

Santander UK Group Holdings plc

Investor Update Q4 2015 Results

January 2016

Simple
Personal
Fair

What a bank should be



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Source: Santander UK Q4 2015 results “Quarterly Management Statement for the year ended 31 December 2015” or Santander UK Group Holdings Management Information (‘MI’), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK plc continues to have its preference shares listed on the London Stock Exchange. Further information in relation to Santander UK can be found at: www.santander.co.uk/uk/about-santander-uk. Neither the content of Santander UK’s website nor any website accessible by hyperlinks on Santander UK’s website is incorporated in, or forms part of, this presentation.

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2015 results highlights

- PBT of £1,342m, CET 1 ratio of 11.6% and RoTE of 8.2% adversely impacted by £450m PPI provision charge, with underlying strong business momentum
- PBT of £1,792m, CET 1 ratio of 11.9% and RoTE of 12.0% when adjusted for £450m PPI provision charge
This charge represents our current best estimate of the remaining redress and costs
- Lending growth in all customer business segments; mortgages up 2% and corporates up 10%
- Strong growth in retail current account balances; significant improvement in customer satisfaction in 2015
- Good progress in Commercial Banking; new facilities up 14% and 22% increase in non-interest income
- Operational efficiency maintained, with digitalisation and product simplification supporting cost discipline
- Improved NPL ratio of 1.54%, driven by robust credit quality in all loan books
- Well executed capital and funding plan; good progress towards meeting any TLAC/MREL requirements

Well executed 2013-15 strategy

		FY'12	FY'15	2015 target
1 Loyal and satisfied retail customers	Loyal customers	2.2 million	3.7 million	4 million
	11213 World customers	1.3 million	4.6 million	4 million
	Customer satisfaction ('FRS') (average of 3 highest performing peers)	54.2% (60.5%)	62.9% (62.0%)	Top 3
2 'Bank of Choice' for UK companies	Corporate loans percentage of total customer loans	10%	13%	20%
	(Total lending to corporates)	(£19.6bn)	(£26.4bn)	
3 Consistent profitability and a strong balance sheet	Return on tangible equity ('RoTE')	9.1%	8.2% ¹	13% – 15%
	Cost-to-income ratio ('CIR')	45% ²	53%	< 50%
	CET 1 capital ratio	11.1%	11.6% ³	> 10.5% ⁴
	Loan-to-deposit ratio	129%	121%	< 125%
	Non performing loan ('NPL') ratio	2.16%	1.54%	ratio maintained
	Dividend payout ratio	51%	50%	50%

For notes and definitions see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2015

1. 2015 RoTE excluding £450m PPI provision charge would have been 12.0% | 2. 2012 CIR includes a gain of £705m in total income from the capital management exercise. Excluding this gain 2012 CIR would have been 53% | 3. 2015 CET 1 capital ratio excluding £450m PPI provision charge would have been 11.9% | 4. Target recalibrated to c.12% by 2018 in September 2015, based on the current known end-point CRD IV CET 1 regulatory requirements

Well positioned as a full service scale challenger

Unique position with meaningful scale and opportunity...

...a full-service retail and commercial bank...

...successfully challenging the big banks



Retail Banking

857 branches
>80% market coverage

Guaranteed 7-day switch service¹

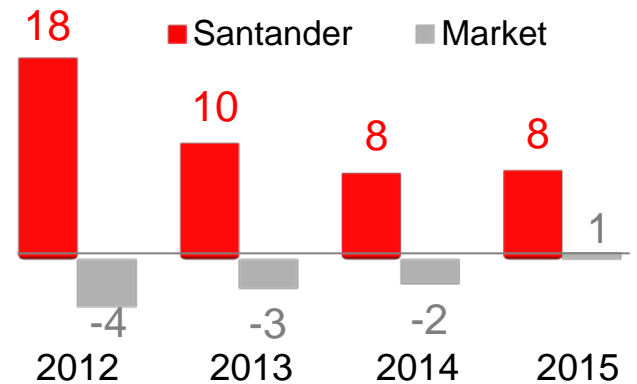
1 in 4 customers
Since the introduction of the switch service in Sep'13

14m active customers
5th largest current account provider
£137.3bn retail liabilities
£152.8bn mortgages; 3rd largest
£26.4bn corporate assets

Commercial Banking

70 Corporate Business Centres (from 34 in 2012)
726 Relationship Managers (from 503 in 2012)

SME lending² (% YoY growth)



1. Source: Santander UK management information and Bacs (previously Payments Council) monthly data (on a banking group basis) | 2. Source: Bank of England (November 2015)

2018 strategy creating value for all our stakeholders

1

Customer loyalty and market share growth

Customers

2

Operational and digital excellence

3

Consistent and growing profitability and a strong balance sheet

Shareholders

People

Live the
Santander
Way through
our
behaviours

Communities

Support
communities
through
skills,
knowledge
and
innovation

Ambitious but realistic commitments for 2016-18

		FY'15	2018 target
People	Colleague engagement	n/a	Top 3 UK Bank
Customers	Loyal retail customers	3.7 million	4.7 million
	Loyal SME and Corporate customers ¹	266,000	308,000
	Retail customer satisfaction and advocacy ('FRS')	Top 3	Top 3
	Digital customers	3.7 million	6.5 million
	Net fee and commission income CAGR	n/a	5% - 10% ²
Shareholders	Return on tangible equity ('RoTE')	8.2% ³	12-14%
	Cost-to-income ratio ('CIR')	53%	< 50%
	CET 1 capital ratio	11.6% ⁴	c. 12%
	Non performing loan ('NPL') ratio	1.54%	< 1.50%
	Dividend payout ratio	50%	50%
Communities	People supported	n/a	600,000 ⁵

For notes and definitions see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2015

1. Including Business Banking customers | 2. Measured between FY'15 and FY'18. Compound annual growth rate ('CAGR') | 3. 2015 RoTE excluding £450m PPI provision charge would have been 12.0% | 4. 2015 CET 1 capital ratio excluding £450m PPI provision charge would have been 11.9% | 5. Cumulative from 2016 to 2018

2016 outlook

- UK economy should remain supportive of our business and credit performance
- We remain conscious of the recent market volatility, uncertain prospects for policy interest rates and the upcoming UK/EU referendum
- Expect the Banking NIM for 2016 to decline further, from 1.80% at Q4'15. Driven by increased market liquidity and resulting competitive pressures on new asset margins, as well as continued SVR attrition
- Offsetting net interest income pressure, we see opportunities across all our customer business segments and are confident we can drive strong fee income growth
- Expect net mortgage lending to grow in line with the market, and decline in SVR mortgage balances
- Expect to confirm our banking reform approach around our 2016 half-year results
- Building on the strong foundations, we are well positioned as a full service scale challenger to deliver on our refined strategy and continue to give value to customers

Our 2016-2018 strategic priorities

1

Customer loyalty and market share growth

2

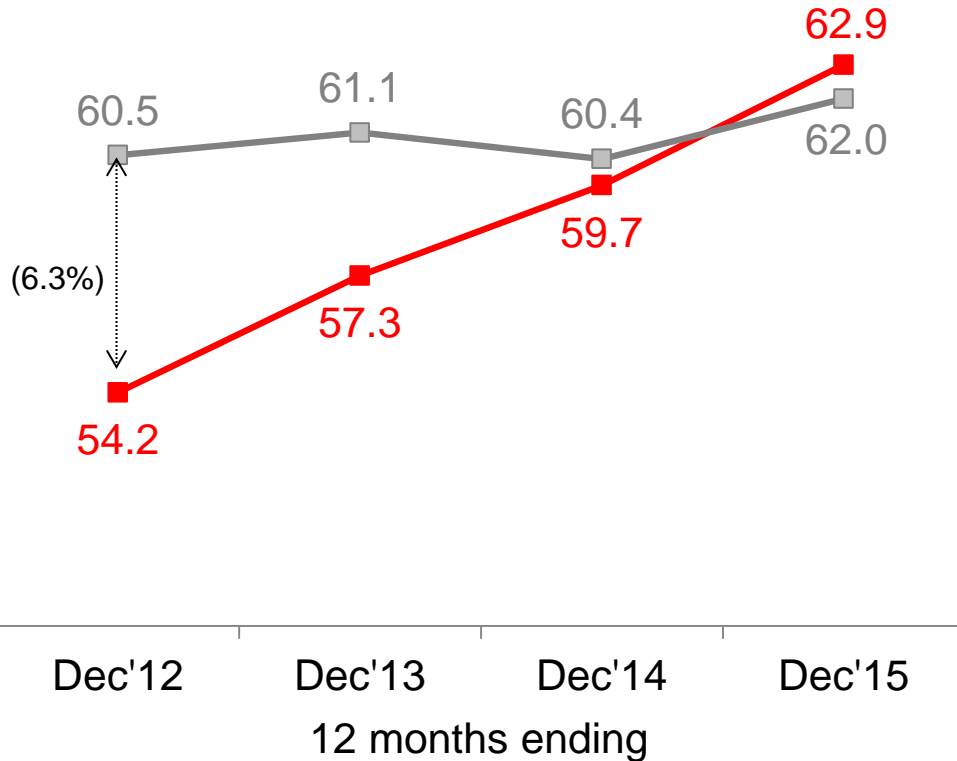
Operational and digital excellence

3

Consistent and growing profitability and a strong balance sheet

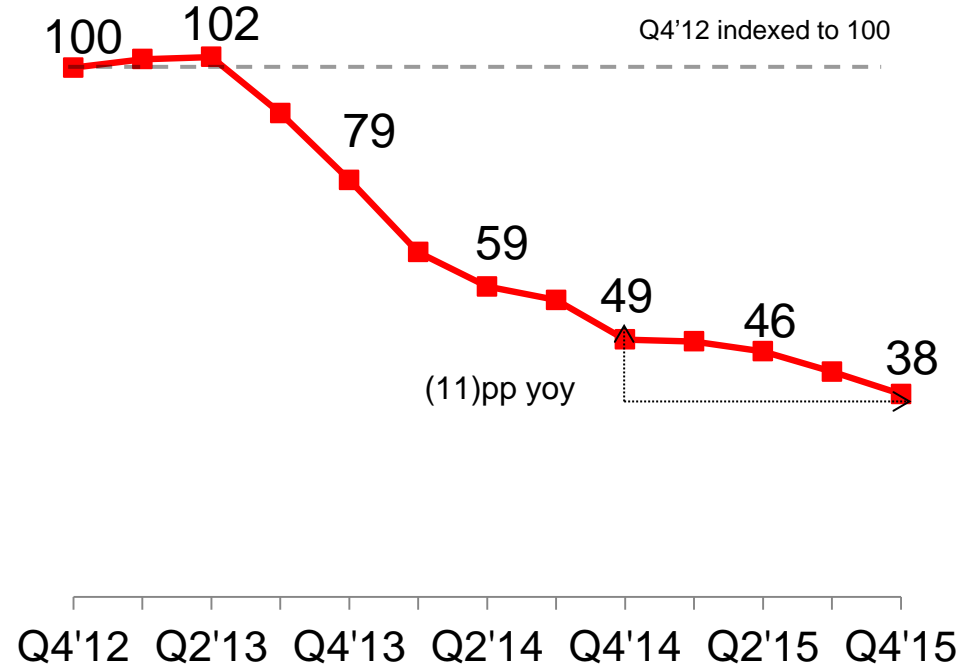
Significant improvement in retail customer experience

Retail customer satisfaction (%)¹



■ Santander UK ■ Average of 3 highest performing peers

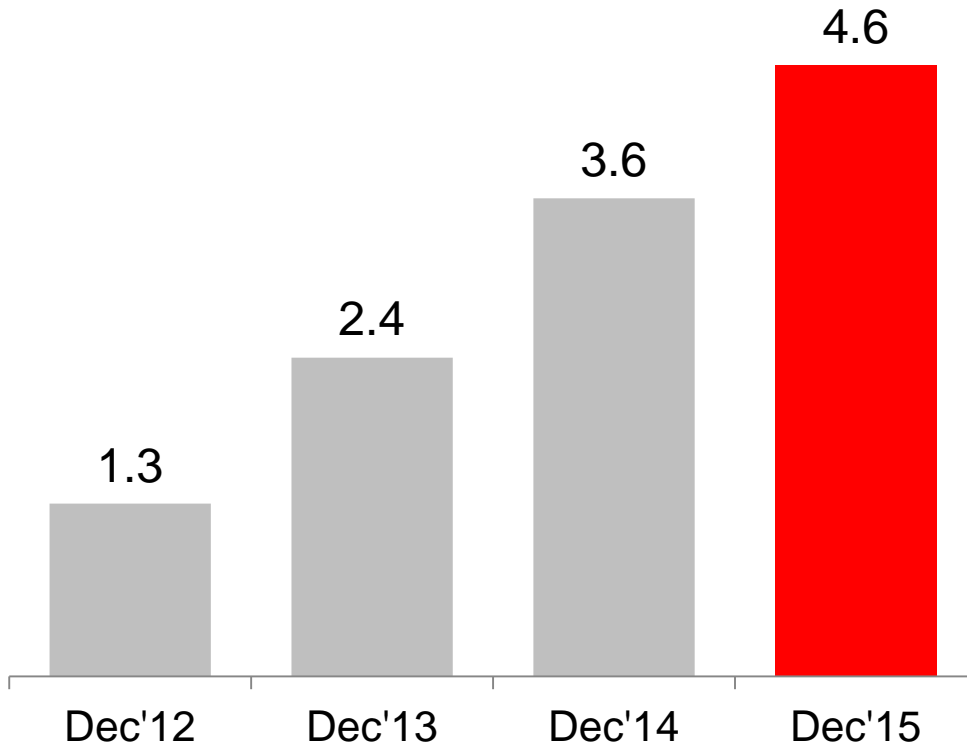
Retail complaints received (indexed)²



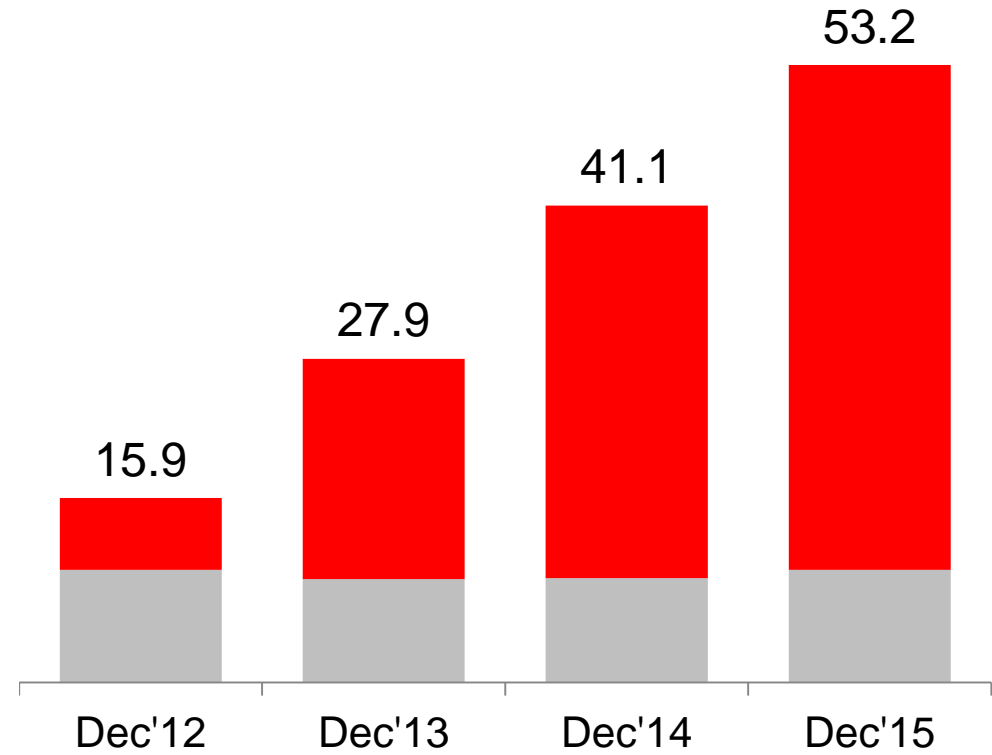
1. As measured by FRS. Refer to Appendix 1 in the Q4'15 Quarterly Management Statement for a full definition | 2. Source: Santander UK management information. All unique core complaints included. Those relating to legacy issues e.g. PPI and advice related complaints are not included

One million new 11213 World customers in 2015

11213 World customers (million)



Retail Banking current account balances (£bn)



■ of which 11213 Current Account balances (adults account only)

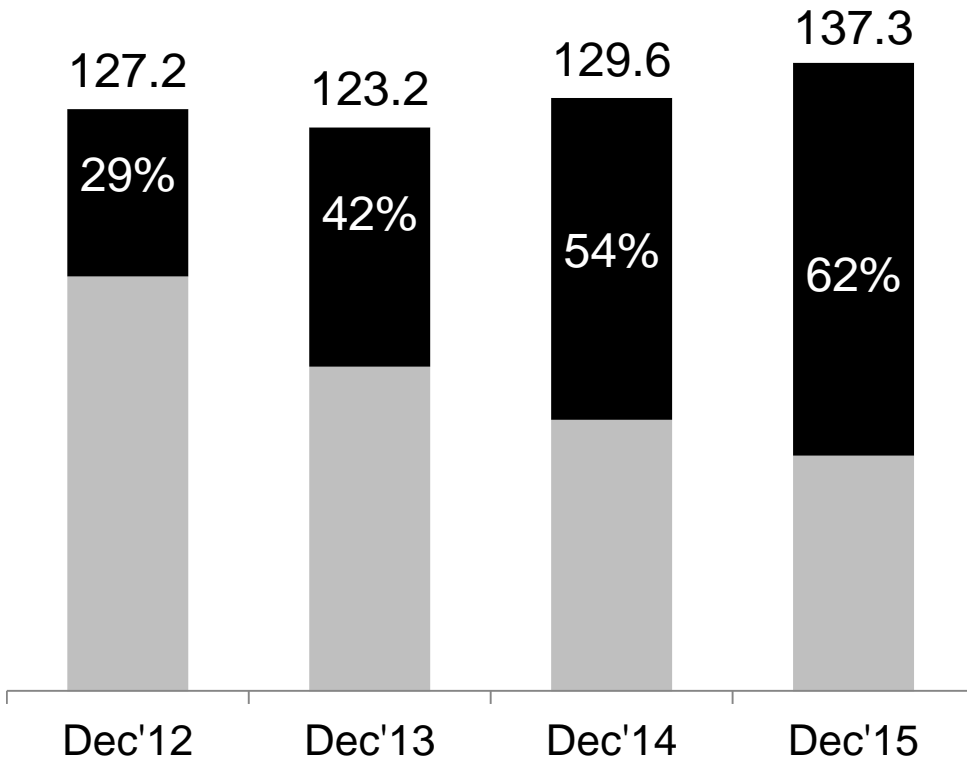
1I2I3 World is transforming our customer profile

	Non 1I2I3 Current Account	1I2I3 Current Account ¹	Main benefits of 1I2I3 Current Account
Loyal customers ²	24%	71%	▪ Deepening relationships; improved customer profile
Select and Affluent ³	7%	35%	▪ Improved liquidity stability; fee paying account
Products per customer	1.5	2.2	▪ Simple and transparent product
Ave. account balance ⁴	1.0x	5.3x	▪ Better savings mix; less rate sensitive money
Customer satisfaction ⁵	90%	97%	▪ More satisfied customers; high staff advocacy

1. Adult accounts only | 2. Loyal customers are primary current account customers (credit turnover >= £500 per month and at least two direct debits on the current account) who hold an additional product | 3. Refer to Appendix 1 in the Q4'15 Quarterly Management Statement for a full definition | 4. Average account balances are combined savings and banking liability balances | 5. Source: Current Account, Money Saving Expert (Aug'15), based on 'great/ok' responses

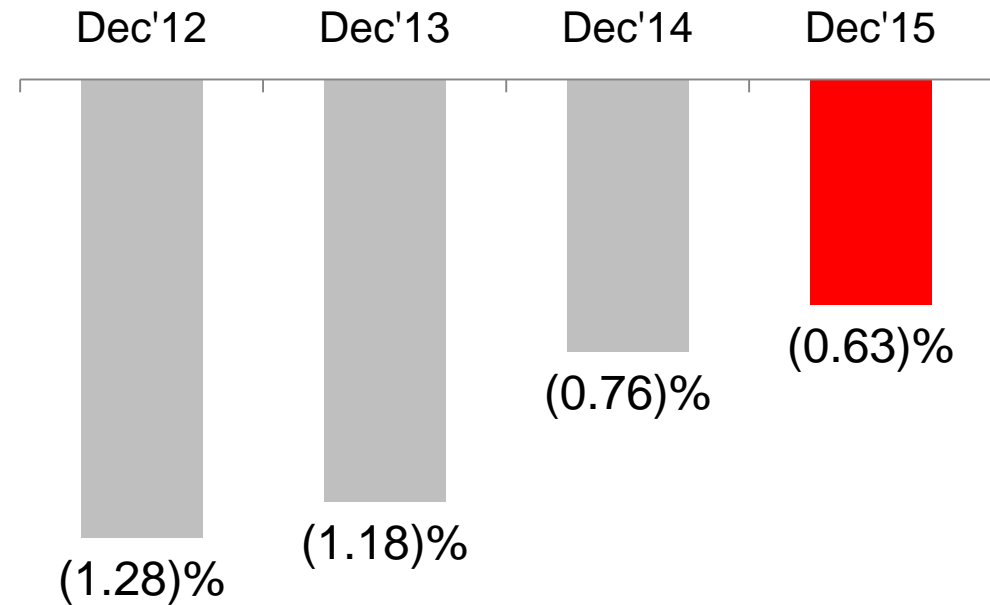
Improved retail customer primacy and liability spread

Retail Banking deposits (£bn)



■ Banking and savings balances of customers with a primary 11213 Current Account or other primary current account

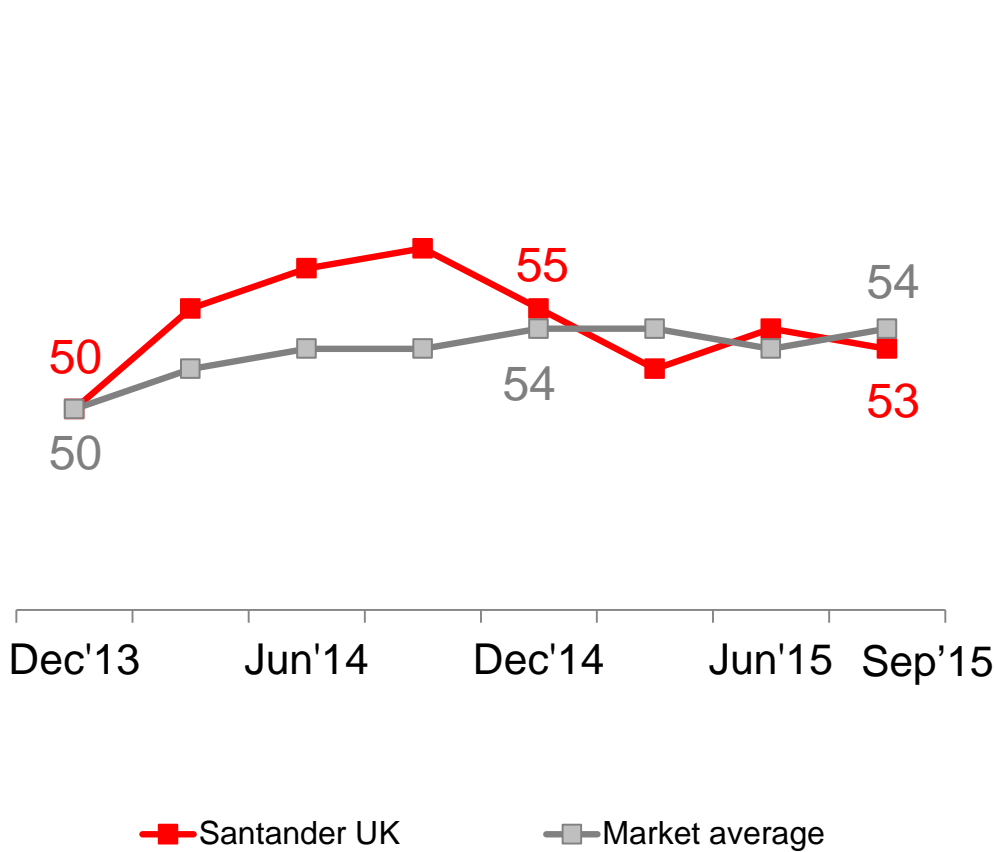
Retail Banking deposits spread (%)¹



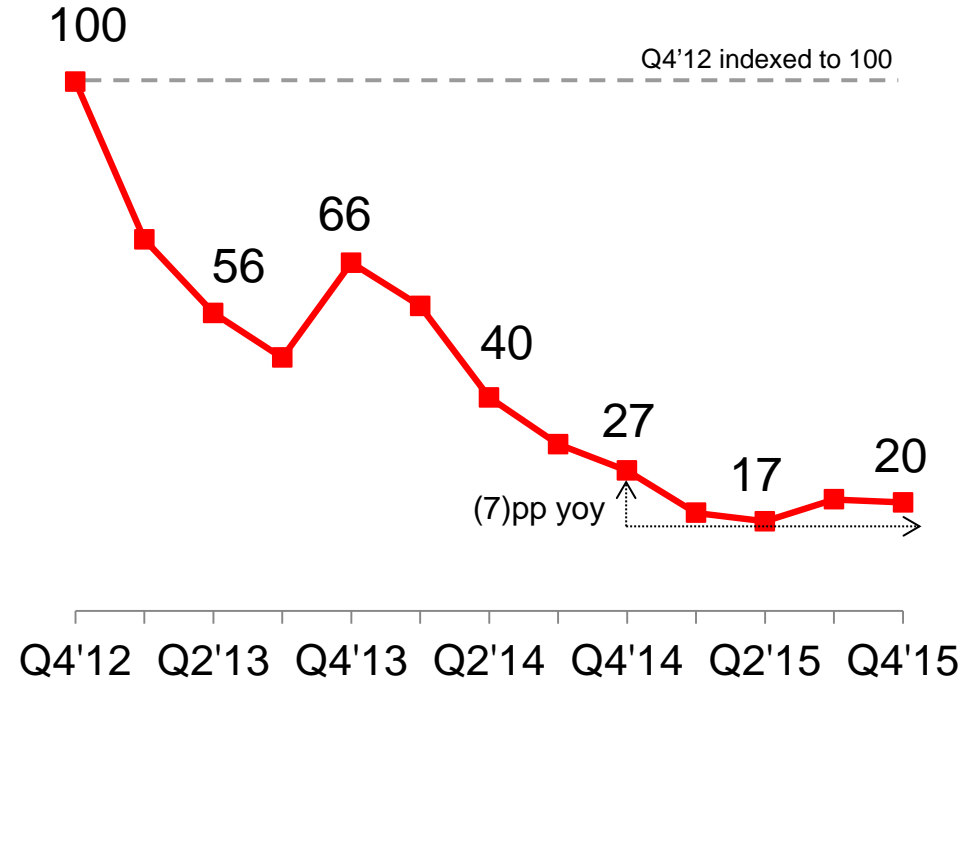
1. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers

Improving corporate customer experience

Corporate customer satisfaction (%)¹



Corporate complaints received (indexed)²



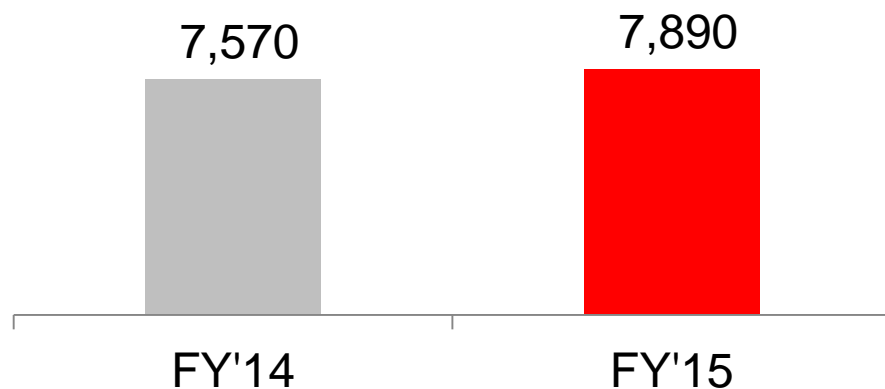
1. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the Q4'15 Quarterly Management Statement for a full definition | 2. Source: Santander UK management information. Complaints relate to our commercial and corporate banking businesses

Utilising full service corporate and commercial offering

	Customers	Customer loans
SME > £250k - £50m	72,400	£13.6bn
Mid corporates > £50m - £500m	1,380	£7.3bn
Large corporates > £500m	340	£5.5bn

Expanded footprint to be closer to our customers		
	2012	2015
Relationship Managers	503	726
Corporate Business Centres	34	70

Commercial Banking bank account openings



International expertise and differentiated offering

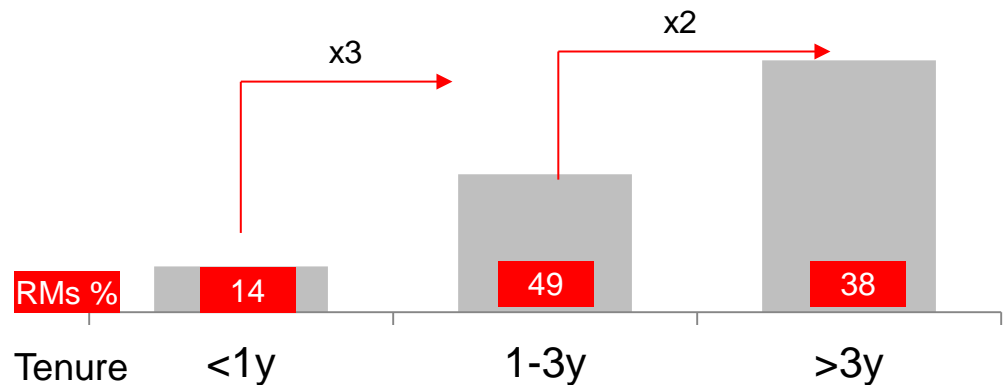
BREAK THROUGH



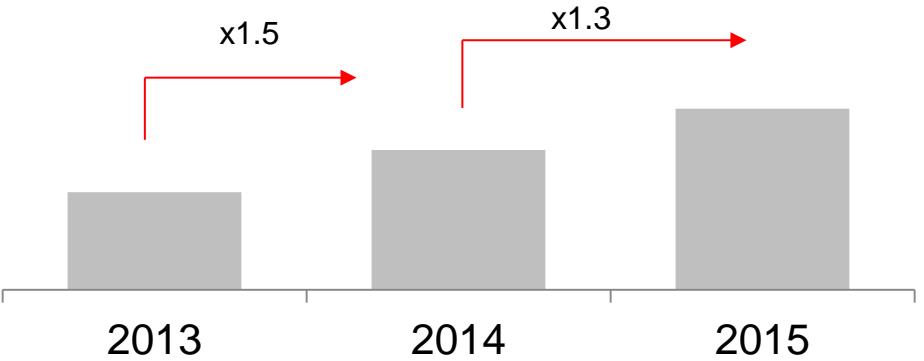
Leveraging new infrastructure for improved returns

Commercial Banking		FY'15	vs FY'14
		£m	%
Net interest income		460	23
Non-interest income		109	22
Operating expenses		(332)	12
Operating provisions and charges		(63)	39
PBT		174	185
		Dec'15	vs Dec'14
		£bn	%
Customer assets		20.9	12
Customer deposits		18.1	18
RWAs		20.9	5

SME assets per Relationship Manager



SME non asset income



Continued investment in the GCB UK franchise

Our strategy and key actions

Focus on areas of competitive advantage:

- LatAm expertise
- Credit origination, structuring and distribution
- International Trade Finance
- Access to EUR and GBP Capital Markets
- Retail and commercial solutions and distribution
- Acquisition Finance, structured credit and Project Finance

2015 milestones

- Launched digital FX execution platform “Santander Flame” to SME customers

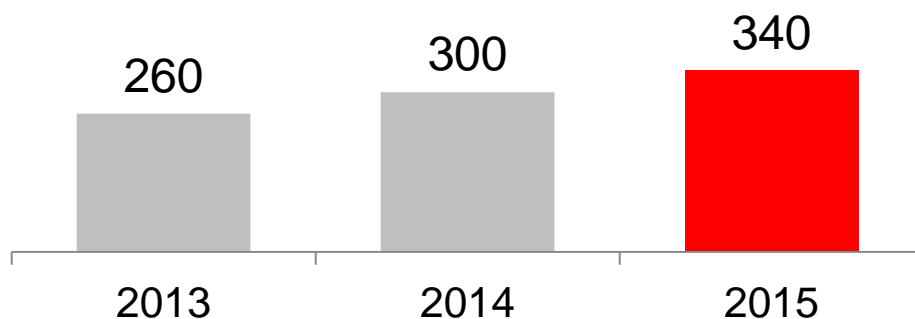


“Sterling Bond” award for Santander UK’s £750m AT1



Voted “Best Bank for Emerging Latin American Currencies” for two consecutive years

Number of large corporate customers



Strong credentials in chosen businesses

	2013	2015
UK corporate bonds investment grade (£) ¹	#5	#6
UK housing associations bonds ²	#1	#2
UK syndicated loans MLA ¹	#6	#5
Arranger of UK renewable loans ³	#9	#2

1. Source: Dealogic | 2. Source: Dealogic and Santander UK | 3. Source: Clean Energy

Our 2016-2018 strategic priorities

1

Customer loyalty and market share growth

2

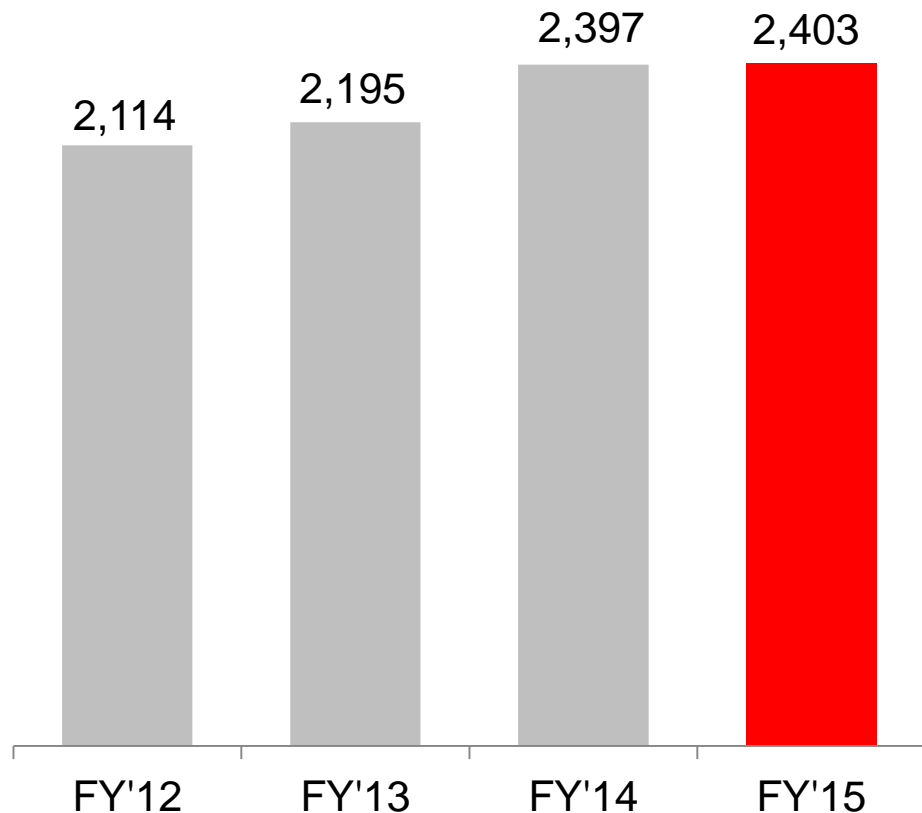
Operational and digital excellence

3

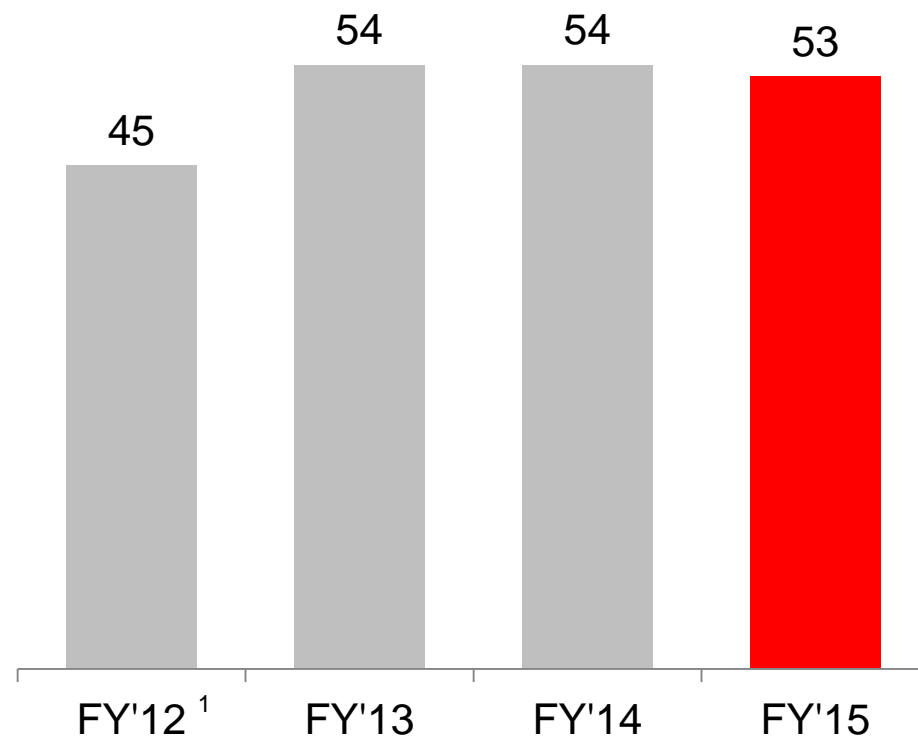
Consistent and growing profitability and a strong balance sheet

Operational efficiency absorbing ongoing investment

Operating expenses (£m)



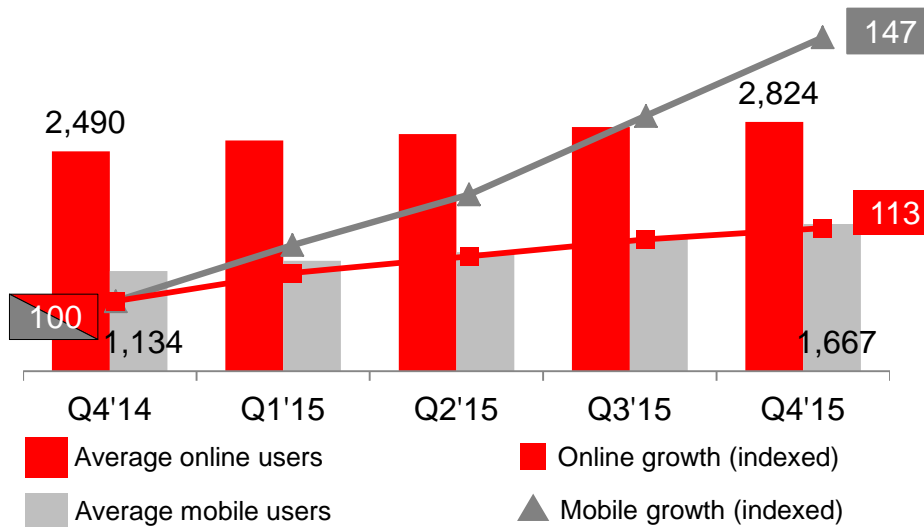
Cost-to-income ratio (%)



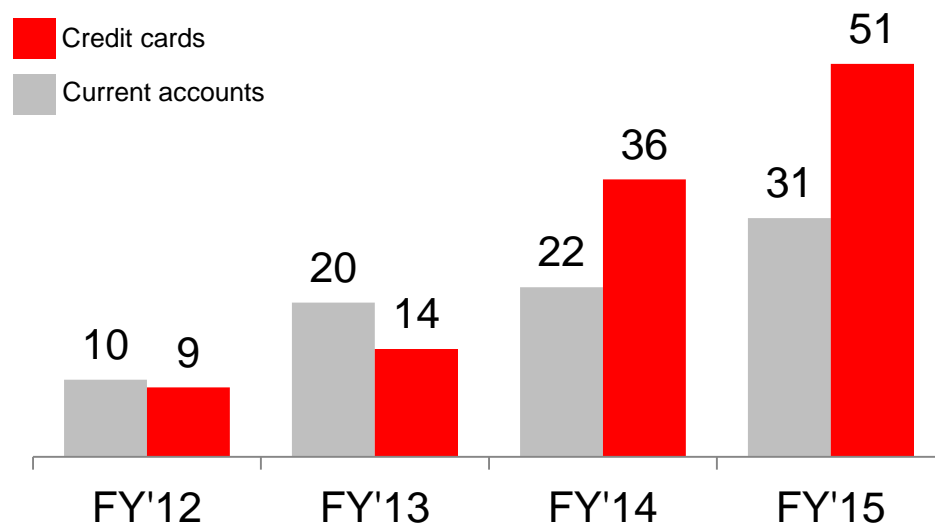
1. FY'12 total income includes a gain of £705m from the capital management exercise. The cost-to-income ratio excluding this gain was 53%

Digital transformation improving customer retention

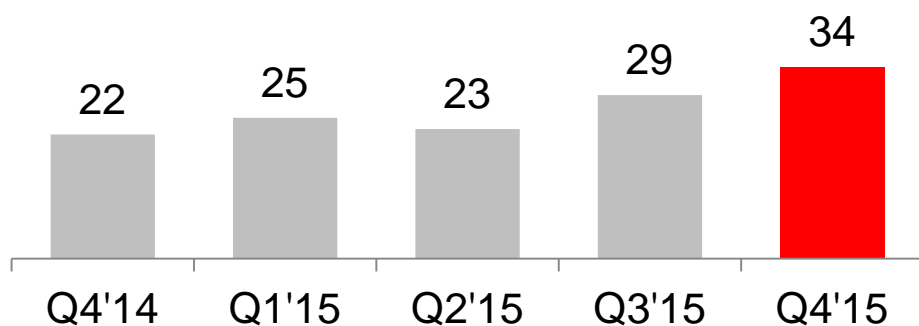
Growing our digital presence (000s)



Digital openings (% of total openings)









Digital mortgage retention¹ (% of total)



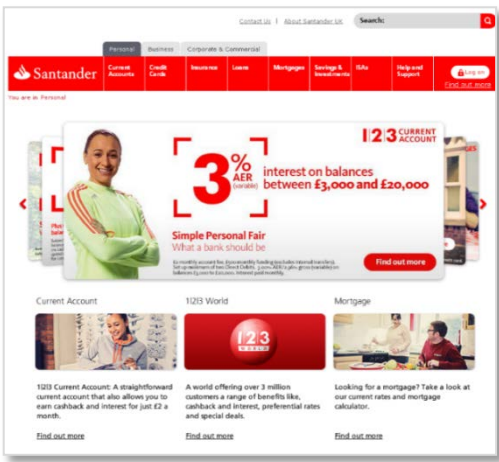
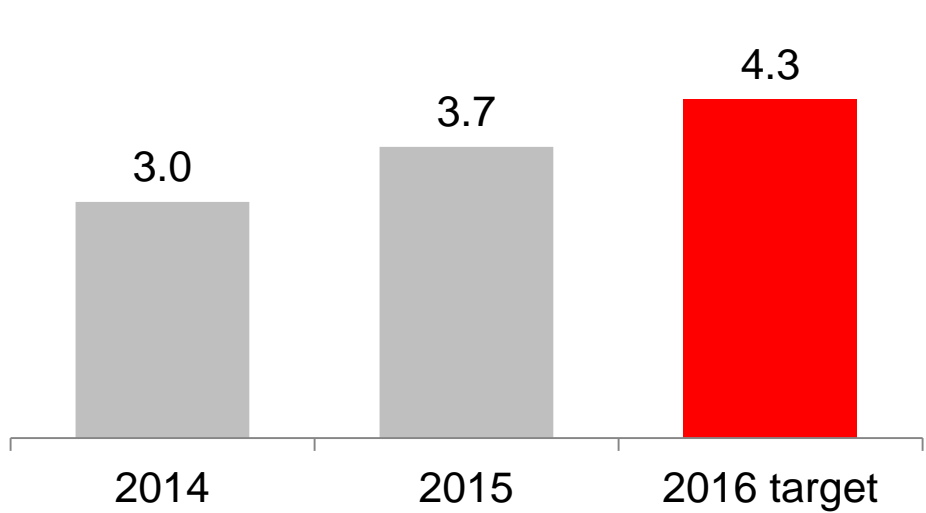
Helping mobile customers deepen their relationship with us with **1,500** new active mobile users every day

1. Mortgage retentions carried out by digital channels as a % of all retentions (value)

Relentless focus on digital customer experience

- Credentials**  **Instant access / re-access** to online banking, and improved first time logon experience
- See**  **Ability to see more information** for UPL, investments, and insurance products via online bank and mobile app
- Service**  **Customer WiFi rollout** to all branches; **ability to set up and manage alerts** in branch and by phone
- Buy**  **Mobile friendly application forms**; online mortgage decision in principle tool; secure site forms for UPL and ISAs
- Mobile**  Amongst first banks to launch **Apple Pay** in the UK; new **Spendlytics**, **KiTTi** and an **ISA app**
- Analytics**  **Comprehensive analytics suite**, with a capability to analyse customer behaviour (across public website, UPL forms and landing pages)

Total digital customers (m)



Our 2016-2018 strategic priorities

1

Customer loyalty and market share growth

2

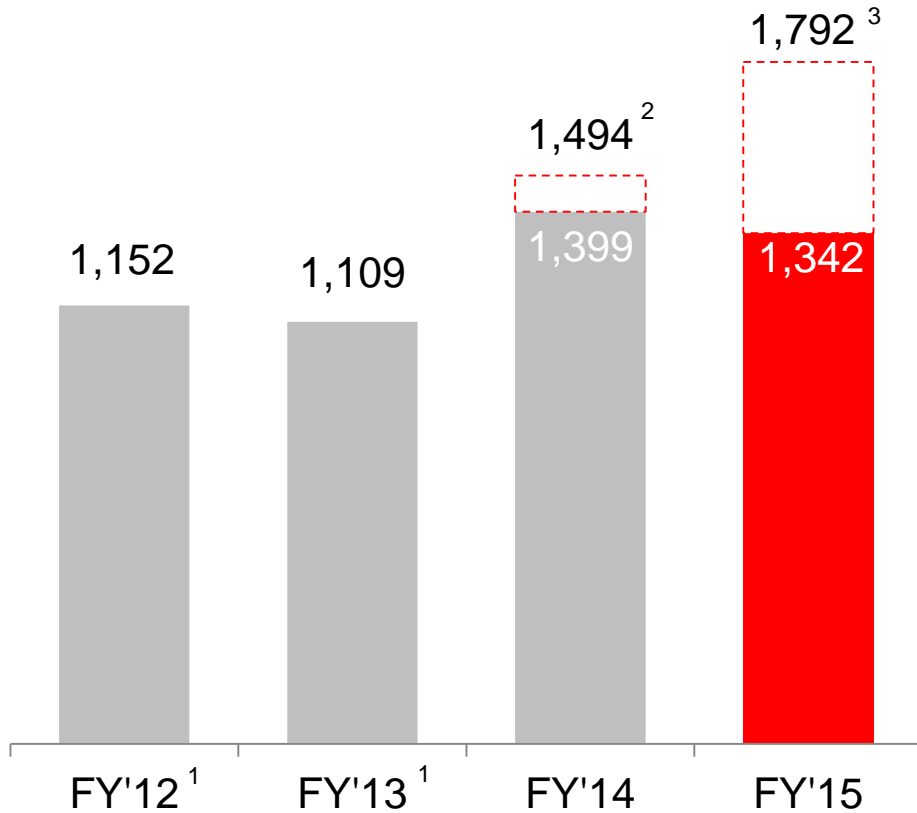
Operational and digital excellence

3

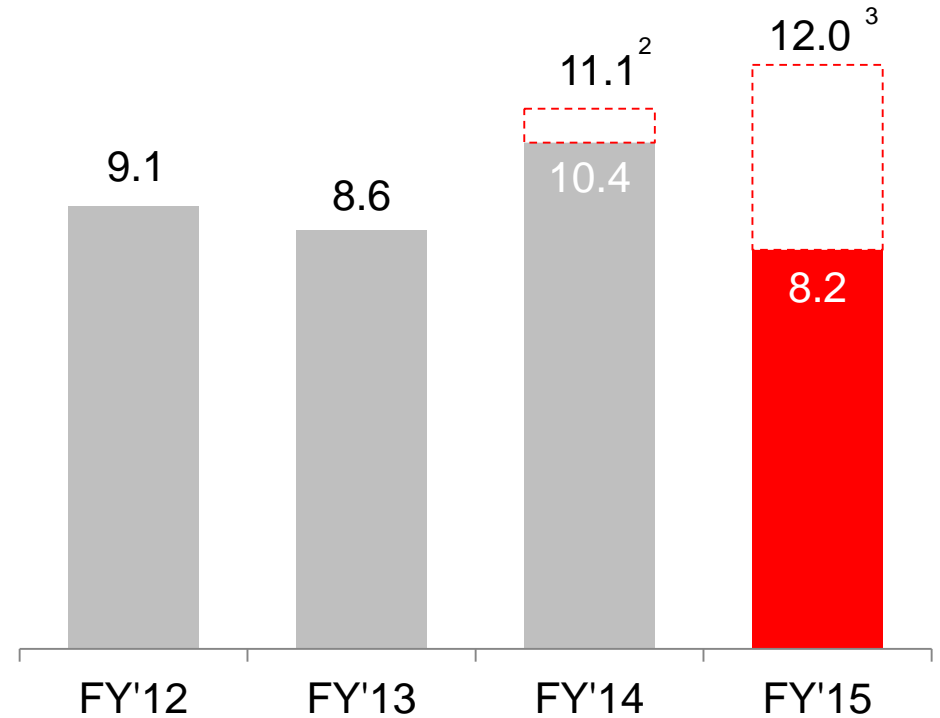
Consistent and growing profitability and a strong balance sheet

Consistently profitable, sustainable business

Profit before tax (£m)



Return on tangible equity ('RoTE') (%)



1. Excludes discontinued operations | 2. 2014 PBT and 2014 RoTE excluding £95m PPI provision charge would have been £1,494m and 11.1% respectively | 3. 2015 PBT and 2015 RoTE excluding £450m PPI provision charge would have been £1,792m and 12.0% respectively

Margin momentum driven by strategic transformation

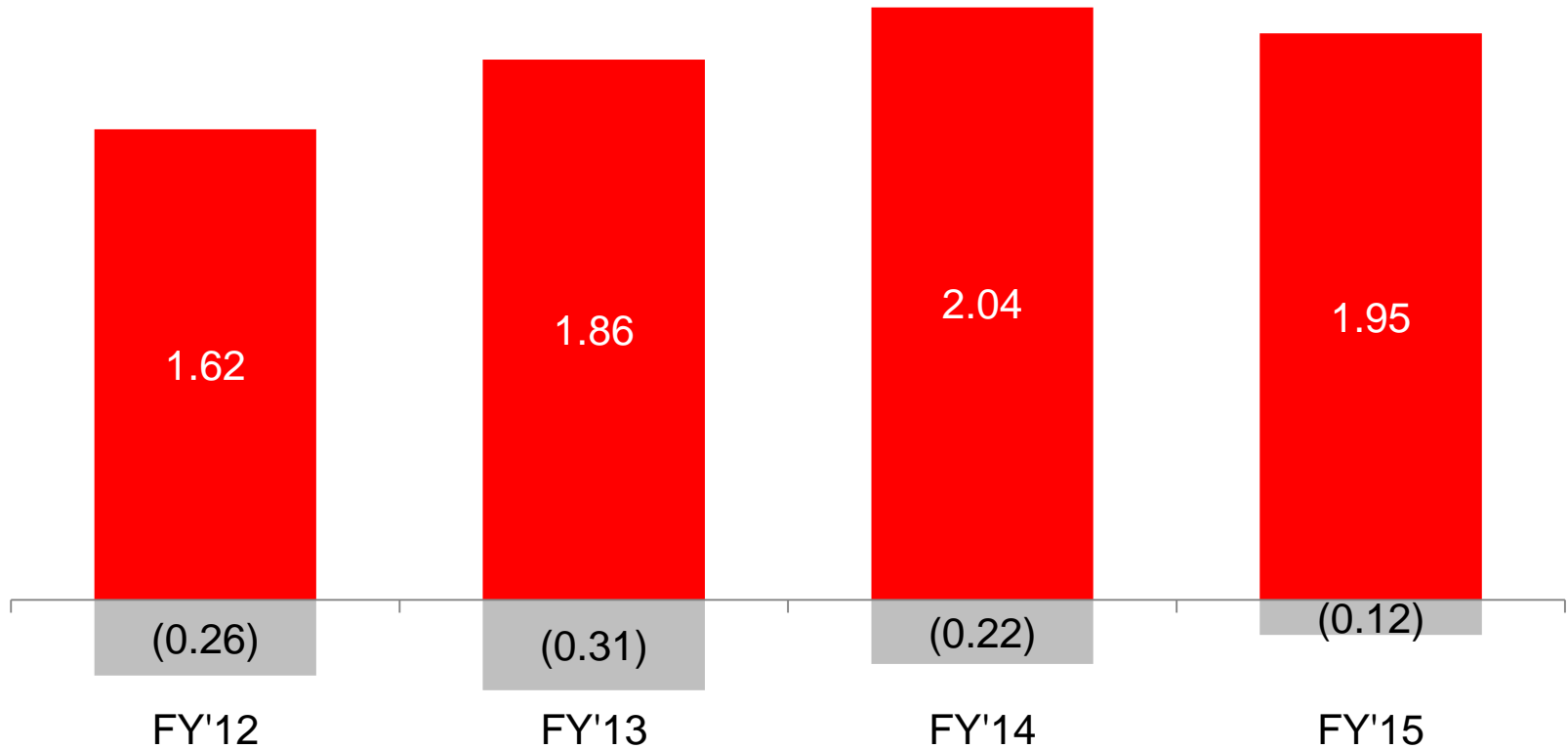
Banking NIM¹


1.36


1.55

1.82

1.83



 Customer interest margin

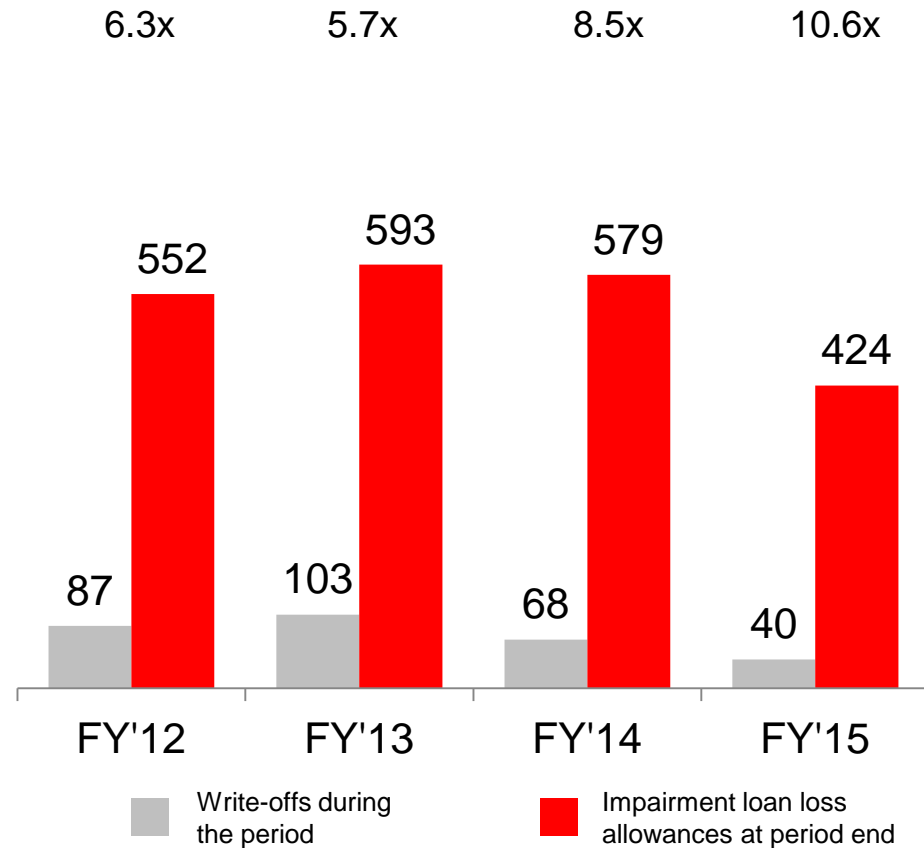
 Structural hedge, wholesale funding and liquidity balances

1. Banking NIM is calculated as annualised net interest income divided by average customer loans

Robust residential mortgage credit performance

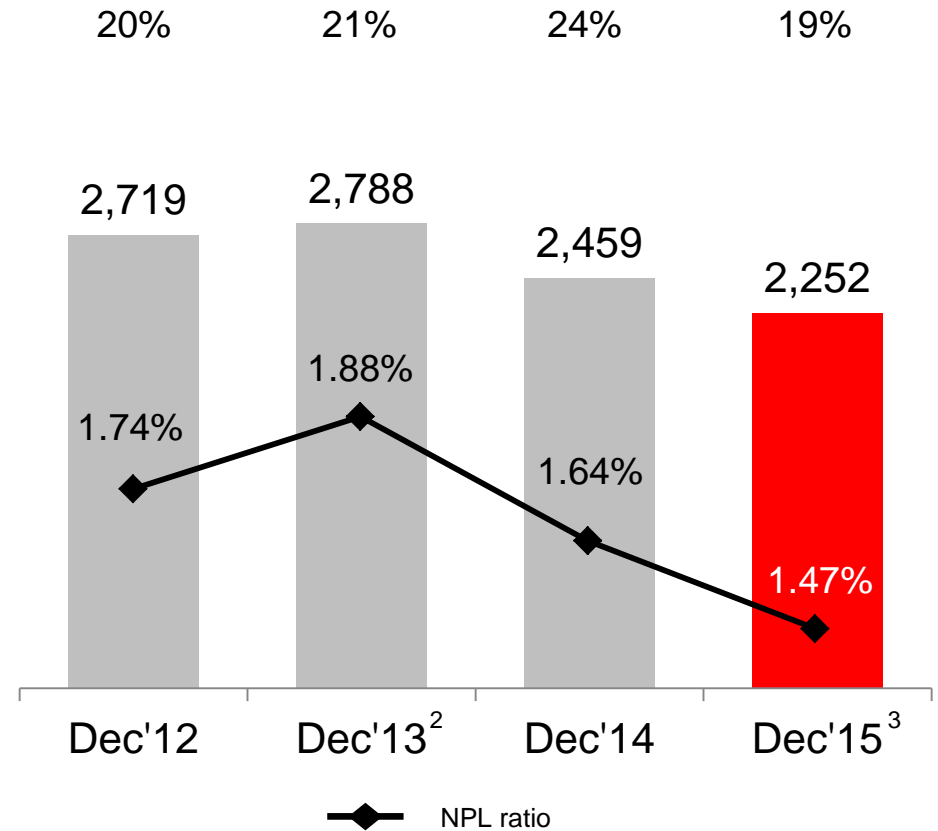
Mortgage impairment loan loss allowances and write-offs (£m)

Write-offs coverage¹



Mortgage NPLs (£m)

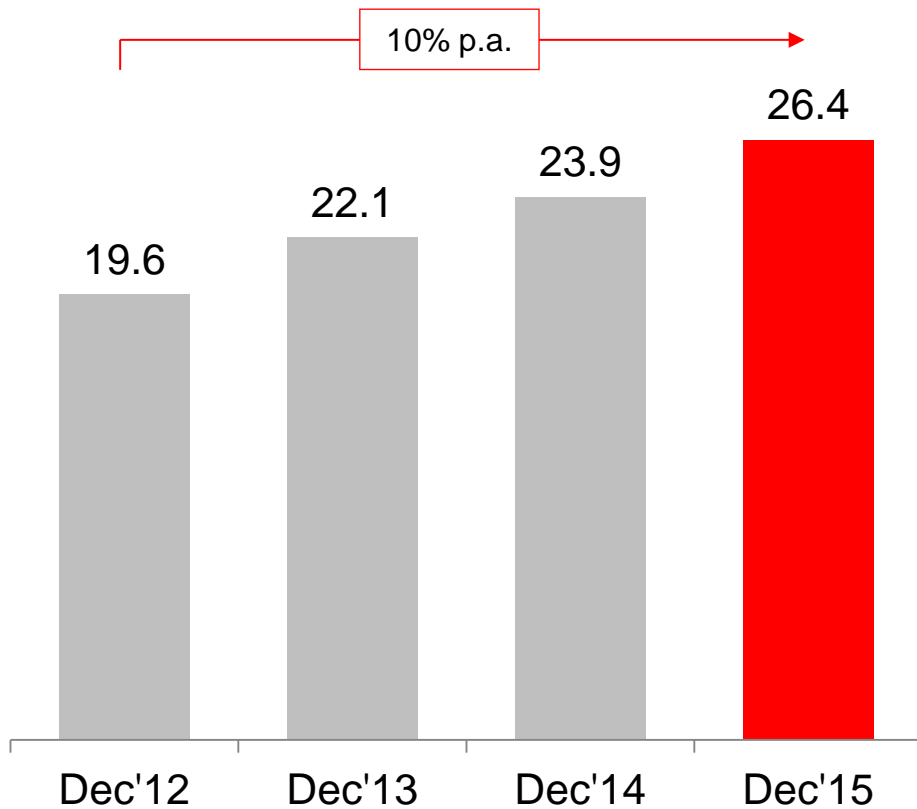
NPL coverage



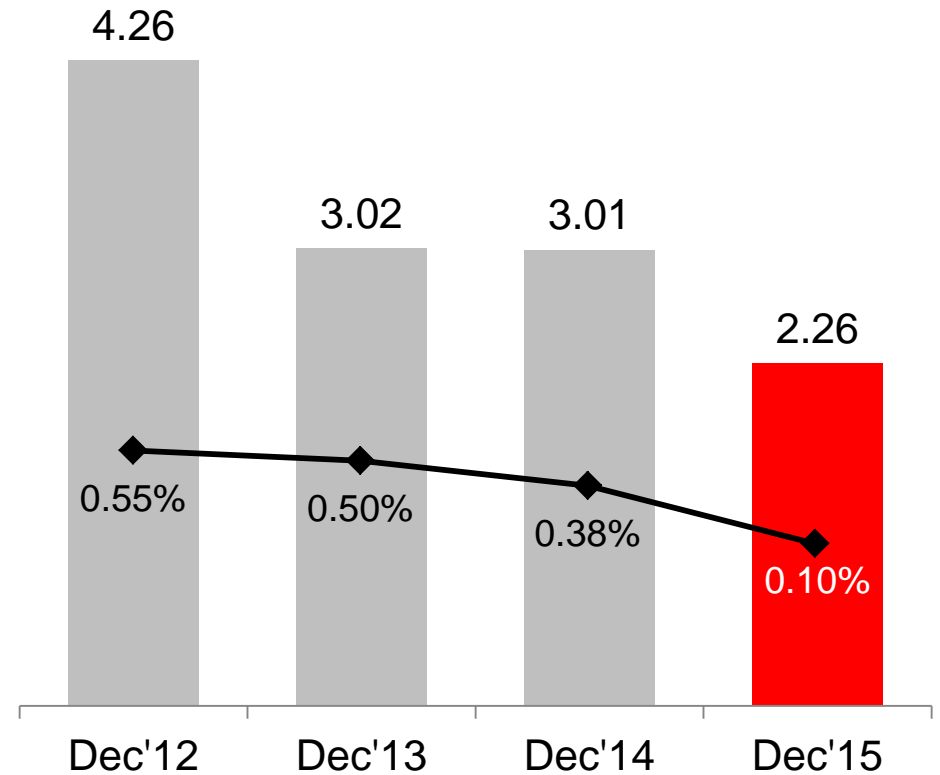
1. Calculated as impairment loan loss allowance at year end divided by write-offs during the year | 2. The increase in the mortgage NPL ratio during 2013 was largely due to regulatory-driven policy and collections changes introduced in early 2012 and the impact of the managed reduction in the mortgage portfolio 2012-13 | 3. Residential mortgages NPL ratio for Dec'15 includes PIPs. Prior periods have not been restated

Strong growth and prudent profile in corporate lending

Corporate loans (£bn)¹



Corporate loans NPL ratio (%)¹

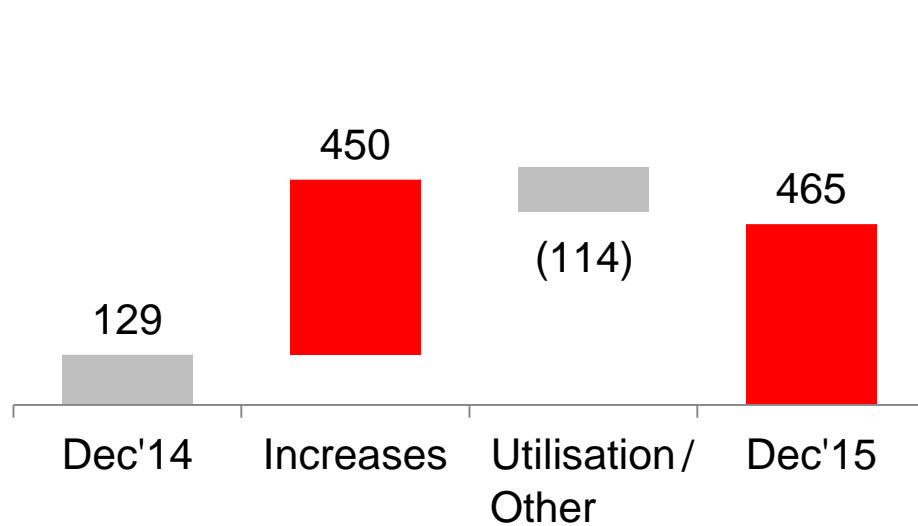


◆ Loan loss rate

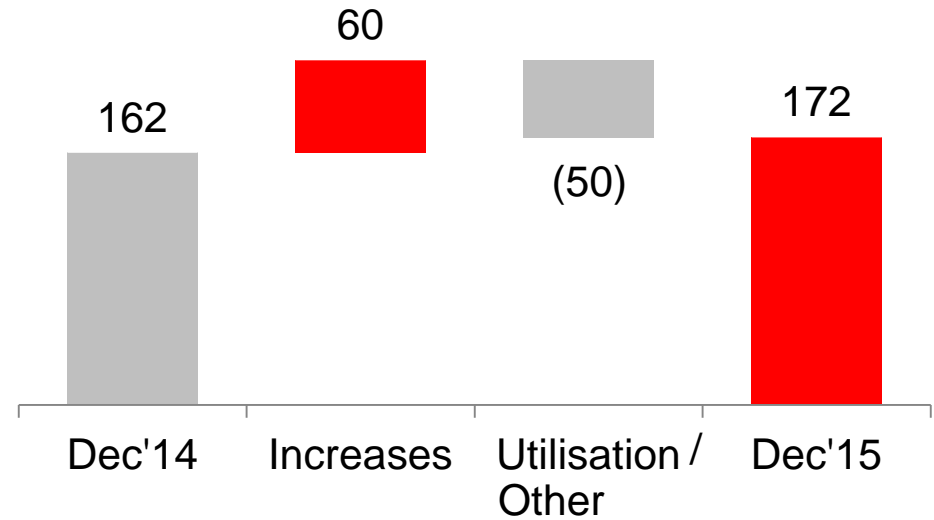
1. As reported in the combined Commercial Banking and Global Corporate Banking business segments

PPI and other conduct redress and costs

PPI provision balance¹ (£m)



Other products provision balance¹ (£m)



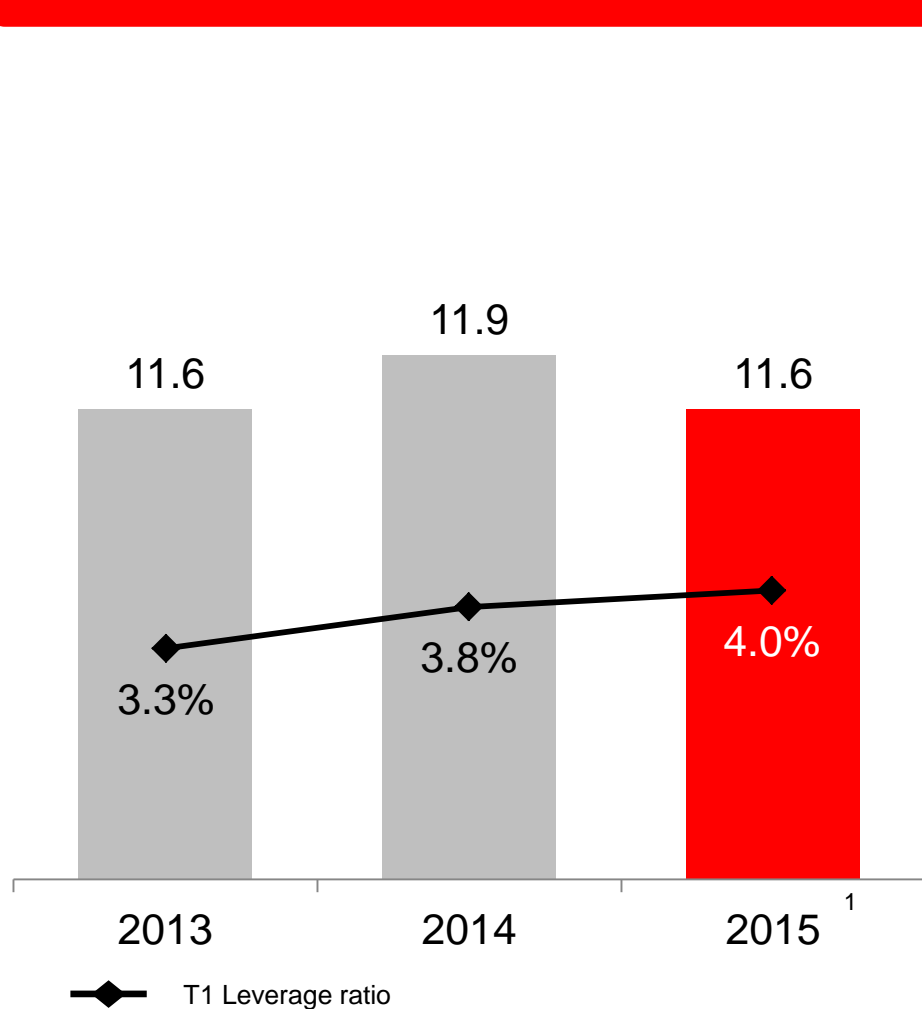
- Application of the FCA consultation paper on PPI and the Plevin case has resulted in an additional £450m provision charge for Q4'15
- This charge represents our current best estimate of the remaining redress and costs

- Includes £43m of additional provisions taken in Q3'15 relating to wealth and investment products
- The additional provisions were taken following the agreement with the FCA and a review of claims activity

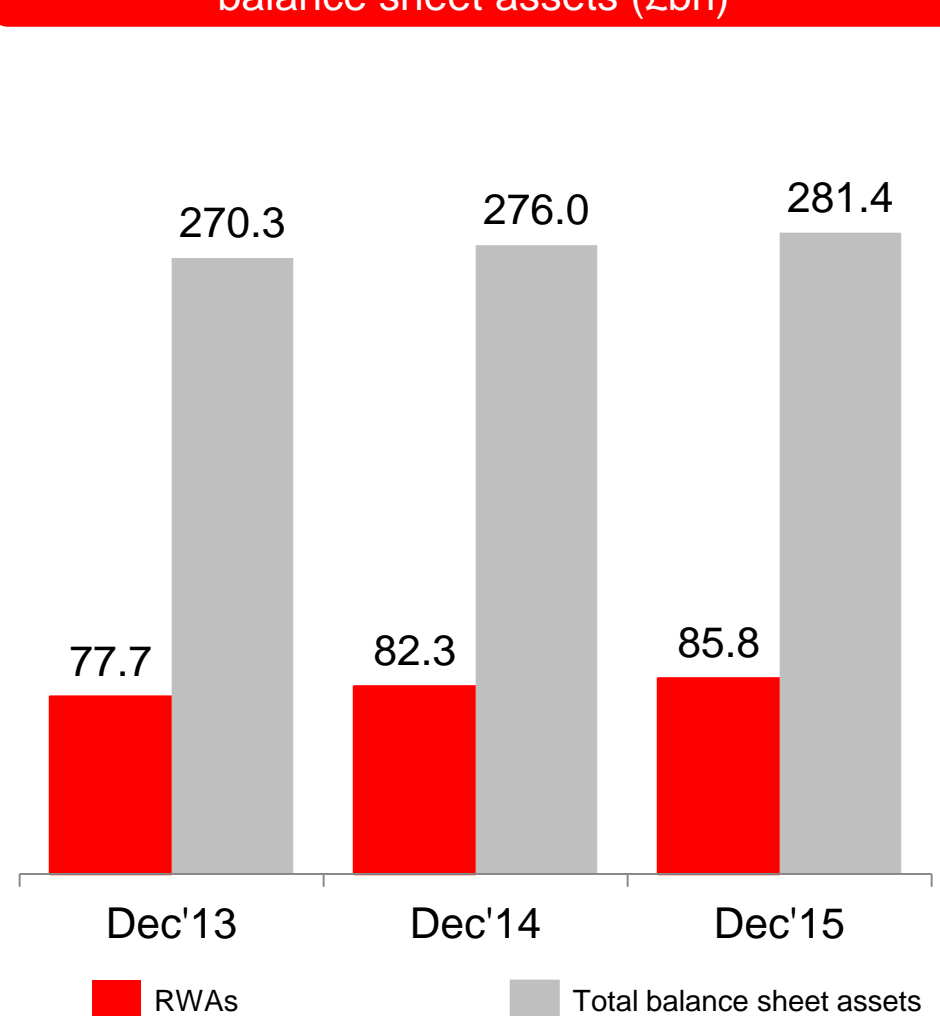
1.Provision for redress and associated costs

Strong capital and leverage maintained

CET1 and leverage ratio (%)



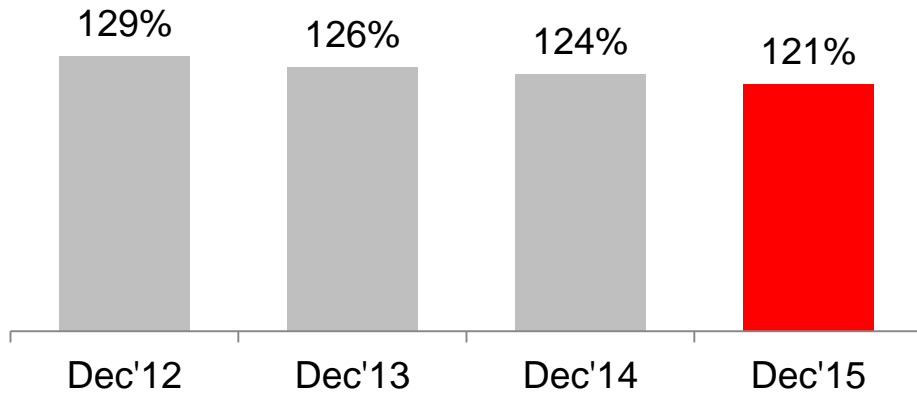
Risk weighted assets and balance sheet assets (£bn)



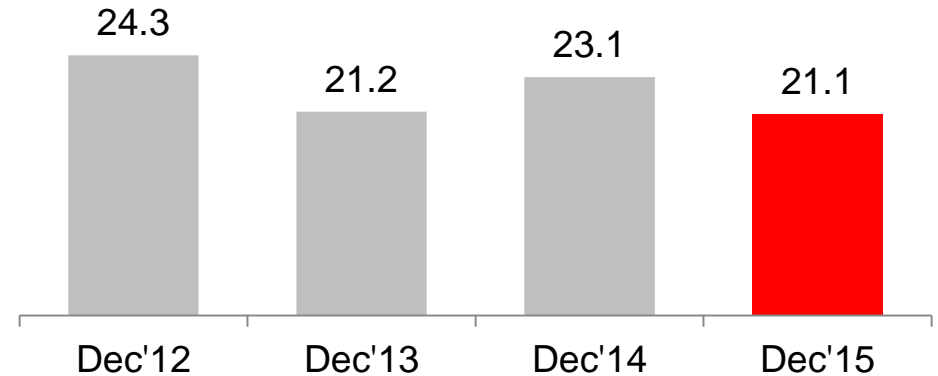
1. 2015 CET 1 capital ratio and PRA end point Tier 1 leverage ratio excluding £450m PPI provision charge would have been 11.9% and 4.1%, respectively

Optimised liquidity position

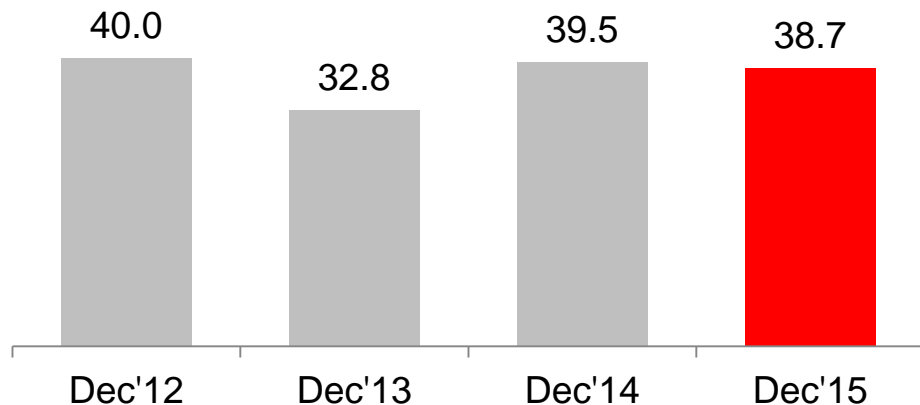
Loan-to-deposit ratio



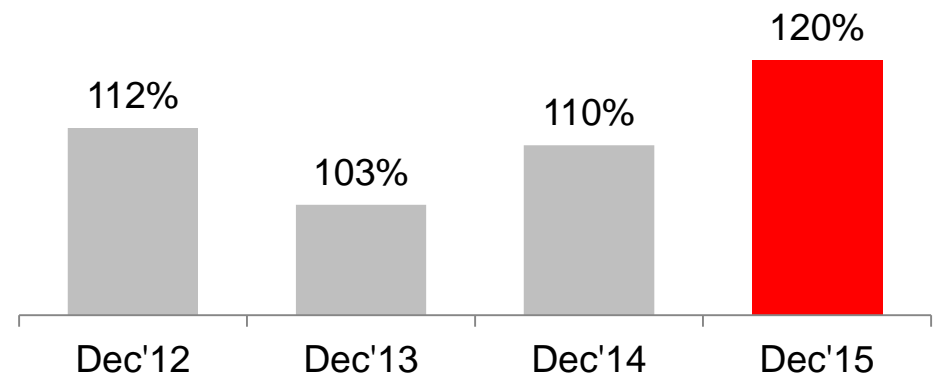
Wholesale funding with a residual maturity of less than 1 year (£bn)



LCR eligible liquidity pool (£bn)



Liquidity coverage ratio ('LCR')

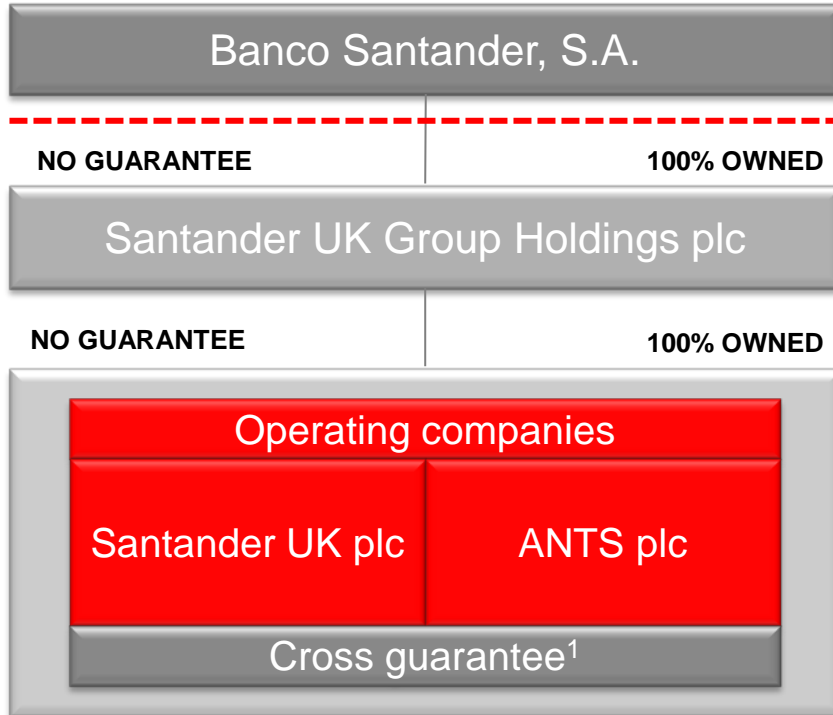


Appendix 1 - Fixed income information

Wholesale funding and future issuance model

Banco Santander – multiple point of entry resolution group
Santander UK Group Holdings plc – single point of entry resolution group

- We are required to satisfy the PRA that we can withstand capital and liquidity stresses on a standalone basis
- The PRA regulates capital (including dividends) and large exposures

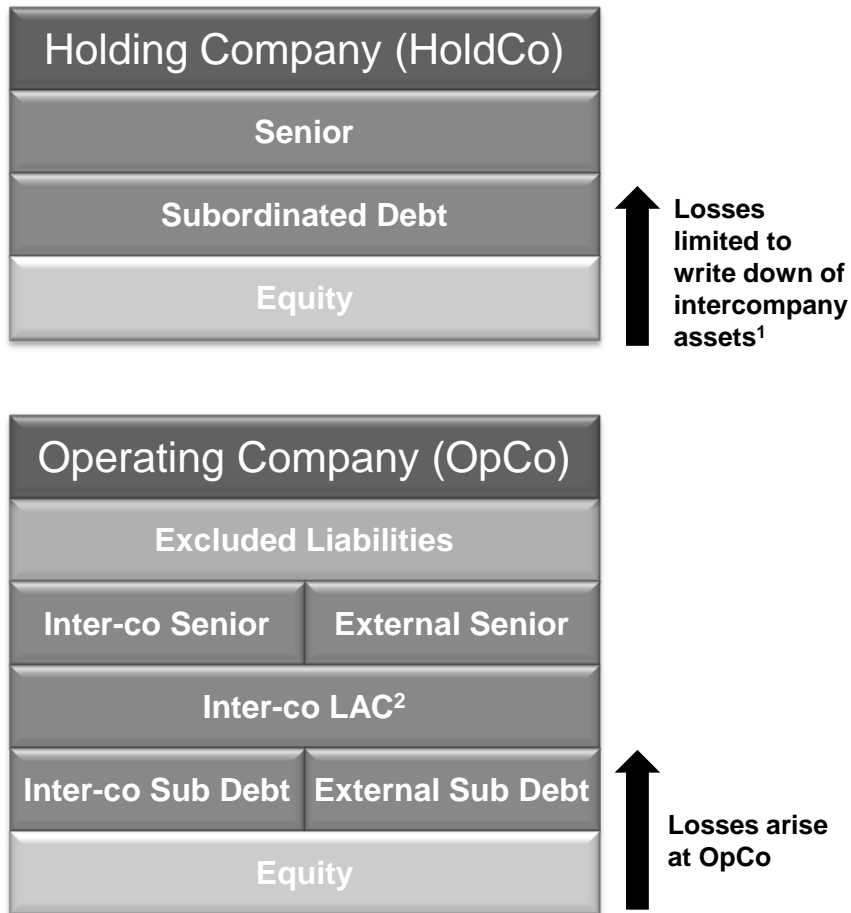


- Senior unsecured
- Subordinated debt

- Covered bonds
- Mortgages for RMBS vehicles
- Senior unsecured
- Short term funding e.g. ECP, French CD, etc.

1. The cross guarantees have the effect of aligning the interests of the class of creditors covered by the cross guarantees across the operating companies

Prospective implementation of UK resolution regime

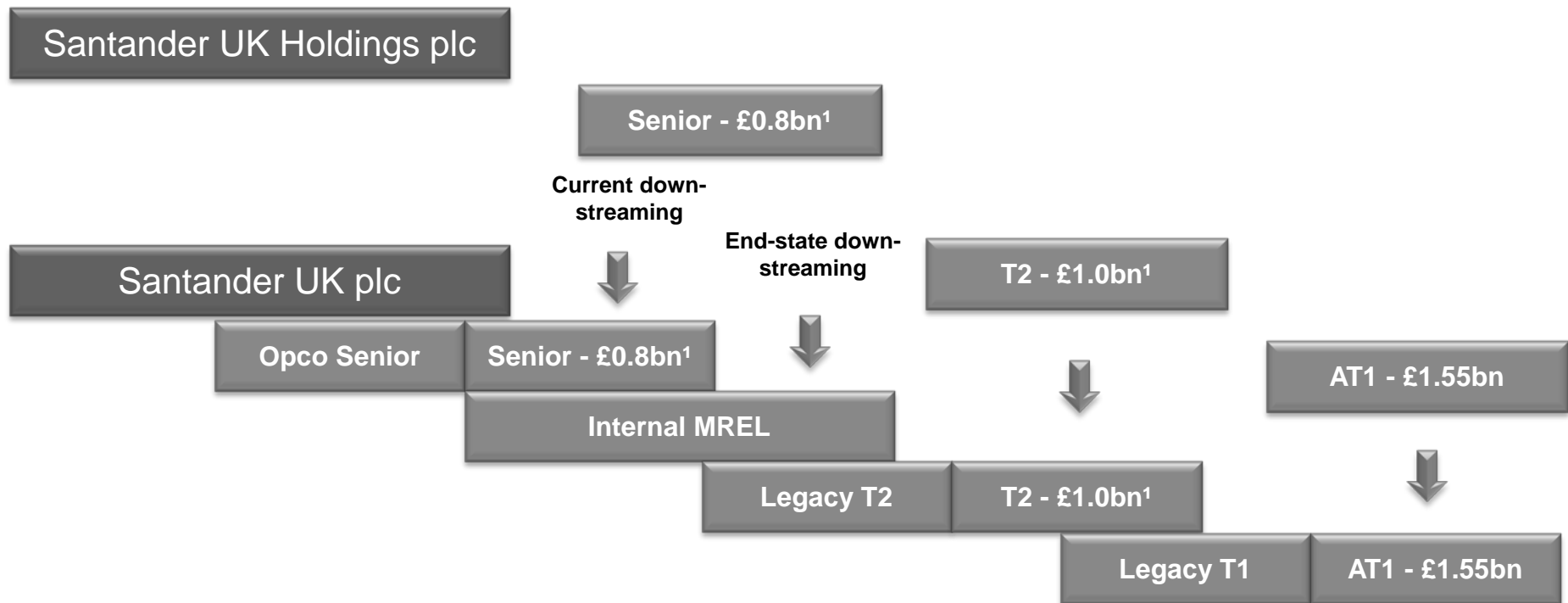


- Losses at HoldCo can only apply to the extent of any write-down of its intercompany assets
- Losses will naturally arise at OpCo first
- 'No creditor worse off' principle enshrined in the UK resolution regime – respecting the creditor hierarchy regardless of whether the liability is internally or externally issued. 'Point of non viability' will occur first at the sub debt layer

1. The write-down of the intercompany assets will be determined by the relevant authority following valuations conducted per BRRD Art 36 | 2. Inter-co Loss Absorbing Capacity ('LAC') may require terms to be included in the intercompany trade to make it subordinated to non LAC senior liabilities

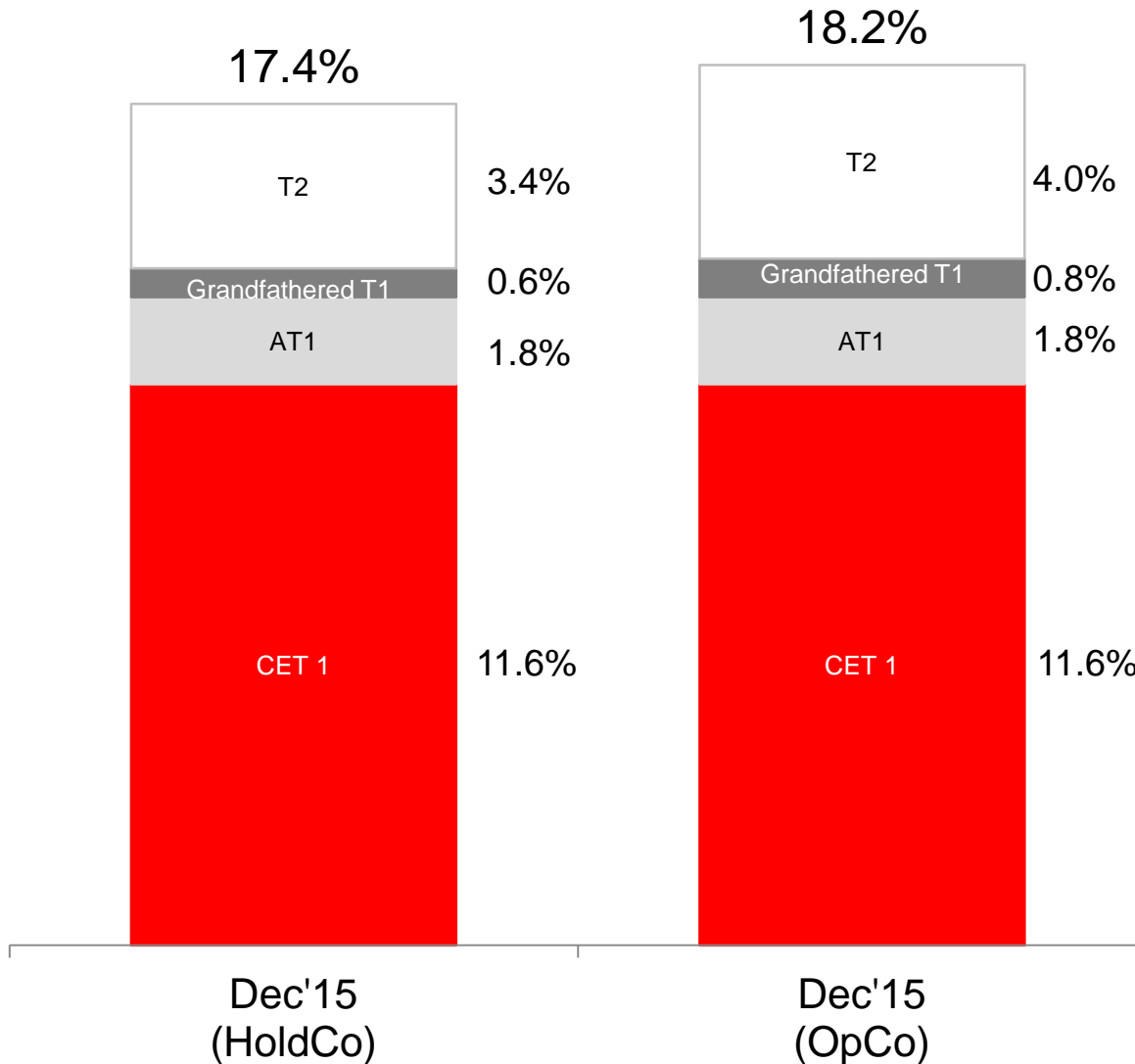
Transparent HoldCo debt down-streaming model

We are committed to providing transparent disclosure around how external Santander UK Group Holdings plc debt is down-streamed to Santander UK plc



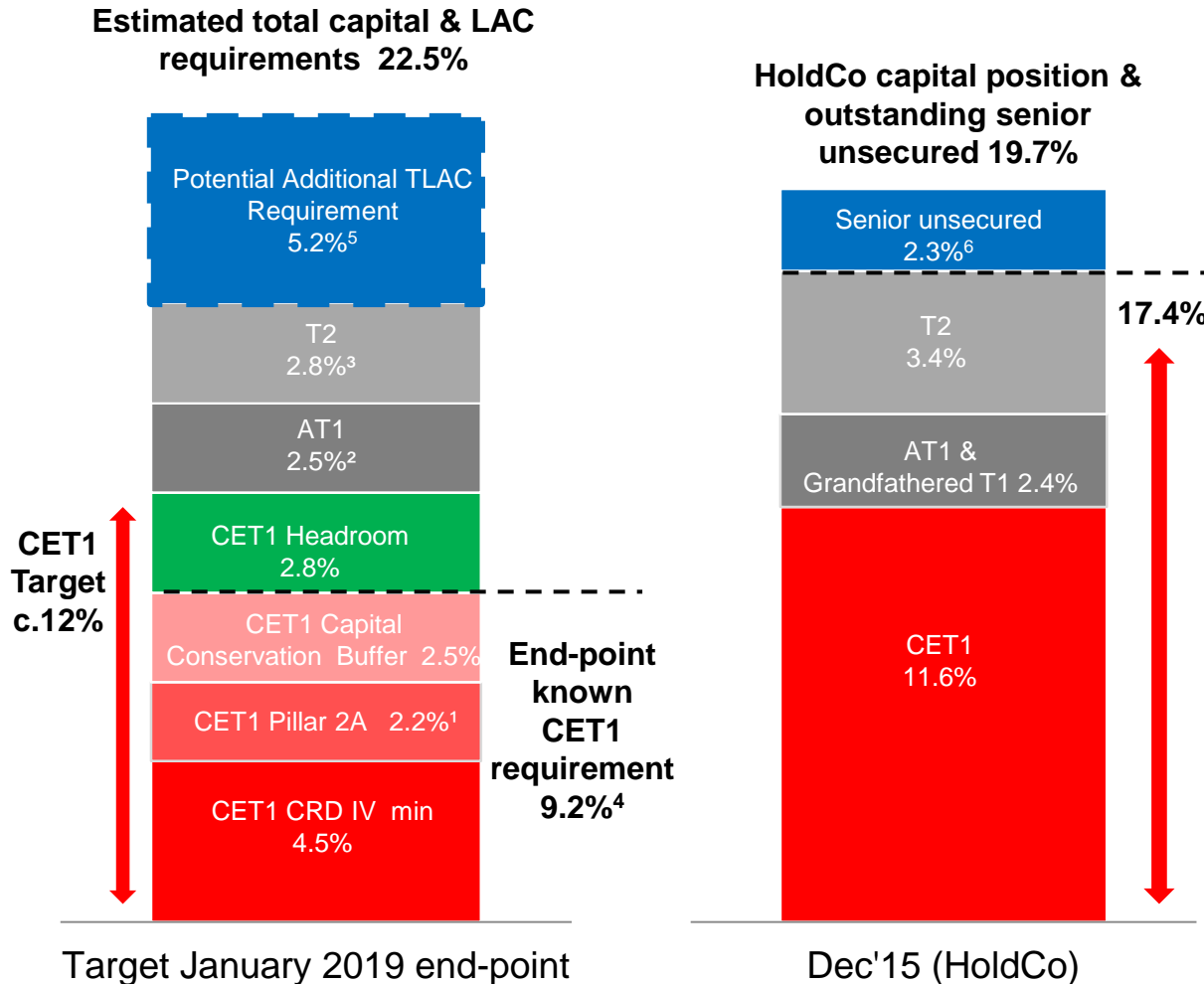
- Currently all of our HoldCo debt is down-streamed into Santander UK plc ('OpCo') on an equivalent basis. Under the end-state MREL / TLAC regime HoldCo senior unsecured debt will be down-streamed in a form that is subordinated to OpCo senior unsecured debt but senior to subordinated capital instruments

Managing capital from a strong position



- HoldCo and OpCo total capital difference is driven by the recognition of minority interests
- 18.2% of RWAs is the total subordination available to senior OpCo bondholders
- OpCo senior unsecured debt with an outstanding maturity > 1 year at 31 Dec'15 was £15.1bn, 17.6% of RWAs

Well placed to meet end-point capital / LAC requirement

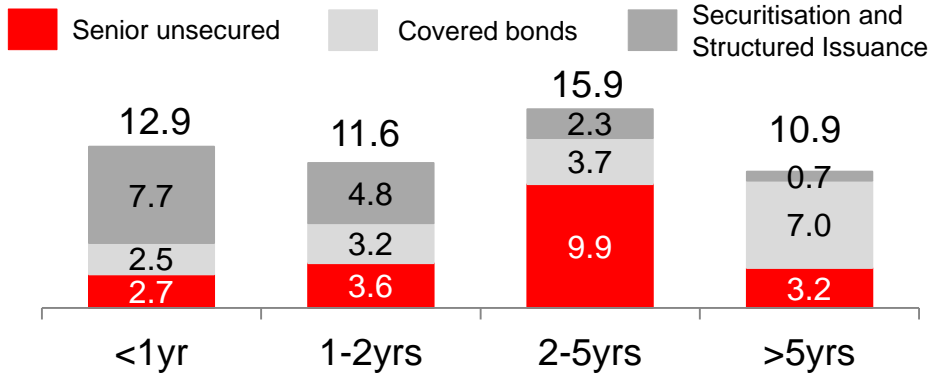


- It is Santander UK's current intention to meet a portion of any regulatory loss absorbing capital requirement through issuance of senior unsecured debt from HoldCo which is down-streamed transparently in a regulatory LAC compliant form
- Based on Santander UK's £85.8bn of RWAs at Dec'15, this would equate to a notional TLAC requirement of £4.5bn in 2019
- In December 2015 the Bank of England released its consultation on the minimum requirement for own funds and eligible liabilities (MREL), the consultation suggests that MREL requirements over and above any regulatory capital minimum will be applicable from 1 January 2020

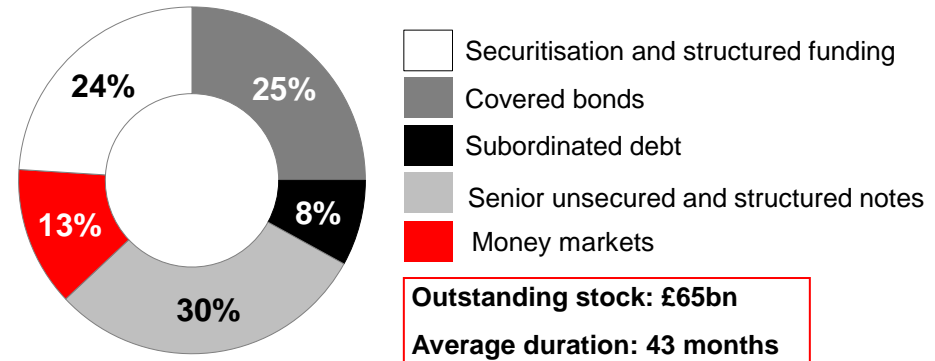
1. Santander UK's Pillar 2A requirement was 4.0% as at 31 December 2015, Pillar 2A guidance is a point in time assessment | 2. Current minimum AT1 regulatory requirement is Pillar 1 1.5% and Pillar 2A 0.8%, however Santander UK expects to issue up to its leverage ratio eligible amount which is currently equal to 2.5% of RWA | 3. Current minimum T2 requirement is Pillar 1 2.0% and Pillar 2A 1.0%, however 0.2% of the T2 requirement will be satisfied from 0.2% of the 2.5% AT1 issuance | 4. In addition to the known requirements, additional capital buffers applicable to Santander UK in the future may also include a Countercyclical Buffer (currently set at 0% in the UK) and a ring-fencing buffer (subject to detailed requirements being finalised and published, and not expected to be applicable until at least 2019) | 5. Based on current interpretation of FSB TLAC Term Sheet published on 9 November 2015 | 6. Senior unsecured outstanding as at 27 January 2016

Improved funding profile with lower spread

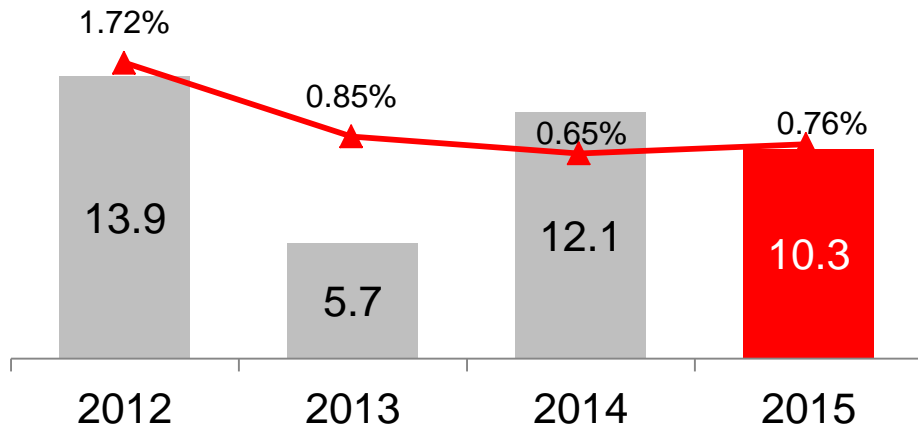
MTF maturities (£bn, Dec'15)



Wholesale funding stock (Dec'15)

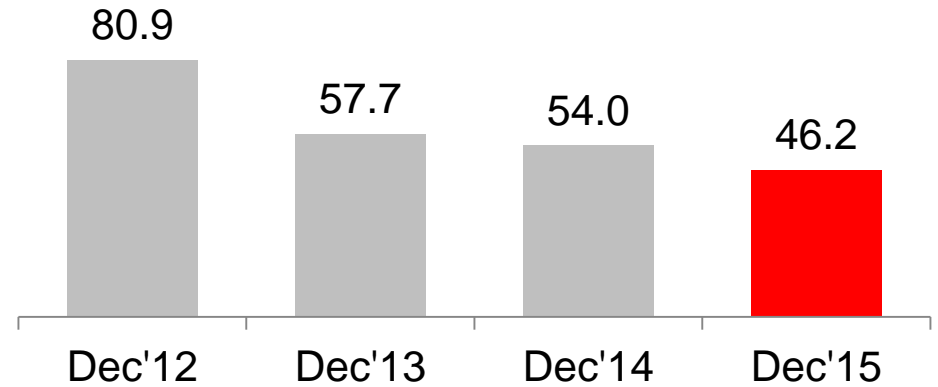


MTF issuance (£bn) and spread¹



▲ Weighted average spread of primary issuance above 3M LIBOR

Medium term funding encumbrance² (£bn)



1. Weighted average spread at time of issuance above GBP 3M LIBOR | 2. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and ANTS covered bond programmes

Credit ratings – January 2016

		S&P	Moody's	Fitch
Santander UK Group Holdings plc	Senior Unsecured	BBB	Baa1	A
	Tier 2	BB+	Baa2	A-
	Additional Tier 1	B+	Ba2	BB+
	Outlook	stable	stable	positive
Santander UK plc	Senior Unsecured	A	A1	A
	Short-term	A-1	P-1	F-1
	Outlook	stable	stable	positive
	Standalone rating	bbb+	a	baa1

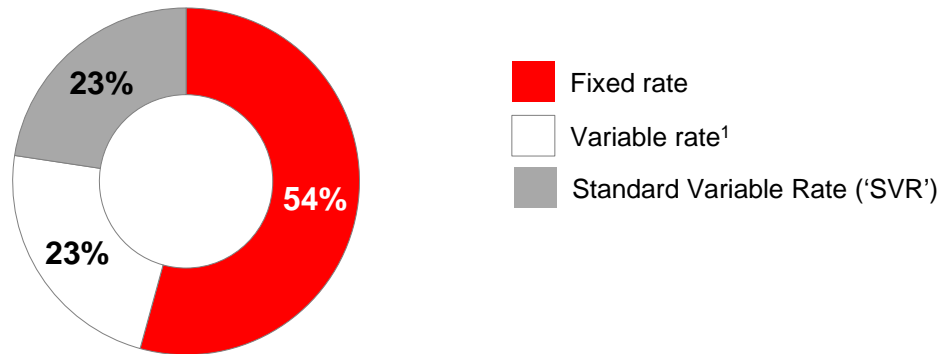
Notable recent developments

- Jan'16: S&P rating improved the outlook on the San UK plc rating from 'negative' to 'stable', following the successful senior unsecured debt issuances
- Sep'15: Moody's rating committee upgraded San UK's standalone rating (BCA) following improvements in the banks leverage ratio and asset quality metrics

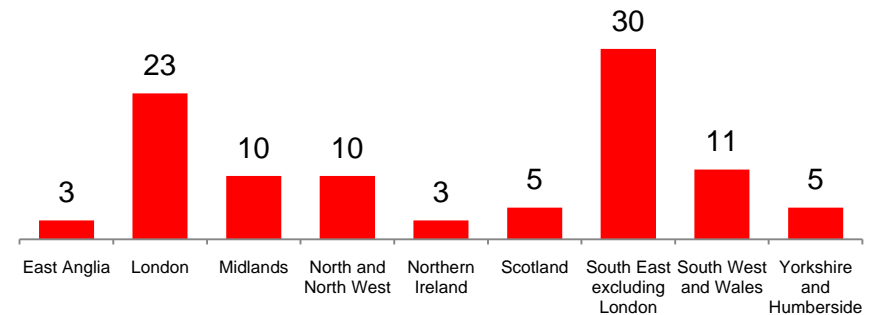
Appendix 2 – Other information

Prime residential mortgage book of £152.8bn

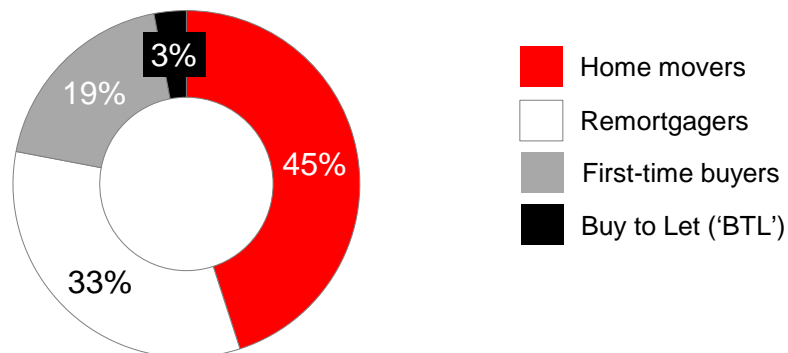
Mortgage product profile (stock, Dec'15)



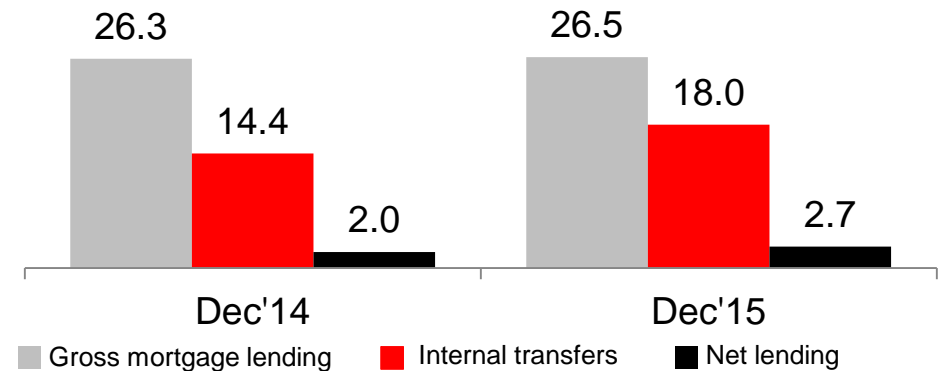
Geographical distribution (stock %, Dec'15)



Mortgage borrower profile (stock, Dec'15)



Mortgage lending (£bn)



36% interest only mortgages (Dec'14: 38%)²

c. 80% of refinancing customers retained³

1. Variable rate includes tracker and base rate linked products | 2. Full interest only loans and the element of part-and-part attribution to interest only balances | 3. Refer to Appendix 1 in the Q4'15 Quarterly Management Statement for a full definition

Consistently prudent mortgage lending criteria

Mortgage loan distribution

Dec'14

Dec'15

Loan size distribution (stock)

Less than £0.25m	78.1%	75.0%
£0.25m - £0.5m	17.1%	19.0%
£0.5m - £1m	4.1%	5.2%
£1m - £2m	0.6%	0.7%
Over £2m	0.1%	0.1%

Average loan size distribution (new business)

London and South East	£229k	£248k
Rest of UK	£125k	£136k
All UK	£169k	£186k

Loan-to-income multiple¹ 3.11 3.10

Loan to value ('LTV')

Dec'14

Dec'15

Simple average LTV²

new lending	65%	65%
stock	47%	45%

Indexed LTV distribution (stock)

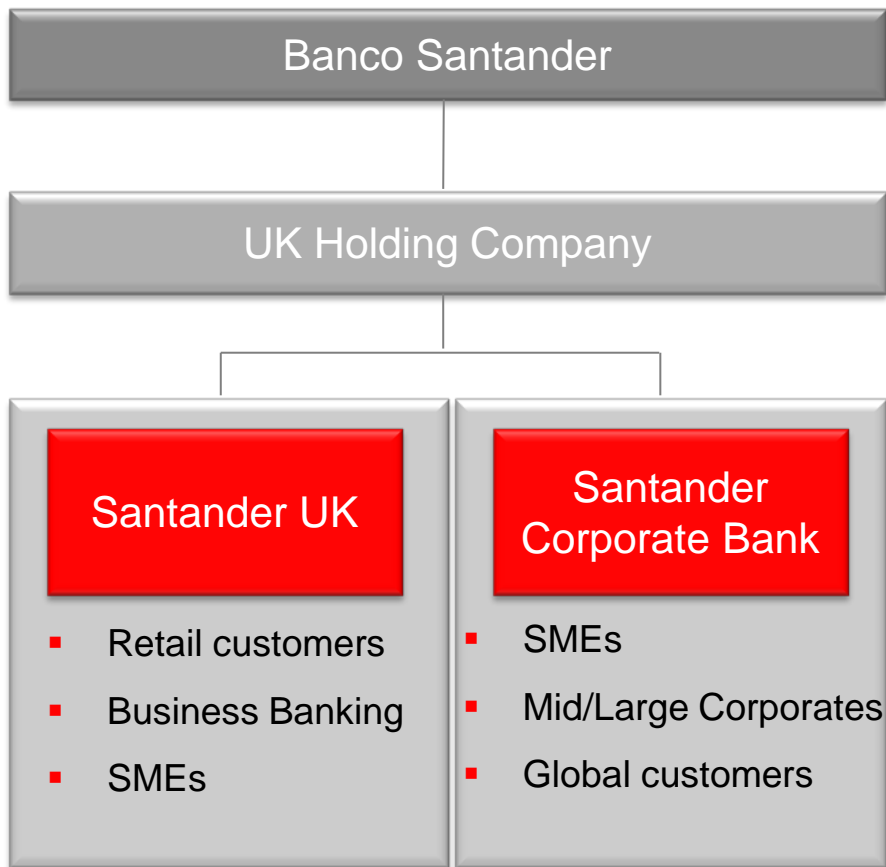
> 85% - 100%	6%	6%
> 100%	3%	2%

New lending % with LTV > 85% 17% 16%

30,900 first-time buyers (£4.5bn gross lending)
12,700 BTL mortgages (average LTV of 70%)

Our target ring-fence structure

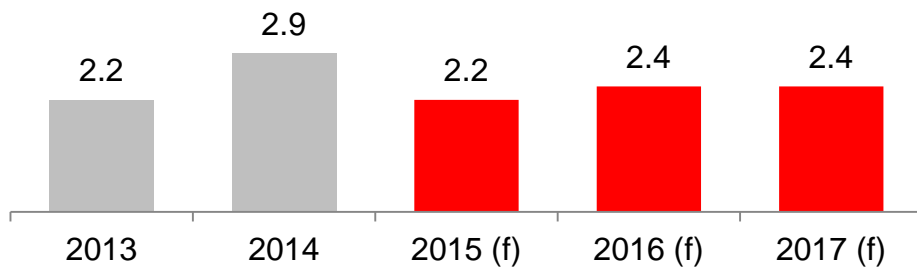
A retail and small business bank and a dedicated corporate bank to meet the distinct needs of the differing segments of our customer base



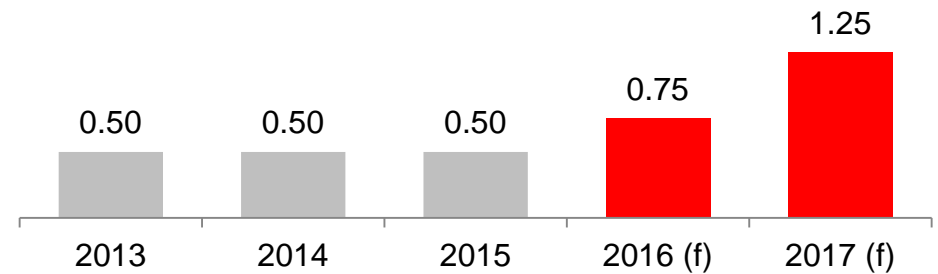
- Specialist, fully dedicated corporate bank with a unique positioning
- Supporting SMEs in their growth path and international expansion
- Covering all the needs of our corporate and institutional customers
- Efficiency and robustness through scale and diversification
- Specialised talent pool

Continued growth of UK economy

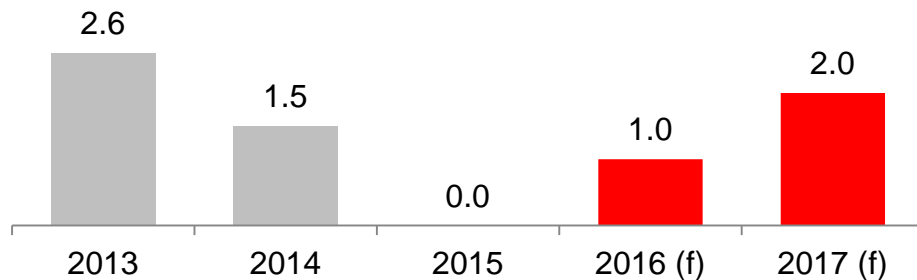
Annual GDP¹ growth (% , annual average)



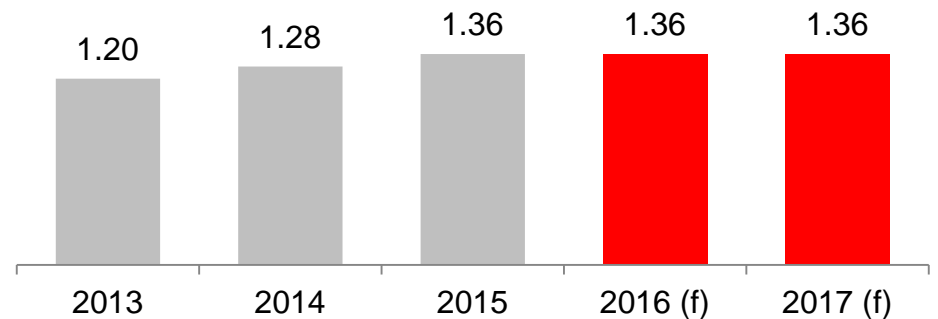
Bank of England base rate (% , year end)



Annual CPI² inflation rate (% , annual average)

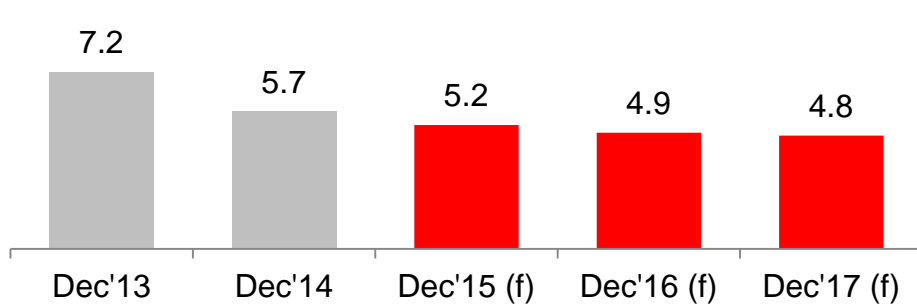


GBP/Euro exchange rates (year end)

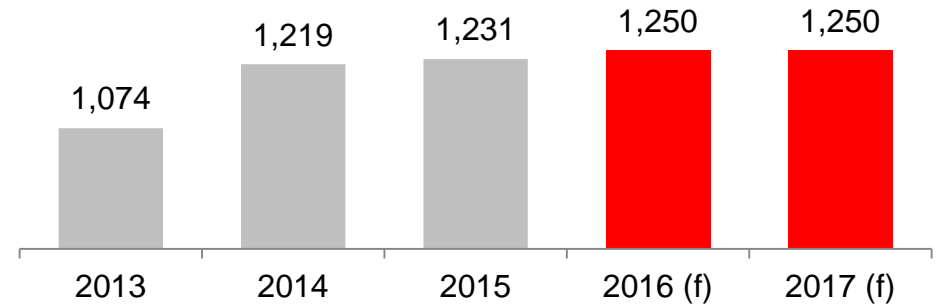


Favourable UK market conditions continue

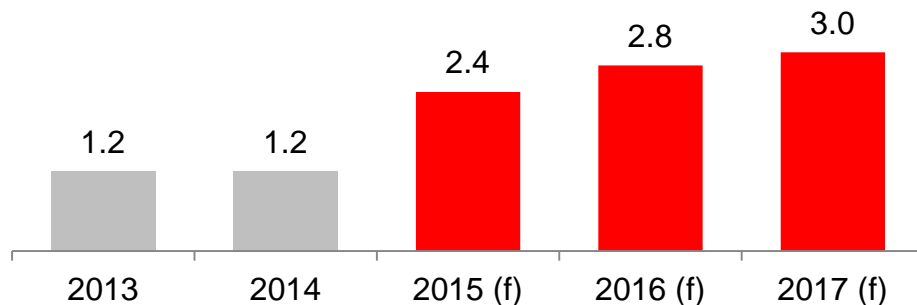
Unemployment rate (ILO¹)



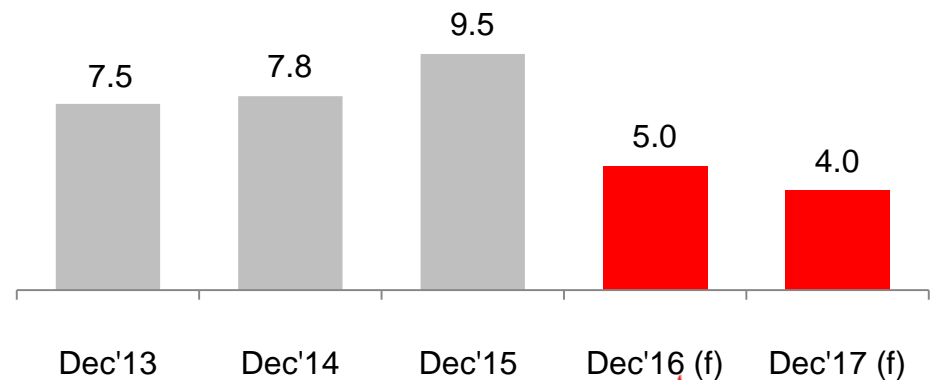
Property transactions (sa², 000s)



Average weekly earnings (annual, % inc. bonuses)



House prices³ (%)

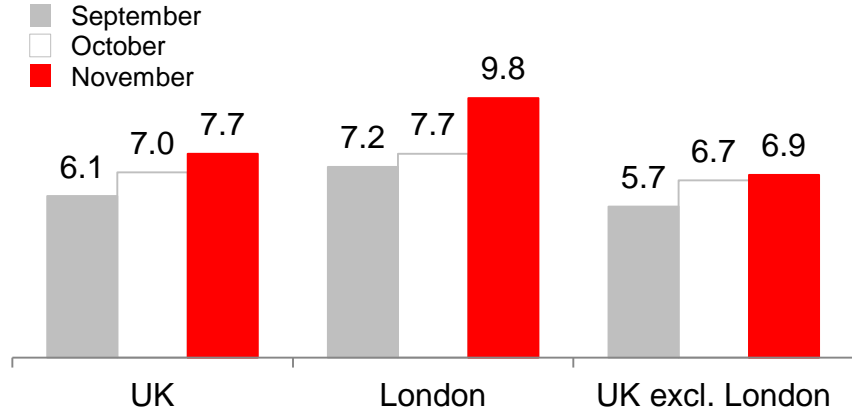


Source: Office for National Statistics and Bank of England. 2015 (f), 2016 (f) and 2017 (f) are forecasts by Santander UK

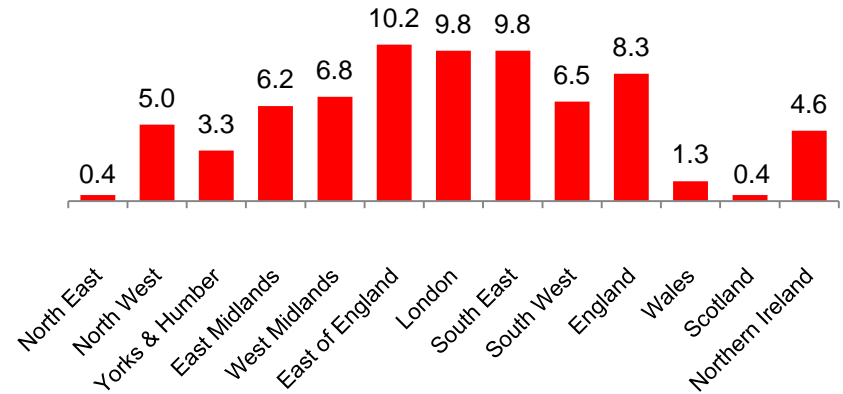
1. International Labour Organisation | 2. Seasonally adjusted | 3. Halifax house prices (Source: Lloyds Banking Corporation)

Housing market strengthened in late 2015

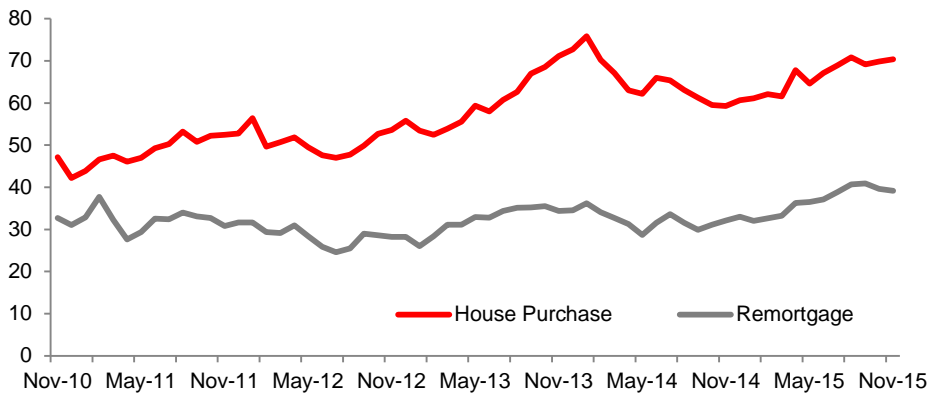
House price change
(annual %, nsa¹)



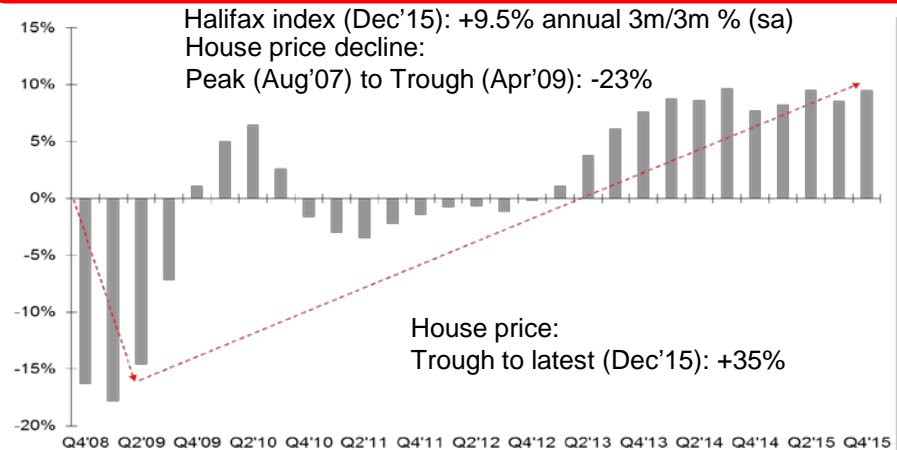
House price change by region
Nov'15 (annual %, nsa¹)



House purchase and remortgage approvals
(000s, sa²)



House price inflation
(annual %, sa²)



Sources: House price change and House price change by region Nov'15 (annual %, nsa): Office for National Statistics. House purchase and remortgage approvals to Nov'15 (000s, sa): Bank of England. House price inflation (annual %, sa): Halifax (Lloyds Banking Group)
1. nsa: not seasonally adjusted | 2. sa: seasonally adjusted



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▪ **Results and Presentations**

Quarterly, half yearly and annual financial results and presentations

▪ **Debt Investors**

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