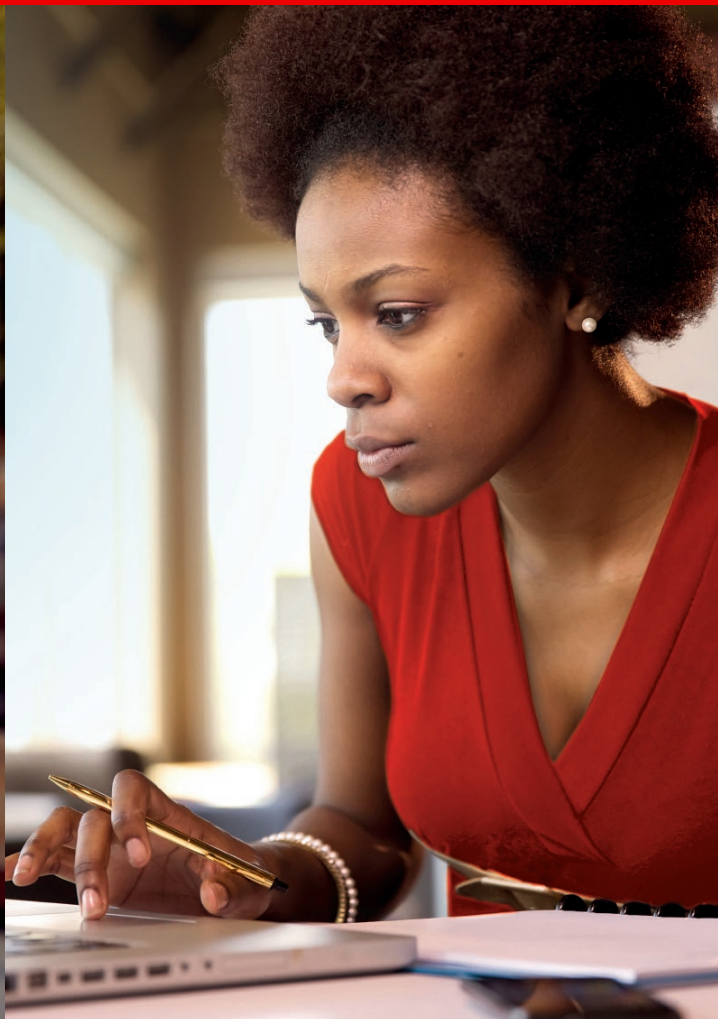




Strategic Report 2020

Becoming a digital bank with a human touch



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.

About this report

The Strategic Report outlines the key elements of the Annual Report and provides context for the related financial statements. It is also designed to help members of the company assess how the Directors have performed their duty under section 172 of the Companies Act 2006. The report highlights key financial and non-financial metrics which help to explain our performance over the past year. It also highlights the external environmental factors affecting the business along with Santander UK's position in the UK banking market.

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

By order of the Board.

William Vereker
Chair, 2 March 2021

Important information for readers

Santander UK Group Holdings plc (the Company) and its subsidiaries (collectively Santander UK or the Santander UK group) operate primarily in the UK, and are part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Santander UK plc and Santander Financial Services plc are regulated by the UK Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Certain other companies within the Santander UK group are regulated by the FCA and the PRA. This report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements of the Santander Group Holdings plc 2020 Annual Report (2020 Annual Report).

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

The Company's Corporate Governance and Risk Frameworks have been adopted by its subsidiaries to ensure consistency of application. As a result, the review of the business and principal risks and uncertainties facing the Company, and the description of the Company's Corporate Governance, including the activities of the Board and risk management arrangements, are integrated with those of Santander UK plc and are reported in this document, and in the 2019 Annual Report, as operating within the Company for all periods presented.

2020 highlights



£5.1bn
Customer loan growth
(2019: £5.4bn)



1.63%
Adj. Banking Net Interest Margin
(2019: 1.64%)



£13.9bn
Customer deposit growth
(2019: £5.7bn)



59%
Adj. cost-to-income ratio
(2019: 59%)



£552m
Profit before tax
(2019: £981m)



31bps
Cost of risk
(2019: 11bps)



£710m
Adj. profit before tax
(2019: £1,300m)



15.2%
CET1 capital ratio
(2019: 14.3%)



6.3m
Digital customers
(2019: 5.8m)



64%
mortgage loans refinanced online
(2019: 60%)

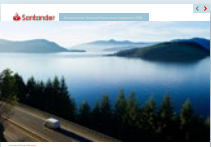


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C-19
Throughout the report look out for this symbol for Covid-19 stories

Our reporting suite



ESG Supplement
To read more visit santandersustainability.co.uk



Sustainability microsite
To read more, visit santandersustainability.co.uk



Gender Pay Gap Report
To read more, visit santanderjobs.co.uk



Financial reports and presentations
To read more, visit santander.co.uk/about-santander/investor-relations


Access the full reporting suite at santander.co.uk

Santander UK
at a glance

We are uniquely placed as a leading scale challenger bank.

Our business model focuses on customer loyalty in our core business franchise.

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



14 million
active UK customers



c22,000
Full time equivalent employees



564
branches



3rd
largest retail mortgage provider⁽¹⁾



Top 5
largest current account provider⁽²⁾



5th
largest commercial lender⁽¹⁾

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

Santander UK is a large customer-focused bank and possesses the scale and breadth of proposition to challenge the big four UK banks. We serve our customers through digital channels, alongside a network of branches.

We play an important role in the UK economy and in the communities in which we operate. We help people purchase their home and save for the future, and support business growth. We employ 21,900 people and we paid £161m of corporation tax and £74m through the UK Bank Levy in 2020.

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

We operate through three customer business segments, supported by central functions

Retail Banking
Offers a wide range of products and financial services to individuals and small businesses through a network of branches and ATMs, as well as through telephony, digital and intermediary channels. It includes business banking customers, small businesses with an annual turnover up to £2m, and Santander Consumer Finance, predominantly a vehicle finance business.

Corporate & Commercial Banking
Offers a wide range of financial services and solutions to more complex businesses across multiple sectors, typically with annual turnovers of between £2m and £500m. Our service is provided by relationship managers and product specialists who cover clients' UK and overseas needs.

Corporate & Investment Banking⁽³⁾
Offers specially tailored solutions and value-added services to corporate clients with an annual turnover of over £500m. We provide products to manage currency fluctuations and protect against interest rate risk and also arrange capital markets finance and specialist trade finance solutions.

Corporate Centre
Mainly includes Treasury, which is responsible for capital, funding, liquidity, pensions and balance sheet management. It also includes our Jersey and Isle of Man businesses as well as our non-core corporate and legacy portfolios.

(1) Santander UK industry analysis of latest available bank and building society reports. Mortgage provider: UK mortgage stock, Retail Banking divisions. Commercial lender: UK commercial lending stock, Corporate and/or Commercial Banking divisions (excludes investment banking).

(2) CACI's CSDB, Current Account Stock, Volume, November 2020.

(3) Subject to court approval, we are proposing to transfer substantially all of the CIB business to the London Branch of Banco Santander, S.A. in H221 by way of a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

Our stakeholders



We live our values of **Simple, Personal and Fair** through great behaviours and our people leaders:

Great Behaviours:



Embrace Change



Show Respect



Talk Straight



Keep Promises



Bring Passion



Actively Collaborate



Give Support



Speak Up



Truly Listen

Our People Leaders:



Being open and inclusive



Encouraging the team to prosper



Leading by example

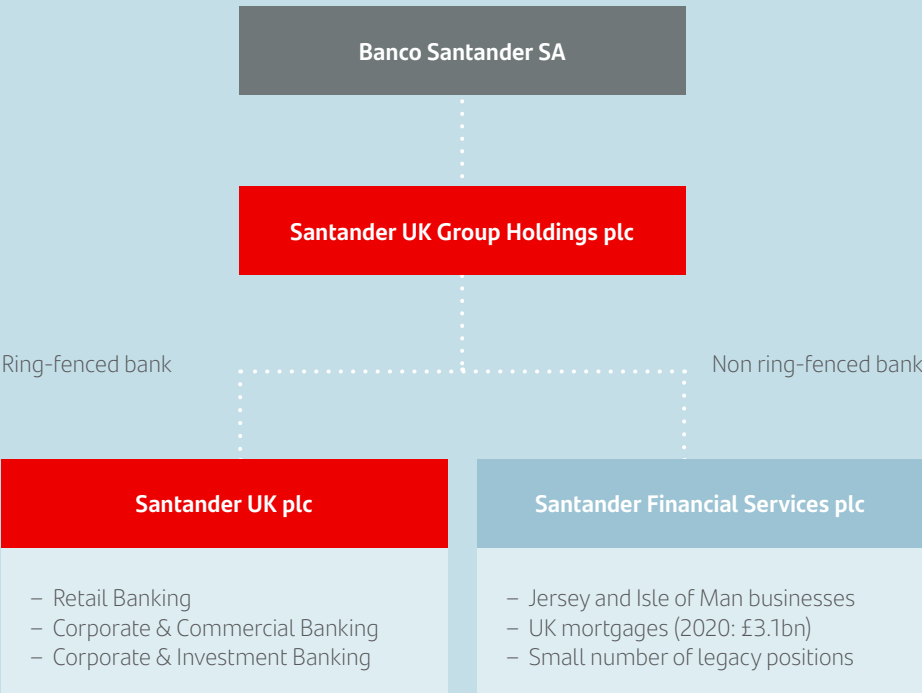


Inspiring and executing transformation



Operational response

We are an autonomous subsidiary which benefits from being an integral part of a global banking group



We implemented a number of operational changes to ensure the safety of our customers and our people and to continue to provide essential services to the UK.

- 

Branch staff supported call centre colleagues by taking 246,000 core retail customer calls.
- 

Branches largely open during lockdown to provide essential banking services.
- 

Back office systems and processes rapidly updated to enable payment holidays and government lending schemes
- 

90% head office staff enabled to work safely and flexibly from home

Chair's statement



William Vereker

I am proud of the commitment our people have shown in 2020 and am excited by the opportunities for us to continue to support our customers and communities in the future.

Introduction

The UK economy, banking sector and Santander UK have faced unprecedented challenges in 2020. Our business and our people have risen to those challenges and have been able to adapt and deliver for our customers throughout the year. I am proud to have joined Santander UK and am looking forward to the opportunities ahead. The technological changes accelerated over the last year will enable more rapid transformation of our business allowing us to serve our customers better. Our business has performed well throughout the year and as a core part of one of the largest financial services groups we have the opportunity to work more closely together across the group and work more efficiently as a business.

Our Covid-19 response

Since the onset of the Covid-19 pandemic, Nathan Bostock, our CEO and his leadership team, supported by the extraordinary hard work and commitment of all our colleagues, have done an amazing job in adapting to the fast and unprecedented changes in our operating environment and in all our lives while continuing to support our customers. Within a week of the first national lockdown, over 16,000 of our colleagues were enabled to work from home safely and productively, an increase of more than ten times pre pandemic levels and while managing through substantial operational and personal challenges for everyone involved.

Our main focus has been on providing vital support to our customers, colleagues and communities during these incredibly challenging times. We have supported

thousands of people and businesses with a range of measures, including over 373,000 payment holidays, and granted £4.6bn through Government loan schemes, which were rolled out to customers very quickly, a huge effort of which I am very proud. I would like to pay tribute to all our colleagues for their dedication and hard work in 2020.

Delivering on our strategy

We continued to deliver on our strategy, with a focus on our customers, simplification, improved efficiency and sustainable growth.

In 2020, we grew our mortgage lending by £4.4bn, despite the market being effectively closed in the second quarter of 2020. We also supported over 150,000 of our business and corporate customers via various Government backed support schemes, more than a 20 fold increase in customer volumes, all accomplished in a matter of a few short weeks. We did all this with our usual prudent approach to risk and while maintaining exceptionally strong capital and liquidity, both significantly above regulatory requirements.

Covid-19 materially impacted our 2020 results, with profit before tax down 44% to £552m. The main driver of the decline was the increase in credit impairment losses to £645m, up from £220m in 2019, driven by Covid-19 related provision for expected credit losses, as a result of the impact on many small and medium businesses all over the UK. The decisive actions we have taken have helped to deliver a very resilient performance, with notable income recovery through the second half of the year. Our net

interest margin improved significantly during the year as a result of actions that were taken on current account pricing.

Our strategic priorities remain aligned to Banco Santander's One Europe strategy, and this year we also welcomed António Simões as the Regional Head of Europe. I, and the rest of my UK based colleagues, look forward to working more closely with him, and his One Europe team, taking advantage of the further opportunities and synergies from being one of Europe's largest financial services groups.

Transforming for Success

We maintained focus on our multi-year transformation programme, to make us simpler and more efficient as we reshape the bank to support our customers better. Two years into the programme, we have invested £332m and realised £244m of savings.

The speed of change during the Covid-19 crisis has been extraordinary and transformed the way we operate. During 2020, customer engagement through contact centres and digital channels increased sharply, with digital financial transactions up 18% over the year. Branch counter transactions reduced by 18% and branch ATM transactions reduced by 55%. However, the role of the Branch evolved, with Voice in Branch (introduced in May 2020) receiving over 100,000 calls during December 2020. To facilitate this, branch staff were trained to respond to core Retail Banking calls and as at 31 December 2020, 14% of incoming customer calls were taken by branch staff to support their colleagues in call centres.

Another area of significant focus for us has been financial or economic crime. We continued to make significant investment in enhancements to our control framework, as well as key controls such as anti-bribery and corruption measures, customer risk assessment, screen and transaction monitoring.

The pace of change in banking has accelerated in 2020, and I am confident that we have the right strategy and the team to continue to adapt our business to meet the rapidly changing needs of our customers.

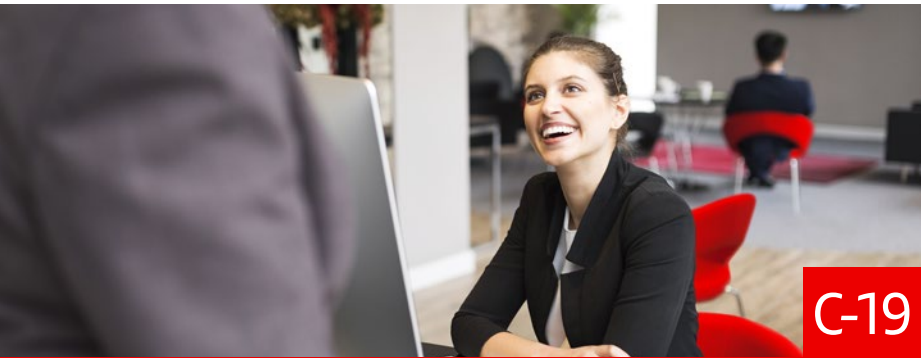
Board changes

As I begin my tenure as Chair I would like to pay tribute to Shriti Vadera for her sure-footed stewardship of the Company and leadership of the Board since her appointment in 2015. Santander UK has benefited from her guidance and I have greatly appreciated her sound advice and support in the handover of the Chair's duties. I would also like to thank Scott Wheway who stepped down from the Board at the end of September 2020 after being on the Board since October 2013. Scott had been the Senior Independent Director since May 2015 and the Board has benefited greatly from his advice. In August 2020 Gerry Byrne, a Banco Santander nominated Non-Executive Director of Santander UK plc stepped down from the Santander UK plc Board after serving since December 2017. The Board appreciated his contribution during his tenure.

We were delighted to welcome Tony Prestedge to the Board of Santander UK plc as a Deputy CEO and an Executive Director in December 2020. Tony has an outstanding track record of delivering complex transformation programmes to meet the changing needs of customers and he will be a real asset to the business. We also welcomed Mark Lewis to the Board of Santander UK plc in December 2020 as an Independent Non-Executive Director. Mark is the former CEO of Moneysupermarket.com Group plc and his experience in consumer digital businesses and leading recent digital change will enable him to make a crucial contribution to the Board.

Board focus for 2021

Although much of the Board time in 2020 has been focused on our response to the Covid-19 pandemic and preparation for the end of the Brexit transition period, we also continued



C-19

Supporting our customers through a crisis

The commitment of our people during the Covid-19 pandemic meant that we were able to continue to serve our customers when they most needed our support

	373,000 Payment holidays provided
	£4.6bn Government backed business loans granted
	82,000 Vulnerable customers contacted to offer support
	£20m Overdraft fees and interest waived

with our transformation programme to better serve our customers. This will continue to be our focus in 2021, alongside refining our strategic priorities to embed New Ways of Working as part of our evolved customer and employee proposition.

The Board recognises that we have an important role to play not just in our economy but in promoting sustainability and diversity. Our culture of Simple, Personal and Fair places fair treatment at the heart of everything we do, underpinned by our well established nine behaviours. We will continue to ensure that our culture supports the delivery of the transformation objectives and our purpose to help people and business prosper.

Finally, being part of the Banco Santander group, will provide opportunities for us to find even more ways to benefit our customers and grow the business sustainably and responsibly.

Thank you and looking forward

I am incredibly impressed and humbled by the lengths our colleagues have gone to in support of our customers and communities,

and I want to personally thank them for their enormous dedication and effort during this time.

The start of 2021 is looking challenging, but I am confident in the resilience of our business and the commitment of our colleagues to continue to achieve our transformation, whilst supporting our customers and ensuring the right outcomes for all.

I am also very excited about the future, the opportunity for Santander UK and how we can continue to play a key role in the UK economy in supporting our customers.

William Vereker
Chair, 2 March 2021

Responding to the Covid-19 crisis

The Covid-19 crisis has been a huge challenge for all of us and our top priority throughout has been the welfare of our people, our customers and the communities in which we operate. The crisis has also had a material impact on our business operations and our financial results.

Despite these challenges we have continued to play an active role in supporting our stakeholders and the wider UK economy.

People

Covid-19 has had a significant impact on our people as well as how and where they work. They put in a huge effort to quickly adapt to substantial operational changes to provide essential banking services for our customers.

Around 90% of non-branch staff worked from home during 2020. From our engagement surveys we know that the majority of our people appreciate

the flexibility of working from home but miss social interaction at the office. We intend to take this into account when we begin a phased safe return to offices.

We are acutely aware of the personal and professional stress our people have been under. To help them deal with these, we implemented a range of support measures and wellbeing events.

For more see page 29

Customers

We understand how hard it has been for our customers and we have supported half a million people and businesses with a range of measures. These included payment holidays, waived fees, reduced interest payments and lending through Government guaranteed loan schemes which were rolled out to customers very quickly.

During lockdown, we necessarily restricted opening times and transactions in branches but did our utmost to continue to provide important banking services face to face, especially for our more vulnerable customers. Customer engagement through contact centres and digital channels increased sharply which we supported through reassignment of branch staff.

For more see page 31

Communities

Older people and those affected by dementia have been disproportionately impacted by Covid-19 and so we donated £1.5m to each of our charity partners, Age UK and Alzheimer's Society, to enable them to increase capacity in their contact centres and online services.

In addition, more than 2,500 of our colleagues volunteered in the Santander 'QuaranTea' telephone call campaign

to support the most vulnerable and isolated people during the pandemic, working alongside Alzheimer's Society and Age UK.

We also contributed over £5m to university initiatives, which included a £300k donation to Oxford UCL and Imperial College to support Covid-19 research and vaccine development.

For more see page 36

Shareholders

Like all banks, we have taken significant provisions against future credit losses as we anticipate the likely impact the Covid-19 crisis will have on our customers' ability to repay their loans to us.

Despite this we remained in profit for each quarter of 2020 while continuing to build resilience in the form of higher capital and liquidity.

Following PRA guidance in early 2020, we temporarily suspended ordinary dividend payments. Following further guidance, an interim dividend of £103m for 2020 was paid in December 2020.

In response to continuing pressure on our earnings, we have taken actions to mitigate some of the impact, including deposit repricing and an ongoing focus on our transformation programme.

For more see page 33

[Read more](#)

The Covid-19 crisis has impacted all areas of our business and so is discussed in multiple locations throughout this report. We have also highlighted discrete Covid-19 related information in the following sections which can be identified by the C-19 indicator above.


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Market overview

Five major forces continue to shape the UK banking market




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C-19

Changing customer behaviour

Strong market competition

Rapid technological change

Demanding regulatory agenda

Uncertain economic environment

UK government and regulatory authorities response

The response by the UK government and regulatory authorities was unprecedented, with a wide range of fiscal, monetary and regulatory measures implemented. These measures included:

For consumers

- Loan payment holidays
- Interest and fee waivers on banking products
- Stamp duty waived for house purchases

For businesses

- Coronavirus Job Retention Scheme (CJRS) to pay wages for employees who cannot work due to Covid-19
- Lending schemes for business with government guarantees for lenders, most notably the Bounce Back Loan Scheme (BBLs)
- Business rates relief

For the economy

- Bank rate reduced 65bps to 0.10% from 0.75%
- Cheap funding for banks to support lending through the Term Funding SME scheme

For banking market resilience

- Reduced bank capital buffers
- Ordinary dividends and executive bonuses suspended

3.7 million users

Exclusively using mobile app (2019: 3.1 million)

What we have seen

The change in customer behaviour accelerated in 2020 as the move away from traditional in-branch banking towards online services stepped up as a result of the Covid-19 pandemic.

As essential services, bank branches remained largely open throughout the lockdowns but, despite this, more customers used remote channels such as digital and telephone banking services.

Digital banks have gained some traction in 2020 attracting more than their market share of current account switchers in the UK. Younger customers in particular put a greater emphasis on better digital tools, convenience, and a simpler purchasing process, characteristics often associated with digital-only banks.

Our response and looking ahead

During 2020, customer engagement through contact centres and digital channels increased sharply, with digital financial transactions up 18% over the year. Branch counter transactions reduced by 18% and branch ATM transactions reduced by 55%. In response, we adapted our operating model to meet the changing needs of our customers and to increase remote banking capacity.

During the lockdown period we trained branch staff to be redeployed to online chat and telephone services. We also moved many services online, such as the ability for our customers to request a payment holiday on a mortgage.

New digital banks

In January 2021, two new entrants announced plans for UK launch

What we have seen

While the UK banking sector remains very competitive, customer rates have fallen in both lending and deposits in 2020. Mortgage rates increased in the second half of 2020 as demand recovered strongly following the Covid-19 lockdown and the temporary reduced rates of stamp duty for house purchases. However, although new business margins have improved they still tend to be below back book levels, and competition could increase as demand eases in 2021.

In recent years, some retail banks have exited mortgages or ceased new mortgage lending. In particular, several non-banks who diversified into financial services in recent years announced plans to divest and have put their books up for sale.

Our response and looking ahead

In line with the market, we increased mortgage lending rates as we managed our risk appetite and new lending flow. We also repriced our 11213 Current Account and change in benefits in light of the lower rate environment and competitor actions.

We expect our net mortgage lending to be in line with market growth, as we focus on quality customer service, retention and our comprehensive proposition for first-time buyers.

+18%

Increase in financial transactions carried out on Santander UK digital platforms⁽¹⁾

What we have seen

Technology continues to evolve rapidly across all areas of the financial services sector as people demand to be able to do more digitally. Over recent years the banking sector has evolved to offer more and more services that were once only possible to do in a branch, online or through apps.

Over recent years, new challenger banks entered the UK banking sector, disrupting the market with innovative propositions and competitive pricing to grow their business. This has helped to further influence customers' expectations of digital banking interactions in particular.

While the Covid-19 crisis highlighted the need for banks to offer essential services remotely, it has also reinforced that a high street presence has a part to play.

Our response and looking ahead

We have continued to invest heavily in improving our digital platforms to ensure our customers have a reliable, innovative and full banking service. By focusing on the customer experience, we have been able to reduce duplication from back office processes and streamline customer outcomes.

During lockdown, having branches available for small teams to work from has been a real benefit. They have provided flexibility and technology has enabled them to support both their contact centre colleagues as well as our customers.

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Regulatory initiatives introduced by regulators in 2020

What we have seen

Despite the initial pause at the onset of Covid-19 pandemic, the regulatory policy and change agenda became intense heading into year-end. This was driven by the regulators continued guidance on Covid-19 financial support measures, preparation for Brexit, innovation and technological developments, and beginning the design process for the post-Brexit regulatory landscape.

Covid-19 guidance implementation at short notice put a considerable strain on technology and operations as well as programme management resources. Alongside this, there was a significant increase in the volume and frequency of supervisory information and data requests. Significant business line, Risk, Finance, Compliance, and Regulatory Affairs resources were dedicated through the year to deliver these.

Our response and looking ahead

The Government is undertaking a series of reviews of the Financial Services sector, looking at the future regulatory framework in the UK, the regulatory regime for overseas firms coming into the UK, the UK Funds regime, Ringfencing, and the UK Listings rules among others.

We are proactively engaging with the regulators, government, and industry trade associations on these and other significant policy initiatives, including a 2021 focus on Operational Resilience and Climate Risk Stress Testing, on-shored CRR II, and possibly the Basel 3.1 package of capital framework reforms.

-3% to 6%

Range of HM Treasury consensus for 2021 growth in annual GDP⁽²⁾

What we have seen

The UK economy, along with other global economies, experienced a significant downturn in 2020. As the Covid-19 pandemic unfolded, a number of regional and national lockdowns were announced to control the virus and reduce pressure on the NHS. During lockdown, non-essential businesses, schools and workplaces were closed and economic activity and consumer spending fell dramatically as a consequence. Alongside the uncertainty caused by the Covid-19 crisis there was also increased focus on preparation for the end of the Brexit transition period.

In response, the UK government implemented a range of support programmes to protect jobs and help businesses survive and eventually support economic recovery.

The Bank of England reduced the bank rate twice in March 2020, from 0.75% to 0.25% and then down to 0.10%, the lowest interest rate the UK has ever seen.

Our response and looking ahead

At Santander UK, we implemented a number of support measures, including offering payment holidays for business and retail customers, along with participating in various government lending schemes for businesses.

Securing a Brexit deal has provided some welcome certainty and the chance to consider the opportunities inside the EU under the new arrangements, and new markets which we can support through our overseas links to the Banco Santander group.

8

Santander UK Group Holdings plc

(1) 2020 compared to 2019

(2) HM Treasury Forecasts for the UK economy: a comparison of independent forecasts January 2021.

Santander UK Group Holdings plc

9

CEO review



Nathan Bostock

To say 2020 has been a challenge for our customers, our colleagues and the economy would be an understatement. In the space of several weeks, the Covid-19 pandemic completely changed how we live our lives and how we work.

In previous years, I would use this space to review the last twelve months and reflect upon our successes, opportunities and challenges, but looking back on 2020, that would not do justice to the impact the Covid-19 pandemic has had on all of us: from our customers and our colleagues to the wider economy.

We have all had to adapt

It has resulted in a fundamental change to how we live and work. It seems remarkable to think that just twelve months ago, we were still operating in what would be considered a normal environment. But since the first UK lockdown in March 2020, we have all had to adapt in ways that would seem unimaginable and I have been incredibly proud of how Santander UK has responded to that challenge. It has been a reminder of the role we play in the lives of our customers and how our purpose, to help people and business prosper, was never more important than in 2020. We have come together, to put in place the support and assistance needed for these unprecedented times. We also had to be there for our people – focusing on their safety and well being, helping them with new ways of working. And all of this at an unbelievable pace, with situations changing on a daily basis. Whilst it has underlined how important a service we are to our customers, especially in times of crisis and difficulties, it has highlighted the commitment of our colleagues, whether in branch, contact centres or the wider business, to provide that extra help and to go the extra mile to be there when we are needed.

Our commitment to sustainability became even more relevant during the Covid-19 pandemic, not only in how we supported our stakeholders, but in our longer-term response. The pandemic reinforces the need to build more sustainable and resilient systems, to 'build back better', and we want to be part of that.

The pandemic has presented the financial sector with an opportunity to rebuild trust with our customers, and to show that we understand the difficulties they're facing, but importantly, that we can also provide the right help and support.

We had to act and to act swiftly

For our business customers, those difficulties have been stark and immediate. Almost overnight, viable, thriving businesses and their local economies were having to face up to a very different and uncertain future. Our customers were understandably looking to us and we had to act, and act swiftly. Working alongside government and regulators a series of support programmes were put in place in a matter of days, providing businesses with essential capital to help them navigate months of uncertainty. The impact has been real, with businesses telling us they have faced cash flow issues, reduced sales, decreased revenues, declining orders and for those reliant on physical customer engagement, such as retail, hospitality and leisure, the results are more acute still. SMEs faced particular challenges, and we went beyond traditional banking support with our 'Survive and Revive' initiative, offering resources and trading support to small businesses through the crisis.

Given the sheer scale of the issues facing our customers and the economy, it was understandable that the government wanted to provide real financial help, and the best means of doing so was through the banking sector. We had the means of delivering that liquidity direct to the businesses that needed it and I am extremely proud of not only our response, but that of the banking sector as a whole, where we worked with HM Treasury to put this ambitious support package into action. The numbers are incredible. In a matter of months, we granted £4.6bn of Government-backed loans to over 150,000 customers: £4.0bn through the Bounce Back Loan Scheme, £0.4bn via the Coronavirus Business Interruption Loan Scheme and £0.2bn through the Coronavirus Large Business Interruption Loan Scheme. This enabled businesses to survive and to become Covid-secure or to evolve their business to meet their customers' different needs and expectations.

It is clear that, despite the approved vaccines and their roll out, a form of normality is still some distance away, so we must remain ready to help in whatever way we can.

Straightening our relationship with our customers

Our response to the pandemic has helped strengthen and deepen our relationship with many of our business customers, and I believe the same can be said for our retail customers. Their issues are different, but no less important. Many find themselves in positions of real insecurity for the first time in their lives. So we acted quickly to offer practical support via a payments holiday

package across mortgages, unsecured personal loans and credit cards. Of the 373,000 payment holidays we provided, 251,000 of our mortgage customers benefited from a 3-6 month mortgage payment deferral. This helped reassure customers who found themselves furloughed or suddenly out of work. But it was vital that we continued to provide access to our essential day-to-day services. At the height of the pandemic, our branch network and contact centres remained operational, prioritising access for our most vulnerable customers and those with urgent needs. Over 1,100 of our branch colleagues were trained to provide support for the contact centres or live chat when they were not serving customers in the branches. Today, our branch colleagues continue to provide these services during the third national lockdown.

Inevitably, the pandemic has accelerated changes in how our customers choose to bank with us. The pace of digital adoption across the economy has been a notable trend and we have seen the number of financial transactions carried out on our digital platforms reflect this with a 18% year-on-year increase. This included a 32% increase in current account digital openings as well as 64% of online mortgage retention.

In April 2020, we launched 'Reaching Out', an initiative focused on calling some of our potentially vulnerable older customers, who typically would have visited a branch and may not have access to online or mobile banking. We provided these calls from frontline colleagues through to November 2020, reaching over 82,000 customers to check on their wellbeing and provide support where needed.

A decade of change

The priority for myself and for my leadership team was to provide colleagues with the support they would need so they could provide the services our customers needed. For those in branches and in our offices, we put in place measures to make their workplace Covid-secure. It was vital people could come to work with confidence and I was extremely proud of how quickly we moved to adapt our premises, and the understanding and fortitude of colleagues who continued to keep our face-to-face services running. On the other side, we have seen a remarkable change in how the rest of the business operates. It is astonishing to think that in the space of a handful of months,



Supporting our people remains our top priority

I am immensely proud of the way in which my colleagues have responded to the pandemic

Day in, day out our colleagues' passion, resolve and support for each other has meant that we have been able to continue providing the best customer experience possible. I have been humbled by the humanity and kindness within our organisation, and the perseverance and resilience of our people continues to be a great source of pride and inspiration. Our key focus throughout the crisis has been to prioritise our colleagues'

wellbeing. Many of our colleagues are now entirely working from home for the first time, whereas others continue to come into their workplace under very different and challenging circumstances. We have responded to this with various measures to help our colleagues feel reassured and safe, continuously listening and responding to their needs.

The support we have provided each other has meant that we have been able to adapt to new ways of working and manage busy workloads to respond to the rapidly changing needs of our customers. We have embraced this change, collaborating across teams to break down silos and leverage technology to help us deliver crucial support to vulnerable people and a service that is second-to-none.

For more on how we are supporting our people see page 29

we enabled 90% of our head office colleagues to work remotely. A combination of utilising our digital infrastructure to give them the confidence to work effectively, and everyone's adaptability and resilience has meant we have been able to provide customers with the support they need. In the last ten months, we have seen ten years' worth of change in how we work.

Supporting our communities

We must, as a sector, take forward lessons learned from this crisis, so we can offer the best possible working environment with the right resource to enable real flexibility and responsiveness to the needs of individual colleagues.

Throughout the pandemic, we remained committed to supporting our communities up and down the country with our sustainability strategy. Charities and their community organisations have been severely affected so I wanted to note the work of the Santander Foundation who donated £3m to our charity partners Age UK and Alzheimer's Society. This donation enabled their contact centres and online services to increase capacity, and better serve those in need. Older people and those with dementia were disproportionately impacted by Covid-19, so the work of these charities is more important than ever.

CEO Review continued

I was proud that colleagues were keen to play their part and that is why we doubled the amount of time they could undertake volunteering activities at work to 70 hours, in order to support our charity partners, local community groups and the NHS volunteering appeal. Over 2,600 Santander UK employees volunteered with Age UK and Alzheimer’s Society to make phone calls to people who may be lonely or vulnerable, deliver shopping and become a ‘Dementia Friend’.

Through Santander Universities, we’ve provided £4.5m of funding to our 85 university partners to support the array of initiatives launched to contribute to the national effort to combat the outbreak of Covid-19. With the pandemic presenting many new challenges for students, universities and the local community, we announced we were both repurposing and providing additional funding to ensure immediate support to alleviate health and educational challenges caused by the crisis. We provided £300k to Oxford, UCL and Imperial College to support Covid-19 research and vaccine development. This supported a variety of initiatives including assisting universities who were providing additional protective equipment for NHS staff as well as supporting university emergency hardship funds which provide grants to students who require financial support for living costs or resources for the transition towards a digital learning environment. This included IT equipment and support, such as laptops and broadband connectivity, which would normally be accessed on campus, to ensure students were able to continue their studies.

CET1 capital ratio



UK leverage ratio



The funding also went towards offering vital support for student mental health and wellbeing during this challenging time. Covid-19 and Brexit understandably dominated the agenda throughout 2020, but this cannot be at the expense of our ongoing commitment to support the transition to a low-carbon economy and tackle climate change. We remain utterly committed to the objectives of the Paris Agreement and Banco Santander has participated in renewable energy finance deals totalling €32bn during 2010-19, making it one of largest financiers of renewables both globally and in the UK. Looking ahead, Banco Santander has committed to raise and facilitate €120bn by 2025, and €220bn by 2030, in green finance globally. During 2020 the Board and Executive Committee (ExCo) undertook a deep dive on climate change, with external expert support, and agreed to further increase our ambition to address the urgent need for climate action. There is always more to do and we are working hard to manage climate-related financial risks in our portfolio, support customers to transition by developing green products and services, and reduce the emissions within our operations and supply chain. However, we recognise this is only part of the solution. Supporting renewables must be complemented by a reduction in the carbon emissions across our wider lending portfolio which is why we have tightened our policies on lending to carbon-intensive sectors. As a result, we will not provide financial products or services to new coal-fired power plants worldwide, or oil and gas drilling projects north of the Arctic Circle.

Reflecting our customers and their experiences

The last twelve months serve to remind us that regardless of the challenges we face, we must continue to promote inclusion and diversity. There is no doubt that for us to serve our customers effectively, our workplace we must reflect our customers and their experiences. Throughout the summer we held a number of events in response to the Black Lives Matter movement, listening to colleagues’ experiences and looking at the ways in which we, as a leadership team, can support colleagues and accelerate the pace of change within the bank. In response to what colleagues have been telling us we have developed our Black Inclusion Plan which will seek to double our black more senior population by 2023 and launched a black talent and sponsorship

programme to improve career progression and social mobility. Our gender pay gap has continued to narrow as we implement our comprehensive action plan to improve gender representation across the organisation. Our mean average gender pay gap in 2020 was 29.3% a reduction of 0.5 percentage points year on year, while the median pay gap was 27.4%, a reduction of 0.8 percentage points year on year. We are focused on our Board and leadership gender diversity but know there is still more work to do.

Although Covid-19 materially impacted our results, with statutory profit before tax of £552m, down 44% year-on-year; the decisive actions we have taken have helped to deliver a very resilient performance despite the difficult environment. We have achieved strong lending growth, particularly in mortgages, grown customer deposits, delivered further efficiency savings and a notable improvement in income in the second half of the year. In 2020, 11213 Current Account repricing actions linked to bank rate reductions, led to a fall in the number of our loyal customers and retail NPS rank. Customer loyalty and NPS remain integral to our strategy and will be a key area of focus for management in 2021.

Supporting ‘OneEurope’

Thanks to the extraordinary hard work and commitment of my colleagues, we have been able to continue providing essential banking services throughout the pandemic, alongside tailored help to customers who are facing challenges.

Of course the ongoing pandemic is not the only challenge we face in 2021, as we embark upon a new relationship with the European Union that will have a considerable impact on how our business customers operate. Securing a deal has provided some welcome certainty and the chance to consider the opportunities inside the European Union under the new arrangements, and new markets.

Regardless of the deal, how customers trade with the European Union is changing and it will involve more friction, but our Corporate and Commercial Banking team has been advising our business customers about how they can prepare for these new rules and requirements and will continue to support them in these formative weeks. In this context, Banco Santander’s ‘OneEurope’ initiative could not be better

Transforming for Success programme - integral part of OneEurope strategy



£332m
Investment since end 2018

Banco Santander’s goal for OneEurope is to create a better bank where our customers and our people feel a deep connection with Santander while delivering sustainable value for shareholders.

We are building an even better bank that puts our customers at the heart of everything we do. This starts with understanding them better, so we build customer loyalty by giving them more reasons to join, stay with and recommend Santander.



£244m
Savings since end 2018

Santander UK is an integral part of this strategy and fully aligned purpose of wanting to help people and businesses prosper and to do it in a Simple, Personal and Fair way.

As part of the OneEurope family, we will continue to innovate and transform our businesses. To do this, we will work even harder and better with our European colleagues, as there is much more that unites us and our customers than what sets us apart.

timed. By working more closely with our colleagues in Spain, Portugal and Poland, we will be able to align ourselves more closely with our European colleagues and leverage their skills, knowledge and resources to the benefit of our customers. Taken alongside Banco Santander’s global footprint, we are able to offer our customers access to expertise that will help them grow their business opportunities in Europe and beyond. In turbulent times, we have benefited from having a senior leadership team with the experience to help us navigate our way.

So I would like to take this opportunity to thank our outgoing Chair of six years, Shriti Vadera. She has supported us through significant transformation and cultural change whilst her experience and insight has been invaluable. Our new Chair, William Vereker, brings a wealth of expertise both in the financial and political sectors and I look forward to working closely with him.

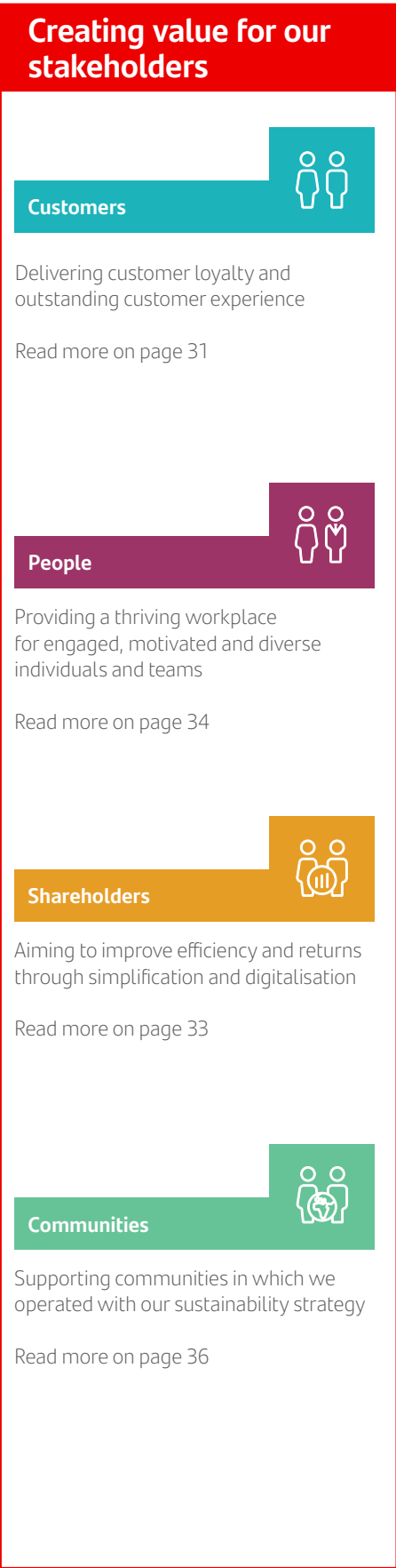
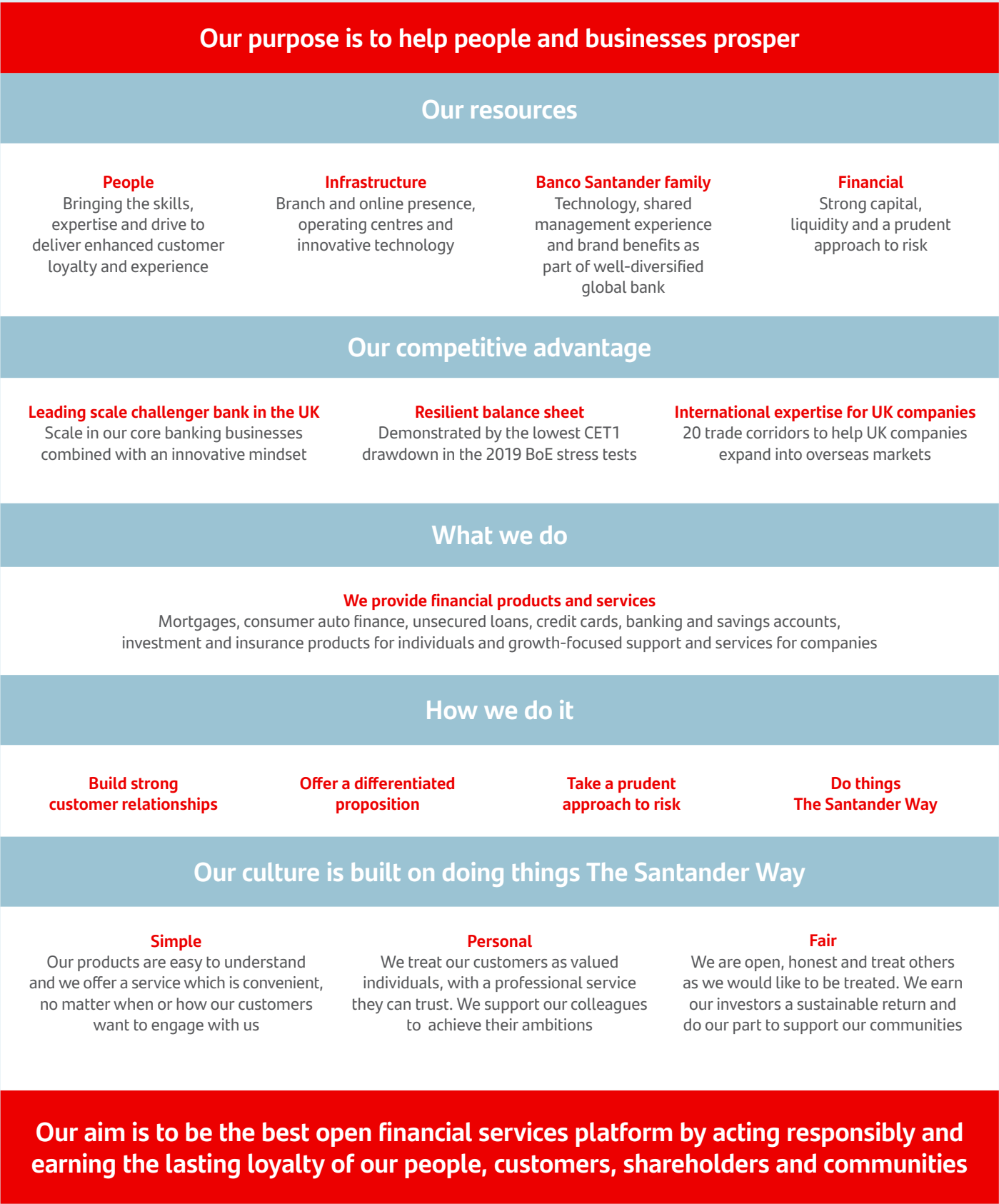
I also want to thank Vicky Wallis and Patricia Halliday for their contributions to Santander UK and the Executive Committee as they leave for new challenges and welcome Christine Palmer and Tony Prestedge as our Chief Risk Officer and new Deputy Chief Executive Officer of Santander UK plc, respectively. Tony brings with him wide experience from his time at Nationwide and Barclays and will help drive forward the continued transformation of the business as we continue to put digital at the heart of how we operate and push forward our change programme. We plan to use our experience from the last twelve months to make Santander UK the best place to work for colleagues and a beacon for new talent and innovators.

2020 has been a year unlike any I can remember, but I am proud of how we have responded, providing our customers with the help and support they have needed. I hope that 2021 will present our customers and businesses with the sort of change they can relish with new opportunities to prosper, knowing we will be with them every step of the way.

Nathan Bostock
Chief Executive Officer,

2 March 2021

Our business model



Applying Covid-19 learnings - New Ways of Working

During 2020 we all changed habits, we interacted differently, we shopped differently and we travelled less. Some of these changes are temporary but some will be more structural. The Covid-19 crisis also brought forward a digital change in our society and it will inevitably change how we operate, interact with customers, and how our employees will work going forward.

It is incredible to think that in the space of a handful of months, we enabled nearly 85% of our colleagues to work remotely. This was not just about providing the correct IT (although it was part of it) and a digital infrastructure that could support this move, but it was also about individuals willing to change and adapt to this new environment and new demands. It was not just about working from home either. We were better able to utilise more of the talent within the organisation, with branch staff now able to assist our contact centres or chat facility from the branches outside of their opening hours.

The post Covid-19 strategic operating model will leverage on the swift adoption of digital channels. Digital will encompass all levels of the organisation, including customer interactions, operations and support functions.

For many customers who were previously wary of online banking, they have now discovered it is as easy as the online shop. We cannot pretend they will go back to their previous habits. The pandemic has accelerated the trend of customers using branches less, and digital transactions are ever more important. We will further our digital transformation, making digital the primary channel for sales and servicing. We will also enhance our digital capabilities to improve customer service and adapt to what customers are now expecting.

Employees are also looking for more flexible ways of working, and the new environment will allow us to do so. There is a new challenge for many businesses, how do we give people the flexibility they want, whilst ensuring we retain a clear corporate sense of purpose?

The pandemic has forced us to communicate more frequently with our colleagues to understand what their experiences from this new way of working and what they want in the future.

Our internal surveys showed that 91% of colleagues felt more, or as productive working from home and 76% said they wanted to be in the office on average 4 days a month. We will be able to provide more flexible hours, while improving our customer service and employee value proposition. Additional flexibility will also create opportunities in how we access talent. We are confident these changes will enhance both productivity and our long-term growth potential.

As we embrace this new operating model, consistently review and adapt our risk controls and governance frameworks to ensure that these are aligned with the latest regulatory requirements.

Our continued culture of transparency and collaboration will be a key pillar for the successful implementation of our New Ways of Working strategy and that our re-defined operating model will allow for a more agile, responsive and resilient franchise, resulting in long-term value creation.

Our strategic priorities

Our refined strategic priorities are aligned to Banco Santander’s One Europe strategy, with a focus on customer loyalty and experience, simplification, improved efficiency and sustainable growth, while aiming to be the best bank for all our stakeholders.

1

Deliver growth through customer loyalty and outstanding customer experience

- Deliver outstanding propositions to meet more of our customers needs
- Connect physical and digital channels for seamless customer experience
- Profitable growth in retail banking and sustainable returns in corporate banking
- New and evolving revenue sources including global group projects

2

Simplify and digitise the business for improved efficiency and returns

- Simplify, digitise and automate our processes
- Improve our technology and operations through innovation and optimisation
- Remove complexity and siloes to increase productivity
- Capital discipline and RWA management
- Maintain a prudent approach to risk

3

Engage, motivate and develop a talented and diverse team

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

Be a responsible and sustainable business

Focus on five pillars for a thriving workplace, while meeting all our regulatory requirements and expectations:

- Sustainable economic growth and financial inclusion
- Climate change
- Inclusive digitalisation
- Ethics
- Fighting financial crime

Transforming for Success

“ Being new to the bank, I am impressed by Santander’s ambition, the scale of the bank globally, and the talent that is available to drive through the transformation. But more than that, I am captured by the engrained belief that the customer comes first.

Tony Prestedge
Santander UK plc Deputy Chief Executive Officer

We are transforming the business for success in order to meet the changing needs of our customers and deliver improved returns over the medium-term.

Since commencing the multi-year transformation programme in 2019, we maintained a strong focus on digitalisation, automation and restructuring initiatives across the business.

We have done so at an even faster pace in 2020, and with real urgency in order to continue to meet the changing needs of all our stakeholders, and despite significant uncertainties and operational challenges caused by the onset of the Covid-19 pandemic.

2020 was also all about breaking down silos and working across teams to deliver real change, while leveraging technology to help all our colleagues in the service of our customers.

Our systems were also key enablers of this change, and through the launch of a new digitally integrated credit end-to-end platform, we have been able to reduce cycle times by 20-30%, delivering a faster and improved customer experience.

The need for change is not a new concept for our organisation. Our plans to adapt and transform started well before the pandemic, and the transformation of our organisation will continue at a pace.

Transformation programme highlights

Spend

2019	156
2020	176

Savings

2019	92
2020	152

Planned investment spend split:

Customers
Serving our customers better with more efficient network use and digital service model development

Digital
Digitising the back office with end-to-end IT processes and automation, leveraging technology such as the cloud and big data

Footprint
Repositioning our corporate footprint while supporting agile working and collaboration and optimising how and where we work.

Our Commitment to the UN Sustainable Development Goals (SDGs)

Our business activities deliver on targets set out in the UN SDGs, which we have mapped against our Sustainability strategy. Specific SDG targets that we delivered on in 2020 are those in Goal 4, Goal 8, Goal 10, and Goal 13. To read more about our contribution and see the full mapping, please see our ESG Supplement 2020.

Our performance and KPIs





We have taken further decisive steps in 2020 to mitigate the material impact Covid-19 has had on our business operations and performance.

We are confident in our ability to transform the business through a relentless focus on improved customer outcomes, strengthened business efficiency and proven resilience of the business, while continuing to deliver on our strategic priorities.

(1) See Glossary for KPI definitions.

(2) NPS measure became a KPI during 2019, replacing customer satisfaction to incorporate a broader measure of advocacy.

(3) Non-IFRS measure. See 'Alternative Performance Measures' in the 2020 Annual Report for details and reconciliation to the nearest IFRS measure for return on ordinary shareholders' equity (RoE) and cost-to-income ratio. 2020 RoE was 2.9% (2019: 4.9%) and cost-to-income ratio was 63% (2019: 61%).

		KPI	2020 result	Why it matters and how we performed	Result
1		Loyal customers	4.4 million	Loyal customers measures the number of our customers who have a primary banking relationship with us alongside another product. Loyal customers stay with us longer and their current account usage gives us in-depth insight which allows us to tailor our services to their needs. This metric decreased in 2020, following 11213 Current Account repricing actions linked to bank rate reductions, and now represent 32% of our active customer base. Customer loyalty remains at the heart of our strategy and will be a key area of focus in 2021.	<div>2018 4.4m</div> <div>2019 4.6m</div> <div>2020 4.4m</div>
		Digital customers	6.3 million	Digital customers are increasingly important given the benefits that mobile and digital can bring to the customer experience alongside more efficient operational delivery of 24/7 service. Customers in the UK are increasingly moving towards mobile and digital banking, a trend that exponentially increased in 2020 due to the Covid-19 lockdowns.	<div>2018 5.5m</div> <div>2019 5.8m</div> <div>2020 6.3m</div>
		Retail NPS⁽²⁾	8th	Retail net promoter score is a widely-used measure of customer experience and customer advocacy. As expected, during 2020 we slipped from the Top 4 position we achieved in 2019 following 11213 Current Account repricing actions linked to bank rate reductions. However, balances have increased over the year and overall account numbers have remained broadly stable. Improvement in customer satisfaction will be a key area of focus in 2021.	8th out of 9 competitors
		Business and corporate NPS⁽²⁾	1st	Business and corporate net promoter score is a widely-used measure of customer experience and advocacy. In 2020 we maintained our first place ranking, a testament to the comprehensive proposition and our strong support for our small and medium-sized business customers during the Covid-19 pandemic.	1st out of 6 competitors
2		Adjusted RoTE⁽³⁾	4.3%	Adjusted RoTE is a measure of income generation on shareholder investment. The adjusted RoTE of 4.3% in 2020 was materially impacted by the Covid-19 pandemic credit impairment charges for future losses, partially offset by improvements in income driven by decisive management actions on liability repricing and continued focus on making the business more efficient. We are focused on improving returns through our 'Transforming for Success' multi-year transformation programme. Statutory RoTE was 2.9% (2019: 4.9%).	<div>2018 10.2%</div> <div>2019 7.8%</div> <div>2020 4.3%</div>
		Adjusted cost-to-income ratio⁽³⁾	59%	Adjusted cost-to-income ratio is an efficiency measure to capture the amount spent to generate income. Adjusted cost-to-income remained stable at 59% in 2020 with income pressure in the lower interest rate environment and the significantly lower banking and transaction fees driven by implementation of regulatory changes to overdrafts, offset by realised efficiency savings. We are focused on cost transformation through digitalisation, automation and restructuring activities. Statutory cost-to-income ratio was 63% (2019: 61%).	<div>2018 54%</div> <div>2019 59%</div> <div>2020 59%</div>
		Cost of risk	31bps	Cost of risk is a measure of credit impairment charge for the 12 month period as a percentage of average customer loans. In 2020 our cost of risk increased to 31bps, driven by £448m Covid-19 related provision for expected credit losses. This drove an increase of c.22bps, with portfolio performance remaining resilient with low write-offs and deterioration seen only on a few single name corporate cases.	<div>2018 8bps</div> <div>2019 11bps</div> <div>2020 31bps</div>
		Leverage ratio	5.1%	All major UK banks and banking groups, us included, are required to hold enough Tier1 capital to satisfy a minimum leverage ratio requirement of 3.25% and enough CET1 capital to satisfy a countercyclical leverage ratio buffer of 35% of each bank's institution-specific countercyclical capital buffer rate. Leverage ratio of 5.1% in 2020 was up 40bps, primarily through improvement in CET1 capital and active management of leverage exposures. It remains 1.5p.p. above the regulatory requirement.	<div>2018 4.5%</div> <div>2019 4.7%</div> <div>2020 5.1%</div>
3		Top 10 company to work for	Medium-term aim	Top 10 company to work for is an important measure of employee satisfaction and our participation forms part of a wider Banco Santander goal. We participated in an industry-wide ranking survey in 2020 and gained accreditation as a Great Place to Work alongside Excellence in Wellbeing. The ranking will be announced in April 2021 to check our progress towards our over-arching global medium-term target. Alongside this, Santander UK was again accredited in the Top Employers Survey for 2020 for both the UK and Europe.	<div>Great Place To Work</div> <div>Excellence in Wellbeing</div> <div>UK Aug 2020 – Aug 2021</div>
4		Financially empowered people	500,000	Financially empowered people are those unbanked, underbanked or vulnerable people who we support by promoting access to finance, tailored products and financial education initiatives. In 2020 we adapted our support to help people through the Covid-19 pandemic, with financial aid, access initiatives and advice services. This contributes to Banco Santander's target to financially empower 10 million people by 2025.	<div>2019 248,100</div> <div>2020 500,000</div>

Customers

Shareholders

People

Communities

Risk management overview

“Santander UK is a great business with considerable opportunity, backed by a strong global brand. I want to thank all my colleagues who are actively managing risk across the organisation, keeping focused and supporting each other, while delivering for all our stakeholders.

Christine Palmer,
Chief Risk Officer



Meeting operational challenges

The Covid-19 pandemic has resulted in a number of significant challenges, which were met during the course of 2020.

We transitioned effectively to a sustained working from home environment, underpinned by robust remote access technology, and continuous communications and support measures for all of our colleagues. At the same time, the risk team's resources were mobilised to implement new processes and procedures to facilitate the delivery of Covid-19 government support measures for our retail, business and corporate customers, whilst maintaining operational resilience. Interactions and communications with our customers were also increased in order to better understand their individual needs.

Credit and operational risk impacts

During the year, we managed the evolution of both our credit and operational risk profiles across all of our businesses and loan portfolios. We initiated targeted retail customer out-reach to assess requirements for ongoing support and re-rated substantial segments of our corporate credit portfolios, also supplemented by proactive client

engagement. Financial Support activities have been re-engineered to ensure our customers obtain the best individual outcomes. We continue to focus on increased fraud and cyber risks seen across the financial services sector to ensure we maintain a robust operational environment. We have prioritised monitoring and oversight of these and other key operational risks with enhanced reporting and input to IT strategy, data management and business transformation.

Strategic risk management actions

Our teams supported the analysis of net credit loss modelling through ongoing reviews of inputs to our IFRS9 models, which determine the level and timing of the provision of credit losses in our financial accounts. Regular risk assessments of our business plans were undertaken throughout the year, under a range of economic stress scenarios. This enabled us to view our medium to longer term financial forecasts and the setting of our risk appetite to support the business plan. We also identified management actions that will assist us in mitigating cost and revenue pressures, including the phased delivery of our cost transformation programme.

C-19

Main impact on risk management

The Covid-19 pandemic had a material impact on our business and financial performance, as well as our risk profile.	remains uncertain, with future outcomes dependent upon the performance of the UK economy, especially unemployment.	Reputational and conduct risks also increased in the year, as we focused on ensuring that all customers were treated promptly and fairly under the various government backed schemes, whilst managing within risk appetite. We engaged, and continue to engage, closely with the government and regulators in the implementation and operation of the various schemes.
Net credit losses increased materially during the 2020 financial year to £645m. However, these charges were mainly driven by management judgement overlays with regards to expected future losses and reserve build, rather than loan performance deterioration. Various government support measures, especially the furlough schemes, have delayed the full impact on our customers and in turn on us. The outlook for the credit impairment charge	Operational risks have increased, along with the technology required to support a significantly larger staff cohort working from home, and employee communications and policies to mitigate the potential risk of staff health impacts materialising into capacity constraints. We have prioritised and focused risk resources in these areas to facilitate the implementation of enhanced controls, processes and technological solutions.	

Top risks

Our top risks outlined below are monitored monthly at the Executive Risk Control Committee (ERCC) and Board Risk Committee (BRC).

Covid-19 first and second order risks

During 2020 our top risks have been re-focused to incorporate two new top risks; the credit and operational (first order risks) and cost and revenue (second order risks) impacts of Covid-19. These are covered in more detail in separate case studies in this section and throughout the document, being clearly labelled with the C-19 indicator.

Financial crime

Financial crime activities can have significant impact on our customers. Criminals are increasingly using the financial system to launder the profits of illegal activity such as human trafficking and terrorism. We continued to make significant investment in ongoing enhancement to our financial crime control framework, and to key controls including anti-bribery and corruption measures, customer risk assessment, screening and transaction monitoring. Our Money Laundering Reporting Officer continues to reinforce the importance to Senior Management of focusing on; continuous enhancements to data quality, Key Risk Indicators and treatment strategies to sustainably control risk; ensuring proportionate capacity and investment across due diligence processes for higher risk customer segments; and promoting the embedding of an anti-financial crime culture framework. Covid-19 has also provided an opportunity for fraudsters to take advantage of vulnerable customers through a range of fraud attacks and scams. We have increased our fraud messaging and scam education to assist our customers. We have also continued to build on existing controls and develop new control environments to address fraud attacks.

Brexit

Whilst our contingency plans were based on a worst-case 'no deal' scenario, the risks associated with Brexit remain substantially the same, as the Trade and Cooperation Agreement deal does not cover financial services in any significant detail, as expected. Our plans are described more fully in the separate case study later in this section.

Conduct and Regulatory

We are operating in an environment where conduct and regulatory risks are elevated, reflecting the challenges posed by Covid-19 and the continuing need for customer support following the extension of support and forbearance measures in relation to mortgage repayments and government lending schemes for SMEs. Regulatory engagement continues to be high as a result of these issues, as well as with respect to other key developments such as Brexit, Negative Rates and Libor Transition. Robust processes have been put in place to provide assurance that risks are being managed and actions monitored across the various government sponsored schemes, and also other conduct related issues, in order to ensure fair customer outcomes.

Managing a complex change agenda

We continue to face a challenging change agenda into 2021 with respect to our operating model and also supporting a range of initiatives required to deliver our business strategy. These include increased agile transformation across the organisation; significant IT infrastructure projects; bedding down of new centres of excellence; and implementation of regulatory projects. This places more importance on our management of change, which is underpinned by our established risk project prioritisation processes and change oversight governance.

Building and maintaining capital strength

Regulatory uncertainty on the implementation and interpretation of capital rules continues and impacts on both our capital management and capital position. We continuously review our capital position on a forward-looking basis, which remains subject to the Bank of England's stress testing regime. The 2020 CET1 capital ratio of 15.2% (2019: 14.3%)

and UK leverage ratio of 5.1% (2019: 4.7%) were both significantly above regulatory requirements, despite higher Covid-19 related credit impairment losses. This includes the impact of a 2020 ordinary share dividend.

Pension

There was substantial volatility in the funding position and IAS 19 accounting position during 2020, particularly in the first half year. AA UK corporate credit spread volatility has been a major driver of the accounting position which impacts capital, along with equity and interest rate markets, with the Bank of England cutting the bank rate to 10bps and increasing quantitative easing. The de-risking actions we have taken during the past two years, including executing various hedging strategies and strategic asset reallocation have reduced exposure to pro-cyclical assets and improved the fund's resilience.

Cyber attacks

In 2020, threats from the external cyber environment continued to increase, placing even more importance on our internal controls. We monitor a range of cyber risks and have taken mitigating actions including; deployment of a cyber threat intelligence platform; increased intelligence through industry co-operation; and actions to increase staff awareness. Implementation of our Cyber Security Plans is proving effective, with no significant disruption experienced to date.

Third party risk management

The complexity and criticality of services provided by third-parties is a key operational risk that has been recognised by us, our peers, and the regulators. We have established a robust Third Party Supplier Risk Framework, which ensures that those with whom we intend to conduct business, meet our risk and control standards throughout the life of our relationship with them.

Ring-fencing implementation

Ring-fencing has resulted in significant change to our structure, people and operations and we have retained it as a top risk to ensure continued focus on the ongoing embedding of ring-fencing culture throughout our governance and operations.

Key risk types

Risk is any uncertainty which could affect our ability to achieve our objectives or impact our results and financial resources. See the Risk review in the 2020 Annual Report for more information.

Key risk types	Description	Mitigants	Key metric
Credit 1 2 4	The risk of financial loss due to the default or credit quality deterioration of a customer or counterparty to whom we have provided credit, or for where we have assumed a financial obligation.	We manage our exposures carefully, thorough credit checking and approval processes, to ensure we stay within our risk appetite and agreed concentration limits. We closely monitor the economy and where we see signs of stress we take action to reduce our exposure or adapt our pricing to adequately reflect risk.	Stage 3 ratio (%) 2018 1.15 2019 1.29 2020 1.42
Market 1 4	Banking market risk – the risk of loss of income or economic value due to changes to interest rates in the banking book or to changes in other market risk factors, where such changes would affect our net worth through a change to revenues, assets, liabilities and off-balance sheet exposures in the banking book. Trading market risk – the risk of changes in market factors that affect the value of positions in the trading book.	We use a variety of approaches to protect the bank. These include using financial instruments, by matching fixed rate deposits with fixed rate loans of a similar term. Stress testing helps us to measure and evaluate the potential impact of extreme events or market moves.	NIM sensitivity +50bps (£m) 2018 207 2019 99 2020 225
Liquidity 2 4	The risk that we do not have sufficient liquid financial resources to meet our obligations when they fall due, or we can only secure such resources at excessive cost.	We aim to ensure our balance sheet remains resilient at all times. We hold sufficient liquidity to ensure we will survive three plausible but severe stress scenarios, by maintaining a prudent balance sheet structure and approved liquid resources.	LCR (%) 2019 142 2020 150
Capital 2 4	The risk that we do not have an adequate amount or quality of capital to meet our internal business needs, regulatory requirements and market expectations.	We utilise a capital risk framework that informs and monitors our capital risk appetite. We also undertake a wide-range of stress testing analysis to confirm our capital adequacy under various adverse scenarios.	CET 1 capital ratio(%) 2018 13.2 2019 14.3 2020 15.2

Strategic priority key:

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

Key risk types	Description	Mitigants	Key metric
Pension 2 4	The risk caused by our statutory, contractual or other liabilities with respect to a pension scheme (whether set up for our employees or those of a related company or otherwise). It also refers to the risk that we will need to make payments or other contributions with respect to a pension scheme due to a moral obligation or for some other reason.	We monitor both the accounting and funding position against the overall risk appetite, and use a range of investment and hedging strategies to mitigate the inflation and rates impact.	Funded DB pension scheme accounting surplus (£m) 2018 766 2019 431 2020 135
Conduct and regulatory 1 2 3 4	Conduct risk – the risk that our decisions and behaviours lead to a detriment or poor outcomes for our customers. It also refers to the risk that we fail to maintain high standards of market behaviour and integrity. Regulatory risk – the risk of financial or reputational loss, or imposition of conditions on regulatory permission, as a result of failing to comply with applicable codes, regulator's rules, guidance and regulatory expectations.	Our culture places the fair treatment of customers at the heart of everything we do. We continuously improve processes and training in order to integrate this fair treatment into our product and service design reviews.	Remaining conduct provision (£m) 2018 276 2019 214 2020 84
Operational 1 2 3 4	The risk of loss due to inadequate or failed internal processes, people and systems, or external events. We maintain a particular focus on Cyber & IT; Change and transformation and People risks, which we mitigate through our management of operational risk.	Operational risk is inherent in our business. Our approach is to mitigate this risk as far as possible, rather than to eliminate it entirely. We have a programme to enhance existing operational resilience practices and to deliver against recent joint regulatory consultation papers and new requirements expected in early 2021.	Operational risk losses trend (excluding PPI and losses below £10,000) (%) 2018 3% 2019 -63% 2020 51%
Other key risks:	Financial crime - the risk that we are used to enable financial crime. Legal risk - the risk of loss from legal causes or actions or omissions with legal consequences. Strategic and business - the risk of significant loss or under-performance against planned strategic objectives. Reputational - the risk of damage to the way our reputation and brand are perceived by our stakeholders. Model - the risk that predictions made by our models might be inaccurate.	Of these risks, financial crime is a top and high priority risk for us. We are committed to conducting business in accordance with regulatory and legal requirements and the highest ethical standards. We believe that having a comprehensive and effective financial crime framework through policies, procedures and systems and controls to prevent and detect financial crime is a business imperative.	£83m Incremental investment in the financial crime transformation programme to enhance systems and controls in 2020

Emerging risks

Six new emerging risks have been introduced to our risk radar during 2020. These are reviewed and discussed regularly at both ERCC and BRC.

Negative rates

Central Banks wish to retain as wide a range of policy tool options in order to mitigate economic and financial market risks. In early 2021 we were involved in roundtable discussions with the PRA, along with our industry peers, to provide feedback on the issues facing the banking sector in the event of a negative rate environment. Although we do not have material structural balance sheet exposure to negative rates, we have revisited our plans for readiness including systems capabilities (both tactical and strategic), legal and documentation issues, and how negative rates may impact our customers as well as implications for margin management. We will continue to develop and enhance our strategy during 2021, through a coordinated bank-wide approach led by our CFO.

Extended government involvement in the banking industry

There is the potential for adverse impacts on financial performance and investor perceptions of the banking industry, that could arise inadvertently as a result of

the governments ongoing responses to Covid-19 (e.g. implementation risks related to government backed loan schemes, and IFRS9 loan loss guidance). However, to a certain extent, these risks have been balanced by other government actions such as the furlough scheme and the Term Funding Scheme for SMEs (TFSME), which have delayed peak unemployment and reduced funding costs respectively. These issues are considered as part of our forward financial business planning and by our Capital Committee and Assets and Liability Committee (ALCO) regularly. We are further evaluating the potential impacts of this risk, as government lending schemes unwind and the credit impacts of the crisis crystallise further.

Extended period of economic contraction

Negative multiplier effects from the economic shock caused by Covid-19 could materialise such as delayed spending and investment, and a larger surge in business failures and unemployment than anticipated. Coupled with deflation and lower or negative rates, this would prove even more challenging for banks' profitability. We regularly undertake stress tests on our future business plans, under a range of economic scenarios.

High inflation

The injection of significant government and central bank stimulus, could over the medium to longer-term result in the emergence

of higher inflation that detrimentally impacts the UK economy. Similar to other economic risks our regular analysis of stress scenarios that we run across our business plans ensures that we fully understand the potential impacts and any mitigating actions that we might need to take.

Disruption of macro-economic factors

Changes to GDP, unemployment, and house prices from longer term structural shifts in income and wealth could have a material impact on the inputs to our economic scenario analysis. As part of this analysis we review changes in key underlying drivers which aids our forward business planning and risk appetite setting.

Other environmental and social issues

Extreme weather, natural disasters, biodiversity loss, human made environmental disasters, health impacted by pollution, water crisis, other infectious diseases, and social unrest, are other risks we are taking into consideration. Whilst, we have an ongoing focus on maintaining and enhancing our operational resilience, these risks have the potential to have unpredictable impacts on global businesses and economies, including us, and our suppliers, similar to the wide ranging impacts of Covid-19. These risks were highlighted and discussed at the World Economic Forum in January 2020.

Previously identified and monitored emerging risks and our management actions

Changing customer behaviour

We consider that the strong trends towards customer digital adoption have been further accelerated during the Covid-19 crisis. Our multi-year transformation programme is regaining momentum, with a renewed focus on investment in digitalisation and automation, and implementing solutions which meet our customers demands

Rapid technological change

The increasing availability of a wide range of online product solutions for customers requires incumbent banks to enhance their offerings in order to retain and attract customers.

We have continued to increase the number of our digital customers, develop new digital channels, improve existing digital services, and automate existing physical channels. At the same time, we also place a high priority on IT risk management, especially cyber security, in order to protect our customers and our reputation

Intense market competition

We expect competitive pressure to continue and intensify post the Covid-19 crisis, as market participants look to further reduce costs, improve productivity and services. Whilst we have been responding to these pressures as part of our business strategy, we remain focused on delivering sustainable, predictable growth, and achieving consistent profitability through balance sheet strength.

Demanding regulatory agenda

We continue to face a complex regulatory change agenda and engage in regular dialogue and interactions with regulatory bodies, particularly in the area of customer support. Covid-19 has further added to this complexity as the banking industry has responded to customer and client needs in a more challenging economic environment. We continue to manage regulatory risks, coordinated and prioritised through specific project groups with both risk and regulatory oversight.

Uncertain economic and geopolitical environment

Elevated economic and geopolitical tensions can lead to periods of elevated market volatility and stresses in funding and lending markets.

Our interest rate and foreign exchange hedging programmes are designed to limit income statement volatility arising from short-term market movements, providing resilience to our business model.

Libor transition

In January 2020, the Working Group on Sterling Risk-Free Reference Rates set targets to cease sterling LIBOR publication by the end of 2021. We continue to make good progress towards our transition to alternative rates ahead of the end of 2021, supported by our well established Project Governance structure.

Climate change

In April 2019, Supervisory Statement SS3/19 was issued by the PRA setting out its expectations of how banks and insurers should approach managing the financial risks from climate change. We are addressing climate change related risk issues through ongoing engagement across our business and support functions, coordinated and led by the Risk Division. Our continued focus is on the implementation of our plans to fully embed climate change risk assessment in risk management processes. We have set out further details of our activities in the separate call out box in this section of the report.

C-19

Impact on our economic forecasts

During 2020 we changed our forecast economic scenarios to reflect the current uncertain environment caused by Covid-19. These capture a range of recovery paths for the UK economy and take account of possible further lockdown restrictions and the impact of the UK government responses.

The changes to scenarios and associated revisions to the weights applied to those scenarios represent a significant shift to the downside. As an example, the current base case for unemployment is more severe than the worst case scenario in 2019. In addition, we moved to one upside and three downside scenarios in 2020, a change from two upside and two downside scenarios in 2019.

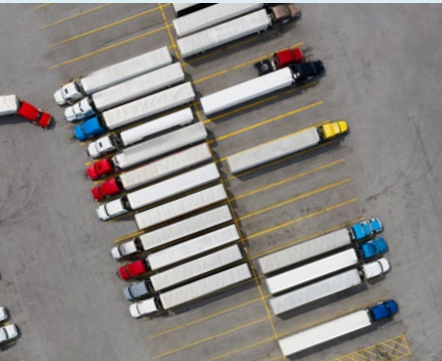
The scenarios include forecasts for a number of economic variables including house price growth, GDP, unemployment and bank rate.

Given the makeup of our balance sheet, the most significant driver of our expected credit losses (ECL) is unemployment, which held up through 2020 given government support measures such as the furlough scheme. We saw some noticeable impacts in ECL from changes in house prices in late 2020 as pent-up demand and the stamp duty waiver supported the housing market. The significant deterioration in GDP seen due to lockdown measures is a driver of ECL in our corporate portfolios.

While lower bank rate helps borrowers with affordability of repayments it has a significant impact on our ability to generate returns and impacts rates paid to depositors.

£164m

Impact on credit impairment losses from changes to economic scenarios and weights



Managing post-Brexit outcomes

With a "no deal" outcome being avoided a significant source of disruption has been removed from the first quarter outlook.

Impacts on our customers in both the retail and corporate sectors will become more apparent later during 2021. We undertake activities to support our corporate clients and maintain regular dialogue to aid our understanding of Brexit impacts on their business.

With respect to assessment of the sensitivity of our forward business projections to Brexit, we currently see the potential for more material impacts in 2022, once key effects such as Foreign Direct Investment

become clearer. We anticipated some initial Brexit related disruptions such as import and export delays in our current forecasts, consistent with the current limited trade arrangements.

For Financial Services, impacts of regulatory alignment/divergence, and how these are resolved for equivalence assessments and mutual market access, may emerge later in 2021. Our existing relationships with EEA customers are managed by each business area, with restrictions on new business underpinned by controls re-enforced through a compliance monitoring framework.

We are however able to leverage the benefits of being part of the wider Group in ensuring that we continue to serve these customers to ensure they receive the best financial outcomes.

Task Force on Climate-related Disclosures

We are implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and taking action to meet the expectations set by the PRA, BoE and FCA. This requires wide-ranging collaboration both within the bank and externally to develop the tools and methodologies needed.

Climate risks and our mortgage portfolio

We are rapidly expanding our understanding of climate-related risks to our balance sheet. With more than 1.2 million loans, mortgages are our most material portfolio. In 2020, we completed a review of the physical and transition risks of climate change to our mortgages using scenarios from the UK Climate Programme. Working with property-level data, we assessed the most visible physical risk – flooding – for every Santander UK mortgage.

Almost 95% of our mortgage lending is on properties with negligible or very low risk of flooding. Flood risk is expressed as a ratio, where a 1 in 30 year (1:30) flood event refers to the likelihood of flooding occurring in a given year.

Flood Risk	Number of properties
High: >1:30	2,906 (>1%)
Medium: between 1:30 and 1:100	10,021 (1%)
Low: >1:1000	49,678 (4%)
Very Low: >1:10,000	69,523 (6%)
Negligible: <1:10,000	1,102,435 (89%)
Total properties	1,234,563

1Governance

The Chief Risk Officer (CRO) is responsible for climate-related financial risks with oversight from the Board Risk Committee (BRC) and the Responsible Banking Committee (RBC). A climate change working group is managing our TCFD implementation and reports climate risks to the CRO and progress updates to the Executive Risk Control Committee and BRC. A separate working group has been set up to lead our preparation for the Bank of England 2021 Biennial Exploratory Scenario climate stress test and a steering committee provides management oversight.

We actively contribute to Banco Santander's newly-established sustainable finance working groups, which draw on global expertise to identify new business opportunities in renewable energy, green buildings, clean mobility and sustainable agriculture .

To support the Board, management, and business we delivered a range of training across the bank:

- Board-level climate change workshop covering climate science and regulations, and TCFD recommendations
- Online climate change training, available to all staff
- Sector-specific climate change training for Corporate and Commercial Banking.

In addition, we are preparing a Climate Dashboard to highlight portfolio-relevant risks and opportunities using internal portfolio level data, and external market and policy data.

2Strategy

We are committed to the objectives of the Paris Agreement and our ambition is to help the UK transition to a low-carbon economy and tackle climate change. We are a leader in financing renewable energy projects and in 2020 we were the number one lender to the renewable energy sector by deal number, and number two by value.¹

We also aim to deliver carbon reductions across our wider lending portfolio. We have tightened our policies on lending to carbon intensive sectors and do not fund new coal-fired power plants worldwide, or oil and gas drilling projects north of the Arctic Circle.

Banco Santander is a member of the UN Collective Commitment on Climate Action, which requires banks to set sector-specific targets for the most material sectors in their portfolios. In the UK, we have assessed our most material portfolio, mortgages, against the physical and transition risks of different climate scenarios.

Following a review by the Board and ExCo, we have also repositioned climate change to be a standalone pillar within our broader sustainability agenda and increased our level of ambition. More information is available in our ESG Supplement.

In preparation for the Bank of England BES climate stress test, we are reviewing our financial exposure to climate-related risks. We have developed and are stress testing a Target Operating Model, including scenario modelling, process map and data flows. We will include stress testing results in our ICAAP in Q1 2021 ahead of the BES in Q2 2021.

3Risk management

Climate change is integrated into Santander UK's risk framework. We have introduced minimum standards requiring each business area and risk type to consider the risks posed by climate change. The risk framework outlines the CRO's responsibility to "embed the approach to managing the financial and strategic risks associated with climate change."

The Board has also approved a qualitative statement within the bank's risk appetite statement relating to climate change. We will develop a quantitative expression for climate change risk in 2021. The key inputs for setting this limit(s) will be our climate change strategy and the outputs of the 2021 BES. We contributed to the Banco Santander risk taxonomy in 2020 using the outputs of our 2019 Climate Portfolio Screen. A UK-relevant taxonomy that is aligned with the Banco Santander taxonomy will be completed in Q1 2021.



4Targets and metrics

Banco Santander has increased the number of climate-related performance metrics it discloses. These include market position for number of deals, total financing of most relevant climate financial services, and emissions avoided by financing renewables. Details can be found in the Banco Santander Climate Finance Report.

Below we provide metrics for Santander UK Group Holding plc portfolio exposure by sector, and green finance. The table outlines the largest exposures to both physical and transition climate risks for sectors on our balance sheet. The percentage represents the sector contribution to total assets. Details of our operational carbon emissions can be found on page 37 or page 10 of our ESG Supplement 2020.

Sector	Amount £bn	Exposure percentage
Total assets	299.1	
Mortgages	169.8	57%
Real Estate	10.7	4%
Consumer Finance	8.0	3%
Electricity & Gas	0.6	0.2%

In 2020, Banco Santander was the top lender in the UK renewable energy sector by number of transactions (2nd by deal amount), exclusive of energy from waste assets.¹ As part of this, Santander UK originated £1,268m of debt financing to renewable energy projects in 2020. This includes financing originated in Santander UK by our Corporate & Commercial Banking and Corporate & Investment Banking teams.

£1,268m

total investment in 2020 in renewable energy projects

Financial overview

2020 was defined by the Covid-19 pandemic. While the health crisis has sadly affected large numbers of people across the globe it also highlighted there is much to recognise and applaud about how we responded. I was particularly heartened by the resilience and commitment of our people who quickly transitioned to new working arrangements and I'm extremely proud of all their efforts.

Duke Dayal,
Chief Financial Officer

Summarised consolidated income statement

	2020 £m	2019 £m
For the years ended 31 December		
Net interest income	3,437	3,295
Non-interest income ⁽¹⁾	521	875
Total operating income	3,958	4,170
Operating expenses before impairment losses, provisions and charges	(2,487)	(2,526)
Credit impairment losses	(645)	(220)
Provisions for other liabilities and charges	(274)	(443)
Profit before tax	552	981
Adjusted profit before tax ⁽²⁾	710	1,300

(1) Comprises of 'Net fee and commission income' and 'Other operating income'.
(2) The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £158m in 2020 and £319m in 2019. See 'Alternative Performance Measures' in the 2020 Annual Report for details and reconciliation to the nearest IFRS measure.

A year of change
The Finance team has played an important role supporting our colleagues to help our customers with payment holidays and lending to businesses guaranteed by government schemes. These measures alongside the reduction in bank rate, introduction of the TFSME and easing of prudential capital requirements have helped us to continue supporting the UK economy, without any deterioration in the resilience of our balance sheet. Returns are lower, but we have been able to absorb the necessary Covid-19 ECL provision build and report a net profit for each quarter of 2020. This has been possible thanks to our resilient balance sheet and decisive management actions.

Our resilience is underpinned by several factors. Firstly, we have a prudent approach to risk and growth as well as a focus on prime residential mortgage lending with low LTV. Over recent years, we also chose to limit growth in our unsecured lending portfolios and actively managed down our exposure to commercial real estate.

Secondly, we entered the crisis with strong capital and liquidity alongside a good track record in the Bank of England stress tests. We were well-positioned in an environment which was highly uncertain, even before the Covid-19 pandemic.

Finally, we were quick to take mitigating and decisive actions which are beginning to come through our results and have partially offset higher impairment provisions. These actions include deposit repricing which stabilised our Banking NIM and ongoing transformation programme activities which have contributed to quarterly costs trending downward this year.

Financial Highlights

1.65%

Banking NIM
(2019:1.64%)

63%

Cost-to-income ratio
(2019:61%)

£169.8bn

UK mortgage loans
(2019:£165.4bn)

£75.6bn

Retail Banking current account balances
(2019:£68.7bn)

£7.5bn

MREL eligible senior unsecured debt
(2019:£7.9bn)

£72.9bn

Risk-weighted assets (RWAs)
(2019:£73.2bn)

An uncertain operating environment
The UK banking market is very competitive and intensely regulated. We continue to face additional challenges from the Covid-19 pandemic and the impact of the new trading arrangements with the EU, both of which we expect to continue into the medium term.

Like all banks, we have taken significant credit impairment charges this year – largely as we build provisions for expected credit losses rather than because of realised losses. We expect losses will start to be realised as unemployment rises. However, to date jobs have largely been protected by significant government measures to support businesses and individuals.

Actively supporting the UK economy
We granted 373,000 payment holidays to customers with a value of more than £40bn. Of these less than £3bn were still on payment holiday as at 31 December 2020 and we have seen less arrears among this cohort of customers than we expected.

We have also lent £4.6bn to our business and corporate customers, through government schemes. The vast majority has been through the Bounce Back Loan Scheme which is 100% government guaranteed. We have also seen our business and corporate customers holding more deposits as they position themselves for the uncertain operating environment.

Our financial results
Our 2020 results have been materially impacted by the Covid-19 pandemic. Profit before tax of £552m was 44% lower than in 2019. Adjusted profit before tax of £710m was 45% lower, see the Financial review for an explanation of the adjustments and the impact on adjusted profit.

Net interest income was 4% higher than 2019 largely due to deposit repricing. Banking NIM of 1.65% was up 1bp from last year and improved sequentially in the second, third and fourth quarters of 2020. As in previous years, higher margin mortgage back book lending has continued to reprice onto lower margin new business products, although the rate of attrition on our Standard Variable Rate book has slowed and the balance in our Follow on Rate book has increased. In addition, new mortgage lending rates

started to increase during the second half of 2020, alongside good mortgage applications following the easing of Covid-19 restrictions.

Banking NIM improved during the second half of the year, largely due to deposit repricing. This was seen most significantly with our 11213 Current Account where we reduced the customer rate by 90 basis points during the year, linked to bank rate reductions. Despite two rate changes, balances on this account have increased to £57bn. In addition, other deposit repricing actions across all our businesses and stronger margins on new mortgage originations have also helped improve net interest income.

Non interest income was down 40% year-on-year following regulatory changes to overdraft fees and a slow-down in transactions during Covid-19 restrictions.

Operating expenses were down 2% year-on-year as efficiency improvements continued. These offset underlying inflationary pressure and increased depreciation related to investment projects.

Summarised segmental balance sheet⁽¹⁾

31 December	2020 £bn	2019 £bn
Customer loans		
Retail Banking	186.5	178.8
Corporate & Commercial Banking	17.6	18.4
Corporate & Investment Banking	2.8	4.0
Corporate Centre	3.5	4.1
Total customer loans	210.4	205.3
Other assets	88.7	83.2
Total assets	299.1	288.5
Customer deposits		
Retail Banking	152.2	142.7
Corporate & Commercial Banking	25.0	20.5
Corporate & Investment Banking	6.5	6.1
Corporate Centre	8.0	6.1
Total customer deposits	191.7	177.8
Total wholesale funding	63.2	65.3
Other liabilities	28.0	29.1
Total liabilities	282.9	272.2
Shareholders' equity	15.8	15.9
Non-controlling interest ⁽¹⁾	0.4	0.4
Total liabilities and equity	299.1	288.5

(1) The segmental basis of presentation has changed. See Note 2 in the 2020 Annual Report for more information.



Covid-19 related IFRS 9 model overlays

We made significant adjustments to our economic assumptions and scenario weightings in 2020 to reflect the impact of the Covid-19 pandemic. Our five economic scenarios were updated and weighted to the downside, to reflect the longer path to recovery for the UK. See the call out box on page 25 for more.

We also reclassified the staging of a number of corporate loans based on a review of the sector exposures and lending most at risk due to Covid-19, while also considering those customers who have been granted some form of concession. In addition, we provided for unexpected defaults from large single name exposures arising as a result of the Covid-19 pandemic from non-retail portfolios.

We made management judgment overlays with regards to payment holidays offered on a range of products. The granting of a payment holiday on its own was not considered to be a Significant Increase in Credit Risk (SICR) event, nor was it considered a default under regulatory definitions.

We also made other Covid-19 management judgement overlays , predominantly relating to mortgage and unsecured personal loan model risk refinement, including delay in repossessions.

Financial overview continued

Credit impairment losses were up £425m to £645m, of this £448m related to Covid-19 provisions for expected credit losses. See the call out box on the previous page for more. Portfolio performance remains resilient with low write-offs and material deterioration seen only on a few single name corporate cases during the year.

Despite significant credit impairment losses, the loan book is relatively low risk and prudently positioned. Our loan portfolios are well collateralised and focused on prime UK mortgage lending which accounts for 80% of the customer loan balance and has an average loan-to-value of 42%.

Our consumer (auto) finance book makes up a small part of our loan book with only 4% of total customer loans – more than 80% of the book is secured. Other unsecured retail lending including credit cards makes up only 2% of the book. We have materially deleveraged our commercial real estate portfolio over recent years and this now totals £4.7bn, down from £5.1bn in 2019.

Provisions for other liabilities and charges were 38% lower year-on-year, primarily due to additional PPI charges in 2019 which were not repeated.

Balance sheet resilience from strong capital and liquidity

CET1 capital increased to £11.1bn, with capital accretion through retained profits, a change in treatment of software assets and a lower deduction from the excess of regulatory expected loss amounts over credit provisions. These increases were partially offset by adverse market driven movements in the defined benefit pension schemes.

The CET1 capital ratio increased 90bps to 15.2%, with a 5.4p.p. buffer to Maximum Distributable Amount (MDA) restrictions. The UK leverage ratio increased 40bps to 5.1%, it remains 1.5p.p. above the regulatory requirement. The change in treatment of software assets led to a benefit of c30bps for the CET1 capital ratio and c10bps for the UK leverage ratio.

Amendments to Capital Requirements Regulation (CRR), which were published in the Official Journal on 26 June 2020, contributed 17bps to the CET1 capital ratio, through the implementation of the RWA reduction factors for certain SME and infrastructure exposures.

LCR was strong at 150%, up 8 percentage points on 2019, reflecting higher customer deposits and a transfer of £3.2bn of mortgage assets to Santander Financial Services plc, as we continue to optimise the funding structure of the group.

Looking ahead

Our operating environment remains very challenging for our customers, people and communities. Our base case assumes that there are continued local and regional lockdowns. Growth in GDP is also expected to be disrupted by the change in trading arrangements with the EU.

The mortgage market has been particularly active due to pent up demand from the lockdown period and the temporarily reduced rates of stamp duty. This has led to improved new mortgage pricing and increased mortgage applications which will likely continue into the first quarter of 2021. We expect our net mortgage lending to be in line with market growth in 2021.

We expect Banking NIM to remain broadly in line with the Q420 exit rate, predicated on stable mortgage margins, 11213 Current Account repricing announced in Jan21 and no change to the Bank of England bank rate. Operating expenses should continue their downward trend, through transformation programme cost savings. We expect credit impairment charges to be lower in 2021 driven by UK economic recovery in the second half of the year.

The actions we have taken have enabled us to continue working effectively throughout the crisis and will act to stabilise returns going into 2021. Our prudent approach to risk and capital and liquidity strength make us resilient in the face of ongoing uncertainty.

Factors affecting our Banking NIM outlook

Spreads improved in 2020

Our product spreads at the end of 2020 were noticeably higher than at the start of the year and marked a change in trend after some years of decline. The improvement was largely due to significant deposit repricing throughout 2020 which was fully embedded in the margin by the fourth quarter.

The mortgage market is strong and customer rates have increased

Following the easing of lockdown restrictions and the announcement of the temporary reduction in Stamp Duty, the mortgage market recovered strongly. This led to significant mortgage applications in the second half of the year and an increase in customer rates which is likely to continue into 2021 when the stamp duty reduction is expected to end.

Deposit rates have fallen with the lower rate environment

Savings and corporate deposits rates have fallen in the market and with bank rate close to zero there is little scope for further declines.

We reduced the 11213 Current Account rate twice in 2020 and in Jan21 announced a further reduction to pay 0.30% AER.

Wholesale funding rates are low

TFSME provides banks with significant funding capacity at close to bank rate.

To date we have drawn £11.7bn through TFSME, well below the total allowable given the support we have provided to SME customers. We expect to replace almost all bank level funding maturities with TFSME during 2021.

Sustainability

We strive to create value for all our stakeholders, engaging others to help us deliver our commitment to be a more responsible bank.

Our Sustainability strategy became even more relevant during Covid-19, as the pandemic reinforced the need to build more sustainable and resilient systems. This section is designed to be read together with our Environmental, Social and Governance Supplement.



Customers

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

Support measures

During the Covid-19 pandemic, we offered unprecedented support to our customers, while ensuring the safety of our colleagues. We provided a full package of support measures for business and retail customers, including over 373,000 payment holidays, and £4.6bn of lending to our business and corporate customers through government schemes including Bounce Back Loans (BBLs), and Coronavirus Business Interruption Loan Scheme (CBILS). We paid particular attention to supporting our more vulnerable customers, providing flexibility with support options, and the rapid adaptation of our systems and processes to respond to the crisis.

Inclusive digitalisation

During the pandemic, we continued to offer a full banking service to our customers in branch, over the phone and online.

We provided the opportunity for customers to self-serve where possible, and prioritised services for those unable to do so. We launched a Financial Support phone line and online hub to help customers dealing with financial difficulties. We introduced Chat, a new digital channel providing 24/7 service via a chatbot and access to colleagues via Live Chat. Since April 2020, we have seen over 3.7 million conversations through Chat, with volumes growing from 1,000 per day to over 25,000. To ensure capacity, we trained 4,000 colleagues to speak through live chat and introduced a continuous optimisation model for chatbot. We tested more decisions with customers than ever before, checking close to 500 customer journeys across digital channels, communications and online experiences.

To help customers access information most relevant to them, we launched a dedicated home page and support sections for all Covid-19 tools and assistance. This was across Personal and Business, Mortgages, Current Accounts, Loans, Credit Cards & Investments. Between March and October 2020, over 1.3 million customers visited one of these support pages.

Protecting customers from fraud

Santander UK anticipated significant impacts on the fraud landscape due to the Covid-19 pandemic, through changes in social behaviour and criminal activity. In preparation, we adapted our controls and 2020 awareness campaigns, which covered remote access fraud, investment scams, safe account scams, financial fraud, and Covid-19-linked scams.

We adapted our in-branch Scam Awareness sessions to virtual events for customers, colleagues and communities, open for all to attend. Following a June 2020 trial with 543 attendees, we implemented their feedback to develop 'phase two' – totalling 73 events with 1,783 attendees and an 89% satisfaction score.

Cyber security

As a result of Covid-19 and the UK lockdown we have seen an increase in customers adapting to a more digital banking experience, and in parallel, we have ensured they can place full trust in our online and mobile services.

Our global, multi-layered and agile resilience framework has allowed us to respond quickly and securely to ensure the protection of our customers and their data at a time where the industry has faced extraordinary change.

Awareness is at the core of our cyber defence; we see the protection of our customers and their data as the responsibility of every employee. We focus on educating our colleagues by hosting training sessions to enhance their cyber capabilities and ultimately bolster the bank's security. We also continue to invest in emerging cyber security talent; the first cohort of our Digital Apprentices graduated in 2020 with key skills to secure the bank's next generation of cyber experts.

'Survive and Revive' for SMEs

In 2020, Santander Breakthrough re-aligned its support to SMEs with a focus on digital delivery. Designed to provide beyond-banking support to businesses from start-up to growth, we launched Survive and Revive, a bank-wide proposition delivering a suite of resources to help SMEs manage the crisis.

Survive and Revive evolved during the year to respond to the changing economic environment and will continue into 2021. The first phase included our new resource hub, providing access to webinars, overseas opportunities, a part-funded e-commerce package, thought leadership and insights. This included a Sustainability module developed together with B Lab UK, the charity behind the B Corporation movement. Through a five-part webinar, it introduces SMEs to emerging trends in Sustainability and provide guidance for business leaders to make their companies more sustainable.

Sustainability continued

Over 50 webinars and 140 pages of content were delivered, reaching over 16,000 site visitors.

The second phase of Survive and Revive focused on helping businesses trade as restrictions across the country changed. We secured digital advertising space online and in our branches for 50 SMEs and helped those wanting better digital engagement through social media and PR toolkits. Our freelancers campaign provided £250k to fund 250 SMEs projects delivered by freelancers across the country.

We are signatories of the Investing in Women Code, and in 2020 continued a remote Women Business Leaders' Mentoring Programme for 180 participants. We improved access to support and funding to under-represented entrepreneurs, focused on women of colour as part of Santander UK's Black Inclusion Plan.

In 2020 we supported over 880 businesses through international and sector trade activity, adapting our model to deliver 69 digital activities since March 2020 to a total 867 attendees. In 2020, we added 143 members to the Trade Club Alliance and supported 36 companies who faced Covid-19 challenges with supplier matchmaking, as well as referring 59 companies to the government for a PPE matchmaking scheme.

Supporting our vulnerable customers
With the backdrop of the Covid-19 pandemic, we responded to the needs of our most vulnerable customers, from 'access to cash' solutions to providing mechanisms for help from a trusted third party.

One key initiative is our Supported Banking proposition, providing a flexible level of support from the customer's chosen third party. In addition to a Power of Attorney, we now provide a Third Party Access facility and Carer's Card option, for customers who need support but not a full Power of Attorney. Compared to other 'workarounds' where people were giving their own debit card to their carer to do their shopping, the Carer's Card and Third Party mandate are safe and legal alternatives.

For people who needed cash, but who couldn't leave their homes, we enabled secure access via the Post Office network,



Reaching out calls to customers

In April 2020, we launched 'Reaching Out', an initiative focused on calling some of our potentially vulnerable older customers, who typically would have visited a branch and may not have a cash card or access to online or mobile banking. Above all, the calls are about customer wellbeing, with informal conversations supporting the customer to cope during the Covid-19 pandemic. This might cover financial wellbeing, such as explaining how to still access cash when needed, or other elements of the customer's wellbeing where we are able to make a difference, such as liaising with our charity partners

to provide additional support to those in need. We provided these calls from frontline colleagues from April-November 2020, reaching 81,859 customers.

"One customer was 80 years old and had tried to get out to the local shop but it was closed. I asked him if he had enough food and he said he had enough for today only. I spoke to Age UK and rang him back to confirm he was happy for them to call him. They are now going to arrange to do his shopping so he does not have to go out." - Sharon Field, Community Hub Director, Stratford

meaning a customer could place an order for a limited amount of cash and allow a trusted third party to collect it.

With our focus also on building capability across our colleagues, we introduced a dedicated online Vulnerability Hub. Colleagues visited the hub over 6,000 times in 2020, raising awareness and understanding about challenges faced by some customers and how this can impact their banking. The vulnerability hub is complimented with specific training sessions for all colleagues (including specialist teams), to continually broaden knowledge and develop our ability to recognise and support our vulnerable customers.

During 2020 our bereavement service saw a number of improvements. We now offer an online chat facility to support customers and their representatives who may have questions about the bereavement process. We have also simplified the information required from customer representatives and we continue to be part of the Death Notification Service allowing a customer's representatives to notify different organisations of a death through a

centralised service. To support our colleagues, and to raise awareness and improve levels of confidence in this area, we have developed a series of tailored training videos on the bereavement process and how to support customers impacted by a bereavement.

Supporting mental health
Working with the mental health charity Mind, we provided colleagues with targeted, practical tools and guidance so that they can more confidently manage difficult conversations with customers, and manage any impact these conversations can have on their own wellbeing.

Through in-depth workshops reaching over 100 colleagues, this training helps to ensure our customers – who may be dealing with financial or non-financial related stress, anxiety and other mental health issues – are aware and have access to avenues of mental health support. These initiatives are being complemented by the provision of additional tools, e-learning guidance and support for all colleagues on mental health through our internal wellbeing hub.



Shareholders

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

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

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

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

Consistent shareholder returns
Our consistent profitability has enabled us to pay a dividend every year between 2008 and 2019. In early 2020, as the Covid-19 crisis began to unfold, the PRA announced that regulated firms should not pay dividends and instead should conserve capital. In response to this, Santander UK temporarily suspended dividend payments. This guidance was later eased and dividends payments allowed within certain guidelines, following this we paid a dividend of £103m in December 2020.



ESG investor engagement

In 2019, the Investor Relations and Sustainability teams started to directly engage a targeted selection of our investors in discussions on ESG issues, with support from Banco Santander colleagues. This year we continued our structured engagement, holding individual ESG-focused meetings with our investors.

Through these discussions, we aim to respond directly to heightened investor interest in ESG that comes as sustainability topics such as climate change are increasingly recognised as financially material to business success and resilience. In a two-way dialogue, we also gain important insight of investor needs and expectations, which we use to improve our ESG strategy and disclosure. Our ESG Supplement, for example, is a succinct data-driven report aligned to our annual report timeline and governance, developed with consideration of investors as a main audience and published on our Investor Relations webpage. These discussions can also help us navigate the many ESG guidelines and standards to ensure our reporting is useful and relevant.

In 2021 we will continue to build on our engagement, including further development of our quarterly investor updates with decision-useful ESG information.

Sustainability continued



People

Supporting our colleagues to deliver for our customers is our priority.

Culture

We are on a journey to embed our culture. Making all that we do Simple, Personal and Fair, underpinned by our nine behaviours, is critical to our effort to build a more responsible bank. We want to create a thriving workplace that promotes inclusion and diversity, prioritises wellbeing and develops the skills of our people. Our goal to be a high-performing and responsible business is reflected in the 2020 Global Pulse Survey with 88% of colleagues feeling “We act responsibly and make a positive contribution to society” up 3pts vs 2019.

Our announcement that we will form part of the One Europe business model, alongside our ongoing transformation programme, will further develop our culture driving collaboration between our teams to better serve our customers in a Simple, Personal, Fair way. It presents an exciting opportunity and the Global Pulse Survey showed that our people have positive attitudes to change - 86% feel managers lead effectively through change and 85% believe their teams support our transformation.

In 2020, we were again recognised as a Top Employer in UK and Europe by the Top Employers Institute alongside being accredited as a Great Place to Work. In 2021, our cultural priorities will continue to focus on being an inclusive and responsible organisation alongside continuously improving our culture to become more Simple, Personal, Fair in order to enable our colleagues to deliver great customer outcomes.

Ways of working during the pandemic

With the backdrop of the pandemic, we responded to the rapidly changing needs of our customers at pace and with efficiency, leveraging technology to enable over 15,000 colleagues to work remotely. Our response to Covid-19 has been well received with 88% of colleagues in agreement that “Santander is taking the appropriate steps to ensure employees stay safe and healthy at this stage of the pandemic” in the Global Pulse survey.

Our top priority is to support the wellbeing and safety of our colleagues. We made a commitment that whatever a colleague’s personal situation, we will continue to pay contracted hours as normal, including throughout any periods of self-isolation. This applies to colleagues who are both permanent and on fixed term contracts. Our commitment continues to provide colleagues who have primary caring responsibilities with paid leave. We did not furlough any colleagues.

We introduced a new always-on pulse survey called ‘Your Say’ to enable colleagues to provide regular feedback, share ideas and seek support. The survey focused on wellbeing, communication and our response to Covid-19. To help maintain social connections, we launched a ‘Stay in Touch, Keep Calm & Connect’ website to enable colleagues to remain connected through activities including stories and quizzes.

We introduced a new module to our mandatory training suite to help people work from home effectively. Topics include preparing yourself, setting up your environment and managing your time, as well as how best to stay connected. Our survey on working from home continues to show positive feedback in terms of how we have managed this process. 91% of colleagues stated they are as or more productive working from home, an increase of 7 points from when the survey was first run earlier in the year.

Inclusion and belonging

Our commitment is to be a truly inclusive organisation reflective of our customer and communities. In 2020, we set out our next three year inclusion and belonging strategy “everyday inclusion” that prioritises the themes of respect, balance, leadership, advocacy, allyship, transparency and accountability.

A member of our Executive Committee sponsors each diversity strand of gender, LGBT+, ethnicity, disability, families and carers, social mobility, and mental wellbeing. We hold a quarterly Everyday Inclusion Forum to provide guidance and direction to our strategy attended by our Executive Committee Sponsors, our Chief HR Officer and our Employee Led Network Leads.

Our eight employee-led diversity networks collectively have over 11,000 members. They consider intersectionality, providing a safe space for colleagues to share their lived experiences, and receive targeted communications within a digital community space that is a vital source of support during the pandemic. We made enhancements to

our people polices, including increasing our maternity, adoption and shared parental leave, offering a new paid sabbatical and developing ground breaking work to support menopause.

Over the summer, we held a number of colleague listening events in response to the Black Lives Matter movement, looking at the ways to support colleagues to accelerate the pace of change. In September, we put in place a Black Inclusion plan, alongside an analysis of our own data. Three areas of focus were identified: Leadership, Allyship and Networks with supporting measures and targets to shape our activity to build Black Inclusion and amplify Black Voices. Additional actions include no longer using the term BAME, publishing our ethnicity workforce data and voluntarily publishing our ethnicity pay gap and action plan in December.

We again featured in The Times Top 50 for Women List, commended for being in the top ten per cent of organisations that featured regularly during the ten years the list has been published. In the Social Mobility Employer Index, we were the highest placed Retail Bank (26th). The Social Mobility Employers’ Index, created by the Social Mobility Foundation (SMF), ranks UK employers on the actions they are taking to ensure they are open to accessing, developing and progressing talent from all backgrounds.

Our Global Pulse survey results show that 87% of colleagues believe that Santander UK has created an environment where people of diverse backgrounds can succeed, 9 points above the external benchmark.⁽¹⁾

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



Key people statistics

77%

Engagement Index Score, 7 points above external benchmark. (2019: 70%)

82%

Pride in being part of Santander, 5 points above external benchmark. (2019: 75%)



Prioritising wellbeing

The launch of our Wellbeing Strategy and Wellbeing Hub in January 2020 provided a solid foundation for the significant focus and speed at which support is in place to help colleagues through the pandemic. In recognition of our strategy we achieved “Excellence in Wellbeing” accreditation from Great Places to Work.

Our focus on wellbeing covers physical, mental, financial and social wellbeing. Our Wellbeing Hub reflects the new working environment including information on looking after your mental wellbeing when working at home, wellbeing webinars and a direct link to our Employee Assistance Programme. Since its launch, the Wellbeing Hub has been used by colleagues over 95,000 times.

Thrive, our Mental Wellbeing app, is available to all colleagues and has multiple features to help maintain mental wellbeing, including meditation, breathing exercises and a mood meter. Importantly, the app allows all colleagues to access a live text chat with qualified psychologists at the touch of a button Monday to Friday, 8am to 8pm, with responses typically received within 30 seconds. We also enhanced our Employee Assistance programme to offer virtual counselling for more complex mental wellbeing support.



79%

of our colleagues feel we care about wellbeing, 20 points above the external benchmark, and 13 points increase since 2019.

Skills development

Investing in our people allows us to be fit for the future with skilled and engaged colleagues who can truly thrive. In 2020, our people undertook 61,398 training days and we invested £7.9m, equipping them with the skills they need for now and in the future, including digital skills. Our Digital Learning Platform, MIO, saw 328,950 hits throughout 2020. The platform is focused on both development and providing support through internal communities and networks. MIO provides a variety of training styles, from 2-3 minute bursts to themed box set content.

In 2021, we will launch a number of colleague upskill academies through the new global academy offer via Dojo (Banco Santander skills platform). This will include academies on Cloud and Agile, Digital Fluency, Global Engineering, Leadership and Global Financial Crime Academy.

Employee engagement

We foster an open dialogue between employees and our senior leaders. Colleagues joined virtual “In Conversation” events this year with the Santander UK plc Employee Designated Director on topics of simplification, wellbeing and inclusion. Our CEO and members of the Executive Committee participated in quarterly virtual events, with all colleagues invited to participate in the conversation and submit their questions in the live forum. The topics included sharing Santander UK’s financial results, recognition and celebrating success and providing insight into the future strategy.

The Global Pulse Survey results improved in 24 of the 26 questions where we had a historical trend from the Global Engagement Survey (GES) 2019.

Our Engagement Index score increased from 2019 by 7 points to 77%, and is 7 points above the external benchmark. Pride in being part of Santander increased by 7 points to 82% and is 5 points above the external benchmark. Drivers of increased engagement with the most positive trends compared with 2019 were questions around wellbeing, communication, innovative working practices and collaboration. Areas of improvement included continuing our simplification to improve colleague enablement and addressing ineffective ways of working.

Working in partnership

During 2020, we continued to work in partnership with our recognised trade unions Advance and Communication Workers Union (CWU) on our approach to support colleagues through the pandemic. We have also continued consultation with representatives on changes associated with transformation.

Fair pay

Our Reward Framework is reviewed annually against the external marketplace. We are proud to have been an accredited Real Living Wage employer since 2015. Salary reviews, and changes to reward policies, are assessed for any adverse impacts on a particular group. Salary ranges and Pay Progression arrangements are visible to all colleagues. We embrace transparent reporting, evidenced by our detailed Diversity Pay Report which includes voluntarily publishing our ethnicity pay gap, and the voluntary disclosure of our CEO pay ratio in our Remuneration Implementation Report.



Sustainability continued



Communities

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

Becoming the UK's best dementia-friendly bank

In 2020, we entered the second year of our partnership with Alzheimer's Society by focusing on how to better support customers with dementia. This included developing an online Dementia Guide, and launching a bespoke e-learning module, 'Dementia Friends,' encouraging our colleagues to improve their awareness of, and commit to a social action to support people affected by the disease. At the end of 2020, 54% of our workforce were Dementia Friends and 129 contact centre and branch staff completed a Dementia Ambassador training course, aimed at empowering colleagues to share information and promote internal dementia-friendly initiatives in their areas.

We also launched the Dementia Steering Group, made up of carers and people living with dementia to ensure our products and services, (such as the ATM journey), are dementia friendly.

Despite the challenges of Covid-19, we raised over £655,000 for Alzheimer's Society in 2020, equating to over £1.4m since the partnership began in 2019.

Santander Foundation

Older people and those affected by dementia were disproportionately impacted by Covid-19. In response, the Santander Foundation postponed the launch of its new grants programme until 2021 to concentrate on supporting Alzheimer's Society and Age UK. Each charity received a £1.5m donation enabling their contact centres and online services to increase capacity and continue providing support for those in need.

The Foundation did however, further continue its support of charities though the Matched Donations programme, approving 577 employee requests totalling £509,319.



Employee volunteers provide lockdown lift

The Santander 'QuaranTea' campaign, aimed to support the most vulnerable and isolated people during the pandemic. Supporting Alzheimer's Society and Age UK, Santander colleagues volunteered to; make weekly companion phone calls to isolated individuals, provide direct support to local Age UK centres, become Digital Champions and Dementia Friends, and distribute support guides to older people in their local communities. To encourage colleagues to join the campaign, the

Santander Foundation donated £1,000 for each volunteer that took part, split equally between Alzheimer's Society and Age UK (up to £1m), and also doubled the time colleagues could dedicate to volunteering, offering 70 hours of time, compared to 35. The response to the campaign far exceeded the original ambition to recruit 1,000 volunteers and 2,591 colleagues signed up to support 5,472 vulnerable people.

Financial inclusion

Confidence with numbers is a key skill that underpins financial inclusion and in 2019 we established a three-year partnership with National Numeracy aimed at helping children and parents build confidence with numbers, using the magic of football and our sponsorship of the Champions League. To support the partnership during school closures, we enlisted Twinkl (the world's largest online education hub), the F2 Freestylers (the world's biggest football influencers), and Rio Ferdinand, former England and Manchester United Captain to create a series of free online football-themed maths challenges. The content received over 119,000 unique downloads.

Confidence in money matters is another key skill which our partnership with Young Enterprise (YE) addresses through in-school activity. Due to school closures, YE adapted their programmes, and took My Money Week (MMW) and the Fiver challenge online. For MMW, a free resource hub was created for teachers, parents and carers to share with children, and the Fiver 'at Home' challenge encouraged students to develop a product or service over four weeks using £5 start-up money. Even with schools closed, over 110,000 young people took part in activities.

Digital inclusion

Wanting to improve digital skills for older people, we partnered with Age UK to launch GoDigital in 2020. Through digital awareness events 21,716 people were reached and a further 462 people received one-to-one support.

In addition to supporting older people, we worked with We Are Digital to create content aimed at keeping 11-17 year-olds safe online. Through this programme, 1,513 young people were trained on topics such as captology, fraud and scams and sextortion.

Santander Universities

In response to Covid-19, Santander UK contributed £5.1m to university initiatives, which included a £300k donation to Oxford, UCL and Imperial College to support Covid-19 research and vaccine development. The contribution also went towards the production of PPE for the NHS and IT equipment for students.

We also supported more than 10,200 students and graduates in 2020. 490 start-ups and SMEs benefited from the Santander Universities Internship Scheme, totalling 558 internships and founderships, with 45% of the internships going on to employment with the SME.



Ethics & Environment

We are committed to upholding the highest ethical standards.

Responsible lending

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

Our policy on Aerospace and Defence, Energy, Mining & Metals and Soft Commodities and our Sensitive Social and Ethical Sectors policy continue to define our approach towards creating long-term value while managing reputational, social and environmental risks. We have in place a number of prohibitions restrictions on a range of activities. Prohibited activities now include the provision of products or services for new Coal Fired Power Plant (CFPP) projects and taking on new clients with existing CFPPs. Restricted activities include transactions specific to CFPPs for existing clients which do not significantly improve environmental impacts, such as a significant reduction of CO₂.

Environmental and Social Risk Champions and the Reputational Risk Forum reviews and approves all restricted activities to ensure that they fall within our risk appetite. This forum reviews, monitors and escalates key decisions around financial and non-financial reputational risks to the Board.

Renewable financing

In 2020, Santander was the top UK lender in the renewable energy sector by number of transactions (2nd by deal amount), exclusive of energy from waste assets. As part of this, Santander UK originated £1.27bn of debt financing to renewable energy projects. We provide advisory and financing solutions for renewable and alternative energy clients across a range of technologies and renewable energy support schemes, including onshore and offshore wind and solar projects.

In 2020 we funded renewable energy in new markets and continued to expand our service offering by developing innovative new funding structures for the sector. We advised on two onshore wind portfolio financings across the UK and Ireland, which will allow clients to secure long-term financing and assure their future growth in this sector.

We also lent to an offshore wind project in a new Asian market for that technology.

In Corporate and Commercial Banking, we continue to support traditional mid-market renewable generation technologies, with tailored project finance solutions and flexible portfolio level facilities. In addition, we delivered funding solutions for a diverse range of projects and technologies, including batteries, energy efficiency and subsidy-free renewables. In 2020 we launched an innovative "Environmental and Social Growth Funding" solution, aiming to unlock high quality projects which deliver clear sustainability benefits.

Ethical supply chain

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

In 2020 we improved our Third-Party Risk Management framework, processes and policies. The Third Party Supplier Control Questionnaire was reviewed and updated in Q2 2020 with support from EY, aligning to market best practice and including a review of the supplier's approach to ensure compliance with human rights standards and support of the Real Living Wage. Covid-19 disrupted our planned on-site assessments, and we adapted to deliver remote assessments to suppliers.

We launched our Third Party Code of Conduct in 2019, which we ask all suppliers to accept on our platform. We updated this in 2020 to include reference to climate change, inviting suppliers to join our commitment to a low carbon economy. We also improved our Procurement controls in review with a consultancy.

Anti-Financial Crime, Anti-Bribery and Corruption

Our Anti Financial Crime (AFC) strategy is set around the three principles of 'Deter, Detect and Disrupt'. In 2020 we continued to promote our AFC Culture and Strategy, including through senior leadership briefings and colleague events or communications.

We continue to develop external partnerships including through participation on the Economic Crime Action Plan. We're a proactive member of the Joint Money Laundering Intelligence Taskforce and supported work to reform the Suspicious Activity Reporting regime. In addition, our partnership with the NGO "Stop the Traffik" strengthens how we tackle human trafficking and modern slavery.

In 2020, AFC Strategy held a virtual three-day conference with over 400 colleagues in attendance and external speakers from the National Economic Crime Committee and Stop the Traffik.

Carbon neutrality in our operations

At Santander UK, we are committed to reducing our operational impact on the environment. Banco Santander set an ambition to be carbon neutral across its operations by 2020, and the UK has achieved this. In 2020, we created the working group 'Forum for Environmental Change' to drive and coordinate our efforts. Our energy strategy enables annual reductions in carbon emissions across the UK estate. In 2020, Covid-19 amplified these reductions, with emissions of 6,452 tCO₂e and total energy use of 123,152,495 kWh.

With significant disruptions to typical working across the UK, our teams responded by monitoring the energy-related impacts of these disruptions. We have an employee network of over 1,800 Green Champions. Our engagement programme 'Go Green' is evolving to consider the environmental aspects of home working. Annual water use across our estate decreased by 27% and rainwater collection units have also been in place at our Carlton Park data centres since 2019. We have taken steps to meet our net zero ambitions with the offsetting of 6,452 verified carbon units in 2020 and 100% procurement of electricity via green sources, bringing our net carbon emissions to zero.

Our offices and data centres successfully retained our ISO 14001 (environmental) and ISO 50001 (energy) management system certifications. In 2020 we started construction of our new head office building, Unity Place. Aligning with rigorous efficiency and environmental criteria, Unity Place is set to rank in the top 10% of buildings with regards to BREEAM sustainability, demonstrating best practice.

Stakeholder voice in the boardroom

Section 172(1) Statement

This section sets out how the directors have regard to their duties in section 172 of the Companies Act, to promote the long-term success of the Company for the benefit of its shareholder and other stakeholders.

This s.172 statement reflects our Company's position as the holding company for the Santander UK group. The Company does not have employees, customers or suppliers. However, in the spirit of complying with the requirement, we have instead used the activities of our subsidiaries to complete this statement where appropriate.

During the year, the directors considered the views of all stakeholders insofar as is possible and practical when making decisions for the Company, mindful of our primary purpose to help people and businesses prosper. Inevitably there are times where a decision has required a trade-off to be made between stakeholder groups and, where this is the case, we sought to do this in a clear and transparent manner in line with our strategic priorities.

More information on our stakeholders is set out in the Sustainability section which also identifies why we consider these stakeholders to be key to our business model and strategy.

The likely consequences of any decision in the long term

Covid-19 had an immediate and significant impact on the financial position of the Company as well as its stakeholders. However, it also reaffirmed the importance of our ongoing transformation programme, with its focus on Technology, Procurement, Digital Capability and Omni-channel service provision. The Board remained focused on providing oversight of the programme's delivery and balanced this with the interests of stakeholders including our customers in light of the current trading environment. In the face of unprecedented challenges posed by Covid-19 we maintained our strategic priority to simplify and digitise the business for improved efficiency and returns. Our engagement with stakeholders is described below.

To ensure continuity of service for our customers, we accelerated technological change with employees reskilling to strengthen the support provided to customers during lockdown and restricted branch opening hours. We supported the swift development and roll out of various initiatives intended to provide additional support to customers who were unable to access services in branch (further details in the Our response to Covid-19). The Board received regular updates on the initiatives as well as feedback from customers.

We devoted significant time to the long-term profitability of the business, which included considering product pricing of our 11213 account. The Directors balanced the future viability of our business against the impact on customers and sought to remain competitive in the market, ensure fair outcomes for customers on pricing as well as protect customers adversely impacted, by moving some customers to other products if appropriate. We also put in place additional support for customers identified as vulnerable.

The interests of our employees

As the Company has no direct employees there is currently no employee NED representation at the Board level. However, the Company oversees certain aspects of employee relations in subsidiaries, one of which, Santander UK plc, a designated Non-Executive Director to represent the views of the workforce and if the number of employees in other entities increases, employee representation at subsidiary or at Board level will be reviewed. For the time being, these other entities make their own arrangements for ensuring engagement with their employees and this is reported in their respective s.172 statements. The Global Pulse Survey included these employees in its scope.

Covid-19 had a significant impact on our employees with the majority moving to remote working for their safety and wellbeing. The Board considered reports on steps taken to protect colleagues working in branches from Covid-19 infection as well as from physical or verbal abuse from a minority of customers. We supported proposals for keeping branches open wherever possible, given their importance to the communities they serve, especially for our most vulnerable customers without access to digital services.

Considering the needs of our employees, we reduced opening hours but balanced this with a significant increase in contact centre and digital support - both online and via mobile banking. We were mindful of the operational risks this presented and the mitigating actions that were being implemented and would evolve over time in response to our experience operating remotely. The Chief HR Officer regularly reported to the Board on the results of frequent employee wellbeing surveys and initiatives to support employees through these challenging times. There was positive feedback on our rapid response to the pandemic that enabled most colleagues to work remotely within a few weeks of lockdown and colleagues felt there was a genuine interest in their wellbeing. The pandemic provided a reminder that employee wellbeing is an important element of organisational resilience and efficiency and the Board and the Board Responsible Banking Committee paid close attention to employee metrics that seek to quantify well-being.

We considered significant proposals impacting large numbers of colleagues at both national and local levels. We received assurance that our two recognised unions, Advance and CWU, had been actively consulted and engaged to ensure that employees' views were represented in those proposals.

In addition to responding to these challenges, the Board Remuneration Committee worked with management to align executive pension contributions, in line with best practice, with the wider workforce, and we provided strong challenge to ensure that the Company-wide remuneration policy remains Simple, Personal and Fair. We continued to support initiatives and investment in our people to ensure they have the skills and knowledge to thrive – a key strategic priority – this is covered in more detail in the People section and we have been in active dialogue during the year about revising our Employee Value Proposition to reflect the experience of Covid-19, the aspirations of our colleagues and the needs of the business.

The need to foster the company's business relationships with suppliers, customers and others

Covid-19 has impacted all of our customers, both individuals and businesses. It has challenged the delivery of our strategic purpose of providing our customers with an exceptional customer experience, and details of our efforts are provided in the Covid section and the Sustainability section.

As a Board we paid close attention to our business relationships across our Retail, Corporate & Commercial Banking and Corporate Investment Banking businesses. At the outset of the lockdown we held several ad hoc Board meetings to understand how continuity of service and additional support would be provided to individual customers and businesses both large and small. We noted several improvements including upskilling of colleagues to empower them to resolve customer concerns at the First Point of Contact and the introduction of a 'Digital Accelerator' to improve the digital experience of customers.



Branch Staff at the Vanguard

Alert employees working in our branch network have been instrumental in caring for our customers in these challenging times: whether spotting exceptional withdrawals of cash to pay rogue builders, signs of human trafficking or unapproved withdrawals of cash by carers of vulnerable customers, their service on the front line has had a tremendous impact. We recognised their achievements on our intranet and this was also reported to the Board. Really Knowing Your Customer means more than account opening forms!

Responding to Black Lives Matter

We held a number of events in response to the Black Lives Matter movement, listening to colleagues about their experiences, analysing our own data then looking at ways to support colleagues and accelerate the pace of change within the bank. Disparities between the experiences of employees from different ethnic groups raised in these discussions were considered by members of our Executive and the Santander UK plc Employee Designated NED, who reported her feedback to the Santander UK plc Board.

We responded by developing a Black Inclusion plan. Three areas of focus were identified: Leadership, Allyship and Networks, with supporting measures and targets to shape our activity to Build Black Inclusion and amplify Black Voices. We will also now use Asian, Black, other Minority Ethnic and White ethnic group identities rather than BAME in our analysis and reporting, publishing our ethnicity workforce data and our Ethnicity Pay Gap.



Extensive customer testing helps shape new customer journeys such as the Business Bounce Back Loan digital journey, and we have developed an holistic Net Promoter Score tracking programme to understand what are the key factors that drive 'promoters' and 'detractors' of our brand. We have used this data to inform our discussions about prioritisation such as the mobile development backlog, and to understand the customer impact of key strategic decisions such as the 11213 current account pricing changes.

We worked closely with the Government and industry to make funds available to businesses to limit the impact of Covid-19. We provided challenge to the initial design of the schemes and also their implementation, impact on capital, liquidity, colleagues and customers. We accepted that fraud risk and operational risk might increase as a result of our participation in these government schemes but concluded that the interests of our customers would outweigh these negatives and we sought assurance on the controls and workarounds that would be put in place to mitigate these risks. We regularly received management information on loan applications and release of funds and associated risk issues.

As part of the Board Risk Committee's consideration of third party suppliers, we noted plans to work closely with our suppliers, ensuring their business continuity plans were in place and capable of providing continuity of service to the Company whilst adjusting to the new operating conditions under Covid-19. We have continued to uphold the standards expected of them including reviewing how we assess and mitigate the risk of human trafficking or slavery in our supply chains, and ensuring our UK Supplier Code of Conduct explicitly references the supplier contribution we expect towards a low-carbon economy. Our procurement proposition is under review as part of the transformation programme, which is considered regularly at Board level.

The impact of our operations on the community and the environment

As a result of Covid-19, many people in the communities in which we operate have been left feeling isolated or vulnerable. We have taken a particular interest in the many instances where employees have made a difference in their local communities and welcomed and acknowledged two colleagues receiving British Empire Medals for services to the community.

Stakeholder voice in the boardroom continued

Sustainability is one of our four strategic priorities and we are determined to further embed sustainability into the way we do business. Climate change is considered as a key financial risk as well as a reputational risk, and the Board is actively considering the long-term effect of our operations on the environment including its lending decisions. In accordance with our PRA implementation plan, the implemented governance is that reputational risk aspects are considered at the Board Responsible Banking Committee while other risk (financial) is considered at Board Risk Committee. In addition to both of these Committees considering climate change in 2020, the Board also received a training workshop on climate change in September 2020.

As a Board, we adopted locally the Banco Santander Responsible Banking policies on Sustainability, Human Rights and Culture, as part of a Banco Santander-wide exercise to ensure consistent standards and simplification.

Maintaining a reputation for high standards of business conduct
High standards of business conduct are a regulatory and communal imperative. Without trust in our services and our brand, we cannot serve our customers or the wider community. As a Board of a recognised and

trusted high street brand, we are deeply aware of what Santander means to our customers and the risks that could damage its reputation. We therefore maintain oversight through our Board Risk Committee and Board Responsible Banking Committee of improvements in our technology, data capture and structure as well as ensuring that we are treating customers fairly, putting in extra support for those considered vulnerable. We expect all employees to take individual accountability for our reputation and protecting our licence to operate.

Although Covid-19 has changed some of the challenges faced, both in implementing government financial support schemes and changing fraudster tactics, Financial Crime has been a focus of our attention. Clear oversight and close supervision is managed by the Board Responsible Banking Committee with relevant issues escalated to the full Board. This approach is supported by comprehensive Anti-Financial Crime training for all Board members. Further to this, a centralised Anti Financial Crime Academy was launched in 2020, which builds on enhanced, role specific training for colleagues managing controls and processes as part of the financial crime compliance framework.

We continue to uphold high ethical standards in our fight against financial crime and have taken forward a number of projects with external stakeholders. These include work with 'Stop the Traffik', the global leading Human Trafficking prevention charity. We have created a bespoke awareness training package, supported by the Modern Slavery Statement. We are also prominent members of the Joint Money Laundering Intelligence Taskforce (JMLIT), an industry and law enforcement framework for successful intelligence sharing. Overall, we are increasing our Private Public Partnerships to manage and respond to significant financial crime threats.

The need to act fairly as between members of the company
We have a single shareholder that is Banco Santander SA. The Board ensures that the shareholder's interests are balanced against those of other stakeholders, including by the analysis of capital contributions and group-wide employee incentives, and ensuring individual remuneration scorecards include non-financial KPIs to measure positive actions in stakeholders' interests.

Non financial information statement
This section is produced to comply with s414CA and s414CB of the Companies Act 2006. The information listed is incorporated by cross-reference. Additional non-financial information can be found in our 2020 ESG Supplement.

Reporting requirement	Policies and standards	Information necessary to understand our business and its impact
Environmental matters	Environmental Policy	Emerging risks, pages 24-25 Risk management overview: TCFD, page 26 Sustainability: Ethics and environment, page 37 Directors' report: Streamlined Energy and Carbon Reporting, page 75 ⁽¹⁾
Employees	People Policies Whistleblowing Policy Ethical Code of Conduct	Sustainability: Fair pay, page 35; People, pages 34-35 Board Audit Committee Chair's report: Whistleblowing, page 62 ⁽¹⁾ Board Responsible Banking Committee Chair's report, People and Culture, page 64 ⁽¹⁾ Directors' report: Ethical Code of Conduct, page 78 ⁽¹⁾
Human rights	Human Rights Policy	Sustainability: Ethics and environment, page 37
Social matters	Social Ethical Policy	Sustainability: Communities, page 36 Ethics and environment, page 37
Anti-corruption and anti-bribery	Anti-Bribery & Corruption Policy Ethical Code of Conduct	Sustainability: Ethics and environment, page 37 Directors' report: Ethical Code of Conduct, page 78 ⁽¹⁾
Principal risks and impact of business activity		Risk management overview, pages 20-25
Description of business model		Business model, page 14
Non-financial key performance indicators		Our Performance and KPIs, page 18

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Board dives deep into Sustainability

In November 2020 the Board Responsible Banking Committee had a two-hour workshop on Sustainability, in order to gain a detailed understanding of current sustainability macro trends and material issues for the bank, such as diversity, financial inclusion and climate change, and their implications for our business. The Board Responsible Banking Committee agreed the evolution of the Sustainability strategy, our key sustainability priorities for Santander UK moving forward and the level of ambition for each of these priorities. This will support the development of medium to long-term metrics and targets, to be approved by the Board.



Glossary

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

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

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

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


Further Information

Contact us

Customer services

For more information on our products and services, please visit our website:

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Shareholders

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

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santandershareholders@equiniti.com

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Community involvement

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

 santanderfoundation.org.uk

Media centre

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

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

Investor relations

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

 santander.co.uk/about-santander/investor-relations
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Key dates

28 April 2021	Q1 2021 results
28 July 2021	Q2 2021 results
27 October 2021	Q3 2021 results

Glossary

For a glossary of terms used in this report:

www.santander.co.uk/about-santander/investor-relations/glossary



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