Current Account, to shake up the market for SMEs. This innovative, value-adding account gives businesses up to £300 cashback per annum, access to 1|2|3 Business World preferential rates and offers, and the ability to deposit cash balances of up to £1,000 each month at Santander branch and Post Office counters. The account has been rated as 'Five stars' by Moneyfacts.

Stakeholder review continued

People

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

Helping our people prosper

We provide our people with a competitive package of pay and benefits, to reward them for their individual contribution to the business and our sustainable performance. In 2018, 35% of our people participated in one or both of our two HMRC-approved share save schemes and 88% of our people participated in our pension schemes. We are a Living Wage and London Living Wage employer. We have positive strategic relationships with Advance and the Communication Workers Union (CWU), our two recognised trade unions.

In 2018, our people undertook 73,933 development days and we invested £10.6m, equipping them with the skills they need for now and in the future, including digital skills. We are enabling people to work in a way that suits their individual needs and helps to create a thriving workplace. We also announced plans to upgrade two of our main offices with new state-of the-art buildings; Milton Keynes will become our flagship technology hub and Bootle, our contact centre and operations hub.

Building a bank for everyone

We want to create a bank that is representative of the society we operate in. In our 2018 engagement survey, 85% of our people agreed that we created an environment where people of diverse backgrounds can succeed (+6pp to external benchmark) and 87% agreed that we act responsibly and make a positive contribution to society (+12pp to benchmark).[1]

We recognise the potential that everyone can bring to the organisation. A number of initiatives, programmes and training build inclusivity across our business. These include our six employee-led diversity networks, returnships programme, women's leadership development training and our cutting-edge research in partnership with Business in the Community (BiTC): 'Equal Lives' which uncovered the societal and organisational biases that exist among men and women with caring responsibilities and how these can impact women's career progression.

Our commitment to driving racial diversity has seen us listed again as a Top Employer for Race.[2] In 2018, we built on this by signing the BiTC Race at Work Charter, committing to taking more action to support ethnic minority career progression and analyse our ethnicity pay gap data. In 2018, we were the only financial services provider to feature on the Social Mobility Employer Index 2018. Across our business, we have continued to increase our support for Apprenticeship schemes in 2018 and have 15 apprenticeship schemes in place with over 500 apprentices.

Gender diversity

In June 2016, we signed the HMT Women in Finance Charter – setting a 50% (+/-10%) gender target for our senior female population over five years. Women made up 30.7% of senior managers, 35.7% of executive committee and 54% of our Board at 1 January 2019.
In recognition of our approach to creating a gender diverse bank, we were a Times Top 50 Employer for Women in 2018.

Prioritising wellbeing

We aim to provide a wellbeing proposition that covers Physical, Mental, Financial and Social Wellbeing. In 2018, we launched our Mental Wellbeing Network, a hub to provide support, raise awareness and help people Speak Up. The network is rapidly growing with over 1,200 members. Over 2,400 managers completed 'Positive about Mental Health Training'.
In 2018, we partnered with Nudge to offer an interactive tool to support financial wellbeing.

87%
Of employees agree that we act responsibly and make a positive contribution to society (+12pp above external benchmark)

Commitment to equality of opportunity

Our gender pay and bonus gaps reflect our organisational structure. We have proportionately more women than men in our branch and customer service centre roles, and proportionately more men in our senior leadership team. In December, we reported a mean average gender pay gap of 33.6% (-1.7pp from 2017) and a mean average gender bonus gap of 68.1% (-1pp from 2017).

While we are pleased there has been some progress in our gender pay gap, there is still much to do. We are committed to addressing this gap through transparency, understanding the root causes of issues and finding solutions that are both practical and beneficial to employees.

We promote equality and inclusion through our partnerships with organisations such as BiTC, Stonewall, Business Disability Forum, MyGwork and Working Families, and have received external recognition for our approach to supporting diversity.

Our Embrace network, provides leadership, support and insight on LGBT+ related matters and aims to reflect and celebrate diversity in the workplace in order to create a supportive and inclusive culture. Currently in the UK, the network has over 3,000 staff members.

Further details and our latest annual Gender Pay Gap report are available at www.santanderjobs.co.uk/diversity.

(1) Colleague engagement survey, conducted by Mercer
(2) BiTC, Best Employers for Race, 2018

Communities

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

Helping our communities prosper

Our volunteering and fundraising in 2018 focused on building skills, developing knowledge and supporting innovation, through a number of partnerships to support this strategy. All employees benefit from the opportunity to volunteer in teams for local community organisations, and we saw 11,561 staff engage with this programme during 2018. Through work experience initiatives with our partners National Citizen Service and Career Ready, we offered students from all backgrounds work opportunities, which in turn will create talent pools that businesses and the economy need.

In 2018, the Santander Foundation awarded over £3.3m in grants to almost 700 organisations to deliver projects that improve skills and knowledge and promote innovative solutions to help disadvantaged people in the UK. The foundation donated over £2.1m through the Staff Matched Donation Scheme to support our employees' fundraising.

We developed our popular in-school mentoring program (Wise workshops), where Santander volunteers teach students about topics such as responsible money management or career planning, to include a new module around staying safe online. DigiWise sessions help 13 and 14 year old students understand their digital footprint, data protection rules and intellectual property law. We partner with Young Citizens, an education charity working in schools to educate, inspire and motivate the citizens of tomorrow.

Fraud and scams education

We continue to volunteer in communities to raise awareness of fraud and scams. Our people supported local organisations and community groups by delivering our Fraud and Scam Awareness Workshops. We also worked extensively with Age UK, our 2016-18 charity partner, to deliver educational sessions on fraud and scams to groups of older people.

We also run a Scam Avoidance School (SAS), an engaging campaign to raise awareness of the sophistication of scammers. This is run in all of our branches and is free for the public to attend. The popularity of these events was recognised in July 2018, when members of our Fraud and Customer Interactions team presented the campaign to Members of Parliament.

Our Universities programme

Santander Universities is our global programme to support and advance education. Since 2002, Banco Santander has donated over €1.6bn to universities across the globe. This made the programme one of the largest global corporate contributors to education.(1)

£3.2m
Total fundraising for our charity partners between 2016-18

Vision 2020 sets out our aim to provide impactful, diverse and inclusive support to higher education, through education, entrepreneurship and employability. Our goal is to provide life-changing opportunities to more people over the next three years than we have in the previous ten. We will ensure 80% of individual recipients are from widening participation backgrounds and aspire to an equal gender balance.

In the UK we've donated over £79m to 84 UK partner universities in the last eleven years. In 2018, we directly supported more than 29,000 students, graduates and university staff through initiatives focusing on education, employability and entrepreneurship. We also funded internships for students and graduates in SMEs across the UK, supporting 2,811 internships with 38% of students going on to further employment. Our aspiration is to achieve a 75% employment rate by 2020.

Looking to the future

In 2019, we aim to go beyond traditional volunteering and fundraising to deliver even more long-term, meaningful value to society. We are redefining the purpose and activity of the Santander Foundation, to ensure the greatest positive impact in our communities. Moving beyond skills, knowledge and innovation, we will seek to focus our resources on topics where we can make a difference such as financial inclusion and education, digital inclusion and fighting financial crime.

(1) UNESCO and Varkey Foundation. (2015). Creating a baseline for Corporate CSR Spend on Global Education Initiatives.

Tackling financial and social exclusion

In 2016 our staff chose to support Age UK and Barnardo's over a three year term with a commitment to help our communities prosper. The partnership has transformed the lives of thousands of older and younger people, working together to tackle financial and social exclusion. Through volunteering and fundraising opportunities, employees have raised over £3m since 2016, with 95% saying the events made them feel proud to work for Santander.

The over-60s is the fastest-growing group in society, with many at risk of financial and social exclusion. With our funding, Age UK have launched 'Ambitions for Later Life' to combat this. This has supported 5,300 older people to plan for the times ahead and be more financially resilient. In the programme's first two years, Age UK helped people access over £6.7m in unclaimed benefits.

With Barnardo's, we established the On-Track project to transform the lives of vulnerable unemployed young people. Since 2016 the service has helped 340 young people overcome major challenges in their lives, enabling them to fully participate in society and have access to financial services which meet their needs.

Environment and ethics

We are committed to upholding the highest ethical standards.

Our strategy

In 2018, we defined a new strategic direction for our Corporate Social Responsibility and Sustainability approach. Our vision is to deliver purpose-led sustainability activities that are aligned to business objectives, and where we can make a real impact – making the best use possible of our resources.

We have established a new strategy based on four Sustainability Pillars which reflect our identified priority topics. These are the issues that are most important to our internal and external stakeholders and where we feel that as a bank we can make the biggest difference.

Ethics

Ethics and integrity are at the heart of a prosperous business and society. Corruption, bribery, modern slavery and financial crime erode the value that business creates and divert precious resources away from the socio-economic growth of our country.

We want to protect and maintain our licence to operate by acting responsibly and demonstrating how we live up to our values in everything we do. We are determined to uphold the highest standards and promote human rights, sound business ethics and corporate culture. See page 60 of the 2018 Annual Report for more on our Code of Ethical Conduct and Anti-Bribery and Corruption Policy.

Responsible lending

Our policy on Aerospace and Defence, Energy, Mining, Metals and Soft Commodities defines our approach towards creating long-term value within these sectors while managing reputational, social and environmental risks stemming from customers' activities.

In 2018 we also released a Sensitive Social and Ethical Sectors Policy to guide our investment in certain sectors, strengthening our local governance. Our Reputational Risk Forum is responsible for reviewing, monitoring and escalating to Board key decisions around financial and non-financial reputational risks.

Climate change

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

We are one of the largest renewable energy financiers ranking jointly as the number one lender to the sector by number of transactions in 2018 in Europe and the UK.(1) In 2018 we provided £922m of debt financing to 19 renewable energy projects, some of which are portfolios of assets. Each of these projects support our common objective to decarbonise society by producing renewable energy and reducing overall energy consumption.

Our Project & Infrastructure finance team provides financing to onshore, offshore wind, solar and biofuel projects both at a pre-construction and operational stage. In addition to this, we offer advisory services to our renewable and alternative energy clients on how to raise capital to fund these types of projects.

Our Environment & Energy Management Systems (EMS & EnMS) provide a framework for defining responsibilities and processes in relation to waste, energy, water, travel and supply chain management at our 15 main offices and data centres in the UK. In 2018, we successfully recertified the ISO 14001 & ISO 50001 accreditation across all of these properties.

Ethical supply chain

We want to do business with like-minded companies who share our values and ambition to be a driver of prosperity and who therefore meet our risk and control standards as outlined in our Third Party Supplier Risk Framework.

We continually review our supply chain management policies and processes to comply with the 2015 Modern Slavery Act requirements. We require our suppliers to comply with explicit requirements to respect human rights and adhere to ethical labour practices.

We meet the Living Wage requirement for employees of suppliers who work at Santander UK sites, and our standard supplier contracts include specific requirements to respect human rights and ethical labour practice based on the principles of the UN Global Compact.

Non-financial information statement

Non-financial information produced in compliance with s414CA and s414CB of the Companies Act 2006 can be found on pages 10, 11, 16 to 19, 28 and 60.

We commissioned SGS United Kingdom Ltd to provide assurance at moderate level on the veracity of non-financial 2018 data and claims on pages 24, 26 and 27 of this Stakeholder review. The full assurance statement, as well as further details on how we help people and businesses prosper, including a data table of stakeholder and environmental metrics, will be available at www.aboutsantander.co.uk

(1) Inframation Renewable league tables UK, 2018

Combating modern slavery

We are committed to tackling modern slavery and human trafficking. As a major financial institution, we are in a position to identify potential proceeds of human trafficking. Our Financial Intelligence Unit works closely with the National Crime Agency and industry bodies.

This year we rolled out mandatory bank-wide training for colleagues, including key indicators of potential human trafficking or modern slavery across all aspects of a customer relationship. This supports colleagues to spot and report likely perpetrators or victims through their behaviour, transactional activity or physical indicators. Our research and findings have been published and shared with other financial institutions around the UK.

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

KPI definitions

Loyal retail customers: Primary banking current account customers who hold an additional product.

Loyal SME and corporate customers: Santander Business Banking customers, managed under Retail Banking, who have three month average credit turnover of at least £1,000 across their Banking accounts. Corporate customers, who have at least three products and, for those in the trade business, must also have a current account with a minimum activity threshold specific to their customer segment.

Retail customer satisfaction: Measured by the Financial Research Survey (FRS) run by GfK for 12 months ended 31 December 2017.

Digital customers: Customers who have logged onto Retail or Business online banking or mobile app at least once in the month.

Fee income CAGR: Net fee and commission income compound annual growth rate is measured between end 2015 and end 2018.

Return on tangible equity: The profit after tax attributable to equity holders of the parent, divided by average shareholders' equity less non-controlling interests, other equity instruments and average goodwill and other intangible assets.

Cost-to-income ratio: Total operating expenses as a percentage of total income.

NPL ratio: Non-performing loans as a percentage of loans and advances to customers.

CET1 capital ratio: CET1 capital as a percentage of risk-weighted assets.

Dividend payout ratio: Equity dividend declared as a percentage of earnings attributable to ordinary shareholders (profit after tax less payment of dividend on equity accounted instruments and non-controlling interests).

Colleague engagement: Measured by the Group Engagement Survey (GES), conducted by Korn Ferry for Banco Santander during September and October 2017. Results are benchmarked against other firms in the UK financial sector and other high-performing firms.

People supported: People supported through our charity partnerships, the Santander Foundation, Santander Universities and by employee volunteer activities through our Discovery Project programme.

For our KPIs, read more on **page 13**

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, Ipsos MORI.

The 'retail customer satisfaction' score refers to the 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.

The competitor set used to calculate the product weights is Barclays, Halifax, HSBC, Lloyds Bank, Nationwide and NatWest. The competitor set included for the ranking and highest performing peers is Barclays, Halifax, HSBC, Lloyds Bank and NatWest.

2016-2018 KPIs and targets

KPIs are presented at 31 December in the periods indicated. Reported KPIs are based on spot balances at these dates except for:

- the CIR, RoTE, and retail customer satisfaction, which are based on performance in the relevant period/year,
- CAGR, which is measured between 31 December 2015 and 31 December 2018, and
- People Supported, which is measured cumulatively from 2016 to 2018.

Our 2018 KPI targets were set at the 2015 Banco Santander Investor Day, based on the forecast and outlook then in place. Three targets were revised in 2016. At the 2017 Group Strategy Update we revised our RoTE 2018 target to 9%-10% from 8%-10%.

For a glossary of terms used in this report:
www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary

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Key dates

30 April 2019	Q1 2019 results
24 July 2019	Q2 2019 results
31 October 2019	Q3 2019 results

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