

CHAIR'S STATEMENT ON DC GOVERNANCE

Year ending 31 March 2019

As Chair of the Trustee Board of the Santander (UK) Group Pension Scheme (the Scheme), I am very pleased to present the annual governance statement. Whilst we have sought to keep this statement as concise as possible, the Pensions Regulator requires us to add a considerable amount of new information for this year's statement

Each year the Trustee Board ("Trustees") prepares a Chair's Statement to report to members on how the Scheme's defined contribution (DC) arrangements have complied with the legal governance standards.

The Scheme's DC arrangements are made up of:

- The Alliance & Leicester (A&L) Defined Contribution (DC) Section;
- The Household Mortgage Corporation (HMC) Section: and
- the Additional Voluntary Contributions (AVC) plans

This statement is for the Scheme year 1 April 2018 to 31 March 2019 and considers five key areas:

1. Value for members.
2. The investment strategy relating to the default and other investment options.
3. The charges and transaction costs.
4. Administration and core financial transactions.
5. How the Scheme is managed including making sure that the Trustees have the appropriate knowledge and understanding.

The Trustees agreed that the period for reviewing Scheme charges will be the same as the Scheme year.

Value for members

The Trustees are committed to ensuring that members receive value for money from the Scheme's DC arrangements and that any costs and charges that are deducted from members' Personal Accounts provide good value in relation to the benefits and services that are provided.

The Trustees undertake an annual 'value for member' assessment, with support from its advisers. The latest assessment covers the 12-month period to 31 March 2019 and was undertaken in accordance with the Pensions Regulator's DC Code of Practice no. 13 (paragraphs 113 - 133) and with the relevant legislation.

Having reviewed the scope, quality, efficiency and general value of a range of services and features, the Trustee has concluded that the DC arrangements continue to provide good value for members.

CHAIR'S STATEMENT ON DC GOVERNANCE (CONTINUED)

Some key points from this year's assessment.

- The Scheme provides administration and communication services to assist members with any queries or decisions that they need to make. The administration services are assessed in more detail on page 45.
- In general, the costs for administration and other running costs* are covered by the Company (Santander Group). This means that members have to pay only the investment charges.
- Members have access to a variety of investment options, from asset classes and lifestyle strategies, and so can make choices based on their personal circumstances. Further details on the investment options and their performance are set out on from page 42 onwards.
- The assessment benchmarked the Scheme's investment fund charges and confirmed that they remain highly competitive and generally well below the average for similar DC schemes and the cap that can be charged to members in a scheme's default option (0.75% a year). The level and impact of charges is covered from page 43 onwards. The appendix also provides a 'pounds and pence' illustration to help members understand the impact of charges on the growth of their funds.

*There are some administration charges, which are not met by the Company. These include:

- Taking more than one lump sum when taking benefits. There is no charge for the first lump sum taken but for each additional lump sum there is a £150 charge. This is taken off the lump sum when the payment is made.
- Divorce. Unless the Court says otherwise, or other arrangements are made, there is a charge of £1,380 for putting a Pension Sharing Order in place.
- Transfer values. The Scheme only has to provide one transfer value quote each year. Each additional quote will cost £160. **A Transfer Value can be obtained free of charge from BenPal.**

Investment strategy – default lifestyle strategy and other investment options

The Trustees maintain a 'statement of the investment principles' (SIP) which outlines their principles and policies that govern decisions about investments, including the Scheme's default lifestyle strategy. A copy of the current SIP is provided in the Appendix.

Lifestyle strategy

A Lifestyle strategy (or 'Lifestyling') is when your Personal Account is automatically moved into lower risk funds as you come up to retirement, to protect its value. There are two lifestyle strategies: Income Lifestyle and Cash Lifestyle.

The default lifestyle option is 'Income Lifestyle'. This option is based on a typical member who, at retirement, may want to buy a secure income (annuity) and take the rest as cash.

The Cash Lifestyle moves the funds to put the member in an appropriate position to take their entire Personal Account as cash (taxed and tax-free) at retirement.

Six self-select funds are also available for members who want to make their own investment decisions.

How often are the funds reviewed?

A detailed strategic investment review takes place every three years. The previous strategic review took place in 2015/2016. A further investment review took place in May 2019 and will be reported on in next year's Chair's statement.

The Trustees also review the suitability of the DC investments each year. The last annual review was undertaken in May 2018 and recommended no changes.

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The performance of the individual DC investment funds, relative to their performance benchmarks, (including those that form part of the Lifestyle strategies), is monitored at quarterly intervals using information provided by the Scheme's investment manager, Legal & General Investment Management (LGIM).

How are the funds reviewed?

The annual review also looks at how the two main funds in the Income Lifestyle strategy, namely the Balance Focus and the Pre-Retirement funds, have performed.

The Balance Focus Fund:

The Balance Focus Fund currently invests in LGIM's Diversified Growth Fund. LGIM's aim for the fund is to achieve returns in line with developed market equities but at approximately two thirds of the volatility of an equity fund.

The Trustee receives a detailed report from its advisers on a six-monthly basis to track risk and returns. Our advisers look at other target returns including a goal to beat the return from cash by 3.5% a year and to beat another comparator which they consider appropriate for this type of fund. That comparator is the return on a portfolio 60% invested in global equities and 40% in bonds. For the 12-month period to 31 March 2019 the Balance Focus fund returned 6.62% before the deduction of charges. This exceeded the return on cash by 5.8%. The comparator portfolio returned 3.5% over the same period. Performance of the fund over 3 and 5 years has been ahead of both the cash target and the comparator and has also experienced consistently lower levels of volatility than a pure equity portfolio.

The Pre-Retirement Fund:

The Pre-Retirement Fund is managed by LGIM. In addition to monitoring its absolute returns, its performance is measured by comparing the return of the fund against the level of annuity prices. This is considered appropriate as the fund's aim is to help members buy a secure income in retirement.

For the 12-month period to 31 March 2019 the Pre-Retirement Fund had a nominal return of 4.64% before the deduction of charges. This compared with a return of 4.61 against its index,

It was also noted that the return of the Fund has been better than average annuity prices consistently over 1, 3 and 5 years.

Overall, the Trustees are satisfied that the Income Lifestyle and the overall investment strategy are continuing to meet their aims and objectives. Both the growth phase and the consolidation phase have been consistently achieving objectives appropriate for the relevant stages of the Lifestyle.

Review of charges and transaction costs

Charges

The charges applied to the component funds of the DC default investment, the 'Income Lifestyle', range from 0.07% to 0.19% per annum.

The charges applied to all other DC investment funds (excluding the default arrangement) range from 0.07% to 0.57% per annum.

Transaction costs

Transaction costs are those incurred as a result of routine fund management activities such as buying and selling investments. The investment options offered to members use a "single swinging price" pricing methodology which means one price exists on any day, but this can either be the bid price or the offer price. The "bid" price is the lower price at which units are typically sold and the "offer price" is the higher price at which units are typically bought.

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The difference between these two prices is known as the "bid/offer spread". All of the funds that members can invest in are pooled funds. In a pooled fund, the manager looks at trades of all investors in the fund rather than the individual trades of a member or those of the Scheme. The price used is determined by whether the manager needs to buy assets into the fund or sell assets out of the fund.

- When the fund needs to sell assets (i.e. the net transactions are negative), then the fund uses the bid price.
- When the fund needs to buy assets (i.e. the net transactions are positive), then the fund uses the offer price.

Depending on the above, the transaction costs can in some cases be negative which results in a small "gain" as a result of trading.

New guidance and rules for investment managers on how to calculate and disclose transaction costs were introduced from 3 January 2018.

The below table has been prepared in accordance with statutory guidance and shows the level of charges and transaction costs applicable for each DC investment fund and the component funds of the default Lifestyle investment for the 12 months to 31 March 2019.

Individual self-select funds	Asset class	Total member borne deductions	
		Annual Management Charge plus additional expenses % p.a.*	Transaction costs % p.a. +
Growth Focus Fund	Equities	0.095	0.045
Balance Focus Fund	Diversified	0.19	-0.05
Pre-Retirement Inflation-linked Fund	Fixed income	0.08	0.01
Pre-Retirement Fund	Fixed income	0.08	0.02
Property Fund	Property	0.57	-0.21
Cash Fund	Cash	0.07	0.00

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Funds used within the Lifestyle strategies	Asset class	Total member borne deductions	
		Annual Management Charge plus additional expenses % p.a.*	Transaction costs % p.a. +
Balance Focus Fund	Diversified	0.19	-0.05
Cash Fund	Cash	0.07	0.00
Pre-Retirement Fund	Fixed Income	0.08	0.02

* The total member deductions include the Annual Management Charge (AMC) from the investment manager and additional expenses incur in the operation of investment funds such as custodian fees, auditing/accounting fees, and regulatory charges

+ Transaction costs: the fund managers' expenses from buying, selling, lending or borrowing investments. These costs are taken into account using the unit price for each of the funds.

£ and pence illustration

To show the cumulative effect of charges and transaction costs over time, a '£ and pence' illustration example is provided with this Chair's statement. We have used four sample members, including one active member and three deferred members, to show the cumulative effect over the period to normal retirement age of the charges and transaction costs on the value of a range of realistic and representative funds, pot sizes and contribution rates. A brief summary of the illustration is shown below with more detailed information contained in the appendix to this statement. This is supplemented by the notes below the tables.

Example Deferred Member	Years	Income Lifestyle (default)		Cash Lifestyle		Balance Focus Fund		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member	1	£1,015	£1,014	£1,015	£1,014	£1,015	£1,014	£993	£992	£985	£984
	39	£1,602	£1,521	£1,594	£1,514	£1,787	£1,694	£746	£717	£555	£539
Average member	1	£35,525	£35,476	£35,525	£35,476	£35,525	£35,476	£34,738	£34,703	£34,475	£34,451
	21	£42,879	£41,735	£42,665	£41,552	£47,847	£46,480	£29,882	£29,256	£25,482	£25,104
Approaching retirement	1	£24,910	£24,884	£24,903	£24,879	£25,375	£25,340	£24,813	£24,788	£24,625	£24,608
	2	£24,761	£24,710	£24,753	£24,707	£25,756	£25,685	£24,626	£24,577	£24,256	£24,221

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Example Active Member	Years	Income Lifestyle (default)		Cash Lifestyle		Balance Focus Fund		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Average member	1	£47,690	£47,626	£47,690	£47,626	£47,690	£47,626	£46,655	£46,609	£46,310	£46,278
	20	£96,788	£94,878	£96,360	£94,512	£107,201	£104,883	£75,844	£74,709	£67,781	£67,080

Notes:

A full list of the assumptions used in these illustrations is provided in the appendix. The example members are as follows:

Example deferred members

- Youngest: age 26, starting account size: £1,000.
- Average: age 44, starting account size: £35,000.
- Approaching retirement: age 58, starting account size: £25,000

Example active member

- Average: age 45, starting contribution: £2,000, starting account size: £45,000.

Administration and core financial transactions

The Scheme's administration is handled by JLT Benefit Solutions Limited (JLT). The Trustees have in place a service level agreement (SLA) with JLT that sets out the services provided, the respective roles and responsibilities and expected performance targets of the administrator. This SLA was reviewed in the Scheme year. The SLA covers the administration and core financial transactions such as collection and reconciliation of contributions, remittance of contributions to the investment manager, transfers in and out of the Scheme, retirements and deaths.

The Trustees receive regular reports to help them monitor that the SLA is being met:

- JLT provides quarterly administration reports and monthly scorecards.
- Santander's Central Pensions Unit helps the Trustees to check regularly the core financial transactions of the Scheme. This is done using quarterly reports prepared by JLT and six-monthly reports prepared by the Central Pensions Unit.

The reports include:

- The investment of contributions
- Transfer of assets into and out of the Scheme
- Fund switches and payments out of the Scheme

JLT run what is known as a 'straight through' processing platform to LGIM which speeds up the transaction process:

- JLT reviews the funds that come into the Trustees' account daily to identify and confirm that they have been received

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- Each payment is put into the relevant category
- Money that is moving between JLT and LGIM is monitored each day by the Financial Control team at JLT. They also run regular reconciliations with LGIM, which are audited
- Cash management monitoring is reviewed at executive level each month by JLT
- The controls around how financial transactions are processed are reviewed regularly by JLT. They are also checked each year by an external auditor, who then reports on their findings. The Trustees make available a copy of this report to members each year.

The Trustees consider that the Scheme's core financial transactions were processed quickly and accurately during the Scheme year and within the stated SLA. There are no specific issues to report in the Scheme year and JLT have met their legal obligations.

Additional Voluntary Contributions (AVCs) and top-up contributions

As part of the Scheme, there are a number of AVC arrangements that are linked to the defined benefit (DB) and defined contribution (DC) sections. There is also a top-up arrangement under the HMC Section.

The governance of the AVCs is covered in this statement.

In the 2016/2017 Scheme year, the Trustees made available as AVCs the same funds accessed by DC section members. This was in order to make the options available consistent for all members. As a result of these changes, there are now only three 'legacy' AVC providers (Equitable Life, Legal & General and Phoenix Life). The Trustees have agreed to keep these existing funds/providers because they had valuable guarantees that could be lost if the funds were taken out.

The Trustees reviewed the legacy AVCs in November 2018 and concluded that no changes should be made.

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Managing the Scheme

Trustee Knowledge and Understanding (TKU)

The combined knowledge and understanding of the Trustees, together with advice from the Trustees' advisers, enable them to properly exercise their trustee duties. This is verified through an annual self-assessment of the Trustee's effectiveness against agreed objectives, as well as through trustee meeting minutes, meeting packs and action logs. The annual self-assessment took place in July 2018

The Trustees have a strong TKU process in place which, together with advice available, enables them to exercise their functions. During the Scheme year, the Trustees made sure that they met the TKU requirements by:

- Completing the relevant modules on the Pensions Regulator's Trustee Toolkit and refresher training when updates are made
- Maintaining a working knowledge of the Scheme's governing documents (including their powers under the Scheme rules) and knowledge and understanding of applicable pensions/trust law and DC funding and investment principles. Trustees receive training and ongoing advice in these areas.
- Maintaining a working knowledge of Scheme's statement of investment principles through regular review each year or as often as changes to investment strategy or policy necessitate. The Trustees last reviewed and approved the A&L DC Section SIP in August and September 2019.
- Attending training sessions with the Scheme's advisers. In the Scheme year the DC Committee received DC specific training on the potential impact of Brexit, the new transaction cost disclosure information contained in this statement and the new bulk transfer regulations.
- The advisers keeping the Trustees up to date on market, regulatory and legislative developments at DC Committee meetings, including quarterly updates on areas that will affect the Scheme

All the training received is recorded in a training log.

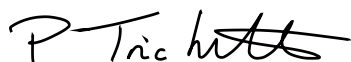
New Trustee Directors receive induction training on their appointment. In the Scheme year a new Trustee attended a Trustee Foundation Course provided by the Scheme's legal advisers.

Roles of the Trustees' sub-committees

The Trustees are responsible for the overall running of the DC arrangements, but a lot of the day-to-day work is carried out by two sub-committees. These sub-committees monitor the arrangements and report back to the Trustees. The sub-committees are:

- **The Operations Committee** which monitors administration performance and receives regular reports from JLT.
- **The Defined Contribution (DC) Committee**, which manages the business plan for all the DC arrangements and is responsible for the delivery of the plan. The DC Committee confirmed that they are on track and that all financial transactions were made on time during the Scheme year.

The DC Committee reviewed its own performance and effectiveness in May 2018 by reference to the DC Governance Plan it has established to help monitor the DC arrangements. It concluded that the committee was operating well and benefited from the support of other sub committees.



Paul Trickett

Signed by the Chairman on behalf of Santander (UK) Group Pension Scheme Trustees Limited.

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Appendix - £ and pence illustration in detail

We have used four sample members, including one active member and three deferred members, to show the cumulative effect over the period to normal retirement age of the charges and transaction costs on the value of a range of realistic and representative funds, pot sizes and contribution rates. The illustrations are explained in the notes below the tables.

Example Deferred Member	Years	Income Lifestyle (default)		Cash Lifestyle		Balance Focus Fund		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member	1	£1,015	£1,014	£1,015	£1,014	£1,015	£1,014	£993	£992	£985	£984
	3	£1,046	£1,041	£1,046	£1,041	£1,046	£1,041	£978	£975	£956	£954
	5	£1,077	£1,070	£1,077	£1,070	£1,077	£1,070	£963	£958	£927	£924
	10	£1,161	£1,145	£1,161	£1,145	£1,161	£1,145	£927	£918	£860	£854
	15	£1,250	£1,225	£1,250	£1,225	£1,250	£1,225	£893	£880	£797	£789
	20	£1,347	£1,310	£1,347	£1,310	£1,347	£1,310	£860	£843	£739	£729
	25	£1,451	£1,402	£1,451	£1,402	£1,451	£1,402	£828	£808	£685	£673
	30	£1,560	£1,497	£1,560	£1,497	£1,563	£1,500	£798	£774	£635	£622
	35	£1,618	£1,543	£1,612	£1,537	£1,684	£1,604	£768	£742	£589	£575
	39	£1,602	£1,521	£1,594	£1,514	£1,787	£1,694	£746	£717	£555	£539
Average member	1	£35,525	£35,476	£35,525	£35,476	£35,525	£35,476	£34,738	£34,703	£34,475	£34,451
	3	£36,599	£36,448	£36,599	£36,448	£36,599	£36,448	£34,218	£34,115	£33,449	£33,377
	5	£37,705	£37,446	£37,705	£37,446	£37,705	£37,446	£33,707	£33,538	£32,453	£32,337
	10	£40,619	£40,062	£40,619	£40,062	£40,619	£40,062	£32,462	£32,136	£30,091	£29,877
	15	£42,949	£42,081	£42,859	£42,000	£43,758	£42,861	£31,263	£30,793	£27,900	£27,605
	20	£43,138	£42,028	£42,923	£41,841	£47,140	£45,856	£30,108	£29,507	£25,870	£25,505
	21	£42,879	£41,735	£42,665	£41,552	£47,847	£46,480	£29,882	£29,256	£25,482	£25,104
Approaching retirement	1	£24,910	£24,884	£24,903	£24,879	£25,375	£25,340	£24,813	£24,788	£24,625	£24,608
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Example Active Member	Years	Income Lifestyle (default)		Cash Lifestyle		Balance Focus Fund		Pre-Retirement Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
Average member	1	£47,690	£47,626	£47,690	£47,626	£47,690	£47,626	£46,655	£46,609	£46,310	£46,278
	3	£53,191	£52,984	£53,191	£52,984	£53,191	£52,984	£49,928	£49,786	£48,871	£48,773
	5	£58,859	£58,490	£58,859	£58,490	£58,859	£58,490	£53,152	£52,909	£51,356	£51,191
	10	£73,790	£72,922	£73,790	£72,922	£73,790	£72,922	£61,002	£60,488	£57,250	£56,911
	15	£87,492	£86,061	£87,231	£85,823	£89,874	£88,363	£68,563	£67,750	£62,714	£62,197
	20	£96,788	£94,878	£96,360	£94,512	£107,201	£104,883	£75,844	£74,709	£67,781	£67,080

Notes:

- Projected pension account values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Contributions for the example active member are assumed to increase in line with the inflation assumption and are assumed to be made halfway through the year.
- Investment returns, charges and costs, as a percentage reduction per annum, are assumed to be deducted at the end of the year.
- Inflation is assumed to be 2.5% each year.
- The values shown are for illustrative purposes only and are not guaranteed.
- The real gross projected annual growth rates for each fund are as follow:
 - Income Lifestyle (default) – from -0.60% to 1.50% (adjusted depending on term to retirement)
 - Cash Lifestyle – from -0.60% to 1.50% (adjusted depending on term to retirement)
 - Balance Focus Fund – 1.50%
 - Pre-Retirement Fund – -0.75%
 - Cash Fund – -1.50%
- Transactions costs and other charges have been provided by Legal & General Investment Management and covered the year to 31 March 2019.
- Example deferred members
 - Youngest: age 26, normal retirement age 65, starting account size: £1,000.
 - Average: age 44, normal retirement age 65, starting account size: £35,000.
 - Approaching retirement: age 58, normal retirement age 60, starting account size: £25,000
- Example active member
 - Average: age 45, normal retirement age 65, starting contribution: £2,000, starting account size: £45,000.
- The illustrations take account of the Statutory Guidance issued by the Department for Work and Pensions