

 Santander

2013 Results highlights

Net interest income

£2,963m

Up 8% on 2012, largely due to an improved mortgage stock interest margin, lower cost of retail liabilities and increased Commercial Banking lending.

Profit after tax

£921m

Profit after tax from continuing operations up 5% on 2012 (up 13% excluding significant items), maintaining a record of consistent profitability through the economic cycle.

Banking net interest margin

1.55%

Up 19 basis points from 1.36% in 2012, reflecting improving mortgage stock margins and lower customer deposit and wholesale funding costs.

Cost-to-income ratio

54%

Costs remained tightly controlled, with our focus on business as usual expenses maintained.

CET 1 Capital ratio

11.6%

Further strengthened our capital position with estimated CRD IV end point Common Equity Tier 1 ('CET 1') capital ratio at 31 December 2013, up from 11.1% in 2012.

Loan-to-deposit ratio

126%

Improved three percentage points from 129% in 2012 as we continued to manage the balance sheet.

Gross mortgage lending

£18.4bn

Up from £14.4bn in 2012, and including £3.4bn of loans extended to first-time buyers.

11213 World customers

2.4 million

1.1 million customers joined the 11213 World in 2013, including 232,000 new customers who moved their current accounts to Santander UK from other providers.

Commercial Banking lending

£22.1bn

Commercial Banking loan growth of 13% continues to be subject to prudent risk management criteria, as demonstrated by the good credit quality in newer loan vintages.

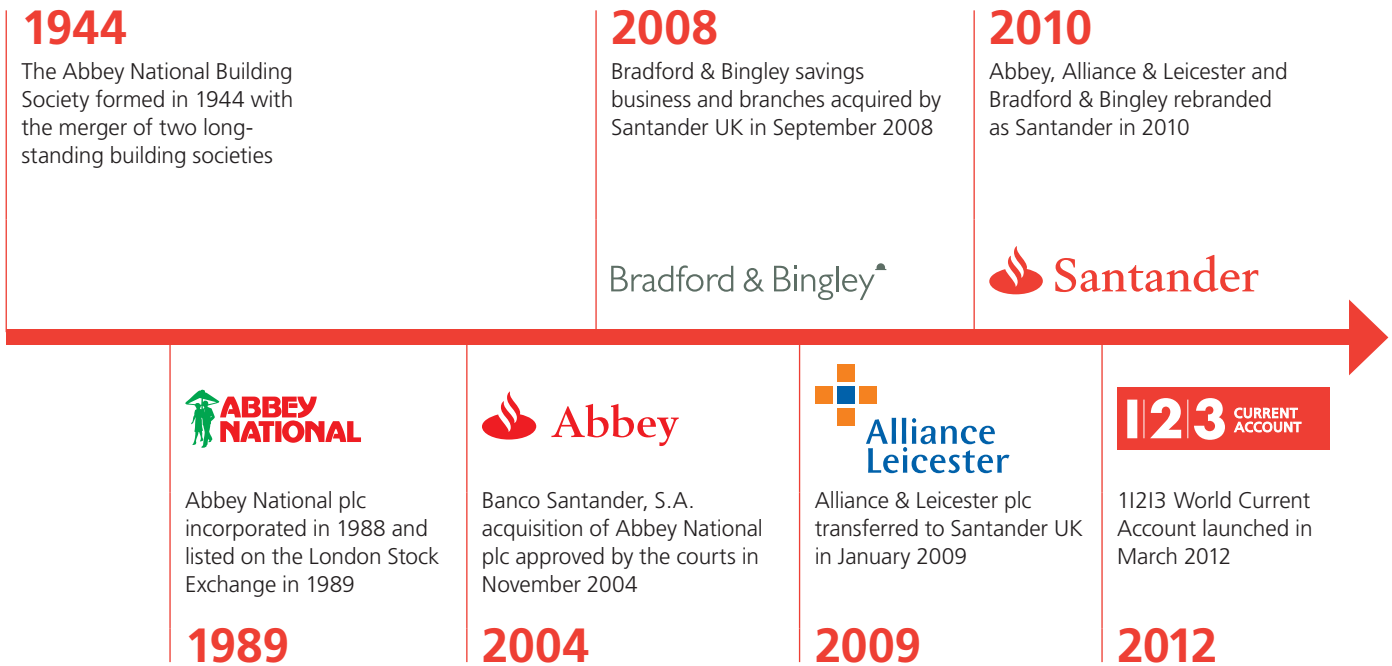
Strategic Report

In line with the UK's new reporting regulation, we have introduced the Strategic Report to give readers a more complete picture of our business model and strategy, the performance and strength of our governance model, and the effectiveness of our risk management. In this report, we bring together the most relevant information for all our stakeholders.

2	Our heritage
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	 <p>Ana Botín gives an overview of Santander UK's three strategic priorities and the overall business performance in 2013, as we work to build a simple, personal and fair Santander UK for all our stakeholders.</p>
12	Chief Financial Officer's review
	 <p>Stephen Jones reports on our financial progress, profitability and the further strengthening of our balance sheet in 2013.</p>
15	Summary risk report
19	Chair's statement and Corporate Governance review
	 <p>Lord Burns sets out our commitment to the highest standards of corporate governance in line with UK best practice, our approach to remuneration, our people, our culture, our communities and the environment.</p>

This Strategic Report is a section extracted from the Santander UK plc 2013 Annual Report, which contains additional detailed sections on business review, financial statements, shareholder information, glossary and forward looking statements.

Our heritage



Strong foundations

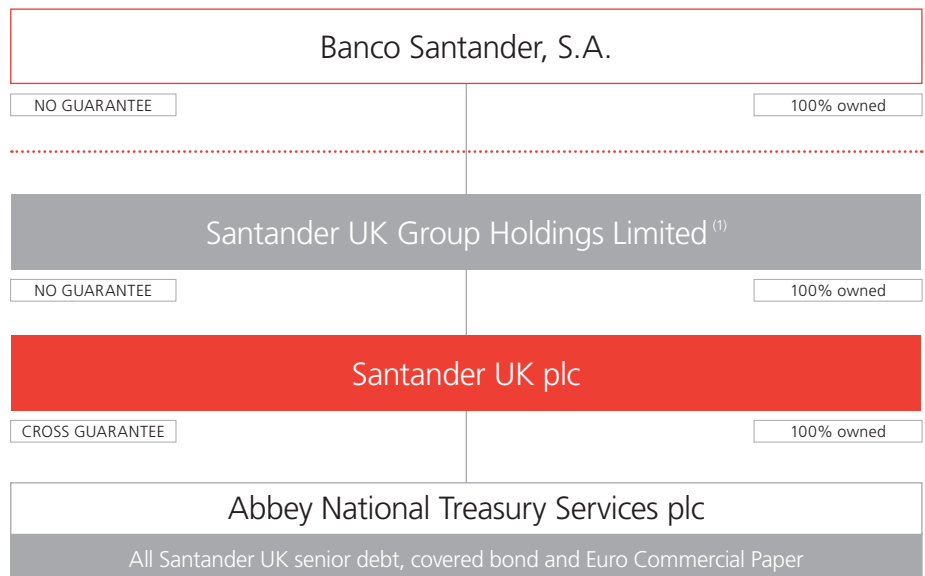
Our relationship with the Banco Santander group

The Banco Santander group operates a subsidiary model. This model involves autonomous units, such as Santander UK, operating in core markets, with each unit being responsible for its own liquidity, funding and capital management on an ongoing basis. The model is designed to minimise the risk to individual Banco Santander group units from problems arising elsewhere in the Banco Santander group.

significant synergies that come from being part of a global group; in brand, products, systems, platforms, development and management capability. In the model the Banco Santander group facilitates the sharing of best practice and provides common technology, operations and support services to all of its subsidiaries via independent operating entities, themselves established by the Banco Santander group so as to be able to continue operating as viable standalone businesses.

The subsidiary model also gives Santander UK considerable financial flexibility, yet enables it to continue to take advantage of the

➔ For more information see the Directors' Report on page 188 of the 2013 Annual Report.

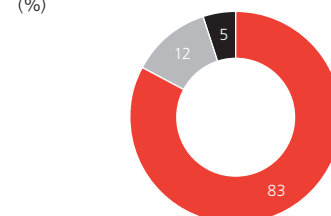


(1) With effect from 10 January 2014

Santander UK today⁽¹⁾

Santander UK plc (the 'Company') and its subsidiaries collectively ('Santander UK' or the 'Santander UK group') operate primarily in the UK, are regulated by the UK Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and are part of the Banco Santander, S.A. group (the 'Banco Santander group'). Santander UK is a major financial services provider in the United Kingdom, offering a wide range of personal financial products and services, and is a growing participant in the corporate and commercial banking market. Santander UK is well positioned to continue to grow, with a distribution capability across an extensive branch and regional Corporate Business Centre ('CBC') network.

Customer loan balances (%)



■ Retail Banking
■ Commercial Banking
■ Corporate Centre

Established UK market player

Employees

19,643

Branches

1,010

Corporate Business Centres

50

Active customers

14m

Our businesses

**Retail Banking**

Offers a wide range of products and financial services to individuals and small businesses (with a turnover of less than £250,000 per annum) through a network of branches and ATMs, as well as through telephony, e-commerce and intermediary channels.

Income

£3,673m

Profit before tax

£1,598m

Residential mortgages

£148.1bn

Loyal customers

2.7m

**Commercial Banking**

Provides a wide range of products and financial services to customers through a network of regional corporate business centres and through telephony and e-commerce channels across SME, mid-cap corporates and large-cap corporates.

Income

£705m

Profit before tax

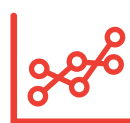
£273m

Customer loans

£22.1bn

Customers

71,000

**Markets**

Delivers risk management and other services to financial institutions, as well as to other Santander UK divisions. Its main product areas are fixed income and foreign exchange, equities, capital markets and institutional sales.

Income

£108m

Profit before tax

£4m

Total assets

£19.3bn

**Corporate Centre**

Principally comprises Financial Management & Investor Relations ('FMIR'), responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the Santander UK group. Also includes the non-core corporate and legacy portfolios.

Short-term funding

£21.2bn

Total wholesale funding

£65.7bn

Total liquid assets

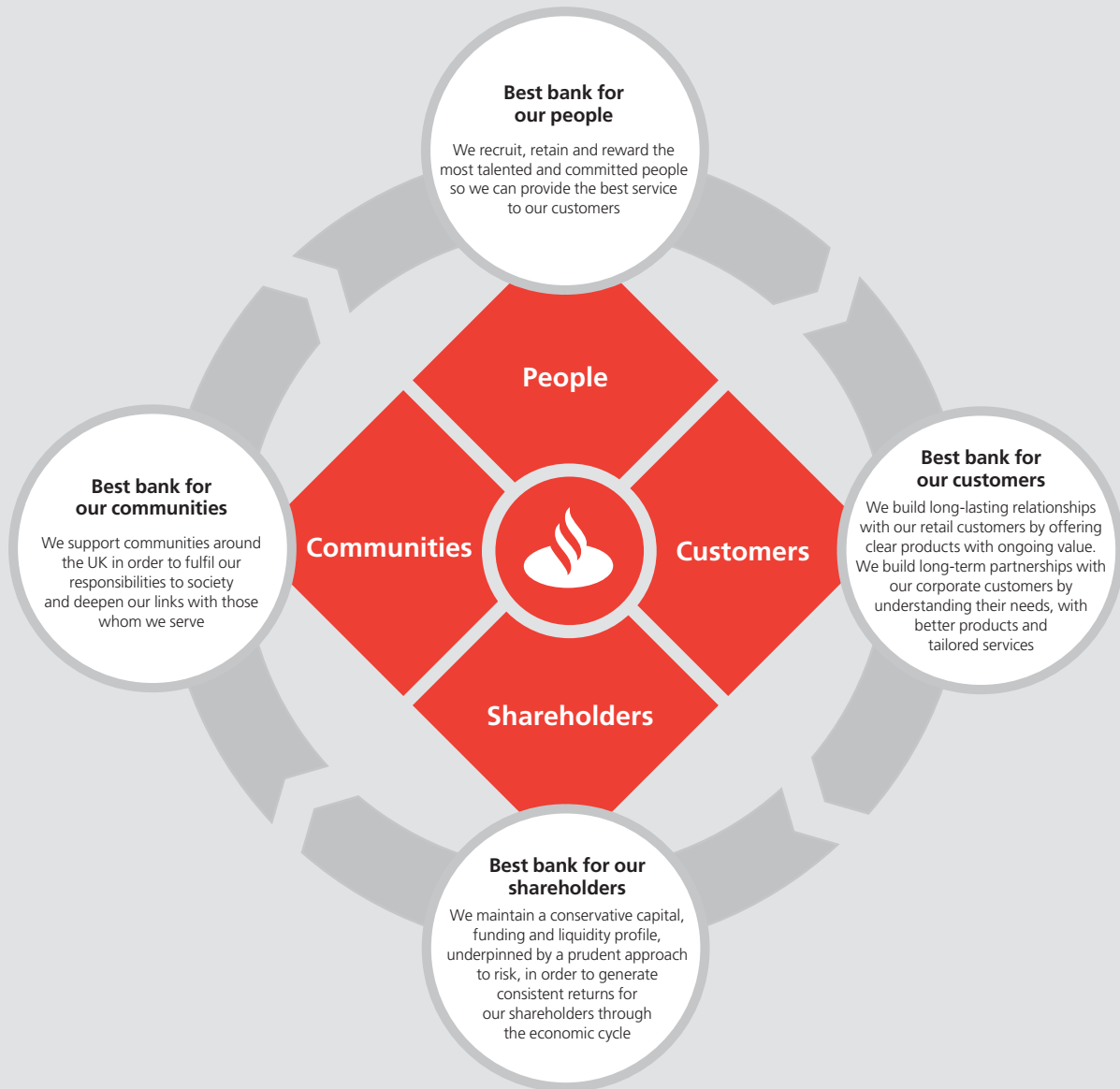
£73.0bn

(1) Data at 31 December 2013 and the year ended 31 December 2013

Our strategy and business model

Our purpose is to help people and businesses prosper throughout the United Kingdom

Our aim is to be the best bank for our people, our customers, our shareholders and our communities...



Our three strategic priorities are driving our transformation into a customer-focused, diversified retail and commercial bank

- 1**

Loyal and satisfied retail customers

To deepen our customers' loyalty by satisfying their changing needs
- 2**

'Bank of Choice' for UK companies

To grow our Commercial Banking business and expand the range of products and services we offer to our corporate customers by understanding their needs
- 3**

Consistent profitability and a strong balance sheet

To provide our shareholders with a reliable return on their investment

... while our business model will create value for all our stakeholders

People



For more on our people see the Chair's statement, on page 19

We depend on our customers' trust, and that trust is built up through the service and care they receive from our staff. By being the best bank for our people we create value for all our stakeholders. We have enhanced our people and talent model with:

- Best-in-class recruitment processes for the most talented, committed and innovative people,
- Career planning programme for our employees,
- New Code of Ethical Conduct and the Santander Way that sets out how everything we do must be simple, personal and fair,
- Online tools supporting our performance management system, and
- Incentive and recognition schemes adapted to employees' needs, which also promote the right customer outcomes.

Customers



For more on our customers see the Chief Executive Officer's review, on page 8

In Retail Banking, customers' needs are ever-changing, and they want a relationship with a bank that gives them confidence and control over their money. We provide this through simple and clear products for both new and existing customers that offer ongoing value, reward existing behaviour, have a broad segment appeal, and minimum small print.

In Commercial Banking, companies want a bank that meets their financial needs, based on a relationship with someone who truly understands their business. Our innovative model is based on: working closely with our SME and corporate customers to meet their needs, a segmented risk model, our unique Breakthrough proposition and a leading IT platform to support our customers.

Shareholders



For more on our shareholders see the Chief Financial Officer's review, on page 12

Our shareholders deserve a stable and predictable return on their investment and this is why our operating model ensures that we deliver our financial results while maintaining a strong balance sheet. Our financial results have improved alongside a much healthier customer franchise, a moderate risk profile and strong liquidity and balance sheet positions.

Communities



For more on our communities see the Chair's statement, on page 19

We have a responsibility to support the communities in which we operate. By supporting our communities, we serve our customers better because we are closer to them, we strengthen the reputation of our bank, and we create a company for which people are proud to work. Our community model is based on:

- Close support for the communities in which we do business, where our branches and teams undertake their own local charity initiatives,
- For SMEs our Breakthrough programme supports the fast-growth companies that create new jobs and enable economic growth, and
- Supporting people in education through our Santander in Schools scheme and Santander Universities.

Simple, Personal and Fair: the Santander Way

We want everything we do to be simple, personal and fair. This embodies what our stakeholders want from their bank and define how we work together and how we treat our customers, our shareholders and our communities.

By making everything we do simple, personal and fair, we will achieve our aim to become the best bank in the UK.

Key performance indicators

Key performance indicators ('KPI's) help measure our progress against our strategic priorities, and represent the set of measures that management reviews and tracks on a regular basis. In 2013, business performance improved and we remain focused on delivering our key commitments for the end of 2015.

Strategic Priority	Performance indicator	Why is it monitored?
1 Loyal and satisfied retail customers	Loyal customers Defined as primary current account customers who hold a debit card and at least one additional product. Primary current account customers have a minimum credit turnover of at least £500 per month and at least two direct debits set up on the account.	As part of the transformation to a more customer-focused organisation, we seek to develop and build deeper customer relationships through increased current account primacy and customer segmentation.
	Number of 11213 World customers 11213 World products provide cashback for customers who bank with us and increase utilisation of their accounts. Since their introduction in late 2011, we track the number of single and joint account holders of our range of 11213 World products.	The 11213 World products are a key to our strategy of building deeper customer relationships and delivering value to our customers.
	Customer satisfaction ('Financial Research Survey') An independent monthly survey of approximately 5,000 consumers covering the personal finance sector, run by GfK. The 'Overall Satisfaction' score refers to the proportion of extremely satisfied and very satisfied customers for the three month rolling average. See footnote on page 11.	We continue to place significant focus on improving the customer experience and put it at the heart of our customer engagement model.
2 'Bank of Choice' for UK companies	Commercial Banking percentage of customer loans Commercial Banking is defined as lending to corporate customers with a turnover in excess of £250,000 per annum, and includes SME, mid-cap corporates, large-cap corporates and multinationals. This ratio is defined as gross customer balances as a percentage of total gross customer loan balances.	A key element of our strategy is to diversify the business mix, in terms of income and customer base, and thus provide a better strategic balance to capitalise on key business opportunities and to manage the risk cycles.
3 Consistent profitability and a strong balance sheet	Return on tangible equity ('RoTE') Defined as profit attributable to ordinary shareholders divided by average shareholders' equity, less preference shares and intangible assets (including goodwill). Formerly known as return on tangible book value.	We monitor RoTE as a measure of how much profit has been generated by the equity invested by ordinary shareholders, thus measuring overall profitability and the sustainability of the business.
	Cost-to-income ratio Defined as total operating expenses, excluding provisions and charges, divided by total operating income.	We review the cost-to-income ratio in order to measure our operating efficiency.
	Common Equity Tier 1 ('CET 1') capital ratio Defined on the basis of the Capital Requirements Directive IV ('CRD IV') rules (which implement Basel III in the EU from 1 January 2014) due to apply at the end of the transitional period.	We monitor the CET 1 capital ratio to support economic capital requirements and the capacity to grow while maintaining sufficient capital resources to meet the minimum regulatory requirements.
	Loan-to-deposit ratio Defined as loans and advances to customers (excluding reverse repos) divided by deposits by customers (excluding repos).	We monitor the loan-to-deposit ratio to assess our ability to fund commercial operations with commercial borrowings, reducing reliance on wholesale markets.
	Non-performing loan ('NPL') ratio Defined as the non-performing loans as a percentage of loans and advances to customers.	We review the NPL ratio as an important measure of risk in our business to ensure it remains consistent with our low-to-moderate risk appetite.
Dividend payout ratio Defined as the dividend paid and declared in the period on our ordinary shares as a percentage of retained earnings.	We monitor the dividend payout ratio to ensure we are able to grow the business while maintaining an appropriate return to our shareholder.	

(1) Income for 2012 included a gain from the capital management exercise. The cost-to-income ratio for the year ended 31 December 2012 of 53% excludes this gain. Including this gain, the 2012 cost-to-income ratio was 45%.

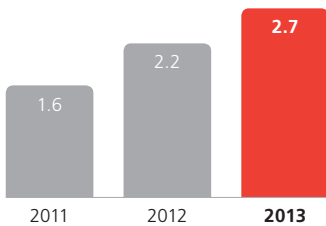
Target for 2015	Actual performance			Performance in 2013
	2013	2012	2011	
4 million	2.7 million	2.2 million	1.6 million	Our loyal customer base continued to grow strongly helped by the success of the 11213 World Current Account.
4 million	2.4 million	1.3 million	0.1 million	We maintained strong growth, with over one million new 11213 World customers in 2013. This was accompanied by further growth in current account balances, which reached £27.9bn, a 75% increase in the year.
Top 3 (Average of top 3 peers)	58% (60%)	55% (60%)	51% (61%)	We made a significant improvement in customer satisfaction since December 2011, reducing the gap between us and the top 3 peers.
20%	12%	10%	9%	We continued to make good progress, with customer loans increasing by £2.5bn to £22.1bn in 2013. We will not compromise our prudent risk management to meet the 20% target and if we are not satisfied with the credit quality of the opportunities available to us we would choose to slow the pace of corporate loan growth.
13%-15%	8.9%	9.1%	9.0%	RoTE of 8.9% increased from an annualised 8.3% for the first half, driven by a continued improvement in net interest income. RoTE is affected by the amount of capital we hold; at a 10.5% CET 1 capital ratio, RoTE would have been c. 9.5% for full year 2013.
<50%	54%	53% ⁽¹⁾	47%	Up from 53% in 2012, excluding the gain from the capital management exercise. Our focus on cost discipline remains, as we manage business-as-usual and secure further efficiencies in order to maintain the capacity to invest further.
>10.5%	11.6%	11.1%	n/a	We strengthened our estimated CET 1 capital ratio to 11.6% with a CRD IV end point leverage ratio of 3.3% and 3.0% on a post-PRA adjustment basis. Issuance of Additional Tier 1 capital, planned for 2014, as well as retained profits, are expected to result in a gradual improvement in leverage ratios in 2014.
<130%	126%	129%	135%	We continued to strengthen our balance sheet with selective deleveraging in mortgages and growing our current account and savings balances. We remain comfortable with the current position, given that it is underpinned by prime UK residential mortgages.
ratio maintained	2.04%	2.16%	1.93%	The improvement in 2013 largely reflected disciplined risk management, notwithstanding the increased share of Commercial Banking lending in the business mix.
50%	47%	48%	47%	Our dividend payout ratio was maintained in line with that for the Banco Santander group. All dividends are paid subject to the approval of the regulator and in 2013 we declared dividends totalling £425m.

Chief Executive Officer's review



Ana Botín
Chief Executive Officer

Loyal customers
(million)



Our purpose at Santander UK is to help individuals and businesses prosper. To do this, we have set ourselves an ambitious aim: **to be the best bank for our people, our customers, our shareholders and our communities.** We believe we need to serve all of these groups in a balanced way because this is how we will build a sustainable business.

To become the best bank, we need to continue to innovate and challenge the status quo. We are doing this by building a bank that is **simple, personal and fair** in how it treats its people, cares for its customers, serves its shareholders and supports its communities.

Our aim is to be the best bank to work at for our **people**. We are committed to creating an inclusive culture in which all our people feel valued and able to fulfil their potential. This means providing excellent opportunities for career progression and encouraging accountability and teamwork.

We are also focused on creating a safe and healthy environment for our employees and providing training, coaching and advice.

To become the best bank for our **customers**, we are listening to them and building a new proposition around the things they value.

In Retail Banking, we have developed simple and clear products that reward both new and existing customers with ongoing value. In Commercial Banking, we build partnerships with our customers by tailoring our products to meet their needs.

Only by delivering what customers want, and anticipating their needs, will we earn their trust and loyalty, which are the foundations upon which all long-lasting customer relationships are built.

As a result, a new customer joined our 11213 World every 30 seconds, our customer experience performance continued to improve, and we welcomed more current account switchers than any other bank, making a net gain of 11% of accounts transferred.

By delivering better results for our people and our customers, we have delivered better quality results for our **shareholders**. We increased our profits, excluding significant items, by 13%, while continuing to strengthen our balance sheet and capital position at the same time.

We achieved all this while continuing to support the **communities** in which we operate. Last year we lent £18.4bn of mortgages to UK households, including £3.4bn to first-time buyers.

Our unique Universities programme also continued to deliver a very significant impact, with more than 70 institutions already among our partners.

Our strategic priorities

1. Loyal and satisfied retail customers

Our 11213 World is driving our success with innovative, personal products that put the customer at the heart of everything we do.

Our Retail Banking business model is based on simple and clear products for new and existing customers, that offer ongoing value, reward existing behaviour, have a broad segment appeal and minimum small print.

Retail Banking 11213 World



Santander UK recognises that to be the best bank, we need to build relationships with our customers that endure. Such relationships are built on more than products. They are rooted in our understanding what customers really want from a bank.

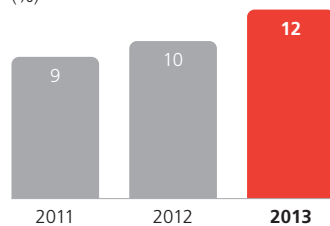
The 11213 World – launched in March 2012 – embodies the philosophy of simple, personal and fair. 11213 World Current Account offers new and existing customers cash back on their household bills, together with competitive interest rates on credit balances. Through these products we are helping individuals and families make the most of their money.

Mr Hatfield, from Market Harborough, has been banking with us for 40 years and recommends Santander UK to his family and friends. "When you are retired it is important to make the most of your money and cash back from my 11213 Current Account and Credit Card does just that." Encouraged by Mr Hatfield's endorsement of the service and benefits received, his daughter has also opened a 11213 account.

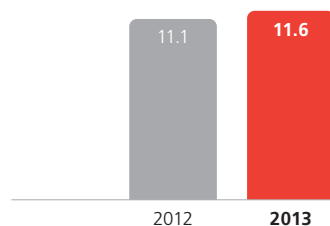
Mr and Mrs Simpson from Chester moved their banking to Santander in 2013. They identified they could save money on their home insurance as well as lower personal loan rates. They found the switching process straightforward with their local branch keeping them updated at each step. They were so impressed they are thinking of moving their business account to Santander as well.

11213 Current Account: £2 monthly account fee, £500 monthly funding (excludes internal transfers). Set up minimum of two direct debits. Monthly cashback paid on selected household bills paid by Direct Debit. Monthly interest paid on your entire balance up to £20,000 when you have at least £1,000 in your account.

Commercial Banking loan percentage of total customer loans (%)



CET 1 capital ratio (%)



By applying these principles, we have grown our loyal customer base to 2.7 million. We now have 2.4 million 11213 World customers, an increase of 1.1 million over 2012, and during the year more than 232,000 customers switched their bank account to us from other providers.

As a result, 11213 Current Account balances are up by 75% and total deposits held by primary banking customers increased by 43%.

We continued to improve our customer experience rankings. The Financial Research Survey ('FRS') reported that since December 2011 the gap between our satisfaction score and the average for the top 3 peers had narrowed.

Furthermore, independent market research from MoneySavingExpert.com has suggested that this improvement in satisfaction has been even more marked among our 11213 World customers.

We made significant investments in our distribution channels. We refurbished almost 10% of our branch network and improved our processes and customer self-service capabilities.

In addition, we developed our Select proposition for wealthier customers and enhanced our digital and mobile services.

2. 'Bank of Choice' for UK companies

Our innovative Commercial Banking business model is based on four pillars: working closely with our SME and corporate customers to meet their needs, a segmented risk model, our unique Breakthrough proposition, and a leading IT platform to support our customers.

Our lending to UK companies grew by 13% in 2013, increasing the weight of our Commercial Banking business from 10% to 12% of our total UK customer loans.

We continue to invest in this business, opening 16 new Corporate Business Centres and hiring almost 150 new Relationship Managers.

We also improved our corporate banking capabilities, products and systems including the launch of a cash management tool, an online SME corporate banking platform, and our international trade finance portal. We developed our range of ancillary business services for large corporate customers, drawing on the experience and capabilities of the Banco Santander group.

Our unique Breakthrough programme directly benefited more than 390 fast-growth SMEs throughout the UK, helping to create over 600 new jobs and funded over 500 internships in SMEs.



The Breakthrough programme has already delivered:

- £14m of growth capital and over £15m of other lending to 14 businesses, with more than 300 SMEs in the pipeline for future lending
- The creation of more than 600 new jobs in SMEs
- 50 SMEs participating in 6 trade missions to New York, Boston and Brazil
- Over 90 SMEs participating in Breakthrough MasterClasses with Google, LoveFilm, Innocent, McLaren and Saatchi & Saatchi
- Working with Santander Universities, 550 graduate interns placed with SMEs in 2012-13 and a further 1,500 allocated for 2013-14
- Face-to-face engagement with over 2,500 SMEs via Breakthrough events all over the country

Commercial Banking Ilkley Brewery



During 2013, we invested significantly in the development of our Commercial Banking division to deepen our relationships with UK corporates, develop new income streams and diversify our revenue and risk profile. We are doing this by expanding our range of products and services, decommissioning legacy systems and by growing corporate lending further while maintaining our conservative risk position.

Since launching in 2009, Yorkshire's Ilkley Brewery has maintained a steady focus on growth. The company has increased production from 2,000 to 7,000 bottles a week, a substantial increase that reflects both local and national demand for the company's award-winning products. Now, with help from Santander UK's Breakthrough programme, the company is extending its reach overseas with Managing Director Chris Ives taking part in trade missions to São Paulo and New York. As Brazil's number-three bank, the Banco Santander group's

international presence is a great advantage to UK companies seeking to increase exports and provided extensive commercial contacts and local market knowledge.

By lending to corporate customers like Ilkley Brewery, and providing them with ancillary products and services like cash management, we are making our business more stable and more secure, while also enhancing profitability. Above all, we are also fulfilling our purpose – to help individuals and businesses prosper – by supporting domestic businesses as they seek to expand and drive economic growth in the UK.

"Santander provided a structured approach to visiting both the US and Brazil – they provided us with market research, set up important meetings and put us in contact with key facilitators such as lawyers and logistics experts."

Chris Ives, Founder and MD, Ilkley Brewery

Chief Executive Officer's review continued

While our goal for Commercial Banking is still a 20% share of customer loans, we will not compromise our prudent risk management to meet it. If we are not satisfied with the credit quality of the opportunities available to us, we will slow the pace of our corporate loan growth.

3. Consistent profitability and a strong balance sheet

We delivered strong results that reflect our diversified retail and growing commercial banking businesses and our prudent risk management. Our profit after tax from continuing operations was £921m, up 13% excluding the impact of significant items in 2012.

Our banking net interest margin ('Banking NIM') of 1.55% for the full year rose steadily over the course of the year, from 1.46% in the first half of 2013 to 1.65% in the second half of the year and reaching 1.71% in the fourth quarter. This rise was driven by an improved mortgage stock margin, reduced cost of retail liabilities and increased lending in Commercial Banking, offset by the continued impact of the low interest rate environment.

We remained focused on cost discipline as we managed higher operational, technological and regulatory costs while continuing to invest significantly in the business. Our increase in costs was limited and we remain confident of achieving our cost-to-income target of 50% by 2015.

We strengthened our capital position even further, with an estimated end point CET 1 capital ratio of 11.6%, and maintained a conservative liquidity position.

Our annualised RoTE in the second half of the year increased to 8.9% from 8.3% in the first half of the year, driven by the steady improvement in our net interest income. RoTE is affected by the amount of capital we hold, and had our CET 1 capital ratio been 10.5%, our RoTE in 2013 would have been approximately 9.5%.

Looking ahead

In 2013, we laid many of the foundations of a bank that is simple, personal and fair. I would like to thank our people for their dedication and hard work and our customers for their trust and loyalty.

I would also like to extend my appreciation to the Santander Group and to our Santander UK Board for their continued confidence in our strategy to become a customer-focused, diversified, retail and commercial bank.

With the UK economy strengthening, we remain on target to deliver our 2015 goals. For the year ahead, we have a clear plan to deliver sustainable and balanced growth: we will continue to innovate and challenge our competitors by delivering **simple, personal and fair** products and services to our customers.



Ana Botín
Chief Executive Officer
26 February 2014

Simple | Personal | Fair The Santander Way



When we asked our customers what they thought being the best bank means in practice, they told us they wanted the best products, value and innovation, but above all they wanted their bank to be simple, personal, and fair. For our customers, making things simple, personal and fair is about putting people in control of their money, building personal relationships, and doing what is right for them.

To turn these three words into reality we needed everyone at Santander UK to be committed and dedicated to working towards the same goal. So throughout 2013, we held workshops around the country, led by our CEO Ana Botín, to find out what being simple, personal and fair meant to our people, in every team and every region.

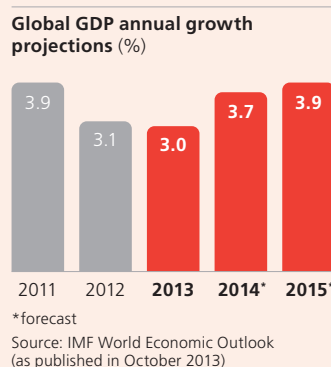
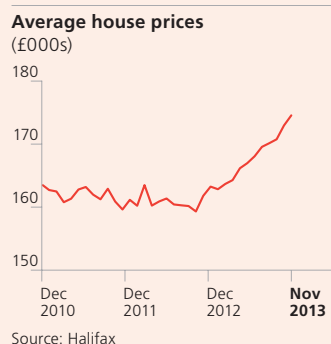
With their help, we distilled the essence of our new purpose and culture into a single document: The Santander Way. This sets out how we should act and behave and, importantly, it gives our people licence to challenge things when they think they are not simple, personal and fair. Even though changing a culture is

a slow process, we are determined to invest the time it will take because we believe unequivocally that the future of our business depends upon it.

We have made many changes in our first steps to make everything we do simple, personal and fair. As part of our product simplification programme almost 100 types of account have been closed or consolidated, improving transparency for customers and staff alike. Our risk management systems have been improved and we have more local Credit Partners in place so informed lending decisions can be made more quickly. Our digital services have been enhanced and the roll-out of Santander Connect has given our corporate customers more control and transparency over their company's finances and working capital.

"We will only change if everyone plays a part in making that change happen."
Ana Botín

Operating environment



The UK economic environment has strengthened and has provided a more positive backdrop to 2013, while indications of increased confidence lead us to be cautiously optimistic regarding the outlook for 2014 and beyond.

The macroeconomic environment

Economic activity in the UK showed a clear improvement during 2013, with GDP growth of 1.9% in the year, a marked improvement on the 0.3% recorded in 2012 and the strongest performance since 2007. The overall level of output is, however, still 1.3% lower than in 2008 before recession took hold. As 2013 progressed, there were signs of improved consumer and business confidence as well as stronger activity in the housing market, and a steady growth in consumer spending provided the most significant support for the increase in activity. The improvements in confidence and housing market activity were, however, from relatively low levels, and the economy continued to face headwinds, especially from the squeeze on households' real average earnings and a relatively high rate of unemployment. With households slowly increasing their level of debt (mortgage debt grew by 0.9% in 2013) there continued to be some rebalancing of finances as retail deposits grew more strongly than borrowing (by 5%).

One major change in 2013 was the Bank of England's introduction of forward guidance for monetary policy. In setting a threshold for the unemployment rate at 7%, the Monetary Policy Committee ('MPC') also reaffirmed the commitment to the 2% inflation target. At the end of the year, the Bank of England Base Rate had been held at its all-time low of 0.5% since March 2009 and quantitative easing ('QE') had been held at £375bn, with the last decision to increase QE taken in July 2012.

The Bank of England's forward guidance policy was subsequently updated in February 2014.

Outlook

Information published by the UK Office for National Statistics showed increased GDP in the fourth quarter of 2013 while survey indicators of economic activity for the same period published by Markit also indicated that the economy entered 2014 with some momentum for growth. Monetary policy remains supportive, with a forward guidance approach in place. The recovery is expected to be sustained in 2014, with growth of about 2.5% expected in the year, which would be the strongest annual performance since 2007. Continued growth in output should support a further reduction in the unemployment rate, although the extent to which the rate could fall is highly uncertain and is related to the extent to which productivity growth picks up as the economic recovery continues. The housing market recovery, too, is anticipated to continue. After increasing by 7.5% in 2013 (on the Halifax house price index), we expect a further rise in house prices of around 6% in 2014, although any such predictions are subject to considerable uncertainty.

Regulation

Significant uncertainty still remains and a number of key regulatory changes will have an impact on the market in which we operate. In 2014 we require further clarity on regulation, including in respect of minimum capital levels, leverage and the implementation of ICB ring-fencing, where there remain considerable uncertainties.

The Financial Research Survey ('FRS') is a monthly personal finance survey of around 5,000 consumers prepared by the independent market research agency, GfK NOP. The 'Overall Satisfaction' score refers to a proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands. Data shown is for the three months ending 31 December 2013, three months ending 31 December 2012 and three months ending 31 December 2011. The competitor set included in this analysis is Barclays, Halifax, HSBC, Lloyds TSB and NatWest.

Chief Financial Officer's review



Stephen Jones
Chief Financial Officer

This year we delivered profit before tax from continuing operations of £1,139m and profit after tax of £921m, with a continued recovery in net interest income, strong cost discipline and satisfactory credit quality.

Overview

Banking NIM improved to 1.55% (2012: 1.36%), with strong recovery in the second half of the year, reflecting lower deposit and wholesale funding costs and stronger customer asset margins.

Operating expenses continue to be well-controlled with broadly flat business-as-usual costs. The cost-to-income ratio of 54% (2012: 53%) reflects our ongoing investment in business growth and income pressures from structural market conditions experienced in 2012 that carried through into the first half of 2013. We maintained good credit quality across our Retail Banking and Commercial Banking portfolios. RoTE of 8.9% for the year increased from an annualised 8.3% for the first half of 2013, driven by a continued improvement in net interest income.

In 2013, Santander UK declared dividends totalling £425m, in line with its dividend policy to pay 50% of retained earnings with the approval of the UK regulator. The first half dividend of £215m was paid in September 2013 and the second half dividend of £210m will be paid in March 2014.

Income statement highlights^(A)

Net interest income in the year ended 31 December 2013 was 8% higher at £2,963m (2012: £2,734m), primarily due to an improved mortgage stock interest margin, an increased contribution from Commercial Banking loans and lower customer deposit funding costs, particularly in the second half of 2013. Net interest income in the last quarter was the highest for the last two years, driving a strong recovery in Banking NIM from 1.46% in the first half to 1.65% in the second half and to 1.71% in the last quarter.

Non-interest income decreased by 45% or £883m, to £1,066m (2012: £1,949m), largely due to the non-repetition of the gain of £705m on the capital management exercise in 2012. Excluding this gain, non-interest income decreased by £178m in 2013, with lower retail investment and protection fee income and lower demand for interest rate and foreign exchange risk management products from corporate customers.

Costs remained tightly controlled, with total operating expenses up 4% to £2,195m (2012: £2,114m). This was despite our ongoing investment in business growth and increased regulatory compliance and control costs. Investment in systems continued to support the business transformation and underpin future efficiency.

Impairment losses on loans and advances decreased by 52% or £513m to £475m (2012: £988m), mainly due to the non-repetition in 2013 of a £335m credit provision included for the non-core corporate and legacy portfolios arising in 2012. Credit quality in the Retail Banking and Commercial Banking loan books continued to be satisfactory.

Provisions for other liabilities and charges decreased by £214m to £220m, largely due to the non-repetition in 2013 of a £232m conduct remediation provision as well as a £55m provision for termination costs that arose in 2012. Further conduct remediation provisions were not required in 2013.

The volume of PPI activity decreased and the number of complaints we received fell 29% in 2013, although the high proportion of invalid complaints continued. Monthly PPI redress costs decreased through the year to an average in the fourth quarter of the year of £11m per month, compared to a monthly average of £18m for the full year 2013 and £26m in 2012. A provision balance of £165m was held at the end of the year.

(A) Income statement highlights

Year ended 31 December	2013 £m	2012 £m
Profit before tax from continuing operations	1,139	1,147
Profit after tax from continuing operations	921	877
Profit for the year	913	939
Banking net interest margin ('NIM') ⁽²⁾	1.55%	1.36%
Cost-to-income ratio ⁽³⁾	54%	53%
Return on tangible equity ('RoTE')	8.9%	9.1%

(1) Income Statement highlights statistics reflect continuing operations, and therefore exclude the results and loss on sale of discontinued operations. See Note 12 to the Consolidated Financial Statements in the 2013 Annual Report.

(2) Banking NIM comprises net interest income divided by average customer loans.

(3) The cost-to-income ratio for the year ended 31 December 2012 of 53% excludes the gain from the capital management exercise (45% including this gain).

Mortgage impairment loan loss allowances (£m)



Following a reassessment of the provision required to cover non-PPI related conduct remediation and enforcement actions in relation to interest rate hedging, Card Protection Plan and retail investments, there was a release during the year. Together with modest utilisation, the combined total was £54m. A provision balance of £222m was held at the end of 2013.

The taxation charge was 19% lower, largely attributable to the impact of the continued reduction in the main corporation tax rate affecting current and deferred tax.

Total UK taxes paid in 2013 were £467m (2012: £563m). In addition amounts totalling £595m (2012: £541m) were collected and remitted to HM Revenue and Customs on behalf of customers and employees.

Customer balances^(B)

We continued to focus on improving the strength of our balance sheet. Customer loans decreased £7.6bn in 2013 to £187.1bn, reflecting a managed reduction in selected higher risk segments of the residential mortgage portfolio, partially offset by increased corporate loans. Interest-only mortgage loan balances reduced by £6.4bn, following the targeted deleveraging of the portfolio that began in early 2012. Commercial Banking customer loans increased 13% with lending subject to continued prudent risk management criteria. Total customer deposits decreased £2.2bn in 2013 to £146.4bn. The success of the 11213 World proposition increased current account balances by 75% since 31 December 2012 to £27.9bn while we continued to reduce short-term, rate sensitive retail deposits and executed a smaller cross tax year ISA campaign in line with the overall funding plan.

The loan-to-deposit ratio improved three percentage points to 126%. We remain comfortable with the current position, given that it is underpinned by UK residential mortgages.

Credit quality^(C)

During 2013, the total NPL ratio decreased to 2.04%. The increase in the mortgage NPL ratio, to 1.88%, was partially offset by a reduction in the Commercial Banking and Corporate Centre NPL ratios to 3.02% and 2.36% respectively. The rise in the mortgage NPL ratio was largely due to regulatory-driven policy and reporting changes, as well as the impact of lower mortgage balances. These policy and reporting changes are not expected to result in significant additional write-offs. Overall mortgage NPL balances were broadly unchanged during 2013 and notwithstanding the increase in balances attributable to policy and reporting changes, the NPL ratio stabilised in the second half of the year. The Commercial Banking NPL ratio decreased, largely from the exit of a small number of older vintage loans that were acquired with Alliance & Leicester. Commercial Banking lending in the last four years has performed well with a much lower NPL ratio in these vintages. The Corporate Centre NPL ratio decreased, reflecting the successful ongoing sale and run-off of the non-core corporate and legacy portfolios.

Liquidity and funding

From late 2012 and through 2013, we undertook a modest reduction in our liquidity position, given improved stability in capital markets, a stronger balance sheet and a reduced reliance on short-term funding markets. During 2013, total liquid assets decreased by £3.0bn to £73.0bn and PRA-eligible liquid assets decreased by £7.4bn to £29.5bn. Both total and PRA-eligible liquid assets significantly exceeded short-term wholesale funding requirements. At 31 December 2013, PRA-eligible liquid assets amounted to 139% of wholesale funding with a residual maturity of less than one year. At the end of 2013 the Liquidity Coverage Ratio ('LCR') was in excess of 100%.

Our overall funding strategy is to develop and maintain a diversified funding base, which allows us access to a variety of funding sources and in 2013, we raised £7bn (sterling equivalent) of medium-term funding, largely through unsecured issuances.

(B) Customer balances

31 December	2013 £bn	2012 £bn
Total customer loans	187.1	194.7
Total customer deposits	146.4	148.6
Loan-to-deposit ratio ⁽¹⁾	126%	129%

(1) Calculated as loans and advances to customers (excluding reverse repos) divided by deposits by customers (excluding repos).

(C) Credit quality

Year ended 31 December	2013 %	2012 %
Retail Banking NPL ratio	1.89	1.76
– of which mortgage NPL ratio ⁽¹⁾	1.88	1.74
Commercial Banking NPL ratio ⁽¹⁾	3.02	4.26
Corporate Centre NPL ratio ⁽¹⁾	2.36	4.49
Total NPL ratio ⁽¹⁾	2.04	2.16

(1) NPL balance as a percentage of the asset balance.

Chief Financial Officer's review continued

Capital^(D)

Our Core Tier 1 capital ratio rose to 12.9%, from 12.2% at the end of 2012, driven by retained profits and lower RWAs. RWAs decreased to £75.3bn, with a reduction in retail mortgage loans partly offset by the increased proportion of the loan book represented by corporate lending. Our estimated CRD IV end point CET 1 capital ratio at 31 December 2013 was 11.6% (2012: 11.1%). We expect that the strength of our Core Tier 1 and CET 1 capital ratios, our ability to generate capital organically and rebalancing of our business mix will enable us to meet our targeted capital ratios even once the capital requirements of CRD IV are phased in.

Our CRD IV end point-based Tier 1 leverage ratio as defined by the PRA was 3.3%, without the benefit of Tier 1 instruments that will become ineligible over the CRD IV transition period, or 3.7% if these instruments are added back. The equivalent end point-based CET 1 leverage ratio is equal to the end point-based Tier 1 leverage ratio as all current Other Tier 1 instruments are assumed to be ineligible under CRD IV rules. We are fully compliant with CRD IV LCR requirement at end 2013, three years ahead of the transitional timetable deadline for compliance.

On 30 July 2013, we undertook a capital management exercise, buying back approximately £500m equivalent of certain US dollar and sterling-denominated Tier 1 and Tier 2 capital instruments, with a view to optimising our capital position. The transaction impacted the total capital ratio by approximately 60 basis points and generated a small profit.

Outlook

We expect the developments in the business and investment made in 2013 to result in improved performance in 2014. A further reduction in overall cost of deposits is expected to compensate for any further asset margin declines. Our disciplined management of business-as-usual costs will be maintained, while investing in the growth of our corporate and retail propositions. Furthermore, liquidity balances will be managed down, but at a more modest pace.

We believe that our performance over time should continue to demonstrate the underlying stability of our business.



Stephen Jones
Chief Financial Officer
26 February 2014

(D) Capital

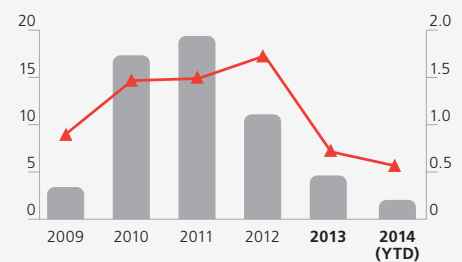
31 December	2013 £bn	2012 £bn
Core Tier 1 capital	9.7	9.3
Core Tier 1 capital ratio	12.9%	12.2%
CET 1 capital ratio	11.6%	11.1%
Risk Weighted Assets ('RWAs')	75.3	76.5
CRD IV end point CET 1 leverage ratio	3.3%	3.3%
CRD IV end point CET 1 leverage ratio post PRA adjustments	3.0%	3.0%

Rebalancing medium term funding

While primary issuance in 2013 was well below the level of recent years, it was nonetheless a very successful year for Santander UK's funding programmes. A combination of more stable capital markets and lower funding requirements allowed us to start rebalancing our funding profile towards a more diversified funding base, and at a much lower price.

Our three public senior benchmark transactions (two in Euros and one in US dollars) were well received and significantly oversubscribed. In addition, we issued one Residential Mortgage Backed Security ('RMBS') transaction and one public benchmark Euro covered bond, with both at considerably lower pricing levels than similar issuance over the previous six years. In October 2013, we successfully returned to the subordinated Tier 2 market, placing publicly US\$825m out of US\$1.5bn of a 10 year new issuance. This was the first issue of this type since 2005 and was such a success that the books closed within two hours and the issue was eight times oversubscribed.

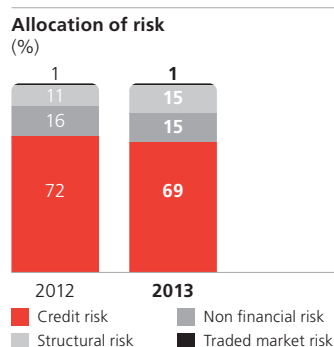
Evolution of wholesale funding cost



■ Primary issuance (LHS) (£bn)
▲ Weighted average cost of primary issuance in the year (%)
Note: Primary issuance excludes capital, structured notes, bilateral repos and other ABS issuance

Summary risk report

As a significant financial services provider, managing risk is at the core of Santander UK's day-to-day activities. The understanding and control of risk is critical for the effective management of the business.



Risk management

In managing risk, Santander UK aims to:

- Maintain a predictable medium-low risk profile in our business;
- Employ effective and advanced risk management techniques; and
- Deliver robust financial performance, and ultimately build sustainable value for all our stakeholders.

Risk framework

Santander UK manages and controls risk through its Risk Framework, which:

- Defines risk, enterprise-wide risk and key risk types;
- Sets out the required risk culture, the overriding principles and minimum standards;
- Summarises key roles and responsibilities and how Santander UK is organised for risk;
- Defines the terms of reference for risk committees and how and where decisions are made, reviewed and challenged; and
- Lists and explains the key internal risk regulation documents.

The Risk Framework supports the implementation of Santander UK's strategic business objectives and business plan via the risk culture statement, guiding overriding principles and minimum standards to manage and control risks, and thus reduces the uncertainty around Santander meeting its objectives.

Separate risk frameworks are in place for each key risk type and core risk activities such as those relating to risk appetite, stress testing and policy. These specific risk frameworks establish the principles, standards, rules and governance requirements for the management and control of each risk type. In support of these frameworks, each specific risk type has its own suite of policies and limits. These set out the rules and risk limits for the management of risk at a more granular level.

Allocation of risk

A main facet of Santander UK's business model is focused on retail and commercial lending. Santander UK's largest source of risk is credit risk. This is illustrated in the chart opposite, which sets out the allocation of risk across Santander UK based on the economic capital requirement at 31 December 2013 and 2012 by key risk type. This allocation is limited to risks for which capital is considered a mitigant, and does not make allowance for the effects of diversification across risks or assets.

At 31 December 2013, structural risk included a pension risk allocation of 5% and a non-traded market risk allocation of 10%. Non-financial risk included an operational risk allocation of 9%.

Summary risk report continued

Top risks

All of our activities involve, to varying degrees, identification, assessment, management and reporting of risk or combinations of risks. During 2013, senior management focused on certain top and emerging risks and their causes. These are described in the following section, including how they link to our strategic business priorities which are described in more detail on page 4, as well as the change in importance for each of them in 2013.

Risk description	Strategic priorities	Risk features and impact
<p>Capital</p> <p>Capital risk is the risk that Santander UK does not have an adequate amount, or quality, of capital to meet its internal business objectives, market expectations and regulatory requirements.</p>	<p>3</p>	<p>Capital risk has the potential to disrupt our business model and stop the normal functions of Santander UK. It could also cause Santander UK to fail to meet the supervisory requirements of regulators. Capital risk is significantly driven by credit risk, pension risk and the effects of regulatory change.</p> <p>→ See 'Capital risk' on page 144 of the 2013 Annual Report.</p>
<p>Conduct</p> <p>Conduct risk is the risk that the business and operational decisions we take and the behaviours displayed lead to poor outcomes for our customers.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>Conduct risk is a key risk to Santander UK in view of the evolving regulatory environment and the requirement to make significant conduct remediation provisions. Specific conduct risks to which we are exposed include: products and services not meeting customer needs; failing to deal with complaints effectively; and the risk that customers are sold unsuitable products or not provided adequate information to make informed decisions.</p> <p>→ See 'Conduct risk' on page 146 of the 2013 Annual Report.</p>
<p>Credit</p> <p>Credit risk is the risk of financial loss arising from the default or credit quality deterioration of a customer or counterparty to which we have directly provided credit, or for which we have assumed a financial obligation.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>Deterioration in the credit quality of our loans to customers and counterparties could reduce the value of our assets, and increase our write-downs and allowances for impairment losses. Credit risk can be affected by a range of macroeconomic environment and other factors, including increased unemployment, house prices, increased corporate insolvency levels, reduced corporate profits, increased personal insolvency levels, increased interest rates and/or higher tenant defaults.</p> <p>→ See 'Credit risk – Retail Banking' and 'Credit risk – Commercial Banking' and 'Credit risk – Corporate Centre' on pages 91, 105 and 116 of the 2013 Annual Report.</p>
<p>Liquidity</p> <p>Liquidity risk is the risk that Santander UK, although solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost.</p>	<p>3</p>	<p>Like all major banks, Santander UK can be impacted by confidence in the wholesale funding markets. Should Santander UK be unable to continue to source sustainable funding due to exceptional circumstances, our ability to fund our financial obligations could be adversely affected.</p> <p>→ See 'Liquidity risk' on page 133 of the 2013 Annual Report.</p>
<p>Pension</p> <p>Pension risk is the risk to Santander UK caused by its contractual or other liabilities to or with respect to its defined benefit pension schemes.</p>	<p>3</p>	<p>The funding position of Santander UK's pension schemes can be volatile due to the uncertainty of future investment returns and the projected value of scheme liabilities. Key risk factors include long-term interest rates, inflation expectations, salary growth, longevity of the scheme members, investment performance as well as changes in the regulatory environment. These factors may cause additional contributions to be required. They can also directly impact our capital position.</p> <p>→ See 'Pension risk' on page 132 of the 2013 Annual Report.</p>
<p>Operational</p> <p>Operational risk is the direct, or indirect, risk of loss to Santander UK resulting from inadequate or failed internal processes, people and systems, or from external events.</p>	<p>1</p> <p>2</p> <p>3</p>	<p>Operational risk is inherent in the processes Santander UK operates. Examples of operational risks include fraud, process failures, system downtime, and damage to assets due to fire or floods.</p> <p>→ See 'Operational Risk' on page 148 of the 2013 Annual Report.</p>

Strategic priority key:

- 1 Loyal and satisfied retail customers
- 2 'Bank of Choice' for UK companies
- 3 Consistent profitability and a strong balance sheet

Top risks

A top risk is defined as being a current risk within our business that could potentially have a material impact on our financial results, reputation and the sustainability of our business model.











Developments in 2013	Change in 2013
<p>During 2013, regulatory developments had the potential to impact Santander UK's capital plans materially and were mitigated through close monitoring, scenario analysis and capital issuance during the second half of the year. The finalisation of CRD IV and the PRA's policy statement on implementation, has removed some of the uncertainties surrounding capital forecasting.</p> <p>As part of a test of the UK banking system, the FPC introduced an effective leverage ratio minimum level ahead of international standards being finalised. Santander UK passed the test on both the risk-based and leverage measures. Both metrics continue to receive close scrutiny.</p> <p>The Core Tier 1 ratio improved to 12.9% (2012: 12.2%), reflecting retained profits. The reported CRD IV end point CET 1 leverage ratio was 3.3% (2012: 3.3%).</p>	
<p>Santander UK commenced a strategic review of conduct risk within the business in the year to identify and address key risk drivers. An enhanced Conduct Risk Framework has been developed to further improve the governance and management of conduct risk. Improvements have been made to specific business processes, such as product governance, as well as to the way the business identifies, manages and reports current, and potential future, conduct risks.</p> <p>During 2013, there was a decrease in both the volume of PPI activity and the number of complaints we received resulting in lower monthly redress costs, including related costs, throughout the year. Following a reassessment of the provision required to cover non-PPI related conduct remediation and enforcement actions in relation to interest rate hedging, Card Protection Plan and retail investments, there was a release during the year.</p>	
<p>During 2013, the overall Santander UK NPL ratio improved to 2.04% (2012: 2.16%), with the performance across the business units as follows:</p> <p>The Retail Banking NPL ratio increased to 1.89% (2012: 1.76%), partly driven by a planned reduction in the portfolio size, and also due to regulatory-driven policy and reporting changes related to mortgage lending. Credit quality on other Retail Banking lending was also satisfactory, with a particular improvement evident in unsecured personal lending.</p> <p>The Commercial Banking NPL ratio decreased to 3.02% (2012: 4.26%) as the credit quality in newer loan vintages remained satisfactory. We continued to adhere to our prudent lending criteria and will maintain this as we further deliver on our business plan and expand Commercial Banking lending.</p> <p>The Corporate Centre NPL ratio decreased to 2.36% (2012: 4.49%) reflecting the ongoing sale and run-off of the non-core corporate and legacy assets.</p>	
<p>During 2013, Santander UK enjoyed continued stability in its external credit ratings with both Fitch and Standard & Poors affirming Santander UK's 'A' credit rating. Eligible liquid assets decreased £7.4bn to £29.5bn (2012: £36.9bn). Balances have been managed down in response to regulatory guidance, initially received in the second half of 2012, as well as greater stability in the capital markets and as a consequence of the actions taken to strengthen the balance sheet liquidity over the last three years.</p> <p>Eligible liquid assets continued to significantly exceed wholesale funding of less than one year, with a coverage ratio of 139% (2012: 152%).</p> <p>Further clarity on the implementation of the Basel Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') has helped to reduce the degree of uncertainty in this area.</p>	
<p>During 2013, the governance framework and responsibilities for managing pension risk were enhanced. This included a dedicated function to oversee the management of pension risk. The pension scheme investment and hedging strategy was also reviewed during the year. Additional controls, triggers and metrics have been introduced to reduce or control inherent risk, while allowing improved monitoring to anticipate any management actions required.</p> <p>The accounting deficit of the scheme deteriorated by £503m during 2013. However, the pension scheme was managed to within the risk triggers over the year, and so from a risk perspective while this deterioration was material it was consistent with the current risk appetite. The deterioration was equivalent to approximately a 1-in-10 year event.</p>	
<p>The full breadth of operational risks in Santander UK has always been closely managed. During 2013, our approach was further developed through more extensive use of industry tools, such as major risk scenario analysis, to help management identify and control risks as our risk profile evolves.</p> <p>During 2013, there was a significant increase in the attempts at external cyber crime targeted at UK banks. In response to this, and combined with the growth in the volume of automated and online services and transactions, we increased our protection of our systems and data.</p>	

Summary risk report continued




Emerging and future risks

Emerging and future risks

An emerging and future risk is defined as being a risk with largely uncertain outcomes which may develop or crystallise in the future. Crystallisation of an emerging risk could have a material effect on long-term strategy.

Timeframe	Strategic priorities	Risk description and mitigation
Less than 1 year	<ul style="list-style-type: none">  1  2  3 	<p>UK economic and political environment</p> <p>The financial performance of Santander UK is intrinsically linked to the UK economy. Whilst some evidence of nascent recovery may be apparent, the possibility of economic downturn, along with its concomitant impact on profitability, remains a risk.</p> <p>Equally, the balance of UK economic performance may swing to the up-side, bringing with it the possibility of a higher interest rate environment. In such a scenario, the reaction of our customers and other market participants might result in different patterns of behaviour. These could include increased customer attrition and more competitive product pricing and/or higher loan impairment.</p> <p>In addition, any significant changes in UK Government policies or structure could have an impact on our business. We continue to monitor the potential consequences such changes may have with action to be taken as appropriate. The impacts of this risk may also be seen over more than a one-year period.</p>
1-3 years	<ul style="list-style-type: none">  3 	<p>Emerging regulation</p> <p>The aftermath of the financial crisis has seen the emergence of a significant volume of additional regulation. In some cases, the impacts this regulation has on Santander UK have become clearer and more precisely quantified. On the other hand, there remains a significant body of new regulation where the impact and timing, remains uncertain.</p>
	<ul style="list-style-type: none">  1  2  3 	<p>IT and business change</p> <p>Santander UK continues to invest in the roll-out of new IT platforms and systems to support its strategic growth plans. As with any significant programme of this nature, there is a need to ensure that the risks associated with the pace of change are properly monitored and controlled.</p>
More than 3 years	<ul style="list-style-type: none">  1  2  3 	<p>New competitors and technology</p> <p>Innovations in technology applied to the delivery of financial services continued to develop at a rapid pace. We have also seen the advent of new financial services providers. These factors bring with them the potential for increased levels of competition in the medium term.</p>

Key:

-  1 Loyal and satisfied retail customers
-  2 'Bank of Choice' for UK companies
-  3 Consistent profitability and a strong balance sheet

Chair's statement



Lord Burns
Chair

2013 was an important year for Santander UK in our transition to becoming a better diversified full-service retail and commercial bank. We ended the year in a good position to accelerate the execution of our strategic plan, encouraged by the strengthening UK economic recovery.

2013 review

The Board has continued to consider what Santander UK stands for, its role in society and how to meet its customers' needs. Our strategy is focused on our clear purpose of helping individuals and businesses prosper. Providing simple, personal and fair solutions will inform how we conduct the business in 2014 and beyond, and will be the underlying guideline for all our people.

We made considerable progress in 2013. Our 11213 World continues to attract new loyal customers as we offer innovative ways for individuals and families to save money, while our focus on the needs of business customers has seen us expand the range of services we can offer too, in our efforts to become the 'Bank of Choice' for UK companies.

Our strategy in the UK is not just about the products we offer or how much we can lend; giving back to the community is also very important and I am extremely proud of what we achieved in 2013. Santander Universities expanded its reach, with 72 institutions now in our partnership network, and the Santander UK Foundation made over 2,000 donations to charities in 2013, supporting projects for disadvantaged people. In total, Santander UK's community-based support programmes saw over £21m provided to help address our priority areas of education, enterprise and employment.

The banking sector continues to face challenges in demonstrating that culture, standards and training are aligned to the expectations of customers and other stakeholders. We are fully engaged with the industry to put in place proposals to meet the challenges. We also continue to work closely with our regulators to ensure that banks have appropriate risk systems and adequate capital to meet unexpected events.

Our Board

As a Board we are committed to continuous improvement and achieving standards of governance in line with UK best practice. During the year, we remained focused on this objective and further strengthened the Board through the appointment of four new Non-Executive Directors: Mike Amato,

Alain Dromer, and Scott Wheway (all of whom are independent in accordance with the UK Corporate Governance Code) and Manuel Soto, who joined the Board after 14 years on the Board of Banco Santander, S.A. Each of our new Directors is working through a tailored induction and development plan to support them in taking up their role.

We also announced that we welcome back Nathan Bostock, who will join the Board as Deputy CEO during 2014. José María Nus, who for the past three years served as Chief Risk Officer, successfully leading the development of a world-class risk management team, will leave the Board later in the year and return to a senior role at our parent company. On behalf of the Board, I thank José María for his dedication and invaluable counsel during this important time.

Our people

I would like to thank all of my colleagues, who have responded admirably to the challenges and opportunities in the past 12 months. We have achieved much, thanks to their pride, commitment and loyalty to doing the right thing for our customers and delivering sustainable value for all our stakeholders.

Governance, remuneration and corporate social responsibility summary

What follows on the next five pages is a summary of our full Corporate Governance and Directors' Remuneration Reports available in the 2013 Annual Report, as well as a summary of our full Corporate Social Responsibility Report to be published in June 2014 which will also be available on our website at www.aboutsantander.co.uk. This reflects the importance we place on our culture, our people, our communities and the environment in which we operate.

Lord Burns
Chair
26 February 2014

Corporate Governance review

Corporate governance framework
Santander UK, as a subsidiary of Banco Santander, S.A., has its own autonomous operating framework and is regulated in the UK by the PRA and the FCA in the UK.

Our ordinary shares are not listed on the London Stock Exchange ('LSE') but we do have LSE-listed preference shares. As a result, we are subject to the Listing Rules and the Disclosure & Transparency Rules of the FCA. In addition, although we are not obliged to comply with the UK Corporate Governance Code, we have chosen to follow it in a manner appropriate to our ownership structure. This enables us to implement high standards of corporate governance and other best practice guidance, wherever it is appropriate to do so.

The Board

At 31 December 2013 and the date of this report, the Board comprised the Chair, four Executive Directors, and eleven Non-Executive Directors, six of whom are independent.

The Board has four committees: Board Risk Committee; Board Audit Committee; Board Nomination Committee and Board Remuneration Oversight Committee, the work of which is detailed in the reports from the Chair of each Committee in the Governance Report on pages 172 to 179 of the 2013 Annual Report.

The roles of Chair and Chief Executive Officer are separated and clearly defined. The CEO has delegated authority from the Board for the day-to-day operation of the business and implementation of the Board's strategy and business plan, and in turn the CEO delegates a number of duties to the Executive Team. The CEO and Executive Team are supported by a number of Executive Level Committees.

The Board is collectively responsible to the shareholders for the long-term success of Santander UK and operates through a formal schedule of matters reserved for its decision, which includes setting corporate strategy, agreeing risk appetite and policies, approving major capital expenditure, acquisitions and disposals, and agreeing the annual budget and business plans.

The Executive and Non-Executive Directors also have different responsibilities that complement each other to provide efficient oversight of Santander UK's activities as outlined below.



Executive Directors

Ana Botín
Chief Executive Officer

Stephen Jones
Chief Financial Officer

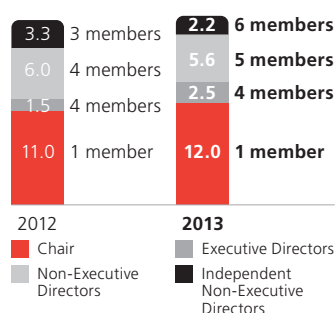
José María Nus
Chief Risk Officer

Steve Pateman
Head of UK Banking

Key responsibilities of Executive Directors

- Deliver the strategy approved by the Board whilst managing the day-to-day operations of Santander UK with due skill, care and diligence, in line with agreed business plans.
- Report regularly to the Board, providing adequate and timely information about each business division to enable the Board to carry out its own responsibilities.
- Provide business direction, aligned to the Santander UK strategy, as members of the Executive Committee.
- Represent Santander UK externally, ensuring that stakeholders are clearly and accurately informed of the business performance and corporate stance on relevant issues.

Board of Directors average tenure (years)



How the Board spent its time in 2013

During 2013, the Board devoted a significant amount of time and focus on driving Santander UK's strategic transformation. In May 2013, we held the Board Strategy Day where we reviewed the trends in UK banking and considered key initiatives and developments in light of Santander UK's three strategic themes of loyal and satisfied retail customers, 'Bank of Choice' for UK companies and consistent profitability and a strong balance sheet.

During 2013, the Board also devoted time to reviewing its own effectiveness and to complement its own annual review process we commissioned Bvalco Limited, an external consultant, to conduct an external effectiveness review (see below).

Another significant area of focus for the Board in 2013 was recruitment of new Non-Executive Directors, whose knowledge, insight and objectivity complete the existing skills at Board. This recruitment also positions the Board well for the future.

The Board also focused on improving the customer experience and further developing our culture. The Board believes that the right culture is paramount, and that it has a significant role to play in shaping culture and setting the principles and values to deliver long-term success.

As seen in recent times, the UK banking industry has to regain the trust of the public, and in order to support this, the Board approved a new Code of Conduct, applicable to everyone at Santander UK, in order to continue to promote the right culture within the organisation.

Lastly, the Board closely monitored regulatory developments, including the impact from the Financial Services (Banking Reform) Act, the key developments from the Parliamentary Commission on Banking Standards, and the implementation of CRD IV in the UK.

2013 external effectiveness review

In the first half of 2013, the Board Nomination Committee commissioned an external Board Effectiveness review by Bvalco Limited. The review was helpful in identifying potential areas for the Board to examine in order to continue to enhance its effectiveness. While the Board strives for continuous improvement, the review represented a significant positive move to ensure that it continues to improve throughout 2014 and beyond. Details of the review's findings, together with the associated action plan, were discussed by the Board, and progress against the plan is being monitored through the Board Nomination Committee.

Priorities for 2014

For 2014, the Board will continue to drive forward Santander UK's strategic transformation. This will ensure that we continue to remain focused on our three business priorities of loyal and satisfied customers, 'Bank of Choice' for UK companies and consistent profitability and a strong balance sheet. We will do this whilst striving for continuous improvement as a Board.

Non-Executive Directors

José María Carballo
Antonio Escámez
José María Fuster

Juan Rodríguez Inciarte
Manuel Soto

Independent Non-Executive Directors

Mike Amato
Roy Brown
Bruce Carnegie-Brown

Alain Dromer
Rosemary Thorne
Scott Wheway

Key responsibilities of Non-Executive Directors

- Provide an independent perspective on how Santander UK is run.
- Bring balance and a broader perspective through wider knowledge and experience.
- Challenge, and if necessary, seek additional information and explanation from the Executive Directors about decisions, policies, proposals or any aspect regarding the running of Santander UK.
- Carry out the role of Non-Executive Director with integrity, due skill, care and diligence, observing proper standards of market conduct, complying with all statutory and regulatory duties and dealing with regulators in an open and co-operative way.

Corporate Governance review continued

Remuneration reporting

Throughout 2013, Santander UK continued its commitment to transparency and positively engaged with the enhanced legislative requirements for quoted companies in respect of executive remuneration reporting. Despite not being directly subject to those new legislative requirements, both this year's and last year's Annual Reports include additional disclosures to ensure the continued transparency on remuneration.

The full Directors' Remuneration Report in which we outline remuneration and fees paid to the Executive and Non-Executive Directors for 2013 is shown on pages 178 to 187 of the 2013 Annual Report.

Directors' remuneration^(E)

As in 2012, the Board through its Board Remuneration Oversight Committee (the 'Committee') monitored closely developments in respect of executive remuneration, particularly in respect of the financial services industry generally and paid special attention to the pronouncements from our lead regulators and the UK Government in this regard. The Board continues to support remuneration practices that encourage financial stability as well as, strong risk management processes and behaviours. The Committee considered a number of key changes to remuneration structures in 2013. In order to better meet the challenges posed to Santander UK, the Committee reviewed the operation of the annual bonus scheme applicable to the senior management group, including the Executive Directors. The Committee approved a number of changes to the metrics used to assess performance including the use of Return on Risk Weighted Assets ('RORWA') as a more appropriate measure of capital consumption and the use of a Customer Service Gateway ('CSG') to ensure conduct risk is appropriately addressed.

The Board continued to take a considerable interest in ensuring that our remuneration policies and practices are aligned to its risk appetite. In 2012, we introduced an Enterprise-wide Risk Review as part of the bonus pool calculations for all schemes. Such a review was continued into 2013 and is a holistic review of all financial and non-financial risks considered by the Committee after the initial bonus pool calculations had taken place, with the ability for the Committee to reduce all bonus pools by up to 100%.

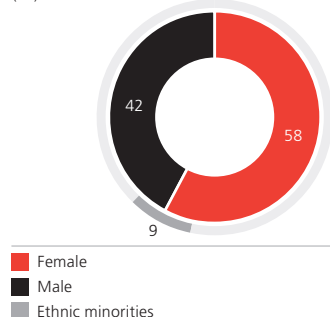
The Directors' Remuneration Report on pages 178 to 187 of the 2013 Annual Report sets out the details of what we paid our Directors in 2013 and why. In summary, our remuneration policies for our Executive Directors are designed to attract, retain and motivate executives of the calibre needed to successfully deliver our business strategy. Remuneration packages are structured to align individual rewards with the performance of Santander UK and the interests of our stakeholders. Furthermore, our remuneration arrangements incorporate performance measures which link remuneration to Santander UK's key performance indicators, which are directed towards building sustainable value for all our stakeholders. Lastly, the remuneration fees for our Non-Executive Directors, including the Chair, are determined by the Board within the limits set by the Articles of Association and are based on the skills and expected time commitment of the individual concerned, taking account of fees paid in similar companies.

(E) Directors' remuneration

Aggregate Directors' remuneration	2013 £	2012 £
Salaries and fees	6,185,456	5,799,704
Performance-related payments ⁽¹⁾	4,800,051	4,265,082
Other taxable benefits	–	–
Total remuneration excluding pension contributions	10,985,507	10,064,786
Pension contributions	–	–
Compensation for loss of office	–	–
	10,985,507	10,064,786

(1) In line with the FCA Remuneration Code, a proportion of the performance-related payment was deferred. Further details can be found in 'Further Remuneration Disclosures' and in Note 44 to the Consolidated Financial Statements

Gender and ethnicity breakdown (%)



Our culture

In 2013, we launched Simple, Personal, Fair: the Santander Way, setting out how everyone is expected to think, act and conduct themselves. We are committed to building a bank that is simple to deal with; has personal understanding of its customers; and treats everyone fairly and, to achieve this, everything we do must be simple, personal and fair for our people, customers, shareholders and communities. Following the Santander Way will help us achieve our purpose; to help people and businesses prosper.

Santander UK is committed to maintaining high ethical standards, adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are further reflected in our new Code of Ethical Conduct, which was communicated to all staff in December 2013. The new Code sets out clearly the standards expected of all employees, in line with the Santander Way and our commitment to being simple, personal and fair.

Our people

Our goal to be the best bank for our customers is only achievable if we reach our aspiration to become the best bank to work at for our employees. Key to achieving this goal is to have a workplace that provides excellent opportunities for career progression and that encourages accountability and teamwork.

Santander UK is committed to ensuring compliance with the FCA Remuneration Code and salary ranges are benchmarked against the median levels for the industry. We look to provide employees with pension arrangements that are fair, competitive and sustainable and with a range of other benefits that aim to reflect the diverse nature of our workforce.

We also focus on creating a safe and healthy environment for our people and provide training, coaching and advice, including quarterly health and lifestyle updates which feature a broad range of informative and seasonal articles about health, safety and wellbeing. We also provide employees and immediate members of their family with an Employee Assistance Programme offering free, confidential telephone advice and support, including face-to-face counselling.

Santander UK has a successful history of working in partnership with its recognised trade unions, Advance and the Communication Workers Union ('CWU'). Both trade unions are affiliated to the Trades Union Congress. We consult Advance and the CWU on significant proposals and change initiatives within the business at both national and local levels.

Diversity and inclusion^(F)

We are committed to supporting diversity and creating an inclusive culture where all our people feel valued and able to fulfil their potential. We celebrate diversity through regular internal communications focusing on important cultural events and faith festivals to raise awareness of different cultures and improve inclusivity. Our Embrace, Enable, Women in Business and Cultural Awareness networks encourage colleagues to connect on issues related to sexuality, disability, gender and culture.

In 2013, we continued to review our strategy and related policies and processes that support gender diversity and are mindful of Lord Davies' report 'Women on Boards' published in 2011 which set an aspirational target of 25% female representation on the Boards of FTSE 100 companies by 2015. While the percentage of female Directors on the Board decreased during the year, due to our new appointments to the Board in 2013, the number of female Directors remained constant.

We have a strong commitment to gender diversity within the workplace and recognise the need and importance of inclusion and balance at all levels in order to ensure there are sufficient senior female candidates to succeed into senior roles. The table below sets out the details of the female and male employees who were Directors, senior managers or employees during the year:

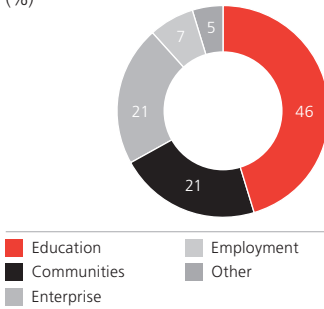
(F) Diversity and inclusion

Gender statistics 2013	Female No.	Female %	Male No.	Male %
Directors	2	13	14	87
Senior managers ⁽¹⁾	34	15	188	85
Employees	11,393	58	8,250	42

(1) In accordance with sections 414C(9) and 414C(10) of the Companies Act 2006, a senior manager is defined as an employee of the Company with responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, including directors of significant subsidiaries.

Corporate Governance review continued

Community investment 2013 (%)



Santander Universities 2013

- 980 scholarships for international students to study in the UK
- 918 Mobility Awards for UK students and academics to study abroad
- 148 entrepreneurship and enterprise awards
- 273 special projects, including support for business incubators and international symposiums
- 1,460 internship awards given for students and graduates to work in SMEs

Communities

Our business is predominantly focused on retail banking and small businesses and so our community investments support local organisations. The Santander UK Foundation provides grants to local charities, support for students is co-ordinated via Santander Universities, and Breakthrough assists small businesses. Together these three flagship programmes provided over £15m of funding in 2013 and are key to meeting our objective to focus our support to society on education, enterprise and employment. In total, Santander UK contributed £21m in 2013 to society, primarily through cash donations to good causes.

The Santander UK Foundation provides grants to UK registered charities that help disadvantaged people, usually in communities where Santander branches and business centres are based and locations where the bank has a significant presence, such as a main office or call centre. Its three grant programmes focus on funding for education, training and financial capability projects and over 2,000 charities benefited in the year.

Santander Universities continued to grow with six more partner universities signing agreements with us, bringing the total number of UK partners to 72 and more students and staff becoming beneficiaries of our long-term commitment to higher education. 2013 saw £8.45m contributed to the sector in the UK.

Breakthrough is aimed at helping fast-growing SMEs, to boost economic recovery and local employment. Alongside specialist finance for high-growth SMEs we provide fast-growth companies with the resources and knowledge they need to achieve their growth potential. During 2013, more than 390 businesses benefited from the Breakthrough programme through overseas trade missions, roundtable events, masterclasses and internships.

Lastly, Santander UK is committed to protecting and respecting human rights our Human Rights Policy applies to employees, customers and suppliers as well as the communities in which we operate. We continue to operate in accordance with the highest international standards and the Human Rights Policy is aligned with international standards and regulations regarding labour, social and environmental affairs.

The environment^(G)

Santander UK is committed to creating a strong business that is not achieved at the expense of the environment. We aim to reduce our impact on climate change. The predominant greenhouse gas generated as a result of running our business is carbon dioxide, generated from our use of fuels in heating, cooling and lighting for our offices and branches, and through employee business travel. Our electricity was sourced solely from green supplies in 2013 which has zero-rated carbon dioxide emissions. As a result this dramatically reduced our environmental impact compared to 2012.

2013 saw an increase in overall travel, in line with the growth of the business. We are committed to reducing carbon dioxide emissions through employee travel. In February 2013 we implemented the 'Change the way we work' programme which prioritises video and telephone conferencing, and we invested in additional video conference rooms in our main offices.

We recycle 98% of the paper, plastic, aluminium and general waste produced at our offices and branches.

(G) The environment

Emissions data	2013 Tonnes CO ₂ e ⁽¹⁾	2012 Tonnes CO ₂ e ⁽¹⁾
CO ₂ from fuel	8,016	37,385
CO ₂ from business travel	10,517	9,323
Total	18,533	46,708
CO ₂ released per FTE	0.76	1.87

(1) DEFRA conversion factors for greenhouse gas reporting. DEFRA Standard Set 2013

This Strategic Report incorporates our heritage, Santander UK today, our strategy and business model, key performance indicators, the Chief Executive Officer's review, the Chief Financial Officer's review, the Summary Risk report and the Chair's statement and Summary Corporate Governance review.

By order of the Board

Ana Botín

Chief Executive Officer
26 February 2014

Further information

Contact us

Customer services

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

www.santander.co.uk

Telephone: +44 (0)870 6076000
customer.services@santander.co.uk

Shareholders

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

www.santandershareholder.co.uk

By post, please write to:
Santander Nominee Service
Aspect House
Spencer Road
Lancing BN99 6NZ

By telephone: 0871 3842000*
From outside the UK: +44 (0)121 415718

By email: shareholders@santander.com

*Calls to this number are charged at 8p per minute from a BT landline (other network providers)

Community involvement

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

www.santanderfoundation.org.uk

Media centre

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

www.aboutsantander.co.uk/media

By email: mediarelations@santander.co.uk

Investor relations

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

www.aboutsantander.co.uk/investors

By email: ir@santander.co.uk

Key Dates

29 April 2014

Q1 2014 results

31 July 2014

Q2 2014 results

4 November 2014

Q3 2014 results



Santander UK plc
2 Triton Square
Regent's Place
London NW1 3AN

www.santander.co.uk