Santander UK plc

2023 Annual Report

Part of the Banco Santander group

Important information for readers

Santander UK plc 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 198.

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.

Strategic report

About this report

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

By Order of the Board.

William Vereker
Chair, 29 February 2024

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At a glance

Understanding our business
Our business model is focused on building customer loyalty, through being **digital first with a human touch**

Our Purpose is to help people and businesses prosper

We help our customers at moments that matter most
We champion British businesses and help them to grow sustainably
Our customer focus helps us to develop more loyal and lasting relationships

We provide high quality financial products and services across our digital, branch and telephony channels.

14 million	**c19,500**	**444**
active UK customers	Full time equivalent employees	Branches
£172.9bn	**5th largest**	**£187.4bn**
in mortgage lending	commercial lender	in customer deposits

Our competitive advantages
Scaled and established bank in the UK
Strong balance sheet with a prudent approach to risk
Part of a **global banking group**, with international expertise and technological synergies
A **talented** and **motivated** team

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

Simple, Personal and Fair

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

Sustainability & Responsible banking strategy through considering the pillars of **ESG**
Environment - Fighting climate change & supporting the green transition
Social - Building a more inclusive society through delivering on our purpose
Governance - Doing business the right way with robust governance

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, comprising approximately 98% of its immediate parent group's consolidated profit from continuing operations before tax for the year ended 31 December 2023 and approximately 98% of its consolidated net assets at 31 December 2023. 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 2023 Annual Report, which does not form part of this report.

Market overview

Five major forces continue to shape the UK banking market.

Uncertain economic environment

What we have seen

In 2023, the UK economy saw weak economic growth (0.1% based off latest data available), as UK consumers experienced increases in the cost of living following two years of high inflation. This led to the Monetary Policy Committee (MPC) increasing the Base Rate five times in 2023 to 5.25% (175bps above 2022). As a result, the housing market slowed, with approvals below 2022 levels and prices reducing by around 0.8% in the year.

Our response and looking ahead

While our performance is closely linked to the performance of the UK economy, our mortgage focus and prudent approach to risk saw income benefits from a high rate environment. We continued to focus on supporting our customers and invest in improving efficiency to offset inflationary pressures on expenses. In 2023, we contacted 2.5 million customers to assist with cost of living pressures and provided tools to help them manage their money. We invested further in our recently completed transformation programme, which helped offset inflationary pressures. Looking ahead, in 2024 we expect the Bank of England to begin easing rates should inflation continue to fall. As this occurs, we expect to see mortgage lending begin to stabilise as our customers' real income improves. We will continue to support our customers when they need it.

Increased competition and margin pressure

What we have seen

The UK banking sector continues to be a highly competitive mature market. In addition to our traditional competitors, we have continued to see international and digital challengers compete for lending and deposits. Most large UK banks saw mortgage lending and deposits either reduce or slow in growth with disciplined pricing in this highly competitive and high rate environment, as customers shopped around for best offerings. Cost of retail and wholesale funding rose over 2023, leading to increased pressure on margins and spread.

Our response and looking ahead

In 2023, we took a strategic decision to deleverage our portfolio through being disciplined in pricing and maintaining our prudent approach to risk. We continued to monitor competitors' products, develop partnerships and invest in our offerings (both traditional and digital) throughout the year to bring customers to Santander UK and meet their needs. Looking forward, we expect international and digital challengers to continue their pursuit of market share, however we foresee this being challenging for them due to current funding costs. We will continue to invest in our products and offerings to attract and retain customers, leveraging from our significant variety of resources.

Changing customer behaviours

What we have seen

2023 continued to see customers move towards digital banking over traditional banking methods. Over 90% of our current account and credit card openings were made through digital channels, with our digital customer base growing 3% to over 7.2 million users. We also saw a shift in customer deposits from current accounts into savings as customers took advantage of higher rates on savings accounts, especially term deposits.

Our response and looking ahead

With a refreshed commitment of becoming a digital first bank with a human touch, we digitised key customer journeys in 2023, allowing us to compete with challenger and online-only banks and simplifying our onboarding experience. While we understand the increasing importance of digital banking, we continued to ensure that our branch and human contact for customers is market leading and available to those who need it most. Looking ahead to 2024 we are looking forward to the release of OneApp in the UK, our new mobile banking app. OneApp will give our customers an improved mobile banking experience. We will also continue to modernise our branches, with c.50 refurbishments planned for 2024, and continue to explore new ways of banking, like Work Cafés, with two planned openings in 2024. Investment in our products will continue to ensure the products and services we offer meet our customers' needs and attract new customers.

Intensifying regulatory pressures

What we have seen

The regulatory agenda continued to be intense in 2023, with significant policy and supervisory activity from both regulators and the UK Government. We are now seeing regulators implement a range of new policies, including a new secondary competitiveness and growth objective for the UK's financial services sector. HM Treasury has also been consulting on reforms to ring-fencing.

Our response and looking ahead

In 2023, we began to address the PRA's expectations on model risk management ahead of the 2024 deadline, whilst also preparing for the finalisation of Basel 3.1, which will impact our capital requirements. The centrepiece of regulatory activity in 2023 was the introduction of Consumer Duty. We have been focused on its effective implementation and ongoing embedding across the business, which has been successful. We are now focused on preparing for the implementation of Phase 2 in 2024. Authorised Push Payment (APP) fraud continues to be a major challenge impacting the industry, with the Payment Systems Regulator (PSR) introducing a mandatory reimbursement requirement. Whilst we have implemented several changes to prevent fraud from occurring, we continue to encourage policymakers to consider how we can better prevent fraud from occurring. We anticipate regulatory activity will intensify in 2024 and we will continue to work with industry, trade bodies and policymakers to support the appropriate regulation of the UK's financial services industry.

ESG activity under the spotlight

What we have seen

Customers, governments, regulators and investors alike placed more scrutiny on ESG activities than ever before in 2023. Companies are expected to play their part in creating a sustainable and diverse operating environment, as more customers and investors make decisions based on ESG factors.

Our response and looking ahead

In 2023, we updated our climate strategy to better align with our parent Banco Santander. In the UK, we have provided over £13bn in green financing since 2020 (2025 target: £20bn), helping our customers reduce their carbon footprint. We continued to make strong progress against our financial empowerment ambition, having exceeded both 2025 financial empowerment and education targets. Internally, we continued to celebrate diversity and encourage our culture of belonging throughout 2023. Looking ahead, we will continue to evolve how we report on ESG matters. This involves updating our targets as we reach those set previously and improving disclosure. Our customers and people should expect to see benefits of Santander UK continuing to be a champion of sustainable and responsible banking in the UK.

Our business model

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

Our competitive advantage
Scaled and established bank in the UK - Scale in our core banking businesses combined with an innovative mindset
Part of a **global banking group** - Synergies received from Banco Santander's operating model and technology
Strong balance sheet with a prudent approach to risk - High asset quality across all portfolios and capital metrics well above regulatory requirements
A **talented** and **motivated team** - A highly talented and engaged team, with the right skills in place to support our customers and transform the bank

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.
2023 progress: launched new digital current accounts (Edge & Edge Plus) and market leading easy access saver. For our corporate customers we launched Santander Navigator to connect them with overseas markets.

Simplification, automation & digitalisation
We aim to 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'.
2023 progress: migrated our contact centre platform to the cloud. CCB adopted Banco Santander's Gravity platform, an in-house digital cloud-native core banking system. Our retail banking customer pilot for 'OneApp' launched in the UK ahead of H124 migration.

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.
2023 progress: strategic deleveraging of our balance sheet delivering record profits for our shareholders. We maintained significant headroom on regulatory capital requirements.

Sustainable & responsible banking
Initiatives aimed at helping our customers with their net zero transition and to help grow the number of people with the skills they need to thrive in the future.
2023 progress: completed a full review and update to our ESG operating model, which included a refreshed climate strategy and ongoing work to update our social strategy.

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 2023 Annual Report, which does not form part of this report.

Risk management overview

Top risks

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

Highlighted below are our Top risks in 2023 and associated management actions. Many of these risks are likely to remain in focus in 2024.

Inflationary & supply chain pressures

This is the risk facing our retail customers from cost of living increases and higher interest rates; and on our corporate customers from business cost increases and supply chain pressures along with remaining Covid-19 and Brexit related risk issues post pandemic and exit from the EU. We have taken actions to adjust affordability criteria in our lending decisions and increased our customer support capacity, whilst ensuring close and continuous monitoring of our credit portfolios. To date our credit portfolio performance has remained relatively resilient, although we are seeing some signs of customer stress emerging, albeit from a relatively low base. We anticipate some further deterioration in credit metrics in 2024, as more customers refinance onto higher mortgage rates.

Building and maintaining capital strength

We saw sustained resilience in our Regulatory Capital in 2023, with the Common Equity Tier 1 ratio remaining significantly above the regulatory minimum. Regulatory uncertainty remains the top capital risk for the bank. The UK implementation of Basel 3.1 is set for 1 July 2025, with a four and a half year transition period to full implementation by 1 January 2030, and will likely impact our regulatory capital requirements.

Climate change

We continue to progress our transition planning to set baselines and net zero pathways for our residential mortgage, auto loan, and commercial real estate portfolios. We are also progressing our Climate Internal Scenario Analysis programme. This is expected to deliver capability to meet regulatory climate stress test requirements, enhanced assessment of our risk exposures, further supporting targeting of our lending decisions and facilitating achievement of our net zero ambitions. Increasing disclosure requirements for climate change and broader ESG reporting required us to enhance our data strategy, which is reflected in our assessment of Data Management as a Top Risk. Supporting our customers is a key focus of our climate change plans along with managing related risks and reducing emissions in our operations.

Economic Crime

Financial crime is a high priority risk, and addressing it remains a key priority for us. In 2023, we further developed our compliance oversight and operations, and updated our policies and standards reflecting latest external requirements and best practice.

We also improved our operations and processes to respond to increasingly complex sanctions regimes, and introduced enhanced Customer Due Diligence processes and controls to support new business onboarding.

We considered the likely impact of government announcements on account closures. We only close accounts after a thorough review of all circumstances in line with legal and regulatory obligations and customer communication. Our Fraud losses were lower in 2023 compared to 2022, with design and implementation of new fraud prevention tools to complement our existing prevention and detection systems. Authorised Push Payment (APP) fraud remains the most significant single contributor to fraud losses. There are regulatory and consumer body considerations, with further PSR policy statements published in December 2023, which we are reviewing carefully for any further potential impacts. We are taking actions under our Fraud Transformation Programme to reduce losses and case volumes.

IT and Cybersecurity

The importance of IT risk management and control remains at the centre of our activities and we continue to progress a bank-wide programme to address increasing obsolescence, partly due to the fast pace of technological evolution. The programme is expected to deliver further risk reduction, over a three-year period, which we monitor closely.

We experienced no material data or cybersecurity incidents in 2023, although we responded to a number of third-party incidents. We continue to enhance our threat prevention controls, address IT obsolescence, and test our business area recovery plans against a range of scenarios. We continue to see increasing ransomware attacks across all sectors, driven by compromises in supply chain tools and we expect this trend to remain. We continue to invest in the right skills and resources to manage data and cybersecurity risks, and constantly monitor cybersecurity threats, particularly with evolving and elevated risks in the geopolitical environment.

People

People risk continues to be impacted by changes in our operating models and execution of our business strategies. We continue to adapt and respond to these risks, including those associated with the phased relocation of our Head Office to Unity Place in Milton Keynes across 2023 and 2024. We saw improvements in the year including reductions in levels of wellbeing related absence, and a stabilisation of attrition rates. Our wellbeing and inclusion strategy focuses on helping colleagues through change and supports productivity. We continue to support hybrid working but focused our messaging on encouraging colleagues to attend regularly in the office. We also provide support in response to the impact of external economic factors on our colleagues.

Conduct and Regulatory

In 2023, we remained vigilant in taking a customer-focused approach in developing strategy, products, services and policies that support fair customer outcomes and market integrity. As part of this, we proactively contacted customers at risk of experiencing financial stress to support them. We are supporting business customers with payment difficulties rolling off government loan schemes. We are also evolving our Financial Support team and SME support by investing more in people and IT, and we continue to focus on ensuring good customer outcomes.

Managing complex change

We have a challenging change agenda including continued aspirations for transformation and growth and well-established change control processes, as well as a strong oversight framework and related risk-based prioritisation. We continued our transformation to simplify the bank, which includes digitalising processes and customer journeys, reducing costs, extending internal capabilities and ensuring a resilient operating model.

Data management

Data Management including data privacy remains a key focus for us, reflecting the importance of data in supporting our business plans and strategy, the rising cybersecurity threat landscape, and the importance of controls over personal data. We continue to monitor and manage data risk through enhanced governance structures and processes. Our Data Programme is progressing with clearly defined deliverables that will improve our ability to manage data and enhance our capabilities, in line with our Data Strategy.

Third Party Risk Management (TPRM)

We rely extensively on third parties, both Banco Santander and external suppliers, for a range of goods and services. The heightened geopolitical environment puts an increased risk focus on supply chains. In 2023, we continue to progress work to enhance our controls and governance arrangements. We reassessed our highest risk suppliers against a revised set of criteria and implemented new metrics to monitor and manage our risk exposure. Our Procurement transformation also continues to operationalise our updated TPRM policies and processes.

Ring-Fencing

This was covered in 2023 as a Top Risk in our regular updates to ERCC and BRC. We focused on the continued refinement and enhancement of the quality and maturity of controls, and consideration of the HMT consultations on potential changes to the ring-fencing regime. We have removed this as a Top risk in 2024, given the progress we made in 2023.

Emerging risks

We monitor these risks using our Emerging risks radar and regularly provide updates to the ERCC and BRC.

Highlighted below are our emerging risks in 2023 and our associated management actions. Most of these risks are systemic issues which will likely also impact our peers and remain relevant in 2024.

Uncertain macroeconomic and geopolitical environment

These risks remain in our top areas of concern. UK political risks increased significantly in 2023, as the focus is drawn to an upcoming General Election. We monitor the political landscape closely, and our Public Affairs team provides specialist insights and analysis which we use to assess potential impacts on the bank. Key areas of policy focus include: the fiscal position; spending policy approach and related markets (rates) and economic impacts; taxation (including bank specific related); climate-related policies (including Net Zero); bank regulation; and post Brexit trade relations with the EU.

2024 is also an election year in the US, and we will consider the potential impacts on the geopolitical environment from this that could arise. Broader considerations include conflicts in Ukraine and the Middle East, as well as the strengthening of political, trade and security ties between a number of developing nations with large and growing economies. These developments can have significant impacts on inflationary pressures, supply chains, and the cybersecurity threat environment.

Rapid technological change, customer behaviour, and Artificial Intelligence (AI)

Our overall approach to managing these risks reflects the continued acceleration of strong trends towards customer digital adoption via mobile and online banking. Our commitment is to become a digital bank with a human touch, whilst also ensuring that we remain competitive in a market which is experiencing an increase in digital-led market challenger entrants.

We continue to focus on investment in our products to ensure we are meeting customers' needs, with our OneApp mobile banking experience platform due for release in 2024. At the same time, we remain cognisant of cybersecurity, cloud technology and operational resilience issues which we take into account in our development strategy.

AI and associated risks and opportunities featured prominently in broader strategic business decisions across industries in 2023. Our strategy team formed a working group to co-ordinate a review of potential uses and touch-points of AI in the bank and other considerations such as governance, enterprise architecture, software implications and data usage.

Intense market competition

Against the backdrop of a highly competitive UK banking market, most large banks experienced either a reduction or slowdown in mortgage lending and in deposits, with customers able to select for value across a range of offerings. As well as taking a strategic decision to deleverage our mortgage portfolio, whilst maintaining prudent risk management, we continue to develop partnerships and invest in our products and offerings to attract and retain customers, leveraging Banco Santander's technology and support.

Demanding regulatory agenda

Like all UK banks, we will continue to face a demanding and complex regulatory agenda in 2024 and beyond focused on consumer outcomes, customer vulnerability, competition, and climate change. Our Compliance team continues to evaluate the evolving regulatory environment, and support the business in understanding and implementing regulatory change requirements. Many of these risks have, to a large degree, crystallised and we address them as part of our regular reporting across a range of risk types.

However, external developments are increasing the specific challenges being faced by banks in implementing climate change risk plans and fulfilling climate-related commitments. Costs associated with the climate change agenda have risen significantly, at the same time as cost of living has become a key focal point. Other external factors also remain uncertain and challenging including long-term UK government commitments, pace of technological developments, behavioural changes in society and business model transition risks.

These issues are likely to feature heavily in UK political debate in 2024 as part of the General Election. We are monitoring these external developments closely for any emerging reputational risks that could arise, either from failure to deliver our own climate-related plans, claims of 'greenwashing' or from a change in public perception of such initiatives given increased costs of implementation.

The FCA announced in January 2024 that it intends to use its s166 FSMA powers to review historical motor finance commission arrangements and sales across several firms. The review could imply some form of redress scheme, but the extent of our exposure under such a scheme remains uncertain at this stage. We are considering the immediate implications of the FCA announcement.

Extended Government involvement in banking & markets

In 2023, we saw a continuation of this trend, with the Mortgage Charter and the focus on banks' decisions with respect to customers savings rates. These types of initiatives create additional challenges and uncertainty for strategic plan forecasting and balance sheet management. UK political risks arising from the 2024 election could also have further impacts going forwards.

The issue of debanking which came to prominence in a high profile case in 2023, also highlighted the speed with which an emerging risk can crystallise into an operational and conduct event, as well as increased reputational risk and investor concerns.

It is paramount to us that customers have access to banking services and are treated fairly and transparently. Along with UK political risks, we also proactively monitor the potential for external interventions in the banking industry, and the likely impacts on the business, both regulatory and governmental.

Central Bank Digital Currencies & Crypto assets

Depending upon how these are implemented, there is a risk of a significant transfer of commercial bank deposits into these Central Bank Digital Currencies over time, increasing wholesale funding requirements and costs, and reducing the 'stickiness' of deposits in a stress. There are also broader potential impacts on regulatory frameworks, and monetary and fiscal policy. We continue to monitor these developments as they evolve.
We are also addressing the risk of crypto asset exposure through our client onboarding policies and procedures, which are part of our Financial Crime framework. We introduced crypto currency fraud controls, including limits applied for digital personal faster payments across telephone, branch and open banking channels.

Environmental and Social risks

Risks related to the environment have been increasing, including extreme weather conditions, bio-diversity loss, pollution, water and food crises, as well as the potential for new pandemics and diseases to emerge. There have also been mass-migration movements to Europe. These issues can impact business resilience either directly or indirectly. As a result, we have added this to our emerging risks.

The UK Government refreshed its National Risk Register in 2023, which also highlighted a number of these risks and others. Our business recovery teams run risk scenarios and develop response playbooks to test the bank's resilience to a range of potential external events, which are refreshed regularly so that they remain relevant in the context of the current external threat landscape.

Eurozone/Sovereign Bank contagion

Energy and commodity price shocks have increased risks to post-pandemic growth and financial conditions in the Euro area and globally. Euro area sovereigns, corporates and households face higher interest rates and cost pressures that could test debt sustainability for more highly indebted entities.

The most relevant risks for Santander UK could be reflected in wider credit spreads which could increase wholesale funding costs. Credible funding plans and liability strategies to support our aspired business growth will be key, which are regularly reviewed and challenged at our Asset and Liability Committee (ALCO).

Financial overview

Development and performance of our business in 2023

Information on the development and performance of our business in the year is set out in the 'Income statement review' section of the Financial review.

Our position at 31 December 2023

Information on our position at the end of the year is set out in the 'Balance sheet review' section of the Financial review.

Sustainability review

Our Sustainability and Responsible Banking (SRB) strategy aligns to Banco Santander's and sets out Santander UK's approach to tackling the key sustainability challenges, identified by our materiality assessment, while also supporting our core purpose to help people and businesses prosper. The SRB embeds Environmental, Social, and Governance (ESG) considerations into our business strategy and culture. More information on each of these pillars is shown below.

Environment

At Santander UK, we recognise that climate change is one of the biggest challenges of our times. Through our updated climate change strategy, our goal is to support the UK in tackling climate change. We'll do this through a four-pronged approach by: decarbonising our portfolios in line with the goals of the Paris Agreement; supporting our customers in the green transition; reducing our own environmental impact; and embedding climate in risk management. We're also fully committed to Banco Santander's ambition to achieve net zero carbon emissions by 2050.

Streamlined Energy and Carbon Reporting (SECR)

We continue to monitor and evaluate our energy and carbon footprint in line with the Streamlined Energy and Carbon Reporting (SECR) regulation. In 2023, we used 92,907,880 kWh of energy, a 10% reduction against 2022 (102,882,982 kWh). This change was a result of significant reductions in our electricity and gas consumption. Our GHG emissions (market-based) were 5,299tCO_2e compared to 5,895tCO_2e in 2022. 'Market based' reflects the emissions from the renewable electricity purchased. Emissions per employee equate to 0.27 tCO2e, a decrease from 0.32 tCO_2e in 2022. Santander UK's emissions are calculated using the UK Government Department for Energy Security and Net Zero (DESNZ) conversion factors. Our total Scope 1, 2 and 3 emissions for 2023 are as shown in the table below. The basis of reporting for our SECR data can be found in the Climate-related financial disclosures section of the Santander UK Group Holdings plc Annual Report under Reducing our own environmental impact.

The amount of business travel continues to increase as we spend more time in our offices and branches post Covid-19. This resulted in greater Scope 3 emissions compared to 2022. However, the distance travelled, and resulting emissions, remain significantly lower than pre-pandemic levels. Despite this increase, total emissions reduced in 2023 because of reductions in gas and electricity consumption. This is largely due to the rationalisation across the head office estate, with the removal of several sites from the Santander Head Office Estate including Bootle and Newcastle, The old Milton Keynes sites were vacated in Q4 2023 with the opening of Unity Place.

The current refurbishments underway at Triton Square, which include replacing lower efficiency mechanical, electrical, and plumbing assets (pumps, passenger lifts, LED lighting, HVAC upgrades, air handling units, fan coil units) are still ongoing. Several floors of the site were completed in 2022/2023. In 2023, a further three head office sites also started refurbishments.

Across the retail estate upgrades to HVAC units have also been rolled out. Santander UK works with a specialist third party to monitor energy consumption across the estate, optimising energy use through improving controls. Santander UK's environmental staff engagement initiative, Go Green, delivers a broad range of sustainability focused campaigns and initiatives to encourage colleagues to adopt sustainable behaviours as well as provide practical energy savings tips. All these measures contribute towards reducing Santander UK's overall energy consumption.

	2023	2022	2021
Scope 1 tCO_2e	**2,814**	4,512	6,074
Scope 2 tCO_2e - Location-based	**16,127**	15,571	18,860
Scope 2 tCO_2e - Market-based	**0.34**	0.40	-
Scope 3 tCO_2e - business travel only[1]	**2,485**	1,383	289
Total (market-based)[1]	**5,299**	5,895	6,363
YoY (%)[1]	**(10)%**	(7)%	-
Total emissions per employee (tCO_2e/FTE)[1]	**0.27**	0.32	0.35

1. Employees that had left Santander UK or were temporarily absent during each reporting period for 2021-2023 had been excluded from Scope 3 business travel, but should have been included. For 2023 we have estimated this exclusion based on available data. We have made the assumption that the profile of employees and the nature of the travel has not materially changed in 2022 and 2021 and we have used the 2023 estimated uplift to restate 2022 and 2021 business travel. This estimation also impacts the Total CO_2e emissions, CO_2e emissions per employee, and year-on-year percentage for 2021-2023. Business travel for the excluded population will be reviewed as part of planned enhancements for future reporting periods.

Social

Our social agenda focuses on our customers, our communities, and our people. Education, employability, and entrepreneurship alongside financial inclusion, financial health, social mobility, and diversity and inclusion are essential to build our social impact ambitions. We are currently developing a new social strategy, which will launch in 2024. This brings together all of our initiatives that are designed to generate positive impact for our customers (with a particular focus on Consumer Duty), our communities, and our people. As part of our community engagement, we also focus on empowering students through our Santander Universities Programme, volunteering opportunities for our people, our charity partnership with Macmillan Cancer Support, and the Santander Foundation.

Governance

Robust governance ensures we get the basics right. High standards of ethics, conduct, and integrity sit at the foundation of all prosperous and equitable businesses and societies. They are also a clear priority in how customers choose their bank. Our commitment is to be a fair, transparent, and responsible bank. At the heart of this is good customer outcomes and fair value. We deal with any form of fraud against our customers or other economic crime as a priority. We uphold the highest standards of governance, including applying the UK Corporate Governance Code. You can read more about our governance practices in the Chair's Report on Corporate Governance and the Directors' Report.

Human Rights and Modern Slavery

Banco Santander's sustainability policy sets out its commitment to protect human rights. This policy takes into account the UN Guiding Principles on Business and Human Rights and expresses Banco Santander's opposition to forced labour and child exploitation. We adopted this policy for Santander UK, strengthening our commitment to tackling human rights.

Since the introduction of the Modern Slavery Act 2015, each year we also reviewed how we prevent modern slavery and human trafficking (MSHT) in our business and supply chain.

Our key focus areas, each of which we cover in our annual MSHT statements, are customer due diligence, collaboration and information sharing, risks associated with third-party suppliers, pension providers and employee training.

Fair pay and transparency

In 2023, we took further action to relieve cost of living pressures on our people. This included a one-time payment of £400 to all colleagues below senior leader level in February, separate to the 2023 annual pay review. We continue to check that salary reviews and changes to reward policies do not have an adverse impact on any employee groups. We are transparent about pay and benefits and are proud to have been an accredited Real Living Wage employer since 2015. We voluntarily publish our Ethnicity Pay Gap in our annual Everyday Inclusion and Pay Gap Report. We also voluntarily disclose our CEO pay ratio in the Remuneration Implementation Report in this Annual Report.

Section 172: Stakeholder voice

The Boards of the Company and Santander UK Group Holdings plc (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, and as required by s172 Companies Act 2006 (s172).

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. To support the Boards and their Committees in their considerations, in 2023 the Corporate Governance team refreshed the training on how to write good board papers, offering it to all members of management who prepare board papers. The training, a video of which has also been made available to management online, 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 2023, 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. Each Director meets with our principal regulators, the PRA and FCA, on a periodic basis to understand their views, and they 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 in February 2023, the Board held a full meeting cycle in Madrid to strengthen relations and encourage collaboration.

Consumer Duty

Section 172 matters	A. The likely consequences of any decision in the long term B. The interests of the company's employees C. The need to foster the company's business relationships with suppliers, customers and others E. The desirability of the company maintaining a reputation for high standards of business conduct
Stakeholders considered	Customers, Employees, Regulators

Background

In creating the Consumer Duty (the Duty), the FCA challenged firms to not only raise the bar in terms of the minimum standard of outcomes and value expected for their customers', but to also achieve a cultural shift to ensure consistent delivery of those outcomes.

How the Board approached it

As required by the FCA, the Board approved the Consumer Duty implementation plan and appointed Nicky Morgan, independent Non-executive Director and Santander UK plc RBC Chair, as Consumer Duty Champion in October 2022. Since then, the RBC has overseen our implementation and compliance with the Duty on a holistic basis, with the aim of ensuring that our employees are appropriately empowered to put our customers at the heart of everything we do, that Santander UK is therefore able to ensure good customer outcomes, and that our regulatory relationships remain strong.

Outcome

Culture is a key element of the Duty and we have satisfied ourselves that our strategy and employee value proposition (including our purpose and behaviours) are aligned to the spirit of the Duty and fully embedded across the business. The Directors' individual employee engagement programmes have allowed us to assure ourselves, firsthand, that our employees have our customers at the heart of their decision making, and that they feel proud to do so. The results of our employee engagement survey, which are reported to the RBC quarterly, also support this conclusion.

In July 2023, we formally assessed the delivery of the first phase of the Duty, in line with the deadline set by the FCA. In preparation for this, we held a workshop during which management gave examples of how they had approached the implementation of the Duty, including the Fair Value Assessment process, the findings of the reviews they had completed and the proposed actions arising from them. As a result of management's thorough approach, we were able to agree that Santander UK is on track to meet the requirements of the Duty.

Non-Financial and Sustainability Information Statement

The Company's disclosures under Section 414CA and 414CB of the Companies Act 2006, are included in the Strategic Report in Santander UK Group Holdings plc's Annual Report which reports on behalf of that company and its subsidiaries, including the Company.

Sustainability and Responsible Banking

Banco Santander has set out commitments to be a net zero bank by 2050. We are implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and taking action to meet the expectations set by the PRA, BoE and FCA. This requires wide-ranging collaboration both within the bank and externally to develop the tools and methodologies needed. 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.

Financial review

Contents

Income statement review

SUMMARISED CONSOLIDATED INCOME STATEMENT

	2023 £m	2022 £m
Net interest income	**4,658**	4,425
Non-interest income[1]	**438**	531
Total operating income	**5,096**	4,956
Operating expenses before credit impairment charges, provisions and charges	**(2,456)**	(2,343)
Credit impairment charges	**(205)**	(320)
Provisions for other liabilities and charges	**(335)**	(419)
Total operating credit impairment charges, provisions and charges	**(540)**	(739)
Profit from continuing operations before tax	**2,100**	1,874
Tax on profit from continuing operations	**(559)**	(480)
Profit from continuing operations after tax	**1,541**	1,394
Profit after tax	**1,541**	1,394
Attributable to:		
Equity holders of the parent	**1,541**	1,394
Profit after tax	**1,541**	1,394

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

2023 compared to 2022

Profit before tax up 12%.

- Net interest income up 5% largely due to the impact of higher base rates alongside active balance sheet management including disciplined deposit pricing.
- Non-interest income down 18%, largely due to lower fees volume, as well as unrealised gains in 2022 which were not repeated.
- Operating expenses before credit impairment charges, provisions and charges up 5% as inflationary pressures on costs were only partially offset by ongoing savings from the transformation programme which began in 2019 as well as cost management discipline.
- Credit impairment charges down 36% reflecting an improved macroeconomic outlook in Q423, which benefited ECL despite a modest increase in arrears and Stage 3 ratio.
- Provisions for other liabilities and charges down 20% as the 2022 FCA fine related to historical shortcomings in our AML controls was not repeated this year. Fraud losses were also lower in 2023.
- Tax on profit increased by £79m, largely due to higher profits and an increase in underlying tax rates. This was partially offset by a reduction in the Bank Corporation Tax Surcharge rate.

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

Balance sheet review

CUSTOMER BALANCES

This section analyses customer loans and customer deposits at a consolidated level and by business segment. The customer balances below 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. A reconciliation between the customer balances below and the total assets as presented in the Consolidated Balance Sheet is set out in the Risk review.

Consolidated

	2023 £bn	2022 £bn
Customer loans	**203.1**	215.7
Other assets	**72.3**	69.5
Total assets	**275.4**	285.2
Customer deposits	**187.4**	189.9
Total wholesale funding	**55.6**	62.9
Other liabilities	**17.8**	18.0
Total liabilities	**260.8**	270.8
Shareholders' equity	**14.6**	14.4
Total liabilities and equity	**275.4**	285.2

Further analysis of credit risk on customer loans is set out in the Credit risk section of the Risk review.

2023 compared to 2022

- Our structural hedge position decreased, with £106.0bn at 31 December 2023 (2022: £108.0bn), and a duration of 2.4 years (2022: 2.5 years).
- The balance on the structural hedge fell in 2023 reflecting lower non-rate sensitive liabilities. The overall contribution to income has, however, increased as maturities were replaced with higher yielding assets offsetting the lower balance. Going forward, we expect the overall contribution of the structural hedge to continue to increase.

Summary segmental information

SEGMENTAL ANALYSIS

2023	**Customer loans** **£bn**	**Customer deposits** **£bn**	**RWA** **£bn**	**Profit/(loss) before tax** **£m**
Retail & Business Banking	**180.0**	**158.3**		**1,703**
Consumer Finance	**5.2**	**—**		**174**
Corporate & Commercial Banking[(1)]	**17.9**	**24.1**		**570**
Corporate Centre	**—**	**5.0**		**(347)**
Total	**203.1**	**187.4**	**67.8**	**2,100**
2022	£bn	£bn	£bn	£m
Retail & Business Banking	191.8	161.8		1,542
Consumer Finance	5.4	—		198
Corporate & Commercial Banking[(1)]	18.5	24.8		345
Corporate Centre	—	3.3		(211)
Total	215.7	189.9	70.1	1,874

(1) CCB customer loans included £4.6bn of CRE loans (2022: £4.5bn).

Retail & Business Banking
- Lower lending with reduced mortgage balance alongside a reduction in customer deposits. Profitability increased significantly as a result of balance sheet optimisation and increases in base rate with disciplined deposit pricing.

Consumer Finance
- Lower lending than 2022, as a decision was made to exit from two small business streams, with a focus on value and capital generation.

Corporate and Commercial Banking
- Delivered strong financial performance in 2023 with client growth, balance sheet management and higher profitability with the impact of higher base rates. Focus on clients' international needs, connecting 1,500 companies to our global network to support their international growth in 2023.

Corporate Centre
- The impact of unrealised gains in 2022 which were not repeated contributed to higher loss before tax.

Alternative Performance Measures (APMs)

In addition to the financial information prepared under IFRS, this Annual Report contains non-IFRS financial measures that constitute APMs, as defined in European Securities and Markets Authority (ESMA) guidelines. The financial measures contained in this Annual Report that qualify as APMs have been calculated using the financial information of the Santander UK group but are not defined or detailed in the applicable financial information framework or under IFRS.

A description of the Santander UK group's APMs and their calculation, is set out below.

APM	Description and calculation
Non-interest income	Net fee and commission income plus other operating income.
Stage 3 ratio	The sum of Stage 3 drawn and Stage 3 undrawn assets divided by the sum of total drawn assets and Stage 3 undrawn assets.

Governance

Contents

Governance at a glance

Santander UK plc Board

Board Nomination & Governance Committee

Board Risk Committee

Board Audit Committee

Board Responsible Banking Committee

Board Remuneration Committee

Executive level committees

Due to the overlap 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 (the Boards) and Board Committees. The Santander UK plc Board and Board Committees also met independently from the Santander UK Group Holdings plc Board and Board Committees twice in 2023.

Board changes in 2023

1 June	31 August	1 September	27 September	30 September	15 December
Michelle Hinchliffe and José María Roldán appointed	Antonio Simoes resigned	Pedro Castro e Almeida appointed	Duke Dayal resigned	Chris Jones resigned	Annemarie Durbin resigned*

*Santander UK plc only

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. Although the Company does not have premium listed shares on the London Stock Exchange, compliance with the Code is appropriate for a Company of our size and systemic importance to the UK economy. This Governance section details how the Company has applied and complied with the principles and provisions of the Code. Any principles and provisions of the Code that are not complied with are explained in the Directors' Report.

Chair’s report on corporate governance

Our Board and governance structure
Maintaining high standards of corporate governance is an essential element to ensure the long-term sustainable success of the Company. In addition to the Code (the standard against which we measure ourselves), we also have internal governance practices and rules, principally:

- 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 giving Banco Santander SA 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 assist the Boards of Directors 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 the internal control and risk management systems. An important principle, applied throughout the CGF, is that delegation of executive authority is to individual office holders, who may delegate aspects of their authority to others, as appropriate. Executive level committees have been established to support individuals 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. With effect from 1 January 2024, the PRA approved a number of revisions to our ring-fencing rule modifications which simplify 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 various safeguards. As such, Mark Lewis, Dirk Marzluf and Nicky Morgan were appointed to the Board of Santander UK Group Holdings plc, with a number of changes to Board Committee composition to ensure complete alignment with Santander UK plc. One of the safeguards agreed is that if a conflict matter (as defined by the PRA) were to arise between the two companies, three INEDs holding PRA senior management functions (SMF) will have veto rights on Board decisions. These three SMF INEDs are Nicky Morgan, Mark Lewis and Ed Giera. Nicky Morgan will chair the RFB Board meeting in the event of a conflict matter decision.

The role and responsibilities of the Board
The Boards are 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 section 172: Stakeholder Voice statement in the Strategic Report explains how we have engaged with our stakeholders during the year.

The key decisions and matters reserved for the Boards' 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 at aboutsantander.co.uk, which does not form part of this Annual Report.

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

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

Board Committees
The Committees play an essential role in supporting the Boards, 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 at aboutsantander.co.uk 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.

Each Committee is chaired by and comprised of only Independent Non-Executive Directors (INEDs), with the exception of the Board Nomination & Governance and Board Risk Committees, which have one member who is a Banco Santander group appointed Non-Executive Director (GNED). Having assessed committee membership in light of the Code recommendations we are satisfied that the Committees will continue to be able to discharge their duties effectively and efficiently.

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

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 concerning 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 overseeing and developing our strategy and policies, including risk and corporate governance arrangements, monitoring progress towards meeting our objectives and reviewing the implementation of them by the CEO and his wider executive management team. In 2023, we refreshed our Strategic Blueprint, which defines our future direction, and sets out our 'why', our 'what', and our 'how', all underpinned by a set of clear strategic goals. The Board is accountable to our shareholders for the proper conduct of the business and seeks to represent the interests of all stakeholders.

The Boards identified the following key stakeholders: Customers, Employees, Regulators, Communities and Investors. More information on how the Boards balance the interests of these stakeholders can be found in our section 172: Stakeholder Voice statement in the Strategic Report.

Culture and hearing the views of the workforce at the Board
The Boards recognise the importance of culture as a mechanism to support the long-term sustainable success of the companies. The Boards are responsible for setting and overseeing our culture, as well as monitoring progress on its development, which comes to life through our core values of simple, personal and fair.

Our Code of Conduct contributes to our culture, setting out how we should act and behave towards everyone we encounter through our work. It sits alongside our Strategic Blueprint, which outlines the importance of our TEAMS behaviours - Think Customer, Embrace Change, Act Now, Move Together and Speak Up. The Code of Conduct reinforces these elements to come together to drive our culture and maintain the standards that underpin it. All new colleagues are required to complete training on the Code of Conduct and annual refresher training is required for all colleagues.

Our employees are a key stakeholder, central to the delivery of our strategy, and the Boards are committed to ensuring 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 and wellbeing. Directors also engaged with colleagues directly, participating in employee listening forums, management forums and development workshops. These activities were led by the designated workforce NED (Lisa Fretwell succeeding Annemarie Durbin in this role on 1 March 2023) 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.

Board membership

At 31 December 2023, the Board of Santander UK Group Holdings plc consisted of the Chair (independent on appointment), four INEDs, one Executive Director (ED) and two GNEDs. The Santander UK plc Board, at 31 December 2023, consisted of the Chair (independent on appointment), six INEDs, one ED and three GNEDs. As a result of revisions made to our ring-fencing governance rule modifications, from 1 January 2024 the membership of the Board and Board Committees of Santander UK Group Holdings plc are now fully aligned with those of Santander UK plc. The Boards currently consist of the Chair (independent on appointment), six INEDs, one ED and three GNEDs. Angel Santodomingo will be appointed as an ED once regulatory approval has been received.

Biographies of the Directors are available at aboutsantander.co.uk, which does not form part of this Annual Report. The letters of appointment for INEDs and GNEDs are available at the Company's registered office and at the Annual General Meeting.

Through the Board Nomination & Governance Committees, we make sure there is the right mix of individuals on the Boards, 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. We take 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 2023, we appointed Angel Santodomingo as incoming CFO (subject to regulatory approval) following Duke Dayal's departure and welcomed Michelle Hinchliffe, Jose Maria Roldan and Pedro Castro e Almeida as NEDs. Antonio Simoes, Chris Jones and Annemarie Durbin resigned as NEDs during the year, and I'd like to thank them all for their commitment and invaluable contributions during their time on the Boards.

All aspects of diversity form part of our Board succession planning process.

Board meetings in 2023

We held 11 Board meetings in 2023. Meetings of the Company were held concurrently with Santander UK Group Holdings plc. The Santander UK plc Board and Board Committees also met independently from the Santander UK Group Holdings plc Board and Board Committees twice in 2023.

Regular updates are provided to the Boards by me, each of the Committee Chairs, the CEO, CFO and CRO. I also held a number of meetings with the NEDs without the EDs present. We have a comprehensive and continuous agenda setting and escalation process to ensure the Boards have the right information at the right time and in the right format to enable the Directors to make the right decisions. 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.

Board activities

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 the future success of the business, business performance and risk management, customer experience and outcomes and remaining apprised of the external operating environment. It includes the Company's digital strategy, 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 colleagues 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 2023, once again held a separate Board Strategy Day. This ensures that our strategy remains consistent with that of the wider Banco Santander group and presentations considered the current macro environment, the ambition for the Company over a five-year time horizon, customer sentiment, evolving our value proposition, and opportunities to further grow the business. The day concluded with a presentation by the CEO on potential investments and the financial impact, recognising the trade-off between returns and market share/revenue growth.

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 the senior management of Banco Santander SA.

In 2023, the Boards and Board Committees participated in workshops to consider important topics in depth and to engage with key stakeholders. These are listed in the table overleaf. To ensure the most effective use of the time at Board meetings, in addition to the delegation of certain responsibilities to the Board Committees, held informal discussions with Board members. More details of the Board activities in 2023 are set out on the next page.

Succession Planning

The Board Nomination & Governance Committees are responsible for ensuring plans are in place for orderly succession to both Board and senior management positions and oversees the development of a diverse pipeline for succession. Effective succession planning supports the Company in delivering on its strategic objectives by ensuring we have the right balance of skills and experience on the Board, Board Committees and in senior management roles taking into account current and anticipated future business needs.

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, key risks 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 the Committee secretaries, agree Committee specific training, as appropriate. Directors are also given the opportunity to undertake further training so that they are fully comfortable with their role on the Board and to enable them to contribute to the long-term success of the Company.

Chair’s report on corporate governance continued

Summary of Board activities in 2023

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 section 172: Stakeholder Voice statement in the Strategic report. Activities in 2023 included:

Theme	Action taken by the Board and outcomes	Stakeholders considered
Business and Customer Strategy	– As part of the Board Strategy Day, reviewed our customer strategy and proposition across the Retail & Business Banking and Corporate & Commercial Banking businesses. The Board considered management’s proposed Initiatives to drive revenue growth and enhance the customer proposition and experience across these business segments. – Reviewed and approved the goals and metrics to measure the delivery of the Strategic Blueprint. – Considered reports on the external competitor environment, M&A activity, and market trends. – Reviewed, challenged, and approved the 3-year business plan (2024-2026) and the annual budget, including assumptions underpinning the plan. – Given the rapidly evolving macroeconomic environment throughout the year, particularly in respect of interest and inflation rates, adjusted strategies as necessary to support a resilient and sustainable operating environment and associated risk assessments. – Conducted a deep dive into Fraud identification and management focusing on those initiatives which would have the most impact in minimising fraud related loss for our customers and Santander UK. – Discussed Management’s proposed IT and Digital Strategy and the roadmap of initiatives to enhance these enablers. – Board members also visited the Financial Crime and Financial Support Centres of Excellence in Bradford to gain deeper insight into financial crime risk mitigation and initiatives to provide support to our customers experiencing hardship.	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 five global business lines. – Received regular reports on progress with driving operational efficiencies through the Transforming for Success programme and management’s revised approach to strategic change management and investment prioritisation. – Board members participated in workshops covering agile work practices, cybersecurity risk management, and artificial intelligence.	Customers Investors Employees
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 Assessment Framework Self-Assessment for submission to the Bank of England, and Santander UK plc's Recovery Plan for submission to Banco Santander as part of its Banco Santander group-wide submission to the European Central Bank. – Considered the future regulatory landscape and implications, including confirmation that the Company was on track to meet the first phase of the Consumer Duty regulation for new and existing products. Considered regular reports from the General Counsel on legislative developments and other legal matters in progress. – Board members also participated in workshops on Asset and Liability management and the evolution of the IFRS 9 approach and supporting models.	Customers Investors Regulators
Risk and control	– Received regular enterprise wide risk updates from the CRO, together with 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 execution of the extensive transformation agenda. – Considered financial crime, including oversight of programmes to accelerate controls enhancement 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. – Approved the Company’s Risk Appetite Statement as part of the annual review. The Board subsequently approved changes to three financial crime risk indicators, fraud risk appetite metrics, and material outsourcing risk appetite. – Approved the Risk Framework as part of the annual review. – Received annual reports on whistleblowing. – Reviewed and approved relevant submissions related to the Operational Resilience Programme. – Received regular reports on recovery and resolution including conducting a fire drill exercise.	Customers Employees Regulators

Chair’s report on corporate governance continued

Theme	Action taken by the Board and outcomes	Stakeholders considered
People and Culture	– Received reports on various people matters including the Company’s HR Operating model, talent management and succession planning and gender pay gap. – Conducted a deep dive on culture to agree the desired culture for the organisation to support the execution of the Strategic Blueprint which informed the development of the Culture Strategy. 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. – Considered colleagues' ways of working and opportunities to optimise the real estate portfolio. – Considered succession planning across all key control, support functions and business functions. – Approved the Diversity and Inclusion Strategy on recommendation from the RBC. – Board members also participated in a workshop to define our Employee Value Proposition.	Customers Employees
Governance and Responsible Banking	– Approved four appointments to the Board to succeed Group, Executive and Independent Directors who had stepped down from the Board. Approved common membership across the Santander UK Group Holdings plc and Santander UK plc Boards upon receipt of the PRA’s approval of the Company’s ring-fencing governance submission. – Reviewed, challenged, and approved the 2022 Annual Report. – Received regular verbal updates of Board Committee activity from their respective Committee Chairs. – Approved a revised Banco Santander Subsidiary Governance Model. – Approved the recommendations and resulting action plan for the 2023 internally facilitated Board evaluation. – Approved the Company’s climate strategy and transition plan on recommendation of the RBC. – Approved the Modern Slavery report and updated the Employee Code of Conduct. – Board members also participated in workshops delivered to the RBC to discuss the specific elements of the Company’s approach to comply with the Consumer Duty. – Board members attended the Chairman’s annual event where the Company’s education programme for 2024 was launched.	Communities Regulators Climate

Chair's report on corporate governance continued

Board and Board Committee attendance

The Directors' attendance at the Board and Board Committee meetings held in the year is set out below. Board and Board Committee meetings are generally held concurrently with Santander UK Group Holdings plc, with business specific to each company identified and recorded as appropriate, reflecting the decisions taken by the Board or Board Committee of the relevant entity.

		Board		Board Audit Committee		Board Nomination & Governance Committee (i)		Board Remuneration Committee (ii)		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	8/8	3/3	-	-	6/6	2/2	-	-	-	-	-	-
Independent Non-Executive Directors	Annemarie Durbin*	8/8	2/3	11/11	-	6/6	2/2	6/6	3/3	9/9	-	7/7	1/2
	Lisa Fretwell	8/8	3/3	11/11	-	-	-	2/2	1/1	9/9	-	7/7	2/2
	Ed Giera	8/8	3/3	11/11	-	6/6	2/2	6/6	2/3	9/9	-	7/7	2/2
	Michelle Hinchliffe*	5/5	2/2	7/7	-	2/2	1/1	-	-	5/5	-	4/4	1/1
	Chris Jones*	6/6	1/1	8/8	-	-	-	4/4	2/2	9/9	-	5/5	2/2
	Mark Lewis	8/8	3/3	11/11	-	-	-	6/6	3/3	9/9	-	7/7	2/2
	Nicky Morgan	8/8	3/3	10/11	-	2/2	1/1	-	-	8/9	-	7/7	2/2
	Jose Maria Roldan*	5/5	2/2	-	-	-	-	-	-	9/9	-	4/4	1/1
Banco Santander Group nominated Non-Executive Directors	Pedro Castro e Almeida*	3/3	1/2	-	-	-	-	-	-	-	-	-	-
	Dirk Marzluf	8/8	2/3	-	-	-	-	-	-	-	-	-	-
	Antonio Simoes*	5/5	1/1	-	-	-	-	-	-	-	-	-	-
	Pamela Walkden	8/8	3/3	-	-	6/6	2/2	-	-	-	-	7/7	2/2
Executive Directors	Mike Regnier	8/8	3/3	-		-		-		-		-	
	Duke Dayal*	6/6	1/1	-		-		-		-		-	

* For dates of Board appointments or resignations during the year, see the timeline on the Governance at a glance page. Appointments to, or resignations from, the relevant Board Committees were aligned to these dates unless stated otherwise.

(i) Michelle Hinchliffe and Nicky Morgan joined the Board Nomination & Governance Committee on 1 October 2023.

(ii) Lisa Fretwell joined the Board Remuneration Committee on 1 October 2023.

Monitoring independence

The Board Nomination & Governance Committees monitor whether there are relationships or circumstances which may affect a Director's independence, and have concluded that all NEDs are independent in character and judgement. 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 Committees are 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.

In 2023, the Board Nomination & Governance Committees continued to review the time commitment and Directors' potential conflicts of interest to ensure that any such conflicts are managed appropriately and in compliance with CRD IV and ring-fencing requirements. In accordance with Provision 15 of the Code, Directors are required to seek prior approval from the Board before taking up external appointments.

External appointments are disclosed to the Board, before appointment, with an indication of time commitment expected. All Directors continue to devote sufficient time to their roles at the Company. No significant external appointments were undertaken by any Directors. The Articles of Association contain provisions that allow the Board to consider and, if it sees fit, authorise situational conflicts.

These powers have operated effectively and the formal system for Directors to declare their interests and for the non-conflicted Directors to authorise situational conflicts continues to be in place. 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.

During the year, the CEO and I reviewed the level of fees paid to INEDs for Board and Board Committee chair and membership. In doing so, we considered whether INED fees were at an appropriate level, having regard to factors including the associated time commitments for INEDs and benchmarking against peers. In light of this, increases to the INED base fee, both the Board Audit and Board Risk Committee Chair and member fees, and both the Board Remuneration and Board Responsible Banking Committee member fees were approved. The Board Remuneration Committee also approved an increase to the Chair fee. For more, see the Remuneration Implementation Report.

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 in order to help the Directors discharge their role.

Appointment and retirement of Directors

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

Chair's report on corporate governance continued

Board and Committee effectiveness

The annual evaluation, which is typically facilitated externally at least once every three years, highlights areas of further development to enable the Boards to continuously improve their performance. I, with the support of the Board Nomination & Governance Committees, lead the Board in considering and responding to the annual review of the Board and Committees' effectiveness, including the performance of individual Directors. The Board Nomination & Governance Committees also review the progress made on the areas of improvement identified. An update on the findings identified in the 2022 evaluation is set out below.

Progress against 2022 evaluation findings

Opportunities for improvement	Update on actions
Oversight of ESG and Responsible Banking	The RBC assist the Boards with their strategic ambition for Santander UK to be a sustainable, customer centric and responsible bank. Andrew Wilson, Director of Communications and Responsible Banking, is now responsible for overseeing the coordination of materials into the RBC and the execution of the climate change strategy.
Agenda planning, Board time and Board materials	Agendas have been refined to focus on fewer items. Matters proposed for discussion are routinely challenged by the Corporate Governance Office to ensure that the Boards' and Board Committees' time is spent on the most material and strategic matters which fall within their remit. Board paper templates and guidance were updated and targeted training to further improve Board paper writing was delivered by the Corporate Governance Office.
Board Committee composition	The Board Nomination & Governance Committees reviewed the composition of the Board Committees with a number of committee membership changes subsequently approved by the Boards to ensure knowledge was spread among Directors while meeting regulatory requirements.
Emerging market themes and competitor benchmarking	One of the key areas of focus at the 2023 Board Strategy Day was customer strategy and proposition. The Boards also received a competitor update in September, providing insights into peer performance, strategic investment and M&A activity. Regular updates have been scheduled throughout 2024.
Strengthening our alignment with the Banco Santander group	Regular Board and individual Director visits to Madrid, including one scheduled Board cycle of meetings each year, plus attendance at UK meetings of Banco Santander group directors as appropriate, have strengthened relationships with the Banco Santander group.

In 2023, I asked the Company Secretary to undertake an internally facilitated review of the effectiveness of the Boards and Board Committees (the Review). The process included the completion of various questionnaires, covering the Boards and each Board Committee, issued by Lintstock, an independent service provider with no other connection to the Company or any individual Directors. The questionnaires focused on a number of key areas: Board composition; stakeholder oversight; Board dynamics; focus of meetings; strategic oversight; risk oversight; succession planning and people oversight; Board Committees; Board support and priorities for change. Overall, the Review concluded that the Board and all Committees continue to operate effectively and are rated highly. The key strengths identified were the relationships between the Board and its Committees, the relationship between the NEDs and the CEO and the annual cycle of work.

The Review also identified some opportunities for improvement, set out in the table below. The Boards fully considered the recommendations from the internal evaluation and agreed an action plan which will be regularly reviewed by the Board Nomination & Governance Committees in 2024.

As part of the Review, I also conducted individual Directors' assessments. Each Director completed a questionnaire to reflect on their performance, their relationships with other Board members and identify any areas of development, which we then discussed privately. I am satisfied with the performance of all Board members. Ed Giera, as Senior Independent Director, also undertook an assessment of my performance as Chair, seeking feedback from each Director which was then discussed at a meeting without me present.

In accordance with the Corporate Governance Code, it is anticipated that in 2024 an external review will be undertaken.

2023 evaluation findings

Opportunities for improvement	Commentary and actions
Improving Board-level information	Although there has been an improvement in the length of the Board packs and the timeliness in which they are provided, and although the length of packs is in line with the financial services' benchmark, the length of the Board packs still create a challenge for Directors to adequately review the materials in the time available. The Forward-Looking Agendas for the Boards and the Committees will continue to be reviewed to check that items are not presented more often than they need to be. The Board Schedule of Matters Reserved will also be revised so that a more appropriate materiality/significance threshold is applied to ensure the Board's time is maximised on matters of strategic relevance. The Corporate Governance Office will continue to hold training sessions and provide guidance on Board paper writing and presentations.
Forward leaning strategic topics for the board agenda	Feedback showed that the Boards would welcome more updates on strategic topics such as customer strategy and sentiment, market outlook and competitor environment, and external perspectives including digitisation and innovation. These topics will be addressed through Board updates, workshops or sessions with external speakers across 2024.
Managing Board transition and roles	There were a number of changes to Board composition in the year and ensuring each new Board member settles into their role quickly has been acknowledged as a priority. At management level, succession planning of key positions, particularly at Executive Committee level, should focus on potential internal successors and the effectiveness of Santander UK's talent management processes. Induction plans, ongoing training requirements and succession planning are already key areas of focus for the Board Nomination & Governance Committees and this will continue in 2024.

Chair's report on corporate governance continued

Summary of Board Committee activities in 2023

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 reports detail the governance arrangements, practices and activities of both committees. More information can be found in each of the Board Committee Chair's Reports in the Santander UK Group Holdings plc 2023 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 At 29 February 2024
William Vereker (Chair)
Ed Giera
Michelle Hinchliffe
Mark Lewis*
Nicky Morgan
Pamela Walkden

*Joined on 1 January 2024

Key activities in the year

Succession planning

The Committees oversee a formal, rigorous and transparent process to identify, nominate and recommend candidates for appointment to the Board, and consider and approve senior management positions.

Part of this process is to ensure there are succession plans in place for Board, the CEO and key management positions encompassing internal and external candidates, and that there is a skills, experiences and diversity matrix which maps each Director's attributes against those which are most relevant for the Board, taking into account the future strategic direction of the Company and its needs. As well as tracking the Board's strengths, this matrix is used to identify gaps in its desired collective skills profile. For all key Santander UK senior management positions the Committees coordinate with the Banco Santander group to ensure that there are suitable candidates 'Ready Now', 'Ready in 1-3 years' and 'Future Ready'.

While appointments are 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 2023, a significant proportion of the Committees' time was devoted to search and selection processes and the implementation of our succession plans due to:

- the retirement of Chris Jones (Chair of the Board Audit Committee) after nine years on the Boards,
- the forthcoming retirement of Ed Giera (Senior Independent Director, Chair of the Board Risk Committee), who will have served for nine years in late 2024,
- the resignation of Duke Dayal as CFO with effect from October 2023,
- the earlier than planned retirement of Annemarie Durbin (Chair of the Board Remuneration Committee and the Senior Ring-fencing Director) with effect from December 2023.

Hedley May and Spencer Stuart, external search consultants with whom the Company and individual Directors have no other relationship, were engaged to assist with the search and selection process to identify two new NEDs who could serve as the Chairs of the Board Audit and Risk Committees respectively.

For each appointment, the Committees agreed the personal attributes including cultural fit, and ability to lead and manage change which were desirable for the role together with the skills and experience which were needed. A database of potential candidates was created in line with our Board Diversity and Inclusion Policy.

A longlist of those felt to be most suitable for consideration was prepared and considered by the Committees as a whole before a shortlist was drawn up with candidates invited to interview with me and other Board members. During both processes, the Boards were regularly informed on progress. Following detailed feedback from these interviews the Committees then selected which individuals should progress to interviews with key Banco Santander individuals. This led to Michelle Hinchliffe being recommended by the Committee as the preferred candidate to succeed Chris Jones as Chair of the Board Audit Committee, which was subsequently approved by the Boards.

During this selection process, José María Roldán was also identified as an individual who would bring strength to the Boards, particularly due to his banking experience across Europe. As such, the Committees recommended his appointment to the Boards. The search for a candidate for the Board Risk Committee Chair role is ongoing.

Both an internal and external search was conducted for Duke Dayal's successor as CFO and ED, with the process taking into consideration the established succession plan as well as the depth of talent across Santander UK and the Banco Santander group. An external exercise to review the UK market for potential candidates was completed in parallel. The short-listed internal and external candidates were initially interviewed by me, the CEO, Michelle Hinchliffe and the Chief People Officer with further input from key Banco Santander group individuals and members of the Executive Committee. Following this appointment process, Angel Santodomingo was identified as the preferred candidate given his skill set, experience with the role and familiarity with the Banco Santander group and was recommended for approval by the Committees to their respective Boards.

Also in the year, Antonio Simoes, one of our GNEDs stepped down and was succeeded by Pedro Castro e Almeida. An external search was not performed as this is a Banco Santander nominated position drawn from the pool of internal Banco Santander executives. In accordance with our UK Group Framework, the INED members of the Committees and the Board have a reasonable veto right over the appointments of GNEDs. Following a review of his skills and experience, the Committees recommended the appointment of Pedro Castro e Almeida to the Boards.

The Committee also considered who would succeed Annemarie Durbin as Chair of the Board Remuneration Committee (RemCo). It was agreed that appointing Mark Lewis, an existing member of the RemCo, would ensure the incoming Chair had an in-depth understanding of both the business and RemCo matters, supporting a seamless transition.

The Committees also reviewed the composition of each of the Board Committees, recommending a number of changes to committee membership in the year.

In addition to Board level appointments, the Committees oversaw and approved changes to Executive Committee membership and other management key position holders in 2023. Andrew Wilson was appointed as Director of Corporate Communications and Responsible Banking on 1 March 2023. Alison Webdale was promoted to Chief Compliance Officer, joining the Executive Committee on 14 June 2023. Reza Attar-Zadeh and Tracie Pearce left in the year.

Chair’s report on corporate governance continued

Promoting diversity and inclusion
We believe that our success is integrally linked to the diverse composition of our people and the promotion of an inclusive culture. The basis of this premise applies to our Boards and Board Committees as much as it does to any other area of our organisation. Diverse views, combined with inclusion, encourages the sharing of a wide range of perspectives and ideas alongside challenging and raising concerns. As a Board, we approve the Santander UK Diversity, Equity and Inclusion strategy and monitor its progress through our Board Responsible Banking Committees, holding management to account for promoting diversity and inclusion to see a healthy working culture and positive outcomes in risk management, good conduct, innovation and delivering good customer outcomes. Progress against this can be found in our 2023 Diversity, Equity & Inclusion and Pay Gap Report, which does not form part of this Annual Report.

We recognise that a diverse and inclusive Board should result in more effective and prudent decision-making and risk management. We want a Board that reflects a combination of diversity in its broadest sense, embracing different perspectives and dynamics through demographic diversity and diversity of experience to foster diversity of thought, valuing the input of every Director. Due regard is given to this when identifying and selecting candidates for Board appointments and is considered through Board succession planning.

Our Board Diversity and Inclusion Policy sets out the aspirational targets we've set for achieving Board diversity. The Boards aim to maintain at least two female members and have 40% female representation by 2025. At 31 December 2023, 38% of the Board of Santander UK Group Holdings plc and 36% of the Board of Santander UK plc were female. We also aim to maintain at least one member from an ethnic minority background, which due to the changes in Board composition in 2023, we do not currently meet. We do however remain committed to these targets and the Boards and the Committees will continue to challenge external search consultants where necessary, ensuring that diversity is always considered when drawing up candidate shortlists balanced against the need for specific skills and experience.

At 31 December 2023, 25% of Executive Committee members were female, 35% of our Leadership Group (the level below the Executive Committee) were female and 41% of our senior manager population (mid to senior manager roles) were female.

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 key risk type 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.
Oversee the adequacy of governance arrangements.

Committee members At 29 February 2024
Ed Giera (Chair)
Lisa Fretwell
Michelle Hinchliffe
Mark Lewis
Nicky Morgan
Jose Maria Roldan
Pamela Walkden

Key activities in the year
The Committee undertook a thorough assessment of the Company's emerging and top risks, 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 At 29 February 2024
Michelle Hinchliffe (Chair)
Ed Giera
Lisa Fretwell
Nicky Morgan
Mark Lewis

Key activities in the year
Internal Audit
- Considered the 2024 Audit Plan and annual report for recommendation to the Board.
- Monitored progress against the 2023 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.

Chair's report on corporate governance continued

In 2023, we focused on the following significant reporting matters in relation to financial accounting and disclosures:

Credit impairment charges

- Noted the challenges in applying management judgements on IFRS 9 ECL provisioning given the cost of living crisis and higher base rate environment. Concurred with management's judgement on the level of impairment charges. Monitored governance and progress on the implementation of new ECL models which are due to go live in H124.

Provisions and Contingent Liabilities

- Continued to scrutinise the level and adequacy of customer remediation, litigation and other regulatory provisions. Reviewed the risks related to historical Motor Finance commissions arrangements and concurred with management's assessment that it was not yet probable that a legal obligation had been met to recognise a provision.

Defined benefit pension schemes

- Reviewed management's approach to illiquid assets valuation, including the proposal to continue to use the unaudited flash valuations provided by our private equity advisors.

Goodwill

- Reviewed the outcome of management's annual impairment assessments for goodwill and agreed that no impairment should be recognised in 2023.

Other Areas

- Reviewed results of the reviews of cybersecurity risk and controls performed by the Internal Audit function.

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 will be undertaken in the first half of 2024 for the appointment of financial years 2026, 2027 and 2028. The Committee will oversee the process locally with selected candidate firms and will be focusing on audit quality and expertise to ensure high quality audit standards are retained. A recommendation will be made for 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 2023 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 and receives regular updates on the quality assurance, capabilities and capacity of the Internal Audit function to ensure its operational effectiveness and adequate independence. Relevant changes in the organisational structure of the Internal Audit function were also presented to and discussed by the Committee. 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.

An External Quality Assessment (EQA), as required every five years, was undertaken by Deloitte in the first half of the year. The objective of the EQA was to evaluate conformance of the Internal Audit function with the Institute of Internal Auditors (IIA) International Professional Practices Framework which includes the IIA Standards and Code of Ethics. Deloitte concluded that Internal Audit is operating as a mature function compared to its peers and 'Generally Conforms' with the IIA Standards which is the highest rating attainable.

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 colleagues feel safe and able to Speak Up. Speaking Up is a core behaviour at Santander UK and there are a number of ways colleagues 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, culture, diversity and inclusion, conduct, communities and climate change and the environment (the Board Risk Committee is responsible for overseeing the risks associated with climate change).

Committee members At 29 February 2024
Nicky Morgan (Chair)
Lisa Fretwell
Ed Giera
Michelle Hinchliffe
Mark Lewis
Jose Maria Roldan

Board Remuneration Committee

Committee responsibilities
Overseeing the implementation of 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 colleagues

Committee members At 29 February 2024
Mark Lewis (Chair)
Lisa Fretwell
Ed Giera

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
29 February 2024

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 is structured in 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 both; – the requirement for base salaries to be set at a level that avoids inappropriate risk taking; – base salary increases for other employees; and – market conditions.
Pension arrangements	– To provide a discrete element of the package to contribute towards retirement.	– EDs receive a cash allowance in lieu of pension, at 9% of salary. This aligns to the wider workforce average.
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 or share options aligns EDs' interests to the long-term interests of Santander UK. Further performance testing applies for the CEO. – Part of the award is deferred according to the requirements of the PRA Rulebook. – The long-term Transformation Incentive Plan is a one-off plan which recognises the collective achievement of key financial and non-financial targets associated with the bank's transformation. – 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 or share options – 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 or share options. – For the CEO, the first three of five deferred award tranches are subject to further performance testing which may reduce or increase the payout. – The Transformation Incentive Plan is based on performance assessed over a three year period with further deferral and delivery in cash and share-linked awards in line with regulatory requirements. – Awards under the PagoNxt Incentive Plan are made part in restricted share units of PagoNxt and part in 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 continues to meet regulatory requirements. Santander UK applies a 2:1 variable to fixed pay cap 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 assistance 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.

Service agreements

The key terms and conditions of employment are set out in individual service 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.

Remuneration policy report continued

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 agreements, relevant scheme rules, regulatory requirements and the Committee's policy relevant to the reason for leaving.

Outstanding variable pay awards will 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 other 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 both a formula-based 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 in relation to 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:

– colleague 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.

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.

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, Chief Risk Officer, Chief Compliance Officer, Chief People Officer and Chief Internal Auditor when determining whether any performance or risk adjustments are required.

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 colleagues where appropriate. They are designed to attract, retain, motivate and drive performance.

The structure of remuneration packages for EDs is aligned with the broader colleague 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 colleagues 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 2023.

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 and share options 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 or share options. 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 or share options are subject to an additional one-year retention period from the point of delivery.

The 2023 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 2023 the scorecard included:

– Customers (Net Promoter Score, Active Customers and Total Customers)
– Shareholders (ROTE and Capital Generation)
– Sustainability and Responsible Banking (Climate Strategy Transition Plan, Employee Engagement, Diversity and Inclusion).

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.

Relative Performance

A Relative Performance Modifier applies, which assesses our performance against a range of metrics as compared to our closest peers.

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.

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 2023 award (36% of the total award) which are payable in 2027, 2028 and 2029. Performance is measured over a three-year period 2024 to 2026.

The performance measures for 2023 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.

Transformation Incentive Plan

This is a one-off long-term incentive plan which was designed to recognise the achievement of financial targets and an enhanced customer experience, whilst maintaining appropriate conduct controls and risk management, over the course of our transformation period.

Awards under the plan were assessed over the period 1 January 2021 to 31 December 2023. Awards were granted half in cash and half in share-based units (linked to the Banco Santander SA share price), and will vest in accordance with regulatory requirements.

Remuneration implementation report continued

2023 Business Performance and Impact on Remuneration

During 2023 our focus has been on supporting our customers through the higher cost of living and increased interest rates. We have continued to offer the right products and services, underlining our commitment to Consumer Duty.

Despite the difficult backdrop, our prudent approach to risk and the hard work of everyone at Santander UK delivered a strong set of results for 2023. Strong profit performance was driven by higher base interest rates and prudent balance sheet management. Our multi-year transformation programme concluded with a £794m reduction in costs.

The Committee acknowledged this strong financial performance, alongside the experience of our customers, our employees and our communities, in determining variable pay awards for the 2023 performance year.

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 colleagues;
- 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 colleagues 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 years ended 31 December 2023 and 2022.

	Mike Regnier (4)		Duke Dayal (5)	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Salary and fees	**1,500**	1,123	**740**	1,000
Taxable benefits (1)	**3**	2	**16**	522
Pension	**135**	101	**67**	88
Total fixed pay	**1,638**	1,226	**823**	1,610
Bonus (paid and deferred) (2)	**1,003**	1,139	**—**	1,901
Long-term incentive plan (3)	**669**	—	**—**	—
Total variable pay	**1,672**	1,139	**—**	1,901
Total remuneration	**3,310**	2,365	**823**	3,511

(1) Taxable benefits for the Executive Directors comprise a range of benefits including, but not limited to, private health care. Included in the 2022 figure for Duke Dayal is a relocation allowance of £500,000.

(2) Effective 2022, 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 2023 Variable Pay Plan awards not subject to performance conditions, i.e. 64%, is disclosed above. The value subject to further performance conditions (currently £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) Mike Regnier was appointed as Chief Executive Officer on 1 April 2022. Upon appointment, Mike was awarded guaranteed variable remuneration of £660,648 to compensate for remuneration foregone from his previous employer. This has not been included in the Total Remuneration value above.

(5) Duke Dayal stepped down as a Board Director on 25 September 2023. The figures above reflect remuneration received whilst serving as a Board Director. All outstanding awards lapsed on cessation of employment.

Remuneration implementation report continued

Stakeholder views
During 2023, 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 shareholders 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, succeeded Annemarie Durbin on 1 March 2023 as the designated NED with responsibility to further enhance the employee voice in the boardroom on matters associated with organisational culture.

Frequent colleague pulse surveys were conducted throughout 2023. The 'Your Voice' function has enabled colleagues 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 colleagues 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 colleagues.

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 colleagues places more emphasis on fixed pay, to offer security and certainty, and to meet our commitment to colleagues' financial wellbeing.

Changes in the ratio are therefore influenced by the differences in remuneration structure, rather than an increase in pay disparity. The ratio has decreased from 84:1 in 2022 to 75:1 in 2023. The reduction in pay ratio is mainly due to 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 2023 were £121,150 (2022: £176,600). 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 2023, 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, Performance & Reward Director, CRO and Company Secretary.

CEO pay ratio

	Methodology (1)	25th percentile	Median	75th percentile
2023 CEO pay ratio (5)	**Option A**	**106:1**	**75:1**	**45:1**
2022 CEO pay ratio (4)	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	**25th percentile (2)**	**Median (2)**	**75th percentile (2)**
2023 CEO pay ratio	**£**	**£**	**£**	**£**
Total salary	£1,500,000	£25,446	£35,450	£54,600
Total remuneration	£3,309,477	£31,314	£44,032	£74,226

(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 2023 financial year, and variable pay is either based on actual bonuses in respect of the 2023 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 2022 ratios are re-stated above. These were originally calculated based on fixed pay accrued within the 2022 year, in addition to target bonuses for eligible colleagues. The 2022 ratios have now been recalculated using 2022 fixed pay and bonuses paid in 2023 in respect of 2022 for all employees.

(5) The values used for the CEO's 2023 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

	2023 £m	2022 £m	Change %
Profit before tax	**2,100**	1,874	12
Total employee costs	**1,241**	1,159	7

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 option of Santander UK. In addition, neither the Chair nor the NEDs are eligible for pension scheme membership or incentive arrangements.

Chair and Board Committee member fees

	2023 £000	2022 £000
Chair (inclusive of membership fee)	**725**	675
Board member	**100**	95
Additional responsibilities		
Senior Independent Director	**45**	45
Chair of Board Risk Committee	**70**	65
Chair of Board Audit Committee	**70**	60
Chair of Board Responsible Banking Committee	**60**	60
Chair of Board Remuneration Committee	**60**	60
Membership of Board Risk Committee	**35**	30
Membership of Board Audit Committee	**30**	25
Membership of Board Responsible Banking Committee	**30**	25
Membership of Board Remuneration Committee	**30**	25
Chair of Litigation and Contentious Regulatory Board Sub-Committee	**15**	8
Consumer Duty Champion	**8**	8
Designated NED to represent views of the workforce	**8**	8

(1) With effect from 1 April 2023, the following changes were made: The Chair fee increased from £675,000 to £725,000. The fee for Board Members increased from £95,000 to £100,000. The fee for the Chair of the Board Risk Committee increased from £65,000 to £70,000. The fee for the Chair of the Board Audit Committee increased from £60,000 to £70,000. The fee for membership of the Board Risk Committee increased from £30,000 to £35,000. The fee for membership of Board Audit Committee, Board Responsible Banking Committee and Board Remuneration Committee increased from £25,000 to £30,000. The fee for the Chair of the Litigation and Contentious Regulatory Board Sub-Committee increased from £7,500 to £15,000.

Non-Executive Directors	2023 Fees £000	2022 Fees £000	2023 Expenses (8) £000	2022 Expenses £000	2023 Benefits £000	2022 Benefits £000	2023 Total £000	2022 Total £000
Chair								
William Vereker (1)	**712**	675	**—**	—	**2**	2	**714**	677
Independent Non-Executive Directors								
Annemarie Durbin (9)	**262**	265	**—**	1	**—**	—	**262**	266
Lisa Fretwell	**204**	175	**—**	10	**—**	—	**204**	185
Ed Giera	**299**	280	**—**	—	**—**	—	**299**	280
Chris Jones (2)	**201**	239	**—**	2	**—**	—	**201**	241
Michelle Hinchliffe (3)	**124**	—	**—**	—	**—**	—	**124**	—
Jose Maria Roldan (4)	**97**	—	**—**	—	**—**	—	**97**	—
Mark Lewis (10)	**230**	183	**—**	8	**—**	—	**230**	191
Nicky Morgan	**233**	211	**—**	6	**—**	—	**233**	217
Banco Santander Group nominated Non-Executive Directors (5)								
Dirk Marzluf	**—**	—	**—**	—	**—**	—	**—**	—
Antonio Simoes (6)	**—**	—	**—**	—	**—**	—	**—**	—
Pamela Walkden	**132**	125	**—**	2	**—**	—	**132**	127
Pedro Castro e Almeida (7)	**—**	—	**—**	—	**—**	—	**—**	—

(1) William Vereker's taxable benefit relates to private health care.
(2) Chris Jones stood down on 30 September 2023.
(3) Michelle Hinchliffe was appointed on 1 June 2023. Fees received are in respect of services from that date.
(4) Jose Maria Roldan was appointed on 1 June 2023. Fees received are in respect of services from that date.
(5) With the exception of Pamela Walkden, none of the Banco Santander Group nominated Non-Executive Directors received any fees or expenses.
(6) Antonio Simoes stood down on 31 August 2023.
(7) Pedro Castro e Almeida was appointed on 1 September 2023.
(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) Annemarie Durbin's fees include £15,000 per annum in relation to her services as Chair of Cater Allen Ltd. Annemarie stood down on 15 December 2023.
(10) 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 2023. 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 and Euronext Dublin.

In addition, the Company and Santander UK Group Holdings plc are subject to US Securities Exchange Act reporting requirements as they have debt securities registered in the US.

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.

As a result of ring-fencing implementation in 2018, and requirements set out in the Financial Services (Banking Reform) Act 2013, Santander UK plc and its subsidiaries comprise of only entities whose business is permitted under the Act as a ring-fenced bank. For more information, see Note 19.

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 2023, together with an indication of the outlook, are set out in the Strategic report and the Financial review.

Events after the balance sheet date
There have been no material post balance sheet events, except as set out in Note 43.

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 outlined 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 2023 and 29 February 2024, there were no changes made to the Board.

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 duration of 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 was appointed the Santander UK Employee Designated NED on 1 March 2023, succeeding Annemarie Durbin. Lisa represents the views of employees in the Boardroom. For more information see the s172: 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 36.

Diversity and Inclusion
Information on our diversity and inclusion policies can be found in the Chair's report on Corporate Governance and the 2023 Diversity, Equity & Inclusion and Pay Gap Report, which does not form part 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. Santander UK has processes in place to help train, develop, retain and promote employees with disabilities. 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.

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 s172: 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 2023, including Scope 1, 2 and 3 data, see the SECR section in the Sustainability review.

Political contributions
In 2023 and 2022, no contributions were made for political purposes and no political expenditure was incurred by the Company.

Directors' report continued

Share capital
Details about the structure of the Company's capital can be found in Note 32.

For details of employee share schemes and how rights are exercisable, see Note 36.

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, for more information please see the Strategic Report.

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 2023 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, at 31 December 2023, that 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 2023. 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 2023, 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.

Statements of Compliance
The UK Corporate Governance Code 2018 (the Code)
Santander UK complies with the Code (which can be found at frc.org.uk) wherever applicable in order to achieve the best standards of corporate governance. The Code applied to the financial year ended 31 December 2023 and the Board confirms that it applied the principles and complied with those provisions of the Code throughout the year, except as follows:

- Provision 17: From 1 January to 1 October 2023, the Company did not comply with the requirement that for the Board Nomination & Governance Committee (BNC) membership to comprise a majority of INEDs, following the appointment of Pamela Walkden, as a GNED, to the Committee in October 2021. The Board considered that Pamela's credentials and experience were of value to the BNC and during the period of non-compliance, we assessed the implications and believed that the approach followed was appropriate for the size and ownership of our structure. However, on 1 October 2023 two independent directors were appointed to the BNC resulting in compliance with this provision from that date.

Directors' report continued

– Provision 25: The Board Risk Committee (BRC), since the appointment of Pamela Walkden as a GNED in October 2021, the BRC has not been composed of only INEDs. We assessed the implications and believe that the approach we follow is appropriate for our size and ownership structure, recognising the experience and expertise that the GNED brings to BRC.
– 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 2023 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 similar to that considered as part of their assessment of longer-term viability 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 higher living costs.

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 of this report and therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Viability

In accordance with Provision 31 of the UK Corporate Governance Code 2018, the Directors must make a statement in this Annual Report regarding the viability of Santander UK, including an explanation of how they assessed the prospects of Santander UK and the period of time for which they made the assessment, including why they consider that period to be appropriate.

Considerations

In making their assessment, the Directors considered a wide range of information including Santander UK's:

– Three-year business plan and other longer-term business and strategic plans
– Risk profile and risk management practices, including the processes by which risks are identified and mitigated, including updates on climate change risk and progress towards embedding them into Santander UK's Risk Framework
– Top and emerging risks, with a focus on those which the Directors believe could cause Santander UK's future financial performance or financial condition to differ materially from current expectations or could adversely impact its ability to meet regulatory requirements
– Capital position and liquidity and funding profile, and projections over the relevant period
– Viability under specific internal and regulatory stress scenarios, as explained further below, including scenarios which might affect operational resiliency, and
– Contingent liabilities and the reasonably possible changes in trading performance arising from potential economic, market and product developments.

The Directors' assessment also takes account of the potential impacts on Santander UK's performance, capital position, and liquidity and funding profile, including those arising from higher living costs (driven by high inflation and interest rates) which are stretching household finances and could lead to higher levels of debt and defaults.

For capital, liquidity and funding purposes, Santander UK operates on a standalone basis and is subject to regular and rigorous monitoring by external parties. In addition, for capital purposes, the Company operates as part of the ring-fenced bank subgroup Capital Support Deed. For liquidity and funding purposes, the Company operates as part of the Domestic Liquidity sub-group.

Assessment

The viability of Santander UK is reliant on preserving a sufficient level of capital and adequately funding the balance sheet.

Santander UK's business activities and financial position, together with the factors likely to affect its future development and performance, are set out in the Financial review. Santander UK's objectives, policies and processes for managing the financial risks to which it is exposed are described in the Risk review.

Threats to the achievement of Santander UK's plans are controlled and managed in line with Santander UK's Risk Framework and within the risk appetite approved by the Board. The risk profile, including an assessment of top and emerging risks, is reported regularly to the Board Risk Committee and the Board. Risks are selected on the basis of their ability to impact viability over the time frame of the assessment but most risks extend beyond this period.

Stress testing

Santander UK participates in regulatory stress tests usually carried out annually by the BoE as well as being part of the biennial stress testing of Banco Santander carried out by the EBA. Internal stress testing encompasses a series of extreme but plausible scenarios covering a wide range of outcomes, risk factors, time horizons and market conditions.

We also conduct reverse stress testing, in which we identify and assess scenarios that could cause Santander UK's business model to become unviable.

The Directors review the outputs of stress testing as part of the approval processes for the ICAAP, the ILAAP, Risk Appetite and regulatory stress tests. For more on stress testing and reverse stress testing, see Risk review.

Time horizon

While a five-year plan is prepared for regulatory purposes and our stress testing encompasses scenarios some of which also extend out to that time period, using a longer time horizon increases uncertainty.

After taking account of Santander UK's current position and principal risks and uncertainties, the Directors consider that a period of three years from the balance sheet date is the most appropriate time frame from which a reasonable assessment of viability can be made.

This period is consistent with the period covered by Santander UK's three-year business plan and is representative of the time horizon to consider the impact of anticipated regulatory changes in the financial services industry.

Directors' report continued

Statement
Based on their assessment of longer-term viability, the Directors have a reasonable expectation that Santander UK will be able to continue in operation and meet its liabilities as they fall due over the next three years.

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.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Santander UK group and Company financial statements in accordance with UK-adopted IAS. In preparing the Santander UK group and Company financial statements, the Directors have also elected to comply with IFRSs as issued by the IASB. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Santander UK group for that period.

In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable UK-adopted IAS and IFRSs as issued by the IASB have been followed, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Santander UK group and the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Santander UK group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Santander UK group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Santander UK group and the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of Santander UK's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format.

Having taken into account all the matters considered by the Board and brought to its attention during the year, the Directors are satisfied that the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary to assess Santander UK's position and performance, business model and strategy.

Directors' confirmations
Each of the Directors confirms that, to the best of their knowledge:

- The Santander UK group and Company financial statements, which have been prepared in accordance with UK-adopted IAS and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities and financial position of the Santander UK group and the Company, and of the profit of the Santander UK group, and
- The management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Santander UK group and the Company, together with a description of the principal risks and uncertainties they face.

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

John Mills
Company Secretary

29 February 2024

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

Risk review

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

Contents

Risk governance

INTRODUCTION

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 and 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 key risk types, each of which could affect our results and our financial resources. Enterprise risk is the aggregate view of all the key risk types.

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 2023 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. Our Top risks included risks arising from Inflationary and supply chain pressures, Climate change, Financial crime, Fraud, IT, Cybersecurity, Third Parties, People risk, Data Management, Conduct and regulatory, Model risk and execution of change being key priorities for Santander UK and our regulators.

We also regularly review emerging risks that could impact our business, customers and shareholders, including regular review 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 broader geo-political, environmental and social risks, technological change including artificial intelligence, customer behaviour, market competition, regulatory and government interventions, central bank digital currencies and other digital assets and disruption of UK macroeconomic factors. Emerging risks actively monitored in 2023 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.

In 2023, we added Environmental and Social risks as an emerging risk area that could impact on us and our customers. We actively monitor Disruption of UK macroeconomic factors as a crystallised risk through regular updates to ERCC and BRC. For more, see the Risk management overview in the Strategic report.

Key elements

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

How we approach risk – our 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 risk, 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.

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. This is a tangible sign of the personal responsibility that is such a key part of our risk culture.

Our risk culture programme

Through communications, training and awareness, we are evolving our approach to focus on the risk culture behaviour we expect of our people. Our I AM Risk approach aims to make sure our people:

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

I AM Risk is the process by which we make risk management part of everyone's life as a Santander UK employee from how we recruit them and manage their performance to how we develop and reward them. It is also how we encourage people to take personal responsibility for risk, to speak up and to come up with ideas. We use I AM Risk in our Risk Certifications, policies, frameworks and governance, and risk-related communications. We also include it in reward arrangements and in mandatory training, to support general awareness, our learning websites include videos and factsheets.

As part of I AM Risk, we include mandatory risk objectives for all our people in our performance management processes. The Executive Committee leads our culture initiatives under the CEO's sponsorship and we use monthly staff surveys to give insight into our culture.

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 financial 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 which performs 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

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
Pensions Committee	– Reviews pension risk appetite proposals
	– Approves actuarial valuations and reviews the impact they may have on our contributions, capital and funding
	– Consults with the pension scheme trustees on the scheme's investment strategy
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 key 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 oversight 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 controlling credit, liquidity, capital, market, pension, strategic and business, operational, model and enterprise risks; Financial Crime; and Compliance, responsible for controlling 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 key 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 2023, we completed the Bank of England's (BoE) Annual Cyclical Scenario. The purpose of this exercise was to explore a 'tail risk' scenario designed to be severe and broad enough to assess the resilience of UK banks to a range of adverse shocks. In the scenario, weaker household real income growth, lower confidence and tighter financial conditions resulted in severe domestic and global recessions.

Following our 2022 Climate Internal Scenario Analysis (CISA) assessment of potential short-term transition risks on our business portfolios, we performed a review of our exposures to physical risk. We continue to enhance our scenario analysis capability with a view to performing long-horizon assessments in 2024.

How we use 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 approves the design of the scenarios in our ICAAP, ILAAP and CISA. The BRC 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), our Risk Appetite and regulatory stress tests, including CBES.

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 2023, over half of our total risk-weighted assets accounted for credit risk in Retail and 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.

We set out how our exposures arise and our approach to 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 1.51% (2022: 1.26%).

Loss allowances of £992m (2022: £1,005m).

Balance weighted average LTV of 66% (2022: 69%) on new mortgage lending.

CREDIT RISK MANAGEMENT

Exposures (audited)

Exposures to credit risk arise in our business segments from:

Retail and 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. – Banking services to businesses with turnover up to £6.5m per annum and simpler borrowing needs. We offer 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, bank accounts, treasury services, invoice discounting, cash transmission, trade finance and asset finance. – We provide these to SMEs and mid-sized corporates with turnover up to £500m per annum, Commercial Real Estate and Social Housing associations.	– 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.

Our approach to credit risk

We manage our portfolios across the credit risk lifecycle, from drawing up 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)
All relevant areas of the business work together to create our business plans. We aim to balance our strategy, goals, and financial and technical resources with our Risk Appetite. To do this, we focus 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 perform a thorough risk assessment to make sure a customer can meet their obligations before we approve a loan. 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. We access each customer's credit profile and signs of how reliable they are at repaying credit. When a customer applies, we assess the data they provide, plus data from credit reference agencies (for Retail and Business Banking and Consumer Finance) and performance on their other Santander UK accounts (if they have any) against our Credit Policy.

Retail and Business Banking
In Mortgages, for secured loans, 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 supporting losses on amounts lent under its Coronavirus Loan Schemes as collateral with 100% for Bounce Back Loan Scheme (BBLS) and 80% for Coronavirus Business Interruption Loan Scheme (CBILS).

Consumer Finance
In Consumer Finance, similar to Retail and Business Banking, many decisions are automated and we tailor the process to the product. Residual value risk is one of our top risks.

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 according to the internal rating threshold, 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 are committed to supporting 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 commitment, by 2030 we will 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 get 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	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 get 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 and 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 product, customer and portfolio 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 framework that sets out the most relevant macroeconomic variables to retail portfolio performance. We monitor these variables 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 formally review our retail risk management policy and strategy.

We also use the Retail Risk Playbook tolerance framework and management judgements to 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 the facilities remain appropriate for the customer's financial circumstances.

Consumer Finance
In Consumer Finance, similar to Retail and Business Banking, we use IT systems and data available to us to monitor accounts, and we use the Retail Risk Playbook tolerance framework and management judgements to ensure that portfolio quality remains within Risk Appetite. We also check the Residual Value of our portfolio each month, using triggers set to identify any material change in 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 take into account 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 and 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 for support purposes. We assess the financial difficulties a customer is having, so we can offer them the right support to manage their agreement whilst in arrears. The strategy we use depends on the risk and the customer's circumstances.

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 and Business Banking
In Mortgages and Everyday Banking, we may use a debt collection agency, sell the debt, or take the customer to court. For retail 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, similar to Retail and Business Banking, we may use a debt collection agency or a specialist law firm to recover the 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.
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 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. 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 significant increase in credit risk (SICR), as we explain 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 less than 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 due
		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 an account fails whilst in probation to cure, i.e. in the 12 months backstop in Stage 3 or the two years in Stage 2, the probation period is reset and the account is moved back to Stage 3.

Other forms of debt management and modifications

Retail and 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 commitment.
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 and Business Banking and Consumer Finance

These businesses involve managing large numbers of accounts, so they produce a huge 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 and have them independently reviewed. 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 our 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 Significant Increase in Credit Risk (SICR) since the origination date. The ECL approach considers forward-looking data, including a range of possible outcomes, which should be unbiased and probability-weighted to reflect the risk of a loss being incurred even when it is unlikely.

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 judgmental 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 five forward-looking economic scenarios. For 2023, they consisted of a central base case, one upside scenario and three downside scenarios. We use five 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 four 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 2023, there were no significant differences between our base case forecasts and the consensus views.

In 2023, we undertook a further peer benchmarking analysis of the economic scenarios, which for Q423 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 although, on a weighted basis, our house price inflation assumption reflected a more conservative view.

In 2023, 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 five scenarios is designed to reflect different possible outcomes to the base case, highlighting the upside and downside risks associated with the central scenario. The downside risks for the UK economy include a sharp downturn in global growth, a return to upside inflation surprises which raises the cost of living, a continuation of the very low productivity growth seen in the UK, a move to a more protectionist agenda for trade and further geopolitical events adding to challenging economic conditions. The upside risks were more muted at the end of 2023 and include a stronger recovery in global growth, a faster fall in inflation, coupled with further trade agreements with other countries.

Our forecasting period for GDP is five years and then we revert to the average trend growth over three years based on the OBR's long-run GDP forecast assumption. The reversion to mean for all macroeconomic variables is expected to take three years after the initial five-year forecast period.

Key changes to our forecasting approach in 2023

In 2023, there were no specific changes to our forecasting approach. We incorporated the OBR's March 2023 fan chart parameters to generate the GDP paths (excluding the base case).

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 2024 remains challenging due to a lack of growth, weak investment and with continuing risks to the 2% inflation target, particularly if the situations in the Middle East and Ukraine trigger a renewed surge in oil and gas prices. Inflationary pressures could be further exacerbated by a tight UK labour market maintaining pressure on wage growth at a time when firms are struggling to match appropriately skilled workers to available vacancies.

Base case key macroeconomic assumptions
– **House price growth:** The sharp rise in mortgage rates triggered a slowdown in house price growth in recent months. With survey indicators pointing to a slump in buyer demand as confidence is hit by a squeeze on affordability from the sharp rise in mortgage rates, house prices are expected to continue declining in the near-term. However, as the supply of housing is also weak this has helped to limit the overall fall in house prices compared to previous downturns despite the sharp rise in interest rates. We forecast a c.2% year-on-year decline in house prices by the end of 2023, with a further fall of 1% by the end of 2024. Looser monetary policy from the second half of 2024 enables house price growth to recover with growth back to average levels by the end of the forecast period.
– **GDP:** While the monthly GDP estimate for October 2023 showed the economy shrinking marginally with a 0.3% month-on-month fall, this aligns to the picture of a stagnating UK economy. The PMI data for November 2023 is marginally above 50 and suggests growth to be modest in Q423. As such, the near-term outlook for growth remains broadly flat - but as the effects of higher interest rates filter through the economy this year and the bulk of fixed rate mortgages are renewed, consumer spending growth could fall back sharply and with business insolvencies expected to increase, there are still downside risks to our forecast of 0.4% growth in 2024.
– **Unemployment rate:** Unemployment remained flat in October 2023 at 4.2% based on the ONS experimental data and combined with other surveys such as REC, suggest that the labour market is slowly loosening. With companies under pressure from rising debt servicing costs and higher wages, it is likely that some will become insolvent and others find that demand for their goods and services reduces as households restrict their spending. We do not envisage a large rise in unemployment compared to previous recessions. The rate peaks at 4.8% by the end of 2024, in part impacted by the ongoing return of previously inactive workers to the labour force.
– **Bank Rate:** The Monetary Policy Committee (MPC) kept rates at 5.25% at the December 2023 meeting. Our base case assumes no further rate rises with the MPC expected to start loosening monetary policy in Q224, with rates ending 2024 at 4.50%. Further cuts through the rest of the 5-year forecast period leaves bank rate at 3.00% by the end of 2028.

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 2023

For our base case, we no longer expect a short recession given that the economy has been more resilient than expected in 2023. However, risks around this assumption remain as the full effects of higher interest rates have yet to be felt across the UK economy which keeps growth in 2024 significantly below average.

Our base case 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 falls now lower in 2023 and 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) persistent above target inflation over the forecast period; (ii) a slower recovery that is more akin to the 'U' shape of past recessions; (iii) labour market frictions due to skills mismatches and a shrinking workforce as some discouraged workers leave altogether (for example older UK-born workers retiring early and longer term sickness levels remaining above pre-pandemic levels); and (iv) the global economy recovering more swiftly from higher inflation.

To reflect these potential outcomes, we continue to use the base case and four additional scenarios, which we consider sufficient to reflect all the above potential outcomes. However, as the risks remain skewed to the downside, to reflect these outcomes sufficiently, we concluded that only one upside scenario would be needed to reflect the upside risks to the base case. As with the base case, the scenarios are forecast over a five-year period and then mean revert over the next three years to the OBR's latest estimate of the UK's long run average growth rate.

The other scenarios are:

One upside scenario

This scenario has a quicker recovery than the Baseline and is a bull case to the base forecasts. It assumes that inflation falls back more swiftly than in the base case, helped by lower growth in wages and pass through of lower commodity prices. This allows the Bank of England to cut rates earlier, bringing them back towards what might be considered the neutral rate. This results in higher consumer and business confidence enabling higher levels of spending with savings rates returning to levels consistent with economic growth as real earnings growth returns. Unemployment peaks at a slightly lower level than the base case and drops more quickly than the base, ending the 5-year forecast period at 3%. The Bank Rate profile is lower than the base case as inflation returns to target at a faster pace.

Three downside scenarios

The downside scenarios capture a range of risks, including continuing weaker investment, a larger negative impact from the EU trade deal and a continuing and significant mismatch between job vacancies and skills, as well as a smaller labour force.

Downside 1 - This scenario is a bear case to the baseline. It assumes that the fall in economic growth is sharper and that there is a recession. In this scenario, consumers keep savings rather than spend as consumer confidence remains extremely low while households are worried about the prospect of losing their jobs. House prices fall further than in the base case as more households look to downsize in order to lower their mortgage repayments. With inflation remaining above target, Bank Rate continues to increase as core inflation remains above the baseline view before cuts start as inflation falls back.

Stubborn inflation - This scenario considers the effect on the UK economy of a persistent inflationary environment. Here inflation remains above target for much of the forecast period. This persistent inflation is created by a combination of factors, including higher energy costs exacerbated by the Ukraine/Russia crisis and curtailment of oil supply by OPEC countries; continuous wage rises resulting in a spiral effect pushed by increasing numbers of strikes and falling productivity. Despite the peak in inflation having already passed in Q422, inflation remains slightly above the 2% target over the 5-year forecast period. The 2.8% peak to trough fall in GDP is similar to the early 1980s recession due to inflation remaining higher for longer, which in turn reduces households' real incomes and therefore consumption. This is despite higher wage settlements due to increased strike action. Unemployment peaks at 6.2% in 2026 as although inflation eventually returns to target, Bank Rate remains at higher levels compared to recent history and growth is still muted due to weak productivity as investment levels remain low. The large increases in Bank Rate and falling real incomes result in house prices falling by c.26%.

Downside 2 - The scenario shows a marked fall in GDP, with rising unemployment and falling house prices reflecting the ongoing issues of a higher interest rate environment and above target inflation, which feeds across the whole economy. It also reflects the ongoing strike action by various unions pushing for stronger pay growth, alongside dealing with potential blackouts caused by an increase in energy shortage over the winter months in Q423 and into early 2024. It also assumes that major risk events continue to occur exposing risks to countries' fiscal position and the means to respond to such events. For this scenario, an overlay to the unemployment rate was also made to the model output from the OGEM. This was to account for the possibility of a recession of similar magnitude to that of 2008/09 where the unemployment rate peaked at 8.5%.

Key changes to our alternative scenarios in 2023

In 2023 we did not make any methodological changes to the scenarios.

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 2023 were:

		Upside	Base case	Downside 1	Stubborn Inflation	Downside 2	Weighted[4]
		%	%	%	%	%	%
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][3]	—	—	(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.
(3) Reported as Peak/(trough) from 2023 to align with other metrics.
(4) The weighted peak to trough and 5 year peak calculations are based on the annual profiles shown.

The table below sets out our macroeconomic assumptions and their evolution throughout the forecast period for each of the five scenarios at 31 December 2022:

		Upside	Base case	Downside 1	Stubborn Inflation	Downside 2	Weighted[5]
		%	%	%	%	%	%
GDP[1]	2021 (actual)	7.5	7.5	7.5	7.5	7.5	7.5
	2022	4.4	4.4	4.3	4.2	3.7	4.3
	2023	(1.0)	(1.3)	(1.9)	(2.7)	(6.4)	(2.2)
	2024	0.8	0.5	(0.3)	(0.9)	(0.7)	—
	2025	2.0	1.6	0.5	0.2	1.7	1.2
	2026	2.0	1.5	0.4	0.6	1.5	1.2
	5-year average increase/decrease	1.2	0.8	(0.2)	(0.5)	(0.6)	0.3
	Cumulative growth/(fall) to peak/(trough)[2][4]	6.0	3.8	(0.8)	(2.2)	(3.1)	1.3
Bank Rate[1]	2021 (actual)	0.25	0.25	0.25	0.25	0.25	0.25
	2022	3.50	3.50	3.50	3.50	3.50	3.50
	2023	3.75	4.00	3.50	6.00	3.75	4.29
	2024	3.00	3.25	2.75	5.50	3.00	3.59
	2025	2.50	2.75	2.50	3.50	2.75	2.85
	2026	2.25	2.50	2.25	3.00	2.50	2.55
	5-year end period	2.25	2.50	2.25	3.00	2.50	2.55
	Peak/(trough) at[3]	3.75	4.00	3.50	6.00	4.00	4.31
HPI[1]	2021 (actual)	8.7	8.7	8.7	8.7	8.7	8.7
	2022	7.6	7.0	7.6	7.6	7.6	7.3
	2023	(8.8)	(10.0)	(10.0)	(10.9)	(15.8)	(10.7)
	2024	(4.3)	—	(6.7)	(8.8)	(14.3)	(4.4)
	2025	0.6	2.0	(3.1)	(4.9)	(4.1)	(0.8)
	2026	4.1	3.0	(0.2)	(0.6)	4.7	2.0
	5-year average increase/decrease	(0.7)	(0.6)	(3.8)	(4.7)	(4.8)	(2.3)
	Peak/(trough) at[3]	(12.8)	(11.2)	(19.0)	(23.1)	(30.7)	(16.8)
Unemployment[1]	2021 (actual)	4.0	4.0	4.0	4.0	4.0	4.0
	2022	3.7	3.8	3.7	3.7	4.4	3.8
	2023	4.7	4.7	5.1	5.5	8.5	5.3
	2024	4.5	5.1	5.4	5.9	8.0	5.6
	2025	4.5	4.5	5.8	6.4	7.4	5.4
	2026	4.4	4.3	6.1	6.6	6.8	5.3
	5-year end period	4.2	4.3	6.1	6.4	6.2	5.2
	Peak/(trough) at[3]	4.7	5.1	6.1	6.6	8.5	5.9

(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) This is the cumulative growth for the 5-year period.
(3) For GDP and house price growth it is the peak to trough change within the 5-year period; for the unemployment rate it is the peak; and for Bank Rate it is the peak or trough.
(4) If we had calculated GDP on the peak/(trough) basis as adopted for 2023 our upside scenario would have been (1.5%); base case scenario (1.9%); downside 1 (2.7%); stubborn inflation (4.0%); downside 2 (8.8%).
(5) The weighted peak to trough and 5-year peak calculations are based on the annual profiles shown.

Scenario weights
Each quarter, we undertake a full review of the scenario weights we apply. We consider the weighting 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 weighting of a scenario, we undertake a Monte Carlo analysis to ascertain the likelihood of a five-year average GDP forecast growth rate occurring based on the long run historically observed average. Creating a standard distribution bell curve around this long run average allows us to estimate the probability of a given GDP scenario occurring based on past experience and therefore assign a weight to that scenario.

The scenario weights we applied for 2023 and 2022 were:

Scenario weights	Upside %	Base case %	Downside 1 %	Stubborn Inflation %	Downside 2 %	Weighted %
2023	**10**	**50**	**10**	**20**	**10**	**100**
2022	5	50	15	20	10	100

2023 compared to 2022
We continue to use both the entire historical GDP data set available for the Monte Carlo analysis to smooth out the large GDP data swings seen in the pandemic as well as the data set from 2009 onwards. The CAGRs are now returning to more 'normal' levels associated with our scenarios as the economy unwinds from the 2020 shock. For H223, the base case using the 2009 data set show that the base case sits around the 50th probability path and that the downside scenarios sit between the 60th to 80th probability paths suggesting that a lower weight than the base case remains appropriate.

We also need to consider the UK economic and political environment when applying weights. Given the current cost of living crisis, 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 in 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.

In 2023, we increased the weight on the Upside scenario by 5% with a corresponding decrease in our Downside 1 to rebalance the overall weighted ECL. It was also to reflect both the change in the fan chart parameters used to determine the Upside and Downside 1 scenarios and the fact that the economic growth outlook has improved slightly since the end of 2022.

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 and 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.
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 provided for on a 12-month basis. 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 required. 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.

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. These two sets of criteria are used to determine whether a significant increase of credit risk has concurred since origination. The criteria for 2023 and 2022 were:

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

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

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 2023 and 2022 were:

Retail and Business Banking				Consumer Finance	Corporate & Commercial Banking	Corporate Centre
	Everyday Banking[1]					
Mortgages	Personal loans	Credit cards	Overdrafts			
– In forbearance – Default in last 24m – 30 Days past due (DPD) in last 12m – Bankrupt – £100+ arrears	– 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	– Watchlist: proactive management

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

We continue to apply the additional qualitative assessment that was introduced as part of a Judgemental Adjustment that commenced during 2022 in response to the cost of living crisis. Exposures that were deemed more significantly impacted by cost of living pressures based on indebtedness and disposable income thresholds were migrated to Stage 2. See 'Judgemental Adjustments (JAs)' below for more details.

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 they no longer meet the stage 2 SICR criteria. 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'.

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 and Business Banking						
		Everyday Banking					
	Mortgages	Credit Cards	Other	Consumer Finance	CCB	Corporate Centre	Total
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**

2022	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Modelled ECL	133	112	93	65	194	—	597
Individually assessed	—	—	—	—	112	—	112
ECL before JAs	133	112	93	65	306	—	709
JAs (excluding Affordability and Cost of Living JAs)							
Long-term indeterminate arrears	13	—	—	—	—	—	13
12+ months in arrears	22	—	—	—	—	—	22
UPL loss floor	—	—	15	—	—	—	15
Model underestimation	36	2	19	—	—	—	57
Corporate single large exposure	—	—	—	—	23	—	23
Other	20	1	10	2	3	—	36
Total JAs (excluding Affordability and Cost of Living JAs)	91	3	44	2	26	—	166
Affordability and Cost of Living JAs							
Corporate lending to segments affected by supply chain pressures	—	—	—	—	61	—	61
Mortgage affordability	27	—	—	—	—	—	27
Retail Unsecured Affordability	—	15	20	—	—	—	35
SME debt burden	—	—	7	—	—	—	7
Total Affordability and Cost of Living JAs	27	15	27	—	61	—	130
Total JAs	118	18	71	2	87	—	296
Total ECL	251	130	164	67	393	—	1,005

JAs (excluding Affordability and Cost of Living JAs)

- **Long-term indeterminate arrears:** To mitigate the risk of model underestimation, we fully provide for accounts in arrears which have neither repaid (cured) nor been written-off after a period of two years for unsecured portfolios or five years for secured portfolios. For our secured portfolios, we use expected security valuations at the point of repossession to estimate the adjustment. At 31 December 2023, we only had to make an adjustment for mortgages. When calculating this JA, we assume a two year delay in the time to repossessions which reflects experience and ensures the LTVs are impacted by our multiple scenario forecasts for HPI. Over the medium term, as we continue to address long-term arrears in the portfolio, we expect the need for this JA will reduce. Had management assumed no delay in repossessions, the JA would be £12m.
- **12+ months in arrears:** To mitigate the risk of model underestimation, we fully provide for mortgage accounts more than 12 months past due after deducting a historically observed self-cure rate. When calculating this JA, we assume a two year delay in the time to repossessions which reflects experience and ensures the LTVs are impacted by our multiple scenario forecasts for HPI. Over the medium term, as we continue to address long-term arrears in the portfolio, we expect the need for this JA will reduce. Had management assumed no delay in repossessions, the JA would be £6m.
- **UPL loss floor:** We use this JA to address the perceived macroeconomic insensitivity in our Unsecured Personal Loans (UPL) models. This arises where historical analysis of losses shows a larger correlation to the International Labour Organisation (ILO) unemployment forecast than the model gives. The JA then uplifts the lifetime losses expected in each of the macroeconomic scenarios in the model to meet the expected losses the historical analysis predicts.
- **Model underestimation:** During the pandemic, the government introduced various support schemes which resulted in built up savings and subdued arrears and defaults. This JA reduces the risk of potential ECL underestimation caused by the artificially low modelled PDs. Had management applied the same PD uplift on the upside scenario, the JA would be £13m. Had management applied the same PD uplift on the Downside 3 scenario as the Base case, Upside and Downside 1 scenarios, the JA would be £65m.
- **Corporate single large exposure:** This JA safeguards against individual large exposures defaulting. We currently use the JA to safeguard against two historically observed single name large losses in CCB. We continue to assess this 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. Had management assumed only one average loss was incurred, the JA would be £12m. The JA would be £35m assuming three average losses were incurred. This JA is still needed given UK corporate insolvencies have risen to a 30-year high. In the current high-interest rate environment, the risk of single name defaults which incur high losses is considered greater than before as government support schemes ceased.
- **Other:** This includes adjustments for CCB and mortgages. In CCB, we calibrate our corporate model PDs based on a historical model development observation period. We hold a JA to recalibrate these PDs to reflect more recent experience. This JA will be embedded into the model in 2024 with no material net impact expected. In mortgages, this JA includes a similar adjustment to recalibrate the PD and LGDs to exclude the period impacted by Covid-19.

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. We updated the assumptions of this JA to reflect the available historical default emergence of the sectors in scope of the JA. This JA calculates ECL depending on customers' risk profiles in stage 1 and transfers the customers into stage 2. In the case of those customers already in stage 2 the JA is calculated by stressing PD levels according to the risk profile of those customers. The range for this JA can be between £16m to £58m depending on PD assumptions of high and severe sectors.
- **Secured affordability:** We use this JA to identify over-indebted customers who, in the current high-interest rate environment, are more susceptible to stress. The JA uses available bureau information (Consumer Indebtedness Index (CII) > 40) and classifies over-indebted customers as Stage 2, which are subsequently provided for on a lifetime basis. The JA reflects the most recent available performance information for customers in scope of the judgement. At 31 December 2023, these accounts made up a significant amount of the total mortgage Stage 2 population as £2.9bn mortgages were moved from Stage 1 into Stage 2 as a result. Had management lowered the CII threshold to 30, the JA would be £21m. Had management increased the CII threshold to 50, the JA would be £8m.
- **Unsecured affordability**: The JA accounts for repayment affordability risk amongst customers with low disposable income. We use a combination of performance indicators and forward-looking estimated disposable income to identify the number of unsecured customers that may struggle to meet their contractual obligations in the current macroeconomic environment. Their overall level of unsecured debt is also considered (for Credit Cards and Banking products) to determine whether they can absorb additional financial stress. Had management not considered the total level of unsecured debt as an additional filter to identify customers in scope of the JA, the JA would be £47m. Had management considered the same level of Total Unsecured Debt (TUD) for UPL exposures as for Cards and Banking, the JA would be £31m.
- **Mortgage refinancing risk:** We introduced this JA in December 2023. It considers the risk of mortgage customers being unable to afford their new mortgage instalment after re-mortgaging in the current high-interest rate environment. 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. Their respective PDs are uplifted to account for the elevated levels of defaults observed for the most recent cohorts of refinanced mortgages. The JA transfers £6.8bn of exposures into Stage 2. The JA was designed using some profiling characteristics of customers that took advantage of the Mortgage Charter government scheme as some of these accounts are considered to be at higher risk of arrears. Had management replaced the probability weighted interest rate view with a flat 5% forecast, the JA would be £9m. Had management assumed a flat 6% forecast, the JA would be £22m.
- **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 instead considers the possible impact on repayment of other lending with us.

2023 compared to 2022

JAs reduced from £296m to £184m. The proportion of JAs to total ECL decreased from 29% to 19%. This was mainly due to the models reacting to the economic environment normalising post Covid-19, reducing the need for JAs. In 2023, we expanded the scope of the Mortgage Affordability JA to include Consumer Finance (previously included in Other) and renamed it as the Secured Affordability JA. We also renamed the Retail Unsecured Affordability JA as the Unsecured Affordability JA with no change in the scope. In addition, we introduced a Mortgage Refinancing risk JA to target customers susceptible to refinance risk in response to the cost of living crisis and increased interest rates. In 2023, in response to increasing regulatory requirements under SS1/23, we introduced a JA framework to further enhance the governance around judgements.

Climate change

In 2023 and 2022, 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 2023 and 2022, 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 5 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.

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 large single name corporate exposures on an individual basis when they meet our definition of default and are transferred into Stage 3. This assessment takes into consideration the latest specific information about the counterparty to determine a probability weighted ECL based on a best, worst and mid case outcome. For those loans that were in default (i.e. Stage 3), the ECL net of government guarantee was £124m at 31 December 2023 (2022: £112m). Had management assumed the best or worst outcome in terms of loss estimates, the ECL could have been within a range of £42m to £209m.

Sensitivity of ECL allowance (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 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 ECL 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.

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 and 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**
CCB	**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 and 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**
CCB	**346**	**362**	**385**	**415**	**449**	**380**
Corporate Centre	**—**	**—**	**—**	**—**	**—**	**—**

2022	£m	£m	£m	£m	£m	£m
Exposure	306,284	306,284	306,284	306,284	306,284	306,284
Retail and Business Banking	213,557	213,557	213,557	213,557	213,557	213,557
Of which:						
– Mortgages	192,346	192,346	192,346	192,346	192,346	192,346
Consumer Finance	5,740	5,740	5,740	5,740	5,740	5,740
CCB	28,277	28,277	28,277	28,277	28,277	28,277
Corporate Centre	58,710	58,710	58,710	58,710	58,710	58,710
ECL	930	932	993	1,149	1,383	1,005
Retail and Business Banking	489	497	529	647	830	544
Of which:						
– Mortgages	214	218	244	324	501	251
Consumer Finance	65	66	65	68	69	67
CCB	376	369	399	434	484	394
Corporate Centre	—	—	—	—	—	—

2023 compared to 2022
ECL was broadly flat in 2023. In Retail and Business Banking, Mortgages ECL decreased as house prices held up better than expected and Unsecured lending ECL increased in line with arrears. These are yet to rise above pre Covid-19 levels. CCB ECL decreased due to a small number of default cases that were exited late in 2023. The value of JAs decreased in 2023 with models better reflecting the economic environment as the economic distortion caused by Covid-19 reduced.

HPI sensitivity
Given the relative size of our residential mortgage portfolio, management considers that changes in HPI assumptions used to calculate the ECL allowance for residential mortgages would have the most significant impact on the ECL allowance. The table below shows the 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
2023	**70**	**38**	**(54)**	**(155)**
2022	48	32	(61)	(176)

2023 compared to 2022
The sensitivity to decreases in house prices was similar to 2022, but the sensitivity to increases in house prices was higher than in 2022. This is a function of the model and JA interaction under a more benign economic environment. The drop in the average property value in 2023 resulted in a bigger potential benefit of future house price increases, which was the main driver for the higher sensitivity towards +10/+20% house price increases.

Both the modelled ECL and the JAs were stressed in the sensitivity analysis to assess the potential impact on ECL from housing market volatility.

Measuring ECL (audited)
For accounts not in default at the reporting date, we estimate a monthly ECL for each exposure and for each month over the forecast period. The lifetime ECL is the sum of the monthly ECLs over the forecast period, while the 12-month ECL is limited to the first 12 months. We calculate each monthly 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 month, 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.
Exposure at default (EAD)	The amount we expect to be owed if a default event occurs. We determine EAD for each month 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 analysis of recent default data.
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 take into account 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. In some cases, we shorten the period to simplify the calculation. If we do this, we apply a Judgemental Adjustment to reflect our view of the full lifetime ECL.

Forward-looking information
Our assessments of a SICR and the calculation of ECL incorporate forward-looking data. We perform historical analysis and identify the key economic variables that impact credit risk and ECL 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 and 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 five 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

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
2023	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Cash and balances at central banks	**38.2**	**—**	**38.2**	**—**	**—**	**—**	**—**	**—**	**—**	**38.2**
Financial assets at amortised cost:										
– Loans and advances to customers:[3]										
– Retail 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 fair value 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**
2022										
Cash and balances at central banks	44.2	—	44.2	—	—	—	—	—	—	44.2
Financial assets at amortised cost:										
– Loans and advances to customers:[3]										
– Retail Mortgages[4]	184.3	(0.2)	184.1	8.0	—	8.0	—	(187.4)	—	4.7
– Corporate loans	19.1	(0.4)	18.7	9.3	—	9.3	(0.1)	(16.5)	—	11.4
– Finance leases	4.6	(0.1)	4.5	0.4	—	0.4	—	(4.8)	—	0.1
– Accrued interest and other adjustments	0.7	—	0.7	—	—	—	—	—	—	0.7
– Other unsecured loans	7.7	(0.2)	7.5	13.7	(0.1)	13.6	—	—	—	21.1
– Amounts due from fellow Banco Santander group subsidiaries and JVs	4.2	—	4.2	—	—	—	—	—	—	4.2
Total loans and advances to customers	220.6	(0.9)	219.7	31.4	(0.1)	31.3	(0.1)	(208.7)	—	42.2
– Loans and advances to banks	1.0	—	1.0	0.4	—	0.4	—	—	—	1.4
– Reverse repurchase agreements – non trading	7.3	—	7.3	—	—	—	—	(7.3)	—	—
– Other financial assets at amortised cost	0.2	—	0.2	—	—	—	—	—	—	0.2
Total financial assets at amortised cost	229.1	(0.9)	228.2	31.8	(0.1)	31.7	(0.1)	(216.0)	—	43.8
Financial assets at FVOCI:										
– Debt securities	6.0	—	6.0	—	—	—	—	—	—	6.0
Total financial assets at FVOCI	6.0	—	6.0	—	—	—	—	—	—	6.0
Total	279.3	(0.9)	278.4	31.8	(0.1)	31.7	(0.1)	(216.0)	—	94.0

(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.

2023	Balance sheet asset gross amount £bn	Collateral[(1)] Cash £bn	Collateral[(1)] Non-cash £bn	Netting[(2)] £bn	Net exposure £bn
Financial assets at FVTPL:					
– Derivative financial instruments	**1.4**	**(0.8)**	**—**	**(0.5)**	**0.1**
– Other financial assets at FVTPL	**0.3**	**—**	**—**	**—**	**0.3**
Total	**1.7**	**(0.8)**	**—**	**(0.5)**	**0.4**
2022					
Financial assets at FVTPL:					
– Derivative financial instruments	2.4	—	(1.7)	(0.5)	0.2
– Other financial assets at FVTPL	0.1	—	—	—	0.1
Total	2.5	—	(1.7)	(0.5)	0.3

(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 %	PD range Lower %	PD range 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									
	9	8	7	6	5	4	3 to 1	Other[(1)(2)]	Loss allowance	Total
2023	£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)]	5.3	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

	Santander UK risk grade									
	9	8	7	6	5	4	3 to 1	Other[(1)(2)]	Total	Coverage Ratio
2023	£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	0.2	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	—	—	—	—	—	—	—	—	—	—

2022	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)]	9.5	35.9	85.6	52.1	15.2	9.2	5.4	7.7	(0.9)	219.7
– Stage 1	9.5	35.6	83.9	47.9	11.1	3.9	0.5	7.3	(0.1)	199.6
– Stage 2	—	0.3	1.7	4.2	4.1	5.2	2.6	0.2	(0.5)	17.8
– Stage 3	—	—	—	—	—	0.1	2.3	0.2	(0.3)	2.3
Of which mortgages:	9.5	33.4	82.3	45.0	7.2	3.8	3.1	—	(0.2)	184.1
– Stage 1	9.5	33.1	80.7	41.1	4.1	0.5	0.1	—	—	169.1
– Stage 2	—	0.3	1.6	3.9	3.1	3.2	1.3	—	(0.1)	13.3
– Stage 3	—	—	—	—	—	0.1	1.7	—	(0.1)	1.7
Total off–balance sheet	0.1	7.2	6.9	6.5	4.9	2.1	0.4	3.7	(0.1)	31.7
– Stage 1	0.1	7.2	6.8	6.4	4.7	1.7	0.2	3.7	—	30.8
– Stage 2	—	—	0.1	0.1	0.2	0.4	0.1	—	(0.1)	0.8
– Stage 3	—	—	—	—	—	—	0.1	—	—	0.1

2022	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	0.2	—	0.5	2.8
– Stage 3	—	—	—	—	—	—	0.3	—	0.3	13.0
Of which mortgages:	—	—	—	—	0.1	0.1	—	—	0.2	0.1
– Stage 1	—	—	—	—	—	—	—	—	—	—
– Stage 2	—	—	—	—	0.1	—	—	—	0.1	0.8
– 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	12.5
– Stage 3	—	—	—	—	—	—	—	—	—	—

(1) Includes Joint Ventures and Business Banking (including BBLs balances). We use scorecards for these items, rather than rating models. Off-balance sheet exposures also include residential mortgage offers in the pipeline.
(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 2023 **%**	31 December 2022 %
Mortgages	**0.80**	0.62
Credit Cards	**0.51**	0.49
UPL	**0.73**	0.61
Overdrafts	**2.43**	2.24
Business Banking	**4.15**	3.47
Consumer Finance	**0.43**	0.44

2023 compared to 2022

With a slower housing market and higher mortgage rates, applications fell in 2023. Our decision to optimise the balance sheet given higher funding costs contributed to a reduction in mortgage lending.

In 2023, early and late arrears remained at low levels despite a slight increase across the portfolio.

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 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	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Exposures				
On-balance sheet				
Retail and Business Banking	158,782	18,866	2,239	179,887
Consumer Finance	4,870	330	28	5,228
CCB	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 and Business Banking[1]	21,597	434	59	22,090
Consumer Finance	—	—	—	—
CCB	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				
On-balance sheet				
Retail and Business Banking	57	273	169	499
Consumer Finance	21	30	19	70
CCB	64	118	163	345
Corporate Centre	—	—	—	—
Total on-balance sheet	142	421	351	914
Off-balance sheet				
Retail and Business Banking	16	26	1	43
Consumer Finance	—	—	—	—
CCB	12	14	9	35
Corporate Centre	—	—	—	—
Total off-balance sheet	28	40	10	78
Total ECL	170	461	361	992
Coverage ratio[3]	%	%	%	%
On-balance sheet				
Retail and Business Banking	—	1.4	7.5	0.3
Consumer Finance	0.4	9.0	68.5	1.3
CCB	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 and Business Banking	0.1	6.0	2.8	0.2
Consumer Finance	—	—	—	—
CCB	0.1	2.5	20.2	0.4
Corporate Centre	—	—	—	—
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 31.
(3) ECL as a percentage of the related exposure.

Total on-balance sheet exposures at 31 December 2022 comprised £215.7bn of customer loans, loans and advances to banks of £1.0bn, £7.5bn of sovereign assets measured at amortised cost, £6.0bn of assets measured at FVOCI, and £44.2bn of cash and balances at central banks.

2022	Gross write-offs £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Exposures					
On-balance sheet					
Retail and Business Banking		175,365	14,399	2,072	191,836
Consumer Finance		5,005	350	29	5,384
CCB		14,507	3,476	535	18,518
Corporate Centre		58,710	—	—	58,710
Total on-balance sheet		253,587	18,225	2,636	274,448
Off-balance sheet					
Retail and Business Banking(1)		21,175	490	56	21,721
Consumer Finance		356	—	—	356
CCB		9,310	412	37	9,759
Corporate Centre		—	—	—	—
Total off-balance sheet(2)		30,841	902	93	31,836
Total exposures		284,428	19,127	2,729	306,284
ECL and Gross Write-offs					
On-balance sheet					
Retail and Business Banking	113	56	295	151	502
Consumer Finance	19	19	27	21	67
CCB	24	69	155	138	362
Corporate Centre	—	—	—	—	—
Total on-balance sheet	156	144	477	310	931
Off-balance sheet					
Retail and Business Banking	—	12	28	2	42
Consumer Finance	—	—	—	—	—
CCB	—	14	11	7	32
Total off-balance sheet	—	26	39	9	74
Total ECL	156	170	516	319	1,005
Coverage ratio(3)		%	%	%	%
On-balance sheet					
Retail and Business Banking		—	2.0	7.3	0.3
Consumer Finance		0.4	7.7	72.4	1.2
CCB		0.5	4.5	25.8	2.0
Corporate Centre		—	—	—	—
Total on-balance sheet		0.1	2.6	11.8	0.3
Off-balance sheet					
Retail and Business Banking		0.1	5.7	3.6	0.2
Consumer Finance		—	—	—	—
CCB		0.2	2.7	18.9	0.3
Total off-balance sheet		0.1	4.3	9.7	0.2
Total coverage		0.1	2.7	11.7	0.3

(1) Off-balance sheet exposures include £2.8bn of residential mortgage offers in the pipeline.
(2) Off-balance sheet amounts consist of contingent liabilities and commitments. For more, see Note 31.
(3) ECL as a percentage of the related exposure.

2023 compared to 2022

The ECL provision at 31 December 2023 decreased by £13m to £992m (2022: £1,005m) largely due to updated economic assumptions.

Gross write-off utilisation of £232m in CCB and unsecured retail (2022: £157m).

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

- The reduction in Stage 1 exposures was mainly driven by reduced Mortgage new business due to slowing of the housing market, and customers reducing debt in response to increasing rates. The Stage 1 ECL was broadly flat as reduced Mortgage Stage 1 exposures had little impact on ECL due to their secured nature.
- Stage 2 exposures increased reflecting current economic conditions, but levels of arrears are yet to increase above the long-term average. Stage 2 ECL reduced primarily due to the reduced requirement for mortgages, driven by house prices performing better than expected, and in CCB where expected loss rates improved.
- Stage 3 exposures rose due to the economic environment with increases across all portfolios. ECL increased, driven by CCB and Mortgages.

Stage 2 analysis (audited)

The following table analyses our Stage 2 exposures and ECL by the reason the exposure is classified as Stage 2.

2023		PD deterioration	Forbearance	Other	30 DPD	Secured affordability	Unsecured affordability	Mortgage Refinancing	High risk corporate	Total
Retail and Business Banking - Mortgages	Exposure £m	**5,877**	**516**	**265**	**560**	**2,889**	**—**	**7,769**	**—**	**17,876**
	ECL £m	**65**	**2**	**3**	**11**	**9**	**—**	**19**	**—**	**109**
Consumer Finance	Exposure £m	**115**	**—**	**126**	**25**	**64**	**—**	**—**	**—**	**330**
	ECL £m	**10**	**—**	**5**	**11**	**4**	**—**	**—**	**—**	**30**
CCB	Exposure £m	**1,809**	**85**	**533**	**93**	**—**	**—**	**—**	**898**	**3,418**
	ECL £m	**75**	**2**	**17**	**2**	**—**	**—**	**—**	**22**	**118**
Corporate Centre	Exposure £m	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	ECL £m	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total Drawn	Exposure £m	**8,345**	**601**	**960**	**856**	**2,953**	**232**	**7,769**	**898**	**22,614**
	ECL £m	**249**	**4**	**33**	**46**	**13**	**35**	**19**	**22**	**421**
Undrawn	ECL £m	**28**	**—**	**4**	**3**	**—**	**3**	**—**	**2**	**40**
Total Reported	Exposure £m	**9,160**	**601**	**1,152**	**893**	**2,889**	**233**	**7,769**	**898**	**23,595**
	ECL £m	**277**	**4**	**37**	**49**	**13**	**38**	**19**	**24**	**461**
2022										
Retail and Business Banking - Mortgages	Exposure £m	7,310	449	241	463	4,961	—	n/a	—	13,424
	ECL £m	86	2	5	10	27	—	n/a	—	130
Consumer Finance	Exposure £m	159	—	164	27	—	—	n/a	—	350
	ECL £m	11	—	6	10	—	—	n/a	—	27
CCB	Exposure £m	1,548	64	684	214	—	—	n/a	966	3,476
	ECL £m	81	4	1	10	—	—	n/a	59	155
Corporate Centre	Exposure £m	—	—	—	—	—	—	n/a	—	—
	ECL £m	—	—	—	—	—	—	n/a	—	—
Total Drawn	Exposure £m	9,560	513	1,137	890	4,961	198	n/a	966	18,225
	ECL £m	284	6	22	48	27	31	n/a	59	477
Undrawn	ECL £m	19	—	8	6	—	4	n/a	2	39
Total Reported	Exposure £m	10,323	625	1,116	937	4,961	199	n/a	966	19,127
	ECL £m	303	6	30	54	27	35	n/a	61	516

Where balances satisfy more than one of the criteria above for determining a SICR, we have assigned the corresponding gross carrying amount and ECL 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, 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
2023	**£m**	**£m**	**£m**	**£m**	**£m**
Retail and Business Banking[1][2]	**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[3]			**5,924**		
Total assets per the Consolidated Balance Sheet			**275,448**		
2022					
Retail and Business Banking[1][2]	191,836	502	191,334	21,721	42
Consumer Finance	5,384	67	5,317	356	—
Corporate & Commercial Banking	18,518	362	18,156	9,759	32
Corporate Centre	58,710	—	58,710	—	—
Total exposures presented in Credit Quality tables	274,448	931	273,517	31,836	74
Joint ventures			4,164		
Other items			745		
Adjusted net carrying amount			278,426		
Assets classified at FVTPL			2,536		
Non-financial assets[3]			4,251		
Total assets per the Consolidated Balance Sheet			285,213		

(1) Off-balance sheet exposures include offers in the pipeline and undrawn flexible mortgages products.
(2) Off-balance sheet exposures include credit cards.
(3) Non-financial assets include £632m (2022: £2,657m) of Macro hedge of interest rate risk.

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] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m
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
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
At 1 January 2022	292,366	132	17,964	330	3,017	403	313,347	865
Transfers from Stage 1 to Stage 2[3]	(9,100)	(25)	9,100	25	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	7,207	133	(7,207)	(133)	—	—	—	—
Transfers to Stage 3[3]	(621)	(4)	(624)	(32)	1,245	36	—	—
Transfers from Stage 3[3]	10	1	758	150	(768)	(151)	—	—
Transfers of financial instruments	(2,504)	105	2,027	10	477	(115)	—	—
Net ECL remeasurement on stage transfer[4]	—	(110)	—	98	—	110	—	98
Change in economic scenarios[2]	—	37	—	123	—	3	—	163
New lending and assets purchased[5]	48,194	42	1,119	76	64	24	49,377	142
Redemptions, repayments and assets sold[7]	(54,546)	(35)	(2,065)	(60)	(950)	(35)	(57,561)	(130)
Changes in risk parameters and other movements[6]	918	(1)	82	(61)	375	86	1,375	24
Assets written off[7]	—	—	—	—	(254)	(157)	(254)	(157)
At 31 December 2022	284,428	170	19,127	516	2,729	319	306,284	1,005
Net movement in the period	(7,938)	38	1,163	186	(288)	(84)	(7,063)	140
ECL charge/(release) to the Income Statement		38		186		73		297
Less: Discount unwind		—		—		(13)		(13)
Less: Recoveries net of collection costs		—		—		36		36
Total ECL charge/(release) to the Income Statement		38		186		96		320

(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.

	2023						2022					
		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	—	—	3.1	—	0.1	3.2	—	—	2.3	—	0.1	2.4
Spain	—	—	—	—	—	—	—	—	—	—	—	—
France	0.1	1.7	0.8	—	—	2.6	0.1	0.8	0.5	—	—	1.4
Germany	—	0.2	0.3	—	—	0.5	—	0.3	—	—	0.1	0.4
Luxembourg	—	—	0.5	—	0.1	0.6	—	—	—	—	—	—
Other[3]	0.3	0.7	—	—	—	1.0	0.3	0.5	—	—	—	0.8
	0.4	2.6	4.7	—	0.2	7.9	0.4	1.6	2.8	—	0.2	5.0
Other countries												
UK	38.5	1.7	6.5	206.0	25.0	277.7	44.1	1.8	5.8	217.3	26.9	295.9
US	—	0.7	—	—	—	0.7	0.1	0.9	0.1	—	—	1.1
Japan	2.0	0.9	—	—	—	2.9	1.1	0.3	—	—	—	1.4
Switzerland	2.1	—	—	—	—	2.1	1.2	—	—	—	—	1.2
Other	0.1	1.2	0.2	0.1	0.7	2.3	0.1	0.7	0.2	—	0.5	1.5
	42.7	4.5	6.7	206.1	25.7	285.7	46.6	3.7	6.1	217.3	27.4	301.1
Total	43.1	7.1	11.4	206.1	25.9	293.6	47.0	5.3	8.9	217.3	27.6	306.1

(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) Includes The Netherlands £0.3bn (2022: £0.1bn), Belgium £0.5bn (2022: £0.6bn), and Finland £0.1bn (2022: £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 2023 and 31 December 2022, we had gross balances with other Banco Santander group members as follows:

	2023				2022			
	Financial institutions				Financial institutions			
	Banks	Other	Corporate	Total	Banks	Other	Corporate	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Assets								
Spain	0.8	—	—	0.8	1.4	—	—	1.4
UK	—	4.6	—	4.6	—	4.2	—	4.2
	0.8	4.6	—	5.4	1.4	4.2	—	5.6
Liabilities								
Spain	1.1	0.1	—	1.2	1.7	0.1	—	1.8
UK	—	14.3	—	14.3	—	15.6	—	15.6
	1.1	14.4	—	15.5	1.7	15.7	—	17.4

RETAIL AND BUSINESS BANKING – CREDIT RISK REVIEW

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

RETAIL AND 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			
	2023		2022		**2023**		2022	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Home movers[1]	**71,931**	**42**	76,357	41	**5,009**	**41**	12,221	36
Remortgagers[2]	**48,475**	**28**	53,190	29	**3,901**	**32**	10,644	31
First-time buyers	**36,868**	**21**	37,971	21	**3,015**	**25**	8,129	24
Buy-to-let	**15,585**	**9**	16,799	9	**239**	**2**	3,133	9
	172,859	**100**	184,317	100	**12,164**	**100**	34,127	100

(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.

As well as the new business in the table above, there were £31.2bn (2022: £24.9bn) of remortgages where we moved our customers with maturing mortgages onto new ones. We also provided £0.7bn (2022: £1.2bn) of further advances and flexible mortgage drawdowns. 77% (2022: 81%) of customers with a maturing mortgage were retained, which applied to mortgages four months post maturity, based on a 12-month average of retention rates to September 2023 and December 2022 respectively.

2023 compared to 2022
In 2023, mortgage asset stock decreased across all sectors, with the stock borrower profile unchanged. Our new business also decreased, particularly in the Buy-to-Let sector reflecting market conditions where landlords' appetite to expand their portfolios reduced. In 2023, we helped first-time buyers buy their new home with £3.0bn of gross lending (2022: £8.1bn).

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

	2023		2022	
	£m	**%**	£m	%
Fixed rate	**153,207**	**89**	163,622	89
Of which maturing:				
– < 12 months	**37,630**	**22**	38,233	21
– Later than 1 year but no later than 3 years	**65,502**	**38**	38,213	21
– Later than 3 years but no later than 4 years	**34,725**	**20**	24,310	13
– Later than 4 years but no later than 5 years	**10,977**	**6**	24,888	14
– Later than 5 years	**4,373**	**3**	37,978	21
Variable rate	**13,761**	**8**	12,430	7
Standard Variable Rate (SVR)	**3,915**	**2**	5,645	3
Follow on Rate (FoR)	**1,976**	**1**	2,620	1
	172,859	**100**	184,317	100

2023 compared to 2022
In 2023, we continued to see customers refinance from reversion to fixed rate products influenced by rapid increases in interest rates, with a slight increase in demand for variable rate products tracking the Bank of England base rate. We also saw more customers choosing shorter-term fixed rate products in 2023.

Geographical distribution (audited)

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

	Stock		New business	
	2023	2022	**2023**	2022
Region	**£bn**	£bn	**£bn**	£bn
London	**44.0**	47.0	**2.9**	8.3
Midlands and East Anglia	**24.2**	25.6	**1.8**	5.3
North	**22.9**	24.4	**1.7**	4.7
Northern Ireland	**2.6**	2.9	**0.1**	0.3
Scotland	**6.4**	6.8	**0.6**	1.2
South East excluding London	**54.8**	58.4	**3.8**	10.6
South West, Wales and other	**18.0**	19.2	**1.3**	3.7
	172.9	184.3	**12.2**	34.1

2023 compared to 2022

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 2.98 (2022: 3.35).

Mortgage loan size (audited)

The split of our mortgage asset by size was:

Mortgage loan size	2023	2022
>£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)	**£187k**	£183k
Average loan size (new business)	**£228k**	£237k

(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.

	2023					2022				
	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%	**78,673**	**31**	**1,106**	**12**	**2,616**	87,379	37	1,111	14	4,890
>50-60%	**32,837**	**24**	**347**	**10**	**1,604**	35,664	29	283	11	4,014
>60-70%	**30,874**	**40**	**246**	**16**	**1,977**	33,868	50	197	16	6,104
>70-80%	**18,721**	**48**	**138**	**19**	**2,736**	17,824	45	110	15	10,094
>80-90%	**8,893**	**35**	**67**	**15**	**2,318**	7,339	29	42	9	6,002
>90-100%	**2,416**	**20**	**39**	**11**	**900**	1,873	17	32	9	2,999
>100%	**445**	**44**	**65**	**25**	**13**	370	45	52	21	24
	172,859	**242**	**2,008**	**108**	**12,164**	184,317	252	1,827	95	34,127
Collateral value (1)	**172,803**		**1,997**		**12,164**	184,269		1,818		34,126
	%		**%**		**%**	%		%		%
Average LTV - Balance weighted(2)	**51**		**49**		**66**	50		47		69

(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 £389m (2022: £323m).
(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 65% (2022: 66%). £45bn of new business and internal transfers were re-priced in 2023 and a further £39bn will reach the end of the incentive period by the end of 2024. Arrears from recent internal transfers remain low, with less than 1% of customers entering arrears within 12 months. 85% of lending is prime UK retail mortgages with an average new loan size of £228k (2022: £237k). Unsecured retail constitutes 3% of lending.

2023 compared to 2022

There were no significant changes in collateral quality in 2023. Despite economic pressures, balance weighted average LTVs of stock were broadly flat over the period. Balance weighted average LTVs of new business reduced in 2023 driven by proportionally more lending at LTV<=60%. We monitor the profile of new lending and take action as needed to ensure the LTV mix of completions is in line with our risk appetite.

Credit performance (audited)

	2023 £m	2022 £m
Mortgage loans and advances to customers	**172,859**	184,317
of which:		
– Stage 1	**152,975**	169,066
– Stage 2	**17,876**	13,424
– Stage 3	**2,008**	1,827
Loss allowances[1]	**242**	251
	%	%
Stage 1 ratio[2]	**88.50**	91.73
Stage 2 ratio[2]	**10.34**	7.28
Stage 3 ratio	**1.17**	1.00

(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 67 also apply to these tables.

	Stage 1		Stage 2		Stage 3		Total	
	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m
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**
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**
At 1 January 2022	177,696	13	11,152	88	1,815	89	190,663	190
Transfers from Stage 1 to Stage 2[3]	(5,834)	(1)	5,834	1	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	2,961	16	(2,961)	(16)	—	—	—	—
Transfers to Stage 3[3]	(278)	(2)	(448)	(11)	726	13	—	—
Transfers from Stage 3[3]	4	—	279	9	(283)	(9)	—	—
Transfers of financial instruments	(3,147)	13	2,704	(17)	443	4	—	—
Net ECL remeasurement on stage transfer[4]	—	(15)	—	40	—	8	—	33
Change in economic scenarios[2]	—	1	—	21	—	2	—	24
New lending and assets purchased[5]	35,028	7	529	11	1	—	35,558	18
Redemptions, repayments and assets sold[7]	(32,565)	(3)	(1,229)	(11)	(415)	(12)	(34,209)	(26)
Changes in risk parameters and other movements[6]	(47)	9	377	(1)	14	7	344	15
Assets written off[7]	—	—	—	—	(10)	(3)	(10)	(3)
At 31 December 2022	176,965	25	13,533	131	1,848	95	192,346	251
Net movement in the period	(731)	12	2,381	43	33	6	1,683	61
ECL charge/(release) to the Income Statement		12		43		9		64
Less: Discount unwind		—		—		(2)		(2)
Less: Recoveries net of collection costs		—		—		(1)		(1)
Total ECL charge/(release) to the Income Statement		12		43		6		61

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.

	2023 £m	2022 £m
Financial assets modified in the period:		
– Amortised cost before modification	**346**	315
– Net modification loss	**5**	7
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	**79**	91

The balances at 31 December 2023 and 31 December 2022, analysed by their staging at the period-end and the forbearance we applied, were:

2023	Capitalisation £m	Term extension £m	Interest-only £m	Concessionary interest rate £m	Total £m	Loss allowances £m
Stage 2	**325**	**386**	**211**	**11**	**933**	**7**
Stage 3	**284**	**150**	**64**	**171**	**669**	**30**
	609	**536**	**275**	**182**	**1,602**	**37**
Proportion of portfolio	**0.3%**	**0.3%**	**0.2%**	**0.1%**	**0.9%**	
2022						
Stage 2	309	319	240	6	874	11
Stage 3	298	140	65	190	693	31
	607	459	305	196	1,567	42
Proportion of portfolio	0.3%	0.3%	0.2%	0.1%	0.9%	

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

At 31 December 2023, the proportion of the mortgage portfolio in forbearance remained flat at 0.9% (2022: 0.9%) and the proportion of accounts in forbearance for more than six months that had made their last six months' contractual payments was 81% (2022: 85%). The weighted average LTV of all accounts in forbearance was 44% (2022: 43%) compared to the weighted average portfolio LTV of 51% (2022: 50%)

At 31 December 2023, the carrying value of mortgages classified as multiple forbearance decreased to £121m (2022: £152m).

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.

	2023 Term extension £m	2023 Interest-only £m	2022 Term extension £m	2022 Interest-only £m
Stage 1	**120**	**1,166**	n/a	n/a
Stage 2	**30**	**500**	n/a	n/a
Stage 3	**2**	**18**	n/a	n/a
	152	**1,684**	n/a	n/a

At 31 December 2023, there were £1.6bn (2022: £1.9bn) of other mortgages on the balance sheet that we had modified since January 2008. At 31 December 2023, the average LTV was 24% (2022: 24%), and 93% (2022: 94%) of accounts had made their last six months' contractual payments. The proportion of accounts that were 90 days or more in arrears was 1.74% (2022: 1.53%).

There were no other loan modifications made in 2023 and 2022.

RETAIL AND BUSINESS BANKING: MORTGAGES – PORTFOLIOS OF PARTICULAR INTEREST

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 £250k. 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 used 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 £250k. We manage communications and extension options in similar ways to those used 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 impacts related to the frequency and scale of extreme weather events, such as flood and subsidence risk or changing environmental performance standards for property. In 2023 we reviewed the proportion of mortgage loans subject to flood and subsidence risk and concluded that the risk was not material. The terms of our mortgage lending require homeowners to buy suitable insurance which transfers the majority of the risk to asset valuations to third party insurers.

Credit performance (audited)

		Portfolio of particular interest[1]					
	Total	Interest-only	Part interest-only, part repayment[2]	Flexible	LTV >100%	Buy-to-let	Other portfolio
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Mortgage portfolio	**172,859**	**38,825**	**12,584**	**5,418**	**445**	**15,585**	**118,981**
– Stage 1	**152,975**	**32,012**	**10,896**	**4,420**	**276**	**13,887**	**107,834**
– Stage 2	**17,876**	**5,829**	**1,449**	**744**	**104**	**1,647**	**10,402**
– Stage 3	**2,008**	**984**	**239**	**254**	**65**	**51**	**745**
Stage 3 ratio	**1.17%**	**2.55%**	**1.90%**	**5.01%**	**14.57%**	**0.33%**	**0.63%**
Properties in possession	**23**	**12**	**3**	**2**	**5**	**1**	**8**
Balance weighted LTV (indexed)	**51%**	**48%**	**51%**	**37%**	**116%**	**60%**	**53%**
2022							
Mortgage portfolio	184,317	40,825	13,510	6,765	370	16,799	126,996
– Stage 1	169,066	35,702	12,143	5,713	217	15,884	118,507
– Stage 2	13,424	4,250	1,149	839	101	876	7,791
– Stage 3	1,827	873	218	213	52	39	698
Stage 3 ratio	1.00%	2.16%	1.62%	3.45%	13.94%	0.23%	0.55%
Properties in possession	47	18	8	3	7	1	16
Balance weighted LTV (indexed)	50%	47%	49%	36%	117%	58%	52%

(1) Where a loan falls into more than one category, we include it in all the categories that apply. As a result, the sum of the mortgages in the segments of particular interest and the other portfolio does not agree to the total mortgage portfolio.
(2) Mortgage balance includes both the interest-only part of £9,531m (2022: £10,010m) and the non-interest-only part of the loan.

2023 compared to 2022

In 2023, the combined total proportion of interest-only loans, part interest-only, part repayment loans and flexible loans was broadly stable at 32.9% (2022: 33.1%).

BTL mortgage balances decreased £1.2bn to £15.6bn (2022: £16.8bn) driven by our strategy to deleverage our mortgage portfolio and changes in the market dynamic. In 2023, the balance weighted average LTV of mortgage total new BTL lending was 58% (2022: 67%).

Forbearance[1] (audited)

The balances at 31 December 2023 and 31 December 2022 were:

	Interest-only[2]	Flexible	LTV >100%	Buy-to-Let
2023	**£m**	**£m**	**£m**	**£m**
Total	**365**	**74**	**12**	**23**
– Stage 2	**216**	**55**	**3**	**16**
– Stage 3	**149**	**19**	**9**	**7**
2022				
Total	290	36	9	15
– Stage 2	111	19	—	11
– Stage 3	179	17	9	4

(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.

2023 compared to 2022

Forbearance levels increased slightly although were lower than expected in 2023, with customers having the option to move to a temporary interest-only conversion under the Mortgage Charter.

RETAIL AND BUSINESS BANKING: EVERYDAY BANKING – CREDIT RISK REVIEW

Credit performance (audited)

		Other unsecured				
	Business banking	Personal loans	Credit cards	Overdrafts	Total other unsecured	Total
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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**				**37**	**39**
Stage 3 ratio	**7.25 %**				**2.65 %**	**3.83 %**
Gross write-offs (12 months)	**11**				**119**	**130**
2022						
Loans and advances to customers	2,519	1,982	2,558	461	5,001	7,520
of which:						
– Stage 1	2,223	1,730	2,192	155	4,077	6,300
– Stage 2	133	231	329	282	842	975
– Stage 3	163	21	37	24	82	245
Loss allowances[1]	19	62	130	82	274	293
Stage 3 undrawn exposures	3				32	35
Stage 3 ratio	6.58 %				2.27 %	3.71 %
Gross write-offs (12 months)	11				99	110

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

2023 compared to 2022

Business Banking balances were lower, mainly due to reductions in the Bounce Back Loans (BBL) portfolio. Stage 3 assets reduced, although this had a minimal impact on write-offs as the reduction in assets was mainly due to the BBLs where the 100% government guarantee was claimed. Stage 2 and 3 unsecured assets and write-offs increased reflecting the current economic environment. However, these rates are yet to exceed long run averages. 55% (2022: 55%) of credit card customers repay their balance in full each month and UPL average customer balances remained unchanged at £6,000.

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.

2023	Business banking £m	Credit cards £m	Overdrafts £m	Total £m
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**
2022				
Financial assets modified in the period:				
– Amortised cost before modification	—	7	7	14
– Net modification loss	—	7	6	13
Financial assets modified since initial recognition:				
– Gross carrying amount of financial assets for which the loss allowance changed to 12m ECL in the period	—	3	1	4

The balances at 31 December 2023 and 31 December 2022 were:

		Other unsecured				
2023	**Business banking £m**	**Personal loans £m**	**Credit cards £m**	**Overdrafts £m**	**Total other unsecured £m**	**Total £m**
Total	**3**	**1**	**47**	**19**	**67**	**70**
– Stage 2	**—**	**1**	**5**	**2**	**8**	**8**
– Stage 3	**3**	**—**	**42**	**17**	**59**	**62**
2022						
Total	3	1	34	16	51	54
– Stage 2	—	1	6	2	9	9
– Stage 3	3	—	28	14	42	45

Other loan modifications

There were no other loan modifications made in 2023 and 2022.

CONSUMER FINANCE – CREDIT RISK REVIEW

Credit performance (audited)

	2023 £m	2022 £m
Loans and advances to customers	**5,228**	5,384
of which:		
– Stage 1	**4,870**	5,005
– Stage 2	**330**	350
– Stage 3	**28**	29
Loss allowances[1]	**70**	67
Stage 3 ratio	**0.53 %**	0.54 %
Gross write-offs	**23**	19

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

2023 compared to 2022
In 2023, we maintained our prudent Consumer (auto) finance underwriting criteria. The product mix was broadly unchanged, with wholesale balances increasing slightly.

At 31 December 2023, Consumer (auto) finance gross lending (new business) was £2,055m (2022: £2,519m). Wholesale loans (Stock finance) to car dealerships at 31 December 2023 were approximately 9.9% (2022: 10.1%) of the Consumer loan book. At 31 December 2023, the average Consumer (auto) finance loan size was £17,308 (2022: £17,256).

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
There were no accounts in forbearance at 31 December 2023 and 31 December 2022.

Other loan modifications
There were no other loan modifications made in 2023 and 2022.

The gross carrying amount of financial assets for which the ECL allowance changed to a 12-month measurement at 31 December 2023 was £30m (2022: £95m).

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 67 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 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**

	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 2022	20,604	50	5,914	127	827	248	27,345	425
Transfers from Stage 1 to Stage 2[3]	(2,195)	(14)	2,195	14	—	—	—	—
Transfers from Stage 2 to Stage 1[3]	4,023	92	(4,023)	(92)	—	—	—	—
Transfers to Stage 3[3]	(172)	(1)	(111)	(13)	283	14	—	—
Transfers from Stage 3[3]	—	—	463	135	(463)	(135)	—	—
Transfers of financial instruments	1,656	77	(1,476)	44	(180)	(121)	—	—
Net ECL remeasurement on stage transfer[4]	—	(72)	—	(41)	—	61	—	(52)
Change in economic scenarios[2]	—	38	—	76	—	—	—	114
New lending and assets purchased[5]	8,629	16	228	19	43	12	8,900	47
Redemptions, repayments and assets sold[7]	(9,019)	(15)	(584)	(32)	(53)	(17)	(9,656)	(64)
Changes in risk parameters and other movements[6]	1,968	(11)	(194)	(27)	21	(14)	1,795	(52)
Assets written off [7]	—	—	—	—	(86)	(24)	(86)	(24)
At 31 December 2022	23,838	83	3,888	166	572	145	28,298	394
Net movement in the period	3,234	33	(2,026)	39	(255)	(103)	953	(31)
ECL charge/(release) to the Income Statement		33		39		(79)		(7)
Less: Discount unwind		—		—		(3)		(3)
Less: Recoveries net of collection costs		—		—		42		42
Total ECL charge/(release) to the Income Statement		33		39		(40)		32

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. The derivative and other treasury product exposures (classified under 'Financial Institutions') are also typically lower than the asset balances, because we show our overall risk exposure which takes into account our procedures to mitigate credit risk including netting. The balances on our balance sheet only reflect the more restrictive netting permitted by IAS 32.

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[1]	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m
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
2022									
SME and mid corporate	—	336	923	2,341	3,299	5,327	1,791	106	14,123
Commercial Real Estate	—	2	111	2,044	2,128	936	185	1	5,407
Social Housing	44	4,028	3,956	6	—	—	—	—	8,034
	44	4,366	4,990	4,391	5,427	6,263	1,976	107	27,564
Of which:									
Stage 1	39	4,364	4,944	4,202	4,773	4,289	386	107	23,104
Stage 2	5	2	46	189	654	1,974	1,018	—	3,888
Stage 3	—	—	—	—	—	—	572	—	572

(1) Smaller exposures mainly in the commercial mortgage portfolio. We use scorecards for them, instead of a rating model.

2023 compared to 2022

In 2023, committed exposure reduced by 5.7% , driven by reductions in the SME and mid corporate portfolios, which was down by 10.2%. The rating distribution saw an improvement in the SME and mid corporate portfolios, with Commercial Real Estate broadly stable.

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 2023 and 31 December 2022 this is mainly focused in the UK.

Credit risk mitigation (audited)

	Gross exposure	Collateral	Net exposure
	Stage 3	Stage 3	Stage 3
2023	£m	£m	£m
SME and mid corporate	627	190	437
Commercial Real Estate	118	28	90
	745	218	527
2022			
SME and mid corporate	513	169	344
Commercial Real Estate	59	30	29
	572	199	373

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 2023 and 31 December 2022.

	Committed exposure					
		Watchlist				
	Fully performing	Enhanced monitoring	Proactive management	Stage 3	Total[1]	Loss allowances
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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**
2022						
SME and mid corporate	11,796	431	1,383	513	14,123	355
Commercial Real Estate	4,765	103	480	59	5,407	38
Social Housing	7,978	46	10	—	8,034	1
	24,539	580	1,873	572	27,564	394

(1) Includes committed facilities and derivatives.

2023 compared to 2022

In 2023, Watchlist exposures increased, however the overall quality improved with reductions seen in Enhanced Monitoring of 18.6%. An increase in Proactive Management of 14.6% was driven by a small number of larger exposures in Social Housing which have been downgraded to Proactive Management following concerns raised by the Social Housing regulators rather than credit concerns.

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.

	2023	2022
	£m	£m
Financial assets modified in the period:		
– Amortised cost before modification	**189**	240
– Net modification loss	**10**	8
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	**27**	15

We only make forbearance arrangements for lending to customers. The balances at 31 December 2023 and 31 December 2022, analysed by their staging at the period–end and the forbearance we applied, were:

	2023	2022
	£m	£m
Stock[1]		
– Term extension	**113**	98
– Interest-only	**215**	238
– Other payment rescheduling	**264**	219
	592	555
Of which:		
– Stage 1	**2**	17
– Stage 2	**159**	173
– Stage 3	**431**	365
	592	555
Proportion of portfolio	**2.3%**	2.0%

(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

Credit risk arises on both on- and off–balance sheet transactions, e.g. derivatives.

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[1]	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign and Supranational	**42,552**	**1,896**	**—**	**—**	**—**	**—**	**—**	**—**	**44,448**
Structured Products	**170**	**1,470**	**787**	**—**	**—**	**—**	**—**	**—**	**2,427**
Financial Institutions	**1,167**	**665**	**393**	**7**	**—**	**—**	**—**	**—**	**2,232**
	43,889	**4,031**	**1,180**	**7**	**—**	**—**	**—**	**—**	**49,107**
Of which:									
Stage 1	**43,889**	**4,031**	**1,180**	**7**	**—**	**—**	**—**	**—**	**49,107**
Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
2022									
Sovereign and Supranational	47,040	1,077	—	—	—	—	—	—	48,117
Structured Products	136	1,162	875	—	—	—	—	—	2,173
Financial Institutions	1,191	672	521	26	—	—	—	—	2,410
	48,367	2,911	1,396	26	—	—	—	—	52,700
Of which:									
Stage 1	48,367	2,911	1,396	26	—	—	—	—	52,700
Stage 2	—	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—	—

(1) Smaller exposures mainly in the commercial mortgage portfolio. We use scorecards for them, instead of a rating model.

2023 compared to 2022

Committed exposures reduced by 6.8% mainly driven by UK Sovereign and Supranational exposures, as part of normal liquid asset portfolio management, which reduced by 7.6%. The portfolio profile remained short-term, reflecting the purpose of the holdings.

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.

	2023					2022				
	UK	Europe	US	Rest of World	Total	UK	Europe	US	Rest of World	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sovereign and Supranational	**39,581**	**2,063**	**—**	**2,804**	**44,448**	43,936	1,886	83	2,212	48,117
Structured Products	**1,430**	**243**	**—**	**754**	**2,427**	1,379	422	4	368	2,173
Financial Institutions	**884**	**968**	**186**	**194**	**2,232**	988	1,005	230	187	2,410
	41,895	**3,274**	**186**	**3,752**	**49,107**	46,303	3,313	317	2,767	52,700

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 2023 and 31 December 2022.

Loan modifications (audited)

There were no loan modifications made in 2023 and 2022.

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 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 159% (2022: 157%)

RFB DoLSub NSFR of 136% (2022: 135%)

RFB DoLSub LCR of 157% (2022: 152%)

Wholesale funding with maturity <1 year £11.9bn (2022: £11.0bn)

RFB DoLSub LCR eligible liquidity pool of £48.3bn (2022: £46.3bn)

OUR KEY LIQUIDITY RISKS (audited)

Through our Liquidity Risk Appetite (LRA) framework, we manage our funding or structural contingent and market liquidity risks wherever they arise. This can be in retail and corporate deposit outflows, wholesale secured and unsecured liquidity outflows 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, 26 and 27 in 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 manage, consolidate 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 in Retail and Business Banking, Consumer Finance and Corporate & Commercial Banking, 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. We also use liquidity to pay for business combinations.

LIQUIDITY RISK MANAGEMENT

Introduction
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 metrics that show the difference between cash and collateral inflows and outflows in different periods. They also include structural metrics, such as our level of encumbered assets.

Ongoing business management

Within our framework of prudent funding and liquidity management, we manage our activities to our liquidity risk appetite. 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. These are considered 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 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 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.

We monitor our LCR and our Net Stable Funding Ratio (NSFR) to ensure we continue to meet the requirements.

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. They are 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 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 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 our resolution readiness is maintained and enhanced on an ongoing basis. In October 2023, we submitted our second resolvability self-assessment report to the PRA. This builds on the first self-assessment report submitted in October 2021, as summarised in our June 2022 resolvability public disclosure. The next resolvability public disclosures by the Bank of England and Santander UK are due in June 2024.

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 2023 and 31 December 2022.

RFB DoLSub LCR[2]	2023 £bn	2022 £bn
Eligible liquidity pool (liquidity value)[1]	**47.8**	46.2
Net stress outflows	**(30.4)**	(30.4)
Surplus	**17.4**	15.8
Eligible liquidity pool as a percentage of anticipated net cash flows	**157 %**	152 %

(1) The liquidity value is calculated as applying an applicable haircut to the carrying value.
(2) The RFB LCR was 159% (2022: 157%).

LCR eligible liquidity pool

This table shows the carrying value of our eligible liquidity pool assets at 31 December 2023 and 31 December 2022. It also shows the weighted average carrying value in the year.

RFB DoLSub	Carrying value						Weighted average carrying value in the year	
	2023			2022			2023	2022
	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	**36.1**	**—**	**36.1**	42.1	—	42.1	**38.6**	43.5
Government bonds	**8.7**	**0.3**	**9.0**	2.9	—	2.9	**6.8**	3.8
Supranational bonds and multilateral development banks	**0.3**	**—**	**0.3**	0.3	—	0.3	**0.1**	0.1
Covered bonds	**1.2**	**1.0**	**2.2**	0.1	0.9	1.0	**1.7**	0.9
Asset-backed securities	**—**	**0.7**	**0.7**	—	—	—	**0.4**	0.1
	46.3	**2.0**	**48.3**	45.4	0.9	46.3	**47.6**	48.4

Term duration in the LCR eligible liquidity pool is hedged with swaps to offset mark to market movements from interest rate changes.

Currency analysis

This table shows the carrying value of our eligible liquidity pool by major currencies at 31 December 2023 and 31 December 2022. 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
2023	**2.4**	**1.1**	**44.0**	**0.8**	**48.3**
2022	0.8	1.3	44.2	—	46.3

RFB DoLSub Net Stable Funding Ratio (NSFR)

	2023 %	2022 %
RFB DoLSub NSFR	**136**	135

2023 compared to 2022

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 2023 and 31 December 2022, the LCR and NSFR significantly exceeded regulatory requirements.

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 are prioritised. We also have checks and 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 2023, 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.

Reconciliation of wholesale funding to the balance sheet (audited)
This table reconciles our wholesale funding to our balance sheet at 31 December 2023 and 31 December 2022.

		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]
2023	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
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	**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**
2022								
Deposits by banks	0.5	0.5	—	—	—	—	—	—
Certificates of deposit and commercial paper	4.7	—	—	—	—	4.7	—	—
Senior unsecured – public benchmark	14.3	—	4.6	—	—	9.7		—
– privately placed	0.6	—	0.1	—	0.4	0.1	—	—
Covered bonds	14.9	—	—	—	—	14.9	—	—
Securitisation and structured issuance	1.0	—	—	—	—	1.0	—	—
TFSME	25.0	25.0	—	—	—	—	—	—
Subordinated liabilities and equity	3.9	—	—	—	—	—	1.9	2.0
Total wholesale funding	64.9	25.5	4.7	—	0.4	30.4	1.9	2.0
Repos	8.0	—	—	8.0	—	—	—	—
Foreign exchange and hedge accounting	1.6	—	0.1	—	—	1.1	0.4	—
Other	3.4	3.0	—	—	0.4	—	—	—
Balance sheet total	77.9	28.5	4.8	8.0	0.8	31.5	2.3	2.0

(1) Consists of Perpetual Capital Securities. See Note 33 to the Consolidated Financial Statements.
(2) This is included in our balance sheet total of 190,850m(2022: £195,568m).
(3) Other consists of items in the course of transmission and other deposits. See Note 24 to the Consolidated Financial Statements.

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 39 to the Consolidated Financial Statements.

2023	≤ 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	—	1.6	—	—	—	1.6	2.4	6.8	0.4	11.2
– privately placed	—	—	—	—	—	—	—	0.1	—	0.1
Subordinated liabilities and equity (incl. AT1)	—	—	0.5	—	—	0.5	0.8	1.3	0.9	3.5
	—	1.6	0.5	—	—	2.1	3.2	8.2	1.3	14.8
Other Santander UK plc										
Deposits by banks	0.3	0.8	—	—	—	1.1	—	—	—	1.1
Certificates of deposit and commercial paper	1.0	3.3	—	—	—	4.3	—	—	—	4.3
Senior unsecured – public benchmark	—	0.6	0.2	—	—	0.8	0.4	—	0.3	1.5
– privately placed	—	—	—	0.1	—	0.1	0.1	0.2	0.3	0.7
Covered bonds	0.1	1.0	0.9	0.4	1.0	3.4	1.1	9.2	1.1	14.8
Securitisation & structured issuance[2]	—	—	—	—	0.1	0.1	—	2.1	—	2.2
TFSME	—	—	—	—	—	—	17.0	—	—	17.0
Subordinated liabilities	—	—	—	—	—	—	—	—	0.7	0.7
	1.4	5.7	1.1	0.5	1.1	9.8	18.6	11.5	2.4	42.3
Other group entities										
Securitisation & structured issuance[3]	—	—	—	—	—	—	0.5	—	—	0.5
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
2022										
Total at 31 December 2022	2.6	5.2	0.5	1.5	1.2	11.0	6.6	42.2	5.1	64.9
Of which:										
– Secured	0.1	1.0	0.2	0.9	—	2.2	3.5	34.0	1.2	40.9
– Unsecured	2.5	4.2	0.3	0.6	1.2	8.8	3.1	8.2	3.9	24.0

(1) 96% 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.

2023 compared to 2022
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.

We repaid £8.0bn of TFSME in 2023 as planned, with £17.0bn outstanding.

At 31 December 2023, 79% (2022:83%) of wholesale funding had a maturity of greater than one year, with an overall residual duration of 35 months (2022: 37 months).

Currency composition of wholesale funds (audited)
This table shows our wholesale funding by major currency at 31 December 2023 and 31 December 2022.

	2023				2022			
	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	23	60	17	—	18	58	24	—
– privately placed	—	—	—	100	—	—	—	100
Subordinated liabilities and equity (incl. AT1)	87	13	—	—	75	25	—	—
	38	48	13	1	27	52	20	1
Other Santander UK plc								
Deposits by banks	1	97	2	—	29	71	—	—
Certificates of deposit and commercial paper	29	70	—	1	56	42	2	—
Senior unsecured – public benchmark	21	56	23	—	18	62	20	—
– privately placed	98	—	2	—	95	—	5	—
Covered bonds	54	5	39	2	43	12	45	—
Securitisation & structured issuance	100	—	—	—	100	—	—	—
TFSME	100	—	—	—	100	—	—	—
Subordinated liabilities	76	24	—	—	48	52	—	—
	71	14	15	—	74	12	14	—
Other group entities								
Securitisation & structured issuance	100	—	—	—	—	—	—	—
Total	63	23	14	—	63	21	16	—

Term issuance (audited)
In 2023, our external term issuance (sterling equivalent) was:

	Sterling	US Dollar	Euro	Other	2023	2022
	£bn	£bn	£bn	£bn	£bn	£bn
Downstreamed from Santander UK Group Holdings plc to Santander UK plc						
Senior unsecured – public benchmark	0.4	1.1	—	—	1.5	3.9
Subordinated debt and equity (inc. AT1)	1.1				1.1	0.8
	1.5	1.1	—	—	2.6	4.7
Other Santander UK plc						
Securitisations and other secured funding	1.5	—	—	—	1.5	0.6
Covered bonds	1.5	—	—	0.3	1.8	4.0
Senior unsecured – public benchmark	—	—	—	—	—	—
Senior unsecured – privately placed	0.3	—	—	—	0.3	0.1
	3.3	—	—	0.3	3.6	4.7
Other group entities						
Securitisations	0.5	—	—	—	0.5	—
Total gross issuances	5.3	1.1	—	0.3	6.7	9.4

In 2023 we issued c£5.6bn medium-term funding across a range of currencies, including c£1.5bn of issuance to Santander UK Group Holdings plc and c£4.1bn of other secured issuance. We also issued £1.1bn of Tier 2 securities which were bought by Santander UK Group Holdings plc.

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. They also include other unencumbered assets that give us a source of contingent liquidity. We do not rely on these extra unencumbered assets in our LRA, but we might use them in a stress. We can create liquidity by using them as collateral for secured funding or through outright sale. This includes excess collateral already in a secured funding structure and collateral pre-positioned at central banks that is available for use in secured funding. 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 26 to the Consolidated Financial Statements.

On-balance sheet encumbered and unencumbered assets (audited)

	Encumbered with counterparties other than central banks				Assets positioned at central banks[3]
	Covered bonds	Securitis-ations	Other	Total	
2023	**£m**	**£m**	**£m**	**£m**	**£m**
Cash and balances at central banks[1][2]	**—**	**—**	**1,480**	**1,480**	**831**
Financial assets at FVTPL:					
– Derivative financial instruments	**—**	**—**	**—**	**—**	**—**
– Other financial assets at FVTPL	**—**	**—**	**—**	**—**	**—**
Financial assets at amortised cost:					
– 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 FVOCI	**—**	**—**	**5,183**	**5,183**	**—**
Interests in other entities	**—**	**—**	**—**	**—**	**—**
Intangible assets	**—**	**—**	**—**	**—**	**—**
Property, plant and equipment	**—**	**—**	**—**	**—**	**—**
Current tax assets	**—**	**—**	**—**	**—**	**—**
Retirement benefit assets	**—**	**—**	**—**	**—**	**—**
Other assets	**—**	**—**	**—**	**—**	**—**
Total assets	**21,880**	**5,208**	**6,990**	**34,078**	**59,320**
2022					
Cash and balances at central banks[1][2]	—	—	1,330	1,330	893
Financial assets at FVTPL:					
– Derivative financial instruments	—	—	—	—	—
– Other financial assets at FVTPL	—	—	—	—	—
Financial assets at amortised cost:					
– Loans and advances to customers	21,304	2,851	56	24,211	68,535
– Loans and advances to banks	—	—	163	163	—
– Repurchase agreements – non trading	—	—	—	—	—
– Other financial assets at amortised cost	—	—	48	48	—
Financial assets at FVOCI	—	—	4,365	4,365	—
Interests in other entities	—	—	—	—	—
Intangible assets	—	—	—	—	—
Property, plant and equipment	—	—	—	—	—
Current tax assets	—	—	—	—	—
Retirement benefit assets	—	—	—	—	—
Other assets	—	—	—	—	—
Total assets	21,304	2,851	5,962	30,117	69,428

(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 15.4% (2022: 15.4%)

Total qualifying regulatory capital of £14.6bn (2022: £14.3bn)

THE SCOPE OF OUR CAPITAL ADEQUACY

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 stress tests without the support of our parent. 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

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, the firm 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 a firm's business model, the firm should meet all regulatory capital minimums at all times. This is subject to using regulatory buffers designed to absorb losses in such a stress.

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.

Risk measurement
We apply Banco Santander's approach to capital measurement and risk management for CRD IV. Santander UK plc is classified as a significant subsidiary of Banco Santander SA. For more on the CRD IV risk measurement of our exposures, see Banco Santander's Pillar 3 report. For more on our capital, see our Additional Capital and Risk Management Disclosures on our website: aboutsantander.co.uk.

Key metrics
The main metrics we use to measure capital risk are CET1 capital ratio and total capital ratio. We continue to be in excess of overall capital requirements, minimum leverage requirements and minimum requirements for own funds and eligible liabilities (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.

In 2022, we developed a Climate Internal Scenario Analysis (CISA) to help understand better the potential impact of climate change on our business portfolios and balance sheet. Since then, we have invested in a strategic solution to deliver capability to run long-term horizon multi-scenario assessments which will inform future strategic decisions and enhance risk management capabilities (CISA Development). The model capability will support in exploring scenarios which would reflect a range of climate outcomes, covering shorter and longer-term (30-year) horizons and reflect physical and transition risks. The CISA outputs will form the basis of 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 take action 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, our risk and capital management policies, 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 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.

At 31 December 2023, 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 entered into on 17 December 2021 and effective from 1 January 2022 (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 31 December 2024. 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 parties to any of the regulated parties in the event that one of the regulated parties 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 mean that adverse CET1 effects from increases in ECL-based provisions from the level of such provisions at 1 January 2018 are 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 take into account the volatility of ECL in our capital planning strategy.

Key capital ratios

	2023 %	2022 %
CET1 capital ratio	**15.4**	15.4
AT1	**2.9**	2.8
Tier 2	**3.2**	2.2
Total capital ratio	**21.5**	20.4

The total subordination available to Santander UK plc senior unsecured bondholders was 21.5% (2022 :20.4%) of RWAs.

Return on assets - profit after tax divided by average total assets was 0.55% (2022: 0.49%).

2023 compared to 2022

The CET1 capital ratio remained stable at 15.4%. Higher profit and a reduction in RWA exposure was partially offset by the dividends paid in 2023.

Regulatory capital resources (audited)

This table shows our qualifying regulatory capital:

	2023 £m	2022 £m
CET1 capital	**10,443**	10,799
AT1 capital	**1,956**	1,956
Tier 1 capital	**12,399**	12,755
Tier 2 capital	**2,172**	1,548
Total regulatory capital(1)	**14,571**	14,303

(1) Capital resources include a transitional IFRS 9 benefit at 31 December 2023 of £43m (2022: £19m).

Risk-weighted assets

Total RWAs at 31 December 2023 were £67.8bn (2022: £70.1bn) which are consistent with our regulatory filings. RWAs decreased with lower mortgage lending and active balance sheet management.

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 £220m and to -100bps was £(220)m (2022: £241m and £(197)m).

Economic Value of Equity (EVE) sensitivity to +100bps was £(299)m and to -100bps was £265m (2022: £(487)m and £635m).

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 and 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 and 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 key non-traded market risks are:

Key risks	Description
Interest rate risk	**Yield curve risk:** 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. **Basis risk:** comes from pricing assets using a different rate index to the liabilities that fund them. We are exposed to basis risks associated with Bank of England bank rate, reserve rate linked assets we deposit with central banks, and the Sterling Overnight Index Average (SONIA) rate. Since the cessation of LIBOR at the end of 2021, basis risk exposure has been immaterial.
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, 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 the losses that we might suffer because of unfavourable changes in the markets under normal (non-stressed) market conditions.
– We run a historical simulation using historical daily price moves to find how much we might lose, normally at a 99% confidence level.

The limitations of VaR
VaR is a useful and important market standard measure of risk, but it does have some limitations. These include:

- VaR assumes what happened in the past is a reliable way to predict what will happen in the future. This may not always be the case
- VaR is based on positions at the end of the business day so it doesn't include intra-day positions
- VaR does not predict how big the loss could be on the 1% of trading days that it is greater than the VaR
- Using a time horizon of one day means VaR does not tell us everything about exposures that we cannot liquidate or hedge within a day, or products with infrequent pricing.

Back-testing – comparing VaR estimates with reality
To check that the way we estimate VaR is reasonable, we back-test our VaR by comparing it against both actual and hypothetical profits and losses, using a one-day time horizon. Back-testing allows us to identify exceptions – times when the predictions were out of line with what happened. We can then look for trends in these exceptions, which can help us decide whether we need to recalibrate our VaR model.

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. We express limits as on how much we could lose in a stress event, and this restricts 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 2023 and 31 December 2022. Sensitivity to parallel shifts represents the amount of risk in a way that we think is both simple and scalable.

	2023		2022	
	+100bps	-100bps	+100bps	-100bps
	£m	£m	£m	£m
NII sensitivity (audited)[1]	**220**	**(220)**	241	(197)
EVE sensitivity	**(299)**	**265**	(487)	635

(1) Based on modelling assumptions of repricing behaviour.

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
2023	£m	£m	£m	£m	£m	£m	£m
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)**	**—**
2022							
Assets	106,980	44,748	79,006	52,489	5,249	14,123	302,595
Liabilities	135,801	30,262	58,526	51,161	3,833	25,023	304,606
Off-balance sheet	31,378	(16,133)	(16,972)	723	3,015	—	2,011
Net gap	2,557	(1,647)	3,508	2,051	4,431	(10,900)	—

Spread risk

The table below shows the risk metrics covering the portfolios of securities we hold for liquidity and investment purposes.

	2023	2022
	£m	£m
VaR	**5**	3
Worst three month stressed loss	**86**	46

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.

2023 compared to 2022

NII Sensitivity is adversely exposed to down-shock scenarios driven by margin compression of core liabilities, offset by the structural position. The 1 year NII sensitivity to a -100bps stress increased slightly to £(220)m (2022: £(197)m).

EVE sensitivity is adversely exposed to rising interest rate scenarios. The sensitivity to a +100bps stress reduced to £(299)m (2022 :£(487)m) mainly reflecting the overall reduction in the structural position relative to non-rate sensitive liabilities.

Spread risks are from the Eligible Liquidity Pool. The increase in the stress result was mainly from increases in covered bond positions. These increased spread income compared with government bonds, and we penalise the increased risk they present by applying larger shocks in our stress scenarios.

TRADED MARKET RISK

We have no significant traded market risk exposure. Our only exposure to traded market risk comes from providing permitted financial services to permitted customers. Our exposures are affected by market movements in interest rates, credit spreads, and foreign exchange rates. Traded market risk can reduce our net income. We hedge risks from client trades, and our books are as close to back-to-back as possible, with market risk hedged with Banco Santander SA or CCPs. This is required by Banking Reform legislation. We have two trading desks. The Link Desk transacts derivatives with our corporate clients that are permitted under the ring-fencing regime. The Retail Structured Products desk (RSP) sells investments to retail investors, through our UK branches and other channels. We calculate market risk capital using standard rules.

The Internal VaR for exposure to traded market risk at 31 December 2023 was less than £1m (2022: 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 and mitigate 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 £980m (2022: £860m)

Funded defined benefit pension scheme accounting surplus was £723m (2022: £1,050m)

OUR KEY PENSION RISKS

Sources of risk

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 key risk factors shown below.

Key risks	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 30 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 30 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

Scheme governance

For details of how the Scheme is governed and operates, see Note 30 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 Pensions Committee 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.
Required Return	This estimates the return required from the Scheme's assets each year to reach a pre-defined funding target by a 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.

The Scheme invests in certain assets whose values are not based on market observable data, such as investments in private equity funds and property. See Note 30 to the Consolidated Financial Statements for more details. 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 was developed in 2021 giving us the capacity to simulate risk exposures over an extended time horizon. We are making further refinements, planned for delivery in 2024. The Trustee adopted a target of net zero by 2050. This target is factored into Trustee 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 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 Pension Risk Forum, ERCC, Pensions Committee 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

2023 compared to 2022
The underlying level of risk in the Scheme was broadly unchanged in 2023. The Scheme gradually reduced illiquid assets and purchased corporate bonds. The reduction in illiquid assets is expected to continue in 2024.

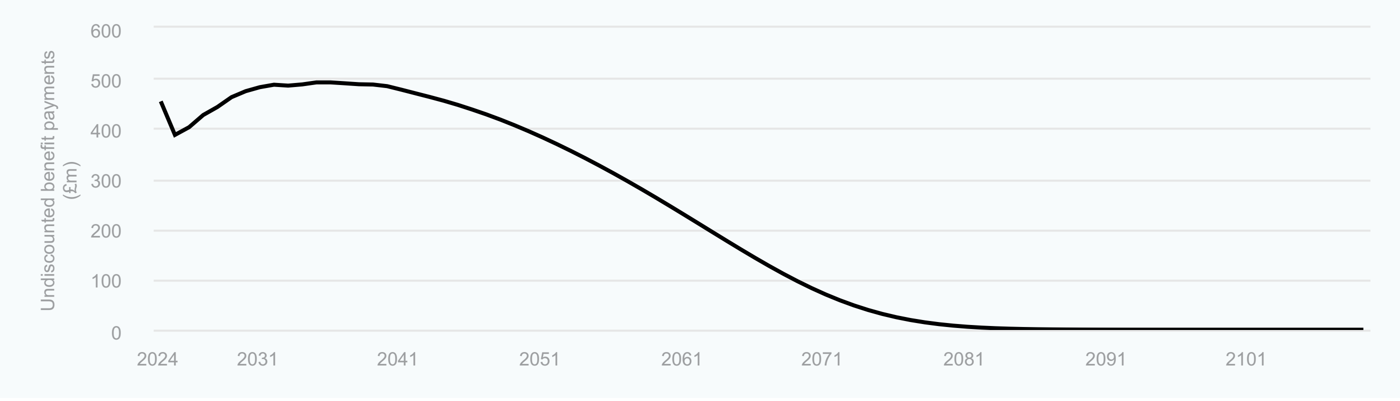
Collateral and liquidity reporting enhancements started in 2022 and continued into 2023. In the second half of 2023, long-term gilt yields reached similar levels to those seen during the gilt market turmoil in the autumn of 2022. The Scheme's collateral and liquidity position were monitored closely. They remained well above trigger levels that would have required consideration of asset sales or other actions.

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.

Accounting position
The accounting position deteriorated in 2023. The Scheme sections in surplus had an aggregate surplus of £723m at 31 December 2023 (2022: £1,050m) while there was one section which had a deficit of £41m at 31 December 2023 (2022: none). The overall funded position was a £682m surplus (2022: £1,050m surplus). There were also unfunded liabilities of £25m at 31 December 2023 (2022: £25m). The overall deterioration was mainly due to the decrease in credit spreads in 2023, which increased the value of the liabilities. 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 30 to the Consolidated Financial Statements.

Maturity profile of undiscounted benefit payments
The Scheme's obligation to make benefit payments extends over the long-term. This is expected to stretch beyond 2080. The graph below shows the maturity profile of the undiscounted benefit payments expected to be paid from the Scheme over its life at 31 December 2023:



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 out of date, ineffective, or inconsistent with our goals. This could happen if we fail to identify threats arising from the economy, regulation, competitors and/or changes in technology and customer expectations. It could also arise 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 key 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

2023 compared to 2022

These risks remain challenging to manage, due to the competitive market environment in both mortgage and savings markets, alongside elevated Government and regulatory focus, given cost of living issues facing customers. In 2024 our focus is shifting from Inflationary and Supply Chain Pressures to the risk of Margin Compression as a Top Risk. Markets are currently indicating a peak in the bank rate cycle, and our ALCO has approved a strategy to manage and mitigate this risk.

Our business environment is constantly changing, and this affects how we do business. In 2023, there were multiple macro challenges, such as low growth worsened by geo-political tensions in Ukraine and the Middle East, high inflation and interest rates. These continued to put pressure on households and caused house prices to fall. Against this backdrop, we proactively contacted 2.5 million customers in 2023 to offer support with the increased cost of living. We also continued to provide help through our Financial Support Hub, financial health checks, budget planning and management tools. We also completed our Transformation programme, which was one of the most ambitious savings programmes in the UK market, with a focus on efficiency to compensate for inflationary pressures. We will now begin the next phase of our transformation with focus on improved customer experience, simplification, automation and digitalisation.

Competitive pressure increased in 2023 as asset and deposit growth stalled. We managed the business for margin and profitability, deleveraging mortgages in a softer market while carefully managing liabilities volumes and pricing. We launched multiple new products taking into account the needs of our customers. These included Edge Up, the only current account in the market to offer cashback on both debit card spending and direct debits, the market leading Easy Access Saver Pulse, the cahoot simple saver, and the new Private current account. We also enhanced our apps so that mortgage customers can track their mortgage application and manage their homes through the My Home Manager function. In Corporate and Commercial Banking, we now support over 1,200 clients with their international growth aspirations through Santander Navigator. This is a portal that allows our clients to identify growth opportunities, navigate bureaucratic challenges and optimises logistics, connecting them with industry experts and key businesses.

We successfully delivered the Consumer Duty mandate for our front book products and are on track to do the same for back book products by July 2024. We continue to face a demanding regulatory agenda and have started multiple projects to ensure regulatory compliance, while keeping good customer outcomes at the heart of everything we do.

We have an ambition to be net zero by 2050. We are working with our customers to ensure that we support them to make the green transition in a fair and equitable way. In 2023, we updated our climate strategy and created a Transition Plan that highlights the action required to reach net zero target by 2050. We also set up a Green Finance taskforce to combine ongoing and future Green Finance initiatives and ensure delivery of our green finance public commitments.

As a result, throughout 2023 we kept our customers at the centre of everything that we do, while building a responsible and sustainable business.

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 Responsible Banking, 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

2023 compared to 2022
Key reputational risks related to the uncertain economic environment and its continued impact on the cost of living. Increased mortgage payments remained a significant issue for our customers so, alongside the measures we put in place for mortgage holders, we also supported the government's Mortgage Charter. More broadly, we continued to proactively contact customers to offer support and help. There was criticism that banks were failing to pass on the increases in the Bank of England base rate to savers. We, therefore, ran campaigns and issued direct communications to customers to advise them of the various products and rates we had available, several of which were market leading.

Operational risk and resilience

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.

Key metrics

Operational risk losses (over £10,000) decreased by 64% in value compared to 2022.

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 principal risks:

Key risks	Description
Business disruption	Business disruption risk refers to risks of our ability to maintain and/or recover the normal day-to-day operation of the organisation, to secure the tangible assets of the bank, and to support continued delivery of good customer outcomes.
Cybersecurity	Cybersecurity risk refers to the risk that Santander UK and its customers' data is not secured from internal and external threats. This could cause operational disruption, unauthorised access, loss or misuse of data, breach of regulations, negative customer outcomes, financial loss or reputational damage. Our extensive reliance on technology to support customers and operate our business requires a strong focus on cybersecurity and data security. This is because cyber criminals target personal data of our customers and employees, and cause disruptions to normal business operations. This focuses the need for resilience against cybersecurity incidents, and our ability to respond and recover swiftly.
Data management	Data management risk refers to the potential threats and challenges related to quality and integrity of data, which can impact business decisions and our strategic outcomes. We use data to serve customers, satisfy our regulatory requirements and run our operations, and if our data is not accurate and timely, this could impact our ability to serve customers, operate with resiliency or meet regulatory requirements.
Financial reporting and Tax	Financial Reporting and Tax risk relates to the risks associated with producing complete and accurate internal and external financial statements, Financial regulatory reporting (including liquidity & capital) as well as the risk that we fail to comply with domestic and international tax regulations, or we report to the tax authorities inaccurately or late.
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	As noted in Cybersecurity, technology is vital to our processes and operations, and in providing service to our customers. IT risk arises from any event related to the use of technology supporting business processes, where the event may result in the unavailability or failure of systems or in processing errors that impact our customers or operations. This includes hardware or software failures, or issues caused by change.
Legal	Legal Risk can arise from 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 party	Third party risk refers to risks to our operational arrangements due to the engagement of third party entities supplying goods or services. Third party risks can arise from both Outsourcing and Non-Outsourcing arrangements.
People	People risks include all risks related to employees and third parties working for us, covering resource management, health, safety and wellbeing and employee relations. People risk is a transverse risk as resource capacity, capability, and engagement challenges impact all risk types. As we develop our working practices and adapt to changing circumstances, people impacts and risks continue to be key considerations.
Transaction and payments processing	The processing of transactions and payments is a critical service to our customers, and failure to process payments and transactions in a complete, accurate and timely manner could result in material customer harm, regulatory scrutiny and material financial loss. We are required to comply with the rules of the payment schemes that we participate in, as well as significant regulatory and legal requirements.
Transformation and Change	Transformation and change risk arises in any activity that transforms our business strategy, operating environment, or products and services we provide to our customers. Management of change risks is an integral part of our governance and our focus, given the potential for impacts across all areas of non financial risk. Failure to manage and execute effectively an appropriate and complete change portfolio to the business could result in operational disruption, poor customer outcomes, financial loss, reputational damage and may impeded our ability to meet regulatory requirements.

OPERATIONAL RISK MANAGEMENT

Our Non Financial Risk (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 control 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.
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. Of primary importance are our business-wide risk appetite indicators 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 place focus on ensuring our colleagues are trained 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 principal 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:

Key risks	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. We appointed a Chief Information Security Officer (CISO). The 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 on all 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.

Emerging threats that could affect future operations and performance are also closely monitored. We take action to mitigate potential risks as and when required. We also carry out further in depth analysis, including stress testing of exposures.

OPERATIONAL RISK REVIEW

2023 compared to 2022

Operational risk event losses

The table below shows our operational losses in 2023 and 2022 for reportable events with an impact over £10,000, by CRD IV loss event types:

	2023		2022	
	Value £m	**Volume %**	Value £m	Volume %
External fraud	**42.7**	**95**	59.2	95
Clients, products and business practices	**6.7**	**1**	52.1	1
Business disruption and systems failures	**—**	**—**	—	—
Execution, delivery, and process management	**1.5**	**4**	28.6	4
	50.9	**100**	139.9	100

Our operational risk losses (events over £10,000) decreased in 2023. We saw a 64% reduction in value and a 29% reduction in volume. In line with general industry trends, the value and volume of losses due to cases of external fraud decreased. We continue to enhance our anti-fraud measures to help protect our customers.

Business disruption

We committed by March 2025 to address the vulnerabilities identified, approved by the Board and submitted to our regulators as part of our operational resilience self-assessments. Achieving this will enhance our resilience, i.e. the ability of Santander UK to recover its Important Business Services (IBS) within Impact Tolerance levels to avoid intolerable harm to customers, or pose a risk to the safety and soundness of the firm, or to the wider market. In 2023, we made progress in identifying the technology assets that are critical to deliver our IBS. We conduct scenario testing and analyse events and incidents directly impacting our IBS. These enable us to identify resilience vulnerabilities among the underlying assets of technology, data, people, third parties, and premises. As we mature and embed our resilience capability, we contributed to industry working groups and actively responded to regulators, providing clear information on our progress.

Cybersecurity

Information and cybersecurity remain a key focus. We experienced no significant data or cybersecurity incidents in 2023, although we responded to a number of third-party incidents affecting our suppliers. We continue to enhance our threat prevention controls and test our business area recovery plans against a range of scenarios. We continue to see increasing ransomware attacks across all sectors, driven by compromises in supply chain tools, and we expect this trend to remain. We also continue to invest in the right skills and resources to manage data and cybersecurity risks, and constantly monitor cybersecurity threats, including from the geopolitical environment. Our business strategy, financial results and position have not been significantly affected by cybersecurity threats, including from previous cybersecurity incidents. However, we cannot provide assurance that they will not be significantly affected by such risks and significant incidents in the future.

Data management

In 2023, we continued to monitor and mitigate data risk through enhanced governance structures and processes. Our Data Programme made positive progress with clearly defined deliverables that will improve our ability to manage data and enhance our capabilities, in line with the Data Strategy driven by the Chief Data Officer.

Fraud

Authorised Push Payment (APP) fraud is our largest fraud type, and we are focused on preventative measures in response to increasing fraud attacks. In 2023, our Fraud Transformation Program enabled us to deploy new fraud prevention tools to enhance our controls, including configurable payment limits for digital banking. We deployed dynamic 'scam warnings' in our online banking payment process and added new controls to manage purchase scams on social media. Social engineering used by fraudsters is a significant threat to customers and outside of our controls. We continue to focus on combining technical solutions with public campaigns to educate customers. We also play a leading, collaborative role in fraud management with industry partners, through UK Finance and Stop Scams UK.

IT

The importance of IT remains at the centre of our activities. We continue to progress a bank-wide programme to address key IT risks, including increasing obsolescence, partly due to the fast pace of technological evolution. We expect the programme to deliver risk reduction over a three year period and we closely monitor improvements through our risk governance framework.

Legal

Our legal risk profile remained heightened but broadly stable in 2023, reflecting the high number and value of legal risks that we continue to manage. We continued to evaluate the evolving legal and regulatory environment, including the introduction of the Consumer Duty, the Financial Services and Markets Act 2023, the Economic Crime and Corporate Transparency Act 2023, and proposals to reform the ring-fencing regime. We continue to align material third party contracts to PRA Supervisory Statement 2/21, and in relation to international data transfers pursuant to the Schrems II judgement. While litigated PPI claim volumes remained stable, 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 also managed legal risk relating to litigation and complaints relating to historical motor finance discretionary commission arrangements which matters are also subject to the FCA's announcement on 11 January 2024. We continue to manage our legal risk in relation to thematic Court actions and FOS complaints related to fraud, mortgages and commissions. For more, see Note 31 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. In 2023, we reassessed the majority of our suppliers against a revised set of controls and implemented new metrics to monitor and manage our risk exposure. We continue to progress work to address the key risks in our Third Party Supplier estate.

People

People risk continues to be impacted by changes in our operating models and the execution of our strategies. We continue to adapt and respond to these risks. In 2023, wellbeing-related absence reduced and attrition rates improved. Our wellbeing and inclusion strategy focuses on helping colleagues through change and supports productivity. We continue to advocate hybrid working and encourage colleagues to attend the office regularly. We also provide support in response to the impact of external economic factors on some colleagues.

Transformation and change

We continue our transformation to simplify the bank, digitise processes and customer journeys, reduce costs, extend internal capabilities and ensure a resilient operating model. This includes delivery against a diverse transformation agenda with specific focus on cloud migration, further digitalisation and managing obsolescence. Ensuring change does not result in unacceptable impacts on our 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

We consider financial crime to be 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, conducting business in line with regulatory and legal requirements. We adopt a risk-based approach in line with UK and international laws and standards. We work with government, law enforcement and the private sector to help meet our commitments and to inform our anti financial crime (AFC) strategy which sets out the principles of 'Deter, Detect and Disrupt'. We believe that having a comprehensive and effective financial crime risk management framework is imperative and a positive investment that protects us from legal, regulatory and reputational risks. Due to the complexity and number of financial crime threats, we continually assess, develop, and improve our capability and capacity to address the changing risk landscape. This includes through our policies, procedures, systems and controls used to prevent and detect financial crime. We have minimal tolerance for residual financial crime risk, and zero tolerance for non- compliance with sanctions laws and regulations. We require staff and third parties acting on our behalf to act with integrity, due diligence and care. We have no appetite for non-compliance with financial crime laws or regulations by staff or persons acting on our behalf.

Our key financial crime risks are:

Key risks	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 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

2023 compared to 2022

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 2023 we:

- Played an active role across the public-private partnership, working closely with government, trade bodies and industry on issues that may impact our Financial Crime Compliance capabilities. This included work on major pieces of legislation, such as the Economic Crime & Corporate Transparency Act 2023 and related secondary legislation, and the assessment of Politically Exposed Persons.
- Continued to invest in our financial crime systems and controls to ensure they remain robust, fit for purpose, and can appropriately respond to the constantly evolving external legislative environment and to emerging risks.
- Adapted our financial crime policies to reflect the latest external requirements, best practice and with Banco Santander policy requirements.
- Played an active role externally in the development of policy and related strategies, such as in government engagement on the Suspended Accounts Scheme now being legislated for in the Criminal Justice Bill, and in our continued engagement on the implementation of, and outcomes measurement for, the Economic Crime Plan 2 (2023-2026).
- 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 covering high risk Financial Crime areas in line with industry standards, and these modules are endorsed by the International Compliance Association (ICA).
- Remained a committed member of the JMLIT, to exchange and analyse information relating to high-end money laundering and wider economic threats.

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 2024 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 2023, notably the continued impacts of the Russia sanctions and increased 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 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

We consider a model to be 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. In 2023 we saw increasing interest in assessing Artificial Intelligence (AI) use cases which create new model risks such as explainability - the ability to understand why an algorithm made a particular prediction.

MODEL RISK MANAGEMENT

Risk mitigation
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 – details 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
- Material Changes to IRB Models 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.

MODEL RISK REVIEW

2023 compared to 2022

This remains a significant focus in the bank, with a heavy regulatory models agenda in 2023 focusing on capital adequacy to comply with new regulatory technical standards for banks. The PRA's Model Risk Supervisory Statement (SS1/23) policy comes into effect in May 2024. We expect the trend of regulatory focus on models to continue over the next two years in line with supervisory expectations.

We continue to recognise model risk as a key risk and maintain a strong model risk management and oversight framework. The model team sets a clear framework and related policies and provides oversight, governance and control activities across all model types. The independent valuation function reviews new models, model changes, and recurrent reviews for our most material models, particularly capital adequacy, provisions and stress testing, which all have regulatory focus.

In 2023, we continued to redevelop key regulatory capital and provision models. This work continues in 2024 for our unsecured portfolios and consumer finance. As part of our ongoing focus on improving customer outcomes, we also changed all our decision scorecards in 2023 to use a new multi bureau capability. In 2024, we expect to focus on our new climate change stress test models, new mortgage IRB capital models and our pension risk model redevelopment. We expect Machine Learning/AI models to gradually become the next key area of interest.

In 2023, we conducted an in-depth gap analysis against the principles of SS1/23 on model risk practices. As the existing principles, current framework and internal practices are largely aligned, we are now able to focus on the design and embedding of the enhancements needed across the full model lifecycle.

Conduct and regulatory risk

Overview

We manage conduct and non-financial regulatory risk types in one framework due to the overlapping nature and similarities.

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 our key conduct and regulatory risks and explain how we manage them. We also describe our main conduct and regulatory provisions.

Key metrics

Customer remediation provision was £106m (2022: £90m)

Litigation and other regulatory provision was £132m (2022: £136m)

OUR KEY CONDUCT AND REGULATORY RISKS

We are committed to ensuring conduct strategy is embedded in our business, as good outcomes for our customers are at the heart of what we do. Our proposition and initiative approval process, systems, operation and controls are well designed and delivering our customers' needs. We see our key exposure to conduct and regulatory risk through the risk of 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 good customer outcomes, align to the expectations of our regulators or observe required standards of market behaviour.

Our Conduct and Regulatory framework is built on the following risks:

Key risks	Description
Conduct	The risk that our decisions and behaviours lead to a detrimental or poor outcome for our customers and clients and/or fail to uphold and maintain high standards of market integrity.
Regulatory	The risk of non-compliance with applicable regulatory requirements, including supervisory expectations, which may result in regulatory sanctions (financial or reputational - including fines, other economic consequences including remediation costs, and the imposition of conditions on regulatory permissions). We take a risk averse approach to managing personal data, understanding that we are accountable for the data we collect and hold and will process it within the law, respecting individuals' rights and complying with regulatory and legal requirements.

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 colleagues 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 provides 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)	The 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

2023 compared to 2022

The Conduct and Regulatory environment is expected to see a continued demanding agenda. 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 in practice and take action to address outcomes. As part of this, we:

- Proactively contacted 2.5 million 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. As part of this, we referred them to internal and external sources of support alongside ongoing customer engagement and support plans.
- Are working with the government and regulators to enhance help for customers struggling with higher mortgage rates and we have agreed to the commitments in the Mortgage Charter.
- Continued to focus on financial support for business customers with payment difficulties as they roll off their government scheme loans.
- Further 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 and can provide tailored support, whilst managing the anticipated increased inflow of customers affected by the rising cost of living.
- Reviewed our products and services to ensure our customers receive communications they understand, products and services that meet their needs, and that offer fair value. Also, that they get the support they need, when they need it, in order to deliver good customer outcomes required by the FCA's Consumer Duty.
- 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. The key focus continues to be on reducing and preventing serious consumer harm; setting and testing higher standards; and promoting competition and positive change. We continue to address these in our controls, product and service processes and frameworks, and we continue to adapt in line with the evolution of a digital economy.

We are actively working with the Payment Systems Regulator (PSR), UK Finance, Pay.UK and other industry partners on the PSR’s upcoming Mandatory Reimbursement regulations which come into force in October 2024. Our focus is to ensure consistent standards can be agreed across the industry. At the same time, we need to ensure that our operational environment is ready in time and that we meet our obligations. We continue to consult with the Lending Standards Board (LSB) on the future of the Contingent Reimbursement Model (CRM) code and how that will be part of the Fraud response ecosystem beyond 2024. In 2023, the LSB upgraded our status in relation to our compliance of the CRM code and we continue to adhere to this, providing protection for consumers against APP scams.

We will continue to monitor the regulatory landscape and contribute to debates on regulatory issues. We expect the key areas of regulatory focus in 2024 to include the ongoing embedding of the FCA’s Consumer Duty, the FCA’s proposals for new rules to maintain reasonable access to cash for personal and business customers across the UK, and the ongoing activity from the government and regulators to implement HM Treasury’s Smarter Regulatory Framework, including the Edinburgh Reforms and the transfer of retained EU Law. We will also see the implementation of Basel 3.1 rules, reform to the UK’s ring-fencing regime and the implementation of the PRA’s expectations in relation to model risk management. The publication of the Future of Payments review in late 2023 will also lead to potential reform of the various inflight payments projects in the UK as HM Treasury publishes its National Payments Vision.

We also managed conduct and regulatory risk relating to historical motor finance discretionary commission arrangements which were subject to an FCA announcement on 11 January 2024. For more, see Note 31 to the Consolidated Financial Statements.

The outlook for the economic environment continues to remain challenging and conduct risks are therefore 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.

Accounting position

For more on our provisions, see Note 29 to the Consolidated Financial Statements. For more on our contingent liabilities, see Note 31 to the Consolidated Financial Statements.

Financial statements

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Independent auditors' report to the members of Santander UK plc

Report on the audit of the financial statements

Opinion

In our opinion, Santander UK plc's group financial statements and company financial statements (the "financial statements"):
- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Balance Sheets as at 31 December 2023; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Cash Flow Statements and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the group and company, in addition to applying UK-adopted international accounting standards, have also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the group and company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7, we have provided no non-audit services to the group and company or their controlled undertakings in the period under audit.

Our audit approach

Overview
Audit scope
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud and error).
- We performed audit procedures over components considered to be financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- Our audit plan was discussed with the Board Audit Committee in June 2023 and updates were provided at later stages of the audit. We executed the planned approach and concluded based on the results of our testing, ensuring that sufficient audit evidence had been obtained to support our opinion. We discussed our approach and the results of our audit with the Board Audit Committee. We also discussed the key audit matters at the conclusion of the audit.

Key audit matters
- Expected credit loss allowance for loans and advances to customers (group and company)
- Valuation of defined benefit pension surplus (group and company)
- Impairment assessment of goodwill (group and company)
- Specific legal and regulatory matters (group and company)

Materiality
- Overall group materiality: £100 million (2022: £100 million) based on approximately 5% of adjusted profit before tax (2022: 5% of adjusted profit before tax).
- Overall company materiality: £95 million (2022: £90 million) based on 5% of adjusted profit before tax (2022: 5% of adjusted profit before tax), capped at the level which is used for the audit of the company as a component of the overall group.
- Performance materiality: £75 million (2022: £75 million) (group) and £71 million (2022: £67 million) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance for loans and advances to customers (group and company)	
Refer to the credit risk section of the risk review, note 1 (Accounting Policies) and note 13 (Loans and Advances to customers). Credit Impairment allowances represent management's best estimate of the expected credit loss (ECL) within each portfolio at the balance sheet date. The identification and the determination of allowances is inherently judgemental. Management uses a number of models and judgemental adjustments (JAs) to achieve compliance with the requirements of IFRS 9. The determination of ECLs is complex and a number of significant judgements are involved in the estimation process. There continues to be significant economic uncertainty driven by a number of factors including cost of living increases, higher interest rates, business cost increases and ongoing supply chain pressures. As a result, in relation to residential mortgage and corporate loan portfolios, we consider the judgements and assumptions used in the determination of forward looking macroeconomic scenarios and the probability weights applied to be significant. In addition, there are a number of JAs held (both within and outside models) to respond to the economic uncertainty not fully captured by the models, and also to address data and model limitations. Given the level of judgement involved we also deem the risk associated with the sufficiency and appropriateness of the following JAs to be significant; **Corporate JAs** – Corporate lending to segments affected by supply chain pressures; **Retail JAs** – JAs to recognise that the repossession rates in the model are not representative of expected repossessions (Long-term indeterminate arrears and 12+ months in arrears JAs); – In model JAs to uplift the repossession rates for interest only mortgages at maturity; – The JAs to assess affordability of unsecured lending repayments (Unsecured affordability); and – Mortgage refinancing risk JA. In the corporate loan portfolios, individual impairment assessments are performed for certain credit impaired loans and advances which are categorised as Stage 3. Assumptions are required to be made in determining the level of any allowance. Our focus was on the principal assumptions applied by management in estimating impairment allowances such as collateral valuations for loans secured by property, the accuracy of information used for independent business reviews, and the expected timing of future cash flows.	**Testing of key controls** We understood and evaluated the design of the key controls over the determination of the ECLs and tested their operating effectiveness. These controls included: – Model performance monitoring controls, including testing model estimates against actual outcomes; – The Asset and Liability Committee's review and approval of the base case economic assumptions; and – The Credit Risk Provisions Forum's review and approval of the outer economic scenarios and weightings, significant judgements & estimates and the overall assessment of ECL outputs. We noted no significant exceptions in the design or operating effectiveness of the above controls. In addition, we performed the substantive procedures described below. **Forward looking economic scenarios and scenario probability weightings** We used economics experts and credit risk modelling specialists to critically assess the reasonableness of the multiple economic scenarios and scenario probability weightings adopted by management. We considered external economic data and consensus forecasts to assess whether management's forecasts appropriately reflect the different possible paths that the economy could take, including the consequences of cost of living increases, a higher interest rate environment, higher inflation, business cost increases and ongoing supply chain pressures. In addition, we compared the base case scenario assumptions to other external consensus forecasts and we considered the inferred GDP 'time to recovery' for each scenario based on historical distributions and made a comparison to other external consensus forecasts. We found that the scenario weights appropriately captured the economic uncertainty and the non-linear distribution of losses across a reasonable range, and are broadly consistent with external forecasts. Overall, we concluded that management's scenarios and associated weights were reasonable.

Key audit matter	How our audit addressed the key audit matter
	JAs within and outside models We considered whether management had identified judgemental adjustments both within and outside of models where material risks were not captured in the modelled loss allowances, and whether appropriate methodologies were applied in their calculation. This included adjustments in place to address modelling and operational limitations highlighted by the economic conditions caused by cost-of-living increases, higher interest rates and higher inflation, business cost increases and ongoing supply chain pressures. **Corporate JAs** Corporate loan JAs totalling £24m were used to adjust for sector specific risks that were not sufficiently captured by the rating models, or to account for the time delay between the most recent risk rating and the period end, as the stage 2 provision may otherwise be understated. The JAs seek to identify customers and sectors with higher risk classifications and transfer these loans from stage 1 to stage 2, and increase the PDs of loans in higher risk industries already in stage 2. We critically assessed management's JA methodologies and sector analysis used in the calculations. We used our economics and restructuring experts to provide input on sector risks. We have assessed the reasonableness of those sectors and counterparties classified as higher risk, as well as the risk classifications identified to be moved to stage 2. Where customers were transferred into stage 2, we assessed the coverage ratio of ECL in the stage 2 population pre and post the JA, to assess whether the increase in ECL applied by management was appropriate. For customers in stage 2 receiving a PD uplift, we tested this by assessing the historical observed default rates for customers in stage 2 and identified alternative stress scenarios to verify that the uplift applied by management was within a reasonable range. **Retail JAs** We critically assessed management's JAs both within and outside models using our modelling specialists to assess the appropriateness of the significant assumptions and methodologies used in the adjustments for the Retail portfolios. We performed audit procedures for a sample of the judgemental adjustments, in particular to challenge the appropriateness of: – In model JAs used to address data limitations in the mortgages model in relation to repossession rates; and – JAs introduced to assess the impact of refinance risk on mortgages and affordability pressures on unsecured lending repayments. Overall, we were satisfied with the sufficiency and appropriateness of the JAs included in the estimate of ECL. **Individually assessed corporate Stage 3 cases** For a sample of credit impaired loans we evaluated the specific circumstances of the borrower and determined whether key judgements were appropriate. We tested the valuation of collateral held, and challenged management on subjective estimates and assumptions. Where applicable, we engaged our real estate experts to critically assess the collateral valuation. We also re-performed management's impairment calculations and tested key inputs. Overall, we found the ECL provision for individually assessed corporate Stage 3 cases to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension surplus (group and company)	
Refer to note 1 (Accounting Policies) and note 30 (Retirement Benefit Plans). The group operates a number of defined benefit pension schemes. The main scheme is the Santander (UK) Group Pension Scheme (the scheme). The scheme is in a net surplus position of £657m as at 31 December 2023. **Defined benefit obligations:** The valuation of the defined benefit obligations of the scheme is dependent on a number of forward-looking assumptions, the most sensitive of which are the discount rate, price inflation and life expectancy. These assumptions are unobservable and complex to estimate due to the long duration of the pension obligations. Small changes in these assumptions can have a material impact on the valuation. Management refreshes the valuation methodology and assumptions each year with the assistance of external experts. During 2023, management revised its mortality assumption. The longevity improvement assumption has been updated to reflect the latest published Continuous Mortality Investigation (CMI) research. The methodology used continues to use section specific discount and inflation rates in order to reflect the duration and profile of each section of the scheme. The valuation of the defined benefit obligation is complex and judgemental and therefore represents a key audit matter. **Illiquid pension assets:** The pension scheme assets include certain illiquid assets, including direct property investments and complex pooled investment vehicles ("PIVs") consisting of unquoted equities, unquoted corporate bonds and other assets not quoted in active markets. The valuation of these assets are derived from inputs or data that are unobservable. The directly held property is valued using bespoke valuation methods taking both the nature of the properties and the tenancy schedules as inputs to derive their fair value. The complex PIVs include private equity investments and infrastructure and property assets, and there can be a time lag in obtaining valuations. Each complex PIV is valued by the respective investment manager on either a Bid or Net Asset Value (NAV) basis. Where there is a time lag between the NAV and the balance sheet date, management adjusts the value of the assets for any cash movements where necessary and considers if any other adjustments for movements in fair value are needed. The lack of observable prices and the bespoke valuation methods for the directly held property, as well the unobservable nature of the assets in the complex PIVs, give rise to a high level of estimation uncertainty and complexity in the valuation and therefore represent a key audit matter.	**Testing of key controls** We understood and evaluated the design and operating effectiveness of the key controls over the determination of the significant actuarial assumptions used in calculating the valuation of future pension obligations and the valuation of the scheme's illiquid assets. These controls included: – The Annual Review and approval of key methodologies and assumptions; – The Quarterly review and approval of the financial and demographic assumptions based on the actuary's report and other data inputs; – Assessing the reliability of investment manager valuations by comparing the prior year unaudited NAV statements against the funds' corresponding audited financial statements; – Assessing the reasonableness of the property valuations recognised at period ends, as obtained from the custodian, by comparing them on a quarterly basis against the valuation obtained from management's property valuer expert. Differences are analysed and investigated; – Assessing the appropriateness of lagged valuations and potential fair value movements since the last valuation date; – Assessing the competence and reliability of certain relevant experts engaged by management; and – Reviewing third party service organisation controls reports obtained from certain service organisations engaged by management. We noted no significant exceptions in the design or operating effectiveness of the above controls. We also performed the following substantive procedures: **Defined benefit obligations:** – We engaged our own actuarial experts to evaluate the estimates made by management in determining the key financial and life expectancy assumptions used in the calculation of the liability. We assessed the reasonableness of the methodologies and assumptions adopted using our knowledge of market practice and industry developments, independently developed benchmarks and external market data. We used sensitivity analysis to determine the impact of alternative assumptions; – We considered the objectivity and competence of management's actuarial expert. We reviewed the expert's IAS 19 report and discussed with the expert the methods adopted to determine the valuation of the obligations; and – We evaluated the appropriateness of financial statement disclosures. **Illiquid pension assets:** – For directly held property, we obtained the valuation report prepared by management's expert and, with the support of our own expert, assessed the reasonableness of the methodology and key assumptions used by the valuer. We reviewed the reasonableness of the valuation for a sample of properties; – For complex PIVs, we obtained third-party confirmations directly from investment managers and compared these against management's reported valuations. We recalculated management's valuation and compared it to the third-party confirmations, and we understood and tested material capital changes in the period between the valuation and the entity's balance sheet date where there was a time lag; – We assessed whether there was evidence which corroborated or contradicted the valuation. For example; we agreed NAV statements from investment managers to audited fund financial statements where they were available, analysed potential fair value movements since the last valuation date with reference to relevant market information, such as quoted indices and recent transactions, and reviewed controls reports for the investment managers where available; – We considered the objectivity and competence of management's property valuation expert and the investment managers. Based on the evidence obtained, we found the valuation of the Scheme's defined benefit obligations and the valuation of the Scheme's illiquid assets to be reasonable. We read and assessed the disclosures made in the financial statements, including the disclosures of the assumptions, and found them to be appropriate.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Impairment assessment of goodwill (group and company)</td><td></td></tr>
<tr><td>Refer to note 1 (Accounting Policies) and note 20 (Intangible Assets)

The group has a goodwill balance of £1.2bn at 31 December 2023, which relates to the Personal Financial Services CGU within Santander UK plc.

The impairment assessment of the goodwill is contingent on the estimates of future cash flows and profitability which are forecasted using assumptions that require significant management judgement. These assumptions and judgements are inherently uncertain and are impacted by the wider economic environment. Specifically, given the developments in the UK economy and the banking market with rising interest rates, the bank has seen an improving net interest margin, partially offset by the impact of inflationary pressures. However, the expectation that the base rate has peaked, coupled with deposit repricing and the longer term impact of higher interest rates on households and businesses, further increase the uncertainties on future outcomes.

Management's impairment assessment used a value in use (VIU) methodology and concluded that no impairment existed as at 31 December 2023. The calculation of the VIU is complex and involves subjective assumptions, specifically, the forecast cash flows and the discount rate, the method for determining regulatory capital requirements and the allocation of total carrying value to the Personal Financial Services CGU.

Due to the magnitude of this balance and these judgements, this impairment assessment represents a key audit matter.</td><td>To address the risk of impairment of goodwill, we performed a number of audit procedures over the assessments performed by management. We challenged and tested the reasonableness of management's methodology and key assumptions. Our work included the following:

– We understood and evaluated the design and implementation of the key controls over the goodwill impairment assessment and the significant assumptions used in calculating the value in use;
– We engaged our own experts to assist us in evaluating the appropriateness of the methodology used and the reasonableness of key assumptions over the determination of the carrying value of the Personal Financial Services CGU, including:
    – determining an independent range for the discount rate using external data sources and peer bank data and comparing it to the rate used by management; and
    – assessing the appropriateness of adjustments and methodology for estimating the regulatory capital requirements and the apportionment. made for the capital retained in the business.
– We agreed the cash flow forecasts to the Board approved three-year plans and tested the reasonableness of adjustments to the plans included in the value in use model;
– We evaluated the reasonableness of the forecasted cash flows, including comparing performance in recent years to the budgets and 3-year plans for the equivalent periods to assess the historical accuracy of the budgeting and forecasting process; and
– We assessed the reasonableness of management's forecasted cash flows , using our own economic experts to assess the economic assumptions in the plan, comparing key market assumptions against external data points and our understanding of the business' strategy.

Based on the procedures performed and evidence obtained, we found management's conclusion that no impairment existed at 31 December 2023 to be reasonable. We evaluated the disclosures made in the financial statements against the requirements of IAS 36 and found them to be appropriate.</td></tr>
<tr><td>Specific legal and regulatory matters (group and company)</td><td></td></tr>
<tr><td>Refer to note 1 (Accounting Policies), note 29 (Provisions) and note 31 (Contingent Liabilities and Commitments).

Included within Provisions is the group's best estimate of the cost of present obligations related to past events, including the impact of legal actions and regulatory investigations. Significant judgement may be required when accounting for provisions, including in determining whether a present obligation exists, and in estimating the probability and amount of any outflows. 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 investigations. As a result, it is sometimes not possible to make reliable estimates of the likelihood and amount of any potential outflows or not practicable to disclose an estimate of the financial effect of a contingent liability.

The key matters are a dispute with a third party in relation to liability for PPI redress in respect of a specific portfolio of complaints, an investigation by German authorities into tax arbitrage transactions and an investigation and claims in relation to historical commission arrangements in respect of car financing. The potential cost to the group of each of these matters is material and the assessment of present obligations involves judgement.

The provisions and disclosures in respect of these exposures represents a key audit matter.</td><td>Testing of key controls

We understood and evaluated the design of the key controls over the assessment of the specific legal and regulatory matters against the requirements of IAS 37 and tested their operating effectiveness. These controls included:

– Management's assessment of the cases against the requirements of IAS 37; and
– The Non Financial Risk Provisions Review Forum's review, challenge and approval of the current assessment of the legal and regulatory provisions.

We noted no significant exceptions in the design or operating effectiveness of the above controls.

In addition, we performed the substantive procedures described below:

Specific legal and regulatory matters

We evaluated and challenged the provisioning methodologies and underlying assumptions used by management. Where no provision was made, we challenged management's conclusion in the context of the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Our work included the following:

– We understood the risks facing the group, the status of the investigations and the legal matters.
– We evaluated management's assessment of the potential outcomes and associated probabilities.
– We evaluated the advice received from management's external legal experts. We held discussions with these experts to confirm our understanding of their views on certain judgements applied by management and obtained a written confirmation of the key facts and status of each case; and
– We reviewed reports provided to governance committees and we discussed the status of the key matters with the Board Audit Committee.

Based on the procedures performed and evidence obtained, we found management's conclusions to be reasonable.

Given the uncertainty associated with the calculation of the provisions and the contingent liabilities, we evaluated the disclosures made in the financial statements. In particular, we focused on challenging management as to whether the disclosures were sufficiently clear in highlighting the uncertainties. We considered the completeness of information disclosed, in particular where management concluded that it was not practicable to estimate and disclose the potential financial effect, or that it was seriously prejudicial to disclose certain information. We evaluated the disclosures against the requirements of IAS 37. We found the disclosures to be appropriate.</td></tr>
</table>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group comprises the company and a number of subsidiaries which predominantly operate within the UK. The company is the principal operating subsidiary within the group. We considered which entities ("components") required a full scope audit either due to being individually financially significant (defined as 15% of adjusted profit before tax) or due to their risk characteristics, including a consideration of the history of misstatements due to fraud or error, in the context of the group's consolidated financial statements. We identified the significant audit risks and key audit matters which all relate to either the company or Santander Consumer (UK) plc. Ultimately, we determined that we would perform a full scope audit of the company and Santander Consumer (UK) plc. For these components the work is largely performed by PwC UK engagement teams, led by the group audit partner and Santander Consumer (UK) plc partner, with the teams structured in line with the Group's operating segments.

We then considered the components in the group that had either financially significant or unusual account balances and therefore were required to be included in our scope. Where this was the case, we performed an audit over these specific financial statement line items. We adopted this approach for Cater Allen Limited and Abbey National Property Investments.

Certain processes and controls supporting the group's operations are performed as part of Banco Santander S.A.'s wider processes and controls in Spain, including the hosting and monitoring of certain IT systems. In such instances, we instructed PwC Spain to perform certain audit procedures over these group operations.

As part of the planning and execution of the audit, we worked closely with PwC Spain and the PwC UK component auditors throughout the year to ensure that the procedures performed on our behalf were sufficient for our purposes. We reviewed the results of their work and held meetings with the auditors to discuss their findings.

The procedures which we performed over the component accounts for 91.2% of total operating income and 92.1% of total assets of the group.

The impact of climate risk on our audit

The group, in alignment with their parent company, Banco Santander S.A., has set out its own commitments to be a net zero bank by 2050. Further information on these commitments is provided in the Sustainability and Responsible Banking section on page 38.

In planning and executing our audit, we considered the group's governance framework and preliminary risk assessment processes. This, together with our discussions with our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We specifically considered the potential impact on the mortgage lending, corporate lending and consumer finance portfolios. We determined that the key financial statement line items and estimates which were more likely to be materially impacted by climate risks were those associated with expected credit losses and related future cash flows. In the current reporting period, the group concluded that there is no material impact on the financial statements and the more notable impacts of climate change on the business are expected to arise in the medium to long term.

Whilst the group is targeting net zero carbon emission by 2050, they are continuing to refine their plans to achieve this. The group has started to quantify some impacts that may arise; however, the future financial impacts are uncertain given the medium to long term time horizon. We discussed with management and the Board Audit Committee that the estimated financial impacts of climate change will need to be frequently reassessed and our expectation is that climate change disclosures will continue to evolve as greater understanding of the actual and potential impacts on the group's future operations is obtained.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£100 million (2022: £100 million).	£95 million (2022: £90 million).
How we determined it	Approximately 5% of adjusted profit before tax (2022: 5% of adjusted profit before tax.)	5% of adjusted profit before tax (2022: 5% of adjusted profit before tax), capped at the level which is used for the audit of the company as a component of the overall group.
Rationale for benchmark applied	We set materiality using a benchmark of profit before tax (PBT), adjusted for certain items, as these do not reflect the underlying business performance and are not expected to recur. Adjusted PBT is a primary measure used by the shareholder in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality.	We set materiality using a benchmark of profit before tax (PBT), adjusted for certain non-recurring items and other transactions not reflective of the underlying business of the company. The materiality was then capped at the level which is used to audit the company as a component of the overall group. Adjusted PBT is a primary measure used by the shareholder in assessing the performance of the company and is a generally accepted benchmark for determining audit materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £10 million and £95 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £75 million (2022: £75 million) for the group financial statements and £71 million (2022: £67 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £5 million (group audit) (2022: £4 million) and £5 million (company audit) (2022: £4 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the group operates;
- Understanding and evaluation of the group's three year plan and the group's stress testing of liquidity and regulatory capital performed by management;
- Review of regulatory correspondence and reports provided to governance forums, and testing of the total capital resources and liquidity financing facilities;
- Consideration of credit rating agency ratings; and
- Reviewing the appropriateness of the disclosures made in the Annual report in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Directors' report, is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the group and company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Board Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations, including regulatory reporting requirements and conduct of business, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, and management bias through judgements and assumptions in significant accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, including the Chief Financial Officer, Internal Audit and those charged with governance, and with management's legal counsel, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the completeness of matters identified by management which might impact financial reporting, including but not restricted to the procedures below;
- Evaluation and testing of the operating effectiveness of certain of management's entity level controls designed to prevent and detect irregularities, in particular their code of conduct and whistleblowing helpline;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Observing the effectiveness of key governance forums, reviewing management information presented and reviewing minutes of executive management meetings;
- Reviewing key correspondence with the Financial Conduct Authority and Prudential Regulation Authority and meeting with these regulators during the year;
- Challenging and assessing for bias the assumptions and judgements made by management in its significant accounting estimates, in particular in relation to the expected credit loss allowance for loans and advances to customers, legal and regulatory matters, the valuation of the defined benefit pension surplus and the impairment assessment of the goodwill (see related key audit matters above);
- Identifying and testing journal entries, in particular any journal entries posted by senior management and period end adjustments; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

It is also our responsibility to assess whether the consolidated financial statements have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the members on 31 March 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2016 to 31 December 2023.

Report on other legal and regulatory requirements

We have checked the compliance of the consolidated financial statements of the Group as at 31 December 2023 with the relevant statutory requirements set out in the ESEF Regulation that are applicable to financial statements. That is, for the Group:

- The consolidated financial statements are prepared in a valid xHTML format;
- The XBRL markup of the consolidated financial statements uses the core taxonomy and the common rules on markups specified in the ESEF regulation.

In our opinion, the consolidated financial statements of the Group as at 31 December 2023, identified as PTCQB104N23FMNK2RZ28-2023-12-31.zip, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 February 2024

Consolidated Income Statement

For the year ended 31 December

	Notes	2023 £m	2022 £m	2021 £m
Interest and similar income	3	**11,617**	6,708	4,762
Interest expense and similar charges	3	**(6,959)**	(2,283)	(813)
Net interest income		**4,658**	4,425	3,949
Fee and commission income	4	**804**	839	697
Fee and commission expense	4	**(501)**	(509)	(411)
Net fee and commission income		**303**	330	286
Other operating income	5	**135**	201	264
Total operating income		**5,096**	4,956	4,499
Operating expenses before credit impairment charges, provisions and charges	6	**(2,456)**	(2,343)	(2,510)
Credit impairment (charges)/write-backs	8	**(205)**	(320)	233
Provisions for other liabilities and charges	8	**(335)**	(419)	(377)
Total operating credit impairment charges, provisions and charges		**(540)**	(739)	(144)
Profit from continuing operations before tax		**2,100**	1,874	1,845
Tax on profit from continuing operations	9	**(559)**	(480)	(492)
Profit from continuing operations after tax		**1,541**	1,394	1,353
Profit from discontinued operations after tax	42	**—**	—	31
Profit after tax		**1,541**	1,394	1,384
Attributable to:				
Equity holders of the parent		**1,541**	1,394	1,365
Non-controlling interests		**—**	—	19
Profit after tax		**1,541**	1,394	1,384

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

	2023 £m	2022 £m	2021 £m
Profit after tax	**1,541**	1,394	1,384
Other comprehensive income/(expense) that may be reclassified to profit or loss subsequently:			
Movement in fair value reserve (debt instruments):			
- Change in fair value	**89**	(278)	(111)
- Income statement transfers	**(105)**	247	110
- Taxation	**5**	11	(2)
	(11)	(20)	(3)
Cash flow hedges:			
- Effective portion of changes in fair value	**(169)**	425	(873)
- Income statement transfers	**1,248**	(2,129)	358
- Taxation	**(299)**	469	141
	780	(1,235)	(374)
Net other comprehensive income/(expense) that may be reclassified to profit or loss subsequently	**769**	(1,255)	(377)
Other comprehensive (expense)/income that will not be reclassified to profit or loss subsequently:			
Pension remeasurement:			
- Change in fair value	**(598)**	(722)	1,264
- Taxation	**167**	267	(419)
	(431)	(455)	845
Own credit adjustment:			
- Change in fair value	**(15)**	29	—
- Taxation	**4**	(9)	—
	(11)	20	—
Net other comprehensive (expense)/income that will not be reclassified to profit or loss subsequently	**(442)**	(435)	845
Total other comprehensive income/(expense) net of tax	**327**	(1,690)	468
Total comprehensive income/(expense)	**1,868**	(296)	1,852
Attributable to:			
Equity holders of the parent	**1,868**	(296)	1,833
Non-controlling interests	**—**	—	19
Total comprehensive income/(expense)	**1,868**	(296)	1,852

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

At 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Cash and balances at central banks		**38,214**	44,190
Derivative financial instruments	11	**1,432**	2,407
Other financial assets at fair value through profit or loss	12	**262**	129
Loans and advances to customers	13	**207,435**	219,716
Loans and advances to banks		**1,080**	992
Reverse Repurchase agreements - non-trading	16	**12,468**	7,348
Other financial assets at amortised cost	17	**152**	156
Macro hedge of interest rate risk		**(632)**	(2,657)
Financial assets at fair value through other comprehensive income	18	**8,481**	6,024
Interests in other entities	19	**245**	252
Intangible assets	20	**1,548**	1,550
Property, plant and equipment	21	**1,494**	1,513
Current tax assets	9	**490**	478
Retirement benefit assets	30	**723**	1,050
Other assets		**2,043**	2,016
Assets held for sale	42	**13**	49
Total assets		**275,448**	285,213
Liabilities			
Derivative financial instruments	11	**818**	951
Other financial liabilities at fair value through profit or loss	22	**899**	803
Deposits by customers	23	**190,850**	195,568
Deposits by banks	24	**20,332**	28,525
Repurchase agreements - non-trading	25	**8,411**	7,982
Debt securities in issue	26	**33,910**	31,531
Subordinated liabilities	27	**2,386**	2,332
Macro hedge of interest rate risk		**86**	95
Other liabilities	28	**2,479**	2,581
Provisions	29	**402**	378
Deferred tax liabilities	9	**186**	35
Retirement benefit obligations	30	**66**	25
Total liabilities		**260,825**	270,806
Equity			
Share capital	32	**3,105**	3,105
Share premium	32	**5,620**	5,620
Other equity instruments	33	**1,956**	1,956
Retained earnings		**4,295**	4,848
Other reserves		**(353)**	(1,122)
Total equity		**14,623**	14,407
Total liabilities and equity		**275,448**	285,213

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 29 February 2024 and signed on its behalf by:

Mike Regnier
Chief Executive Officer

William Vereker
Chair

Company Registered Number: 02294747

Consolidated Cash Flow Statement

For the year ended 31 December

	2023 £m	2022 £m	2021 £m
Cash flows from operating activities			
Profit before tax	**2,100**	1,874	1,888
Adjustments for:			
Non-cash items included in profit			
– Depreciation and amortisation	**290**	296	501
– Provisions for other liabilities and charges	**335**	419	381
– Impairment losses	**195**	284	(228)
– Other non-cash items	**(749)**	1,497	(147)
– Pension charge for defined benefit pension schemes	**13**	28	38
	84	2.524	545
Net change in operating assets and liabilities:			
– Cash and balances at central banks	**(88)**	275	(659)
– Derivative assets	**975**	(726)	1,725
– Other financial assets at fair value through profit or loss	**40**	877	1,007
– Loans and advances to banks and customers	**12,112**	(9,966)	(971)
– Reverse repurchase agreements - non-trading	**(3,224)**	6,818	7,024
– Other assets	**(141)**	(574)	324
– Deposits by banks and customers	**(13,504)**	(3,128)	10,735
– Repurchase agreements - non-trading	**704**	(4,145)	(7,550)
– Derivative liabilities	**(133)**	174	(807)
– Other financial liabilities at fair value through profit or loss	**102**	(973)	(1,109)
– Debt securities in issue	**962**	3,120	(329)
– Other liabilities	**(67)**	(98)	(603)
	(2,262)	(8,346)	8,787
Corporation taxes paid	**(537)**	(405)	(427)
Effects of exchange rate differences	**(518)**	1,383	(542)
Net cash flows from operating activities	**(1,133)**	(2,970)	10,251
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**(385)**	(496)	(613)
Proceeds from sale of property, plant and equipment and intangible assets	**175**	159	437
Purchase of financial assets at amortised cost and financial assets at FVOCI	**(10,899)**	(2,884)	(1,256)
Proceeds from sale and redemption of financial assets at amortised cost and financial assets at FVOCI	**8,362**	3,023	4,509
Net cash flows from investing activities	**(2,747)**	(198)	3,077
Cash flows from financing activities			
Issue of other equity instruments	**—**	750	210
Issue of debt securities and subordinated notes	**5,276**	4,794	2,878
Issuance costs of debt securities and subordinated notes	**(18)**	(16)	(6)
Repayment of debt securities and subordinated notes	**(3,539)**	(3,076)	(11,914)
Disposal of non-controlling interests	**—**	—	(181)
Repurchase of other equity instruments	**—**	(985)	(210)
Dividends paid on ordinary shares	**(1,530)**	(1,014)	(1,358)
Dividends paid on preference shares and other equity instruments	**(123)**	(150)	(147)
Principal elements of lease payments	**(47)**	(26)	(25)
Net cash flows from financing activities	**19**	277	(10,753)
Change in cash and cash equivalents	**(3,861)**	(2,891)	2,575
Cash and cash equivalents at beginning of the year	**46,484**	49,254	46,697
Effects of exchange rate changes on cash and cash equivalents	**(121)**	121	(18)
Cash and cash equivalents at the end of the year	**42,502**	46,484	49,254
Cash and cash equivalents consist of:			
Cash and balances at central banks	**38,214**	44,190	48,139
Less: restricted balances	**(2,311)**	(2,223)	(2,498)
	35,903	41,967	45,641
Other cash equivalents: Loans and advances to banks - Non-trading	**878**	904	1,074
Other cash equivalents: Reverse repurchase agreements	**5,721**	3,613	2,539
Cash and cash equivalents at the end of the year	**42,502**	46,484	49,254

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	Cash flow hedging	Currency translation	Retained earnings	Total	Non-controlling interests	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
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
At 1 January 2021	3,105	5,620	2,191	28	481	1	4,348	15,774	162	15,936
Profit after tax	—	—	—	—	—	—	1,365	1,365	19	1,384
Other comprehensive (expense)/income, net of tax:										
- Fair value reserve (debt instruments)	—	—	—	(3)	—	—	—	(3)	—	(3)
- Cash flow hedges	—	—	—	—	(374)	—	—	(374)	—	(374)
- Pension remeasurement	—	—	—	—	—	—	845	845	—	845
Total other comprehensive (expense)/income	—	—	—	(3)	(374)	—	845	468	—	468
Total comprehensive (expense)/income	—	—	—	(3)	(374)	—	2,210	1,833	19	1,852
Issue of other equity instruments	—	—	210	—	—	—	—	210	—	210
Repurchase of other equity instruments	—	—	(210)	—	—	—	—	(210)	—	(210)
Disposal of non-controlling interests	—	—	—	—	—	—	—	—	(181)	(181)
Dividends on ordinary shares	—	—	—	—	—	—	(1,358)	(1,358)	—	(1,358)
Dividends on preference shares and other equity	—	—	—	—	—	—	(147)	(147)	—	(147)
At 31 December 2021	3,105	5,620	2,191	25	107	1	5,053	16,102	—	16,102

The accompanying Notes to the Financial Statements form an integral part of these Consolidated Financial Statements.

Company Balance Sheet

At 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Cash and balances at central banks		**38,214**	44,190
Derivative financial instruments	11	**1,695**	2,593
Other financial assets at fair value through profit or loss	12	**214**	59
Loans and advances to customers	13	**223,511**	235,071
Loans and advances to banks		**1,052**	992
Reverse repurchase agreements – non-trading	16	**12,468**	7,348
Other financial assets at amortised cost	17	**1,833**	1,707
Macro hedge of interest rate risk		**(848)**	(2,932)
Financial assets at fair value through other comprehensive income	18	**8,481**	6,024
Interests in other entities	19	**1,220**	1,232
Intangible assets	20	**1,525**	1,529
Property, plant and equipment	21	**988**	918
Current tax assets	9	**568**	557
Deferred tax assets	9	**—**	76
Retirement benefit assets	30	**723**	1,050
Other assets		**1,946**	1,914
Assets held for sale	42	**13**	49
Total assets		**293,603**	302,377
Liabilities			
Derivative financial instruments	11	**1,974**	2,024
Other financial liabilities at fair value through profit or loss	22	**899**	803
Deposits by customers	23	**207,516**	209,094
Deposits by banks	24	**25,699**	34,184
Repurchase agreements – non-trading	25	**8,411**	7,982
Debt securities in issue	26	**31,228**	30,721
Subordinated liabilities	27	**2,387**	2,336
Macro hedge of interest rate risk		**10**	(5)
Other liabilities	28	**2,371**	2,396
Provisions	29	**395**	374
Deferred tax liabilities	9	**141**	—
Retirement benefit obligations	30	**66**	25
Total liabilities		**281,097**	289,934
Equity			
Share capital	32	**3,105**	3,105
Share premium	32	**5,620**	5,620
Other equity instruments	33	**1,956**	1,956
Retained earnings		**2,022**	2,552
Other reserves		**(197)**	(790)
Total shareholders' equity		**12,506**	12,443
Total liabilities and equity		**293,603**	302,377

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

The profit after tax of the Company attributable to shareholders was £1,568m (2022: £848m). As permitted by Section 408 of the UK Companies Act 2006, the Company's individual Income Statement has not been presented.

The Financial Statements were approved and authorised for issue by the Board on 29 February 2024 and signed on its behalf by:

Mike Regnier
Chief Executive Officer

William Vereker
Chair

Company Registered Number: 02294747

Company Cash Flow Statement

For the year ended 31 December

	2023 £m	2022 £m	2021 £m
Cash flows from operating activities			
Profit before tax	**2,165**	1,000	1,113
Adjustments for:			
Non-cash items included in profit:			
– Depreciation and amortisation	**220**	219	373
– Provisions for other liabilities and charges	**334**	419	385
– Impairment losses/(write-backs)	**193**	284	(205)
– Other non-cash items	**(1,101)**	2,165	215
– Pension charge/(credit) for defined benefit pension schemes	**12**	25	29
	(342)	3,112	797
Net change in operating assets and liabilities:			
– Cash and balances at central banks	**(88)**	275	(659)
– Derivative assets	**898**	(718)	1,694
– Other financial assets at fair value through profit or loss	**21**	857	984
– Loans and advances to banks and customers	**11,452**	(12,466)	4,449
– Reverse repurchase agreements – non-trading	**(3,224)**	6,818	7,024
– Other assets	**(174)**	(594)	475
– Deposits by banks and customers	**(10,638)**	(1,034)	2,160
– Repurchase agreements – non-trading	**703**	(4,145)	(7,546)
– Derivative liabilities	**(50)**	782	(1,507)
– Other financial liabilities at fair value through profit or loss	**102**	(973)	(1,108)
– Debt securities in issue	**968**	3,123	(380)
– Other liabilities	**(82)**	13	(534)
	(112)	(8,062)	5,052
Corporation taxes paid	**(442)**	(353)	(360)
Effects of exchange rate differences	**(518)**	1,406	(557)
Net cash flows from operating activities	**751**	(2,897)	6,045
Cash flows from investing activities			
Investments in other entities	**—**	15	—
Purchase of property, plant and equipment and intangible assets	**(294)**	(305)	(327)
Proceeds from sale of property, plant and equipment and intangible assets	**64**	30	52
Purchase of financial assets at amortised cost and financial assets at FVOCI	**(10,899)**	(2,884)	(1,256)
Proceeds from sale and redemption of financial assets at amortised cost and financial assets at FVOCI	**8,232**	3,036	7,010
Net cash flows from investing activities	**(2,897)**	(108)	5,479
Cash flows from financing activities			
Issue of other equity instruments	**—**	750	210
Issue of debt securities and subordinated notes	**3,214**	4,191	2,876
Issuance costs of debt securities and subordinated notes	**(6)**	(13)	(4)
Repayment of debt securities and subordinated notes	**(3,253)**	(2,636)	(10,282)
Repurchase of other equity instruments	**—**	(985)	(210)
Dividends paid on ordinary shares	**(1,530)**	(1,014)	(1,358)
Dividends paid on preference shares and other equity instruments	**(123)**	(150)	(147)
Principal elements of lease payments	**(45)**	(24)	(23)
Net cash flow from financing activities	**(1,743)**	119	(8,938)
Change in cash and cash equivalents	**(3,889)**	(2,886)	2,586
Cash and cash equivalents at beginning of the year	**46,484**	49,254	46,686
Effects of exchange rate changes on cash and cash equivalents	**(121)**	116	(18)
Cash and cash equivalents at the end of the year	**42,474**	46,484	49,254
Cash and cash equivalents consist of:			
Cash and balances at central banks	**38,214**	44,190	48,139
Less: regulatory minimum cash balances	**(2,311)**	(2,223)	(2,498)
	35,903	41,967	45,641
Other cash equivalents: Loans and advances to banks - Non-trading	**850**	904	1,074
Other cash equivalents: Reverse repurchase agreements	**5,721**	3,613	2,539
Cash and cash equivalents at the end of the year	**42,474**	46,484	49,254

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

Company Statement of Changes in Equity

For the year ended 31 December

				Other reserves			
	Share capital £m	Share premium £m	Other equity instruments £m	Fair value £m	Cash flow hedging £m	Retained earnings £m	Total £m
At 1 January 2023	**3,105**	**5,620**	**1,956**	**5**	**(795)**	**2,552**	**12,443**
Profit after tax	**—**	**—**	**—**	**—**	**—**	**1,568**	**1,568**
Other comprehensive (expense)/income, net of tax:							
- Fair value reserve (debt instruments)	**—**	**—**	**—**	**(11)**	**—**	**—**	**(11)**
- Cash flow hedges	**—**	**—**	**—**	**—**	**604**	**—**	**604**
- Pension remeasurement	**—**	**—**	**—**	**—**	**—**	**(431)**	**(431)**
- Own credit adjustment	**—**	**—**	**—**	**—**	**—**	**(11)**	**(11)**
Total comprehensive (expense)/income	**—**	**—**	**—**	**(11)**	**604**	**1,126**	**1,719**
Other	**—**	**—**	**—**	**—**	**—**	**(3)**	**(3)**
Dividends on ordinary shares	**—**	**—**	**—**	**—**	**—**	**(1,530)**	**(1,530)**
Dividends on preference shares and other equity instruments	**—**	**—**	**—**	**—**	**—**	**(123)**	**(123)**
At 31 December 2023	**3,105**	**5,620**	**1,956**	**(6)**	**(191)**	**2,022**	**12,506**
At 1 January 2022	3,105	5,620	2,191	26	8	3,303	14,253
Profit after tax	—	—	—	—	—	848	848
Other comprehensive (expense)/income, net of tax:							
- Fair value reserve (debt instruments)	—	—	—	(21)	—	—	(21)
- Cash flow hedges	—	—	—	—	(803)	—	(803)
- Pension remeasurement	—	—	—	—	—	(455)	(455)
- Own credit adjustment	—	—	—	—	—	20	20
Total comprehensive (expense)/income	—	—	—	(21)	(803)	413	(411)
Issue of other equity instruments	—	—	750	—	—	—	750
Repurchase of other equity instruments	—	—	(985)	—	—	—	(985)
Dividends on ordinary shares	—	—	—	—	—	(1,014)	(1,014)
Dividends on preference shares and other equity instruments	—	—	—	—	—	(150)	(150)
At 31 December 2022	3,105	5,620	1,956	5	(795)	2,552	12,443
At 1 January 2021	3,105	5,620	2,191	29	267	3,177	14,389
Profit after tax	—	—	—	—	—	786	786
Other comprehensive (expense)/income, net of tax:							
- Fair value reserve (debt instruments)	—	—	—	(3)	—	—	(3)
- Cash flow hedges	—	—	—	—	(259)	—	(259)
- Pension remeasurement	—	—	—	—	—	844	844
- Own credit adjustment	—	—	—	—	—	1	1
Total comprehensive (expense)/income	—	—	—	(3)	(259)	1,631	1,369
Issue of other equity instruments	—	—	210	—	—	—	210
Repurchase of other equity instruments	—	—	(210)	—	—	—	(210)
Dividends on ordinary shares	—	—	—	—	—	(1,358)	(1,358)
Dividends on preference shares and other equity instruments	—	—	—	—	—	(147)	(147)
At 31 December 2021	3,105	5,620	2,191	26	8	3,303	14,253

The accompanying Notes to the Financial Statements form an integral part of these Financial Statements.

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 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 ways to meet 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 have a material impact at 31 December 2023 and 2022, 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 2023 and 2022, 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 5 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 20). 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.

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.

Future accounting developments

At 31 December 2023, for the Santander UK group, there were no significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective, or which have otherwise not been early adopted where permitted.

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 over their useful economic life of three to seven years 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 over their useful life of three to seven years, 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 15 years
Computer software	3 to 7 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.

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 government and corporate 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 22): 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. For IBOR reform see Note 41.

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 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 cash flow interest rate risk on its floating rate assets, foreign currency risk on its fixed rate debt issuances denominated in foreign currency and equity price risk arises from the Santander UK group 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 less than three months maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, reverse repurchase agreements and short-term investments in securities. 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 certain minimum cash ratio deposits held for regulatory purposes and 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. There has been no change in the inherent sensitivity of the areas of judgement in the period. Management have 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 charges
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	– Determining an appropriate definition of default – 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 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 29 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. Note 31 provides disclosure relating to ongoing factual issues and reviews that could impact the timing and amount of any outflows.

Note 31 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 in 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 these key judgements and estimates, see Notes 29 and 31.

c) Pensions

The Santander UK group operates a number of defined benefit pension schemes as described in Note 30 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 30.

Sensitivity of defined benefit pension scheme estimates

For detailed disclosures, see 'Actuarial assumption sensitivities' in Note 30. 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 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.

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 judgements:	– Determining the basis of goodwill impairment testing and the methodology for determining the carrying value of CGUs, including the need for planning assumptions and internal capital allocations
Key estimates:	– Forecast cash flows for cash generating units, including estimated allocations of regulatory capital – Growth rate beyond initial cash flow projections – 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 20.

Sensitivity of goodwill

For detailed disclosures, see 'Sensitivities of key assumptions in calculating VIU' in Note 20.

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** (formerly Retail 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 alongside 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 cover clients' needs both in the UK and overseas. In addition, Corporate and Investment Banking (CIB) provided services to corporate clients with an annual turnover of £500m and above. Santander UK transferred a significant part of the CIB business to the London branch of Banco Santander SA under a part VII banking business transfer scheme which completed on 11 October 2021. The residual parts of the business were wound down or transferred to other segments.

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[3]
For the year ended 31 December

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 operating credit impairment charges, provisions and charges	(382)	(33)	(55)	(70)	(540)
Profit/(loss) from continuing operations 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

(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.
(3) Total assets and total liabilities are no longer included in reports provided to the chief operating decision maker.

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	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 operating credit impairment charges, provisions and charges	(656)	(33)	(39)	(11)	(739)
Profit/(loss) from continuing operations before tax	1,542	198	345	(211)	1,874
Revenue/(expense) from external customers	4,109	513	732	(398)	4,956
Inter-segment revenue/(expense)	(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 cards	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/(expense) and commission income	199	15	119	(3)	330
31 December 2022					
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

2021	Retail & Business Banking £m	Consumer Finance £m	Corporate & Commercial Banking £m	Corporate & Investment Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	3,356	233	397	—	(37)	3,949
Non-interest income	205	178	112	—	55	550
Total operating income	3,561	411	509	—	18	4,499
Operating expenses before credit impairment (charges)/write-backs, provisions and charges	(1,701)	(163)	(365)	—	(281)	(2,510)
Credit impairment (charges)/write-backs	98	33	90	—	12	233
Provisions for other liabilities and charges	(185)	4	(34)	—	(162)	(377)
Total operating credit impairment (charges)/write-backs, provisions and charges	(87)	37	56	—	(150)	(144)
Profit/(loss) from continuing operations before tax	1,773	285	200	—	(413)	1,845
Revenue from external customers	4,010	489	619	—	(619)	4,499
Inter-segment revenue	(449)	(78)	(110)	—	637	—
Total operating income	3,561	411	509	—	18	4,499
Revenue from external customers includes the following fee and commission income:(1)						
– Current account and debit card fees	428	—	50	—	—	478
– Insurance, protection and investments	67	—	—	—	—	67
– Credit card fees	73	—	—	—	—	73
– Non-banking and other fees(2)	2	10	62	—	5	79
Total fee and commission income	570	10	112	—	5	697
Fee and commission expense	(380)	—	(22)	—	(9)	(411)
Net fee and commission income	190	10	90	—	(4)	286
Customer loans	183,023	4,984	19,281	—	—	207,288
Customer deposits	156,991	—	26,466	—	2,758	186,215
Average number of full-time equivalent staff	16,149	670	2,281	528	76	19,704

(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.
(3) Total assets and total liabilities are no longer included in reports provided to the chief operating decision maker.

The table below shows the relationships between Customer assets and Loans and advances to customers as presented in the Consolidated Balance Sheet. Customer assets 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. It also shows the relationship between customer liabilities (see above) and Deposits by customers as presented in the Consolidated Balance Sheet.

	Assets		Liabilities	
	2023	2022	**2023**	2022
	£m	£m	£m	£m
Customer balances (gross)	**203,054**	215,738	**187,445**	189,911
Loan loss allowance	**(914)**	(931)	**—**	—
Customer balances (net)	**202,140**	214,807	**187,445**	189,911
Intercompany balances	**4,544**	4,161	**2,825**	5,981
Accrued interest	**739**	649	**830**	230
Other items	**12**	99	**(250)**	(554)
Loans and advances to customers / Deposits by customers	**207,435**	219,716	**190,850**	195,568

3. NET INTEREST INCOME

			Group
	2023	2022	2021
	£m	£m	£m
Interest and similar income:			
Loans and advances to customers	**8,767**	5,774	4,619
Loans and advances to banks	**1,751**	618	52
Reverse repurchase agreements – non-trading	**626**	149	35
Other	**473**	167	56
Total interest and similar income(1)	**11,617**	6,708	4,762
Interest expense and similar charges:			
Deposits by customers	**(3,230)**	(905)	(430)
Deposits by banks	**(1,165)**	(496)	(25)
Repurchase agreements – non-trading	**(538)**	(120)	(3)
Debt securities in issue	**(1,852)**	(650)	(252)
Subordinated liabilities	**(169)**	(108)	(92)
Other	**(5)**	(4)	(11)
Total interest expense and similar charges(2)	**(6,959)**	(2,283)	(813)
Net interest income	**4,658**	4,425	3,949

(1) Includes £230m (2022: £87m, 2021: £22m) of interest income on financial assets at FVOCI.
(2) Includes £706m (2022: £6m, 2021: £317m) of interest expense on the effective part of derivatives hedging debt issuances and £3m (2022: £3m, 2021: £3m) of interest expense on lease liabilities.

4. NET FEE AND COMMISSION INCOME

			Group
	2023	2022	2021
	£m	£m	£m
Fee and commission income:			
Current account and debit card fees	**542**	562	478
Insurance, protection and investments	**47**	78	67
Credit cards	**94**	95	73
Non-banking and other fees(1)	**121**	104	79
Total fee and commission income	**804**	839	697
Total fee and commission expense	**(501)**	(509)	(411)
Net fee and commission income	**303**	330	286

(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

			Group
	2023	2022	2021
	£m	£m	£m
Net (losses)/gains on financial instruments designated at fair value through profit or loss(1)	**(57)**	62	(24)
Net (losses) on financial instruments mandatorily at fair value through profit or loss(2)	**(11)**	(75)	(2)
Hedge ineffectiveness	**19**	29	13
Net profit on sale of financial assets at fair value through other comprehensive income	**—**	—	6
Income from operating lease assets	**117**	129	136
Other	**67**	56	135
	135	201	264

(1) Net gains/(losses) on financial instruments designated at fair value through profit or loss include losses of £24m on deposits (2022: £35m gains, 2021 £18m losses), losses of £32m on debt securities (2022: £31m gains, 2021: £nil).
(2) Net gains/(losses) on financial instruments mandatorily at fair value through profit or loss include gains of £5m on debt securities (2022: £13m gains, 2021: £10m losses).

Net gains on financial instruments mandatorily at FVTPL includes fair value losses of £12m (2022: gains of £14m, 2021: losses of £15m) 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 £12m (2022: losses of £14m, 2021: gains of £15m). 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 (2022: £nil, 2021: £nil).

			Group
	2023	2022	2021
	£m	£m	£m
Exchange rate differences in the consolidated income statement on items not at fair value through profit and loss	**1,288**	(2,163)	242
These are principally offset by related releases from the cash flow hedge reserve	**(1,248)**	2,129	(358)

In 2023, the Santander UK group repurchased certain debt securities and subordinated liabilities as part of ongoing liability management exercises. For more, see Note 27.

In 2022, Other includes £7m of losses on the sale of property under our transformation programme. In 2021, Other includes £73m of property gains from the sale of our London head office and branch properties.

6. OPERATING EXPENSES BEFORE CREDIT IMPAIRMENT CHARGES, PROVISIONS AND CHARGES

For the year ended 31 December

			Group			Company
	2023	2022	2021	**2023**	2022	2021
	£m	£m	£m	**£m**	£m	£m
Staff costs:						
Wages and salaries	**839**	745	745	**787**	683	577
Performance-related payments	**162**	170	183	**156**	160	159
Social security costs	**115**	112	112	**109**	102	89
Pensions costs: – defined contribution plans	**71**	60	64	**67**	54	49
– defined benefit plans	**13**	28	38	**12**	25	29
Other personnel costs	**41**	44	41	**40**	42	38
	1,241	1,159	1,183	**1,171**	1,066	941
Other administration expenses	**925**	888	826	**890**	882	977
Depreciation, amortisation and impairment	**290**	296	501	**220**	219	373
	2,456	2,343	2,510	**2,281**	2,167	2,291

Staff costs

Performance-related payments' include bonuses paid in cash and share awards granted under the arrangements described in Note 36. 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 2023			Costs expected to be recognised in 2024 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**	**4**	**7**	5	7	12
Shares	**2**	**5**	**7**	4	7	11
	5	**9**	**14**	9	14	23

The following table shows the amount of bonus awarded to employees for the performance year 2023. 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	
	2023	2022	**2023**	2022	**2023**	2022
	£m	£m	**£m**	£m	**£m**	£m
Cash award – not deferred	**140**	145	**—**	—	**140**	145
– deferred	**7**	8	**12**	14	**19**	22
Shares award – not deferred	**8**	9	**—**	—	**8**	9
– deferred	**7**	8	**11**	14	**18**	22
Total discretionary bonus	**162**	170	**23**	28	**185**	198

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 36.

The average number of full-time equivalent staff was 19,546 (2022: 18,123, 2021: 19,704). For the Company, the average number of full-time equivalent staff was 18,631 (2022: 16,830, 2021: 15,188).

Depreciation, amortisation and impairment
In 2023, depreciation, amortisation and impairment included depreciation of £64m (2022: £73m, 2021: £81m) on operating lease assets (where the Santander UK group is the lessor) with a carrying amount of £488m at 31 December 2023 (2022: £577m, 2021: £595m). It also included depreciation of £30m (2022: £19m, 2021: £19m) on right-of-use assets with a carrying amount of £90m at 31 December 2023 (2022: £112m, 2021: £117m).

Other administration expenses includes £19m (2022: £21m, 2021: £23m) related to short-term leases.

In 2023, depreciation, amortisation and impairment included an impairment charge of £25m (2022: £10m, 2021: £88m) associated with branch and head office site closures as part of the transformation programme. For more, see Note 21.

For the Company, in 2023 impairment associated with branch and head office site closures as part of the transformation programme was £25m (2022: £10m, 2021: £63m).

7. AUDIT AND OTHER SERVICES

			Group
	2023	2022	2021
	£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 accounts	**13.9**	11.8	11.2
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**	0.7	0.9
Total audit fees(1)	**14.5**	12.5	12.1
Non-audit fees:			
Audit-related assurance services	**0.7**	0.6	0.8
Other assurance services	**0.5**	0.3	0.1
Other non-audit services	**0.1**	—	0.2
Total non-audit fees	**1.3**	0.9	1.1

(1) 2023 audit fees included £0.7m (2022: £0.6m, 2021: £1.2m) which related to the prior year.

Audit fees payable for the statutory audit of Santander UK plc were £12.7m (2022: £10.9m, 2021: £10.7m).

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 assurance services mainly comprised services performed in support of various debt issuance programmes.

Of the total non-audit fees, £0.3m (2022: £0.2m, 2021: £0.4m) accords with the definition of 'Audit Fees' per US Securities and Exchange Commission (SEC) guidance, £1.0m (2022: £0.7m, 2021: £0.7m) accords with the definition of 'Audit related fees' per that guidance and £12,550 (2022: £nil, 2021: £nil) accords with the definition of 'All other fees' per that guidance.

In 2023, the Company's auditors earned no fees (2022: £nil, 2021: £27,000 fees) payable by entities outside the Santander UK group for the review of the financial position of corporate and other borrowers.

In 2023, the Company's auditors earned £1.6m (2022: £1.6m, 2021: £1.4m), 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
	2023	2022	2021
	£m	£m	£m
Credit impairment charges/(write-backs):			
Loans and advances to customers	**191**	248	(186)
Recoveries of loans and advances, net of collection costs	**10**	36	(17)
Off-balance sheet credit exposures (See Note 29)	**4**	36	(30)
	205	320	(233)
Provisions for other liabilities and charges (excluding off-balance sheet credit exposures) (See Note 29)	**334**	422	386
Releases for residual value and voluntary termination	**1**	(3)	(9)
	335	419	377
	540	739	144

In 2023, 2022 and 2021 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

			Group
	2023	2022	2021
	£m	£m	£m
Current tax:			
UK corporation tax on profit for the year	**475**	526	401
Adjustments in respect of prior years	**(15)**	(81)	(24)
Total current tax	**460**	445	377
Deferred tax:			
Charge/(credit) for the year	**106**	(29)	100
Adjustments in respect of prior years	**(7)**	64	15
Total deferred tax	**99**	35	115
Tax on profit from continuing operations	**559**	480	492

The standard rate of UK corporation tax was 28% for banking entities and 24% for non-banking entities (2022: 27% for banking entities and 19% for non-banking entities; 2021: 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 2023 was 26.6% (2022: 25.6%, 2021: 26.7%). The tax on profit from continuing operations before tax differs from the theoretical amount that would arise using the basic corporation tax rate as follows:

For the year ended 31 December

			Group
	2023	2022	2021
	£m	£m	£m
Profit from continuing operations before tax	**2,100**	1,874	1,845
Tax calculated at a tax rate of 23.5% (2022:19%, 2021: 19%)	**494**	356	351
Bank surcharge on profits	**85**	121	104
Non-deductible preference dividends paid	**9**	9	9
Non-deductible UK Bank Levy	**10**	13	14
Non-deductible conduct remediation, fines and penalties	**13**	48	6
Other non-deductible costs and non-taxable income	**2**	29	37
Effect of change in tax rate on deferred tax provision	**2**	(29)	9
Tax relief on dividends in respect of other equity instruments	**(34)**	(40)	(40)
Adjustment to prior year provisions	**(22)**	(27)	2
Tax on profit from continuing operations	**559**	480	492

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK to implement the OECD Pillar Two model rules and which introduces a global minimum effective tax rate of 15% with effect from 1 January 2024. Santander UK will therefore fall within the scope of these rules from 2024.

It is not anticipated that the rules will impact Santander UK but the position will be kept under review.

Current tax assets and liabilities
Movements in current tax assets and liabilities during the year were as follows:

		Group		Company
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Assets	**478**	347	**557**	445
At 1 January	**478**	347	**557**	445
Income statement charge (including discontinued operations)	**(460)**	(445)	**(436)**	(243)
Other comprehensive income (charge)/credit	**(70)**	159	**—**	—
Corporate income tax received	**537**	405	**442**	353
Other movements	**5**	12	**5**	2
	490	478	**568**	557
Assets	**490**	478	**568**	557
At 31 December	**490**	478	**568**	557

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 proactively engages and cooperates with relevant tax authorities in their oversight of the company'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 has applied the UK's Code of Practice on Taxation for Banks following its adoption in 2010. For more information, see our Taxation Strategy on our website aboutsantander.co.uk.

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 and Company 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	Tax losses carried forward	Accelerated tax depreciation	Other temporary differences	Total
	£m	£m	£m	£m	£m	£m	£m	£m
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)**
At 1 January 2022	(123)	(508)	(7)	(12)	8	68	(5)	(579)
Income statement credit/(charge)	150	(49)	—	—	(7)	(33)	(96)	(35)
Transfers/reclassifications	—	—	2	—	(1)	—	(1)	—
Credited/(charged) to other comprehensive income	—	267	310	11	—	—	(9)	579
At 31 December 2022	27	(290)	305	(1)	—	35	(111)	(35)

	Fair value of financial instruments £m	Pension remeasurement £m	Cash flow hedges £m	Fair value reserve £m	Tax losses carried forward £m	Accelerated tax depreciation £m	Other temporary differences £m	Company Total £m
At 1 January 2023	**63**	**(290)**	**308**	**(1)**	**—**	**30**	**(34)**	**76**
Income statement (charge)/credit	**(74)**	**(63)**	**—**	**—**	**—**	**(17)**	**(7)**	**(161)**
Transfers/reclassifications	**—**	**—**	**1**	**—**	**—**	**—**	**2**	**3**
Credited/(charged) to other comprehensive income	**—**	**167**	**(235)**	**5**	**—**	**—**	**4**	**(59)**
At 31 December 2023	**(11)**	**(186)**	**74**	**4**	**—**	**13**	**(35)**	**(141)**
At 1 January 2022	(121)	(509)	(5)	(12)	5	45	(1)	(598)
Income statement credit/(charge)	184	(48)	—	—	(5)	(15)	(25)	91
Transfers/reclassifications	—	—	—	—	—	—	1	1
Credited/(charged) to other comprehensive income	—	267	313	11	—	—	(9)	582
At 31 December 2022	63	(290)	308	(1)	—	30	(34)	76

The deferred tax assets and liabilities above have been recognised in both the Company and 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 20) would not cause a reduction in the deferred tax assets recognised. There are £nil unrecognised deferred tax assets on capital losses carried forward (2022: £nil).

10. DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares declared and paid in the year were as follows:

	Group and Company			Group and Company		
	2023	2022	2021	**2023**	2022	2021
	Pence per share	Pence per share	Pence per share	**£m**	£m	£m
In respect of current year – first interim	**1.32**	1.25	0.90	**410**	389	281
– second interim	**3.61**	2.01	3.47	**1,120**	625	1,077
	4.93	3.26	4.37	**1,530**	1,014	1,358

In 2023 an interim dividend of £1,530m (2022: £1,014m, 2021: £1,358m) was paid on the Company's ordinary shares in issue. In 2023, £750m (2022: £300m) of the dividend was a special dividend. 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
			2023			2022
			Fair value			Fair value
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives held for trading:						
Exchange rate contracts	**12,927**	**92**	**217**	14,006	315	281
Interest rate contracts	**28,351**	**389**	**583**	31,135	465	754
Equity and credit contracts	**765**	**133**	**20**	902	130	25
Total derivatives held for trading	**42,043**	**614**	**820**	46,043	910	1,060
Derivatives held for hedging						
Designated as fair value hedges:						
Exchange rate contracts	**1,145**	**29**	**2**	538	12	4
Interest rate contracts	**107,540**	**1,275**	**839**	77,748	1,777	403
	108,685	**1,304**	**841**	78,286	1,789	407
Designated as cash flow hedges:						
Exchange rate contracts	**21,618**	**1,008**	**289**	26,035	1,717	186
Interest rate contracts	**50,896**	**553**	**915**	26,108	164	1,471
	72,514	**1,561**	**1,204**	52,143	1,881	1,657
Total derivatives held for hedging	**181,199**	**2,865**	**2,045**	130,429	3,670	2,064
Derivative netting[1]	**—**	**(2,047)**	**(2,047)**	—	(2,173)	(2,173)
Total derivatives	**223,242**	**1,432**	**818**	176,472	2,407	951

(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 472m (2022: 1,368m) and the amount of cash collateral paid that had been offset against the gross derivative liabilities was 12m (2022: 70m).

At 31 December 2023, the fair value of derivative assets included amounts due from Banco Santander group entities of £762m (2022: £1,319m) and the fair value of derivative liabilities included amounts due to Banco Santander group entities of £230m (2022: £207m).

	Company					
	2023			2022		
		Fair value			Fair value	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
Derivatives held for trading:						
Exchange rate contracts	**25,861**	**397**	**322**	30,287	850	413
Interest rate contracts	**62,005**	**560**	**1,918**	64,211	466	2,161
Equity and credit contracts	**765**	**133**	**20**	902	130	25
Total derivatives held for trading	**88,631**	**1,090**	**2,260**	95,400	1,446	2,599
Derivatives held for hedging						
Designated as fair value hedges:						
Exchange rate contracts	**948**	**23**	**2**	271	1	4
Interest rate contracts	**105,678**	**1,226**	**836**	75,962	1,742	380
	106,626	**1,249**	**838**	76,233	1,743	384
Designated as cash flow hedges:						
Exchange rate contracts	**14,910**	**869**	**256**	17,611	1,413	167
Interest rate contracts	**45,490**	**534**	**667**	19,192	164	1,047
	60,400	**1,403**	**923**	36,803	1,577	1,214
Total derivatives held for hedging	**167,026**	**2,652**	**1,761**	113,036	3,320	1,598
Derivative netting[1]	**—**	**(2,047)**	**(2,047)**	—	(2,173)	(2,173)
Total derivatives	**255,657**	**1,695**	**1,974**	208,436	2,593	2,024

(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 £472m (2022: £1,368m) and the amount of cash collateral paid that had been offset against the gross derivative liabilities was £12m (2022: £70m).

At 31 December 2023, for the Company, the fair value of derivative assets included amounts due from Banco Santander group entities of £762m (2022: £1,319m) and the fair value of derivative liabilities included amounts due to Banco Santander group entities of £230m (2022: £207m).

For information about the impact of netting arrangements on derivative assets and liabilities in the table above, see Note 40.

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 counterparties	**Not settled by central counterparties**	**Total**	**Traded over the counter**	**Traded over the counter**
2023	**£m**	**£m**	**£m**	**£m**	**£m**
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**
2022					
Exchange rate contracts	—	40,579	40,579	2,044	471
Interest rate contracts	124,638	10,353	134,991	233	455
Equity and credit contracts	—	902	902	130	25
	124,638	51,834	176,472	2,407	951

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 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
2023	**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)	**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 %**	
2022							
Fair value hedges:							
Interest rate risk	Interest rate contracts- Nominal amount (£m)	2,210	4,468	21,678	45,314	3,808	77,478
	Average fixed interest rate - GBP	2.58 %	0.88 %	0.56 %	2.07 %	3.78 %	
	Average fixed interest rate - EUR	1.77 %	1.60 %	0.77 %	0.28 %	3.09 %	
	Average fixed interest rate - USD	1.35 %	3.47 %	3.51 %	2.00 %	4.92 %	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	—	—	66	465	7	538
	Interest rate contracts - Nominal amount (£m)	—	—	—	263	7	270
	Average GBP - EUR exchange rate	—	—	1.20	1.16	1.10	
	Average GBP - USD exchange rate	—	—	—	1.19	—	
	Average fixed interest rate - EUR	—	—	3.42 %	2.06 %	—	
	Average fixed interest rate - USD	—	—	—	4.63 %	—	
Cash flow hedges:							
Interest rate risk	Interest rate contracts - Nominal amount (£m)	1,042	2,191	1,940	13,197	1,076	19,446
	Average fixed interest rate - GBP	1.77 %	2.29 %	1.98 %	2.35 %	1.84 %	
FX risk	Exchange rate contracts - Nominal amount (£m)	2,301	3,135	2,381	10,606	1,163	19,586
	Interest rate contracts - Nominal amount (£m)	415	—	—	2,325	997	3,737
	Average GBP - JPY exchange rate	—	157.45	160.04	—	—	
	Average GBP - CHF exchange rate	—	1.13	—	—	—	
	Average GBP - EUR exchange rate	—	—	1.12	1.18	1.17	
	Average GBP - USD exchange rate	1.22	1.25	1.17	1.31	1.39	
Interest rate/FX risk	Exchange rate contracts - Nominal amount (£m)	—	—	1,173	4,626	650	6,449
	Interest rate contracts - Nominal amount (£m)	—	—	585	2,132	208	2,925
	Average GBP - EUR exchange rate	—	—	1.19	1.21	1.20	
	Average GBP - USD exchange rate	—	—	1.60	1.50	1.54	
	Average fixed interest rate - GBP	—	—	3.27 %	2.58 %	4.59 %	

							Company
2023	**Hedging Instruments**	**≤1 month**	**>1 month 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)	**3,609**	**7,135**	**32,217**	**59,562**	**2,207**	**104,730**
	Average fixed interest rate – GBP	**2.38 %**	**3.19 %**	**3.42 %**	**3.87 %**	**3.52 %**	
	Average fixed interest rate – EUR	**1.14 %**	**0.18 %**	**0.45 %**	**0.21 %**	**0.58 %**	
	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**	**—**	**844**	**86**	**948**
	Interest rate contracts – Nominal amount (£m)	**—**	**18**	**—**	**844**	**86**	**948**
	Average GBP - EUR exchange rate	**—**	**1.11**	**—**	**1.15**	**1.15**	
	Average GBP - USD exchange rate	**—**	**—**	**—**	**1.32**	**—**	
	Average fixed interest rate – EUR	**—**	**—**	**—**	**2.39 %**	**3.48 %**	
	Average fixed interest rate – USD	**—**	**—**	**—**	**4.83 %**	**—**	
Cash flow hedges:							
Interest rate risk	Interest rate contracts – Nominal amount (£m)	**911**	**2,993**	**11,913**	**24,152**	**1,107**	**41,076**
	Average fixed interest rate - GBP	**5.06 %**	**2.98 %**	**5.66 %**	**4.05 %**	**3.24 %**	
FX risk	Exchange rate contracts – Nominal amount (£m)	**927**	**3,238**	**1,825**	**5,816**	**471**	**12,277**
	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**	**—**	**—**	
	Average GBP - EUR exchange rate	**—**	**1.20**	**—**	**1.18**	**—**	
	Average GBP - USD exchange rate	**—**	**1.39**	**—**	**1.28**	**1.39**	
Interest rate/FX risk	Exchange rate contracts – Nominal amount (£m)	**—**	**785**	**—**	**1,627**	**221**	**2,633**
	Interest rate contracts – Nominal amount (£m)	**—**	**—**	**—**	**1,107**	**166**	**1,273**
	Average GBP - EUR exchange rate	**—**	**—**	**—**	**1.37**	**—**	
	Average GBP - USD exchange rate	**—**	**1.66**	**—**	**1.38**	**1.54**	
	Average fixed interest rate – GBP	**—**	**2.54 %**	**—**	**2.65 %**	**4.59 %**	

2022							
Fair value hedges:							
Interest rate risk	Interest rate contracts – Nominal amount (£m)	2,210	4,468	21,678	44,330	3,005	75,691
	Average fixed interest rate – GBP	2.58 %	0.88 %	0.56 %	1.98 %	3.38 %	
	Average fixed interest rate – EUR	1.77 %	1.60 %	0.77 %	0.28 %	0.75 %	
	Average fixed interest rate – USD	1.35 %	3.47 %	3.51 %	2.00 %	4.92 %	
Interest rate/FX risk	Exchange rate contracts – Nominal amount (£m)	—	—	—	264	7	271
	Interest rate contracts – Nominal amount (£m)	—	—	—	264	7	271
	Average GBP - EUR exchange rate	—	—	—	1.14	1.10	
	Average GBP - USD exchange rate	—	—	—	1.19	—	
	Average fixed interest rate - EUR	—	—	—	0.46 %	—	
	Average fixed interest rate - USD	—	—	—	4.63 %	—	
Cash flow hedges:							
Interest rate risk	Interest rate contracts – Nominal amount (£m)	1,042	1,236	1,061	9,002	1,076	13,417
	Average fixed interest rate - GBP	1.77 %	3.31 %	2.09 %	2.53 %	1.84 %	
FX risk	Exchange rate contracts – Nominal amount (£m)	2,301	2,102	1,506	6,229	1,163	13,301
	Interest rate contracts – Nominal amount (£m)	415	—	—	2,325	997	3,737
	Average GBP - JPY exchange rate	—	157.45	160.04	—	—	
	Average GBP - CHF exchange rate	—	1.13	—	—	—	
	Average GBP - EUR exchange rate	—	—	1.14	1.19	1.17	
	Average GBP - USD exchange rate	1.22	1.19	1.17	1.32	1.39	
Interest rate/FX risk	Exchange rate contracts – Nominal amount (£m)	—	—	1,173	2,805	332	4,310
	Interest rate contracts – Nominal amount (£m)	—	—	585	1,245	208	2,038
	Average GBP - EUR exchange rate	—	—	1.19	1.37	—	
	Average GBP - USD exchange rate	—	—	1.60	1.50	1.54	
	Average fixed interest rate – GBP	—	—	3.24 %	2.70 %	4.50 %	

Net gains or losses arising from fair value and cash flow hedges included in other operating income

	Group			Company		
	2023	2022	2021	**2023**	2022	2021
	£m	£m	£m	**£m**	£m	£m
Fair value hedging:						
(Losses)/gains on hedging instruments	**(1,879)**	2,381	852	**(1,920)**	2,685	1,064
Gains/(losses) on hedged items attributable to hedged risks	**1,896**	(2,316)	(800)	**1,927**	(2,626)	(1,033)
Fair value hedging ineffectiveness	**17**	65	52	**7**	59	31
Cash flow hedging ineffectiveness	**2**	(36)	(39)	**—**	(34)	(29)
	19	29	13	**7**	25	2

Hedge ineffectiveness can be analysed by risk category as follows:

	2023			2022			Group 2021		
	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
Fair value hedges:	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Interest rate risk	**(1,865)**	**1,877**	**12**	2,392	(2,333)	59	874	(834)	40
Interest rate/FX risk	**(14)**	**19**	**5**	(11)	17	6	(22)	34	12
	(1,879)	**1,896**	**17**	2,381	(2,316)	65	852	(800)	52

		Group			
		Hedging Instruments			
		Change in FV	Recognised in OCI	Recognised in Income Statement	Reclassified from reserves to income
Cash flow hedges:	**Income statement line item affected by reclassification**	£m	£m	£m	£m
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
2021					
Interest rate risk	Net interest income	(317)	305	(12)	73
FX risk	Net interest income/other operating income	(54)	54	—	(158)
Interest rate/FX risk	Net interest income/other operating income	(541)	514	(27)	(273)
		(912)	873	(39)	(358)

									Company
			2023			2022			2021
	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
Fair value hedges:	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Interest rate risk	**(1,907)**	**1,916**	**9**	2,676	(2,622)	54	1,043	(1,019)	24
Interest rate/FX risk	**(13)**	**11**	**(2)**	9	(4)	5	21	(14)	7
	(1,920)	**1,927**	**7**	2,685	(2,626)	59	1,064	(1,033)	31

					Company
		Hedging Instruments			
		Change in FV	Recognised in OCI	Recognised in Income Statement	Reclassified from reserves to income
Cash flow hedges:	Income statement line item affected by reclassification	£m	£m	£m	£m
2023					
Interest rate risk	Net interest income	**418**	**(416)**	**2**	**(312)**
FX risk	Net interest income/other operating income	**(204)**	**200**	**(4)**	**(205)**
Interest rate/FX risk	Net interest income/other operating income	**(168)**	**170**	**2**	**(277)**
		46	**(46)**	**—**	**(794)**
2022					
Interest rate risk	Net interest income	(782)	782	—	(77)
FX risk	Net interest income/other operating income	1,295	(1,299)	(4)	1,366
Interest rate/FX risk	Net interest income/other operating income	67	(97)	(30)	442
		580	(614)	(34)	1,731
2021					
Interest rate risk	Net interest income	(214)	210	(4)	44
FX risk	Net interest income/other operating income	73	(76)	(3)	45
Interest rate/FX risk	Net interest income/other operating income	(190)	168	(22)	(38)
		(331)	302	(29)	51

In 2023, cash flow hedge accounting of £nil (2022: £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		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Balance at 1 January	**(1,575)**	129	**(1,102)**	15
Effective portion of changes in fair value:				
– Interest rate risk	**445**	(1,160)	**416**	(782)
– Foreign currency risk	**(377)**	1,604	**(200)**	1,299
– Interest rate/foreign currency risk	**(237)**	(19)	**(170)**	97
	(169)	425	**46**	614
Income statement transfers:				
– Interest rate risk	**469**	96	**312**	77
– Foreign currency risk	**392**	(1,692)	**205**	(1,366)
– Interest rate/foreign currency risk	**387**	(533)	**277**	(442)
	1,248	(2,129)	**794**	(1,731)
Balance at 31 December	**(496)**	(1,575)	**(262)**	(1,102)

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
	2023					2022				
		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 ineffective ness**	Carrying value	Hedged item	Portfolio hedge of interest rate risks	Of which Discontinued hedges	Change in value to calculate hedge ineffective ness
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fair value hedges										
Interest rate risk:										
Loans and advances to customers	**73,194**	**—**	**(625)**	**(435)**	**1,968**	60,783	—	(2,640)	(653)	(2,707)
Other financial assets at amortised cost	**152**	**1**	**(8)**	**(8)**	**5**	156	—	(12)	2	(14)
Reverse repurchase agreements – non trading	**6,186**	**—**	**—**	**—**	**4**	4,045	—	(5)	(1)	—
Other financial assets at FVOCI	**2,013**	**(113)**	**—**	**(131)**	**82**	2,325	(200)	—	35	(227)
Deposits by customers	**(15,892)**	**38**	**(10)**	**—**	**(53)**	(1,739)	24	5	—	33
Deposits by banks	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Debt securities in issue	**(4,091)**	**118**	**(75)**	**(114)**	**(128)**	(4,735)	321	(94)	(172)	528
Subordinated liabilities	**(522)**	**(27)**	**(1)**	**(42)**	**(1)**	(250)	(27)	(6)	(63)	54
Interest rate/FX risk:										
Other financial assets at FVOCI	**989**	**4**	**—**	**—**	**12**	237	(21)	—	1	(9)
Debt securities in issue	**(214)**	**(14)**	**—**	**(24)**	**8**	(290)	(18)	—	(37)	27
Subordinated liabilities	**—**	**—**	**—**	**—**	**(1)**	1	1	—	1	(1)
	61,815	**7**	**(719)**	**(754)**	**1,896**	60,533	80	(2,752)	(887)	(2,316)

	Group					
	2023			2022		
Hedged item balance sheet line item	Change in value to calculate hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances on cash flow hedge reserve for discontinued hedges £m	Change in value to calculate hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances on cash flow hedge reserve for discontinued hedges £m
Cash flow hedges:						
Interest rate risk:						
Loans and advances to customers	**(163)**	**(462)**	**1**	935	(1,010)	(1)
Cash and balances at central banks	**(281)**	**99**	**(76)**	233	(274)	(106)
Deposits by banks	**(1)**	**(1)**	**—**	(8)	7	—
FX risk:						
Other financial assets at FVOCI	**(253)**	**1**	**—**	—	(6)	—
Not applicable – highly probable forecast transactions	**88**	**1**	**—**	(349)	2	—
Deposits by customers	**(33)**	**—**	**—**	(167)	(2)	—
Debt securities in issue	**617**	**(9)**	**—**	(1,051)	(17)	(2)
Repurchase agreements - non trading	**(42)**	**—**	**—**	(37)	—	—
Interest rate/FX risk:						
Debt securities in issue/loans and advances to customers	**99**	**(75)**	**—**	56	(170)	(3)
Deposits by customers	**94**	**(39)**	**—**	—	(74)	—
Subordinated liabilities/loans and advances to customers	**44**	**(11)**	**52**	(37)	(31)	77
	169	**(496)**	**(23)**	(425)	(1,575)	(35)

	Company									
	2023					2022				
		Accumulated amount of FV hedge adjustments					Accumulated amount of FV hedge adjustments			
	Carrying value £m	Hedged item £m	Portfolio hedge of interest rate risks £m	Of which Discontinued hedges £m	Change in value to calculate hedge ineffectiveness £m	Carrying value £m	Hedged item £m	Portfolio hedge of interest rate risks £m	Of which Discontinued hedges £m	Change in value to calculate hedge ineffectiveness £m
Fair value hedges										
Interest rate risk:										
Loans and advances to customers	**73,117**	**—**	**(839)**	**(649)**	**1,967**	60,783	—	(2,915)	(928)	(2,707)
Other financial assets at amortised cost	**152**	**1**	**(8)**	**(8)**	**5**	156	—	(12)	2	(14)
Reverse repurchase agreements – non trading	**6,186**	**—**	**—**	**—**	**4**	4,045	—	(5)	(1)	—
Other financial assets at FVOCI	**2,013**	**(113)**	**—**	**(131)**	**82**	2,325	(200)	—	35	(227)
Deposits by customers	**(16,031)**	**38**	**(10)**	**—**	**(53)**	(3,029)	77	5	(22)	133
Deposits by banks	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Debt securities in issue	**(2,312)**	**35**	**—**	**—**	**(88)**	(1,722)	128	—	—	145
Subordinated liabilities	**(524)**	**(28)**	**—**	**(42)**	**(1)**	(207)	15	—	(13)	48
Interest rate/FX risk:										
Other financial assets at FVOCI	**989**	**4**	**—**	**—**	**12**	237	(21)	—	1	(9)
Subordinated liabilities	**—**	**—**	**—**	**—**	**(1)**	(46)	(46)	—	(46)	5
	63,590	**(63)**	**(857)**	**(830)**	**1,927**	62,542	(47)	(2,927)	(972)	(2,626)

	Company					
	2023			2022		
Hedged item balance sheet line item	**Change in value to calculate hedge ineffectiveness £m**	**Cash flow hedge reserve £m**	**Balances on cash flow hedge reserve for discontinued hedges £m**	Change in value to calculate hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances on cash flow hedge reserve for discontinued hedges £m
Cash flow hedges:						
Interest rate risk:						
Loans and advances to customers	**(133)**	**(268)**	**1**	557	(630)	(1)
Cash and balances at central banks	**(281)**	**99**	**(76)**	233	(274)	(107)
Deposits by banks	**(1)**	**(1)**	**—**	(8)	7	—
FX risk:						
Other financial assets at FVOCI	**(253)**	**1**	**—**	—	(6)	—
Not applicable – highly probable forecast transactions	**88**	**1**	**—**	(349)	2	—
Deposits by customers	**(33)**	**—**	**—**	(166)	(2)	—
Debt securities in issue	**440**	**(13)**	**—**	(747)	(10)	—
Repurchase agreements - non trading	**(42)**	**—**	**—**	(37)	—	—
Interest rate/FX risk:						
Debt securities in issue/loans and advances to customers	**35**	**(21)**	**(2)**	(53)	(60)	(11)
Deposits by customers	**94**	**(41)**	**(2)**	(6)	(76)	(5)
Subordinated liabilities/loans and advances to customers	**41**	**(19)**	**44**	(38)	(53)	60
	(45)	**(262)**	**(35)**	(614)	(1,102)	(64)

12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Loans and advances to customers:				
Loans to housing associations	**8**	4	**8**	4
Other loans	**38**	41	**38**	41
	46	45	**46**	45
Debt securities	**167**	15	**168**	14
Other debt instruments	**49**	69	**—**	—
	262	129	**214**	59

For the Santander UK group, other financial assets at FVTPL comprised £8m (2022: £16m) of financial assets designated at FVTPL and £254m (2022: £113m) of financial assets mandatorily held at FVTPL. For the Company, other financial assets at FVTPL comprised £8m (2022: £16m) of financial assets designated at FVTPL and £206m (2022: £43m) 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. Since 2009, the Santander UK group's policy has been not to designate similar new loans at FVTPL.

The net loss in the year attributable to changes in credit risk for loans and advances at FVTPL was £nil (2022: £1m, 2021: £nil). The cumulative net loss attributable to changes in credit risk for loans and advances at FVTPL at 31 December 2023 was £3m (2022: £3m, 2021: £2m).

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Loans secured on residential properties	**172,854**	184,317	**172,854**	184,317
Corporate loans	**18,267**	19,057	**17,794**	18,525
Finance leases	**4,530**	4,645	**—**	—
Other unsecured loans	**7,232**	7,742	**7,065**	7,447
Accrued interest and other adjustments	**943**	688	**882**	687
Amounts due from fellow Banco Santander subsidiaries and joint ventures	**4,489**	4,220	**4**	69
Amounts due from Santander UK Group Holdings plc	**55**	—	**55**	—
Amounts due from subsidiaries	**—**	—	**25,903**	25,089
Loans and advances to customers	**208,370**	220,669	**224,557**	236,134
Credit impairment loss allowances on loans and advances to customers	**(914)**	(931)	**(1,046)**	(1,063)
Residual value and voluntary termination provisions on finance leases	**(21)**	(22)	**—**	—
Net loans and advances to customers	**207,435**	219,716	**223,511**	235,071

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					
	2023			2022		
	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	**1,502**	**(216)**	**1,286**	1,493	(182)	1,311
Later than one year and not later than two years	**1,426**	**(208)**	**1,218**	1,367	(168)	1,199
Later than two years and not later than three years	**1,331**	**(194)**	**1,137**	1,190	(147)	1,043
Later than three years and not later than four years	**882**	**(129)**	**753**	1,044	(129)	915
Later than four years and not later than five years	**99**	**(14)**	**85**	143	(18)	125
Later than five years	**60**	**(9)**	**51**	59	(7)	52
	5,300	**(770)**	**4,530**	5,296	(651)	4,645

At 31 December 2023 and 2022, the Company had no finance lease and hire purchase contract receivables.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 £1,830m (2022: £1,761m) 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 (2022: £nil, 2021: £nil) was earned in the year, which was classified in 'Interest and similar income'. Finance income on the net investment in finance leases was £266m (2022: £230m, 2021: £243m).

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 2023 and 2022, the Santander UK group had contracted with lessees for the following future undiscounted minimum lease payments receivable under operating leases.

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
No later than one year	**28**	31	**27**	30
Later than one year and not later than two years	**26**	27	**24**	26
Later than two years and not later than three years	**18**	22	**17**	22
Later than three years and not later than four years	**14**	13	**13**	12
Later than four years and not later than five years	**7**	11	**6**	10
Later than five years	**18**	21	**13**	15
	111	125	**100**	115

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 2023 and 2022 are listed below.

						Group
	Gross assets		External notes in issue		Notes issued to Santander UK plc/subsidiaries as collateral	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
Mortgage-backed master trust structures:						
– Holmes	**3,242**	1,646	**2,119**	790	**300**	176
– Fosse	**2,048**	2,028	**100**	100	**1,382**	1,365
	5,290	3,674	**2,219**	890	**1,682**	1,541
Other asset-backed securitisation structures:						
– Motor	**—**	6	**—**	7	**—**	—
– Repton	**757**	—	**550**	—	**—**	—
	757	6	**550**	7	**—**	—
Total securitisation programmes	**6,047**	3,680	**2,769**	897	**1,682**	1,541
Covered bond programme:						
– Euro 35bn Global Covered Bond Programme	**21,880**	21,304	**15,000**	15,205	**—**	—
Total securitisation and covered bond programmes	**27,927**	24,984	**17,769**	16,102	**1,682**	1,541

						Company
	Gross assets		External notes in issue		Notes issued to Santander UK plc/subsidiaries as collateral	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
Covered bond programme:						
– Euro 35bn Global Covered Bond Programme	**21,880**	21,304	**15,087**	15,348	**—**	—
Total securitisation and covered bond programmes	**21,880**	21,304	**15,087**	15,348	**—**	—

The following table sets out the internal and external issuances and redemptions in 2023 and 2022 for each securitisation and covered bond programme.

								Group
	Internal issuances		External issuances		Internal redemptions		External redemptions	
	2023	2022	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m	£m	£m
Mortgage-backed master trust structures:								
– Holmes	**241**	—	**1,500**	600	**121**	100	**186**	200
– Fosse	**—**	—	**—**	—	**—**	—	**—**	200
Other asset-backed securitisation structures:								
– Motor	**—**	—	**—**	—	**—**	—	**7**	33
– Repton	**—**	—	**550**	—	**—**	—	**—**	—
Covered bond programme:								
– Euro 35bn Global Covered Bond Programme	**—**	—	**—**	4,200	**—**	100	**—**	1,700
	241	—	**2,050**	4,800	**121**	200	**193**	2,133

								Company
	Internal issuances		External issuances		Internal redemptions		External redemptions	
	2023	2022	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m	£m	£m
Covered bond programme:								
– Euro 35bn Global Covered Bond Programme	**1,100**	—	**1,844**	4,200	**16**	100	**1,897**	1,700
	1,100	—	**1,844**	4,200	**16**	100	**1,897**	1,700

During 2023, the remaining asset-backed notes from the Motor securitisation structure were redeemed. In 2023 Repton 2023-1 Limited borrowed £550m through an asset-backed variable funding note facility. Repayment of this will begin in 2025.

Holmes Funding Ltd has a beneficial interest of £2,396m (2022: £796m) 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 £1,393m (2022: £1,465m) 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 £80m (2022: £112m), 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 £108m (2022: £108m), which have been accumulated to finance the redemption of a number of securities issued by 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 securitised under 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 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 vehicle, retaining an interest in the securitisation 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 following table analyses the carrying amount of financial assets that did not qualify for derecognition and their associated financial liabilities:

				Group
		2023		2022
	Assets	**Liabilities**	Assets	Liabilities
Nature of transaction	**£m**	**£m**	£m	£m
Sale and repurchase agreements	**14**	**(15)**	120	(128)
Securities lending agreements	**3,136**	**(2,735)**	2,871	(2,509)
Securitisations (See Notes 14 and 26)	**6,047**	**(2,769)**	3,680	(897)
	9,197	**(5,519)**	6,671	(3,534)

				Company
		2023		2022
	Assets	**Liabilities**	Assets	Liabilities
Nature of transaction	**£m**	**£m**	£m	£m
Sale and repurchase agreements	**14**	**(14)**	133	(141)
Securities lending agreements	**2,228**	**(2,735)**	1,971	(2,008)
	2,242	**(2,749)**	2,104	(2,149)

16. REVERSE REPURCHASE AGREEMENTS – NON-TRADING

		Group		Company
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Agreements with banks	**2,397**	885	**2,397**	885
Agreements with customers	**10,071**	6,463	**10,071**	6,463
	12,468	7,348	**12,468**	7,348

17. OTHER FINANCIAL ASSETS AT AMORTISED COST

		Group		Company
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Asset backed securities	**—**	—	**1,681**	1,551
Debt securities	**152**	156	**152**	156
	152	156	**1,833**	1,707

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

The Company's asset backed securities include investments in debt securities issued by Santander UK structured entities.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Debt securities	**8,481**	6,024	**8,481**	6,024
	8,481	6,024	**8,481**	6,024

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

19. INTERESTS IN OTHER ENTITIES

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Subsidiaries	**—**	—	**1,220**	1,232
Joint Ventures	**245**	252	**—**	—
	245	252	**1,220**	1,232

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.

Details of subsidiaries and joint ventures are set out in the Shareholder Information section and form an integral part of these financial statements.

Details of subsidiaries benefitting from an audit exemption according to section 479A of the Companies Act 2006 are also set out in the Shareholder Information section and form an integral part of these financial statements.

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.

The movement in the Company's interests in subsidiaries was as follows:

	Company		
	Cost	Impairment	Carrying amount
	£m	£m	£m
At 1 January 2023	**1,234**	**(2)**	**1,232**
Reversal	**(14)**	**2**	**(12)**
At 31 December 2023	**1,220**	**—**	**1,220**
At 1 January 2022	1,249	(2)	1,247
Reversal	(15)	—	(15)
At 31 December 2022	1,234	(2)	1,232

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 2023, Santander UK's share in the profit after tax of its joint ventures was £43m (2022: £36m) before elimination of transactions between Santander UK and the joint ventures. At 31 December 2023, the carrying amount of Santander UK's interest was £245m (2022: £252m). At 31 December 2023 and 2022, 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 £8,551m (2022: £8,646m) 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 30. 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 four (2022: 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.

Santander UK has no holdings in senior credit linked notes (2022: £180m). Junior credit linked notes, which amounted to £185m (2022: £465m), are all held by third party investors and suffer the first losses incurred in the referenced portfolios. Funds raised by the sale of the credit linked notes are deposited with Santander UK as collateral for the credit protection.

The senior credit linked notes, along with the deposits and associated guarantees, are presented on a net basis, to reflect a legal right of set-off between the principal amounts of senior notes and the cash deposits. Deposits and associated guarantees in respect of the junior credit linked notes are included in 'Deposits by customers' (see Note 23).

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 (including those held by Santander UK) 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.

Structured entities not sponsored by the Santander UK group
Santander UK also has interests in structured entities which it does not sponsor or control. These consist of holdings of mortgage and other asset backed securities issued by entities that were established and/or sponsored by other unrelated financial institutions. These securities comprise the asset backed securities included in Note 17. Management has concluded that the Santander UK group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss.

20. INTANGIBLE ASSETS

a) Goodwill

	Group			Company		
	Cost	Accumulated impairment	Carrying amount	Cost	Accumulated impairment	Carrying amount
	£m	£m	£m	£m	£m	£m
At 31 December 2022 and 1 January 2023 and 31 December 2023	**1,269**	**(70)**	**1,199**	**1,194**	**(4)**	**1,190**

Impairment of goodwill

In 2023 and 2022, 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 risks of ongoing global conflicts, places increasing uncertainty on 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 2023 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	
	2023	2022	**2023**	2022	**2023**	2022
CGU	**£m**	£m	**%**	%	**%**	%
Personal Financial Services	**1,169**	1,169	**16.7**	16.6	**1.6**	1.6
Private Banking	**30**	30	**14.6**	15.3	**1.6**	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 2023, 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 2026. 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 2023, 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 31), 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 2023.

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 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 Brexit, climate change and higher living costs, driven by high inflation and rising interest rates.

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 2023 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 2023 and 31 December 2022, 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 key 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% (2022: 5%).
	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 (2022: 100 basis points).
	GDP growth rate	– High oil / gas prices – Elevated wage growth – Weak productivity – Large government debt burden – Fragile business and consumer confidence	– Inflation and interest rates stay higher for longer, hitting the disposable income of our customers – Affects the profitability of our customers – Limits the scope for tax cuts, hitting the disposable income of our customers – Affects business and consumer spending decisions of our customers	– GDP Growth rate decreases by 10% (2022: 10%)

At 31 December 2023 and 31 December 2022, 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 reduction in headroom as follows.

		Reduction in headroom	
		2023	2022
CGU	Reasonably possible change	**£m**	£m
Personal Financial Services	Cash flow projections decrease by 10% (2022: 5%)	**(818)**	(538)
	Discount rate increases by 100 basis points (2022: 100 basis points)	**(663)**	(887)
	GDP Growth rate decreases by 10% (2022: 10%)	**(19)**	(31)

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 2023, 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 2023, there was a decrease in headroom arising from a decline in cash flow forecasts, this is partially offset by a decrease to RWAs which has 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.

2023	**Carrying value**	**Value in use**	**Headroom**	**Increase in discount rate**	**Decrease in GDP growth rate**	**Decrease in cash flows**
CGU	**£m**	**£m**	**£m**	**bps**	**%**	**%**
Personal Financial Services	**7,513**	**8,178**	**665**	**101**	**4**	**8**
2022						
Personal Financial Services	8,860	10,752	1,892	239	13	18

b) Other intangibles

	Group			Company		
	Cost	Accumulated amortisation/ impairment	Carrying amount	Cost	Accumulated amortisation/ impairment	Carrying amount
	£m	£m	£m	£m	£m	£m
At 1 January 2023	**1,261**	**(910)**	**351**	**1,309**	**(970)**	**339**
Additions	**114**	**—**	**114**	**109**	**—**	**109**
Disposals	**(36)**	**36**	**—**	**(36)**	**36**	**—**
Charge	**—**	**(116)**	**(116)**	**—**	**(113)**	**(113)**
At 31 December 2023	**1,339**	**(990)**	**349**	**1,382**	**(1,047)**	**335**
At 1 January 2022	1,334	(992)	342	1,373	(1,043)	330
Additions	112	—	112	109	—	109
Disposals	(185)	185	—	(173)	173	—
Charge	—	(100)	(100)	—	(97)	(97)
Impairment	—	(3)	(3)	—	(3)	(3)
At 31 December 2022	1,261	(910)	351	1,309	(970)	339

Other intangibles which consist of computer software, include computer software under development of £157m (2022: £149m), of which £35m is internally generated (2022: £33m). For the Company, £26m of computer software under development is internally generated (2022: £11m).

The impairment charge of £nil (2022: £3m) relates to computer software no longer expected to yield future economic benefits as it has become obsolete.

21. 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 2023	**889**	**823**	**72**	**722**	**267**	**2,773**
Additions	**87**	**83**	**—**	**85**	**31**	**286**
Reclassification (to)/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 period	**17**	**62**	**—**	**64**	**30**	**173**
Impairment during the period	**—**	**—**	**—**	**—**	**(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**

	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 2022	978	1,049	434	755	254	3,470
Additions	61	86	—	185	38	370
Reclassification to assets held for sale	(98)	(13)	—	—	—	(111)
Disposals	(52)	(299)	(362)	(218)	(25)	(956)
At 31 December 2022	889	823	72	722	267	2,773
Accumulated depreciation:						
At 1 January 2022	334	857	434	160	137	1,922
Charge for the year	18	68	1	73	19	179
Impairment during the year	8	2	—	—	—	10
Reclassification to assets held for sale	(49)	(13)	—	—	—	(62)
Disposals	(41)	(296)	(363)	(88)	(1)	(789)
At 31 December 2022	270	618	72	145	155	1,260
Carrying amount	619	205	—	577	112	1,513

(1) Property includes investment properties of £17m (2022: £17m) and assets under construction of £nil (2022: £204m). In September 2023, we completed the construction of a new head office in Milton Keynes.

					Company
	Property	**Office fixtures and equipment**	**Computer software**	**Right-of-use assets**	**Total[(1)]**
	£m	**£m**	**£m**	**£m**	**£m**
Cost:					
At 1 January 2023	**834**	**800**	**61**	**252**	**1,947**
Additions	**87**	**83**	**—**	**29**	**199**
Reclassification (to)/from assets held for sale	**8**	**—**	**—**	**—**	**8**
Disposals	**(16)**	**(29)**	**—**	**(34)**	**(79)**
At 31 December 2023	**913**	**854**	**61**	**247**	**2,075**
Accumulated depreciation:					
At 1 January 2023	**223**	**594**	**61**	**151**	**1,029**
Charge for the year	**17**	**62**	**—**	**28**	**107**
Impairment during the year	**—**	**—**	**—**	**(11)**	**(11)**
Disposals	**(12)**	**(26)**	**—**	**—**	**(38)**
At 31 December 2023	**228**	**630**	**61**	**168**	**1,087**
Carrying amount	**685**	**224**	**—**	**79**	**988**
Cost:					
At 1 January 2022	923	1,023	424	239	2,609
Additions	61	86	—	36	183
Reclassification to assets held for sale	(98)	(13)	—	—	(111)
Disposals	(52)	(296)	(363)	(23)	(734)
At 31 December 2022	834	800	61	252	1,947
Accumulated depreciation:					
At 1 January 2022	287	831	423	133	1,674
Charge for the year	18	68	1	18	105
Impairment during the year	8	2	—	—	10
Reclassification to assets held for sale	(49)	(13)	—	—	(62)
Disposals	(41)	(294)	(363)	—	(698)
At 31 December 2022	223	594	61	151	1,029
Carrying amount	611	206	—	101	918

(1) Property includes investment properties of £17m (2022: £17m) and assets under construction of £nil (2022: £204m). In September 2023, we completed the construction of a new head office in Milton Keynes.

In 2023, right-of-use assets were impaired as a result of our multi-year transformation project. 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.

22. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Company
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Structured Notes Programmes	**369**	375	**369**	375
Structured deposits	**426**	321	**426**	321
Zero Amortising Guaranteed Notes	**104**	107	**104**	107
	899	803	**899**	803

For the Santander UK group and the Company, all (2022: 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 £21m (2022: £25m gain, 2021: £12m loss). The cumulative net loss attributable to changes in the Santander UK group's own credit risk on the above securities at 31 December 2023 was £6m (2022: £15m gain, 2021: £10m loss).

At 31 December 2023, the amount that would be required to be contractually paid at maturity of the securities above was £97m (2022: £138m) higher than the carrying value.

23. DEPOSITS BY CUSTOMERS

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Demand and time deposits[1]	**188,004**	189,587	**183,010**	184,244
Amounts due to other Santander UK Group Holdings plc subsidiaries	**114**	67	**22,524**	19,890
Amounts due to Santander UK Group Holdings plc[2]	**1,772**	4,759	**1,772**	4,759
Amounts due to fellow Banco Santander subsidiaries and joint ventures	**960**	1,155	**210**	201
	190,850	195,568	**207,516**	209,094

(1) Includes capital amount guaranteed / protected equity index-linked deposits of £304m (2022: £408m).
(2) Includes downstreamed funding from our immediate parent company Santander UK Group Holdings plc.

24. DEPOSITS BY BANKS

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Items in the course of transmission	**732**	701	**719**	694
Deposits held as collateral	**860**	1,741	**860**	1,741
Other deposits[1]	**18,737**	26,082	**18,733**	26,076
Amounts due to Santander UK subsidiaries	**3**	1	**5,387**	5,673
	20,332	28,525	**25,699**	34,184

(1) Includes drawdown from the TFSME of £17.0bn (2022: £25.0bn).

25. REPURCHASE AGREEMENTS – NON TRADING

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Agreements with banks	**551**	50	**551**	50
Agreements with customers	**7,860**	7,932	**7,860**	7,932
	8,411	7,982	**8,411**	7,982

26. DEBT SECURITIES IN ISSUE

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Medium-term notes:				
– US$30bn Euro Medium Term Note Programme	**744**	739	**744**	739
– Euro 30bn Euro Medium Term Note Programme	**3,784**	3,211	**3,784**	3,202
- US SEC-registered Debt Programme - Santander UK plc	**7,128**	6,694	**7,128**	6,707
	11,656	10,644	**11,656**	10,648
Euro 35bn Global Covered Bond Programme	**15,000**	15,205	**15,087**	15,348
US$20bn Commercial Paper Programmes	**2,761**	1,851	**2,761**	1,851
Certificates of deposit	**1,530**	2,874	**1,530**	2,874
Credit linked notes	**194**	60	**194**	—
Securitisation programmes	**2,769**	897	**—**	—
	33,910	31,531	**31,228**	30,721

27. SUBORDINATED LIABILITIES

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
£325m Sterling preference shares	**343**	344	**343**	344
Undated subordinated liabilities	**205**	219	**205**	220
Dated subordinated liabilities	**1,838**	1,769	**1,839**	1,772
	2,386	2,332	**2,387**	2,336

In 2023, certain subordinated liabilities were repurchased as part of ongoing liability management exercises, resulting in a profit of £4m (2022: a loss of £5m).

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 2023 and 2022, 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

	First call date	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
10.0625% Exchangeable capital securities	n/a	**205**	205	**205**	205
7.125% 30 Year Step-up perpetual callable subordinated notes	2030	**—**	14	**—**	15
		205	219	**205**	220

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 7.125% 30 Year Step-up perpetual callable subordinated notes are redeemable at any time, and 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

	Maturity	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
5% Subordinated notes	2023	**—**	591	**—**	591
4.75% Subordinated notes	2025	**326**	608	**326**	608
7.95% Subordinated notes	2029	**193**	207	**193**	207
6.50% Subordinated notes	2030	**1**	22	**1**	24
5.875% Subordinated notes	2031	**7**	7	**8**	8
5.625%Subordinated notes	2045	**222**	334	**222**	334
7.869% Subordinated notes	2033	**321**	—	**321**	—
8.296% Subordinated notes	2033	**768**	—	**768**	—
		1,838	1,769	**1,839**	1,772

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.

28. OTHER LIABILITIES

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Lease liabilities	**111**	125	**100**	115
Other	**2,368**	2,456	**2,271**	2,281
	2,479	2,581	**2,371**	2,396

29. PROVISIONS

	Customer remediation	Litigation and other regulatory	Bank Levy	Property	ECL on undrawn facilities and guarantees	Restructuring	Other	Total
								Group
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	90	136	3	47	74	21	7	378
Additional provisions (See Note 8)	45	28	44	16	4	56	168	361
Provisions released (See Note 8)	(8)	—	(8)	(6)	—	—	—	(22)
Utilisation and other	(21)	(32)	(95)	(10)	—	(45)	(168)	(371)
Recharge[1]	—	—	20	—	—	—	—	20
Reclassification from provisions to other assets	—	—	36	—	—	—	—	36
At 31 December 2023	106	132	—	47	78	32	7	402

(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 2023 were £217m (2022: £130m).

	Customer remediation	Litigation and other regulatory	Bank Levy	Property	ECL on undrawn facilities and guarantees	Restructuring	Other	Total
								Company
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	90	136	1	47	74	21	5	374
Additional provisions (See Note 8)	45	28	40	16	4	56	159	348
Provisions released (See Note 8)	(8)	—	(8)	(6)	—	—	—	(22)
Utilisation and other	(21)	(39)	(89)	(10)	—	(45)	(157)	(361)
Recharge[1]	—	—	20	—	—	—	—	20
Reclassification from provisions to other assets	—	—	36	—	—	—	—	36
At 31 December 2023	106	125	—	47	78	32	7	395

(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 by the Company within no more than 12 months after 31 December 2023 were £209m (2022: £130m).

a) Customer remediation

Net provisions of £37m were recognised in 2023 for customer remediations. An additional provision of £45m was recognised in 2023 for customer remediation exercises relating to our mortgage book. £30m of this relates to the proposed refund of interest inconsistently charged on mortgage products for customers in Financial Support, and £10m relates to the proposed refund of early repayment charges paid by a specific group of customers who historically switched mortgage products. The 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 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 2023 there were charges of £12m for legal provisions and £16m for regulatory fees and other issues.

The balance also included 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 31. No further information on the best estimate is provided on the basis that it would be seriously prejudicial.

c) Bank Levy

In 2023, a rate of 0.05% (2022: 0.05%) was charged on long term chargeable equity and liabilities and 0.10% on short-term chargeable liabilities (2022: 0.10%).

d) 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 included £4m of transformation charges in 2023. These charges consist of costs relating to leasehold head office closures, along with decommissioning costs relating to freehold head office sites which are either closing or consolidating.

e) ECL on undrawn facilities and guarantees

Provisions include expected credit losses relating to guarantees given to third parties and undrawn loan commitments.

f) Restructuring

Restructuring provisions relate to severance costs associated with transformation and organisational changes. The provision includes a charge of £51m as part of our multi-year transformation programme to improve future returns, focused on simplifying, digitising and automating the bank.

g) 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 2023, other provisions included charges for operational risk provisions of £163m, including fraud losses of £136m.

30. RETIREMENT BENEFIT PLANS

The amounts recognised in the balance sheet were as follows:

	Group and Company	
	2023	2022
	£m	£m
Assets/(liabilities)		
Funded defined benefit pension scheme - surplus	**723**	1,050
Funded defined benefit pension scheme - deficit	**(41)**	—
Unfunded pension and post-retirement medical benefits	**(25)**	(25)
Total net assets	**657**	1,025

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 £71m (2022: £60m) was recognised for defined contribution plans in the period 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 7% (2022: 10%) 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 (2022: six) Directors selected by Santander UK Group Holdings plc, plus four (2022: four) member-nominated Directors selected from eligible members who apply for the role.

The assets of the funded schemes including 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 charged to the income statement was as follows:

	Group		
	2023	2022	2021
	£m	£m	£m
Net interest income	**(54)**	(30)	(5)
Current service cost	**13**	30	38
Past service and GMP costs	**1**	—	—
Past service curtailment costs	**—**	—	5
Administration costs	**7**	9	8
	(33)	9	46

The amounts recognised in other comprehensive income were as follows:

	Group		
	2023	2022	2021
	£m	£m	£m
Return on plan assets (excluding amounts included in net interest expense)	**352**	5,527	(454)
Actuarial (gains) arising from changes in demographic assumptions	**(51)**	(122)	(17)
Actuarial losses/(gains) arising from experience adjustments	**91**	481	(19)
Actuarial losses/(gains) arising from changes in financial assumptions	**206**	(5,164)	(774)
Pension remeasurement	**598**	722	(1,264)

Movements in the present value of defined benefit scheme obligations were as follows:

	Group and Company	
	2023	2022
	£m	£m
At 1 January	**(7,933)**	(12,878)
Current service cost paid by Santander UK plc	**(13)**	(29)
Current service cost paid by subsidiaries	**—**	(1)
Interest cost	**(379)**	(241)
Employer salary sacrifice contributions	**(1)**	(2)
Past service cost	**(1)**	—
Remeasurement due to actuarial movements arising from:		
– Changes in demographic assumptions	**51**	122
– Experience adjustments	**(91)**	(481)
– Changes in financial assumptions	**(206)**	5,164
Benefits paid	**372**	413
At 31 December	**(8,201)**	(7,933)

Movements in the fair value of the schemes' assets were as follows:

	Group and Company	
	2023	2022
	£m	£m
At 1 January	**8,958**	14,413
Interest income	**433**	271
Contributions paid by employer and scheme members	**198**	223
Administration costs paid	**(7)**	(9)
Return on plan assets (excluding amounts included in net interest expense)	**(352)**	(5,527)
Benefits paid	**(372)**	(413)
At 31 December	**8,858**	8,958

The composition and fair value of the schemes' assets by category was:

							Group and Company
	Quoted prices in active markets		Prices not quoted in active markets		Total		Valuation
2023	£m	%	£m	%	£m	%	technique
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**	
2022							
Overseas equities	—	—	1,172	13	1,172	13	A,C
Corporate bonds	1,991	22	244	3	2,235	25	A,C
Government fixed interest bonds	1,138	13	—	—	1,138	13	A
Government index-linked bonds	5,525	62	—	—	5,525	62	A
Property	—	—	1,202	13	1,202	13	B
Derivatives	—	—	(78)	(1)	(78)	(1)	A
Cash	—	—	1,340	15	1,340	15	A
Repurchase agreements[1]	—	—	(4,312)	(48)	(4,312)	(48)	A
Infrastructure	—	—	426	5	426	5	B,C
Annuities	—	—	293	3	293	3	D
Longevity swap	—	—	(12)	—	(12)	—	D
Other	—	—	29	—	29	—	C
	8,654	97	304	3	8,958	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 2023 and 2022 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 hedge fund investments.

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 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, infrastructure and hedge funds. 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 2023 the currency forwards had a notional value of £859m (2022: £985m). There have been no significant changes to the asset allocation over 2023.

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 2023 and 2022. 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 £195m in 2023 (2022: £218m) to the Scheme, of which £164m (2022: £178m) 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 and Company		
	2023	2022	2021
	%	%	%
To determine benefit obligations(1):			
– Discount rate for scheme liabilities	**4.6 %**	4.9	1.9
– General price inflation	**3.0 %**	3.1	3.4
– General salary increase	**1.0 %**	1.0	1.0
– Expected rate of pension increase	**3.0 %**	3.0	3.2

	Years	Years	Years
Longevity at 60 for current pensioners, on the valuation date:			
– Males	**27.0**	27.4	27.5
– Females	**29.8**	30.1	30.1
Longevity at 60 for future pensioners currently aged 40, on the valuation date:			
– Males	**28.6**	28.9	29.0
– Females	**31.3**	31.6	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 2023 was due to the reduction in credit spreads over the year.

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.

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 2023 the assumption for future improvements was updated and the CMI 2022 projection model was adopted, with model parameters selected having had regard to the Scheme's membership profile with an initial addition to improvements of 0.25% per annum, together with 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. These reviews resulted in changes in the assumptions for family statistics, early retirement and the withdrawal assumption, which were retained at 31 December 2023.

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 and Company	
		(Decrease)/increase	
		2023	2022
Assumption	Change in pension obligation at period end from	**£m**	£m
Discount rate	50bps increase	**(507)**	(501)
General price inflation	50bps increase	**385**	374
Mortality	Each additional year of longevity assumed	**223**	203

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
2024	**455**
2025	**389**
2026	**404**
2027	**428**
2028	**444**
Five years ending 2033	**2,398**

The average duration of the defined benefit obligation at 31 December 2023 was 13.8 years (2022: 14.2 years).

Emerging risks
The focus in 2023 shifted to 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 engaged an independent cybersecurity advisor to review the cybersecurity arrangements of its most critical suppliers and provide recommendations on potential improvements.

The Trustee has established the Sustainability Committee which 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 change 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 committed to a target of net zero by 2050, showing their full support for the Santander UK group's vision, commitment to sustainability and climate change.

31. CONTINGENT LIABILITIES AND COMMITMENTS

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Guarantees given to subsidiaries	**—**	—	**5,052**	5,361
Guarantees given to third parties	**452**	448	**452**	448
Formal standby facilities, credit lines and other commitments	**30,976**	31,388	**30,954**	31,030
	31,428	31,836	**36,458**	36,839

At 31 December 2023, the Santander UK group had credit impairment loss provisions relating to guarantees given to third parties and undrawn loan commitments. See Note 29 for more details.

Where the items set out below can be reliably estimated, they are disclosed in the table above.

Guarantees given to subsidiaries

Santander UK plc has agreed to guarantee the payment of any obligations or liabilities (whether actual or contingent, or for the payment of any amount or delivery of any property) incurred by Cater Allen Limited (whether as principal or surety) to any person on or before 31 December 2025 under or in respect of any dealing, transaction or engagement whatsoever, including without prejudice to the generality of the foregoing, subject to specific exceptions set out in the deed poll guarantee.

Santander UK plc has also undertaken, for the purposes of section 479C of the Companies Act 2006 (the Act), the guarantee of the payment of all outstanding liabilities to which certain direct or indirect subsidiaries were subject at 31 December 2023, until they are satisfied in full, in order to allow those subsidiaries to benefit from the audit exemption provided for by Section 479A of the Act for the year ended 31 December 2023. The subsidiaries benefiting from this guarantee are listed in the Shareholder information section of this Annual Report.

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, in each case as of the date of the sale of the loans into the applicable portfolio. These representations and warranties cover, among other things, the ownership of the loan by the relevant Santander UK group entity, absence of a material breach or default by the relevant borrower under the loan, the loan's compliance with applicable laws and absence of material disputes with respect to the relevant borrower, asset and 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 programmes included in Note 14, or if such representations and warranties prove to be materially untrue at the date when they were given (being the sale date of the relevant mortgage loans), 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 programmes 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 actions and regulatory 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 to legal and regulatory reviews, challenges and tax or 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 3 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 29 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 29 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 2023 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
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. In the context of the complaints made to the Financial Ombudsman Service relating to such commission arrangements, the FCA announced on 11 January 2024 that it intends to use its powers under s166 of the Financial Services and Markets Act 2000 to review the historical use of DCAs between lenders and credit brokers (the "FCA Review") and whether redress should be payable. In line with the FCA's announcement, we have paused the response to customer complaints until at least 20 November 2024. A claim has been issued against SCUK, Santander UK plc and others in the Competition Appeal Tribunal (CAT), alleging that SCUK's historical commission arrangements in respect of used car financing operated in breach of the Competition Act 1998. While it is possible that certain charges may be incurred in relation to existing or future county court claims, Financial Ombudsman Service (FOS) complaints and the CAT proceedings, it is not considered that a legal or constructive obligation has been incurred in relation to these matters that would require a provision to be recognised at this stage. The resolution of such matters is not possible to predict with any certainty and there remain significant inherent uncertainties regarding the existence, scope and timing of any possible outflow which make it impracticable to disclose the extent of any potential financial impact.

Other
On 2 November 2015, Visa Europe Ltd agreed to sell 100% of its share capital to Visa Inc. The deal closed on 21 June 2016. As a member and shareholder of Visa Europe Ltd, Santander UK received upfront consideration made up of cash and convertible preferred stock. 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).The convertible preferred stock is now held by Santander Equity Investments Limited (SEIL), outside the ring-fenced bank.

In addition, Santander UK plc 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 to UK&I banks on closing has been reduced to nil. Santander UK plc's liability under this indemnity is capped at €39.85m. 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 not practicable to predict the resolution of the matter including the timing or the significance of the possible impact.

As part of the sale of subsidiaries, businesses and other entities, and as is normal in such circumstances, entities within the Santander UK group have 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 35.

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 more, see the Risk review.

Capital support arrangements
At 31 December 2023, 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 entered into on 17 December 2021 and effective from 1 January 2022 (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 31 December 2024. 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 parties to any of the regulated parties in the event that one of the regulated parties breached or was at risk of breaching its capital resources or risk concentrations requirements.

Liquidity support arrangements
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 the entities to collectively meet regulatory requirements for the purpose of managing liquidity risk. Each member of the RFB DoLSub will support the other by transferring surplus liquidity in times of stress.

32. SHARE CAPITAL

	Group and Company		
	Ordinary shares of £0.10 each		Total
Issued and fully paid share capital	No.	£m	£m
At 31 December 2022, 1 January 2023 and 31 December 2023	**31,051,768,866**	**3,105**	**3,105**

	Group and Company	
	2023	2022
Share premium	**£m**	£m
At 1 January and 31 December	**5,620**	5,620

The Company has one class of ordinary shares which carries no right to fixed income. The Company's £325m sterling preference shares are classified as Subordinated Liabilities as described in Note 27.

33. OTHER EQUITY INSTRUMENTS

	Interest rate		Group and Company	
			2023	2022
	%	Next call date	**£m**	£m
AT1 securities:				
- £500m Perpetual Capital Securities	6.75	June 2024	**496**	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
			1,956	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.

34. NOTES TO CASH FLOWS

Changes in liabilities 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.

						Group
	Balance sheet line item					
	Debt securities in issue	Subordinated liabilities	Other equity instruments	Lease liabilities	Dividends paid	Total
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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
2021						
At 1 January	35,566	2,556	2,191	97	—	40,410
Proceeds from issue of debt securities	2,872	—	—	—	—	2,872
Repayment of debt securities	(11,910)	—	—	—	—	(11,910)
Repayment of subordinated liabilities	—	(4)	—	—	—	(4)
Issue of other equity instruments	—	—	210	—	—	210
Repurchase of other equity instruments	—	—	(210)	—	—	(210)
Principal elements of lease payments	—	—	—	(25)	—	(25)
Dividends paid	—	—	—	—	(1,505)	(1,505)
Liability-related other changes	(447)	(4)	—	60	—	(391)
Non-cash changes:						
– Unrealised foreign exchange	(806)	6	—	—	—	(800)
– Other changes	245	(326)	—	—	1,505	1,424
At 31 December	25,520	2,228	2,191	132	—	30,071

						Company
	Balance sheet line item					
	Debt securities in issue	Subordinated liabilities	Other equity instruments	Lease liabilities	Dividends paid	Total
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January	**30,721**	**2,336**	**1,956**	**115**	**—**	**35,128**
Proceeds from issue of debt securities	**2,158**	**—**	**—**	**—**	**—**	**2,158**
Repayment of debt securities	**(2,282)**	**—**	**—**	**—**	**—**	**(2,282)**
Proceeds from issue of subordinated liabilities	**—**	**1,050**	**—**	**—**	**—**	**1,050**
Repayment of subordinated liabilities	**—**	**(971)**	**—**	**—**	**—**	**(971)**
Principal elements of lease payments	**—**	**—**	**—**	**(45)**	**—**	**(45)**
Dividends paid	**—**	**—**	**—**	**—**	**(1,653)**	**(1,653)**
Liability-related other changes	**990**	**25**	**—**	**30**	**—**	**1,045**
Non-cash changes:						
– Unrealised foreign exchange	**(651)**	**(22)**	**—**	**—**	**—**	**(673)**
– Other changes	**292**	**(31)**	**—**	**—**	**1,653**	**1,914**
At 31 December	**31,228**	**2,387**	**1,956**	**100**	**—**	**35,671**
2022						
At 1 January	24,554	2,233	2,191	122	—	29,100
Proceeds from issue of debt securities	4,178	—	—	—	—	4,178
Repayment of debt securities	(2,596)	—	—	—	—	(2,596)
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	—	—	—	(24)	—	(24)
Dividends paid	—	—	—	—	(1,164)	(1,164)
Liability-related other changes	3,155	2	—	17	—	3,174
Non-cash changes:						
– Unrealised foreign exchange	1,577	87	—	—	—	1,664
– Other changes	(147)	54	—	—	1,164	1,071
At 31 December	30,721	2,336	1,956	115	—	35,128
2021						
At 1 January	32,844	2,586	2,191	80	—	37,701
Proceeds from issue of debt securities	2,872	—	—	—	—	2,872
Repayment of debt securities	(10,278)	—	—	—	—	(10,278)
Repayment of subordinated liabilities	—	(4)	—	—	—	(4)
Issue of other equity instruments	—	—	210	—	—	210
Repurchase of other equity instruments	—	—	(210)	—	—	(210)
Principal elements of lease payments	—	—	—	(23)	—	(23)
Dividends paid	—	—	—	—	(1,505)	(1,505)
Liability-related other changes	(508)	(4)	—	65	—	(447)
Non-cash changes:						
– Unrealised foreign exchange	(820)	6	—	—	—	(814)
– Other changes	444	(351)	—	—	1,505	1,598
At 31 December	24,554	2,233	2,191	122	—	29,100

Footnotes to the consolidated cash flow statement

Net cash flows from operating activities includes interest received of £11,395m (2022: £6,508m, 2021: £4,806m), interest paid of £6,326m (2022: £2,089m, 2021: £1,064m) and dividends received of £nil (2022: £nil, 2021: £nil).

Total cash outflow for leases was £50m (2022: £28m, 2021: £28m).

Other matters

In 2021, there was a disposal of non-controlling interests of £181m.

Footnotes to the Company cash flow statement

Net cash flows from operating activities includes interest received of £11,828m (2022: £6,605m, 2021: £4,945m), interest paid of £6,327m (2022: £2,301m,2021: £1,490m) and dividends received of £420m (2022: £548m, 2021: £230m).

Total cash outflow for leases was £47m (2022: £26m, 2021: £25m).

35. 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		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
On-balance sheet:				
Cash and balances at central banks	**1,480**	1,330	**1,480**	1,330
Loans and advances to banks	**191**	130	**189**	130
Loans and advances to customers - securitisations and covered bonds (See Note 14)	**27,088**	24,155	**—**	—
Loans and advances to customers - other	**20,699**	32,001	**20,699**	32,001
Other financial assets at amortised cost	**14**	48	**14**	48
Financial assets at fair value through other comprehensive income	**5,183**	4,365	**5,183**	4,364
Total on-balance sheet	**54,655**	62,029	**27,565**	37,873
Total off-balance sheet	**10,185**	9,146	**10,185**	9,171

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 2023 was £13,291m (2022: £11,553m), of which £909m (2022: £900m) 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. At 31 December 2023, there were £27,927m (2022: £24,984m) of gross assets in these secured programmes and £839m (2022: £829m) of these related to internally retained issuances that were available for use as collateral for liquidity purposes in the future.

At 31 December 2023, £2,928m (2022: £1,725m) 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 2023 (2022: £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 £23,644m at 31 December 2023 (2022: £34,861m) and are offset by contractual commitments to return stock borrowed or cash received.

Derivatives business

In addition to the arrangements described above, collateral is also provided in the normal course of derivative business to counterparties. At 31 December 2023 £1,726m (2022: £1,506m) 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		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
On-balance sheet:				
Deposits by banks	**860**	1,741	**860**	1,741
Total on-balance sheet	**860**	1,741	**860**	1,741
Total off-balance sheet	**14,992**	10,141	**14,992**	10,166

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 2023, the fair value of such collateral received was £12,982m (2022: £8,628m). 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 Santander UK amounted to £2,010m at 31 December 2023 (2022: £1,513m) 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 2023, £860m (2022: £1,741m) 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, Santander UK 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.

36. 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 2023, the carrying amount of liabilities arising from share-based payment transactions, excluding any cash element was £14.7m (2022: £6.6m), of which £1.1m had vested at 31 December 2023 (2022: £0.1m).

a) Sharesave Schemes

The Santander UK group launched its sixteenth HM Revenue & Customs approved Sharesave invitation under Banco Santander SA sponsorship in September 2023. 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 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.

	2023		2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	'000	**£**	'000	£
Outstanding at 1 January	**29,988**	**2.00**	25,993	2.25
Granted	**7,175**	**2.78**	13,068	1.89
Exercised	**(5,980)**	**1.70**	(242)	1.69
Forfeited/expired	**(4,044)**	**2.53**	(8,831)	2.59
Outstanding at 31 December	**27,139**	**2.19**	29,988	2.00
Exercisable at 31 December	**868**	**1.84**	3,439	3.22

The weighted average share price at the date the options were exercised was £3.22 (2022: £2.34).

The following table summarises the range of exercise prices and weighted average remaining contractual life of the options at 31 December 2023 and 2022.

	2023		2022	
	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	**3**	**1.84**	3	1.79
£2 to £3	**3**	**2.65**	2	2.56
£3 to £4	**0**	**3.46**	1	3.46
£4 to £5	**0**	**—**	0	4.02

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 £0.33 (2022: £0.23).

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. 3,937,473 shares were outstanding at 31 December 2023 (2022: 3,974,698 shares).

d) Transformation Incentive Plan

This one-off long-term incentive plan was designed to recognise the achievement of financial targets and an enhanced customer experience, whilst maintaining appropriate conduct controls and risk management, over the course of our transformation period.

Awards under the 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 total value of share-based awards granted in 2023 was £1.3m (2022: £1m) and the liability arising from share-based payment transactions, excluding any cash element was £3.8m (2022: £1.8m).

37. 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	2023 £	2022 £	2021 £
Salaries and fees	**4,733,761**	4,696,699	5,488,388
Performance-related payments	**1,002,607**	3,701,569	3,431,294
Other fixed remuneration (pension and other allowances & non-cash benefits)	**222,538**	906,201	929,935
Expenses	**—**	27,715	17,097
Total remuneration	**5,958,906**	**9,332,184**	**9,866,714**
Compensation for loss of office(1)	**—**	172,856	356,054

Directors' and Other Key Management Personnel compensation	2023 £	2022 £	2021 £
Short-term employee benefits	**18,449,360**	22,627,595	20,553,672
Post-employment benefits	**858,437**	1,026,848	988,829
Compensation for loss of office(1)	**—**	1,713,256	356,054
Total compensation	**19,307,797**	**25,367,699**	**21,898,555**

(1) Compensation for loss of office was not paid to Directors or KMPs in 2023 (2022: two Directors, £172,856 and three KMPs, £1,540,400; 2021: two Directors, £356,054).

In 2023, the remuneration, excluding pension contributions, of the highest paid Director, was £2,640,491 (2022: £3,510,441, 2021: £3,740,810) of which £1,002,607 (2022: £1,900,506, 2021: £1,864,320) was performance related. In 2023, the accrued defined benefit pension relating to the highest paid director was £nil (2022: £nil, 2021: £22,119 per annum for a different individual).

b) Retirement benefits

Defined benefit pension schemes are provided to certain employees. See Note 30 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 2023, which have been provided for previously, amounted to £327,462 (2022: £379,945; 2021: £370,668). 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.

	2023		2022	
	No.	**£000**	No.	£000
Secured loans, unsecured loans and overdrafts				
At 1 January	**10**	**871**	6	360
Net movements	**(2)**	**204**	4	511
At 31 December	**8**	**1,075**	10	871
Deposit, bank and instant access accounts and investments				
At 1 January	**23**	**4,133**	21	6,552
Net movements	**(6)**	**(2,431)**	2	(2,419)
At 31 December	**17**	**1,702**	23	4,133

In 2023 and 2022, 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 2023 and 2022, 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 2023, loans were made to two Directors (2022: six Directors), with a principal amount of £495,281 outstanding at 31 December 2023 (2022: £540,450). In 2023, loans were made to six Other KMP (2022: four), with a principal amount of £579,383 outstanding at 31 December 2023 (2022: £330,972).

In 2023 and 2022, 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 2023 and 2022, no Director had a material interest in any contract of significance with Santander UK other than a service contract or appointment letter, as appropriate.

38. 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, on the corporate website (aboutsantander.co.uk) or on the Banco Santander corporate website (santander.com).

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	
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	**2023**	2022
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	**£m**	£m
Ultimate parent	**(8)**	(710)	(164)	**414**	47	33	**800**	1,363	**(1,062)**	(1,673)
Immediate parent	**(7)**	(6)	(6)	**504**	308	263	**—**	1	**(13,279)**	(14,390)
Fellow subsidiaries	**(38)**	(69)	(57)	**203**	177	163	**101**	108	**(370)**	(348)
Joint ventures	**(183)**	(76)	(34)	**55**	17	4	**4,486**	4,151	**(781)**	(973)
	(236)	(861)	(261)	**1,176**	549	463	**5,387**	5,623	**(15,492)**	(17,384)

	Company									
	Interest, fees and other income received			Interest, fees and other expenses paid			Amounts owed by related parties		Amounts owed to related parties	
	2023	2022	2021	**2023**	2022	2021	**2023**	2022	**2023**	2022
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	**£m**	£m
Ultimate parent	**(8)**	(689)	(160)	**414**	28	34	**800**	1,351	**(1,062)**	(1,662)
Immediate parent	**(7)**	(6)	(6)	**504**	308	263	**—**	1	**(13,279)**	(14,390)
Subsidiaries	**(1,014)**	(514)	(390)	**1,359**	782	820	**27,686**	26,731	**(28,968)**	(26,592)
Fellow subsidiaries	**(33)**	(67)	(55)	**197**	172	150	**101**	108	**(369)**	(404)
Joint ventures	**—**	—	—	**1**	—	—	**1**	—	**(31)**	(19)
	(1,062)	(1,276)	(611)	**2,475**	1,290	1,267	**28,588**	28,191	**(43,709)**	(43,067)

For more on this, see 'Balances with other Banco Santander group members' in the Risk review, Note 13. Loans and advances to customers, Note 23. Deposits by customers and Note 33. Other Equity Instruments. In addition, transactions with pension schemes operated by the Santander UK group are described in Note 30.

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 2021, SCUK sold its entire 50% shareholding in PSA Finance UK Limited to PSA Financial Services Spain EFC SA, a joint venture between Santander Consumer Finance SA, a fellow subsidiary of Banco Santander SA, and Banque PSA Finance SA. In 2021, a significant part of the CIB business of Santander UK was transferred to the London branch of Banco Santander SA by way of a Part VII banking business transfer scheme. For more details, see Note 42.

In 2021, we sold our then head office site in Triton Square, London to Santander UK Investments Ltd, a wholly owned subsidiary of our ultimate parent. Santander UK occupies space within the building and paid fees of £9m (2022: £6m) under an occupational licence arrangement.

In May 2022, Santander UK plc transferred a portfolio of mortgage assets with a carrying amount of £624m to Santander Financial Services plc for a cash consideration of £631m, including a purchase price premium of £7m.

In November 2022, Santander (UK) Group Pension Scheme Trustees Limited entered into an unsecured committed liquidity facility with Santander UK plc for £600m with a maturity date of 31 December 2024. 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.

39. 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 bid 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 2023 and 2022 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 2023, 2022 and 2021.

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 futures, caps and floors, and options), the present value method (futures), Black's model (caps/floors) and the Hull/White and Markov functional models (Bermudan options) 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, volatility and prepayments. 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 2023 and 2022, 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
					2023					2022
			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	—	—	205,917	205,917	207,435	—	—	212,479	212,479	219,716
Loans and advances to banks	—	1,080	—	1,080	1,080	—	992	—	992	992
Reverse repurchase agreements - non trading	—	12,470	—	12,470	12,468	—	7,341	—	7,341	7,348
Other financial assets at amortised cost	144	—	—	144	152	144	—	—	144	156
	144	13,550	205,917	219,611	221,135	144	8,333	212,479	220,956	228,212
Liabilities										
Deposits by customers	—	71	190,561	190,632	190,850	—	51	195,483	195,534	195,568
Deposits by banks	—	20,342	40	20,382	20,332	—	27,979	55	28,034	28,525
Repurchase agreements - non trading	—	8,413	—	8,413	8,411	—	7,982	—	7,982	7,982
Debt securities in issue	1,689	30,743	1,189	33,621	33,910	2,574	26,349	1,582	30,505	31,531
Subordinated liabilities	—	2,591	209	2,800	2,386	19	2,358	224	2,601	2,332
	1,689	62,160	191,999	255,848	255,889	2,593	64,719	197,344	264,656	265,938

										Company
					2023					2022
				Fair value	Carrying			Fair value		Carrying
	Level 1	Level 2	Level 3	Fair value	value	Level 1	Level 2	Level 3	Fair value	value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Loans and advances to customers	**—**	**—**	**222,208**	**222,208**	**223,511**	—	—	228,026	228,026	235,071
Loans and advances to banks	**—**	**1,052**	**—**	**1,052**	**1,052**	—	992	—	992	992
Reverse repurchase agreements - non trading	**—**	**12,470**	**—**	**12,470**	**12,468**	—	7,341	—	7,341	7,348
Other financial assets at amortised cost	**144**	**1,681**	**—**	**1,825**	**1,833**	144	1,553	—	1,697	1,707
	144	**15,203**	**222,208**	**237,555**	**238,864**	144	9,886	228,026	238,056	245,118
Liabilities										
Deposits by customers	**—**	**71**	**207,216**	**207,287**	**207,516**	—	51	209,009	209,060	209,094
Deposits by banks	**—**	**20,326**	**5,424**	**25,750**	**25,699**	—	27,966	5,727	33,693	34,184
Repurchase agreements - non trading	**—**	**8,413**	**—**	**8,413**	**8,411**	—	7,982	—	7,982	7,982
Debt securities in issue	**999**	**29,181**	**841**	**31,021**	**31,228**	2,677	25,907	1,473	30,057	30,721
Subordinated liabilities	**—**	**2,592**	**209**	**2,801**	**2,387**	19	2,362	224	2,605	2,336
	999	**60,583**	**213,690**	**275,272**	**275,241**	2,696	64,268	216,433	283,397	284,317

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 2023 and 31 December 2022, analysed by their levels in the fair value hierarchy - Level 1, Level 2 and Level 3.

										Group
					2023				2022	
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Valuation
		£m	£m	£m	£m	£m	£m	£m	£m	technique
Assets										
Derivative financial instruments	Exchange rate contracts	**—**	**1,129**	**—**	**1,129**	—	2,044	—	2,044	A
	Interest rate contracts	**—**	**2,216**	**1**	**2,217**	—	2,399	7	2,406	A & C
	Equity and credit contracts	**—**	**98**	**35**	**133**	—	100	30	130	B & D
	Netting	**—**	**(2,047)**	**—**	**(2,047)**	—	(2,173)	—	(2,173)	
		—	**1,396**	**36**	**1,432**	—	2,370	37	2,407	
Other financial assets at FVTPL	Loans and advances to customers	**—**	**—**	**46**	**46**	—	—	45	45	A
	Debt securities	**—**	**167**	**49**	**216**	—	12	72	84	A, B & D
		—	**167**	**95**	**262**	—	12	117	129	
Financial assets at FVOCI	Debt securities	**8,293**	**188**	**—**	**8,481**	5,996	28	—	6,024	D
		8,293	**188**	**—**	**8,481**	5,996	28	—	6,024	
Total assets at fair value		**8,293**	**1,751**	**131**	**10,175**	5,996	2,410	154	8,560	
Liabilities										
Derivative financial instruments	Exchange rate contracts	**—**	**508**	**—**	**508**	—	471	—	471	A
	Interest rate contracts	**—**	**2,336**	**1**	**2,337**	—	2,624	4	2,628	A & C
	Equity and credit contracts	**—**	**11**	**9**	**20**	—	17	8	25	B & D
	Netting	**—**	**(2,047)**	**—**	**(2,047)**	—	(2,173)	—	(2,173)	
		—	**808**	**10**	**818**	—	939	12	951	
Other financial liabilities at FVTPL	Debt securities in issue	**—**	**369**	**—**	**369**	—	372	3	375	A
	Structured deposits	**—**	**426**	**—**	**426**	—	321	—	321	A
	Zero Amortising Guaranteed Notes	**—**	**104**	**—**	**104**	—	107	—	107	D
		—	**899**	**—**	**899**	—	800	3	803	
Total liabilities at fair value		**—**	**1,707**	**10**	**1,717**	—	1,739	15	1,754	

		2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m	Valuation technique
										Company
Assets										
Derivative financial instruments	Exchange rate contracts	**—**	**1,289**	**—**	**1,289**	—	2,264	—	2,264	A
	Interest rate contracts	**—**	**2,187**	**133**	**2,320**	—	2,369	3	2,372	A & C
	Equity and credit contracts	**—**	**98**	**35**	**133**	—	100	30	130	B & D
	Netting	**—**	**(2,047)**	**—**	**(2,047)**	—	(2,173)	—	(2,173)	
		—	**1,527**	**168**	**1,695**	—	2,560	33	2,593	
Other financial assets at FVTPL	Loans and advances to customers	**—**	**—**	**46**	**46**	—	—	45	45	A
	Debt securities	**—**	**168**	**—**	**168**	—	12	2	14	C
		—	**168**	**46**	**214**	—	12	47	59	
Financial assets at FVOCI	Debt securities	**8,293**	**188**	**—**	**8,481**	5,996	28	—	6,024	D
		8,293	**188**	**—**	**8,481**	5,996	28	—	6,024	
Total assets at fair value		**8,293**	**1,883**	**214**	**10,390**	5,996	2,600	80	8,676	
Liabilities										
Derivative financial instruments	Exchange rate contracts	**—**	**580**	**—**	**580**	—	584	—	584	A
	Interest rate contracts	**—**	**2,350**	**1,071**	**3,421**	—	2,601	987	3,588	A & C
	Equity and credit contracts	**—**	**11**	**9**	**20**	—	17	8	25	B
	Netting	**—**	**(2,047)**	**—**	**(2,047)**	—	(2,173)	—	(2,173)	B
		—	**894**	**1,080**	**1,974**	—	1,029	995	2,024	
Other financial liabilities at FVTPL	Debt securities in issue	**—**	**369**	**—**	**369**	—	375	3	378	A
	Structured deposits	**—**	**426**	**—**	**426**	—	321	—	321	A
	Collateral and associated financial guarantees	**—**	**—**	**—**	**—**	—	2	—	2	
	Zero Amortising Guaranteed Notes	**—**	**104**	**—**	**104**	—	102	—	102	
		—	**899**	**—**	**899**	—	800	3	803	
Total liabilities at fair value		**—**	**1,793**	**1,080**	**2,873**	—	1,829	998	2,827	

Transfers between levels of the fair value hierarchy

In 2023 there were £22m (2022: no significant) 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
	2023	2022
	£m	£m
Risk-related:		
- Bid-offer and trade specific adjustments	**(6)**	(12)
- Uncertainty	**6**	12
- Credit risk adjustment	**1**	2
- Funding fair value adjustment	**1**	1
	2	3
Day One profit	**1**	1
	3	4

		Company
	2023	2022
	£m	£m
Risk-related:		
- Bid-offer and trade specific adjustments	**(6)**	(12)
- Uncertainty	**6**	12
- Credit risk adjustment	**1**	2
- Funding fair value adjustment	**1**	1
	2	3
Day One profit	**1**	1
	3	4

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.

Model-related adjustments
Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the core revaluation models and a model limitation adjustment is no longer needed.

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)		
			2023	2022	**2023**	2022	2021
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**	30	**12**	(8)	—
2. FVTPL assets	Loans and advances to customers	Roll-up mortgage portfolio	**24**	28	**(2)**	(18)	(5)
3. FVTPL assets	Loans and advances to customers	Other loans	**22**	17	**4**	(4)	(2)
4. FVTPL assets	Debt securities	Reversionary property securities	**49**	70	**(3)**	—	5
			130	145	**11**	(30)	(2)
Other Level 3 assets			**1**	9	**(1)**	10	(9)
Other Level 3 liabilities			**(10)**	(15)	**(2)**	3	7
Total net assets			**121**	139			
Total income/(expense)					**8**	(17)	(4)

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.

			Company				
			Balance sheet value		Fair value movements recognised in profit/(loss)		
			2023	2022	**2023**	2022	2021
Balance sheet line item	Category	Financial instrument product type	**£m**	£m	**£m**	£m	£m
1. Derivative assets	Interest rate contracts	Securitisation swaps	**132**	—	**131**	—	(498)
2. Derivative asset	Equity and credit contracts	Reversionary property interests	**35**	30	**12**	(8)	—
3. FVTPL Assets	Loans and advances to customers	Roll-up mortgage portfolio	**24**	28	**(2)**	(18)	(6)
4. FVTPL Assets	Loans and advances to customers	Other loans	**22**	17	**4**	(4)	(2)
5. Derivative liabilities	Interest rate contracts	Securitisation swaps	**(1,070)**	(987)	**(61)**	(1,143)	(22)
			(857)	(912)	**84**	(1,173)	(528)
Other Level 3 assets			**1**	5	**4**	10	(5)
Other Level 3 liabilities			**(10)**	(11)	**(6)**	5	7
Total net assets			**(866)**	(918)	**—**	—	—
Total income/(expense)			**—**	—	**82**	(1,158)	(526)

Valuation techniques (Company)
1 & 5. Derivative assets / liabilities - Interest rate contracts
For covered pool swap and securitisation funding swap models, the valuation is created using internal prepayment speeds and rate projections to estimate future mortgage flows which are subsequently discounted using net present value techniques based upon current market levels.

2. Derivative assets – Equity and credit contracts
See Group valuation technique 1.

3. FVTPL assets – Loans and advances to customers – roll-up mortgage portfolio
See Group valuation technique 2.

4. FVTPL assets – Loans and advances to customers – other loans
See Group valuation technique 3.

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 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 2023	**37**	**117**	**—**	**154**	**(12)**	**(3)**	**(15)**
Total gains/(losses) recognised:							
Fair value movements(2)	**10**	**—**	**—**	**10**	**(2)**	**—**	**(2)**
Purchases	**—**	**1**	**—**	**1**	**—**	**—**	**—**
Netting(1)	**—**	**(3)**	**—**	**(3)**	**—**	**—**	**—**
Settlements	**(11)**	**(20)**	**—**	**(31)**	**4**	**3**	**7**
At 31 December 2023	**36**	**95**	**—**	**131**	**(10)**	**—**	**(10)**
Gains/(losses) recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year(2)	**10**	**—**	**—**	**10**	**(2)**	**—**	**(2)**
At 1 January 2022	46	185	18	249	(32)	(6)	(38)
Total (losses)/gains recognised:							
Fair value movements(2)	(2)	(18)	—	(20)	2	1	3
Transfers in	—	—	—	—	(2)	—	(2)
Netting(1)	—	(8)	—	(8)	—	—	—
Sales	—	(5)	—	(5)	—	—	—
Settlements	(7)	(37)	(18)	(62)	20	2	22
At 31 December 2022	37	117	—	154	(12)	(3)	(15)
(Losses)/gains recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year(2)	(2)	(18)	—	(20)	2	1	3

(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 19
(2) Fair value movements relating to derivatives and other financial assets at FVTPL are recognised in other operating income in the income statement.

	Assets					Liabilities			Company
	Derivatives £m	Other financial assets at FVTPL £m	Financial assets at FVOCI £m	Assets held for sale £m	Total £m	Derivatives £m	Other financial liabilities at FVTPL £m	Liabilities held for sale £m	Total £m
At 1 January 2023	**33**	**47**	**—**	**—**	**80**	**(995)**	**(3)**	**—**	**(998)**
Total gains/(losses) recognised:									
Fair value movements(2)	**146**	**3**	**—**	**—**	**149**	**(67)**	**—**	**—**	**(67)**
Purchases	**—**	**1**	**—**	**—**	**1**	**(27)**	**—**	**—**	**(27)**
Netting(1)	**—**	**(3)**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**
Settlements	**(11)**	**(2)**	**—**	**—**	**(13)**	**9**	**3**	**—**	**12**
At 31 December 2023	**168**	**46**	**—**	**—**	**214**	**(1,080)**	**—**	**—**	**(1,080)**
Gains/(losses) recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year(2)	**146**	**3**	**—**	**—**	**149**	**(67)**	**—**	**—**	**(67)**
At 1 January 2022	46	93	—	—	139	154	(6)	—	148
Total (losses)/gains recognised:									
Fair value movements(2)	(2)	(18)	—	—	(20)	(1,139)	1	—	(1,138)
Purchases	—	—	—	—	—	(30)	—	—	(30)
Netting(1)	—	(8)	—	—	(8)	—	—	—	—
Settlements	(11)	(20)	—	—	(31)	20	2	—	22
At 31 December 2022	33	47	—	—	80	(995)	(3)	—	(998)
(Losses)/gains recognised in profit or loss/other comprehensive income relating to assets and liabilities held at the end of the year(2)	(2)	(18)	—	—	(20)	(1,139)	1	—	(1,138)

(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 19

(2) Fair value movements relating to derivatives and other financial assets at FVTPL are recognised in other operating income in the income statement. Fair value movements relating to financial assets at FVOCI are recognised in the movement in fair value reserve (debt instruments).

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.

		Significant unobservable input				Group	
			Assumption value			Sensitivity	
	Fair value					Favourable changes	Unfavourable changes
2023	**£m**	**Assumption description**	**Range (1)**	**Weighted average**	**Shift**	**£m**	**£m**
1. Derivative assets – Equity and credit contracts:	**35**	HPI Forward growth rate	**-5% to 5%**	**(0.20)%**	**1.0 %**	**2**	**(2)**
– Reversionary property derivatives		HPI Spot rate(2)	**n/a**	**513**	**10.0 %**	**2**	**(4)**
2. FVTPL – Loans and advances to customers:	**24**	HPI Forward growth rate	**-5% to 5%**	**1.31 %**	**1.0 %**	**—**	**—**
– Roll-up mortgage portfolio							
3. FVTPL – Loans and advances to customers:	**22**	Credit spreads	**0.13% - 2.54%**	**0.97 %**	**20.0 %**	**—**	**—**
– Other loans							
4. FVTPL – Debt securities:	**49**	HPI Forward growth rate	**-5% to 5%**	**-0.20 %**	**1.0 %**	**—**	**—**
– Reversionary property securities		HPI Spot rate(2)	**n/a**	**513**	**10.0 %**	**2**	**(2)**
2022							
1. Derivative assets – Equity and credit contracts:	30	HPI Forward growth rate	-5% to 5%	0.53 %	1.0 %	4	(4)
– Reversionary property derivatives		HPI Spot rate(2)	n/a	513	10.0 %	4	(4)
2. FVTPL – Loans and advances to customers:	28	HPI Forward growth rate	-5% to 5%	1.39 %	1.0 %	1	(1)
– Roll-up mortgage portfolio							
3. FVTPL – Loans and advances to customers:	17	Credit spreads	0.19% to 2.04%	0.98 %	20.0 %	—	—
– Other loans							
4. FVTPL – Debt securities:	70	HPI Forward growth rate	-5% to 5%	0.53 %	1.0 %	1	(1)
– Reversionary property securities		HPI Spot rate(2)	n/a	513	10.0 %	3	(3)
5. Derivative liabilities – Equity contracts:	(8)	HPI Forward growth rate	-5% to 5%	(0.92) %	1.0 %	1	(1)
– Property-related options and forwards		HPI Spot rate(2)	n/a	491	10.0 %	2	(3)

(1) The range of actual assumption values used to calculate the weighted average disclosure.
(2) The HPI spot rate in the weighted average column represents the HPI spot rate index level at 31 December 2023 and 2022.

No sensitivities are presented for FVTPL assets – Debt securities (credit linked securities) or FVTPL liabilities - Financial guarantees, as the terms of these instruments are fully matched. As a result, any changes in the valuation of the credit linked notes would be offset by an equal and opposite change in the valuation of the financial guarantees.

							Company
		Significant unobservable input				Sensitivity	
			Assumption value				
	Fair value			Weighted		Favourable changes	Unfavourable changes
2023	**£m**	**Assumption description**	**Range [1]**	**average**	**Shift**	**£m**	**£m**
1. Derivative assets – Interest rate contracts: – Securitisation swaps	**132**	Weighted Average Mortgage Rate Payable	**3% - 8%**	**7.00 %**	**0.5 %**	**29**	**(29)**
2. Derivative assets – Equity and credit contracts: – Reversionary property derivatives	**35**	HPI Forward growth rate	**-5% to 5%**	**-0.20 %**	**1.0 %**	**2**	**(2)**
		HPI Spot rate[2]	**n/a**	**513**	**10.0 %**	**2**	**(4)**
3. FVTPL – Loans and advances to customers: – Roll-up mortgage portfolio	**24**	HPI Forward growth rate	**-5% to 5%**	**1.31 %**	**1.0 %**	**—**	**—**
4. FVTPL – Loans and advances to customers: – Other loans	**22**	Credit spreads	**0.13% - 2.54%**	**0.97 %**	**20.0 %**	**—**	**—**
5. Derivative liabilities - Interest rate contracts – Securitisation swaps	**(1,070)**	Weighted Average Mortgage Rate Payable	**1% - 8%**	**3.76 %**	**0.5 %**	**279**	**(279)**
2022							
1. Derivative assets – Equity and credit contracts: – Reversionary property derivatives	30	HPI Forward growth rate	-5% to 5%	0.53 %	1.0 %	4	(4)
		HPI Spot rate[2]	n/a	513	10.0 %	4	(4)
2. FVTPL – Loans and advances to customers: – Roll-up mortgage portfolio	28	HPI Forward growth rate	-5% to 5%	1.39 %	1.0 %	1	(1)
3. FVTPL – Loans and advances to customers: – Other loans	17	Credit spreads	0.19% to 2.04%	0.98 %	20.0 %	—	—
4. Derivative liabilities - Interest rate contracts – Securitisation swaps	(987)	Weighted Average Mortgage Rate Payable	1% - 6%	4.00 %	0.5 %	296	(296)

(1) The range of actual assumption values used to calculate the weighted average disclosure.
(2) The HPI spot rate in the weighted average column represents the HPI spot rate index level at 31 December 2023 and 2022.

No sensitivities are presented for FVTPL assets – Debt securities (credit linked securities) or FVTPL liabilities - Financial guarantees, as the terms of these instruments are fully matched. As a result, any changes in the valuation of the credit linked notes would be offset by an equal and opposite change in the valuation of the financial guarantees.

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
2023	£m	£m	£m	£m	£m	£m
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**
2022						
Financial liabilities						
Derivative financial instruments	—	206	120	496	255	1,077
Other financial liabilities at fair value through profit or loss	—	—	98	443	438	979
Deposits by customers	180,218	3,875	7,077	4,295	335	195,800
Deposits by banks	2,048	1,309	298	26,141	—	29,796
Repurchase agreements – non trading	—	7,984	3	—	—	7,987
Debt securities in issue	—	5,814	1,485	16,672	9,921	33,892
Subordinated liabilities	—	35	691	1,149	1,400	3,275
Lease liabilities	—	—	32	80	26	138
Total financial liabilities	182,266	19,223	9,804	49,276	12,375	272,944
Off-balance sheet commitments given	19,089	787	898	7,508	3,554	31,836

						Company
2023	£m	£m	£m	£m	£m	£m
Financial liabilities						
Derivative financial instruments	**23**	**175**	**58**	**555**	**1,558**	**2,369**
Other financial liabilities at fair value through profit or loss	**—**	**8**	**7**	**538**	**520**	**1,073**
Deposits by customers	**195,901**	**3,479**	**3,440**	**4,288**	**1,060**	**208,168**
Deposits by banks	**1,395**	**1,824**	**742**	**24,114**	**—**	**28,075**
Repurchase agreements – non trading	**—**	**8,418**	**8**	**—**	**—**	**8,426**
Debt securities in issue	**—**	**6,354**	**4,801**	**16,078**	**9,630**	**36,863**
Subordinated liabilities	**—**	**27**	**83**	**875**	**2,470**	**3,455**
Lease liabilities	**—**	**—**	**28**	**67**	**17**	**112**
Total financial liabilities	**197,319**	**20,285**	**9,167**	**46,515**	**15,255**	**288,541**
Off-balance sheet commitments given	**8,271**	**15,214**	**1,408**	**7,945**	**3,620**	**36,458**
2022						
Financial liabilities						
Derivative financial instruments	—	283	127	488	1,594	2,492
Other financial liabilities at fair value through profit or loss	—	—	98	443	438	979
Deposits by customers	192,511	5,139	7,114	3,652	941	209,357
Deposits by banks	2,116	6,903	298	26,141	—	35,458
Repurchase agreements – non trading	—	7,984	3	—	—	7,987
Debt securities in issue	—	5,802	1,425	16,660	9,068	32,955
Subordinated liabilities	—	35	691	1,149	1,400	3,275
Lease liabilities	—	—	31	76	19	126
Total financial liabilities	194,627	26,146	9,787	48,609	13,460	292,629
Off-balance sheet commitments given	23,701	788	1,045	7,754	3,551	36,839

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.

40. 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 also 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 purport to represent Santander UK's actual 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)]
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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**
2022								
Assets								
Derivative financial assets	4,525	(2,173)	2,352	(515)	(1,720)	117	55	2,407
Reverse repurchase, securities borrowing & similar agreements:								
– Amortised cost	8,826	(1,478)	7,348	(9)	(7,339)	—	—	7,348
Loans and advances to customers and banks[(4)]	5,169	(908)	4,261	—	—	4,261	216,447	220,708
	18,520	(4,559)	13,961	(524)	(9,059)	4,378	216,502	230,463
Liabilities								
Derivative financial liabilities	3,085	(2,173)	912	(515)	(115)	282	39	951
Repurchase, securities lending & similar agreements:								
– Amortised cost	9,460	(1,478)	7,982	(9)	(7,973)	—	—	7,982
Deposits by customers and banks[(4)]	8,077	(908)	7,169	—	—	7,169	216,924	224,093
	20,622	(4,559)	16,063	(524)	(8,088)	7,451	216,963	233,026

(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.

	Amounts subject to enforceable netting arrangements							Company
	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]
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets								
Derivative financial assets	**3,695**	**(2,047)**	**1,648**	**(734)**	**(823)**	**91**	**47**	**1,695**
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]	**26,986**	**(790)**	**26,196**	**—**	**—**	**26,196**	**198,367**	**224,563**
	46,306	**(5,994)**	**40,312**	**(852)**	**(13,173)**	**26,287**	**198,414**	**238,726**
Liabilities								
Derivative financial liabilities	**3,994**	**(2,047)**	**1,947**	**(734)**	**(161)**	**1,052**	**27**	**1,974**
Repurchase, securities lending & similar agreements:								
– Amortised cost	**11,568**	**(3,157)**	**8,411**	**(118)**	**(8,293)**	**—**	**—**	**8,411**
Deposits by customers and banks [4]	**31,262**	**(790)**	**30,472**	**—**	**—**	**30,472**	**202,743**	**233,215**
	46,824	**(5,994)**	**40,830**	**(852)**	**(8,454)**	**31,524**	**202,770**	**243,600**
2022								
Assets								
Derivative financial assets	4,713	(2,173)	2,540	(799)	(1,720)	21	53	2,593
Reverse repurchase, securities borrowing & similar agreements:								
– Amortised cost	8,826	(1,478)	7,348	(9)	(7,339)	—	—	7,348
Loans and advances to customers and banks[4]	26,313	(908)	25,405	—	—	25,405	210,658	236,063
	39,852	(4,559)	35,293	(808)	(9,059)	25,426	210,711	246,004
Liabilities								
Derivative financial liabilities	4,158	(2,173)	1,985	(799)	(115)	1,071	39	2,024
Repurchase, securities lending & similar agreements:								
– Amortised cost	9,460	(1,478)	7,982	(9)	(7,973)	—	—	7,982
Deposits by customers and banks [4]	32,617	(908)	31,709	—	—	31,709	211,569	243,278
	46,235	(4,559)	41,676	(808)	(8,088)	32,780	211,608	253,284

(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.

41. INTEREST RATE BENCHMARK REFORM

Santander UK continues to work with customers and counterparties to transition any remaining agreements referencing 3-month synthetic LIBOR before that setting ends on 31 March 2024. At 31 December 2023, these represent an insignificant element of Santander UK's exposures and there are no remaining exposures which reference other LIBOR settings.

The following tables show the notional amounts of assets, liabilities and off-balance sheet commitments at 31 December 2023 and 31 December 2022 affected by IBOR reform that have yet to transition to an alternative benchmark interest rate.

			Group
	GBP LIBOR	USD LIBOR	Total
2023	**£m**	**£m**	**£m**
Assets			
Financial assets at amortised cost	**6**	**—**	**6**
	6	**—**	**6**
2022			
Assets			
Derivatives	—	1,665	1,665
Financial assets at amortised cost	76	57	133
	76	1,722	1,798
Liabilities			
Derivatives	66	1,846	1,912
	66	1,846	1,912
Off-balance sheet commitments given	2	—	2

At 31 December 2023, the Company had no remaining exposures which reference LIBOR settings.

			Company
2022			
Assets			
Derivatives	—	1,665	1,665
Financial assets at amortised cost	52	57	109
	52	1,722	1,774
Liabilities			
Derivatives	66	1,846	1,912
	66	1,846	1,912

42. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations

Transfer of the CIB Business

Santander UK plc transferred a significant part of its CIB business to the London branch of Banco Santander SA under a Part VII banking business transfer scheme, which completed on 11 October 2021. The residual parts of the CIB business were wound down or transferred to other segments. For the periods prior to its sale, the CIB business met the requirements for presentation as discontinued operations.

The financial performance and cash flow information relating to the discontinued operations were as follows:

For the year ended 31 December

	2023 £m	2022 £m	2021 £m
Net interest income	—	—	32
Net fee and commission income	—	—	35
Other operating income	—	—	2
Total operating income	—	—	69
Operating expenses before credit impairment (charges)/write-backs, provisions and charges	—	—	(33)
Credit impairment (charges)/write-backs	—	—	11
Provisions for other liabilities and charges	—	—	(4)
Total operating credit impairment (charges)/write-backs, provisions and charges	—	—	7
Profit from discontinued operations before tax	—	—	43
Tax on profit from discontinued operations	—	—	(12)
Profit from discontinued operations after tax	—	—	31

There were no gains or losses recognised on the measurement to fair value less costs to sell or on the disposal of the asset groups constituting the discontinued operations.

In 2023, the net cash flows attributable to the operating activities in respect of discontinued operations were £nil outflow (2022: £nil outflow, 2021: £3,612m outflow). There were no investing or financing activities in respect of discontinued operations.

Assets held for sale

Sale of property

Management considered the sale of part of Santander House (Milton Keynes) under a proposed transaction with the developer for the construction of Unity Place and Buckingham House (Bletchley), to be highly probable at the balance sheet date. As such, the Santander UK group classified these properties, which are included in the Corporate Centre segment and carried at their sales prices, as held for sale. The sale is expected to complete in 2024 with no gain or loss.

At 31 December 2023, assets held for sale comprised:

	2023 £m	2022 £m
Assets		
Property, plant and equipment	13	49
Total assets held for sale	13	49

43. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 31 December 2023 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

Shareholder information

Contents

Subsidiaries and related undertakings (audited)

In accordance with Section 409 of the Companies Act 2006, details of the Company's subsidiaries and related undertakings at 31 December 2023 are set out below. This section forms an integral part of the financial statements.

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	A	Indirect	Ordinary £1	—
A & L CF September (4) Limited	A	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	A	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	
			Ordinary €1.27	
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
The Alliance & Leicester Corporation Limited	02304511

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 2016-1 plc	C
Fosse Master Issuer plc	C	Motor 2017-1 Holdings Limited	C
Fosse Trustee (UK) Limited	A	Motor Securities 2018-1 Designated Activity Company (in liquidation)	J
Holmes Funding Limited	A	Repton 2023-1 Limited	C
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 in 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 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 the success of new products and services it 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 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 2023) 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.

Glossary

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