

Santander UK Group Holdings plc
Strategic Report 2016

Here to help you prosper



 Santander

About this report

The Strategic Report outlines the key elements of the Santander Group Holdings plc 2016 Annual Report (2016 Annual Report). We produce it to help readers more easily assess our performance and future prospects. It also explains Santander UK today and our place in the UK banking market.

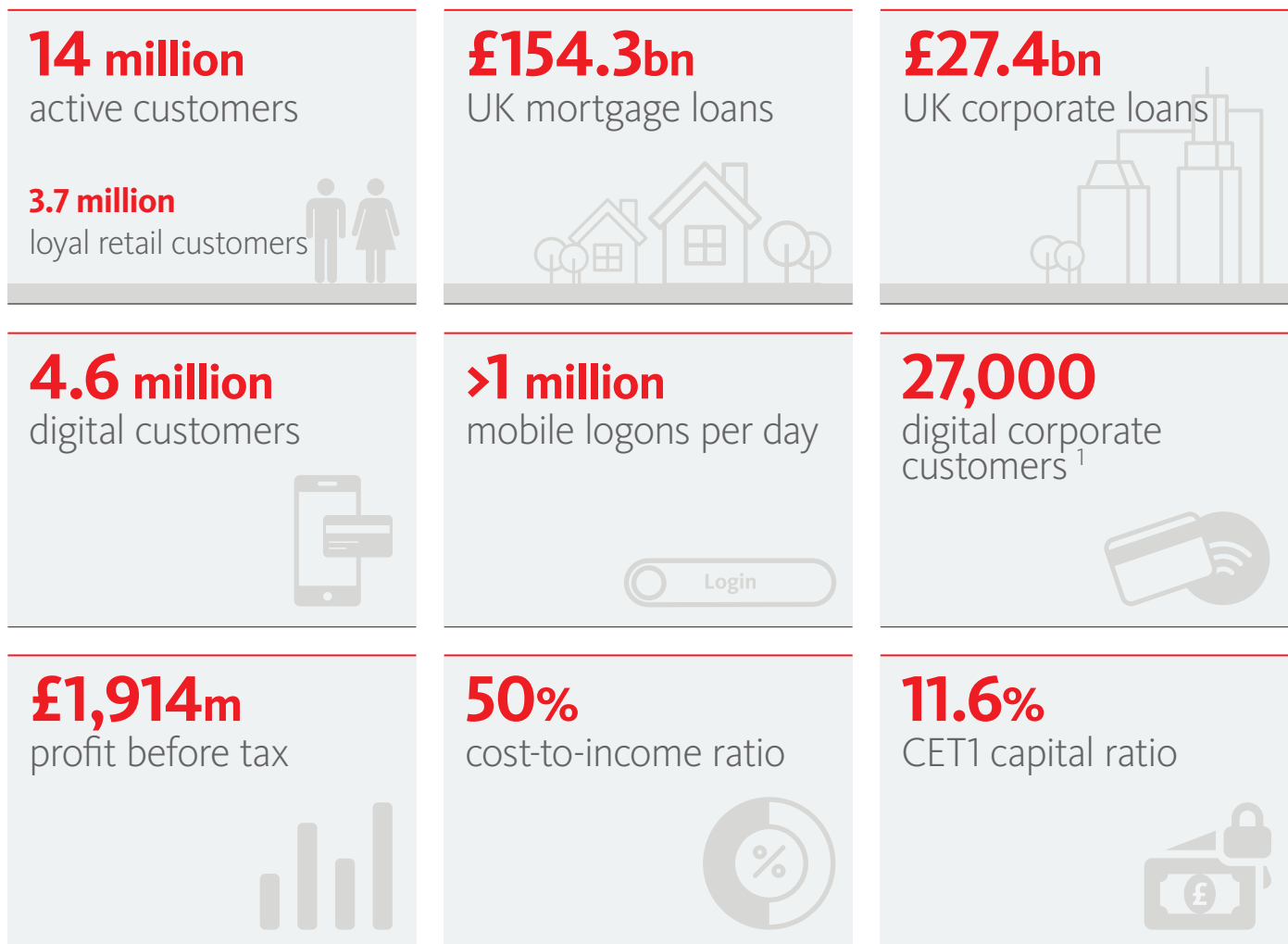
We are committed to high ethical standards in how we deal with all our stakeholders as well as our responsibility to the environment. As such, the sustainability of our business is not separated from our strategic direction and we have again included key information from our sustainability reporting in our Strategic Report.

By order of the Board.

Nathan Bostock

Chief Executive Officer
22 February 2017

2016 performance highlights



(1) Digital corporate customers includes active business banking users (from our Retail Banking segment) as well as Commercial Banking users of our Connect platform
A glossary of terms used in this report is available at: www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary.

Important information for readers

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

This report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See Forward-looking statements on page 303 of the 2016 Annual Report.

Santander UK Group Holdings plc (the Company) is the immediate parent company of Santander UK plc. The Company and Santander UK plc operate on the basis of a unified business strategy and have common Boards, albeit the principal business activities of the Santander UK group are currently carried on by Santander UK plc and its subsidiaries (the Santander UK plc group). The Company has adopted Santander UK plc's Corporate Governance and Risk Frameworks to ensure consistency of application. However, the Frameworks are applied from the level of Santander UK plc across the Santander UK plc group. As a result, the review of the business and principal risks and uncertainties facing the Company, and the description of the Company's Corporate Governance, including the activities of the Board and risk management arrangements, are integrated with those of Santander UK plc and are reported in this document as operating within the Company.

➔ For more information see www.aboutsantander.co.uk

Santander UK

Here to help you prosper

Our purpose is to help people and businesses prosper

Our aim is to be the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities

The Santander Way is how we do things in a Simple, Personal and Fair way

Our strategic priorities

Customers

- Grow customer loyalty and market share
- Deliver operational and digital excellence

Shareholders

- Achieve consistent, growing profitability and a strong balance sheet

People

- Live The Santander Way through our behaviours

Communities

- Support communities through skills, knowledge and innovation

Strategic Report contents

About us	2
Chair's statement	4
CEO's statement	6
Strategic review	8
Risk overview	14
CFO's review	18
Stakeholder review	20
Governance review	24
Additional information	27

We are the only full-service scale challenger in the UK

“We are increasingly recognised as a bank which offers value to all our customers through innovative products and services.”

Unique position; meaningful scale

Over recent years we have developed a strategy of ongoing transformation to build on our heritage as a trusted provider of retail mortgage and savings products. By leveraging our scale and presence we now offer a comprehensive suite of products and services and are a more diversified retail and commercial bank. Underpinning our success is our customer-focused culture and well-recognised brand which have driven much improved customer satisfaction since 2014.

Seamless service across digital, telephony and branch channels

Our omni-channel model means customers can choose how they want to be served and to move seamlessly between digital, telephony and branch channels. We provide high-quality service across all these channels, regardless of where the customer journey started or ended.

We see our customers increasingly moving towards digital, and have developed online processes for key products and have introduced market leading tools to help them monitor, understand and manage their finances.

Our branch network remains an important part of our omni-channel model. It covers more than 80% of the 1,000 largest financial centres in the UK, which gives us the scale and presence to pose a genuine challenge to the incumbent banks and a strong base to compete. We also serve our corporate and commercial customers with an extensive network of Corporate Business Centres located across the UK.

Scale to challenge the Big Four¹

As a subsidiary of a large international banking group, we can access shared resources, expertise and capability from across the globe. We draw on technological innovations, operations and support services provided by independent operating entities from across Banco Santander. We are also well placed to help our customers grow their business abroad by leveraging our parent's global reach.

Our 1123 Current Account which we launched in 2012, remains a market-leading proposition, despite changes to the terms made in 2016. This product has enabled us to build closer relationships with our personal customers and its success means that we are now the fourth largest current account provider in the UK, with a 37% increase in current account volumes since 2012².

Retail mortgage lending remains at the core of our business, accounting for 77% of customer loans and making us the third largest mortgage provider in the UK³. We are also successfully challenging the Big Four banks in the personal current account market as well as in corporate and commercial banking. In these areas we have invested in expansion and innovation – increasing competition in the market by providing a viable alternative for customers.

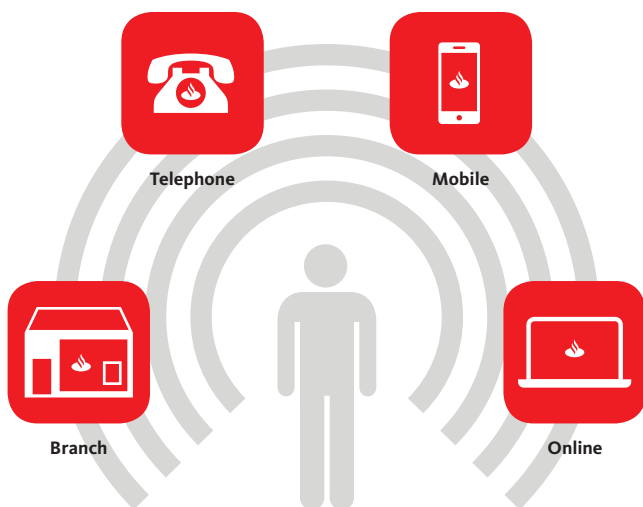
Our client focus and much-improved customer satisfaction have also resonated with corporate and commercial customers. Our model is based on a network of 67 Corporate Business Centres (2012: 35) and relationship managers (up c200 in four years) who are close to the customers they serve and truly understand their needs, risks and opportunities. This customer focus along with a prudent risk approach have allowed us to grow strongly above the market in recent years, becoming the fifth largest UK commercial lender³.

(1) The Big Four are Lloyds Banking Group plc (LBG), Barclays Bank plc (Barclays), Royal Bank of Scotland Group plc (RBS) and HSBC Holdings plc (HSBC)

(2) CACI's CSDB Current Account Stock, Volume, January 2012 vs October 2016

(3) Santander UK analysis. Mortgage provider rank based on bank annual reports. Commercial lender rank based on loans to SME clients by UK retail and commercial banks and building societies.

Seamless omni-channel customer experience



Our customers can access all of our services in a seamless way from face-to-face to remote

➔ For more on our culture see page 5

➔ For a list of our behaviours see page 7

Focus on technology and customers

We are focused on delivering innovative solutions to help our customers manage their money more effectively and bank with us more efficiently. We invest heavily in technology to develop our seamless omni-channel experience which aims to allow customers to bank with us where and how they choose.

Throughout this report we highlight a number of tangible developments and innovations incorporated during 2016:

- ➔ **Making investing more accessible** through our new Investment Hub; an online non-advised service with access to over 1,500 funds **Page 8**
- ➔ **Technology helps us to better understand our customers' needs** and support our seamless omni-channel service **Page 15**
- ➔ **Investing to support a seamless customer experience** with technology developments supported by new data centres which provide a solid foundation for our digital transformation **Page 16**
- ➔ **Innovating for our SME customers** through our online platform to provide same-day working capital loans **Page 18**
- ➔ **Quicker service for our mortgage customers** through our online application process which can be completed in under an hour **Page 20**



A Simple, Personal and Fair culture

We are making significant progress in embedding our Simple, Personal and Fair culture by reinforcing the set of behaviours, which our colleagues created in 2015. These behaviours are becoming part of our corporate DNA and support the creation of a culture where everyone can be their best at work.

We strongly believe a highly motivated and engaged workforce provides the best customer service, and our goal for 2018 is to be a Top 3 UK bank for colleague engagement⁴. In 2016 we made excellent progress with an engagement score of 72% – six percentage points above the average of other UK financial service companies that participated in these studies.

We also encourage our people to take part in regular feedback sessions and to contribute ideas to help us work better together. Further improvement remains at the heart of our plans.

(4) Colleague engagement is the percentage of colleagues that feel favourably engaged working for Santander UK. Survey conducted by Korn Ferry.

Customer focused ring-fence model

On 22 December 2016, the Board of Santander UK approved a revised business model and legal entity structure to comply with the ring-fencing requirements in the UK. The revised model provides greater certainty for our customers while ensuring minimal disruption and a smooth transition for those customers impacted.

With the Banking Reform Act due for implementation by 1 January 2019, and in light of the changeable macro environment, the Board concluded that we can better serve our customers with a 'wide' ring-fence structure, rather than the 'narrow' ring-fence originally envisaged. Under this model, Santander UK plc, the ring-fenced bank, will serve our retail, commercial and corporate customers. This also maintains longer-term flexibility and leads to lower overall cost with the migration impacting fewer customers.

Abbey National Treasury Services plc will no longer constitute the non-ring-fenced bank and its activities will be revised as part of the new ring-fencing model.

We intend to complete the implementation of our ring-fence plans in advance of the 2019 legislative deadline, subject to regulatory and court approvals and various other authorisations.

Chair's statement



“It has been a successful year as we have simultaneously focused on improving the service we provide our customers while pushing forward with technological and regulatory transformation despite a changeable and more challenging macro environment.”

Rising to the opportunities and challenges ahead

It has been a successful year as we have simultaneously focused on improving the service we provide our customers while pushing forward with technological and regulatory transformation despite a changeable and more challenging macro environment.

We have maintained our strong business performance in 2016, delivering continuing growth and profitability with prudent management of risk and balance sheet strength. We are, at the same time, the only full-service scale challenger bank in the UK, and continue to deepen customer relationships and offer market leading value and improved quality of services. This has been possible thanks to the professionalism and dedication of our people in every part of the bank.

We are entering a period of uncertainty as the UK begins the process of leaving the European Union. The details of how this will affect our customers – particularly those businesses with a trading relationship with the EU – and the UK-based financial services sector more widely, remain unknown.

As part of the global Banco Santander group, we have more options available to us than our peers when considering how to address the uncertainties ahead. This includes our plans for implementing the requirements of the Banking Reform Act which we revisited in light of changes in the macro environment. Rather than establish separate Retail and Corporate Banks, we decided that our customers would be better served at this stage by maintaining our retail, commercial and corporate customers in a strong single structure, with the more complex needs of our largest multinational corporate customers being served by Banco Santander.

As a separately capitalised and funded subsidiary with autonomous management and governance structures, 98% of our assets and 99% of our liabilities are UK-based. At the same time we are able to harness the strength of the Banco Santander group to provide innovative and customer-focused propositions to challenge the dominance of the Big Four banks. This includes leveraging the Banco Santander group's global presence to provide a unique trade offering for British SMEs to help them export and grow in countries across the world.

Digital innovation and technology

Our customers rightly expect digital and technological innovation to improve their experience with us. We are continuing to invest in new technology solutions to deliver better customer experiences, including in 2016 in mortgages, our banking app and website, and our intuitive and simple online investment platform that is among the first of its kind available to UK customers. We are also investing in our internal technology capabilities, such as advanced data analytics and new security software to meet our customers' expectations.

Cultural change

Paralleling our digital transformation, we remain committed to embedding the right culture and behaviours to serve our customers according to the values we aspire to of Simple, Personal and Fair. The nine behaviours that our people defined last year to embody these values are now established as a part of how we measure performance and determine reward for our people. While we are pleased at the progress we have made, cultural transformation is a long-term and continuous process requiring the ongoing leadership of the management team and commitment of all our people. The culture of our bank is a priority for the Board.

We also understand that a diverse workforce brings 'diversity of thinking' that improves management decisions, accelerates cultural change and contributes to improved business performance. We have set ourselves a target of achieving gender balance in our senior management team by 2021 within a range of 10% on either side. This target is ambitious but necessary. The targets are embedded in our Executive Committee's annual performance objectives to ensure they become central to the way we operate. The Board will continue to monitor the progress being made on all forms of diversity, and in the initiatives we have introduced to realise our aim such as reverse mentoring, unconscious bias training, and a rejuvenation of our people-led diversity networks.

Regulatory changes

In addition to the macro challenges, banks are also facing an unprecedented volume and pace of simultaneous, multiple, new regulatory requirements. We support a more robust regulatory environment as an essential mechanism to reform the UK banking sector. The sector needs to continue to put greater focus on the needs of people and businesses and rebuild the trust of customers, regulators and policymakers. The UK cannot claim to be a leading global financial centre until it provides its own economy and people with world class service. However, the scale and pace of implementation required for regulatory change poses one of our key risks and crowds out systems capacity for our drive to improve customer experience and deliver digital transformation.

The Board

The Board has continued to focus on meeting our stated objective of being the best governed bank in the UK. Our recent external evaluation of effectiveness has given us the assurance that we are making excellent progress. In the year ahead, we will improve our efficiency and effectiveness as a Board and continue to ensure we challenge and support management in achieving our strategic objectives. I am particularly confident about the contribution of our high calibre Non-Executive Directors who demonstrate independence of mind and depth and breadth of experience.

Earlier this month it was announced that Peter Jackson will be leaving his executive role at Banco Santander SA. As a result, he will also be stepping down as a Banco Santander Nominated Non-Executive Director of Santander UK. I would like to thank Peter for his contribution to the Santander UK Board and the bank as a whole.

Our culture is built on doing things The Santander Way

Simple

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

Personal

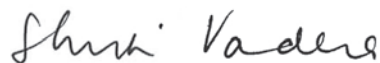
We treat our customers as valued individuals, providing a professional service they can trust. We support our colleagues to develop their skills and achieve their ambitions.

Fair

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

Looking ahead

While the operating and regulatory environment in 2017 will be at least as demanding, we remain determined to win the loyalty of customers and challenge the Big Four incumbent banks. The commitment of our people is fundamental in achieving this objective. Since joining Santander UK, wherever I have been across the country I have never failed to be impressed by their dedication and desire to do the right things for our customers. I would like to thank Nathan Bostock, our CEO, for his exemplary leadership, and his management team and all our people across the bank for everything we have achieved in 2016.



Shriti Vadera

Chair
22 February 2017

Chief Executive Officer's statement



“We believe that by putting the customer at the heart of everything we do, we will fulfil our purpose of helping people and businesses in the UK prosper.”

Looking forward with clarity and ambition

At Santander UK our purpose is to help people and businesses prosper – helping them achieve their goals – be it a first-time buyer saving to get onto the housing ladder, parents saving for their children’s weddings, or a Small to Medium Enterprise that wants to grow internationally. We understand that prosper means many things, and it is not just about money, but also about fulfilling ambitions.

We delivered strong results in 2016, with business growth across all three main customer business segments – all supported by robust UK economic growth. We also continued to see the benefits of our innovative approach to enhancing our customers’ experience. Significant improvements to core digital services throughout the course of the year have given us one integrated platform which will allow us to understand and meet our customers’ needs better.

With the transformation we have made in putting the customer at the heart of our business, Santander UK is in good shape. Together with a continued focus on costs and risk management we believe we have a solid foundation to succeed and confidence in the future.

Looking ahead, we expect to see a changeable and more challenging macro environment. Having a long-term strategy that is clear and understood is crucial. We believe that businesses, like Santander UK, which have clarity of vision and purpose stand the best chance of success.

Delivering on our strategic plan

Our strategic plan, which supports our purpose is reviewed each year in the light of the prevailing operating environment.

At the Banco Santander Group Strategy Update in September 2016, we provided an update on our progress and affirmed our commitment to our five strategic priorities. We amended three of our 2018 targets in anticipation that the low interest rate environment would continue for longer and that the credit environment could worsen somewhat.

I am confident that, as the only full-service scale challenger, we can face the economic headwinds ahead and deliver our strategy. Furthermore, by being a bank that is Simple, Personal and Fair and by living up to our set of behaviours, we will continue to help people and businesses prosper. Our strategic priorities and revised targets are outlined on pages 12-13.

Building long-lasting relationships with our customers

Our 2016 results underline the importance we attach to deepening customer relationships. Our customer-centric approach is fundamental to our resilience and will remain so as we look to the opportunities and challenges that the future brings.

Our focus for the future is to develop more loyal relationships with our personal and corporate customers. With an ongoing investment in innovative products and a deeper and more personalised service we want to be our customers’ bank for life – delivering a seamless experience across all channels.

Innovating through digital

Our digital transformation programme aims to deliver real benefits to our customers. We made some tangible developments in 2016 with innovative uses of voice biometrics, collaborations with FinTech companies and development of a seamless omni-channel experience, giving customers choice and convenience in how they bank with us.

Our partnership with Kabbage, a specialist online business funding provider, means that we can now offer our SME customers access to a same-day Working Capital Loans solution. We have also introduced a digital end-to-end mortgage application process so our customers can complete their mortgage application online in under an hour.

In June 2016 we launched the Investment Hub, a non-advised investment portal with access to over 1,500 funds, to enable our customers to manage their investments online. We launched the portal in only ten months, thanks to our new 'agile' programme development methodology, and have seen an excellent take up from both existing and new customers.

Customers want a seamless service, in their channel of choice. To help us achieve this, we collaborate with innovative FinTech companies. This approach is shared by our parent, Banco Santander, who added a further \$100m to our London-based InnoVentures fund to invest in credible FinTech companies so we can leverage technology from the latest innovators.

Embedding our behaviours and the right culture

One of my key priorities for 2015 was to introduce a new set of organisational behaviours to embed the right culture across the business. I am impressed to see my colleagues demonstrating these behaviours in their day-to-day work, helping us live The Santander Way. I would like to thank each and every one of them for the tremendous effort and focus they have invested this year.

Our behaviours support colleagues in creating an environment in which they can flourish and in turn drives better customer service and improved results. Each of the leaders on my Executive Committee are also focused on driving the right culture and behaviours as well as balancing the needs of our customers, our people, our communities and our shareholders.

I am also very pleased that our behaviours have been endorsed across the wider group and are being embedded throughout Banco Santander globally.

Supporting the communities in which we operate

The Discovery Project, our flagship community programme, was launched in 2015 with a goal to help one million people by 2020. In its first year the programme has helped 196,300 people in our communities through employee participation in a wide range of initiatives designed to build skills, knowledge, and experience, and encourage innovation. In 2016, Santander Universities also awarded 8,000 scholarships.

I am particularly grateful for the participation of 6,000 of our people who volunteered for community activities across the UK. These are important for closer engagement with our communities as well as the sustainability of our business going forward.

For more on The Discovery Project, see page 23.

Our behaviours help us live The Santander Way



Bring Passion



Talk Straight



Embrace Change



Show Respect



Speak Up



Keep Promises



Give Support



Truly Listen



Actively Collaborate

Thank you

As we move into 2017 it is more important than ever that we continue to focus on customers to deliver against our ambitious plan. We are investing in new technology so our customers and our people have the best experience. We will also ensure that we allocate and manage our capital in the most efficient manner.

I believe that 2016 has proved to be a year of real progress for Santander UK. This was only made possible through the hard work of all those who work here, to whom I am most grateful. I am looking forward to meeting the challenges we will face together as a team, and helping our customers, people, shareholders and communities prosper.

Nathan Bostock

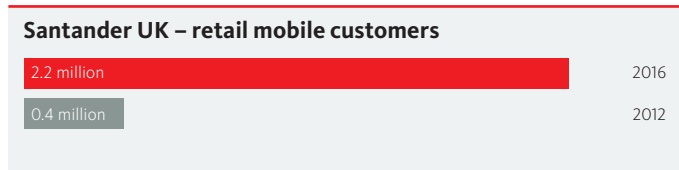
Chief Executive Officer
22 February 2017

We see five major forces affecting the UK banking market

1. Changing customer behaviour

Customer expectations are shifting rapidly as new technologies are more widely adopted – with improved ease, access and speed – driving a move to digital channels. Today, adults in the UK spend 15-20% of their time online and around 60% of them access social media networks at least weekly, and many more frequently ¹.

Over the next 10 years these trends will likely intensify and are expected to cause considerable disruption to the banking sector as are other wider trends. For example, we expect millennials (those people born in the internet age) to become more dominant in society, an ageing population to change national demographics, women to have a growing influence in financial decision-making and international communities to become increasingly mobile.



Millennials in particular are likely to be a driving force for the future banking market, representing over half of the population by 2029 ². Their expectations will be shaped by highly digitised lifestyles and everyday experiences with a new generation of technology firms.

We are embracing these changes and have already introduced innovations such as voice biometrics, seamless omni-channel, collaborations with FinTech companies and end-to-end digital processes. Our mobile customer numbers have increased significantly in the last four years and made 150 million digital transactions in 2016 and we see significant opportunities to evolve our delivery models further in the coming years.

2. Rapid technological change

Technology is at the core of changes to the way we interact with customers. In UK banking we have seen the use of mobile channels treble in the last three years, while contactless payments have increased ten-fold ³. Non-cash forms of payment have overtaken cash, and digital is becoming the dominant channel for some product sales.

Santander UK – customer touchpoints

90% digital

Cards, contactless and e-wallet payments have the potential to render cash obsolete. Such is the speed of change, that even cards are at risk as payments from mobile devices such as phones and smartwatches dramatically change the customer experience.

Recognition methods are moving from physical identification papers to biometrics, like voice or fingerprint recognition. These new approaches have the potential to make identification processes simpler, easier and more secure. Sales processes are also evolving from predominantly in-branch face-to-face, to new digitally-enabled options allowing customers to access expert advice remotely through video conferencing or screen sharing.

There are also many technologies already available that may be applied to banking in the future from real-time audio translation breaking down language barriers, to in-home holographic ‘advisers’. In early 2017 we became the first UK bank to enable voice authorisation for payments.



Making investing more accessible

In June 2016, we launched the Investment Hub, our innovative non-advised investment platform aimed at making the investments market more accessible – a key focus of our work following the Financial Advice Market Review.

Our Investment Hub is an online service which puts our customers in control of their investments. Customers can select from a wide range of investment options with access to over 1,500 funds from the market.

We launched in only ten months and have received a great response from both existing and new customers. In November 2016, we completed the migration of over £5bn of existing customer investments onto the Investment Hub.

➔ For more on our requirement for loss absorbing capacity see page 19

3. Strong market competition

The UK banking market remains highly competitive, with pressure on margins and growth building across most business lines. Building societies traditionally held large market shares in mortgages and savings. The market for most other retail and commercial banking products is more concentrated and the Big Four incumbent banks continue to have a large, relatively stable combined market share.

Challengers usually have sufficient presence to compete with the Big Four in a single product, region or customer segment but lack the scale to impact the wider market. New entrants are nimble enough to quickly leverage technology to target niche segments of the market.

UK banking market players

Incumbents Large full-service banks focused on UK retail and corporate customers; Barclays, LBG, HSBC and Royal Bank of Scotland

Challengers Smaller banks, building societies and retailers seeking market share and improved returns

New entrants Digital banks, non-banks and other technology firms targeting selected sectors and product lines

In August 2016, the Competition and Market Authority (CMA) published its final report following its retail banking market investigation. Among other things, banks are being asked to open up access to their data and customer accounts via the use of application programming interfaces (APIs). This will potentially bring players from other industries like retailers or aggregators into the mainstream but also offer opportunities to banks to access new forms of businesses and revenues streams.

Our size and the scope of our proposition makes us the only full-service scale challenger, and leaves us well-positioned to succeed in a strongly competitive market.

4. Demanding regulatory change agenda

Regulation in the UK remains focused on three broad objectives – making banks stronger, supporting positive customer outcomes, and encouraging greater competition. We support the objectives of UK policymakers and work hard to ensure we comply with new regulations while welcoming steps to combat customer inertia.

During 2016 there were noteworthy developments on several significant issues which remain in focus for UK banks going forward. These include customer redress related to PPI, the requirement for large UK banks to ring-fence their retail banking operations and the regulatory requirement to build loss absorbing capacity. We have also worked with regulators throughout 2016 on a number of developments related to payments and innovation. These are intended to make it easier for customers to access banking services.

We expect our returns going forward will continue to be impacted by increased regulatory compliance costs as well as the more onerous taxation regime. However, we remain confident that we can continue to grow our business and plan to further develop loyal relationships with our personal and corporate customer by living up to our commitment to be Simple, Personal and Fair.

Regulatory agenda is focused on:

- making banks stronger
- supporting positive customer outcomes
- encouraging greater competition

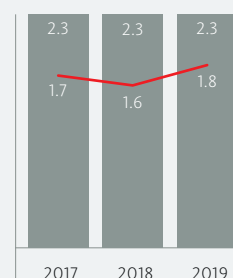
5. Uncertain macro environment

The relatively stable economic backdrop we saw in the first half of 2016 became more volatile as the year progressed with the outcome of the EU referendum in June leading to some short-term market fluctuations. After this initial period, consumer confidence measures recovered and steady economic growth continued in the second half. While the depreciation of sterling may well have a positive effect on the external net trade contribution to economic growth, it is expected to lead to higher inflation.

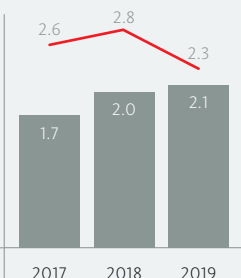
The UK economy ended the year with 16 consecutive quarters of GDP growth, a stable labour market and the unemployment rate around 5% – close to pre-recession levels⁴. With inflation averaging just below 1% in 2016, this provided some support for household real incomes at a time when nominal earnings growth remained relatively subdued.

The consensus expectation for 2017 sees slower growth with continued low interest rates alongside the possibility of rising unemployment⁵. Inflation is expected to breach the Bank of England target of 2% in 2017 as the impact of rising oil prices and sterling depreciation is felt.

GDP growth %⁶
(annual average)



CPI inflation %⁶ ● Previous forecast
(annual average) ● Current forecast



Mortgage market lending growth ended 2016 at 3.1%, its strongest end to a year since 2008, with house prices continuing to rise, albeit at a slower pace than in the previous year⁷. Following an extended period of contraction, bank lending to companies has also increased.

We have a track record of consistent profitability, a resilient balance sheet and a relentless focus on customers. We believe that we are well-placed to manage any potential uncertainties and deliver our strategy. We demonstrated the flexibility of our proposition in 2016 with two changes to the terms of our 11213 Current Account in response to the low interest rate environment.

(1) Ofcom, Adults' media use and attitudes, May 2015

(2) Office for National Statistics, 2014 forecast

(3) Payments UK, UK Payments Market Summary, 2016

(4) Office of National Statistics, Preliminary GDP Estimate 26 January 2017

(5) HM Treasury Consensus, February 2017 edition

(6) HM Treasury consensus: Forecasts for the UK economy. Medium-term forecasts. Previous forecast is the February 2016 edition. Current forecast is February 2017 edition.

(7) Bank of England, Bankstats, 31 January 2017

We create value with a business model that does things differently

“We have undergone a major commercial transformation in recent years and have a dynamic brand with a reputation for innovation.”

Who we are

We are a large retail and commercial bank based in the UK and a wholly owned subsidiary of the major global bank Banco Santander. Through our seamless omni-channel experience we increasingly serve our customers through digital channels, in particular mobile, supported by telephone call centres and a network of 841 branches and 67 Corporate Business Centres.

We play an important role in the UK economy. We help people finance their home and save for the future and support business growth. We employ c. 20,000 people and paid corporation tax of £507m in 2016.

What we do

We are a simple bank and create value by serving our customers with financial products and services. Most of our 14 million active UK customers are individuals but we also serve a growing number of small, medium and large companies.

Most of what we do can be described as lending money to borrowers, taking deposits from savers and providing bank accounts. We also offer a full range of investment and insurance products to households and more specialised services and products to companies.

We help our customers prosper

- We support our personal customers through all the stages of their lives and champion British businesses.
- We focus on our customers to develop more loyal and sustainable relationships. We want our customers to prosper and do more business with us.

We create sustainable value

- We generate income by earning a margin on our products and by charging a fee for our services.
- We efficiently manage the large infrastructure of people, property, technology and other assets that support our business.

We protect value

- We invest to ensure we can make the right lending decisions and to manage the risks we face.
- We provide for credit losses which may occur if things don't go as planned.

Purpose, aim and stakeholders

Our purpose is to help people and businesses prosper



We stand out from the crowd by

- Strong brand known for innovation and with a trusted reputation, less affected by legacy and litigation issues
- Improved retail and corporate customer experience with further improvement at the heart of our plans
- Market-leading 11213 Current Account driving new primary relationships customers and significant growth in deposits
- Profitable and paying dividends through the financial crisis
- Wholly-owned subsidiary benefiting from significant synergies and strengths from being part of a well-diversified global bank
- Strong employee engagement and advocacy

How we create sustainable value for our



Customers

We provide products and services that people want with transparent benefits and features. In this way we aim to build more lasting relationships with our customers.

We aim to provide our customers with excellent service as we believe it will make them want to do more business with us.



Shareholders

We remain consistently profitable with a strong balance sheet and a conservative risk profile.

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



People

We value individuality, empowerment and collaboration and foster a Simple, Personal and Fair culture.

We offer first-class professional development opportunities and a competitive package of pay and benefits to attract and retain the most talented and committed people.



Communities

Our Discovery Project encompasses a diverse programme of community engagement which includes funding for local and national charities as well as employee volunteering.

Our people are active participants in a wide range of these activities and help to decide which initiatives we support.

2 million

Customers using mobile apps each month

£593m

Dividend declared in 2016

38%

Participation in staff share save scheme

£50m

Santander Universities donations since 2007

£348m

Growth Capital Finance to SMEs

£1,317m

Profit after tax in 2016

>8 days

Training per FTE in 2016

6,000

Employees volunteered with community groups in 2016

➔ For more on customers see page 20

➔ For more on shareholders see page 21

➔ For more on people see page 22

➔ For more on communities see page 23

...challenging the retail market

- Focusing on improving customer satisfaction and loyalty
- Investing in analytics and infrastructure to offer a differentiated and personalised customer experience
- Supporting customers with products that offer ongoing value through their different life stages
- Driving more transactional relationships
- Improving liquidity, reducing funding costs and with more stable deposits base
- Flexible product pricing to react to different economic and interest rate outlooks

...challenging the corporate market

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

We are committed to our customer-centric strategy

“The key to achieving our strategic goals will be to embed our Simple, Personal and Fair culture while being deeply involved in the communities where we operate.”

Our proven strategy affirmed

Our 2016-2018 strategy builds on our success and continues to focus on deepening customer relationships across the bank, while delivering the best service. We set out this plan with our refreshed strategic priorities in 2015 and reaffirmed our commitment to them at the Banco Santander Strategy Update in September 2016. This focus on our customers is not new and is an extension of our previous strategic plan which also put our customers at the heart of what we do.

While our commitments remain unchanged, we have made some adjustments to three of our targets in the light of changes to the UK economic outlook. The market expects continued low interest rates for even longer, slower economic growth and with higher unemployment and inflation than when we set our targets in September 2015.

These expectations led us to revise our key performance indicators (KPI) targets for Return on Tangible Equity (RoTE) ¹ to 8%-10% from 12%-14%, cost-to-income ratio (CIR) to 50%-52% from <50% and non-performing loan (NPL) ratio to <2.0% from <1.5%.

We believe the transformation we have made in putting the customer at the heart of our business, coupled with a continued focus on costs and risk management, gives us solid foundations to succeed and confidence in the future.

Our strategic priorities

Customers

- Grow customer loyalty and market share
- Deliver operational and digital excellence

Shareholders

- Achieve consistent, growing profitability and a strong balance sheet

People

- Live The Santander Way through our behaviours

Communities

- Support communities through skills, knowledge and innovation

Grow customer loyalty and market share

A loyal customer base, where a primary bank account acts as the anchor of the relationship, provides better customer insight, improved risk profile, reduced customer attrition and more opportunities to interact with customers. As loyalty has grown, we have seen an increase in the number of times our customers interact with us.

In recent years we have delivered rapid growth in our loyal customer base, supported by the success of our 11213 World proposition and our growing corporate franchise. While we have seen growth slowing during 2016, following lower demand for savings products, we see the potential to increase loyal retail customers to meet our 2018 targets.

Deliver operational and digital excellence

To earn our customers' loyalty we offer more than just the products they need and so our focus is also to provide the service our customers want. We have invested significantly to improve customer experience with further improvement at the heart of our plans.

To give our customers greater choice in how they interact with us, we use digital and mobile technology, building on our track record of innovation. We want to extend the approach from our product range to our end-to-end processes.

We plan to achieve our target for increased fee income by business growth and deeper customer relationships.



Customer KPIs

➔ see page 20

Customer KPI	2016	2015	2018 Target
Loyal retail customers (million)	3.7	3.7	4.7 million
Loyal SME and Corporate customers (000)	290	266	308,000
Retail customer satisfaction (FRS) ² (%)	62.9	62.9	Top 3
Digital customers (million)	4.6	3.9	6.5 million
Fee income (compound annual growth rate)	2016: 8%		2018 Target: 5% - 10% 2016-18

➔ For KPI definitions, see page 28

Achieve consistent, growing profitability and a strong balance sheet

We remained consistently profitable over recent years, despite the significant changes in our operating environment. More uncertainty emerged in 2016 and we expect this to continue across our strategic planning horizon to 2018. However, we are confident that our sustainable business with low earnings volatility and a low risk profile leaves us well placed to face the challenges ahead and to deliver on our 2018 targets.

We are targeting a RoTE¹ ratio of 8% - 10% while maintaining our dividend policy, with a payout ratio of 50%. At the same time we have a target CET1 capital ratio of c12%

Technological innovation and simplification will enable us to work more efficiently, and allow us to make cost savings across the business. This supports our targeted cost-to-income ratio of 50%-52%. Achieving this will be important in helping us become a more dynamic and agile organisation, with a non-performing loan ratio of less than 2.00%.

Cost management remains a key focus and we are targeting a £100m reduction in the cost base by 2018 while we continue to invest and grow while capturing further operational efficiencies.

Live The Santander Way through our behaviours

We continue to embed our Simple, Personal and Fair culture through our ongoing approach to reinforce the set of behaviours which our people helped to develop.

We are confident that our highly-engaged staff will be the key to further improved service for our customers. Our 2018 target is to be one of the Top 3 UK banks for colleague engagement.

Support communities through skills, knowledge and innovation

We focus our community support programme on education, enterprise and employment initiatives.

The Discovery Project is an ambitious programme of help and support for our communities which we launched in late 2015. Through this programme we have a 2020 goal to help one million people develop the skills, knowledge and confidence to make the most of their future.

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



Shareholder KPIs

➔ see page 21

Metric	2016	2015	2018 Target
Return on Tangible Equity (RoTE)¹ (%)	10.9	8.2	8% - 10%
Cost-to-income ratio (%)	50	53	50% - 52%
CET1 capital ratio (%)	11.6	11.6	c12%
Non-performing loan ratio (%)	1.50	1.54	< 2.00%
Dividend payout ratio (%)	51	50	50%



People KPI

➔ see page 22

Metric	2018 Target
Colleague engagement	2018 Target
2016: 72%	Top 3 UK Bank



Communities KPI

➔ see page 23

Metric	2018 Target
People supported	2018 Target
2016: 196,300	600,000 2016-18

(1) Under European Securities and Markets Authority guidelines we have identified RoTE as a financial measure which is not defined or specified in IFRS. See Shareholder information for a reconciliation to Return on ordinary shareholders' equity (RoE), which is the nearest IFRS measure.

(2) Customer satisfaction measured by the GfK Financial Research Survey, December 2016.

Risk management is at the heart of our culture

“Sound risk management benefits our business by ensuring balanced growth and stability of future earnings prospects.”

Delivering our strategic priorities relies on the successful identification, assessment, management and reporting of risk.

Grow customer loyalty and market share

During 2016 we supported our retail customers by helping 25,300 first-time buyers get onto the property ladder. We also increased lending to UK companies by 3% in the last year, despite volatile and uncertain market conditions.

By maintaining prudent lending criteria and understanding the nature of the credit risks we face in our lending decisions, we maintain a cautious risk profile. This is reflected in our credit risk metrics, with all loan books performing well.

Deliver operational and digital excellence

Simplicity is at the heart of our culture. We aim to deliver the best service to our customers, with the best return for our shareholders. We have a comprehensive programme of initiatives including digitalisation, organisational simplification and streamlining to further improve customer experience and operational efficiency.

Throughout the year we simplified the lending process for our corporate customers, which significantly reduced the length of time taken to reach a decision and make funds available to our customers.

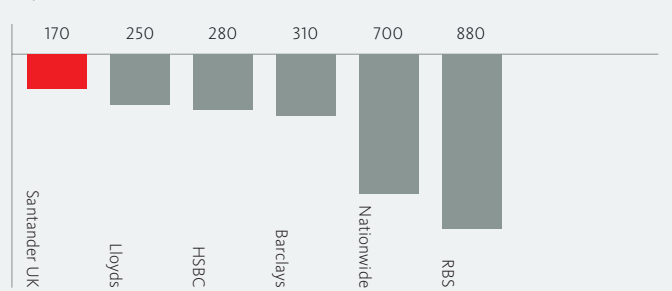
For more on how we are using technology to improve customer experience and operational efficiency see the examples outlined throughout this report.

Achieve consistent, growing profitability and a strong balance sheet

In 2016, our balance sheet strength and resilience of earnings to potential external shocks were affirmed by the PRA stress tests. These were designed to test our financial strength in the face of a global economic downturn, a severe UK property market stress, as well as an additional overlay from conduct and market-related stresses.

We passed with a stressed CET1 capital ratio of 9.9%, which exceeded the 7.3% threshold requirement. In fact, our capital reduction was the lowest across all UK banks that took part in the exercise. Together with the results of the 2014 and 2015 PRA stress tests, this reinforces our belief that we are well-placed to face potential shocks in the UK economy and their impact on key customer segments.

Bank of England 2016 stress tests CET1 drawdown (bps)



Source: Bank of England, Stress testing the UK banking system: 2016 results

Live The Santander Way though our behaviours

We believe that everyone across the business should take personal responsibility for managing risk. This responsibility complements and supports our objective to become Simple, Personal and Fair. The Santander behaviours encourage an environment in which our people feel empowered to manage risk, and in particular, feel able to ‘Speak Up’ when they need to. In the latest employee survey, 97% of the UK business felt personally accountable for managing risk and 97% understood the types of risk they are facing in their day-to-day work.

We further reinforced our Risk Framework across the business in 2016. In particular, we continued to embed I AM RISK to raise awareness of personal accountability for risk management.

Support communities through skills, knowledge and innovation

Our strong balance sheet and stable earnings allow us to support our customers, businesses, shareholders and communities to prosper throughout the economic cycle. We also make donations to finance and debt charities such as the Money Advice Trust, recognising the importance of financial education in the wider community.

Risk management case studies

Case studies on topics of particular interest can be found in the Risk review section of the 2016 Annual Report.

- ➔ Pensions – page 118
- ➔ Conduct – page 122
- ➔ Cyber security – page 127
- ➔ Financial crime – page 129

Top risks

We regularly review the top risks that could impact our customers and shareholders. Risks actively monitored over 2016 include the following.

UK referendum on membership of the EU

The UK referendum on membership of the EU was followed by some immediate market volatility and then by monetary policy actions by the Bank of England. Since then, the political debate on the ultimate nature of the UK's relationship with the EU and other trading partners has been ongoing. The outcome and implications for the UK economy and banking sector remains uncertain.

Much of the debate has centred on the position of the City of London and the potential impact of the loss of cross border access for financial services providers (often referred to as 'passporting'). Given our UK focus, we expect to be less affected by this issue than other institutions. However, the impact on the wider economy and our customers in the medium term is unclear.

Mitigating the impact of a low rate environment

In August 2016, the Bank of England reduced the Base Rate to 0.25%, the first change in over seven years, as part of a series of monetary stimulus actions to support consumers and businesses in the UK. Low interest rates set challenges for our net interest margin performance, the risk associated with our pension fund and our capital ratios.

To mitigate the impact of the low interest rate environment, we made two noteworthy changes to the terms of our 11213 Current Account in 2016. Changes to the monthly account fee and the interest rates applied to credit balances took effect in January 2016 and November 2016 respectively.

Building and maintaining capital strength

The CET1 capital ratio was 11.6% at 31 December 2016, comfortably above the regulatory minimum. Risk-weighted assets increased in line with lending growth, but were also impacted by market volatility, which affected capital requirements for market risk and credit risk. During the course of the year, the capital position was also affected by volatility in the pension fund, as outlined below.

We continue to prepare for IFRS 9, the accounting standard coming into effect from 2018, which will change the way we raise loan loss provisions, as well as having an initial impact on capital reserves. We are also monitoring regulatory developments which may affect our capital requirements in the longer term.

Pension fund

The latest triennial funding valuation of our pension fund was as at 31 March 2016. Negotiations regarding that valuation are still ongoing with the Trustee, the outcome of which may impact our definition of long-term goals, the risk profile and our future contributions.

On an accounting basis, our funded defined benefit pension schemes were in a surplus of £175m at 31 December 2016 (2015: £483m). The movement across the year was due to an increase in liabilities caused mainly by a fall in high-quality corporate bond rates, partly offset by strong asset performance, and by changes in our discount rate and inflation rate methodology assumptions.

Movements in longer-term interest rates can have a significant impact on pension fund valuation measures, and during the course of 2016 we experienced an increase in volatility from this effect. We mitigated this risk during 2016 by increasing the level of hedging.

Financial crime

To prepare us for the intensifying regulatory environment in the UK, we continued to upgrade our financial crime control framework through bank-wide transformation. The next phase focuses on maturing the capability within our key front line businesses, improving systems and controls effectiveness.

Banking Reform

The decision by our Board (see page 3) to adopt a 'wide' ring-fence structure has helped to mitigate a number of the risks associated with complying with the ring-fencing requirements in the UK. These include minimising disruption to our customers, creating a clearer and more focused implementation path, and in-built flexibility to the target business model.

Managing a complex change agenda

Keeping up with the unprecedented pace of change in the demanding regulatory environment and technology advances gives rise to potential operational risks. We have established robust processes and controls that allow us to track any potential issues and mitigate any execution risk.

Cyber attacks

2016 saw an increase in the number of attempted attacks on our IT architecture, and on the banking system in general. We continue to improve our defences against malicious activity that targets our digital infrastructure, to protect both our customers and our shareholders.

Technology helps us to better understand our customers' needs

We have made great progress on a multi-year programme designed to develop deep and meaningful relationships with our customers through joined up, relevant and timely conversations. Cutting edge technology is essential to serve our customers across different channels and to seamlessly switch between them.

During 2016, we have been working to develop a new one-to-one customer engagement approach for our personal and business banking customers. This will allow us to build trust with our customers by demonstrating that we know and understand them and their individual needs, supporting better risk management.

In late 2016, we started to roll out a new customer relationship management tool. This tool helps us to deliver a truly omni-channel customer experience as our people can continue conversations with customers which may have started in another channel.

We are now able to leverage increased understanding of the customer by bringing together internal, external and market data to personalise our conversations. Our CRM tool also allows us to further simplify key processes such as scheduling branch appointments, updating customer contact information and delivering key notifications to customers.

Risk management is at the heart of our culture continued

Emerging risks in 2016

Customer expectations are shifting as evolving population demographics and adoption of rapidly evolving technologies drives changes in how people interact with each other and their banking services provider. Those customers who were born in the internet age – millennials, will likely drive demand for, and strong take-up of, new and improved digital channels of engagement. At the same time, an ageing population could lead to increasing numbers of customers who prefer a more traditional banking model.

Rapid technological change

Technological change offers choice and convenience to our customers as it allows them to interact with us as and when they choose. It supports our omni-channel approach and helps us to improve our operational efficiency as we utilise new technology to simplify and digitise back office processes. However it does mean that we need to:

- maintain the pace of change in order to be competitive
- ensure our technology investment remains relevant and up to date
- remain alive to potential competitive disruption caused by technological innovation.

The trust of our customers is vital to our business, and they need to feel confident that our data and systems are safe and secure. We therefore place a high priority on technology risk management, especially cyber security, in order to protect our customers and our reputation.

Strong market competition

The UK banking market remains highly competitive. In recent years, the larger established incumbent banks in the UK withdrew from many international markets and scaled back their investment banking operations, refocusing on UK retail and commercial banking. At the same time, challenger banks have been competing for growth within individual product lines and sectors – new entrants have leveraged technology to target niche areas of the market.

Together with the low interest environment, these pressures have contributed to historically low customer rates for mortgage lending, and highly competitive products for personal current accounts. We have worked hard to ensure our mortgage propositions are based on the strength of our customer experience, and make conscious choices to offer rates which properly reflect the associated risk. In the personal current account market we adjusted our interest rates and fees during the year, but continued to provide market-leading rates which offer sustainable value to our customers.

Demanding regulatory change agenda

Implementation and compliance with the developing regulatory regime remains a major undertaking across the sector. In particular, increasing capital requirements and forthcoming changes in the associated regulatory rules, require careful planning to ensure that we make optimum use of capital to grow our business.

Conduct remediation related to PPI is a long-running issue for UK banks and in 2016 the FCA announced a proposal to implement a deadline for complaints and to adjust complaint decisions and redress following the decision of the Supreme Court. We made further provision charges during 2016 to take our outstanding provision to £457m, our best estimate of these future costs.



Investing to provide a seamless customer experience

We are committed to serving our customers efficiently and seamlessly, regardless of how they chose to bank with us. To achieve this we have invested significantly in recent years to develop the technology that underpins our digital transformation.

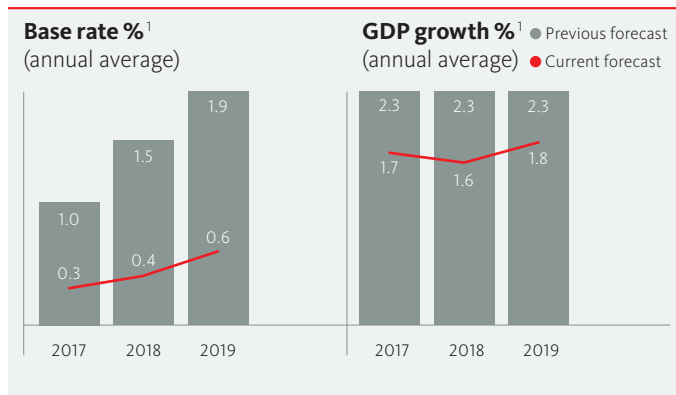
In early 2017, we became the first bank in the UK to enable customers to make payments using their voice. Customers using our iOS SmartBank app can now make payments, check their account balance, report a lost card and ask about their spend within a particular time period by using their voice.

We are also looking ahead and planning how we will meet the demands of a digital – and data – driven future. In 2016, we completed a four-year project to build two new world-class data centres. With 50% of the new capacity reserved for future growth and digital development, we have reduced legacy issues and improved our energy efficiency by bringing together six data centres from across the UK into two new data centres.

Large UK banks are required to ring-fence their retail banking operations by 1 January 2019. As outlined on page 3, the Board has approved a 'wide' ring-fence structure for Santander UK to meet the provisions of the Banking Reform Act.

Uncertain macro environment

With positive growth and a stable labour market, the UK economy ended 2016 in a position of relative strength. However, rising inflation and the continued low interest rate environment could impact our business in the future.



(1) HM Treasury consensus: Forecasts for the UK economy. Medium-term forecasts. Previous forecast is the February 2016 edition. Current forecast is February 2017 edition.

Low interest rates and unemployment contributed to historically low rates of arrears and, together with our prudent approach to lending, resulted in good credit quality being maintained across our lending portfolios. However, we anticipate some normalisation from these cyclically low levels over the medium term and as a result revised our 2018 target for non-performing loan ratio. Low interest rates could further restrict income growth. We anticipate that returns in the future will be impacted by these lower rates and as a result reduced our 2018 targets for RoTE and cost-to-income ratio from those we set in September 2015.

2017 risk management objectives

- Further embedding our 'I AM Risk' risk culture, which is aligned to Simple, Personal and Fair
- Further investing in our retail and corporate credit systems infrastructure, giving access to larger volumes of data and helping to improve the speed of our decisions
- Completing risk modelling to support the transition to the new IFRS 9 accounting standard
- Continuing our strategic change programmes for conduct risk, operational risk and financial crime risk

I AM RISK – our Risk Culture

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

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



■ IDENTIFY

■ ASSESS

■ MANAGE

■ REPORT

We use I AM Risk in our risk attestations, policies, frameworks and governance, and in all our risk-related communications. We also include it in mandatory training and induction courses for our staff, in our codes of conduct and in rewards and incentives. We embed the behaviours we want to encourage in key processes and documents.

I AM Risk helps ensure that every business area is accountable for the management of the risks arising from their activities.

Risks need to be considered as part of the governance around any and every business decision. The success of I AM Risk has been reflected in our staff surveys, where 97% of the respondents acknowledged their personal responsibility for risk management.

Chief Financial Officer's review



“We continue to focus on customer loyalty, operational and digital excellence, as well as growing profitability and maintaining our balance sheet strength.”

Solid business performance in 2016

We delivered strong performance in 2016, with further development of our business and profit before tax of £1,914m, up 43% compared to 2015. Profit after tax was up 37%, impacted by the introduction of the 8% bank corporation tax surcharge.

Total operating income was up 5% with improved retail liability margin in the fourth quarter of 2016 and lending growth. These were partially offset by continued Standard Variable Rate (SVR) mortgage attrition and asset margin pressure. Income also benefited from a gain of £119m on the sale of our shareholding in Visa Europe Limited.

Operating expenses before impairment losses, provisions and charges were up 1% with operational efficiency partially absorbing investment in business growth, regulatory costs, and the ongoing enhancements to our digital channels. Provisions for other liabilities and charges decreased 48% largely due to lower PPI provision charges in 2016.

Return on ordinary shareholders' equity improved to 9.1% from 6.8% in 2015, while RoTE improved to 10.9% from 8.2%.

Steady growth in customer balances

Customer loans grew £1.6bn to £200.2bn, with net increases of £1.5bn in residential mortgage balances and £0.9bn in lending to corporates, partially offset by a managed decrease of £0.9bn in the corporate centre. Customer deposits increased £10.1bn to £172.4bn, as we focused on retaining and originating accounts held by more loyal customers. The growth was largely a result of higher retail current account balances, which were up £11.6bn. Corporate customer deposits also grew, exceeding the growth in corporate loans.

Maintaining balance sheet strength

The Common Equity Tier 1 (CET1) capital ratio of 11.6% reflects steady capital generation and risk weighted asset (RWA) management, offset by long-term rates volatility impact on the defined benefit pension scheme accounting position. RWAs increased by 2% to £87.6bn, with asset growth and the impact of market volatility (which increased credit and counterparty risk) partially offset by RWA management, including securitisation transactions. The UK leverage ratio of 4.1% was calculated applying the amended definition announced by the FPC in July 2016, it would have been 3.8% using the previous definition.

Wholesale funding with a residual maturity of less than one year was broadly stable at £21.4bn. The liquidity coverage ratio (LCR) eligible liquidity pool increased, reflecting prudent liquidity planning and increased collateral received for derivatives. The LCR eligible liquidity pool significantly exceeded wholesale funding of less than one year, with a 237% coverage ratio.

Innovating for our SME customers

Santander InnoVentures (SanIV) is a London based venture capital fund launched by Banco Santander in 2014 as part of the group's innovation agenda. SanIV invests in credible FinTech companies so we can leverage technology from the latest innovators across the globe to bring benefit to Santander customers, while also creating value for the companies we invest in.

SanIV has built a strong and diversified portfolio of eleven companies, all with proven expertise in our core activities and with six joining the fund in 2016. The companies in the portfolio are at different

stages of their development but we are seeing clear customer benefits from our investments, and one in particular stands out for Santander UK; Kabbage a leading online lender.

By utilising the Kabbage platform we have created the Working Capital Loans solution. This fully digital service can approve same-day working capital loans to our UK SME customers. Data-driven risk management means that our customers benefit from a simple lending experience with reduced credit risk and improved operational efficiency for the bank

Robust funding plan executed in 2016

We ended 2015 conscious that potential market uncertainty ahead of the UK referendum on EU membership in June 2016 could impact our 2016 funding plan. As a result, we took the decision to begin our funding activity early in January. Despite wider uncertainty related to the EU referendum result, the debt capital markets continued to function well. In both the immediate run-up to, and soon after, the EU referendum the market was open for new issuance.

In 2016, we issued £8.4bn (sterling equivalent) of total medium-term funding across the holding and operating companies, £5.6bn of which was senior unsecured funding. We have also drawdown £4.5bn from the Term Funding Scheme as part of our commitment to continue lending to UK individuals and business. The introduction of this scheme by the Bank of England provides a useful source of low-cost funding to the market.

Minimum requirements for eligible liabilities (MREL)

In December 2016 the Bank of England laid out its plans for setting loss absorbing capacity requirements for large UK banks, including Santander UK. These requirements are applicable from 1 January 2020, and we currently estimate a transitional MREL recapitalisation requirement of £7bn, in terms of January 2017 Pillar 2A requirements.

We plan to meet our requirement largely through the issuance of senior unsecured debt from our holding company. This debt will then be downstreamed to the operating company in a compliant form. We have made good progress, with £5.3bn of senior unsecured debt issued from our holding company to date.

PRA stress test results show our balance sheet quality

The latest PRA stress test results were released on 30 November 2016. We significantly exceeded the PRA's stress test CET1 threshold requirement of 7.3%, with a stressed CET1 ratio of 9.9%. Additionally, we exceeded the leverage threshold requirement of 3.0%, with a stressed leverage ratio of 3.6% after allowed management actions. We were the most resilient of the UK banks with a maximum drawdown of 170 basis points on our CET1 ratio. The outcome of the stress test underlines the quality and strength of our UK-based balance sheet as well as our strong risk management practices.

The Bank of England's CET1 hurdle rate comprises the CRR Pillar 1 minimum of 4.5% and the Pillar 2A CET1 minimum of 2.8%. The latter minimum came into effect on 1 January 2017 and represents an increase of 0.6 percentage points over the previous Pillar 2A CET1 minimum of 2.2%, which was applicable until 31 December 2016.

Summarised consolidated capital, leverage, liquidity and funding¹

At 31 December	2016 £bn	2015 £bn
Capital and leverage		
CET1 capital	10.2	10.0
Total qualifying regulatory capital	15.2	14.9
Risk-weighted assets	87.6	85.8
CET1 capital ratio		
Total capital ratio	11.6%	11.6%
UK leverage ratio ²	17.3%	17.4%
	4.1%	4.0%
Liquidity		
LCR	139%	120%
LCR eligible liquidity pool	50.7	38.7
Funding		
Total wholesale funding	65.2	64.7
– of which with a residual maturity of less than one year	21.4	21.1
Liquid assets coverage of wholesale funding with a residual maturity of less than one year	237%	183%

(1) Extracted from the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2016.

(2) Previously known as the PRA end-point Tier 1 leverage ratio

2017 outlook remains uncertain

We expect the UK economic slowdown seen in 2016 to continue as economic uncertainties prevail.

We expect net interest margin and Banking NIM to remain broadly stable, predicated on the Base Rate not reducing further, with continued competitive pressures on asset margins as well as SVR attrition. Cost management remains a key focus and we are targeting a £100m reduction in the cost base by 2018 while we continue to invest and grow, and capturing future operational efficiencies.

We expect our net mortgage lending to be broadly in line with the market, and the decline in SVR balances to be slightly lower than the net £7.0bn reduction in 2016. We expect our corporate lending to be slower than in recent years, consistent with forecasted slowdown in the UK economic growth and as we actively manage exposures to certain segments in line with our proactive risk management practices.

By building upon our strong foundations, we are well positioned to succeed despite the uncertain macro environment.



Antonio Roman

Chief Financial Officer
22 February 2017

We want to earn the lasting loyalty of all our stakeholders

“We are guided by our values of Simple, Personal and Fair not only in the way we treat customers and employees but also how we run our business in ethical and environmentally conscious ways.”



Customers

Helping our customers prosper

Our focus is not only to develop products to suit our customers' needs, but also to provide the service they want and our high customer service rating reflects this. Our FCA reportable complaints dropped from 353,766 in 2013 to 250,463 in 2016.

Increasingly, customers are changing the way they choose to bank with us and we have seen strong growth in digital and mobile interaction. Our investment in technology has given our customers the choice of how, when and where they can access and manage their money – see the panel opposite for an example of our new digital mortgage application process.

Our Spendlytics app helps our customers track and analyse their spending and Paym allows them to securely send and receive money using only a mobile phone number. We have also introduced the Investment Hub, a new online non-advised investment tool to give our customers access to more than 1,500 investment funds.

Santander app downloads

1.8 million

Equivalent to 5,000 downloads per day during 2016



Quicker service for our mortgage customers

We have launched a new mortgage application service which enables customers to quickly and simply apply online.

The application can be completed from start to finish in less than an hour and provides customers with an instant decision on their mortgage application. The application process has simple steps, and enables customers to upload supporting documents, such as payslips and bank statements all online.

We know that many people already look around for the best deals online, this tool takes it a step further, we are empowering customers to secure their mortgage online, at a time and place that suits them.

Optimising our branch network

Our branches remain an important part of our omni-channel approach and over the past four years we have continued to invest in our network. We have refurbished more than 400 branches, introducing new layouts, services and technology to serve our customers better.

The growth in digital channels however does mean that some of our branches are being used less often. Ongoing reviews of our branch network aim to reduce the duplication that exists where we have multiple branches in close proximity and to ensure our resources are targeted efficiently. In 2016 we merged branches in 12 locations and closed five of our branches which were underutilised.

Our network of 841 branches means that we are represented in around 80% of the 1,000 main financial centres in the UK. In addition, our personal current account customers can use Post Office branches for day-to-day banking transactions.

Supporting our vulnerable customers

We are committed to supporting our vulnerable customers, and all front-line and customer-facing colleagues have been provided with vulnerable customer training to help recognise and understand issues which might impact customers.

A dedicated team provides intensive support to customers facing financial difficulty by helping them regain control of their finances with tailored solutions such as refinancing options, long-term arrangements and payment deferral. The consideration of vulnerable customers is now an integral part of our product approval process.

➔ For more on Santander Breakthrough, see <https://www.santandercb.co.uk/breakthrough>

Championing British businesses

Santander's Breakthrough programme helps ambitious businesses grow and prosper through a range of initiatives focused on; talent, international, connections, knowledge and finance. During 2016, over 4,500 businesses have benefited from a range of activities.

Our Breakthrough RedBox and Breakthrough in Branch Initiatives are regional events which provide hands on master classes, seminars and workshops to local businesses. We also launched a Women in Business programme to match entrepreneurs with successful female business leaders for mentoring and support.

To leverage our links with our parent, Breakthrough Knowledge supported over 215 business delegates through 16 bespoke masterclasses and 53 businesses benefited from six overseas and virtual trade missions to China, Mexico, Poland, the UAE and the US.

Some of our customers have the potential for significant growth and require capital as well as non-financial support. Since its launch in 2012, our Growth Capital Finance team has provided £114m of growth capital and £234m of senior debt in 126 deals to 94 small and medium enterprises, without diluting company equity.

Shareholders

Being an important part of a global bank

We are a subsidiary of Banco Santander SA, part of the Banco Santander group. Our parent is a leading retail and commercial bank, founded in 1857, headquartered in Spain and among the world's top banks by market capitalisation. Banco Santander has a meaningful market share in ten countries in Europe and the Americas.

At the end of 2016, Banco Santander had 125 million customers, 12,200 branches and 188,000 employees. In 2016, Banco Santander reported EUR 6.2bn attributable profit, an increase of 4% compared to the previous year. Santander UK is an important part of the global business and contributed 20% of group profit after tax ¹.

(1) excluding the Corporate Centre and Spanish Real Estate

Benefiting from being an independent subsidiary

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

The subsidiary model gives us considerable financial flexibility while also allowing us to take advantage of the significant synergies and strengths that come from being part of a major, well-diversified banking group. In particular, we benefit from Banco Santander's strong brand, products and platforms as well as their systems development capacity. We also utilise common technology, operations and support services, provided by independent operating entities in place across the Banco Santander group. Taken together, these constitute a major competitive advantage for us.

Managing our environmental impact efficiently

Our Environmental Management System provides a framework for defining responsibilities and processes in relation to waste, energy, water, travel and supply chain management at our 15 main offices and data centres in the UK. In 2016, Santander UK successfully achieved the ISO 14001 accreditation across all of these properties.

Smart meter technology allows us to track the energy performance of our properties, helping us to reduce energy wastage. These improvements contributed to an annual reduction of 10.6% in electricity and 9.7% in gas usage. Our electricity is sourced from green supplies and has zero carbon emissions.

Business travel represents 53% of our total CO₂ emissions which fell from 9,552 tonnes in 2015 to 6,650 tonnes in 2016, representing a 30% reduction per employee. We encourage staff to use travel-free meeting methods wherever possible.

Approximately 99% of the waste generated through our operations is either recycled or diverted from landfill. In the past two years, we have cut our paper usage by 48%. Our online banking customers receive paperless statements (with an opt-out option), and our print suppliers have ISO 14001 certification and maintain full Forest Stewardship Council chain of custody.

We are also one of the largest UK renewable energy market financiers. In 2016, we financed around £53m in assets that generate bilateral renewable energy and other energy efficiencies. Our Renewable Energy team focuses on offering non-recourse project finance loans to mid-market wind, solar and hydro developments.

Managing our supply chain responsibly

We buy goods and services from around 1,600 external suppliers and intra-group companies accounting for £1.7bn of costs in 2016, governed by the Cost Management and Procurement Policy, The Third Party Risk Management Policy and the Manual of Conduct in Supplier Relationships.

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

We are a signatory to the Business in the Community Access Pledge, a public commitment to a fair and open procurement process for SMEs. In 2016, 61% of our new supplier contracts, worth over £9m, were with businesses with less than £10m turnover or 250 employees. (2015: 58%)



 Above Banco Santander corporate headquarters, Madrid.

We want to earn the lasting loyalty of all our stakeholders continued



Helping our people prosper

We provide a full range of skills, development, training modules and career support for our people to develop their potential. In 2016, our people undertook over 169,000 training days and we invested over £11.5m in employee learning and development.

Our approach is to reward fairly and to motivate our people with a competitive package of pay and benefits, based on compliance with the Prudential Regulation Authority (PRA) Remuneration Code. Salary levels are benchmarked against the median level for the industry. We are a Living Wage and London Living Wage employer.

We offer a range of personalised benefits, as well as a fair, competitive and sustainable pension arrangement. In 2016, 91% of our people were in a pension scheme and 38% have chosen to participate in one or both our two HMRC-approved share schemes.

Investment in employee training and development in 2016

£11.5m

Equivalent to 8.8 days training per FTE, up from 4.6 days in 2014

Prioritising diversity

Our inclusive culture is fundamental to our success, and our people reflect the diversity our communities, customers and shareholders.

In June 2016 we signed the HM Treasury Women in Finance Charter where we set a 50% (+/-10%) gender target for our senior female population over the next five years. Currently, women account for 31% of our Board (nine male and four female members), and 27% of our senior managers are female.

Building a Simple, Personal and Fair culture

We are committed to maintaining high ethical standards adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. Santander UK's Code of Ethical Conduct requires our people to act with the highest standards of business conduct to protect our reputation and contribute to a culture that is free from corruption, risk of compromise or conflicts of interest.

Our values of Simple, Personal and Fair are at the heart of The Santander Way, our culture change programme that underpins our goal to be the best bank in the UK. Nine behaviours provide a framework for us to deliver the best outcome for our people, customers, shareholders and communities.

Actively listening

Our people have direct contact with senior management and are actively encouraged to feedback on policies, strategies and procedures. There are a range of ways available for our people to stay informed and hear first-hand from senior executives including through monthly conference calls and regional roadshows.

Our online platform, Better Together, is open all year round and gives Santander colleagues the opportunity to submit proposals and ideas on how we can become more simple, personal and fair. In May 2016, colleagues were asked how Santander could bust bureaucracy and simplify the bank. Over 1,000 colleagues took part the exercise, submitting over 200 ideas, and as a result more than 80 initiatives are underway or have already been delivered.

Protecting the wellbeing of our people

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

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

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



 Above Santander Cycles docking station.



↑ Above: Santander UK staff deliver a Discovery Project MoneyWise session at Ysgol Ffordd Dyffryn School, Conwy.



Communities

Helping our communities prosper

The Discovery Project, our flagship community investment initiative, aims to help one million people over the next five years by supporting skills, knowledge and innovation projects through three areas to inspire people to have the confidence to make the most of the future. Through this initiative we contributed £22m to community groups across the country in 2016.

As well as providing funds, we encourage our people to share their skills and time and the most popular volunteering initiative is our Discovery Days scheme. Employees spend a day helping local charities and community groups with practical support including gardening, decorating and organising activities. In 2016, over 6,000 staff helped to make a difference to 556 Discovery Days projects.

Community investment in 2016

£22m

Local community organisations, charities and Santander Universities

Raising funds for local and national charities

In 2016, the Santander Foundation provided £5.4m in grants to 3,263 UK registered charities for projects that help disadvantaged people. Discovery Grants are awarded to support activities that improve skills and knowledge or support social innovation. The Santander Foundation also contributed £2m to support our employees' fundraising for charities of their choice through the Staff Matched Donation Scheme.

Our people chose Barnardo's and Age UK to be our partner charities in a three-year agreement which began in 2016. In the first year of the agreement, we raised more than £1m for these two charities in a range of fundraising activities with our people, customers and suppliers.

Supporting higher education through Santander Universities

Santander Universities is a global programme created in 1996 to support higher education. The Banco Santander group partners with close to 1,200 institutions around the world to fund scholarships, research, mobility awards and study grants for students and staff.

In 2016, 81 universities in the UK received £11.3m to aid 8,024 students and staff with funding for studies, internships, entrepreneurship support and special projects.

Improving mobility and road safety with Santander Cycles

The Santander Cycles scheme in London was launched in June 2015. During 2016 more than 10.3m bike hires were made, a 4.4% increase on the previous year. The success of the scheme was reinforced by new records being set for the number of bike hires over a weekend and over a month.

We also improved safety for our community of cyclists and road users by rolling out the Blaze Laserlight on all of our 12,000 Santander Cycles. This innovative forward projection technology makes it easier for cyclists to be recognised by other road users.

Following the success of Santander Cycles in London, we launched Santander Cycles MK in Milton Keynes in June 2016. The scheme provides local residents with access to 300 cycles and 42 docking stations, allowing them to utilise the 170 mile city-wide cycle network. Since launch, over 10,000 members have joined the scheme with over 32,000 bike hires to date and 19,000 bike hires in the first eight weeks alone.

We also sent our Santander Cycles spinning bikes on a UK-wide tour of our offices and organised a charity cycle ride for 150 of our people which helped to raise £167,000 for our charity partners.



↑ Above Santander UK volunteers in KwaZulu-Natal, South Africa.

Corporate Governance review

“The Board has made rapid progress in its effectiveness, providing robust oversight and supporting management in achieving Santander UK’s strategic aims.”

Ambition

As a Board, we remain committed to our ambition to be the best governed bank in the UK that supports Santander UK’s purpose to help people and businesses prosper. In 2016 we have focused on continuous improvement as a governing body and have made excellent progress in further developing the effectiveness of our oversight. We will now work to enhance our efficiency as a Board as we continue to meet the expectations of our customers, people, regulators, and investors.

Board effectiveness

In 2016 we maintained our focus on our five strategic priorities as a Board which we agreed last year: long-term strategy; regulatory trust; customer focus; embedding culture; and talent and succession planning. These were not intended to set the strategy or priorities of the business but have been invaluable in setting the Board agenda and guiding the Board’s deliberations and discussions. They have underpinned the progress we have made in focusing on the business’s key strategic issues, reinforcing accountability and supporting senior management.

This year we undertook an external evaluation of Board effectiveness. This has provided a useful assessment of our first year with the current Board composition. I am very pleased with the report which confirmed that we have made rapid progress and that our governance is effective and of a high standard. The next phase in the Board’s development is to improve our efficiency. We have incorporated the lessons learned into our plans for continuous improvement which were developed following last year’s internal review. We will carry out an internal assessment of progress against our plan next year.

Board composition at December 2016⁽¹⁾

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

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

UK Group Framework

Last year we formalised a UK Group Framework which was agreed by Santander UK and our parent, Banco Santander; the framework was explained in detail in last years' report, and further information is available on page 166 of the 2016 Annual Report. The framework has proved very effective in providing us with clarity about how we discharge our responsibilities in the UK as an independent Board, while ensuring that Banco Santander is able to exert the oversight and control of its subsidiary that its regulators expect. The successful implementation of the framework in the UK has now been established as best-practice and a model which is being extended to other Banco Santander subsidiaries around the world.

We will further enhance the framework as we develop robust and effective governance to support ring-fencing.

Board composition and skills

Our current Board comprises 13 members. Seven, or 54% including the Chair are Independent, and we have four women (31%). A number of long serving Directors stepped down last year. In addition, following his departure as an executive of Banco Santander SA, Peter Jackson will be stepping down as a Banco Santander Nominated NED of the Santander UK Board at the end of February.

Through a rigorous recruitment process we have improved the Board's skills and experience to enable it to discharge its responsibilities effectively. Our Board members have diverse but complementary experience spanning financial markets, retail, wealth management, technology, governance, financial reporting, economics and public policy and government. We have retained a focus on ongoing development both through comprehensive induction programmes for new Directors and a schedule of regular workshops on different business issues for the Board as a whole.

This year we have introduced a one year rolling term for Banco Santander Nominated Non-Executive Directors and Independent Non-Executive Directors (INEDs) in line with best practice. This will also help ensure that we have a phased approach to tenure going forward thereby facilitating future transitions between Directors.

Board Committees

All Committees are chaired by INEDs and all have a majority of INEDs. This year we have seen the benefit of all INEDs being members of the Board Audit, Board Risk and Board Remuneration Committees, enabling more holistic and effective oversight.

We have undertaken an annual review of all the Terms of Reference of the Board Committees in line with best practice, but have not required any material changes since last year's comprehensive refresh.

Board fees

We reviewed all Board and Board Committee fees with no changes made.

➔ [Board fees are set out on page 163 of the 2016 Annual Report.](#)

Female Board members

December 2016

31% (4/13)

Unchanged from January 2016

Independent Board members

December 2016

54% (7/13)

Unchanged from January 2016

Corporate Governance review continued

How we spent our time

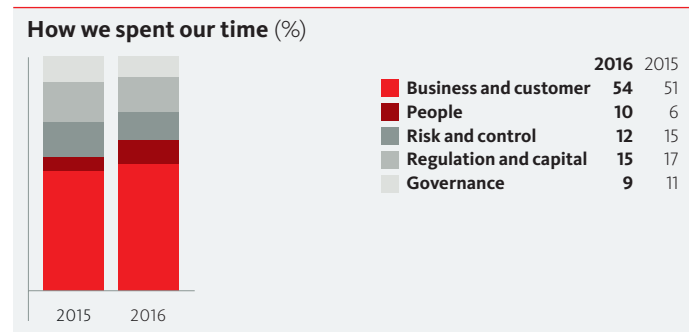
As in previous years, the nature of Board discussions means that it is difficult to categorise fully how we spent our time given that many topics such as people, regulation and risk management are inseparable in nature. Nevertheless we have maintained the discipline of recording the allocation of time through a consistent methodology so that we can monitor changes in the way we allocate time to our strategic priorities even if, in absolute terms, the definitions are inherently somewhat artificial.

During 2016, the Board spent 54% of its meeting time on business and customers priorities. This continued the trend seen in 2015 when we spent 51% of our time on these issues, reflecting the focus on customer experience, digital transformation, the impact of the current economic situation on our business and strategy, and competition in our core markets. We have also increased the time spent on people matters from 6% last year to 10% in 2016. The analysis is in line with what we hoped to achieve given the challenging operating environment and the increased time allocated to planning for implementation of ring-fencing and other regulatory requirements. The Board held its annual strategy day offsite in July 2016 focusing once again on the importance of innovation and digital technology for our future business.

Future Board priorities

In 2017 we will focus on continuous improvement as well as efficiency. We will also spend more time on management succession planning, applying a framework which we have developed for this purpose.

As we steer a course through a period of significant change and uncertainty we will continue to exert effective oversight of our key risks. We will support Santander UK's management in embedding a culture that ensures everything we do is Simple, Personal and Fair, and directed towards being the best bank for our people, customers, shareholders and communities.



Board strategic priorities

- Guiding and agreeing the Company's near and long-term strategy
- Maintaining the trust and confidence of our regulators at all times
- Supporting the executive to ensure that decisions, behaviours, structures, incentives, and systems are developed around our customers' needs
- Setting the tone and working with management to achieve the right culture and behaviours that underpin our values of Simple, Personal and Fair
- Maintaining a robust and continuous succession plan and strong talent pipeline

Summarised consolidated income statement ¹

For the years ended 31 December	2016 £m	2015 £m
Net interest income	3,582	3,575
Non-interest income ²	1,213	998
Total operating income	4,795	4,573
Operating expenses before impairment losses, provisions and charges	(2,417)	(2,403)
Impairment losses on loans and advances	(67)	(66)
Provisions for other liabilities and charges	(397)	(762)
Total operating impairment losses, provisions and charges	(464)	(828)
Profit before tax	1,914	1,342
Tax on profit	(597)	(380)
Profit after tax for the year	1,317	962

(1) Extracted from the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2016.

(2) Comprised of 'Net fee and commission income' and 'Net trading and other income'.

Summary of segmental balance sheet assets and liabilities ^{1,2}

At 31 December	2016 £bn	2015 £bn
Customer loans		
Retail Banking	168.6	167.0
Commercial Banking	19.4	18.7
Global Corporate Banking	5.7	5.5
Corporate Centre	6.5	7.4
Total customer loans	200.2	198.6
Other assets	102.9	82.8
Total assets	303.1	281.4
Customer deposits		
Retail Banking	148.1	140.3
Commercial Banking	17.2	15.1
Global Corporate Banking	4.1	3.0
Corporate Centre	3.0	3.9
Total customer deposits	172.4	162.3
Medium-Term Funding	46.1	50.4
Other liabilities	68.5	53.0
Total liabilities	287.0	265.7
Shareholders' equity	15.7	15.3
Non-controlling interest ³	0.4	0.4
Total liabilities and equity	303.1	281.4

(1) Extracted from the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2016.

(2) The basis of presentation has been changed, and 2015 restated to reflect a transfer of customers between our Retail Banking and Commercial Banking business segments, in line with how we now manage our customers. See Note 2 to the Consolidated Financial Statements of the 2016 Annual Report.

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

Other information

At 31 December		2016	2015	2014	Notes
Customers					
Loyal retail customers	KPI	3.7 million	3.7 million	3.3 million	
Retail SME and corporate customers	KPI	290,000	266,000	239,000	
Retail customer satisfaction (FRS)	KPI	62.9%	62.9%	59.7%	For definition, see the glossary (inside back cover)
Digital customers	KPI	4.6 million	3.9 million	3.0 million	
Net fee and commission income growth	KPI	8%	(3)%	(3)%	
Customer complaints		250,463	223,235	260,440	FCA reportable complaints
Shareholders					
RoTE	KPI	10.9%	8.2%	10.4%	
Return on ordinary shareholders' equity		9.1%	6.8%	8.5%	
CIR	KPI	50%	53%	54%	
CET1 capital ratio	KPI	11.6%	11.6%	11.9%	
NPL	KPI	1.50%	1.54%	1.80%	
Dividend payout ratio	KPI	51%	50%	46%	
Water (m ³)		301,565	253,598	296,986	
Waste collected (tonnes)		4,506	4,517	4,899	
CO ₂ per employee (tonnes)		0.52	0.66	0.71	
People					
Colleague engagement	KPI	72%	71%	–	Based on survey conducted by Korn Ferry
Full-time equivalent employees		19,220	19,992	20,676	Santander UK employees at 31 December
Employee turnover		13%	14%	13%	
Communities					
People supported	KPI	196,300	–	–	
Support for communities		£22.0m	£23.4m	£21.9m	
Corporation tax paid		£507m	£419m	£149m	
Contracts awarded to small businesses (% of total)		61%	58%	40%	Businesses with <£10m turnover or <250 employees

KPI definitions

Loyal retail customers: Primary banking current account customers (those who have a minimum credit turnover of at least £500 per month and at least two direct debits on the account) who hold an additional product.

Loyal SME and corporate customers: Business banking and corporate customers that hold at least three products. Corporate customers in the trade business must also have a current account with a minimum activity threshold specific to their customer segment.

Retail customer satisfaction: Measured by the Financial Research Survey (FRS), prepared by the independent market research agency, GfK (December 2016).

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

Fee income CAGR: Net fee and commission income compound annual growth rate is measured between FY15 and FY18.

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

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

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

CET1 capital ratio: Common Equity Tier 1 capital as a percentage of risk-weighted assets.

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

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

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

The Directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

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


Further information

Contact us

Customer services

For further information about products and services, please visit our website:

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Shareholders

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

 www.santandershareholder.co.uk
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:

 www.santanderfoundation.org.uk


Media centre

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

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

Investor relations

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

 www.aboutsantander.co.uk
ir@santander.co.uk

Key Dates

26 April 2017	Q1 2017 results
27 July 2017	Q2 2017 results
26 October 2017	Q3 2017 results

Glossary

Retail customer satisfaction

The Financial Research Survey (FRS) is a monthly personal finance survey of around 5,000 consumers prepared by the independent market research agency, GfK.

The 'retail customer satisfaction' score refers to the proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands.

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

2016-2018 KPIs and targets

KPIs are presented at 31 December in the periods indicated. Reported KPIs are based on spot balances at these dates with the exception of the CIR, RoTE, and retail customer satisfaction, which are based on performance in the relevant period or year.

Targets for our KPIs were established at the 2015 Banco Santander Investor Day and set for the period 2016-2018, based on the forecast and outlook then in place. Three of our 2018 shareholder targets were revised to reflect the changed economic environment at the 2016 Group Strategy Update on 30 September 2016, as outlined in the Strategy review section of the Strategic Report..

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