UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ____________

For the transition period from ____________ to ____________

Commission file number 001-14928

Santander UK plc

(Exact name of Registrant as specified in its charter)

England
(Jurisdiction of incorporation or organization)

2 Triton Square, Regent's Place, London NW1 3AN, England
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

7.95% Term Subordinated Securities due October 26, 2029

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

Ordinary shares of nominal value of £0.10 each*	31,051,768,866
10 3/8% Non-cumulative Preference Shares of nominal value of £1 each	200,000,000
8 5/8% Non-cumulative Preference Shares of nominal value of £1 each	125,000,000

* All of the issued and outstanding ordinary shares of Santander UK plc are held by Santander UK Group Holdings plc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐	Non-accelerated filer	☒	Emerging growth company	☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	☐	International Financial Reporting Standards as issued by the International Accounting Standards Board	☒	Other	☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Santander UK plc

2024 Annual Report

Part of the Banco Santander group

Important information for readers

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

This Annual 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 201.

Santander UK Group Holdings plc is the immediate parent company of Santander UK plc. The two companies operate on the basis of a unified business strategy, albeit the principal business activities of the Santander UK Group Holdings plc group are carried on by Santander UK plc and its subsidiaries.

The Santander UK Group Holdings plc Corporate Governance and Risk Frameworks have been adopted by the Company and its subsidiaries to ensure consistency of application.

None of the websites referred to in this Annual Report on Form 20-F for the year ended 31 December 2024 (the Form 20-F), including where a link is provided,nor any of the information contained on such websites, is incorporated by reference in the Form 20-F.

Strategic report

The strategic report outlines the key elements of the Annual Report and provides context for the related financial statements.

The report highlights key financial and non-financial metrics which help to explain our performance over the past year. It also highlights the external environmental factors affecting the business along with Santander UK's positions in the UK banking market.

William Vereker
Chair
7 March 2025

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Our business model and overview

We follow the Santander Way

Our aim: to be the **best open financial services platform**, by acting **responsibly** and earning the **lasting loyalty** of our people, customers, shareholders and communities.
Our purpose: to **help people and businesses prosper**.
Our how: everything we do should be **Simple, Personal and Fair**.

We create value for all

An engaged and talented **team**
generates...
customer loyalty
leading to...
strong financial results for our **shareholders**
so we deliver...
support for our **communities**
which motivates...
an engaged and talented **team**...

Santander UK

We provide financial products and services

Mortgages, consumer auto finance, unsecured loans, credit cards, banking and savings accounts, investment and insurance products for individuals and growth-focused support and services for companies

Competitive advantage

Scaled and established bank in the UK.
Strong balance sheet with a prudent approach to risk.
Part of a **global banking group**.
A **talented** and **motivated team**.

Strategic priorities

Be **customer centric** and increase customer activity.
Focus on **simplification**, **automation** and **digitalisation**.
Create **value** and be **disciplined** with capital allocation.
Be a **responsible** and **sustainable bank**.

Our behaviours

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

T - Think Customer
E - Embrace Change
A - Act Now
M - Move Together
S - Speak Up

At a glance

14 million active UK customers.
444 branches
c18,000 full time equivalent employees
£165.2bn in mortgage lending
£176.7bn in customer deposits

Our sustainability strategy

Environment: Supporting our customers' transition, aligning our activities with the Paris Agreement and embed climate risk
Social: Promote inclusive and sustainable growth and help people gain the skills they need to thrive
Governance: Act responsibly through strong culture, governance and conduct

A significant part of the Santander UK Group Holdings plc group

The Company and its subsidiaries represent almost all the business and operations of its immediate parent Santander UK Group Holdings plc. More information on the Santander UK Group Holdings plc group, including the role of the Company as a ring-fenced bank, can be found in the Santander UK Group Holdings plc 2024 Annual Report, which does not form part of this report.

Our market overview

Improving economic environment

What we have seen
In the UK, we saw economic conditions improve despite another year of slow growth (0.9% in 2024 based on the latest data available, 0.4% in 2023).

Inflation fell towards the Bank of England's target rate over the year. The housing market in the UK performed better than expected in 2024 (House Price Index: 4%) and showed signs of increased activity as the year progressed.

This led to the Monetary Policy Committee (MPC) cutting the Bank Rate twice in the second half of 2024 to 4.75% (50bps below 2023).

Our response and looking ahead
As we exit two years of high inflation and continue the rate-cut cycle, cost management became a significant focus industry-wide. We continued to deliver our transformation through simplifying, automating and digitising processes, helping to manage our operating expenses in line with CPI for the year.

We remained focused on supporting our customers and delivering products and services that help them make the most of their money, and for those who needed extra help we continued to provide the support they needed.

Looking ahead, we expect the Bank of England to cut the Bank Rate over 2025 by 100bps (including the 25bps cut in Feb-25) to support growth. As this occurs and affordability improves for our customers, we expect to see activity in the mortgage market increase further.

Competitive UK market

What we have seen
M&A increased in the UK in 2024 and the banking sector is likely to see further consolidation in the near term.

Nationwide and Barclays completed acquisitions of Virgin Money and Tesco's retail banking arms respectively in 2024, while Coventry Building Society's acquisition of Co-op Bank's retail banking arm completed in early 2025, with NatWest's acquisition of Sainsbury's retail banking arm due for completion in 2025.

Nonetheless, the market remained highly competitive while operating in a higher rate environment. Established international and digital challengers continued to compete for deposits and lending in the market in addition to our traditional peers.

2024 marked the second year in a row of over 1 million customers in the UK using the Current Account Switch Service.

Our response and looking ahead
2024 saw another year of pricing discipline and continuation of the strategic deleveraging of our portfolio. Over the year, customer lending decreased by £8.6bn to £194.5bn and our customer deposits decreased by £10.7bn to £176.7bn.

We continued to monitor competitors' products and invested in our multi-channel offerings throughout the year, to bring customers to Santander UK.

Looking forward, we expect large peers to continue investing in their product offerings to retain and attract customers, while we expect digital challengers to continue in their pursuit of market share.

Customers becoming digital

What we have seen
2024 was another year of customers moving towards digital banking over traditional banking channels.

Our digital customer base grew again in 2024 to 7.2 million users, with 88% of our retail current account openings in the year made through digital channels.

Our response and looking ahead
Following the pilot of our new mobile banking offering in 2023, OneApp became available to all our customers in 2024. OneApp is now being used by over six million customers in the UK and provides our customers with faster and enhanced functionality, including personal insights into their spending.

We also launched new products to support our customers' changing needs, including the latest edition of our Edge offerings – the Edge Credit Card.

Whilst digital banking is becoming embedded in our customers' everyday lives, we remain committed to delivering customer engagement through our branch and telephony channels.

In 2024, we completed 50 branch refurbishments, and made significant progress with planning two new Work Cafés in support of this commitment.

Looking ahead to 2025, we look forward to the opening of those two new Work Cafés as we continue to review our customers' needs and provide them with products and services that meet their requirements, while continuing to evolve our digital offerings and in person services.

Deployment of AI technology

What we have seen
The market has evolved rapidly, which has provided opportunities to accelerate deployment of AI as well as challenges in how we manage risk.

Across the industry, banks have adopted a cautious approach, focusing on initial use cases with a 'human in the loop' to ensure outputs are reviewed before being communicated to customers.

Most of these use cases have helped improve productivity without introducing material risk to our operations.

Our response and looking ahead
We delivered several new machine learning and generative AI solutions in 2024, including Agent Assist and Sandi.

Agent Assist gives our people access to knowledge bases through generative AI, allowing them to provide faster and more accurate responses to customers.

Sandi is our internal AI search tool helping our employees search and find answers to People & Culture related questions. Since its launch in November 2024, it has answered 98% of the questions asked, with only 2% requiring additional 'human touch'.

An internal working group supported the deployment of this technology and developed a stringent governance framework with the right controls.

In 2025, we expect industry use of AI to continue to grow and we plan to expand our use of it, allowing our colleagues to focus on the more complex customer cases.

Evolving regulatory landscape

What we have seen
Regulatory change continues to be significant within the financial services sector, with 2024 seeing new proposals and interventions from UK regulators.

The FCA remained particularly active, continuing to monitor and engage with firms on Consumer Duty, while introducing new rules and guidance to address issues on wider access to banking.

The Payments Systems Regulator (PSR) introduced mandatory reimbursement for Authorised Push Payment (APP) fraud, providing significantly increased protections to consumers. The publication of a National Payments Vision and wider exploration of innovation in the payments sector helped contribute to the regulatory space in 2024.

While there has been substantial activity, there has also been a wider recognition of the burden of regulation on the industry and the impact this has on economic growth.

Our response and looking ahead
Phase 2 of the FCA's Consumer Duty was implemented for closed book products in July 2024, in addition to our work to meet new Basel capital requirements.

We welcome the UK government's commitment to improving the balance of regulation, with a focus on driving growth and international competitiveness, we look forward to continue working closely with the regulators to help drive growth in 2025.

The FCA's review of its rulebook is a positive start to simplifying the current regulatory landscape.

Delivering on our ESG ambitions

What we have seen
Customers, governments, regulators, NGOs, and investors continue to scrutinise ESG activities with a real focus on the say-do gap of organisations, which in turn is beginning to drive real-world action.

Our response and looking ahead
In 2024, we advanced our climate strategy by launching six retail green finance propositions to support our customers. We also enhanced our portfolio analysis, reporting financed emissions from commercial real estate lending for the first time, in addition to focusing on aligning our activities with the UN Paris Agreement.

In the social space, we continued to proactively reach out to over 2.6 million customers showing potential early signs of financial difficulty and strengthened our focus on education, employability, and entrepreneurship. This includes the launch of a free adult education initiative which aims to equip people above the age of 18 with the skills needed to power the economy of the future. Within our business, we increased our gender and ethnicity senior level representation with senior female representation at 34.1% and senior minority ethnic representation at 14.7%.

In 2024, we approved our new Governance Strategy focused on clear and robust governance with well-defined accountability promoting the success of our business, customers, and stakeholders.

Looking ahead, we will continue to evolve how we report on ESG matters. This involves updating our ambitions with a focus on real world impact.

Our strategic priorities

Focused on customer loyalty, improved efficiency and sustainable growth

Customer centric & customer activity

Initiatives focused to better serve and engage our customers by leveraging technological and operations synergies from the global Banco Santander group, enabling access to financial services for our customers through several channels.

2024 progress: expanded our Edge portfolio for our customers through the launch of Edge Credit Card and Edge Home which enables live mortgage tracking for all our broker partners. For our corporate customers, we launched a Virtual Account Management platform supporting the needs of our clients in the legal, real estate, property and pensions sectors.

Simplification, automation & digitalisation

Reduce complexity, decrease friction and increase automation to streamline our products and processes. This is supported by becoming a 'digital bank with a human touch'.

2024 progress: launched OneApp which is now being used by over six million customers and achieved a customer rating of above 4.7 stars out of 5. We merged our four legacy mortgage platforms into one and simplified payments operations by moving to Banco Santander's PagoNxt platform as part of simplifying our business. Lastly, we delivered several new AI solutions across the business including Agent Assist and Sandi.

Value creation & disciplined capital allocation

Focus on value creation for all (customers, employees, shareholders and communities) while managing risk and profitability and being disciplined with capital allocation.

2024 progress: continued strategic deleveraging of our balance sheet delivering profits in line with expectations for our shareholder. We maintained significant headroom on regulatory capital requirements and delivered substantial dividends back to Banco Santander.

Be a responsible and sustainable bank

Initiatives aimed at supporting our customers with a secure and just transition to a sustainable economy and helping them get the skills they need to thrive.

2024 progress: continued to develop our new social strategy with a distinct focus on Education and Skills whilst also launching several test and learn initiatives to support our customers in retrofitting their homes.

Our performance and key performance indicators

The directors of the Company's immediate parent, Santander UK Group Holdings plc, manage the operations of the Santander UK Group Holdings plc group (which includes the Santander UK group) on a business division basis. Key performance indicators are not set, monitored or managed at the Santander UK group level. As a result, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

The development, performance and position of the business of the Santander UK group is set out in the Financial review.

The key performance indicators of the Santander UK Group Holdings plc group can be found in its 2024 Annual Report, which does not form part of this report.

Risk management overview

Supporting our customers and business growth through simpler and improved processes was a key focus throughout 2024 and remains a key priority in 2025.

By simplifying and automating processes, using digital tools and designing smarter solutions, we are supporting the delivery of good customer outcomes and business growth

Top Risks

We monitor our Top Risks quarterly at the Executive Risk Control Committee (ERCC) and Board Risk Committee (BRC).

In 2024, our focus shifted away from Inflationary and Supply Chain pressures to Margin Compression, with UK headline inflation falling towards 2% and markets implying a peak in the UK Bank Rate.

We made further changes to our Top Risks by introducing three new areas (Resiliency, Payments Transformation, and AI/Machine Learning) and removing two existing Top Risks (Ring-Fencing and People risk), although we continue to closely monitor human resource impacts as part of Strategic Transformation.

Conduct and Regulatory

In 2024, we continued to have significant regulatory engagement, notable among these were with respect to: Financial Crime, Technology risk, Regulatory Models, Payments Services regulation, Outsourcing and Third-Party risk, Data Privacy, Operational Resiliency, Consumer Duty embedding, and Historical Motor Finance Commissions. We have reduced our regulatory risk profile including closing issues related to Financial Crime, IT risk and Change Management projects, and implementation of Regulatory Capital models.

Economic Crime

Financial Crime (FC) risk remains a key focus area for senior management and the Board. In 2024, we continued to mature our oversight capabilities and Centre of Excellence operations to further integrate FC risk management into the business. We also continued to review our processes to address complex global sanctions regimes and enhance our use of technology in screening processes.

Fraud losses continue to be a significant proportion of our overall operational losses, in line with the wider UK financial services industry. However, these losses were significantly lower in 2024 compared to 2023, with the design and implementation of new fraud prevention tools to complement our existing systems and controls. As part of our Fraud Transformation programme, we are taking action to reduce losses and case volumes.

Technology

The importance of IT risk management and control remains at the centre of our activities. We continued to progress our bank-wide programme to address risks that could arise from obsolete technology and a Single Point of Failure (SPOF) in our network. We delivered further risk reduction in 2024 and closely monitored these improvements through our risk governance framework. In parallel we leveraged business transformation, where both platform and application obsolescence coincide.

Margin Compression

Implied Bank Rate fell in 2024 and risks appear to be skewed more towards downwards movements in rates, although higher for longer is a viable scenario should inflation remain sticky. Regulatory pressure remains around deposit pricing and Consumer Duty and has the potential to increase deposit market competition. Our Treasury team executed a Margin Compression investment strategy in 2024, approved by our Asset and Liability Committee (ALCO), which mitigated our risk exposure. There is regular engagement between Treasury, Risk and the business to ensure key market and pricing assumptions and the strategy remain appropriate.

Operational Resiliency

In 2024, we progressed our Operational Resilience and Recovery Plan (ORRP) which will enable us to meet a key regulatory deadline in March 2025. We also prioritised scenario testing in key areas to reduce risk and to ensure we identify and remediate potential vulnerabilities in a timely fashion (we remain on-track to meet the March 2025 regulatory deadline), although execution risk is elevated due to complexity. We continue to actively engage with industry working groups to ensure we are cognisant of common vulnerabilities and third-party service providers.

Cybersecurity

In 2024, key drivers of risk included geopolitically motivated cybersecurity attacks where ransomware is inserted into supply-chains, posing a critical risk, and exploitation of critical vulnerabilities. Our remediation plans drove improvements to our cybersecurity risk profile throughout 2024. This strengthened our overall cybersecurity controls and improved our resilience, within a cybersecurity threat landscape which continues to evolve.

Data Quality

In 2024, we enhanced our Data Operating and Ownership models, end-to-end data management controls, and governance for measuring and escalating data quality issues. We have remediation plans in place as part of our Data Management Programme to further enhance data quality, data privacy and protection.

Outsourcing and Third-Party

Under Operational Resilience regulations, loss of a critical third-party (SPOF) is deemed a severe but plausible scenario. Our ORRP programme addresses these risks, along with the creation of specific playbooks which are cross-checked to business area continuity plans.

Strategic Transformation

Key areas of concern related to our plans include: potential risk of material disruption and incidents; insufficient funding to deliver critical business priorities; and the risks arising from implementing cost driven efficiencies.

We have set up a taskforce with Risk participation to provide a review of, and challenge, project costs. Savings initiatives undergo rigorous governance and risk assessment processes. Operational risk provides enhanced oversight on moderate and higher risk projects, which require risk assessments and mitigations to be in place.

Regulatory Capital

The level of capital we have to hold is highly sensitive to regulatory decisions on the implementation and interpretation of capital rules. Further complexity arises due to dual regulation of Santander UK by the PRA and the ECB. Basel 3.1 'near-final' rules have been published which could impact us, although they will not apply until 1 January 2027. However, our current and projected CET1 Capital surpluses provide significant capacity to absorb adverse capital movements.

Climate Change

There are clear regulatory expectations on the embedding of climate risks in our risk management processes, strategies and remuneration targets.

In 2024, we made significant strides in integrating climate risk management into our business. For the first time, we ran internal models and scenarios for Climate Internal Scenario Assessment (CISA), which considered the broader impacts of physical and transitional risks in addition to our internal climate transition plan and green finance plan.

There are execution risks around these programmes, as well as regulatory risks. To address this, we are enhancing our data and governance processes to support risk management and reporting.

Payments Risk Transformation

The payments industry landscape is rapidly evolving with new regulatory requirements, scheme changes and adoption of new technology and standards. Risks arise from the scale and pace of transformation of payment systems which pose a challenge to capacity and capability to deliver. In 2024, we continued to progress an improvement plan to address these requirements.

Artificial Intelligence (AI) & Machine Learning

AI developments in the banking industry will test preparedness to safely manage and respond to its evolution given the velocity, pace and scale of change.

We have a planned phased approach to AI over our three-year plan period. To support this, we are improving data quality to enable model development, which is being progressed primarily under our Data Management Programme.

We plan to incorporate AI into our Non-Financial risk structure, along with adopting a specific AI policy standard.

Emerging Risks

We monitor these risks using our Risk Radar and regularly provide updates to the ERCC and BRC.

Highlighted below are our Emerging Risks in 2024 and our associated management actions.

Most Emerging Risks we face are systemic risk issues which also impact our peers. Santander UK may be exposed to more idiosyncratic risk in areas impacting regulation, where we face dual regimes, principally the PRA and FCA in the UK and the ECB in Europe.

In 2024, our portfolio of Emerging Risks was broadly unchanged, but we have identified and categorised specific Emerging Risks under the most significant drivers below.

Strategic and business related risks are addressed under our risk types and cover the broader challenges in the banking sector including Market Competition. Under Emerging Risks we focus on emerging digital business risks and opportunities which also impact market competition.

Uncertain Regulatory Agenda

UK Regulatory Demand on Banking Sector: adverse impacts on sector investability are likely to continue in the medium-term given the level of regulatory stretch relative to the EU and US.
Whilst the PRA's proposed Basel 3.1 rules have been received positively, total levels of capital in the UK banking system remain materially higher than in other jurisdictions. This coupled with Consumer Duty, Financial Ombudsman Service determinations on complaints, normal course of business inspections of our operations such as Liquidity Supervisory Review and Evaluation Process, and retrospective action on banking activity, is negatively impacting the UK banking sector's international competitiveness. Our Public Affairs and Regulatory Policy teams have been fully engaged with regulators and the UK Government to prompt action to redress the balance.

Net Zero transition: given the UK Government's acceleration of the clean power action plan from 2035 to 2030, there are potential risks to the economy if this is not achieved. We have included a delayed transition scenario in our climate stress testing that assesses potential adverse economic impacts of carbon taxes, which could be introduced to speed up transition, but inadvertently cause an economic shock. We also support Banco Santander with data for their mandatory disclosures under CSRD, and align our qualitative and quantitative data as much as possible, although Santander UK is not subject to CSRD itself.
Chevron Deference: the US Supreme Court overturned a doctrine that ambiguity in a statute implied delegation of interpretive authority to a relevant federal government agency. As such, long-standing positions of regulatory agencies in the US may be subject to change, and lead to regulatory uncertainty which we may need to be cognisant of in certain areas such as capital markets.

Increased uncertainty in Macroeconomic and Geopolitical Environment

UK Political risks: the banking sector was spared some measures to increase related taxes in the October 2024 budget, such as the Bank Levy and payment of interest on commercial reserves.
However, there will be increased costs to businesses as a result of increased employer's National Insurance (NI) which will also flow through to customers and the wider economy. Our Public Affairs team regularly engages with government officials to understand policy direction and we consider potential financial and other impacts in our business plans.

US Political risks (Deregulation): although the new Republican administration's policy agenda is still evolving, there are directional signals: increased energy production; lower corporation tax rates; variable trade tariff rates on imports; and deregulation policies.
Deregulation is likely to be a feature of the new Republican administration and could further increase UK banks' uncompetitiveness should US banks gain further regulatory advantage.

Trade Tariffs, Sanctions and Supply Chains: increased trade tariffs and/or sanctions either on specific nations or more broadly, given elevated geopolitical tensions, could impede critical supply chains in the UK, reigniting inflationary concerns and a negative economic outlook.
In such a scenario, it is likely the MPC would have to hold rates rather than enact cuts to mitigate inflation. We consider the potential impacts of such a scenario in our stress testing for Capital (ICAAP) and in our Operational Resilience planning and testing. Our third-party suppliers could be impacted through retaliatory measures including cyber-attacks, which might then impact us.

Quantitative Tightening: driven mainly by Quantitative Easing (QE), the total stock of Bank of England (BoE) reserves reached a peak of £978bn in January 2022. Since then, the MPC has been selling assets to unwind QE. The size of the BoE's balance sheet is determined by the amount of reserves supplied, implying that reserves will shrink going forwards. We are now undertaking asset purchases and lending through short-term and long-term repo operations as part of Liquidity Management. As QE unwinds there could be unintended consequences for markets and financial stability.
Eurozone Sovereign Bank contagion: the ECB warned of Eurozone sovereign debt risks in its November 2024 Financial Stability Review. Elevated debt levels and high budget deficits, coupled with weak long-term growth potential, increase the risk that market concerns over sovereign debt sustainability will reignite. The banking and corporate sectors are not immune as rising sovereign bond yields could ultimately drive-up both banks' and companies' funding costs. We monitor sovereign credit spreads and potential for market contagion via daily Market and Structural risk reports and at our ALCO.

Markets, Competition & Technology

Digital Bank challengers: market competition continues to intensify with challengers, having achieved improved profitability and viability, posing a significant medium-term challenge to the business. Our investments in digital and data capabilities are ongoing to enhance digital offerings, including: our new mobile banking app, which has been well received by customers, pre-approved aggregator credit card sales, and enhanced customer relationship management capabilities to leverage our insights into customer behaviour.
Digital Pound (Central Bank Digital Currency): our initial concerns over adverse market liquidity and funding implications were fed back to the BoE in 2023, along with our peers. The BoE now appears to be more receptive to the use of Central Bank Digital Currencies in the Wholesale sphere, which may benefit retail use cases, in which we have an aspiration to develop. We are working with our peers on the Regulated Liability Network programme to develop an alternative retail offering, and to the Digital Pound. Our Regulatory Policy team monitors developments in this area with the business and risk.
Digital Risks: the banking sector is accelerating innovation and elevating business and market competition through adopting technologies that are shaping the present and future of financial services. These include: AI, Quantum Computing, Crypto & Blockchain, Open Banking/Finance, and Cloud Computing. These innovations will likely result in enhanced regulatory scrutiny and disclosure requirements and a fully fledged regulatory/supervisory framework. We are enhancing our risk management approach to these broader digital risks, as well as leveraging potential business opportunities and will track progress via our top and Emerging Risk updates.

Environmental and Social

Environmental and Social related risks are increasing. Significant wealth disparity both within nations and globally is driving geopolitical fragmentation, with emerging pushback to international regulations and globalisation, as well as mass migration to the US and Europe.

Climate Change and Biodiversity concerns are prominent, including more frequent extreme weather events and related risks such as natural resource shortages and global pandemics. Environmental regulations are also becoming more disruptive, although there are emerging signs of a significant pushback to these generally.

There are potential implications for economic stability, our customers and colleagues, which we will carefully consider in our business and resource planning.

Financial overview

Summarised Consolidated Income Statement

	2024 £m	2023 £m
Net interest income	4,312	4,658
Non-interest income[(1)]	345	438
Total operating income	**4,657**	**5,096**
Operating expenses before credit impairment charges, provisions and charges	(2,548)	(2,456)
Credit impairment charges	(71)	(205)
Provisions for other liabilities and charges	(689)	(335)
Profit before tax	**1,349**	**2,100**
Tax on profit	(378)	(559)
Profit after tax	**971**	**1,541**

1. Comprises 'Net fee and commission income' and 'Other operating income'.

A more detailed Consolidated Income Statement is contained in the Consolidated Financial Statements.

2024 compared to 2023

Profit before tax fell to £1,349m in 2024, a 36% decrease from 2023. This decrease reflects market wide pressures on customer deposit costs and was impacted by the £295m charge for historical motor finance commission payments made in the year.

– Net interest income decreased 7%, largely due to higher customer deposit costs and a reduction in mortgage loans.
– Non-interest income was down 21%, driven by the 2023 revaluation gain of our shares in Euroclear which was not repeated in 2024.
– Operating expenses before credit impairment charges, provisions and charges increased by 4%, due to further investment in efficiency and customer experience and two years of high inflation.
– Credit impairment charges were down 65% to£(71)m, given the improved economic outlook with lower unemployment rate and higher house prices expected.
– Provisions for other liabilities and charges were up£354m, driven by the £295m charge for historical motor finance commission payments in the third quarter of 2024, as well as higher transformation costs.
– Tax on profit decreased 32%, reflecting the reduction in profit in 2024.

The FCA Motor Finance review

Following the FCA's Motor Market review in 2019, we received a number of claims and complaints in respect of our historical use of discretionary commission arrangements (DCAs) prior to rule changes made in 2021.
In January 2024, the FCA commenced a review of the use of DCAs between lenders and credit brokers (the FCA review) and in July 2024 announced that it expected to share the outcome of its review by May 2025.
In October 2024, the Court of Appeal handed down a judgment in relation to cases against other lenders involving DCAs that was unexpected and materially changed the expectations of the FCA review.

What this means for us

In light of the Court of Appeal judgment, we recognised a provision of £295m in the third quarter of 2024, materially impacting our 2024 financial performance. This provision included estimates for operational and legal costs and potential awards, based on various scenarios using a range of assumptions.
There remain significant uncertainties as to the nature, extent and timing of any remediation action required, and the outcomes of the FCA review will provide the market with more clarity and guidance.
Ultimately, the total financial impact remains unknown and could be materially higher or lower than the amount provided.

Please refer to the Financial review section of our Annual Report on Form 20-F for the year ended 31 December 2023 for a comparative discussion of 2023 financial results compared to 2022.

Summarised segmental balance sheet

At 31 December (£bn)	2024	2023
Customer loans by segment		
Retail & Business Banking	171.7	180.0
Consumer Finance	4.8	5.2
Corporate & Commercial Banking	18.0	17.9
Corporate Centre	0.0	0.0
Customer loans	**194.5**	**203.1**
Loans to JVs, accrued interest, ECL and other	4.9	4.3
Loans and advances to customers	**199.4**	**207.4**
Cash, repos, other financial assets and other assets non-interest earning	60.5	68.0
Total assets	**259.9**	**275.4**
Customer deposits by segment		
Retail & Business Banking	151.8	158.3
Corporate & Commercial Banking	22.1	24.1
Corporate Centre	2.8	5.0
Customer deposits	**176.7**	**187.4**
Deposits from JVs, accrued interest and other	4.3	3.5
Deposits by customers	**181.0**	**190.9**
Financial liabilities, repos and other liabilities non-interest earning	65.2	69.9
Total liabilities	**246.2**	**260.8**
Shareholders' equity	13.8	14.6
Total liabilities and equity	**259.9**	**275.4**

A more detailed Consolidated Balance Sheet is contained in the Consolidated Financial Statements.

Segmental profit before tax

Profit / (loss) before tax (£m)	2024	2023
Retail & Business Banking	1,224	1,703
Consumer Finance	(175)	174
Corporate & Commercial Banking	351	570
Corporate Centre	(51)	(347)
Total	**1,349**	**2,100**

2024 compared to 2023
Retail & Business Banking
- Customer loans and deposits reduced with disciplined pricing.
- Profit before tax was down, largely due to higher customer deposit costs and a reduction in customer balances.

Consumer Finance
- Lower lending was driven by a decision to focus on value and capital generation.
- Loss before tax was driven by the £295m provision relating to historical motor finance commission payments.

Corporate & Commercial Banking (CCB)
- We continued to focus on high-value and international business, with over 500 new clients onboarded in 2024. Over 1,000 new users are now on our Santander Navigator platform
- Profit before tax was down, largely due to pressures on income from higher deposit costs and inflationary pressures on operating expenses.

Corporate Centre
- loss before tax was down, mainly due to transformation expenses in 2023 which were not repeated in 2024.

Sustainability overview

We are working with our stakeholders to support a secure and inclusive transition to a more sustainable society. Our Sustainability strategy sets out how Santander UK will tackle the challenges identified by the 2024 double materiality assessment (DMA). It is also aligned with Banco Santander's Sustainability strategy.

Stakeholder voice

The Boards of the Company and Santander UK plc (the RFB and the Boards) have identified our customers, employees, regulators, communities and investors as our key stakeholder groups on the basis of their importance in ensuring the continuing success of Santander UK. While not a stakeholder in the strictest sense, we also take into account our impact on the environment and climate given its criticality to life and business in general.

Balancing the interests of these stakeholder groups alongside the interests of Santander UK is key to ensuring that we operate as a sustainable, responsible and profitable business, and we therefore seek to ensure that this is embedded in our strategy and culture.

To support the Boards and their Committees in their considerations, our Board paper template and training includes a specific focus on the directors' duties arising from s172 and how management's preparation of their papers plays a key role in ensuring that the Directors can discharge their responsibilities in a fully informed manner.

In 2024, the Boards continued to spend time, inside and outside of formal meetings, engaging with stakeholders and discussing their interests, including visiting branches, contact centres and offices around the UK to better understand the needs of our customers, employees and communities. You can read more about Directors' engagement with employees in 2024 on the following page.

Each Director meets with our principal regulators, the PRA and FCA, on a periodic basis to understand their views, and these regulators also attend our Board meetings from time to time. The Board meets regularly with members of management and the directors of Banco Santander SA, the Company's shareholder, and, as usual, the Board held its February 2024 Board cycle in Madrid in order to strengthen relations and understand Banco Santander's views more clearly.

Employee voice in the boardroom

Stakeholders considered Customers, Employees, Regulators

Background
The Board has appointed a designated director for employee engagement, Lisa Fretwell, who drives the Board's employee engagement programme and reports quarterly to the Board Responsible Banking Committee on Directors' findings.

How the Board approached it
Again in 2024, the Board had a full programme of employee engagement opportunities including listening sessions where employees were encouraged to speak openly about their views of Santander UK, and their experiences working here and supporting our customers. In addition, each of our employee Networks has a non-executive Director sponsor who attends events and champions their cause.

Outcome
As well as reporting to RBC at each of its quarterly meetings on the key messages from non-executive Directors' listening sessions, Lisa also passed on these findings to management: We find that this is another helpful way of receiving positive and constructive feedback from employees which allows for actions to be taken where necessary. For example, following a branch visit, management took a number of actions designed to improve support and security for employees as well as customers' access to cash machines. In another instance, management took actions to improve the process for the final stages of our graduate recruitment programme.

Sustainability

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Streamlined Energy and Carbon Reporting (SECR) 13

Sustainability overview

Climate-related financial disclosures

Banco Santander has set out ambitions to be a net zero bank by 2050. We are implementing the recommendations of the TCFD, and taking action to meet the expectations set by the PRA, BoE and FCA. This requires wide-ranging collaboration both within the bank and externally to develop the tools and methodologies needed. As such, we adopted a unified approach across the Santander UK Group Holdings plc group and therefore present TCFD disclosures on that basis in the Santander UK Group Holdings plc Annual Report.

Streamlined Energy and Carbon Reporting (SECR)

We continue to monitor and evaluate our energy and carbon footprint in line with the SECR regulation. Our emissions are calculated using the UK Government Department for Energy Security and Net Zero (DESNZ) conversion factors. In 2024, we used 89,511,0411 kWh of energy, compared to the 92,907,880 kWh used in 2023. This change was due to reductions in our gas consumption. We emitted 5466 tCO2e market-based greenhouse gas emissions, compared to 5299 tCO_2e in 2023.

Our total Scope 1, 2, and 3 emissions for 2024 are set out in the SECR table. The slight increase in Scope 2 location-based emissions was due to the opening of Unity Place, our head office building, and an increase in staff returning to offices across the estate. However, we saw reductions in natural gas in 2024, mainly due to rationalisation across our Head Office Estate. Business travel also continued to rise in 2024 leading to an increase in Scope 3 emissions. As a result, in 2024 our overall scope 1, 2 and 3 business travel emissions increased compared to 2023. Refurbishments at Triton Square our London office, are close to completion. These include replacing lower efficiency mechanical, electrical and plumbing items (i.e. pumps, LED lights, fan coil units, air handling units (AHUs), HVAC replacements). Our Bradford and Sheffield sites completed energy saving projects in 2024. Redhill and Glasgow started projects in 2024 that will continue into 2025.

	2024	2023	2022
Scope 1 tCO_2e	**2,456**	2,814	4,512
Scope 2 tCO_2e (Location-based)	**16,195**	16,127	15,571
Scope 2 tCO_2e (Market-based)	**1.13**	0.34	0.4
Scope 3 tCO_2e (Business Travel)[1]	**3,009**	2,485	1,383
Total[1]	**5,466**	5,299	5,895
YoY %	**3 %**	(10)%	(7)%
Total emissions per employee (tCO_2e/FTE)[1]	**0.3**	0.27	0.32

(1) Employees that had left Santander UK or were temporarily absent during the 2023 reporting period had been excluded from Scope 3 business travel but should have been included. We have estimated this exclusion based on available data. This estimation also impacts the Total CO_2e emissions, CO_2e emissions per employee, and year-on-year percentage for 2023. This excluded population has been included for the related data points in 2024 but 2023 data was not updated due to confidence in the previous calculation based on available data.

Additional notes on GHG emissions calculations

Boundary

Scope 1-3 GHG emissions include the activities and facilities owned and/or under operational control of Santander UK plc.

Calculation

Scope 1: GHG emissions from oil, gas, direct transport, and fugitive gas emissions. Consumption and transport data is extracted from relevant source systems and records. Data is sourced from internal systems, including meter readings, maintenance records, and internal travel systems, as well as external systems such as bill validation systems and external supplier invoices. Emissions calculated for gas, oil, direct travel, and fugitive gases follow the GHG Protocol Corporate Standard. We use the relevant UK Government Department for Energy Security and Net Zero (DESNZ) conversion factors and collate emissions into a total Scope 1 emissions figure. We use billing invoices, meter readings, mileage claims, and maintenance records to obtain our consumption data.

Scope 2: GHG emissions from purchased electricity, electric fleet and company cars. For Santander UK, we use the market-based approach to quantify our emissions, meaning we use emissions factors provided by our electricity suppliers. For our Scope 2 emissions, this reflects the emissions from electricity we have purchased via green tariffs. These provide electricity from renewable sources including biomass and wind generation. Scope 2 emissions for electricity consumption are calculated using the relevant UK Government DESNZ conversion factors and guidance. Emissions from the electric fleet are calculated using the Residual Mix from DESNZ Fuel Mix Disclosure. Data for electricity consumption and travel for electric fleet and company cars are extracted from relevant source systems.

Scope 3 – Business travel: This includes indirect travel emissions created through our value chain that have not been included in Scope 1 and 2. Our Scope 3 reporting encompasses emissions from business travel (air, road, and rail). Business travel records are extracted from relevant internal systems or provided by our third-party travel admin operator. The distance in kilometres travelled is converted into carbon emissions using relevant factors from UK Government DESNZ and collated into a total Scope 3 emissions figure. Car data is based on engine size, flight figures are based on average cabin seat class, and for rail they are based on average cabin seat class. Rail figures are based on national rail conversion factors. We source data from mileage claims and third-party travel reports. Taxi travel is excluded due to the lack of mileage data.

Governance

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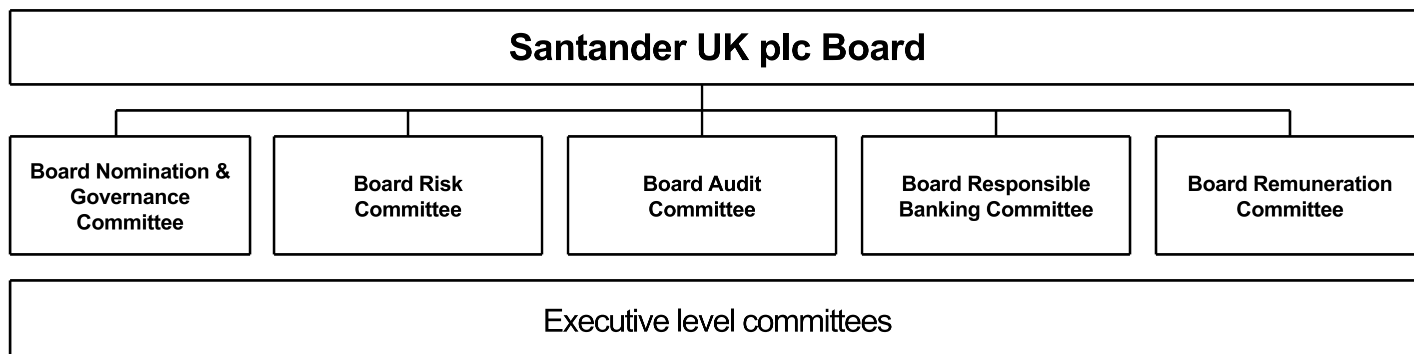
Governance overview



Due to the alignment in Board membership, the Santander UK Group Holdings plc and Santander UK plc Board and Board Committees meet substantively simultaneously. As such, this report details the governance arrangements, practices and activities of both Santander UK Group Holdings plc's and Santander UK plc's Boards and Board Committees.

Board changes in 2024

1 January	5 March	1 September	1 December	13 December
Mark Lewis, Dirk Marzluf and Nicky Morgan appointed[1]	Angel Santodomingo appointed	David Gledhill appointed	David Oldfield appointed	Announced the appointment of Enrique Alvarez[2]

1. Santander UK Group Holdings plc only – following changes to the Santander UK ring-fencing rule modifications
2. Appointment effective from 12 February 2025

Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code 2018 (the Code) sets out the framework for premium listed companies in the UK. We feel that it is appropriate for a Company of our size and systemic importance to the UK economy to adopt the Code and as such, this Governance section details how we comply with its principles and provisions. Any sections of the Code that we do not comply with are explained in the Directors' Report.

Chair's report on corporate governance

Our approach

Board and governance structure

Maintaining high standards of corporate governance is vital to ensuring effective decision making by the Board and therefore the ongoing success of the Company. We also adhere to various internal governance frameworks and practices which ensure that we have the right systems and controls in place to allow the Board to effectively oversee the business and provide challenge where needed. These include:

- The UK Group Framework, which defines clearly our responsibilities and relationship with Banco Santander SA, our ultimate shareholder, taking account of our fiduciary and regulatory responsibilities. This gives us the autonomy to discharge our responsibilities in the UK in line with best practice as an independent board while providing Banco Santander SA with the oversight it needs. Clarity of roles and responsibilities is key to ensuring proper accountability for decisions and outcomes.
- The Corporate Governance Framework (CGF), which is designed to support the Boards in discharging their responsibilities and ensuring an appropriate degree of delegation throughout the Santander UK group.

We review the CGF regularly to confirm that governance arrangements remain effective and appropriate. The corporate governance structure is supported by internal control and risk management systems. An important principle applied throughout the CGF is the delegation of executive authority from the Board to the CEO, who further delegates aspects of their authority to Executive level committees or other individuals. This supports effective decision making and accountability in discharging their responsibilities.

Santander UK group structure and ring-fencing governance arrangements

The substantive business of the Santander UK group continues to be conducted by Santander UK plc, our principal ring-fenced bank (RFB). Ring-fenced banks operate within governance rules defined and overseen by the PRA who granted Santander UK plc certain ring-fencing governance rule modifications, recognising our ownership structure and chosen ring-fencing business model. As set out in last years' report, with effect from 1 January 2024, the PRA approved revisions to our ring-fencing rule modifications which simplified our governance arrangements, including the ability to have common Santander UK Group Holdings plc and Santander UK plc Board and Board Committee memberships, subject to certain safeguards. As such, Mark Lewis, Dirk Marzluf and Nicky Morgan were appointed to the Board of Santander UK Group Holdings plc, and the composition of the Board Committees was aligned.

One of the safeguards agreed is that if a conflict matter (as defined by the PRA) arises between the two companies, three INEDs holding PRA senior management functions (SMF) will have veto rights on Board decisions. These INEDs are Nicky Morgan, Mark Lewis and Ed Giera. David Oldfield will succeed Ed Giera in this role with effect from 10 March 2025. Nicky Morgan will chair the RFB Board meeting in the event of a conflict matter decision.

The role and responsibilities of the Board

The Board is collectively responsible for promoting the success of Santander UK for the benefit of its stakeholders, taking into account the likely impact of our decisions in the long-term, as well as balancing the interests of our other stakeholders and our contribution to wider society. Our Stakeholder voice statement in the Strategic Report explains how we engaged with our stakeholders in the year.

The key decisions and matters reserved for the Board's approval, such as the long-term strategy and priorities, are set out in the CGF. A copy of the Schedule of Matters Reserved for the Board is also available on our website, which does not form part of this Annual Report.

As Chair, I have overall responsibility for the leadership of the Board, for ensuring its effectiveness in all aspects of operation and for promoting a culture of openness and debate. These responsibilities are formalised in the CGF. The composition of the Board helps to ensure that no one individual or small group dominates the Board's decision-making. The diversity of skills, experience and background of Directors enables them to provide constructive challenge, strategic guidance and offer specialist advice.

There is a clear division of responsibilities between the leadership of the Board and the executive leadership of the business. The responsibilities of the Chair, CEO, Senior Independent Director (SID) and Non-Executive Directors (NEDs) are agreed by the Board and set out in separate role statements within the CGF and are available on our website, which does not form part of this Annual Report. The Board is also supported by its Committees, who make decisions and recommendations on specific responsibilities delegated to them. This enables the Board to spend more of its time on strategic, forward-looking matters.

Board Committees

The Committees play an essential role in supporting the Board, giving focused oversight of key areas and aspects of the business. Their roles and responsibilities are set out in their Terms of Reference which are available on our website and which do not form part of this Annual Report. The Terms of Reference are regularly reviewed by each Committee to make sure they remain appropriate. Cross-Committee memberships provide visibility and awareness of matters relevant across the Committees, and the chair of each Committee reports back to the Board on its activities after each meeting.

In addition to our five core Board Committees, shown on the previous page, the Board are also supported by committees which are stood up as needed to allow dedicated time for topics at a more focused forum. In December 2024, we created a Board Special Projects Committee to focus on remediation, special projects and transformation matters.

Each of the core Committees is chaired by and comprised of only INEDs, except for the Board Nomination & Governance Committee, where Pamela Walkden, a Banco Santander group appointed NED (GNED) is a member.

How governance contributes to the delivery of our strategy

Our governance arrangements contribute to the development and delivery of our strategy by promoting accountability and responsibility, and ensuring information flows and independent insight from the NEDs.

While all Directors are collectively responsible for the success of the Company, the NEDs exercise objective judgement in respect of Board decisions, and scrutinise and challenge management constructively. They also have responsibilities on the integrity of financial information, internal controls and risk management.

As a Board, we are responsible for ensuring that the business is purpose-led and that our decision making and activities reflect our core purpose to help people and businesses prosper. We do this by setting and developing our strategy, approving risk appetite and policies and overseeing their delivery and implementation by management. The Board is accountable to our shareholders for the proper conduct of the business and seeks to represent the interests of all stakeholders.

The Board has identified the following key stakeholders: Customers, Employees, Regulators, Communities and Investors. For more on how the Board balances the interests of these stakeholders, see our Stakeholder voice statement in the Strategic Report.

Culture and hearing the views of the workforce at the Board

The Board recognises that culture plays a fundamental role in delivering our strategic priorities and ensuring the success of the business, we are ultimately responsible for ensuring that our activities reflect the culture we wish to instil throughout the business to deliver on our values of simple, personal and fair.

Our Code of Conduct sets out how we and all employees of Santander UK should act and behave towards everyone we encounter through our work. This, alongside our TEAMS behaviours - Think Customer, Embrace Change, Act Now, Move Together and Speak Up - contribute to drive our culture and maintain the standards that underpin it. All new employees are required to complete training on the Code of Conduct and annual refresher training is required for all employees.

Our employees are central to delivering our strategy, and the Board ensures continuous engagement with them to create a culture of inclusivity and belonging, and a healthy working environment.

Chair's report on corporate governance continued

Throughout the year, the Board received feedback from colleagues via a number of mechanisms including reports from Peakon employee voice surveys, considering matters such as future ways of working. Directors also engaged with colleagues directly, participating in employee listening and management forums, including workshops with our eight people networks which each have a Board sponsor. These activities were led by the designated workforce NED, Lisa Fretwell, who also had regular meetings with the Chief People Officer and Head of Culture and Experience to discuss results and emerging themes from the employee voice surveys. These activities help to ensure that the views of the workforce are made known to the Board and that workforce policies and practices are consistent with the Company's values, supporting its long-term sustainable success.

The right information and support
The Chair, supported by the Company Secretary, ensures that all Board members receive appropriate and timely information. All Directors have access to the advice of the Company Secretary and the Company provides access, at its expense, to the services of independent professional advisers to help the Directors discharge their role.

Board membership & succession planning
Since 1 January 2024, the membership of the Board and Board Committees of Santander UK Group Holdings plc and Santander UK plc have been fully aligned.

Through the Board Nomination & Governance Committee, we make sure there is the right mix of individuals on the Board, giving an appropriate balance of knowledge, skills, experience and perspectives. Our aim to ensure orderly succession for Board positions is supported by continuous and proactive processes, taking into account our strategic priorities and the main trends and factors affecting the sustainability and success of the business. We oversee and regularly review the development of a diverse pipeline for succession.

In 2024, we welcomed David Gledhill and David Oldfield as INEDs. David Oldfield will succeed Ed Giera as chair of the Board Risk Committee (BRC) in March 2025, ahead of Ed's retirement after more than nine years on the Board. I would like to thank Ed for his remarkable commitment and exceptional contributions during his tenure.

We also announced in December 2024 that Enrique Alvarez Labiano, CEO of Retail and Business Banking would be appointed as an Executive Director (ED). His appointment was effective from 12 February 2025.

As announced on 28 January 2025, I will be stepping down during the course of 2025, once a thorough appointment process and orderly handover have been completed.

At 31 December 2024, the Board consisted of the Chair (independent on appointment), eight INEDs, two EDs and three GNEDs. Biographies of the Directors are included in the Shareholder information section. The letters of appointment for INEDs and GNEDs are available at the Company's registered office and at the Annual General Meeting (AGM).

Appointment and retirement of Directors
The Company's Articles of Association require each Director to retire every year at the AGM and any Director may offer themselves for re-election by members. For more, see the Directors' report.

Monitoring independence
The Board Nomination & Governance Committee monitors whether there are relationships or circumstances which may affect a Director's independence, and have concluded that all INEDs remain independent in character and judgement. We acknowledge that Ed Giera has now served as a Director for more than nine years, with his tenure being extended to allow for a comprehensive handover with his successors as both BRC Chair and SID. We are confident that Ed has the strength of character and integrity to ensure his independence has not been affected by the length of his tenure.

I, as Chair, was independent on appointment when assessed against the circumstances set out in Provision 10 of the Code. No INEDs have a material relationship with the Company nor receive additional remuneration to Directors' fees. In addition, no INEDs serve as directors of any external companies or affiliates in which any other Director is also a director.

Monitoring Director interests, time commitment, and fees
The Board Nomination & Governance Committee is responsible for oversight of conflicts of interest.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. This duty is in addition to the existing duty Directors owe to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

The Board Nomination & Governance Committee continued to review the time commitment and Directors' potential conflicts of interest to ensure that any such conflicts are managed appropriately, including compliance with CRD IV and ring-fencing requirements.

In accordance with Provision 15 of the Code, any proposed external appointments are disclosed to the Board, before appointment, with an indication of the expected time commitment. All Directors continue to devote sufficient time to their roles at the Company. No significant external appointments were undertaken by any Directors. The Board considers and, if it sees fit, authorises situational conflicts.

Any authorisations given are recorded by the Company Secretary and Directors are asked to certify, on an annual basis, that the information in the register is correct.

The fees paid to INEDs for Board and Board Committee chair and membership were unchanged in 2024. We introduced a fee for members of the newly formed Board Special Projects Committee.For more, see the Remuneration Implementation Report.

Director induction and training
The Company Secretary supports the Chair in designing individual inductions for NEDs, which include site visits and cover topics like strategy, balance sheet and capital, risk and compliance, and current issues including the legal and regulatory landscape.

Directors who take on new roles or change roles in the year (such as becoming a member of a new Board Committee) attend induction or handover meetings as appropriate. Committee Chairs, with support from their Committee secretaries, agree Committee specific training, as appropriate. Directors are also given the opportunity to undertake further training so that they are fully informed about matters concerning Santander UK to enable them to discharge their duties and responsibilities as a Director.

Board meetings in the year
We held 11 Board meetings in 2024. Meetings of the Company were held concurrently with Santander UK Group Holdings plc.

Regular updates are provided to the Board by me, each of the Committee Chairs, the CEO, CFO and CRO. We have a comprehensive and continuous agenda setting and escalation process to enable the Directors to take decisions efficiently and effectively. As Chair, I lead the process, assisted by the CEO and Company Secretary, and this ensures enough time is set aside for strategic discussions and business critical items. Together with the Committee Chairs, we ensure Board and Committee meetings are structured to facilitate open discussion, debate and challenge. The NEDs also receive regular updates from management to give context to current issues, and there is always time allowed on each Board agenda for discussion between the NEDs without the EDs present.

Chair’s report on corporate governance continued

Board activities in the year

I, together with the CEO and Company Secretary, and supported by the Directors and senior management, make sure that the Boards have an appropriate schedule for the year. This is focused on the opportunities to drive growth and profitability of the business, transformation to support its success, business performance and risk management, customer experience and outcomes, and remaining apprised of the external operating environment. It includes ensuring the Company is run in a responsible and sustainable way in the interests of its stakeholders, and ensuring that the Company’s culture is aligned with its purpose, values, and strategy.

The Boards ensure regular contact with management and employees through several means. These include inviting relevant business and function heads to present to the Board or its Committees on latest developments; supporting senior management development plans by welcoming them as observers; scheduling regular meetings for Committee Chairs with relevant senior managers; site visits by NEDs; and topical or technical workshops. Senior leaders are also available to the NEDs for advice and support.

The Boards regularly monitor progress against the strategic priorities and performance targets of the business, and in 2024, once again held a separate Board Strategy Day. This included a case study on executing large scale transformation in the financial services sector, adapting the retail branch model to reflect changing customer behaviours and how to engage with our customers better. External presenters gave their thoughts on the competitive landscape and inorganic opportunities to accelerate our transformation.

Alignment with Banco Santander group strategy is also strengthened by holding one board cycle in Madrid each year, providing the Boards with opportunities to interact with executives and senior management of Banco Santander SA.

The Board aims to consider the views of all impacted stakeholders, whilst acting in the best interests of the Company and its members as a whole, as set out in the Stakeholder Voice statement in the Strategic report. In 2024, the Boards and Board Committees participated in the workshops listed below to consider important topics in depth and to engage with key stakeholders. To ensure the most effective use of the time at Board meetings, informal discussions between Board members and senior management took place on a regular basis.

Theme	Action taken by the Board and outcomes	Stakeholders considered
Business and Customer Strategy	– As part of the Board Strategy Day, considered how to improve customer proposition, engagement and experience across all our business segments, as well as drive revenue growth, by transforming the branch network. – Discussed reports on performance against strategy from principal business areas including: ◦ Mortgages ◦ Personal Current Accounts ◦ Business Banking ◦ Payments and Cards ◦ Wealth and Insurance Management – Participated in an externally facilitated session on UK banking market context and competitive landscape. – Considered reports on M&A activity and market trends. – Reviewed, challenged, and approved the 3-year business plan (2025-2027) and the annual budget, including assumptions underpinning the plan. – Discussed and took learnings from an external report on Santander UK’s reputation. – Considered the strategic workforce plan and strategy to optimise the real estate portfolio.	Customers Investors Employees
Transformation including leveraging Banco Santander scale	– Reviewed initiatives and opportunities to collaborate and leverage resources and capability across the Europe region and the Banco Santander group, including the Banco Santander group-wide transformation agenda (One Transformation) and the implications of the Banco Santander group’s new operating model structured across the five global business lines. – Received regular reports on progress with driving operational efficiencies and management’s revised approach to strategic change management and investment prioritisation. – Received a report on agile working practices and their implementation within the business. – Received a demonstration on Artificial Intelligence capabilities.	Customers Investors Employees
People and Culture	– In addition to reports from the Board Responsible Banking Committee (RBC) on delivery of the culture strategy, the Board participated in several informal activities to assess the culture and sentiment of employee cohorts including our Young Leaders and Graduates and Apprentices. – Participated in engagement activities throughout the year including listening events, branch and head office visits where two-way interaction was encouraged and valuable feedback shared, as well as an engagement event with the Santander Network leads where key inclusive culture priorities were discussed. – Considered employees' ways of working and opportunities to enhance collaboration across teams. – Considered succession planning across all key control, support functions and business functions. – Approved the Diversity and Inclusion Strategy on recommendation from the RBC. – Approved the Group Corporate Culture Policy.	Customers Employees

Chair's report on corporate governance continued

Theme	Action taken by the Board and outcomes	Stakeholders considered
Audit, risk, compliance and control	– Received regular enterprise-wide risk updates from the CRO, and updates on specific risks, such as third-party outsourcing, IT, data management, financial crime compliance, fraud, climate change and inflation. The Board closely monitored overall operational risk given the ongoing extensive transformation agenda. – Considered financial crime remediation, including oversight of programmes to enhance controls and regulatory engagement, back book remediation, and the progress made to return the Company to Board Risk Appetite on a sustainable basis. The Board also approved the Anti Money Laundering and Counter Terrorist Policy as part of its annual review. – Reviewed and approved the implementation of Consumer Duty on recommendation of the RBC, recognizing the valuable enhancements it had made to customer outcomes and value. – As part of the annual review, approved the Company's Risk Appetite Statement and the Risk Framework. – Approved the 2024 Internal Audit Report and received annual reports on whistleblowing. – Received regular reports on recovery and resolution with a full fire drill exercise planned for Q3 2025. – Participated in workshops on the Operational Resilience, Risk Weighted Assets and Regulatory Capital and Model Risks.	Customers Employees Regulators
Regulation, Balance Sheet and Capital	– Reviewed, challenged, and approved the ICAAP, ILAAP, adequacy and effectiveness of stress-testing and capital management, AT1 payments and ordinary and preference share dividend payments in line with PRA guidance. The Board followed the methodology set out in the Board-approved Surplus Capital Allocation Framework to determine the assessment and utilisation of surplus capital. – Approved the Resolvability Self-Assessment related to the 2023 Resolvability Public Disclosure, the 2024 Resolvability Public Disclosure and the 2024 Recovery Plan for submission to the Bank of England. – Considered the future regulatory landscape and implications, as well as considering regular reports from the General Counsel on legislative developments and other legal matters. – Participated in workshops on ICAAP and ILAAP which provided an overview of the processes and addressed PRA feedback on Board engagement and supporting models.	Customers Investors Regulators
Governance and Responsible Banking	– Participated in an externally facilitated Board evaluation led by Dr Tracy Long at Boardroom Review and monitored the progress against 2023 action plan from the internally facilitated Board evaluation. – Approved appointments to the Board on the recommendation of the BNC. – Reviewed, challenged, and approved the 2023 Annual Report and the first Santander UK Governance Strategy. – Reviewed and approved the Company's Social Mobility Strategy, the Modern Slavery report and the Employee Code of Conduct. – Participated in workshops delivered to the RBC on ESG related strategies, approaches and reporting and the Company's compliance with the Consumer Duty.	Communities Regulators Climate

Board and Board Committee attendance[1]

		Board		Board Audit Committee		Board Nomination & Governance Committee		Board Remuneration Committee		Board Responsible Banking Committee		Board Risk Committee	
		Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc
Chair	William Vereker	10/10	1/1	-	-	5/5	1/1	-	-	-	-	-	-
Independent Non-Executive Directors	Lisa Fretwell	10/10	1/1	10/10	1/1	-	-	6/6	-	8/8	-	6/6	1/2[2]
	Ed Giera	10/10	1/1	7/10[2]	1/1	5/5	1/1	6/6	-	4/6[2]	-	8/8	2/2
	Dave Gledhill[3]	2/2	1/1	3/3	1/1	-	-	2/2	-	2/2	-	-	-
	Michelle Hinchliffe	10/10	1/1	10/10	1/1	5/5	1/1	-	-	6/6	-	8/8	2/2
	Mark Lewis[3]	10/10	1/1	7/7	-	4/5[2]	1/1	6/6	-	8/8	-	7/8	2/2
	Nicky Morgan [3]	10/10	1/1	7/7	-	5/5	1/1	-	-	8/8	-	8/8	2/2
	David Oldfield[3]	1/1	-	1/1	-	-	-	1/1	-	-	-	1/1	-
	Jose Maria Roldan	10/10	1/1	-	-	-	-	2/2	-	8/8	-	8/8	2/2
Banco Santander Group nominated Non-Executive Directors	Pedro Castro e Almeida	10/10	1/1	-	-	-	-	-	-	-	-	-	-
	Dirk Marzluf[3]	10/10	0/1[2]	-	-	-	-	-	-	-	-	-	-
	Pamela Walkden	10/10	1/1	-	-	5/5	1/1	-	-	-	-	3/3	1/1
Executive Directors	Mike Regnier	10/10	1/1	–		–		–		–		–	
	Angel Santodomingo[3]	10/10	1/1	–		–		–		–		–	

1. With effect from 1 October 2024, Nicky Morgan and Mark Lewis stepped down from the Board Audit Committee, Jose Maria Roldan became a member of the Board Remuneration Committee, Ed Giera and Michelle Hinchliffe stepped down from the Board Responsible Banking Committee and Lisa Fretwell stepped down from the Board Risk Committee.
2. Meetings missed due to Directors' prior commitments.
3. For dates of Board appointments or resignations in the year, see the timeline on the 'Governance overview' page. Appointments to, or resignations from, the relevant Board Committees were aligned to these dates unless stated otherwise

Chair's report on corporate governance continued

Board diversity

The Board values the unique differences that each Director and Santander employee brings to work every day. Diverse views, combined with inclusion, encourages the sharing of a wide range of perspectives and ideas alongside challenging and raising concerns for good decision making. The basis of this premise applies to our Boards and Board Committees as much as it does to any other area of our organisation.

We recognise that the Board sets the tone for an inclusive culture and that our success is integrally linked to the diverse composition of our people. With this in mind, the Board fosters an environment where all our employees feel that they belong in our business, and for our people to reflect the customers and communities we serve. It's the right thing to do for our business and the communities we operate in.

As a Board, we approve the Santander UK Diversity and Inclusion strategy, as required by UK regulation, and monitor its implementation through our Board Responsible Banking Committees. The Committees hold management to account for promoting inclusion to see positive outcomes for a healthy culture in diversity, risk management, good conduct and innovation. Each of our Independent Non-Executive Board Directors sponsors a diversity strand to foster the open exchange of ideas regularly engaging with our employee networks to support their decision making. Progress against this can be found in our Everyday Inclusion and Pay Gap Report, which does not form part of this Annual Report.

We also have a Board Diversity & Inclusion (D&I) Policy, as required by UK regulation, which recognises that an inclusive Board representing a diversity of experience and backgrounds should result in a broad strategic perspective and is available on the Company's website.

Board appointments are always made on merit by assessing candidates against measurable, objective criteria. We want a Board that reflects diversity in the broadest sense to embrace different perspectives and dynamics such as gender, race, age, disability and socio-economic background.

We believe that such an environment is vital to achieve our goals as a business.

During the year, we reviewed and updated the ambitions in our Board D&I Policy, recognising that we had not achieved the aims we previously set for ourselves in respect of gender or ethnicity. The Board and its Committees will continue to focus on gender and ethnicity as we progress future appointments with a view to regaining the appropriate balance.

Our current ambitions are to achieve a gender balance of at least 40% male and female; at least one senior Board position (Chair, CEO, CFO or SID) to be female and at least one member from a non-white minority ethnic background by 2028.

In accordance with Listing Rule 9.8.6(9), the statistics on this page outline the diversity metrics for Board members and executive management at 31 December 2024. We have chosen to exclude Ed Giera from these statistics to avoid duplication as he will retire from our Board in March 2025 and will be succeeded as Board Risk Committee Chair by David Oldfield (who was appointed to the Board with effect from 1 December 2024).

At 31 December 2024, 31% of the Board were female. Following the appointment of Enrique Alvarez on 12 February 2025 this reduced to 29%.

With the appointment of Nicky Morgan as SID, I am pleased that we have already made positive progress towards meeting our ambitions.

No Directors were from an ethnic minority background.

At 31 December 2024, 25% of Executive Committee members were female, 38% of our Leadership Group (the level below the Executive Committee) were female. The Board places high emphasis on ensuring the development of different perspectives in the senior management and through succession planning.

Chair’s report on corporate governance continued

Board and Committee effectiveness

To ensure that the Board and its Committees' remain effective, we carry out an annual evaluation which includes the performance of individual Directors. In line with the Corporate Governance Code, this evaluation is typically facilitated externally at least once every three years, allowing for an independent review of the Boards' performance. I, with the support of the Board Nomination & Governance Committee, lead the Board in considering and responding to the annual evaluation. The Board approves an action plan to address any areas of improvement identified in the annual evaluations and the Board Nomination & Governance Committee oversees the progress on these. An update on the findings from the 2023 evaluation is set out below.

Progress against 2023 evaluation findings

Opportunities for improvement	Update on actions
Improving Board-level information	There has been a marked improvement as a result of training, updated paper templates and advice given by the Corporate Governance Office in the length of the Board packs and the timeliness in which they are provided to Directors. We believe that there is always room for improvement and therefore it remains on the 2024 action plan.
Forward leaning strategic topics for the board agenda	During 2024, we provided updates on strategic topics such as market outlook, competitive environment and external landscape through Board updates, workshops or sessions with external speakers. We will also continue to review the Forward-Looking Agendas for the Boards and the Committees to ensure the Board’s time is maximised on matters of strategic relevance including covering topics such as customer perspective and competitor environment.
Managing Board transition and roles	Following the appointment of three new Directors in 2024, the Board Nomination & Governance Committee oversaw that each new Board member was given a thorough and tailored induction to the business to help them settle into their roles quickly has been acknowledged as a priority. The induction plans included familiarisation with the overall Group-wide strategy and Group-subsidiary relationship and sessions on specific topics relevant to the Santander UK business. The induction sessions were led by key members of management, the Corporate Governance Office and Group representatives.

Following the internal reviews completed in the prior two years, Dr Tracy Long of Boardroom Review Limited was chosen to undertake an externally facilitated review (the Review) in 2024, in line with UK Corporate Governance Code expectations. Dr Long completed the previous external evaluation in 2021, but has no other connection to the Company or its Directors, and as such it was felt she would be able to independently assess the Board whilst providing valuable insight on the progress and performance over the last three years.

2024 External effectiveness review process

Stage 1	
Scope of review	The scope for the Review was agreed to ensure a formal and rigorous evaluation of the performance of the Board and its Committees. The methodology encouraged candid reflections from each participant on the current strengths and preparation for future challenges.
Stage 2	
Review activity	Individual interviews were held with each Director, as well as members of senior management. Discussion themes included board dynamics, culture and contribution; understanding of purpose, values and strategic alignment and executive leadership. A full cycle of Board and Board Committee meetings was also observed. The Company Secretary provided a suite of documents to enable a thorough review of Board-related governance materials.
Stage 3	
Findings and actions	A comprehensive report evaluating the Board's performance was produced by Boardroom Review and presented by Dr Long at the December Board meeting. The Board collectively discussed the results and recommendations, before agreeing the key priorities and a practical action plan (see below).

Chair’s report on corporate governance continued

Outcomes from the 2024 Board evaluation

Overall, the Review concluded that the Board and all Committees continue to operate effectively and are rated highly. The key strengths identified were the Board's positive ways of working, progress made on transformation and remediation activities, an improvement in the relationship with the regulators since the last review, improvement on the quality of the Board papers and significant improvements to the Environmental, Social and Governance agenda.

The Review also identified opportunities for improvement for the Board as a whole and for the Board Committees. The key priorities are set out below. The Board considered all of the recommendations from the Review and agreed on an action plan which will be overseen by the Board Nomination & Governance Committee throughout 2025.

2024 Review findings

Opportunities for improvement	Commentary and actions
Future board composition	The Board will need greater technology insight as a core skill to meet our longer term strategic goals. Workshops will be scheduled to ensure the Board remain up to date with, and are forward looking, on technology, including digital functionality for customers, AI uses and cybersecurity issues and their impact on the Company. In addition, we recognise the importance of a diverse Board, and the ambitions we have set on gender and ethnicity as set out in our Board D&I Policy.
Cyber risk	To ensure that the Board are as well prepared as possible to respond to a cyber threat, an unscripted simulation exercise will be performed this year. We will also arrange for an external expert to speak to the Board.
External landscape	There is appetite for the Board to know more about the competitive landscape, with updates covering real-time information on sector dynamics, clarity of expected results and appreciation of existing and/or emerging barriers to action. These updates will be scheduled throughout 2025, and we will invite external speakers to Board sessions to provide different
Measuring our culture	To continue to promote and oversee the embedding of our desired culture, the Board will continue to evolve how it measures and evaluates Santander UK's culture, reflect on new ways to monitor and communicate the behaviours we want to promote, sharing who we were to who we are becoming through our stories of success and lessons learned.

As part of the Review, I also conducted an assessment of each individual Director's performance to identify any areas of development, which we then discussed privately. The findings, in combination with the individual's skills, time commitment and independence assessments, as overseen by the Board Nomination & Governance Committee, confirmed that each Director continues to contribute positively.

Ed Giera, as SID at the time, also undertook an assessment of my performance as Chair, seeking feedback from each Director which was then discussed at a meeting without me present.

Chair’s report on corporate governance continued

Summary of Board Committee activities in 2024

Our Board Committees conduct their business concurrently with the Santander UK Group Holdings plc Board Committees to ensure alignment of practices, policies and procedures. The following sections describes the governance arrangements, practices and activities of both committees. For more information, see each of the Board Committee Chair's Reports in the Santander UK Group Holdings plc 2024 Annual Report, which does not form part of this Annual Report.

Board Nomination & Governance Committee

Committee responsibilities
Lead the process for Board and Board Committee appointments and oversee succession planning for the Board and senior management positions.
Oversee the evaluation of the performance and composition of the Board and Board Committees.
Monitor the governance arrangements for Santander UK and make appropriate recommendations to the Board to ensure that those arrangements remain adequate.

Committee members
William Vereker (Chair)
Ed Giera
Michelle Hinchliffe
Mark Lewis
Nicky Morgan
Pamela Walkden

Key activities in the year

Succession planning

The Committee oversees a formal, rigorous and transparent process to identify, nominate and recommend candidates for appointment to the Board and senior management positions.

As part of ongoing succession planning activity, the Committee regularly reviews the succession plans in place for the Board, the CEO and senior management positions. This includes ensuring that there is a skills, experience and diversity matrix to map each Director's attributes against those most relevant for the Board, reflecting the Company’s strategic direction and identifying gaps in its desired collective skills profile as well as highlighting the skills and experience which could be lost with a retiring Director. For key senior management positions, the Committee works with Banco Santander to ensure there are suitable candidates identified from across the Banco Santander group as ‘Ready Now’, ‘Ready in 1-3 years’ and ‘Future Ready’.

While appointments are always based on the merit of the individual candidates and objective criteria, we also aim to promote diversity in its broadest sense. This complements and strengthens the overall Board and its Committees' skills, knowledge and experience. Any appointments also take account of all legal and regulatory requirements.

In anticipation of Ed Giera retiring from the Board in 2025, following more than nine years of service, the Committee focused on identifying successors for the roles of Chair of the Board Risk Committee (BRC) and Senior Independent Director (SID).

As reported last year, Spencer Stuart, external search consultants with whom the Company and individual Directors have no other relationship, assisted with the search process to identify candidates who could serve as Chair of the BRC.

The Committee agreed the personal attributes including cultural fit, and ability to lead and manage change which were desirable for the role and the skills and experience needed. A database of potential candidates was created with our Board D&I Policy in mind when doing so. Following a review of a longlist of potential candidates drawn up by Spencer Stuart, the Committee agreed a shortlist, each of whom were interviewed by me and other Board members. After detailed feedback from these interviews, the Committee selected which individuals should progress to interviews with representatives of Banco Santander management. David Oldfield was identified as the preferred candidate, and his appointment as an INED, to succeed Ed Giera as Chair of the BRC on Ed’s retirement in 2025 was recommended to, and approved by the Board.

During the above search process it was identified that David Gledhill would bring valuable and relevant experience in digital transformation and broader banking from his 30 years in financial services. As such, the Committee also recommended his appointment as an INED to the Board.

For the role of the SID, we considered candidates from our existing INEDs and proposed that Nicky Morgan be appointed to serve as SID following Ed’s retirement given her familiarity with the business, understanding of the customer from her role as Board Responsible Banking Committee Chair and Consumer Duty Champion, and excellent relationships with the other NEDs and EDs.

As set out in last years’ report, the Committee recommended Angel Santodomingo be appointed as successor to Duke Dayal as CFO. Angel was appointed to the Board on 5 March 2024.

The Committee also recommended the appointment of Enrique Alvarez Labiano, CEO of Retail and Business Banking as an ED upon receipt of regulatory approval. The appointment promotes our succession planning and talent development initiatives and provides greater balance of NEDs and EDs on the Board.

We also oversaw and approved changes to the Executive Committee and other senior management positions in 2024. Tim Hinton, CEO, Santander CCB retired in September 2024 and was succeeded by John Baldwin. John Mills, Company Secretary, also retired and was succeeded by Roz Rule from 1 January 2025.

In 2025, the Committee will oversee the search for my successor. This process is being led by Nicky Morgan as the SID.

Chair’s report on corporate governance continued

Board Risk Committee

Committee responsibilities
Advise the Board on the Enterprise Wide Risk profile, Risk Appetite and strategy.
Provide advice, oversight and challenge to embed and maintain a supportive risk culture.
Review the Risk Framework and recommend it to the Board for approval.
Review and approve the risk types and risk activity frameworks in the Risk Framework.
Review the capability in the organisation to identify and manage new risks and risk types.
Review risks and issues escalated by the CRO, and their associated action plans.
Oversee and challenge the day-to-day risk management, oversight and adherence to risk frameworks and policies.

Committee members
Ed Giera (Chair)
Michelle Hinchliffe
Mark Lewis
Nicky Morgan
Jose Maria Roldan
David Oldfield[1]
Pamela Walkden[2]
Lisa Fretwell[3]

1. Joined on 1 December 2024
2 Left 1 April 2024
3. Left 1 October 2024

Key activities in the year

The Committee undertook a thorough assessment of the Company's top and emerging, including financial, operational, and compliance controls. Our top risks and emerging risks are discussed in the Risk Review section of this report. The process for identifying, evaluating, and managing the Company's emerging and top risks is integrated into the overall risk governance framework. Regularly, the Committee reviews and discusses a consolidated enterprise wide risk report to ensure that they are satisfied with the overall risk profile, risk accountabilities, and mitigating measures.

Board Audit Committee

Committee responsibilities
Oversight of the integrity of the financial statements of the Company and any formal announcements relating to its financial performance, including underlying significant financial reporting judgements and estimates.
Oversight of internal financial control effectiveness.
Oversight of the relationship with our external auditors including their independence and objectivity, audit scope and effectiveness of the audit process in respect of their statutory audit of the annual financial statements.
Oversight of the Internal Audit function.
Oversight of Recovery and Resolution planning
Oversight of Whistleblowing arrangements.

Committee members
Michelle Hinchliffe (Chair)
Ed Giera
Lisa Fretwell
David Gledhill[1]
David Oldfield[2]

1. Joined on 1 October 2024
2. Joined on 1 December 2024

Key activities in the year

Internal Audit

- Considering the 2025 Audit Plan and Internal Audit’s annual report for recommendation to the Board.
- Monitoring progress against the 2024 Audit Plan.

Financial reporting

Significant financial reporting issues including judgements and estimates

The use of assumptions or estimates and the application of management judgement is an essential part of financial reporting. This is considered by the Committee on at least a quarterly basis.

The External Auditors also consider these areas as part of their audit of the annual financial statements. More information on the External Auditors' work is set out in their audit report.

In 2024, we focused on the following significant reporting matters in relation to financial accounting and disclosures:

Credit impairment charges

- Satisfied ourselves with the robustness of the process used to arrive at the management judgements and estimates as well as with the management judgements and estimates themselves.
- Endorsed the updates to the macroeconomic scenarios and weights including management’s judgement to reduce number of macroeconomic scenarios from five to four.
- Endorsed the improvements in the JA framework.
- Endorsed management’s approach and key methodology changes for ECL provisioning including updated SICR triggers and the new ECL models implemented during the year.

Provisions and Contingent Liabilities

- Agreed with management’s judgement on the level of customer remediation, litigation and other regulatory provisions and/or contingent liability disclosures.

Defined benefit pension schemes

- Agreed with management’s approach regarding the principal assumptions.
- Agreed with management's approach to illiquid assets valuation.
- Agreed with management's proposals to update the mortality projections to reflect the latest published CMI projections.

Goodwill

- Agreed with management that no impairments to goodwill should be recognised in 2024.

Valuation of intercompany derivatives

- Agreed with management's approach to valuing the Company's level 3 intercompany interest rate swaps.

Other areas

- Agreed with management that the going concern basis of accounting remained appropriate at 31 December 2024.
- Reconfirmed that three years was an appropriate time horizon for the viability assessment.
- Agreed with management that no impairment should be recognised in relation to climate risk in 2024.

Chair's report on corporate governance continued

Oversight of external auditors

External Auditors
PwC were appointed in 2016 and their independence was considered and monitored throughout the year. We were satisfied that PwC continued to meet the independence requirements. Ian Godsmark has been lead audit engagement partner since June 2022.

A Banco Santander group wide external audit tender was undertaken in the first half of 2024 for the appointment of financial years 2026, 2027 and 2028. The Committee oversaw the process locally with selected candidate firms and focused on audit quality and expertise to ensure high quality audit standards were retained.

A recommendation to reappoint PwC was made as the preferred firm to Banco Santander based on a robust review of the selected firms' proposals.

Based on a formalised assessment, the Committee satisfied itself as to the rigour and quality of PwC's audit process.

Non-audit fees
We have a robust policy on non-audit services provided by our external auditors. Non-audit services were under continuous review throughout 2024 to determine that they were permitted by reference to their nature, assessing potential threats and safeguards to auditor independence as well as the overall ratio of audit to non-audit fees.

All assignments require advance approval, either by the Chair (or in their absence their alternate), under delegated authority for amounts under £250,000 plus VAT or, if larger, by the Committee. This process is in addition to the requirement for all non-audit fees to be approved by the Banco Santander Audit Committee.

Internal Audit

The Committee has approved the Internal Audit Charter at its annual review and receives regular updates on the quality assurance, capabilities and capacity of the Internal Audit function to ensure its operational effectiveness and adequate independence. This is supplemented by regular interactions between the Chief Internal Auditor and the Committee Chair. We also receive feedback on interactions between Internal Audit, management and our external auditors.

Whistleblowing

The Committee oversees Santander UK's whistleblowing arrangements including continuous refinement of our processes to align with evolving best practice. Santander UK recognises the importance of creating an environment where employees feel safe and able to Speak Up. Speaking Up is a core behaviour at Santander UK and there are a number of ways employees can do this, including raising a concern via Santander UK's Whistleblowing arrangements.

The Disclosure Committee reports on whether the Annual Report is fair, balanced, and understandable and whether it provides the information necessary for readers to assess Santander UK's position and performance, business model and strategy.

Board Responsible Banking Committee

Committee responsibilities
Support management in shaping, driving and delivering the responsible banking agenda of the business across a broad spectrum of areas including customers, inclusive culture, conduct, communities and climate change and the environment (the Board Risk Committee is responsible for overseeing the risks associated with climate change).

Committee members
Nicky Morgan (Chair)[1]
Lisa Fretwell
Ed Giera[3]
David Gledhill[2]
Michelle Hinchliffe[3]
Mark Lewis [4]
Jose Maria Roldan

1. Joined as a member and Chair on 1 January 2024
2. Joined on 1 September 2024
3. Left on 1 October 2024
4. Joined on 1 January 2024

Board Remuneration Committee

Committee responsibilities
Overseeing the implementation of the remuneration policy, including approving individual remuneration packages and the bonus framework and outcomes for EDs and other senior executives.
Approving the framework for identifying Material Risk Takers (MRTs) and overseeing their remuneration arrangements.
Reviewing the remuneration arrangements for all employees.

Committee members
Mark Lewis (Chair)
Lisa Fretwell
Ed Giera
David Gledhill[1]
Jose Maria Roldan[2]
David Oldfield[3]

1. Joined as a member and Chair on 1 January 2024
2. Joined on 1 September 2024
3. Left on 1 October 2024
4. Joined on 1 January 2024

Details of the structure of our remuneration arrangements and the activities of the Board Remuneration Committee in the year are provided in the Remuneration Policy and Implementation Reports.

William Vereker

Chair
7 March 2025

Remuneration policy report

Basis of preparation

This report has been prepared on behalf of the Board by the Board Remuneration Committee. We comply with the statutory reporting obligations for large private companies. We applied the UK Corporate Governance Code 2018 (the Code) and complied with the Provisions other than where stated in the Directors' Report. Several voluntary remuneration disclosures are also presented in this report.

Remuneration policy for Executive Directors (EDs)

Our remuneration policy, which applies to EDs, is below. Remuneration has two elements: fixed and variable pay. Fixed pay is set at market competitive levels appropriate for the role. Variable pay rewards the delivery of internal financial targets, key strategic priorities and individual performance, and is subject to risk adjustment.

Remuneration policy applicable to Executive Directors in the year

Fixed pay	Principle and description	Policy
Base salary	– To attract and retain EDs of sufficient calibre and with the skills to deliver our strategy, taking into account the demands and complexity of the role.	– Base salaries are normally reviewed annually. In reviewing base salaries, the Committee considers a number of factors, including: – the skills required, the role responsibilities and the market value of the individual and the role; – the requirement for base salaries to be set at a level that avoids inappropriate risk taking; and – base salary increases for other employees.
Pension arrangements	– To provide a discrete element of the package to contribute towards retirement.	– EDs receive a cash allowance in lieu of pension aligned to the wider workforce average, of 9% of salary, except in exceptional circumstances such as international mobility.
Other benefits	– To offer a competitive package and to support employee wellbeing.	– Including: private medical insurance for EDs and their dependants, life assurance, health screening, and relocation allowances where relevant. – Access to Santander UK's share schemes on the same terms as other employees.

Variable pay	Principle and description	Policy
Variable pay plans	– The Variable Pay Plan motivates EDs to achieve and exceed annual internal targets within Santander UK's Risk Appetite and aligned with our strategy and values. – Multi-year deferral and delivery in Banco Santander SA shares aligns EDs' interests to the long-term interests of Santander UK. Further long-term performance testing applies for the CEO. – Part of the award is deferred according to the requirements of the PRA Rulebook. – The long-term PagoNxt Incentive Plan recognises the contribution of employees critical to the success of PagoNxt, one of Banco Santander's strategic priorities.	– Bonus awards under the Variable Pay Plan are discretionary and determined by performance against a scorecard of financial and non-financial goals, as well as individual performance. – 40% of any bonus awarded is paid upfront after the performance year-ends, and delivered at least half in shares; and – 60% of the bonus awarded is deferred and delivered in equal tranches over years three to seven, with each tranche delivered at least half in shares. – For the CEO, the first three of five deferred award tranches are subject to further performance testing which may reduce or increase the payout. – Awards under the PagoNxt Incentive Plan can be made in restricted share units and/or premium priced options of PagoNxt, and vest in line with regulatory requirements. – Shares or share instruments are subject to a minimum one-year retention period following vesting. – Malus and clawback can be applied to variable pay for up to ten years following the grant of an award. – The structure of variable pay awards means EDs acquire a meaningful shareholding in Banco Santander SA which may extend for a significant period post-employment. In addition, the CEO is subject to a Shareholding Policy, which aligns long-term interests with Banco Santander shareholders. The requirement under the policy is set at two times the incumbent's net salary on appointment. A formal post-employment shareholding requirement is therefore not in place.

Remuneration policy report continued

Our remuneration policy meets regulatory requirements. Given that Santander UK is part of Banco Santander Group which remains subject to the 2:1 maximum ratio, Santander UK continues to apply a 2:1 variable to fixed pay cap. This is in line with approvals granted to Banco Santander SA by its shareholders. For control function roles, a lower ratio of 1:1 is normally applied.

Executive remuneration policies and principles

Our core values of Simple, Personal and Fair drive our remuneration policy. We focus on delivering a framework that is easy to understand, tailored to individual roles, competitive and fair.

The key drivers of our Remuneration Policy

Alignment to culture

- To design policies aligned to our long-term success, which support the delivery of our strategy and reinforce our values.
- To base variable pay on a balanced scorecard of quantitative and qualitative metrics across Customers, Shareholders and Responsible Banking. This aligns to Santander UK's strategic priorities, with a focus on good customer outcomes, simplification, improved efficiency and sustainable growth.

Simplicity

- To ensure our approach to remuneration is transparent and easily understood.
- To operate clear structures so our employees can link their contribution to the success of the organisation.

Risk

- A consistent approach to reward for all our employees upholds our prudent approach to Risk Appetite set as part of a Santander UK-wide framework. Risk adjustment takes place at an individual and collective level.
- To provide a package that is balanced between fixed and variable pay, and short-term and long-term horizons, which promotes prudent risk management.
- To ensure remuneration complies with applicable regulations and legislation.

Fairness

- To take into account an assessment of the EDs' performance against goals set at the start of the year, which cover financial, non-financial, quantitative and qualitative criteria.
- To set robust and stretching targets and reward exceptional performance.
- To attract, retain and motivate employees of the highest calibre by providing total remuneration which reflects individual and Company performance, is competitive, and reflects the responsibilities of the role.
- To consider wider employee pay and conditions when determining Executive pay.

Clarity

- The Committee reviews remuneration reporting on an annual basis against best practice and developments in corporate governance, including the Code. Our reporting is designed to be transparent, whilst reflective of our structure.

Predictability

- The Committee annually reviews variable pay levels for certain individuals and the basis of the bonus pool calculation. Due to commercial sensitivity, bonus opportunities and targets are not disclosed as per the provisions of the Code. Directors' remuneration is within the variable pay cap as approved by Banco Santander SA shareholders and set out above.

On recruitment

When appointing a new ED, base salary is set at a market competitive level appropriate for the role, taking into consideration a range of factors including role responsibilities, internal and external peer groups, and experience.

Unless determined otherwise, new EDs receive a pension allowance of 9% of salary, aligned to the wider workforce average. Benefits will typically be aligned to the wider employee population.

Remuneration will be established in line with the Remuneration Policy, as set out in the table on the previous page.

Relocation support and international mobility benefits may also be given. Relocation support will normally be a capped amount for a limited time. In cases of international mobility, the Committee will have discretion to offer benefits and pension provisions which reflect home country market practice and align to relevant legislation.

Buy-out awards

Compensation may be provided to EDs who forfeit awards on leaving their previous employer. The Committee retains discretion to make such compensation as deemed appropriate to secure the relevant individual's employment and will ensure any such payments align with both the long-term interests of Santander UK and the regulatory framework.

Such payments will be in line with the awards foregone on leaving the previous employer taking into account value, form of awards, vesting dates and the extent to which performance conditions applied to the original awards.

Remuneration policy report continued

Service agreements
The key terms and conditions of employment are set out in individual contractual agreements. These agreements include a notice period of six months from both the ED and the Company.

The agreement reserves a right for the Company to terminate employment immediately with a payment in lieu equal to the ED's fixed pay for the notice period. In the event of termination for gross misconduct, neither notice nor payment in lieu of notice is required.

Termination payments
The remuneration impact of an ED leaving the Company, including treatment of variable pay and/or any termination payment will reflect the terms of the service agreement, relevant scheme rules, regulatory requirements and the Committee's policy relevant to the reason for leaving.

Outstanding variable pay awards generally lapse on termination, other than where an individual is considered a 'good leaver'. Where an ED is a good leaver, eligibility to variable pay awards will normally subsist until the relevant scheduled payment dates and will remain subject to performance where relevant.

The Committee determines whether an ED is a good leaver. Usual good leaver circumstances include but are not limited to: injury, ill-health, disability, redundancy, retirement and death. The Committee may, at its discretion, determine an ED a good leaver in any other circumstances.

A framework is in place to guide the Committee to determine the discretionary circumstances when good leaver status is appropriate. Other than a payment in the event of redundancy, there are generally no payments upon termination of employment for EDs.

In the event of a change in control, any outstanding variable pay awards will be treated in line with the relevant scheme rules, taking into account applicable regulatory requirements.

Risk and Performance adjustment
We continue to meet the regulatory requirements in respect of risk and performance adjustment. All variable remuneration can be adjusted for current and future risks through our Additional Risk Adjustment Standard which is linked to our Board approved Risk Appetite.

The Standard provides a quantitative assessment against Santander UK's Risk Appetite and an additional qualitative risk event assessment that can reduce the bonus pool or individual awards to nil at the Committee's discretion.

Our Individual Remuneration Adjustment Standard provides a framework for the process, governance and standards relevant for decisions on individual performance adjustments following an incident, including the application of malus and clawback.

Performance adjustments may include, but are not limited to:

- reducing an award for the current year;
- reducing the amount of any unvested deferred variable remuneration;
- requiring an award which has not yet been paid to be forfeited; and
- requiring repayment on demand (on a net basis) of any cash and share awards received at any time for a period of up to ten years following the date of award.

The Committee has full discretion to prevent vesting of all or part of an amount of deferred remuneration and/or to freeze an award during an ongoing investigation in a number of circumstances, including:

- employee misbehaviour, misconduct or material error;
- material downturn in the performance of Santander UK or a relevant business unit; and
- Santander UK or a relevant business unit suffering a material failure of risk management.

When determining variable pay awards for individuals performing roles across Santander UK plc and Santander UK Group Holdings plc, the Santander UK Group Holdings plc Board Remuneration Committee will apply any necessary discretion based on factors related to UK group entities outside of Santander UK plc. This discretion is subject to validation by the Santander UK plc Board Remuneration Committee.

The Committee seeks input from the Chair of the Board, Chair of the Board Risk Committee, Chair of the Board Audit Committee, CRO, Chief Compliance Officer, Chief People Officer and Chief Internal Auditor when determining whether any performance or risk adjustments are required.

We have an NYSE-compliant policy in place which enables variable remuneration to be recovered from Executive Officers in the case of an accounting restatement that would have impacted that remuneration.

Policy for all employees
Our performance and reward approach across the Company supports our business strategy, rewards strong performance and reinforces our values within our risk management framework. The general principles of the Remuneration Policy broadly apply across all employees where appropriate. They are designed to attract, retain, motivate and drive performance.

The structure of remuneration packages for EDs is typically aligned with the broader employee population, comprising salary, benefits, pension provision and discretionary variable pay dependent on role and responsibility.

The Committee annually approves the operation of variable reward schemes (as well as share schemes) for all our employees to ensure they reward appropriate behaviour and do not incentivise activities which are outside risk appetite.

Remuneration implementation report

Introduction
This section of the report outlines how our Remuneration Policy was implemented for 2024.

Variable Pay Plan
The Committee reviews and approves remuneration governance and frameworks annually. This ensures continued compliance with the relevant regulatory rules, including those for ring-fencing.

To incentivise and reward EDs for achieving superior and sustained performance, our Directors participate in an annual variable incentive plan. A balance of financial and non-financial performance metrics are selected annually by the Committee and are aligned with our strategy as measured over the financial year. Multi-year deferral and delivery in Banco Santander SA shares ensure that EDs' interests are aligned to the long-term interests of the business. Further long-term performance testing also applies for the CEO.

Both upfront and deferred awards are made at least half in shares. The deferred element is delivered over seven years. For the CEO only, the first three tranches of deferred awards are subject to further performance testing against long-term metrics. Awards delivered in shares are subject to an additional one-year retention period from the point of delivery.

The 2024 Variable Pay Plan pool was determined based on a series of stages as follows:

Quantitative assessment
A quantitative assessment against a balanced scorecard of financial and non-financial metrics that are key to our strategy. Performance metrics are reviewed annually to ensure continued alignment with strategy and, for 2024 the scorecard included:

- Customers (Net Promoter Score, Active Customers and Total Customers)
- Shareholders (RoTE, Capital Generation and Costs)
- Sustainability and Responsible Banking (Climate Strategy Transition Plan, Employee Engagement and Inclusion and ambitions for gender and ethnicity representation).

A profit underpin applies, requiring Profit after Tax to remain positive in order to pay any award, with a reduced pool should profit reduce substantially from the prior year.

Qualitative assessment
A qualitative assessment adds context to the quantitative assessment and ensures a balanced view of performance is taken. Performance is assessed across compliance, risk management, network collaboration and responsible banking. Additionally, a relative performance modifier is applied.

Banco Santander Group Multiplier
The Committee has the discretion to adjust the pool upwards or downwards to reflect overall Banco Santander performance, if appropriate.

Regional Adjustment
A Regional Adjustment reflects the UK's contribution to performance of the Banco Santander group's European Region.

Exceptional Adjustment
Exceptional adjustments allow for unexpected factors or additional internal targets not covered by the quantitative or qualitative assessments to be reflected in variable pay outcomes.

UK-focused risk adjustment
This provides both a formula-based assessment against our Risk Appetite and an additional qualitative overlay. Consideration is given to risk appetite breaches including, but not limited to: customers, conduct, operational, reputational and financial crime risk. This can result in downward adjustment of up to 100% of the pool or individual awards at the discretion of the Committee.

Individual assessment
The allocation of the pool is based on an individual's performance, taking into account a range of factors. Performance is assessed against the delivery of priorities (the 'What'), the behaviours shown in delivering those priorities (the 'How'), and also Risk.

Deferred long-term awards
Performance testing applies to a portion of the deferred awards for the CEO. This applies to the first three deferred tranches of the 2024 award (36% of the total award) which are payable in 2028, 2029 and 2030. Performance is measured over a three-year period 2025 to 2027.

The performance measures for 2024 awards are relative TSR, ROTE and ESG metrics. Following the performance assessment, the level of awards will be adjusted accordingly. The assessment could reduce or increase the overall value of the deferred awards.

PagoNxt Incentive Plan
The PagoNxt Incentive, a multi-year plan, rewards those employees across the Banco Santander Group whose contribution is considered crucial to the development and success of PagoNxt, one of the three strategic priorities of the Group.

Awards are granted in share options and/or restricted share units (RSUs) in PagoNxt, S.L.. UK-specific performance conditions apply. Awards will vest in accordance with regulatory requirements.

Remuneration implementation report continued

2024 Business Performance and Impact on Remuneration

During 2024 the progress made against our strategic priorities was reflected in improved business performance as the year evolved. For the benefit of our customers, the bank leveraged the expertise of Banco Santander facilitating continued simplification and efficiency. Whilst the rising costs of customer deposits, and the impact of the charge for historical motor finance commission payments impacted profit, active and prudent price management resulted in a Banking NIM that improved in the second half of the year versus the first half. A continued focus on customer service ensured our NPS, a key measure of customer experience, improved over the year.

The Committee acknowledged this performance, against both financial and non-financial metrics, in an environment which remains challenging. In determining remuneration outcomes for the 2024 performance year, the Committee ensured due consideration was given to the experiences of our customers, employees and communities.

Context for decision making

The Committee ensures that pay policies and practices for employees across Santander UK are taken into account when setting policy for executive remuneration. The Committee reviews trends across Santander UK group, including the outcome of any pay negotiations with our recognised trade unions. It considers the relationship between executive remuneration and that of other Santander UK group employees, as well as remuneration in the wider UK market, when making decisions on executive pay.

The Committee oversees broader workforce remuneration policies and practices, the implementation of remuneration and related employment policies across Santander UK and the salary and variable pay awards for all Material Risk Takers. It also approves the design of any material performance-related pay plans.

As part of the monitoring of pay, the following is considered:

- Santander UK's engagement with its recognised trade unions on pay and benefits matters for all employees;
- Annual pay reviews for the general employee population;
- Santander UK group-wide pension and other benefit provisions;
- The design of and overall spend on variable incentive arrangements; and
- An assessment of conduct across the business.

The Committee is focused on ensuring that employees are not subject to undue pressures or inappropriately incentivised. This is monitored using existing employee engagement indicators including engagement surveys.

The Committee always considers the broader stakeholder environment when setting policy or reaching decisions on executive pay.

Executive Directors' remuneration

Total remuneration of each ED for the year ended 31 December 2024

	Mike Regnier		Angel Santodomingo (4)	
	2024	2023	**2024**	2023
	£000	£000	**£000**	£000
Salary and fees	**1,575**	1,500	**951**	—
Taxable benefits (1)	**12**	3	**233**	—
Pension	**142**	135	**123**	—
Total fixed pay	**1,729**	1,638	**1,307**	—
Bonus (paid and deferred) (2)	**1,432**	1,003	**1,440**	—
Long-term incentive plan (3)	**—**	669	**—**	—
Total variable pay	**1,432**	1,672	**1,440**	—
Total remuneration	**3,161**	3,310	**2,747**	—

(1) Taxable benefits for the Executive Directors comprise a range of benefits including, but not limited to, private health care and living expenses for expatriates.

(2) 36% of the Chief Executive Officer's Variable Pay Plan award is subject to long-term performance metrics assessed over three years, which can increase the value of this element by up to 125% or decrease the award to 0%. No other executive will be subject to long-term performance metrics. The value of the current Chief Executive Officer's 2024 Variable Pay Plan awards not subject to performance conditions, i.e. 64%, is disclosed above. The value subject to further performance conditions, 2024: £805,282 (2023: £563,967) will be disclosed at the close of the performance period upon vesting.

(3) The Long Term Incentive Plan value represents the value of awards made under the Transformation Incentive Plan, following the testing of the Plan's performance conditions. The value of awards made in share-linked instruments has been calculated with reference to Banco Santander's share price over the final three months of the 2023 year. Nathan Bostock, former Chief Executive Officer, received an award with a value of £553,545.

(4) Angel Santodomingo was appointed to the Board as an Executive Director on 5th March 2024 and the figures above reflect remuneration received whilst serving as a Board Director. The pension and benefit provisions reflect his expatriate status and allow maintenance of home country pension and living arrangements. All other elements of remuneration align with UK based colleagues.

Remuneration implementation report continued

Stakeholder views

During 2024, Santander UK continued to engage with key stakeholders on remuneration related matters including its main regulators, the PRA and FCA.

Regular engagement takes place with our shareholder to align remuneration across the Banco Santander group, while meeting all local regulatory requirements. The outcome of these discussions drives our bonus pool construct.

Lisa Fretwell, a member of the Committee, is the designated NED with responsibility to further enhance the employee voice in the boardroom on matters associated with organisational culture.

Frequent employee pulse surveys were conducted throughout 2024. The 'Your Voice' function has enabled employees to share thoughts and ideas frequently and anonymously all year round, giving an immediate gauge of employee sentiment.

Additionally, we discuss business performance and reward matters with union representatives during the annual pay review cycle and on a frequent basis throughout the year.

CEO pay ratio

Santander UK is committed to delivering fair pay which attracts, retains and motivates employees of the highest calibre across all grades. In line with this commitment, the Committee has oversight of compensation across the organisation, including pay ratios, and considers this when determining reward outcomes. We continue to voluntarily disclose the ratio of the CEO's total remuneration to that of employees.

The CEO's pay mix is weighted more heavily towards variable pay to incentivise the achievement of stretching internal targets and long-term value creation. This can lead to greater variability in total remuneration. In contrast, the typical pay mix of our less senior employees places more emphasis on fixed pay, to offer security and certainty, and to meet our commitment to employees' financial wellbeing.

The ratio has decreased from 75:1 in 2023 to 69:1 in 2024. The reduction in pay ratio has been influenced by an increase in average total remuneration amongst all employees. In assessing the pay ratio, the Committee is confident that the Company's policy on remuneration is fair and consistent with our all-employee pay policies.

Advice and support provided to the Committee

As permitted by its Terms of Reference, the Committee has engaged the advice and support of Deloitte LLP (Deloitte) as independent remuneration consultants at the expense of the Company. Total fees (excluding VAT) for advice and support provided to the Committee in 2024 were £74,600 (2023: £121,150). Deloitte was initially appointed as Adviser to the Committee following a formal tender process conducted in 2015 and was reappointed after a further tender process in 2022.

In 2024, Deloitte also provided unrelated tax, advisory, risk, assurance and consulting services to Santander UK.

Deloitte's independence and effectiveness as the Committee adviser is reviewed annually. The Committee is satisfied that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with Santander UK that may impair their independence. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK.

By Committee invitation, the Chair, CEO and designated representatives from business functions attend meetings as appropriate to advise on HR, Risk, Legal and Regulatory matters in support of the Committee's work. Attendees included the Chief People Officer, Head of Performance & Reward, CRO and Company Secretary.

CEO pay ratio

	Methodology (1)	25th percentile	Median	75th percentile
2024 CEO pay ratio (5)	**Option A**	**99:1**	**69:1**	**40:1**
2023 CEO pay ratio (4)	Option A	106:1	75:1	45:1
2022 CEO pay ratio	Option A	119:1	84:1	48:1
2021 CEO pay ratio	Option A	140:1	96:1	54:1
2020 CEO pay ratio	Option A	88:1	64:1	37:1
	CEO remuneration (3)	**25th percentile (2)**	**Median (2)**	**75th percentile (2)**
2024 CEO pay ratio	**£**	**£**	**£**	**£**
Total salary	£1,575,000	£26,359	£36,553	£56,604
Total remuneration	£3,160,709	£32,087	£46,108	£78,352

(1) Employee pay is calculated based on the 'Option A' methodology. We chose Option A as it gives the most reliable and accurate result by calculating a comparable single figure for each employee.

(2) Employee pay data is based on full time equivalent pay for Santander UK plc employees. This excludes a small number of employees in the rest of the Santander UK group. Including those employees results in a ratio consistent with the above. For each employee, total remuneration is calculated based on fixed pay accrued in the 2024 financial year, and variable pay is either based on actual bonuses in respect of the 2024 year (where these are available) or modelled target bonuses where actuals are not yet available.

(3) The CEO's total remuneration is aligned to that disclosed in the Executive Directors' remuneration table on the previous page.

(4) The 2023 ratios are re-stated above. These were originally calculated based on fixed pay accrued within the 2023 year, in addition to target bonuses for eligible employees. The 2023 ratios have now been recalculated using 2023 fixed pay and bonuses paid in 2024 in respect of 2023 for all employees.

(5) The values used for the CEO's 2024 Variable Pay Plan awards are the same as those stated in the Executive Directors' remuneration table i.e. the component which is not subject to performance conditions is used for the CEO pay ratio calculation above. The calculation also includes the vesting value of Transformation Incentive Plan awards made to the CEO, as shown in the Executive Directors' remuneration table.

Relative importance of spend on pay

	2024	2023	Change
	£m	£m	%
Profit before tax	**1,349**	2,100	(36)
Total employee costs	**1,277**	1,241	3

Remuneration implementation report continued

Chair and Non-Executive Director remuneration

The Chair's fee is reviewed and approved by the Committee. The fees paid to NEDs are reviewed and approved by the CEO and the Chair. Fees are reviewed annually taking into account the market rate and time commitment for the role. The Chair is paid an all-inclusive base fee. NEDs are paid a base fee, with a supplement for serving on or chairing a Board Committee, except for the Board Nomination & Governance Committee.

All NEDs and the Chair serve under letters of appointment. In respect of the NEDs appointed prior to 2021, either party can terminate the appointment by giving three months' written notice. From 2021, we increased the notice period for NEDs to six months to support orderly succession planning. For the Chair, 12 months' written notice is required.

Neither the Chair nor the NEDs have the right to compensation on the early termination of their appointment beyond payments in lieu of notice at the discretion of Santander UK. In addition, neither the Chair nor the NEDs are eligible for pension scheme membership or to participate in any variable incentive arrangements.

Chair and Board Committee member fees

	2024	2023 (2)
	£000	£000
Chair (inclusive of membership fee)	**725**	725
Board member	**100**	100
Additional responsibilities		
Senior Independent Director	**45**	45
Chair of Board Risk Committee	**70**	70
Chair of Board Audit Committee	**70**	70
Chair of Board Responsible Banking Committee	**60**	60
Chair of Board Remuneration Committee	**60**	60
Membership of Board Risk Committee	**35**	35
Membership of Board Audit Committee	**30**	30
Membership of Board Responsible Banking Committee	**30**	30
Membership of Board Remuneration Committee	**30**	30
Chair of Board Special Projects Committee (1)	**30**	15
Membership of Board Special Projects Committee (1)	**15**	-
Consumer Duty Champion	**8**	8
Designated NED to represent views of the workforce	**8**	8

(1) With effect from 1 December 2024, the Litigation and Contentious Regulatory Board Sub-Committee was renamed and is now known as the Board Special Projects Committee. In addition, the Chair fee increased from £15,000 to £30,000 and a membership fee of £15,000 was introduced.
(2) Fees shown were with effect from 1 April 2023.

Non-Executive Directors	**2024 Fees £000**	2023 Fees £000	**2024 Expenses (8) £000**	2023 Expenses £000	**2024 Benefits £000**	2023 Benefits £000	**2024 Total £000**	2023 Total £000
Chair								
William Vereker (1)	**725**	712	**—**	—	**2**	2	**727**	714
Independent Non-Executive Directors								
Lisa Fretwell	**224**	204	**—**	—	**—**	—	**224**	204
Ed Giera	**299**	299	**—**	—	**—**	—	**299**	299
David Gledhill (2)	**65**	—	**—**	—	**—**	—	**65**	—
Michelle Hinchliffe (3)	**229**	124	**—**	—	**—**	—	**229**	124
Mark Lewis (9,10)	**257**	230	**—**	—	**—**	—	**257**	230
Nicky Morgan (10)	**241**	233	**—**	—	**—**	—	**241**	233
David Oldfield (4)	**18**	—	**—**	—	**—**	—	**18**	—
Jose Maria Roldan (5)	**188**	97	**—**	—	**5**	—	**193**	97
Banco Santander Group nominated Non-Executive Directors (6)								
Pedro Castro e Almeida (7)	**—**	—	**—**	—	**—**	—	**—**	—
Dirk Marzluf (10)	**—**	—	**—**	—	**—**	—	**—**	—
Pamela Walkden	**109**	132	**—**	—	**—**	—	**109**	132

(1) William Vereker's taxable benefit relates to private health care.
(2) David Gledhill was appointed on 1 September 2024. Fees are in respect of services from that date.
(3) Michelle Hinchliffe was appointed on 1 June 2023. Fees received are in respect of services from that date.
(4) David Oldfield was appointed on 1 December 2024. Fees received are in respect of services from that date.
(5) José María Roldan was appointed on 1 June 2023. Fees received are in respect of services from that date. Taxable benefits relate to professional tax advice.
(6) With the exception of Pamela Walkden, none of the Banco Santander nominated Non-Executive Directors received any fees or expenses.
(7) Pedro Castro E Ameida was appointed on 1 September 2023. Fees are in respect of services from that date.
(8) Only true business expenses have been incurred in the course of Non-Executive Directors' duties. In prior years, these expenses were processed via payroll and as such attracted tax and were declared.
(9) Mark Lewis' fees include £10,000 in relation to his services as a Non-Executive Director of Santander Consumer (UK) plc.

Directors' report

Introduction
The Directors submit their report together with the financial statements for the year ended 31 December 2024. The information in the Directors' Report is unaudited, except where indicated.

Corporate structure, Subsidiaries and Branches
The Company (incorporated on 12 September 1988) is a subsidiary of Santander UK Group Holdings plc whose ultimate parent is Banco Santander SA, a Spanish retail and commercial bank with a market share in ten core countries in Europe and the Americas.

Santander UK was formed from two former building societies, Abbey National and Alliance & Leicester, together with the branch network and savings business of Bradford & Bingley, and has operated under a single brand since 2010.

All of Santander UK plc's ordinary shares are unlisted and held by Santander UK Group Holdings plc, which is a wholly owned subsidiary of Banco Santander SA.

The Company's preference shares are listed on the London Stock Exchange and both the Company and Santander UK Group Holdings plc have other equity instruments in the form of AT1 securities listed on various securities exchange markets, including the London Stock Exchange.

In addition, the Company and Santander UK Group Holdings plc are subject to US Securities Exchange Act reporting requirements as they have debt securities listed on the New York Stock Exchange.

The Santander UK group consists of a parent company, Santander UK plc, incorporated in England and Wales, and a number of directly and indirectly held subsidiaries and associates. The Company directly or indirectly holds 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate principally in their country of incorporation or registration.

In line with the ring-fencing requirements set out in the Financial Services (Banking Reform) Act 2013, Santander UK plc and its subsidiaries consist of only entities whose business is permitted under the Act as a ring-fenced bank. For more information, see Note 18.

Results and dividends
For details of the results for the year, see the Income Statement in the Consolidated Financial Statements. For more on dividends, see Note 10.

Details of Santander UK's activities and business performance in 2024, together with an indication of the outlook, are set out in the Strategic report.

Events after the balance sheet date
There have been no material post balance sheet events, except as set out in Note 41.

Directors
A list of the Directors that served in the year can be found in the Board and Board Committee Attendance table in the Chair's report on Corporate Governance. Details of their emoluments and interests in shares are set out in the Remuneration implementation report. For more on changes to the composition of the Board, see the Chair's report on Corporate Governance.

Between 31 December 2024 and 7 March 2025, the following was noted:

- Following regulatory approval, Enrique Labiano was appointed as an Executive Director on the Board on 12 February 2025.
- On 28 January 2025, William Vereker announced his intention to step down as Chair of the Board once a thorough appointment process and handover has been completed.

Appointment and retirement of Directors
All Directors are appointed and retire in accordance with the Company's Articles of Association, the UK Companies Act 2006 and the UK Group Framework. The Directors are required to retire each year at the Annual General Meeting and may offer themselves for re-election.

Directors' indemnities

Directors' and Officers' liability insurance cover was in place throughout the year, in addition to a deed of indemnity to provide cover to the Directors for liabilities to the maximum extent permitted by law. These remain in force for the Directors' period of office from the date of appointment until such time as any limitation periods for bringing claims against the Directors have expired. The Directors, including former Directors who resigned in the year, benefit from these deeds of indemnity which constitute qualifying third party indemnity provisions for the purposes of the Companies Act 2006. Deeds for existing Directors are available for inspection at the Company's registered office.

The Company has also granted an indemnity which constitutes 'qualifying third party indemnity provisions' to the Directors of its subsidiary and affiliated companies, including former Directors who resigned in the year and since the year-end. Qualifying pension scheme indemnities were also granted to the Trustees of the Santander UK group's pension schemes.

Employees
We continue to ensure that Santander UK's remuneration policies are consistent with its strategic objectives and are designed with its long-term success in mind.

Communication
Santander UK aims to involve and inform employees on matters that affect them. The intranet is a focal point for communications and the 'AskHR' website connects employees to all the information they need about working for Santander UK. We also use face-to-face communication, such as team meetings and roadshows for updates.

Santander UK regularly considers employees' opinions and asks for their views on a range of issues through regular engagement and surveys. For more on colleague engagement and initiatives, see the Strategic report.

Employee Designated Non-Executive Director
Lisa Fretwell is Santander UK's Employee Designated NED and represents the views of employees in the Boardroom. For more information, see the Stakeholder voice section in the Strategic Report.

Consultation with Employees
Santander UK has a successful history of working in partnership with its recognised trade unions, Advance and the Communication Workers Union (CWU), who collectively negotiate on behalf of approximately 99.5% of our UK workforce. Both trade unions are affiliated to the Trades Union Congress. We consult Advance and the CWU on significant proposals including those relating to change across the business at both national and local levels.

Employee share ownership
Santander UK continues to operate two all-employee, HMRC approved share schemes: a Save-As-You-Earn (Sharesave) Scheme and a Share Incentive Plan (SIP). Those employees who are designated as Material Risk Takers receive part of their annual bonus awards in Banco Santander SA shares/share linked instruments. Details of the plans and the related costs and obligations can be found in the Share-based payments and compensation sections in Notes 1 and 35.

Inclusive culture
Information on our diversity and inclusion policies, as required by UK regulation, can be found in the Chair's report on Corporate Governance of this Annual Report.

Disability
Santander UK is committed to equality of employment, access and quality of service for disabled people and complies with the UK Equality Act 2010 throughout its business operations. We have processes in place to help train, develop, retain and promote employees with disabilities, and we are a Disability Confident Employer achieving the 'Leader' level. We are committed to giving full and fair consideration to employment applications by disabled people, having regard to their particular aptitudes and abilities, and for continuing the employment of employees who have become disabled by arranging appropriate training and making reasonable adjustments in the workplace.

Directors' report continued

Engagement with stakeholders and employees
Santander UK recognises the importance of fostering relationships with its principal stakeholders and that this is key to the long-term success of our business. We understand the importance of acting fairly and responsibly and actively engage with our stakeholders and employees. For more, see the Stakeholder voice section in the Strategic Report.

Streamlined Energy & Carbon Reporting (SECR)
For details on our energy use, carbon emissions and efficiency measures implemented in 2024, including Scope 1, 2 and 3 data, see the SECR section in the Sustainability review.

Political contributions
In 2024 and 2023, no contributions were made for political purposes and no political expenditure was incurred by the Company.

Share capital
Details about the structure of the Company's capital can be found in Note 31.

For details of employee share schemes and how rights are exercisable, see Note 35.

The powers of the Directors in relation to share capital are set out in the Company's Articles of Association. These are available for inspection on request.

Financial instruments
The financial risk management objectives and policies of Santander UK and the policy for hedging, along with details of Santander UK's exposure to credit risk, market risk and liquidity risk are set out in the Risk review.

Research and development
Santander UK has a comprehensive product approval process and policy. New products, campaigns and business initiatives are reviewed by Santander UK's Proposition Approval Forum.

Supervision and regulation
The Company is authorised by the PRA and regulated by the FCA and the PRA (dual regulated). Some of its subsidiaries and joint venture companies are also authorised by the FCA and the PRA (dual regulated) or the PRA or the FCA (solo regulated).

While Santander UK operates primarily in the UK, it is also subject to the laws and regulations of other jurisdictions in which it operates or has listed debt securities such as the US.

Internal controls
Risk management and internal controls
The Board and its Committees are responsible for reviewing and ensuring the effectiveness of management's system of risk management and internal controls.

We carried out a robust assessment of the principal and emerging risks facing Santander UK including those that would threaten its business model, future performance, solvency or liquidity. Details of our principal risks, our procedures to identify emerging risks, and how these are being managed or mitigated are set out in the Risk review. A summary of our Top and Emerging Risks is also set out in the Strategic report.

Management's report on internal control over financial reporting
Internal control over financial reporting is a component of an overall system of internal control. Santander UK's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with UK-adopted international accounting standards (IAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Santander UK's internal control over financial reporting includes:

- Policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets.
- Controls providing reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with UK-adopted IAS and IFRS, and that receipts and expenditures are being made only in accordance with authorisations of management.
- Controls providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or because the degree of compliance with policies or procedures may deteriorate.

Management is responsible for establishing and maintaining adequate internal control over the financial reporting of Santander UK. Management assessed the effectiveness of Santander UK's internal control over financial reporting at 31 December 2024 based on the criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in May 2013.

As a registrant under the US Securities Exchange Act of 1934, Santander UK's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting in order to ensure the accuracy and reliability of Santander UK's Financial Statements and the Form 20-F submitted to the SEC.

In line with COSO and SEC requirements, controls recognised as Sarbanes-Oxley applicable are subject to annual testing and certification by management including an attestation by the CEO and the CFO that they are operating effectively and that the internal control over financial reporting can be relied on.

All Sarbanes-Oxley control weaknesses identified are captured, assessed and included in the year-end assessment of the reliability of the Internal Control environment. They are reported on an ongoing basis to the Board Audit Committee to ensure the control environment is continuously improved.

Based on this assessment, management concluded that, at 31 December 2024, Santander UK's internal control over financial reporting was effective.

Disclosure controls and procedures over financial reporting

Santander UK's management has evaluated, with the participation of its CEO and CFO, the effectiveness of its disclosure controls at 31 December 2024. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error, and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, the CEO and the CFO concluded that, at 31 December 2024, Santander UK's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Santander UK in the reports that it files and submits under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to Santander UK's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

Changes in internal control over financial reporting
There were no changes to our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Directors' report continued

Statements of Compliance

The UK Corporate Governance Code 2018 (the Code)

Santander UK complies with the Code wherever applicable in order to achieve the best standards of corporate governance. The Code applied to the financial year ended 31 December 2024 and the Board confirms that it applied the principles and complied with those provisions of the Code throughout the year, except as follows:

– Provision 10: For 2024, there were no circumstances which were likely to impair an INED's independence. Ed Giera, who has served on the Board for more than 9 years (appointed on 19 August 2015) will step down in March 2025, following an orderly hand over to his successor. We are confident that Ed has the strength of character and integrity to ensure his independence has not been affected by the length of his tenure.
– Provision 25: The Board Risk Committee (BRC) was not composed of only INEDs for the period between 1 January to 1 April 2024 as Pamela Walkden, a GNED, was a member. We assessed the implications and believed that the approach followed was appropriate given our size and ownership structure and the experience and expertise that Pamela brought to the BRC. Pamela resigned from the BRC on 1 April, and we have since been fully compliant with this provision.
– Provision 36: Our pension contribution rates for EDs align with those available to the workforce, except in exceptional circumstances such as expatriate arrangements. This is to ensure that expatriates can continue to maintain home country pension arrangements.
– Provision 36: The Board Remuneration Committee has not developed a policy for post-employment shareholding requirements. However, the structure of variable pay for EDs and other senior executives ensures that they acquire a meaningful shareholding in Banco Santander SA which extends for a significant period post employment. For details, see the Remuneration policy report.
– Provisions 40 and 41: Due to commercial sensitivity, we opted not to provide all of the disclosures required by Provision 41. The details not provided relate to (1) the extent to which discretion has been applied to remuneration outcomes and the reasons why and (2) a description, with examples, of how the Board Remuneration Committee has addressed the factors in Provision 40 (specifically predictability as we do not provide the range of possible values of rewards to individual directors). Specific engagement does not take place with the workforce to explain how executive remuneration aligns with wider company pay policy. However, an explanation is available for employees in the Directors' Remuneration report. Details of the structure of our remuneration arrangements and key considerations of the Board Remuneration Committee in the year are included in the Remuneration policy and Remuneration implementation reports.

UK Finance Disclosure Code for Financial Reporting

Santander UK's financial statements for the year ended 31 December 2024 have been prepared in compliance with the principles of the UK Finance Disclosure Code for Financial Reporting.

Going concern

The going concern of Santander UK is reliant on preserving a sufficient level of capital and adequately funding the balance sheet. In making their going concern assessment in connection with preparing the financial statements, the Directors considered a wide range of information including Santander UK's business and strategic plans, top and emerging risks, including those associated with climate change, capital position and liquidity and funding profile, stress scenarios, and contingent liabilities, and the reasonably possible changes in trading performance arising from potential economic, market and product developments. The Directors' assessment included consideration of the potential impacts arising from mixed signals about the UK's recent economic performance.

Having assessed this information and the principal risks and uncertainties, the Directors are satisfied that the Santander UK group has adequate resources to continue operations for a period of at least 12 months from the date the financial statements were authorised for issue and therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Directors' report continued

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Directors' report continued

Code of Conduct

Santander UK is committed to ensuring we hold ourselves to high ethical standards. This means adhering to laws, regulations, policies including our Code of Conduct (which was refreshed in October 2023) and also carrying out business in a responsible way. High standards of professional and personal conduct help Santander identify, manage and respond to risks, create a positive, collaborative working environment and ensure positive customer interactions and outcomes.

The Santander Way determines how we deliver on our purpose, to help people and businesses prosper. How we deliver that purpose is as important as the end result. Our conduct and our culture matters. Our aim is to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our colleagues, customers and communities.

How we do business is intrinsically linked to our behaviours and values and supports our aim. Santander UK's Code of Conduct sets the standards expected of all colleagues and forms part of the terms and conditions of employment.

It makes clear our corporate values, our expectations regarding corporate behaviours and general principles and standards we expect with regard to customers, colleagues, conflicts of interest, data, media and our approach to sustainability.

There are numerous policies and processes, as well as support and guidance, that help colleagues meet these expectations and do the right thing to ensure Santander UK remains a Simple, Personal and Fair bank for its colleagues, customers, shareholders and the communities it serves.

The Code of Conduct applies to all colleagues including permanent and temporary colleagues as well as EDs and NEDs. The SEC requires companies to disclose whether they have a code of ethics that applies to the CEO and senior financial officers which promotes honest and ethical conduct, full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, prompt internal reporting of violations, and accountability for adherence to a code of ethics.

Santander UK meets these requirements through its Code of Conduct and supporting policies, including but not limited to the Anti-Bribery and Corruption Policy, the Whistleblowing Policy, the FCA's Principles for Businesses, and the FCA's Statements of Principle and Code of Practice for Approved Persons, with which the CEO and senior financial officers comply. The Company has not granted any waivers to its principle executives, financial or accounting officers.

Copies of these documents are available on application to Santander UK plc, 2 Triton Square, Regent's Place, London NW1 3AN The Code of Conduct can be found on our website at santander.co.uk.

Disclosure of information to Auditors

Each of the Directors at the date of approval of this report confirms that:

– So far as the Director is aware, there is no relevant audit information of which Santander UK's auditor is unaware
– The Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that Santander UK's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the UK Companies Act 2006.

Auditor

PricewaterhouseCoopers LLP will continue in the office of auditor. A resolution to reappoint them will be proposed at the Company's forthcoming Annual General Meeting.

By Order of the Board

Roz Rule
Company Secretary

7 March 2025

2 Triton Square, Regent's Place,
London NW1 3AN

Risk review

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Risk governance

INTRODUCTION

The Risk review consists of unaudited financial information unless otherwise stated. The audited financial information is an integral part of our Consolidated Financial Statements.

As a financial services provider, managing risk is a core part of our day-to-day activities. To be able to manage our business effectively, it is critical that we understand and control risk in everything we do. We aim to use a prudent approach, underpinned by advanced risk management techniques to help us deliver robust financial performance, withstand stresses, and build sustainable value for our stakeholders. We aim to keep a predictable medium-low risk profile, consistent with our business model. This is key to achieving our strategic objectives.

RISK FRAMEWORK

How we define risk

Risk is any uncertainty about us being able to achieve our business objectives. It covers both financial and non-financial risks (NFRs). NFR is a broad term usually defined by exclusion, i.e. any risks other than the traditional financial risks of Credit, Liquidity, Capital, Market and Pension, Strategic and business, and Reputational. Risk can be split into a set of risk types, each of which could affect our results and our financial resources. Enterprise risk is the aggregate view of all the risk types.

Our Risk Framework sets out how we define, manage and control risk.

Top and emerging risks

Several of our risk types also have Top risks associated with them. We regularly review the Top risks that could impact our business, customers and shareholders, and they are monitored at each meeting of the Executive Risk Control Committee (ERCC) and Board Risk Committee (BRC). The Top risks we actively monitored in 2024 are set out in the relevant section of this Risk review and summarised in the 'Top risks' section of the Risk management overview in the Strategic report.
We made further changes to our Top Risks by replacing Inflationary and Supply Chain Pressures with Margin Compression, given that UK headline inflation fell and markets implied a peak in the Bank Rate. We introduced three more top risks: Resiliency, Payments Transformation, and AI/Machine Learning. In addition, we removed Ring-Fencing and People risk from Top risks, although we continued to closely monitor human resource impacts as part of Strategic Transformation.
We also regularly review emerging risks that could impact our business, customers and shareholders, with challenge and discussion at the ERCC and BRC. The identification of emerging risks is co-ordinated by the Risk Division. A key part of the process is continual scanning of the external environment, focusing on emerging risk drivers such as: Uncertain Regulatory Agenda, Uncertain Macro-economic and Geopolitical Environment, Markets, Competition and Technology, and Environmental and Social. The emerging risks we actively monitored in 2024 are set out in the relevant section of this Risk review and summarised in the ‘Emerging risks’ section of the Risk management overview in the Strategic report.

Our risk culture and principles

Risk Culture Statement
Santander UK places good customer outcomes at the heart of our decision-making and our people take personal responsibility for doing the right thing. We are thoughtful about taking risks, meaning we only take risks that we understand, we balance risk and reward when making decisions and are proportionate in our approach.

The Board reviews and approves our Risk Culture Statement every year. Senior executives are responsible for promoting our risk culture from the top. They drive cultural change and increased accountability across the business. We reinforce our Risk Culture Statement and embed our risk culture in all our business units through our Risk Framework, Risk Certifications and other initiatives. This includes highlighting that:

- It is everyone’s personal responsibility to play their part in managing risk
- We must Identify, Assess, Manage and Report risk quickly and accurately
- We make risk part of how we assess our people’s performance and how we recruit, develop and reward them
- Our internal control system is essential to ensure we manage and control risk in line with our principles, standards, Risk Appetite and policies.

As a tangible sign, personal responsibility is such a key part of our risk culture. We use Risk Certifications to confirm how we manage and control risks in line with our Risk Framework and within our Risk Appetite. As an example, every year, each member of our Executive Committee confirms that they have managed risks effectively in line with the Risk Framework in the part of the business for which they are responsible. Their certification lists any exceptions and the agreed actions to be taken to correct them.

Our risk culture programme

We have well established and understood risk management systems and processes, which our people are personally responsible for to identify, assess, manage and report risk (I AM Risk).

In 2024, as a supplement to our established risk processes, we evolved our approach to risk culture by defining, communicating and ensuring our people are clear on the Risk behaviours we expect them to adopt. This is defined as RiskPro, which has been adopted across the Santander UK group and aims to support staff in making risk-based decisions focusing on what is best for our customers and supports our strategy.

We continued to ensure that a mandatory risk objective is part of performance management for everyone. We also ensured that RiskPro and risk behaviours are a key part of our risk policies, frameworks and processes. In recruitment, we focus on how people behave and think about risk, not just whether they are able to follow risk processes.

We developed a risk culture maturity self-assessment to support all our people to assess their risk behaviours and to define key solutions where there is a need to mature. Plans to continue maturing our risk culture will continue into 2025.

Our risk governance structure

We are committed to the highest standards of corporate governance in every part of our business, including risk management. For details of our governance, including the Board and its Committees, see the 'Governance' section of this Annual Report. The Board delegates certain responsibilities to Board Level Committees as needed and where appropriate. Our risk governance structure strengthens our ability to identify, assess, manage and report risks, as follows:

- **Committees:** A number of Board and Executive committees are responsible for specific parts of our Risk Framework
- **Key senior management roles:** A number of senior roles have specific responsibilities for risk management
- **Risk organisational structure:** We have the 'three lines of defence' model built into the way we run our business.

Committees

The Board and Board Level Committee responsibilities for risk are:

Board Level Committee	Main risk responsibilities
The Board	– Has overall responsibility for business execution and for managing risk
	– Reviews and approves the Risk Framework and Risk Appetite
Board Risk Committee (BRC)	– Assesses the Risk Framework and recommends it to the Board for approval
	– Advises the Board on our overall Risk Appetite, tolerance and strategy
	– Oversees our exposure to risk and our strategy and advises the Board on both
	– Reviews the effectiveness of our risk management systems and internal controls
	– Reviews reports from the Chief Compliance Officer (CCO) on the adequacy and effectiveness of the compliance function
	– Responsible for oversight of cybersecurity risks and receives regular updates on cybersecurity risk position including cybersecurity incidents
	– Receives regular updates on economic crime compliance and risks including money laundering, bribery and corruption and sanctions compliance, and monitors KPIs in line with approved Board risk appetite
Board Responsible Banking Committee	– Responsible for culture and operational risk from conduct, compliance, competition & legal matters
	– Ensures that adequate and effective control processes are in place to identify and manage reputational risks
	– Oversees our Sustainability and Responsible Banking programme and how it impacts on employees, communities, the environment including sustainability and climate change, reputation, brand and market positioning
	– Reviews updates on key risk issues, customer, reputational and conduct matters
Board Audit Committee	– Monitors and reviews the financial statements integrity, and any formal announcements on financial performance
	– Reviews the adequacy and effectiveness of the internal financial controls and whistleblowing arrangements
	– Monitors and reviews the effectiveness of the internal audit function
	– Receives regular updates from the internal audit function, including on its reviews of cybersecurity risk and controls
	– Oversees the independence and performance of the external auditors
Board Remuneration Committee	– Oversees implementation of remuneration policies, ensuring they promote sound and effective risk management
Board Special Projects Committee	– Formed in 2024 and focuses on special projects and transformation matters
	– Oversees the Financial Crime Remediation Programme

The Executive Level Committee responsibilities for risk are:

Executive Level Committee	Main risk responsibilities
Executive Committee (ExCo)	– Reviews business plans in line with our Risk Framework and Risk Appetite before they are sent to the Board to approve
	– Receives updates on key risk issues managed by CEO-level committees and monitors the actions taken
Senior Management Committee	– Focuses on the responsibilities of the Executive Committee Senior Management Function holders and how they are discharged
	– Reviews updates on key risk issues, customer, reputational and conduct matters
Executive Risk Control Committee (ERCC)	– Reviews Risk Appetite proposals before they are sent to the BRC and the Board to approve
	– Ensures that we comply with our Risk Framework, Risk Appetite and risk policies
	– Reviews and monitors our risk exposures and approves any corrective steps we need to take
Asset and Liability Committee (ALCO)	– Reviews liquidity risk appetite (LRA) proposals
	– Ensures we measure and control structural balance sheet risks, including capital, funding and liquidity, in line with the policies, strategies and plans set by the Board
	– Reviews and monitors key asset and liability management activities to ensure we keep our exposures within our Risk Appetite
Capital Committee	– Puts in place reporting systems and risk control processes to make sure capital risks are managed within our Risk Framework
	– Reviews capital adequacy and capital plans, including the ICAAP, before they are sent to the Board to approve
Incident Accountability Committee	– Considers, calibrates, challenges and agrees any appropriate individual remuneration adjustments
	– Presents recommendations to the Board Remuneration Committee
Credit Approval Committee	– Approves corporate and wholesale credit transactions which exceed levels delegated to lower level forums or individuals
Economic Crime Committee	– Ensures due reporting, consideration, oversight and informed decision making regarding compliance with financial crime laws and regulations, fraud, and best industry practice aligned to our Risk Appetite

Key senior management roles

Senior roles with specific responsibilities for risk management are:

Role	Main risk responsibilities
Chief Executive Officer (CEO)	The Board delegates responsibility for our business activities and managing risk on a day-to-day basis to the CEO. The CEO proposes our strategy and business plan, puts them into practice and manages the risks involved. The CEO must also ensure we have a suitable system of controls to manage risks and report to the Board on them.
Chief Risk Officer (CRO)	Oversees and challenges risk activities, and ensures that the business activity is conducted within our risk appetite. Responsible for control and oversight of all risk types with regulatory responsibility to report on these risk types to Executive and Board Committees.
Chief Financial Officer (CFO)	Responsible for developing strategy, leadership and management of the CFO Division. The CFO is responsible for managing interest rate, liquidity, pension and capital risks. The CFO also aims to maximise the return on Regulatory and Economic Capital.
Chief Internal Auditor (CIA)	Designs and uses an audit system that identifies the main risks and evaluates controls. The CIA also develops an audit plan to assess existing risks that involve producing audit, assurance and monitoring reports.
Chief Compliance Officer (CCO)	Responsible to the CRO for control and oversight of conduct & regulatory, reputational and economic crime risk, but has direct responsibility to report on conduct & regulatory and reputational risk to Executive and Board Committees and the regulator.
Money Laundering Reporting Officer (MLRO)	Responsible to the CCO for control and oversight of economic crime risk but has regulatory responsibility to report on this risk type to Executive and Board Committees and the regulator.

Risk organisational structure

We use the ‘three lines of defence’ model to manage risk. This model is widely used in the banking industry and has a clear set of principles to put in place a cohesive operating model across an organisation. It does this by separating risk management, risk control and risk assurance. The reporting lines to the Board with respect to risk are as follows:

Line 1: Risk management

Business Units and Business Support Units identify, assess and manage the risks which originate and exist in their area, within our Risk Appetite. It is under the executive responsibility of the CEO.

Line 2: Risk control & oversight

Risk Control Units are independent monitoring, control and functions. They make sure Business Units and Business Support Units manage risks effectively and within our Risk Appetite. The Risk Control units are: Risk – responsible for credit, liquidity, capital, market, pension, strategic and business, operational, model and enterprise risks; Economic Crime; and Compliance, responsible for reputational and conduct and regulatory risks. It is under the executive responsibility of the CEO, but responsible to the CRO for overseeing the first line of defence.

Line 3: Risk assurance

Internal Audit is an independent corporate function. It gives assurance on the design and effectiveness of our risk management and control processes. It is responsible to the CIA.

Internal control system

Our Risk Framework is an overarching view of our internal control system that helps us manage risk across the business. It sets out at a high level the principles, standards, roles and responsibilities, and governance for internal control. Our Risk Framework covers the categories below:

Category	Description
Risk Frameworks	Set out how we should manage and control risk across the business, our risk types and our risk activities.
Risk Management Responsibilities	Set out the Line 1 risk management responsibilities for Business Units and Business Support Units.
Strategic Commercial Plans	Plans produced by business areas, at least annually, which describe the forecasted objectives, volumes and risk profile of new and existing business, within the limits defined in our Risk Appetite.
Risk Appetite	See our Risk Appetite section that follows.
Delegated Authorities/Mandates	Define who can do what under the authority delegated to the CEO by the Board.
Risk Certifications	Business Units, Business Support Units or Risk Control Units set out each year how they managed/controlled risks in line with our risk frameworks and Risk Appetite, and explain any action to be taken. This helps drive personal accountability.

RISK APPETITE

How we control the risks we are prepared to take

When our Board sets our strategic objectives, it is important that we are clear about the risks we are prepared to take to achieve them. We express this through our Risk Appetite Statement, which defines the amount and kind of risk we are willing to take. Our Risk Appetite and strategy are closely linked, and our strategy must be achievable within the limits set out in our Risk Appetite. Our Risk Appetite Statement establishes principles that we use to set our Risk Appetite and defines our overall approach to risk management.

How we describe the limits in our Risk Appetite

Our Risk Appetite sets out detailed limits across all types of risk, using metrics and qualitative statements.

Metrics

We use metrics to set limits across most risk types including a set of metrics focused on losses, capital, liquidity and concentration. We set:

- Limits for losses for our most important risks, including credit, market, operational and conduct risk
- Capital limits, reflecting both the capital that regulators expect us to hold (regulatory capital) and our own internal measure economic capital (EC)
- Liquidity limits according to a range of plausible stress scenarios for our business
- Concentration limits, to determine the maximum concentration level that we are willing to accept.

These limits apply in normal business conditions, but also when we might be experiencing a far more difficult economic environment. We refer to conditions like this as being under stress. For more on EC and stress scenarios, see the Stress Testing section that follows.

Qualitative statements

For some types of risk, we also use qualitative statements that describe in words the appetite we want to set. We also use them to prohibit or restrict exposure to certain sectors, types of customer and activities.

How we set our Risk Appetite, and stay within it

We control our Risk Appetite through our Risk Appetite Framework. Our Board approves and oversees our Risk Appetite Statement every year. This ensures it is consistent with our strategy and reflects changes in the markets and economic environment in which we operate. Our ERCC is responsible for ensuring that our risk profile (the level of risk we are prepared to accept) is consistent with our Risk Appetite Statement. To do this, they monitor our performance against our Risk Appetite, business plans and budgets.

We also use stress testing to review how our business plan performs against our Risk Appetite Statement. This shows us if we would stay within our Risk Appetite under stress conditions. It also helps us to identify any adverse trends or inconsistencies.

We embed our Risk Appetite by setting more detailed risk limits for each business unit and key portfolios. These are set in a way so that if we stay within each detailed limit, we will stay within our overall Risk Appetite. When we use qualitative statements to describe our appetite for a risk, we link them to lower-level risk indicators, so that we can monitor and report our performance against them.

STRESS TESTING

Stress testing helps us understand how different events and economic conditions could affect our business plan, earnings and risk profile. This helps us plan and manage our business.

Scenarios for stress testing
To see how we might cope with difficult conditions, we regularly develop challenging scenarios that we might face. We consult a broad range of internal stakeholders, including Board members, when we design and choose our most important scenarios. The scenarios cover a wide range of outcomes, risk factors, time horizons and market conditions. They are designed to test:

– The impact of shocks affecting the economy as a whole or the markets we operate in
– Key potential vulnerabilities of our business model, and the processes and systems which support it
– Potential impacts on specific risk types.

We describe each scenario using a narrative setting out how events might unfold, as well as a market and/or economic context. For example, the key economic factors we reflect in our ICAAP scenarios include house prices, interest rates, unemployment levels, inflation, and the size of the UK economy. We also explore sensitivities around several macro variables where there may be concerns or levels of uncertainty.

In 2024, we developed the capability to perform long-horizon climate risk assessments through our Climate Internal Scenario Assessment (CISA) programme. Using these bespoke models, we explored Baseline and Disorderly Transitional scenarios. In addition, the Bank of England (BoE) cancelled the Annual Cyclical Scenario and ran an internal stress test exercise instead. The purpose of this exercise was to explore a 'tail risk' scenario designed to be severe and broad enough to assess the resilience of the UK banks to a range of adverse shocks.

Uses of stress testing
We use stress testing to estimate the effect of these scenarios on our business and financial performance, including:

– Our business plan, and its assessment against our Risk Appetite
– Our capital strength, through our ICAAP
– Our liquidity position, through our ILAAP
– Our long term impacts of climate change, through regulatory exercises and CISA
– Impacts on other risk types.

We use a wide range of models, approaches and assumptions supported by robust governance. These help us interpret the links between factors in markets and the economy, and our financial performance. For example, one model looks at how changes to key macroeconomic variables like unemployment rates might affect the number of customers who might fall into arrears on their mortgage or other loans.

Our stress testing models are subject to a formal review, independent validation and approval process. We highlight the key weaknesses and related model assumptions in the approval process for each stress test. In some cases, we overlay expert judgement onto the results of our models. Where this is material to the outcome of the stress test, the approving governance committee reviews it. We take a multi-layered approach to stress testing to capture risks at various levels. This ranges from sensitivity analysis of a single factor to a portfolio, to wider exercises that cover all risks across our entire business. We use stress test outputs to design business plans that aim to mitigate potential impacts of possible stress scenarios.

We also conduct reverse stress tests. These are tests in which we identify and assess scenarios that are most likely to cause our business model to fail.

Board oversight of stress testing
The ERCC reviews the design of the scenarios in our ICAAP, ILAAP and CISA. The BRC reviews the scenarios and stress test assumptions and approves the stress testing framework. The Board reviews stress test outputs as part of the approval processes for the ICAAP, ILAAP, Bank Recovery and Resolution Directive (BRRD), Risk Appetite and regulatory stress tests.

Regulatory stress tests
We take part in a number of external stress testing exercises. These can include stress tests of the UK banking system conducted by the PRA and the BoE. We also contribute to stress tests of Banco Santander conducted by the European Banking Authority (EBA).

For more on capital and liquidity stress testing, see the ‘Capital risk’ and ‘Liquidity risk’ sections.

HOW RISK IS DISTRIBUTED ACROSS OUR BUSINESS

Economic capital
As well as assessing how much regulatory capital we need to hold, we use an internal EC model to measure our risk. We use EC to get a consistent measure across different risk types. EC also takes account of how concentrated our portfolios are, and how much diversification there is between our various businesses and risk types. As a consequence, we can use EC for a range of risk management activities. For example, we can use it to help us compare requirements in our ICAAP or to get a risk-adjusted comparison of income from different activities.

Regulatory capital – risk-weighted assets
We hold regulatory capital against our credit, market and operational risks. In 2024, over half of our total risk-weighted assets accounted for credit risk in Retail & Business Banking. This reflects our business strategy and balance sheet.

For more on this, see ‘Risk-weighted assets’ in the ‘Capital risk’ section.

Credit risk

Overview

Credit risk is the risk of financial loss due to the default or credit quality deterioration of a customer or counterparty to which we provided credit, or for whom we have assumed a financial obligation.

In this section, we describe our key credit risks, including our exposures in each of our business segments, and how we manage credit risk across the credit risk lifecycle. We discuss our ECL approach and the key inputs to our ECL model. We then analyse our key metrics, credit performance and forbearance.

Key metrics

Stage 3 ratio of 1.42% (2023: 1.51%).

Loss allowances of £869m (2023: £992m).

Balance weighted average LTV of 64% (2023: 66%) on new mortgage lending.

OUR KEY CREDIT RISKS

Exposures (audited)
Exposures to credit risk arise in our business segments from:

Retail & Business Banking	Consumer Finance	Corporate & Commercial Banking	Corporate Centre
In Mortgages: – Residential mortgages for customers with good credit quality (prime lending). – We provide these mostly for owner-occupiers, with buy-to-let mortgages for non-professional landlords. In Everyday Banking: – Unsecured lending to individuals, such as loans, credit cards and overdrafts. – Unsecured lending to businesses with annual turnover up to £6.5m and simpler borrowing needs such as loans, credit cards and overdrafts.	– Financing for cars, vans, motorbikes and leisure vehicles through Santander Consumer (UK) plc (SCUK). – Through our joint ventures, Hyundai Capital UK Ltd and Volvo Car Financial Services UK Limited, we provide retail point of sale customer finance and wholesale finance facilities (stock finance).	– Loans, overdrafts, treasury services, invoice finance, trade and supplier finance. – We provide these to SMEs and mid-sized corporates typically with annual turnover up to £500m, Commercial Real Estate and Social Housing customers.	– Asset and liability management of our balance sheet. – Exposures include financial institutions (derivatives and other treasury products), structured products, and sovereign and supranational assets chosen for diversification and liquidity.

CREDIT RISK MANAGEMENT

Our approach to credit risk

We manage our portfolios across the credit risk lifecycle, from formulating our risk strategy and planning, through assessment and origination, monitoring, arrears management and debt recovery. We make sure the actual risk profile of our exposures stays in line with our business plans and within our Risk Appetite. We tailor the way we manage risk to the type of product and regularly review our approach and refine it when we need to.

1. Risk strategy and planning (audited)
Relevant areas of the business work together to create our business plans. We consider our strategy, goals, and financial and technical resources alongside our Risk Appetite. This involves focusing on economic and market conditions and forecasts, regulations, conduct matters, profitability, returns and market share.

2. Assessment and origination (audited)
Managing credit risk begins with lending responsibly. That means only lending to customers who are committed to paying us back and can afford to, even if their circumstances change. We take proportionate steps to assess whether a customer will be able to repay the money borrowed. We do this by a series of initial affordability and credit risk assessments. When a customer applies, we assess the data they provide, plus data from credit reference agencies (for Retail & Business Banking and Consumer Finance) and performance on their other Santander UK accounts (if they have any) against our Credit Policy.

Retail & Business Banking
In Mortgages, we assess affordability by reviewing the customer's income and spending, their other credit commitments, and what would happen if interest rates went up. Many of our decisions are automated as we use data available to us. We tailor our process and application assessment based on the product. More complex transactions often need greater manual assessment using our credit underwriters' skill and experience.

In Everyday Banking and Business Banking, many of our decisions are automated. We assess affordability by reviewing the customer's income and spending, including other credit commitments and adjusting for future inflation and expected interest rates.

Credit risk mitigation
The types of credit risk mitigation, including collateral, across each of our portfolios are:

Portfolio	Description
Residential mortgages	Collateral is in the form of a first legal charge over the property. Before we grant a mortgage, the property is valued either by a surveyor or using automated valuation methodologies where our confidence in the accuracy of this method is high.
Unsecured lending	There is no collateral or security tied to the loan that can be used to mitigate any potential loss if the customer does not pay us back.
Business banking services	Business banking lending is unsecured. When lending to incorporated businesses, we typically obtain personal guarantees from each director, but we do not treat these as collateral. We consider the UK Government guarantee under its Coronavirus Loan Schemes as collateral, covering 100% of losses for the Bounce Back Loan Scheme (BBLS) and 80% for Coronavirus Business Interruption Loan Scheme (CBILS).

Consumer Finance
In Consumer Finance, similar to Retail & Business Banking, many decisions are automated and we tailor the process to the product. Residual value risk is one of our top risks and these exposures are set using forward looking market data, at the level of vehicle derivative by age and anticipated mileage. This data is obtained from a third party.

Credit risk mitigation
The type of credit risk mitigation, including collateral, is:

Portfolio	Description
Consumer (auto) finance	Collateral is in the form of legal ownership of the vehicle for most loans, with the customer being the registered keeper. Only a very small proportion of business is underwritten as a personal loan. In these cases, there is no collateral or security tied to the loan. We use a leading vehicle valuation company to assess the LTV at the proposal stage to ensure the value of the vehicle is appropriate.

Corporate & Commercial Banking
We assign each customer a credit rating, using our internal rating scale (see 'Credit quality' in 'Santander UK group level – credit risk review' section). To do this, we look at the customer's financial history and trends in the economy, backed up by the expert judgement of a risk analyst. We review our internal ratings on a dynamic basis and at least once a year for those clients that are rated. We also assess the underlying risk of the transaction, taking account of any mitigating factors (see the tables below) and how it fits with our risk policies, limits and Risk Appetite.

Responsible lending, including climate change and the transition to a low carbon economy
As part of the Banco Santander group, we comply with the Equator Principles to factor social, ethical and environmental impacts into our risk analysis and decision making for qualifying financial transactions. We aim to support clients and economies in their transition to a low carbon economy, providing financial products and/or services to business activities that are environmentally and socially responsible. Our Environmental, Social and Climate Change (ESCC) policy sets out how we identify, assess, monitor and manage environmental and social risks and other climate change related activities in the Oil and Gas, Power Generation and Mining and Metals sectors and those arising from businesses engaged in soft commodities. Our ESCC policy prohibits project-related financing for new coal-fired power plants (CFPP) worldwide and we will only work with new clients with CFPPs to provide specific financing for renewable energy projects. In line with Banco Santander's aim, by 2030 we will aim to eliminate all exposure to thermal coal mining and stop providing financial services to power generation clients with more than 10% of revenue from thermal coal.

Credit risk mitigation
The types of credit risk mitigation, including collateral, across each of our portfolios are as follows. In addition, from time to time, at a portfolio level we execute significant risk transfer transactions, which typically reduce RWAs.

Portfolio	Description
SME and mid corporate	Includes secured and unsecured lending. We can take mortgage debentures or a first charge on commercial property as collateral. Before agreeing the loan, we obtain an independent professional valuation of the property. Loan agreements typically allow us to obtain revaluations during the term of the loan. We can also take guarantees, but we do not treat them as collateral unless they are supported by a tangible asset charged to us. We also lend against assets (like vehicles and equipment) and invoices for some customers. We value assets before we lend. For invoices, we review the customers' ledgers regularly and lend against debtors who meet agreed criteria.
Commercial Real Estate (CRE)	We take a first charge on commercial property as collateral. The loan is subject to criteria such as the property condition, age and location, tenant quality, lease terms and length, and the sponsor's experience and creditworthiness. Before advancing the loan and where appropriate, a bank representative visits the property. We also obtain an independent professional valuation which typically includes a site visit. Loan agreements typically allow us to obtain revaluations during the term of the loan.
Social Housing	We take a first charge on portfolios of residential real estate owned and let by UK Housing Associations as collateral, in most cases. We revalue this every three to five years (in line with industry practice), using the standard methods for property used for Social Housing.

Corporate Centre
Credit risk mitigation
The types of credit risk mitigation, including collateral, across each of our portfolios are as follows. In addition, from time to time, at a portfolio level we execute significant risk transfer transactions, which typically reduce RWAs.

Portfolio	Description
Sovereign and Supranational	In line with market practice, there is no collateral against these assets.
Structured Products	These are our High Quality Liquid Assets (HQLA) in our Eligible Liquidity Pool. They are mainly Asset Backed Securities (ABS) and covered bonds, which hold senior positions in the creditor hierarchy. Their credit rating reflects over-collateralisation in the structure and the assets that underpin their cash flows.
Financial Institutions	We use standard legal agreements to reduce credit risk via netting and collateralisation on derivatives, repos and reverse repos, and stock borrowing/lending. We also reduce risk by clearing trades through central counterparties (CCPs) where possible.

3. Monitoring (audited)
We measure and monitor changes in our credit risk profile on a regular and systematic basis against our budgets, limits and benchmarks.

Credit concentrations
A core part of our monitoring and management is a focus on credit concentrations, such as the proportion of our lending that goes to specific borrowers, groups or industries. We set and monitor concentration limits in line with our Risk Appetite and review them on a regular basis.
– Geographical concentrations: We set exposure limits to countries and geographies, with reference to the country limits set by Banco Santander and our own Risk Appetite. For more geographical information, see 'Country risk exposures'.
– Industry concentrations: We also set exposure limits by industry sector. We set these limits based on the industry outlook, our strategic aims and desired level of concentration, and relevant limits set by Banco Santander. We analyse committed exposures in the 'Credit risk review' section that follows.

Retail & Business Banking
We use IT systems and data available to us to monitor accounts. The main parts are:
– Behavioural scoring: we use statistical models that help predict whether a customer will have problems repaying, based on how they use their accounts
– Credit reference agencies: we often use data from agencies on how the borrower is handling credit from other lenders in our behaviour scoring models
– Other Santander UK accounts: each month, we also look at how the customer uses their other accounts with us, so we can identify problems early.

Our day-to-day retail credit risk monitoring relies on a mix of performance measures as described above. However, changes in the wider UK economy also impact our Mortgages and Everyday Banking portfolios. As part of our day-to-day risk monitoring, we use a Retail Risk Playbook tolerance tool that monitors the most relevant macroeconomic variables to retail portfolio performance against our forecasts. If the economy deviates materially from our forecasts, such as due to the effects of the cost of living crisis or high inflation, we review our retail risk management policy and strategy.

We also ensure that portfolio quality remains within our Risk Appetite by measuring against trigger values for key risk profile and performance metrics.

For secured lending, our monitoring also takes account of changes in property prices. We estimate the property's value every three months. In most cases, we use statistical models based on recent sales prices and valuations in that local area. Use of this model is subject to Model Risk Governance. Where a lack of data means the model's valuation is not available, we use the original surveyor valuation with a House Price Index (HPI) adjustment as needed.

For unsecured personal lending like credit cards and overdrafts, monitoring might lead us to raise or lower credit limits. For business banking services, we review revolving credit facilities each year to ensure they remain appropriate for the customer's financial situation.

Consumer Finance
In Consumer Finance, customer accounts are monitored via IT systems and data. The Retail Risk framework ensures that our portfolio keeps within agreed thresholds. Residual value risk is regularly checked, enabling us to spot any change in market trends.

Corporate & Commercial Banking and Corporate Centre
We regularly monitor and report our credit risk by portfolio, segment, industry, location and customer. We monitor detailed analyses of our credit exposures and risk trends each month. We also report our larger exposures and risks to the BRC each month.

Our Watchlist
We also use a Watchlist for exposures subject to annual reviews to help identify potential problem debt early. Just because a customer is on our Watchlist does not mean they have defaulted. It just means that their probability of default has increased, such as they have breached a covenant or lost a major contract.

We classify Watchlist cases as:

– Enhanced monitoring: for less urgent cases. We monitor these cases more often and where appropriate may consider more collateral.
– Proactive management: for more urgent or serious cases. We may take steps to restructure debt including extending the term, taking more collateral, agreeing a lower credit limit, or seeking repayment of the loan through refinancing or other means.

We assess Watchlist cases for impairment as set out in the 'Significant Increase in Credit Risk (SICR)' section. When a customer is in enhanced monitoring, we do not consider it has suffered a SICR for ECL purposes, so it remains in Stage 1 for our loss allowance calculations. When a customer is in proactive management, we consider it has suffered a SICR, so we transfer it to Stage 2 and apply a lifetime ECL for our loss allowance calculations. We consider any forbearance we offer. This includes any extra security, guarantees or equity available and the potential to enhance value by asset management.

In Corporate & Commercial Banking, as part of our annual reviews, for loans nearing maturity, we look at the prospect of refinancing the loan on current market terms and applicable credit policy. If this is unlikely, we put the case on our Watchlist. We manage exposures not subject to annual reviews, mainly high volume and low value cases, using early warning indicators including credit reference agency data, supported by teams of expert analysts.

In Corporate Centre, we typically monitor the credit quality of our exposures daily. We use internal and third-party data to detect any potential credit deterioration.

4. Arrears management (audited)
Retail & Business Banking and Consumer Finance
We have several strategies to manage arrears that we can use as early as the day after a missed payment. We also reach out to up-to-date customers who may be at risk of going into arrears where we believe they may benefit from some support. We assess the financial difficulties a customer is having in order to offer them the right support to manage their agreement whilst in arrears. The strategies we use depend on the risk and the customer's unique circumstances with tailored support being provided.

Corporate & Commercial Banking and Corporate Centre
We identify problem debt by close monitoring, supported by our Watchlist process for exposures subject to annual review. We aim to identify warning signs early by monitoring customers' financial and trading data, checking to see they do not breach covenants, and having regular dialogue with them. We tailor our strategy to the type of customer, their circumstances and the level of risk. We try to help our customers find their own way out of financial difficulty and agree on a plan that works for both of us. We engage our Restructuring & Recoveries team as needed on Watchlist cases and we may hand over more serious cases to them. For exposures not subject to annual review, we have strategies to manage arrears that we can use as early as the day of the missed payment. If a case becomes more urgent or needs specialist attention, and if it transfers to Stage 3, we transfer it to our Restructuring & Recoveries team.

For more, see the Forbearance section.

5. Debt recovery (audited)
Sometimes, even when we have taken all reasonable and responsible steps to manage arrears in our Financial Support area, they are not effective. If this happens, we may choose to end our agreement with the customer and try to recover the outstanding balance (with recourse to any associated collateral), or as much of it as we can.

Retail & Business Banking
In Mortgages and Everyday Banking, we may use a debt collection agency, sell the debt, or take the customer to court. For residential mortgages, we may repossess the property as a last resort or to protect it from damage or third-party claims. We make sure our estimated losses from repossessed properties are realistic by getting two independent valuations and the estimated selling costs, and using them in our loss allowances calculations. Where we repossess a property, we do not take ownership. We use agents to realise the value and settle the debt. Any surplus funds are returned to the borrower or dealt with in line with insolvency rules.

Consumer Finance
In Consumer Finance, we usually have an asset by way of a motor vehicle secured to the agreement. We will seek to recover this asset if we are unable to rehabilitate the customer, or they remain in arrears with no contact. Like Retail & Business Banking, we may also use a debt collection agency or a specialist law firm to recover any subsequent balance outstanding. We may also consider the sale of debt where all avenues have been explored.

Corporate & Commercial Banking and Corporate Centre
Where we look for an exit, we aim to do this, if we can, by agreeing with the borrower that they will sell some or all their assets on a voluntary basis or agreeing to give them time to refinance their debt with another lender. Where we cannot reach an agreement, we consider recovery options. This can be through an insolvency proceeding, enforcing over any collateral or selling debt on the secondary market. We may also consider other legal action to recover what we are owed. If there is a shortfall, we write it off against our loss allowances. In very rare cases, we may act as mortgagee in possession of assets held as collateral against non-performing commercial lending. In such cases, we carry the assets on our balance sheet and classify them in line with our accounting policies.

Loan modifications (audited)
We sometimes change the terms of a loan when a customer gets into financial difficulty (this is known as forbearance), or for other commercial reasons.

Forbearance (audited)
We can change the terms of a customer's loan, temporarily or permanently, to help them through temporary periods of difficulty so they can get back on to sustainable terms. We assess what we offer to make sure the customer can afford it. Forbearance improves our customer relationships and we review our approach regularly to make sure it is still effective. We try to offer forbearance before a customer defaults and we only foreclose or repossess as a last resort.

The main types of forbearance we offer are:

Action	Description
Term extension	We can extend the loan term, making each monthly payment smaller. We may offer this if the customer is up to date with payments but shows signs of financial difficulties. We may also offer this if the loan is about to mature and refinancing is not possible on market terms. In selected instances, we may offer term extensions for interest only loans that are past the point of product maturity. This will typically be where no viable repayment solution has been identified for the outstanding capital balance, and legal enforcement activity is not deemed to be appropriate to the customer's circumstances.
Interest-only	Historical interest-only payments due to financial difficulties are classed as forborne. For corporate customers, interest-only concessions are considered on a case by case basis. Concessions are only granted if the nature of the financial difficulties is assessed to be temporary. Counterparties are expected to recover in full and resume making full capital and interest payments once they are in a stronger financial position.
Other payment rescheduling, including capitalisation	For retail mortgage customers, we may add the arrears to the mortgage balance (this is known as capitalisation) if they cannot afford to increase their monthly payment to pay off their arrears in a reasonable time but have been making their monthly payments, usually for at least six months. We can also capitalise property charges due to a landlord. We pay them for the customer to avoid the lease being forfeited. We may combine this help with term extensions and, in the past, interest-only concessions. In certain cases, we may offer interest rate concessions. We may agree an arrangement to pay less than the Contractual Monthly Payment (including zero) for a short period of time where they are experiencing temporary financial difficulties. For credit card and bank account customers, we may agree to suspend fees and/or interest for a short period of time where they are experiencing temporary financial difficulties. A refinance of a personal loan over a longer term to reduce the contractual monthly payment may be agreed, where a customer is showing signs of financial difficulties. The interest rate remains the same, or the closest lower rate available. For corporate customers, we may lower or stop their payments until they have time to recover. We may reschedule payments to better match the customer's cash flow – for example if the business is seasonal - or provide a temporary increase in facilities to cover peak demand ahead of their trading improving. We might do this by arrears capitalisation or drawing from an overdraft. We may also offer to provide new facilities, interest rate concessions and interest roll-up. In rare cases, we agree to forgive or reduce part of the debt.

When we agree forbearance, we consider the account has suffered a SICR, as we explain in the 'Significant Increase in Credit Risk (SICR)' section later on, and we classify it as Stage 2 or 3. A non-performing forborne account is one that has forbearance carried out in Stage 3, and a performing forborne account is one that has forbearance carried out in Stage 2. If an account is already in Stage 2, we keep it in Stage 2 unless the account is deemed unlikely to pay, involves forgiving fees and interest or debt, or is being granted multiple forbearances. In these cases, we move it into Stage 3. If an account is already in Stage 3, we keep it in Stage 3. A loan moves out of forbearance once the exit criteria below are met. We monitor the performance of all forborne loans.

We signed up to the HM Treasury Mortgage Charter published in June 2023, that aims to provide more support for customers who may be struggling to maintain their mortgage repayments. We made more customer support solutions available from July 2023, allowing customers who are up-to-date with their payments to make interest-only payments for six months or extend their mortgage term to reduce their monthly payments. Volumes of accounts seeking more support were just over 1% of active mortgage account stock. Mortgage Charter support solutions are not automatically classed as forbearance, unless other forbearance criteria are met.

Exit from forbearance criteria

	Exit from	Conditions to be met
Cure	Stage 3 to Stage 2	For an account in Stage 3 to exit non-performing forbearance, all the following conditions must be met:
		If the account was classed as Stage 3 due to being more than 90 days past due, then the account should be 90 days or less past
		The customer has no other material default debt with us more than 90 days past due
		If the account was classed as Stage 3 due to being unlikely to pay, then the account should no longer be deemed unlikely to pay
		Account has exited its forbearance trigger for 12 consecutive months
		If all the conditions are met, the account is re-classed as Stage 2 forbearance until the Stage 2 forbearance exit conditions set out below are also met
	Stage 2 to Stage 1	For an account in Stage 2 to exit forbearance, all the following conditions must be met:
		The account is no longer in arrears, and the customer has no other material debts with us which are more than 30 days in arrears
		The account no longer triggers SICR
		The account has been classed as Stage 2 for at least two years since the end of the latest forbearance strategy

If a borrower fails to meet the post forbearance contractual obligations during probation, the loan is classified as Stage 3 and the probation period is reset.

Other forms of debt management and modifications

Retail & Business Banking

In Mortgages, apart from forbearance, we have sometimes changed the contract terms to keep a good relationship with a customer. In Mortgages and Everyday Banking, we do not classify insolvency solutions for any unsecured retail customers as forbearance. This is in line with industry guidelines.

Consumer Finance

We do not classify insolvency solutions for any unsecured retail customers as forbearance. This is in line with industry guidelines.

Corporate & Commercial Banking and Corporate Centre

When customers are in financial difficulty, we can also manage debt in other ways, depending on the facts of the specific case:

Action	Description
Waiving or changing covenants	If a borrower breaks a covenant, we can either waive it or change it, taking their latest and future financial position into account. We may also add a condition on the use of any surplus cash (after operating costs) to pay down their debt to us.
Asking for more collateral or guarantees	If a borrower has unencumbered assets, we may accept more collateral in return for revised financing terms. We may also take a guarantee from companies in the same group and/or major shareholders. We only do this where we believe the guarantor can meet their
Asking for more equity	Where a borrower can no longer pay the interest on their debt, we may accept fresh equity capital from new or existing investors to change the capital structure in return for better terms on the existing debt.

Risk measurement and control

We measure and control credit risk at all stages across the credit risk lifecycle. We have a range of tools, processes and approaches.

Retail & Business Banking and Consumer Finance

These businesses involve managing large numbers of accounts, so they produce a significant amount of data. This allows us to take a more analytical and data intense approach to measuring risk. This is reflected in the wide range of statistical models we use across the credit risk lifecycle. We use:

- Risk strategy and planning: econometric models
- Assessment and origination: application scorecards, and attrition, pricing, loss allowance and capital models
- Monitoring: behavioural scorecards and profitability models
- Arrears management: models to estimate the proportion of cases that will result in possession (known as roll rates)
- Debt recovery: recovery models.

We assess and review our loss allowances regularly. We look at factors such as the cash flow available to service debt. We also use an agency to value any collateral – mainly mortgages.

Corporate & Commercial Banking and Corporate Centre

We measure the credit risk on treasury products by adding their potential future exposure to market movements over their lives to their fair value. Then we add it to any other exposure and measure the total against our credit limits for each client. We assess our loss allowances regularly by looking at factors such as the cash flow available to service debt and the value of collateral based on third-party professional valuations.

Key metrics(audited)
We use a number of key metrics to measure and control credit risk, as follows:

Metric	Description
Expected Credit Loss (ECL)	ECL tells us what credit risk is expected to cost us either over the next 12 months or over the lifetime of the exposure where there is evidence of a SICR since origination. We explain how we calculate ECL below.
Stages 1, 2 and 3	We assess each facility's credit risk profile to determine which stage to allocate them to, and we monitor where there is a SICR and transfers between the Stages including monitoring of coverage ratios for each stage.
Stage 3 ratio	The Stage 3 ratio is the sum of Stage 3 drawn and Stage 3 undrawn assets divided by the sum of total drawn assets and Stage 3 undrawn assets. The Stage 3 ratio is a key indicator used to monitor underlying asset performance.
Expected Loss (EL)	EL is based on the CRD IV regulatory capital rules and gives us another view of credit risk. It is the product of the probability of default, exposure at default and loss given default, and we include direct and indirect costs. We base it on our risk models and our assessment of each customer's credit quality. The rest of the Risk review, impairments, losses and loss allowances refer to calculations in accordance with IFRS, unless we specifically say they relate to CRD IV. For our IFRS impairment accounting policy, see Note 1 to the Consolidated Financial Statements.

We also assess risks from other perspectives, such as geography, business area, product and process to identify areas to focus on. We also use stress testing to establish vulnerabilities to economic deterioration. Our business segments tailor their approach to credit risk to their customers, as we explain later on.

Recognising ECL (audited)

The ECL approach estimates the credit losses arising from defaults in the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a SICR since the origination date. Our ECL approach for portfolio assessments uses models that consider forward-looking data on economic scenarios, including a range of possible outcomes, which are unbiased and probability-weighted to reflect the risk of a loss being incurred even when it is unlikely. In some cases, we need to apply Judgemental Adjustments to our model outputs. We use internal credit ratings for corporate borrowers and individually assess corporate Stage 3 exposures.

Critical judgements and accounting estimates applied in calculating ECL (audited)

The application of the ECL impairment methodology for calculating credit impairment allowances is susceptible to change from period to period. The methodology requires management to make judgemental assumptions in determining the estimates.

For more on our approach to making critical judgements and accounting estimates applied in calculating ECL see 'Critical judgements and accounting estimates' Note 1 to the Consolidated Financial Statements.

Multiple economic scenarios and probability weights (audited)

For all our portfolios, we use forward-looking economic scenarios. During 2024, we reduced the forward looking economic scenarios to four by removing the stubborn inflation scenario as inflation has returned to more normalised levels. They now consist of a central base case, one upside scenario and two downside scenarios. We use these scenarios to reflect a wide range of possible outcomes for the UK economy.

Our forecasting approach
We derive our scenarios in part by using a set of parameters in GDP fan charts published by the Office for Budget Responsibility (OBR). These fan charts reflect the probability distribution of a deviation from the OBR's central forecast to show the uncertainty about the outcome of a variable, in this case GDP.

Once we have established the GDP paths for each scenario, we run them through the Oxford Global Economic Model (OGEM) to derive the other macroeconomic variables, such as unemployment and house prices. These variables are the product of the GDP growth paths we have forecast and the output of the OGEM for these growth paths. We then review them to ensure consistency with the narrative of each scenario and so changes to the variables may be needed in some cases.

We then impose a Bank Rate profile for each scenario using expert judgement with the base case as the starting point and then adjusting this for each of the other scenarios based on the narratives. We produce a range of Bank Rate profiles to reflect a range of possible outcomes the Bank of England may follow depending on how it sees the trade-off between growth and inflation evolving over the forecast period. For example, this might consist of higher rates initially in response to inflationary concerns followed by lower rates as inflation falls towards target, and that this may be sharper in the event of a deep recession.

We update the baseline in our economic scenarios at least twice a year in line with our annual budgeting and three-year planning processes, or sooner if there is a material change in current or expected economic conditions. We refresh all our economic scenarios quarterly to reflect the latest data and OBR fan charts if these changed, which are then reviewed and approved by the Credit Risk Provisions Forum (CRPF). The CRPF also assesses the probability weights at least once a quarter.

We do not use consensus forecasts as inputs to our models, but we do compare the outputs of our models against consensus views for the base case, to make sure that we understand any significant differences and address them where needed. At 31 December 2024, there were no significant differences between our base case forecasts and the consensus views.

In 2024, we undertook a further peer benchmarking analysis of the economic scenarios, which for Q424 included the mean weighted analysis for a selection of economic variables, including GDP, unemployment rate and HPI. This meant that we could compare our weighted scenarios against the average of our peers to understand what differences there may be. The conclusion of this analysis demonstrated that our economic scenarios were in line with our peers.

In 2024, we also considered any likely impact from climate risk on our forecasting approach and concluded that no adjustment to the multiple economic scenarios for climate risk was required. This is because climate change effects are generally regarded to be relevant over a longer timeframe than our forecast period of five years.

Our use of four different scenarios is designed to reflect different possible outcomes to the base case, highlighting the upside and downside risks associated with the central scenario.

Our forecasting period for GDP is five years and we use the OGEM 25 year model for the outer years, post five year forecast. This is a change to the methodology from 2023 and it was adopted in Q124. As part of this, we set a floor on the unemployment rate at 4% to ensure that the long-term view is near to the Non-Accelerating Inflation Rate of Unemployment set out by the Bank of England in its annual supply side review.

Key changes to our forecasting approach in 2024
In 2024, we made two changes to our forecasting approach. We moved from five to four scenarios which saw the removal of the stubborn inflation scenario due to inflation becoming more stable as it reaches target, negating the need for a specific scenario. We also moved from using mean reversion for the forecasts beyond five years to using the 25 year OGEM output. This removes the need to make any assumptions regarding the length of time to mean revert.

Base case
We review the scenarios and associated weights every quarter to ensure they appropriately reflect the current economic circumstances and UK Government policy which is subject to change.

In summary, the outlook for the UK economy in 2025 shows an economy that is growing with the stimulus from the October 2024 Budget helping to boost GDP. There is above target inflation due to this stimulus and other government measures, but Bank Rate continues to fall gradually, supporting businesses and households. However, downside risks to the outlook remain particularly around geopolitical tensions and potential productivity gains.

Base case key macroeconomic assumptions
GDP: The UK economy slowed in Q324 with growth of 0.1% quarter-on-quarter. It was always likely that a slow-down from the above average quarterly growth rates of H124 would happen, but with weak PMIs as well there is a concern that the economy will stagnate in Q424. However, Q324 GDP did see rising consumer spending and strong gains for business investment as such we would expect that post-Budget growth will pick up, although some underlying weakness means the economy growing at levels similar to those experienced pre-pandemic, rather than the stronger growth needed to help repair the UK's finances. For 2025 we would expect to see stronger growth caused by the increase in government spending given the measures announced in the October 2024 Budget, although this may crowd out some business investment and with a higher tax burden this may impact both investment and private consumption. Over the longer term the key issue for growth remains productivity and without a boost to this growth will remain at the average pre-pandemic levels of 1.4%.
Bank Rate: The Monetary Policy Committee (MPC) lowered rates twice in 2024 to 4.75%. Our base case assumes a further 100bps of cuts which takes Bank Rate to 3.75% by the end of 2025, with further reductions into the medium term leaving the terminal rate at 3.25% in Q127. This is slightly higher than our previous forecast due to the increased inflation expected as a result of the October 2024 Budget.
House price growth: House prices grew in 2024, helped in part, by falling mortgage rates. However, the outlook for 2025 is likely to see a slow-down in house price growth due to higher swap rates which has pushed up mortgage rates in Q424. As always, the key to house price growth is the supply of housing which continues to be weak. This along with the steady fall in interest rates should ensure steady house price growth over the forecast period. We forecast a c.3% year-on-year growth in house prices by the end of 2025 and remaining at this growth rate for the rest of the forecast period.
Unemployment rate: Recent data for unemployment indicates that there is a slow loosening of the labour market. However, caution needs to be taken as the unemployment data is still subject to problems with the ONS Labour Force Survey data. In terms of the forecast the peak in unemployment comes in 2025, with the possibility of more redundancies as firms face higher employment costs as a result of the National Insurance Contributions (NIC) increase for employers. The rate then drops back to 4.2% (current Bank of England prediction for the natural rate of unemployment) in 2026. This accords with the better growth outlook, but also reflects the fact that the structure of the UK labour market changed with a large drop in the number of working age people looking for work, thus reducing supply. Although progress may be made in reducing medical waiting lists over the forecast period to boost supply.
CRE price growth: After falling for seven quarters in a row, CRE prices stabilised in Q224 and rose by 0.3% quarter-on-quarter in Q324 in a sign of the sector turning around after two years of falling prices. Cuts in Bank Rate boosted prices and this looks set to continue in Q424 following the November 2024 bank rate cut. In addition, with more workers return to the office this may help boost the flagging office sector. We expect prices to continue to rise throughout the forecast period as Bank Rate is reduced before growth stabilises around the 2% year-on-year mark.

In the medium-term, the projections assume that current demographic and productivity trends will continue, causing a reduction in the UK's growth potential. For instance, it is likely that the reduction in the UK workforce will continue and this will have a knock-on impact for the economy, particularly if there are shortages of skilled workers in particular sectors. This is reflected in an average annual growth expectation of 1.6%, in line with the OBR's latest estimate of the UK's long run average growth rate.

Key changes to our base case in 2024
For our base case, we no longer expect a short recession given that the economy has been more resilient than previously expected in 2023. For the other macro-economic variables, the changes made to the base case compared to 2023 included stronger house price inflation for 2024 reflecting the better economic conditions and slightly lower unemployment for 2024. However, risks to the base case remain with potential for rising geopolitical risks affecting the UK economy.

Our base case scenario incorporates stronger economic growth in 2025, from increased government spending and four Bank Rate cuts of 25bps over the year. It was updated to reflect the latest market data and to broadly align with the latest consensus estimates. The most notable change was to HPI with expected house price increases stronger than predicted in 2024.

Other scenarios
Based on this revised base case, we reviewed our suite of scenarios to ensure that they capture the wide range of potential outcomes for the UK economy. These include; (i) a slower recovery that is more akin to the 'U' shape of past recessions; (ii) labour market frictions due to skills mismatches and a shrinking workforce as some discouraged workers leave altogether (for example longer-term sickness levels remaining above pre-pandemic levels); (iii) fragmentation of the global economy in particular changes and additional frictions to supply chains; and (iv) the global economy recovering more swiftly from higher inflation.

To reflect these potential outcomes, we use the base case and three additional scenarios, which we consider sufficient to reflect all the above potential outcomes. As with the base case, the scenarios are forecast over a five-year period with the OEGM 25 year model used to determine the forecasts after this period with a floor on unemployment set at 4%.

The other scenarios are:

One upside scenario
This scenario has a quicker recovery in growth than the Baseline and is a bull case to the base forecasts. It assumes that inflation falls slightly below target at the start of the forecast period helped by lower wage growth, however it does rise back to 2% over the period. This allows the Bank of England to cut rates faster than the base case, bringing them back towards what might be considered the neutral rate earlier. This results in higher consumer and business confidence enabling higher levels of spending and investment, with savings rates returning to levels consistent with economic growth as real earnings growth returns. In this scenario GDP remains stronger than the base case along with house price growth. Unemployment falls to 4% slightly below the base case and inflation dips below target in 2026 before ending the forecast period at target.

Two downside scenarios
The downside scenarios capture the impact of weaker investment, the increasing risk from geopolitical events and the ongoing significant mismatch between job vacancies and skills, as well as a smaller labour force.

Downside 1 – In this scenario, the economy contracts and although the recession is small and short lived, the recovery is weak and below potential. The measures announced in the Budget, in particular the increase in NICs for employers means growth is tempered and employment shrinks as businesses restructure to deal with the extra cost along with increased minimum wage and changes to workers' rights. Consumers opt to save more rather than spend which affects the recovery path, as consumer confidence is low in part due to concerns about the unstable geopolitical environment and the increase in lay-offs as businesses restructure. The global economy is affected by a combination of factors, such as commodity prices becoming increasingly volatile due to geopolitical events and the potential impact of additional tariffs. This affects global inflation which negatively impacts UK trade and hinders a return to growth.

Downside 2 – This scenario shows a marked fall in GDP, with rising unemployment and falling house prices reflecting the ongoing issues of a higher interest rate environment. There is a longer lagged effect from monetary policy tightening and lower growth and productivity, which feeds across the whole economy. It also reflects the increase in geopolitical risk which affects market sentiment and causes further fragmentation of the global economy. It also assumes that major risk events continue to occur, exposing the vulnerability of countries' fiscal positions and the means to respond to such events. Unemployment peaks at 8.5% and, although, there are some inflationary pressures from changing trade patterns, the sharp fall in demand means inflation falls below target and allows the MPC to cut rates sharply from Q125 to stabilise demand. With inflation falling below target and lower interest rates this eases some of the pressures on the UK economy and growth picks up in the medium-term.

Key changes to our alternative scenarios in 2024
In 2024, we removed the Stubborn inflation scenario (Downside 3) from the suite of scenarios we run. This was because inflation fell significantly and the risks of inflation increasing above 3% and remaining at levels above this was no longer considered to need a separate scenario. The scenario was not replaced as we already have two downside scenarios reflecting the risks to the UK economy including inflation being above target and with higher interest rates compared to base case. It was not deemed necessary to have a further upside scenario given the limited upside risk to the UK economy. In addition, the use of four scenarios is in line with many of our peers.

Despite mixed signals about the UK's recent economic performance, which may impact the path of the Bank Rate, our scenarios continue to capture a broad range of forecasts.

Our macroeconomic assumptions and their evolution throughout the forecast period

Our macroeconomic assumptions and their evolution throughout the forecast period for each of the scenarios at 31 December 2024 were:

		Upside %	Base case %	Downside 1 %	Downside 2 %	Weighted %
GDP[1]	2023 (actual)	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
	2024	**0.9**	**0.9**	**0.8**	**0.4**	**0.8**
	2025	**2.0**	**1.4**	**(0.4)**	**(3.4)**	**0.6**
	2026	**2.5**	**1.6**	**0.3**	**(0.9)**	**1.2**
	2027	**2.5**	**1.4**	**0.9**	**1.3**	**1.4**
	2028	**2.5**	**1.4**	**1.0**	**2.8**	**1.6**
	2029	**2.5**	**1.4**	**1.1**	**2.8**	**1.6**
	5-year average increase/decrease[2]	**2.4**	**1.5**	**0.6**	**0.3**	**n/a**
	Start to trough[3]	**n/a**	**n/a**	**(0.7)**	**(5.2)**	**n/a**
Bank Rate[1]	2023 (actual)	**5.25**	**5.25**	**5.25**	**5.25**	**5.25**
	2024	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**
	2025	**3.25**	**3.75**	**4.50**	**2.25**	**3.71**
	2026	**3.00**	**3.50**	**3.25**	**1.50**	**3.16**
	2027	**3.00**	**3.25**	**3.00**	**2.50**	**3.08**
	2028	**3.00**	**3.25**	**3.00**	**2.75**	**3.10**
	2029	**3.00**	**3.25**	**3.00**	**3.00**	**3.13**
	5-year end period	**3.00**	**3.25**	**3.00**	**3.00**	**n/a**
	5-year peak	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**
HPI[1]	2023 (actual)	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**
	2024	**4.8**	**4.5**	**2.0**	**1.3**	**3.6**
	2025	**4.3**	**3.0**	**(5.8)**	**(20.1)**	**(1.2)**
	2026	**4.7**	**3.0**	**(3.7)**	**(14.7)**	**0.3**
	2027	**4.6**	**3.0**	**2.9**	**5.8**	**3.4**
	2028	**4.5**	**3.0**	**4.4**	**9.6**	**4.0**
	2029	**4.6**	**3.0**	**4.6**	**7.7**	**4.0**
	5-year average increase/decrease[2]	**4.7**	**3.2**	**—**	**(3.7)**	**n/a**
	Start to trough[3]	**n/a**	**n/a**	**(10.1)**	**(33.0)**	**(0.8)**
Unemployment[1]	2023 (actual)	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
	2024	**4.4**	**4.3**	**4.4**	**4.4**	**4.4**
	2025	**4.1**	**4.4**	**5.2**	**8.3**	**4.9**
	2026	**4.0**	**4.2**	**5.5**	**8.2**	**4.9**
	2027	**4.0**	**4.2**	**5.5**	**7.6**	**4.8**
	2028	**4.0**	**4.2**	**5.5**	**7.0**	**4.8**
	2029	**4.0**	**4.2**	**5.5**	**6.4**	**4.7**
	5-year end period	**4.0**	**4.2**	**5.5**	**6.4**	**n/a**
	5-year peak	**4.4**	**4.4**	**5.5**	**8.5**	**4.9**
CRE price growth[1]	2023 (actual)	**(5.6)**	**(5.6)**	**(5.6)**	**(5.6)**	**(5.6)**
	2024	**0.4**	**(0.1)**	**(2.3)**	**(2.7)**	**(0.9)**
	2025	**5.7**	**2.5**	**(5.5)**	**(14.9)**	**(0.7)**
	2026	**5.2**	**2.8**	**1.7**	**(8.5)**	**2.0**
	2027	**2.9**	**2.5**	**2.0**	**4.4**	**2.6**
	2028	**3.3**	**2.2**	**1.8**	**3.8**	**2.4**
	2029	**3.0**	**2.1**	**2.4**	**3.4**	**2.4**
	5-year average increase/decrease[2]	**4.0**	**2.3**	**(0.1)**	**(3.3)**	**n/a**
	Start to trough[3]	**n/a**	**n/a**	**(7.4)**	**(24.7)**	**(1.2)**

(1) GDP is the calendar year annual growth rate, HPI and CRE price growth rate is Q4 annual growth rate and all other data points are at 31 December in the year indicated.
(2) This is the compound annual growth rate (CAGR) based on a 5 year period which represents an average annualised growth rate.
(3) GDP, HPI and CRE start is taken from level at Q324.

The table below sets out our macroeconomic assumptions and their evolution throughout the forecast period for each of the scenarios at 31 December 2023:

		Upside	Base case	Downside 1	Stubborn Inflation	Downside 2	Weighted
		%	%	%	%	%	%
GDP[1]	2022 (actual)	4.3	4.3	4.3	4.3	4.3	4.3
	2023	0.6	0.5	0.5	0.5	0.3	0.5
	2024	1.0	0.4	(0.1)	(1.8)	(3.3)	(0.4)
	2025	2.1	1.3	0.2	(0.9)	(1.4)	0.6
	2026	2.4	1.5	0.5	0.4	0.6	1.1
	2027	2.4	1.4	0.3	0.7	2.2	1.4
	2028	2.4	1.4	0.3	0.8	2.6	1.4
	5-year average increase/decrease	2.1	1.2	0.3	(0.2)	0.1	n/a
	Peak/(trough) at[2]	—	—	(0.2)	(2.8)	(5.1)	(1.1)
Bank Rate[1]	2022 (actual)	3.50	3.50	3.50	3.50	3.50	3.50
	2023	5.25	5.25	5.25	5.25	5.25	5.25
	2024	4.25	4.50	5.25	6.50	3.75	4.88
	2025	3.25	3.50	4.00	5.00	2.00	3.68
	2026	2.75	3.25	3.25	3.75	2.00	3.18
	2027	2.75	3.00	3.00	3.00	2.50	2.93
	2028	2.75	3.00	3.00	3.00	2.50	2.93
	5-year end period	2.75	3.00	3.00	3.00	2.50	n/a
	Peak/(trough) at	5.25	5.25	5.75	6.50	5.25	5.55
HPI[1]	2022 (actual)	5.0	5.0	5.0	5.0	5.0	5.0
	2023	(1.7)	(2.2)	(4.7)	(6.3)	(7.8)	(3.8)
	2024	2.0	(1.0)	(11.7)	(18.8)	(25.8)	(7.8)
	2025	6.5	2.5	3.4	3.6	3.6	3.3
	2026	5.1	3.0	2.1	1.6	1.6	2.7
	2027	4.0	3.0	3.0	1.6	1.6	2.7
	2028	3.6	3.0	3.1	1.8	1.8	2.7
	5-year average increase/decrease	4.3	2.0	(0.8)	(3.3)	(5.4)	n/a
	Peak/(trough) at[2]	(3.7)	(6.5)	(17.5)	(25.5)	(33.0)	(13.8)
Unemployment[1]	2022 (actual)	3.7	3.7	3.7	3.7	3.7	3.7
	2023	4.3	4.3	4.3	4.3	4.4	4.3
	2024	4.3	4.8	4.8	5.6	8.5	5.3
	2025	3.7	4.4	4.9	5.9	8.0	5.1
	2026	3.4	4.3	5.2	6.2	7.4	5.0
	2027	3.0	4.3	5.4	6.1	6.8	4.9
	2028	3.0	4.2	5.3	5.8	6.2	4.7
	5-year end period	3.0	4.2	5.3	5.8	6.2	n/a
	Peak/(trough) at	4.5	4.8	5.5	6.2	8.5	5.5

(1) GDP is the calendar year annual growth rate, HPI is Q4 annual growth rate and all other data points are at 31 December in the year indicated.
(2) GDP peak taken from GDP level at Q2-23 and HPI peak taken from HPI level at Q3-22.

Scenario weights

Each quarter, we review the scenario weights we apply. We consider the weights of the economic scenarios as a whole, while ensuring that the scenarios capture the non-linear distribution of losses across a reasonable range. To support our initial assessment of the weight of a scenario, we undertake a Monte Carlo analysis to estimate the likelihood of a five-year average GDP forecast growth rate occurring based on the long-run historically observed average. We then create a standard distribution bell curve around this long run average. This allows us to estimate the probability of a given GDP scenario occurring based on past experience and therefore assign a weight to that scenario. We also consider the UK economic and political environment when applying weights.

The scenario weights we applied for 2024 and 2023 were:

	Upside	Base case	Downside 1	Stubborn Inflation	Downside 2	Weighted
Scenario weights	**%**	**%**	**%**	**%**	**%**	**%**
2024	**15**	**50**	**25**	**n/a**	**10**	**100**
2023	10	50	10	20	10	100

2024 compared to 2023

In 2024, we removed the Stubborn Inflation scenario and re-weighted the remaining scenarios as inflation returned to more normalised levels. We remain of the view that the risks to UK growth are still biased to the downside and include: further geopolitical events creating more challenges for economies both the UK and abroad; the potential for further upside inflation surprises causing inflation to stay above target for longer, raising the cost of living and so reducing consumer demand; continuing weak investment reflecting the uncertain nature of the economic environment; and a continuing and significant mismatch between vacancies and skills along with a smaller labour force, which may bring disruption to any recovery in the latter years of the forecast.

Definition of default (Credit impaired) (audited)
We define a financial instrument as in default (i.e. credit impaired) for the purpose of calculating ECL if it is more than three months past due, or if we have data that suggests the customer is unlikely to pay. The data we have on customers varies across our business segments. It typically includes where:

Retail & Business Banking and Consumer Finance
– They have been reported bankrupt or insolvent and are in arrears
– Their loan term has ended, but they still owe us money more than three months later
– They have had forbearance while in default and have failed to perform under the new arrangement terms, or have had multiple forbearance. Performing forborne accounts while not in default are reported in Stage 2
– We have suspended their fees and interest because they are in financial difficulties
– We have repossessed the property or the asset.
Corporate & Commercial Banking and Corporate Centre
– They have had a winding up notice issued, or something happens that is likely to trigger insolvency – such as another lender calls in a loan
– Something happens that makes them less likely to be able to pay us – such as they lose an important client or contract
– They have regularly missed or delayed payments, even though they have not gone over the three-month limit for default
– Their loan is unlikely to be refinanced or repaid in full on maturity
– Their loan has an excessive LTV that is unlikely to be resolved, such as by a change in planning policy, pay-downs, or increase in market value
– Loans restructured under financial difficulties, classified as forborne transactions, in last 12 months.

Where we use the advanced internal ratings-based basis for a portfolio in our capital calculations, there are differences with the default definitions for ECL purposes. The main differences are as follows:

- Performing forborne accounts while not in default are in Stage 2 until they cure their forbearance status (measured as 12 consecutive months of successful payments).
- Performing non-forborne accounts, which under our internal rating-based basis are subject to a 3-month cure period. For accounting purposes, we classify them in Stage 2 until they cure all SICR triggers.

Significant Increase in Credit Risk (SICR) (audited)
Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual term of the loan, or the behavioural term for a revolving facility. Loans which have not experienced a SICR are subject to 12-month ECL. We assess the credit risk profile of each facility to determine which of three stages to allocate them to:

- **Stage 1:** when there has been no SICR since initial recognition. We apply a loss allowance equal to a 12-month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- **Stage 2:** when there has been a SICR since initial recognition, but the exposure is not considered credit impaired. We apply a loss allowance equal to the lifetime ECL i.e. the expected loss resulting from all possible defaults throughout the residual life of a facility
- **Stage 3:** when the exposure is considered credit impaired. We apply a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is needed. For more, see the section 'Definition of default (Credit impaired)' above.

We use quantitative, qualitative and backstop criteria to identify exposures that suffer a SICR. The Credit Risk Provisions Forum (CRPF) reviews and approves our SICR thresholds periodically. The Board Audit Committee reviews and challenges their appropriateness each year, or more often if we change them.

Key changes in 2024
In 2024, alongside our new ECL models, we updated our SICR criteria to enhance and improve consistency across portfolios. As a result, we now treat the following accounts as Stage 2:

Quantitative:
- Accounts with a 12-month PD between 30bps (0.3%) and 2000bps (20%) where the annualised lifetime PD has doubled from origination.
- PD threshold: Accounts where the annualised lifetime PD has increased above 2000bps (20%).
- Low Credit Risk Exemption (LCRE): we introduced an LCRE where, if the 12-month PD is less than 30bps, we retain the account in Stage 1, unless the qualitative or backstop criteria are met.

These changes increased the number of accounts in Stage 2 for Credit Cards and Overdrafts mainly due to the lower absolute PD thresholds, with no material increase in ECL.

Qualitative:
- For mortgages, over-indebted customers and Interest-only accounts 24 months pre-maturity.
- For CCB, customers operating in a high-risk sector.

These enhancements enabled us to retire related JAs.

Quantitative criteria
We use quantitative criteria to identify where an exposure has increased in credit risk. We base our criteria on whether any increase in the lifetime PD since origination exceeds a threshold in relative and absolute terms. We base the value anticipated at origination on similar assumptions and data to the ones we use at the reporting date, adjusted to reflect the account surviving to that date. The comparison uses either an annualised lifetime PD, where the lifetime PD is divided by the forecast period, or the absolute change in lifetime PD since origination. The criteria for 2024 and 2023 were: accounts above the lower absolute PD thresholds below, where the PD has doubled since origination, are treated as Stage 2. Any account above the upper threshold (i.e. 20%) is also treated as Stage 2:

	Retail & Business Banking				Consumer Finance[2]	Corporate & Commercial Banking	Corporate Centre
	Mortgages	Everyday Banking[1]					
		Personal loans	Credit cards	Overdrafts			
2024	**30bps**	**30bps**	**30bps**	**30bps**	**300bps**	**30bps**	**Internal rating**
2023	30bps	30bps	340bps	260bps	300bps	30bps	Internal rating method

(1) For larger business banking customers, we apply the same criteria as we use for CCB. Credit cards and Overdrafts lower PD thresholds aligned with the rest of Everyday Banking for consistency.
(2) Consumer Finance use the comparison of lifetime PDs to determine Stage allocation, unlike other products which first turn the lifetime PD into an average yearly PD (annualised) and then do the comparison. In addition, Consumer Finance does not apply the upper absolute PD threshold criteria.

Qualitative criteria
We also use qualitative criteria to identify where an exposure has increased in credit risk, independent of changes in PD. The criteria for 2024 and 2023 were:

Retail & Business Banking				Consumer Finance	Corporate & Commercial Banking	Corporate Centre
Mortgages	Everyday Banking[1]					
	Personal loans	Credit cards	Overdrafts			
– In forbearance – Default in last 24m – 30 Days Past Due (DPD) in last 12m – Bankrupt – £100+ arrears New in 2024: – Over-indebted customers – Interest Only accounts 24m pre-maturity	– In Collections – Default in last 12m – £50+ arrears	– In forbearance – Default in last 12m – In Collections – £100+ arrears – Behaviour score indicators	– Fees suspended – Default in last 12m – Debit dormant >35 days – Any excess in month	– In forbearance – Deceased or Insolvent – Court 'Return of goods' order or Police watchlist – Agreement terminated – Payment holiday – Cash Collection	– In forbearance – Default in last 12m – Watchlist: proactive management – Default at proxy origination New in 2024: – Customers in a high-risk sector	– Watchlist: proactive management

(1) For larger business banking customers, we apply the same criteria that we use for Corporate & Commercial Banking.

If needed, we apply additional qualitative assessments as part of JAs in response to situations where known or expected risk factors and data are not considered in the modelling process. See 'Judgemental Adjustments (JAs)' below for more on this.

Backstop criteria
As a backstop, we classify all exposures more than 30 or 90 DPD in at least Stage 2 or in Stage 3, respectively. This means that we do not rebut the backstop presumptions in IFRS 9 (i.e. credit risk has significantly increased if contractual payments are more than 30 DPD) relating to either a SICR or default.

Improvement in credit risk or cure
We transfer Stage 3 exposures to Stage 2 or Stage 1 when we no longer consider them to be credit impaired. We transfer Stage 2 exposures to Stage 1 when we no longer consider them to have suffered a SICR. Where we identified a SICR using quantitative criteria, we transfer the exposures to Stage 1 when they no longer meet the original PD-based transfer criteria. Where we identified a SICR using qualitative criteria, the issues that led to the transfer must be cured before we transfer the exposure to Stage 1. For a loan to exit forbearance, it must meet the conditions set out in the section 'Forbearance' in the 'Credit risk' section of the Risk review.

Judgemental Adjustments (JAs) (audited)
We use a range of methods to identify whether we need a JA. These include regular reviews of model monitoring tools, changes in the period, trend analysis, comparisons against forecasts, and inputs from expert teams who manage key portfolio risks. We only recognise a JA if its expected impact is over £1m and keep it in place until we no longer need it. This is usually when we build it into our core credit model or the conditions that led to raising the JA no longer exist.

Our Risk Provisions & Forecasting team calculate JAs to ensure they are incremental to the core credit model and to ensure the calculation is performed in a consistent and controlled manner. We apply standard end-user computing controls to JAs expected to be in place for more than six months. The CRPF reviews and approves all JAs on a quarterly basis.

	Retail & Business Banking			Consumer Finance	Corporate & Commercial Banking	Corporate Centre	Total
		Everyday Banking					
	Mortgages	Credit Cards	Other				
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Modelled ECL	**127**	**149**	**122**	**69**	**142**	**—**	**609**
Individually assessed	**6**	**—**	**—**	**—**	**162**	**—**	**168**
ECL before JAs	**133**	**149**	**122**	**69**	**304**	**—**	**777**
JAs (excluding Affordability and Cost of Living JAs)							
Unsecured PD adjustments	**—**	**—**	**2**	**—**	**—**	**—**	**2**
Mortgages LGD	**27**	**—**	**—**	**—**	**—**	**—**	**27**
Corporate single large exposure	**—**	**—**	**—**	**—**	**24**	**—**	**24**
Other	**1**	**1**	**6**	**—**	**—**	**—**	**8**
Total JAs (excluding Affordability and Cost of Living JAs)	**28**	**1**	**8**	**—**	**24**	**—**	**61**
Affordability and Cost of Living JAs							
Corporate lending to segments affected by supply chain pressures	**—**	**—**	**—**	**—**	**14**	**—**	**14**
Mortgage refinancing risk	**11**	**—**	**—**	**—**	**—**	**—**	**11**
SME debt burden	**—**	**—**	**6**	**—**	**—**	**—**	**6**
Total Affordability and Cost of Living JAs	**11**	**—**	**6**	**—**	**14**	**—**	**31**
Total JAs	**39**	**1**	**14**	**—**	**38**	**—**	**92**
Total ECL	**172**	**150**	**136**	**69**	**342**	**—**	**869**
Total JAs as a percentage of Total ECL (%)							**11**

2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Modelled ECL	132	123	123	62	240	—	680
Individually assessed	4	—	—	—	124	—	128
ECL before JAs	136	123	123	62	364	—	808
JAs (excluding Affordability and Cost of Living JAs)							
Long-term indeterminate arrears	16	—	—	—	—	—	16
12+ months in arrears	14	—	—	—	—	—	14
UPL loss floor	—	—	6	—	—	—	6
Model underestimation	36	—	—	—	—	—	36
Corporate single large exposure	—	—	—	—	23	—	23
Other	12	1	3	4	(31)	—	(11)
Total JAs (excluding Affordability and Cost of Living JAs)	78	1	9	4	(8)	—	84
Affordability and Cost of Living JAs							
Corporate lending to segments affected by supply chain pressures	—	—	—	—	24	—	24
Secured affordability	9	—	—	4	—	—	13
Unsecured affordability	—	16	22	—	—	—	38
Mortgage refinancing risk	19	—	—	—	—	—	19
SME debt burden	—	—	6	—	—	—	6
Total Affordability and Cost of Living JAs	28	16	28	4	24	—	100
Total JAs	106	17	37	8	16	—	184
Total ECL	242	140	160	70	380	—	992
Total JAs as a percentage of Total ECL (%)							19

JAs (excluding Affordability and Cost of Living JAs)
- **Unsecured PD Adjustments:** In 2024, we replaced the UPL Loss floor JA with the Unsecured PD Adjustments JA to widen the scope of the JA. We use this JA to address the perceived macroeconomic insensitivity in our Unsecured Personal Loans (UPL) model and the over sensitivity in our Overdrafts model.
- UPL – This arises where analysis of historical losses shows a larger correlation to the International Labour Organisation (ILO) unemployment forecast than the model gives. The JA uplifts the lifetime losses expected in each of the macroeconomic scenarios in the model to align with the expected losses the historical analysis predicts.
- Overdrafts – This arises where the ECL model is overly sensitive to Bank Rate changes, leading it to predict extremely high PDs in the early years. The JA reduces the lifetime losses expected in each of the macroeconomic scenarios in the model to align with the expected losses the historical analysis predicts.
- **Mortgages LGD:** We introduced this JA in 2024. It uplifts the modelled parameters that capture the risk of failed recovery strategies of stage 3 accounts in default and stage 1 and stage 2 accounts not in default targeting the LGD underestimation flagged by model monitoring, as well as the lower level of coverage compared to peers in this segment.
- **Corporate single large exposure:** This JA safeguards against individual large exposures defaulting over a short period. We currently use the JA to safeguard against two historically observed single name large losses in CCB. This JA was used in 2024 for 2 cases. This JA was also replenished in 2024 as it is still needed as UK corporate insolvencies rose to a 30-year high. In the current economic environment, the risk of single name defaults, which incur high losses, is considered greater than before as government support schemes ceased. We continue to assess the risk over the medium term based on actual experience and refine the estimate based on changes in our portfolio credit quality and loan size mix.
- **Other:** This includes Mortgages and Retail Unsecured and generally consists of small portfolios where the ECL calculation is held outside of the main models.

Affordability and Cost of Living JAs
- **Corporate lending to segments affected by supply chain pressures:** This JA reflects the corporate lending risks to those sectors susceptible to high inflation and energy prices, higher input costs, potential for lower consumer and business demand and exposure to supply chain pressures. This JA calculates ECL by stressing PD levels for customers in Stage 2 according to each customer's risk profile.
- **Mortgage refinancing risk:** The JA considers the risk of mortgage customers being unable to afford their new mortgage instalment after re-mortgaging at higher interest rates. The JA assesses the likely mortgage payment against the stressed interest rate that customers had been assessed against at the point of application. Customers that are likely to secure rates above their stress levels are considered at risk of not being able to afford their new mortgage. We uplift their PDs to account for the elevated levels of defaults observed for the most recent cohorts of refinanced mortgages. The JA was designed using some profiling characteristics of customers that used the Mortgage Charter government scheme as some of those accounts are considered to be at higher risk of arrears.
- **SME debt burden:** This JA takes account of the potential debt burden risk of unsecured lending to our SME customers who also took a BBL. This does not incorporate the credit risk on BBLs as these are government guaranteed, but considers the possible impact on repayment of other lending with us.

2024 compared to 2023
In 2024, we implemented new impairment models for Mortgages and Corporate & Commercial Banking, which now embed many of the JAs in place at the end of 2023. In response to the improved economic data, specifically inflation, we reassessed the need for cost of living JAs and retired the Secured and Unsecured Affordability JAs.

In 2024, we introduced a new Mortgage LGD JA which uplifts the modelled parameters that capture the risk of failed recovery strategies, for default and non-default accounts.

Climate change
In 2024 and 2023, we assessed the risks to asset valuations in the customer loan book from both transitional and physical risks associated with climate change. At 31 December 2024 and 2023, we did not consider it appropriate to recognise a climate risk related JA for the following reasons:
- The behavioural life of the loan book is less than five years. Any material transitional risks are generally regarded to be relevant over a longer timeframe than five years and, as such, the risk predominantly relates to assets yet to be written;
- There have been no observed default events or SICRs due to climate change for any part of the loan book;
- The absolute exposure to fossil fuel industries is not material. On an individually assessed basis, clients in these industries are highly rated and their markets remain highly liquid;
- The residual value of automotive vehicles might be impacted by diesel obsolescence and the transition to electric vehicles. The residual value risk is already set at the more cautious end of the acceptable range to capture the inherent risk of diesel obsolescence and measurement uncertainty of electric vehicles;
- ECL calculations are based on multiple forward-looking economic scenarios developed by management covering a period of five years, during which timeframe climate change risks may crystallise;
- The proportion of mortgage loans subject to flood and subsidence risk is not material. The terms of our mortgage lending also require homeowners to have an active flood protection at any point of the contract. This assessment relies upon availability of risk cover from private insurers and FloodRe, respectively. The potential risk may increase over time if flooding due to climate change increases and/or insurance market circumstances change.

Internal credit risk rating for corporate borrowers (audited)
We assign each corporate borrower an internal credit rating based on our internal rating scale. To do this, we look at the customer's financial history and trends in the economy backed up by the expert judgement of a risk analyst. We review our internal ratings on a dynamic basis and at least once a year. The internal risk rating is used to determine the Probability of Default for a client.

Individually assessed corporate Stage 3 exposures (audited)
We assess the ECL requirement for single name corporate exposures on an individual basis when they meet our definition of default and are transferred into Stage 3. This assessment uses the latest specific data about the counterparty's estimated future cash flows, and collateral valuations, to determine a probability weighted ECL based on a best, worst and mid case outcome. For these individually assessed loans, the ECL allowance was £162m at 31 December 2024 (2023: £124m). Had management assumed the best or worst outcome for loss estimates, the ECL allowance could have been within a range of £63m to £291m.

Sensitivity of ECL allowance to economic scenarios and weights (audited)
The ECL allowance is sensitive to the methods, assumptions and estimates underlying its calculation. For example, management could have applied different probability weights to the economic scenarios. In addition, the ECL allowance for residential mortgages is significantly affected by the HPI assumptions which determine the valuation of collateral used in the calculations.

Had management used different assumptions on probability weights and HPI, a larger or smaller ECL charge would have resulted that may have had a material impact on the ECL allowance and profit before tax.

Scenario sensitivity
The tables below show the ECL allowances that would have arisen had management applied a 100% weight to each economic scenario. The allowances were calculated using a stage allocation appropriate to each scenario and differs from the probability-weighted stage allocation used to determine the ECL allowance shown above. For exposures subject to individual assessment, the distribution of ECLs which could reasonably be expected has also been considered, assuming no change in the number of cases subject to individual assessment, and within the context of a potential best to worst case outcome.

2024	Upside £m	Base case £m	Downside 1 £m	Downside 2 £m	Weighted £m
Exposure	**283,860**	**283,860**	**283,860**	**283,860**	**283,860**
Retail & Business Banking	**196,732**	**196,732**	**196,732**	**196,732**	**196,732**
Of which:					
– Mortgages	**176,026**	**176,026**	**176,026**	**176,026**	**176,026**
Consumer Finance	**4,759**	**4,759**	**4,759**	**4,759**	**4,759**
Corporate & Commercial Banking	**26,307**	**26,307**	**26,307**	**26,307**	**26,307**
Corporate Centre	**56,062**	**56,062**	**56,062**	**56,062**	**56,062**
ECL	**741**	**774**	**921**	**1,524**	**869**
Retail & Business Banking	**380**	**403**	**517**	**1,051**	**458**
Of which:					
– Mortgages	**112**	**128**	**218**	**705**	**172**
Consumer Finance	**67**	**68**	**69**	**70**	**69**
Corporate & Commercial Banking	**294**	**303**	**335**	**403**	**342**
Corporate Centre	**—**	**—**	**—**	**—**	**—**

2023	Upside £m	Base case £m	Downside 1 £m	Stubborn Inflation £m	Downside 2 £m	Weighted £m
Exposure	294,877	294,877	294,877	294,877	294,877	294,877
Retail & Business Banking	201,977	201,977	201,977	201,977	201,977	201,977
Of which:						
– Mortgages	181,188	181,188	181,188	181,188	181,188	181,188
Consumer Finance	5,228	5,228	5,228	5,228	5,228	5,228
Corporate & Commercial Banking	27,277	27,277	27,277	27,277	27,277	27,277
Corporate Centre	60,395	60,395	60,395	60,395	60,395	60,395
ECL	833	896	991	1,176	1,410	992
Retail & Business Banking	419	465	536	689	889	542
Of which:						
– Mortgages	141	174	234	363	562	242
Consumer Finance	68	69	70	72	72	70
Corporate & Commercial Banking	346	362	385	415	449	380
Corporate Centre	—	—	—	—	—	—

2024 compared to 2023
ECL reduced by £123m, driven by deleveraging of the balance sheet and the improved economic outlook resulting in ECL model releases. The ECL on Credit Cards increased in the year due to the updated SICR rules. The value of JAs decreased in 2024 due to the implementation of new impairment models for Mortgages and Corporate & Commercial Banking, as well as the releases of the affordability JAs in EDB.

HPI sensitivity

Given the relative size of our residential mortgage portfolio, management considers that changes in HPI assumptions used to calculate the modelled ECL allowance for residential mortgages would have the most significant impact on the modelled ECL allowance. The table below shows the modelled ECL impact on the profit before tax of applying an immediate and permanent house price increase/decrease to our unweighted base case scenario, and assumes no changes to the stage allocation of exposures.

	Increase/decrease in house prices			
	+20%	+10%	-10%	-20%
Increase/(decrease) in profit before tax	**£m**	**£m**	**£m**	**£m**
2024	**34**	**21**	**(38)**	**(112)**
2023	70	38	(54)	(155)

2024 compared to 2023

The decrease in modelled ECL sensitivity reflects the new Retail Mortgages impairment model we introduced in 2024, which shows different economic sensitivities, as well as portfolio deleveraging. The impairment model assumes a similar loss for low LTV accounts, given the distribution of LTV in the portfolio, and increases in the HPI exhibit shows less impact on modelled ECL than decreases in HPI.

Measuring ECL (audited)

For our mortgages and CCB portfolios, where accounts are not in default at the reporting date, we estimate a quarterly ECL for each exposure and for each quarter over the forecast period. The lifetime ECL is the sum of the quarterly ECLs over the forecast period, while the 12-month ECL is limited to the first four quarters. We calculate each quarterly ECL as the discounted value for the relevant forecast month of the product of the following factors:

Factor	Description
Survival rate (SR)	The probability that the exposure has not closed or defaulted since the reporting date.
Probability of default (PD)	The likelihood of a borrower defaulting in the following quarter, assuming it has not closed or defaulted since the reporting date. For each quarter in the forecast period, we estimate the quarterly PD from a range of factors. These include key risk drivers for the exposure, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
Exposure at default (EAD)	The amount we expect to be owed if a default, or sale in the case of retail mortgages, event occurs. We determine EAD for each quarter of the forecast period by the expected payment profile, which varies by product. For amortising products, we base it on the borrower's contractual repayments over the forecast period. We adjust this for any expected overpayments on Stage 1 accounts that the borrower may make and for any arrears we expect if the account was to default. For revolving products, or amortising products with an off-balance sheet element, we determine EAD using the balance at default and the contractual exposure limit. We vary these assumptions by product and base them on
Loss given default (LGD)	Our expected loss if a default event were to occur. We express it as a percentage and calculate it based on factors that we have observed to affect the likelihood and/or value of any subsequent write-offs, which vary according to whether the product is secured or unsecured. If the product is secured, we consider collateral values as well as the historical discounts to market/book values due to forced sales type.

We use the original effective interest rate as the discount rate. For accounts in default, we use the EAD as the reporting date balance. We also calculate an LGD to reflect the default status of the account, considering the current DPD and loan-to-value. PD and SR are not required for accounts in default.

Forecast period

We base the forecast period for amortising facilities on the remaining contract term. For revolving facilities, we base it on the behavioural, rather than contractual, characteristics of the facility type.

Forward-looking information

Our assessments of a SICR and the calculation of ECL allowances incorporate forward-looking data. We perform historical analysis and identify the key economic variables that impact credit risk and ECL allowances for each portfolio. These can include house price growth, GDP, unemployment rate and BoE Bank Rate. Where applicable, we incorporate these economic variables and their associated impacts into our models.

Economic forecasts have the most impact on ECL measurement for residential mortgages and, to a lesser extent, corporate loans. This is due to the long behavioural lives and large size of these portfolios. Economic forecasts have less impact on ECL for other portfolios due to their shorter lives and smaller size.

Grouping of instruments for losses measured on a collective basis

We measure ECL at the individual financial instrument level. However, where we have used internal capital or similar models as the basis for our ECL models, this typically results in a large number of relatively small homogenous groups. We typically group instruments where they share risk characteristics using statistical models and assess them for impairment collectively. We use this approach for all our Retail & Business Banking and Consumer Finance portfolios and SME customers in Corporate & Commercial Banking.

We calculate separate collective provisions for instruments in Stages 1, 2 and 3 where the instrument is not individually assessed.

For all our portfolios (whether we assess them for impairment individually or collectively) we use four forward-looking economic scenarios.

Governance around ECL impairment allowances (audited)
Our Risk Methodology team developed our ECL models (except for the external models we use, such as OGEM which we described earlier in 'Our forecasting approach'), and our Independent Validations team reviews all material models. As model owners, our Risk Provisioning & Forecasting team run the models to calculate our ECL each month. The models are sensitive to changes in credit conditions and reflect management judgements that give rise to measurement uncertainty in our ECL, as set out above. The following committees and forums review the provision drivers and ensure that the ECL remains appropriate:

- **Model Risk Control Forum** (MRCF) reviews and approves new models and model changes. It also reviews the use of OGEM as a reliable model on which to base our other forecast macroeconomic variables. We use it across all stress testing and planning so it is subject to model risk criteria.
- **ALCO** reviews and approves the base case used in the economic scenarios we use to calculate forward-looking scenarios.
- **CRPF** reviews and approves the economic scenarios and probability weights we use to calculate forward-looking scenarios. It also reviews management judgements and approves ECL impairment allowances.
- **Board Audit Committee** reviews and challenges the appropriateness of the estimates and judgements made by management.

For more on the governance around specific elements of the ECL impairment allowances, including the frequency of, and thresholds for, reviews, including by these committees and forums, see the detailed sections above.

How we assess the performance of our ECL estimation process
We assess the reasonableness of our ECL provisions and the results of our Staging analysis using a range of methods. These include:

- **Benchmarking:** we compare our coverage levels with our peers
- **Stand-back testing:** we monitor the level of our coverage against actual write-offs
- **Back-testing:** we compare key drivers periodically as part of model monitoring practices
- **Monitoring trends:** we track ECL and Staged assets over time and against our internal budgets and forecasts, with triggers set accordingly.

SANTANDER UK GROUP LEVEL – CREDIT RISK REVIEW

The credit risk balances in these credit risk review sections include interest we have charged to the customer's account, but not accrued interest that we have not charged to the account yet, unless otherwise stated.

Our maximum and net exposure to credit risk (audited)
The tables below show the main differences between our maximum and net exposure to credit risk. They show the effects of collateral, netting, and risk transfer to mitigate our exposure. The tables only show the financial assets that credit risk affects and to which the impairment requirements in IFRS 9 are applied.

For balance sheet assets, the maximum exposure to credit risk is the carrying value after impairment loss allowances. Off-balance sheet exposures are mortgage offers, guarantees, formal standby facilities, credit lines and other commitments. For off-balance sheet guarantees, the maximum exposure is the maximum amount that we would have to pay if the guarantees were called on. For formal standby facilities, credit lines and other commitments that are irrevocable over the life of the facility, the maximum exposure is the total amount of the commitment.

	Maximum exposure									
	Balance sheet asset			Off-balance sheet			Collateral[1]			
	Gross amounts	Loss allowance	Net amounts	Gross amounts	Loss allowance	Net amounts	Cash	Non-cash	Netting[2]	Net exposure
2024	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Cash and balances at central banks	**29.9**	**—**	**29.9**	**—**	**—**	**—**	**—**	**—**	**—**	**29.9**
Financial assets at amortised cost:										
– Loans and advances to customers:[3]										
– Residential Mortgages[4]	**165.2**	**(0.2)**	**165.0**	**10.8**	**—**	**10.8**	**—**	**(168.0)**	**—**	**7.8**
– Corporate loans	**18.6**	**(0.3)**	**18.3**	**7.8**	**—**	**7.8**	**—**	**(14.9)**	**—**	**11.2**
– Finance leases	**4.2**	**(0.1)**	**4.1**	**—**	**—**	**—**	**—**	**—**	**—**	**4.1**
– Accrued interest and other adjustments	**0.8**	**—**	**0.8**	**0.4**	**—**	**0.4**	**—**	**—**	**—**	**1.2**
– Other unsecured loans	**6.6**	**(0.2)**	**6.4**	**14.2**	**(0.1)**	**14.1**	**—**	**—**	**—**	**20.5**
– Amounts due from fellow Banco Santander group subsidiaries and JVs	**4.8**	**—**	**4.8**	**—**	**—**	**—**	**—**	**—**	**—**	**4.8**
Total loans and advances to customers	**200.2**	**(0.8)**	**199.4**	**33.2**	**(0.1)**	**33.1**	**—**	**(182.9)**	**—**	**49.6**
– Loans and advances to banks	**1.0**	**—**	**1.0**	**0.5**	**—**	**0.5**	**—**	**—**	**—**	**1.5**
– Reverse repurchase agreements – non trading	**10.3**	**—**	**10.3**	**2.0**	**—**	**2.0**	**—**	**(10.3)**	**(0.1)**	**1.9**
– Other financial assets at amortised cost	**3.4**	**—**	**3.4**	**—**	**—**	**—**	**—**	**—**	**—**	**3.4**
Total financial assets at amortised cost	**214.9**	**(0.8)**	**214.1**	**35.7**	**(0.1)**	**35.6**	**—**	**(193.2)**	**(0.1)**	**56.4**
Financial assets at fair value at FVOCI:										
– Debt securities	**9.0**	**—**	**9.0**	**—**	**—**	**—**	**—**	**—**	**—**	**9.0**
Total financial assets at FVOCI	**9.0**	**—**	**9.0**	**—**	**—**	**—**	**—**	**—**	**—**	**9.0**
Total	**253.8**	**(0.8)**	**253.0**	**35.7**	**(0.1)**	**35.6**	**—**	**(193.2)**	**(0.1)**	**95.3**
2023										
Cash and balances at central banks	38.2	—	38.2	—	—	—	—	—	—	38.2
Financial assets at amortised cost:										
– Loans and advances to customers:[3]										
– Residential Mortgages[4]	172.9	(0.2)	172.7	8.3	—	8.3	—	(175.4)	—	5.6
– Corporate loans	18.3	(0.3)	18.0	8.9	—	8.9	(0.1)	(15.3)	—	11.5
– Finance leases	4.6	(0.1)	4.5	—	—	—	—	(4.5)	—	—
– Accrued interest and other adjustments	0.9	—	0.9	—	—	—	—	—	—	0.9
– Other unsecured loans	7.1	(0.3)	6.8	13.8	(0.1)	13.7	—	—	—	20.5
– Amounts due from fellow Banco Santander group subsidiaries and JVs	4.5	—	4.5	—	—	—	—	—	—	4.5
Total loans and advances to customers	208.3	(0.9)	207.4	31.0	(0.1)	30.9	(0.1)	(195.2)	—	43.0
– Loans and advances to banks	1.1	—	1.1	0.5	—	0.5	—	—	—	1.6
– Reverse repurchase agreements – non trading	12.5	—	12.5	—	—	—	—	(12.4)	(0.1)	—
– Other financial assets at amortised cost	0.2	—	0.2	—	—	—	—	—	—	0.2
Total financial assets at amortised cost	222.1	(0.9)	221.2	31.5	(0.1)	31.4	(0.1)	(207.6)	(0.1)	44.8
Financial assets at FVOCI:										
– Debt securities	8.5	—	8.5	—	—	—	—	—	—	8.5
Total financial assets at FVOCI	8.5	—	8.5	—	—	—	—	—	—	8.5
Total	268.8	(0.9)	267.9	31.5	(0.1)	31.4	(0.1)	(207.6)	(0.1)	91.5

(1) The forms of collateral we take to reduce credit risk include: residential and commercial property; other physical assets, including motor vehicles; liquid securities, including those transferred under reverse repurchase agreements; cash, including cash used as collateral for derivative transactions; and receivables. Charges on residential property are most of the collateral we take.
(2) We can reduce credit risk exposures by applying netting. We do this mainly for derivative and repurchase transactions with financial institutions. For derivatives and securities finance transactions, we use standard master netting agreements. For more on this, see 'Credit risk mitigation' in the 'Credit risk - Credit risk management' section.
(3) Balances include interest we have charged to the customer's account and accrued interest that we have not charged to the account yet.
(4) The collateral value shown against advances secured on residential property is limited to the balance of each associated individual loan. It does not include the impact of over–collateralisation (where the collateral has a higher value than the loan balance) and includes collateral we would receive on draw down of certain off–balance sheet commitments.

The tables below show the main differences between our maximum and net exposure to credit risk on the financial assets that credit risk affects and to which the impairment requirements in IFRS 9 are not applied.

2024	Balance sheet asset gross amount £bn	Collateral[1] Cash £bn	Non-cash £bn	Netting[2] £bn	Net exposure £bn
Financial assets at FVTPL:					
– Derivative financial instruments	**1.2**	**(0.7)**	**—**	**(0.4)**	**0.1**
– Other financial assets at FVTPL	**0.1**	**—**	**—**	**—**	**0.1**
Total	**1.3**	**(0.7)**	**—**	**(0.4)**	**0.2**
2023					
Financial assets at FVTPL:					
– Derivative financial instruments	1.4	(0.8)	0.0	(0.5)	0.1
– Other financial assets at FVTPL	0.3	—	—	—	0.3
Total	1.7	(0.8)	0.0	(0.5)	0.4

(1) The forms of collateral we take to reduce credit risk include: liquid securities, including those transferred under reverse repurchase agreements; cash, including cash used as collateral for derivative transactions; and receivables.
(2) We can reduce credit risk exposures by applying netting. We do this mainly for derivative and repurchase transactions with financial institutions. For derivatives and securities finance transactions, we use standard master netting agreements. They allow us to set off our credit risk exposure to a counterparty against our obligations to the counterparty in relation to transactions under the master netting agreement in the event of default. This gives us a lower net credit exposure. They may also reduce settlement exposure. For more on this, see 'Credit risk mitigation' in the 'Credit risk – Credit risk management' section.

Single credit rating scale

In the table below, we have used a single rating scale to ensure we are consistent across all our credit risk portfolios in how we report the risk of default. It has eight grades for non–defaulted exposures, from 9 (lowest risk) to 2 (highest risk). We define each grade by an upper and lower PD value and we scale the grades so that the default risk increases by a factor of ten every time the grade number drops by two steps. For example, grade 9 has an average PD of 0.010%, and grade 7 has an average PD of 0.100%. We give defaulted exposures a grade 1 and a PD value of 100%. In the final column of the table, we show the approximate equivalent credit rating grade used by Standard & Poor's Ratings Services (S&P).

Santander UK risk grade	PD range Mid %	Lower %	Upper %	S&P equivalent
9	0.010	0.000	0.021	AAA to AA+
8	0.032	0.021	0.066	AA to AA-
7	0.100	0.066	0.208	A+ to BBB
6	0.316	0.208	0.658	BBB- to BB
5	1.000	0.658	2.081	BB-
4	3.162	2.081	6.581	B+ to B
3	10.000	6.581	20.811	B-
2	31.623	20.811	99.999	CCC to C
1 (Default)	100.000	100.000	100.000	D

The PDs in the table above are based on Economic Capital (EC) PD mappings, calculated based on the average PD over an economic cycle. This is different to the IFRS 9 PDs which are calculated at a point in time using forward looking economic scenarios. Where possible, the EC PD values are aligned to the regulatory capital models; however, any regulatory floors are removed and PDs are defined at every possible rating rather than grouped into rating buckets.

Rating distribution (audited)
The tables below show the credit rating of our financial assets to which the impairment requirements in IFRS 9 apply. Financial assets with low risk concentrations are not included and are all investment grade. JAs are incorporated in the balances. For more on the credit rating profiles of key portfolios, see the credit risk review section for each business segment.

	Santander UK risk grade								Loss allowance	Total
	9	8	7	6	5	4	3 to 1	Other(1)(2)		
2024	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Exposures - On balance sheet										
Financial assets at amortised cost:										
–Loans and advances to customers(2)	**5.8**	**31.3**	**81.8**	**46.4**	**15.6**	**6.8**	**5.4**	**7.1**	**(0.8)**	**199.4**
–Stage 1	**5.7**	**30.6**	**78.1**	**40.5**	**12.4**	**2.8**	**0.6**	**6.9**	**(0.1)**	**177.5**
–Stage 2	**0.1**	**0.7**	**3.7**	**5.9**	**3.2**	**3.9**	**2.4**	**0.1**	**(0.3)**	**19.7**
–Stage 3	**—**	**—**	**—**	**—**	**—**	**0.1**	**2.4**	**0.1**	**(0.4)**	**2.2**
Of which mortgages:	**5.2**	**29.8**	**76.5**	**40.8**	**6.5**	**3.3**	**3.1**	**—**	**(0.2)**	**165.0**
–Stage 1	**5.1**	**29.3**	**72.9**	**35.0**	**4.0**	**0.4**	**—**	**—**	**—**	**146.7**
–Stage 2	**0.1**	**0.5**	**3.6**	**5.8**	**2.5**	**2.9**	**1.3**	**—**	**(0.1)**	**16.6**
–Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**1.8**	**—**	**(0.1)**	**1.7**
Total off–balance sheet	**6.9**	**8.9**	**9.0**	**4.2**	**1.9**	**0.8**	**0.7**	**3.3**	**(0.1)**	**35.6**
–Stage 1	**6.9**	**8.8**	**8.8**	**4.0**	**1.7**	**0.5**	**0.4**	**3.3**	**—**	**34.4**
–Stage 2	**—**	**0.1**	**0.2**	**0.2**	**0.2**	**0.3**	**0.2**	**—**	**(0.1)**	**1.1**
–Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**	**—**	**—**	**0.1**

	Santander UK risk grade								Total	Coverage Ratio
	9	8	7	6	5	4	3 to 1	Other(1)(2)		
2024	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**%**
ECL - On balance sheet										
Financial assets at amortised cost:										
– Loans and advances to customers(2)	**—**	**—**	**—**	**—**	**0.2**	**0.1**	**0.5**	**—**	**0.8**	**0.4**
– Stage 1	**—**	**—**	**—**	**—**	**0.1**	**—**	**—**	**—**	**0.1**	**0.1**
– Stage 2	**—**	**—**	**—**	**—**	**0.1**	**0.1**	**0.1**	**—**	**0.3**	**1.5**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**0.4**	**—**	**0.4**	**18.2**
Of which mortgages:	**—**	**—**	**—**	**—**	**—**	**0.1**	**0.1**	**—**	**0.2**	**0.1**
– Stage 1	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**0.1**	**—**	**—**	**0.1**	**0.6**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**	**—**	**0.1**	**5.9**
Total off–balance sheet	**—**	**—**	**—**	**—**	**—**	**0.1**	**—**	**—**	**0.1**	**0.3**
– Stage 1	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**0.1**	**—**	**—**	**0.1**	**9.1**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

2023	Santander UK risk grade 9 £bn	8 £bn	7 £bn	6 £bn	5 £bn	4 £bn	3 to 1 £bn	Other[1][2] £bn	Loss allowance £bn	Total £bn
Exposures - On balance sheet										
Financial assets at amortised cost:										
– Loans and advances to customers[2]	5.3	34.2	84.4	48.9	14.6	8.3	5.4	7.2	(0.9)	207.4
– Stage 1	5.3	33.1	80.4	43.6	10.3	2.8	0.3	6.9	(0.1)	182.6
– Stage 2	—	1.1	4.0	5.3	4.3	5.4	2.4	0.1	(0.4)	22.2
– Stage 3	—	—	—	—	—	0.1	2.7	0.2	(0.4)	2.6
Of which mortgages:	5.2	32.5	79.9	41.5	6.6	3.7	3.5	—	(0.2)	172.7
– Stage 1	5.2	31.4	75.9	36.3	3.6	0.4	0.2	—	—	153.0
– Stage 2	—	1.1	4.0	5.2	3.0	3.2	1.4	—	(0.1)	17.8
– Stage 3	—	—	—	—	—	0.1	1.9	—	(0.1)	1.9
Total off–balance sheet	—	6.3	7.0	6.8	4.6	1.7	0.4	4.7	(0.1)	31.4
– Stage 1	—	6.3	6.9	6.7	4.4	1.2	0.1	4.7	—	30.3
– Stage 2	—	—	0.1	0.1	0.2	0.5	0.2	—	(0.1)	1.0
– Stage 3	—	—	—	—	—	—	0.1	—	—	0.1

2023	Santander UK risk grade 9 £bn	8 £bn	7 £bn	6 £bn	5 £bn	4 £bn	3 to 1 £bn	Other[1][2] £bn	Total £bn	Coverage Ratio %
ECL - On balance sheet										
Financial assets at amortised cost:										
– Loans and advances to customers[2]	—	—	—	—	0.2	0.2	0.5	—	0.9	0.4
– Stage 1	—	—	—	—	0.1	—	—	—	0.1	0.1
– Stage 2	—	—	—	—	0.1	0.2	0.1	—	0.4	1.8
– Stage 3	—	—	—	—	—	—	0.4	—	0.4	13.3
Of which mortgages:	—	—	—	—	—	0.1	0.1	—	0.2	0.1
– Stage 1	—	—	—	—	—	—	—	—	—	—
– Stage 2	—	—	—	—	—	0.1	—	—	0.1	0.6
– Stage 3	—	—	—	—	—	—	0.1	—	0.1	5.0
Total off–balance sheet	—	—	—	—	—	0.1	—	—	0.1	0.3
– Stage 1	—	—	—	—	—	—	—	—	—	—
– Stage 2	—	—	—	—	—	0.1	—	—	0.1	9.1
– Stage 3	—	—	—	—	—	—	—	—	—	—

(1) Includes Joint Ventures and Business Banking (including BBLs balances). We use scorecards for these items, rather than rating models. .
(2) Includes interest we have charged to the customer's account and accrued interest we have not charged to the account yet.

Arrears over 90 days past due

	31 December 2024 %	31 December 2023 %
Mortgages	**0.80**	0.80
Credit Cards	**0.56**	0.51
UPL	**0.88**	0.73
Overdrafts	**3.05**	2.43
Business Banking	**3.89**	4.15
Consumer Finance	**0.53**	0.43
Corporate & Commercial Banking	**1.04**	1.04

2024 compared to 2023

Our underlying asset quality remained good, supported by the sale of low return mortgage assets. The improvement in the economic outlook helped drive the reduction in Stage 2 and 3 assets. While we saw loans in Stage 2 and 3 decrease, we saw an increase in early arrears in 2024 as they returned to more normalised levels. The decrease in CCB Stage 2 assets was driven by an overall improvement in asset quality.

For more on the credit performance of our key portfolios by business segment, see the credit risk review section for each business segment.

Credit quality (audited)

Total on-balance sheet exposures at 31 December 2024 comprised £194.5bn of customer loans, loans and advances to banks of £1.0bn, £13.7bn of sovereign assets measured at amortised cost, £9.0bn of assets measured at FVOCI, and £29.9bn of cash and balances at central banks.

2024	Gross Write-offs £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Exposures					
On-balance sheet					
Retail & Business Banking		152,198	17,571	1,955	171,724
Consumer Finance		4,389	334	36	4,759
Corporate & Commercial Banking		15,280	2,098	651	18,029
Corporate Centre		53,699	—	—	53,699
Total on-balance sheet		225,566	20,003	2,642	248,211
Off–balance sheet					
Retail & Business Banking[1]		24,211	745	52	25,008
Consumer Finance		—	—	—	—
Corporate & Commercial Banking		7,743	470	65	8,278
Corporate Centre		2,363	—	—	2,363
Total off–balance sheet[2]		34,317	1,215	117	35,649
Total exposures		259,883	21,218	2,759	283,860
ECL and Gross write-offs					
On-balance sheet					
Retail & Business Banking	156	52	223	146	421
Consumer Finance	25	16	27	26	69
Corporate & Commercial Banking	49	55	71	168	294
Corporate Centre	—	—	—	—	—
Total on-balance sheet	230	123	321	340	784
Off–balance sheet					
Retail & Business Banking	—	12	24	1	37
Consumer Finance	—	—	—	—	—
Corporate & Commercial Banking	—	18	14	16	48
Corporate Centre	—	—	—	—	—
Total off–balance sheet	—	30	38	17	85
Total ECL	230	153	359	357	869
Coverage ratio[3]		%	%	%	%
On-balance sheet					
Retail & Business Banking		—	1.3	7.5	0.2
Consumer Finance		0.4	8.2	71.2	1.4
Corporate & Commercial Banking		0.4	3.4	25.9	1.6
Corporate Centre		—	—	—	—
Total on-balance sheet		0.1	1.6	12.9	0.3
Off–balance sheet					
Retail & Business Banking		—	3.2	2.6	0.1
Consumer Finance		—	—	—	—
Corporate & Commercial Banking		0.2	3.0	24.2	0.6
Corporate Centre		—	—	—	—
Total off-balance sheet		0.1	3.1	14.6	0.2
Total coverage		0.1	1.7	13.0	0.3

(1) Off-balance sheet exposures include £6.1bn of residential mortgage offers in the pipeline.
(2) Off-balance sheet amounts consist of contingent liabilities and commitments. For more, see Note 30 to the Consolidated Financial Statements.
(3) ECL as a percentage of the related exposure.

Total on-balance sheet exposures at 31 December 2023 comprised £203.1bn of customer loans, loans and advances to banks of £1.1bn, £12.6bn of sovereign assets measured at amortised cost, £8.5bn of assets measured at FVOCI, and £38.2bn of cash and balances at central banks.

2023	Gross Write-offs £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Exposures					
On-balance sheet					
Retail & Business Banking		158,782	18,866	2,239	179,887
Consumer Finance		4,870	330	28	5,228
Corporate & Commercial Banking		13,822	3,418	699	17,939
Corporate Centre		60,395	—	—	60,395
Total on-balance sheet		237,869	22,614	2,966	263,449
Off–balance sheet					
Retail & Business Banking[(1)]		21,597	434	59	22,090
Consumer Finance		—	—	—	0
Corporate & Commercial Banking		8,745	547	46	9,338
Corporate Centre		—	—	—	—
Total off–balance sheet[(2)]		30,342	981	105	31,428
Total exposures		268,211	23,595	3,071	294,877
ECL and Gross write-offs					
On-balance sheet					
Retail & Business Banking	141	57	273	169	499
Consumer Finance	23	21	30	19	70
Corporate & Commercial Banking	68	64	118	163	345
Corporate Centre	—	—	—	—	—
Total on-balance sheet	232	142	421	351	914
Off–balance sheet					
Retail & Business Banking	—	16	26	1	43
Consumer Finance	—	—	—	—	—
Corporate & Commercial Banking	—	12	14	9	35
Total off–balance sheet	—	28	40	10	78
Total ECL	232	170	461	361	992
Coverage ratio[(3)]		%	%	%	%
On-balance sheet					
Retail & Business Banking		—	1.4	7.5	0.3
Consumer Finance		0.4	9.0	68.5	1.3
Corporate & Commercial Banking		0.5	3.5	23.4	1.9
Corporate Centre		—	—	—	—
Total on-balance sheet		0.1	1.9	11.8	0.3
Off–balance sheet					
Retail & Business Banking		0.1	6.0	2.8	0.2
Consumer Finance		—	—	—	—
Corporate & Commercial Banking		0.1	2.5	20.2	0.4
Total off-balance sheet		0.1	4.1	10.4	0.2
Total coverage		0.1	2.0	11.8	0.3

(1) Off-balance sheet exposures include £3.3bn of residential mortgage offers in the pipeline.
(2) Off-balance sheet amounts consist of contingent liabilities and commitments. For more, see Note 30 to the Consolidated Financial Statements.
(3) ECL as a percentage of the related exposure.

2024 compared to 2023
The ECL provision at 31 December 2024 decreased by £123m to £869m (2023: £992m) with a change in our economic assumptions and weights, including the removal of our Stubborn Inflation scenario and the re-weighting of the remaining scenarios in 2024. Following the fall in inflation in 2024, we also released judgemental adjustments which were originally made to reflect cost of living pressures on customers.

Gross write-off utilisation of £230m (2023: £232m) largely driven by unsecured retail.

Key movements in exposures and ECL allowance in the year by Stage were:

– Stage 1 exposures reduced, mainly due to lower Mortgage new business. Stage 1 ECL allowance also reduced due to a reduction in Mortgage assets, as well as the economic assumption and weights updates.
– Stage 2 exposures reduced, driven by Corporate and Commercial Banking assets moving from Stage 1 to Stage 2 following the implementation of new impairment models and in Mortgages due to the unwinding of the refinance JAs moving customers back into Stage 1. Stage 2 ECL allowance reduced mainly due to the economic assumption and weights updates in the year.
– Stage 3 exposures and ECL allowance reduced in 2024 mainly in Mortgages due to the improved economic outlook and sale of low return mortgage assets in Q424.

Stage 2 analysis (audited)
The following table analyses our Stage 2 exposures and ECL allowance by the reason the exposure is classified as Stage 2.

2024		Backstop	Quantitative		Qualitative		JAs	Total
		30 DPD	PD deterioration	PD threshold	Forbearance[1]	Other[2]	Mortgage Refinancing	
Retail & Business Banking	Exposure £m	**592**	**9,434**	**478**	**308**	**4,955**	**1,804**	**17,571**
	ECL £m	**20**	**133**	**29**	**5**	**25**	**11**	**223**
Of which -Mortgages	Exposure £m	**504**	**8,834**	**350**	**298**	**4,898**	**1,804**	**16,688**
	ECL £m	**7**	**48**	**3**	**3**	**12**	**11**	**84**
Consumer Finance	Exposure £m	**30**	**155**	**—**	**—**	**149**	**—**	**334**
	ECL £m	**10**	**11**	**—**	**—**	**6**	**—**	**27**
Corporate & Commercial Banking	Exposure £m	**54**	**930**	**61**	**57**	**996**	**—**	**2,098**
	ECL £m	**1**	**38**	**7**	**1**	**24**	**—**	**71**
Corporate Centre	Exposure £m	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	ECL £m	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total Drawn	Exposure £m	**676**	**10,519**	**539**	**365**	**6,100**	**1,804**	**20,003**
	ECL £m	**31**	**182**	**36**	**6**	**55**	**11**	**321**
Undrawn	ECL £m	**1**	**23**	**6**	**2**	**6**	**—**	**38**
Total Reported	Exposure £m	**701**	**11,180**	**605**	**434**	**6,494**	**1,804**	**21,218**
	ECL £m	**32**	**205**	**42**	**8**	**61**	**11**	**359**

2023		Backstop	Quantitative	Qualitative		JAs				Total
		30 DPD	PD deterioration	Forbearance[1]	Other	Secured affordability	Unsecured affordability	Mortgage Refinancing	High risk corporate	
Retail & Business Banking	Exposure £m	738	6,421	516	301	2,889	232	7,769	—	18,866
	ECL £m	33	164	2	11	9	35	19	—	273
Of which -Mortgages	Exposure £m	560	5,877	516	265	2,889	—	7,769	—	17,876
	ECL £m	11	65	2	3	9	—	19	—	109
Consumer Finance	Exposure £m	25	115	—	126	64	—	—	—	330
	ECL £m	11	10	—	5	4	—	—	—	30
Corporate & Commercial Banking	Exposure £m	93	1,809	85	533	—	—	—	898	3,418
	ECL £m	2	75	2	17	—	—	—	22	118
Corporate Centre	Exposure £m	—	—	—	—	—	—	—	—	—
	ECL £m	—	—	—	—	—	—	—	—	—
Total Drawn	Exposure £m	856	8,345	601	960	2,953	232	7,769	898	22,614
	ECL £m	46	249	4	33	13	35	19	22	421
Undrawn	ECL £m	3	28	—	4	—	3	—	2	40
Total Reported	Exposure £m	893	9,160	601	1,152	2,889	233	7,769	898	23,595
	ECL £m	49	277	4	37	13	38	19	24	461

(1) Where the values of ECL and/or exposures are not £nil, but round to £nil when presented in £millions, the coverage ratio is still presented in the table.
(2) Mainly consists of Qualitative triggers for Mortgages, over-indebted customers c£2.5bn and Interest-only accounts 24 months pre-maturity c£1.3bn, and for CCB customers operating in a high-risk sector.

Where balances satisfy more than one of the criteria above for determining a SICR, we have assigned the corresponding gross carrying amount and ECL allowance in order of the categories presented.

Reconciliation of exposures, loss allowance and net carrying amounts (audited)

The table below shows the relationships between disclosures in this Credit risk review section which refer to drawn exposures and the associated ECL allowance, and the total assets as presented in the Consolidated Balance Sheet. The Credit risk review disclosures exclude Joint ventures, as they carry low credit risk and therefore have an immaterial ECL, and Other items, mainly accrued interest that we have not yet charged to the customer's account, and cash collateral.

	On-balance sheet			Off-balance sheet	
	Exposures	Loss allowance	Net carrying amount	Exposures	Loss allowance
2024	**£m**	**£m**	**£m**	**£m**	**£m**
Retail & Business Banking[1]	**171,724**	**421**	**171,303**	**25,008**	**37**
Consumer Finance	**4,759**	**69**	**4,690**	**—**	**—**
Corporate & Commercial Banking	**18,029**	**294**	**17,735**	**8,278**	**48**
Corporate Centre	**53,699**	**—**	**53,699**	**2,363**	**—**
Total exposures presented in Credit Quality tables	**248,211**	**784**	**247,427**	**35,649**	**85**
Joint ventures			**4,832**		
Other items			**848**		
Adjusted net carrying amount			**253,107**		
Assets classified at FVTPL			**1,340**		
Non-financial assets			**5,497**		
Total assets per the Consolidated Balance Sheet			**259,944**		
2023					
Retail & Business Banking[1]	179,887	499	179,388	22,090	43
Consumer Finance	5,228	70	5,158	—	—
Corporate & Commercial Banking	17,939	345	17,594	9,338	35
Corporate Centre	60,395	—	60,395	—	—
Total exposures presented in Credit Quality tables	263,449	914	262,535	31,428	78
Joint ventures			4,544		
Other items			751		
Adjusted net carrying amount			267,830		
Assets classified at FVTPL			1,694		
Non-financial assets			5,924		
Total assets per the Consolidated Balance Sheet			275,448		

(1) Off-balance sheet exposures include offers in the pipeline, undrawn flexible mortgage products and credit cards.

Movement in total exposures and the corresponding ECL (audited)

The following table shows changes in total on and off-balance sheet exposures, subject to ECL assessment, and the corresponding ECL, in the period. The table presents total gross carrying amounts and ECLs at a Santander UK group level. We present segmental views in the sections below.

	Stage 1		Stage 2		Stage 3		Total	
	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**268,211**	**170**	**23,595**	**461**	**3,071**	**361**	**294,877**	**992**
Transfers from Stage 1 to Stage 2[3]	**(11,911)**	**(11)**	**11,911**	**11**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1[3]	**9,395**	**118**	**(9,395)**	**(118)**	**—**	**—**	**—**	**—**
Transfers to Stage 3[3]	**(434)**	**(2)**	**(845)**	**(34)**	**1,279**	**36**	**—**	**—**
Transfers from Stage 3[3]	**35**	**2**	**417**	**34**	**(452)**	**(36)**	**—**	**—**
Transfers of financial instruments	**(2,915)**	**107**	**2,088**	**(107)**	**827**	**—**	**—**	**—**
Net ECL remeasurement on stage transfer[4]	**—**	**(107)**	**—**	**96**	**—**	**122**	**—**	**111**
Change in economic scenarios[2]	**—**	**(20)**	**—**	**(44)**	**—**	**—**	**—**	**(64)**
Change to ECL models	**(2,287)**	**(5)**	**2,361**	**37**	**(74)**	**(26)**	**—**	**6**
New lending and assets purchased[5]	**33,894**	**43**	**1,170**	**58**	**164**	**40**	**35,228**	**141**
Redemptions, repayments and assets sold[7]	**(38,081)**	**(44)**	**(4,663)**	**(69)**	**(1,242)**	**(79)**	**(43,986)**	**(192)**
Changes in risk parameters and other movements[6]	**1,061**	**9**	**(3,333)**	**(73)**	**355**	**169**	**(1,917)**	**105**
Assets written off[7]	**—**	**—**	**—**	**—**	**(342)**	**(230)**	**(342)**	**(230)**
At 31 December 2024	**259,883**	**153**	**21,218**	**359**	**2,759**	**357**	**283,860**	**869**
Net movement in the period	**(8,328)**	**(17)**	**(2,377)**	**(102)**	**(312)**	**(4)**	**(11,017)**	**(123)**
ECL (release)/charge to the Income Statement		**(17)**		**(102)**		**226**		**107**
Less: Discount unwind		**—**		**—**		**(24)**		**(24)**
Less: Recoveries net of collection costs		**—**		**—**		**(12)**		**(12)**
Total ECL (release)/charge to the Income Statement		**(17)**		**(102)**		**190**		**71**
At 1 January 2023	284,428	170	19,127	516	2,729	319	306,284	1,005
Transfers from Stage 1 to Stage 2[3]	(12,945)	(9)	12,945	9	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	5,913	111	(5,913)	(111)	—	—	—	—
Transfers to Stage 3[3]	(598)	(6)	(920)	(38)	1,518	44	—	—
Transfers from Stage 3[3]	28	1	304	15	(332)	(16)	—	—
Transfers of financial instruments	(7,602)	97	6,416	(125)	1,186	28	—	—
Net ECL remeasurement on stage transfer[4]	—	(111)	—	145	—	130	—	164
Change in economic scenarios[2]	—	29	—	(33)	—	9	—	5
Change to ECL models	—	—	—	—	—	—	—	—
New lending and assets purchased[5]	25,409	28	562	45	59	20	26,030	93
Redemptions, repayments and assets sold[7]	(33,805)	(35)	(3,017)	(53)	(886)	(46)	(37,708)	(134)
Changes in risk parameters and other movements[6]	(219)	(8)	507	(34)	395	133	683	91
Assets written off[7]	—	—	—	—	(412)	(232)	(412)	(232)
At 31 December 2023	268,211	170	23,595	461	3,071	361	294,877	992
Net movement in the period	(16,217)	—	4,468	(55)	342	42	(11,407)	(13)
ECL (release)/charge to the Income Statement		—		(55)		274		219
Less: Discount unwind		—		—		(21)		(21)
Less: Recoveries net of collection costs		—		—		7		7
Total ECL (release)/charge to the Income Statement		—		(55)		260		205

(1) Exposures that have attracted an ECL, and as reported in the Credit Quality table above.
(2) Changes to assumptions in the period. Isolates the impact on ECL from changes to the economic variables for each scenario, the scenarios themselves, and the probability weights from all other movements. Also includes the impact of quarterly revaluation of collateral. The impact of changes in economics on exposure Stage allocations are shown in Transfers of financial instruments.
(3) Total impact of facilities that moved Stage(s) in the period. This means, for example, that where risk parameter changes (model inputs) or model changes (methodology) result in a facility moving Stage, the full impact is reflected here (rather than in Other). Stage flow analysis only applies to facilities that existed at both the start and end of the period. Transfers between Stages are based on opening balances and ECL at the start of the period.
(4) Relates to the revaluation of ECL following the transfer of an exposure from one Stage to another.
(5) Exposures and ECL of facilities that did not exist at the start of the period but did at the end. Amounts in Stage 2 and 3 represent assets which deteriorated in the period after origination in Stage 1.
(6) Residual movements on existing facilities that did not change Stage in the period, and which were not acquired in the period. Includes the net increase or decrease in the period of the mortgage pipeline, cash at central banks, the impact of changes in risk parameters in the period, unwind of discount rates and increases in ECL requirements of accounts which ultimately were written off in the period.
(7) Exposures and ECL for facilities that existed at the start of the period but not at the end.

COUNTRY RISK EXPOSURES (audited)

We manage our country risk exposure under our global limits framework. We set our Risk Appetite for each country, considering factors that may affect its risk profile. These can include political events, macroeconomics and the nature of the risk. We actively manage exposures if we need to.

The tables below show our total exposures, which are the total of balance sheet and off–balance sheet values. We calculate balance sheet values in line with IFRS (i.e. after netting allowed under IAS 32) except for credit provisions which we add back. Off–balance sheet values are undrawn facilities and letters of credit. We classify location by country of risk – the country where each client has its main business or assets. That is unless there is a full risk transfer guarantee in place. If so, we use the guarantor's country of domicile. If a client has operations in many countries, we use their country of incorporation. The table below excludes balances with other Banco Santander group members. We show them separately in the section that immediately follows.

	2024						2023					
		Financial institutions						Financial institutions				
	Governments	Banks[1]	Other	Retail	Corporate	Total[2]	Governments	Banks[1]	Other	Retail	Corporate	Total[2]
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Eurozone												
Ireland	—	—	3.3	—	—	3.3	—	—	3.1	—	0.1	3.2
Spain	—	—	—	—	—	—	—	—	—	—	—	—
France	0.1	1.5	2.1	—	—	3.7	0.1	1.7	0.8	—	—	2.6
Belgium	0.2	0.3	—	—	—	0.5	0.2	0.3	—	—	—	0.5
Germany	—	0.2	—	—	—	0.2	—	0.2	0.3	—	—	0.5
Luxembourg	—	—	2.3	—	0.1	2.4	—	—	0.5	—	0.1	0.6
Other	—	—	—	—	—	—	0.1	0.4	—	—	—	0.5
	0.3	2.0	7.7	—	0.1	10.1	0.4	2.6	4.7	—	0.2	7.9
Other countries												
UK	34.0	1.5	6.3	200.8	24.3	266.9	38.5	1.7	6.5	206.0	25.0	277.7
Jersey	—	—	0.1	—	0.3	0.4	—	—	0.1	—	0.2	0.3
US	—	0.9	—	—	—	0.9	—	0.7	—	—	—	0.7
Canada	0.6	0.9	—	—	—	1.5	0.1	0.8	—	—	—	0.9
Japan	2.8	0.1	—	—	—	2.9	2.0	0.9	—	—	—	2.9
Switzerland	0.4	—	—	—	—	0.4	2.1	—	—	—	—	2.1
Other[3]	—	0.6	0.1	0.2	0.4	1.3	—	0.4	0.1	0.1	0.5	1.1
	37.8	4.0	6.5	201.0	25.0	274.3	42.7	4.5	6.7	206.1	25.7	285.7
Total	38.1	6.0	14.2	201.0	25.1	284.4	43.1	7.1	11.4	206.1	25.9	293.6

(1) Excludes balances with central banks.
(2) Excludes cash at hand, interests in other entities, intangible assets, property, plant and equipment, tax assets, retirement benefit assets and other assets.
(3) Mainly includes Australia £0.3bn (2023: £0.3bn), Other OECD £0.2bn (2023: £0.2bn), Bermuda £0.1bn (2023: £0.1bn), China £0.1bn (2023: £0.1bn), Guernsey £0.1bn (2023:£0.2bn), Singapore £0.1bn (2023: £0.0bn), and Norway £0.1bn (2023: £0.1bn).

Balances with other Banco Santander group members (audited)

We deal with other Banco Santander group members in the ordinary course of business. We do this where we have a particular business advantage or expertise and where they can offer us commercial opportunities. These transactions also arise where we support the activities of, or with, larger multinational corporate clients and financial institutions which may deal with other Banco Santander group members. We conduct these activities on the same terms as for similar transactions with third parties, and in a way that manages the credit risk within limits acceptable to the Board and the PRA.

At 31 December 2024 and 31 December 2023, we had gross balances with other Banco Santander group members as follows:

	2024				2023			
	Financial institutions				Financial institutions			
	Banks	Other	Corporate	Total	Banks	Other	Corporate	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Assets								
Spain	0.6	—	—	0.6	0.8	—	—	0.8
UK	—	4.9	—	4.9	—	4.6	—	4.6
	0.6	4.9	—	5.5	0.8	4.6	—	5.4
Liabilities								
Spain	0.9	0.1	—	1.0	1.1	0.1	—	1.2
UK	—	14.2	—	14.2	—	14.3	—	14.3
	0.9	14.3	—	15.2	1.1	14.4	—	15.5

RETAIL & BUSINESS BANKING – CREDIT RISK REVIEW

We provide detailed credit risk analysis for Retail & Business Banking in separate sections below for Mortgages, our largest portfolio, and our Everyday Banking portfolio.

Retail & Business Banking: Mortgages - Credit Risk Review

We offer mortgages to people who want to buy a property and offer additional borrowing (known as further advances) to existing mortgage customers. The property must be in the UK.

Borrower profile (audited)

	Stock				New business			
	2024		2023		**2024**		2023	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Home movers[1]	**69,354**	**42**	71,931	42	**6,736**	**45**	5,009	41
Remortgagers[2]	**45,226**	**27**	48,475	28	**4,353**	**29**	3,901	32
First-time buyers	**35,702**	**22**	36,868	21	**3,262**	**22**	3,015	25
Buy-to-let	**14,931**	**9**	15,585	9	**567**	**4**	239	2
	165,213	**100**	172,859	100	**14,918**	**100**	12,164	100

	2024	2023
Internal remortgages (£bn)[3]	**32.2**	31.2
Further advances and flexi drawdowns (£bn)	**0.8**	0.7
First-time buyers - gross lending (£bn)	**3.3**	3.0
% of customers retained with a maturing mortgage (unaudited)[4]	**77**	77

(1) 'Home movers' include both existing customers moving house and taking out a new mortgage with us, and customers who switch their mortgage to us when they move house.
(2) Remortgagers' are new customers who are taking a new mortgage with us.
(3) Internal remortgages are where we moved our customers with maturing mortgages onto new ones.
(4) Applied to mortgages three months post maturity, and is calculated as a 12-month average of retention rates to September 2024 and December 2023 respectively.

2024 compared to 2023
In 2024, mortgage asset stock decreased across all sectors, with the stock borrower profile unchanged. Although our new business increased year-on-year in all sectors, a decision to optimise the balance sheet in a competitively priced market has resulted in us not fully replacing the asset balances lost through repayments and redemptions.

Interest rate profile (audited)
The interest rate profile of our maturing mortgage asset stock was:

	2024		2023	
	£m	**%**	£m	%
Fixed rate	**148,495**	**90**	153,207	89
Of which maturing:				
– < 12 months	**37,656**	**23**	37,630	22
– Later than 1 year but no later than 3 years	**84,704**	**51**	65,502	38
– Later than 3 years but no later than 4 years	**11,122**	**7**	34,725	20
– Later than 4 years but no later than 5 years	**11,645**	**7**	10,977	6
– Later than 5 years	**3,368**	**2**	4,373	3
Variable rate	**12,105**	**7**	13,761	8
Standard Variable Rate (SVR)	**3,007**	**2**	3,915	2
Follow on Rate (FoR)	**1,606**	**1**	1,976	1
	165,213	**100**	172,859	100

2024 compared to 2023
We continued to see customers refinance from reversion to fixed rate products in 2024, influenced by high interest rates. Demand for fixed rate products increased, particularly with shorter fixed rate terms. 25% of mortgages due to reach the end of their incentive period in the next 12 months (2023: 22%).

Geographical distribution (audited)

The geographical distribution of our mortgage asset stock and new business was:

	Stock		New business	
	2024	2023	**2024**	2023
Region	**£bn**	£bn	**£bn**	£bn
London	**42.7**	44.0	**4.1**	2.9
Midlands and East Anglia	**23.1**	24.2	**2.0**	1.8
North	**21.7**	22.9	**1.9**	1.7
Northern Ireland	**2.3**	2.6	**0.1**	0.1
Scotland	**6.0**	6.4	**0.6**	0.6
South East excluding London	**52.3**	54.8	**4.6**	3.8
South West, Wales and other	**17.1**	18.0	**1.6**	1.3
	165.2	172.9	**14.9**	12.2

2024 compared to 2023

The portfolio's geographical distribution continued to represent a broad footprint across the UK, with a concentration around London and the South East. The loan-to-income multiple of mortgage lending in the year, based on average earnings of new business at inception was 2.93 (2023: 2.98).

Mortgage loan size (audited)

The split of our mortgage asset by size was:

Mortgage loan size	**2024**	2023
>£1.0m	**2 %**	2 %
£0.5m to £1.0m	**10 %**	10 %
£0.25m to £0.5m	**31 %**	31 %
<£0.25m	**57 %**	57 %
Average loan size (stock) (1)	**£193k**	£187k
Average loan size (new business)	**£246k**	£228k

(1) Average initial advance of existing stock.

Loan-to-value analysis (audited)

This table shows the LTV distribution for the gross carrying amount and the related ECL of our total mortgage portfolio and Stage 3 mortgages, and new business. We also show the collateral value and average LTV. We use our estimate of the property value at the balance sheet date and include fees that have been added to the loan. For flexible products, we only include the drawn amount, not undrawn limits.

	2024					2023				
	Stock		**Stage 3**		**New**	Stock		Stage 3		New
	Total	**ECL**	**Total**	**ECL**	**Business**	Total	ECL	Total	ECL	Business
LTV	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Up to 50%	**76,122**	**33**	**880**	**13**	**3,407**	78,673	31	1,106	12	2,616
>50-60%	**33,067**	**21**	**317**	**8**	**2,394**	32,837	24	347	10	1,604
>60-70%	**29,171**	**27**	**254**	**10**	**2,311**	30,874	40	246	16	1,977
>70-80%	**17,132**	**27**	**150**	**12**	**3,458**	18,721	48	138	19	2,736
>80-90%	**7,989**	**19**	**72**	**8**	**2,445**	8,893	35	67	15	2,318
>90-100%	**1,452**	**12**	**38**	**7**	**888**	2,416	20	39	11	900
>100%	**280**	**33**	**56**	**20**	**15**	445	44	65	25	13
	165,213	**172**	**1,767**	**78**	**14,918**	172,859	242	2,008	108	12,164
Collateral value (1)	**165,176**		**1,756**		**14,918**	172,803		1,997		12,164
	%		**%**		**%**	%		%		%
Average LTV - Balance weighted(2)	**51**		**51**		**64**	51		49		66

(1) Collateral value is limited to the balance of each loan and excludes the impact of any over-collateralisation. Includes collateral against loans in negative equity of £244m (2023: £389m).
(2) Balance weighted LTV = (Loan 1 balance x (Loan 1 Balance/Loan 1 latest property valuation) + (Loan 2 balance x (loan 2 balance/Loan 2 latest property valuation) + ...) /(Loan 1 balance + Loan 2 balance+...).

The balance weighted average LTV of new business in the period in London was 64% (2023: 65%).

2024 compared to 2023

There were no significant changes in collateral quality in 2024. Balanced weighted average LTVs of stock were broadly flat, with a reduction in new business due to elevated price competition in the market at higher LTVs. We monitor the profile of new lending and act as needed to ensure the LTV mix of completions is in line with our risk appetite.

Credit performance (audited)

	2024 £m	2023 £m
Mortgage loans and advances to customers	**165,213**	172,859
of which:		
– Stage 1	**146,758**	152,975
– Stage 2	**16,688**	17,876
– Stage 3	**1,767**	2,008
Loss allowances[1]	**172**	242
	%	%
Stage 1 ratio[2]	**88.8**	88.5
Stage 2 ratio[2]	**10.1**	10.3
Stage 3 ratio	**1.08**	1.17

(1) The ECL allowance is for both on and off–balance sheet exposures.
(2) Stage 1/Stage 2 exposures as a percentage of customer loans.

Movement in total exposures and the corresponding ECL (audited)
The following tables show changes in total on and off-balance sheet exposures and ECL in the period. The footnotes to the Santander UK group level table on page 69 also apply to these tables.

	Stage 1		Stage 2		Stage 3		Total	
	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**161,163**	**24**	**17,997**	**110**	**2,028**	**108**	**181,188**	**242**
Transfers from Stage 1 to Stage 2[3]	**(9,873)**	**(1)**	**9,873**	**1**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1[3]	**7,899**	**20**	**(7,899)**	**(20)**	**—**	**—**	**—**	**—**
Transfers to Stage 3[3]	**(230)**	**—**	**(524)**	**(7)**	**754**	**7**	**—**	**—**
Transfers from Stage 3[3]	**3**	**—**	**268**	**9**	**(271)**	**(9)**	**—**	**—**
Transfers of financial instruments	**(2,201)**	**19**	**1,718**	**(17)**	**483**	**(2)**	**—**	**—**
Net ECL remeasurement on stage transfer[4]	**—**	**(19)**	**—**	**31**	**—**	**15**	**—**	**27**
Change in economic scenarios[2]	**—**	**(15)**	**—**	**(29)**	**—**	**1**	**—**	**(43)**
Change to ECL models	**(1,859)**	**(3)**	**1,869**	**21**	**(10)**	**(37)**	**—**	**(19)**
New lending and assets purchased[5]	**21,758**	**4**	**315**	**3**	**33**	**1**	**22,106**	**8**
Redemptions, repayments and assets sold[7]	**(21,925)**	**(1)**	**(3,162)**	**(14)**	**(762)**	**(27)**	**(25,849)**	**(42)**
Changes in risk parameters and other movements[6]	**332**	**1**	**(1,764)**	**(21)**	**46**	**28**	**(1,386)**	**8**
Assets written off[7]	**—**	**—**	**—**	**—**	**(33)**	**(9)**	**(33)**	**(9)**
At 31 December 2024	**157,268**	**10**	**16,973**	**84**	**1,785**	**78**	**176,026**	**172**
Net movement in the period	**(3,895)**	**(14)**	**(1,024)**	**(26)**	**(243)**	**(30)**	**(5,162)**	**(70)**
ECL (release)/charge to the Income Statement		**(14)**		**(26)**		**(21)**		**(61)**
Less: Discount unwind		**—**		**—**		**(3)**		**(3)**
Less: Recoveries net of collection costs		**—**		**—**		**36**		**36**
Total ECL (release)/charge to the Income Statement		**(14)**		**(26)**		**12**		**(28)**
At 1 January 2023	176,965	25	13,533	131	1,848	95	192,346	251
Transfers from Stage 1 to Stage 2[3]	(10,791)	(3)	10,791	3	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	4,778	30	(4,778)	(30)	—	—	—	—
Transfers to Stage 3[3]	(335)	(3)	(566)	(15)	901	18	—	—
Transfers from Stage 3[3]	14	—	277	9	(291)	(9)	—	—
Transfers of financial instruments	(6,334)	24	5,724	(33)	610	9	—	—
Net ECL remeasurement on stage transfer[4]	—	(28)	—	40	—	22	—	34
Change in economic scenarios[2]	—	—	—	(2)	—	3	—	1
Change to ECL models	—	—	—	—	—	—	—	—
New lending and assets purchased[5]	12,947	4	154	3	5	1	13,106	8
Redemptions, repayments and assets sold[7]	(23,081)	(6)	(1,752)	(12)	(417)	(14)	(25,250)	(32)
Changes in risk parameters and other movements[6]	666	5	338	(17)	36	3	1,040	(9)
Assets written off[7]	—	—	—	—	(54)	(11)	(54)	(11)
At 31 December 2023	161,163	24	17,997	110	2,028	108	181,188	242
Net movement in the period	(15,802)	(1)	4,464	(21)	180	13	(11,158)	(9)
ECL (release)/charge to the Income Statement		(1)		(21)		24		2
Less: Discount unwind		—		—		(3)		(3)
Less: Recoveries net of collection costs		—		—		28		28
Total ECL (release)/charge to the Income Statement		(1)		(21)		49		27

Loan modifications (audited)

Forbearance[1]

The following table sets out the financial assets that were forborne while they had a loss allowance measured at lifetime ECL.

	2024 £m	2023 £m
Financial assets modified in the period:		
– Amortised cost before modification	**555**	346
– Net modification loss	**2**	5
Financial assets modified since initial recognition:		
– Gross carrying amount of financial assets for which the loss allowance changed to 12 months ECL in the period	**260**	79

The balances at 31 December 2024 and 31 December 2023, analysed by their staging and the forbearance we applied, were:

2024	Capitalisation £m	Term extension £m	Interest-only £m	Concessionary interest rate £m	Reduced repayment plan £m	Total £m	Loss allowances £m
Stage 2	**231**	**186**	**201**	**23**	**145**	**786**	**6**
Stage 3	**203**	**141**	**53**	**104**	**156**	**657**	**27**
	434	**327**	**254**	**127**	**301**	**1,443**	**33**
Proportion of portfolio	**0.3%**	**0.2%**	**0.2%**	**0.1%**	**0.2%**	**0.9%**	
2023							
Stage 2	325	386	211	11	n/a	933	7
Stage 3	284	150	64	171	n/a	669	30
	609	536	275	182	n/a	1,602	37
Proportion of portfolio	0.3%	0.3%	0.2%	0.1%	n/a	0.9%	

(1) We base forbearance type on the first forbearance on the accounts.

At 31 December 2024, the proportion of the mortgage portfolio in forbearance was at 0.9% (2023: 0.9%) and the proportion of accounts in forbearance for more than six months that had made their last six months' contractual payments was 83% (2023: 81%). The weighted average LTV of all accounts in forbearance was 45% (2023: 44%) compared to the weighted average portfolio LTV of 51% (2023: 51%).

At 31 December 2024, the carrying value of mortgages classified as multiple forbearance was £9m (2023: £121m).

2024 compared to 2023

In 2024, the proportion of the mortgage portfolio in forbearance remained flat. We enhanced our definition of forbearance to include reduced repayment plans, but this was more than offset by reductions in the balances in other categories of forbearance.

Other loan modifications

Santander UK supports the Mortgage Charter which was published in July 2023. There were no modification gains or losses arising from the Charter.

We have made additional customer support solutions available since then, allowing customers who are up-to-date with their payments to make interest-only payments for six months or extend their mortgage term to reduce their monthly payments. The following table provides information on such loan modifications.

	2024		2023	
	Term Extension £m	**Interest-only £m**	Term Extension £m	Interest-only £m
Stage 1	**115**	**1,257**	120	1,166
Stage 2	**21**	**461**	30	500
Stage 3	**1**	**22**	2	18
	137	**1,740**	152	1,684

There were no other loan modifications made in 2024 and 2023.

Portfolios of particular interest - Mortgages

Introduction

We are mainly a residential prime lender and we do not originate sub-prime or second charge mortgages. Despite that, some types of mortgages have higher risks and others stand out for different reasons. These are:

Product	Description
Interest-only loans	With an interest-only mortgage, the customer pays interest every month, but the principal is only repaid at the end of the mortgage term. Some mortgages have a part that is interest-only, with the rest being a normal repayment mortgage. We mitigate the risk from new interest-only mortgages by having lower maximum LTVs. For most applicants, the maximum LTV is 50%. For high net worth customers, it can be up to 75%. When a customer plans to repay their mortgage by selling the property, we require a minimum equity buffer of £300k. We also remind customers that they have to arrange to repay the principal at the end of the mortgage. We send them messages with their annual mortgage statements, and we contact them throughout the mortgage term to encourage them to tell us how they plan to repay. We increase the frequency of contact as the loan approaches maturity. If customers know they will not be able to repay their mortgage when it ends, or if their mortgage has already passed the date when it should have ended, we talk to them. If we think it is in their interests and they can afford it, we look at other ways to manage it, such as turning the mortgage into a repayment one and extending it. If the customer is waiting for their way to repay it, such as an investment plan, to mature, we may permit an extension.
Part interest-only, part repayment loans	Customers with part interest-only, part repayment mortgages still have to pay back a lump sum at the end of their mortgage for the interest-only part. This means these loans have a higher credit risk as we depend on the customers to pay back a lump sum. We design new account LTV maximums to mitigate this risk. We also make sure the customer has a plausible repayment plan before we lend to them and stays on track for the loan term. We mitigate the risk from these loans in similar ways to those we use for interest-only mortgages. The maximum LTV for new loans is 85%. For most applicants, up to 50% of that can be interest-only. For high net worth customers, it can be up to 75%. When a customer plans to repay the interest-only element of their mortgage by selling the property, we require a minimum equity buffer of £300k. We manage communications and extension options in similar ways to those we use for interest-only mortgages.
Flexible loans	Flexible mortgages allow customers to pay more or less than their usual amount each month, or even to take 'payment holidays' when they pay nothing at all. There are conditions on when and how much customers can draw down, and they do not have to take or draw down the whole loan all at once. A customer can ask us to raise their credit limit, but that means we will go through our full credit approval process. We can also lower a customer's credit limit at any time, so it never goes above 90% of the property's current market value. We no longer offer flexible loans for new mortgages. This is an area of interest if any customers might be using these facilities to self-forbear, such as regularly drawing down small amounts. We reflect signs that the credit risk has significantly increased in our ECL calculations.
Loans with an LTV >100%	In some cases, property prices have fallen, so mortgages we gave in the past with lower LTVs now have LTVs greater than 100%. Where the mortgage balance is more than the property is now worth, we cannot recover the full value of the loan by repossessing and selling the property. This means there is a higher credit risk on these loans, so we monitor them as part of our assessment of ongoing portfolio performance. We design new account LTV maximums to mitigate an increase in accounts with an LTV >100%.
Buy-to-Let (BTL) loans	We have specific policies for BTL and focus on non-professional landlords. We have prudent lending criteria and the maximum LTV is 75%. The first applicant must earn a minimum of £25,000 per year, and we require proof of income in all cases. We also use a BTL affordability rate as part of our lending assessment. This means that the rental income must cover the monthly mortgage interest payments by a prescribed amount when calculated using a stressed interest rate. We regularly review the prescribed amount and adjust it as needed.

Climate change

The value of property collateral for mortgages might be affected by physical risks, such as flood and subsidence risk, as well as transitional risks including evolving energy performance standards. In 2024, we introduced a new in-house CISA capability to assess these risks, incorporating a range of factors to deliver granular insights. Our analysis indicated that while climate related risks have the potential to intensify other risk factors, we remain resilient within the context of the scenarios examined, supported by our stable average LTV ratio and the flood reinsurance scheme.

Credit performance (audited)

		Of which: Portfolio of particular interest[1]				
	Total	Interest-only	Part interest-only, part repayment [2]	Flexible	LTV >100%	Buy-to-let
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Mortgage portfolio	**165,213**	**36,188**	**11,873**	**4,333**	**280**	**14,931**
– Stage 1	**146,758**	**29,802**	**10,112**	**3,190**	**75**	**13,672**
– Stage 2	**16,688**	**5,572**	**1,542**	**933**	**149**	**1,204**
– Stage 3	**1,767**	**814**	**219**	**210**	**56**	**55**
Stage 3 ratio	**1.08%**	**2.27%**	**1.85%**	**5.25%**	**20.15%**	**0.37%**
Properties in possession	**46**	**23**	**8**	**8**	**10**	**2**
Balance weighted LTV (indexed)	**51%**	**48%**	**52%**	**38%**	**117%**	**59%**
2023						
Mortgage portfolio	172,859	38,825	12,584	5,418	445	15,585
– Stage 1	152,975	32,012	10,896	4,420	276	13,887
– Stage 2	17,876	5,829	1,449	744	104	1,647
– Stage 3	2,008	984	239	254	65	51
Stage 3 ratio	1.17%	2.55%	1.90%	5.01%	14.57%	0.33%
Properties in possession	23	12	3	2	5	1
Balance weighted LTV (indexed)	51%	48%	51%	37%	116%	60%

(1) Where a loan falls into more than one category, we include it in all the categories that apply.
(2) Mortgage balance includes both the interest-only part of £9,046m (2023: £9,531m) and the non-interest-only part of the loan.

2024 compared to 2023
In 2024, the combined total proportion of interest-only loans, part interest-only, part repayment loans and flexible loans decreased to 31.7% (2023: 32.9%).

BTL mortgage balances decreased by £0.7bn to £14.9bn (2023: £15.6bn) driven by our strategy to deleverage our mortgage portfolio and changes in the market dynamic. In 2024, the balance weighted average LTV of mortgage total new BTL lending was 59% (2023: 58%).

Forbearance[1] (audited)
The balances at 31 December 2024 and 31 December 2023 were:

	Interest-only[2]	Flexible	LTV >100%	Buy-to-Let
2024	**£m**	**£m**	**£m**	**£m**
Total	**272**	**56**	**9**	**18**
– Stage 2	**115**	**19**	**2**	**8**
– Stage 3	**157**	**37**	**7**	**10**
2023				
Total	365	74	12	23
– Stage 2	216	55	3	16
– Stage 3	149	19	9	7

(1) Where a loan falls into more than one category, we have included it in all the categories that apply.
(2) Comprises full interest-only loans and part interest-only, part repayment loans.

2024 compared to 2023
New mortgage forbearance stock reduced, mainly due to portfolio sales, lower interest-only maturities and the improvement of our risk profile.

Retail & Business Banking: Everyday Banking - Credit Risk Review

Credit performance (audited)

		Other unsecured				
	Business banking	**Personal loans**	**Credit cards**	**Overdrafts**	**Total other unsecured**	**Total**
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**1,212**	**2,089**	**2,774**	**436**	**5,299**	**6,511**
of which:						
– Stage 1	**1,042**	**1,892**	**2,271**	**235**	**4,398**	**5,440**
– Stage 2	**85**	**172**	**454**	**172**	**798**	**883**
– Stage 3	**85**	**25**	**49**	**29**	**103**	**188**
Loss allowances(1)	**16**	**63**	**150**	**57**	**270**	**286**
Stage 3 undrawn exposures	**2**	**—**	**28**	**4**	**32**	**34**
Stage 3 ratio	**7.10%**	**1.20%**	**2.75%**	**7.40%**	**2.52%**	**3.37%**
Gross write-offs (12 months)	**10**	**60**	**51**	**26**	**137**	**147**
2023						
Loans and advances to customers	1,819	2,064	2,674	471	5,209	7,028
of which:						
– Stage 1	1,574	1,743	2,283	207	4,233	5,807
– Stage 2	115	294	345	236	875	990
– Stage 3	130	27	46	28	101	231
Loss allowances(1)	16	66	140	78	284	300
Stage 3 undrawn exposures	2	—	33	4	37	39
Stage 3 ratio	7.25%	1.32%	2.95%	6.73%	2.65%	3.83%
Gross write-offs (12 months)	11	48	46	25	119	130

(1) The ECL allowance is for both on and off–balance sheet exposures.

	2024	2023
% of credit card customers that repay balance in full each month (unaudited)	**56%**	55%
UPL average customer balance (£)	**6,000**	6,000

2024 compared to 2023
Business Banking loans continued to reduce due to the pay down of the BBL portfolio. Other unsecured Stage 2 loans reduced driven by Personal loans and Overdrafts, due to the release of the cost of living JAs. Credit card balances increased due to the impact of our SICR updates in the year. Other unsecured Stage 3 assets remained stable in 2024. Gross write-offs increased in the year, primarily driven by Personal loans, reflecting the current economic environment.

Loan modifications (audited)

Forbearance

The following table sets out the financial assets that were forborne while they had a loss allowance measured at lifetime ECL.

2024	Credit cards £m	Overdrafts £m	Total £m
Financial assets modified in the period:			
– Amortised cost before modification	**14**	**9**	**23**
– Net modification loss	**18**	**6**	**24**
Financial assets modified since initial recognition:			
– Gross carrying amount of financial assets for which the loss allowance changed to 12m ECL in the period	**2**	**1**	**3**
2023			
Financial assets modified in the period:			
– Amortised cost before modification	13	8	21
– Net modification loss	14	6	20
Financial assets modified since initial recognition:			
– Gross carrying amount of financial assets for which the loss allowance changed to 12m ECL in the period	2	1	3

The balances at 31 December 2024 and 31 December 2023 were:

		Other unsecured				
2024	Business banking £m	Personal loans £m	Credit cards £m	Overdrafts £m	Total other unsecured £m	Total £m
Total	**3**	**2**	**57**	**22**	**81**	**84**
– Stage 2	**—**	**1**	**11**	**5**	**17**	**17**
– Stage 3	**3**	**1**	**46**	**17**	**64**	**67**
2023						
Total	3	1	47	19	67	70
– Stage 2	—	1	5	2	8	8
– Stage 3	3	—	42	17	59	62

Other loan modifications

There were no other loan modifications made in 2024 and 2023.

CONSUMER FINANCE – CREDIT RISK REVIEW

Credit performance (audited)

	2024 £m	2023 £m
Loans and advances to customers	**4,759**	5,228
of which:		
– Stage 1	**4,389**	4,870
– Stage 2	**334**	330
– Stage 3	**36**	28
Loss allowances(1)	**69**	70
Stage 3 ratio	**0.77%**	0.53%
Gross write-offs	**25**	23

(1) The ECL allowance is for both on and off–balance sheet exposures.

	2024	2023
Consumer (auto) finance new business gross lending (£m)	**1,593**	2,055
Wholesale loans (stock finance) to car dealerships as approximate % of the Consumer loan book	**9.7%**	9.9%
% of lending collateralised on the vehicle	**95%**	87%
Average Consumer (auto) finance loan size (£)	**16,045**	17,308

2024 compared to 2023
In 2024, we maintained our prudent Consumer (auto) finance underwriting criteria. The product mix was broadly unchanged, with wholesale balances decreasing slightly.

The risk profile was stable in terms of our credit scoring acceptance policies. The overall risk performance was good with the vast majority of customers paying.

Loan modifications (audited)

Forbearance
At 31 December 2024 the amount of forborne assets net of deferred income was £5.4m (2023: £nil).

Other loan modifications
There were no other loan modifications made in 2024.

The gross carrying amount of financial assets for which the ECL allowance changed to a 12-month measurement at 31 December 2024 was £6m (2023: £30m).

CORPORATE & COMMERCIAL BANKING – CREDIT RISK REVIEW

Movement in total exposures and the corresponding ECL (audited)
The following tables show changes in total on and off-balance sheet exposures and ECL in the period. The footnotes to the Santander UK group level table on page 69 also apply to these tables.

	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Exposures[1]	**ECL**	**Exposures[1]**	**ECL**	**Exposures[1]**	**ECL**	**Exposures[1]**	**ECL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2024	**22,567**	**76**	**3,965**	**132**	**745**	**172**	**27,277**	**380**
Transfers from Stage 1 to Stage 2[3]	**(1,101)**	**(3)**	**1,101**	**3**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1[3]	**781**	**13**	**(781)**	**(13)**	**—**	**—**	**—**	**—**
Transfers to Stage 3[3]	**(84)**	**(1)**	**(230)**	**(12)**	**314**	**13**	**—**	**—**
Transfers from Stage 3[3]	**24**	**1**	**121**	**18**	**(145)**	**(19)**	**—**	**—**
Transfers of financial instruments	**(380)**	**10**	**211**	**(4)**	**169**	**(6)**	**—**	**—**
Net ECL remeasurement on stage transfer[4]	**—**	**(9)**	**—**	**(4)**	**—**	**54**	**—**	**41**
Change in economic scenarios[2]	**—**	**(3)**	**—**	**(7)**	**—**	**(1)**	**—**	**(11)**
Change to ECL models	**(222)**	**(2)**	**286**	**(11)**	**(64)**	**12**	**—**	**(1)**
New lending and assets purchased[5]	**8,485**	**20**	**552**	**21**	**118**	**29**	**9,155**	**70**
Redemptions, repayments and assets sold[7]	**(5,203)**	**(24)**	**(1,149)**	**(29)**	**(254)**	**(42)**	**(6,606)**	**(95)**
Changes in risk parameters and other movements[6]	**(2,224)**	**5**	**(1,297)**	**(13)**	**82**	**15**	**(3,439)**	**7**
Assets written off [7]	**—**	**—**	**—**	**—**	**(80)**	**(49)**	**(80)**	**(49)**
At 31 December 2024	**23,023**	**73**	**2,568**	**85**	**716**	**184**	**26,307**	**342**
Net movement in the period	**456**	**(3)**	**(1,397)**	**(47)**	**(29)**	**12**	**(970)**	**(38)**
ECL (release)/charge to the Income Statement		**(3)**		**(47)**		**61**		**11**
Less: Discount unwind		**—**		**—**		**(12)**		**(12)**
Less: Recoveries net of collection costs		**—**		**—**		**5**		**5**
Total ECL (release)/charge to the Income Statement		**(3)**		**(47)**		**54**		**4**

	Stage 1		Stage 2		Stage 3		Total	
	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL	Exposures[1]	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	23,838	83	3,888	166	572	145	28,298	394
Transfers from Stage 1 to Stage 2[3]	(1,376)	(1)	1,376	1	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	512	10	(512)	(10)	—	—	—	—
Transfers to Stage 3[3]	(118)	(3)	(258)	(8)	376	11	—	—
Transfers from Stage 3[3]	1	—	9	1	(10)	(1)	—	—
Transfers of financial instruments	(981)	6	615	(16)	366	10	—	—
Net ECL remeasurement on stage transfer[4]	—	(16)	—	29	—	64	—	77
Change in economic scenarios[2]	—	30	—	(30)	—	6	—	6
New lending and assets purchased[5]	7,257	5	132	6	38	10	7,427	21
Redemptions, repayments and assets sold[7]	(6,713)	(13)	(869)	(10)	(193)	(23)	(7,775)	(46)
Changes in risk parameters and other movements[6]	(834)	(19)	199	(13)	137	28	(498)	(4)
Assets written off [7]	—	—	—	—	(175)	(68)	(175)	(68)
At 31 December 2023	22,567	76	3,965	132	745	172	27,277	380
Net movement in the period	(1,271)	(7)	77	(34)	173	27	(1,021)	(14)
ECL (release)/charge to the Income Statement		(7)		(34)		95		54
Less: Discount unwind		—		—		(9)		(9)
Less: Recoveries net of collection costs		—		—		(5)		(5)
Total ECL (release)/charge to the Income Statement		(7)		(34)		81		40

Committed exposures

Credit risk arises on both on- and off–balance sheet transactions, e.g. guarantees. Therefore, committed exposures are typically higher than asset balances.

Rating distribution (audited)

These tables show our credit risk exposure according to our internal rating scale (see the 'Santander UK group level – credit risk review' section) for each portfolio. On this scale, the higher the rating, the better the quality of the counterparty.

	Santander UK risk grade								
	9	8	7	6	5	4	3 to 1	Other	Total[1]
2024	£m	£m	£m	£m	£m	£m	£m	£m	£m
SME and mid corporate	**—**	**253**	**723**	**3,170**	**4,295**	**3,013**	**1,589**	**82**	**13,125**
Commercial Real Estate	**—**	**—**	**567**	**1,913**	**2,460**	**620**	**309**	**—**	**5,869**
Social Housing	**13**	**1,983**	**5,868**	**—**	**—**	**—**	**—**	**—**	**7,864**
	13	**2,236**	**7,158**	**5,083**	**6,755**	**3,633**	**1,898**	**82**	**26,858**
Of which:									
Stage 1	**13**	**2,236**	**7,115**	**4,991**	**6,159**	**2,597**	**382**	**82**	**23,575**
Stage 2	**—**	**—**	**43**	**92**	**596**	**1,036**	**800**	**—**	**2,567**
Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**716**	**—**	**716**
2023									
SME and mid corporate	—	166	911	2,970	3,497	3,575	1,439	118	12,676
Commercial Real Estate	—	—	360	1,684	2,132	972	209	1	5,358
Social Housing	43	3,032	4,881	—	—	—	—	—	7,956
	43	3,198	6,152	4,654	5,629	4,547	1,648	119	25,990
Of which:									
Stage 1	43	3,130	6,152	4,618	4,715	2,363	141	118	21,280
Stage 2	—	68	—	36	914	2,184	762	1	3,965
Stage 3	—	—	—	—	—	—	745	—	745

(1) Credit risk exposures include derivatives exposures. For invoice finance the credit risk exposures represent the full facility limit present on the credit agreement papers, a total limit before consideration of underlying collaterals and application of prepayment caps for any given point.

Geographical distribution (audited)

We typically classify geographical location according to the counterparty's country of domicile unless a full risk transfer guarantee is in place, in which case we use the guarantor's country of domicile instead. At 31 December 2024 and 31 December 2023 this is mainly focused in the UK.

Credit risk mitigation (audited)

	Gross exposure	Collateral	Net exposure
	Stage 3	Stage 3	Stage 3
2024	£m	£m	£m
SME and mid corporate	**639**	**209**	**430**
Commercial Real Estate	**77**	**71**	**6**
	716	**280**	**436**
2023			
SME and mid corporate	627	190	437
Commercial Real Estate	118	28	90
	745	218	527

Credit performance (audited)

We monitor exposures that show potentially higher risk characteristics using our Watchlist process. The table below shows the exposures we monitor, and those we classify as Stage 3 by portfolio at 31 December 2024 and 31 December 2023.

	Committed exposure					
		Watchlist				
	Fully performing	Enhanced monitoring	Proactive management	Stage 3	Total[1]	Loss allowances
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
SME and mid corporate	**10,851**	**570**	**1,065**	**639**	**13,125**	**315**
Commercial Real Estate	**5,440**	**51**	**301**	**77**	**5,869**	**26**
Social Housing	**7,440**	**—**	**424**	**—**	**7,864**	**1**
	23,731	**621**	**1,790**	**716**	**26,858**	**342**
2023						
SME and mid corporate	10,140	462	1,447	627	12,676	341
Commercial Real Estate	4,734	10	496	118	5,358	39
Social Housing	7,752	—	204	—	7,956	—
	22,626	472	2,147	745	25,990	380

(1) Includes committed facilities and derivatives.

2024 compared to 2023

The watchlist exposures decreased by 7.9%, with a reduction in Proactive management of 16.6%, and an increase in Enhanced Monitoring of 31.6%. The increase in Enhanced Monitoring was due to a small number of large exposures moving from Proactive management.

Loan modifications (audited)

Forbearance

The following table sets out the financial assets that were forborne while they had a loss allowance measured at lifetime ECL.

	2024	2023
	£m	£m
Financial assets modified in the period:		
– Amortised cost before modification	**232**	189
– Net modification loss	**5**	10
Financial assets modified since initial recognition:		
– Gross carrying amount of financial assets for which the loss allowance changed to 12-month ECL in the period	**15**	27

We only make forbearance arrangements for lending to customers. The balances at 31 December 2024 and 31 December 2023, analysed by their staging and the forbearance we applied, were:

	2024	2023
	£m	£m
Stock[1]		
– Term extension	**102**	113
– Interest-only	**229**	215
– Other payment rescheduling	**373**	264
	704	592
Of which:		
– Stage 1	**40**	2
– Stage 2	**228**	159
– Stage 3	**436**	431
	704	592
Proportion of portfolio	**2.6%**	2.3%

(1) We base forbearance type on the first forbearance we applied. Tables only show accounts open at the period-end. Amounts are drawn balances and include off balance sheet balances.

CORPORATE CENTRE – CREDIT RISK REVIEW

Committed exposures

Rating distribution (audited)

Corporate Centre committed exposures mainly comprise Sovereign exposures and Structured Products (High Quality Liquid Assets, mainly Asset Backed Securities and covered bonds) managed as part of our Eligible Liquidity Pool. These are low risk, high quality, investment grade exposures with a credit rating of 8 or 9 according to our internal rating scale (see the 'Santander UK group level – credit risk review' section).

Geographical distribution (audited)

We typically classify geographical location according to the counterparty's country of domicile unless a full risk transfer guarantee is in place, in which case we use the guarantor's country of domicile instead. At 31 December 2024 and 31 December 2023 this was mainly focused in the UK.

Credit performance (audited)

We monitor exposures that show potentially higher risk characteristics using our Watchlist process. In Corporate Centre, committed exposures were all fully performing at 31 December 2024 and 31 December 2023.

Loan modifications (audited)

There were no loan modifications made in 2024 and 2023.

Liquidity risk

Overview

Liquidity risk is the risk that we do not have sufficient liquid financial resources available to meet our obligations when they fall due, or we can only secure such resources at excessive cost.

In this section, we describe our key liquidity risks, including our sources and uses of liquidity, and how we manage liquidity risk. We also analyse our key liquidity metrics, including our LCRs and our eligible liquidity pools.

We then explain our funding strategy and structure and we analyse our wholesale funding. Finally, we analyse how we have encumbered some of our assets to support our funding activities.

Key metrics

LCR of 154% (2023: 159%)

RFB DoLSub NSFR of 135% (2023: 136%)

RFB DoLSub LCR of 151% (2023: 157%)

Wholesale funding with maturity <1 year £19.6bn (2023: £11.9bn)

RFB DoLSub LCR eligible liquidity pool of £44.4bn (2023: £48.3bn)

OUR KEY LIQUIDITY RISKS (audited)

Through our Liquidity Risk Appetite (LRA) framework, we manage our market liquidity risks, funding or structural liquidity risk, contingent liquidity risk, wherever they arise. This can be in retail and corporate deposit outflows, outflows in wholesale secured and unsecured funding and off-balance sheet activities. Other risks our framework covers include funding concentrations, intra-day cash flows, intra-group commitments and support, franchise retention and cross currency risk.

Our main sources of liquidity
Customer deposits finance most of our customer lending. Although these funds are mostly callable, in practice they give us a stable and predictable core of funding. This is due to the nature of retail accounts and the breadth of our retail customer relationships.

We have a strong wholesale funding investor base, diversified across product types and geographies. Through the wholesale markets, we have active relationships in many sectors including banks, other financial institutions, corporates, pensions and investment funds. We access the wholesale funding markets through the issuance of capital, senior unsecured debt, covered bonds, structured notes and short-term funding. We also access these markets through securitisations of certain assets of Santander UK plc and our operating subsidiaries. For more on our programmes, see Notes 14, 25 and 29 to the Consolidated Financial Statements.

We generate funding on the strength of our own balance sheet, our own profitability and our own network of investors. In addition, we have access to UK Government funding schemes. We comply with rules set by the PRA, other regulators, and Banco Santander standards. While we consolidate, manage and monitor liquidity risk centrally, we also manage and monitor it in the business area it comes from.

Our main uses of liquidity
Our main uses of liquidity are to fund our lending, to pay interest and dividends, and to repay debt. Our ability to pay dividends depends on various factors. These include our regulatory capital needs, the level of our distributable reserves, and our financial performance.

LIQUIDITY RISK MANAGEMENT

We manage liquidity risk on a consolidated basis in our CFO division, which is our centralised function for managing funding, liquidity and capital. We created our governance, oversight and control frameworks, and our LRA, on the same consolidated basis.

Under the PRA's liquidity rules, Santander UK plc and its subsidiary Cater Allen Limited form the RFB Domestic Liquidity Sub-group (the RFB DoLSub), which allows them to collectively meet regulatory requirements to manage liquidity risk. Each member of the RFB DoLSub will support the other by transferring surplus liquidity in times of stress.

Risk appetite
Our LRA is based on the principles of liquidity management we use to manage our balance sheet. It also supports our need to meet or exceed regulatory rules. In line with our liquidity management principles, we avoid an over-reliance on funding from a single product, customer or counterparty. We also maintain enough unencumbered customer assets to support current and future funding and collateral requirements and maintain enough capacity to monetise liquid assets and other counterbalancing capacity on a timely basis.

Our LRA is proposed to the Risk division and the Board, which is then approved under advice from the Board Risk Committee. Our LRA, in the context of our overall Risk Appetite, is reviewed and approved by the Board each year, or more often if needed.

Risk measurement

We use a number of metrics to manage liquidity risk. These include market and internal Early Warning Indicators (EWIs) that include both qualitative and quantitative measures including outflows in retail and corporate deposits, funding concentration metrics, LCR and LRA metrics. They also include structural metrics, such as our level of encumbered assets and our Net Stable Funding Ratio (NSFR).

Ongoing business management

Within our framework of prudent funding and liquidity management, we manage our activities to our LRA. We have clear responsibilities for short-term funding, medium-term funding, encumbrance, collateral and liquid asset management. This ensures we manage liquidity risks as part of our daily operations, strategy and planning.

Our liquidity management framework is split between short-term and strategic activities. Our short-term activities focus on intra-day collateral management and maintaining liquid assets to cover unexpected demands on cash in a stress, such as large and unexpected deposit withdrawals by customers and loss of wholesale funding. Our strategic activities focus on ensuring we are not over reliant on any one source for funding and that we avoid excessive concentrations in the maturity of our funding.

We regularly test the liquidity of our eligible liquidity pool, in line with PRA rules and Basel guidelines. We do this by realising some of the assets by repurchase or outright sale to the market. We make sure that over any 12-month period we realise a significant part of our eligible liquidity pool. As well as our eligible liquidity pool, we always hold a portfolio of unencumbered liquid assets. Our LRA and PRA requirements determine the size and composition of this portfolio. These assets give us a source of contingent liquidity, as we can realise some of them in a stress to create liquidity by repurchase or outright sale to the market.

Stress testing

Our liquidity stress testing framework is central to our LRA measurement and monitoring. To fit with our Risk Appetite, the liquidity outflows that come from these stress tests must be fully covered with high-quality liquid assets, other liquid assets and appropriate management actions.

Our Risk division runs a range of stress tests. Our LRA stress test consists of three tests that cover idiosyncratic, market-wide and combined scenarios.

Our other tests consider scenarios such as a global economic slowdown that results in reduced confidence in banks, a slowdown in a major economy or a decline in access to liquidity. We consider the scenarios on both an acute and protracted basis. We also run severe combined stress tests which look at both a deep and prolonged UK recession that results in a reduction in wholesale funding availability and an idiosyncratic shock that would lead to retail and commercial outflows. We also run climate change stresses. These include severe physical risks which result in a reduction in retail deposits, increased use of corporate lending facilities and an increase in mortgage defaults and a scenario where there is disorderly transition to net zero, resulting in supply shocks and data transparency concerns. We also run a technological stress, in which disruptions to the traditional banking system due to digital innovations and adverse social media coverage could lead to a banking crisis leading to outflows of retail and corporate deposits.

We also conduct sensitivity analysis and reverse stress testing for instant liquidity shocks by each key liquidity risk. We do this to understand the impacts they would have on our LRA and our regulatory liquidity metrics. As part of this, we monitor our LCR and our NSFR to ensure we continue to meet the requirements in the event of a liquidity stress.

Risk mitigation (audited)

The Board aims to make our balance sheet resilient at all times and for it to be perceived as such by stakeholders. This preserves our short and long-term viability. The Board recognises that as we are involved in maturity transformation, we cannot hold enough liquidity to cover all possible stress scenarios. The Board requires us to hold enough liquidity to make sure we will survive three plausible but severe stress scenarios (our LRA stress test, described above). We do this by maintaining a prudent balance sheet structure and approved liquid resources.

Recovery and Resolution framework

The CFO is the accountable SMF for recovery and resolution and the related work is managed by the CFO division. The work is overseen by the Board Audit Committee and the Board. We review and refresh our recovery plan each year. It sets out the risks, the indicators we use to monitor those risks, and the actions that are available to mitigate a capital, liquidity or combined stress event. We are confident that we have sufficient credible and executable options to respond to a wide range of stresses, be they market-wide or idiosyncratic, in a timely and effective manner. Recovery indicators are both qualitative and quantitative and we have embedded them into our risk frameworks. We monitor our recovery capacity, headroom to recovery triggers and recovery indicators regularly. If needed, we would invoke recovery early to mitigate the effects of a stress and restore our financial position and balance sheet strength.

Our resolution capabilities are underpinned by comprehensive governance, testing and assurance arrangements, which seek to ensure that we maintain and enhance our resolution readiness on an ongoing basis.

Risk monitoring and reporting (audited)

We monitor liquidity risk daily, weekly and monthly. We do this through different committees and levels of management, including ALCO and the BRC.

LIQUIDITY RISK REVIEW

Liquidity Coverage Ratio

This table shows our LCR at 31 December 2024 and 31 December 2023.

RFB DoLSub LCR[2]	**2024 £bn**	2023 £bn
Eligible liquidity pool (liquidity value)[1]	**43.7**	47.8
Net stress outflows	**(28.9)**	(30.4)
Surplus	**14.8**	17.4
Eligible liquidity pool as a percentage of anticipated net cash flows	**151 %**	157 %

(1) The liquidity value is calculated by applying an applicable haircut to the carrying value.
(2) The RFB LCR was 154% (2023: 159%).

LCR eligible liquidity pool

This table shows the carrying value of our eligible liquidity pool assets at 31 December 2024 and 31 December 2023. It also shows the weighted average carrying value in the year.

RFB DoLSub	Carrying value						Weighted average carrying value in the year	
	2024			2023			**2024**	2023
	Level 1 £bn	**Level 2 £bn**	**Total £bn**	Level 1 £bn	Level 2 £bn	Total £bn	**Total £bn**	Total £bn
Cash and balances at central banks	**29.0**	**—**	**29.0**	36.1	—	36.1	**30.8**	38.6
Government bonds	**10.2**	**0.9**	**11.1**	8.7	0.3	9.0	**13.7**	6.8
Supranational bonds and multilateral development banks	**0.4**	**—**	**0.4**	0.3	—	0.3	**0.2**	0.1
Covered bonds	**1.4**	**1.7**	**3.1**	1.2	1.0	2.2	**2.9**	1.7
Asset-backed securities	**—**	**0.8**	**0.8**	—	0.7	0.7	**0.7**	0.4
	41.0	**3.4**	**44.4**	46.3	2.0	48.3	**48.3**	47.6

We hedge term duration in the LCR eligible liquidity pool with swaps. We use swaps to offset mark to market movements due to interest rate changes.

Currency analysis

This table shows the carrying value of our eligible liquidity pool by major currencies at 31 December 2024 and 31 December 2023. The composition of the pool is consistent with the currency profile of our net liquidity outflows.

RFB DoLSub	US Dollar £bn	Euro £bn	Sterling £bn	Other £bn	Total £bn
2024	**1.2**	**1.2**	**40.8**	**1.2**	**44.4**
2023	2.4	1.1	44.0	0.8	48.3

RFB DoLSub Net Stable Funding Ratio (NSFR)

	2024 %	2023 %
RFB DoLSub NSFR	**135**	136

2024 compared to 2023

We remain in a strong liquidity position. We hold sufficient liquid resources and have adequate governance and controls in place to manage the liquidity risks arising from our business and strategy. At 31 December 2024 and 31 December 2023, the LCR and NSFR significantly exceeded regulatory requirements. RFB DoLSub LCR reduced following TFSME repayments.

In 2024, Santander UK purchased UK Gilts on a 'Hold-To-Collect-Cash-flows' basis. The notional value at 31 December 2024 was £3.0bn (2023: £nil). This means that there is an increased allocation of liquid assets to longer-dated UK sovereign bonds to support ongoing HQLA requirements in our LCR eligible liquidity pool.

FUNDING RISK MANAGEMENT

Funding strategy

Our funding strategy continues to be based on maintaining a conservatively structured balance sheet and diverse sources of funding to meet the needs of our business strategy and plans. The CFO Division maintains a funding plan that complies with the LRA and regulatory liquidity and capital requirements.

Most of our funding comes from customer deposits. We source the rest from a mix of secured and unsecured funding in the wholesale markets. Overall, this means that we do not rely too heavily on wholesale funds. We manage funding requirements by targeting a specific Liquidity Coverage Ratio, we ensure maturities are prefunded and capital/Minimum Requirements for Eligible Liabilities (MREL) requirements for Santander UK Group Holdings plc and internal MREL for Santander UK plc are prioritised. We also have controls to limit our asset encumbrance from our secured funding operations.

As part of maintaining a diverse funding base, we raise funding in a number of currencies, including EUR and USD, and convert it into sterling through currency swaps to fund our commercial assets which are largely sterling denominated.

Our base of stable retail and corporate deposits is a key funding source for us. We leverage our large and diverse customer base to offer products that give us a long-term sustainable source of funding. We do this by focusing on building long-term relationships. At 31 December 2024, 86% of our total core retail customer liabilities were covered by the Financial Services Compensation Scheme (the FSCS).

Behavioural maturities

The contractual maturity of our balance sheet assets and liabilities highlights the maturity transformation that underpins the role of banks to lend long term, but to fund themselves mainly with shorter-term liabilities, like customer deposits. We do this by diversifying our funding operations across a wide customer base, both in numbers and by type of depositor. In practice, the behavioural profiles of many liabilities show more stability and longer maturity than their contractual maturity. This is especially true of many retail and corporate deposits that, while they may be repayable on demand or at short notice, have shown good stability even in times of stress. We model behaviour profiles using our experience of customer behaviour. We use this data to determine the funds transfer pricing rates at which we reward and charge our business units for sources and uses of funds. We apply this rate until a customer changes to a different product or service offered by us or by one of our competitors.

We continue to maintain the quality of our retail, commercial and wholesale deposits. We aim to deepen our customer relationships across all customer segments. We do this to lengthen the contractual and behavioural profile of our liability base.

FUNDING RISK REVIEW

Our funding strategy continues to be based on maintaining a conservatively structured balance sheet and diverse sources of funding to meet the needs of our business strategy and plans. The CFO Division maintains a funding plan that complies with our LRA and regulatory liquidity and capital requirements.

Wholesale funding

Reconciliation of wholesale funding to the balance sheet (audited)

This table reconciles our wholesale funding to our balance sheet at 31 December 2024 and 31 December 2023.

		Balance sheet line item						
	Funding analysis	Deposits by banks[1]	Deposits by customers[2]	Repurchase agreements - non trading	Financial liabilities designated at fair value	Debt securities in issue	Subordinated liabilities	Other equity instruments[3]
2024	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Deposits by banks	**1.4**	**1.4**	—	—	—	—	—	—
Certificates of deposit and commercial paper	**4.5**	—	—	—	—	**4.5**	—	—
Senior unsecured – public benchmark	**11.1**	—	**1.7**	—	—	**9.4**	—	—
– privately placed	**1.1**	—	**0.1**	—	**0.4**	**0.6**	—	—
Covered bonds	**17.4**	—	—	—	—	**17.4**	—	—
Securitisation and structured issuance[4]	**5.1**	—	—	—	—	**5.1**	—	—
TFSME	**11.0**	**11.0**	—	—	—	—	—	—
Subordinated liabilities and equity	**4.1**	—	—	—	—	—	**2.2**	**1.9**
Total wholesale funding	**55.7**	**12.4**	**1.8**	—	**0.4**	**37.0**	**2.2**	**1.9**
Repos	**8.6**	—	—	**8.6**	—	—	—	—
Foreign exchange and hedge accounting	**(0.4)**	—	—	—	—	**(0.6)**	**0.2**	—
Other	**1.6**	**1.6**	—	—	**0.7**	**(0.7)**	—	—
Balance sheet total	**65.5**	**14.0**	**1.8**	**8.6**	**1.1**	**35.7**	**2.4**	**1.9**
2023								
Deposits by banks	1.1	1.1	—	—	—	—	—	—
Certificates of deposit and commercial paper	4.3	—	—	—	—	4.3	—	—
Senior unsecured – public benchmark	12.7	—	1.6	—	—	11.1	—	—
– privately placed	0.8	—	0.1	—	0.6	0.1	—	—
Covered bonds	14.8	—	—	—	—	14.8	—	—
Securitisation and structured issuance[4]	2.7	—	—	—	—	2.7	—	—
TFSME	17.0	17.0	—	—	—	—	—	—
Subordinated liabilities and equity	4.2	—	—	—	—	—	2.2	2.0
Total wholesale funding	57.6	18.1	1.7	—	0.6	33.0	2.2	2.0
Repos	8.4	—	—	8.4	—	—	—	—
Foreign exchange and hedge accounting	1.1	—	—	—	—	0.9	0.2	—
Other	2.5	2.2	—	—	0.3	—	—	—
Balance sheet total	69.6	20.3	1.7	8.4	0.9	33.9	2.4	2.0

(1) Consists of Perpetual Capital Securities. See Note 32 to the Consolidated Financial Statements.
(2) This is included in our balance sheet total of£180,967m (2023:£190,850m).
(3) Other consists of items in the course of transmission and other deposits. See Note 21 to the Consolidated Financial Statements.
(4) Includes Residential Mortgage-Backed Securities (RMBS) and Asset-Backed Securities (ABS) of £3.9bn (2023: £2.8bn).

Maturity profile of wholesale funding (audited)

This table shows our main sources of wholesale funding. It does not include securities finance agreements. The table is based on exchange rates at issue and scheduled repayments and call dates. It does not reflect the final contractual maturity of the funding.

For details of the maturities of financial liabilities and off-balance sheet commitments, see Note 38 to the Consolidated Financial Statements.

2024	≤ 1 month £bn	>1 and ≤ 3 months £bn	>3 and ≤ 6 months £bn	>6 and ≤ 9 months £bn	>9 and ≤ 12 months £bn	Sub-total ≤ 1 year £bn	>1 and ≤ 2 years £bn	>2 and ≤ 5 years £bn	>5 years £bn	Total £bn
Downstreamed from Santander UK Group Holdings plc to Santander UK plc[1]										
Senior unsecured – public benchmark	—	—	0.4	0.7	1.3	2.4	2.0	5.6	0.4	10.4
–privately placed	—	—	—	—	—	—	—	0.1	—	0.1
Subordinated liabilities and equity (incl. AT1)	—	0.5	—	0.3	—	0.8	0.2	1.4	1.0	3.4
	—	0.5	0.4	1.0	1.3	3.2	2.2	7.1	1.4	13.9
Other Santander UK plc										
Deposits by banks	0.8	0.6	—	—	—	1.4	—	—	—	1.4
Certificates of deposit and commercial paper	1.6	2.8	0.1	—	—	4.5	—	—	—	4.5
Senior unsecured – public benchmark	—	0.4	—	—	—	0.4	—	0.3	—	0.7
–privately placed	—	—	—	—	—	—	—	0.3	0.7	1.0
Covered bonds	0.9	—	—	0.2	0.1	1.2	4.0	11.1	1.1	17.4
Securitisation & structured issuance[2]	—	0.5	0.8	—	—	1.3	0.3	3.0	—	4.6
TFSME	—	—	—	—	7.1	7.1	2.5	—	1.4	11.0
Subordinated liabilities	—	—	—	—	—	—	—	0.2	0.5	0.7
	3.3	4.3	0.9	0.2	7.2	15.9	6.8	14.9	3.7	41.3
Other group entities										
Securitisation & structured issuance[3]	—	—	0.5	—	—	0.5	—	—	—	0.5
Total at 31 December 2024	3.3	4.8	1.8	1.2	8.5	19.6	9.0	22.0	5.1	55.7
Of which:										
– Secured	0.9	0.5	1.3	0.2	7.2	10.1	6.8	14.1	2.5	33.5
– Unsecured	2.4	4.3	0.5	1.0	1.3	9.5	2.2	7.9	2.6	22.2
Total at 31 December 2023	1.4	7.3	1.6	0.5	1.1	11.9	22.3	19.7	3.7	57.6
Of which:										
– Secured	0.1	1.0	0.9	0.4	1.1	3.5	18.6	11.3	1.1	34.5
– Unsecured	1.3	6.3	0.7	0.1	—	8.4	3.7	8.4	2.6	23.1

(1) 95% of senior unsecured debt issued from Santander UK Group Holdings plc has been downstreamed to Santander UK plc as 'secondary non-preferential debt' in line with the guidelines from the Bank of England for Internal MREL.
(2) Includes funding from mortgage-backed securitisation vehicles where Santander UK plc is the asset originator.
(3) Includes funding from asset-backed securitisation vehicles where entities other than Santander UK plc are the asset originator.

Currency composition of wholesale funds (audited)
This table shows our wholesale funding by major currency at 31 December 2024 and 31 December 2023.

	2024				2023			
	Sterling	US Dollar	Euro	Other	Sterling	US Dollar	Euro	Other
	%	%	%	%	%	%	%	%
Downstreamed from Santander UK Group Holdings plc to Santander UK plc								
Senior unsecured – public benchmark	25	62	12	1	23	60	17	—
– privately placed	—	—	—	100	—	—	—	100
Subordinated liabilities and equity (incl. AT1)	89	11	—	—	87	13	—	—
	42	48	9	1	38	48	13	1
Other Santander UK plc								
Deposits by banks	1	97	2	—	1	97	2	—
Certificates of deposit and commercial paper	24	67	8	1	29	70	—	1
Senior unsecured – public benchmark	48	—	52	—	21	56	23	—
– privately placed	100	—	—	—	98	—	2	—
Covered bonds	48	9	40	3	54	5	39	2
Securitisation & structured issuance	100	—	—	—	100	—	—	—
TFSME	100	—	—	—	100	—	—	—
Subordinated liabilities	76	24	—	—	76	24	—	—
	65	15	19	1	71	14	15	—
Other group entities								
Securitisation & structured issuance	100	—	—	—	100	—	—	—
Total	59	23	16	2	63	23	14	—

Term issuance (audited)
In 2024, our external term issuance (sterling equivalent) was:

	Sterling	US Dollar	Euro	Other	Total 2024	Total 2023
	£bn	£bn	£bn	£bn	£bn	£bn
Downstreamed from Santander UK Group Holdings plc to Santander UK plc						
Senior unsecured – public benchmark	—	0.8	—	—	0.8	1.5
Subordinated debt and equity (inc. AT1)	0.4	—	—	—	0.4	1.1
	0.4	0.8	—	—	1.2	2.6
Other Santander UK plc						
Securitisations and other secured funding	1.2	—	—	—	1.2	1.5
Covered bonds	2.2	0.8	2.6	0.3	5.9	1.8
Senior unsecured – privately placed	0.5	—	—	—	0.5	0.3
	3.9	0.8	2.6	0.3	7.6	3.6
Other group entities						
Securitisations	—	—	—	—	—	0.5
Total gross issuances	4.3	1.6	2.6	0.3	8.8	6.7

2024 compared to 2023
Together with our immediate parent, Santander UK Group Holdings plc, our overall funding strategy remains to develop and sustain a diversified funding base. We also need to fulfil regulatory requirements as well as support our credit ratings. We have stable and diversified wholesale funding programmes.

In 2024 we issued £8.4bn Sterling equivalent medium-term funding, including Covered bond, Senior unsecured and RMBS issuances. We repaid £6.0bn of TFSME in 2024 as planned, with an outstanding balance of £11.0bn at 31 December 2024. £7.1bn is due for repayment in October 2025, £2.5bn in 2027, and the remaining £1.4bn. in 2031. We expect to issue £10-£12bn of medium-term funding in 2025, including £3.7bn equivalent already issued.

At 31 December 2024, 65% (2023: 79%) of wholesale funding had a maturity of greater than one year, with an overall residual duration of 37 months (2023: 35 months).

Encumbrance

We encumber an asset if we pledge or transfer it as collateral against a liability. This means it is no longer available to secure funding, meet our collateral needs or be sold to reduce funding needs. Being able to pledge or transfer assets as collateral is a key part of a bank's operations. The main ways we encumber assets are that we: enter into securitisation, covered bonds, and repurchase agreements to access medium and long-term funding; enter into short-term funding transactions (including repurchase agreements and stock borrowing) as part of our liquidity management; pledge collateral as part of participating in payment and settlement systems; and post collateral as part of derivatives activity. We control levels of encumbrance by setting a minimum level of unencumbered assets after we factor in our funding plans, whether we can use our assets for our future collateral needs, the impact of a stress and our current encumbrance level.

Assets classified as readily available for encumbrance include cash and securities in our eligible liquidity pool. All other loans and advances are classified as not readily available for encumbrance, however, they may still be suitable for use in secured funding structures.

Encumbrance of customer loans and advances

We issued securitised products to a diverse investor base through our prime mortgage-backed and other asset-backed funding programmes. We raised funding with mortgage-backed notes, both issued to third parties and retained – the latter being central bank eligible collateral for funding purposes in other Bank of England facilities. We also have a covered bond programme, under which we issue securities to investors secured by a pool of residential mortgages. For more on these programmes, see Notes 14 and 25 to the Consolidated Financial Statements.

On-balance sheet encumbered assets (audited)

	Encumbered with counterparties other than central banks				
	Covered bonds	Securitis-ations	Other	Total	Assets positioned at central banks[3]
2024	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and balances at central banks[1][2]	**—**	**—**	**1,580**	**1,580**	**—**
Loans and advances to customers	**25,695**	**7,026**	**68**	**32,789**	**49,888**
Loans and advances to banks	**—**	**—**	**139**	**139**	**—**
Repurchase agreements – non trading	**—**	**—**	**—**	**—**	**—**
Other financial assets at amortised cost	**—**	**—**	**1,529**	**1,529**	**—**
Financial assets at fair value through other comprehensive income	**—**	**—**	**3,920**	**3,920**	**584**
Total assets	**25,695**	**7,026**	**7,236**	**39,957**	**50,472**
2023					
Cash and balances at central banks[1][2]	—	—	1,480	1,480	831
Loans and advances to customers	21,880	5,208	59	27,147	58,489
Loans and advances to banks	—	—	254	254	—
Repurchase agreements – non trading	—	—	—	—	—
Other financial assets at amortised cost	—	—	14	14	—
Financial assets at fair value through other comprehensive income	—	—	5,183	5,183	—
Total assets	21,880	5,208	6,990	34,078	59,320

(1) Encumbered cash and balances at central banks include minimum cash balances we have to hold at central banks for regulatory purposes.
(2) Readily realisable cash and balances at central banks are amounts held at central banks as part of our liquidity management activities.
(3) Comprises pre-positioned assets and encumbered assets.

Capital risk

Overview

Capital risk is the risk that we do not have an adequate amount or quality of capital to meet our business objectives, regulatory requirements and market expectations.

In this section, we set out how we are regulated. We explain how we manage capital on a standalone basis as a subsidiary in the Banco Santander group. We then analyse our capital resources and key capital ratios including our RWAs.

Key metrics

CET1 capital ratio of 14.9% (2023: 15.4%)

Total qualifying regulatory capital of £13.7bn (2023: £14.6bn)

Regulatory supervision

For capital purposes, we are subject to prudential supervision by the PRA, as a UK banking group, and by the European Central Bank (ECB) as part of the Banco Santander group. The ECB supervises Banco Santander as part of the Single Supervisory Mechanism (SSM). Although we are part of the Banco Santander group, we do not have a guarantee from Banco Santander SA and we operate as a standalone subsidiary. As we are part of the UK sub-group regulated by the PRA, we have to meet the PRA capital requirements on a standalone basis. We also have to show the PRA that we can withstand capital stresses without the support of our ultimate parent, Banco Santander SA. Reinforcing our corporate governance framework, the PRA exercises oversight through its rules and regulations on the Board and senior management appointments.

Santander UK Group Holdings plc is the holding company of Santander UK plc and is the head of the Santander UK group for regulatory capital and leverage purposes. Santander UK plc is the head of the ring-fenced bank sub-group and is subject to regulatory capital and leverage rules in relation to that sub-group. Our basis of consolidation for our capital disclosures is substantially the same as for our Consolidated Financial Statements.

CAPITAL RISK MANAGEMENT

Risk appetite

The Board is responsible for capital management strategy and policy and ensuring that we monitor and control our capital within regulatory and internal limits. We manage our funding and maintain capital adequacy on a standalone basis. We operate within the capital risk framework and appetite approved by our Board. This reflects the environment we operate in, our strategy for each material risk and the potential impact of adverse scenarios or stresses on our capital.

Management of capital requirements (audited)

Our capital risk appetite aims to maintain capital levels appropriate to the level of stress applied, and the expected regulatory response. In:

- An adverse economic stress, which we expect once in 20 years, we should remain profitable and exceed all regulatory capital minimums at all times.
- A very severe economic stress, which we expect once in 100 years, and which has been designed to test any specific weaknesses of our business model, we should meet all regulatory capital minimums at all times. This is subject to using regulatory buffers designed to absorb losses in such a stress.

Risk measurement

We apply Banco Santander's approach to capital measurement and risk management for CRD IV. Santander UK plc is classified as a large subsidiary of Banco Santander SA. For more on the CRD IV risk measurement of our exposures, see Banco Santander's Pillar 3 report.

Management of capital resources (audited)

We use a mix of regulatory and EC ratios and limits, internal buffers and restrictions to manage our capital resources. We also take account of the costs of differing capital instruments and capital management techniques. We also use these to shape the best structure for our capital needs. We decide how to allocate our capital resources as part of our strategic planning process. We base this in part on the relative returns on capital using both EC and regulatory capital measures. We plan for severe stresses and we set out what action we would take if an extremely severe stress threatened our viability and solvency. This could include not paying dividends, selling assets, reducing our business and issuing more capital.

Key metrics

The main metrics we use to measure capital risk are CET1 capital ratio, total capital ratio and UK leverage ratio. We continue to be in excess of overall capital requirements, minimum leverage requirements and minimum requirements for own funds and eligible liabilities (Internal MREL).

Stress testing

Each year we create a capital plan, as part of our ICAAP. We share our ICAAP with the PRA. The PRA then tells us how much capital (Pillar 2A), and of what quality, it thinks we should hold on top of our Pillar 1 requirements and buffer levels. We also develop a series of economic scenarios to stress test our capital needs and confirm that we have enough regulatory capital to meet our projected and stressed capital needs and to meet our obligations as they fall due.

Our CISA was developed to understand the impact of climate change on our business. We invested in a strategic solution which delivers the capability to run long-term horizon multi-scenario assessments which reflect a range of climate outcomes. These outcomes cover shorter and longer-term horizons and reflect physical and transition risks. The CISA outputs are used in our future ICAAP exercises for climate risk and will help us prioritise our actions for the next five years.

We augment our regulatory minimum capital with internal buffers. We hold buffers to ensure we have enough time to act against unexpected changes.

Risk mitigation
We designed our capital risk framework, policies and procedures to ensure that we operate within our Risk Appetite. We manage capital transferability between our subsidiaries in line with our business strategy, risk and capital management policies, and UK laws and regulations. There are no legal restrictions on us moving capital resources promptly, or repaying liabilities, between the Company and its subsidiaries except for loans and distributions between Santander UK entities in the ring-fenced bank sub-group and Santander UK entities that are not members of the ring-fenced bank sub-group, where the PRA is required to assess the impact of proposed distribution prior to payment. For details on our Recovery framework in the event of a capital stress, see 'risk mitigation' in the 'Liquidity risk' section.

Capital support arrangements
At 31 December 2024, Santander UK plc, Cater Allen Limited, Santander ISA Managers Limited and certain other non-regulated subsidiaries of Santander UK plc were party to a capital support deed dated 3 December 2024 which was effective from 3 December 2024 (the RFB Sub-Group Capital Support Deed). These parties were permitted by the PRA to form a core UK group as defined in the PRA Rulebook, a permission which expires on 3 December 2027. Exposures of each of the regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply and these exposures are risk-weighted at 0%. Where applicable this permission also provides for intra-group exposures to be excluded from the leverage exposure measure. The purpose of the RFB Sub-Group Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated entities to any of the regulated entities in the event that one of the regulated entities breached or was at risk of breaching its capital resources or risk concentrations requirements.

Risk monitoring and reporting
We monitor and report regularly against our capital plan. We do this to identify any change in our business performance that might affect our capital. Each month, we also review the economic assumptions we use to create and stress test our capital plan. We do this to identify any potential reduction in our capital.

CAPITAL RISK REVIEW

Meeting evolving capital requirements
We target a CET1 management buffer of sufficient size to absorb volatility in CET1 deductions, capital supply and capital demand whilst remaining above the current and expected future regulatory CET1 requirement. Distribution restrictions would be expected to be applied if we were unable to meet both our minimum requirement, which consists of the Pillar 1 minimum plus Pillar 2A, the CRD IV buffers consisting of the Capital Conservation Buffer (CCB), the Countercyclical Capital Buffer (CCyB), and the Other Systemically Important Institutions Buffer (O-SII).

Impact of IFRS 9 on regulatory capital
Our ECL methodology takes account of forward-looking data and covers a range of possible economic outcomes, and so provision movements may result in increased pro-cyclicality of risk-based capital and leverage ratios. However, the impact is currently mitigated by our surplus of IRB model regulatory expected losses over provisions for exposures using the IRB approach. For such exposures (which include residential mortgages) the adverse impact on CET1 capital of provision increases from reserve movements is offset by the related reduction of the negative CET1 capital adjustment for regulatory expected loss amounts. Also, the UK CRR transitional rules for the capital impact of IFRS 9 meant that adverse CET1 effects from increases in ECL-based provisions from the level of such provisions at 1 January 2018 were partly reduced until the end of 2024.

We reflect projections of ECL provisions in our capital position forecasting under base case and stress scenarios for ICAAP and capital management purposes. We also consider the dynamics of ECL in how we assess and manage capital risk. A period of economic instability, such as that seen in early 2020 due to the impacts of the Covid-19 pandemic, could significantly impact our results and our financial assets. It could also impact the amount of capital we have to hold. We consider the volatility of ECL in our capital planning strategy.

Key capital ratios

	2024 %	2023 %
CET1 capital ratio	**14.9**	15.4
AT1	**2.8**	2.9
Tier 2	**3.3**	3.2
Total capital ratio	**21.0**	21.5
Total subordination available to Santander UK plc senior unsecured bondholders as a % of RWAs	**21.0**	21.5
Return on assets - profit after tax divided by average total assets	**0.36**	0.55

Regulatory capital resources (audited)
This table shows our qualifying regulatory capital:

	2024 £m	2023 £m
CET1 capital	**9,791**	10,443
AT1 capital	**1,860**	1,956
Tier 1 capital	**11,651**	12,399
Tier 2 capital	**2,093**	2,172
Total capital[(1)]	**13,744**	14,571

(1) Capital resources include a transitional IFRS 9 benefit at 31 December 2024 of £12.2m (2023: £43.0m).

Risk-weighted assets
Total RWAs at 31 December 2024 were £65.5bn (2023: £67.8bn) which are consistent with our regulatory filings.

Market risk

Overview

Market risk comprises non-traded market risk and traded market risk.

Non-traded market risk is the risk of loss of income, economic or market value due to changes to interest rates in the non-trading book or to changes in other market risk factors (e.g. credit spread and inflation risk), where such changes would affect our net worth through an adjustment to revenues, assets, liabilities, and off-balance sheet exposures in the non-trading book.

Traded market risk is the risk of changes in market factors that affect the value of the positions in the trading book. We have no significant traded market risk exposure.

In this section, we set out which of our assets and liabilities are exposed to non-traded and traded market risk. Then we explain how we manage these risks and discuss our key market risk metrics.

Key metrics

Net Interest Income (NII) sensitivity to +100bps was £167m and to -100bps was £(201)m (2023: £220m and £(220)m).

Economic Value of Equity (EVE) sensitivity to +100bps was £(496)m and to -100bps was £425m (2023: £(299)m and £265m).

Balance sheet allocation by market risk classification(audited)

We classify all our assets and liabilities exposed to market risk as non-traded market risk, except for certain portfolios that we must classify as trading books for regulatory purposes (such as selling derivatives or derivative-based products to clients), of which we must fair value for accounting reasons (such as assets in the eligible liquidity pool). For accounting purposes, we classify all derivatives as held for trading unless they are designated as being in a hedging relationship. For more, see Note 11 to the Consolidated Financial Statements.

NON-TRADED MARKET RISK

OUR KEY NON-TRADED MARKET RISKS (audited)

Non-traded market risk mainly comes from providing banking products and services to our customers, as well as our structural balance sheet exposures. It arises in all our business segments. In Retail & Business Banking, Consumer Finance and Corporate & Commercial Banking, it is a by-product of us writing customer business and we transfer most of these risks to Corporate Centre to manage. The only types of non-traded market risk that we keep in Retail & Business Banking, Consumer Finance and Corporate & Commercial Banking are short-term mismatches due to forecasting variances in prepayment and launch risk. This is where customers repay their loans earlier than their expected maturity date or do not take the expected volume of new products. Corporate Centre also manages our structural balance sheet exposures, such as foreign exchange and Income Statement volatility risk.

Our non-traded market risk categories are:

Category	Description
Interest rate risk	Interest rate risk mainly consists of yield curve risk, which comes from timing mismatches in repricing fixed and variable rate assets, liabilities and off-balance sheet instruments. It also comes from investing non-rate sensitive liabilities in interest-earning assets.
Spread risk	Spread risk arises when the value of assets or liabilities which are accounted for at fair value (either through Other Comprehensive Income or through profit and loss) are affected by changes in the credit spread. We measure these spreads as the difference between the discount rate we use to value the asset or liability, and an underlying interest rate curve.
Foreign exchange risk	Our banking businesses operate mainly in sterling markets, so we do not create significant foreign exchange exposures. The only exception to this is money we raise in foreign currencies. For more on this, see 'Wholesale funding' in the 'Liquidity risk' section.
Income statement volatility risk	We measure most of the assets and liabilities in our banking book balance sheet at amortised cost. We sometimes manage their risk profile by using derivatives. As all derivatives are accounted for at fair value, the mismatch in their accounting treatment can lead to volatility in our Income Statement. This happens even if the derivative is an economic hedge of the asset or liability.

NON-TRADED MARKET RISK MANAGEMENT

Risk appetite

Our Structural and Market Risk framework sets out our high-level arrangements and standards to manage, control and oversee non-traded market risk (also known as structural risk), and is part of our overall Risk Framework. Our Risk Appetite sets the controls, risk limits and key risk metrics for non-traded market risk. We show risk appetite by the income and value sensitivity limits we set in our Risk Appetite, at both Santander UK and Banco Santander group levels.

Risk measurement

We mainly measure our exposures with NII and EVE sensitivity analysis. We support this with VaR risk measures and stress testing. We also monitor our interest rate repricing gap. We regularly review our risk models and metrics including underlying model assumptions to ensure they continue to reflect the risks inherent in the current rate environment and regulatory expectations.

NII and EVE sensitivities (audited)
The calculations for NII and EVE sensitivities to interest rate moves involve many assumptions, including expected customer behaviour (such as early repayment of loans) and the projected evolution and repricing of our balance sheet. These assumptions are a key part of our overall control framework, so we update and review them regularly. Our NII and EVE sensitivities include the interest rate risk from all our banking book positions. Our banking book positions generate almost all our reported net interest income.

Net Interest Income (NII) sensitivity
– NII sensitivity is an income-based measure we use to forecast the changes to interest income and interest expense in different scenarios. It gives us a combined impact on net interest income over a given period – usually 12 or 36 months.
– We calculate NII sensitivity as the change in NII for a defined set of instantaneous parallel and non-parallel shifts in the yield curve.

EVE sensitivity
– We calculate EVE sensitivity as the change in the net present value of all the interest rate sensitive items in the banking book balance sheet for a defined set of instantaneous parallel and non-parallel shifts in the yield curve.

The limitations of sensitivities
We use sensitivities to measure the impact of standard, instantaneous, parallel shifts in relevant yield curves. The advantage of using standard parallel shifts is they generally give us a constant measure of the size of our market risk exposure, with a simple and consistent stress. We also run non-parallel stress tests, to calculate the impact of some plausible non-parallel scenarios, and over various time periods for income stresses, usually one or three years.

Value at Risk (VaR) (audited)

VaR
– VaR indicates possible losses from market changes in non-stressed conditions.
– We run a historical simulation. We use two years of historical daily price moves. We report a 99% confidence level.

The limitations of VaR
VaR is a standard risk measure. It has limitations including:

– It assumes the past is a reliable guide to the possible future.
– It uses end of day positions. It would miss higher risk run only during the day.
– It does not predict the loss on the 1% largest-loss days (outside the 99% confidence interval).
– We use a history of one day price moves. This is reasonable for our business but VaR does not cover positions we could not sell or hedge quickly, or products whose prices cannot be observed.

Back-testing – comparing VaR estimates with actual profit and loss
To check that our VaR is reasonable, we compare it against our observed profits and losses for the same area. This confirms the VaR model is working. If we found it were not, we would investigate, and correct it if required.

Stress testing
Stress testing is an essential part of our risk management. It helps us to measure and evaluate the potential impact on portfolio values of more extreme, although plausible, events or market moves. Limits reflect our risk appetite and are expressed relative to the loss given a stress event, thereby restricting how much risk we take.

Stress testing scenarios
Simple stress tests (like parallel shifts in relevant curves) give us clear measures of risk and a consistent starting point for setting limits. More complex, multi-factor and multi-time period stress tests give us information about specific potential events. They can also test outcomes that we might not capture through parallel stresses or VaR-type measures. We use stress tests to estimate losses in extreme market events beyond the confidence level used in VaR models.

We can adapt our stress tests to reflect concerns such as climate change risk, other macroeconomic and geopolitical events or changing market conditions. We run individual business area stresses and Santander UK-wide scenarios.

Other ways of measuring risk
As well as using sensitivities and stress tests, we can measure non-traded market risk using net notional positions. This can give us a simple view of our exposure, although we generally need to combine it with other risk measures to cover all aspects of a risk profile, such as projected changes over time. Other metrics we can use include Earnings at Risk (EaR). EaR is like VaR but captures changes in income rather than value.

Risk mitigation (audited)
We typically hedge the interest rate risk of the securities we hold for liquidity and investment purposes with interest rate swaps. We retain spread exposures, and these are the key drivers of the VaR and stress tests we use to assess the risk of the portfolio. We mitigate Income Statement volatility mainly through hedge accounting. We monitor any hedge accounting ineffectiveness that might lead to Income Statement volatility with a VaR measure and trigger, reported monthly. For our accounting policies for derivatives and hedge accounting, see Note 1 to the Consolidated Financial Statements.

We hedge our foreign currency funding positions back to sterling, so our foreign exchange positions tend to be residual exposures that remain after hedging. These exposures could be, for example, to 'spot' foreign exchange rates or to cross currency basis. We monitor foreign exchange risk against absolute net exposures and VaR-based limits and triggers.

For more on this, see 'Funding strategy' and 'Term issuance' in the 'Liquidity risk' section.

Risk monitoring and reporting (audited)
We monitor our non-traded market risks using NII and EVE sensitivities, VaR and stress tests. We report them against limits and triggers to senior management daily and to ALCO and ERCC each month. The VaR we report captures all key sources of volatility (including interest rate and spread risks) to fully reflect potential volatility.

NON-TRADED MARKET RISK REVIEW

Interest rate risk

Yield curve risk

The table below shows how our net interest income would be affected by a 100bps parallel shift (both up and down) applied instantaneously to the yield curve at 31 December 2024 and 31 December 2023. Sensitivity to parallel shifts represents the amount of risk in a way that we think is both simple and scalable.

	2024		2023	
	+100bps	-100bps	+100bps	-100bps
	£m	£m	£m	£m
NII sensitivity (audited)[1]	167	(201)	220	(220)
EVE sensitivity	(496)	425	(299)	265

(1) Based on modelling assumptions of repricing behaviour.

NII Sensitivity is adversely exposed to down-shock scenarios driven by margin compression of core liabilities, partly offset by the structural position. EVE sensitivity is adversely exposed to rising interest rate scenarios.

EVE sensitivity reflects the potential impact on economic value due to the structural mismatch of assets and liabilities (excluding equity) over the longer term. The EVE metric excludes equity as a source of non-rate sensitive funding, as equity is invested into the structural position the metric typically reflects an adverse exposure to rising rate scenarios.

Interest rate repricing gap

The table below shows the interest rate repricing gap of our balance sheet by repricing buckets.

	3 months	1 year	3 years	5 years	>5years	Not sensitive	Total
2024	£m	£m	£m	£m	£m	£m	£m
Assets	93,430	51,502	93,136	21,899	8,357	15,118	283,442
Liabilities	110,187	51,152	52,767	43,930	2,081	24,157	284,274
Off-balance sheet	4,673	2,414	(20,185)	15,835	(1,905)	—	832
Net gap	(12,084)	2,764	20,184	(6,196)	4,371	(9,039)	—
2023							
Assets	104,985	48,416	79,635	40,553	5,650	14,640	293,879
Liabilities	117,154	49,904	54,127	46,107	2,558	24,908	294,758
Off-balance sheet	12,345	1,429	(14,771)	(278)	2,154	—	879
Net gap	176	(59)	10,737	(5,832)	5,246	(10,268)	—

Spread risk

The table below shows the risk metrics covering the portfolios of securities we hold for liquidity and investment purposes.

	2024	2023
	£m	£m
VaR	5	5
Worst three month stressed loss	110	86

We regularly review our risk models and metrics including the scenarios and underlying modelling assumptions we use, to ensure they continue to reflect the risks in the current economic environment, and incorporate regulatory expectations.

2024 compared to 2023

In 2024 NII sensitivity decreased, and EVE sensitivity increased, mainly reflecting the overall increase in the structural hedge position relative to non-rate sensitive liabilities.

TRADED MARKET RISK

We have no significant traded market risk exposure. The risk we do have is from providing permitted financial services to permitted customers.Traded market risk can reduce our net income. Movements in interest rates, credit spreads, and foreign exchange rates affect the value of products we have.

We have two trading desks. The Link Desk transacts derivatives with our corporate clients. The Structured Products Group (SPG) sells investments to retail investors, through our UK branches and other channels. Banking Reform legislation requires us to have immaterial market risk. We hedge risks from customer trades, mostly with Banco Santander SA. We calculate market risk capital using standard rules.

The Internal VaR for exposure to traded market risk at 31 December 2024 was less than £1m (2023: less than £1m).

Pension risk

Overview

Pension risk is the risk caused by our statutory contractual or other liabilities with respect to a pension scheme (whether set up for our employees or those of a related company or otherwise). It also refers to the risk that we will need to make payments or other contributions with respect to a pension scheme due to some other reason.

In this section, we explain how we manage pension risk, including our investment and hedging strategies. We also discuss our key metrics and developments in the year.

Key metrics

Funding Deficit at Risk was £830m (2023: £980m)

Funded defined benefit pension scheme accounting surplus was £439m (2023: £723m)

OUR KEY PENSION RISKS

Pension risk is one of our key financial risks. Santander UK plc is the sponsor of the Santander (UK) Group Pension Scheme (the Scheme), a defined benefit scheme. Our risk is that, over the long-term, the Scheme's assets are not enough to meet its liabilities as they fall due. If this happens, we could have to (or choose to) make extra contributions. We might also need to hold more capital to reflect this risk.

The Scheme, risk metrics and regulatory capital can be sensitive to changes in the assumptions of the risk categories shown below.

Categories	Description
Interest rate risk	The risk that a decrease in (long-term) interest rates causes an increase in the value of the Scheme's liabilities that are not matched by an increase in the value of its assets.
Inflation risk	Annual pension increases are directly linked to RPI or CPI. The risk is that an increase in inflation causes an increase in the value of the Scheme's liabilities that are not matched by an increase in the value of its assets.
Longevity risk	The Scheme's liabilities are in respect of current and past employees and are expected to stretch beyond 2080 due to the long-term nature of the obligation. Therefore, the Scheme's liabilities are also impacted by changes to the life expectancy of Scheme members over time.
Investment risk	The risk that the return on the Scheme's assets is insufficient to meet the liabilities.

For more on our defined benefit schemes, including sensitivity analysis of our key actuarial assumptions, see Note 28 to the Consolidated Financial Statements.

Defined contribution schemes
We also have defined contribution schemes for some of our employees. These schemes carry far less market risk for us, although we are still exposed to operational and reputational risks. For more on our defined contribution schemes, see Note 28 to the Consolidated Financial Statements.

The impact of our defined benefit schemes on capital
We take account of the impact of pension risk on our capital as part of our planning and stress testing process, considering measures such as the impact on CET1 and Pillar 2A, and also where relevant the impact on the related measures such as the leverage ratio.

Our defined benefit pension schemes affect capital in two ways:
- We treat an IAS 19 deficit as a liability on our balance sheet. We recognise deficit movements in Other Comprehensive Income, so this reduces shareholders' equity and CET1 capital. We treat an IAS 19 surplus as an asset. This increases shareholders' equity, but it is deducted in determining CET1 capital. An IAS 19 surplus/deficit is partially offset by a deferred tax liability/asset. These may be recognised for calculating CET1 capital depending on our overall tax position.
- The PRA takes pension risk into account in the Pillar 2A capital assessment in the annual ICAAP exercise. Pillar 2A is part of our overall regulatory requirement for CET1 capital, Tier 1 capital and total capital. For more on our regulatory requirements, see the 'Capital risk' section.

PENSION RISK MANAGEMENT

For details of how the Scheme is governed and operates, see Note 28 to the Consolidated Financial Statements.

Risk appetite
Our Risk Appetite is a key consideration in all decisions and risk management activities related to the Scheme. Our pension risk appetite is reviewed by our Pension Forum at least once a year. It is then sent to the Board for approval. We measure pension risk on both a technical provisions (funding) basis and an accounting (IAS 19) basis. We manage pension risk on both the accounting and the funding basis. Both bases are inputs into our capital calculations.

Risk measurement
Our key risk metrics include:

Key risk metrics	Description
Funding Deficit at Risk	We use a VaR and a forward-looking stress testing framework to model the Scheme's assets and liabilities to show the potential deterioration in the funding position.
Sponsor Contributions	We use a VaR and a forward-looking stress testing framework to model the potential contribution that could be payable to the Scheme by a pre-defined fixed date in the future.
Pensions Volatility	We use a VaR and a forward-looking stress testing framework to model the volatility in the pension-related capital deduction.

In addition to investing in liquid debt markets, the Scheme invests in certain assets whose values are not based on market observable data, such as investments in private equity funds and property. For more on this, see Note 28 to the Consolidated Financial Statements. The risks of these assets are included in the metrics described above.

We perform stress tests for regulators, including for ICAAPs and PRA stress tests. For more on our stress testing, see the 'Risk governance' section.

Climate change scenario testing gives us the capacity to simulate risk exposures over an extended time horizon. The Trustee has an ambition to achieve net zero by 2050, which it factors into its decision making.

Risk mitigation
The key tools we use to maintain the above key risk metrics within appetite are:

Key tools	Description
Investment strategies	The Trustee developed the following investment objectives to reflect their main duty to act in the best interests of Scheme beneficiaries: – To maintain a diversified portfolio of assets of appropriate quality, security, liquidity and profitability to generate income and capital growth to meet, with new contributions from members and employers, the cost of current and future benefits that the Scheme provides – To limit the risk that the assets fail to meet the liabilities – To invest in a manner appropriate to the nature and duration of the expected future retirement benefit payments under the Scheme – To minimise the Scheme's long-term costs by maximising asset returns net of fees and expenses whilst reflecting the objectives above. The investment strategy is regularly reviewed, and its impact on Funding Deficit at Risk is considered.
Hedging strategies	The Trustee employs asset-liability matching arrangements including the use of liability driven investment strategies, and has a hedging strategy to reduce key market risks, mainly interest rate and inflation risk, but also currency and longevity risk. We monitor available collateral and liquidity with the objective of ensuring we have sufficient collateral and/or liquidity available to meet any margin calls.
Environmental, social and governance (ESG)	The Trustee has established a Sustainability Committee which is responsible for overseeing the Scheme's policies, regulatory obligations and priorities in respect of climate change and wider ESG related matters.

We look at the impact on our risk metrics when determining the appropriateness of the investment and hedging strategies.

Risk monitoring and reporting
We monitor pension risk each month and report on it at the Pension Forum, ERCC and, where thresholds are exceeded (or likely to be), to the Board Risk Committee and the Board in line with our pension risk appetite. This also includes quarterly monitoring of corporate credit exposures to assess any concentrations of risk. We discuss any remedial action with the Trustee. In addition, we monitor the performance of third parties who support the valuation of the Scheme's assets and liabilities.

PENSION RISK REVIEW

2024 compared to 2023
We made further refinements in 2024 as part of the CISA exercise.
The underlying level of risk in the Scheme reduced in 2024. This was mainly driven by increased interest and inflation hedging in the first half of the year and the continuing disposals of illiquid assets, including the sale of some private equity assets.

Our main focus is to ensure the Scheme achieves the right balance between risk and reward whilst minimising the impact on our capital and financial position. At 31 December 2024, the Funding Deficit at Risk decreased to £830m (2023: £980m), mainly due to the hedging noted above with the interest rate hedge ratio at 98% (2023: 89%) and the inflation hedge ratio at 99% (2023: 82%) on a funding basis.

The Scheme's collateral and liquidity position continued to be monitored closely in light of the increase in long term gilt yields seen over the second half of 2024.

We also monitor the potential impact from variations in the IAS 19 position of CET1 capital. There was a moderate impact on CET1 capital caused by movements in the IAS 19 position in the year. For more on the impact of our defined benefit schemes on capital, see the 'Capital Risk' section.

In 2024, we adopted a new version of the model that we use to set the IAS19 discount rate. The updated model is based on an expanded data set which is expected to improve its stability. We also updated the mortality improvement assumption we use to value the floating leg of the longevity swap following a mortality basis review carried out by the insurer and the Trustee. We also updated the mortality improvement assumption underlying the liability valuation to reflect latest data available.

The accounting position deteriorated in 2024. For the section in deficit, this deterioration was more than offset by the deficit contributions paid. The Scheme sections in surplus had an aggregate surplus of £439m at 31 December 2024 (2023: £723m) while there were no sections which had a deficit at 31 December 2024 (2023: one). The overall funded position was a £439m surplus (2023: £682m surplus). There were also unfunded liabilities of £23m at 31 December 2024 (2023: £25m). The overall deterioration was mainly due to a rise in gilt yields which caused assets to decrease by more than the liabilities, and decreases in the value of certain illiquid assets. There remains considerable market uncertainty and our position could change materially over a short period.

For more on our pension schemes, including the asset allocation and our accounting assumptions, see Note 28 to the Consolidated Financial Statements.

Strategic and business risk

Overview

Strategic and business risk is the risk of significant loss or underperformance against planned objectives; damage arising from strategic decisions or their poor implementation; an inability to adapt to external developments that impact the long-term interests of our key stakeholders.

In this section, we describe our key strategic and business risks and explain how we manage them. We also describe developments in the year.

OUR KEY STRATEGIC AND BUSINESS RISKS

Strategic and business risk could impact our long-term success if it caused our business model to become ineffective, out of date, or inconsistent with our goals. This could happen if we are unable to identify threats arising from the economy, competitors, regulations, and/or changes in technology and customer expectations. We could be exposed to this risk if we misjudge our capabilities, or the ability to implement our strategy, or pursue initiatives that do not fit with our business model or miss opportunities we could benefit from.

STRATEGIC AND BUSINESS RISK MANAGEMENT

Risk management	Description
Risk appetite	We have a low to moderate appetite for strategic and business risk. This limits the risks we are prepared to take to achieve our strategic objectives and is aligned to our balanced, customer-centric business model.
Risk measurement	Our Board and senior management regularly review potential risks in our operations and plans to ensure we stay within risk appetite.
Risk mitigation	We manage strategic and business risk by having a clear and consistent strategy that takes account of external factors and our own capabilities. We have an effective planning process which ensures we adapt our strategy to reflect changes in risks and opportunities.
Risk monitoring and reporting	We closely track our business environment, including long-term trends that might affect us in the future. As part of this, we report a range of indicators.

STRATEGIC AND BUSINESS RISK REVIEW

2024 compared to 2023

In 2024, we continued to transform ourselves and made changes to serve our customers better by offering them the best products at the best value and with a frictionless digital experience. To deliver this we focused our transformation on three core pillars:

- Commercial Transformation: creating better propositions,
- Operational Transformation: creating better capabilities, and
- Cultural Transformation: creating an organisation with an even greater focus on high performance and customer focus.

We successfully delivered phase 2 of the Consumer Duty mandate which delivered a sustainable customer-focused operating model, and shifted us to a more customer outcome-focused culture. We continue to face a demanding regulatory agenda and have multiple ongoing projects to ensure regulatory compliance. We will continue to work through these requirements in 2025, while keeping good customer outcomes at the heart of everything we do. Regulatory mandates we delivered include the Payment Systems Regulator's requirement on Confirmation of Payee for all Payment Service Providers and an Authorised Push Payment mandatory reimbursement regulation, both of which became effective from 7 October 2024.

Our ambition is to be net zero by 2050 and we are supporting our customers to help them to make the green transition in a fair way. In 2024, we identified ways to help our customers in their journey to transition to a low carbon economy whilst continuing to assess the underlying risks they face. We launched new Green Finance products as well as strategic partnerships with energy companies such as Octopus Energy and Scottish Power. Our Green Finance taskforce continued to consolidate ongoing and future Green Finance initiatives enabling us to ensure we deliver on our green finance public ambition.

Competitive pressures continued in 2024 with overall market volumes for assets and deposits resuming growth. The recent consolidation drive by our peers is creating larger and more diversified competitors, while digital banks continue to build their customer base and expand their product offerings. In 2024, we protected our core business franchise by deleveraging mortgages and optimising our balance sheet. We launched several new propositions for our customers, including OneApp, our new business banking app, Edge Home, Edge credit card and our Self Invested Pension Plan. In Corporate and Commercial Banking, we signed a commercial agreement with Dentsu to expand the Santander Navigator proposition. Santander Navigator is a SaaS platform designed to support international trade by providing market-leading insights and connecting businesses across the globe. We believe our customer-focused business model and strategy, and our adaptable and innovative approach, will support our continued success.

We remain focused on supporting customer needs, improving efficiency, and building a responsible and sustainable business, while continuing to progress with our agenda to tackle climate change. This will enable us to meet the changing needs of our customers and deliver improved returns over the long-term.

Reputational risk

Overview

Reputational risk is the risk of damage to the way our reputation and brand are perceived by the public, clients, government, colleagues, investors, or any other interested party.

In this section, we describe our key reputational risks and explain how we manage them. We also describe developments in the year.

OUR KEY REPUTATIONAL RISKS

Reputational risks can arise from internal and external factors. We seek to manage our reputation proactively, underpinned by our aim to be a responsible bank, and through our reputational risk framework. Reputational risk is not static; today's decisions may be judged by different standards tomorrow. We build this into our risk culture, evaluation and sanction procedures.

REPUTATIONAL RISK MANAGEMENT

Risk management	Description
Risk appetite	We have a low appetite for reputational risk, which is agreed by the Board at least each year.
Risk measurement	We assess our exposure to reputational risk daily. We base this on expert judgement and analysis of social, print, and broadcast media, and the views of political and market commentators. We also commission independent third parties to analyse our activities and those of our UK peers to identify reputational events, a decline in our reputation, and sector or thematic issues that impact our business. We also measure the perception of Santander UK by key stakeholders through regular interactions and review staff sentiment each year.
Risk mitigation	Our business units consider reputational risk as part of their operational risk and control assessments. We also consider it as part of our new product reviews. Our Corporate Communications and Responsible Banking, Legal and Compliance and Marketing teams help business units to mitigate the risk and agree action plans as needed, as part of their role to protect our brand and reputation.
Risk monitoring and reporting	We monitor and report reputational risks and issues on a timely basis. Our Reputational Risk Forum reviews and escalates key issues to ERCC, RBC and the Board. We also report regularly to ExCo on Sustainability and Public Affairs policies.

Our Reputational and ESCC risk policies define how we create long-term value while managing those risks. Our ESCC policy covers Oil & Gas, Power Generation & Transmission, Mining & Metals and Soft Commodities. For example, financing is prohibited for project-related financing for new CFPP projects worldwide and we will only work with new clients with CFPPs to provide specific financing for renewable energy projects.

REPUTATIONAL RISK REVIEW

2024 compared to 2023

In 2024, key reputational risks related to the uncertain economic environment and continued pressures from increases in the cost of living. Increased mortgage payments remained a significant issue for our customers. We continued to support the government's Mortgage Charter, and proactively contacted customers to offer support and help. There was criticism that banks were failing to pass on increases in the Bank of England Bank Rate to savers. To address this, we ran campaigns and issued direct communications to customers to advise them of our products and rates, several of which were market leading.

In May 2024, we faced significant reputational risks arising from the Banco Santander global data breach, even though the breach had no material effect on Santander UK. To manage this, we worked closely with colleagues across the Banco Santander group to develop communications for both external and internal audiences to mitigate risks. In February 2024, we also faced significant reputational risks arising from allegations that companies linked to Iran were using accounts held with Santander UK to evade US sanctions.

We also monitored developments in relation to historical motor finance commission payments and its potential impact on Reputational risk. For more details, see Notes 27 and 30 to the Consolidated Financial Statements.

Operational risk

Overview

Operational risk is the risk of loss or adverse impact due to inadequate or failed internal processes, people and systems, or external events. Operational resilience is the ability to prevent disruption occurring to the extent practicable; adapt systems and processes to continue to provide services and functions in the event of an incident; return to normal running promptly when a disruption is over; and learn and evolve from both incidents and near misses. Operational Resilience is the outcome of executing sound Operational Risk practices.

In this section, we describe our key operational risks and explain how we manage them, with a focus on our top operational risks. We also describe our operational risk event losses and developments in the year.

OUR KEY OPERATIONAL RISKS

Operational risk is inherent in our business. As a result, we aim to manage it down to as low a level as possible, in line with our Risk Appetite, rather than eliminate it entirely. Operational risk events can have a financial impact and can also affect our business objectives, customer service and regulatory obligations. These events can include product misselling, fraud, process failures, system downtime and damage to assets or external events.

Our key operational risks are divided into 11 categories:

Category	Description
Business disruption	Business Disruption risk is the risk that we are unable to maintain and/or recover our normal day-to-day operation and secure our tangible assets, to support continued delivery of good customer outcomes. In addition, we must ensure that we meet our operational resilience obligations to recover our important business services within our agreed Impact Tolerances in the event of severe operational disruptions to mitigate harm to our customers and wider financial sector.
Cybersecurity and information security	Information Security risk is the potential for unauthorised access, use, disclosure, alteration, destruction, or disruption of information. This covers all types of data whether stored digitally or non-digitally including client data, employee data and organisational proprietary data. Cybersecurity risk is one aspect of Information Security risk and is the risk of a malicious cyber-attack that may result in unauthorised access to (or theft of) sensitive data, loss of data integrity and/or disruption of services. Information Security and Cybersecurity risks may result in material impacts to our customers, business disruption, financial loss, reputational damage, and regulatory censure.
Data	Data risk is the risk that we do not collect, store, organise, maintain, protect, process, use and/or dispose of data effectively and efficiently. Effective data management supports our goals by giving timely, accurate and relevant data for decision making and business operations.
Financial reporting and Tax	Financial Reporting and Tax risk is the risk associated with producing internal and external financial statements, financial regulatory reporting (including liquidity and capital) and tax reporting.
Fraud	Fraud can be committed by first parties (our customers), second parties (people known to our customers or us), third parties (people unknown to our customers or us), and internally by our staff. We are committed to protecting ourselves and our customers from fraud and to mitigating our fraud risk in an ever-evolving external fraud environment.
IT	IT risk is the risk of adverse impact to the availability, continuity and performance of technology systems including hardware, software, networks and data centres. This risk may give rise to poor customer outcomes or experience and business disruption, financial loss, legal claims, reputational damage, regulatory fines or censure.
Legal	Legal risk is the risk of legal deficiencies in contracts and failures in protecting assets, managing legal disputes, interpretation and compliance with existing laws and regulations or implementation and compliance with new ones. Failure to manage legal risk may expose Santander UK to financial loss, litigation costs, fines, higher capital or liquidity requirements, criminal sanctions, regulatory action or censure, customer complaints, and/or reputational damage.
Outsourcing and Third	Third Party risk is the risk to our operations due to the use of Third Party entities supplying goods or services. The risk can arise from outsourcing and non-outsourcing arrangements.
People	People risk is the risk of loss or adverse impact due to undesired employee behaviours; gaps in employee knowledge and capability; insufficient resources or lack of capacity; inadequate management of occupational health and workplace safety risks; and failure to comply with employment legislation and regulations. This risk may result in poor customer outcomes, failure to deliver our strategy and key business objectives and regulatory, reputational, and financial impacts and personal injury.
Transaction and payments processing	Transaction and Payments Processing risk is the risk that we do not process payment instructions effectively and efficiently. This includes inbound and outbound electronic payments, clearing of cheques and other instruments, deposits/withdrawals of cash and authorisation/ settlement of credit/debit card payments.
Transformatio n and Change	Transformation and Change risk relates to any activity that transforms our business strategy, organisation, products, services, systems and processes. These activities differ from our normal day-to-day activities as they aim to achieve specific outcomes and benefits, with a clear scope, schedule, and budget. The risk covers the strategic and business risks of not investing in the right things, failing to manage an appropriate and complete change portfolio, failing to execute change effectively, and failing to manage risk of change to the business, causing potential adverse consequences.

OPERATIONAL RISK MANAGEMENT

We manage our operational risks (and other Non-Financial risks (NFRs)) in line with our NFR framework, as follows:

Non-Financial Risk Management

Our NFR framework (formerly known as the Operational Risk and Resilience framework) sets out our high-level arrangements and standards to manage operational risks, and is part of our overall Risk Framework. Our Risk Appetite sets the risk limits and key risk metrics for non-financial risks.

Risk appetite

We maintain NFR appetite across Santander UK through Board approved Risk Appetite Statements. These are in place for all principal risks and describe the extent and type of activities that can be undertaken. The Risk Appetite statements consist of qualitative statements of appetite supported by risk limits and triggers which operate as a defence against excessive risk taking. Risk measures and their associated limits are an integral part of embedding risk appetite in day-to-day risk management decisions.

We set a clear tolerance in line with business activities, and we also set lower level triggers, parameters and quantitative thresholds across our business areas. We monitor our risk profile and performance against the risk appetite, and we have processes to identify, assess, manage, and report risks and events. We incorporate Banco Santander group principles and standards, regulatory requirements, and best practice, where applicable. Coverage across the seven CRD IV loss event types is comprehensive and aligns to the principal risks approved by ERCC.

Our policies directly support the qualitative aspects of Risk Appetite. They define expectations, guidance and standards and support consistency of permissible risk taking across the business.

Risk measurement

The key components of the operational risk toolset we use to measure risks under our NFR framework are:

NFR risk toolset	Description
Operational risk and control assessments	Our business units identify and assess their operational risks to ensure they manage and control them within our operational risk appetite, and prioritise actions needed. Every area must identify and record their material risks, assess their controls for adequacy and then accept the risk or plan to address any deficiencies. We perform independent testing of our most important controls to ensure enhanced rigour and challenge of how effectively they are mitigating our largest risks. We also use operational risk assessments and risk rating tools as key parts of change risk management.
Risk scenario analysis	We perform this across business units. It involves a top down assessment of our key operational risks. We update our scenarios each year. The analysis gives us insight into rare but high impact events and allows us to understand potential impacts and address issues. Our Operational risk scenario analysis covers major Operational risks that are extreme but plausible and requires participants across the business to consider and assess the financial and qualitative impacts on Santander UK, in the event these exposures were to materialise. We complete the scenario analysis for risk management and regulatory purposes. We also use it as a business tool for their own stress testing to help understand the largest exposures and agree key actions required to prevent, control or mitigate risks. We review and update our scenarios each year to ensure they still represent our key operational risk exposures.
Key indicators (metrics)	Key indicators and their tolerance levels give us an objective view of risk exposure or the strength of a control at any point in time. They also show trends and give us early warning of potential increasing risk exposures. Our business-wide risk appetite indicators are of primary importance which show adherence to our Risk Appetite statements.
Operational risk event and loss management	Operational risk events occur when our controls do not operate as we planned and this leads to customer impact, financial loss, regulatory impacts and/or damage to our reputation. We use data from these processes to identify and correct any control weaknesses. We also use root cause analysis to identify emerging themes, to prevent or reduce the impacts of recurrence and to support risk and control assessments, scenario analysis and risk reporting. Our operational risk loss appetite sets the level of total operational risk loss (expected and unexpected) in any given year (on a 12-month rolling basis) that we consider to be acceptable. We track actual losses against our appetite, and we escalate as needed.

Risk mitigation

Mitigation Is a critical aspect of ensuring that our risk profile remains within our Risk Appetite. Risk mitigation strategies are discussed and agreed at various Risk committees within Santander.

When we consider strategies, cost and benefits, we also consider residual risks (those retained) and secondary risks (which may be consequential). Monitoring and review processes are in place to evaluate results. Early identification and effective management are critical to successful mitigation. We assess the effects of changes for materiality impact and those assessed as high or medium high impact are managed closely.

Mitigation tools	Description
Training and competence	We train our staff and require them to maintain a suitable level of competence to ensure customers can achieve appropriate outcomes. We invest in all our people to ensure that we achieve our mandatory risk objectives and that everyone acknowledges their personal responsibility to manage risk. We focus on ensuring we train our colleagues to recognise and support customers who may be vulnerable, or who may be experiencing financial stress, financial difficulty or financial abuse. We also have a dedicated Specialist Support Team that offers guidance to colleagues helping customers who may need more tailored solutions.
Action management	Where risk exposures are outside our Risk Appetite, our business units identify, assess, manage and monitor material actions to reduce the exposure back to within appetite.
Event root cause analysis	Where new material and significant events are reported, steps are taken to identify the root cause of the event. This enables a read across and the sharing of lessons learned with appropriate mitigating actions taken to address the root cause and successfully resolve the event, and enhancements made to the control environment to prevent re-occurrence.
Emerging risk monitoring	We monitor key threats, developments, and risks, including consideration of which risk types or Business areas may be impacted or stressed by them.
Risk based insurance	Where appropriate, we use insurance to complement other risk mitigation measures.

We manage our operational risks in line with our NFR framework, as outlined earlier. In addition, to mitigate specific cybersecurity risks, we have the following tailored approach:

Category	Risk mitigation
Cybersecurity	Protecting our customers, systems and data remains a top priority for us. We operate a layered information and cybersecurity defence which is aligned to the National Institute of Standards and Technology (NIST). We constantly look to adapt our capabilities to the evolving threats. We do this by gathering intelligence on threat actors, motives, and their attack techniques. We protect our most critical people, assets, and data with preventative controls in line with the identified threats. We also assume that breaches will happen in any case, and so we seek to mitigate these by ensuring their timely detection and that appropriate response and recovery activities are in place. We do this by leveraging industry standard threat analysis, identifying specific real-life scenarios, developing detailed response playbooks, and testing them regularly using bank-wide simulation exercises involving up to the CEO. Cybersecurity controls are also thoroughly captured in policies, standards, guidelines and procedures available to all staff. Third parties are vital for the functioning and resilience of our business. As such, we operate a dedicated risk and control assessment prior to, and during, the lifecycle of engagements. This ensures the controls operated by the third party are in line with our policies and integrated with our processes as needed. These include, amongst others, business continuity, incident reporting and regulatory compliance. We regularly assess the state of our environment by reviewing the maturity of our controls in line with our internal risk management framework. We engage with regulatory authorities through regular oversight meetings and we participate in the CBEST programme. The CBEST programme aims to evaluate the resilience of firms and financial market infrastructures through testing performed by accredited and independent specialist firms. We also have a team of penetration testers in our Internal Audit function, that reviews our cybersecurity risks and controls, and reports the results to the BAC. We participate in industry recognised intelligence sharing groups with other banks (e.g. Cyber Defence Alliance), and we speak regularly to government agencies. We campaign to raise awareness and give customers the knowledge they need to avoid becoming victims of cybersecurity incidents. As part of this, we run customer education campaigns and offer advice through our online security operations centre. We also have a cybersecurity insurance policy to give us comprehensive cover to respond to and recover losses and damages from security breaches. Our Chief Information Security Officer (CISO) is responsible for the day-to-day running of security operations and the immediate response to information and cybersecurity incidents. The CISO relies on a comprehensive specialist team, supported by cybersecurity controls and capabilities available from the Banco Santander group CISO team in Spain. The CISO and most staff who manage cybersecurity risk across all lines of defence are industry specialists with substantial experience in leadership and technical aspects. This experience is gained via previous cybersecurity related roles in top global financial organisations, global multinationals, UK government security agencies, UK regulators, such as the PRA, industry leading cybersecurity risk management suppliers, and relevant university education. Many hold specialist security certifications that are kept relevant by attending dedicated training and specialist conferences. The CISO is responsible for cybersecurity risk operations and risk management and falls under the COO SMF accountability framework. The CRO is responsible for overseeing and challenging the risk management activities enacted by the CISO and the COO to ensure they remain within appetite. The CISO and the COO report regularly and frequently to the Board, ExCo, BRC and ERCC. They provide detailed commentaries on the threat environment, key incidents across the industry, geopolitical considerations, the overall residual risk, progress on key projects, the control environment position, and appetite going forward. In addition, BRC and ERCC receive monthly cybersecurity updates as part of the standard risk reporting suite. The CISO and the COO escalate material cybersecurity incidents affecting us and our suppliers via our internal incident escalation and management procedure with direct notifications to the CRO and other executive management. The Board and BRC include members who have substantial experience of technology risk, including Non-Executive Directors and the Chief Operating and Technology Officer. We also provide targeted training for Board members, senior management and other employees to enhance their knowledge per the evolving and emerging threat landscape.

Risk monitoring and reporting

Regulators continue to emphasise the importance of effective risk culture, personal accountability and the adoption and enforcement of risk-based requirements and adequate internal reporting processes and procedures. Monitoring and Reporting is a key part of how we manage risk. We can identify exposures through our Non-Financial Risk and control assessments, risk scenario analysis, key indicators, change risk assessments and incidents and events.

Subject matter experts across the business engage across risk management and monitoring activities and support effective communication of policy changes. We report exposures for each business unit through regular risk and control forums. These include details of the risks, level of exposure and how we plan to mitigate them. We prioritise and highlight events that have a material impact on our customers, reputation or finance by reporting them to key executives and committees. We use The Standardised Approach (TSA) to calculate our Pillar 1 operational risk capital. We use an internal model aligned to the CRD IV advanced measurement approach to validate our Pillar 2 capital needs.

Our crisis management framework covers all levels of the business. It sets out possible triggers and how we will manage a crisis, and we test it at least annually. If an event occurs, our business continuity plans help us recover as quickly as possible and we undertake post incident reviews to identify learnings.

We closely monitor emerging threats that could affect future operations and performance. We act to mitigate potential risks as and when required. We also carry out further in depth analysis, including stress testing of exposures.

OPERATIONAL RISK REVIEW

2024 compared to 2023

Operational risk event losses by Basel category

The table below shows our operational risk losses in 2024 and 2023 for reportable events with an impact over £10,000, by CRD IV loss event types. The data is presented in line with the Basel 2.5 requirement to aggregate and recognise losses in the year of the first point of recognition, rather than in any subsequent year(s) in which further costs are recognised under IFRS. Due to the nature of risk events that keep evolving, prior year losses are updated:

	2024		2023	
	Value %	**Volume %**	Value %	Volume %
Internal fraud	**1**	**—**	—	—
External fraud	**74**	**87**	12	93
Employment practices and workplace safety	**1**	**1**	—	1
Clients, products and business practices	**11**	**3**	87	1
Damage to physical assets	**1**	**1**	—	—
Business disruption and systems failures	**2**	**—**	—	—
Execution, delivery, and process management	**10**	**8**	1	5
	100	**100**	100	100

Business disruption

We continued to mature our frameworks and capabilities to support meeting the Operational Resilience requirements by the March 2025 regulatory deadline, with regular updates provided to our Executive and Board Risk committees throughout the year. We assessed the resilience of our important business services using a broad range of severe but plausible disruption scenarios. We ran successful cyberattack and loss of third party scenarios, to ensure that our contingency and recovery strategies were effective in minimising harm to our customers, risk to the safety and soundness of Santander UK, and risk to the orderly functioning or stability to the UK market. We continued to invest in strategic programmes that will further strengthen our resilience position, in particular across our IT estate.

Cybersecurity

Cybersecurity remains a key focus. In 2024, Banco Santander experienced a reportable data breach that impacted, amongst other group entities, Santander UK. The impact was limited to Santander UK staff personal information. We also responded to third party incidents affecting our suppliers. We continued to enhance our threat prevention controls and test our business area recovery plans against a range of scenarios. We continued to see increasing ransomware attacks across all sectors, driven by compromises in supply chain tools, and we expect this trend to remain. We also invested in skills and resources to manage cybersecurity risks, and monitor cybersecurity threats, including from the geopolitical environment. Our business strategy and financial results were not significantly affected by either cybersecurity threats or incidents. However, we cannot give assurance that they will not be significantly affected by such risks and incidents in the future.

Data

We continued to manage the risk with enhanced governance and investments, focusing on our critical data and processes. We continued to develop, implement, and enhance new and existing data controls through various initiatives. These initiatives included establishing appropriate processes, prioritising the resolution of gaps in data controls and data lineage testing, and ensuring that remediation plans are in place as part of our Data Management Programme to further enhance data quality and data privacy and protection.

Fraud

Authorised Push Payment fraud remains our largest fraud type. We continued to make progress in mitigating operational risk losses from fraud. This included implementing new detection controls and coordinated customer awareness campaigns that led to a significant reduction in specific frauds risks for our customers, especially in terms of onboarding and payment card fraud. We maintained a leading, collaborative role in fraud management with industry partners, through CIFAS, UK Finance and Stop Scams UK.

IT

We made significant progress in addressing key IT risks through a programme of remediation activities, including continued improvement in reducing IT related incidents and the ongoing management of technology obsolescence. As a result of the progress made, the FCA recognised our improvement in IT resilience.

Legal

Our legal risk profile remained heightened in 2024. The Court of Appeal judgment in October 2024 in relation to motor finance commission cases involving other lenders represented a deterioration in our legal risk position and led to a £295m provision. The decision is subject to an appeal to the Supreme Court. The outcome of that appeal and the appeal to the Court of Appeal of the High Court's judicial review of a final decision by the Financial Ombudsman against another lender are expected to influence our legal risk in relation to litigation and complaints relating to historical motor finance commission arrangements and the outcome of the FCA review. We continued to evaluate and react to the evolving legal and regulatory environment, including the Consumer Duty, the Financial Services and Markets Act 2023, the Economic Crime and Corporate Transparency Act 2023, the Digital Markets, Competition and Consumers Act 2024 and reforms to the ring-fencing regime. We materially completed the alignment of material third party contracts to PRA Supervisory Statement 2/21, and in relation to international data transfers, to the Schrems II judgment. The in-flow litigated PPI claims reduced and an appeal by a PPI complainant to the Court of Appeal to re-open a settlement agreement was unsuccessful. However, on-going large scale complex PPI related litigation brought by AXA, and a German criminal and tax investigation relating to historical dividend tax arbitrage transactions remain. We continue to manage our legal risk in relation to thematic Court actions and FOS complaints related to fraud, irresponsible lending, mortgages and commissions. For more, see Note 30 to the Consolidated Financial Statements.

Outsourcing & Third Party Supplier

We rely extensively on third parties for a range of goods and services, provided by both Banco Santander and external suppliers. We reviewed our suppliers against a revised set of controls and implemented new metrics to monitor and manage our risk exposure. We continue to manage risk to our Third Party Supplier estate.

People

We saw improvements in 2024 with reduced levels of attrition and of aged vacancies. We continue to be alert and respond to any risks that could arise from our ongoing transformation, including providing ongoing support to enable colleagues to attend the office regularly.

Transformation and change

We continue our transformation to simplify the bank, digitise processes, build smarter solutions, and strengthen our foundations whilst reducing costs, extending internal capabilities and ensuring a resilient operating model. This includes delivery against a diverse change agenda with a focus on modernising our operations and building fit for the future technology, transforming customer interactions, growth and productivity. Ensuring change does not result in unacceptable impacts on our customers and risk profile underpins our strategic decisions and is robustly managed.

Financial crime risk

Overview

Financial crime risk is the risk that we are used to further financial crime, including money laundering, sanctions evasion, terrorist financing, facilitation of tax evasion, bribery and corruption. We recognise that financial crime and associated illegal activity poses a threat to the UK's national security, economy and its institutions and causes serious harm to the customers and communities we serve.

In this section, we describe our key financial crime risks and explain how we manage them. We also describe developments in the year.

OUR KEY FINANCIAL CRIME RISKS

Financial crime is a high priority risk for us, and addressing it is a key priority for senior management. We remain committed to countering it by maintaining robust systems and controls, and conducting business in line with regulatory and legal requirements. We adopt a risk-based approach in line with UK and international laws and standards.

Our main financial crime risk categories are:

Category	Description
Money laundering	We are used by criminals to transform the proceeds of crime into seemingly legitimate money or other assets.
Terrorist financing	We are used by terrorists to deposit, distribute or collect funds that are used to fund their activity.
Sanctions	We do not identify payments, customers or entities that are subject to economic or financial sanctions.
Bribery and corruption	We fail to put in place effective controls to prevent or detect bribery and corruption.
Facilitation of tax evasion	We fail to put in place effective systems and controls to prevent the facilitation of tax evasion.

FINANCIAL CRIME RISK MANAGEMENT

We manage our financial crime risks in line with our NFR framework, as outlined earlier. In addition, we have financial crime policies tailored to the key risks and we maintain a control framework in line with a standalone economic crime risk framework. We continue to partner with public authorities, the Home Office and the wider financial services industry to pool expertise and data to mitigate specific financial crime risks. We are also involved in partnerships such as the Joint Money Laundering Intelligence Taskforce (JMLIT) which supports public-private collaboration to tackle financial crime.

FINANCIAL CRIME RISK REVIEW

2024 compared to 2023

We understand the importance of protecting the communities we serve from the social and economic impacts of financial crime. We recognise that the financial crime landscape is constantly evolving, influenced by regulatory changes, legal requirements, geopolitical factors and changing criminal methods. As a result, we continue to prioritise and remain vigilant in addressing financial crime risks and actively partner with industry, law enforcement and government to deter, detect and disrupt financial crime and terrorist financing. In 2024, we:

- Continued to invest in our financial crime systems and controls with a focus on reducing the residual risk and returning to Board Risk Appetite, adequacy of resources and key deliverables across the remediation plan.
- Adapted our financial crime policies to reflect the latest external requirements, best practice and Banco Santander policy requirements.
- Maintained our focus on providing colleagues with the appropriate skills, knowledge and qualifications to support our efforts to fight financial crime through enhanced and targeted training. Our Economic Crime Academy provides training modules on high risk Financial Crime areas in line with industry standards, and these modules are endorsed by the International Compliance Association (ICA).
- Played an active role externally on policy and related strategies and maintained extensive involvement in UK public private partnerships. As part of this, we worked closely with government, trade bodies, industry, law enforcement and regulators on issues that many impact our Financial Crime Compliance capabilities.
- Remained a committed member of the JMLIT and other public-private information sharing initiatives with law enforcement and industry, to exchange and analyse data on high-end money laundering and wider economic threats.

Following changes to the Governance framework in Q424, we transferred oversight for the Financial Crime Remediation Programme to the Special Projects Committee.

Financial crime risk management remains one of our top risks and a key focus area for senior management and the Board. We continue to enhance our risk management capabilities with key activity planned in 2025 including:

- Accelerating risk mitigation responses and controls to new or evolving financial crime risk threats.
- Continuing to enhance our sanctions systems and controls in response to internal and external lessons learned from the external sanctions developments in 2024, notably the continued impacts of the Russia sanctions and increased use of OFSI powers.
- Maturing our financial crime operations, including continuing to improve our customer data records to help increase the effectiveness and sustainability of our efforts to manage financial crime risks.

Model risk

Overview

Model risk is the risk that the predictions from models may be inaccurate, causing sub-optimal decisions to be made; or that a model may be used inappropriately. These potential adverse consequences can lead to reputational damage, regulatory non-compliance, a deterioration in our prudential position, or financial losses.

In this section, we describe our key model risks and explain how we manage them. We also describe developments in the year.

OUR KEY MODEL RISKS

A model is a quantitative repeatable method or system that relies on assumptions to process input data into estimates of uncertain outcomes. Our key model risks arise from inadequate or flawed design leading to weaknesses and limitations in our models, implementation errors or poor deployment of the models, or the incorrect or inappropriate use of a model. The most material models we use help us calculate our regulatory capital and credit losses, and perform stress tests. We are seeing increasing interest in using Artificial Intelligence (AI) which creates new model risks such as explainability - the ability to understand why an algorithm made a particular prediction.

MODEL RISK MANAGEMENT

We manage our Model risks in line with our NFR framework, as outlined earlier. In addition, to mitigate specific model risks, we have the following tailored policies:

- Model Risk Policy – sets out the action, outcome or standard of behaviour expected to manage and control model risk and remain within risk appetite
- Tiering and Materiality Policy – ensures the consistent methodology in determining the significance of models used across the business
- Change Classification Policy – explains how model changes are managed and controlled
- Changes to IRB Rating Systems Policy – sets the criteria for assessing the materiality of extensions and changes to IRB models
- Validation Policy – sets out the general criteria for internal validation activities, with the aim to provide an objective, unbiased and critical opinion on the adequacy of models we use.

In line with our risk organisational structure, our first line of defence drives effective management of the risk and fully embeds the framework. In the second line, the oversight team sets a clear framework, related policies, risk appetite and provides oversight and governance. The independent valuation function reviews new developments for all models, particularly for capital adequacy, provisions and stress testing, which all have regulatory focus. The third line of defence assesses periodically the robustness of the model risk management framework, compliance with policies and regulatory requirements, and material changes taking place.

MODEL RISK REVIEW

2024 compared to 2023

In 2024, Model risk remained a significant focus, as we continued to work on the regulatory agenda, focusing on models to reflect the most accurate and recent data. The PRA's Model Risk Supervisory Statement (SS1/23) policy has been in effect since May 2024 and we have aligned our framework, policies and procedures to the new regulation. We are embedding enhancements across our business as a result. We will maintain a strong focus on aligning with supervisory expectations as we address remediation efforts in the next two years. We continued to recognise model risk as a key risk and maintained a strong management and oversight framework that is embedded across all three lines of defence.

In 2024, we continued to redevelop key regulatory capital models, and the enhancements to our most material provision models went live. In line with SS1/23 we embedded a robust post-model adjustment framework, including independent review of adjustments made to the ECL to mitigate against weaknesses and limitations. We continued to focus on our new climate change stress test models to consider the effects of climate change risk on our portfolios.

We delivered several new machine learning and generative AI solutions in 2024, including Agent Assist, which have helped improve productivity.

We expect industry use of AI to continue to grow and we plan to expand our use of it, allowing our colleagues to focus on the more complex customer cases. We will continue to build on the progress made in 2024 and will focus on ensuring our models remain accurate and reliable given the momentum of change.

Conduct and regulatory risk

Overview

Conduct risk is the risk where our decisions and behaviours could lead to detriment or poor outcomes for our customers. It also refers to the risk that we fail to maintain high standards of market behaviour and integrity.

Regulatory risk is the risk of financial or reputational loss, or imposition of our conditions on regulatory permission, due to failing to comply with applicable codes, regulator's rules, guidance and regulatory expectations.

In this section, we describe where our key conduct and regulatory risks can originate from and set out how we manage them. We also describe developments in the year.

Key metrics

Customer remediation provision was £348m (2023: £106m)

Litigation and other regulatory provision was £112m (2023: £132m)

OUR KEY CONDUCT AND REGULATORY RISKS

We are committed to ensuring Conduct and Regulatory Risk strategy is embedded within our business, as good outcomes for our customers are at the heart of what we do. Conduct and Regulatory Risk can stem from errors in our product design, sales practices, post-sale servicing, operational processes, complaint handling, and the failure to supervise, monitor or control the activities of our employees. All of these may result in the risk that we do not deliver better outcomes for our customers, align to the expectations of our regulators or observe required standards of market behaviour. Understanding the drivers of Conduct and Regulatory risk enables us to update and ensure our frameworks are robust to mitigate against the risk of causing consumer harm on an on-going basis.

CONDUCT AND REGULATORY RISK MANAGEMENT

We manage our Conduct and regulatory risks in line with our NFR framework, as outlined earlier. In addition, to mitigate specific Conduct and Regulatory risks, we have the following tailored policies:

Policies	Description
Fair Value policy for regulated products (Retail customers)	Our fair value policy details our approach to assessing whether a regulated product provides fair value to our retail customers, considering all stages of value during the product design phase, and on a regular basis.
Fair treatment of vulnerable customers	Some customers may be impacted financially or personally as a result of their circumstances. Our Vulnerable Customer Policy gives business units a clear and consistent view of what vulnerability can mean and situations when customers may need more support. Our guidelines focus on identifying characteristics of vulnerability, understanding customer needs and the support and flexibility we can give to help. In addition to mandatory training, we train our customer-facing staff using real customer scenarios to enable our people to deal with a wide range of sensitive issues. Our online Vulnerable Customer Support Tool gives our people more guidance and support, and our Specialist Support Team gives guidance for the most complex situations. We also consider vulnerability in every initiative and adapt our technology to the needs of customers with vulnerability characteristics in our design and testing stages. We work with charities, authorities, trade associations and other specialists to develop our understanding of vulnerability.
Conduct & Regulatory risk policy for regulated products (Retail customers)	Our policy sets out the actions that we must take and the standards of behaviour we comply with to deliver good outcomes for retail customers, to comply with applicable regulatory requirements and expectations, and to deliver a strong conduct and compliance culture.

CONDUCT AND REGULATORY RISK REVIEW

2024 compared to 2023

In 2024, the Conduct and Regulatory environment saw a demanding agenda, and we expect this to continue. To fully consider customer and conduct impacts across our business, our customers remain at the centre of our culture and purpose. We monitor and regularly review our customers' experiences and act to address outcomes. As part of this, we:

- Continued to proactively contact customers who may be at risk of experiencing early signs of financial stress, to support them and try to help avoid longer term financial difficulty. We referred them to internal and external sources of support alongside ongoing customer engagement and support plans.
- Evolved our Financial Support team and SME support, with more investment in people and IT to ensure we continue to drive good outcomes for customers, including those in pre-arrears, and can provide tailored support relevant to a customer's individual circumstances and needs.
- Continued to review our products and services to ensure our customers receive communications they understand, products and services that meet their needs and that offer fair value, and the support they need, when they need it, to deliver good customer outcomes.
- Continued to actively participate in schemes to ensure the long-term future of access to cash, including supporting the setup of shared banking hubs and wider engagement with LINK and industry partners.
- Assessed ongoing and new policy areas in the FCA's 2023/24 Business Plan. Our key focus continued to be on reducing and preventing serious consumer harm, setting and testing higher standards, and promoting competition and positive change. We continued to address these in our controls, product and service processes and frameworks, and we continued to adapt in line with the evolution of a digital economy.

Payments services continue to be particularly active, with the recently published National Payments Vision setting out key ways to ensure that the UK's payment systems deliver for consumers and contribute to growth. This includes the continued development of account-to-account payments, such as Open Banking and Open Finance, exploration of a Central Bank Digital Currency and the future structure of the payments ecosystem.

We will continue to monitor the regulatory landscape and contribute to debates on regulatory issues. We expect the key areas of regulatory focus in 2025 to include the ongoing supervision of the FCA's Consumer Duty (with a focus on customer outcomes), the FCA's implementation for the Advice Guidance Boundary review, the outcome of the FCA's review into discretionary commission arrangements for motor finance, and a review of the role of the Financial Ombudsman Service. We also expect continued focus from the FCA on how firms protect customers from financial crime. We expect the PRA and FCA to work jointly on issues such as operational resilience and outsourcing, non-financial misconduct, and remuneration reform. We also expect an increased focus on funding and liquidity management as the Bank of England continues to unwind its balance sheet, and further expectations on managing climate risk. We are waiting for more information on the review of Pillar 2 capital requirements, following the delayed implementation of Basel 3.1.

Overall, we expect to see an increased focus from UK regulators and the UK Government on policies that will enhance the international competitiveness of the sector, and contribute to economic growth.

The outlook for the economic environment remains challenging and so conduct risks are likely to rise, as banks deal with households that continue to face pressures from increases in the cost of living and higher interest rates.

We will maintain a strong focus on robust oversight and control of the customer journey across all our products. We will also ensure our strategy, leadership, governance arrangements, and approach to managing and rewarding staff do not lead to a detrimental impact on customers, competition, or to market integrity.

For key movements in our financial crime risk profile, see the 'Financial crime risk review' section.

For more on our provisions, see Note 27 to the Consolidated Financial Statements. For more on our contingent liabilities, see Note 30 to the Consolidated Financial Statements.

Financial statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Santander UK plc

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Santander UK plc and its subsidiaries (the "Company") as of 31 December 2024 and 2023, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the three years in the period ended 31 December 2024, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2024 in conformity with i) International Financial Reporting Standards as issued by the International Accounting Standards Board and ii) UK-adopted International Accounting Standards.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the Board Audit Committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Credit impairment loss allowance on loans and advances to customers

As described in Notes 1, 13 and 27 to the consolidated financial statements, an expected credit loss ('ECL') is recognised for financial assets measured at amortised cost. The measurement of ECL reflects: a probability weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Management calculates ECL using the following factors: a survival rate ('SR'), a probability of default ('PD'), the exposure at default ('EAD') and a loss given default ('LGD'). The application of the ECL impairment methodology for calculating credit impairment loss allowances is susceptible to change from period to period and requires management to make judgemental assumptions in determining the estimates. The key judgements made by management in applying the ECL impairment methodology for the residential mortgages and Corporate and Commercial Bank ('CCB') portfolios are: (i) the forward looking multiple economic scenarios; (ii) the probability weights assigned to multiple economic scenarios; and (iii) assessing corporate stage 3 exposures individually. The LGD is expressed as a percentage and is calculated based on value of subsequent write-offs and collateral values adjusted for historical discounts. The ECL allowance was £869 million as of 31 December 2024.

The principal considerations for our determination that performing procedures relating to the credit impairment loss allowance on loans and advances to customers is a critical audit matter are due to the significant judgements being applied by management in the residential mortgages and Corporate and CCB portfolios (i) the forward looking economic scenarios; (ii) the probability weights applied to those scenarios; (iii) the key assumptions used in the LGD models related to subsequent write off and historical discounts applied to collateral values; and (iv) individual corporate stage 3 provisions. This in turn led to a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence related to the methodology and judgement in assumptions used to determine the allowance; and the audit effort involved the use of professionals with specialised skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the credit impairment loss allowance on loans and advances to customers. These procedures also included, among others, testing management's process for estimating expected credit losses; evaluating the appropriateness of model methodologies; testing the completeness and accuracy of underlying data used in determining the accounting estimate; evaluating the reasonableness of management's assumptions related to (i) forward looking multiple economic scenarios; (ii) the probability weights applied to multiple economic scenarios; (iii) the subsequent write off and historical discounts applied to collateral values incorporated into the LGD model; and (iv) expected future cash flows and collateral valuations of individually assessed corporate stage 3 exposures; and evaluating the disclosures made in the consolidated financial statements in relation to the credit impairment loss allowance on loans and advances to customers. Professionals with specialised skill and knowledge were used to assist in evaluating the reasonableness of the forward looking economic scenarios, probability weight assumptions, the appropriateness of the key assumptions used in the LGD model related to subsequent write off and historical discounts applied to collateral values.

Valuation of defined benefit pension surplus
As described in Notes 1 and 28 to the consolidated financial statements, the Company operates a number of defined benefit pension schemes. The main scheme is the Santander (UK) Group Pension Scheme (the "Scheme"). The funded defined benefit pension surplus was £416 million as of 31 December 2024. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). Management estimates the present value of the defined benefit obligation by projecting forward the growth in current accrued pension benefits to reflect inflation and salary growth to the date of pension payment. This is then discounted to present value. In determining the value of scheme liabilities, demographic and financial assumptions are made by management about the life expectancy of the beneficiaries, inflation and discount rates. The scheme invests in certain assets whose values are not based on market observable data. These assets include investments in unquoted equities and bonds, as well as property and infrastructure, which are valued by reference to the latest manager statements provided by the managers, adjusted for any cash movements since the latest valuation, with the exception of property, where the underlying asset valuations are determined by an independent expert.

The principal considerations for our determination that performing procedures relating to the valuation of the defined benefit pension surplus is a critical audit matter are the significant judgements made by management in determining (i) the life expectancy of the beneficiaries, inflation and discount rate assumptions; and (ii) the fair value of the assets with no market observable valuation inputs, including adjustments for any potential fair value movements since the last valuation date. This, in turn, led to significant auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence. The audit effort involved the use of professionals with specialised skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of the defined benefit pension obligation and the valuation of assets with no market observable data. These procedures also included, among others, evaluating the defined benefit pension obligation by (1) testing the completeness, accuracy and relevance of the underlying data; and (2) involving professionals with specialised skill and knowledge to assist in (a) assessing the appropriateness of the methodologies used by management to determine the inflation rate, the discount rate and life expectancy assumptions; (b) developing an independent range for these assumptions; and (c) comparing the independent range of assumptions to management's assumptions to evaluate the reasonableness of management's assumptions. Procedures over directly held property included, among others (i) the involvement of professionals with specialised skill and knowledge to assist in assessing the appropriateness of the methodology and reasonableness of the key assumptions used by management's expert valuer for property; and (ii) evaluating the reasonableness of the valuation for a sample of properties. For the other assets with no market observable valuation inputs, the procedures included, among others, (i) obtaining third-party confirmations of the valuation directly from investment managers and comparing these against management's reported values; (ii) recalculating management's valuation calculations and comparing our recalculation to the third-party confirmations, and, if applicable, testing material capital changes in the period between the valuation and the entity's balance sheet date, where there was a time lag; and (iii) assessing other evidence regarding the valuations, such as performing back testing of historical valuations used by management against the audited fund financial statements as at the equivalent date and reviewing controls reports for the investment managers, where available.

Goodwill impairment assessment - for the personal financial services cash generating unit
As described in Notes 1 and 19 to the consolidated financial statements, the carrying value of goodwill relating to the personal financial services ('PFS') cash generating unit ("CGU") was £1.2 billion as of December 31, 2024. Management undertakes an annual assessment to evaluate whether the carrying value of goodwill is impaired, carrying out this assessment more frequently if reviews identify indicators of impairment or when events or changes in circumstances dictate. Impairment is required where the carrying amount of goodwill exceeds its recoverable amount. The recoverable amount of the CGU was determined based on the value in use ("VIU") methodology at each testing date. The VIU is calculated by discounting the cash flow projections for the CGU. The goodwill impairment assessment is based on key judgements including the testing methodology, planning assumptions and internal capital allocations. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and is subject to potential change over time. Estimates include forecast cash flows for the CGU, including estimated allocations of regulatory capital, the growth rate for the period beyond the initial cash flow projections and discount rates which factor in risk-free rates and applicable risk premiums.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment for the personal financial services cash generating unit is a critical audit matter are due to the significant judgements by management in developing (i) the forecast cash flows and (ii) the discount rate. This, in turn, led to significant auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence related to management's judgements and assumptions. In addition, the audit effort involved the use of professionals with specialised skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others (i) testing management's process for determining the carrying value of the CGU, including internal capital allocations; (ii) evaluating the appropriateness of the methodology used to estimate the VIU; (iii) testing the completeness and accuracy of underlying data used in the model; (iv) comparing an independent range of assumptions for the discount rate to management's rate to evaluate the reasonableness of management's assumptions; (v) evaluating the reasonableness of the forecasted cash flows, including comparing performance in recent years to the budgets and 3 years-plan for the equivalent periods and (vi) assessing the appropriateness of the related disclosures. Professionals with specialised skill and knowledge assisted in the evaluation of the reasonableness of the discount rate and assessing the determination of the carrying value of the PFS CGU.

Specific customer remediation, litigation and regulatory matters
As described in Notes 1, 27 and 30 to the consolidated financial statements, as of 31 December 2024, the provision for customer remediation, litigation and other regulatory matters of £460 million includes, among other items, provisions relating to: (i) a legal dispute regarding allocation of responsibility for a specific Payment Protection Insurance ("PPI") portfolio of complaints; and (ii) court claim and complaints in respect of historic motor finance broker commissions for Santander Consumer (UK) plc. There is also an ongoing investigation in relation to the historical involvement of Santander UK plc, Santander Financial Services plc and Cater Allen International Limited (all subsidiaries of Santander UK Group Holdings plc) in German dividend tax arbitrage transactions for which management has determined that there are uncertainties that mean it is not currently possible to make a reliable assessment of the size of any potential liability. Significant judgement may be required when accounting for provisions, including in determining whether a present obligation exists, determining the likely outcome of future legal decisions and in estimating the probability, timing, nature and amount of any outflows that may arise from past events. These judgements are based on the specific facts available and often require specialist professional advice. There can be a wide range of possible outcomes and uncertainties, particularly in relation to legal actions, and regulatory and consumer credit matters.

The principal considerations for our determination that performing procedures relating to the specific litigation and regulatory matters is a critical audit matter are the significant judgements made by management when estimating the probability, timing, nature and amount of any outflows for the legal dispute for a specific PPI portfolio of complaints, the motor finance broker commissions court claim and complaints, and the German dividend tax arbitrage investigation. This in turn led to a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence related to management's assessment of the specific litigation and regulatory matters.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of the specific litigation and regulatory matters against the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. These procedures also included, among others (i) inquiries of internal legal counsel on the developments in respect to the significant cases; (ii) obtaining and evaluating letters of audit inquiry from external legal counsel; (iii) evaluating the reasonableness of management's assessment regarding the probability of an outflow and the estimated amount of the obligation, where a reliable estimate can be formed; and (iv) evaluating the sufficiency of the disclosures made in relation to each of these specific matters.

/s/ PricewaterhouseCoopers LLP
London, United Kingdom
7 March, 2025

We have served as the Company's auditor since 2016.

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Consolidated Income Statement

For the year ended 31 December

	Notes	**2024 £m**	2023 £m	2022 £m
Interest and similar income	3	**12,439**	11,617	6,708
Interest expense and similar charges	3	**(8,127)**	(6,959)	(2,283)
Net interest income		**4,312**	4,658	4,425
Fee and commission income	4	**733**	804	839
Fee and commission expense	4	**(481)**	(501)	(509)
Net fee and commission income		**252**	303	330
Other operating income	5	**93**	135	201
Total operating income		**4,657**	5,096	4,956
Operating expenses before credit impairment charges, provisions and charges	6	**(2,548)**	(2,456)	(2,343)
Credit impairment charges	8	**(71)**	(205)	(320)
Provisions for other liabilities and charges	8	**(689)**	(335)	(419)
Total credit impairment charges, provisions and charges		**(760)**	(540)	(739)
Profit before tax		**1,349**	2,100	1,874
Tax on profit	9	**(378)**	(559)	(480)
Profit after tax		**971**	1,541	1,394
Attributable to:				
Equity holders of the parent		**971**	1,541	1,394
Profit after tax		**971**	1,541	1,394

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Notes	**2024 £m**	2023 £m	2022 £m
Profit after tax		**971**	1,541	1,394
Other comprehensive (expense)/income that may be reclassified to profit or loss subsequently:				
Movement in fair value reserve (debt instruments):				
- Change in fair value		**(20)**	89	(278)
- Income statement transfers		**5**	(105)	247
- Taxation	9	**4**	5	11
		(11)	(11)	(20)
Cash flow hedges:				
- Effective portion of changes in fair value	11	**(457)**	(169)	425
- Income statement transfers	11	**500**	1,248	(2,129)
- Taxation		**(12)**	(299)	469
		31	780	(1,235)
Net other comprehensive income/(expense) that may be reclassified to profit or loss subsequently		**20**	769	(1,255)
Other comprehensive (expense)/income that will not be reclassified to profit or loss subsequently:				
Pension remeasurement:				
- Change in fair value	28	**(402)**	(598)	(722)
- Taxation	9	**113**	167	267
		(289)	(431)	(455)
Own credit adjustment:				
- Change in fair value		**(17)**	(15)	29
- Taxation	9	**5**	4	(9)
		(12)	(11)	20
Net other comprehensive (expense) that will not be reclassified to profit or loss subsequently		**(301)**	(442)	(435)
Total other comprehensive (expense)/income net of tax		**(281)**	327	(1,690)
Total comprehensive income/(expense)		**690**	1,868	(296)
Attributable to:				
Equity holders of the parent		**690**	1,868	(296)
Total comprehensive income/(expense)		**690**	1,868	(296)

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

At 31 December 2024

	Notes	2024 £m	2023 £m
Assets			
Cash and balances at central banks		**29,881**	38,214
Derivative financial instruments	11	**1,204**	1,432
Other financial assets at fair value through profit or loss	12	**136**	262
Loans and advances to banks		**1,032**	1,080
Loans and advances to customers	13	**199,408**	207,435
Reverse repurchase agreements - non-trading	16	**10,338**	12,468
Other financial assets at amortised cost	17	**3,408**	152
Macro hedge of interest rate risk		**(738)**	(632)
Financial assets at fair value through other comprehensive income		**9,040**	8,481
Interests in other entities	18	**289**	245
Intangible assets	19	**1,539**	1,548
Property, plant and equipment	20	**1,563**	1,494
Current tax assets	9	**506**	490
Retirement benefit assets	28	**439**	723
Other assets		**1,887**	2,043
Assets held for sale	40	**12**	13
Total assets		**259,944**	275,448
Liabilities			
Deposits by banks	21	**13,993**	20,332
Deposits by customers	22	**180,967**	190,850
Repurchase agreements - non-trading	23	**8,617**	8,411
Derivative financial instruments	11	**702**	818
Other financial liabilities at fair value through profit or loss	24	**1,055**	899
Debt securities in issue	25	**35,673**	33,910
Macro hedge of interest rate risk		**47**	86
Other liabilities	26	**1,852**	2,479
Provisions	27	**611**	402
Deferred tax liabilities	9	**246**	186
Retirement benefit obligations	28	**23**	66
Subordinated liabilities	29	**2,385**	2,386
Total liabilities		**246,171**	260,825
Equity			
Share capital	31	**3,105**	3,105
Share premium	31	**5,620**	5,620
Other equity instruments	32	**1,860**	1,956
Other reserves		**(333)**	(353)
Retained earnings		**3,521**	4,295
Total equity		**13,773**	14,623
Total liabilities and equity		**259,944**	275,448

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

The Financial Statements were approved and authorised for issue by the Board on 7 March 2025 and signed on its behalf by:

Mike Regnier
Chief Executive Officer

Angel Santodomingo
Chief Financial Officer

Company Registered Number: 02294747

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2024 £m	2023 £m	2022 £m
Cash flows from operating activities				
Profit before tax		**1,349**	2,100	1,874
Adjustments for:				
Non-cash items included in profit				
– Depreciation and amortisation	6	**300**	290	296
– Loss from disposal of mortgage portfolio		**31**	—	—
– Provisions for other liabilities and charges		**689**	335	419
– Impairment losses		**94**	195	284
– Other non-cash items		**65**	(749)	1,497
– Pension charge for defined benefit pension schemes		**13**	13	28
		1,192	84	2,524
Net change in operating assets and liabilities:				
– Cash and balances at central banks		**731**	(88)	275
– Derivative assets		**228**	975	(726)
– Other financial assets at fair value through profit or loss		**130**	40	877
– Loans and advances to banks and customers		**8,065**	12,112	(9,966)
– Reverse repurchase agreements - non-trading		**2,130**	(5,120)	5,335
– Other assets		**118**	(141)	(574)
– Deposits by banks and customers		**(16,059)**	(13,504)	(3,128)
– Repurchase agreements - non-trading		**206**	429	(3,684)
– Derivative liabilities		**(116)**	(133)	174
– Other financial liabilities at fair value through profit or loss		**179**	102	(973)
– Debt securities in issue		**212**	962	3,120
– Other liabilities		**(1,403)**	(67)	(98)
		(5,579)	(4,433)	(9,368)
Corporation taxes paid	9	**(240)**	(537)	(405)
Effects of exchange rate differences		**(53)**	(518)	1,383
Net cash flows from operating activities		**(3,331)**	(3,304)	(3,992)
Cash flows from investing activities				
Purchase of property, plant and equipment and intangible assets		**(528)**	(385)	(496)
Proceeds from sale of property, plant and equipment and intangible assets		**148**	175	159
Purchase of financial assets at amortised cost and financial assets at FVOCI		**(10,343)**	(10,899)	(2,884)
Proceeds from sale and redemption of financial assets at amortised cost and financial assets at FVOCI		**6,183**	8,362	3,023
Net cash flows from investing activities		**(4,540)**	(2,747)	(198)
Cash flows from financing activities				
Issue of other equity instruments	33	**400**	—	750
Issue of debt securities and subordinated notes		**8,425**	5,276	4,794
Issuance costs of debt securities and subordinated notes		**(28)**	(18)	(16)
Repayment of debt securities and subordinated notes		**(6,539)**	(3,539)	(3,076)
Repurchase of other equity instruments	33	**(500)**	—	(985)
Dividends paid on ordinary shares	10	**(1,311)**	(1,530)	(1,014)
Dividends paid on preference shares and other equity instruments		**(129)**	(123)	(150)
Principal elements of lease payments	33	**(33)**	(47)	(26)
Net cash flows from financing activities		**285**	19	277
Change in cash and cash equivalents		**(7,586)**	(6,032)	(3,913)
Cash and cash equivalents at beginning of the year		**36,781**	42,871	46,715
Effects of exchange rate changes on cash and cash equivalents		**(14)**	(58)	69
Cash and cash equivalents at the end of the year		**29,181**	36,781	42,871
Cash and cash equivalents consist of:				
Cash and balances at central banks		**29,881**	38,214	44,190
Less: restricted balances		**(1,580)**	(2,311)	(2,223)
		28,301	35,903	41,967
Other cash equivalents: Loans and advances to banks - Non-trading		**880**	878	904
Cash and cash equivalents at the end of the year		**29,181**	36,781	42,871

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Other equity instruments	Other reserves Fair value	Other reserves Cash flow hedging	Other reserves Currency translation	Retained earnings	Total	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**3,105**	**5,620**	**1,956**	**(6)**	**(348)**	**1**	**4,295**	**14,623**	**—**	**14,623**
Profit after tax	**—**	**—**	**—**	**—**	**—**	**—**	**971**	**971**	**—**	**971**
Other comprehensive (expense)/income, net of tax:										
- Fair value reserve (debt instruments)	**—**	**—**	**—**	**(11)**	**—**	**—**	**—**	**(11)**	**—**	**(11)**
- Cash flow hedges	**—**	**—**	**—**	**—**	**31**	**—**	**—**	**31**	**—**	**31**
- Pension remeasurement	**—**	**—**	**—**	**—**	**—**	**—**	**(289)**	**(289)**	**—**	**(289)**
- Own credit adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**(12)**	**(12)**	**—**	**(12)**
Total other comprehensive (expense)/income	**—**	**—**	**—**	**(11)**	**31**	**—**	**(301)**	**(281)**	**—**	**(281)**
Total comprehensive (expense)/income	**—**	**—**	**—**	**(11)**	**31**	**—**	**670**	**690**	**—**	**690**
Issue of other equity instruments	**—**	**—**	**400**	**—**	**—**	**—**	**—**	**400**	**—**	**400**
Repurchase of other equity instruments	**—**	**—**	**(496)**	**—**	**—**	**—**	**(4)**	**(500)**	**—**	**(500)**
Dividends on ordinary shares	**—**	**—**	**—**	**—**	**—**	**—**	**(1,311)**	**(1,311)**	**—**	**(1,311)**
Dividends on preference shares and other equity instruments	**—**	**—**	**—**	**—**	**—**	**—**	**(129)**	**(129)**	**—**	**(129)**
At 31 December 2024	**3,105**	**5,620**	**1,860**	**(17)**	**(317)**	**1**	**3,521**	**13,773**	**—**	**13,773**
At 1 January 2023	3,105	5,620	1,956	5	(1,128)	1	4,848	14,407	—	14,407
Profit after tax	—	—	—	—	—	—	1,541	1,541	—	1,541
Other comprehensive (expense)/income, net of tax:										
- Fair value reserve (debt instruments)	—	—	—	(11)	—	—	—	(11)	—	(11)
- Cash flow hedges	—	—	—	—	780	—	—	780	—	780
- Pension remeasurement	—	—	—	—	—	—	(431)	(431)	—	(431)
- Own credit adjustment	—	—	—	—	—	—	(11)	(11)	—	(11)
Total other comprehensive (expense)/income	—	—	—	(11)	780	—	(442)	327	—	327
Total comprehensive (expense)/income	—	—	—	(11)	780	—	1,099	1,868	—	1,868
Other	—	—	—	—	—	—	1	1	—	1
Dividends on ordinary shares	—	—	—	—	—	—	(1,530)	(1,530)	—	(1,530)
Dividends on preference shares and other equity instruments	—	—	—	—	—	—	(123)	(123)	—	(123)
At 31 December 2023	3,105	5,620	1,956	(6)	(348)	1	4,295	14,623	—	14,623
At 1 January 2022	3,105	5,620	2,191	25	107	1	5,053	16,102	—	16,102
Profit after tax	—	—	—	—	—	—	1,394	1,394	—	1,394
Other comprehensive (expense)/income, net of tax:										
- Fair value reserve (debt instruments)	—	—	—	(20)	—	—	—	(20)	—	(20)
- Cash flow hedges	—	—	—	—	(1,235)	—	—	(1,235)	—	(1,235)
- Pension remeasurement	—	—	—	—	—	—	(455)	(455)	—	(455)
- Own credit adjustment	—	—	—	—	—	—	20	20	—	20
Total other comprehensive expense	—	—	—	(20)	(1,235)	—	(435)	(1,690)	—	(1,690)
Total comprehensive (expense)/income	—	—	—	(20)	(1,235)	—	959	(296)	—	(296)
Issue of other equity instruments	—	—	750	—	—	—	—	750	—	750
Repurchase of other equity instruments	—	—	(985)	—	—	—	—	(985)	—	(985)
Dividends on ordinary shares	—	—	—	—	—	—	(1,014)	(1,014)	—	(1,014)
Dividends on preference shares and other equity instruments	—	—	—	—	—	—	(150)	(150)	—	(150)
At 31 December 2022	3,105	5,620	1,956	5	(1,128)	1	4,848	14,407	—	14,407

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

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1. ACCOUNTING POLICIES

These financial statements are prepared for Santander UK plc (the Company) and the Santander UK plc group (the Santander UK group) under the UK Companies Act 2006. The principal activity of the Santander UK group is the provision of a wide range of banking and financial services to personal, business and corporate customers. Santander UK plc is a public company, limited by shares and incorporated and registered in England and Wales having a registered office at 2 Triton Square, Regent's Place, London, NW1 3AN. It is an operating company undertaking banking and financial services transactions.

Basis of preparation

These financial statements incorporate the financial statements of the Company and entities it controls (its subsidiaries) made up to 31 December each year. The consolidated financial statements have been prepared on the going concern basis using the historical cost convention, except for financial assets and liabilities that have been measured at fair value. An assessment of the appropriateness of the adoption of the going concern basis of accounting is disclosed in the statement of going concern in the Directors' report.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Santander UK group and the separate financial statements of the Company comply with UK-adopted International Accounting Standards (IAS). The financial statements are also prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRS as issued by the IASB for the periods presented.

Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, have been included in the Risk review section of this Annual Report. This information forms an integral part of these financial statements by this cross reference, is marked as audited, and is covered by the Independent auditors' report.

Climate change

Santander UK continues to develop its assessment of the potential impacts that climate change and the transition to a low carbon economy may have on the assets and liabilities recognised and presented in its financial statements.

Santander UK is mindful of its responsibilities as a responsible lender and is focused on aligning with the objectives of the Paris Agreement on climate change and to support the UK's transition to a climate-resilient, net zero economy.

Santander UK's current climate change strategy focuses on three main areas to achieve Banco Santander's ambition to reach net zero emissions by 2050:

1. Managing climate risks by integrating climate considerations into risk management frameworks, screening and stress testing our portfolio for climate related financial risks, and setting risk appetites to help steer our portfolio in line with the Paris Agreement,

2. Supporting our customers' transition by developing products and services that promote a reduction in CO_2 emissions, and

3. Reducing emissions in our operations and supply chain by focusing on continuous improvement in our operations, and environmental and energy management systems in accordance with ISO14001 and 15001, promoting responsible procurement practices and employee engagement.

Santander UK's current climate change strategy and its view of the risks associated with climate change and the transition to a low carbon economy are reflected in its critical judgements and accounting estimates, although climate change risk did not require any material adjustments at 31 December 2024 and 2023, consistent with management's assessment that climate change and the transition to a low carbon economy are not currently expected to have a meaningful impact on the viability of the Santander UK group in the medium term.

At 31 December 2024 and 2023, management specifically considered the potential impact of climate change and the transition to a low carbon economy on:

- Loans and advances to customers (see Note 13 and the credit risk section of the Risk review). Some climate change risks arise due to the requirements of IFRS 9 and others relate to specific portfolios and sectors:
  - ECL calculations are based on multiple forward-looking economic scenarios developed by management covering a period of five years, during which timeframe climate change risks may crystallise;
  - For mortgages in Retail & Business Banking and commercial real estate lending in Corporate & Commercial Banking, the value of property collateral might be affected by physical impacts related to the frequency and scale of extreme weather events, such as flood and subsidence risk, or changing environmental performance standards for property.
  - For automotive loans in Consumer Finance, the residual value of automotive vehicles might be impacted by diesel obsolescence and the transition to electric vehicles.
  - For corporate lending in Corporate & Commercial Banking, certain sectors give rise to fossil fuel exposures, such as Oil & Gas, Mining & Extraction and Power Generation.
- Goodwill impairment assessment (see Note 19). Estimates underpinning the determination of whether or not goodwill balances are impaired are partly based on forecast business performance beyond the time horizon for management's detailed plans.
- Unity Place our new corporate headquarters in Milton Keynes has been built with sustainability at its core. All property assets are evaluated annually for potential flood damage and are currently considered low risk.

Future changes to Santander UK's climate change strategy may impact Santander UK's critical judgements and accounting estimates and result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods.

Change in accounting policy

In 2024, Santander UK voluntarily changed its accounting policy to remove reverse repurchase agreements (reverse repos) from being treated as cash equivalents under IAS 7 for the purposes of the cashflow statement. This change provides reliable and more relevant information to users of the financial statements where the bank is using reverse repos as an investment instrument to manage net interest income and operational liquidity rather than as cash equivalents. The change in accounting policy has no effect on any other primary financial statements, income statement metrics, key indicators, liquidity ratios, or maturity and offsetting disclosures. This change aligns Santander UK's accounting policy on the treatment of reverse repos under IAS 7 with the policy applied by its ultimate parent, Banco Santander, SA. The impact of the change on prior periods is set out below:

For the year ended 31 December

			Group
	Balance before change	(Decrease)/ increase	Balance after change
2023	£m	£m	£m
Cash and cash equivalents at beginning of the year	46,484	(3,613)	42,871
Cash and cash equivalents at the end of the year	42,502	(5,721)	36,781
Effects of exchange rate changes on cash and cash equivalents	(121)	63	(58)
Net change in operating assets and liabilities:			
– Reverse repurchase agreements – non trading	(3,224)	(1,896)	(5,120)
– Repurchase agreements – non trading	704	(275)	429
– Other liabilities	—	—	—
Net cash flows from operating activities	(1,133)	(2,171)	(3,304)
2022			
Cash and cash equivalents at beginning of the year	49,254	(2,539)	46,715
Cash and cash equivalents at the end of the year	46,484	(3,613)	42,871
Effects of exchange rate changes on cash and cash equivalents	121	(52)	69
Net change in operating assets and liabilities:			
– Reverse repurchase agreements – non trading	6,818	(1,483)	5,335
– Repurchase agreements – non trading	(4,145)	461	(3,684)
Net cash flows from operating activities	(2,970)	(1,022)	(3,992)

The value of reverse repo transactions at 31 December 2024 no longer included as cash and cash equivalents was £6,193m.

Future accounting developments

The IASB issued the following new/amended accounting standards which are not yet effective and have not been endorsed for use in the UK:

– Effective 1 January 2026: ‘Amendments to the Classification and Measurement of Financial Instruments’ (Amendments to IFRS 9 ‘Financial Instruments’ and IFRS 7 ‘Financial Instruments: Disclosures’) - the amendments set out changes to settling financial liabilities using an electronic payment system, assessing contractual cash flow characteristics of financial assets including those with environmental, social and governance (ESG)-linked features and requiring additional disclosures for certain financial instruments.

– Effective 1 January 2027: IFRS 18 ‘Presentation and Disclosure in Financial Statements’ – the new standard will replace IAS 1 ‘Presentation of Financial Statements’ and introduces changes to the categories for classifying income and expenses and subtotals presented in the income statement and new or amended disclosures in respect of management-defined performance measures and specified expenses by nature.

The Santander UK group is assessing these new/amended accounting standards to determine the potential impacts on the financial statements when they become effective or if they are otherwise earlier adopted when available.

Comparative information

As required by US public company reporting requirements, these financial statements include two years of comparative information for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes.

Material accounting policy information

The following material accounting policies have been applied in preparing these financial statements. For material accounting policies which involve the application of judgements or accounting estimates that are determined to be critical to the preparation of these financial statements see 'Critical judgements and accounting estimates'.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by it and its subsidiaries. The acquisition method of accounting is used to account for the acquisition of subsidiaries which meet the definition of a business.

Business combinations between entities under common control (i.e. fellow subsidiaries of Banco Santander SA, the ultimate parent) are outside the scope of IFRS 3 – ‘Business Combinations’, and there is no other guidance for such transactions under IFRS. The Santander UK group elects to account for business combinations between entities under common control at their book values in the acquired entity by including the acquired entity’s results from the date of the business combination and not restating comparatives. Reorganisations of entities within the Santander UK group are also accounted for at their book values.

Credit protection entities established as part of significant risk transfer (SRT) transactions are not consolidated by the Santander UK group in cases where third party investors have the exposure, or rights, to all of the variability of returns from the performance of the entities.

Revenue recognition

a) Interest income and expense

Interest and similar income and expense are recognised in the income statement using the effective interest rate method for: all financial instruments measured at amortised cost; debt instruments measured at FVOCI; and the effective part of any related accounting hedging instruments.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (i.e. Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision). For more information on stage allocations of credit risk exposures, see 'Significant increase in credit risk' in the 'Santander UK group level – credit risk management' section of the Risk review.

b) Fee and commission income and expense

Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time. Certain commitment, upfront and management fees are recognised over time but are not material. For retail and corporate products, fee and commission income consists principally of collection services fees, commission on foreign currencies, commission and other fees received from retailers for processing credit card transactions, fees received from other credit card issuers for providing cash advances for their customers through the Santander UK group's branch and ATM networks, annual fees payable by credit card holders and fees for non-banking financial products.

For insurance products, fee and commission income consists principally of commissions and profit share arising from the sale of building and contents insurance and life protection insurance. Commissions arising from the sale of buildings and contents insurance are recognised over the period of insurance cover, adjusted to take account of cancelled policies. Profit share income from the sale of buildings and contents insurance which is not subject to any adjustment is recognised when the profit share income is earned. Commissions and profit share arising from the sale of life protection insurance is subject to adjustment for cancellations of policies within 3 years from inception.

Fee and commission income which forms an integral part of the effective interest rate of a financial instrument (for example certain loan commitment fees) is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

c) Other operating income

Other operating income includes all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (comprising financial assets and liabilities held for trading, trading derivatives and other financial assets and liabilities at fair value through profit or loss), together with related interest income, expense, dividends, and changes in fair value of any derivatives managed in conjunction with these assets and liabilities. Other operating income also includes hedge ineffectiveness arising from fair value and cash flow hedging, income from operating lease assets, and profits and losses arising on the sales of property, plant and equipment and subsidiary undertakings.

Defined benefit pension schemes (see 'Critical judgements and accounting estimates')

A defined benefit scheme is a pension scheme that guarantees an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. Pension costs are charged to 'Administration expenses', within the line item 'Operating expenses before impairment losses, provisions and charges' with the net interest on the defined benefit asset or liability included within 'Net interest income' in the income statement. The asset or liability recognised in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date, less the fair value of scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The assets of the schemes are measured at their fair values at the balance sheet date.

The present value of the defined benefit obligation is estimated by projecting forward the growth in current accrued pension benefits to reflect inflation and salary growth to the date of pension payment, then discounted to present value using the yield applicable to high-quality AA rated corporate bonds of the same currency and which have terms to maturity closest to the terms of the scheme liabilities, adjusted where necessary to match those terms. In determining the value of scheme liabilities, demographic and financial assumptions are made by management about life expectancy, inflation, discount rates, pension increases and earnings growth, based on past experience and future expectations. Financial assumptions are based on market conditions at the balance sheet date and can generally be derived objectively.

Demographic assumptions require a greater degree of estimation and judgement to be applied to externally derived data. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). An asset is only recognised to the extent that the surplus can be recovered through reduced contributions in the future or through refunds from the scheme.

Share-based payments

The Santander UK group engages in cash-settled and equity-settled share-based payment transactions in respect of services received from certain of its employees. Shares of the Santander UK group's parent, Banco Santander SA are purchased in the open market by the Santander UK group (for the Employee Sharesave scheme) or are purchased by Banco Santander SA or another Banco Santander subsidiary (including awards granted under the Long-Term Incentive Plan and the Deferred Shares Bonus Plan) to satisfy share options or awards as they vest.

Options granted under the Employee Sharesave scheme and awards granted under the Transformation Incentive Plan are accounted for as cash-settled share-based payment transactions. Awards granted under the Long-Term Incentive Plan and Deferred Shares Bonus Plan are accounted for as equity-settled share-based payment transactions.

The fair value of the options granted under the Employee Sharesave scheme is determined using an option pricing model, which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the Banco Santander SA share price over the life of the option and the dividend growth rate. The fair value of the awards granted for the Long-Term Incentive Plan was determined at the grant date using an option pricing model, which takes into account the share price at grant date, the risk-free interest rate, the expected volatility of the Banco Santander SA share price over the life of the award and the dividend growth rate.

Goodwill and other intangible assets (for goodwill see 'Critical judgements and accounting estimates')

Goodwill represents the excess of the cost of an acquisition, as well as the fair value of any interest previously held, over the fair value of the share of the identifiable net assets of the acquired subsidiary, or business at the date of acquisition. Goodwill on the acquisition of subsidiaries and businesses is included in intangible assets. Goodwill is tested for impairment annually, or more frequently when events or changes in circumstances dictate and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity or business include the carrying amount of goodwill relating to the entity or business sold.

Other intangible assets are recognised if they arise from contractual or other legal rights or if they are capable of being separated or divided from Santander UK and sold, transferred, licensed, rented or exchanged. The value of such intangible assets, where they are available for use, is amortised on a straight-line basis generally over a three year useful economic life and the assets are reviewed annually for impairment indicators and tested for impairment where indicators are present. Other intangible assets that are not yet available for use are tested for impairment annually or more frequently when events or changes in circumstances dictate.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits, and the cost of those products can be measured reliably. These costs include payroll, materials, services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis generally over a three year useful life unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software are expensed as incurred.

Property, plant and equipment

Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment and computer software. Property, plant and equipment also includes operating leases where the Santander UK group is the lessor and right-of-use assets where the Santander UK group is the lessee. Internally developed software meeting the criteria set out in ‘Goodwill and other intangible assets’ above and externally purchased software are classified in property, plant and equipment where the software is an integral part of the related computer hardware (for example, the operating system of a computer). Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

Owner-occupied properties	Not exceeding 50 years
Office fixtures and equipment	3 to 35 years
Computer software	Generally 3 years
Right-of-use assets	Shorter of the lease term or the useful life of the underlying asset
Operating lease assets - vehicles	1 to 4 years

Depreciation is not charged on freehold land. Depreciation of operating lease assets where the Santander UK group is the lessor is described in 'Leases' below.

In 2024, the range of useful lives for Office fixtures and equipment expanded to 35 years due to the addition of fixtures and equipment in Unity Place.

Financial instruments (for impairment of debt instrument financial assets see 'Critical judgements and accounting estimates: Credit impairment losses')

a) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Santander UK group becomes a party to the contractual terms of the instrument. The Santander UK group determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned. Regular way purchases and sales of financial assets measured at amortised cost are recognised on settlement date; all other regular way purchases and sales of financial assets are recognised on trade date.

b) Financial assets and liabilities

i) Classification and subsequent measurement

The Santander UK group classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

– Financial assets and financial liabilities held for trading.
– Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI, and
– Equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

In certain circumstances, other financial assets and financial liabilities are designated at FVTPL where this results in more relevant information. This may arise because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets and liabilities are managed and their performance evaluated on a fair value basis or, in the case of financial liabilities, where it contains one or more embedded derivatives which are not closely related to the host contract.

The classification and measurement requirements for financial asset debt and equity instruments and financial liabilities are set out below.

Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and debt securities which consist mainly of government bonds and covered bonds. Classification and subsequent measurement of debt instruments depend on the Santander UK group's business model for managing the asset, and the cash flow characteristics of the asset.

Business model

The business model reflects how the Santander UK group manages the assets in order to generate cash flows and, specifically, whether the Santander UK group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are classified as part of an 'other' business model and measured at FVTPL. Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Santander UK group assesses whether the assets' cash flows represent SPPI. In making this assessment, the Santander UK group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Based on these factors, the Santander UK group classifies its debt instruments into one of the following measurement categories:

- Amortised cost – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised and measured as presented in Note 13. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. When estimates of future cash flows are revised, the carrying amount of the respective financial assets is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.
- FVOCI – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- FVTPL – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Other operating income' in the period in which it arises.

The Santander UK group reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Financial assets: equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. All equity investments are subsequently measured at FVTPL; management may elect, at initial recognition, to irrevocably designate an equity investment at FVOCI but has not currently done so. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in 'Other operating income' in the income statement.

Financial liabilities

Financial liabilities, which include deposits by banks, deposits by customers, debt securities in issue and subordinated liabilities, are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL (see Note 24): this classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability)
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Santander UK group recognises any expense incurred on the financial liability, and
- Financial guarantee contracts and loan commitments.

Preference shares which carry a contractual obligation to transfer economic benefits are classified as financial liabilities and are presented in subordinated liabilities. The coupon on these preference shares is recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Contracts involving the receipt of cash on which customers receive an index-linked return are accounted for as equity index-linked deposits. The principal products are Capital Guaranteed/Protected Products, which give the customers a limited participation in the upside growth of an equity index. In the event the index falls in price, a cash principal element is guaranteed/protected. The equity index-linked deposits contain embedded derivatives. These embedded derivatives, in combination with the principal cash deposit element, are designed to replicate the investment performance profile tailored to the return agreed in the contracts with customers. The cash principal element is accounted for as deposits by customers at amortised cost. The embedded derivatives are separated from the host instrument and are separately accounted for as derivatives.

Sale and repurchase agreements (including stock borrowing and lending)

Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by the Santander UK group remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an asset. The difference between the sale and repurchase price is treated as trading income in the income statement, except where the repo is not treated as part of the trading book, in which case the difference is recorded in interest income or expense.

Securities lending and borrowing transactions are generally secured, with collateral in the form of securities or cash advanced or received. Securities borrowed are not reflected on the balance sheet. Collateral in the form of cash received or advanced is recorded as a deposit or a loan. Collateral in the form of securities is not recognised.

Day One profit adjustments

The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Santander UK group recognises a trading gain or loss at inception (Day One gain or loss), being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire Day One gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or an offsetting transaction is entered into.

ii) Impairment of debt instrument financial assets

The Santander UK group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. The Santander UK group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
– The time value of money, and
– Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Grouping of instruments for losses measured on a collective basis

We typically group instruments and assess them for impairment collectively where they share risk characteristics (as described in the Credit risk section of the Risk review) using one or more statistical models. Where we have used internal capital or similar models as the basis for our ECL models, this typically results in a large number of relatively small homogenous groups which are determined by the permutations of the underlying characteristics in the statistical models. We calculate separate collective provisions for instruments in Stages 1, 2 and 3 where the instrument is not individually assessed, as described below.

Individually assessed impairments (IAIs)

We assess significant Stage 3 cases individually. We do this for Corporate & Commercial Banking cases, but not for Business Banking cases in Retail & Business Banking which we assess collectively. To calculate the estimated loss, we estimate the future cash flows under several scenarios each of which uses case-specific factors and circumstances. We then probability-weight the net present value of the cash flows under each scenario to arrive at a weighted average provision requirement. We update our assessment process every quarter and more frequently if there are changes in circumstances that might affect the scenarios, cash flows or probabilities we apply.

For more on how ECL is calculated, see the Credit risk section of the Risk review.

– Write-off

For secured loans, a write-off is only made when all collection procedures have been exhausted and the security has been sold and/or a claim made on any mortgage indemnity guarantee or other insurance. In the corporate loan portfolio, there may be occasions where a write-off occurs for other reasons, such as following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than its face value.

There is no threshold based on past due status beyond which all secured loans are written off as there can be significant variations in the time needed to enforce possession and sale of the security, especially due to the different legal frameworks that apply in different regions of the UK. For unsecured loans, a write-off is only made when all internal avenues of collecting the debt have been exhausted. Where appropriate the debt is passed over to external collection agencies. A past due threshold is applied to unsecured debt where accounts that are 180 days past due are written off unless there is a dispute awaiting resolution. Contact is made with customers with the aim to achieve a realistic and sustainable repayment arrangement. Litigation and/or enforcement of security is usually carried out only when the steps described above have been undertaken without success.

All write-offs are assessed / made on a case-by-case basis, taking account of the exposure at the date of write-off, after accounting for the value from any collateral or insurance held against the loan. The exception to this is in cases where fraud has occurred, where the exposure is written off once investigations have been completed and the probability of recovery is minimal. The time span between discovery and write-off will be short and may not result in an impairment loss allowance being raised. The write-off policy is regularly reviewed. Write-offs are charged against previously established loss allowances.

– Recoveries

Recoveries of credit impairment charges are not included in the impairment loss allowance but are taken to income and offset against credit impairment charges. Recoveries of credit impairment charges are classified in the income statement as 'Credit impairment charges'.

iii) Modifications of financial assets

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset normally depends upon whether the renegotiation or modification is due to financial difficulties of the borrower or for other commercial reasons.

– Contractual modifications due to financial difficulties of the borrower: where the Santander UK group modifies the contractual conditions to enable the borrower to fulfil their payment obligations, the asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated/modified contractual cash flows that are discounted at the financial asset's original EIR and any gain or loss arising from the modification is recognised in the income statement.
– Contractual modifications for other commercial reasons: an assessment is performed to determine whether the terms of the new agreement are substantially different from the terms of the existing agreement, after considering changes in the cash flows arising from the modified terms and the overall instrument risk profile. Where terms are substantially different, such modifications are treated as a new transaction resulting in derecognition of the original financial asset, and the recognition of a 'new' financial asset with any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in the income statement as a gain or loss on derecognition. Where terms are not substantially different, the carrying value of the financial asset is adjusted to reflect the present value of modified cash flows discounted at the original EIR with any gain or loss arising from modification recognised immediately in the income statement.

Any other contractual modifications, such as where a regulatory authority imposes a change in certain contractual terms or due to legal reasons, are assessed on a case-by-case basis to establish whether or not the financial asset should be derecognised.

iv) Derecognition other than on a modification

Financial assets are derecognised when the rights to receive cash flows have expired or the Santander UK group has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Santander UK group has neither retained nor transferred substantially all of the risks and rewards but has transferred control.

Financial liabilities are derecognised when extinguished, cancelled or expired.

c) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance, and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. Loan commitments are measured as the amount of the loss allowance (determined in accordance with IFRS 9 as described in Credit risk section of the Risk review). The Santander UK group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision and charged to credit impairment charges in the income statement. The loss allowance in respect of revolving facilities is classified in loans and advances to customers to the extent of any drawn balances. The loss allowance in respect of undrawn amounts is classified in provisions. When amounts are drawn, any related loss allowance is transferred from provisions to loans and advances to customers.

Derivative financial instruments (derivatives)

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in interest rate, cross currency, equity, residential property and other index-related swaps, forwards, caps, floors, swaptions, as well as credit default and total return swaps, equity index contracts and exchange traded interest rate futures, and equity index options.

Derivatives are held for risk management purposes. Derivatives are classified as held for trading unless they are designated as being in a hedge accounting relationship. The Santander UK group chooses to designate certain derivatives as in a hedging relationship if they meet specific criteria, as further described in 'Hedge accounting' below.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are estimated using valuation techniques, including discounted cash flow and option pricing models.

Certain derivatives may be embedded in hybrid contracts. If the hybrid contract contains a host that is a financial asset, then the Santander UK group assesses the entire contract as described in the financial asset section above for classification and measurement purposes. Otherwise, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Contracts containing embedded derivatives are not subsequently reassessed for separation unless either there has been a change in the terms of the contract which significantly modifies the cash flows (in which case the contract is reassessed at the time of modification) or the contract has been reclassified (in which case the contract is reassessed at the time of reclassification).

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. Gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement and included in Other operating income.

Offsetting financial assets and liabilities

Financial assets and liabilities including derivatives are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Santander UK group is party to a number of arrangements, including master netting arrangements under industry standard agreements which facilitate netting of transactions in jurisdictions where netting agreements are recognised and have legal force. These netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis.

Hedge accounting

The Santander UK group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its risk management strategies. Derivatives are used to hedge exposures to interest rates, inflation and exchange rates.

At the time a financial instrument is designated as a hedge (i.e. at the inception of the hedge), the Santander UK group formally documents the relationship between the hedging instrument(s) and hedged item(s), its risk management objective and strategy for undertaking the hedge. The documentation includes the identification of each hedging instrument and respective hedged item, the nature of the risk being hedged (including the benchmark interest rate being hedged in a hedge of interest rate risk) and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk is to be assessed. Accordingly, the Santander UK group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been and will be highly effective in offsetting changes in the fair value attributable to the hedged risk during the period that the hedge is designated. A hedge is normally regarded as highly effective if, at inception and throughout its life, the Santander UK group can expect, and actual results indicate that changes in the fair value or cash flow of the hedged items are effectively offset by changes in the fair value or cash flow of the hedging instrument. If at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the derivatives may be designated as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges); or (iii) a hedge of a net investment in a foreign operation (net investment hedges). The Santander UK group applies fair value and cash flow hedge accounting but not hedging of a net investment in a foreign operation.

a) Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Where the hedged item is measured at amortised cost, the fair value changes due to the hedged risk adjust the carrying amount of the hedged asset or liability. Changes in the fair value of portfolio hedged items are presented separately in the consolidated balance sheet in macro hedge of interest rate risk and recognised in the income statement. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. For fair value hedges of interest rate risk, the cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity. For portfolio hedged items, the cumulative adjustment is amortised to the income statement using the straight-line method over the period to maturity.

b) Cash flow hedge accounting
The effective portion of changes in the fair value of qualifying cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. The Santander UK group is exposed to variability in future cash flows attributable to i) interest rate and inflation risks on its GBP floating rate assets and liabilities ii) foreign currency risk on debt issuances denominated in foreign currency and iii) equity price risk from operating the Employee Sharesave scheme. Cash flow hedging is used to hedge the variability in cash flows arising from these risks.

Securitisation transactions
The Santander UK group has entered into arrangements where undertakings have issued mortgage-backed and other asset-backed securities or have entered into funding arrangements with lenders in order to finance specific loans and advances to customers. The Santander UK group has also entered into synthetic securitisation arrangements, as part of significant risk transfer (SRT) transactions to reduce its risk-weighted assets, where undertakings have issued credit-linked notes, and in some cases deposited the funds raised as collateral, for credit protection in respect of specific loans and advances to customers. As the Santander UK group has retained substantially all the risks and rewards of the underlying assets, such financial instruments continue to be recognised on the balance sheet, and a liability recognised for the proceeds of the funding transaction, or in the case of SRT transactions, collateral deposited.

Impairment of non-financial assets
At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets (including goodwill) are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying value of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The cash-generating unit represents the lowest level at which non-financial assets, including goodwill, are monitored for internal management purposes and is not larger than an operating segment.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use (after making allowance for increases in regulatory capital requirements), including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The recoverable amounts of goodwill have been based on value in use calculations.

For conducting goodwill impairment reviews, cash generating units are the lowest level at which management monitors the return on investment on assets.

Leases (as lessor)
Operating lease assets are recorded at cost and the difference between cost and residual value (RV) is depreciated over the life of the asset. Operating lease rental income and depreciation is recognised on a straight-line basis over the life of the asset. After initial recognition, residual values are reviewed regularly, and any changes are recognised prospectively through remaining depreciation charges.

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Santander UK group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Santander UK group's net investment outstanding in respect of the leases and hire purchase contracts. A provision is recognised to reflect a reduction in any anticipated unguaranteed RV. A provision is also recognised for voluntary termination of the contract by the customer, where appropriate.

Income taxes, including deferred taxes
The tax expense represents the sum of the income tax currently payable and deferred income tax.

A current tax liability for the current or prior period is measured at the amount expected to be paid to the tax authorities. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the liability recognised is the most likely outcome. Where a most likely outcome cannot be determined, a weighted average basis is applied.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with not more than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks and loans and advances to banks. Balances with central banks represent amounts held at the Bank of England as part of the Santander UK group's liquidity management activities. It includes reserves collateralised accounts in respect of Santander UK's participation in certain payments schemes which are required to be maintained with the Bank of England and are restricted balances.

Provisions and contingent liabilities (see 'Critical judgements and accounting estimates')

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and it can be reliably estimated.

Customer remediation provisions are made for the estimated cost of making redress payments with respect to the past sales of products, using conclusions such as the number of claims, the number of those that will be upheld, the estimated average settlement per case and other related costs. Provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists. An obligation exists when the Santander UK group has a detailed formal plan for restructuring a business, has raised valid expectations in those affected by the restructuring, and has started to implement the plan or announce its main features.

When a leasehold property ceases to be used in the business, provision is made where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Loan commitments are measured as the amount of the loss allowance, determined in line with IFRS 9 as set out in the Credit risk section of the Risk review.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

Critical judgements and accounting estimates

The preparation of Santander UK's consolidated financial statements in accordance with IFRS requires management to make judgements and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management has considered the impact of developments in principal risks and uncertainties, as set out in the Risk review, on critical judgements and accounting estimates.

The significant judgements, apart from those involving estimation, made by management in applying Santander UK's accounting policies in these financial statements (key judgements) and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year (key estimates), which together are considered critical to Santander UK's results and financial position, are as follows:

a) Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the future financial results and financial condition. The impact of the cost of living crisis has increased the uncertainty around ECL impairment calculations and has required management to make additional judgements and accounting estimates that affect the amount of assets and liabilities at the reporting date and the amount of income and expenses in the reporting period. The key additional judgements due to the impact of the cost of living crisis mainly reflect the increased uncertainty around forward-looking economic data and the need for additional judgemental adjustments.

Key judgements	– Establishing the criteria for a significant increase in credit risk (SICR) and, for corporate borrowers, internal credit risk rating – Determining the need for any judgemental adjustments – Determining an appropriate definition of default – Establishing low credit risk exemption (LCRE) criteria to determine that the credit risk did not increase significantly since initial recognition – Determining the need to assess corporate Stage 3 exposures individually
Key estimates	– Forward-looking multiple economic scenario assumptions – Probability weights assigned to multiple economic scenarios

For more on each of these key judgements and estimates, see 'Critical Judgements and accounting estimates applied in calculating ECL' in the 'Credit risk – credit risk management' section of the Risk review.

Sensitivity of ECL allowance

For detailed disclosures, see 'Sensitivity of ECL allowance' in the 'Credit risk – credit risk management' section of the Risk review.

b) Provisions and contingent liabilities

Key judgements	– Determining whether a present obligation exists – Determining the likely outcome of future legal decisions
Key estimates	– Probability, timing, nature and amount of any outflows that may arise from past events

Included in Litigation and other regulatory provisions in Note 27 are amounts in respect of management's best estimates of liability relating to a legal dispute regarding allocation of responsibility for a specific PPI portfolio of complaints, and Plevin related litigation. Note 30 provides disclosure relating to ongoing factual issues and reviews that could impact the timing and amount of any outflows. It includes disclosure relating to an investigation in relation to the historical involvement of Santander UK plc, Santander Financial Services plc and Cater Allen International Limited (all subsidiaries of Santander UK Group Holdings plc) in German dividend tax arbitrage transactions. It also includes disclosure relating to the historical use of discretionary commission arrangements by Santander Consumer (UK) plc.

These judgements are based on the specific facts available and often require specialist professional advice. There can be a wide range of possible outcomes and uncertainties, particularly in relation to legal actions, and regulatory and consumer credit matters. As a result, it is often not possible to make reliable estimates of the likelihood and amount of any potential outflows, or to calculate any resulting sensitivities. For more on each of these key judgements and estimates, see Notes 27 and 30.

c) Retirement benefit plans

The Santander UK group operates a number of defined benefit pension schemes as described in Note 28 and estimates their position as described in the accounting policy 'Pensions and other post retirement benefits'.

Key judgements	– Setting the criteria for constructing the corporate bond yield curve used to determine the discount rate – Determining the methodology for setting the inflation assumption
Key estimates	– Discount rate applied to future cash flows – Rate of price inflation – Expected lifetime of the schemes' members – Valuation of pension fund assets whose values are not based on market observable data

For more on each of these key judgements and estimates, see Note 28.

Sensitivity of defined benefit pension scheme estimates

For detailed disclosures, see 'Actuarial assumption sensitivities' in Note 28. The Scheme is invested in certain assets whose values are not based on market observable data, such as investments in private equity funds and property. Due diligence has been conducted to support the values obtained in respect of these assets represent fair value. Given the nature of these investments, we are unable to prepare sensitivities on how their values could vary as market conditions or other variables change.

d) Goodwill

The carrying amount of goodwill is based on the application of judgements including the basis of goodwill impairment calculation assumptions. Santander UK undertakes an annual assessment to evaluate whether the carrying amount of goodwill is impaired, carrying out this assessment more frequently if reviews identify indicators of impairment or when events or changes in circumstances dictate.

Key judgement:	– Determining the basis of goodwill impairment testing methodology, including the need for planning assumptions and internal capital allocations
Key estimates:	– Forecast cash flows for cash generating units – Discount rates which factor in risk-free rates and applicable risk premiums All of these variables are subject to fluctuations in external market rates and economic conditions beyond management's control

Santander UK group undertakes an annual assessment to evaluate whether the carrying amount of goodwill is impaired, carrying out this assessment more frequently if reviews identify indicators of impairment or when events or changes in circumstances dictate.

The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and is subject to potential change over time.

For more on each of these key judgements and estimates, see Note 19.

Sensitivity of goodwill

For detailed disclosures, see 'Sensitivities of key assumptions in calculating 'VIU' in Note 19.

2. SEGMENTS

Santander UK's principal activity is financial services, mainly in the UK. The business is managed and reported on the basis of four segments, which are strategic business units that offer different products and services, have different customers and require different technology and marketing strategies. Geographical information is not provided, as substantially all of Santander UK's activities are in the UK.

- **Retail & Business Banking** consists of two business units, Mortgages and Everyday Banking. Mortgages provides prime UK mortgage lending to owner occupiers and buy-to-let landlords with small portfolios. Everyday Banking provides banking services and unsecured lending to individuals and small businesses as well as wealth management for high-net-worth clients.
- **Consumer Finance** provides prime auto consumer financing for individuals, businesses, and automotive distribution networks.
- **Corporate & Commercial Banking** provides banking products and services to SMEs, mid-sized and larger corporates, typically with annual turnovers of between £2m and £500m as well as to Local Authorities and Housing Associations.
- **Corporate Centre** provides treasury services for asset and liability management of our balance sheet.

Retail & Business Banking delivers products through our omni-channel presence comprising branches, ATMs, telephony, digital and intermediary channels. Consumer Finance business is primarily introduced by car dealerships acting as our intermediary along with a small amount of new business introduced via digital channels. Corporate and Commercial Banking expertise is provided by relationship managers, product specialists and through digital and telephony channels, and covers clients' needs both in the UK and overseas.

The segmental data is prepared on a statutory basis of accounting, in line with the accounting policies set out in Note 1. Transactions between segments are on normal commercial terms and conditions. Internal charges and internal UK transfer pricing adjustments are reflected in the results of each segment and eliminate on consolidation. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on Santander UK's cost of wholesale funding. Interest income and interest expense have not been reported separately. The majority of segment revenues are interest income in nature and net interest income is relied on primarily to assess segment performance and to make decisions on the allocation of segment resources.

Results by segment
For the year ended 31 December

2024	Retail & Business Banking £m	Consumer Finance £m	Corporate & Commercial Banking £m	Corporate Centre £m	Total £m
Net interest income	3,426	144	694	48	4,312
Non-interest income/(expense)	121	182	128	(86)	345
Total operating income/(expense)	3,547	326	822	(38)	4,657
Operating expenses before credit impairment charges, provisions and charges	(1,976)	(152)	(417)	(3)	(2,548)
Credit impairment charges	(50)	(17)	(4)	—	(71)
Provisions for other liabilities and charges	(297)	(332)	(50)	(10)	(689)
Total credit impairment charges, provisions and charges	(347)	(349)	(54)	(10)	(760)
Profit/(loss) before tax	1,224	(175)	351	(51)	1,349
Revenue/(expense) from external customers	3,711	754	562	(370)	4,657
Inter-segment (expense)/revenue	(164)	(428)	260	332	—
Total operating income/(expense)	3,547	326	822	(38)	4,657
Revenue/(expense) from external customers includes the following fee and commission income:(1)					
– Current account and debit card fees	424	—	50	—	474
– Insurance, protection and investments	48	—	—	—	48
– Credit cards	92	—	—	—	92
– Non-banking and other fees(2)	3	28	73	15	119
Total fee and commission income	567	28	123	15	733
Fee and commission expense	(442)	(7)	(10)	(22)	(481)
Net fee and commission income/(expense)	125	21	113	(7)	252
Customer loans	171,724	4,759	18,029	—	194,512
Customer deposits	151,815	—	22,137	2,781	176,733
Average number of full-time equivalent staff	15,993	773	2,494	—	19,260

(1) The disaggregation of fees and commission income as shown above is not included in reports provided to the chief operating decision maker but is provided to show the split by reportable segments.
(2) Non-banking and other fees include mortgages (except mortgage account fees), consumer finance, commitment commission, asset finance, invoice finance and trade finance.

2023	Retail & Business Banking £m	Consumer Finance £m	Corporate & Commercial Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	3,716	156	841	(55)	4,658
Non-interest income/(expense)	182	192	135	(71)	438
Total operating income/(expense)	3,898	348	976	(126)	5,096
Operating expenses before credit impairment charges, provisions and charges	(1,813)	(141)	(351)	(151)	(2,456)
Credit impairment charges	(149)	(15)	(40)	(1)	(205)
Provisions for other liabilities and charges	(233)	(18)	(15)	(69)	(335)
Total credit impairment charges, provisions and charges	(382)	(33)	(55)	(70)	(540)
Profit/(loss) before tax	1,703	174	570	(347)	2,100
Revenue from external customers	3,597	663	712	124	5,096
Inter-segment revenue/(expense)	301	(315)	264	(250)	—
Total operating income/(expense)	3,898	348	976	(126)	5,096
Revenue from external customers includes the following fee and commission income:[1]					
– Current account and debit card fees	493	—	49	—	542
– Insurance, protection and investments	47	—	—	—	47
– Credit cards	94	—	—	—	94
– Non-banking and other fees[2]	3	25	79	14	121
Total fee and commission income	637	25	128	14	804
Fee and commission expense	(458)	(6)	(11)	(26)	(501)
Net fee and commission income/(expense)	179	19	117	(12)	303
Customer loans	179,887	5,228	17,939	—	203,054
Customer deposits	158,329	—	24,066	5,050	187,445
Average number of full-time equivalent staff	16,330	816	2,376	24	19,546

2022	Retail & Business Banking £m	Consumer Finance £m	Corporate & Commercial Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	3,671	180	580	(6)	4,425
Non-interest income/(expense)	209	195	146	(19)	531
Total operating income/(expense)	3,880	375	726	(25)	4,956
Operating expenses before credit impairment charges, provisions and charges	(1,682)	(144)	(342)	(175)	(2,343)
Credit impairment charges	(262)	(27)	(31)	—	(320)
Provisions for other liabilities and charges	(394)	(6)	(8)	(11)	(419)
Total credit impairment charges, provisions and charges	(656)	(33)	(39)	(11)	(739)
Profit/(loss) before tax	1,542	198	345	(211)	1,874
Revenue/(expense) from external customers	4,109	513	732	(398)	4,956
Inter-segment (expense)/revenue	(229)	(138)	(6)	373	—
Total operating income/(expense)	3,880	375	726	(25)	4,956
Revenue from external customers includes the following fee and commission income:[1]					
– Current account and debit card fees	502	—	60	—	562
– Insurance, protection and investments	78	—	—	—	78
– Credit card fees	95	—	—	—	95
– Non-banking and other fees[2]	2	20	77	5	104
Total fee and commission income	677	20	137	5	839
Fee and commission expense	(478)	(5)	(18)	(8)	(509)
Net fee and commission income/(expense)	199	15	119	(3)	330
Customer loans	191,836	5,384	18,518	—	215,738
Customer deposits	161,748	—	24,798	3,365	189,911
Average number of full-time equivalent staff	15,212	531	2,336	44	18,123

(1) The disaggregation of fees and commission income as shown above is not included in reports provided to the chief operating decision maker but is provided to show the split by reportable segments.
(2) Non-banking and other fees include mortgages (except mortgage account fees), consumer finance, commitment commission, asset finance, invoice finance and trade finance.

The table below shows the relationship between Customer assets and Loans and advances to customers as presented in the Consolidated Balance Sheet. Customer assets exclude intercompany balances (including joint ventures), as they carry low credit risk and therefore have an immaterial ECL, Accrued interest that we have not yet charged to the customer's account, and Other items, consisting mainly of cash collateral. It also shows the relationship between Customer deposits (see above) and Deposits by customers as presented in the Consolidated Balance Sheet.

	Assets		Liabilities	
	2024	2023	**2024**	2023
	£m	£m	£m	£m
Customer balances (gross)	**194,512**	203,054	**176,733**	187,445
Loan loss allowance	**(784)**	(914)	**—**	—
Customer balances (net)	**193,728**	202,140	**176,733**	187,445
Intercompany balances (including joint ventures)	**4,832**	4,544	**3,632**	2,825
Accrued interest	**714**	739	**854**	830
Other items	**134**	12	**(252)**	(250)
Loans and advances to customers / Deposits by customers	**199,408**	207,435	**180,967**	190,850

3. NET INTEREST INCOME

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Interest and similar income:			
Loans and advances to customers	**9,290**	8,767	5,774
Loans and advances to banks	**1,523**	1,751	618
Reverse repurchase agreements – non-trading	**987**	626	149
Other	**639**	473	167
Total interest and similar income[1]	**12,439**	11,617	6,708
Interest expense and similar charges:			
Deposits by customers	**(4,276)**	(3,230)	(905)
Deposits by banks	**(839)**	(1,165)	(496)
Repurchase agreements – non-trading	**(644)**	(538)	(120)
Debt securities in issue	**(2,171)**	(1,852)	(650)
Subordinated liabilities	**(193)**	(169)	(108)
Other	**(4)**	(5)	(4)
Total interest expense and similar charges[2]	**(8,127)**	(6,959)	(2,283)
Net interest income	**4,312**	4,658	4,425

(1) Includes £296m (2023: £230m, 2022: £87m) of interest income on financial assets at FVOCI.
(2) Includes £762m (2023: £706m, 2022: £6m) of interest expense on the effective part of derivatives hedging debt issuances and £3m (2023: £3m, 2022: £3m) of interest expense on lease liabilities.

4. NET FEE AND COMMISSION INCOME

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Fee and commission income:			
Current account and debit card fees	**474**	542	562
Insurance, protection and investments	**48**	47	78
Credit cards	**92**	94	95
Non-banking and other fees[1]	**119**	121	104
Total fee and commission income	**733**	804	839
Total fee and commission expense	**(481)**	(501)	(509)
Net fee and commission income	**252**	303	330

(1) Non-banking and other fees include mortgages (except mortgage account fees), consumer finance, commitment commission, asset finance, invoice finance and trade finance.

5. OTHER OPERATING INCOME

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Net (losses)/gains on financial instruments designated at fair value through profit or loss[1]	**(38)**	(57)	62
Net (losses) on financial instruments mandatorily at fair value through profit or loss[2]	**(12)**	(11)	(75)
Hedge ineffectiveness	**22**	19	29
Income from operating lease assets	**113**	117	129
Other	**8**	67	56
	93	135	201

(1) Net (losses) /gains on financial instruments designated at fair value through profit or loss includes losses of £16m on deposits (2023: £24m losses, 2022 £35m gains), losses of £22m on debt securities 2023: £32m losses, 2022: £31m gains).
(2) Net losses on financial instruments mandatorily at fair value through profit or loss include gains of £7m on debt securities (2023: £5m gains, 2022: £13m gains).

Net gains on financial instruments mandatorily at FVTPL includes fair value losses of £21m (2023: losses of £12m, 2022: gains of £14m) on embedded derivatives bifurcated from certain equity index-linked deposits, as described in the derivatives accounting policy in Note 1. The embedded derivatives are economically hedged, the results of which are also included in this line item and amounted to gains of £21m (2023: gains of £12m, 2022: losses of £14m). As a result, the net fair value movements recognised on the equity index-linked deposits and the related economic hedges were net gains of £nil (2023: £nil, 2022: £nil).

			Group
	2024	2023	2022
	£m	£m	£m
Exchange rate differences in the consolidated income statement on items not at fair value through profit and loss	**495**	1,288	(2,163)
These are principally offset by related releases from the cash flow hedge reserve	**(500)**	(1,248)	2,129

In 2024, no subordinated liabilities were repurchased as part of ongoing liability management exercises (2023: profit of £4m).

In 2024, Other includes £8m of losses on the sale of property as part of our transformation (2023:£nil; 2022: £7m).

6. OPERATING EXPENSES BEFORE CREDIT IMPAIRMENT CHARGES, PROVISIONS AND CHARGES

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Staff costs:			
Wages and salaries	**866**	839	745
Performance-related payments	**164**	162	170
Social security costs	**122**	115	112
Pensions costs: – defined contribution plans	**79**	71	60
– defined benefit plans	**13**	13	28
Other personnel costs	**33**	41	44
	1,277	1,241	1,159
Other administration expenses	**971**	925	888
Depreciation, amortisation and impairment	**300**	290	296
	2,548	2,456	2,343

Staff costs
Performance-related payments include bonuses paid in cash and share awards granted under the arrangements described in Note 35. Included in this are equity-settled share-based payments, none of which related to option-based schemes. These are disclosed in the table below as 'Shares awards'. Performance-related payments above include amounts related to deferred performance awards as follows:

	Costs recognised in 2024			Costs expected to be recognised in 2025 or later		
	Arising from awards in current year	Arising from awards in prior year	Total	Arising from awards in current year	Arising from awards in prior year	Total
	£m	£m	£m	£m	£m	£m
Cash	**3**	**5**	**8**	7	7	14
Shares	**2**	**5**	**7**	6	7	13
	5	**10**	**15**	13	14	27

The following table shows the amount of bonus awarded to employees for the performance year 2024. In the case of deferred cash and shares awards, the final amount paid to an employee is influenced by forfeiture provisions and any performance conditions to which the awards are subject. The deferred shares award amount is based on the fair value of the awards at the date of grant.

	Expenses charged in the year		Expenses deferred to future periods		Total	
	2024	2023	**2024**	2023	**2024**	2023
	£m	£m	**£m**	£m	**£m**	£m
Cash award – not deferred	**140**	140		—	**140**	140
– deferred	**8**	7	**14**	12	**22**	19
Shares award – not deferred	**9**	8		—	**9**	8
– deferred	**7**	7	**13**	11	**20**	18
Total discretionary bonus	**164**	162	**27**	23	**191**	185

Other share-based payments consist of options granted under the Employee Sharesave scheme which comprise the Santander UK group's cash-settled share-based payments. For more, see Note 35.

The average number of full-time equivalent staff in the year is set out in Note 2.

Depreciation, amortisation and impairment
In 2024, depreciation, amortisation and impairment included depreciation of £75m (2023: £64m, 2022: £73m) on operating lease assets (where the Santander UK group is the lessor) with a carrying amount of £574m at 31 December 2024 (2023: £488m, 2022: £577m). It also included depreciation of £18m (2023: £30m, 2022: £19m) on right-of-use assets with a carrying amount of £79m at 31 December 2024 (2023: £90m, 2022: £112m).

Other administration expenses includes £18m (2023: £19m, 2022: £21m) related to short-term leases.

In 2024, depreciation, amortisation and impairment included an impairment charge of £nil (2023: £25m, 2022: £10m) associated with branch and head office site closures as part of our transformation. For more, see Note 20.

7. AUDIT AND OTHER SERVICES

For the year ended 31 December

	Group		
	2024	2023	2022
	£m	£m	£m
Audit fees:			
Fees payable to the Company's auditor and its associates for the audit of the Santander UK group's annual financial statements	**13.8**	13.9	11.8
Fees payable to the Company's auditor and its associates for other services to the Santander UK group:			
– Audit of the Santander UK group's subsidiaries	**0.6**	0.6	0.7
Total audit fees[(1)]	**14.4**	14.5	12.5
Non-audit fees:			
Audit-related assurance services	**0.6**	0.7	0.6
Other assurance services	**1.0**	0.5	0.3
Other non-audit services	**0.6**	0.1	—
Total non-audit fees	**2.2**	1.3	0.9

(1) 2024 audit fees included £0.1m (2023: £0.7m, 2022: £0.6m) which related to the prior year.

Audit fees payable for the statutory audit of Santander UK plc were £12.9m (2023: £12.7m, 2022: £10.9m).

Audit-related assurance services mainly comprised services performed in connection with review of the financial information of the Company and reporting to the Company's UK regulators.

Other non-audit services mainly comprised services performed in support of various debt issuance programmes.

Of the total non-audit fees, £0.2m (2023: £0.3m, 2022: £0.2m accords with the definition of 'Audit Fees' per US Securities and Exchange Commission (SEC) guidance, £2.0m (2023: £1.0m, 2022: £0.7m) accords with the definition of 'Audit related fees' per that guidance and £48,300 (2023: £12,550, 2022: £nil) accords with the definition of 'All other fees' per that guidance.

In 2024, the Company's auditors earned £1.8m (2023: £1.6m, 2022: £1.6m), in relation to incremental work undertaken in support of the audit of Banco Santander SA.

8. CREDIT IMPAIRMENT CHARGES AND PROVISIONS

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Credit impairment charges:			
Loans and advances to customers	**87**	191	248
(Recoveries)/charges of loans and advances, net of collection costs	**(23)**	10	36
Off-balance sheet credit exposures (See Note 27)	**7**	4	36
	71	205	320
Provisions for other liabilities and charges (excluding off-balance sheet credit exposures) (See Note 27)	**687**	334	422
Charge/(release) for residual value and voluntary termination	**2**	1	(3)
	689	335	419
	760	540	739

In 2024, 2023 and 2022 there were no material credit impairment charges on Loans and advances to banks, Non-trading reverse repurchase agreements, Other financial assets at amortised cost and Financial assets at FVOCI.

9. TAXATION

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Current tax:			
UK corporation tax on profit for the year	**205**	475	526
Adjustments in respect of prior years	**(47)**	(15)	(81)
Total current tax	**158**	460	445
Deferred tax:			
Charge/(credit) for the year	**187**	106	(29)
Adjustments in respect of prior years	**33**	(7)	64
Total deferred tax	**220**	99	35
Tax on profit from continuing operations	**378**	559	480

The standard rate of UK corporation tax was 28% for banking entities and 25% for non-banking entities (2023: 27.75%) for banking entities and 23.50% for non-banking entities; 2022: 27% for banking entities and 19% for non-banking entities) following the introduction of a surcharge on banking companies in 2016. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Santander UK group's effective tax rate for 2024 was 28.0% (2023: 26.6%, 2022: 25.6%). Tax on profit differs from that calculated at the statutory rate as follows:

For the year ended 31 December

			Group
	2024	2023	2022
	£m	£m	£m
Profit before tax	**1,349**	2,100	1,874
Tax calculated at the statutory rate of 25% (2023: 23.5%, 2022: 19%)	**337**	494	356
Bank surcharge on profits	**41**	85	121
Non-deductible preference dividends paid	**9**	9	9
Non-deductible UK Bank Levy	**12**	10	13
Non-deductible conduct remediation, fines and penalties	**3**	13	48
Other non-deductible costs and non-taxable income	**26**	2	29
Effect of change in tax rate on deferred tax provision	**—**	2	(29)
Tax relief on dividends in respect of other equity instruments	**(36)**	(34)	(40)
Adjustment to prior year provisions	**(14)**	(22)	(27)
Tax on profit	**378**	559	480

It is not anticipated that the OECD Pillar Two rules which became effective from 1 January 2024 will impact the Santander UK group.

Current tax assets

Movements in current tax assets during the year were as follows:

	Group	
	2024	2023
	£m	£m
Assets	**490**	478
At 1 January	**490**	478
Income statement charge (including discontinued operations)	**(158)**	(460)
Other comprehensive income charge	**(47)**	(70)
Corporate income tax paid	**240**	537
Other movements	**(19)**	5
	506	490
Assets	**506**	490
At 31 December	**506**	490

The amount of corporation income tax paid differs from the tax charge for the period as a result of the timing of payments due to the tax authorities, the effects of movements in deferred tax, adjustments to prior period current tax provisions and current tax recognised directly in other comprehensive income.

Santander UK group engages in discussion, and co-operates, with HM Revenue & Customs (HMRC) in their oversight of the Santander UK group's tax matters. The accounting policy for recognising provisions for any tax risks identified is described in Note 1. It is not expected that there will be any material movement in such provisions within the next 12 months.

The Santander UK group consistently applies the UK's Code of Practice on Taxation for Banks. For more information, see our Taxation Strategy on our website.

Deferred tax

The table below shows the deferred tax balances including the movement in the deferred tax account during the year. Deferred tax balances are presented in the balance sheet after offsetting assets and liabilities where the Santander UK group has the legal right to offset and intends to settle on a net basis.

							Group
	Fair value of financial instruments	Pension remeasurement	Cash flow hedges	Fair value reserve	Accelerated tax depreciation	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**(8)**	**(186)**	**73**	**3**	**18**	**(86)**	**(186)**
Income statement charge	**(144)**	**(44)**	**—**	**—**	**(24)**	**(8)**	**(220)**
Transfers/reclassifications	**—**	**—**	**2**	**1**	**—**	**—**	**3**
Credited to other comprehensive income	**—**	**113**	**35**	**4**	**—**	**5**	**157**
At 31 December 2024	**(152)**	**(117)**	**110**	**8**	**(6)**	**(89)**	**(246)**
At 1 January 2023	27	(290)	305	(1)	35	(111)	(35)
Income statement (charge)/credit	(35)	(63)	—	—	(18)	17	(99)
Transfers/reclassifications	—	—	(3)	(1)	1	4	1
Credited/(charged) to other comprehensive income	—	167	(229)	5	—	4	(53)
At 31 December 2023	(8)	(186)	73	3	18	(86)	(186)

The deferred tax assets and liabilities above have been recognised in the Santander UK group on the basis that sufficient future taxable profits are forecast within the foreseeable future, in excess of the profits arising from the reversal of existing taxable temporary differences, to allow for the utilisation of the assets as they reverse. Based on the conditions at the balance sheet date, management determined that a reasonably possible change in any of the key assumptions underlying the estimated future taxable profits in the Santander UK group's three-year plan (described in Note 19) would not cause a reduction in the deferred tax assets recognised. In 2024, there were £nil unrecognised deferred tax assets on capital losses carried forward (2023: £nil).

10. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares declared and paid in the year were as follows:

For the year ended 31 December

			Group			Group
	2024	2023	2022	**2024**	2023	2022
	Pence per share	Pence per share	Pence per share	**£m**	£m	£m
In respect of current year – first interim	**1.78**	1.32	1.25	**554**	410	389
– second interim	**2.44**	3.61	2.01	**757**	1,120	625
	4.22	4.93	3.26	**1,311**	1,530	1,014

In 2024, an interim dividend of £1,311m (2023: £1,530m, 2022: £1,014m) was paid on the Company's ordinary shares in issue. In 2024, £804m (2023: £750m, 2022: £300m) of the dividends were special dividends. These were paid following review and approval by the Board in line with our dividend policy.

11. DERIVATIVE FINANCIAL INSTRUMENTS

a) Use of derivatives

Santander UK undertakes derivative activities primarily to provide customers with risk management solutions and to manage and hedge its own risks. These derivative activities do not give rise to significant open positions in portfolios of derivatives. Any residual position is managed to ensure that it remains within acceptable risk levels, with matching transactions used to achieve this where necessary. When entering into derivatives, Santander UK employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

b) Analysis of derivatives

The table below includes the notional amounts of transactions outstanding at the balance sheet date; they do not represent actual exposures.

						Group
			2024			2023
			Fair value			Fair value
	Notional amount £m	**Assets £m**	**Liabilities £m**	Notional amount £m	Assets £m	Liabilities £m
Derivatives held for trading:						
Exchange rate contracts	**13,755**	**238**	**156**	12,927	92	217
Interest rate contracts	**29,296**	**294**	**489**	28,351	389	583
Equity and credit contracts	**681**	**124**	**21**	765	133	20
Total derivatives held for trading	**43,732**	**656**	**666**	42,043	614	820
Derivatives held for hedging						
Designated as fair value hedges:						
Exchange rate contracts	**1,712**	**42**	**8**	1,145	29	2
Interest rate contracts	**146,172**	**1,055**	**477**	107,540	1,275	839
	147,884	**1,097**	**485**	108,685	1,304	841
Designated as cash flow hedges:						
Exchange rate contracts	**21,535**	**698**	**266**	21,618	1,008	289
Interest rate contracts	**54,267**	**326**	**928**	50,896	553	915
Inflation rate contracts	**1,794**	**70**	**—**	—	—	—
	77,596	**1,094**	**1,194**	72,514	1,561	1,204
Total derivatives held for hedging	**225,480**	**2,191**	**1,679**	181,199	2,865	2,045
Derivative netting[1]	**—**	**(1,643)**	**(1,643)**	—	(2,047)	(2,047)
Total derivatives	**269,212**	**1,204**	**702**	223,242	1,432	818

(1) Derivative netting excludes the effect of cash collateral, which is offset against the gross derivative position. The amount of cash collateral received that had been offset against the gross derivative assets was £489m (2023: £472m) and the amount of cash collateral paid that had been offset against the gross derivative liabilities was £32m (2023: £12m).

At 31 December 2024, the fair value of derivative assets included amounts due from Banco Santander group entities of £544m (2023: £762m) and the fair value of derivative liabilities included amounts due to Banco Santander group entities of £244m (2023: £230m).

For information about the impact of netting arrangements on derivative assets and liabilities in the table above, see Note 39.

The table below analyses the notional and fair values of derivatives by trading and settlement method.

	Notional			Asset	Liability
	Traded over the counter				
	Settled by central counterpartie	Not settled by central counterpartie	Total	Traded over the counter	Traded over the counter
2024	**£m**	**£m**	**£m**	**£m**	**£m**
Exchange rate contracts	**—**	**37,002**	**37,002**	**978**	**430**
Interest rate contracts	**217,159**	**12,576**	**229,735**	**32**	**251**
Inflation rate contracts	**1,794**		**1,794**	**70**	
Equity and credit contracts	**—**	**681**	**681**	**124**	**21**
	218,953	**50,259**	**269,212**	**1,204**	**702**
2023					
Exchange rate contracts	—	35,690	35,690	1,129	508
Interest rate contracts	174,460	12,327	186,787	170	290
Equity and credit contracts	—	765	765	133	20
	174,460	48,782	223,242	1,432	818

c) Analysis of derivatives designated as hedges

Santander UK applies hedge accounting on both a fair value and cash flow basis depending on the nature of the underlying exposure. We establish the hedge ratio by matching the notional of the derivative with the underlying position being hedged. Only the designated risk is hedged and therefore other risks, such as credit risk are managed but not hedged. For interest rate hedges, the designated hedged risk is determined with reference to the underlying benchmark rate.

Fair value hedges

Portfolio hedges of interest rate risk

Santander UK holds portfolios of fixed rate assets and liabilities which expose it to changes in fair value due to movements in market interest rates. We manage these exposures by entering into interest rate swaps. Each portfolio contains assets or liabilities that are similar in nature and share the risk exposure that is designated as being hedged.

The interest rate risk component is the change in fair value of fixed rate instruments for changes in the designated benchmark rate. Such changes are usually the largest component of the overall change in fair value. Separate hedges are maintained for each underlying currency. Effectiveness is assessed by comparing changes in the fair value of the hedged item attributable to changes in the designated benchmark interest rate, with changes in the fair value of the interest rate swaps.

Micro hedges of interest rate risk and foreign currency risk

Santander UK accesses international markets to obtain funding, to issue fixed rate debt or to invest in fixed rate debt of other issuers as part of maintaining a portfolio of HQLA (High Quality Liquid Assets) in its functional currency and other currencies. We are therefore exposed to changes in fair value due to changes in market interest rates and/or foreign exchange rates, principally in USD and EUR, which we mitigate through the use of receive fixed/pay floating rate interest rate swaps and/or receive fixed/pay floating rate cross currency swaps.

The interest rate risk component is the change in fair value of the fixed rate debt due to changes in the benchmark rate. The foreign exchange component is the change in the fair value of the fixed rate debt issuance due to changes in foreign exchange rates prevailing from the time of execution. Effectiveness is assessed by using linear regression techniques to compare changes in the fair value of the debt caused by changes in the benchmark interest rate and foreign exchange rates, with changes in the fair value of the interest rate swaps and/or cross currency swaps.

Cash flow hedges

Hedges of interest rate risk

Santander UK manages its exposure to the variability in cash flows of floating rate assets and liabilities attributable to movements in market interest rates by entering into interest rate swaps. The interest rate risk component is determined with reference to the underlying benchmark rate attributable to the floating rates asset or liability. Designated benchmark rates referenced are currently SONIA or BoE base rate. Effectiveness is assessed by comparing changes in the fair value of the interest rate swap with changes in the fair value of the hedged item attributable to the hedged risk, applying a hypothetical derivative method using linear regression techniques.

Hedges of inflation risk

Santander UK has exposure to inflation risk arising on UK inflation-linked gilts, that is hedged by entering into inflation swaps. Cash flow hedging is applied whereby the inflation swap is hedging variability in cash flows of the inflation-linked gilt due to changes in GBP RPI. Effectiveness is assessed by comparing changes in the fair value of the inflation swap with changes in the fair value of the hedged item attributable to the hedged risk, applying a hypothetical derivative method using linear regression techniques.

Hedges of foreign currency risk

As Santander UK obtains funding in international markets, we assume significant foreign currency risk exposure, mainly in USD and EUR. In addition, Santander UK also holds debt securities for liquidity purposes which assumes foreign currency exposure, principally in JPY and CHF.
Santander UK manages the exposures to the variability in cash flows of foreign currency denominated assets and liabilities to movements in foreign exchange rates by entering into either foreign exchange contracts (spot, forward and swaps) or cross-currency swaps. These instruments are entered into to match the cash flow profile and maturity of the estimated interest and principal repayments of the hedged item.

The foreign currency risk component is the change in cash flows of the foreign currency debt arising from changes in the relevant foreign currency forward exchange rate. Such changes constitute a significant component of the overall changes in cash flows of the instrument. Effectiveness is assessed by comparing changes in the fair value of the foreign exchange contracts (spot, forward and swaps) or cross currency swaps with changes in the fair value of the hedged debt attributable to the hedged risk applying a hypothetical derivative method using linear regression techniques.

Possible sources of hedge ineffectiveness

For both fair value and cash flow hedges, hedge ineffectiveness can arise from hedging derivatives with a non-zero fair value at the date of initial designation. In addition, for:

Fair value hedges

Hedge ineffectiveness can also arise due to differences in discounting between the hedged item and the hedging instrument as cash collateralised swaps discount using Overnight Indexed Swaps discount curves not applied to the hedged item; and where counterparty credit risk impacts the fair value of the derivative but not the hedged item. For portfolio hedges of interest rate risk, it can also arise due to differences in the expected and actual volume of prepayments.

Cash flow hedges

Hedge ineffectiveness can also arise due to differences in the timing of cash flows between the hedged item and the hedging instrument. For micro hedges of interest rate risk, it can also arise due to differences in the basis of cash flows between the hedged item and the hedging instrument.

Maturity profile and average price/rate of hedging instruments
The following table sets out the maturity profile and average price/rate of the hedging instruments used in the Santander UK group's hedging strategies:

							Group
2024	**Hedging Instruments**	**≤1 month**	**>1 and ≤3 months**	**>3 and ≤12 months**	**>1 and ≤5 years**	**>5 years**	**Total**
Fair value hedges:							
Interest rate risk	Interest rate contracts - Nominal amount (£m)	**4,174**	**6,301**	**53,531**	**77,233**	**3,409**	**144,648**
	Average fixed interest rate - GBP	**3.75 %**	**4.29 %**	**4.50 %**	**3.87 %**	**3.65 %**	
	Average fixed interest rate - EUR	**0.20 %**	**(0.35)%**	**(0.45)%**	**0.58 %**	**4.37 %**	
	Average fixed interest rate - USD	**1.68 %**	**1.53 %**	**1.53 %**	**5.76 %**	**0.45 %**	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	**—**	**88**	**128**	**1,018**	**478**	**1,712**
	Interest rate contracts - Nominal amount (£m)	**—**	**88**	**86**	**872**	**478**	**1,524**
	Average GBP - EUR exchange rate	**—**	**1.14**	**1.16**	**1.16**	**1.18**	
	Average GBP - USD exchange rate	**—**	**—**	**—**	**1.32**	**1.28**	
	Average fixed interest rate - EUR	**—**	**—**	**1.35 %**	**3.30 %**	**2.94 %**	
	Average fixed interest rate - USD	**—**	**—**	**—**	**4.83 %**	**4.38 %**	
Cash flow hedges:							
Interest rate risk	Interest rate contracts – Nominal amount (£m)	**4,300**	**3,366**	**11,598**	**28,336**	**3,587**	**51,187**
	Average fixed interest rate - GBP	**4.59 %**	**4.05 %**	**4.76 %**	**3.70 %**	**4.35 %**	
FX risk	Exchange rate contracts - Nominal amount (£m)	**258**	**792**	**4,927**	**10,976**	**1,306**	**18,259**
	Interest rate contracts - Nominal amount (£m)	**—**	**—**	**—**	**—**	**958**	**958**
	Average GBP - JPY exchange rate	**178.37**	**179.99**	**187.64**	**—**	**—**	
	Average GBP - CHF exchange rate	**—**	**—**	**1.09**	**1.11**	**—**	
	Average GBP - CAD exchange rate	**—**	**—**	**1.76**	**—**	**—**	
	Average GBP - EUR exchange rate	**—**	**1.20**	**1.19**	**1.18**	**1.16**	
	Average GBP - USD exchange rate	**—**	**—**	**1.24**	**1.30**	**1.39**	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	**826**	**394**	**534**	**1,104**	**418**	**3,276**
	Interest rate contracts - Nominal amount (£m)	**826**	**—**	**327**	**799**	**170**	**2,122**
	Average GBP - EUR exchange rate	**1.12**	**1.37**	**1.16**	**1.21**	**1.18**	
	Average GBP - USD exchange rate	**—**	**—**	**1.54**	**1.32**	**1.54**	
	Average fixed interest rate - GBP	**1.48 %**	**2.76 %**	**2.65 %**	**2.74 %**	**4.81 %**	
Inflation risk	Inflation derivative contracts - Nominal amount (£m)	**—**	**—**	**—**	**—**	**1,794**	**1,794**
	Average fixed interest rate - GBP	**—**	**—**	**—**	**—**	**4.98 %**	
2023							
Fair value hedges:							
Interest rate risk	Interest rate contracts- Nominal amount (£m)	3,612	7,141	32,241	60,590	3,008	106,592
	Average fixed interest rate - GBP	2.38 %	3.19 %	3.42 %	3.90 %	3.99 %	
	Average fixed interest rate - EUR	1.14 %	0.18 %	0.45 %	0.21 %	3.92 %	
	Average fixed interest rate - USD	2.60 %	2.46 %	4.23 %	1.36 %	4.91 %	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	—	18	—	1,041	86	1,145
	Interest rate contracts - Nominal amount (£m)	—	18	—	844	86	948
	Average GBP - EUR exchange rate	—	1.11	—	1.16	1.15	
	Average GBP - USD exchange rate	—	—	—	1.32	—	
	Average fixed interest rate - EUR	—	—	—	2.77 %	3.48 %	
	Average fixed interest rate - USD	—	—	—	4.83 %	—	
Cash flow hedges:							
Interest rate risk	Interest rate contracts - Nominal amount (£m)	911	2,993	12,770	27,721	1,219	45,614
	Average fixed interest rate - GBP	5.06 %	2.98 %	5.39 %	3.83 %	3.45 %	
FX risk	Exchange rate contracts - Nominal amount (£m)	927	3,238	2,692	9,447	588	16,892
	Interest rate contracts - Nominal amount (£m)	—	2,199	—	—	942	3,141
	Average GBP - JPY exchange rate	154.14	153.95	167.85	—	—	
	Average GBP - CHF exchange rate	1.09	1.09	1.09	1.12	1.12	
	Average GBP - EUR exchange rate	—	1.20	1.17	1.18	—	
	Average GBP - USD exchange rate	—	1.39	—	1.28	1.39	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	87	785	500	2,896	458	4,726
	Interest rate contracts - Nominal amount (£m)	—	—	—	1,975	166	2,141
	Average GBP - EUR exchange rate	1.18	—	1.25	1.20	1.19	
	Average GBP - USD exchange rate	—	1.66	—	1.38	1.54	
	Average fixed interest rate - GBP	2.57 %	2.54 %	2.96 %	2.31 %	4.74 %	

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Net gains or losses arising from fair value and cash flow hedges included in other operating income

			Group
	2024	2023	2022
	£m	£m	£m
Fair value hedging:			
Gains/(Losses) on hedging instruments	**193**	(1,879)	2,381
(Losses)/Gains on hedged items attributable to hedged risks	**(168)**	1,896	(2,316)
Fair value hedging ineffectiveness	**25**	17	65
Cash flow hedging ineffectiveness	**(3)**	2	(36)
	22	19	29

Hedge ineffectiveness can be analysed by risk category as follows:

									Group
			2024			2023			2022
	Change in FV of hedging instruments	**Change in FV of hedged items**	**Recognised in income statement**	Change in FV of hedging instruments	Change in FV of hedged items	Recognised in income statement	Change in FV of hedging instruments	Change in FV of hedged items	Recognised in income statement
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Fair value hedges:									
Interest rate risk	**167**	**(151)**	**16**	(1,865)	1,877	12	2,392	(2,333)	59
Interest rate/FX risk	**26**	**(17)**	**9**	(14)	19	5	(11)	17	6
	193	**(168)**	**25**	(1,879)	1,896	17	2,381	(2,316)	65

					Group
		Hedging Instruments			
		Change in FV	Recognised in OCI	Recognised in Income Statement	Reclassified from reserves to income
	Income statement line item affected by reclassification	£m	£m	£m	£m
Cash flow hedges:					
2024					
Interest rate risk	Net interest income	**(764)**	**761**	**(3)**	**(488)**
FX risk	Net interest income/other operating income	**414**	**(405)**	**9**	**216**
Interest rate/FX risk	Net interest income/other operating income	**(181)**	**172**	**(9)**	**(231)**
Inflation Risk	Net Interest Income	**71**	**(71)**	**—**	**3**
		(460)	**457**	**(3)**	**(500)**
2023					
Interest rate risk	Net interest income	466	(445)	21	(469)
FX risk	Net interest income/other operating income	(396)	377	(19)	(392)
Interest rate/FX risk	Net interest income/other operating income	(237)	237	—	(387)
		(167)	169	2	(1,248)
2022					
Interest rate risk	Net interest income	(1,161)	1,160	(1)	(96)
FX risk	Net interest income/other operating income	1,604	(1,604)	—	1,692
Interest rate/FX risk	Net interest income/other operating income	(54)	19	(35)	533
		389	(425)	(36)	2,129

In 2024, cash flow hedge accounting of £nil (2023: £nil) had to cease due to the hedged cash flows no longer being expected to occur.

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (before tax) resulting from hedge accounting.

	Group	
	2024	2023
	£m	£m
Balance at 1 January	**(496)**	(1,575)
Effective portion of changes in fair value:		
– Interest rate risk	**(761)**	445
– Foreign currency risk	**405**	(377)
– Interest rate/foreign currency risk	**(172)**	(237)
– Inflation risk	**71**	—
	(457)	(169)
Income statement transfers:		
– Interest rate risk	**488**	469
– Foreign currency risk	**(216)**	392
– Interest rate/foreign currency risk	**231**	387
– Inflation risk	**(3)**	—
	500	1,248
Balance at 31 December	**(453)**	(496)

Hedged exposures

Santander UK hedges its exposures to various risks, including interest rate risk and foreign currency risk, as set out in the following table.

										Group
					2024					2023
		Accumulated amount of FV hedge adjustments					Accumulated amount of FV hedge adjustments			
	Carrying value	**Hedged item**	**Portfolio hedge of interest rate risks**	**Of which Discontinued hedges**	**Change in value to calculate hedge ineffectiveness**	Carrying value	Hedged item	Portfolio hedge of interest rate risks	Of which Discontinued hedges	Change in value to calculate hedge ineffectiveness
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fair value hedges										
Interest rate risk:										
Loans and advances to customers	**62,773**	**—**	**(731)**	**(290)**	**(154)**	73,194	—	(625)	(435)	1,968
Other financial assets at amortised cost	**1,667**	**(45)**	**(7)**	**(7)**	**(44)**	152	1	(8)	(8)	5
Reverse repurchase agreements – non trading	**6,423**	**—**	**(1)**	**—**	**(1)**	6,186	—	—	—	4
Other financial assets at FVOCI	**2,100**	**(131)**	**—**	**(95)**	**(18)**	2,013	(113)	—	(131)	82
Deposits by customers	**(21,726)**	**18**	**9**	**1**	**(1)**	(15,892)	38	(10)	—	(53)
Debt securities in issue	**(3,811)**	**150**	**(54)**	**(77)**	**52**	(4,091)	118	(75)	(114)	(128)
Subordinated liabilities	**(511)**	**(12)**	**(1)**	**(36)**	**15**	(522)	(27)	(1)	(42)	(1)
Interest rate/FX risk:										
Other financial assets at FVOCI	**1,503**	**16**	**—**	**—**	**(30)**	989	4	—	—	12
Debt securities in issue	**(200)**	**(9)**	**—**	**(14)**	**13**	(214)	(14)	—	(24)	8
Subordinated liabilities	**—**	**—**	**—**	**—**	**—**	—	—	—	—	(1)
	48,218	**(13)**	**(785)**	**(518)**	**(168)**	61,815	7	(719)	(754)	1,896

						Group
			2024			2023
	Change in value to calculate hedge ineffectiveness	**Cash flow hedge reserve**	**Balances on cash flow hedge reserve for discontinued hedges**	Change in value to calculate hedge ineffectiveness	Cash flow hedge reserve	Balances on cash flow hedge reserve for discontinued hedges
Hedged item balance sheet line item	**£m**	**£m**	**£m**	£m	£m	£m
Cash flow hedges:						
Interest rate risk:						
Loans and advances to customers	**361**	**(497)**	**2**	(163)	(462)	1
Cash and balances at central banks	**464**	**(192)**	**(50)**	(281)	99	(76)
Deposits by banks	**(4)**	**—**	**—**	(1)	(1)	—
Repurchase agreements - non trading	**(60)**	**52**	**—**	—	—	—
FX risk:						
Other financial assets at FVOCI	**(487)**	**1**	**—**	(253)	1	—
Not applicable – highly probable forecast transactions	**4**	**—**	**—**	88	1	—
Deposits by customers	**—**	**—**	**—**	(33)	—	—
Debt securities in issue	**78**	**181**	**—**	617	(9)	—
Repurchase agreements - non trading	**—**	**—**	**—**	(42)	—	—
Interest rate/FX risk:						
Debt securities in issue/loans and advances to customers	**148**	**(12)**	**—**	99	(75)	—
Deposits by customers	**21**	**(37)**	**—**	94	(39)	—
Subordinated liabilities/loans and advances to customers	**3**	**(16)**	**51**	44	(11)	52
Inflation risk:						
Other financial assets at amortised cost	**(70)**	**66**	**—**	—	—	—
Other financial assets at FVOCI	**(1)**	**1**	**—**	—	—	—
	457	**(453)**	**3**	169	(496)	(23)

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12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2024	2023
	£m	£m
Loans and advances to customers:		
Loans to housing associations	**4**	8
Other loans	**40**	38
	44	46
Debt securities	**56**	167
Other debt instruments	**36**	49
	136	262

For the Santander UK group, other financial assets at FVTPL comprised £60m (2023: £8m) of financial assets designated at FVTPL and £76m (2023: £254m) of financial assets mandatorily held at FVTPL.

Loans and advances to customers principally represent other loans, being a portfolio of roll-up mortgages. These are managed, and have their performance evaluated, on a fair value basis in accordance with a documented investment strategy, and information about them is provided on that basis to management.

The net loss in the year attributable to changes in credit risk for loans and advances at FVTPL was £nil (2023: £nil, 2022: £1m). The cumulative net loss attributable to changes in credit risk for loans and advances at FVTPL at 31 December 2024 was £3m (2023: £3m,2022: £3m).

13. LOANS AND ADVANCES TO CUSTOMERS

	Group	
	2024	2023
	£m	£m
Loans secured on residential properties	**165,214**	172,854
Corporate loans	**18,550**	18,267
Finance leases	**4,222**	4,530
Other unsecured loans	**6,601**	7,232
Accrued interest and other adjustments	**796**	943
Amounts due from fellow Banco Santander subsidiaries and joint ventures	**4,814**	4,489
Amounts due from Santander UK Group Holdings plc	**18**	55
Loans and advances to customers	**200,215**	208,370
Credit impairment loss allowances on loans and advances to customers	**(784)**	(914)
Residual value and voluntary termination provisions on finance leases	**(23)**	(21)
Net loans and advances to customers	**199,408**	207,435

For movements in expected credit losses, see the 'Movement in total exposures and the corresponding ECL' table in the Santander UK group level – Credit risk review section of the Risk review.

Finance lease and hire purchase contract receivables may be analysed as follows:

	Group					
	2024			2023		
	Gross investment	**Unearned finance income**	**Net investment**	Gross investment	Unearned finance income	Net investment
	£m	**£m**	**£m**	£m	£m	£m
No later than one year	**1,400**	**(208)**	**1,192**	1,502	(216)	1,286
Later than one year and not later than two years	**1,423**	**(215)**	**1,208**	1,426	(208)	1,218
Later than two years and not later than three years	**1,220**	**(184)**	**1,036**	1,331	(194)	1,137
Later than three years and not later than four years	**721**	**(109)**	**612**	882	(129)	753
Later than four years and not later than five years	**115**	**(17)**	**98**	99	(14)	85
Later than five years	**90**	**(14)**	**76**	60	(9)	51
	4,969	**(747)**	**4,222**	5,300	(770)	4,530

The Santander UK group enters into finance leasing arrangements primarily for the financing of motor vehicles and a range of assets for its corporate customers. Included in the carrying value of net investment in finance leases and hire purchase contracts is £1,748m (2023: £1,830m) of unguaranteed RV at the end of the current lease terms, which is expected to be recovered through re-payment, re-financing or sale. Contingent rent income of £nil (2023: £nil, 2022: £nil) was earned in the year, which was classified in 'Interest and similar income'. Finance income on the net investment in finance leases was £308m (2023: £266m, 2022: £230m).

Finance lease receivable balances are secured over the asset leased. The Santander UK group is not permitted to sell or repledge the asset in the absence of default by the lessee. The Directors consider that the carrying amount of the finance lease receivables approximates to their fair value.

Included within loans and advances to customers are advances assigned to bankruptcy remote structured entities and Abbey Covered Bonds LLP. These loans provide security to issues of covered bonds and mortgage-backed or other asset-backed securities issued by the Santander UK group. For more, see Note 14.

At 31 December 2024 and 2023, the Santander UK group had contracted with lessees for the following future undiscounted minimum lease payments receivable under operating leases.

	Group	
	2024	2023
	£m	£m
No later than one year	**27**	28
Later than one year and not later than two years	**21**	26
Later than two years and not later than three years	**17**	18
Later than three years and not later than four years	**7**	14
Later than four years and not later than five years	**5**	7
Later than five years	**11**	18
	88	111

14. SECURITISATIONS AND COVERED BONDS

The information in this Note relates to securitisations and covered bonds for consolidated structured entities, used to obtain funding or collateral. It excludes structured entities relating to credit protection transactions.

The Santander UK group uses structured entities to securitise some of the mortgage and other loans to customers that it originates. The Santander UK group also issues covered bonds, which are guaranteed by, and secured against, a pool of the Santander UK group's mortgage loans transferred to Abbey Covered Bonds LLP. The Santander UK group issues mortgage-backed securities, other asset-backed securities and covered bonds mainly in order to obtain diverse, low-cost funding, but also to use as collateral for raising funds via third party bilateral secured funding transactions or for liquidity purposes in the future. The Santander UK group has successfully used bilateral secured transactions as an additional form of medium-term funding; this has allowed the Santander UK group to further diversify its medium-term funding investor base.

Loans and advances to customers include portfolios of residential mortgage loans, and receivables derived from credit agreements with retail customers for the purchases of financed vehicles, which are subject to non-recourse finance arrangements. These loans and receivables have been purchased by, or assigned to, structured entities or Abbey Covered Bonds LLP, and have been funded primarily through the issue of mortgage-backed securities, other asset-backed securities or covered bonds. No gain or loss has been recognised as a result of these sales. The structured entities and Abbey Covered Bonds LLP are consolidated as subsidiary undertakings. The Company and its subsidiaries do not own directly, or indirectly, any of the share capital of any of the structured entities.

a) Securitisations

i) Master trust structures

The Santander UK group makes use of master trust structures, whereby a pool of residential mortgage loans is assigned to a trust company by the asset originator. A funding entity acquires a beneficial interest in the pool of assets held by the trust company with funds borrowed from qualifying structured entities, which at the same time issue asset-backed securities to third-party investors or the Santander UK group.

Santander UK plc and its subsidiaries receive payments from the securitisation companies in respect of fees for administering the loans, and payment of deferred consideration for the sale of the loans. Santander UK plc and its subsidiaries have no right or obligation to repurchase any securitised loan, except if certain representations and warranties given by Santander UK plc or its subsidiaries at the time of transfer are breached and, in certain cases, if there is a product switch or further advance, if a securitised loan is in arrears for over two months or if a securitised loan does not comply with regulatory requirements.

ii) Other securitisation structures

The Santander UK group also makes use of auto loan securitisations, whereby a pool of auto loans originated by a member of the Santander UK group is sold to a special purpose vehicle by the asset originator. The special purpose vehicle funds the purchase of the auto loans by issuing asset-backed securities to third-party investors. A proportion of the securities are also retained by members of the Santander UK group. Members of the Santander UK group also receive payments from the special purpose vehicle in respect of fees for administering the auto loans, and payment of deferred consideration for the sale of the auto loans. The seller has no right or obligation to repurchase any securitised loan, except if certain representations and warranties given by the seller at the time of transfer are breached and, in certain cases, if there has been a subsequent variation in the terms of the underlying auto loan not permitted under the sale agreement.

b) Covered bonds

Santander UK plc also issues covered bonds, which are its direct, unsecured and unconditional obligation. The covered bonds benefit from a guarantee from Abbey Covered Bonds LLP. Santander UK plc makes a term advance to Abbey Covered Bonds LLP equal to the sterling proceeds of each issue of covered bonds. Abbey Covered Bonds LLP uses the proceeds of the term advance to purchase portfolios of residential mortgage loans and their security from Santander UK plc. Under the terms of the guarantee, Abbey Covered Bonds LLP has agreed to pay an amount equal to the guaranteed amounts when the same shall become due for payment, but which would otherwise be unpaid by Santander UK plc.

c) Analysis of securitisations and covered bonds

The Santander UK group's principal securitisation programmes and covered bond programme, together with the balances of the advances subject to securitisation (or for the covered bond programme assigned) and the carrying value of the notes in issue at 31 December 2024 and 2023 are listed below. The gross assets in the Group table below were transferred from the Company to the securitisations and covered bond programme vehicles but do not qualify for derecognition from the Company.

						Group
	Gross assets		External notes in issue		Notes held within the Group	
	2024	2023	**2024**	2023	**2024**	2023
	£m	£m	**£m**	£m	**£m**	£m
Mortgage-backed master trust structures:						
– Holmes	**5,109**	3,242	**3,379**	2,119	**389**	300
– Fosse	**2,383**	2,048	**—**	100	**1,408**	1,382
	7,492	5,290	**3,379**	2,219	**1,797**	1,682
Other asset-backed securitisation structures:						
– Repton	**718**	757	**550**	550	**—**	—
Total securitisation programmes	**8,210**	6,047	**3,929**	2,769	**1,797**	1,682
Covered bond programme:						
– Euro 35bn Global Covered Bond Programme	**25,695**	21,880	**17,211**	15,000	**1,224**	—
Total securitisation and covered bond programmes	**33,905**	27,927	**21,140**	17,769	**3,021**	1,682

The following table sets out the internal and external issuances and redemptions in 2024 and 2023 for each securitisation and covered bond programme.

	Internal issuances		External issuances		Internal redemptions		External redemptions	Group
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Mortgage-backed master trust structures:								
– Holmes	**106**	241	**1,250**	1,500	**17**	121	**—**	186
– Fosse	**894**	—	**—**	—	**865**	—	**100**	—
Other asset-backed securitisation structures:								
– Motor	**—**	—	**—**	—	**—**	—	**—**	7
– Repton	**—**	—	**—**	550	**—**	—	**—**	—
Covered bond programme:								
– Euro 35bn Global Covered Bond Programme	**—**	—	**5,890**	—	**41**	—	**3,359**	—
	1,000	241	**7,140**	2,050	**923**	121	**3,459**	193

Holmes Funding Ltd has a beneficial interest of £3,735m (2023: £2,396m) in the residential mortgage loans held by Holmes Trustees Ltd. The remaining share of the beneficial interest in residential mortgage loans held by Holmes Trustees Ltd belongs to Santander UK plc.

Fosse Funding (No.1) Ltd has a beneficial interest of £1,394m (2023: £1,393m) in the residential mortgage loans held by Fosse Trustee (UK) Ltd. The remaining share of the beneficial interest in residential mortgage loans held by Fosse Trustee (UK) Ltd belongs to Santander UK plc.

The Holmes securitisation companies have cash deposits of £126m (2023: £80m), which have been accumulated to finance the redemption of a number of securities issued by the Holmes securitisation companies. The share of Holmes Funding Ltd in the trust assets is therefore reduced by this amount.

The Fosse securitisation companies have cash deposits of £48m (2023: £108m), which have been accumulated to finance the redemption of a number of securities issued by the Fosse securitisation companies. The share of Fosse Funding (No.1) Ltd's beneficial interest in the assets held by Fosse Trustee (UK) Ltd is therefore reduced by this amount.

15. TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

The Santander UK group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to structured entities. These transfers may give rise to the full or partial derecognition of those financial assets. Transferred financial assets that do not qualify for derecognition consist of (i) securities held by counterparties as collateral under repurchase agreements, (ii) securities lent under securities lending agreements, and (iii) loans that have been transferred under securitisation or covered bond arrangements by which the Santander UK group retains a continuing involvement in such transferred assets.

As a result of these sale and repurchase and securities lending transactions, the Santander UK group is unable to use, sell or pledge the transferred assets for the duration of the transaction. The Santander UK group remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The Santander UK group securitisation and covered bond transfers do not qualify for derecognition.The Santander UK group remains exposed to credit risks arising from the mortgage loans or credit agreements and has retained control of the transferred assets. Circumstances in which the Santander UK group has continuing involvement in the transferred assets may include retention of servicing rights over the transferred assets (the servicing fee in respect of which is dependent on the amount or timing of the cash flows collected from, or the non-performance of, the transferred assets), entering into a derivative transaction with the securitisation or covered bond vehicle, retaining an interest in the securitisation or covered bond vehicle or providing a cash reserve fund. Where the Santander UK group has continuing involvement, it continues to recognise the transferred assets to the extent of its continuing involvement and recognises an associated liability. The net carrying amount of the transferred assets and associated liabilities reflects the rights and obligations that the Santander UK group has retained.

The carrying amount of the assets transferred under securitisation and covered bond arrangements and associated financial liabilities is set out in Note 14 c). The following table analyses the carrying amount of other financial assets that did not qualify for derecognition and their associated financial liabilities:

				Group
		2024		2023
	Assets	**Liabilities**	Assets	Liabilities
Nature of transaction	**£m**	**£m**	£m	£m
Sale and repurchase agreements	**1,346**	**(1,372)**	14	(15)
Securities lending agreements	**3,304**	**(2,807)**	3,136	(2,735)

16. REVERSE REPURCHASE AGREEMENTS – NON-TRADING

		Group
	2024	2023
	£m	£m
Agreements with banks	**1,363**	2,397
Agreements with customers	**8,975**	10,071
	10,338	12,468

17. OTHER FINANCIAL ASSETS AT AMORTISED COST

		Group
	2024	2023
	£m	£m
Asset backed securities	**—**	—
Debt securities	**3,408**	152
	3,408	152

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. In 2024, Santander UK increased the allocation of liquid assets to longer-dated, duration-hedged UK Gilts to support ongoing HQLA requirements. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

18. INTERESTS IN OTHER ENTITIES

	Group	
	2024	2023
	£m	£m
Subsidiaries	**—**	—
Joint Ventures	**289**	245
	289	245

The Santander UK group consists of a parent company, Santander UK plc, incorporated and domiciled in the UK and a number of subsidiaries and joint ventures held directly and indirectly by it.

a) Interests in subsidiaries
The Company holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate principally in their country of incorporation or registration.

Interests in consolidated structured entities
Structured entities are formed by Santander UK to accomplish specific and well-defined objectives. Santander UK consolidated these structured entities when the substance of the relationship indicates control, as described in Note 1. In addition to the structured entities disclosed in Note 14 which are used for securitisation and covered bond programmes, the only other structured entities consolidated by Santander UK are described below. All the external assets and liabilities in these entities are included in the financial statements and in relevant Notes. Other than as set out below, no significant judgements were required with respect to control or significant influence.

Motor Securities 2018-1 Designated Activity Company (Motor 2018)
Motor 2018 is a credit protection entity, and a Designated Activity Company limited by shares, incorporated in Ireland. It issued a series of credit linked notes varying in seniority which referenced a portfolio of Santander UK group auto loans. Concurrently, this entity sold credit protection to SCUK in respect of the referenced loans and, in return for a fee, was liable to make protection payments to SCUK upon the occurrence of a credit event in relation to any of the referenced loans. Motor 2018 is consolidated as Santander UK held a variable interest by retaining the junior tranche of notes issued by the entity. The outstanding notes were redeemed and the transaction terminated in 2023.

b) Interests in joint ventures
Santander UK does not have any individually material interests in joint ventures. In 2024, Santander UK's share in the profit after tax of its joint ventures was £45m (2023: £43m) before elimination of transactions between Santander UK and the joint ventures. At 31 December 2024, the carrying amount of Santander UK's interest was £289m (2023: £245m). At 31 December 2024 and 2023, the joint ventures had no commitments and contingent liabilities.

c) Interests in unconsolidated structured entities

Structured entities sponsored by the Santander UK group

Santander UK has interests in structured entities which it sponsors but does not control. Santander UK considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. Other than as set out below, no significant judgements were required with respect to control or significant influence. The structured entities sponsored but not consolidated by Santander UK are as follows:

i) Santander (UK) Common Investment Fund (the Fund)

The Fund is a common investment fund that was established to hold the assets of the Santander (UK) Group Pension Scheme. The Fund is not consolidated by Santander UK, but its assets of £7,591m (2023: £8,551m) are accounted for as part of the defined benefit assets and obligations recognised on Santander UK's balance sheet. For more on the Fund, see Note 28. As the Fund holds the assets of the pension scheme, it is outside the scope of IFRS 10. Santander UK's maximum exposure to loss is the carrying amount of the assets held.

ii) Credit protection entities

Santander UK has established five (2023: four) unconsolidated credit protection entities, which are Designated Activity Companies limited by shares, incorporated in Ireland. Each entity has issued a series of credit linked notes varying in seniority which reference portfolios of Santander UK group loans. Concurrently, these entities sell credit protection to Santander UK in respect of the referenced loans and, in return for a fee, are liable to make protection payments to Santander UK upon the occurrence of a credit event in relation to any of the referenced loans.

Credit linked notes, which amounted to £226m (2023: £185m), are all held by third party investors. Funds raised by the sale of the credit linked notes are deposited with Santander UK as collateral for the credit protection.

Deposits and associated guarantees in respect of the credit linked notes are included in 'Deposits by customers' (see Note 22).

The entities are not consolidated by Santander UK because the third-party investors have the exposure, or rights, to all of the variability of returns from the performance of the entities. No assets are transferred to, or income received from, these entities. Since the credit linked notes are fully cash collateralised, Santander UK's maximum exposure to loss is equal to any unamortised fees paid to the entities in connection with the credit protection outlined above.

19. INTANGIBLE ASSETS

a) Goodwill

	Group		
	Cost	Accumulated impairment	Carrying amount
	£m	£m	£m
At 1 January 2024 and 31 December 2024	**1,269**	**(70)**	**1,199**

Impairment of goodwill
In 2024 and 2023 for the Santander UK group, no impairment of goodwill was recognised. Goodwill is tested for impairment annually, or more frequently, if reviews identify an impairment indicator or when events or changes in circumstances dictate. Goodwill is tested for impairment annually at 31 December, with a review for impairment indicators at 30 June.

The annual review identified that the uncertain macroeconomic and geopolitical environment increases the risk around the UK economic trajectory, and its potential impact on the carrying value of goodwill as impairment indicators for all cash-generating units (CGUs). As a result, management updated the impairment test at 31 December 2024 for all CGUs.

Basis of the recoverable amount
The recoverable amount of all CGUs was determined based on its value in use (VIU) methodology at each testing date. For each CGU, the VIU is calculated by discounting management's cash flow projections for the CGU. The cash flow projections also take account of increased internal capital allocations needed to achieve internal and regulatory capital targets including the leverage ratio. The key assumptions used in the VIU calculation for each CGU are set out below. The Retail & Business Banking segment consists of the Private Banking CGU and the rest of Retail & Business Banking, known as the Personal Financial Services CGU.

Carrying amount of Goodwill by CGU and key assumptions in the VIU calculation

	Goodwill		Discount rate		Growth rate beyond initial cash flow projections	
	2024	2023	**2024**	2023	**2024**	2023
CGU	**£m**	£m	**%**	%	**%**	%
Personal Financial Services	**1,169**	1,169	**12.1**	12.2	**1.5**	1.6
Private Banking	**30**	30	**10.0**	9.8	**1.5**	1.6
	1,199	1,199				

The CGUs do not carry on their balance sheets any other intangible assets with indefinite useful lives.

Management's judgement in estimating the cash flows of a CGU
The cash flow projections for the purpose of impairment testing for each CGU are derived from the latest 3-year plan presented to the Board. The Board challenges and endorses management's planning assumptions in light of internal capital allocations needed to support Santander UK's strategy, current market conditions and the macroeconomic outlook. For the goodwill impairment tests conducted at 31 December 2024, the determination of the carrying amount of the Personal Financial Services CGU was based on an allocation of regulatory capital and management's cash flow projections until the end of 2027. The assumptions included in the cash flow projections reflect an allocation to the cost of capital to support future growth, as well as the expected impact of recent events in the UK economic environment on the financial outlook within which the CGUs operate. The cash flow projections are supported by Santander UK's base case economic scenario. For more on the base case economic scenario, including our forecasting approach and the assumptions in place at 31 December 2024, see the Credit risk – Santander UK group level section of the Risk review. The cash flow projections take into account the likely impact of recent changes to the BoE Bank Rate, inflation and also consider the impact of future climate change.

Cash flow projections for the purpose of impairment testing do not take account of any adverse outcomes arising from contingent liabilities (see Note 30), whose existence will be confirmed by uncertain future events or where any obligation is not probable or otherwise cannot be measured reliably, nor do they take account of the benefits arising from Santander UK's transformation plans that had not yet been implemented or committed at 31 December 2024.

Discount rate
The rate used to discount the cash flows is based on the cost of equity assigned to each CGU, which is derived using a capital asset pricing model (CAPM) and calculated on a post-tax basis. The CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The inputs to the CAPM are observable on a post-tax basis. In determining the discount rate, management has identified the cost of equity associated with market participants that closely resemble our CGUs and adjusted them for tax to arrive at the pre-tax equivalent rate. The pre-tax equivalent rate applicable to the Personal Financial Services CGU was 16.5% (2023: 16.7%) and Private Banking CGU was 15.1% (2023: 14.6%). The Private Banking CGU has a different discount rate compared to the Personal Financial Services CGU because different market participants closely resemble each CGU.

Growth rate beyond initial cash flow projections
The growth rate for periods beyond the initial cash flow projections is used to extrapolate the cash flows in perpetuity because of the long-term perspective of CGUs. In line with the accounting requirements, management uses the UK Government's official estimate of UK long-term average GDP growth rate, as this is lower than management's estimate of the long-term average growth rate of the business. The estimated UK long-term average GDP growth rate has regard to the long-term impact of inherent uncertainties, such as elevated wage growth, weak productivity, large government debt burden and fragile business and consumer confidence.

Goodwill arising on the acquisition of Personal Financial Services and Private Banking

The VIU of each CGU remains higher than the carrying value of the related goodwill. The VIU review at 31 December 2024 did not indicate the need for an impairment in the Company's goodwill balances. Management considered the level of headroom and the uncertainty relating to the respective estimates of the VIU for those CGUs but determined that there was a sufficient basis to conclude that no impairment was required.

Sensitivities of key assumptions in calculating the value in use

At 31 December 2024 and 31 December 2023, the VIU of the Personal Financial Services CGU was sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount.

The table below presents a summary of the key assumptions underlying the most sensitive inputs to the model for the Personal Financial Services CGU, the main risks associated with each and details of a reasonably possible change in assumptions, such as a decrease in mortgage new business. The sensitivity analysis presented below has been prepared on the basis that a change in each key assumption would not have a consequential impact on other assumptions used in the impairment review. However, due to the interrelationships between some of the assumptions, a change in one of the assumptions might impact one or more of the other assumptions and could result in a larger or smaller overall impact.

Reasonably possible changes in key assumptions

CGU	Input	Key assumptions	Associated risks	Reasonably possible change
Personal Financial Services	Cash flow projections	– BoE Bank Rate – UK house price growth – UK mortgage loan market growth – UK unemployment rate – Position in the market – Regulatory capital levels.	– Uncertain market outlook – Higher interest rate environment impact on customer affordability – Customer remediation and regulatory action outcomes – Uncertain regulatory capital requirements.	– Cash flow projections decrease by 10% (2023: 10%).
	Discount rate	– Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	– Market rates of interest rise.	– Discount rate increases by 100 basis points (2023: increased by 100 basis points).

At 31 December 2024 and 31 December 2023, a reasonably possible change in the key assumptions in relation to the VIU calculation for the goodwill balance in the Personal Financial Services CGU would have resulted in a decrease/increase in headroom as follows.

		Decrease in headroom	
		2024	2023
CGU	Reasonably possible change	**£m**	£m
Personal Financial Services	Cash flow projections decrease by 10% (2023: 10%)	**764**	818
	Discount rate increases by 100 basis points (2023: increased by 100 basis points)	**622**	663

Sensitivity of Value in use changes to current assumptions to achieve £nil headroom

Although there was no impairment of goodwill relating to the Personal Financial Services CGU or the Private Banking CGU at 31 December 2024, the test for the Personal Financial Services CGU remains sensitive to some of the assumptions used, as described above. In addition, the changes in assumptions detailed below for the discount rate and cash flow projections would eliminate the current headroom. As a result, there is a risk of impairment in the future should business performance or economic factors diverge from forecasts.

In 2024, there was a decrease in headroom arising from a decline in cash flow forecasts, partially offset by a decrease to RWAs which led to a reduction in the required CET1 capital requirement.

The sensitivity analysis presented below has been prepared on the basis that a change in each key assumption would not have a consequential impact on other assumptions used in the impairment review. However, due to the interrelationships between some of the assumptions, a change in one of the assumptions might impact one or more of the other assumptions and could result in a larger or smaller overall impact.

2024	**Carrying value**	**Value in use**	**Headroom**	**Increase in discount rate**	**Decrease in cash flows**
CGU	**£m**	**£m**	**£m**	**bps**	**%**
Personal Financial Services	**7,294**	**7,639**	**345**	**53**	**5**
2023					
Personal Financial Services	7,513	8,178	665	101	8

b) Other intangibles

			Group
	Cost	Accumulated amortisation / impairment	Carrying amount
	£m	£m	£m
At 1 January 2024	**1,339**	**(990)**	**349**
Additions	**120**	**—**	**120**
Disposals	**(703)**	**700**	**(3)**
Charge	**—**	**(126)**	**(126)**
At 31 December 2024	**756**	**(416)**	**340**
At 1 January 2023	1,261	(910)	351
Additions	114	—	114
Disposals	(36)	36	—
Charge	—	(116)	(116)
At 31 December 2023	1,339	(990)	349

Other intangibles which consist of computer software, include computer software under development of £99m (2023: £157m), of which £20m is internally generated (2023: £35m).

The impairment charge of £5m (2023: £nil) relates to computer software no longer expected to yield future economic benefits.

20. PROPERTY, PLANT AND EQUIPMENT

						Group
	Property	Office fixtures and equipment	Computer software	Operating lease assets	Right-of-use assets	Total[1]
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 January 2024	**918**	**877**	**67**	**635**	**263**	**2,760**
Additions	**35**	**47**	**—**	**304**	**21**	**407**
Disposals	**(20)**	**(41)**	**(60)**	**(223)**	**(14)**	**(358)**
Other	**8**	**9**	**—**	**—**	**—**	**17**
At 31 December 2024	**941**	**892**	**7**	**716**	**270**	**2,826**
Accumulated depreciation:						
At 1 January 2024	**226**	**653**	**67**	**147**	**173**	**1,266**
Charge for the year	**21**	**60**	**—**	**75**	**18**	**174**
Impairment during the year	**(5)**	**(3)**	**—**	**—**	**—**	**(8)**
Disposals	**(11)**	**(33)**	**(60)**	**(80)**	**—**	**(184)**
Other	**7**	**8**	**—**	**—**	**—**	**15**
At 31 December 2024	**238**	**685**	**7**	**142**	**191**	**1,263**
Carrying amount	**703**	**207**	**—**	**574**	**79**	**1,563**
Cost:						
At 1 January 2023	889	823	72	722	267	2,773
Additions	87	83	—	85	31	286
Reclassification from assets held for sale	8	—	—	—	—	8
Disposals	(66)	(29)	(5)	(172)	(35)	(307)
At 31 December 2023	918	877	67	635	263	2,760
Accumulated depreciation:						
At 1 January 2023	270	618	72	145	155	1,260
Charge for the year	17	62	—	64	30	173
Impairment during the year	—	—	—	—	(11)	(11)
Disposals	(61)	(27)	(5)	(62)	(1)	(156)
At 31 December 2023	226	653	67	147	173	1,266
Carrying amount	692	224	—	488	90	1,494

(1) Property, plant and equipment includes investment properties of £16m (2023: £17m).

In 2023, right-of-use assets were impaired as part of our transformation. The impairment relates to leasehold properties within the scope of our branch network restructuring programme and head office sites which are either closing or consolidating.

21. DEPOSITS BY BANKS

	Group	
	2024	2023
	£m	£m
Items in the course of transmission	**523**	732
Deposits held as collateral	**682**	860
Other deposits[1]	**12,787**	18,737
Amounts due to Santander UK subsidiaries	**1**	3
	13,993	20,332

(1) Includes balance drawn from the TFSME of £11bn (2023: £17bn).

22. DEPOSITS BY CUSTOMERS

	Group	
	2024	2023
	£m	£m
Demand and time deposits[1]	**177,335**	188,004
Amounts due to other Santander UK Group Holdings plc subsidiaries	**122**	114
Amounts due to Santander UK Group Holdings plc[2]	**1,793**	1,772
Amounts due to fellow Banco Santander subsidiaries and joint ventures	**1,717**	960
	180,967	190,850

(1) Includes capital amount guaranteed / protected equity index-linked deposits of £173m (2023: £304m).
(2) Includes downstreamed funding from our immediate parent company Santander UK Group Holdings plc.

23. REPURCHASE AGREEMENTS – NON-TRADING

	Group	
	2024	2023
	£m	£m
Agreements with banks	**2,336**	551
Agreements with customers	**6,281**	7,860
	8,617	8,411

24. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2024	2023
	£m	£m
Structured Notes Programmes	**355**	369
Structured deposits	**605**	426
Zero Amortising Guaranteed Notes	**95**	104
	1,055	899

For the Santander UK group, all (2023: all) of the other financial liabilities at FVTPL were designated as such.

Gains and losses arising from changes in the credit spread of securities issued by the Santander UK group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount. The net loss during the year attributable to changes in the Santander UK group's own credit risk on the above securities was £17m (2023: £21m loss, 2022: £25m gain). The cumulative net loss attributable to changes in the Santander UK group's own credit risk on the above securities at 31 December 2024 was £4m (2023: £6m loss, 2022: £15m gain).

At 31 December 2024, the amount that would be required to be contractually paid at maturity of the securities above was £76m (2023: £97m) higher than the carrying value.

25. DEBT SECURITIES IN ISSUE

	Group	
	2024	2023
	£m	£m
Medium-term notes:		
– US $30bn Euro Medium Term Note Programme	**696**	744
– Euro €30bn Euro Medium Term Note Programme	**2,997**	3,784
- US SEC-registered Debt Programme - Santander UK plc	**5,929**	7,128
	9,622	11,656
Euro €35bn Global Covered Bond Programme	**17,211**	15,000
US$20bn Commercial Paper Programmes	**3,274**	2,761
Certificates of deposit	**1,196**	1,530
Credit linked notes	**441**	194
Securitisation programmes	**3,929**	2,769
	35,673	33,910

26. OTHER LIABILITIES

	Group	
	2024	2023
	£m	£m
Lease liabilities	**88**	111
Other	**1,764**	2,368
	1,852	2,479

27. PROVISIONS

									Group
	Customer remediation	Litigation and other regulatory	Regulatory levies and fees	Bank Levy	Property	ECL on undrawn facilities and guarantees	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	106	132	—	—	47	78	32	7	402
Additional provisions (See Note 8)	306	29	44	41	2	7	87	185	701
Provisions released (See Note 8)	—	(4)	—	—	(1)	—	—	—	(5)
Utilisation and other	(64)	(45)	(42)	(58)	(20)	—	(101)	(178)	(508)
Recharge [1]	—	—	—	15	—	—	—	—	15
Reclassification from provisions to other assets	—	—	—	6	—	—	—	—	6
At 31 December 2024	348	112	2	4	28	85	18	14	611

(1) Recharge in respect of the UK Bank Levy paid on behalf of other UK entities in the Banco Santander group

Provisions expected to be settled within no more than 12 months after 31 December 2024 were £208m (2023: £217m).

a) Customer remediation

SCUK - Motor Finance Broker Commissions

Following the FCA's Motor Market review in 2019 which resulted in a change in rules in January 2021, Santander Consumer (UK) plc (SCUK) has received a number of county court claims and complaints in respect of its historical use of discretionary commission arrangements (DCAs) prior to the 2021 rule changes. During 2024 the FCA commenced a review of the use of DCAs between lenders and credit brokers (FCA review) which, following an extension, it stated it anticipated to conclude by May 2025. Pending the conclusion of its review, the FCA first paused DCA related complaints and then extended this to motor finance commission related complaints which are now paused until 4 December 2025. A claim against SCUK, Santander UK plc and others in the Competition Appeal Tribunal, which alleges that SCUK's historical DCAs in respect of used car financing operated in breach of the Competition Act 1998 is currently paused until the end of July 2025 pending the outcome of the FCA's review.

The outcome of the FCA's review may be informed by an appeal to the Supreme Court to be heard in April 2025 of the Court of Appeal's judgment of October 2024 relating to the use of DCAs by two other lenders, and by an appeal to the Court of Appeal of the High Court's judicial review of the Financial Ombudsman Service's final decision relating to a complaint about the use of a DCA by another lender.

In light of the Court of Appeal's judgment of October 2024, the Santander UK group recognised a provision of £295m in its financial results for 2024. This includes estimates for operational and legal costs and potential awards, based on various scenarios using a range of assumptions, including the outcomes of the appeals above. There continue to be significant uncertainties as to the extent of any misconduct, if any, as well as the perimeter of commission models, and the nature, extent and timing of any remediation action if required. As such, the ultimate financial impact could be materially higher or lower than the amount provided and it is not practicable to quantify the extent of any remaining contingent liability.

The table below shows the sensitivity of the provision to changes in the claim rate.

		Increase / (decrease) in provision
		2024
Assumption	Change in assumption	£m
Claim rate	5% increase	47
Claim rate	5% decrease	(47)

The claim rate represents the proportion of customers who make a request for reimbursement and is a critical accounting estimate that could materially change the ultimate financial impact.

Our best estimate of liability is based on similar experience to PPI claim rates which peaked at up to 50% over the lifetime of the redress programme.

Mortgages

Provisions were also recognised in 2024 for customer remediation relating to our mortgage book. These provisions remain subject to change as additional data becomes available and remediation boundaries are finalised.

b) Litigation and other regulatory

Litigation and other regulatory provisions principally comprised of amounts in respect of litigation and other regulatory charges, operational loss and operational risk provisions, and related expenses. A number of uncertainties exist with respect to these provisions given the uncertainties inherent in litigation and other regulatory matters, that affect the amount and timing of any potential outflows with respect to which provisions have been established. These provisions are reviewed at least quarterly.

In 2024 there were net charges of £39m for legal provisions.

The balance also includes an amount in respect of our best estimate of liability relating to a legal dispute regarding allocation of responsibility for a specific PPI portfolio of complaints, further described in Note 30. No further information on the best estimate is provided on the basis that it would be seriously prejudicial.

c) Regulatory levies and fees

Regulatory levies and fees are payable to regulatory bodies such as the FCA, PRA and Bank of England in the ordinary course of business. In 2024 there were charges of £42m relating to the new Bank of England levy.

d) Bank Levy

In 2024, a rate of 0.05% (2023: 0.05%) was charged on long term chargeable equity and liabilities and 0.10% on short-term chargeable liabilities (2023: 0.10%).

e) Property

Property provisions include leasehold vacant property provisions, dilapidation provisions for leased properties within the scope of IFRS 16 and decommissioning and disposal costs relating to vacant freehold properties. Leasehold vacant property provisions are made by reference to an estimate of any expected sub-let income, compared to the head rent, and the possibility of disposing of Santander UK's interest in the lease, taking into account conditions in the property market.

Property provisions include a release of £2m relating to transformation activity in 2024 (2023: charge of £4m). In 2024, these charges consisted of costs relating to leasehold head office closures, along with decommissioning costs relating to freehold head office sites which are either closing or consolidating.

f) ECL on undrawn facilities and guarantees

Provisions include expected credit losses relating to guarantees given to third parties and undrawn loan commitments.

g) Restructuring

Restructuring provisions relate to severance costs associated with transformation and organisational changes. The provision includes a charge of £82m as part of our transformation to improve future returns, focused on simplifying, digitising and automating the bank.

h) Other

Other provisions include provisions that do not fit into any of the other categories, such as fraud losses and some categories of operational losses. In 2024, Other provisions included charges for operational risk provisions of £161m, including fraud losses of £122m.

28. RETIREMENT BENEFIT PLANS

The amounts recognised in the balance sheet were as follows:

	Group	
	2024	2023
	£m	£m
Assets/(liabilities)		
Funded defined benefit pension scheme - surplus	**439**	723
Funded defined benefit pension scheme - deficit	**—**	(41)
Unfunded pension and post-retirement medical benefits	**(23)**	(25)
Total net assets	**416**	657

a) Defined contribution pension plans

The majority of employees are members of a defined contribution Master Trust, LifeSight. This is the plan into which eligible employees are enrolled automatically. The assets of LifeSight are held in separate trustee-administered funds. Funds arising from Additional Voluntary Contributions (AVCs) are largely held within the main defined benefit scheme operated by the Santander UK group.

An expense of £79m (2023: £71m) was recognised for defined contribution plans in the year and is included in staff costs within operating expenses (see Note 6).

b) Defined benefit pension schemes

The Santander UK group operates a number of defined benefit pension schemes. The main scheme is the Santander (UK) Group Pension Scheme (the Scheme). It comprises seven legally segregated sections. The Scheme covers 6% (2023: 7%) of the Santander UK group's current employees and is a funded defined benefit scheme which is closed to new members. Members accrue final salary benefits for each year of service in the Scheme, according to a salary definition which varies across the sections.

The corporate trustee of the Scheme is Santander (UK) Group Pension Scheme Trustees Limited (the Trustee), a private limited company incorporated in 1996 and a wholly owned subsidiary of Santander UK Group Holdings plc. The principal duty of the Trustee is to act in the best interests of the members of the Scheme. The Trustee board comprises six (2023: six) Directors selected by Santander UK Group Holdings plc, plus four (2023: four) member-nominated Directors selected from eligible members who apply for the role.

The assets of the Scheme are held independently of the Santander UK group's assets in separate trustee administered funds. Investment strategy across the sections of the Scheme remains under regular review. Responsibility for investment decisions, policy and strategy rests with the Trustee of the Scheme who is required under the Pensions Act 2004 to prepare a statement of investment principles. The defined benefit pension schemes expose the Santander UK group to risks such as investment risk, interest rate risk, longevity risk and inflation risk. The Santander UK group does not hold any insurance policies over the defined benefit pension schemes and has not entered into any significant transactions with them.

For IAS 19, an accounting valuation of the assets and liabilities of the defined benefits schemes is prepared at each balance sheet date. For funding purposes, formal actuarial valuations are carried out on at least a triennial basis. Both valuations are carried out by independent professionally qualified actuaries. The Scheme Trustee is responsible for the funding actuarial valuations and in doing so considers, or relies in part on, a report of a third-party expert. The latest triennial funding valuation for the Scheme at 31 March 2022 was finalised in November 2022, with an overall scheme deficit of £183m. The next scheduled triennial funding valuation will be at 31 March 2025. Any funding surpluses can be recovered by Santander UK plc from the Scheme through refunds as the Scheme is run off over time or could be used to pay for the cost of benefits which are accruing.

The main differences between the assumptions used for assessing the defined benefit liabilities for the funding valuation and those used for IAS 19 are that the financial and demographic assumptions used for the funding valuation are generally more prudent than those used for the IAS 19 valuation.

The total amount (credited) / charged to the income statement was as follows:

	Group		
	2024	2023	2022
	£m	£m	£m
Net interest income	**(34)**	(54)	(30)
Current service cost	**13**	13	30
Past service and GMP costs	**—**	1	—
Administration costs	**9**	7	9
	(12)	(33)	9

The amounts recognised in other comprehensive income were as follows:

	Group		
	2024	2023	2022
	£m	£m	£m
Return on plan assets (excluding amounts included in net interest expense)	**1,217**	352	5,527
Actuarial gains arising from changes in demographic assumptions	**(113)**	(51)	(122)
Actuarial losses arising from experience adjustments	**84**	91	481
Actuarial (gains)/losses arising from changes in financial assumptions	**(786)**	206	(5,164)
	402	598	722

Movements in the present value of defined benefit scheme obligations were as follows:

	Group	
	2024	2023
	£m	£m
At 1 January	**(8,201)**	(7,933)
Current service cost paid by Santander UK plc	**(13)**	(13)
Interest cost	**(371)**	(379)
Employer salary sacrifice contributions	**(4)**	(1)
Past service cost	**—**	(1)
Remeasurement due to actuarial movements arising from:		
– Changes in demographic assumptions	**113**	51
– Experience adjustments	**(84)**	(91)
– Changes in financial assumptions	**786**	(206)
Benefits paid	**394**	372
At 31 December	**(7,380)**	(8,201)

Movements in the fair value of the schemes' assets were as follows:

	Group	
	2024	2023
	£m	£m
At 1 January	**8,858**	8,958
Interest income	**405**	433
Contributions paid by employer and scheme members	**153**	198
Administration costs paid	**(9)**	(7)
Return on plan assets (excluding amounts included in net interest expense)	**(1,217)**	(352)
Benefits paid	**(394)**	(372)
At 31 December	**7,796**	8,858

The composition and fair value of the schemes' assets by category was:

	Quoted prices in active markets		Prices not quoted in active markets		Total		Group Valuation
2024	**£m**	**%**	**£m**	**%**	**£m**	**%**	**technique**
Overseas equities	**—**	**—**	**776**	**10**	**776**	**10**	A,C
Corporate bonds	**2,511**	**33**	**186**	**2**	**2,697**	**35**	A,C
Government fixed interest bonds	**1,348**	**17**	**—**	**—**	**1,348**	**17**	A
Government index-linked bonds	**4,444**	**58**	**—**	**—**	**4,444**	**58**	A
Property	**—**	**—**	**1,073**	**14**	**1,073**	**14**	B
Derivatives	**—**	**—**	**(18)**	**—**	**(18)**	**—**	A
Cash	**—**	**—**	**341**	**4**	**341**	**4**	A
Repurchase agreements[1]	**—**	**—**	**(3,328)**	**(43)**	**(3,328)**	**(43)**	A
Infrastructure	**—**	**—**	**112**	**1**	**112**	**1**	B,C
Annuities	**—**	**—**	**267**	**3**	**267**	**3**	D
Longevity swap	**—**	**—**	**(83)**	**(1)**	**(83)**	**(1)**	D
Other	**—**	**—**	**167**	**2**	**167**	**2**	C
	8,303	**108**	**(507)**	**(8)**	**7,796**	**100**	
2023							
Overseas equities	—	—	980	11	980	11	A,C
Corporate bonds	2,284	26	242	3	2,526	29	A,C
Government fixed interest bonds	1,618	18	—	—	1,618	18	A
Government index-linked bonds	4,422	50	—	—	4,422	50	A
Property	—	—	1,080	12	1,080	12	B
Derivatives	—	—	(2)	—	(2)	—	A
Cash	—	—	586	7	586	7	A
Repurchase agreements[1]	—	—	(3,062)	(35)	(3,062)	(35)	A
Infrastructure	—	—	408	5	408	5	B,C
Annuities	—	—	293	3	293	3	D
Longevity swap	—	—	(16)	—	(16)	—	D
Other	—	—	25	—	25	—	C
	8,324	94	534	6	8,858	100	

(1) Sale and repurchase agreements net of purchase and resale agreements.

Valuation techniques
The main methods for measuring the fair value of the Scheme's assets at 31 December 2024 and 2023 are set out below.

A. The asset valuation is provided by the asset manager. The valuation is based on observable market data, and where relevant is typically based on bid price values, or the single price if only one price is available.
B. The underlying asset valuations are prepared by an independent expert, adjusted for any cash movements where necessary since the latest valuation.
C. Assets are valued by reference to the latest manager statements provided by the managers, adjusted for any cash movements since the latest valuation.
D. Assets relating to insured liabilities are valued by the actuaries based on our year-end accounting assumptions.

The 'Other' category includes cash receivables in 2025 from secondary market sales in 2024.

A number of insurance transactions have been entered into that have been included in the asset valuation under annuities and Longevity swap. The transactions were as follows:

– In May 2020 a pensioner buy-in was entered into by the Trustee. This transaction insured 100% of the SMA section pensioner liabilities and 50% of the SPI section pensioner liabilities based on membership in the Scheme at 31 December 2018.
– In March 2021, the Trustee entered into a longevity swap. Approximately 85%of pensioner liabilities were covered by the longevity swap at inception, excluding pensioners in the SMA and SPI sections.
– In 2022, a pensioner buy-in was entered into by the Trustee covering pensioners in the SMA and SPI sections who were uninsured at 30 June 2021.
– In July 2022, the Trustee entered into a second longevity swap, extending the insurance over uninsured pensioners in the same membership groups covered by the first swap transacted in March 2021, based on membership in the Scheme at 31 December 2021.

At 31 December 2024 and 2023, as highlighted above, the Scheme was invested in certain assets whose values are not based on market observable data, such as the investments in unquoted equities and bonds, as well as property and infrastructure. The valuation of these assets relies on unobservable data as these assets do not have a readily available quoted price in an active market. A large proportion of the property is directly held and valued using a bespoke valuation method taking both the nature of the properties and the tenancy schedules as inputs to derive the fair value. Where there is a time lag between the net asset value and the balance sheet date, management adjusts the value of the assets for any cash movements. Due diligence has been conducted to ensure the values obtained in respect of these assets are appropriate and represent fair value. Given the nature of these investments, we are unable to prepare sensitivities on how their values could vary as market conditions or other variables change.

A strategy is in place to manage interest rate and inflation risk relating to the liabilities. The Scheme also hedges a proportion of its foreign exchange exposure to manage currency risk. At 31 December 2024 the currency forwards had a notional value of £709m (2023: £859m). In 2024, we increased our allocation to corporate bonds, and reduced our investments in infrastructure and private equity.

The Santander UK group's pension schemes did not directly hold any equity securities of the Company or any of its related parties at 31 December 2024 and 2023. The Santander UK group's pension scheme assets do not include any property or other assets that are occupied or used by the Santander UK group.

Funding
In November 2022, in compliance with the Pensions Act 2004, the Trustee and the Santander UK group agreed to a new recovery plan in respect of the Scheme and a schedule of contributions following the finalisation of the 31 March 2022 actuarial valuation. The funding target for this actuarial valuation is for the Scheme to have sufficient assets to make payments to members in respect of the accrued benefits as and when they fall due. In accordance with the terms of the Trustee agreement in place at the time, the Santander UK group contributed £150m in 2024 (2023: £195m) to the Scheme, of which £119m (2023: £164m) was in respect of agreed deficit repair contributions. The agreed schedule of the Santander UK group's contributions to the Scheme covers the period up to 31 March 2026, and comprises contingent contributions which become due if the funding position of any section falls behind the agreed plan. The Santander UK group also meets Scheme administration expenses. The funding valuation is used to judge the amount of cash contributions the Santander UK group needs to put into the pension scheme. It will always be different to the IAS 19 accounting position, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements.

Actuarial assumptions
The principal actuarial assumptions used for the Scheme were:

	Group		
	2024	2023	2022
	%	%	%
To determine benefit obligations[1]:			
– Discount rate for scheme liabilities	**5.5**	4.6	4.9
– General price inflation	**3.1**	3.0	3.1
– General salary increase	**1.0**	1.0	1.0
– Expected rate of pension increase	**3.0**	3.0	3.0

	Years	Years	Years
Longevity at 60 for current pensioners, on the valuation date:			
– Males	**26.9**	27.0	27.4
– Females	**29.8**	29.8	30.1
Longevity at 60 for future pensioners currently aged 40, on the valuation date:			
– Males	**28.5**	28.6	28.9
– Females	**31.3**	31.3	31.6

(1) The discount rate and inflation related assumptions set out in the table above reflect the assumptions calculated based on the Scheme's duration and cash flow profile as a whole. The actual assumptions used were determined for each section independently based on each section's duration and cash flow profile.

The majority of the liability movement in 2024 was due to increased fixed interest gilt yields.

Discount rate for scheme liabilities
The rate used to discount the retirement benefit obligation for accounting purposes is based on the annual yield at the balance sheet date of high-quality corporate bonds on that date. There are only a limited number of higher quality Sterling-denominated corporate bonds, particularly those that are longer-dated. Therefore, in order to set a suitable discount rate, we need to construct a corporate bond yield curve. The model which we use to construct the curve uses corporate bond data but excludes convertible bonds, asset-backed bonds and government related bonds. The curve is then constructed from this data by extrapolating the spot rates from 30 years to 50 years by holding the spread above nominal gilt spot rates constant. From 50 years onwards, it is assumed that spot rates remain constant. When considering an appropriate assumption, we project forward the expected cash flows of each section of the Scheme and adopt a single equivalent cash flow weighted discount rate for each section, subject to management judgement.

In 2024, we adopted a new version of the model that we currently use to set the discount rate. The updated model is based on an expanded data set which improves the stability of the model.

General price inflation
Consistent with our discount rate methodology, we set the inflation assumption using the expected cash flows for each section of the Scheme, fitting them to an inflation curve to give a weighted average inflation assumption. We then deduct an inflation risk premium to reflect the compensation holders of fixed rate instruments expect to receive for taking on the inflation risk. This premium is subject to a cap, to better reflect management's view of inflation expectations.

General salary increase
From 1 March 2015, a cap on pensionable pay increases of 1% each year was applied to staff in the Scheme.

Expected rate of pension increase
The pension increase assumption methodology uses a stochastic model, which is calibrated to consider both the observed historical volatility term structure and derivative pricing. The model allows for the likelihood that high or low inflation in one year, feeds into inflation remaining high or low in the next year.

Mortality assumptions
The mortality assumptions are based on an independent analysis of the Scheme's actual mortality experience, carried out as part of the triennial actuarial valuation, together with recent evidence from the Continuous Mortality Investigation. An allowance is then made for expected future improvements to life expectancy based on the Continuous Mortality Investigation Tables. Following this review the S3 Medium all pensioner mortality table was adopted with appropriate adjustments to reflect the actual mortality experience. At 31 December 2024 the assumption for future improvements was updated and the CMI 2023 projection model adopted, with an initial addition to improvements of 0.25% per annum, and a long-term rate of future improvements to life expectancy of 1.25% for male and female members.

In 2022, the methodology for setting the demographic assumptions was changed to better represent current expectations, following a review carried out by the Trustee as part of the 2022 triennial valuation. This review resulted in changes in the assumptions for family statistics, early retirement and the withdrawal assumption, which were retained at 31 December 2024.

Actuarial assumption sensitivities
The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

		Group	
		(Decrease)/increase	
		2024	2023
Assumption	Change in pension obligation at period end from	**£m**	£m
Discount rate	50bps increase	**(413)**	(507)
General price inflation	50bps increase	**316**	385
Mortality	Each additional year of longevity assumed	**190**	223

The 50bps sensitivity to the inflation assumption includes the corresponding impact of changes in future pension increase assumptions before and after retirement. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same method used to calculate the defined benefit obligation recognised in the balance sheet. There were no changes in the methods and assumptions used in preparing the sensitivity analyses from prior years.

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter are:

Year ending 31 December	£m
2025	**478**
2026	**405**
2027	**424**
2028	**444**
2029	**463**
Five years ending 2034	**2,438**

The average duration of the defined benefit obligation at 31 December 2024 was 12.7 years (2023: 13.8 years).

Emerging risks

In 2024, we focused on the risks arising from the Scheme's private market assets, rising interest rates and cybersecurity risk. The Santander UK group collaborated with the Trustee to identify and monitor such risks to ensure they are adequately managed. The Trustee has an independent cybersecurity advisor to review the cybersecurity arrangements of its most critical suppliers and provide recommendations on potential improvements.

The Trustee Sustainability Committee is responsible for overseeing the Scheme's policies, regulatory obligations and priorities in respect of climate change and wider Environmental, Social and Governance (ESG) related matters. This includes the monitoring of climate related risks and opportunities, scenario analysis and monitoring of investments from an ESG perspective.

The Santander UK group's employee pension funds recognise the magnitude of the challenges that climate and energy transition pose to governments, companies and civil society. They are also aware of their impact on the ability to comply with their fiduciary duty providing long-term risk-adjusted returns to their members. They have an ambition to achieve net zero by 2050, showing their full support for Banco Santander's vision and ambition to be a responsible and sustainable bank.

29. SUBORDINATED LIABILITIES

		Group
	2024	2023
	£m	£m
£325m Sterling preference shares	**343**	343
Undated subordinated liabilities	**205**	205
Dated subordinated liabilities	**1,837**	1,838
	2,385	2,386

In 2024, no subordinated liabilities were repurchased as part of ongoing liability management exercises (2023: profit of £4m).

The above securities will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank equally with, or are junior to, the claims of the holders of the subordinated liabilities. The subordination amongst each of the subordinated liabilities upon a winding up of the issuer is specified in their respective terms and conditions.

In 2024 and 2023, the Santander UK group had no defaults of principal, interest or other breaches with respect to its subordinated liabilities. No repayment or purchase by the issuer of the subordinated liabilities may be made prior to their stated maturity without the consent of the PRA.

Undated subordinated liabilities

			Group
		2024	2023
	First call date	**£m**	£m
10.0625% Exchangeable capital securities	n/a	**205**	205
		205	205

In common with other debt securities issued by Santander UK group companies and notwithstanding the issuer's first call dates in the table above, in the event of certain tax changes affecting the treatment of payments of interest on subordinated liabilities in the UK, the 10.0625% Exchangeable capital securities are redeemable on any interest payment date – each in whole at the option of Santander UK, at their principal amount together with any accrued interest.

The 10.0625% Exchangeable capital securities are exchangeable into fully paid 10.375% non-cumulative non-redeemable sterling preference shares of £1 each, at the option of Santander UK, on the business day immediately following any interest payment date.

Dated subordinated liabilities

			Group
		2024	2023
	Maturity	**£m**	£m
4.75% Subordinated notes	2025	**332**	326
7.95% Subordinated notes	2029	**189**	193
6.50% Subordinated notes	2030	**1**	1
5.875% Subordinated notes	2031	**7**	7
5.625%Subordinated notes	2045	**226**	222
7.869% Subordinated notes	2033	**314**	321
8.296% Subordinated notes	2033	**768**	768
		1,837	1,838

The dated subordinated liabilities are redeemable in whole at the option of Santander UK in the event of certain tax changes affecting the treatment of payments of interest on the subordinated liabilities in the UK, at their principal amount together with any accrued interest.

30. CONTINGENT LIABILITIES AND COMMITMENTS

	Group	
	2024	2023
	£m	£m
Guarantees given to third parties	**493**	452
Formal standby facilities, credit lines and other commitments	**35,156**	30,976
	35,649	31,428

At 31 December 2024, the Santander UK group had credit impairment loss provisions relating to guarantees given to third parties and undrawn loan commitments. See Note 27 for more details.

Where the items set out below can be reliably estimated, they are disclosed in the table above.

Guarantees given to third parties
Guarantees given to third parties consist primarily of letters of credit, bonds and guarantees granted as part of normal product facilities which are offered to customers.

Formal standby facilities, credit lines and other commitments

Standby facilities, credit lines and other commitments are also granted as part of normal product facilities which are offered to customers. Retail facilities comprise undrawn facilities granted on flexible mortgages, bank overdrafts and credit cards. On flexible mortgages, the credit limit is set at the point of granting the loan through property value and affordability assessments.

Ongoing assessments are made to ensure that credit limits remain appropriate considering any change in the security value or the customer's financial circumstances. For unsecured overdraft facilities and credit cards, the facilities are granted based on new business risk assessment and are reviewed more frequently based on internal, as well as external data. Corporate facilities can comprise standby and revolving facilities which are subject to ongoing compliance with covenants and may require the provision of agreed security.

FSCS
The FSCS is the UK's independent statutory compensation fund for customers of authorised financial services firms and pays compensation if a firm is unable to pay certain claims against it. The FSCS is funded by levies on the industry and recoveries and borrowings where appropriate.

Loan representations and warranties
In connection with the securitisations and covered bond transactions described in Note 14, the Santander UK group entities selling the relevant loans into the applicable securitisation or covered bond portfolios make representations and warranties with respect to such loans, as of the date of the sale of the loans into the applicable portfolio. These representations and warranties cover, among other things, the relevant Santander UK group entity's ownership of the loan, the absence of a material breach or default by the relevant borrower, the loan's compliance with applicable laws, and absence of material disputes with respect to the relevant borrower, asset or loan. The specific representations and warranties made by Santander UK group companies which act as sellers of loans in these securitisations and covered bond transactions depend in each case on the nature of the transaction and the requirements of the transaction structure.

In the event that there is a material breach of the representations and warranties given by Santander UK plc as seller of loans under the residential mortgage-backed securitisations or the covered bond programme included in Note 14, or if such representations and warranties prove to be materially untrue at the date when they were given, Santander UK plc may be required to repurchase the affected mortgage loans (generally) at their outstanding principal balance plus accrued interest). These securitisations and covered bond programme are collateralised by prime residential mortgage loans. Santander UK plc is principally a retail prime lender and has no appetite or product offering for any type of sub-prime business.

Similarly, under the auto loan securitisations in Note 14, in the event that there is a breach or inaccuracy in respect of a representation or warranty relating to the loans, the relevant Santander UK group entity who sold the auto loans into the securitisation portfolio will be required to repurchase such loans from the structure (also at their outstanding principal balance plus accrued interest). In addition to breaches of representation and warranties, under the auto loan securitisations, the seller may also have a repurchase obligation if certain portfolio limits are breached (which include, amongst other things, limits as to the size of a loan given to an individual customer, LTV ratio, average term to maturity and average seasoning).

In the case of a repurchase of a loan from the relevant securitisation or covered bond programmes, the Santander UK group may bear any subsequent credit loss on such loan. The Santander UK group manages and monitors its securitisation and covered bond activities closely to minimise potential claims.

Other legal, regulatory or tax matters

Santander UK engages in discussion, and co-operates, with the FCA, PRA, CMA and other regulators and government agencies in various jurisdictions in their supervision and review of Santander UK including reviews exercised under statutory powers, regarding its interaction with past and present customers, both as part of general thematic work and in relation to specific products, services and activities. During the ordinary course of business, Santander UK is also subject to complaints and threatened legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties. In addition, Santander UK is subject to audits, reviews, challenges and tax, regulatory or law enforcement investigations or proceedings by relevant regulators or government agencies in various jurisdictions. All such matters are assessed periodically to determine the likelihood of Santander UK incurring a liability.

In those instances where it is concluded that it is not yet probable that a quantifiable payment will be made, for example because the facts are unclear or further time is required to fully assess the merits of the case or to reasonably quantify the expected payment, no provision is made. In addition, where it is not currently practicable to estimate the possible financial effect of these matters, no provision is made.

Payment Protection Insurance

AXA France IARD and AXA France Vie (former GE Capital Corporation Group entities (GE Capital), known as Financial Insurance Company Ltd (FICL) and Financial Assurance Company Ltd (FACL), acquired by AXA SA in 2015) (together, AXA France) have brought a claim for £552m (plus interest) against (i) Santander Cards UK Limited (former GE Capital entity known as GE Capital Bank Limited (GECB), which was acquired by Banco Santander SA in 2008 and subsequently transferred to Santander UK plc); and (ii) Santander Insurance Services UK Limited (a Banco Santander SA subsidiary) (together the Santander Entities). The claim relates to the allocation of liability for compensation and associated costs in respect of a large number of PPI policies distributed by GECB pre-2005, which were underwritten by FICL and FACL. AXA France reduced their claim from £670m (plus interest) to £552m (plus interest) in their Re-Re-Amended Particulars of Claim dated 29 June 2023. The Santander Entities strongly refute the claim. Trial has been fixed for six weeks, beginning on 11 March 2025.

There are ongoing factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is difficult to reliably predict the outcome or the timing of the resolution of the matter. The litigation and other regulatory provision in Note 27 includes our best estimate of the Santander Entities' liability to the specific portfolio. Further information has not been provided on the basis that it would be seriously prejudicial to the Santander Entities' interests in connection with the dispute.

In addition, and in relation to PPI more generally, the PPI provision includes an amount relating to legal claims challenging the FCA's industry guidance on the treatment of Plevin / recurring non-disclosure assessments. This provision is based on current stock levels, future projected claims, and average redress. There remains a risk that volumes received in future may be higher than forecast. The provision in Note 27 includes our best estimate of Santander UK's liability for the specific issue. The actual cost of customer compensation could differ from the amount provided. It is not currently practicable to provide an estimate of the risk and amount of any further financial impact.

German dividend tax arbitrage transactions

In June 2018 the Cologne Criminal Prosecution Office and the German Federal Tax Office commenced an investigation in relation to the historical involvement of Santander UK plc, Santander Financial Services plc and Cater Allen International Limited (all subsidiaries of Santander UK Group Holdings plc) in German dividend tax arbitrage transactions (known as cum/ex transactions). These transactions allegedly exploited a loophole of a specific German settlement mechanism through short-selling and complex derivative structuring which resulted in the German government either refunding withholding tax where such tax had not been paid or refunding it more than once. The German authorities are investigating numerous institutions and individuals in connection with alleged transactions and practices which may be found to be illegal under German law.

During 2024 we continued to cooperate with the German authorities and, with the assistance of external experts, to progress an internal investigation into the matters in question. From Santander UK plc's perspective, the investigation is focused principally on the period 2009-2011 and remains on-going. There remain factual issues to be resolved which may have legal consequences including potentially material financial penalties. These issues create uncertainties which mean that it is difficult to predict the resolution of the matter including timing or the significance of the possible impact. These uncertainties mean it is not currently practicable to make a reliable assessment of the size of any related potential liability.

SCUK - Motor Finance Broker Commissions

As set out in Note 27, Santander UK has recognised a provision for historical motor finance commission payments. There continue to be significant uncertainties as to the extent of any misconduct, if any, as well as the perimeter of commission models, and the nature, extent and timing of any remediation action if required. As such, the ultimate financial impact could be materially higher or lower than the amount provided and it is not practicable to quantify the extent of any remaining contingent liability.

Other

In 2016, Visa Europe Ltd was sold to Visa Inc. As a member and shareholder of Visa Europe Ltd, Santander UK received upfront consideration made up of cash and convertible preferred stock. The convertible preferred stock is now held by Santander Equity Investments Limited (SEIL), outside the ring-fenced bank. Conversion of the preferred stock into Class A Common Stock of Visa Inc. depends on the outcome of litigation against Visa involving UK & Ireland multilateral interchange fees (UK&I MIFs).

In addition, Santander UK and certain other UK&I banks have agreed to indemnify Visa Inc. in the event that the preferred stock is insufficient to meet the costs of this litigation. Visa Inc. has recourse to this indemnity once more than €1bn of losses relating to UK&I MIFs have arisen or once the total value of the preferred stock issued on closing has been reduced to nil. Santander UK's liability under this indemnity is capped at €40m. At this stage, it is unclear whether the litigation will give rise to more than €1bn of losses relating to UK&I MIFs, which means it is difficult to predict whether the indemnity would be called upon, or the timing or significance of any potential impact.

As part of the sale of subsidiaries, businesses and other entities, and as is normal in such circumstances, Santander UK plc (and/or, where relevant, its subsidiaries) has given warranties and/or indemnities to the purchasers.

Obligations under stock borrowing and lending agreements
Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations are offset by a contractual right to receive stock under other contractual agreements. See Note 34.

Other off-balance sheet commitments
The Santander UK group has commitments to lend at fixed interest rates which expose us to interest rate risk. For further information, see the Risk review.

Capital support arrangements
At 31 December 2024, Santander UK plc, Cater Allen Limited, Santander ISA Managers Limited and certain other non-regulated subsidiaries of Santander UK plc were party to a capital support deed dated 3 December 2024 which was effective from 3 December 2024 (the RFB Sub-Group Capital Support Deed). These parties were permitted by the PRA to form a core UK group as defined in the PRA Rulebook, a permission which expires on 3 December 2027. Exposures of each of the regulated entities to other members of the core UK group are exempt from large exposure limits that would otherwise apply and these exposures are risk-weighted at 0%. Where applicable this permission also provides for intra-group exposures to be excluded from the leverage exposure measure. The purpose of the RFB Sub-Group Capital Support Deed is to facilitate the prompt transfer of available capital resources from, or repayment of liabilities by, the non-regulated entities to any of the regulated entities in the event that one of the regulated entities breached or was at risk of breaching its capital resources or risk concentrations requirements.

Liquidity support arrangement
Under the PRA's liquidity rules, Santander UK plc and its subsidiary Cater Allen Limited form the RFB Domestic Liquidity Sub-group (the RFB DoLSub), which allows them to collectively meet regulatory requirements to manage liquidity risk. Each member of the RFB DoLSub will support the other by transferring surplus liquidity in times of stress.

31. SHARE CAPITAL

			Group
	Ordinary shares of £0.10 each		Total
Issued and fully paid share capital	No.	£m	£m
At 31 December 2023, 1 January 2024 and 31 December 2024	**31,051,768,866**	**3,105**	**3,105**

		Group
	2024	2023
Share premium	**£m**	£m
At 1 January and 31 December	**5,620**	5,620

32. OTHER EQUITY INSTRUMENTS

				Group
	Interest rate		**2024**	2023
	%	Next call date	**£m**	£m
AT1 securities:				
- £500m Perpetual Capital Securities	6.75	June 2024	**—**	496
- £500m Perpetual Capital Securities	6.30	March 2025	**500**	500
- £210m Perpetual Capital Securities	4.25	March 2026	**210**	210
- £750m Perpetual Capital Securities	6.50	June 2027	**750**	750
- £400m Perpetual Capital Securities	8.75	Sept 2029	**400**	—
			1,860	1,956

AT1 securities
The AT1 securities issued by the Company were subscribed for by its immediate parent company, Santander UK Group Holdings plc. The AT1 securities are perpetual and pay a quarterly distribution. At each distribution payment date, the Company can decide whether to pay the distribution, which is non-cumulative, in whole or in part. The distribution rate resets every five years. The securities will be automatically written down and the investors will lose their entire investment in the securities should the CET1 capital ratio of the Santander UK prudential consolidation group, or the Company (calculated on a solo basis), fall below 7%.

All AT1 securities are redeemable at the option of the Company, and only with the consent of the PRA.

33. NOTES TO CASH FLOWS

Changes in liabilities and equity arising from financing activities

The table below shows the changes in liabilities arising from financing activities. The changes in equity arising from financing activities are set out in the Consolidated Statement of Changes in Equity.

	Balance sheet line item					Group
	Debt securities in issue	Subordinated liabilities	Other equity instruments	Lease liabilities	Dividends paid	Total
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January	**33,910**	**2,386**	**1,956**	**111**	**—**	**38,363**
Proceeds from issue of debt securities	**8,397**	**—**	**—**	**—**	**—**	**8,397**
Repayment of debt securities	**(6,539)**	**—**	**—**	**—**	**—**	**(6,539)**
Issue of other equity instruments	**—**	**—**	**400**	**—**	**—**	**400**
Repurchase of other equity instruments	**—**	**—**	**(500)**	**—**	**—**	**(500)**
Principal elements of lease payments	**—**	**—**	**—**	**(33)**	**—**	**(33)**
Dividends paid	**—**	**—**	**—**	**—**	**(1,440)**	**(1,440)**
Liability-related other changes	**283**	**1**	**—**	**10**	**—**	**294**
Non-cash changes:						
– Unrealised foreign exchange	**(395)**	**3**	**—**	**—**	**—**	**(392)**
– Other changes	**17**	**(5)**	**4**	**—**	**—**	**16**
At 31 December	**35,673**	**2,385**	**1,860**	**88**	**(1,440)**	**38,566**
2023						
At 1 January	31,531	2,332	1,956	125	—	35,944
Proceeds from issue of debt securities	4,208	—	—	—	—	4,208
Repayment of debt securities	(2,568)	—	—	—	—	(2,568)
Proceeds from issue of subordinated liabilities	—	1,050	—	—	—	1,050
Repayment of subordinated liabilities	—	(971)	—	—	—	(971)
Principal elements of lease payments	—	—	—	(47)	—	(47)
Dividends paid	—	—	—	—	(1,653)	(1,653)
Liability-related other changes	1,004	25	—	33	—	1,062
Non-cash changes:						
– Unrealised foreign exchange	(651)	(22)	—	—	—	(673)
– Other changes	386	(28)	—	—	1,653	2,011
At 31 December	33,910	2,386	1,956	111	—	38,363
2022						
At 1 January	25,520	2,228	2,191	132	—	30,071
Proceeds from issue of debt securities	4,778	—	—	—	—	4,778
Repayment of debt securities	(3,036)	—	—	—	—	(3,036)
Repayment of subordinated liabilities	—	(40)	—	—	—	(40)
Issue of other equity instruments	—	—	750	—	—	750
Repurchase of other equity instruments	—	—	(985)	—	—	(985)
Principal elements of lease payments	—	—	—	(26)	—	(26)
Dividends paid	—	—	—	—	(1,164)	(1,164)
Liability-related other changes	3,155	2	—	19	—	3,176
Non-cash changes:						
– Unrealised foreign exchange	1,554	87	—	—	—	1,641
– Other changes	(440)	55	—	—	1,164	779
At 31 December	31,531	2,332	1,956	125	—	35,944

Footnotes to the consolidated cash flow statement

Net cash flows from operating activities includes interest received of £12,370m (2023: £11,395m, 2022: £6,508m), interest paid of £8,033m (2023: £6,326m, 2022: £2,089m) and dividends received of £nil (2023: £nil, 2022: £nil).

Total cash outflow for leases was £36m (2023: £50m, 2022: £28m).

34. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

The following transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

a) Assets charged as security for liabilities

The financial assets below are analysed between those assets accounted for on-balance sheet and off-balance sheet.

	Group	
	2024 £m	2023 £m
On-balance sheet:		
Cash and balances at central banks	**1,580**	1,480
Loans and advances to banks	**139**	191
Loans and advances to customers - securitisations and covered bonds (See Note 14)	**32,721**	27,088
Loans and advances to customers - other	**14,846**	20,699
Other financial assets at amortised cost	**1,529**	14
Financial assets at fair value through other comprehensive income	**4,504**	5,183
Total on-balance sheet	**55,319**	54,655
Total off-balance sheet	**9,564**	10,185

Santander UK provides assets as collateral in the following areas of the business.

Sale and repurchase agreements

Santander UK also enters into sale and repurchase agreements and similar transactions of debt securities. Upon entering into such transactions, Santander UK provides collateral in excess of the borrowed amount. The carrying amount of assets that were so provided at 31 December 2024 was £16,987m (2023: £13,291m), of which £2,472m (2023: £909m) was classified in 'Loans and advances to customers – securitisations and covered bonds' in the table above.

Securitisations and covered bonds

As described in Note 14, Santander UK plc and certain of its subsidiaries issue securitisations and covered bonds through or involving structured entities. At 31 December 2024, there were £33,905m (2023: £27,927m) of gross assets in these secured programmes and £1,184m (2023: £839m) of these related to internally retained issuances that were available for use as collateral for liquidity purposes in the future.

At 31 December 2024, £3,003m (2023: £2,928m) of notes issued under securitisation and covered bond programmes had been retained internally, a proportion of which had been used as collateral via third party bilateral secured funding transactions, which totalled £1,500m at 31 December 2024 (2023: £1,500m), or for use as collateral for liquidity purposes in the future.

Stock borrowing and lending agreements

Asset balances under stock borrowing and lending agreements represent stock lent by Santander UK. These balances amounted to £15,860m at 31 December 2024 (2023: £23,644m) and are offset by contractual commitments to return stock borrowed or cash received.

Derivatives and other business

In addition to the arrangements described above, collateral is also provided in the normal course of derivative business to counterparties. At 31 December 2024, £1,787m (2023: £1,726m) of such collateral in the form of cash had been provided by Santander UK and is included in the table.

b) Collateral accepted as security for assets

The collateral held as security for assets, analysed between those liabilities accounted for on balance sheet and off-balance sheet, was:

	Group	
	2024 £m	2023 £m
On-balance sheet:		
Deposits by banks	**682**	860
Total on-balance sheet	**682**	860
Total off-balance sheet	**14,392**	14,992

Purchase and resale agreements

Santander UK also enters into purchase and resale agreements and similar transactions of debt securities. Upon entering into such transactions, Santander UK receives collateral in excess of the loan amount. The level of collateral held is monitored daily and if required, further calls are made to ensure the market values of collateral remains at least equal to the loan balance. The subsidiaries are permitted to sell or repledge the collateral held in the absence of default. At 31 December 2024, the fair value of such collateral received was £13,221m (2023: £12,982m). Of the collateral received, almost all was sold or repledged. The subsidiaries have an obligation to return collateral that they have sold or pledged.

Stock borrowing and lending agreements

Obligations representing contractual commitments to return stock borrowed by the Santander UK group amounted to £1,171m at 31 December 2024 (2023: £2,010m) and are offset by a contractual right to receive stock lent.

Derivatives business

In addition to the arrangements described, collateral is also received from counterparties in the normal course of derivative business. At 31 December 2024, £682m (2023: £860m) of such collateral in the form of cash had been received by Santander UK and is included in the table.

Lending activities

In addition to the collateral held as security for assets, the Santander UK group may obtain a charge over a customer's property in connection with its lending activities. Details of these arrangements are set out in the 'Credit risk' section of the Risk review.

35. SHARE-BASED COMPENSATION

The Santander UK group operates share schemes and arrangements for eligible employees. The main current schemes are the Sharesave Schemes, the Deferred Shares Bonus Plan, the Partnership Shares scheme and the Transformation Incentive Plan. All the share options and awards relate to shares in Banco Santander SA.

The amount charged to the income statement in respect of share-based payment transactions is set out in Note 6.

At 31 December 2024, the carrying amount of liabilities arising from share-based payment transactions, excluding any cash element was £24m (2023: £15m), of which £1m had vested at 31 December 2024 (2023: £1m).

a) Sharesave Schemes

The Santander UK group launched its sixteenth HM Revenue & Customs approved Sharesave invitation under Banco Santander SA sponsorship in September 2024. Sharesave invitations have been offered since 2008 under broadly similar terms. Under the Sharesave Scheme's HMRC-approved savings limits, eligible employees may enter into contracts to save between £5 and £500 per month. For all schemes, at the end of a fixed term of three or five years after the grant date, the employees can use these savings to buy shares in Banco Santander SA at a discount, calculated in accordance with the rules of the scheme. The option price is calculated as the average middle market quoted price of Banco Santander SA shares over the first three dealing days prior to invitation and, for schemes up to and including 2023, discounted by up to 20%. This year, a 10% discount was applied. The vesting of awards under the scheme depends on continued employment with the Banco Santander group. Participants in the scheme have six months from the date of vesting to exercise the option.
The table below summarises movements in the number of options, and changes in weighted average exercise price over the same period.

	2024		2023	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	'000	**£**	'000	£
Outstanding at 1 January	**27,139**	**2.19**	29,988	2.00
Granted	**4,991**	**3.36**	7,175	2.78
Exercised	**(4,004)**	**2.29**	(5,980)	1.70
Forfeited/expired	**(2,437)**	**2.37**	(4,044)	2.53
Outstanding at 31 December	**25,689**	**2.39**	27,139	2.19
Exercisable at 31 December	**1,115**	**2.36**	868	1.84

The weighted average share price at the date the options were exercised was £3.64 (2023: £3.22).

The following table summarises the range of exercise prices and weighted average remaining contractual life of the options at 31 December 2024 and 2023.

	2024		2023	
	Weighted average remaining contractual life	**Weighted average exercise price**	Weighted average remaining contractual life	Weighted average exercise price
Range of exercise prices	**Years**	**£**	Years	£
£1 to £2	**2**	**1.85**	3	1.84
£2 to £3	**2**	**2.71**	3	2.65
£3 to £4	**4**	**3.36**	0	3.46
£4 to £5	**0**	**—**	0	—

The fair value of each option at the date of grant is estimated using an analytical model that also reflects the correlation between EUR and GBP. This model uses assumptions on the share price, the EUR/GBP FX rate, the EUR/GBP risk-free interest rate, dividend yields, the expected volatilities of both the underlying shares and EUR/GBP for the expected lives of options granted. The weighted average grant-date fair value of options granted during the year was £0.23 (2023: £0.33).

b) Deferred shares bonus plan

Deferred bonus awards are designed to align employee performance with shareholder value and encourage increased retention of senior employees. Those employees who are designated as Material Risk Takers receive part of their annual bonus as a deferred award comprising 50% in shares and 50% in cash. Either 40% (for any variable pay award of less than £500,000) or 60% (for any variable pay award greater than £500,000) is deferred over a four-, five- or seven- year period from the anniversary of the initial award. Deferred bonus awards in shares or share options are subject to an additional one-year retention period from the point of delivery. Any deferred awards are dependent on continued employment and subject to Santander UK's discretion, and the vesting of deferred bonus awards is subject to potential performance adjustment.

c) Partnership Shares scheme

A Partnership Shares scheme is operated for eligible employees under the Share Incentive Plan (SIP) umbrella. Participants can choose to invest up to £1,800 per tax year (or no more than 10% of an employee's salary for the tax year) from pre-tax salary to buy Banco Santander SA shares. Shares are held in trust for the participants. There are no vesting conditions attached to these shares, and no restrictions as to when the shares can be removed from the trust. However, if a participant chooses to sell the shares before the end of five years, they will be liable for the taxable benefit received when the shares are taken out of the trust. The shares can be released from trust after five years free of income tax and national insurance contributions. At 31 December 2024, 3,662,718 shares were outstanding (2023: 3,937,473 shares).

d) Transformation Incentive Plan

Awards under this one-off long-term incentive plan were granted in 2021, 2022 and 2023 with performance assessed over the period 1 January 2021 to 31 December 2023. Awards for Material Risk Takers were granted half in cash and half in share based awards (linked to the Banco Santander SA share price), and will vest in accordance with regulatory requirements. The liability arising from share-based payment transactions, excluding any cash element was £5.2m (2023: £3.8m).

36. TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a) Remuneration of Directors and Other Key Management Personnel
The remuneration of the Directors and Other Key Management Personnel (KMP) of the Santander UK group is set out in aggregate below.

Directors' remuneration	2024 £	2023 £	2022 £
Salaries and fees	**4,879,413**	4,733,761	4,696,699
Performance-related payments	**2,871,476**	1,002,607	3,701,569
Other fixed remuneration (pension and other allowances & non-cash benefits)[2]	**516,442**	222,538	906,201
Expenses	**—**	—	27,715
Total remuneration	**8,267,331**	5,958,906	9,332,184
Compensation for loss of office[1]	**—**	—	172,856

Directors' and Other Key Management Personnel compensation	2024 £	2023 £	2022 £
Short-term employee benefits	**21,742,485**	18,449,360	22,627,595
Post-employment benefits	**868,368**	858,437	1,026,848
Compensation for loss of office[1]	**—**	—	1,713,256
Total compensation	**22,610,853**	19,307,797	25,367,699

(1) During 2024 and 2023, no compensation for loss of office was paid to Directors or Other KMPs (2022: two Directors, £172,856 and three Other KMPs, £1,540,400).
(2) Included in Other fixed remuneration is an employer pension contribution to a defined contribution scheme of £122,915 (2023: £nil).

In 2024, the remuneration, excluding pension contributions, of the highest paid Director, was £3,160,709 (2023: £2,640,491, 2022: £3,510,441) of which £1,431,612 (2023: £1,002,607, 2022: £1,900,506) was performance related. In 2024, the accrued defined benefit pension relating to the highest paid director was £nil (2023: £nil, 2022: £nil for a different individual) per annum.

b) Retirement benefits
Defined benefit pension schemes are provided to certain employees. See Note 28 for details of the schemes and the related costs and obligations. No director has a deferred pension benefit accruing under a defined benefit scheme. Ex-gratia pensions paid to former Directors of Santander UK plc in 2024, which have been provided for previously, amounted to £430,904 (2023: £327,462; 2022: £379,945). Since the Company became part of the Banco Santander group, the Board has not awarded any new ex-gratia pensions.

c) Transactions with Directors, Other Key Management Personnel and each of their connected persons
Directors, Other KMP (defined as the Executive Committee of Santander UK plc who served during the year) and their connected persons have undertaken the following transactions with the Santander UK group in the ordinary course of business.

	2024		2023	
	No.	£000	No.	£000
Secured loans, unsecured loans and overdrafts				
At 1 January	**8**	**1,075**	10	871
Net movements	**2**	**(79)**	(2)	204
At 31 December	**10**	**996**	8	1,075
Deposit, bank and instant access accounts and investments				
At 1 January	**17**	**1,702**	23	4,133
Net movements	**2**	**78**	(6)	(2,431)
At 31 December	**19**	**1,780**	17	1,702

In 2024 and 2023, no Director held any interest in the shares of any company in the Santander UK group and no Director exercised or was granted any rights to subscribe for shares in any company in the Santander UK group. In addition, in 2024 and 2023, no Directors exercised share options over shares in Banco Santander SA, the ultimate parent company of the Company.

Secured loans, unsecured loans and overdrafts are made to Directors, Other KMP and their connected persons, in the ordinary course of business, with terms prevailing for comparable transactions and on the same terms and conditions as applicable to other employees in the Santander UK group. Such loans do not involve more than the normal risk of collectability or present any unfavourable features. Amounts deposited by Directors, Other KMP and their connected persons earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees in the Santander UK group. Deposits, bank and instant access accounts and investments are entered into by Directors, Other KMP and their connected persons on normal market terms and conditions, or on the same terms and conditions as applicable to other employees in Santander UK group.

In 2024 two Directors had loans (2023: two Directors), with a principal amount of £180,000 outstanding at 31 December 2024 (2023: £495,281). In 2024, two Other KMPs had loans (2023: six), with a principal amount of £781,285 outstanding at 31 December 2024 (2023: £579,383).

In 2024 and 2023, there were no other transactions, arrangements or agreements with Santander UK in which Directors, Other KMP or their connected persons had a material interest. In addition, in 2024 and 2023, no Director had a material interest in any contract of significance with Santander UK other than a service contract or appointment letter, as appropriate.

37. RELATED PARTY DISCLOSURES

a) Parent undertaking and controlling party

The Company's immediate parent is Santander UK Group Holdings plc, a company incorporated in England and Wales. Its ultimate parent and controlling party is Banco Santander SA, a company incorporated in Spain. The smallest and largest groups into which the Santander UK group's results are included are the group accounts of Santander UK Group Holdings plc and Banco Santander SA respectively, copies of which may be obtained from Shareholder Relations, 2 Triton Square, Regent's Place, London NW1 3AN.

b) Transactions with related parties

Transactions with related parties during the year and balances outstanding at the year-end:

										Group
	Interest, fees and other income received			Interest, fees and other expenses paid			Amounts owed by related parties		Amounts owed to related parties	
	2024	2023	2022	**2024**	2023	2022	**2024**	2023	**2024**	2023
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	**£m**	£m
Ultimate parent	**(23)**	(8)	(710)	**138**	414	47	**587**	800	**(944)**	(1,062)
Immediate parent	**(7)**	(7)	(6)	**526**	504	308	**—**	—	**(12,392)**	(13,279)
Fellow subsidiaries	**(42)**	(38)	(69)	**228**	203	177	**68**	101	**(346)**	(370)
Joint ventures	**(258)**	(183)	(76)	**84**	55	17	**4,812**	4,486	**(1,567)**	(781)
	(330)	(236)	(861)	**976**	1,176	549	**5,467**	5,387	**(15,249)**	(15,492)

For more on this, see 'Balances with other Banco Santander group members' in the Risk review, Note 13. Loans and advances to customers, Note 22. Deposits by customers and Note 32. Other Equity Instruments. In addition, transactions with pension schemes operated by the Santander UK group are described in Note 28.

The above transactions were made in the ordinary course of business, on substantially the same terms as for comparable transactions with third party counterparties, and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features.

In November 2022, Santander (UK) Group Pension Scheme Trustees Limited entered into an unsecured committed liquidity facility with Santander UK plc for £600m for a two year period. On expiry, a new liquidity facility agreement was entered into for £300m with a maturity date of 4 November 2026. This facility provides an alternate source of short-term liquidity for day-to-day operational needs. At the balance sheet date, no drawings had been made from this facility and the entire facility remained undrawn.

38. FINANCIAL INSTRUMENTS

a) Fair value measurement and hierarchy

(i) Fair value measurement

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which Santander UK has access at that date. The fair value of a liability reflects its non-performance risk.

Financial instruments valued using observable market prices

If a quoted market price in an active market is available for an instrument, the fair value is calculated as the current exit price multiplied by the number of units of the instrument held.

Financial instruments valued using a valuation technique

In the absence of a quoted market price in an active market, management uses internal models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices. Chosen valuation techniques incorporate all the factors that market participants would take into account in pricing transactions.

Santander UK manages certain groups of financial assets and liabilities on the basis of its net exposure to either market risks or credit risk. As a result, it has elected to use the exception under IFRS 13 which permits the fair value measurement of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position for a particular risk exposure or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

(ii) Fair value hierarchy

Santander UK applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three categories are: quoted prices in active markets (Level 1), internal models based on observable market data (Level 2) and internal models based on other than observable market data (Level 3). If the inputs used to measure an asset or a liability fall to different levels within the hierarchy, the classification of the entire asset or liability will be based on the lowest level input that is significant to the overall fair value measurement of the asset or liability.

Santander UK categorises assets and liabilities measured at fair value within the fair value hierarchy based on the inputs to the valuation techniques as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in an active market that Santander UK can access at the measurement date. Active markets are assessed by reference to average daily trading volumes in absolute terms and, where applicable, by reference to market capitalisation for the instrument.

Level 2 Quoted prices in inactive markets, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3 Significant inputs to the pricing or valuation techniques are unobservable. These unobservable inputs reflect the assumptions that market participants would use when pricing assets or liabilities and are considered significant to the overall valuation.

Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Santander UK group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques at the end of the reporting period.

b) Valuation techniques
The main valuation techniques employed in internal models to measure the fair value of the financial instruments at 31 December 2024 and 2023 are set out below. In substantially all cases, the principal inputs into these models are derived from observable market data. Santander UK did not make any material changes to the valuation techniques and internal models it used in 2024, 2023 and 2022.

A. In the valuation of financial instruments requiring static hedging (for example interest rate, currency derivatives and property derivatives) and in the valuation of loans and advances and deposits, the 'present value' method is used. Expected future cash flows are discounted using the interest rate curves of the applicable currencies or forward house price index levels, as well as credit spreads. The interest rate curves are generally observable market data and reference yield curves derived from quoted interest rates in appropriate time bandings, which match the timings of the cash flows and maturities of the instruments.

B. In the valuation of equity financial instruments requiring dynamic hedging (principally equity securities, options and other structured instruments), proprietary local volatility and stochastic volatility models are used. These types of models are widely accepted in the financial services industry. Observable market inputs used in these models include the bid-offer spread, foreign currency exchange rates, volatility and correlation between indices. In limited circumstances, other inputs may be used in these models that are based on unobservable market data, such as the Halifax's UK HPI volatility, HPI forward growth, HPI spot rate, mortality and mean reversion.

C. In the valuation of financial instruments exposed to interest rate risk that require either static or dynamic hedging (such as interest rate swaps, caps and floors), the present value method (swaps), and Black's model (caps/floors) are used. These types of models are widely accepted in the financial services industry. The significant inputs used in these models are observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates. In limited circumstances, other inputs may be used in these models that are based on unobservable market data, such as HPI volatility, HPI forward growth, HPI spot rate and mortality.

D. In the valuation of linear instruments such as credit risk and fixed-income derivatives, credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk such as credit derivatives, the probability of default is determined using the credit default spread market. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair values of the financial instruments arising from Santander UK's internal models take into account, among other things, contract terms and observable market data, which include such factors as bid-offer spread, interest rates, credit risk, exchange rates, the quoted market price of equity securities, and volatility. In all cases, when it is not possible to derive a valuation for a particular feature of an instrument, management uses judgement to determine the fair value of the particular feature. In exercising this judgement, a variety of tools are used including proxy observable data, historical data and extrapolation techniques. Extrapolation techniques take into account behavioural characteristics of equity markets that have been observed over time, and for which there is a strong case to support an expectation of a continuing trend in the future. Estimates are calibrated to observable market prices when they become available.

Santander UK believes its valuation methods are appropriate and consistent with other market participants. Nevertheless, the use of different valuation methods or assumptions, including imprecision in estimating unobservable market inputs, to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date and the amount of gain or loss recorded for a particular instrument. Most of the valuation models are not significantly subjective, because they can be tested and, if necessary, recalibrated by the internal calculation of and subsequent comparison to market prices of actively traded securities, where available.

c) Control framework
Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with the Risk Department. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or verification is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, Santander UK will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The factors that are considered in this regard include:

– The extent to which prices may be expected to represent genuine traded or tradeable prices
– The degree of similarity between financial instruments
– The degree of consistency between different sources
– The process followed by the pricing provider to derive the data
– The elapsed time between the date to which the market data relates and the balance sheet date
– The manner in which the data was sourced.

The source of pricing data is considered as part of the process that determines the classification of the level of a financial instrument. Consideration is given to the quality of the information available that provides the current mark-to-model valuation and estimates of how different these valuations could be on an actual trade, taking into consideration how active the market is. For spot assets that cannot be sold due to illiquidity, forward estimates are discounted to estimate a realisable value over time. Adjustments for illiquid positions are regularly reviewed to reflect changing market conditions.

For fair values determined using a valuation model, the control framework may include as applicable, independent development and / or validation of: (i) the logic within the models; (ii) the inputs to those models; and (iii) any adjustments required outside the models. Internal valuation models are validated independently within the Risk Department. A validation report is produced for each model-derived valuation that assesses the mathematical assumptions behind the model, the implementation of the model and its integration within the trading system.

d) Fair values of financial instruments carried at amortised cost
The following tables analyse the fair value of the financial instruments carried at amortised cost at 31 December 2024 and 2023, including their levels in the fair value hierarchy - Level 1, Level 2 and Level 3. Cash and balances at central banks, which consist of demand deposits with the Bank of England, together with cash in tills and ATMs, have been excluded from the table as the carrying amount is deemed an appropriate approximation of fair value.

										Group
					2024					2023
			Fair value	**Fair**	**Carrying**			Fair value	Fair	Carrying
	Level 1	**Level 2**	**Level 3**	**value**	**value**	Level 1	Level 2	Level 3	value	value
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Assets										
Loans and advances to customers	**—**	**—**	**198,376**	**198,376**	**199,408**	—	—	205,917	205,917	207,435
Loans and advances to banks	**—**	**1,032**	**—**	**1,032**	**1,032**	—	1,080	—	1,080	1,080
Reverse repurchase agreements - non-trading	**—**	**10,342**	**—**	**10,342**	**10,338**	—	12,470	—	12,470	12,468
Other financial assets at amortised cost	**3,190**	**—**	**—**	**3,190**	**3,408**	144	—	—	144	152
	3,190	**11,374**	**198,376**	**212,940**	**214,186**	144	13,550	205,917	219,611	221,135
Liabilities										
Deposits by customers	**—**	**185**	**180,282**	**180,467**	**180,967**	—	71	190,561	190,632	190,850
Deposits by banks	**—**	**13,934**	**39**	**13,973**	**13,993**	—	20,342	40	20,382	20,332
Repurchase agreements - non-trading	**—**	**8,622**	**—**	**8,622**	**8,617**	—	8,413	—	8,413	8,411
Debt securities in issue	**21,173**	**12,910**	**1,771**	**35,854**	**35,673**	1,689	30,743	1,189	33,621	33,910
Subordinated liabilities	**1,129**	**10**	**1,622**	**2,761**	**2,385**	—	2,591	209	2,800	2,386
	22,302	**35,661**	**183,714**	**241,677**	**241,635**	1,689	62,160	191,999	255,848	255,889

The carrying value above of any financial assets and liabilities that are designated as hedged items in a portfolio (or macro) fair value hedge relationship excludes gains and losses attributable to the hedged risk, as this is included as a separate line item on the balance sheet.

Valuation methodology for financial instruments carried at amortised cost
The valuation approach to specific categories of financial instruments is described below.

Assets:
Loans and advances to customers
The approach to estimating the fair value of loans and advances to customers has been determined by discounting expected cash flows to reflect either current market rates or credit spreads relevant to the specific industry of the borrower. The determination of their fair values is an area of considerable estimation and uncertainty as there is no observable market and values are significantly affected by customer behaviour.

i) Advances secured on residential property
The fair value of the mortgage portfolio is calculated by discounting contractual cash flows by different spreads for each LTV Band, after taking account of expected customer prepayment rates. The spread is based on new business interest rates derived from publicly available competitor market information.

ii) Corporate loans
The determination of the fair values of performing loans is calculated by discounting the contractual cash flows and also deducting other costs relating to expected credit losses, cost of capital, credit risk capital, operational risk capital, cost of funding and operating costs.

iii) Other loans
These consist of unsecured personal loans, credit cards, overdrafts and consumer (auto) finance. The weighted average lives of these portfolios are typically short and relate to relatively new business. For unsecured personal loans and consumer (auto) finance loans, a small surplus or deficit has been recognised based on the differential between existing portfolio margins and the current contractual interest rates.

Loans and advances to banks
These comprise secured loans, short-term placements with banks including collateral and unsettled financial transactions. The secured loans have been valued based on a discounted spread for the term of the loans using valuation technique A as described above. The carrying amount of the other items is deemed a reasonable approximation of their fair value, as the transactions are very short-term in duration.

Reverse repurchase agreements - non-trading
The fair value of the reverse repurchase agreements - non trading has been estimated using valuation technique A as described above, using a spread appropriate to the underlying collateral.

Other financial assets at amortised cost
These consist of asset backed securities and debt securities. The asset backed securities can be complex products and in some instances are valued with the assistance of an independent, specialist valuation firm. These fair values are determined using industry-standard valuation techniques, including discounted cash flow models. The inputs to these models used in these valuation techniques include quotes from market makers, prices of similar assets, adjustments for differences in credit spreads, and additional quantitative and qualitative research. The debt security investments consist of a portfolio of government debt securities. The fair value of this portfolio has been determined using quoted market prices.

Liabilities:
Deposits by customers
The majority of deposit liabilities are payable on demand and therefore can be deemed short-term in nature with the fair value equal to the carrying value. Certain of the deposit liabilities are at a fixed rate until maturity. The deficit/surplus of fair value over carrying value of these liabilities has been estimated by reference to the market rates available at the balance sheet date for similar deposit liabilities of similar maturities. The fair value of such deposit liabilities has been estimated using valuation technique A as described above.

Deposits by banks
The fair value of deposits by banks, including repos, has been estimated using valuation technique A as described above, discounted at the appropriate credit spread.

Repurchase agreements - non-trading
The fair value of the repurchase agreements - non trading has been estimated using valuation technique A as described above, discounted at a spread appropriate to the underlying collateral.

Debt securities in issue and subordinated liabilities
Where reliable prices are available, the fair value of debt securities in issue and subordinated liabilities has been calculated using quoted market prices. Where reliable prices are not available, internal models have been used to determine fair values, which take into account, among other things, contract terms and observable market data, which include such factors as interest rates, credit risk and exchange rates. In all cases, when it is not possible to derive a valuation for a particular feature of an instrument, management uses judgement to determine the fair value of the particular feature. In exercising this judgement, a variety of tools are used including proxy observable data.

e) Fair values of financial instruments measured at fair value

The following tables summarise the fair values of the financial assets and liabilities accounted for at fair value at 31 December 2024 and 31 December 2023, analysed by their levels in the fair value hierarchy - Level 1, Level 2 and Level 3.

										Group
					2024				2023	
		Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Valuation technique
		£m	**£m**	**£m**	**£m**	£m	£m	£m	£m	
Assets										
Derivative financial instruments	Exchange rate contracts	**—**	**978**	**—**	**978**	—	1,129	—	1,129	A
	Interest rate contracts	**—**	**1,675**	**—**	**1,675**	—	2,216	1	2,217	A & C
	Inflation rate contracts	**—**	**70**	**—**	**70**	—	—	—	—	A
	Equity and credit contracts	**—**	**89**	**35**	**124**	—	98	35	133	B & D
	Netting	**—**	**(1,643)**	**—**	**(1,643)**	—	(2,047)	—	(2,047)	
		—	**1,169**	**35**	**1,204**	—	1,396	36	1,432	
Other financial assets at FVTPL	Loans and advances to customers	**—**	**—**	**44**	**44**	—	—	46	46	A
	Debt securities	**—**	**56**	**36**	**92**	—	167	49	216	A, B & D
		—	**56**	**80**	**136**	—	167	95	262	
Financial assets at FVOCI	Debt securities	**8,805**	**201**	**34**	**9,040**	8,293	188	—	8,481	D
		8,805	**201**	**34**	**9,040**	8,293	188	—	8,481	
Total assets at fair value		**8,805**	**1,426**	**149**	**10,380**	8,293	1,751	131	10,175	
Liabilities										
Derivative financial instruments	Exchange rate contracts	**—**	**430**	**—**	**430**	—	508	—	508	A
	Interest rate contracts	**—**	**1,894**	**—**	**1,894**	—	2,336	1	2,337	A & C
	Equity and credit contracts	**—**	**7**	**14**	**21**	—	11	9	20	B & D
	Netting	**—**	**(1,643)**	**—**	**(1,643)**	—	(2,047)	—	(2,047)	
		—	**688**	**14**	**702**	—	808	10	818	
Other financial liabilities at FVTPL	Debt securities in issue	**—**	**355**	**—**	**355**	—	369	—	369	A
	Structured deposits	**—**	**605**	**—**	**605**	—	426	—	426	A
	Zero Amortising Guaranteed Notes	**—**	**95**	**—**	**95**	—	104	—	104	D
		—	**1,055**	**—**	**1,055**	—	899	—	899	
Total liabilities at fair value		**—**	**1,743**	**14**	**1,757**	—	1,707	10	1,717	

Transfers between levels of the fair value hierarchy

In 2024 there were no significant (2023: £22m) transfers of financial instruments between levels of the fair value hierarchy.

f) Fair value adjustments

The internal models incorporate assumptions that Santander UK believes would be made by a market participant to establish fair value. Fair value adjustments are adopted when Santander UK considers that there are additional factors that would be considered by a market participant that are not incorporated in the valuation model.

Santander UK classifies fair value adjustments as either 'risk-related' or 'model-related'. The fair value adjustments form part of the portfolio fair value and are included in the balance sheet values of the product types to which they have been applied.

The fair value adjustments are set out in the following table:

		Group
	2024	2023
	£m	£m
Risk-related:		
- Bid-offer and trade specific adjustments	**6**	(6)
- Uncertainty	**4**	6
- Credit risk adjustment	**1**	1
- Funding fair value adjustment	**—**	1
	11	2
Day One profit	**—**	1
	11	3

Risk-related adjustments
Risk-related adjustments are driven, in part, by the magnitude of Santander UK's market or credit risk exposure, and by external market factors, such as the size of market spreads.

(i) Bid-offer and trade specific adjustments
Portfolios are marked at bid or offer, as appropriate. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the cost that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position. For debt securities, the bid-offer spread is based on a market price at an individual security level. For other products, the major risk types are identified. For each risk type, the net portfolio risks are first classified into buckets, and then a bid-offer spread is applied to each risk bucket based upon the market bid-offer spread for the relevant hedging instrument.

(ii) Uncertainty
Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, a range of possible values exists that the financial instrument or market parameter may assume, and an adjustment may be needed to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

(iii) Credit risk adjustment
Credit risk adjustments comprise credit and debit valuation adjustments. The credit valuation adjustment (CVA) is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default, and Santander UK may not receive the full market value of the transactions. The debit valuation adjustment (DVA) is an adjustment to the valuation of the OTC derivative contracts to reflect within the fair value the possibility that Santander UK may default, and that Santander UK may not pay full market value of the transactions.

Santander UK calculates a separate CVA and DVA for each Santander UK legal entity, and within each entity for each counterparty to which the entity has exposure. Santander UK calculates the CVA by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default i.e. LGD. Conversely, Santander UK calculates the DVA by applying the PD of the Santander UK group, to the expected positive exposure of the counterparty to Santander UK and multiplying the result by the LGD. Both calculations are performed over the life of the potential exposure.

For most products Santander UK uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

(iv) Funding fair value adjustment (FFVA)
The FFVA is an adjustment to the valuation of OTC derivative positions to include the net cost of funding uncollateralised derivative positions. This is calculated by applying a suitable funding cost to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio.

Day One profit adjustments
Day One profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs. Day One profit adjustments are calculated and reported on a portfolio basis.

The timing of recognition of deferred Day One profit and loss is determined individually. It is deferred until either the instrument's fair value can be determined using market observable inputs or is realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred Day One profit and loss. Subsequent changes in fair value are recognised immediately in the Income Statement without immediate reversal of deferred Day One profits and losses.

g) Internal models based on information other than market data (Level 3)

The table below provides an analysis of financial instruments valued using internal models based on information other than market data together with further details on the valuation techniques used for each type of instrument. Each instrument is initially valued at transaction price:

							Group
			Balance sheet value		Fair value movements recognised in profit/(loss)		
			2024	2023	**2024**	2023	2022
Balance sheet line item	Category	Financial instrument product type	**£m**	£m	**£m**	£m	£m
1. Derivative assets	Equity and credit contracts	Reversionary property interests	**35**	35	**6**	12	(8)
2. FVTPL assets	Loans and advances to customers	Roll-up mortgage portfolio	**22**	24	**(1)**	(2)	(18)
3. FVTPL assets	Loans and advances to customers	Other loans	**22**	22	**—**	4	(4)
4. FVTPL assets	Debt securities	Reversionary property securities	**36**	49	**2**	(3)	—
5. FVOCI assets	Debt instruments	Other securities	**34**	—	**—**	—	—
			149	130	**7**	11	(30)
Other Level 3 assets			**—**	1	**—**	(1)	10
Other Level 3 liabilities			**(14)**	(10)	**(5)**	(2)	3
Total net assets			**135**	121			
Total income/(expense)					**2**	8	(17)

Valuation techniques (Group)

1. Derivative assets – Equity and credit contracts

These are valued using a probability weighted set of HPI forward prices, which are assumed to be a reasonable representation of the increase in value of the Santander UK group's reversionary interest portfolio underlying the derivatives. The probability used reflects the likelihood of the homeowner vacating the property and is calculated from mortality rates and acceleration rates which are a function of age and gender, obtained from the relevant mortality tables. Indexing is felt to be appropriate due to the size and geographical dispersion of the reversionary interest portfolio. These are determined using HPI Spot Rates adjusted to reflect estimated forward growth. Non-seasonally adjusted (NSA) national and regional HPI are used in the valuation model to avoid any subjective judgement in the adjustment process, which is made by Markit, which publishes the Halifax House Price Index.

The inputs used to determine the value of the reversionary property derivatives are HPI spot, HPI forward growth and mortality rates. The principal pricing parameter is HPI forward growth.

2. FVTPL assets – Loans and advances to customers – roll-up mortgage portfolio

These represent roll-up mortgages (sometimes referred to as lifetime mortgages), which are an equity release scheme under which a property owner takes out a loan secured against their home. The owner does not have to make any interest payments during their lifetime in which case the fixed interest payments are rolled up into the mortgage. The loan or mortgage (capital and rolled-up interest) is repaid upon the owner's vacation of the property and the value of the loan is only repaid from the value of the property. This is known as a 'no negative equity guarantee'. Santander UK suffers a loss if the sale proceeds from the property are insufficient to repay the loan, as it is unable to pursue the homeowner's estate or beneficiaries for the shortfall.

The value of the mortgage 'rolls up' or accretes until the owner vacates the property. In order to value the roll-up mortgages, Santander UK uses a probability-weighted set of European option prices (puts) determined using the Black-Scholes model, in which the 'no negative equity guarantee' are valued as short put options. The probability weighting applied is calculated from mortality rates and acceleration rates as a function of age and gender, taken from mortality tables.

The inputs used to determine the value of these instruments are HPI spot, HPI forward growth, HPI volatility, mortality rates and repayment rates. The principal pricing parameter is HPI forward growth. The HPI forward growth rate used is unobservable and is the same as used in the valuation of Instrument 1 above. The other parameters do not have a significant effect on the value of the instruments.

3. FVTPL assets – Loans and advances to customers – other loans

These relate to loans to transport and education companies. The fair value of these loans is estimated using the 'present value' model based on a credit curve derived from current market spreads. Loan specific credit data is unobservable, so a proxy population is applied based on industry sector and credit rating.

4. FVTPL assets – Debt securities

These consist of reversionary property securities and are an equity release scheme, where the property owner receives an upfront lump sum in return for paying a fixed percentage of the sales proceeds of the property when the owner vacates the property. These reversionary property securities are valued using a probability-weighted set of HPI forward prices which are assumed to be a reasonable representation of the increase in value of Santander UK's reversionary interest portfolio underlying the derivatives. The probability weighting used reflects the probability of the homeowner vacating the property through death or moving into care and is calculated from mortality rates and acceleration factors which are a function of age and gender, obtained from the relevant mortality table.

The inputs used to determine the value of these instruments are HPI spot, HPI forward growth and mortality rates. The principal pricing parameter is HPI forward growth. Discussion of the HPI spot rate, HPI forward growth rate and mortality rates for this financial instrument is the same as Instrument 1 above. An adjustment is also made to reflect the specific property risk. Specific property risk is from the difference between the specific properties in the portfolio, and the average price as expressed in the regionally weighted house price index.

5. FVOCI assets – Debt instruments

These consist of asset-back securities where third-party prices are not available or reliable. The fair value is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings.

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy
The following table sets out the movements in Level 3 financial instruments in 2024 and 2023 :

	Group						
	Assets				Liabilities		
	Derivatives	Other financial assets at FVTPL	Financial assets at FVOCI	Total	Derivatives	Other financial liabilities at FVTPL	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2024	**36**	**95**	**—**	**131**	**(10)**	**—**	**(10)**
Total gains/(losses) recognised:							
Fair value movements[1]	**6**	**1**	**—**	**7**	**(5)**	**—**	**(5)**
Purchases	**—**	**—**	**34**	**34**	**—**	**—**	**—**
Settlements	**(7)**	**(16)**	**—**	**(23)**	**1**	**—**	**1**
At 31 December 2024	**35**	**80**	**34**	**149**	**(14)**	**—**	**(14)**
Gains/(losses) recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year[1]	**6**	**1**	**—**	**7**	**(5)**	**—**	**(5)**
At 1 January 2023	37	117	—	154	(12)	(3)	(15)
Total gains/(losses) recognised:							
Fair value movements[1]	10	—	—	10	(2)	—	(2)
Purchases	—	1	—	1	—	—	—
Netting[2]	—	(3)	—	(3)	—	—	—
Settlements	(11)	(20)	—	(31)	4	3	7
At 31 December 2023	36	95	—	131	(10)	—	(10)
(Losses)/gains recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year[1]	10	—	—	10	(2)	—	(2)

(1) This relates to the effect of netting on the fair value of the credit linked notes due to a legal right of set-off between the principal amounts of the senior notes and the associated cash deposits. For more, see 'ii) Credit protection entities' in Note 18.
(2) Fair value movements relating to derivatives and other financial assets at FVTPL are recognised in other operating income in the income statement.

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Effect of changes in significant unobservable assumptions to reasonably possible alternatives (Level 3)
As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data and, as such require the application of a degree of judgement. Changing one or more of the inputs to the valuation models to reasonably possible alternative assumptions would change the fair values significantly. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions.

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable input as described in the table below. The potential effects do not take into effect any hedged positions.

h) Maturities of financial liabilities and off-balance sheet commitments

The table below analyses the maturities of the undiscounted cash flows relating to financial liabilities and off-balance sheet commitments of Santander UK based on the remaining period to the contractual maturity date at the balance sheet date. Deposits by customers largely consist of retail deposits. This table is not intended to show the liquidity of Santander UK.

						Group
	On demand	Not later than 3 months	Later than 3 months and not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
2024	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities						
Derivative financial instruments	**—**	**165**	**136**	**317**	**173**	**791**
Other financial liabilities at fair value through profit or loss	**10**	**3**	**135**	**556**	**524**	**1,228**
Deposits by customers	**169,285**	**3,487**	**4,004**	**4,451**	**355**	**181,582**
Deposits by banks	**1,352**	**1,561**	**7,618**	**4,459**	**—**	**14,990**
Repurchase agreements – non trading	**—**	**7,894**	**762**	**—**	**—**	**8,656**
Debt securities in issue	**—**	**5,907**	**1,959**	**26,332**	**7,761**	**41,959**
Subordinated liabilities	**—**	**27**	**628**	**332**	**1,895**	**2,882**
Lease liabilities	**—**	**—**	**28**	**58**	**17**	**103**
Total financial liabilities	**170,647**	**19,044**	**15,270**	**36,505**	**10,725**	**252,191**
Off-balance sheet commitments given	**4,007**	**19,088**	**916**	**8,391**	**3,247**	**35,649**
2023						
Financial liabilities						
Derivative financial instruments	1	192	52	478	183	906
Other financial liabilities at fair value through profit or loss	—	8	7	538	520	1,073
Deposits by customers	179,732	3,217	3,447	4,690	288	191,374
Deposits by banks	1,454	1,749	573	18,084	—	21,860
Repurchase agreements – non trading	—	8,418	8	—	—	8,426
Debt securities in issue	—	6,380	4,908	17,029	12,216	40,533
Subordinated liabilities	—	27	83	876	2,470	3,456
Lease liabilities	—	—	29	70	23	122
Total financial liabilities	181,187	19,991	9,107	41,765	15,700	267,750
Off-balance sheet commitments given	3,795	15,205	1,408	7,399	3,621	31,428

As the above table is based on contractual maturities, no account is taken of call features related to subordinated liabilities. In addition, the repayment terms of debt securities may be accelerated in line with relevant covenants. Further, no account is taken of the possible early repayment of Santander UK's mortgage-backed non-recourse finance which is redeemed by Santander UK as funds become available from redemptions of the residential mortgages. Santander UK has no control over the timing and amount of redemptions of residential mortgages.

39. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following table shows the impact of netting arrangements on:

– All financial assets and liabilities that are reported net on the balance sheet
– All derivative financial instruments and repurchase agreements and other similar secured lending and borrowing agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for balance sheet netting.

The table identifies the amounts that have been offset in the balance sheet and those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements described above.

For derivative contracts, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur. For repurchase and reverse repurchase agreements and other similar secured lending and borrowing, the 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated if a counterparty defaults.

Santander UK engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables below do not represent Santander UK's total credit exposure.

								Group
	Amounts subject to enforceable netting arrangements							
	Effects of offsetting on balance sheet			Related amounts not offset				
	Gross amounts	Amounts offset	Net amounts on balance sheet	Financial instruments	Financial collateral(1)	Net amount	Assets not subject to enforceable netting arrangements(2)	Balance sheet total(3)
2024	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Derivative financial assets	**2,799**	**(1,643)**	**1,156**	**(407)**	**(711)**	**38**	**48**	**1,204**
Reverse repurchase, securities borrowing & similar agreements:								
– Amortised cost	**16,175**	**(5,837)**	**10,338**	**(63)**	**(10,275)**	**—**	**—**	**10,338**
Loans and advances to customers and banks(4)	**5,421**	**(635)**	**4,786**	**—**	**—**	**4,786**	**195,654**	**200,440**
	24,395	**(8,115)**	**16,280**	**(470)**	**(10,986)**	**4,824**	**195,702**	**211,982**
Liabilities								
Derivative financial liabilities	**2,325**	**(1,643)**	**682**	**(407)**	**(127)**	**148**	**20**	**702**
Repurchase, securities lending & similar agreements:								
– Amortised cost	**14,454**	**(5,837)**	**8,617**	**(63)**	**(8,554)**	**—**	**—**	**8,617**
Deposits by customers and banks(4)	**635**	**(635)**	**—**	**—**	**—**	**—**	**194,960**	**194,960**
	17,414	**(8,115)**	**9,299**	**(470)**	**(8,681)**	**148**	**194,980**	**204,279**
2023								
Assets								
Derivative financial assets	3,429	(2,047)	1,382	(471)	(823)	88	50	1,432
Reverse repurchase, securities borrowing & similar agreements:								
– Amortised cost	15,625	(3,157)	12,468	(118)	(12,350)	—	—	12,468
Loans and advances to customers and banks(4)	5,363	(790)	4,573	—	—	4,573	203,942	208,515
	24,417	(5,994)	18,423	(589)	(13,173)	4,661	203,992	222,415
Liabilities								
Derivative financial liabilities	2,838	(2,047)	791	(471)	(161)	159	27	818
Repurchase, securities lending & similar agreements:								
– Amortised cost	11,568	(3,157)	8,411	(118)	(8,293)	—	—	8,411
Deposits by customers and banks(4)	4,218	(790)	3,428	—	—	3,428	207,754	211,182
	18,624	(5,994)	12,630	(589)	(8,454)	3,587	207,781	220,411

(1) Financial collateral is reflected at its fair value but has been limited to the net balance sheet exposure so as not to include any over-collateralisation.
(2) This column includes contractual rights of set-off that are subject to uncertainty under the laws of the relevant jurisdiction.
(3) The balance sheet total is the sum of 'Net amounts reported on the balance sheet' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.
(4) The amounts offset within loans and advances to customers/banks or deposits by customers/banks relate to offset mortgages which are classified as either and that are subject to netting.

40. ASSETS HELD FOR SALE

Sale of property
Buckingham House, Bletchley, was sold in 2024 with a gain of £1m. The sale of Santander House, Milton Keynes is expected to complete in 2025. As such, the Santander UK group classified Santander House, which is included in the Corporate Centre segment and carried at the sales price, as held for sale.

At 31 December 2024 and 31 December 2023, assets held for sale comprised:

	2024 **£m**	2023 £m
Assets		
Property, plant and equipment	**12**	**13**
	12	**13**

41. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 31 December 2024 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Shareholder information

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Subsidiaries and related undertakings

In accordance with Section 409 of the Companies Act 2006, details of the Company's subsidiaries and related undertakings at 31 December 2024 are set out below.

Subsidiaries

All subsidiaries are owned 100% and consolidated by Santander UK.

Incorporated and registered in England and Wales:

Name of subsidiary	Registered office[(1)]	Direct/Indirect ownership	Share class through which ownership is held	Proportion of ownership interest %
2 & 3 Triton Limited	A	Direct	Ordinary £1	100
A & L CF June (3) Limited (In Liquidation)	E	Indirect	Ordinary £1	—
A & L CF September (4) Limited (In Liquidation)	E	Indirect	Ordinary £1	—
Abbey National Nominees Limited	A	Direct	Ordinary £1	100
Abbey National Property Investments	A	Direct	Ordinary £1	100
Alliance & Leicester Personal Finance Limited	A	Direct	Ordinary £1	100
Cater Allen Limited	A	Indirect	Ordinary £1	—
First National Tricity Finance Limited	A	Indirect	Ordinary £1	—
Santander Asset Finance (December) Limited	A	Indirect	Ordinary £1	—
Santander Asset Finance plc	A	Direct	Ordinary £0.10	100
Santander Cards Limited	A	Indirect	Ordinary £1	—
Santander Cards UK Limited	A	Direct	Ordinary £1	100
Santander Consumer (UK) plc	B	Direct	Ordinary £1	100
Santander Consumer Credit Services Limited	A	Indirect	Ordinary £1	—
Santander Estates Limited	F	Direct	Ordinary £1	100
Santander Global Consumer Finance Limited	A	Indirect	Ordinary £0.0001	—
Santander Guarantee Company	A	Direct	Ordinary £1	100
Santander Lending Limited	A	Direct	Ordinary £1	100
Santander Private Banking UK Limited	A	Direct	Ordinary £1	100
Santander UK Operations Limited	A	Direct	Ordinary £1	100
Santander UK (Structured Solutions) Limited	A	Direct	Ordinary £0.01	100
			Preference £0.01	100
Santander UK Technology Limited	A	Direct	Ordinary £1	100
The Alliance & Leicester Corporation Limited (In Liquidation)	E	Direct	Ordinary £1	100
Time Retail Finance Limited (In Liquidation)	E	Indirect	Ordinary £1	—
			Ordinary £0.0001	—

(1) Refer to the key at the end of this section for the registered office address.

Incorporated and registered outside England and Wales:

Name of subsidiary	Registered office[(1)]		Share class through which ownership is held	Proportion of ownership interest
Santander Cards Ireland Limited	H	Indirect	Ordinary €1	100
			Ordinary €1.27	100
Santander ISA Managers Limited	G	Direct	Ordinary £1	100

(1) Refer to the key at the end of this section for the registered office address, including the country.

Subsidiaries benefitting from an audit exemption according to section 479A of the Companies Act 2006

Name of subsidiary	Company number
2 & 3 Triton Limited	06024916
Santander Asset Finance (December) Limited	01562865
Santander Estates Limited	02304569
Santander Global Consumer Finance Limited	00048468
Santander UK Operations Limited	04137550
Santander UK Technology Limited	05212726
Santander Private Banking UK Limited	02582000

Other subsidiary undertakings

All entities are registered in England and Wales except for Motor Securities 2018-1 Designated Activity Company which is registered in Ireland.

The Company and its subsidiaries do not own directly, or indirectly, any of the share capital of any of the entities, however they are consolidated by the Santander UK group because the substance of the relationship indicates control, as described in Note 1 to the Consolidated Financial Statements.

Name of entity	Registered office(1)	Name of entity	Registered office(1)
Abbey Covered Bonds (Holdings) Limited	D	Holmes Master Issuer plc	A
Abbey Covered Bonds (LM) Limited	D	Holmes Trustees Limited	A
Abbey Covered Bonds LLP	A	MAC No.1 Limited	A
Fosse (Master Issuer) Holdings Limited	C	Motor 2016-1 Holdings Limited	C
Fosse Funding (No.1) Limited	C	Motor Securities 2018-1 Designated Activity Company (in liquidation)	J
Fosse Master Issuer plc	C	Repton 2023-1 Limited	C
Fosse Trustee (UK) Limited	A		
Holmes Funding Limited	A		
Holmes Holdings Limited	A		

(1) Refer to the key at the end of this section for the registered office address.

Related undertakings

All of these entities, which are registered in England and Wales, are accounted for by the equity method of accounting, with 50% ownership being held.

Name of entity	Registered office(1)	Direct/ Indirect ownership	Share class through which ownership is held	Proportion of ownership interest %
Hyundai Capital UK Limited	I	Indirect	Ordinary £1	—
Volvo Car Financial Services UK Limited	K	Indirect	Ordinary £1	—

(1) Refer to the key at the end of this section for the registered office address.

Overseas branches

The Company has no overseas branches.

Key of registered office addresses

A 2 Triton Square, Regent's Place, London NW1 3AN
B Santander House, 86 Station Road, Redhill RH1 1SR
C 1 Bartholomew Lane, London EC2V 2AX
D Wilmington Trust SP Services (London) Limited, 1 Kings Arms Yard, London EC2R 7AF
E Griffins Tavistock House North, Tavistock Square, London, WC1H 9HR
F Carlton Park, Narborough, Leicester LE19 0AL
G 287 St. Vincent Street, Glasgow, Scotland G2 5NB
H 3 Dublin Landings, North Wall Quay, Dublin 1, Ireland
I London Court, 39 London Road, Reigate RH2 9AQ
J Trinity House, Charleston Road, Ranelagh, Dublin 6, Dublin, Ireland
K Scandinavia House, Norreys Drive, Maidenhead, Berkshire SL6 4FL

Forward-looking statements

The Company and its subsidiaries (together Santander UK) may from time to time make written or oral forward-looking statements. The Company makes written forward-looking statements in this Annual Report and may also make forward-looking statements in its periodic reports to the SEC on Forms 20-F and 6-K, in its offering circulars and prospectuses, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Examples of such forward-looking statements include, but are not limited to:

– projections or expectations of revenues, costs, profit or (loss), earnings or (loss) per share, dividends, capital structure or other financial items or ratios
– statements of plans, objectives or goals of Santander UK or its management, including those related to products or services
– statements of future economic performance, and
– statements of assumptions underlying such statements

Words such as ‘believes’, ‘anticipates’, ‘expects’, ‘intends’, ‘aims’, ‘plans’, ‘targets’ and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Santander UK cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by Santander UK or on its behalf. Some of these factors, which could affect Santander UK’s business, financial condition and/or results of operations, are considered in detail in the Risk review, and include:

– the effects of geopolitical tensions, regional conflicts and wars
– the effects of UK economic conditions and disruptions in the global economy and global financial markets
– the effects of the UK’s withdrawal from the European Union
– the effects of climate change
– the effects of competition from other financial institutions, including new entrants into the financial services sector
– Santander UK’s ability to maintain its competitive position depending, in part, on competition from new entrants and other financial institutions in the sector, the success of new products and services Santander UK offers its customers and its ability to continue offering products and services from third parties
– the extent to which Santander UK’s loan portfolio is subject to risk of prepayment
– the risk of damage to Santander UK's reputation
– the risk that Santander UK is unable to manage the growth of its operations
– the extent to which regulatory capital, liquidity and leverage requirements, and any changes to these requirements may affect Santander UK
– liquidity constraints and Santander UK’s ability to access funding on acceptable financial terms
– the effects of an adverse movement in external credit ratings assigned to Santander UK or any of its debt securities
– the effects of any changes in the pension liabilities and obligations of Santander UK
– the effects of fluctuations in interest rates and other market risks
– the extent to which Santander UK may be required to record negative changes in positions recorded at fair value for its financial assets due to changes in market conditions
– Santander UK’s ability to control the level of non-performing or poor credit quality loans and whether Santander UK’s loan loss reserves are sufficient to cover loan losses
– the risk that the value of the collateral, including real estate, securing Santander UK’s loans may not be sufficient and that Santander UK may be unable to realise the full value of the collateral securing its loan portfolio
– the effects of the financial services laws, regulations, government oversight, administrative actions and policies and any changes thereto in each location or market in which Santander UK operates
– the risk that Santander UK may become subject to the provisions of the Banking Act 2009, including the bail-in and write-down powers thereunder
– the effects of any failure to comply with laws and regulations relating to anti-money laundering, anti-terrorism, anti-bribery and corruption, sanctions and preventing the facilitation of tax evasion, or the risk of any failure to prevent, detect or deter any illegal or improper activities
– the effects of taxation (and any changes to tax) in each location in which Santander UK operates
– Santander UK’s exposure to any risk of loss and damage from civil litigation and/or criminal legal and regulatory proceedings
– the risk of failing to successfully apply or to improve Santander UK’s credit risk management systems
– the risk that Santander UK’s data management policies and procedures are not sufficiently robust
– the effect of cybersecurity on Santander UK’s business
– the risks related to the developing fields of artificial intelligence and machine learning
– the risks arising from any non-compliance with Santander UK’s regulations, policies, from any employee misconduct, human error, negligence and deliberate acts of harm or dishonesty, including fraud
– the risk of failing to effectively manage changes in Santander UK’s information technology infrastructure and management information systems in a timely manner
– Santander UK’s exposure to unidentified or unanticipated risks despite its risk management policies, procedures and methods and Santander UK’s exposure to risks related to errors in its risk modelling
– the risks arising from Santander UK’s reliance on third parties for important infrastructure support, products and services
– the ability of Santander UK to recruit, retain and develop appropriate senior management and skilled personnel
– the effects of any inaccuracy within the judgements and accounting estimates which underpin aspects of the financial statements, and the consequent risk of any material misstatement of Santander UK’s financial results
– the effect of any change in accounting standards

Please refer to our latest filings with the SEC (including, without limitation, the Risk Factors section in this Annual Report on Form 20-F for the year ended 31 December 2024) for a discussion of certain risk factors and forward-looking statements. Undue reliance should not be placed on forward-looking statements when making decisions with respect to any Santander UK member and/or its securities. Investors and others should take into account the inherent risks and uncertainties of forward-looking statements and should carefully consider the foregoing non-exhaustive list of important factors. Forward-looking statements speak only as of the date on which they are made and are based on the knowledge, information available and views taken on the date on which they are made; such knowledge, information and views may change at any time. Santander UK does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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Risk factors

An investment in Santander UK plc (the Company) and its subsidiaries (us, we or Santander UK) involves a number of risks, the material ones of which are set out below.

Geopolitical and macroeconomic risks

Santander UK's operations, financial condition and prospects are materially impacted by economic conditions in the UK and disruptions in the global economy and global financial markets

Santander UK's business activities are concentrated in the UK, where it offers a range of banking and financial products and services to UK retail and corporate customers. As a consequence, Santander UK's operations, financial condition and prospects are significantly affected by general economic and political conditions in the UK.

The UK economy had a strong start to 2024 with quarterly growth above pre-pandemic levels for the first and second quarters. However, growth slowed in the second half of 2024 due, in part, to uncertainty around the UK Government's Autumn Budget which reduced confidence. As such, there remains a risk that the UK economy will see lower growth in 2025 with interest rates falling less quickly than expected, Brexit continuing to impact exports and geopolitical events disrupting markets and lowering business and household confidence. Interest rates have risen sharply since 2022 and although interest rates have started to decrease, there remains a risk that increases will be needed in the future. In particular there remains a risk that increases will be needed if rising inflation returns. This would put further pressure on household finances for some of Santander UK's customers due to a sharp rise of the costs, or a continuation of higher costs for refinancing their mortgage or a continuation of these higher costs and significantly higher costs of borrowing overall. Continued higher mortgage rates could also dampen demand in the housing market, leading to further drops in new business or steeper falls in house prices, reducing the value of the collateral Santander UK holds against mortgages. These risks could create further downward pressure on the economy; for example: a large surge in business failures with knock-on effects for the labour market resulting in high rates of unemployment that affect the ability of customers to pay their debts, which could also contribute to negative multiplier effects through delayed investment and spending; and a stronger push towards protectionism as governments look to protect home industries. This could also lead to a longer-term turn in the credit cycle with a broader contraction of credit as lenders attempt to protect themselves from increased losses. In addition, the UK economy and banking sector are impacted by the political environment and related government policy. For example, there will be increased business cost as a result of increased employer's National Insurance, which will impact Santander UK's customers and the wider economy.

In particular, Santander UK faces, among others, the following risks in any period of economic uncertainty (including the effect of those risks on gross domestic product, inflation, unemployment and house prices):

- Reduced demand for Santander UK's products and services - particularly the potential for reduced mortgage market volumes.
- Inability of Santander UK's borrowers to make payments on their loans in full or on time.
- The degree of uncertainty concerning economic conditions may adversely affect the accuracy of Santander UK's estimates, which may, in turn, impact the reliability of the IFRS 9 model and process to determine the sufficiency of Santander UK's loan loss allowances.
- Lower house or other asset prices, reducing the value of collateral Santander UK holds on mortgage and other lending.
- Higher and more persistent inflation, reducing Santander UK's profitability and increasing the cost of living for Santander UK's borrowers.
- The value and liquidity of the portfolio of investment securities that Santander UK holds may be adversely affected.

Santander UK is also exposed to:

- Broader geopolitical issues, which remain heightened with the potential for a further pushback against globalism. Further moves towards unilateralism may also cause increased tension and/or hostilities between nations, which could negatively impact the global economy and financial markets;
- The continuation or escalation of conflicts between Russia and Ukraine, and in Israel and the Middle East, including the spread of these conflicts to other countries in these regions, and/or the emergence of future regional conflicts and wars with global impact, which could lead to further increases in energy prices (in particular, gas prices, if supplies to Europe remain interrupted) and heightened inflationary pressure;
- US political risks and possible impacts of the new administration, including increased deregulation, leading to increased investor focus on UK banking sector profitability and increased competitive pressures on non-US banks such as Santander UK;
- Climate change risks which could result in material damage to Santander UK's customers' property or businesses or have a material impact on Santander UK's customers' business models under a transition to a low carbon economy; and
- Social unrest as a result of severe economic disruption.

Adverse changes in the credit quality of Santander UK's borrowers or counterparties or a general deterioration in UK economic conditions could reduce the recoverability and value of Santander UK's assets and require an increase in its level of provisions for expected credit losses. There can be no assurance that Santander UK will not have to increase its provisions for loan losses in the future as a result of increases in non-performing loans or for other reasons beyond its control. Material increases in Santander UK's provision for loan losses and write-off or charge-offs have had and could again have a material adverse effect on its operations, financial condition and prospects. Any significant reduction in the demand for Santander UK products and services, a sustained downturn in the UK economy or changes in central bank interest rates could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Economic instability and downturns beyond the UK may also impact the UK economy as a whole. Europe's manufacturing base is heavily dependent upon natural gas, and any further restriction in supply and significantly increased costs are expected to have a material adverse impact on the Eurozone economy, which could lead to disruption and volatility in the global financial markets, as a result of debt sustainability concerns. This could have a material adverse impact on Santander UK, including Santander UK's ability to access capital and liquidity on financial terms acceptable to Santander UK, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

A recessionary economic environment could also lead to rating downgrades affecting the UK, Santander UK or its customers, investments and/or instruments, causing capital impacts due to increased RWAs, an increase in the volatility of wholesale markets and the cost of funding.

The UK's withdrawal from the European Union (Brexit) could continue to have a material adverse effect on Santander UK's operations, financial condition and prospects

The UK ceased to be a member of the EU in 2020 and a limited trade deal was agreed between the UK and the EU with the relevant new regulations coming into force on 1 January 2021. The trade deal, however, did not include agreements on certain areas such as financial services and data adequacy.

The Financial Services and Markets Act 2023 (FSMA 2023) established a framework for HM Treasury (HMT) to revoke EU-derived financial services legislation and for it to be replaced by Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) rules. This process of revoking and replacing retained EU law may result in material changes to the UK regulatory regime and the impact of these regulatory developments and changes on Santander UK is difficult to predict.

In 2021, the EU Commission adopted an adequacy decision for the UK, allowing for the continued flow of personal data between the EU and the UK without additional safeguards or permissions. However, this decision came with an expiry date of 27 June 2025, if not renewed. If the EU Commission's adequacy decision for the UK is not renewed, this could impact personal data flows from entities in the EU to Santander UK in the UK. In the event this occurs, it may result in additional costs to Santander UK in order to facilitate those data flows, to the extent those data flows are impacted, with the UK being subject to EU transfer rules as a non-adequate jurisdiction.

The continuing impact of Brexit on the wider UK economy may have a material adverse effect on Santander UK's customers and counterparties and have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK faces risks from the impact of climate change, which could materially affect Santander UK's business operations, reputation, clients and customers, as well as the creditworthiness of its counterparties

Climate risk is a risk that manifests through other principal risks. Climate change could expose Santander UK to financial risk either through its physical or transitional effects. Transition risks could be further accelerated by the occurrence of changes in the physical climate.

Physical risks from climate change arise from climate and weather-related events, such as heatwaves, droughts, floods, landslides, storms, sea level rise, coastal erosion and subsidence. These risks could impact Santander UK's customers in the form of lower revenues due to transport problems, supply chain disruption and other impacts that strain production and lower revenues and higher costs for its customers owing to workers' health, safety, absenteeism and other workforce-related problems. These risks could also lead to damage to Santander UK's customers' property or operations, which could impair asset values and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in Santander UK's portfolios. In addition, Santander UK's premises and resilience may also suffer physical damage due to weather-related events leading to increased costs for Santander UK.

Transition risks arise from the process of adjustment towards a low-carbon economy. Santander UK may face significant and rapid developments in stakeholder expectations, policy, law and regulation which could impact the lending activities Santander UK undertakes, as well as the risks associated with its lending portfolios, and the value of Santander UK's financial assets. Reputation risk could arise from a failure to meet changing societal, investor or regulatory demands, including contagion risk from the wider Banco Santander SA Group. In particular, the last few years have seen an increase in upcoming climate-related disclosure requirements that Santander UK and Banco Santander SA (as the ultimate parent of Santander UK) will need to comply with (for example, the IFRS Sustainability Disclosure Standards as developed by the International Sustainability Standards Board (ISSB), the European Banking Authority's (EBA) Environmental, Social, and Governance (ESG) Pillar 3 disclosures rules and the EU Corporate Sustainability Reporting Directive (CSRD) and the FCA's Sustainability Disclosure Requirements regime.

Banco Santander SA has an ambition to become a net zero bank by 2050. As such, Santander UK Group Holdings plc is implementing and reporting at a group level (including Santander UK plc) against the TCFD recommendations and has disclosed targets to manage climate-related risks and opportunities. Santander UK continues to enhance its disclosures to meet future requirements such as the IFRS Sustainability Disclosure Standards. Santander UK continues to embed climate considerations into its strategy, business model, the products and services it provides to customers and its financial and non-financial risk management processes (including processes to measure and manage the various financial and non-financial risks Santander UK faces as a result of climate change). Santander UK does this primarily through its internal transition plan, which is aligned to the UK Government's Transition Plan Taskforce guidelines. Within this Santander UK assesses the internal and external factors that will impact the alignment of its lending portfolios to the UN Paris Agreement, including the acceleration of the UK Government's clean power 2030 action plan. Failure to adequately embed risks associated with climate change into its risk framework to appropriately measure, manage and disclose the various financial and operational risks it faces as a result of climate change, or failure to adapt Santander UK's strategy and business model to the changing regulatory requirements and market expectations on a timely basis, may have a material and adverse impact on Santander UK's level of business growth, competitiveness, profitability, capital requirements, cost of funding, and financial condition. Achieving Santander UK's climate-related ambitions will also depend on a number of factors outside its control, including (among other things) availability of data to measure and assess the climate impact on Santander UK's customers, advancements of low-carbon transition technologies and public policies to support the energy transition in the markets where Santander UK operates. Santander UK continues to assess this as part of its transition planning process. If these external factors and other changes do not occur, or do not occur on a timely basis, Santander UK may fail to achieve its climate-related ambitions and this could have a material adverse effect on Santander UK's business growth, competitiveness, profitability, financial condition and reputation.

For further details on Santander UK's approach to climate change see "Sustainability – Taskforce on Climate-related Financial Disclosures (TCFD)" in the Santander UK Group Holdings plc Annual Report on Form 20-F.

Business model risks

Santander UK is exposed to competition from other financial institutions, including new entrants into the financial services sector

The markets for UK financial services are very competitive and Santander UK has seen strong competition from banks, building societies and other established financial service providers. In addition, Santander UK faces competition from a number of new entrants, non-banks and other providers, including technology companies and large retail companies with strong brand recognition, particularly in payments.

The UK Government and regulators are actively supporting the emergence of new entrants into the UK financial services market. In addition, the UK Government is mandating new developments in Open Banking (as described below) which is a data sharing initiative making certain customer account balance and transaction data available to third parties through use of application programming interfaces and is expected to mandate other developments in the payments landscape via the "National Payments Vision". The internet and mobile technologies are also changing customer behaviour and the competitive environment. There has been a steep rise in customer use of mobile banking in recent years and the Covid-19 pandemic accelerated the strong trends towards customer digital adoption, commercial and customer uptake of Open Banking, and regulatory and industry initiatives to develop commercial variable recurring payments, Open Finance which extends the Open Banking ecosystem to enable data sharing related to additional financial services products and services and Smart Data which will establish data sharing initiatives in various sectors outside of financial services, are likely to significantly change the technological and competitive landscape. Commercial propositions based upon Open Banking are now beginning to gain traction. The UK Government has confirmed, through the publication of its National Payments Vision, that it is committed to developing the necessary regulatory framework and infrastructure needed to develop these new ecosystems. Due to Santander UK's concentration in mortgages, it has a structural balance sheet disadvantage compared to larger peers with more diversified assets and lower costs of deposits. This results in a lower NIM and fee income for Santander UK. However, Santander UK has an ambitious plan to transform its business

and deliver structural profitability throughout the lending cycle. In particular, Santander UK is investing in a multi-year transformation, which includes targets to diversify its revenue streams, digitalise product channels and automate physical channels, to meet customer preferences and protect its competitive position. However, Santander UK's asset mix will continue to remain weighted towards mortgages and as a result its NIM is expected to be lower than that of its larger peers. Santander UK has made inroads in its transformation, and management expects to consider other ways to accelerate the shift in its business mix, including acquisitions and partnership opportunities. However, there can be no assurance that the transformation will deliver the benefits sought from it or that the transformation will progress on the timescale and trajectory currently anticipated. Management expects competition to remain strong, with larger peers investing heavily in growth, diversification (including bolt-on acquisitions) and efficiency programmes, and with smaller players looking to build scale through acquisitions.

The recent consolidation drive via acquisitions is creating larger and more diversified competitors and further exacerbates competitive threats. Furthermore, digital banks continue to build their customer base and expand product offerings, diversifying and increasing the competitiveness within the banking sector. Any of these competition-related factors or a combination thereof could result in a significant reduction in the profit of Santander UK. Santander UK gives consideration to the competitive position in its management actions, such as pricing, product decisions and its business model. Increasing competition could mean that Santander UK increases rates offered on deposits or lowers the rates it charges on loans, or changes its cost base, any of which could have a material adverse effect on its operations, financial condition and prospects.

The changing interest rate environment and higher cost of living may result in competitors reacting quite differently in relation to, amongst other factors, loan pricing, availability, deposit pricing and investment decisions. This has already had, and will continue to have, an impact on the competitive environment and future decisions of Santander UK.

Santander UK’s ability to maintain its competitive position depends, in part, on the success of new products and services it offers its customers and its ability to continue offering products and services from third parties

The success of Santander UK’s operations and its profitability depends, in part, on the success of new products and services it offers to customers and the way in which it offers and provides its existing products and services. The increasing availability of a wide range of digital/online products and services for customers within the market, requires banks like Santander UK to enhance their offerings in order to both retain and attract new customers. However, Santander UK cannot guarantee that its products and services or the way in which it offers or provides its products and services, will continue to meet the needs or preferences of customers as these may change over time.

Santander UK may not develop new products, or amend the key features of existing products, in a way that meet its customers’ changing needs in a timely manner. As Santander UK expands the range of its products and services, some of which may be at an early stage of development in the UK market, it will be exposed to known, new and potentially increasingly complex risks, including conduct, reputational and operational risk as well as development costs. Equally, Santander UK may not take appropriate action to change or withdraw products when they become obsolete, outdated or unattractive reducing their competitiveness and potentially increasing risks in relation to legacy customer journeys and systems.

The use of third parties by Santander UK to offer products or services or to support part of the customer journey presents additional risks to its business, particularly in terms of data management and security. However, if Santander UK were not to engage with third parties to offer specialist services in this way, strategic and competitive opportunities and advantages may be missed.

Any or all of the above factors, individually or collectively, could have a material adverse effect on Santander UK’s operations, financial condition and prospects.

Santander UK’s loan portfolio is subject to risk of prepayment

Santander UK’s loan portfolio is subject to prepayment risk resulting from the ability of a borrower or issuer to prepay a debt obligation prior to maturity. As a result, Santander UK could be required to amortise net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income and there is a risk that Santander UK is not able to accurately forecast amortisation schedules for these purposes which may affect its profitability. Prepayment risk also has a significant adverse impact on credit card and mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch with Santander UK’s funding obligations and reinvestment at lower yields. The risk of prepayment and its impact on Santander UK's ability to accurately forecast amortisation schedules is inherent in Santander UK’s commercial activity and an increase in prepayments or a failure to accurately forecast amortisation schedules could have a material adverse effect on Santander UK’s operations, financial condition and prospects.

Damage to Santander UK’s reputation could cause harm to its business prospects

Maintaining a positive reputation is critical to attracting and retaining customers, investors and employees and conducting business transactions with counterparties. Damage to Santander UK’s reputation could materially and adversely affect Santander UK’s perception among current and potential clients, investors, vendors, partners, regulators and other third parties, which in turn could have a material adverse effect on Santander UK’s operating results, financial condition, and prospects as well as damage Santander UK’s customers' and investors' confidence and the market price of Santander UK’s securities. Damage to the reputation of Santander UK or Banco Santander SA (as the ultimate parent of Santander UK), the reputation of affiliates operating under the ‘Santander’ brand or any of its other brands could therefore cause significant harm to Santander UK’s business and prospects. Harm to Santander UK’s reputation can arise directly or indirectly from numerous sources, including, among others, employee misconduct (including the possibility of employee fraud), litigation, regulatory interventions and enforcement action, negative political coverage, failure to deliver minimum standards of service and quality, loss or compromise of customer data, disruption to service due to a cyberattack, wider IT failures, compliance failures, third-party fraud, financial crime, breach of legal or regulatory requirements, unethical behaviour (including adopting inappropriate sales and trading practices), and the activities of customers, suppliers and counterparties and the perception of the financial services industry as a whole. Further, negative publicity regarding Santander UK, whether true or not, may result in harm to Santander UK’s operations, financial condition and prospects. Santander UK’s reputation could also suffer if Santander UK is the subject of negative coverage in the media or from political stakeholders, whether it has merit or not.

If Santander UK is unable to manage the growth of its operations, this could have a material adverse impact on its profitability

Santander UK allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its businesses when necessary. From time to time, Santander UK evaluates acquisition, disposal, and partnership opportunities that it believes could offer additional value to its shareholders and customers and are consistent with its business strategy. However, Santander UK may not be able to identify suitable acquisition targets or partnerships and may not be able to execute transactions or form partnerships on favourable terms, or at all. Furthermore, participating in those that do not complete can be disruptive. Santander UK bases its assessment of potential acquisitions and partnerships on limited and potentially inexact information and on assumptions with respect to future performance, valuation, operations, profitability and other matters that may prove to be incorrect. Santander UK’s ability to benefit from any such acquisitions and partnerships will depend in part on its successful integration of those businesses. Such integration entails significant risks such as challenges in retaining the customers and employees of the acquired businesses, unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims and regulatory investigations. Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond Santander UK’s control. Santander UK can give no assurances that its expectations with regard to integration and synergies will materialise.

Santander UK cannot provide assurance that it will, in all cases, be able to manage its growth effectively or to implement its strategic growth decisions, including its ability to:

- Manage efficiently the operations and employees of the businesses
- Maintain or grow its existing customer base
- Successfully execute its strategic priorities (i.e. deliver on time in full)
- Carry out due diligence and assess the value, strengths and weaknesses of investment or acquisition candidates
- Finance strategic opportunities, investments or acquisitions
- Fully integrate strategic investments, or newly-established entities or acquisitions, in line with its strategy
- Align its current information technology systems adequately with those of an enlarged group
- Apply its risk management policy effectively to an enlarged group
- Pursue opportunities due to capital constraints at the Santander UK Group level, which may limit opportunities to deploy capital to Santander UK, and the current returns of Santander UK's business

Any or all of these factors, individually or collectively, could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Capital and liquidity risk

Santander UK is subject to regulatory capital, liquidity and leverage requirements that could limit its operations, and changes to these requirements may further limit and could have a material adverse effect on Santander UK's operations, financial condition and prospects

Capital Requirements Regulation and Capital Requirements Directive IV

Santander UK is subject to capital adequacy requirements applicable to banks and banking groups under assimilated (retained EU) law and is supervised in this respect by the PRA. Santander UK is required to maintain a minimum ratio of Common Equity Tier 1 (CET1) capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and Tier 1 capital (leverage) to total adjusted assets for leverage purposes. Any failure by Santander UK to maintain such ratios above prescribed regulatory minimum levels may result in administrative actions or sanctions. These could potentially include requirements on Santander UK to cease all or certain lines of new business, to raise new capital resources or, in certain circumstances, a requirement for Santander UK's existing capital instruments (potentially including Santander UK's debt securities) to be subjected to bail-in or write-down (for more information, see the risk factor entitled 'Santander UK may become subject to the provisions of the Banking Act 2009 (the Banking Act), including bail-in and write-down powers').

The EU Capital Requirements Directive IV (CRD IV Directive) and the Capital Requirements Regulation (the CRR and together with the CRD IV Directive, CRD IV) implemented changes proposed by the Basel Committee on Banking Supervision (the Basel Committee) to the capital adequacy framework, known as 'Basel III' in the EU. The CRR has been amended through a series of EU regulations, including the Capital Requirements Regulation 2 (CRR 2) and the CRD IV Directive has been amended by the Capital Requirements Directive V (CRD V Directive). The European Union (Withdrawal) Act 2018 converted the directly applicable elements of CRD IV into UK law on 31 December 2020 and preserved existing UK law implementing the CRD IV directive. Certain elements of the CRR which were 'onshored' in this way have now been transposed into the PRA rules.

In implementing CRD IV and the revised versions of CRD IV, the PRA has required the capital resources of UK banks to be maintained at levels which exceed the base capital requirements prescribed by CRD IV and to cover relevant risks in their business. In addition, a series of capital buffers have been established under CRD IV and PRA rules to ensure a bank can withstand a period of stress. As a result of Bank of England (BoE) stress testing exercises and as part of its exercise of UK macro-prudential capital regulation tools, or through supervisory actions by the PRA, Santander UK could be required to increase its capital resources further, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The LCR is intended to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets which can be used to offset the net cash outflows the bank could encounter under a short-term significant liquidity stress scenario. The current minimum requirement for LCR is set at 100%. Santander UK is also required to maintain available stable funding equal to at least 100% of its required stable funding under the NSFR. Santander UK's current liquidity position is in excess of the minimum requirements set by the PRA, but there can be no assurance that future changes to the applicable liquidity requirements would not have an adverse effect on Santander UK's financial performance.

Leverage ratios

The Financial Services Act 2012 provides the Financial Policy Committee (FPC) of the BoE with certain macro-prudential tools for the management of systemic risk including quarterly setting of the countercyclical capital buffer rate and powers of direction relating to leverage ratios. All major UK banks and banking groups (including Santander UK) are required to hold enough Tier 1 capital (75% of which must be CET1 capital) to satisfy a minimum leverage ratio requirement of 3.25% and enough CET1 capital to satisfy a countercyclical leverage ratio buffer of 35% of each bank's institution-specific countercyclical capital buffer rate. The PRA requires UK globally systemically important banks (G-SIBs) and Ring Fenced Bodies (as defined in the Financial Services and Markets Act 2000 (FSMA)) to hold enough CET1 capital to meet an Additional Leverage Ratio Buffer (ALRB) of 35% of the institution-specific G-SIB buffer rate or Other Systemically Important Institutions (O-SII) buffer rate following the implementation of the CRD V Directive on 28 December 2020 (previously the Systemic Risk Buffer rate) and for consolidated groups which include a Ring Fenced Body to hold enough CET1 capital to meet the ALRB. The FPC can also direct the PRA to adjust capital requirements in relation to particular sectors through the imposition of sectoral capital requirements. Action taken in the future by the FPC in exercise of any of its powers could result in the regulatory capital requirements applied to Santander UK being further increased, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Further regulatory changes

Regulators in the UK and worldwide have proposed that additional loss absorbency requirements should be applied to systemically important institutions to ensure that there is sufficient loss absorbing and recapitalisation capacity available in resolution. The BoE is required to set the Minimum Requirement for Eligible Liabilities (MREL) for all institutions. The BoE required most major banks, since 1 January 2022, to comply with end-state MREL requirements, including Santander UK plc and Santander UK Group Holdings plc.

Regulators and legislators in the UK have produced a range of proposals for future legislative and regulatory reform which could force Santander UK to comply with certain operational restrictions or take steps to raise further capital or increase Santander UK's expenses and could therefore have a material adverse effect on Santander UK's operations, financial condition and prospects. These changes, which could affect Santander UK as a whole, include the UK's implementation of the remaining Basel III standards. The Basel Committee on Banking Supervision has approved a series of significant changes to the Basel regulatory capital framework subsequent to Basel III from 7 December 2017, colloquially known as Basel IV or Basel 3.1 which revise the process for determining capital requirements. On 30 November 2022, the PRA published a consultation paper (CP 16/22) on the implementation of the Basel 3.1 standards in the UK, which was followed in December 2023 and September 2024 by two policy statements (PS17/23 and PS9/24 respectively) containing near-final rules. On 17 January 2025, the PRA announced that it was delaying the implementation of the Basel 3.1 rules by a year until 1 January 2027, with the transitional period reduced from four to three years so that it will continue to end on 31 December 2029. CRD IV requirements adopted in the UK may change further and there may be changes to the way in which the PRA continues to interpret and apply these requirements to UK banks (including with regard to individual model approvals or otherwise).

There is a risk that changes to the UK's capital adequacy regime (including any increase to minimum leverage ratios and/or as a result of the PRA's Basel 3.1 reforms) may result in increased minimum capital requirements, which could reduce available capital for new business purposes and adversely affect Santander

UK's cost of funding, profitability and ability to pay dividends, or other discretionary payments on its capital instruments, continued organic growth (including increased lending), or pursue acquisitions or other strategic opportunities. Santander UK could be required to restructure its balance sheet to reduce capital charges incurred pursuant to the PRA's rules or raise additional capital, but at increased cost and subject to prevailing market conditions. In addition, any changes to the eligibility criteria for Tier 1 and Tier 2 capital may affect Santander UK's ability to raise Tier 1 and Tier 2 capital and impact the recognition of existing Tier 1 and Tier 2 capital resources in the calculation of Santander UK's capital position. Furthermore, increased capital requirements may negatively affect Santander UK's return on equity and other financial performance indicators.

Santander UK's business could be affected if its capital is not managed effectively or if these measures limit Santander UK's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms. Effective management of Santander UK's capital position is important to Santander UK's ability to operate its business, to continue to grow organically and to pursue its business strategy. There is a risk that implementing and maintaining existing and new liquidity requirements, such as through enhanced liquidity risk management systems, may incur significant costs, and more stringent requirements to hold liquid assets may materially affect Santander UK's lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability. This could in turn adversely impact Santander UK's operations, financial condition and prospects.

Liquidity and funding risks are inherent in Santander UK's business and could have a material adverse effect on Santander UK's operations, financial condition and prospects

Liquidity risk is the risk that Santander UK either does not have available sufficient financial resources to meet its obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business and can be heightened by a number of factors such as over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. Santander UK performs comprehensive internal stress testing in order to ensure that it maintains funding profiles and holds a liquid asset buffer in order to manage this risk. However, unforeseen systemic market factors like those experienced during the last financial crisis make it difficult to eliminate these risks completely. There can be no assurance that such circumstances will not reoccur or that they will occur in the same way, but past experience and comprehensive stress testing regimes help Santander UK to consider and manage the potential impacts on its liquidity position. Liquidity constraints may affect Santander UK's operations and its ability to meet regulatory liquidity requirements or may limit growth possibilities. Disruption and volatility in the global financial markets could have a material adverse effect on Santander UK's ability to access capital and liquidity on financial terms acceptable to it and in addition to increased funding costs, may result in a shortening in the term of funding it raises.

Santander UK's cost of funding is related to prevailing interest rates and to its credit spreads. Increases in interest rates and Santander UK's credit spreads can significantly increase the cost of its funding. Changes in Santander UK's credit spreads can be market-driven or idiosyncratic in nature and may be influenced by perceptions of its creditworthiness rather than any underlying change in Santander UK's financial position. Changes to interest rates and Santander UK's credit spreads occur continuously and may be unpredictable and highly volatile. Market predictions of future central bank policy rate paths may impact Santander UK's cost of funding, even if central bank actions do not ultimately follow market predictions.

If wholesale markets financing ceases to be available, or becomes excessively expensive, Santander UK may be forced to raise the rates it pays on deposits, with a view to attracting more customers and/or to sell assets, potentially at depressed prices or to reduce growth plans. Santander UK's cost of funding might also be impacted by increased competition for retail and corporate deposits.

In response to the Covid-19 pandemic, the BoE introduced the Term Funding Scheme with additional incentives for Small and Medium-Sized Enterprises (TFSME). Santander UK is continuing to repay drawings ahead of contractual maturities in 2025, 2027 and 2031 and as at 31 December 2024, Santander UK had £11bn of drawings outstanding (£7.1bn in 2025, £2.5bn in 2027 and subject to approval by the BoE, £1.4bn in 2031), having repaid £6bn in 2024. (£8.0bn in 2023, £6.9bn in 2022). Santander UK will have to replace these remaining drawings via wholesale market issuance, other BoE liquidity facilities or through management of the customer funding gap.

Each of the factors described above could have a material adverse effect on Santander UK, including its ability to access capital and liquidity on financial terms acceptable to it and, more generally, on its operations, financial condition and prospects.

Further, Santander UK aims for a funding structure that is consistent with its assets, avoids excessive reliance on short-term wholesale funding, attracts enduring retail and commercial deposits and provides diversification in products and tenor. Santander UK therefore relies, and will continue to rely, on retail and commercial deposits to fund a significant proportion of lending activities. The on-going availability of this type of funding is sensitive to a variety of factors outside Santander UK's control, such as general economic conditions and the confidence of depositors in the economy and in the financial services industry in general, confidence in Santander UK specifically, Santander UK's credit rating and the availability and extent of deposit guarantees, as well as competition between banks for deposits or competition with other products, such as mutual funds or, if launched, central bank digital currency. A change in any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing its ability to access deposit funding on appropriate terms, or at all, in the future, and therefore have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK's liquidity planning assumes that customers will continue to make a volume of deposits with Santander UK (particularly demand deposits and short-term time deposits), and Santander UK intends to maintain its emphasis on the use of deposits as a source of funds. The short-term nature of some deposits could cause liquidity problems for Santander UK in the future if deposits are not made in the volumes anticipated or are withdrawn at short notice or are not renewed. If a substantial number of depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, there may be a material adverse effect on Santander UK's operations, financial condition and prospects. This might increase Santander UK's requirements for wholesale funding or require the execution of contingent options to raise additional liquidity, including the potential curtailing of growth plans.

An adverse movement in Santander UK's external credit rating would likely increase its cost of funding, require Santander UK to post additional collateral or take other actions under some of its derivative contracts and adversely affect Santander UK's operations, financial condition and prospects

Credit ratings affect the cost and other terms upon which Santander UK is able to obtain funding. Credit rating agencies regularly evaluate Santander UK, and their credit ratings of Santander UK and Santander UK's issued debt are based on a number of factors, including Santander UK's financial strength, the strength of the UK economy and conditions affecting the financial services industry generally.

Any downgrade in the external credit ratings assigned to Santander UK or any of Santander UK's debt securities could have an adverse impact on Santander UK. In particular, a downgrade in Santander UK's credit ratings could increase its borrowing costs and could require it to post additional collateral or take other actions under some of its derivatives, loan facilities or other financial contracts, and could limit its access to capital markets and have a material adverse effect on its operations, financial condition and prospects. For example, a credit rating downgrade could have a material adverse effect on Santander UK's ability to sell or market certain products, engage in certain longer-term or derivatives transactions and retain its customers or investors, particularly those who need a minimum rating threshold in order to transact or invest.

Any of these effects of a credit rating downgrade could, in turn, result in outflows and reduce Santander UK's liquidity and have an adverse effect on Santander UK, including its operations, financial condition and prospects. For example, Santander UK estimates that at 31 December 2024, if Fitch, Moody's and Standard &

Poor's were concurrently to downgrade the long-term credit ratings of Santander UK plc by one notch, and thereby trigger a short-term credit rating downgrade, this could result in an outflow of £2.4bn of cash and collateral. A hypothetical two notch downgrade would result in a further outflow of £0.7bn of cash and collateral at 31 December 2024. Under the LCR Santander UK holds sufficient liquidity to cover these potential outflows. However, while certain potential impacts are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, whether any downgrade precipitates changes to the way that the financial institutions sector is rated, and assumptions about the ratings of other financial institutions and the potential behaviours of various customers, investors and counterparties. Actual outflows will also depend upon certain other factors including any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from a loss of unsecured funding (such as from money market funds) or loss of secured funding capacity.

There can be no assurance that the credit rating agencies will maintain Santander UK's current credit ratings or outlooks. A failure to maintain favourable credit ratings or outlooks could increase Santander UK's cost of funding, adversely affect Santander UK's interest margins, and reduce its ability to secure both long-term and short-term funding. If a downgrade of a Santander UK member's long-term credit ratings were to occur, it could also impact the short-term credit ratings of other members of Santander UK. The occurrence of any of these events could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Negative changes to the UK sovereign credit rating, or the perception that further negative changes may occur, could have a material adverse effect on Santander UK's operations, financial condition, prospects and the marketability and trading value of its securities. This might also have an impact on Santander UK's own credit rating, borrowing costs and ability to secure funding. Negative changes to the UK sovereign credit rating, or the perception that further negative changes may occur, could also have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment and reducing asset prices, which could in turn have a material adverse effect on Santander UK's operations, financial condition and prospects.

Changes in Santander UK's pension liabilities and obligations could have a materially adverse effect on Santander UK's operations, financial condition and prospects

The majority of current employees are provided with pension benefits through defined contribution arrangements. Under these arrangements Santander UK's obligation is limited to the cash contributions paid. Santander UK provides retirement benefits for many of its former and current employees in the UK through a defined benefit pension scheme established under trust. Santander UK plc is the principal employer under this scheme, but it has only limited control over the rate at which it pays into the scheme. Under the UK statutory pension funding requirements employers are usually required to contribute to the schemes at the rate they agree with the scheme trustees although, if they cannot agree, the rate can be set by the Pensions Regulator. The scheme trustees may, in the course of discussions about future valuations, seek higher employer contributions. The scheme trustees' power in relation to the payment of pension contributions depends on the terms of the trust deed and rules governing the scheme, but, in some cases, the trustees may have the unilateral right to set the employer's relevant contribution.

The Pensions Regulator has the power to issue a financial support direction to companies within a group in respect of the liability of employers participating in UK defined benefit pension schemes where, amongst other things, that employer is 'insufficiently resourced' (as defined for the purposes of the relevant legislation). Such a financial support direction could require the companies to guarantee or provide security for the pension liabilities of those employers or could require additional amounts to be paid into the relevant pension schemes in respect of them.

The Pensions Regulator can also issue contribution notices if it is of the opinion that an employer has taken actions, or failed to take actions, deliberately designed to avoid meeting its pension promises or which are materially detrimental to the scheme's ability to meet its pension promises. A contribution notice can be issued to any company or individual that is connected with or an associate of such employer in circumstances where the Pensions Regulator considers it reasonable to issue it and multiple notices could be issued to connected companies or individuals for the full amount of the debt. The risk of a contribution notice being imposed may inhibit Santander UK's freedom to restructure or to undertake certain corporate activities. There is a risk that Santander UK could incur an obligation to make a contribution to the scheme by virtue of section 75 or 75A of the Pensions Act 1995 as a result of a reorganisation or disposal of Santander UK's businesses.

Should the value of assets to liabilities in respect of the defined benefit schemes operated by Santander UK record a deficit or an increased deficit (as appropriate), due to either a reduction in the value of the pension scheme assets (depending on the performance of financial markets) not matched by a fall in the pension scheme liabilities and/or an increase in the pension scheme liabilities (for example due to changes in legislation, mortality assumptions, discount rate assumptions, inflation, or other factors) not matched by an increase in the pension scheme assets, this could result in Santander UK having to make increased contributions to reduce or satisfy the deficits which would divert resources from other areas of Santander UK's business and reduce its capital resources. Changes in inflation and interest rates in particular pose significant risks to the pension scheme as liabilities would be adversely impacted by an increase in long-term inflation or reduction in interest rates, and it is inherently problematic to find assets that exactly match inflation and interest rate movements in the liabilities. The pension scheme assets are also invested in illiquid assets consisting primarily of unlisted credit, private equity and property. The value of these investments can only be known when they are realised. The value in the accounts is an estimate of the fair value of these investments but the final realised value could be materially different. Although the trustee of the scheme is obliged to consult with Santander UK before changing the pension scheme's investment strategy, the trustee has the final say and the ultimate responsibility for investment strategy rests with the trustee. A change in the actual or perceived strength of the employer's covenant could also result in Santander UK having to make increased contributions to the scheme. While Santander UK can control a number of the above factors, there are some over which Santander UK has no or limited control.

Changes in UK legislation and regulation may also affect Santander UK's position, Specific areas where concerns have been raised are levels of dividends where there is a pension scheme with a deficit and the length of time taken to address deficits. Changes in legislation or regulation could result in Santander UK having to make increased contributions to reduce or satisfy the deficits which would divert resources from use in other areas of its business and reduce its capital resources.

Any increase in Santander UK's pension liabilities and obligations as a result of the foregoing factors could have a material adverse effect on Santander UK's operations, financial conditions and prospects. There is also a risk of reputational damage if the scheme fails to comply with legislation or if there are any issues with members or the trustee being dissatisfied.

Market risks

Santander UK is subject to fluctuations in interest rates and other market risks, which could have a material adverse effect on Santander UK's operations, financial condition and prospects

Market risk refers to the probability of variations in Santander UK's net interest income or in the market value of its assets and liabilities due to volatility of interest rates, credit spreads, exchange rates or equity prices.

Changes in interest rates would affect the following areas, among others, of Santander UK's business:

- Net interest income
- The value of Santander UK's derivatives transactions
- The value of Santander UK's securities holdings
- The value of Santander UK's loans and deposits
- The volume of loans originated

Interest rates are highly sensitive to many factors beyond Santander UK's control, including increased regulation of the financial sector, inflation, monetary policies, domestic and international economic and political conditions. For example, the UK's Monetary Policy Committee has been selling assets to unwind quantitative easing; as this balance sheet 'normalisation' unfolds, there could be unintended consequences for markets and financial stability. Variations in interest rates could affect the interest earned on Santander UK's assets and the interest paid on its borrowings, thereby affecting its net interest income, which comprises the majority of its revenue, reducing its growth rate and profitability and potentially resulting in losses. In addition, costs Santander UK incurs putting into place strategies to reduce interest rate exposure could increase in the future, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Increases in interest rates may reduce the volume of loans originated by Santander UK. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets.

Reductions in interest rates could lead to margin compression if such changes are passed on to customer liabilities to a lesser extent than they are passed on to customer assets. Changes in interest rates may also affect the ability of Santander UK's customers to prepay or refinance fixed-rate loans, affect the value of its financial assets and reduce gains or require Santander UK to record losses on sales of Santander UK's loans or securities, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

In addition, although Santander UK is a UK-centric bank, it has a direct link to the Eurozone through its parent company, which exposes Santander UK to Eurozone sovereign debt risks, as market concerns over sovereign debt sustainability could drive changes in interest rates and credit spreads. Any significant impact on interest rates could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Negative changes in positions recorded at fair value could have a material adverse effect on Santander UK's operations, financial condition and prospects

Santander UK has material exposures to securities, derivatives and other investments that are recorded at fair value and are therefore exposed to potential negative market changes. A widening of market credit spreads, reflecting the prevailing market conditions would negatively impact asset valuations in future periods and may result in negative changes in the fair values of Santander UK's financial assets. A tightening of Santander UK's own credit spreads would increase the magnitude of liabilities, thereby reducing net assets.

In addition, the value ultimately realised by Santander UK on disposal of assets and liabilities recorded at fair value may be lower than their current fair value; for example, during the last global financial crisis, financial markets were subject to periods of significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads.

Santander UK is also exposed to changes in the market value of credit and funding spreads for the valuation of certain derivative contracts, the estimated value of which is negatively exposed to increases in the Credit Valuation Adjustment (CVA) spread and the Funding Fair Valuation Adjustment (FVA) spread over the lifetime of the transaction.

Any of these factors could require Santander UK to record negative changes in fair value which could have a material adverse effect on its operations, financial condition and prospects.

Santander UK is also exposed to changes in UK residential house price index levels, future index growth assumptions and house price index volatility. These impact the valuations of the portfolios of home reversion plans, lifetime mortgages and associated hedges held by Santander UK. In addition, the home reversion assets and mortgages are exposed to any changes in underlying mortality assumptions as maturity dates on these are not fixed and are driven by the vacation of the underlying property on a permanent basis by the plan holder. Specific property risk exists for each individual asset versus the indexed growth assumption at the point of maturity. Lifetime mortgages additionally have prepayment risk which is managed via a FVA based on historic data.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets and in times of economic instability. In such circumstances, Santander UK's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value.

Reliable assumptions are difficult to make and are inherently uncertain. Moreover, valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK invests in debt securities of the UK Government largely for liquidity management purposes. At 31 December 2024, approximately 7% of Santander UK's total assets and 33% of Santander UK's securities portfolio comprised debt securities issued by the UK Government. Any failure by the UK Government to make timely payments under the terms of these securities, or a significant decrease in their market value, could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Credit risks

If the level of non-performing loans increases or the credit quality of Santander UK's loans deteriorates in the future, or if Santander UK's loan loss reserves are insufficient to cover loan losses, this could have a material adverse effect on Santander UK's operations, financial condition and prospects

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of Santander UK's businesses. Non-performing or low credit quality loans have in the past, had and could continue to have a material adverse effect on Santander UK's operations, financial condition and prospects.

In particular, the amount of Santander UK's reported non-performing loans may increase in the future as a result of growth in Santander UK's total loan portfolio, including as a result of loan portfolios that Santander UK may acquire in the future (the credit quality of which may turn out to be worse than Santander UK had anticipated), or factors beyond Santander UK's control, such as adverse changes in the credit quality of Santander UK's borrowers and counterparties, a general deterioration in the UK or global economic conditions, the impact of political events, events affecting certain industries or events affecting financial markets and global economies. Broader inflationary pressures or higher interest rates that impact a customer's ability to service debt payments could also lead to increased arrears in both unsecured and secured products.

There can be no assurance that Santander UK will be able to effectively control the level of impaired loans in, or the credit quality of, its total loan portfolio, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Interest rates payable on a significant portion of Santander UK's outstanding mortgage loan products fluctuate over time due to, among other factors, changes in the BoE base rate. As a result, borrowers with variable interest rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward. Similarly, borrowers of mortgage loans with fixed or introductory rates adjusting to new interest rates after an initial period are exposed to the risk of increased monthly payments at the end of this period. Between 2021 and 2023, interest rates attached to both variable and fixed rate mortgages increased from historic lows and they remain higher than 2020 levels. Customers with variable rates or those whose fixed rate terms ended during this time period have faced increased monthly payments. These events, alone or in combination, may contribute to higher delinquency rates and losses for Santander UK, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK's current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of Santander UK's total loan portfolio. Santander UK's loan loss reserves are based on Santander UK's current assessment of various factors affecting the quality of its loan portfolio, including its borrowers' financial condition, repayment abilities, the realisable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. Many of these factors are beyond Santander UK's control. As a result, there is no precise method for predicting loan and credit losses, and no assurance can be provided that Santander UK's current or future loan loss reserves will be sufficient to cover actual losses.

If Santander UK's assessment of and expectations concerning the above-mentioned factors differ from actual developments Santander UK may need to increase its loan loss reserves, which may adversely affect Santander UK's operations, financial condition and prospects. Additionally, in calculating its loan loss reserves, Santander UK employs qualitative tools and statistical models which may not be reliable in all circumstances, and which are dependent upon data that may not be complete. If Santander UK is unable to control or reduce the level of its non-performing or poor credit quality loans, this could have a material adverse effect on Santander UK's operations, financial condition and prospects.

The value of the collateral, including real estate, securing Santander UK's loans may not be sufficient, and Santander UK may be unable to realise the full value of the collateral securing Santander UK's loan portfolio

The value of the collateral securing Santander UK's loan portfolio may significantly fluctuate or decline due to factors beyond Santander UK's control, including macroeconomic factors affecting the UK's economy. Santander UK's residential mortgage loan portfolio is one of its principal assets, comprising 84% of Santander UK's loan portfolio at 31 December 2024. As a result, Santander UK is highly exposed to developments in the residential property market in the UK. Following the peak in aggregate UK house prices in 2022, these fell slightly in 2023 but recovered in 2024. Continued growth in house prices is expected in 2025.

The value of the collateral securing Santander UK's loan portfolio may also be adversely affected by force majeure events such as natural disasters like floods or landslides exacerbated by climate change trends. Any force majeure event may cause widespread damage and could have an adverse impact on the economy of the affected region and may therefore impair the asset quality of Santander UK's loan portfolio in that area.

Santander UK may also not have sufficiently up-to-date information on the value of collateral, which may result in an inaccurate assessment for impairment losses on loans secured by such collateral.

If any of the above events were to occur, Santander UK may need to make additional provisions to cover actual impairment losses of its loans, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Legal and regulatory risks

Santander UK is subject to substantial and evolving regulation and governmental oversight

As a financial services group, Santander UK is subject to extensive financial services laws, regulations, administrative actions and policies in the UK, and in each other location in which Santander UK operates. For a discussion of the principal laws and regulations to which Santander UK is subject, see 'Regulation of the Santander UK group'. The sector continues to face unprecedented levels of government and regulatory intervention and scrutiny, and changes to the regulations governing financial institutions and the conduct of business. In addition, regulatory and governmental authorities have continued to consider further enhanced or new legal or regulatory requirements intended to reduce the probability and impact of future crises (or otherwise assure the stability and operational resilience of institutions under their supervision), enhance consumer protection, address climate change risks, the risk of greenwashing and environmental, social and governance risks generally, and improve controls in relation to financial crime-related risks. Santander UK expects regulatory and government intervention in the banking sector to remain high for the foreseeable future. An intensive approach to supervision is maintained in the UK by the BoE as resolution authority, the PRA, the FCA, the Competition and Markets Authority (CMA), the Payment Systems Regulator (PSR), the Information Commissioner's Office (ICO) and the Serious Fraud Office (SFO).

As well as being subject to UK regulation, as part of the Banco Santander group, Santander UK is also affected by other regulators such as the Banco de España (the Bank of Spain) and the European Central Bank (ECB), as well as various legal and regulatory regimes (including the US) that have extra-territorial effect. Extensive legislation and implementing regulations affecting the financial services industry have recently been adopted in regions that directly or indirectly affect Santander UK's business, including Spain, the US, the EU and other jurisdictions. Because Santander UK is subject to oversight by multiple regulators or government bodies related to the same conduct or activity, this can increase business uncertainty and the amount of resources needed to ensure Santander UK's compliance with the different legal and regulatory regimes.

The manner in which financial services laws, regulations and policies are applied to the operations of financial institutions has gone through great change which is still being implemented and reviewed. Recent proposals and measures taken by governmental, tax and regulatory authorities and further future changes in supervision and regulation (in particular in the UK), are beyond Santander UK's control and could materially affect Santander UK's business.

Changes in UK legislation and regulation applicable to the financial sector may also affect Santander UK's competitive position, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry. There has been a recognition from the UK government that changes need to be made to the UK's regulatory architecture in order to ensure that the sector remains internationally competitive and is able to grow. This has resulted in each of the financial services regulators setting out how they plan to improve growth in the sector. For example, the UK has delayed the implementation of Basel 3.1 in order to assess how it is implemented internationally. HMT also issued a call for evidence in November 2024 on a new "Financial Services Growth & Competitiveness Strategy" that could result in changes to UK regulation.

Further, Santander UK may face higher compliance costs and the need to carefully manage capacity to readily respond to multiple regulatory or government policy changes simultaneously. Any legislative or regulatory actions and any required changes to Santander UK's business operations resulting from such laws, regulations and policies as well as any deficiencies in Santander UK's compliance with them could result in significant loss of revenue, could have an impact on Santander UK's strategy, limit its ability to pursue business opportunities in which Santander UK might otherwise consider engaging, limit Santander UK's ability to provide certain products and services and/or result in enforcement action (including the imposition of financial and other penalties). They may also affect the value of assets that Santander UK holds, requiring Santander UK to increase its prices thereby reducing demand for Santander UK's products or otherwise have a material adverse effect on its operations, financial condition and prospects. Accordingly, there can be no assurance that future changes in laws, regulations and policies or in their interpretation or application by Santander UK or by regulatory authorities will not adversely affect Santander UK.

Specific examples of areas where regulatory changes and increased regulatory scrutiny could have a material adverse effect on Santander UK's operations, financial condition and prospects include, but are not limited to, the following:

- **Banking Reform:** In accordance with the provisions of the Financial Services (Banking Reform) Act 2013 UK banking groups that hold significant retail deposits (originally more than £25 billion of "core deposits"), including Santander UK, were required to separate or 'ring-fence' their retail banking activities from their wholesale banking activities by 1 January 2019. Santander UK completed its ring-fencing plans in advance of the legislative deadline of 1 January 2019. However, given the complexity of the ring-fencing regulatory regime and the material impact on the way Santander UK conducts its business operations in the UK, there is a risk that Santander UK and/or Santander UK plc may be found to be in breach of one or more ring-fencing requirements. This might occur, for example, if prohibited business activities are found to be taking place within the ring-fence, mandated retail banking activities are found being carried on in a UK entity outside the ring-fenced part of the group or Santander UK breached a PRA ring-fencing rule. If Santander UK were found to be in breach of any of the ring-fencing requirements placed upon it under the ring-fencing regime, it could be subject to supervisory or enforcement action by the PRA, the consequences of which might include substantial financial penalties, imposition of a suspension or restriction on Santander UK's UK activities or, in the most serious of cases, the forced restructuring of the UK group, entitling the PRA (subject to the consent of the UK Government) to require the sale of a Santander ring-fenced bank or other parts of the UK group. Following the publication of the final report of the Independent Panel on Ring-Fencing and Proprietary Trading on 15 March 2022, HMT announced its intention to implement certain limited reforms to the ring-fencing regime, including (i) increasing the ring-fencing core deposit threshold from £25 billion to £35 billion, (ii) adding a new secondary 'trading assets' condition (exempting from the regime banks with trading assets which do not exceed 10% of Tier 1 capital), (iii) introducing a de minimis threshold to allow ring-fenced banks to incur an exposure to relevant financial institutions (RFIs) of up to £100,000 per RFI at any one time, and (iv) allowing ring-fenced banks to establish operations outside of the UK or the European Economic Area, have exposure to RFIs that qualify as small and medium sized enterprises (SMEs) and undertake a wider range of activities such as market standard trade finance activities or inflation swaps. These reforms entered into force on 4 February 2025 and may lead to further review or amendment of Santander UK's operational and compliance arrangements in relation to the regime.
- **Competition:** Competition authorities (which in the UK include the CMA, the FCA and the PSR) can run reviews and investigations into any aspect of Santander UK's operations or the functioning of any markets in which Santander UK operates, which could lead to Santander UK being required to change the markets in which it operates. In addition, the CMA's widening focus on market outcomes may also result in increased reviews by the CMA of the markets in which Santander UK operates. The recently passed Digital Markets, Competition and Consumers Bill (DMCC) will introduce significant reforms to the powers of competition authorities in relation to the aforementioned investigations, including substantial new fining powers. The DMCC also introduces other wide-ranging reforms to the UK's competition, consumer protection and digital markets regulatory landscape some of which could impact Santander UK's business. For instance, the DMCC grants the CMA the power to directly determine whether certain consumer protection laws have been infringed without needing to go through the courts.

Payments: Santander UK has been required to make systems changes and update processes to comply with a number of new payment regulations. Within the UK, the PSR has mandated Santander UK to work on the extension of Confirmation of Payee for all payment service providers (PSPs) in the UK and has introduced a new APP mandatory reimbursement requirement which aims to reduce the level of customer fraud. Under these standards, Santander UK assumes responsibility for certain categories of customer losses and any inherent failings in system design may lead to fines from regulators and/or compensation being paid to customers. Santander UK also expects to see significant developments in the key UK payment systems architecture, with a systems update of the high value Clearing House Automated Payment System (CHAPS) through the Real Time Gross Settlement (RTGS), BACS, the potential development of a UK central

bank digital currency or similar system, and the development of Open Banking payments and other lower value retail payment schemes. In November 2024, the UK Government published its report on the “National Payments Vision”, which sets out its ambitions for the payments sector and is expected to generate a wider industry review of the UK payments landscape in 2025. As demonstrated by other payments initiatives, such as Open Banking and the second Payment Services Directive (PSD2), reforms in this space have the potential to exacerbate a number of existing risks including data loss/data protection, cybersecurity, fraud and wider financial crime risk, which in turn could give rise to increased costs, litigation risk and risk of regulatory investigation and enforcement activity.

- **Data Privacy:** In connection with its processing of personal data, Santander UK is subject to data protection laws and regulations – in particular, the UK GDPR (as defined and interpreted in accordance with the Data Protection Act 2018) and the Data Protection Act 2018 (DPA). In the event Santander UK breaches any such data protection laws, it could face significant enforcement action and/or financial penalties as well as reputational damage, which could ultimately have a material adverse effect on Santander UK’s operations, financial condition and prospects.
- **Cybersecurity:** Santander UK is subject to cybersecurity regulations and cybersecurity incident reporting requirements. Cybersecurity incident reporting often require short timeframes and there is a risk that Santander UK will fail to meet the reporting deadlines for any given cybersecurity incident. There will be legal, reputational and regulatory risks in the event Santander UK, or the third-party providers Santander UK works with, are found to be out of compliance with these regulations and reporting requirements.
- **Consumer Duty:** The FCA’s rules and guidance on a broad consumer duty that firms undertaking regulated activities with retail clients must observe (the Consumer Duty) have been in force for open products and services since 31 July 2023 and for closed products and services since 31 July 2024. The Consumer Duty has three elements: (i) a "Consumer Principle", which reflects the overall standards of behaviour the FCA expects from firms (a firm must act to deliver good outcomes for retail customers), (ii) three cross-cutting rules that articulate the standards of conduct expected under the Consumer Principle (firms must act in good faith towards retail customers, avoid causing foreseeable harm to retail customers and enable and support retail customers to pursue their financial objectives), and (iii) four outcomes that build on the Consumer Principle and cross-cutting rules, comprising a suite of rules and guidance setting more detailed expectations for a firm's conduct in four areas that represent the key elements of the firm-consumer relationship (product design and governance, price and value, consumer understanding and consumer support). The Consumer Duty requires firms to end unfair charges and fees, make it as easy to switch or cancel products as it was to take them out in the first place, provide helpful and accessible customer support, act quickly to respond to customer queries, provide timely, clear and easily understandable information to customers regarding products and services, provide products and services that are appropriate for their customers, and focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction. The Consumer Duty also requires firms to monitor, evidence and report against many of the requirements. Santander UK has fully implemented the Consumer Duty, which required a review of, and changes to, Santander UK’s products, services, policies, systems and procedures against the FCA requirements. The Consumer Duty affects elements of Santander UK’s business model and strategy, the products and services it offers and the pricing or costs of those products and services, which may in turn affect the revenue and profits that Santander UK is able to generate. It may result in an increase in claims to the Financial Ombudsman Service (FOS) by customers alleging a breach of the standards of the Consumer Duty or in regulatory action by the FCA.
- **Consumer redress:** The FOS is the statutory body responsible for handling complaints by retail customers against regulated financial services firms. The FOS is not bound to follow law or regulation when issuing decisions but rather must decide each complaint based on what is ‘fair and reasonable’ in the circumstances. As a result, there can be a lack of clarity as to how the FOS will rule on a particular complaint, even where a firm believes that it has been operating within legal and regulatory requirements. Further, while the FOS is not formally a precedent-setting body, in practice its decisions can set a precedent, requiring firms to apply the reasoning given in one complaint to similar historic and future complaints. This means that the ramifications of a particular complaint can extend well beyond the circumstances of the original complainant. However, the FOS will rule on a particular case, even where the bank believes that it is operating within the legal and regulatory requirements. The FOS is not bound by its past decisions and has the ability to change its approach to cases, which can make it harder for firms to consistently address complaints. Together, these factors mean that Santander faces legal and regulatory risk and uncertainty as a result of FOS decisions. The UK Government has acknowledged that there is a need to review the UK’s redress system particularly with respect to so-called ‘mass redress events’ where there are large numbers of complaints about the same issue and the FCA and FOS launched a joint call for input to this effect in November 2024.
- **Outsourcing and Third-Party Risk Management:** In March 2021, the PRA published Supervisory Statement 2/21 on outsourcing and third-party risk management (SS2/21). SS2/21 is the primary source of reference for Santander UK when interpreting and complying with its requirements on outsourcing and third-party risk management, although it should be read alongside the EBA guidelines on outsourcing arrangements, and PRA and FCA rules and guidance on outsourcing. The scope of contracts required to meet the PRA requirements on outsourcing and third-party risk management extends beyond that set out in the EBA guidelines on outsourcing and also captures material non-outsourcing. SS2/21 also requires that intragroup outsourcing be subject to the same requirements and expectations as external outsourcing and should not be treated as being inherently less risky. If Santander UK is unable to meet the PRA or FCA requirements on outsourcing and third-party risk management, it may face supervisory measures, which could in turn have a material adverse effect on Santander UK’s operations, financial condition and prospects. In November 2024, the PRA and FCA published a joint Policy Statement setting out their final rules for critical third parties. While Santander UK is not captured by the regime, Santander UK does outsource services to companies that will be captured which may have an impact on Santander UK’s operations and financial condition.
- **Operational Resilience:** In March 2021, the PRA and the FCA published Supervisory Statement 1/21 (SS1/21) and Policy Statement 21/3 (PS21/3), which set out their final rules and guidance intended to strengthen operational resilience in the financial services sector. The operational resilience rules require Santander UK to identify its ‘important business services’, being those services which, if disrupted, could cause intolerable harm to clients or pose a risk to that firm’s safety and soundness or to the stability of the UK financial system. Once Santander UK has identified these, it must set impact tolerances for all important business services and ensure it is able to remain within these tolerances in severe but plausible disruption scenarios. Santander UK must comply with these requirements by no later than the end of a three-year transitional period on 31 March 2025. If Santander UK is unable to meet the PRA and FCA requirements relating to operational resilience, it may face supervisory measures, which could in turn have a material adverse effect on Santander UK’s operations, financial condition and prospects.
- **Climate Change:** The UK Government has announced its intention to roll out new sustainability disclosure requirements, which will expand on those required under the TCFD framework, including transition plans to align to net-zero, as well as a new UK green taxonomy. Santander UK Group Holdings plc is implementing the recommendations of TCFD on a group level: further reporting will require additional gathering of data and digitalisation of reporting and there will be legal, reputational and regulatory risks should Santander UK Group Holdings plc fail to adequately report, or to demonstrate appropriate capabilities to transition and support its customers to transition to a low carbon economy.
- **Access to Cash:** FSMA 2023 grants the BoE supervisory powers to regulate the UK wholesale cash distribution market, including powers to impose fines and empowers HMT to designate firms to be subject to FCA oversight for the purpose of ensuring the reasonable provision of cash access (including free cash access). Santander UK has been designated by HMT for these purposes and accordingly has been subject to the FCA’s access to cash rules since September 2024. The access to cash regime is likely to have ongoing implications for Santander UK's business decisions and strategy, in particular in relation to Santander UK's branch network and Santander UK's participation in the wholesale cash distribution market generally. In the event that the BoE imposes any fines with respect to Santander UK’s participation in the wholesale cash distribution market or the FCA were to take enforcement action against Santander UK in relation to retail cash access, this could result in reputational damage and have a material adverse effect on Santander UK’s operations, financial condition and prospects.
- **Financial Crime:** The UK financial crime legislative framework has evolved significantly in recent years and is subject to regular change. As such, Santander UK may face higher compliance costs and must carefully manage its capacity to respond to multiple regulatory changes simultaneously. Any deficiencies in Santander UK’s compliance with such regulatory changes could result in enforcement action including the imposition of financial or other penalties. Recent changes to the UK financial crime legislative framework include the introduction of the Economic Crime (Transparency and Enforcement) Act 2022 (ECTEA), The Economic Crime and Corporate Transparency Act 2023 (ECCTA) and the Money Laundering and Terrorist Financing (Amendment) Regulations 2023. Further changes to the UK financial crime legal and regulatory framework are anticipated during 2025, following multiple consultations in 2024, including HMT's consultation on improving the effectiveness of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

(MLRs) and the FCA's consultation on updates to its guidance on politically exposed persons (PEPs). Responses to both consultations may follow in 2025. Other changes have already entered into force. For instance, in November 2024, the FCA updated its Financial Crime Guide, aiming to provide clearer expectations for firms' financial crime controls and updated guidance on emerging risks such as sanctions compliance, proliferation finance and transaction monitoring. Further changes to the UK financial crime framework may include potential revisions to account closure rules, and the introduction of new information sharing powers for the Department for Work and Pensions which may impose additional operational demands. On 23 January 2025, the Fraud, Error and Recovery Bill was also introduced to Parliament, with the Department for Work and Pensions expected to consult with the financial services industry on a Code of Practice to support understanding of any new regulatory expectations. More changes may arrive as a result of UK Government strategic initiatives such as the Economic Crime Plan 2 and the Fraud Strategy. There may also be a new anti-corruption strategy published by the UK government in 2025. Any expansion of civil or criminal liability under UK financial crime reforms brings with it financial risk in the form of penalties and reputational risk, while continued compliance with the changing UK financial crime framework may expose Santander UK to increased operational and compliance costs, each of which could in turn have a material adverse effect on Santander UK's operations, financial condition and prospects.

- **Challenge to commission-based lending:** Santander UK is monitoring the FCA's review which was announced in January 2024 of discretionary commission arrangements (DCAs) in the motor finance market and other related developments, in particular the Court of Appeal decision and Supreme Court appeal hearing listed for April 2025, in relation to three motor finance commission cases (Hopcraft v Close Brothers, Wrench v FirstRand Bank Limited and Johnson v FirstRand Bank Limited). The FCA's review may also be informed by the outcome of a judicial review of a final decision by the FOS against another lender that was heard in October 2024. Judgment in this case was handed down in December 2024 and permission for leave to appeal to the Court of Appeal has been granted. There is significant uncertainty with regard to the implications of these judicial proceedings, the FCA review and the nature, extent and timing of any subsequent regulatory interventions regarding commissions paid in the motor finance market. As such, the ultimate financial impact could be materially higher or lower than the amount that Santander UK has recognised as a provision. It is also possible that the principles articulated in relation to the motor finance market could have a broader application extending to other types of commission-based lending, although the scope and extent of any exposure or required changes to commission-based lending arrangements is unclear. The impact cannot be accurately assessed in full until the FCA's approach is known and the legal cases in relation to motor finance commission disclosure are resolved. As a result, Santander UK is subject to the risk of ongoing legal and regulatory uncertainty in relation to all commission-based lending, which may have a material adverse effect on Santander UK's operations and financial condition.

Santander UK may become subject to the provisions of the Banking Act, including bail-in and write-down powers

The special resolution regime set out in the Banking Act provides HMT, the BoE, the PRA and the FCA with a variety of powers for dealing with UK deposit taking institutions (and, in certain circumstances, their holding companies) that are failing or likely to fail, including: (i) to take a bank or bank holding company into temporary public ownership; (ii) to transfer all or part of the business of a bank to a private sector purchaser; or (iii) to transfer all or part of the business of a bank to a 'bridge bank'. The special resolution regime also comprises a separate insolvency procedure and administration procedure each of which is of specific application to banks. These insolvency and administration measures may be invoked prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

If an instrument or order were made under the Banking Act in respect of an entity in Santander UK, such instrument or order (as the case may be) may, among other things: (i) result in a compulsory transfer of shares or other securities or property of such entity; (ii) have an impact on the rights of the holders of shares or other securities issued by Santander UK or such entity or result in the nullification or modification of the terms and conditions of such shares or securities; or (iii) result in the de-listing of the shares and/or other securities of such entity. In addition, such an order may affect matters in respect of Santander UK or such entity and/or other aspects of the shares or other securities of Santander UK or such entity, which may negatively affect the ability of Santander UK or such entity to meet its obligations in respect of such shares or securities.

Further, amendments to the Insolvency Act 1986 and secondary legislation have introduced changes to the treatment and ranking of certain debts with the result that certain eligible deposits will rank in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency. This may negatively affect the ability of unsecured creditors to recover sums due to them in an insolvency scenario.

If a 'bail-in' order were made under the Banking Act as amended by The Financial Services (Banking Reform) Act 2013 (see further 'Regulation of Santander UK - The Banking Act 2009'), such an order would be based on the principle that any creditors affected by the 'bail-in' order should receive no less favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write-down (in whole or in part) certain liabilities or to modify the terms of certain contracts for the purposes of reducing or deferring the liabilities of a bank under resolution and the power to convert certain liabilities into shares (or other instruments of ownership) of the bank. The bail-in power under the Banking Act may potentially be exercised in respect of any unsecured debt securities issued by a bank under resolution or an entity in Santander UK, regardless of when they were issued. Accordingly, the bail-in power under the Banking Act could be exercised in respect of Santander UK's debt securities. Public financial support would only be used as a last resort, if at all, after having assessed and utilised, to the maximum extent practicable, the resolution tools including the bail-in tool and the occurrence of circumstances in which bail-in powers would need to be exercised in respect of Santander UK or any entity in Santander UK would have a material adverse effect on Santander UK's operations, financial condition and prospects.

The PRA also has the power to make rules requiring a parent undertaking of a bank to make arrangements to facilitate the exercise of resolution powers, including a power to require a member of a banking group to issue debt instruments. The exercise of such powers could have an impact on the liquidity of Santander UK's debt instruments and could materially increase Santander UK's cost of funding.

In addition, the resolution authorities have the power to require institutions and groups to make structural changes to ensure legal and operational separation of 'critical functions' from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. As a result, Santander UK is required to identify such 'critical functions' as part of its resolution and recovery planning. If used in respect of Santander UK, these ex ante powers could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK must comply with laws and regulations relating to anti-money laundering, anti-terrorism, anti-bribery and corruption, sanctions and preventing the facilitation of tax evasion. Failure to prevent, detect or deter any illegal or improper activities could have a material adverse effect on Santander UK's operations, financial condition or prospects

Santander UK is required to comply with applicable laws and regulations relating to anti-money laundering (AML), counter-terrorism financing (CTF), anti-bribery and corruption, sanctions, preventing the facilitation of tax evasion and other laws and regulations in the jurisdictions in which Santander UK operates. These laws and regulations require Santander UK, among other things, to conduct customer due diligence (including in respect of sanctions and politically-exposed person screening), to ensure customer and transaction information is appropriately recorded, monitored and kept up to date and to implement effective financial crime policies and procedures detailing what is required from those responsible in order to counter financial crime risks with the aim to prevent the facilitation of bribery, tax evasion and fraud by its employees or associated persons. Santander UK's staff are obligated to report suspicious transactions and activity to appropriate law enforcement. The policies and procedures require the implementation and embedding of effective controls and monitoring within the businesses of Santander UK, which in turn requires ongoing changes to systems, technology and operational activities.

Santander UK is also required to conduct financial crime training for its staff. Comprehensive and risk based financial crime training at a group-wide and business unit level is a key element of effective controls, with the FCA providing guidance on expectations within its Financial Crime Guide and the Joint Money Laundering Steering Group (JMLSG) providing guidance on the practical interpretation of UK AML and CTF legislation. Financial crime is continually evolving, and this requires proactive and adaptable responses from Santander UK so that it is able to deter, detect and disrupt threats and criminality effectively. Even known threats

can never be fully eliminated, and there may be instances where Santander UK could be used by other parties to engage in money laundering and other illegal or improper activities. Santander UK's staff, whom Santander UK rely heavily upon to identify such activities and report them, have varying degrees of experience in recognising criminal tactics, making effective, bank-wide mandatory and specialist training provided by the Santander UK Economic Crime Academy more pertinent.

Where Santander UK outsources any of its customer due diligence or anti-financial crime operations, it remains responsible and accountable for full compliance and any breaches. If Santander UK is unable to apply the necessary scrutiny and oversight, or if such oversight proves insufficient to detect illegal or improper activities, there remains a risk of regulatory breach and this could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Over the last decade, laws and regulations relating to financial crime have become, and may continue to become, increasingly complex and detailed. Consequently, financial crime risk has become the subject of enhanced regulatory scrutiny and supervision by regulators globally which continues to intensify. To manage regulatory scrutiny, Santander UK continues to improve its systems, adopt more sophisticated monitoring and enhance the skill set of its compliance personnel. Navigating the increasing complexity of financial crime regulation is a significant challenge, involving overlapping requirements between different legislation, and, in some instances, conflicts of laws. The divergence of policy approaches between the EU, UK and US in the area of economic sanctions and the evolving financial and trade sanctions imposed on Russia and Belarus due to the war in Ukraine, require additional immediate and longer-term sanctions risk management and compliance efforts for Santander UK. The scale of these sanctions is unprecedented, complex and poses operational and compliance risks to Santander UK. The EU, UK and US are expected to continue to use sanctions to pursue their foreign policy interests and objectives, and the imposition of new, additional, and/or enhanced sanctions is and will remain unpredictable. Current sanctions and other measures, any new, additional, and/or enhanced sanctions, as well as the existing and potential further responses from Russia or other countries to such sanctions, tensions and military actions, have resulted in, and could continue to result in, an increasingly fragmented macroeconomic, trade and regulatory environment. The heightened regulatory, political and media focus on Santander UK's response to this crisis, the Israel-Hamas armed conflict or any other future regional conflicts and wars that have a global impact may also increase Santander UK's exposure to conduct and reputational risks.

UK AML and CTF legislation continues to evolve, including implementation of the ECCTA in 2024 which has initiated reforms to Companies House, targeting misuse of UK corporate structures, extending corporate criminal liability and introducing a new "failure to prevent" fraud offence. The Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024 have resulted in direct alignment of the UK's list of High Risk Third Countries with the "Jurisdictions subject to a Call for Action" and the "Jurisdictions under Increased Monitoring" lists published by the Financial Action Task Force (FATF). While legislative changes can offer opportunities to increase effectiveness and efficiency in the overall anti-financial crime system, there are also risks of divergence from Banco Santander group, and imposition of additional legislative and regulatory requirements via Banco Santander SA and the EU. Significant change could adversely impact Santander UK's business by increasing its operational and compliance costs and reducing the value of its assets and operations, which would in turn have a material adverse effect on Santander UK's operations, financial condition and prospects.

If Santander UK is unable to fully comply with applicable laws, regulations and expectations, its regulators and relevant law enforcement agencies have the ability and authority to pursue civil and criminal proceedings against it, to impose significant fines and other penalties on it, including requiring a complete review of Santander UK's business systems, day-to-day supervision by external consultants, imposing restrictions on the conduct of Santander UK's business and operations and ultimately the revocation of Santander UK's banking licence. The reputational damage to its business and brand could be severe if Santander UK was found to have materially breached AML, CTF, anti-bribery and corruption, anti-tax evasion or sanctions requirements. Santander UK's reputation could also suffer if it were unable to protect its customers or its business from being used by criminals for illegal or improper purposes. Criminal penalties could be imposed upon individuals employed by Santander UK. Any of these outcomes could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK has been, and may in the future be, subject to negative coverage in the media about Santander UK or Santander UK's clients, including with respect to alleged conduct such as failure to detect and/or prevent any financial crime activities or comply with financial crime compliance regulations. Negative media coverage of this type about Santander UK, whether it has merit or not, could materially and adversely affect Santander UK's reputation and perception among current and potential clients, investors, vendors, partners, regulators and other third parties, which in turn could have a material adverse effect on Santander UK's operating results, financial condition and prospects as well as damage its customers' and investors' confidence and the market price of Santander UK's securities.

At an operational level, geopolitical, economic, social and technological changes can provide opportunities to financial criminals and alter the risks posed to banks. For example, war, bribery and corruption can be linked. Military resources can be illegally appropriated and sold, increasing illicit finance flows, and as a result those benefiting from conflict may use bribery, corruption and coercion to gain access to the financial system. Effective intelligence and monitoring systems within strengthened public/private partnerships supported by improved national capabilities to share knowledge on emerging risks and information pre-suspicion are required to help manage these risks. However, there can be no guarantee that any intelligence shared by public authorities or other financial institutions will be accurate or effective in helping Santander UK to combat financial crime, and if, despite such efforts, Santander UK fails to combat financial crime effectively then this could have a material adverse effect on Santander UK's operations, financial condition and prospects.

In addition, while Santander UK reviews its relevant counterparties' internal policies and procedures (for example, under its correspondent banking relationships) with respect to such matters, Santander UK, to a large degree, requires relevant counterparties to maintain and properly apply their own appropriate anti-financial crime procedures to reduce the risk of being used as a conduit for money laundering without its knowledge. There are also risks that other third parties, such as suppliers and those considered 'associated parties' under the UK Bribery Act, could be involved in financial crime. If Santander UK is associated with, or even accused of being associated with, financial crime (or a business involved in financial crime), then its reputation could suffer and it could become subject to civil or criminal proceedings that could result in penalties, sanctions and legal enforcement (including being added to 'black lists' that would prohibit certain parties from engaging in transactions with it), any one of which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK is subject to tax-related risks

Santander UK is subject to the substance and interpretation of tax laws and is subject to routine review and audit by tax authorities in relation thereto. Santander UK's interpretation or application of these tax laws may differ from those of the relevant tax authorities. While Santander UK provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities, the amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters. In general, changes to tax laws and tax rates, including as a result of policy changes by governments and/or regulators, and penalties for failing to comply with such changes, could have a material adverse effect on Santander UK's operations, financial condition and prospects. Some of these changes may be specific to the banking/financial services sectors and therefore result in Santander UK incurring an additional tax burden when compared to other industry sectors.

Santander UK is exposed to risk of loss and damage from civil litigation and/or criminal legal and regulatory proceedings

Santander UK faces various legal and regulatory issues that have given rise and may give rise to civil or criminal litigation, arbitration, and/or criminal, tax, administrative and/or regulatory investigations, inquiries or proceedings. Failure to adequately manage the risks arising in connection with legal and regulatory issues, including Santander UK's obligations under existing applicable laws and regulations or its contractual obligations, including arrangements with its

customers and suppliers, or failure to properly implement applicable laws and regulations could result in significant loss or damage including reputational damage, all of which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Additionally, the current regulatory environment, with the continuing heightened supervisory focus, combined with the forthcoming regulatory change initiatives, will lead to material operational and compliance costs. Relevant risks include:

– Regulators, agencies and authorities with jurisdiction over Santander UK, including the BoE, the PRA and the FCA, HMT, HM Revenue & Customs (HMRC), the CMA, the Information Commissioner's Office, the FOS, the PSR, the SFO, the National Crime Agency (NCA), the Office of Financial Sanctions Implementation (OFSI) or the courts, may determine that certain aspects of Santander UK's business have not been or are not being conducted in compliance with applicable laws or regulations (or that policies and procedures are inadequate to ensure compliance), or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion. Changes in policy, laws and regulations including in relation to SME dispute resolution and liability for APP fraud and unauthorised payment fraud, may have significant consequences and lead to material implementation, operational and compliance costs.
– An adverse finding by a regulator, agency or authority could result in the need for extensive changes in systems and controls, business policies, and practices coupled with suspension of sales, restrictions on conduct of business and operations, withdrawal of services, customer redress, fines and reputational damage.
– The increased focus on competition law in financial services and concurrent competition enforcement powers for the FCA and PSR may increase the likelihood of competition law related inquiries or investigations initiated by either the CMA or these authorities. Santander UK may be liable for damages to third parties harmed by Santander UK's conduct of business. For competition law, there are efforts by governments across Europe to promote private enforcement as a means of obtaining redress for harm suffered as a result of competition law breaches. Under the Consumer Rights Act 2015, there is scope for class actions to be used to allow the claims of a whole class of claimants to be heard in a single action in both follow-on and standalone competition cases. The UK has seen a sharp increase in recent years in the number of class action claims being issued in the Competition Appeals Tribunal on this basis. The tribunal has granted certification for every case that has reached the certification hearing stage to date, including cases that have presented novel competition law theories of harm.
– The alleged historical or current misselling of, or misconduct in relation to, financial products, including the alleged misselling of Payment Protection Insurance (PPI), the alleged overcharging of interest, the alleged inappropriate sale of interest-only mortgages, the alleged unfair use of the standard variable rate in connection with mortgages, or alleged misconduct as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, has given rise to and may in the future give rise to a risk of complaints to FOS and/or civil litigation (including claims management company driven legal or complaints campaigns)(see Note 30 to the Consolidated Financial Statements for legal actions and regulatory matters). For example, a recent judgment of the Court of Appeal of England and Wales (to which Santander UK was not a party) found that car dealers, when acting as credit brokers, owe certain legal duties to their customers which were breached if the dealer received commission from motor finance lenders without the informed consent of customers. Whilst the judgment is being appealed to the Supreme Court of England and Wales, and it remains unclear what impact the judgment will have on the FCA's ongoing investigation into auto-finance commission structures, in the interim there is an increased risk of complaints to FOS and / or civil litigation. Such matters have given rise to and may in the future give rise to the risk of regulatory enforcement action requiring Santander UK to amend sales processes, withdraw products or provide restitution to affected customers, any of which may require additional provisions to be recorded in Santander UK's financial statements and could adversely impact future revenues from affected products.
– Santander UK may have held and may continue to hold bank accounts for entities or have relationships with entities such as third parties that might be or are subject to scrutiny from various regulators and authorities, including the SFO, the NCA and regulators in the US and elsewhere, which has led and could in the future lead to Santander UK's conduct being reviewed as part of any such scrutiny.
– Santander UK is (and will continue from time to time to be) subject to certain legal or regulatory investigations, inquiries and proceedings, both civil and criminal including in connection with Santander UK's lending and payment activities, treatment of customers, relationships with Santander UK's employees, financial crime, and other commercial or tax matters (see Note 30 to the Consolidated Financial Statements for legal actions and regulatory matters). These may be brought against Santander UK under UK legal or regulatory processes, or under legal or regulatory processes in other jurisdictions, such as the EU and the US, in circumstances where overseas regulators and authorities may have jurisdiction by virtue of its activities or operations.
– In view of the inherent difficulty of predicting the outcome of legal or regulatory proceedings, particularly where opportunistic claimants seek very large or indeterminate damages, cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, or where the approaches of regulators or authorities to legal or regulatory issues and sanctions applied are subject to change, Santander UK cannot state with confidence what the eventual outcome of any pending matters will be and any such pending matters are not disclosed by name because they are under assessment. Santander UK's provisions in respect of any pending legal or regulatory proceedings are made in accordance with relevant accounting requirements. These provisions are reviewed periodically. However, in light of the uncertainties involved in such legal or regulatory proceedings, there can be no assurance that the ultimate resolution of these matters will not exceed the provisions currently accrued by Santander UK. As a result, the outcome of a particular matter (whether currently provided or otherwise) could have a material adverse effect on Santander UK's operations, financial condition and prospects.
– The developing legal and regulatory regime in which Santander UK operates requires it to be compliant across all aspects of its business, including the training, authorisation and supervision of personnel and the development of systems, processes and documentation. If Santander UK fails to be compliant with relevant law or regulation, there is a risk of an adverse impact on its business from more proactive regulatory intervention (including by any overseas regulator which establishes jurisdiction), investigation and enforcement activity leading to sanctions, fines, civil or criminal penalties, or other action imposed by or agreed with the regulatory authorities, as well as increased costs associated with responding to regulatory inquiries and defending regulatory actions. Customers of financial services institutions, including Santander UK's customers, may seek redress if they consider that they have suffered loss for example as a result of the misselling of a particular product, or through incorrect application or enforcement of the terms and conditions of a particular product or in connection with a competition law infringement and Santander UK's rights under a contract with its customers may in certain circumstances be unenforceable or otherwise impaired.
– The Financial Services and Markets Act 2000 (Designated Consumer Bodies) Order 2013 (the Designated Consumer Bodies Order) was made on 16 December 2013 and came into force on 1 January 2014. The Designated Consumer Bodies Order designates the National Association of Citizens Advice Bureaux, the Consumers' Association, the General Consumer Council for Northern Ireland and the National Federation of Self Employed and Small Businesses as consumer bodies that may submit a 'super-complaint' to the FCA. A 'super-complaint' is a complaint made by any of these designated consumer bodies to the FCA on behalf of consumers of financial services where it considers that a feature, or a combination of features, of the market for financial services in the UK is seriously damaging the interests of these customers. Complaints about damage to the interests of individual consumers will continue to be dealt with by the FOS. If a 'super-complaint' were to be made against a Santander UK entity by a designated consumer body under the Designated Consumer Bodies Order, any response published, or action taken by the FCA could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Given the: (i) requirement for compliance with an increasing volume of relevant laws and regulations; (ii) more proactive regulatory intervention and enforcement and more punitive sanctions and penalties for infringement; (iii) inherent unpredictability of litigation; (iv) evolution of the jurisdiction of FOS and CMA and related impacts; (v) potential for the development of a voluntary dispute resolution service to oversee the resolution of complaints from SMEs that are outside the FOS' jurisdiction; (vi) introduction of a voluntary code to enhance protection for customers who are victims of APP fraud; and (vii) high volume of new regulations or policy changes from multiple regulators and authorities which Santander UK is mandated to implement within compressed timescales; it is possible that related costs or liabilities could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Operational risks

Failure to successfully apply or to improve Santander UK's credit risk management systems could have a material adverse effect on Santander UK's operations, financial condition and prospects

As a commercial banking group, one of the main types of risks inherent in Santander UK's business is credit risk. For example, an important feature of Santander UK's credit risk management system is to employ Santander UK's own credit rating system to assess the particular risk profile of a customer. This system is primarily generated internally, but, in the case of counterparties with a global presence, also builds off the credit assessment assigned by other Banco Santander group members. As this process involves detailed analysis of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human and IT systems errors. Where exercising their judgement on current or future credit risk behaviour of Santander UK's customers, Santander UK's employees may not always be able to assign a correct credit rating, which may result in a larger exposure to higher credit risks than indicated by Santander UK's risk rating system. Santander UK may not be able to detect all possible risks before they occur, or its employees may not be able to effectively apply its credit policies and guidelines due to limited tools available to Santander UK, which may increase its credit risk.

Any failure to effectively apply, consistently monitor and refine Santander UK's credit risk management systems may result in an increase in the level of non-performing loans and higher losses than expected, which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK's business is subject to risks related to data and adverse impacts on operations if data management policies and procedures are not sufficiently robust

Santander UK's operations rely on the effective use of data to manage and grow its business and deliver the overall strategy. Santander UK uses data to serve its customers, satisfy its regulatory requirements and run its operations. If Santander UK's data is not accurate and timely, this could impact its ability to serve customers, operate with resiliency or meet regulatory requirements. From a business perspective, accurate and detailed customer data is critical for delivering customer expectations in terms of new and improved products and services. Lack of good quality data could also result in competitive disadvantages by increasing costs in terms of manual interventions, adjustments, and reconciliations. Investment is being made in data tools and in maturing a strong data culture across the organisation to address some of the data challenges and prepare a strong foundation for the future. Any such failure to effectively use data or maintain effective data management policy and procedures could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK's business is subject to risks related to cybersecurity

Santander UK's systems, software and networks may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. The interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm, and therefore have a material adverse impact on Santander UK's operations, financial condition and prospects.

In particular, in recent years the computer systems of companies and organisations have been targeted by cyber criminals, activists and nation-state-sponsored groups. Like other financial institutions, Santander UK manages and holds confidential personal information of customers in the conduct of its banking operations, as well as a large number of assets. Consequently, Santander UK has been, and continues to be, subject to a range of cybersecurity threats, such as ransomware, malware via the supply chain, phishing and denial of service.

Cybersecurity incidents could result in the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cybersecurity incidents could give rise to the disablement of Santander UK's digital systems used to service its customers. Any material disruption or degradation of Santander UK's systems, software or networks could cause information, including data related to customer requests, to be lost or to be delivered to Santander UK's clients with delays or errors, which could reduce demand for Santander UK's services and products. As attempted attacks continue to evolve in both scope and sophistication, Santander UK may incur significant costs to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating any cybersecurity incidents to its customers. If Santander UK fails to effectively manage its cybersecurity risk, by, for example, failing to adhere to its cybersecurity policies, procedures or controls, the impact could be significant and may include harm to Santander UK reputation and make Santander UK liable for the payment of customer compensation, regulatory penalties and fines. Factors such as failing to apply critical security patches from its technology providers, to manage out obsolete technology or to update Santander UK's processes in response to new threats could also give rise to these consequences, which, if they occur, could have a material adverse effect on Santander UK's operations, financial condition and prospects. This might also include significant increases in the premiums paid on cyber insurance policies or changes to policy limits and cover.

In addition, Santander UK may also be affected by cybersecurity incidents against national critical infrastructures in the UK or elsewhere, for example, the telecommunications network or cloud computing service providers used by Santander UK. In common with other financial institutions Santander UK is dependent on such networks to provide digital banking services to its customers, connect its systems to suppliers and counterparties, and allow its staff to work remotely. Any cybersecurity incidents against these networks could negatively affect its ability to service its customers. As Santander UK does not operate these networks it has limited ability to protect Santander UK's business from the adverse effects of cybersecurity incidents against it or against its counterparties and key national and financial market infrastructure. Further, the domestic and global financial services industry, including key financial market infrastructure, may be the target of cybersecurity disruption and attack by cyber criminals, activists or geopolitical activists looking to cause economic instability.

Further, the risk of cyberattacks on companies and institutions could increase as a result of geopolitical turmoil. For example, Santander UK has faced a heightened risk of cyberattacks as a result of Russia's military action against Ukraine; the Israel-Hamas armed conflict and/or other future regional conflicts and wars that have a global impact serve to further heighten such risk. Such attacks could adversely affect Santander UK's ability to maintain or enhance its cybersecurity and data protection measures. Santander UK continues to see increasing ransomware attacks across sectors driven by supply chain tool compromises, among other factors, and expect this trend to continue. We continue to actively monitor the situations in Ukraine, the Middle East and globally and assess their potential impacts on its business.

Santander UK's business is subject to risks related to the developing fields of artificial intelligence and machine learning

Artificial intelligence (AI) developments in the banking industry will test Santander UK's preparedness to safely manage and respond to the evolution of AI and machine learning given the velocity, pace and scale of change. This includes the identification of potential use cases for responsible adoption of AI and machine learning in Santander UK's own operations, as well as managing the threats that third party use of AI may pose. The risks caused by AI include, among others, data poisoning, potential bias, discrimination, misuse and increased exposure to cybersecurity, legal liability and fraud risk. Santander UK has a planned phase approach to AI over a three-year period and, to support that, it is improving data quality to enable model development. However, any failure to evaluate, actively manage and closely monitor risk during all phases of the development and implementation of AI into Santander UK's operations could introduce new vulnerabilities and security flaws and have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK is exposed to risk from potential non-compliance with regulations, policies, employee misconduct, human error, negligence and deliberate acts of harm or dishonesty, including fraud

Santander UK is exposed to risk from potential non-compliance with policies, employee misconduct, human error, negligence and deliberate acts of harm or dishonesty, including fraud. It is not always possible to deter or prevent employee misconduct or non-compliance with policies and such errors, acts, omissions and failures and the precautions Santander UK takes to detect and prevent this activity may not always be effective due to employee misconduct and

circumvention of controls. Any instances could result in regulatory sanctions and cause reputational or financial harm, and therefore have a material adverse effect on Santander UK's operations, financial condition and prospects.

Any failure to effectively manage changes in Santander UK's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on Santander UK's operations, financial condition and prospects

Santander UK's businesses and its ability to remain competitive depends to a significant extent upon the functionality of its information technology systems, software and networks and on its ability to upgrade, evolve and expand the capacity of its information technology infrastructure on a timely and cost-effective basis. The proper functioning of Santander UK's financial control, risk management, credit analysis and reporting, accounting, customer service, financial crime, conduct and compliance and other information technology systems, as well as the communication networks between branches and main data processing centres, are critical to its customers, businesses and its ability to compete. Investments and improvements in Santander UK's information technology infrastructure are regularly reviewed with a view to retain competitive advantage and to ensure that resilience remains within acceptable levels. Conversely any failure to effectively improve, evolve, expand or upgrade its information technology systems, software infrastructure and networks or information technology infrastructure in a timely manner could have a material adverse effect on Santander UK's operations, financial condition and prospects, and could cause reputational damage to Santander UK.

From time-to-time Santander UK is required to migrate information relating to its customers to new information technology systems. Any failure to manage such migration effectively and efficiently could have a negative impact on Santander UK's ability to provide services to its customers and could cause financial and reputational damage to Santander UK, along with regulatory scrutiny and potential enforcement action.

Santander UK expects changes to its programmes of systems to have an impact on its risk profile, from a technology, environmental, social and corporate governance and regulatory perspective. Whether it is the opportunities from adoption of cloud technology, systems to support important regulatory initiatives, or the desire to identify, prioritise and remove obsolete systems from operations, the operational risk associated with changes to programmes of systems is likely to increase and this will therefore remain an area of key focus in Santander UK's risk management. While internal controls aim to reduce the risk to acceptable levels, there can be no assurance that Santander UK will not suffer material losses from such operational risks in the future, which could have a material adverse impact on Santander UK's operations, financial condition and prospects.

Santander UK may be exposed to unidentified or unanticipated risks despite its risk management policies, procedures and methods and may be exposed to risk related to errors in Santander UK's risk modelling

The management of risk is an integral part of Santander UK's activities. Santander UK seeks to monitor and manage its risk exposure through a variety of risk reporting systems. For a further description of Santander UK's risk management framework see the 'Risk review'. While Santander UK employs a broad and diversified set of risk monitoring and risk mitigation techniques and strategies, they may not be fully effective in mitigating Santander UK's risk exposure in all economic market environments or against all types of risk, including risks that Santander UK fails to identify or anticipate.

Some of Santander UK's tools and metrics for managing risk are based upon its use of observed historical market behaviour. Santander UK applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. These tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors Santander UK did not anticipate or correctly evaluate in its statistical models. This would limit its ability to manage its risks. Santander UK's losses thus could be significantly greater than the historical measures indicate. In addition, Santander UK's quantified modelling does not take all risks into account. Santander UK's more qualitative approach to managing those risks could prove insufficient, exposing it to material, unanticipated losses. Santander UK could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that include errors or are otherwise inadequately developed, implemented or used, or as a result of the modelled outcome being misunderstood. If existing or potential customers or counterparties believe its risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with Santander UK. These occurrences could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK relies on third parties for important infrastructure support, products and services

Third-party providers provide key components of Santander UK's business infrastructure such as loan and deposit servicing systems, back office and business process support, information technology production and support, internet connections and network access. Relying on these third-party providers is a source of operational risk, including with respect to security breaches affecting Santander UK's third parties and other parties that interact with these providers. As the use and depth of Santander UK's relationship with third parties increases, including the use of AI and cloud-based services, Santander UK increasingly faces the risk of operational failure with respect to its systems. Santander UK may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs. In addition, any problems caused by these third parties, including as a result of them not providing Santander UK their services for any reason, or performing their services poorly, could adversely affect Santander UK's ability to deliver products and services to customers and otherwise conduct its business, which could lead to reputational damage, litigation and regulatory investigations and intervention. Replacing these third-party vendors or affiliates could also entail significant delays and expense. Further, the operational and regulatory risk Santander UK faces as a result of these arrangements may be increased to the extent that it restructures such arrangements. Any restructuring could involve significant expense to Santander UK and entail significant delivery and execution risk which could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Santander UK relies on recruiting, retaining and developing appropriate senior management and skilled personnel

Santander UK's continued success depends in part on the continued service of key members of its senior executive team and other key employees. The ability to continue to attract, develop, train, motivate and retain highly qualified and talented professionals is a key element of Santander UK's strategy. The successful implementation of Santander UK's strategy depends on the availability of skilled and appropriate management, both at Santander UK's head office and in each of its business units. There is also an increasing demand for Santander UK to hire individuals with STEM skills. Such individuals are very sought after by all organisations, not just the banking industry, and thus Santander UK's ability to attract and hire this talent will determine how quickly the bank is able to respond to technological change. In light of a shortage of skills currently being seen across the UK, it is increasingly challenging to recruit and retain talent for all roles, with subject matter expert and technology roles offering the biggest challenges.

If Santander UK fails to staff its operations appropriately or loses one or more of its key senior executives or other key employees and fails to replace them in a satisfactory and timely manner, it could have a material adverse effect on Santander UK's operations, financial condition and prospects.

In addition, the financial services industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on Santander UK's ability to hire or retain the most qualified employees. If Santander UK fails or is unable to attract and appropriately develop, motivate and retain qualified professionals, it could have a material adverse effect on Santander UK's operations, financial condition and prospects.

Financial reporting risk

Santander UK’s financial statements are based in part on judgements and accounting estimates which, if inaccurate, could cause material misstatement of Santander UK’s future financial results and financial condition

The preparation of Santander UK's consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management has considered the impact of developments in principal risks and uncertainties, as set out in the Risk review, on critical judgements and accounting estimates.

The significant judgements, apart from those involving estimation, made by management in applying Santander UK's accounting policies in these financial statements (key judgements) and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year (key estimates), which together are considered critical to Santander UK's results and financial position, are set out in Note 1 to the Consolidated Financial Statements in 'Critical judgements and accounting estimates'. Any material differences between estimates and actual results reported in any given financial period, or any material adjustments to the carrying amount of assets and liabilities, could result in reputational damage to Santander UK and could have a material adverse effect on its future financial results and financial condition.

Changes in accounting standards could affect reported earnings

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of Santander UK’s Consolidated Financial Statements. These changes can materially affect how Santander UK records and reports its financial condition and financial results. In some cases, Santander UK could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. Any change in reported earnings as a result of the foregoing could have a material adverse effect on Santander UK’s future financial results and financial condition.

Regulation of the Santander UK group

As a financial services group, Santander UK is subject to extensive financial services laws, regulations, administrative actions and policies in the UK and in each other location in which Santander UK operates. This intensive approach to supervision is maintained in the UK by the PRA and the FCA. As well as being subject to UK regulation, as a result of forming part of the Banco Santander group, Santander UK is also affected by other regulators, such as the Banco de España and the ECB, as well as various legal and regulatory regimes (including in the US) that have extra-territorial effect. Extensive legislation and implementing regulations affecting the financial services industry have recently been adopted in regions that directly or indirectly affect Santander UK's business, including Spain, the US, the EU and other jurisdictions. In the UK and elsewhere, there is continuing political, competitive and regulatory scrutiny of the banking industry. Political involvement in the regulatory process, in the behaviour and governance of the UK banking sector and in the major financial institutions in which the UK government has a direct financial interest is likely to continue.

Approach of the FCA

As per FSMA, the FCA's strategic objective is to ensure that the relevant markets function well. In support of this, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers. Following the entry into force of FSMA 2023, the FCA also has a secondary competitiveness and growth objective, to facilitate the international competitiveness and medium- to long-term growth of the UK economy.

The FCA Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply including high level principles of business and detailed conduct of business standards and reporting standards.

Approach of the PRA

As per FSMA, the PRA's general objective is to promote the safety and soundness of the firms which it regulates (with respect to insurers, the PRA also has a second objective of contributing to the securing of an appropriate degree of protection for policyholders). The PRA also has a secondary objective to facilitate effective competition in the markets for services provided by PRA authorised firms and, following the entry into force of FSMA 2023, is subject to the same secondary competitiveness and growth objective as the FCA.

The PRA Rulebook includes rules relating to capital adequacy and liquidity, among several other things.

US regulation

Within the Dodd-Frank Act, the so-called Volcker Rule, prohibits 'banking entities', including the Santander UK group, from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain exemptions, including exemptions permitting foreign banking entities to engage in trading and fund activities that take place solely outside of the US. The Volcker Rule also contains exclusions and certain exemptions for market-making, hedging, underwriting, trading in US government and agency obligations as well as certain foreign government obligations and also permits ownership interests in certain types of funds to be retained. The Santander UK group has policies, procedures and controls in place designed to achieve compliance with the Volcker Rule.

The Banking Act 2009

The special resolution regime set out in the Banking Act 2009 provides HMT, the BoE, the PRA and the FCA with a variety of powers for dealing with UK deposit taking institutions (and, in certain circumstances, their holding companies) that are failing or likely to fail, including: (i) to take a bank or bank holding company into temporary public ownership; (ii) to transfer all or part of the business of a bank to a private sector purchaser; or (iii) to transfer all or part of the business of a bank to a bridge bank. The special resolution regime also comprises a separate insolvency procedure and administration procedure each of which is of specific application to banks. These insolvency and administration measures may be invoked prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

The Financial Services (Banking Reform) Act 2013 further amended the Banking Act 2009 to introduce a UK 'bail-in power' to implement the EU's Bank Recovery and Resolution Directive (BRRD), which contains a bail-in power similar to that contained in the Banking Act and requires EU Member States to provide resolution authorities with the power to write-down the claims of unsecured creditors of a failing institution and to convert unsecured claims to equity (subject to certain parameters). The UK bail-in power is an additional power available to the UK resolution authorities under the special resolution regime provided for in the Banking Act 2009. This enables them to recapitalise a failing institution by allocating losses to such institution's shareholders and unsecured creditors, subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order.

Competition

The CMA is the UK's main competition authority responsible for ensuring that competition and markets work well for consumers. In addition, under the Banking Reform Act, as of 1 April 2015, the FCA has the power to enforce against breaches of the Competition Act 1998 and to refer markets to the CMA for in-depth investigation in the areas of financial services in the UK. As of 1 April 2015, the PSR also has an objective and powers equivalent to those of the FCA to promote competition in the payments industry.

Payments

Santander UK has been required to make systems changes and update processes to comply with a number of new payment regulations. As of 7 October 2024, the Payment Services Regulator (PSR) has mandated that Santander UK works on the extension of Confirmation of Payee for all payment service providers in the UK and has introduced a mandatory authorised push payment (APP) reimbursement requirement which aims to reduce the level of customer fraud. Under these standards, Santander UK assumes responsibility for certain categories of customer losses and any inherent failings in system design may lead to fines from regulators and/or compensation being paid to customers.

Santander UK also expects to see significant developments in the key UK payment systems architecture, with a systems update of the high value Clearing House Automated Payment System (CHAPS) through the Real Time Gross Settlement (RTGS), BACS, the potential development of a UK central bank digital currency or similar system, and the development of Open Banking payments and other lower value retail payment schemes. On 14 November 2024 the UK Government published its "National Payments Vision", which sets out its ambitions for the payments sector and is expected to generate a wider industry review of the UK payments landscape in 2025.

Financial crime

Santander UK is subject to UK anti-money laundering (AML)/counter-terrorism financing (CTF) legal and regulatory obligations. While the UK is no longer obliged to follow EU AML/CTF regulations following Britain's exit from the EU, as a wholly owned subsidiary of an EU headquartered bank, Santander UK is subject to Santander Group policies which incorporate EU AML legal and regulatory obligations.

In the UK, Santander UK is subject to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs)(as amended), which implement the Fourth Money Laundering Directive (EU) 2015/849 (MLD4) and the Fifth Money Laundering Directive (EU) 2018/843 (MLD5), into UK law. The Money Laundering and Terrorist Financing (High-Risk Countries) (Amendment) Regulations 2024 repealed the UK's list of high-risk third

countries (HRTCs) and replaced it with a definition that implements, and is updated automatically with reference to, two lists published by FATF being the "High-Risk Jurisdictions subject to a Call for Action" and the "Jurisdictions under Increased Monitoring".

Aligned with the aim of reducing money laundering as set out in the Economic Crime Plan 2023-26, HM Treasury launched a consultation in March 2024 on improving the effectiveness of the MLRs which closed on 9 June 2024. The consultation focused on four core themes, making customer due diligence more proportionate and effective; strengthening system coordination; providing clarity on scope of the MLRs; and reforming registration requirements for the trust register service. However, it is currently unclear whether and when any consequential amendments to the MLRs will be made following the consultation.

Further legal and regulatory changes related to financial crime took place during 2024. For example, the Economic Crime and Corporate Transparency Act (ECCTA) has initiated reforms to Companies House to combat misuse of UK corporate structures. The ECCTA will also extend corporate criminal liability by introducing a "failure to prevent fraud" offence, which will enter into force on 1 September 2025. This offence has extra-territorial reach, similar to the existing "failure to prevent" offences such as "failure to prevent bribery", introduced by the Bribery Act 2010, and "failure to prevent tax evasion", introduced by the Criminal Finances Act 2017 (both of which continue to be key areas of focus for the UK government). The new offence carries an unlimited fine. To avoid liability, organisations within scope will need to ensure they have in place 'reasonable prevention procedures' to prevent fraud. Government guidance indicates that reasonable fraud prevention procedures should be informed by six principles, including senior-level responsibility, risk assessment and due diligence.

On 18 July 2024, the FCA released a consultation on updates to their guidance on the treatment of Politically Exposed Persons (PEPs) (GC24/4), seeking to clarify the PEP definition and enhance due diligence obligations and approval requirements. The consultation closed on 18 October 2024 and, whilst the FCA concluded that their guidance remains appropriate, they plan to publish final amendments to the text for the purposes of providing further clarity to firms. Further, on 29 November 2024, the FCA published a policy statement on updates to its Financial Crime Guide (FCG) in the FCA Handbook, aiming to clarify its expectations for firms' financial crime controls (such as firms ensuring consistency with their Consumer Duty obligations) and to provide updated guidance on emerging risks including in relation to sanctions compliance, proliferation finance and transaction monitoring.

Consumer Duty

The FCA's Consumer Duty has been fully in force for all products and services since 31 July 2024. The Consumer Duty aims to enhance and improve consumer protections, requiring firms to deliver good outcomes for customers and to consider the needs, characteristics and objectives of the customer and how they behave at every stage of the customer journey in order to deliver good outcomes. Given the Consumer Duty is a relatively new obligation, firms need to consider and navigate updated guidance and expectations as the FCA continues to gain insights on firms' implementation of the Consumer Duty.

Articles of Association

The following is a summary of the Articles of Association (the Articles) of the Company.

Santander UK plc is a public limited company incorporated and registered in England and Wales under the Companies Act 2006, with registered number 2294747. The Articles specifically state and limit the objects of the Company which are therefore restricted.

A Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Directors in respect of any contract in which he has an interest, except if no conflict of interest could reasonably be expected to arise from that interest, or any resolution of the Directors concerning his own appointment, or the settlement or variation of the terms or the termination of his or her appointment. Directors are entitled to such remuneration as the directors determine for their services to the Company as directors and for any other service which they undertake for the Company. Directors may delegate to a person or committee the determination of any fee, remuneration or other benefit which may be paid or provided to any Director. No Director is required to retire by reason of his or her age, nor do any special formalities apply to the appointment or re-election of any Director who is over any age limit. No shareholding qualification for Directors is required.

The Company may issue shares with such rights or restrictions as may be determined by ordinary resolution or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Directors may decide. The Company may by ordinary resolution declare dividends, and the Directors may decide to declare or pay interim dividends. No dividend may be declared or paid unless it is in accordance with shareholders' respective rights. If dividends are unclaimed for twelve years, the right to the dividend ceases. All dividends or other sums which are payable in respect of shares, and unclaimed after having been declared or become payable, may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

Preference shares entitle the holder to receive a preferential dividend payment at a fixed or variable rate, such dividend to be payable on a date determined by the Board prior to the allotment of the shares. The Board will also determine whether these dividend rights are cumulative or non-cumulative. The holders of any series of preference shares will only be entitled to receive notice of and to attend any general meeting of the Company if the preference dividend on the preference shares of such series has not, at the date of the notice of the general meeting, been paid in full in respect of such dividend periods as the Board may prior to allotment determine, in which case the holders of the preference shares will be entitled to speak and/or vote upon any resolution proposed; or, if a resolution is proposed at the general meeting for, or in relation to, the winding up of the Company, or varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the preference shares of such series, in which case the holders of the preference shares of such series will be entitled to speak and/or vote only upon such resolution; or in such other circumstances, and upon and subject to such terms, as the Board may determine prior to allotment. Unless the Board determines, prior to allotment, that the series of preference shares shall be non-redeemable, each series shall be redeemable at the option of the Company on any date as the Board may determine prior to the date of allotment. On redemption the Company shall pay the amount due. The formula for calculation of any relevant redemption premium is set out in the Articles of Association.

On a distribution of assets on winding up of the Company or return of capital (other than on a redemption or purchase by the Company of any of its share capital), members holding preference shares shall in respect thereof be entitled to receive, out of the surplus assets remaining after payment of the Company's liabilities, an amount equal to the amount paid up or credited as paid up on the preference shares together with such premium (if any) as may be determined by the Board prior to allotment thereof (and so that the Board may determine that such premium is payable only in specified circumstances).

Ordinary shares are transferable. Holders of ordinary shares are entitled to receive notice of and to attend any general meeting of the Company. Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, or any suspension or any abrogation of special rights, as set out in the Articles of Association, on a show of hands every member who is present in person at a general meeting of the Company shall have one vote and every proxy present who has been duly appointed by a member shall have one vote. On a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

Subject to the prior rights of holders of preference shares, the Company pays dividends on its ordinary shares only out of its distributable profits and not out of share capital. Dividends are determined by the Board.

The Company's Articles of Association authorise it to issue redeemable shares, but the Company's ordinary shares are not redeemable. Where the shares are partly paid, the Board may make further calls upon the holders in respect of any sum whether in respect of nominal value or premium that is unpaid on their shares. There are no provisions discriminating against any existing or prospective shareholder as a result of such shareholder owning a substantial number of shares of any class. Subject to the provisions of the UK Companies Act 2006, all or any of the rights attached to any class of shares (whether or not the Company is being wound up) may be varied with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. Additional quorum and voting requirements apply to such meeting.

General meetings shall be called by at least 14 clear days' notice (that is, excluding the day of the general meeting and the day on which the notice is given). A general meeting may be called by shorter notice if it is so agreed, in the case of an annual general meeting, by all the shareholders having a right to attend and vote, or in other cases, by a majority in number of the shareholders having a right to attend and vote, being a majority together holding not less than 95% in nominal value of the shares giving the right. The notice shall specify the date, time and place of the meeting and the general nature of the business to be transacted.

There are no restrictions on the rights to own securities for either resident or non-resident shareholders, other than those to which they may be subject as a result of laws and regulations in their home jurisdiction.

Board of Directors

1 William Vereker
Chair
Appointed on 1 November 2020 (Board Chair), previously Independent Non-Executive Director from 1 October 2020.

Skills and experience
William is an experienced and well-respected Banker, previously having served as Global Head of Investment Banking for UBS (2013 – 2018), and prior to that holding a number of leadership roles at Nomura, Lehman Brothers and Morgan Stanley. From 2018 to 2019, he served as the Prime Minister's Business Envoy. He was a Vice Chairman at JP Morgan until October 2020.

Other principal appointments
Chair of the Board of Santander UK Group Holdings plc*. Non-Executive Director of the London Stock Exchange Group Plc (Chair of its Remuneration Committee). Member and Special Advisor of the Investment Committee at Delancey Credit and Income Fund GP. William sits on the Advisory Board of Celonis GmbH and also chairs the Advisory Board of Gonville & Caius College, Cambridge.

Board Committee memberships
Board Nomination & Governance Committee (Chair).

2 Mike Regnier
Executive Director and Chief Executive Officer
Appointed Chief Executive Officer on 1 April 2022.

Skills and experience
Mike joined Santander UK from Yorkshire Building Society (YBS), where he was a Board member since 2014 and Chief Executive since 2017. He previously held the posts of Chief Commercial Officer and Chief Customer Officer, having joined YBS in 2014.

Mike began his career in strategic management consulting with a focus on Retail and Retail Financial Services. After management positions at Asda, he joined the banking sector and held a number of senior positions at Lloyds Banking Group, including Personal Current Accounts, Credit Cards Director, and Products and Marketing Director for TSB. He has served as a Board Director of Visa UK, and Chairman of the merchant acquirer LTSB Cardnet. He was also Chair of the Building Societies Association from 2019 – 2021. In December 2023, Mike became a member of the British Infrastructure Council, representing Santander UK.

Other principal appointments
Chief Executive Officer and Executive Director of Santander UK Group Holdings plc*.

3 Angel Santodomingo
Executive Director and Chief Financial Officer
Appointed Chief Financial Officer on 5 March 2024.

Skills and experience
Angel joined Banco Santander group in 2005 as Head of International Development and Asset Management and subsequently became Head of Investor Relations. In 2014, he moved to Brazil and became CFO and Investor Relations Officer of Banco Santander Brazil, a role he held for nine years as well as Board Director. In 2023, Angel returned to Spain, becoming Group Head of Strategy and Chief of Staff to the Executive Chair, working directly for the Santander Group Executive Chair. He has also been Board Director of several companies, CFA Spain President and author of a series of books and articles about Markets, Finance Analysis and Equity Valuation.

Angel is an experienced Board Director, having held positions as a Board Director of a number of commercial entities, including Credito de la Casa, PSA Banque Brazil (Chairman) and Getnet Brazil. He has a Bachelor's degree in Economics & Finance and is a Chartered Financial Analyst (CFA).

Other principal appointments
Chief Financial Officer and Executive Director of Santander UK Group Holdings plc*.

4 Enrique Alvarez Labiano
Executive Director and CEO, Retail & Business Banking
Appointed on 12 February 2025.

Skills and experience
Enrique began his Banco Santander group career in 2015 as Group Head of Strategy and Head of the Group Chairman's office. He moved to the UK in 2019 as Head of Strategy and Corporate Development, before he took up the role of Chief People Officer in 2020 and was subsequently appointed Head of Everyday Banking in 2021. He's been CEO of Retail & Business Banking since 2023.

Before joining Santander, Enrique was a Partner at McKinsey & Company (2007-2015) leading strategic programmes and client relationships for financial institutions in Europe, Americas and Africa. He holds a degree in Engineering from ICAI, Pontificia Comillas University, and an MBA from INSEAD.

Other principal appointments

Executive Director of Santander UK Group Holdings plc*

5 Pedro Castro e Almeida

Banco Santander Nominated Non-Executive Director

Appointed on 1 September 2023.

Skills and experience

Pedro joined Santander Portugal in 1993, holding senior roles in various areas. From 2007 to 2009, he was a member of the boards of Banco Santander Totta and Banco Santander de Negócios Portugal. Since 2009, Pedro has sat on the Santander Portugal's Executive Committee and has been a member of its Board since 2010. In January 2019, he was appointed CEO of Santander Portugal and Vice Chairman of the Board. He assumed the role of Regional Head of Europe for Santander on 1 September 2023. In November 2023, Pedro was also appointed as a Non-Executive director of PagoNxt.

Pedro holds a degree in Business Management from ISEG and has studied at business schools in Europe and the US, namely INSEAD, Harvard Business School and Kellogg School of Management.

Other principal appointments

Non-Executive Director of Santander UK Group Holdings plc*. Director of PagoNxt SL*.

6 Lisa Fretwell

Independent Non-Executive Director and Employee Designated Director

Appointed Independent Non-Executive Director on 1 January 2022 and Designated NED chosen to represent the views of the workforce on 1 March 2023.

Skills and experience

Lisa has 25 years' experience within the financial services, technology, retail, and manufacturing industries in both business and consulting roles. She holds a first-class honours degree in Chemical engineering from the University of Birmingham and an MBA from Cranfield Business School. She was awarded Business Leader of the Year by Women in Credit in 2020.

Lisa joined Santander from Experian, where she was Managing Director of Experian UK's Data Business from 2019 - 2021. Prior to this, she held various senior roles at Cisco for over 10 years, including Vice President of Software and Operations and Managing Director of Consulting Services and Internet Business Solutions. Lisa also held roles at Capgemini and Procter & Gamble before joining Cisco.

Other principal appointments

Independent Non-Executive Director of Santander UK Group Holdings plc*. Non-Executive Director at Restore plc since 20 April 2022 (and Chair of its Board Risk Committee, ESG Committee and Remuneration Committee, and member of its Audit Committee and Nomination Committee). Member of the Council at the University of Birmingham (and member of its Audit Committee), Senior Advisor at Tresmares Capital and a board advisor at Haysto Limited.

Board Committee memberships

Board Audit Committee, Board Responsible Banking Committee, and Board Remuneration Committee.

7 Ed Giera

Independent Non-Executive Director

Appointed Independent Non-Executive Director on 19 August 2015. He was the Senior Independent Non-Executive Director from 15 October 2020 to 20 February 2025.

Skills and experience

Ed Giera is an experienced Non-Executive Director, having held a number of Board roles following his career with JP Morgan Securities, the investment banking affiliate of JP Morgan Chase & Co., where he held positions as Global Head of Pension Advisory, Head of Capital Markets for the EMEA region, and other senior roles. He provided corporate finance advisory and fiduciary services as Principal of EJ Giera LLC and was formerly a Non-Executive Director of NovaTech LLC and the Life and Longevity Markets Association. Ed was also previously a director of Pension Insurance Corporation Holdings Ltd, where he chaired the Board Audit & Risk Committee.

Other principal appointments

Independent Non-Executive Director of Santander UK Group Holdings plc*. Non-Executive Director (and Chair of the Risk Committee, member of the Audit Committee, and member of the Nomination Committee) of Rothesay Life Plc. Director of Rothesay Limited. Partner of Boscobel Place Capital LLC and Founder and Principal of E.J. Giera LLC.

Board Committee memberships

Board Audit Committee, Board Nomination & Governance Committee, Board Risk Committee (Chair), and Board Remuneration Committee.

8 David Gledhill

Independent Non-Executive Director

Appointed on 1 September 2024.

Skills and experience

David has significant experience in the financial services industry, in retail banking and digital transformation. He has held various senior leadership roles, including Group Chief Information Officer and Head of Technology and Operations at DBS Bank in Singapore, spending over a decade in that role.

Other principal appointments

Independent Non-Executive Director of Santander UK Group Holdings plc*. Non-Executive Director of Singapore Airlines and the Institute of Systems Science, National University of Singapore.

Board Committee memberships

Board Responsible Banking Committee, Board Audit Committee and Board Remuneration Committee.

9 Michelle Hinchliffe
Independent Non-Executive Director and Whistleblowers' Champion
Appointed on 1 June 2023.

Skills and experience
Michelle has over 30 years' experience in financial services audit both in the UK and internationally, with a particular focus on Banking and Capital Markets. Until 2022, she was Lead Partner at KPMG with responsibilities for a range of financial institution clients, reporting under both IFRS and US GAAP. Over the course of her career, she has been Lead Partner for Barclays, ANZ, Standard Chartered Bank, HSBC Investment Banking & Markets, and Citigroup UK. Michelle qualifies as the Board Audit Committee financial expert as defined in item 16A of Form 20-F.

Other principal appointments
Independent Non-Executive Director of Santander UK Group Holdings plc*. Independent Non-Executive Director of BHP Group Limited, Macquarie Group Limited and Macquarie Bank Limited. Member of the Institute of Chartered Accountants in England and Wales Australasia Strategic Advisory group.

Board Committee memberships
Board Audit Committee (Chair), Board Risk Committee, and Board Nomination & Governance Committee.

10 Mark Lewis
Independent Non-Executive Director
Appointed on 16 December 2020.

Skills and experience
Mark brings a track record of digital transformation and growth across multiple consumer businesses and sectors. He was CEO of Moneysupermarket Group plc, operating regulated marketplaces across financial services, travel and home services.

Prior to this, Mark sat on the John Lewis Management Board as Retail Director, responsible for sales and operations across 48 UK department stores and online channels serving 37 countries. He previously served as Managing Director of eBay UK and CEO of Collect+.

Other principal appointments
Independent Non-Executive Director of Santander UK Group Holdings plc*. Mark is Group Chairman of Iamproperty, Independent Non-Executive Director of Direct Line Insurance Group plc, Non-Executive Director of Sambla Group, and Non-Executive Director of Santander Consumer (UK) plc*.

Board Committee memberships
Board Remuneration Committee (Chair), Board Responsible Banking Committee, Board Risk Committee, and Board Nomination & Governance Committee.

11 Dirk Marzluf
Banco Santander Nominated Non-Executive Director
Appointed on 7 May 2019.

Skills and experience
Dirk joined Banco Santander as Group Chief Operating and Technology Officer (COTO) in September 2018. He joined Banco Santander from AXA Group, where he served as Group Chief Information Officer (CIO) since 2013, leading the insurance group's technology and information security transformation, its overall project portfolio and as co-sponsor of its digital strategy. His global technology leadership roles include previous work at Accenture, Daimler Chrysler and Winterthur Group.

As Banco Santander Group Head of Technology and Operations, Dirk Marzluf is responsible for leading the information technology and operations function and its strategic development.

Other principal appointments
Independent Non-Executive Director of Santander UK Group Holdings plc*. Chairman of Santander Global Technology and Operations SL*, Director of Getnet Payments, S.L.*, Director of PagoNxt Payments, S.L.*, Director of Ebury Partners Limited*, Director of Elevate Tech Platforms, S.L. Unipersonal* and Santander Consumer Holding GmbH*, and Director of Gravity Cloud Technology Sl*.

12 The Rt Hon. the Baroness Morgan of Cotes (Nicola (Nicky) Morgan)
Independent Non-Executive Director, Senior Independent Director and Consumer Duty Champion
Appointed on 10 August 2021. She was appointed Senior Independent Director on 20 February 2025.

Skills and experience
Nicky is a former MP, Cabinet Minister and Chair of the House of Commons Treasury Committee and is now a member of the House of Lords. She is a qualified solicitor by background and before being elected to Parliament spent 16 years with City law firms, focused on mergers and acquisitions and advisory work. Nicky possesses significant experience as a senior leader of high-profile large organisations, responsible for setting and overseeing implementation of strategy and communicating the organisation's narrative and capabilities. She brings a wealth of experience from both a public and private perspective of the financial services sector, communications and media, and digital & technology.

Other principal appointments
Independent Non-Executive Director of Santander UK Group Holdings plc*. Non-Executive Director of the Financial Services Compensation Scheme, Chair of the Careers & Enterprise Company, and Chair of the Council of the Advertising Standards Authority (ASA) Limited.

Board Committee memberships
Board Responsible Banking Committee (Chair), Board Risk Committee, and Board Nomination & Governance Committee.

13 David Oldfield

Independent Non-Executive Director

Appointed on 1 December 2024.

Skills and experience

David retired from Lloyds Banking Group in 2023 after nearly 40 years with them, having joined on the graduate training scheme. He brings a diverse set of retail banking, commercial banking and operational / technology leadership experiences. In the period 2014 to 2023, as a member of LBG's Group Executive Committee, David was CEO Retail Banking & Consumer Finance, CEO Commercial Banking and then most latterly Group Chief Operating Officer responsible for technology, data, strategic transformation, IT security and 3rd party procurement and supplier management.

Prior to these David had a variety of leadership roles across all areas of Lloyds Banking Group including in Technology, Procurement, Strategy, programme and integration delivery, SME & Mid Markets Banking and Offshore banking. Over the years David chaired multiple legal entities for Lloyds Banking Group both in the UK and internationally and, outside of the Group, was a Non Executive Director for Motability Operations Group Plc, Chair Cardnet Merchant Services Limited, and Chair of the Wellbeing leadership team for Business in The Community (BiTC). As LBG's Executive sponsor for disability for 14 years David was awarded a lifetime achievement award in 2023 from the Business Disability Forum, a leading business membership organisation in disability inclusion. He received an OBE in His Majesty's New Year Honours list in 2025 for services to workplace mental health and wellbeing, as well as services to disability.

Other principal appointments

Independent Non-Executive Director of Santander UK Group Holdings plc*.

Board Committee memberships

Board Risk Committee, Board Audit Committee, and Board Remuneration Committee.

14 José María Roldán

Independent Non-Executive Director

Appointed on 1 June 2023.

Skills and experience

José María has extensive depth of knowledge and expertise in banking supervision, financial stability and public policy. He was Chairman and CEO of the Spanish Banking Association (2014-2022) and spent 13 years as Director-General at the Banking Regulation and Financial Stability department of the Bank of Spain, and member of its Executive Board. During his tenure in office at the Bank of Spain, he was part of the Basel Committee on Banking Supervision. He also previously served as Board Member and Vice President of the European Banking Federation.

José María founded and Chaired the Committee of European Banking Supervisors (CEBS) (the forerunner of the European Banking Authority (EBA)); was President of the Financial Action Task Force on Money Laundering (FATF) and chaired the former Banking Advisory Committee (BAC) of the EU. He brings an in-depth knowledge and expertise in banking supervision and public policy, as well as over 25 years' experience in the financial sector in Europe.

Other principal appointments

Independent Non-Executive Director of Santander UK Group Holdings plc*. Non-Executive Director and Chair of Cater Allen Limited*. Independent Non-Executive Director of EBN Banco de Negocios SA*.

Board Committee memberships

Board Risk Committee, Board Remuneration Committee and Board Responsible Banking Committee.

15 Pamela Walkden

Banco Santander Nominated Non-Executive Director

Appointed on 1 October 2021.

Skills and experience

Pamela is currently Independent Director of Banco Santander, S.A. (since 2019) where she is the Risk Supervision, Regulation and Compliance Committee Chair. She is also a member of the Advisory Board at JD Haspel Limited.

Previously, Pamela has served in a number of senior management positions predominantly at Standard Chartered Bank, including as Group Head of Human Resources, Chief Risk Officer, Group Treasurer, Group Head of Asset and Liability Management and Regional Markets, Group Head of Internal Audit, Group Head of Corporate Affairs and Group Manager of Investor Relations. In addition, she served as an independent member of the UK Prudential Regulation Authority (PRA) Regulatory Reform Panel and as a member of the European Banking Authority Stakeholder Group.

Other principal appointments

Non-Executive Director of Santander UK Group Holdings plc*. Independent Non-Executive Director and Chair of the Risk Supervision, Regulation and Compliance Committee in Banco Santander SA*.

Board Committee memberships

Board Nomination & Governance Committee.

* Part of the Banco Santander group.

New York Stock Exchange (NYSE) Corporate Governance – differences in UK and NYSE corporate governance practice

The Company issues notes in the US from time to time pursuant to a shelf registration statement filed with the SEC. As these notes are listed on the NYSE, the Company is required to comply with NYSE corporate governance standards. Under the NYSE corporate governance standards, the Company must disclose any significant ways in which its corporate governance practices differ from those followed by US companies under the NYSE corporate governance standards. We believe the following to be the significant differences between our current corporate governance practices and those applicable to US companies under the NYSE corporate governance standards.

Under the NYSE corporate governance standards, independent Directors must comprise a majority of the Board. As at 31 December 2024, our Board was comprised of a Chair (who is also a Non-Executive Director), two Executive Directors and eleven Non-Executive Directors. The Chair, William Vereker, and eight of the other Non-Executive Directors, (Lisa Fretwell, Ed Giera, Michelle Hinchliffe, Mark Lewis, Nicky Morgan, José María Roldán, David Gledhill and David Oldfield), were independent as defined in the NYSE corporate governance standards. The other three Non-Executive Directors (Pedro Castro e Almeida, Dirk Marzluf and Pamela Walkden) were not independent according to NYSE corporate governance standards as they are representatives of the ultimate parent company, Banco Santander SA. Angel Santodomingo was appointed as an Executive Director on 5 March 2024. David Gledhill and David Oldfield were appointed as independent Non-Executive Directors on 1 September 2024 and 1 December 2024 respectively.

The NYSE corporate governance standards require that listed US companies have a nominating or corporate governance committee composed entirely of independent Directors and with a written charter addressing certain corporate governance matters. Applicable UK rules do not require companies without equity shares listed on the London Stock Exchange, such as the Company, to have a nominating committee. However, the Company has a Board Nomination & Governance Committee, which leads the process for Board appointments. This Committee has written Terms of Reference setting out its role to identify and nominate candidates for Board and Board Committee appointments. As at 31 December 2024, the following Directors made up the Board Nomination & Governance Committee: William Vereker (Chair), Ed Giera, Michelle Hinchliffe, Nicky Morgan, Mark Lewis and Pamela Walkden. Five of the Directors were independent according to NYSE corporate governance standards. The other Director (Pamela Walkden) was not independent according to NYSE corporate governance standards as she is a representative of the ultimate parent company, Banco Santander SA.

In addition, the Board is responsible for monitoring the effectiveness of the Company's governance practices and making changes as needed to ensure the alignment of the Company's governance system with current best practices. The Board monitors and manages potential conflicts of interest of management, Board members, shareholders, external advisers and other service providers, including misuse of corporate assets and abuse in related party transactions.

The NYSE corporate governance standards require that listed US companies have a compensation committee composed entirely of independent directors and with a written charter addressing certain corporate governance matters. Under its written Terms of Reference, the Company's Board Remuneration Committee is primarily responsible for overseeing and supervising Santander UK's policies and frameworks covering remuneration and reward. As at 31 December 2024, the following Directors were on the Board Remuneration Committee: Mark Lewis (Chair), Lisa Fretwell, Ed Giera, José María Roldán, David Gledhill and David Oldfield. All Directors were independent according to NYSE corporate governance standards.

The NYSE corporate governance standards require that listed US companies have an audit committee that satisfies the requirements of Rule 10A-3 under the US Securities Exchange Act of 1934, as amended (Rule 10A-3), with a written charter addressing certain corporate governance matters, and having a minimum of three members who are all independent as defined in Rule 10A-3. As a wholly-owned subsidiary of a parent that satisfies the requirements of Rule 10A-3(c)(2), the Company is exempt from the requirements of Rule 10A-3. However, the Company does have a Board Audit Committee. As at 31 December 2024, the Board Audit Committee was made up of five Non-Executive Directors: Michelle Hinchliffe (Chair), Lisa Fretwell, Ed Giera, David Gledhill and David Oldfield. All members were independent in 2024 as defined in Rule 10A-3.

The scope of the Board Audit Committee's Terms of Reference as well as the duties and responsibilities of such committee are more limited than that required of audit committees under the NYSE corporate governance standards. For example, the Board Audit Committee does not provide an audit committee report as required by the NYSE corporate governance standards to be included in the Company's annual proxy statement.

The NYSE corporate governance standards require that listed US companies adopt and disclose corporate governance guidelines, including with respect to the qualification, training and evaluation of their Directors. The NYSE corporate governance standards also require that the Board conducts a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Board has undertaken regular reviews of Board effectiveness primarily through an internal process led by the Chair. During the year the Board conducted an external evaluation with the provider, Boardroom Review, and considered their feedback, which concluded that the performance of the Board and its Committees continues to be effective.

A CEO of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate government standards. In accordance with NYSE corporate governance standards applicable to foreign private issuers, our CEO is not required to provide the NYSE with such an annual compliance certification.

Additional balance sheet and cash flow analysis

SECURITIES

Securities are classified in the consolidated balance sheet as other financial assets at fair value through profit or loss, other financial assets at amortised cost and financial assets at fair value through other comprehensive income.

Debt securities at amortised cost - Yields
The following table shows the weighted average yields for debt securities not held at fair value at 31 December 2024.

	Not later than one year	Later than one year and not later than five years	Later than five years and not later than ten years	Later than ten years	Total
	%	%	%	%	%
Weighted average yield					
– Debt securities at amortised cost	**—**	**—**	**4.25**	**1.33**	**2.25**

Weighted average yield is calculated using Total clean price x yield for each maturity bucket / Total clean price for each maturity bucket.

LOANS AND ADVANCES TO BANKS

Loans and advances to banks in the following tables include loans and advances to banks classified as reverse repurchase agreements – non trading.

Reconciliation to classifications in the consolidated balance sheet

		2024	2023
	Note	**£m**	£m
Loans and advances to banks		**1,032**	1,080
Reverse repurchase agreements - non trading	16	**1,363**	2,397
		2,395	3,477

Maturity analysis
The following table shows loans and advances to banks by maturity at 31 December 2024.

	Not later than one year	Later than one year and not later than five years	Later than five years and not later than fifteen years	Later than fifteen years	Total
	£m	£m	£m	£m	£m
Fixed interest rate	**1,813**	**—**	**—**	**—**	**1,813**
Variable interest rate	**570**	**3**	**9**	**—**	**582**
	2,383	**3**	**9**	**—**	**2,395**

LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are classified in the consolidated balance sheet as other financial assets at fair value through profit or loss, loans and advances to customers and reverse repurchase agreements – non trading. Reverse repurchase agreements represent business with professional non-bank customers as part of the liquidity risk management function. The balance sheet reconciliation below shows Loans and advances to customers net of impairment loss allowances and Residual Value and Voluntary Termination provisions.

Reconciliation to classifications in the consolidated balance sheet

	Note	**2024** £m	2023 £m
Other financial assets at fair value through profit or loss	12	**44**	46
Loans and advances to customers	13	**199,408**	207,435
Reverse repurchase agreements – non trading	16	**8,975**	10,071
		208,427	217,552

Maturity analysis
The following table shows loans and advances to customers by maturity at 31 December 2024. Overdrafts are included as 'on-demand'. Loans and advances are included at their contractual maturity; no account is taken of a customer's ability to repay early where it exists.

	Not later than one year £m	Later than one year and not later than five years £m	Later than five years and not later than fifteen years £m	Later than fifteen years £m	Total £m
Loans secured on residential properties	**11,183**	**36,184**	**66,512**	**51,335**	**165,214**
Corporate loans	**8,050**	**9,019**	**1,442**	**39**	**18,550**
Finance leases	**1,193**	**2,955**	**74**	**—**	**4,222**
Other unsecured advances	**4,486**	**2,003**	**106**	**6**	**6,601**
Accrued interest and other adjustments	**80**	**193**	**297**	**226**	**796**
Amounts due from immediate parent	**9**	**—**	**—**	**9**	**18**
Amounts due from fellow subsidiaries and joint ventures	**2,433**	**—**	**—**	**2,381**	**4,814**
Loans and advances to customers	**27,434**	**50,354**	**68,431**	**53,996**	**200,215**

We manage our balance sheet on a behavioural basis, rather than on the basis of contractual maturity. Many loans are repaid before their legal maturity, particularly advances secured on residential property.

Interest rate sensitivity
The following table shows the interest rate sensitivity of loans and advances to customers due after one year at 31 December 2024.

	Fixed rate £m	Variable rate £m	Total £m
Loans secured on residential properties	**148,196**	**17,018**	**165,214**
Corporate loans	**1,899**	**16,651**	**18,550**
Finance leases	**4,222**	**—**	**4,222**
Other unsecured advances	**3,897**	**2,704**	**6,601**
Accrued interest and other adjustments	**650**	**146**	**796**
Amounts due from immediate parent	**18**	**—**	**18**
Amounts due from fellow subsidiaries and joint ventures	**4,814**	**—**	**4,814**
Loans and advances to customers	**163,696**	**36,519**	**200,215**

SUMMARY OF LOAN LOSS EXPERIENCE

Loans accounted for on a non-accrual basis are credit impaired loans. We define a loan as in default (i.e. credit impaired) for purposes of calculating ECL if it is more than three months past due, or if we have data to make us doubt they can keep up with their payments i.e. they are unlikely to pay. We classify credit impaired loans as Stage 3. For details of loans classified as Stage 3, see the 'Credit risk' section of the Risk review. Interest income on financial assets that have become credit-impaired (or Stage 3) is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

In 2024, 2023 and 2022 there were no material credit impairment charges on Loans and advances to banks, Non-trading reverse repurchase agreements, Other financial assets at amortised cost and Financial assets at FVOCI. As a result, the following tables present Loans and advances to customers only.

The following tables show additional ratios and the components used in their calculation for the years ended 31 December 2024, 2023, and 2022.

	2024 £m	2023 £m
Allowance for credit losses to total loans	**0.41 %**	0.46 %
Allowance for credit losses	**807**	935
Total loans outstanding	**194,512**	203,100
Non-accrual loans to total loans	**1.36 %**	1.48 %
Non-accrual loans outstanding	**2,642**	3,000
Total loans outstanding	**194,512**	203,100
Allowance for credit losses to non-accrual loans	**30.55 %**	31.17 %
Allowance for credit losses	**807**	935
Non-accrual loans outstanding	**2,642**	3,000

	2024 £m	2023 £m	2022 £m
Loans secured on residential properties	**0.01 %**	0.01 %	— %
Net charge-off during the period	**9**	11	3
Average amount outstanding	**169,395**	177,689	182,094
Corporate loans	**0.32 %**	0.36 %	0.13 %
Net charge-off during the period	**59**	68	24
Average amount outstanding	**18,409**	18,662	19,170
Finance leases	**0.57 %**	0.50 %	0.44 %
Net charge-off during the period	**25**	23	19
Average amount outstanding	**4,364**	4,612	4,281
Other unsecured advances	**1.98 %**	1.74 %	1.28 %
Net charge-off during the period	**137**	130	110
Average amount outstanding	**6,934**	7,452	8,573
Amounts due from immediate parent	**— %**	— %	— %
Net charge-off during the period	**—**	—	—
Average amount outstanding	**37**	28	3
Amounts due from fellow subsidiaries and joint ventures	**— %**	— %	— %
Net charge-off during the period	**—**	—	—
Average amount outstanding	**4,652**	4,355	3,698
Loans and advances to customers	**0.11 %**	0.11 %	0.07 %
Net charge-off during the period	**230**	232	156
Average amount outstanding	**203,791**	212,798	217,819

Discussion of the factors driving material changes in the ratios above or their components

The factors driving significant changes are discussed as follows:

- Allowance for credit losses, exposures, expected credit losses, Stage 3 exposures and related ratios at a consolidated Santander UK group level can be found in the commentary sections in 'Credit performance', 'Credit quality' 'Stage 2 analysis' in 'Santander UK group level - credit risk review' in the Risk review
- More detailed discussion by business segment can be found in the 'Retail & Business Banking: Mortgages - credit risk review', 'Retail & Business Banking: Everyday Banking - credit risk review', 'Corporate & Commercial Banking - credit risk review' and 'Corporate Centre - credit risk review' sections of the Risk review.

DEPOSITS BY CUSTOMERS

The following table shows the average balances and interest rates for deposits by customers by product for the years ended 31 December 2024, 2023, and 2022.

	2024		2023		2022	
	Average Balance	**Average Interest Rate[(1)]**	Average Balance	Average Interest Rate[(1)]	Average Balance	Average Interest Rate[(1)]
	£m	**%**	£m	%	£m	%
Demand deposits (including savings and current accounts)	**154,434**	**1.82**	161,403	1.33	171,349	0.34
Time deposits	**27,695**	**4.74**	23,236	3.93	12,167	1.34
Other deposits	**13,492**	**4.78**	15,169	4.23	16,659	1.74
Total average balance[(1)]	**195,621**	**2.44**	199,808	1.85	200,175	0.52

(1) Calculated using monthly data.

Some deposits by customers are covered by depositor guarantee arrangements, as follows:

Scheme	Definition
Financial Services Compensation Scheme (FSCS)	The FSCS is the UK's independent statutory compensation fund for customers of PRA authorised financial services firms and pays compensation, up to certain limits, if a firm is unable, or likely to be unable to pay claims against it, for example by depositors. The FSCS is funded by levies on the industry, and recoveries and borrowings where appropriate.

The following table shows the amounts of insured and uninsured total deposits and time deposits excluding intercompany deposits at 31 December 2024 and 2023. The table also shows the amount of time deposits that are uninsured, either because they exceed depositor guarantee scheme compensation limits or because they are otherwise uninsured.

	2024	2023
	£m	£m
Insured deposits	**123,729**	130,753
Uninsured deposits	**53,606**	57,251
Total deposits	**177,335**	188,004
of which:		
Insured time deposits	**20,729**	18,395
Uninsured time deposits	**7,107**	9,748
– Excess over guaranteed limit	**4,164**	4,774
– Otherwise uninsured	**2,943**	4,974
Total time deposits	**27,836**	28,143

For the proportion of Retail & Business Banking customer deposits covered by the FSCS, see the Funding risk management section of the Risk review.

The following table shows the maturity of uninsured time deposits at 31 December 2024.

	Under 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
	£m	£m	£m	£m	£m
Deposits by customers	**3,853**	**977**	**1,061**	**1,216**	**7,107**

DEPOSITS BY BANKS

Deposits by banks include repurchase agreements – non-trading.

Reconciliation to classifications in the consolidated balance sheet

	Note	2024 £m	2023 £m
Deposits by banks	21	**13,993**	20,332
Repurchase agreements - non trading	23	**2,336**	551
		16,329	20,883

The following table shows the average balances of and interest rates for deposits by banks for the years ended 31 December 2024, 2023, and 2022.

	2024		2023		2022	
	Average Balance	**Average Interest Rate[1]**	Average Balance	Average Interest Rate[1]	Average Balance	Average Interest Rate[1]
	£m	**%**	£m	%	£m	%
Deposits by banks	**20,892**	**4.91**	27,878	4.42	35,070	1.44

(1) Calculated using monthly data.

At 31 December 2024, deposits by foreign banks were £2,085m (2023: £2,010m, 2022: £2,192m).

All bank deposits are uninsured, as depositor guarantee arrangements do not cover deposits by financial institutions.

The following table shows the maturity of uninsured deposits by banks at 31 December 2024.

	Under 3 months £m	3 to 6 months £m	6 to 12 months £m	Over 12 months £m	Total £m
Deposits by banks	**4,395**	**779**	**7,207**	**3,948**	**16,329**

INTEREST RATE SENSITIVITY

Interest rate sensitivity is the relationship between interest rates and net interest income caused by the periodic repricing of assets and liabilities. Our largest administered rate items are residential mortgages and retail deposits, many of which bear interest at variable rates.

We mitigate the impact of interest rate movements on net interest income by repricing our variable rate mortgages and variable rate retail deposits separately, subject to competitive pressures. We also offer fixed-rate mortgages and savings products on which the interest rate is fixed for an agreed period at the start of the contract. We manage the margin on fixed-rate products by using derivatives matching the fixed-rate profiles. We reduce the risk of prepayment by imposing early termination charges if the customers end their contracts early.

We manage the risks from movements in interest rates as part of our overall non-trading position. We do this within limits as set out in the Risk review.

Changes in net interest income – volume and rate analysis

The following table shows changes in interest income, interest expense and net interest income, and is presented using asset and liability classifications in the Consolidated Balance Sheet. It allocates the effects between changes in volume and changes in rate. Volume and rate changes have been calculated on the movement in the average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities. The changes caused by movements in both volume and rate have been allocated to rate changes.

	2024 / 2023			2023 / 2022		
		Changes due to increase/ (decrease) in			Changes due to increase/ (decrease) in	
	Total change	**Volume**	**Rate**	Total change	Volume	Rate
	£m	**£m**	**£m**	£m	£m	£m
Interest income						
Loans and advances to customers	**790**	**(200)**	**990**	3,378	(55)	3,433
of which reverse repurchase agreements	**267**	**192**	**75**	385	48	337
Loans and advances to banks	**(134)**	**(299)**	**165**	1,225	(41)	1,266
of which reverse repurchase agreements	**94**	**47**	**47**	92	17	75
Debt securities and other interest earning assets	**166**	**122**	**44**	306	75	231
Total interest income	**822**	**(377)**	**1,199**	4,909	(21)	4,930
Interest expense						
Deposits by customers - demand	**657**	**(93)**	**750**	1,570	(34)	1,604
Deposits by customers - time	**401**	**175**	**226**	750	148	602
Deposits by customers - other	**2**	**(78)**	**80**	356	(26)	382
of which repurchase agreements	**14**	**(52)**	**66**	351	28	323
Deposits by banks	**(234)**	**(318)**	**84**	736	(104)	840
of which repurchase agreements	**92**	**89**	**3**	67	—	67
Debt securities	**241**	**83**	**158**	1,065	110	955
Commercial paper	**78**	**39**	**39**	137	(13)	150
Subordinated liabilities	**24**	**30**	**(6)**	61	2	59
Other interest-bearing financial liabilities	**(1)**	**—**	**(1)**	1	—	1
Total interest expense	**1,168**	**(162)**	**1,330**	4,676	83	4,593
Net interest income	**(346)**	**(215)**	**(131)**	233	(104)	337

AVERAGE BALANCE SHEET

Year-end balances may not reflect activity throughout the year, so we present Average balance sheets below, using asset and liability classifications from the Consolidated Balance Sheet. They show averages for our significant categories of assets and liabilities, and the related interest income and expense.

	2024			2023			2022		
	Average balance[1]	**Interest**	**Average rate**	Average balance[1]	Interest	Average rate	Average balance[1]	Interest	Average rate
	£m	**£m**	**%**	£m	£m	%	£m	£m	%
Assets									
Loans and advances to customers[2]	**219,442**	**10,084**	**4.60**	224,267	9,294	4.14	226,377	5,916	2.61
of which reverse repurchase agreements	**15,651**	**794**	**5.07**	11,469	527	4.59	8,558	142	1.66
Loans and advances to banks	**36,078**	**1,716**	**4.76**	43,043	1,850	4.30	46,051	625	1.36
of which reverse repurchase agreements	**4,070**	**193**	**4.74**	2,763	99	3.58	816	7	0.86
Debt securities and other interest earning assets	**10,807**	**639**	**5.91**	8,589	473	5.51	5,934	167	2.81
Total average interest-earning assets, interest income	**266,327**	**12,439**	**4.67**	275,899	11,617	4.21	278,362	6,708	2.41
Credit impairment loss allowances and RV &VT	**(967)**	**—**	**—**	(1,068)	—	—	(1,034)	—	—
Derivatives and other non-interest-earning assets	**7,690**	**—**	**—**	7,601	—	—	9,819	—	—
Other financial assets at FVTPL	**204**	**—**	**—**	264	—	—	153	—	—
Total average assets	**273,254**	**—**	**—**	282,696	—	—	287,300	—	—
Liabilities									
Deposits by customers - demand	**(154,434)**	**(2,805)**	**1.82**	(161,403)	(2,148)	1.33	(171,349)	(578)	0.34
Deposits by customers - time	**(27,695)**	**(1,314)**	**4.74**	(23,236)	(913)	3.93	(12,167)	(163)	1.34
Deposits by customers - other	**(12,977)**	**(642)**	**4.95**	(14,787)	(640)	4.33	(16,309)	(284)	1.74
of which repurchase agreements	**(9,408)**	**(485)**	**5.16**	(10,567)	(471)	4.46	(8,568)	(120)	1.40
Deposits by banks	**(20,249)**	**(998)**	**4.93**	(27,308)	(1,232)	4.51	(34,533)	(496)	1.44
of which repurchase agreements	**(3,365)**	**(159)**	**4.73**	(1,445)	(67)	4.64	(5)	—	—
Debt securities	**(30,215)**	**(1,874)**	**6.20**	(28,762)	(1,633)	5.68	(24,117)	(568)	2.36
Commercial paper	**(5,076)**	**(297)**	**5.85**	(4,312)	(219)	5.08	(5,121)	(82)	1.60
Subordinated liabilities	**(2,383)**	**(193)**	**8.10**	(2,022)	(169)	8.36	(1,991)	(108)	5.42
Other interest-bearing liabilities	**(133)**	**(4)**	**3.01**	(130)	(5)	3.85	(141)	(4)	2.84
Total average interest-bearing liabilities, interest expense	**(253,162)**	**(8,127)**	**3.21**	(261,960)	(6,959)	2.66	(265,728)	(2,283)	0.86
Derivatives and other non interest-bearing liabilities	**(4,633)**	**—**	**—**	(4,609)	—	—	(4,578)	—	—
Other financial liabilities at FVTPL	**(983)**	**—**	**—**	(854)	—	—	(833)	—	—
Equity	**(14,476)**	**—**	**—**	(15,273)	—	—	(16,161)	—	—
Total average liabilities and equity	**(273,254)**	**—**	**—**	(282,696)	—	—	(287,300)	—	—

(1) Average balances are based on monthly data.
(2) Loans and advances to customers include Stage 3 assets. See the 'Credit risk' section of the Risk review.

Margin and average spread

	2024	2023	2022
	%	%	%
Interest spread[1]	**1.46**	1.55	1.55
Net interest margin[2]	**1.62**	1.69	1.59
Average spread[3]	**105**	105	105

(1) Interest spread is the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.
(2) NIM is calculated as net interest income divided by average interest earning assets
(3) Average spread is the ratio of average interest-earning assets to interest-bearing liabilities

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	2024 £m	2023 £m
Net cash flows from operating activities	(3,331)	(3,304)
Net cash flows from investing activities	(4,540)	(2,747)
Net cash flows from financing activities	285	19
Change in cash and cash equivalents	**(7,586)**	(6,032)

A more detailed Consolidated Cash Flow Statement is contained in the Consolidated Financial Statements.

The major activities and transactions that affected cash flows in 2024 and 2023 were as follows:

In 2024, the net cash outflows from operating activities of £3,331m resulted from outflows generated from a decrease in deposits by banks and customers partially offset by a decrease in loans and advances to banks and customers and reverse repurchase agreements and an increase in debt securities and repurchase agreements. The net cash outflows from investing activities of £4,540m mainly reflected the net purchase of certain asset backed securities and debt securities as part of normal liquid asset portfolio management. The net cash inflows from financing activities mainly reflected net cash flows relating to active capital management and the ongoing repayment of TFSME. These resulted in cash and cash equivalents decreasing by £7,586m in the year.

In 2023, the net cash outflows from operating activities of £3,304m resulted from outflows generated from an decrease in deposits by banks and customers and an increase in reverse repurchase agreements, partially offset by cash inflows from a decrease in loans and advances to banks and customers, derivative assets, and an increase in debt securities in issue and repurchase agreements. The net cash outflows from investing activities of £2,747m mainly reflected the net purchase of certain asset backed securities and debt securities as part of normal liquid asset portfolio management. The net cash inflows from financing activities mainly reflected net cash flows relating to debt securities in issue. These resulted in cash and cash equivalents decreasing by £6,032m in the year.

Cash flow requirements
For details of our cash flow requirements over the next 12 months and in the longer term and how we plan to meet them, see the Liquidity risk section of the Risk review.

Material cash requirements
Our material commitments under commercial contracts at 31 December 2024 were as follows:

- For cash flows and maturities relating to Derivatives, Deposits by customers, Deposits by banks, Debt securities in issue, Subordinated liabilities and Lease obligations, see Note 39 to the Consolidated Financial Statements. The maturities of financial liabilities and off-balance sheet commitments table analyses the maturities of the cash flows based on the remaining period to the contractual maturity date at the balance sheet date. In practice, the behavioural profiles of many liabilities show more stability and longer maturity than their contractual maturity. This is especially true of many types of retail and corporate deposits that, while they may be repayable on demand or at short notice, have shown good stability even in times of stress. For further details, see the Liquidity risk section of the Risk review.
- For details of cash flows and maturities relating to Retirement benefit obligations including employer contributions and funding, see Note 28 to the Consolidated Financial Statements.
- Purchase obligations: We have entered into outsourcing contracts where, in some cases, there is no minimum specified spending requirement. In these cases, anticipated spending volumes have been included in purchase obligations. Total purchase obligations, all of which are due within 1 year, were £379m.

Other information

Major shareholders

At 31 December 2024, the Company was a subsidiary of Santander UK Group Holdings plc. On 12 November 2004, Banco Santander SA acquired the then entire issued ordinary share capital of 1,485,893,636 ordinary shares of 10 pence each. On 12 October 2008, a further 10 billion ordinary shares of 10 pence each were issued to Banco Santander SA and an additional 12,631,375,230 ordinary shares of 10 pence each were issued to Banco Santander SA on 9 January 2009. On 3 August 2010, 6,934,500,000 ordinary shares of 10 pence each were issued to Santusa Holding SL. With effect from 10 January 2014, Santander UK Group Holdings Limited, a subsidiary of Banco Santander SA and Santusa Holding SL, became the beneficial owner of 31,051,768,866 of 10 pence each, being the entire issued ordinary share capital of the Company, by virtue of a share exchange agreement between Santander UK Group Holdings Limited, Banco Santander SA and Santusa Holding SL. Santander UK Group Holdings Limited became the legal owner of the entire issued ordinary share capital of the Company on 1 April 2014 and on 25 March 2015 became a public limited company and changed its name to Santander UK Group Holdings plc.

Legal proceedings

We are party to various legal proceedings in the ordinary course of business. See Notes 27 and 30 to the Consolidated Financial Statements.

Share capital

See Note 31 to the Consolidated Financial Statements.

Material contracts

We are party to various contracts in the ordinary course of business. For the two years immediately preceding publication of this annual report, there have been no material contracts entered into outside the ordinary course of business.

Exchange controls

There are no UK laws, decrees or regulations that restrict our export or import of capital, including the availability of cash and cash equivalents for use by us, or that affect the remittance of dividends or other shareholder payments to non-UK holders of Company shares, except as outlined in the section on Taxation for US Investors below.

Taxation for US investors

The following is a summary, under current law, of the main UK tax considerations relating to the beneficial ownership by a US taxpayer of the shares of the Company. This summary is provided for general guidance and does not address investors that are subject to special rules or that do not hold the shares as capital assets. US residents should consult their local tax advisers, particularly in connection with any potential liability to pay US taxes on disposal, lifetime gift or bequest of their shares.

UK taxation on dividends

Under UK law, income tax is not withheld from dividends paid by UK companies. Shareholders, whether resident in the UK or not, receive the full amount of the dividend actually declared.

UK taxation on capital gains

Under UK law, when you sell shares you may be liable to pay either capital gains tax or corporation tax on chargeable gains. However, if you are either (i) an individual who is not resident in the UK or (ii) a company which is not resident in the UK, you will not be liable to UK tax on any capital gains made on disposal of your shares. The exception is if the shares are held in connection with a trade or business that is conducted in the UK through a branch or agency (for capital gains tax purposes) or a permanent establishment (for corporation tax purposes).

UK inheritance tax

Under the current estate and gift tax convention between the US and the UK, shares held by an individual shareholder who is domiciled for the purposes of the convention in the US and is not for the purposes of the convention a national of the UK will not be subject to UK inheritance tax on:

- The individual's death or
- On a gift of the shares during the individual's lifetime.

The exception is if the shares are part of the business property of a permanent establishment of the individual in the UK or, in the case of a shareholder who performs independent personal services, pertain to a fixed base situated in the UK.

Designated agent

The designated agent for service of process on Santander UK in the United States is C T Corporation System, 111 Eighth Avenue, New York, New York.

Trustee/paying agent

The names and addresses of the Trustee/paying agent for each class of security registered with the US Securities and Exchange Commission (the SEC) are:

- Senior: Citibank NA, 388 Greenwich Street, New York, New York 10013, United States
- With respect to 7.95% Term Subordinated Securities due October 26, 2029 (US002920AC09): Trustee: The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom and Paying Agent: Citibank NA, 13th Floor, Citigroup Centre, Canada Square, London E14 5LB, United Kingdom

Documents on display

The Company is subject to the information requirements of the US Securities Exchange Act of 1934. In accordance with these requirements, the Company files its Annual Report and other related documents with the SEC, and which may be accessed at the SEC's website. Information on the operation of the public reference rooms can be obtained by calling the SEC on +1-202-551-8090 or by looking at the SEC's website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with it.

None of the websites referred to in this Annual Report on Form 20-F for the year ended 31 December 2024 (the Form 20-F), including where a link is provided, nor any of the information contained on such websites is incorporated by reference in the Form 20-F.

Audit fees

See Note 7 to the Consolidated Financial Statements.

Insider trading policies

The Company has adopted insider trading policies and procedures governing the purchase, sale, and other dispositions of its securities by Directors, Senior Management and employees that are designed to promote compliance with insider trading laws, rules and regulations, and listing standards applicable to Santander UK. These policies and procedures are set out in the Santander UK Policy on Market Abuse and Inside Information which is filed as Exhibit 11.1 to this annual report on Form 20-F.

Santander UK monitors inside information as defined under the EU Market Abuse Regulation 2014/596 (EU MAR) as on shored into UK law on 31 December 2020 by the EU (Withdrawal) Act 2018. Changes to EU MAR were made by the Market Abuse Exit Regulations 2019. Santander UK, as part of its disclosure controls and procedures, imposes restrictions on trading in its own securities when it has undisclosed inside information and also generally refrains from trading in its own securities during its regular closed periods.

Glossary of financial services industry terms

Term	Definition
Active customers	Active customers are defined as those having an open account, with more than a set minimum balance along with certain specified transactions in the prior month.
Alternative performance measures (APMs)	A financial measure of historical or future financial performance, financial position or cashflows, other than a financial measure defined or specified under International Financial Reporting Standards.
Anti-Money Laundering (AML)	A set of policies and practices to ensure that financial institutions and other regulated entities prevent, detect, and report financial crime and especially money laundering activities.
Arrears	Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Such a customer is also said to be in a state of delinquency. When a customer is in arrears, his entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages but could also include leases, credit card receivables, motor vehicles or student loans.
Balance weighted Loan to Value (LTV) ratio	(Loan 1 balance x (Loan 1 Balance/Loan 1 latest property valuation) + (Loan 2 balance x (loan 2 balance/Loan 2 latest property valuation) + ...) / (Loan 1 balance + Loan 2 balance+...)
UK Bank Levy	The government levy that applies to certain UK banks, UK building societies and the UK operations of foreign banks from 1 January 2011. The levy is payable based on a percentage of the chargeable equity and liabilities of the bank at the balance sheet date.
Basis point (bps)	One hundredth of a per cent (i.e. 0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Brexit	The withdrawal of the United Kingdom from the European Union.
Business Banking	Division, managed under Retail & Business Banking, serving enterprises with a turnover of up to £6.5m per annum.
Colleague engagement	Colleague engagement is measured on annual basis in the Group Engagement Survey (GES), conducted by Mercer for Banco Santander. Results are benchmarked against other firms in the UK financial sector and other high performing firms.
Commercial Paper	An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date. Commercial paper can be issued as an unsecured obligation of Santander UK and is usually issued for periods ranging from one week up to nine months. However, the depth and reliability of some CP markets means that issuers can repeatedly roll over CP issuance and effectively achieve longer term funding. CP can be issued in a range of denominations and can be discounted or interest-bearing.
Commercial Real Estate (CRE)	Lending to UK customers, primarily on tenanted property assets, with a focus on the office, retail, industrial and residential sectors.
Common Equity Tier 1 (CET1) capital	The called-up share capital and eligible reserves less deductions calculated in accordance with the CRD IV implementation rules as per the PRA Policy Statement PS7/13.
CET1 capital ratio	CET1 capital as a percentage of risk weighted assets.
Consumer Finance	Provides prime auto consumer financing for individuals, businesses, and automotive distribution networks.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Corporate Centre	Provides treasury services for asset and liability management of our balance sheet, as well as management of non-core and legacy portfolios.
Corporate & Commercial Banking (CCB)	Provides banking products and services to SMEs, mid-sized and larger corporates, typically with annual turnovers of between £2m and £500m, as well as to Local Authorities and Housing Associations.
Cost to income ratio	Total operating expenses before credit impairment losses and provisions for other liabilities and charges as a percentage of total operating income.
Cost of risk	Cost of risk is credit impairment charge for the 12 month period as a percentage of average gross customer loans. This is a useful measure of the relationship between the size of the credit impairment charge and the book size which investors use as a proxy to compare relative credit risk.
Countercyclical capital buffer	A capital buffer required under Basel III to ensure that capital requirements take account of the macro-financial environment in which banks operate.
Counterparty credit risk	The risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction.
Covered bonds	Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Santander UK group issues covered bonds as part of its funding activities.
Credit spread	The yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to accept a lower credit quality.
Credit Valuation Adjustment (CVA)	Adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.

Term	Definition
Currency swap	An arrangement in which two parties exchange specific principal amounts of different currencies at inception and subsequently interest payments on the principal amounts. Often, one party will pay a fixed interest rate, while the other will pay a floating exchange rate (though there are also fixed-fixed and floating-floating arrangements). At the maturity of the swap, the principal amounts are usually re-exchanged.
Customer funding gap	Customer loans less customer deposits.
Debt securities	Transferable instruments creating or acknowledging indebtedness. They include debentures, bonds, certificates of deposit, notes and commercial paper. The holder of a debt security is typically entitled to the payment of principal and interest, together with other contractual rights under the terms of the issue, such as the right to receive certain information. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities can be secured or unsecured.
Debt securities in issue	Transferable certificates of indebtedness of the Santander UK group to the bearer of the certificates. These are liabilities of the Santander UK group and include commercial paper, certificates of deposit, bonds, and medium-term notes.
Default	Financial assets in default represent those that are at least 90 days past due in respect of principal or interest and/or where the assets are otherwise considered to be unlikely to pay, including those that are credit impaired.
Default at proxy origination	IFRS 9 requires us to compare lifetime probability of default at origination with our view of lifetime probability of default now. If we do not have data at origination, then a proxy origination is defined.
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.
Defined benefit plan	A pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The employer's obligation can be more or less than its contributions to the fund.
Defined contribution plan	A pension plan under which the Santander UK group pays fixed contributions as they fall due into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions, i.e. the employer's obligation is limited to its contributions to the fund.
Derivative	A contract or agreement whose value changes with changes in an underlying index such as interest rates, foreign exchange rates, share prices or indices and which requires no initial investment or an initial investment that is smaller than would be required for other types of contracts with a similar response to market factors. The principal types of derivatives are: swaps, forwards, futures and options.
Digital sales	Percentage of new contracts executed through digital channels during the period. Digital sales as % of total sales.
Economic capital	An internal measure of the minimum equity and preference capital required for the Santander UK group to maintain its credit rating based upon its risk profile.
Effective tax rate	The tax on profit/(losses) on ordinary activities as a percentage of profit/(loss) on ordinary activities before taxation.
Energy performance certificate (EPC)	A scheme to summarise the energy efficiency of buildings and apply a rating between A – G.
Expected credit loss (ECL)	Represents what the credit risk is likely to cost us either over the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk since origination.
Expected loss (EL)	The product of the probability of default, exposure at default and loss given default. We calculate each factor in accordance with CRD IV and include direct and indirect costs. We base them on our risk models and our assessment of each customer's credit quality.
Exposure at default (EAD)	The maximum loss that a financial institution might suffer if a borrower, counterparty or group defaults on their obligations or assets and off-balance sheet positions have to be realised.

Term	Definition
Fair value adjustment	An adjustment to the fair value of a financial instrument which is determined using a valuation technique (level 2 and level 3) to include additional factors that would be considered by a market participant that are not incorporated within the valuation model.
Financial Conduct Authority (FCA)	The Financial Conduct Authority is a financial regulatory body in the United Kingdom.
Financial Services Compensation Scheme (FSCS)	The Financial Services Compensation Scheme is the UK's statutory deposit insurance and investors compensation scheme for customers of authorised financial services firms.
First / Second Charge	First charge (also known as first lien): debt that places its holder first in line to collect compensation from the sale of the underlying collateral in the event of a default on the loan. Second charge (also known as second lien): debt that is issued against the same collateral as a higher charge debt but that is subordinate to it. In the case of default, compensation for this debt will only be received after the first charge has been repaid and thus represents a riskier investment than the first charge.
Follow-on Rate (FoR)	A mortgage product that tracks and is directly linked to the Bank of England base rate.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor’s financial difficulties.
Full time equivalent	Full time equivalent employee units are the on-job hours paid for employee services divided by the number of ordinary-time hours normally paid for a full-time staff member when on the job (or contract employee where applicable).
Green Finance	In line with our internal classification system to define what investments can be considered green finance. This includes financing raised and facilitated to renewable energy and other green energy financing; mortgages on properties with A- or B-rated EPC; and financing for electric vehicles, hybrid, and plug-in hybrid electric vehicles (PHEV) with emissions below 50g CO2 /km
Impairment loss allowance (Loan loss allowance)	An impairment loss allowance held on the balance sheet as a result of the raising of a charge against profit for an expected credit loss in the lending book. An impairment loss allowance may be either individual or collective.
Individually assessed loan impairment provisions	Impairment is measured individually for assets that are individually significant. For these assets, the Santander UK group measures the amount of the impairment loss as the difference between the carrying amount of the asset or group of assets and the present value of the estimated future cash flows from the asset or group of assets discounted at the original effective interest rate of the asset.
Internal Capital Adequacy Assessment Process (ICAAP)	The Santander UK group’s own assessment of its regulatory capital requirements, as part of CRD IV. It takes into account the regulatory and commercial environment in which the Santander UK group operates, the Santander UK group’s Risk Appetite, the management strategy for each of the Santander UK group’s material risks and the impact of appropriate adverse scenarios and stresses on the Santander UK group’s capital requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Santander UK group’s own assessment of the prudent level of liquidity that is consistent with the Santander UK group’s LRA. It documents and demonstrates the Santander UK group’s overall liquidity adequacy – an appropriate level of liquid resources, a prudent funding profile and comprehensive management and control of liquidity and funding risks.
Internal ratings-based approach (IRB)	The Santander UK group's method, under the CRD IV framework, for calculating credit risk capital requirements using the Santander UK group’s internal models
International Financial Reporting Standards (IFRS)	A set of international accounting standards developed and issued by the International Accounting Standards Board, consisting of principles-based guidance.
Investment grade	A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
ISDA Master agreement	Standardised contract developed by ISDA (International Swaps and Derivatives Association) used as an umbrella under which bilateral derivatives contracts are entered into.
Judgemental Adjustments	Adjustments made to the ECL estimate outside of the ECL models to reflect management judgements.

Term	Definition
Level 1	The fair value of these financial instruments is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Santander UK group has the ability to access at the measurement date.
Level 2	The fair value of these financial instruments is based on quoted prices in markets that are not active or quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.
Level 3	The fair value of these financial instruments is based on inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable.
Liquidity Coverage Ratio (LCR)	The LCR is intended to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets which can be used to offset the net cash outflows the bank could encounter under a short-term significant liquidity stress scenario.
LCR eligible liquidity pool	Assets eligible for inclusion in the LCR as high-quality liquid assets. The LCR eligible liquidity pool also covers both Pillar 1 and Pillar 2 risks.
Loan to value ratio (LTV)	The amount of a first mortgage charge as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the price of the loan to the borrower. LTV ratios may be expressed in a number of ways, including origination LTV and indexed LTV.
Loss Given Default (LGD)	The fraction of Exposure at Default that will not be recovered following default. LGD comprises the actual loss (the part that is not recovered), together with the economic costs associated with the recovery process. It is calculated as the expected loss divided by EAD for each month of the forecast period. We base LGD on factors that impact the likelihood and value of any subsequent write-offs, which vary according to whether the product is secured or unsecured. If the product is secured, we take into account collateral values as well as the historical discounts to market/ book values due to forced sales type.
Master netting agreement	An industry standard agreement which facilitates netting of transactions (such as financial assets and liabilities including derivatives) in jurisdictions where netting agreements are recognised and have legal force. The netting arrangements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis.
Maximum Distributable Amount (MDA)	The maximum distributions which a bank can make to investors when it has insufficient capital to meet its buffer requirements.
Medium-Term Funding (MTF)	Shown at a sterling equivalent value. Consists of senior debt issuance, asset-backed issuance (including securitisation and covered bond issuance) and structured issuance (including firm financing repurchase agreements).
Medium-Term Notes (MTNs)	Corporate notes (or debt securities) continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years. They can be issued on a fixed or floating coupon basis or with an exotic coupon; with a fixed maturity date (non-callable) or with embedded call or put options or early repayment triggers. MTNs are most generally issued as senior, unsecured debt.
Minimum requirement for own funds and eligible liabilities (MREL)	A requirement under the Bank Recovery and Resolution Directive for EU resolution authorities to set a minimum requirement for own funds and eligible liabilities for banks, implementing the Financial Stability Board's Total Loss Absorbing Capacity (TLAC) standard. The purpose of MREL is to help ensure that when banks, building societies and investment firms fail, that failure can be managed in an orderly way while minimising risks to financial stability, disruption to critical economic functions, and risks to public funds.
Mortgages	Refers to residential and buy to let retail mortgages only and excludes social housing and commercial mortgage properties.
Net fee and commission income	Fee and commission income minus other fees paid that are not an integral part of the effective interest rate. For retail and corporate products, fee and commission income consists principally of collection services fees, commission on foreign currencies, commission and other fees received from retailers for processing credit card transactions, fees received from other credit card issuers for providing cash advances for their customers through the Santander UK group's branch and ATM networks, annual fees payable by credit card holders and fees for non-banking financial products.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net Interest Margin (NIM)	Net interest income as a percentage of average interest-earning assets.
Net Stable Funding Ratio (NSFR)	The ratio of available stable funding resources to stable funding requirements over a one-year time horizon, assuming a stressed scenario. The
Over the counter (OTC)	Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. They

Term	Definition
Own credit	The effect of the Santander UK group's own credit standing on the fair value of financial liabilities.
Past due	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Payment holiday	A period in which a customer has relief from making repayments on a loan. Also known as a payment deferral.
Pillar 1	The first pillar of the Basel III approach which provides the approach to the calculation of the minimum capital requirements.
Pillar 2	The part of the CRD IV Accord which sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the
Pillar 3	The part of the CRD IV Accord which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
Prime / prime mortgage loans	A description for mortgages granted to the most creditworthy category of borrowers.
Probability of default (PD)	The likelihood of a borrower defaulting in the following year, assuming it has not closed or defaulted since the reporting date. For each month in the forecast period, we estimate the monthly PD from a range of factors. These include the current risk grade for the exposure, which becomes less relevant further into the forecast period, as well as the expected evolution of the account risk with maturity and factors for changing economics. We support this with historical data analysis.
Prudential Regulation Authority (PRA)	The UK financial services regulator formed as one of the successors to the FSA. The PRA is part of the Bank of England and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.
Regulatory capital	The amount of capital that the Santander UK group holds, determined in accordance with rules established by the UK PRA for the consolidated Santander UK group and by local regulators for individual Santander UK group companies.
Repurchase agreement (Repo)	In a sale and repurchase agreement one party, the seller, sells a financial asset to another party, the buyer, under commitments to reacquire the asset at a later date. The buyer at the same time agrees to resell the asset at the same later date. From the seller's perspective such agreements are securities sold under repurchase agreements (repos) and from the buyer's securities purchased under commitments to resell (reverse
Residential Mortgage-Backed Securities (RMBS)	Securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and / or principal).
Retail & Business Banking (RBB)	Provides UK mortgage lending and banking services and unsecured lending to individuals and small businesses.
Risk Appetite	The level of risk (types and quantum) that the Santander UK group is willing to accept (or not accept) to safeguard the interests of shareholders whilst achieving business objectives.
Risk-weighted assets (RWA)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.
RoTE	Profit after tax attributable to equity holders of the parent divided by average shareholders' equity less non-controlling interests, other equity instruments and average goodwill and intangible assets.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company sells assets to a structured entity which then issues securities backed by the assets, based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors. Assets used in securitisations include mortgages to create mortgage-backed securities. Santander UK has established securitisation structures as part of its funding and capital management activities.

Term	Definition
Significant increase in credit risk (SICR)	Assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after considering the passage of time).
Sovereign exposures	Exposures to local and central governments, and government guaranteed counterparties.
Stage 1	Assets have not experienced a significant increase in credit risk since origination. A loss allowance equal to a 12-month ECL is applied.
Stage 2	Assets have experienced a significant increase in credit risk since origination, but no credit impairment has materialised. A loss allowance equal to the lifetime ECL is applied.
Stage 3	Assets that are in default and considered credit impaired. A loss allowance equal to the lifetime ECL is applied. Objective evidence of credit impairment is required.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements under CRD IV, using External Credit Assessment Institutions ratings and supervisory risk weights. The Standardised approach is less risk-sensitive than IRB (see 'IRB' above). In relation to operational risk, a method of calculating the operational capital requirement under CRD IV, by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stress testing	Stress testing is a management tool that facilitates a forward-looking perspective on risk management, strategic planning, capital, and liquidity and funding planning.
Structured entity	An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
Structured finance/notes	A structured note is an instrument which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to a range of underlying assets, including equities, interest rates, funds, commodities and foreign currency.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the
Sub-prime	Loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Supranational	An international organisation where member states transcend national boundaries or interests to share in decision-making and vote on issues relating to the organisation's geographical focus.
Standard Variable Rate (SVR)	A mortgage product managed by Santander and not directly linked to the Bank of England base rate.
Term Funding Scheme with additional incentives fort SMEs (TFSME)	The TFSME allows eligible banks and building societies to access four-year funding at rates very close to Bank Rate.
Tier 1 capital	A measure of a bank's financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue but is subject to a deduction in respect of material holdings in financial companies.
Tier 2 capital	Defined by the PRA. Broadly, it includes qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment allowances, the excess of regulatory impairment allowance over expected loss and deduction of material holdings in financial companies.
Total loss absorbing capacity (TLAC)	An international standard for TLAC issued by the Financial Stability Board, which requires global systemically important banks (G-SIBs) to have sufficient loss-absorbing and recapitalisation capacity available in resolution, to minimise impacts on financial stability, maintain the continuity of critical functions and avoid requiring taxpayer support.
Total customers	Defined as those having an open account.
Total wholesale funding	Comprises the sum of all outstanding debt securities, structured issuance (including firm financing repurchase agreements), subordinated debt and capital issuance, TFS and noncustomer deposits. Total wholesale funding excludes any collateral received as part of the FLS.
Trading book	Positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book, which must be free of restrictive covenants on their tradability or ability to be hedged.
Unencumbered assets	Assets on our balance sheet not used to secure liabilities or otherwise pledged.
Value at Risk (VaR)	An estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level.
Write-down	After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-downs will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the Exchange Act), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

The following activities are disclosed in response to Section 13(r) with respect to the Santander UK group and its affiliates in the Banco Santander group. During the period covered by this report:

(a) Santander UK holds ten blocked accounts for seven customers that are currently designated by the US under the Specially Designated Global Terrorist (SDGT) sanctions programme. Revenues and profits generated by Santander UK on these accounts in the year ended 31 December 2024 were negligible relative to the overall profits of Banco Santander SA.

(b) Santander Consumer Finance, SA holds through its Belgian branch seven blocked correspondent accounts for an Iranian bank that is currently designated by the US under the SDGT sanctions programme. The accounts have been blocked since 2008. No revenues or profits were generated by the Belgian branch on these accounts in the year ended 31 December 2024.

(c) Santander Brasil holds three blocked accounts for three customers with domicile in Brazil designated by the US under the SDGT sanctions programme. Revenues and profits generated by Santander Brasil on these accounts in the year ended 31 December 2024 were negligible relative to the overall profits of Banco Santander SA.

(d) The Banco Santander group also has certain legacy performance guarantees for the benefit of an Iranian bank that is currently designated by the US under the SDGT sanctions programme (stand-by letters of credit to guarantee the obligations – either under tender documents or under contracting agreements of contractors who participated in public bids in Iran) that were in place prior to 27 April 2007.

In the aggregate, all of the transactions described above resulted in gross revenues and net profits in the year ended 31 December 2024 which were negligible relative to the overall revenues and profits of the Banco Santander group. The Banco Santander group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Banco Santander group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As such, Banco Santander group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

Cross-reference to Form 20-F

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* Not required for an Annual Report.

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Exhibits[1]	
1.1	Articles of Association of Santander UK plc (incorporated by reference to Exhibit 1.1 to Santander UK plc's Form 20F filed with the Securities and Exchange Commission on 5 March 2024)
8.1	List of Subsidiaries - the list of subsidiaries that are consolidated can be found in 'Subsidiaries and related undertakings' in the Shareholder information section of the Form 20-F. Details of subsidiaries that are not consolidated can be found in Note 18 'Interests in other entities' in the Financial Statements section of the Form 20-F.
11.1	Policy on Market Abuse and Inside Information
12.1	CEO Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	CFO Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
97.1	Policy for the Recovery of Erroneously Awarded Compensation of Santander UK plc (incorporated by reference to Exhibit 97.1 to Santander UK plc's Form 20F filed with the Securities and Exchange Commission on 5 March 2024)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

1 Documents concerning Santander UK plc referred to in the 2024 Annual Report on Form 20-F may be inspected at 2 Triton Square, Regent's Place, London NW1 3AN, its principal executive offices and registered address.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SANTANDER UK plc

By: /s/ Mike Regnier

Mike Regnier

Chief Executive Officer

Dated: 7 March, 2025

Exhibit 12.1

CEO Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mike Regnier, certify that:

1. I have reviewed this annual report on Form 20-F of Santander UK plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: 7 March, 2025

By: /s/ Mike Regnier

Mike Regnier

Chief Executive Officer

Exhibit 12.2

CFO Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Angel Santodomingo, certify that:

1. I have reviewed this annual report on Form 20-F of Santander UK plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: 7 March, 2025

By: /s/ Angel Santodomingo

Angel Santodomingo

Chief Financial Officer

Exhibit 13.1

Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Santander UK plc (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended 31 December 2024 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 7 March, 2025

By: /s/ Mike Regnier

Mike Regnier

Chief Executive Officer

Dated: 7 March, 2025

By: /s/ Angel Santodomingo

Angel Santodomingo

Chief Financial Officer

Exhibit 15.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 No. 333-265891 of Santander UK plc of our report dated 7 March, 2025 relating to the financial statements, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers LLP

London, United Kingdom

7 March, 2025