

Santander UK Group Holdings plc

Investor Update

for the six months ended

30 June 2018

July 2018



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Source: Santander UK Q2 2018 results "Quarterly Management Statement for the six months ended 30 June 2018" 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.

Delivering value in a competitive and uncertain environment

	Jun18 vs Dec17	Q218 vs Q118	H118 vs H117
Mortgage lending	 £157.2bn £2.3bn	 1%	 £2,312m 8%
Lending to UK companies	 £26.3bn £1.0bn ¹	 2%	 £1,285m 6%
Banking NIM	 1.81% 9bps	 94%	 £91m 90% ²
NPL ratio	 1.25% 17bps	 82%	 £33m 82%
CET1 capital ratio	 12.7% 50bps	 18%	 £903m 15%
			 Total operating income
			 Operating expenses
			 Credit impairment losses
			 Provisions for other liabilities and charges
			 Profit before tax

Delivering on our 2016-18 commitments



Customers

Grow customer loyalty and market share
Deliver operational and digital excellence

Loyal retail customers

2016	3.7	2018 target
2017	3.9	4.7 million
Jun'18	4.0	Not on track

Retail customer satisfaction (FRS, %)¹

Dec'16	62.9	2018 target
Dec'17	63.0	Top 3
Jun'18	64.4	On track

Loyal SME and corporate customers

2016	290,000	2018 target
2017	305,000	308,000
Jun'18	314,000	On track

Digital customers

2016	4.6	2018 target
2017	5.0	6.5 million
Jun'18	5.2	Not on track

Delivering on our 2016-18 commitments



Shareholders

Achieve consistent, growing profitability and a strong balance sheet

Adjusted RoTE / RoTE

2016	10.9	2018 target
2017	10.2	9%-10%
H1'18	9.3	On track

Non-performing loan (NPL) ratio

2016	1.50	2018 target
2017	1.42	< 2.00%
Jun'18	1.25	On track

Cost-to-income ratio

2016	50	2018 target
2017	51	50%-52%
H1'18	56	Not on track

CET1 capital ratio







2016	11.6	2018 target
2017	12.2	c12%
Jun'18	12.7	On track

Dividend payout ratio

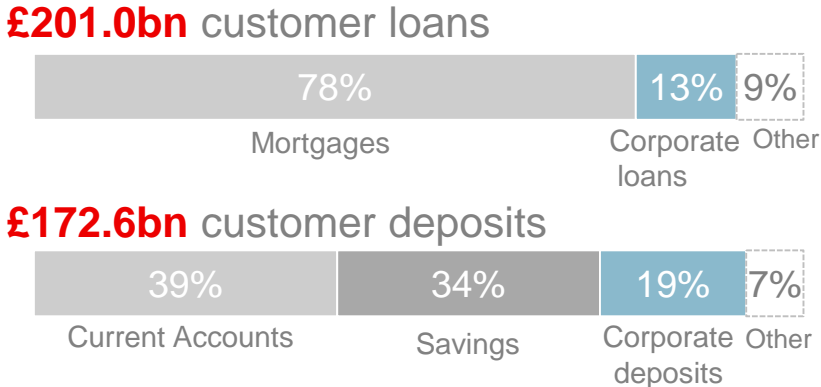
2016	51	2018 target
2017	50	50%
H1'18	N/A	On track

Well positioned as the leading UK scale challenger

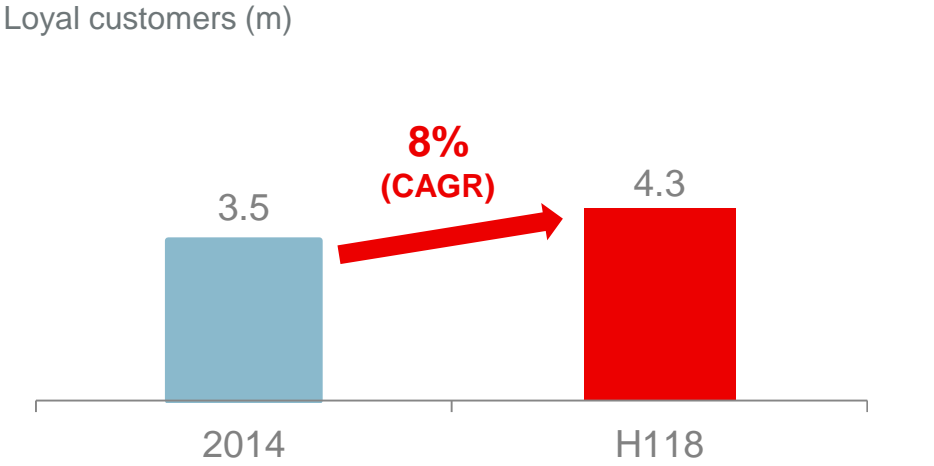
Meaningful scale and opportunity

<p>Retail</p> <p>15m Active customers</p> <p>c80% Financial centre coverage</p> <p>3rd UK Mortgage lender²</p>	  	<p>Corporate</p> <p>64 Corporate Business Centres</p> <p>551 Relationship Managers¹</p> <p>5th UK Commercial lender²</p>	  
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Better diversified retail and commercial bank



Developing loyal customer relationships

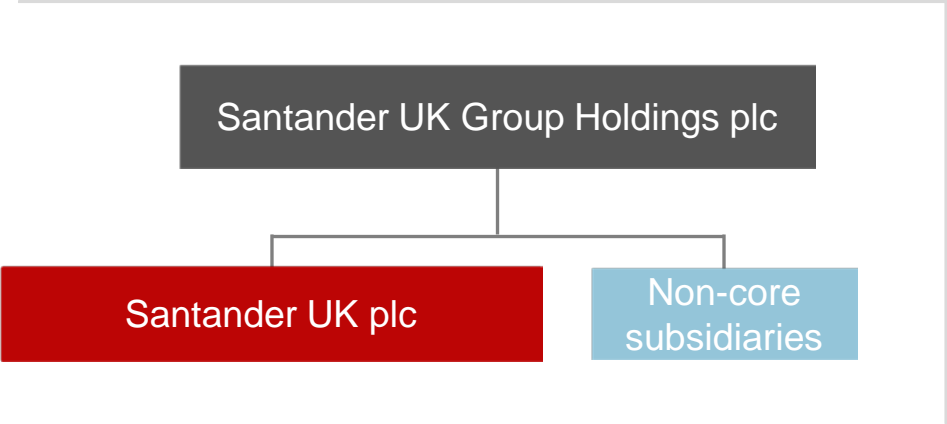


Helping people and businesses prosper

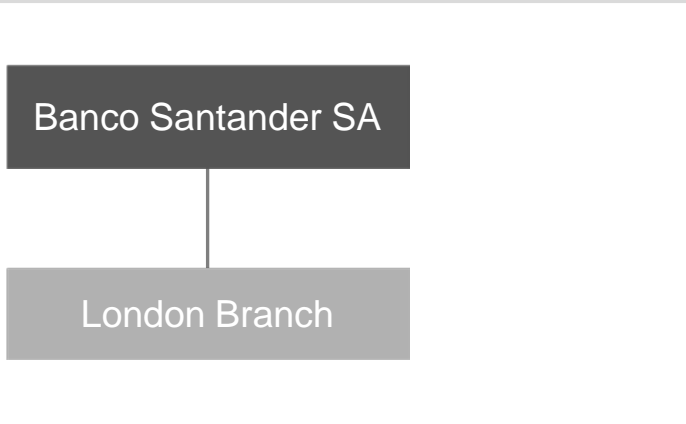
<p>People</p> <p>+£2.3bn mortgage lending in H118</p> <p>235,000 Investment Hub customers (+12% YoY)</p>	<p>Businesses</p> <p>8 trade corridors 3 new in 2018</p> <p>+£0.6bn lending to trading businesses³ (+5% YoY)</p>
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Majority of our customers will not be affected by ring-fencing

Santander UK perimeter



Banco Santander UK perimeter (extract)



Santander UK plc - Ring-fenced bank

- Personal, business banking, SME, mid- and large-sized corporate customers
- >90% of June 2018 RWAs

Non-core subsidiaries

- ANTS¹ legacy transactions in run-off
- Employee share scheme (SEIL²)
- Offshore deposits

On track for implementation by Jan19

- Prohibited businesses: derivatives business with financial institutions, certain corporates, elements of our short-term markets business.
- Achieved several major milestones: Court approval for our Ring-Fencing Transfer Scheme, customer loans of £0.7bn transferred
- Plan to complete remaining customers and business transfers by the end of July 2018

Operating environment and UK economy

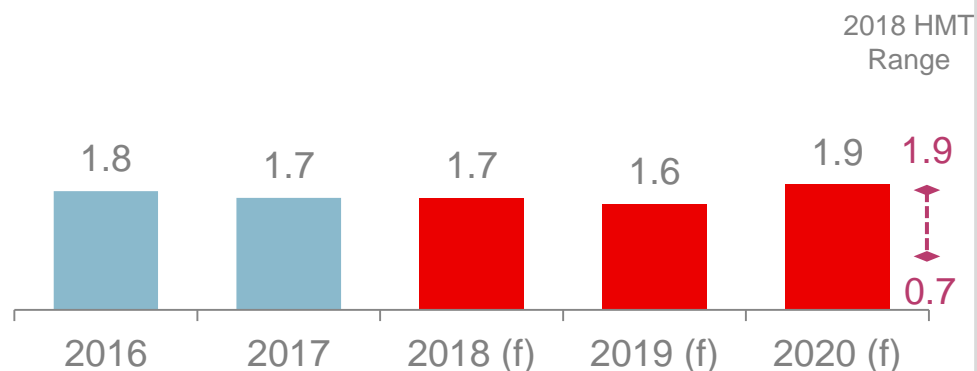
Expect UK economic growth to improve after slow start to 2018

Operating environment

- We expect global economic activity to continue to expand in 2018, albeit with a number of heightened risks to the outlook from the ongoing imposition of trade restrictions and further geopolitical tensions
- We expect UK economic growth to improve slightly from the level seen in the first quarter of the year
- The UK has seen falling inflation in the first half of this year and this, along with rising wages, has resulted in real earnings growth, supported by the continuing low levels of unemployment
- Mortgage market likely to grow at c3% in 2018, with weaker buyer demand and subdued house prices seen to date likely to continue
- Corporate borrowing market expected to grow c2%, as uncertainty continues to dampen investment intentions

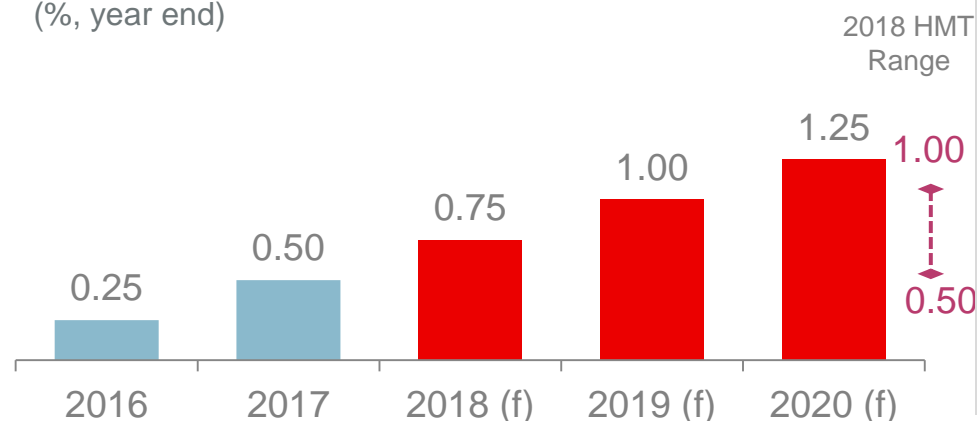
Annual GDP growth¹

(%, annual average, (f) Jun18 forecast)



Bank of England base rate

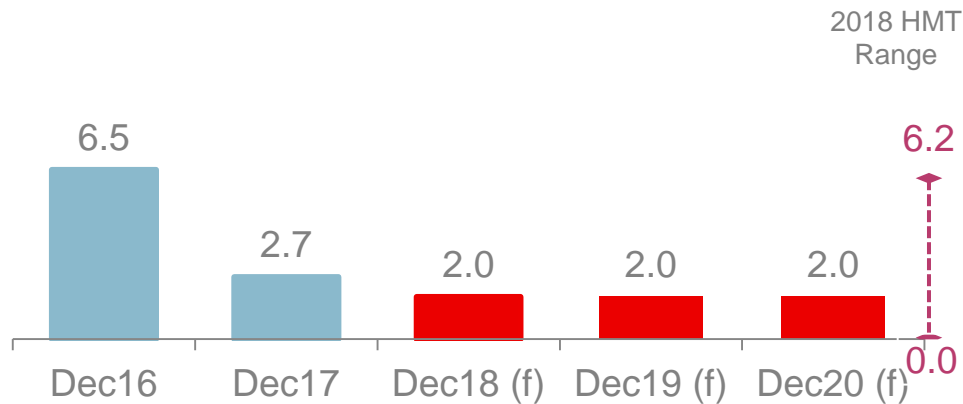
(%, year end)



UK economy relatively stable; however uncertainty remains

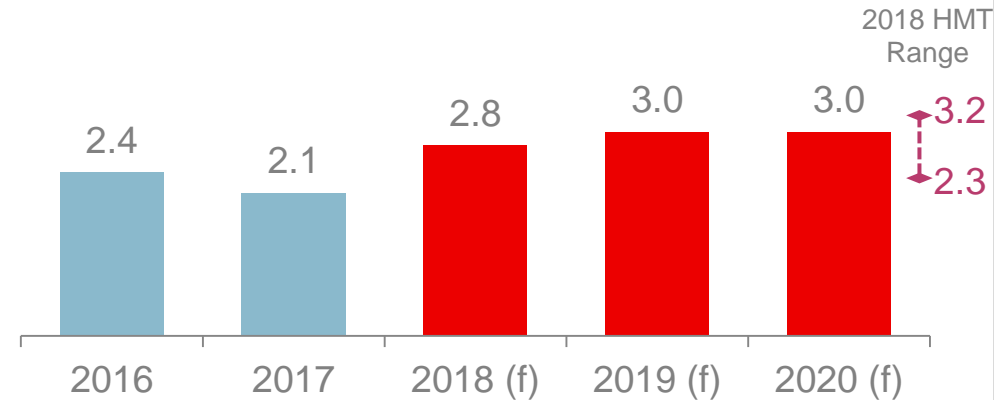
House prices¹

(%, sa², year end)



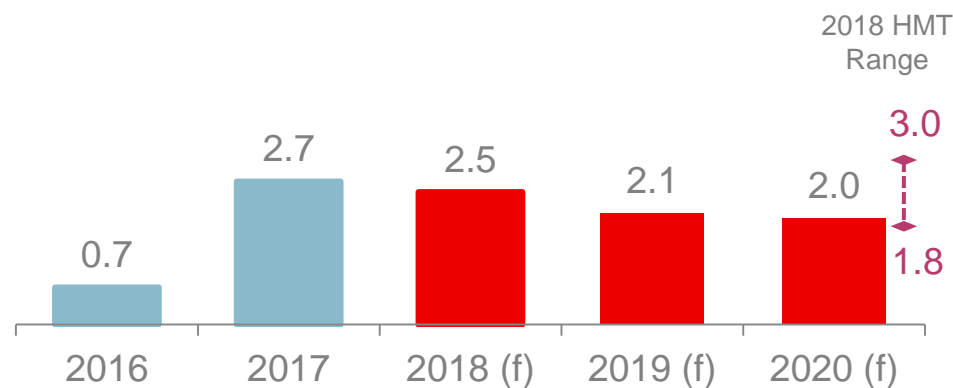
Average weekly earnings

(% inc. bonuses, annual average)



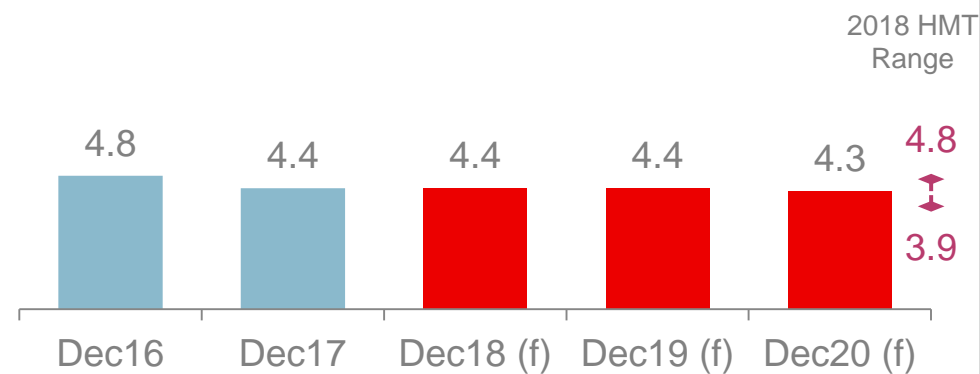
Annual CPI³ inflation rate

(%, annual average)



Unemployment rate

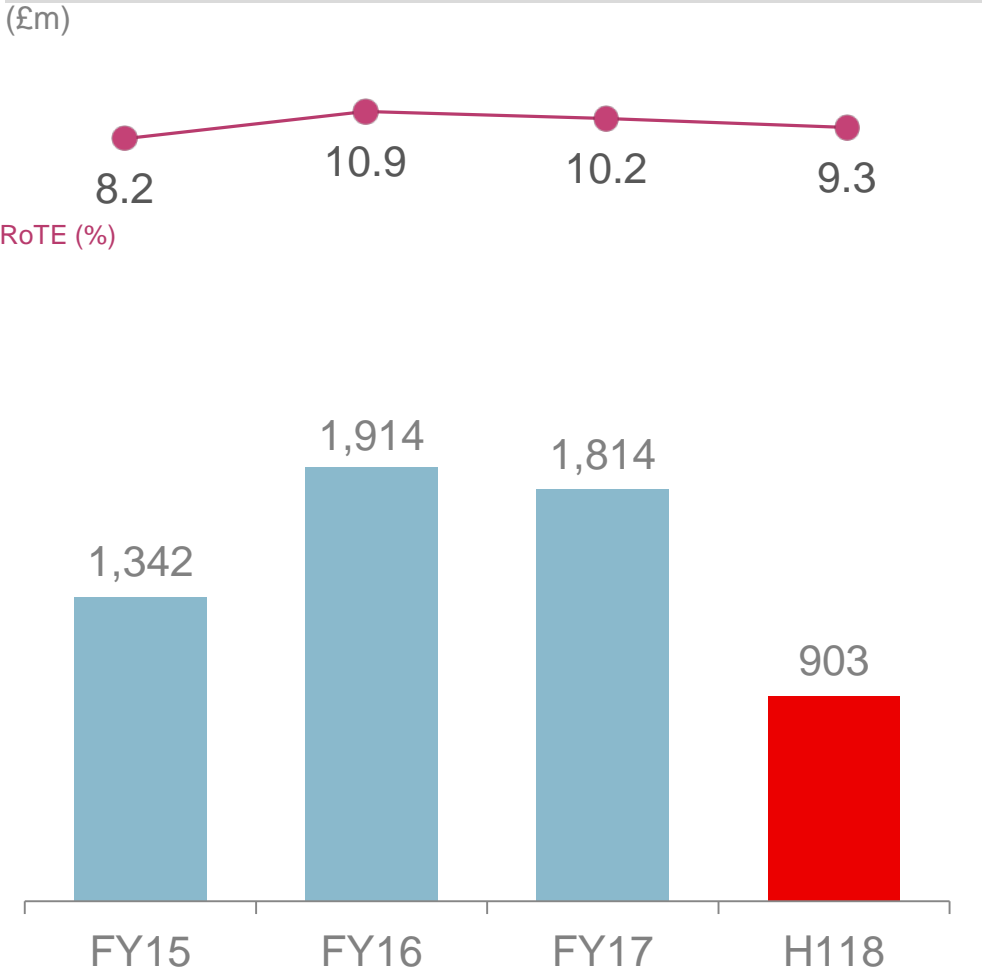
(%, ILO⁴)



Consistently profitable, sustainable business

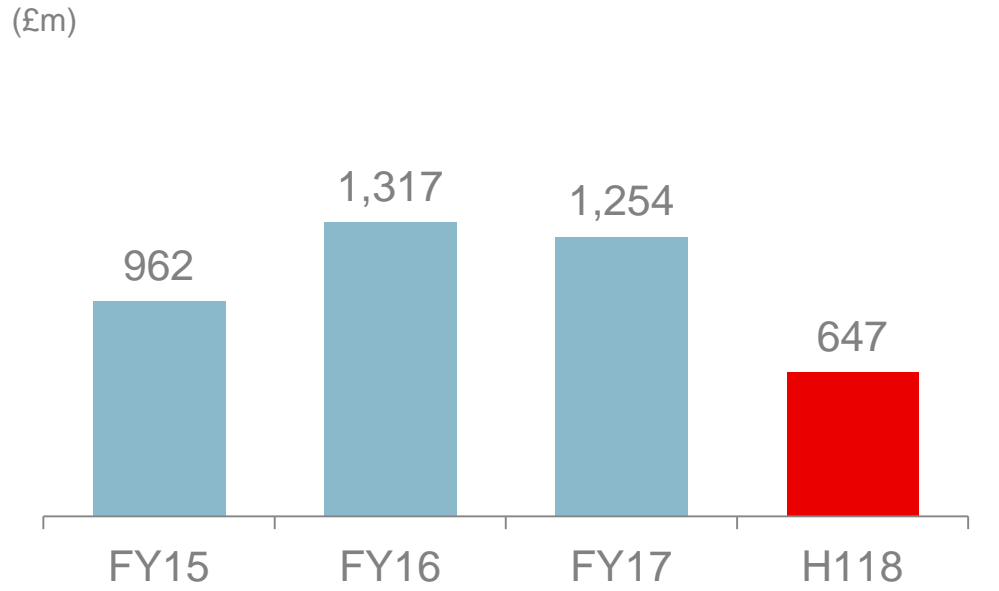
Maintaining financial strength and delivering value

Profit before tax and RoTE



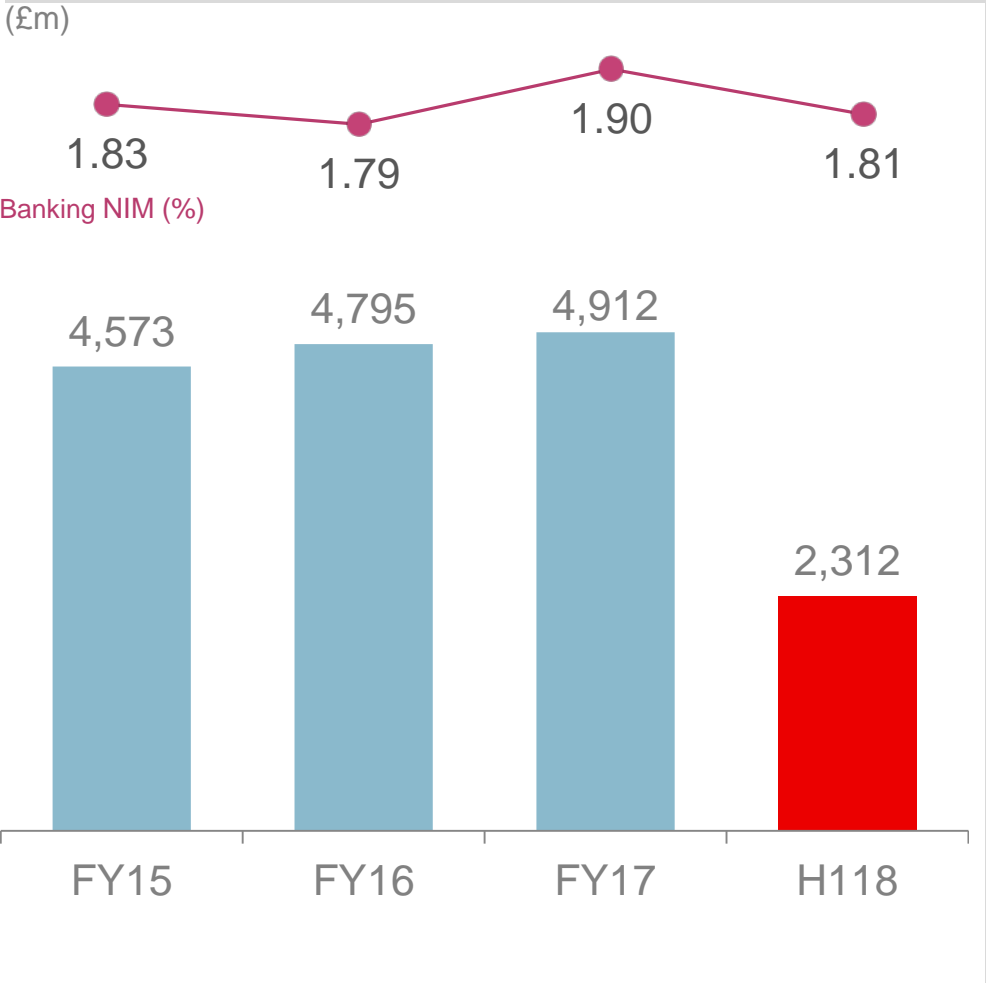
- A track record of 10 years profitability
- 50% annual dividend payout
- Continued to deliver attractive shareholder returns with RoTE of 9.3%, within our 2018 target range

Profit after tax



Competitive pressure impacting operating income

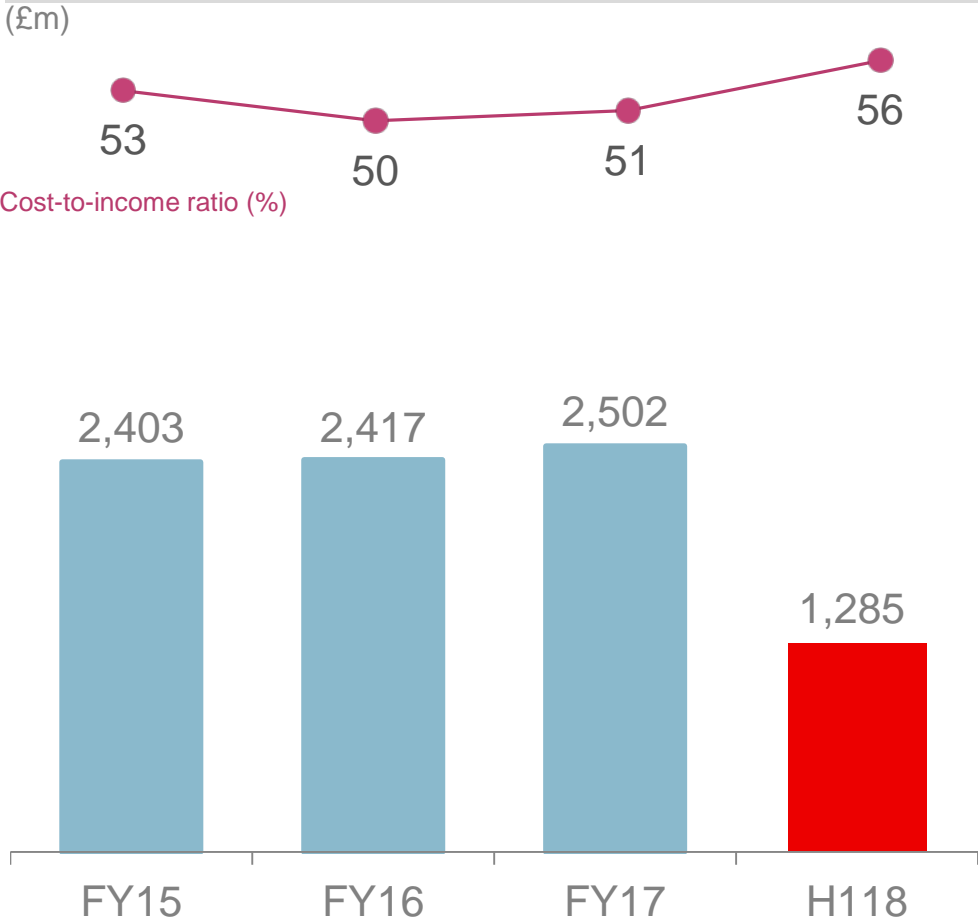
Total operating income and Banking NIM¹



- Banking NIM and net interest income impacted by the fall in average new mortgage pricing in 2017 and SVR attrition, which was partially offset by liability margin improvement
- Non-interest income lower, largely due to the absence of the £48m gain on sale of Vocalink Holdings Limited shareholdings in H117 as well as lower income in Corporate & Investment Banking. Income was also impacted by the absence of mark-to-market movements on asset portfolios in the Corporate Centre in H117

Cost discipline is a key priority for management

Operating expenses and cost-to-income ratio



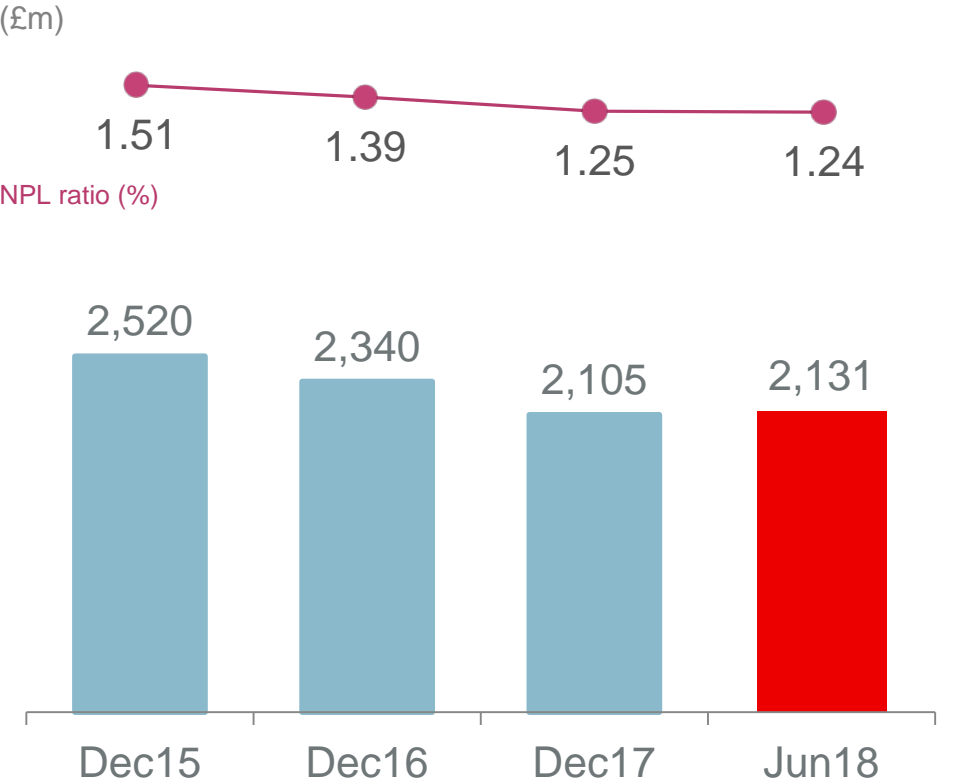
- Our investment in business transformation initiatives continued despite significantly higher regulatory, risk and control spend for projects, such as GDPR, PSD2 and MiFID II
- Business transformation initiatives underway to improve efficiency in the organisation, data and infrastructure, third party and procurement processes

Focus on digital innovation

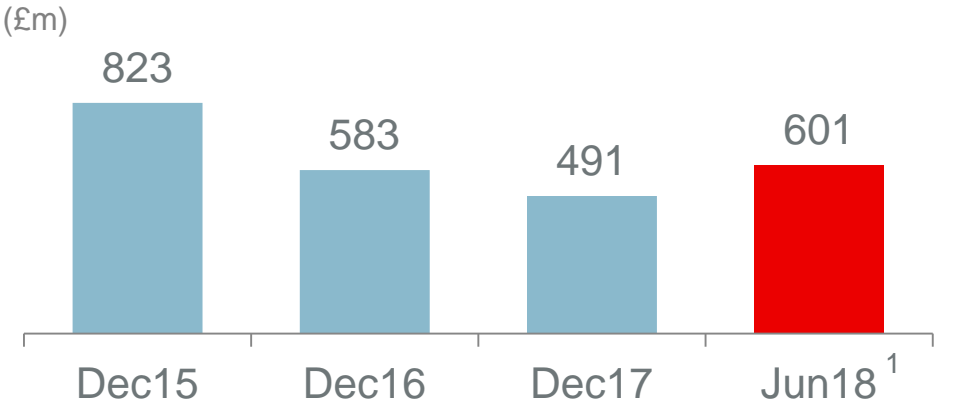
- Blockchain
- Data & A.I.
- Payments
- Platforms & Services
- One Pay
- Digital mortgages
- I23 Investment Hub
- NEOCRMSantander Trade

Robust Retail Banking credit performance

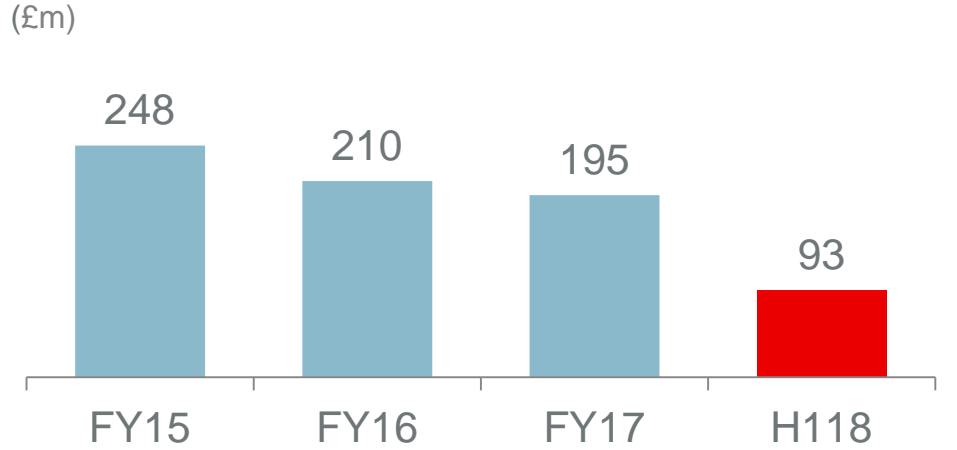
NPLs and NPL ratio



Loan loss allowance



Write-offs during the period



Customer loans

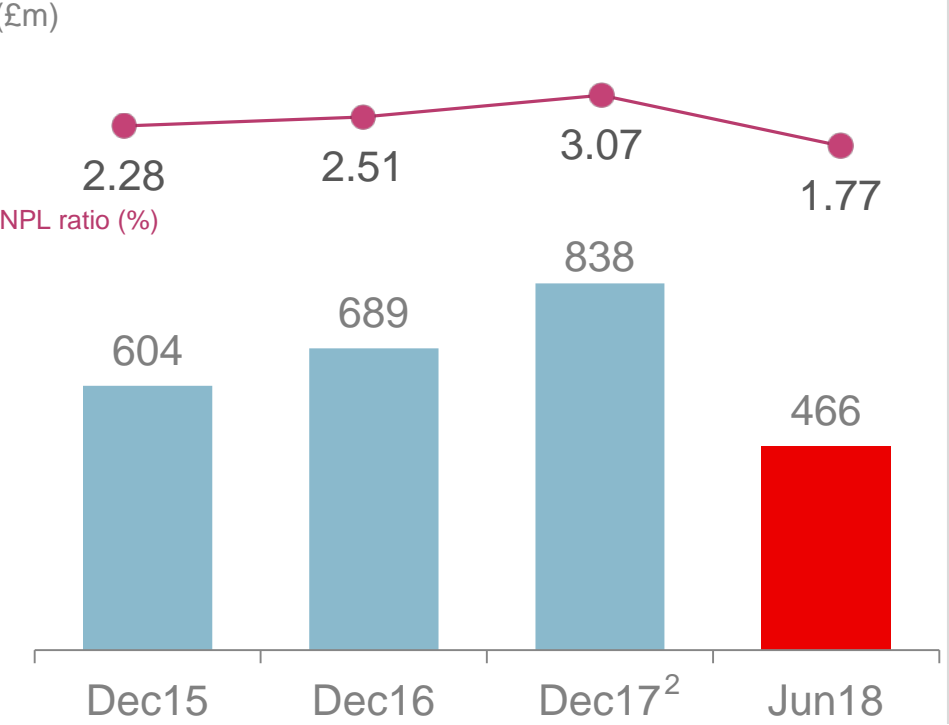
- Total lending of £171.3bn at Jun18
- Net mortgage lending of £2.3bn in H118



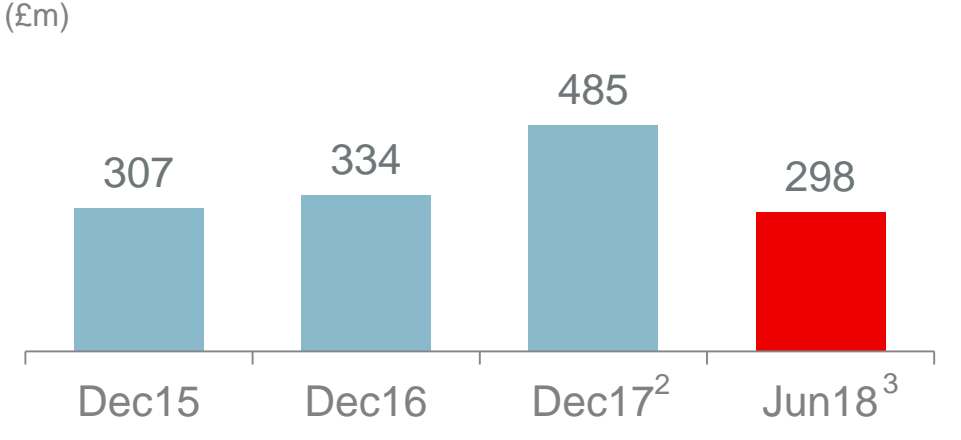
1. On 1 January 2018, Santander UK transitioned to IFRS 9 from the former standard IAS 39. Loan loss allowances have increased from the application of IFRS 9. Prior periods have not been restated

Focused growth in lending to corporate customers

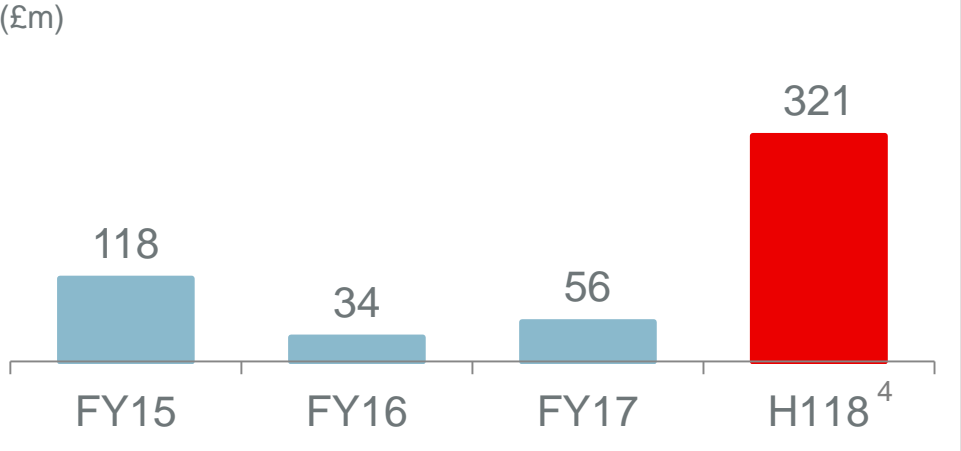
NPLs and NPL ratio



Loan loss allowance



Write-offs during the period



Customer loans¹




- Total lending of £26.3bn at Jun18
- Lending to trading businesses¹ of £11.7bn +2% vs Dec17 (excludes CRE)



1. The sum of enterprises served by our Business Banking, Commercial Banking and Corporate & Investment Banking divisions. Lending to trading businesses is defined as non-CRE Commercial Banking lending | 2. Increase in Corporate NPLs and loan loss allowances were predominantly due the Carillion plc exposures that moved to non-performance in 2017 | 3. On 1 January 2018, Santander UK transitioned to IFRS 9 from the former standard IAS 39. Prior periods have not been restated | 4. Carillion plc exposures were written-off in Q118

Cautious outlook in a competitive and uncertain environment

2018 outlook

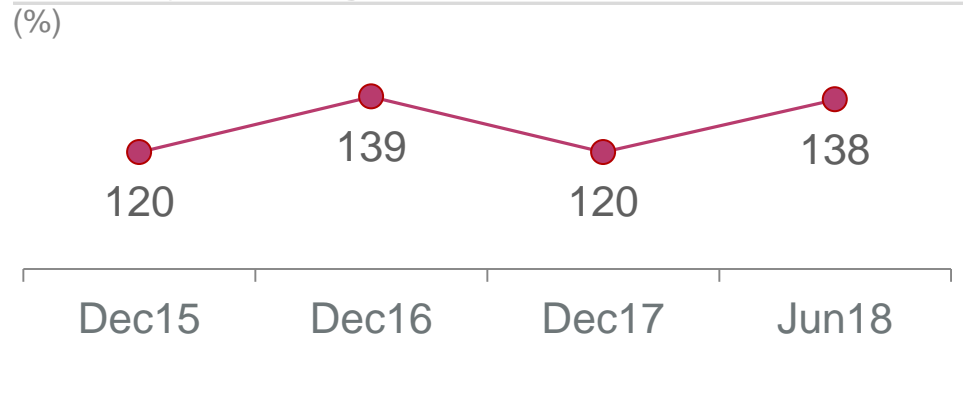
	H118	Expected trend (vs FY17)	
Banking NIM	1.81%		<ul style="list-style-type: none"> Ongoing competition in new mortgage pricing and SVR attrition
SVR attrition ¹	£2.4bn		<ul style="list-style-type: none"> Expected to be broadly in line with the net £5.5bn reduction in 2017
Operating expenses	£1,285m		<ul style="list-style-type: none"> Progressing with our efficiency initiatives and expect the benefits of our actions to come through in the second half of the year

1. SVR attrition includes loan balances which have reverted on to SVR and balances moved to the Follow-on-Rate which was introduced in January 2018

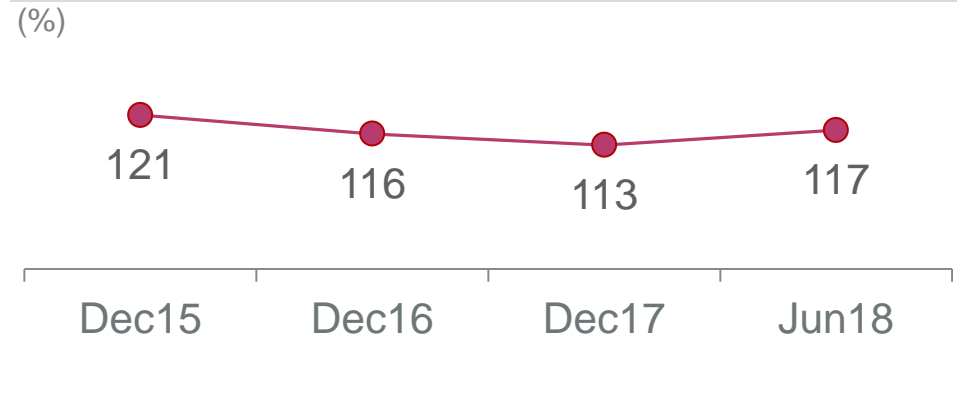
Strong capital, liquidity and funding position

Strong liquidity and funding position

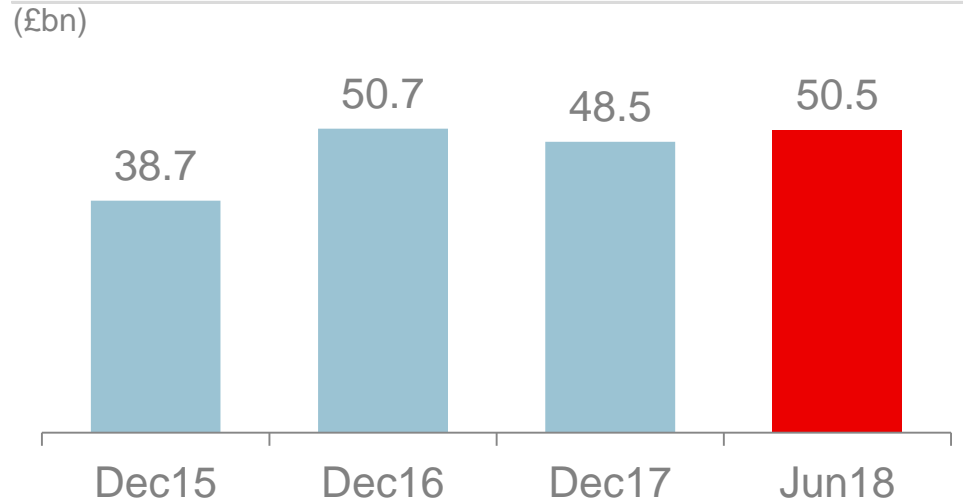
Liquidity coverage ratio (LCR)



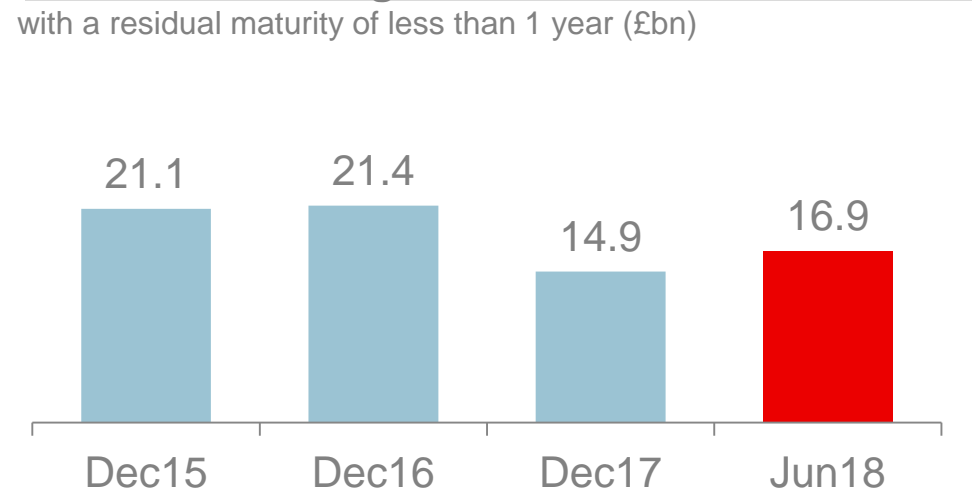
Loan-to-deposit ratio (LDR)



Liquidity coverage pool



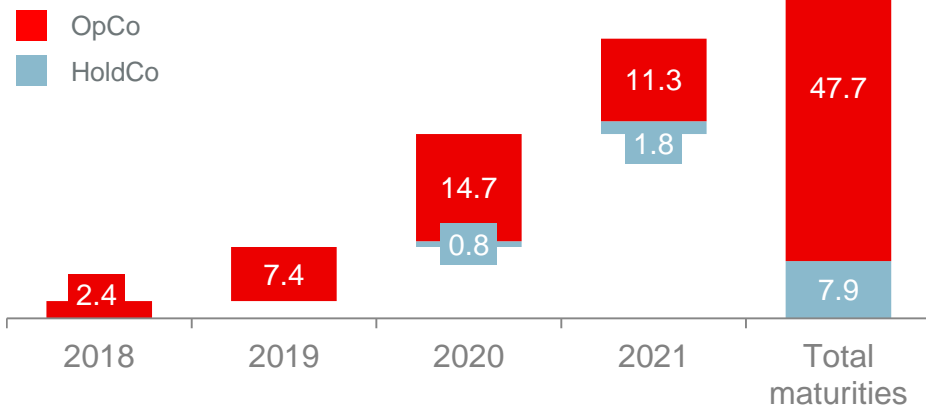
Wholesale funding



Strong funding position with reduced encumbrance

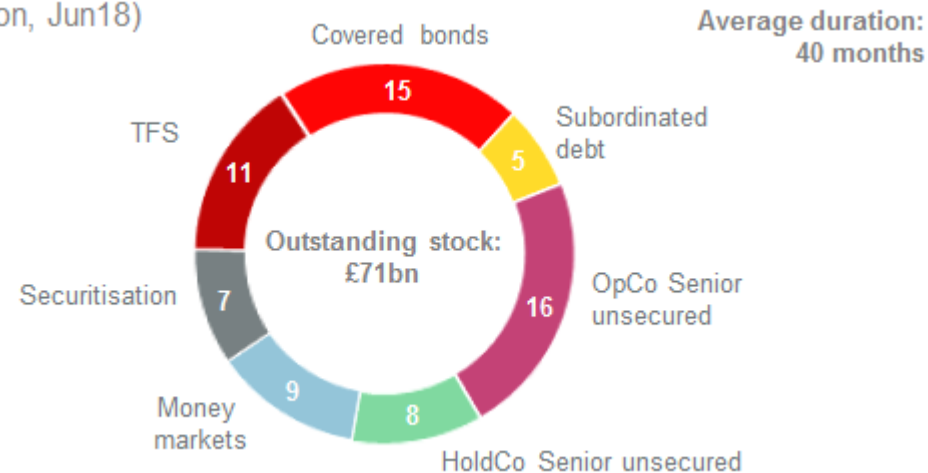
Medium term funding maturities

(£bn, Jun18)¹



Wholesale funding stock

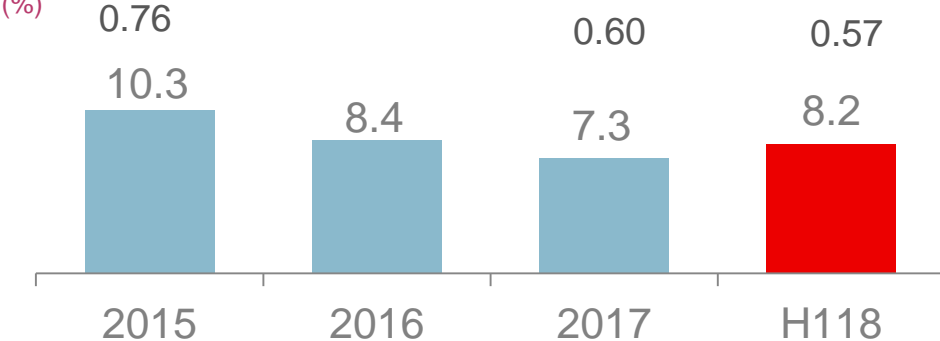
(£bn, Jun18)



MTF issuance

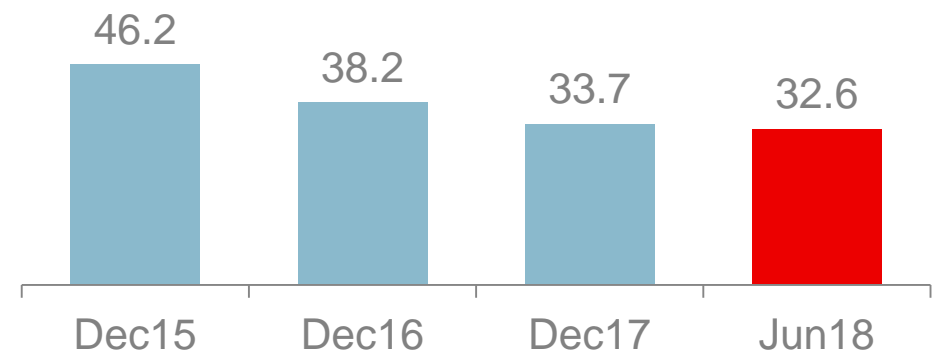
(£bn)

Average spread² (%)



Medium term funding encumbrance³

(£bn)

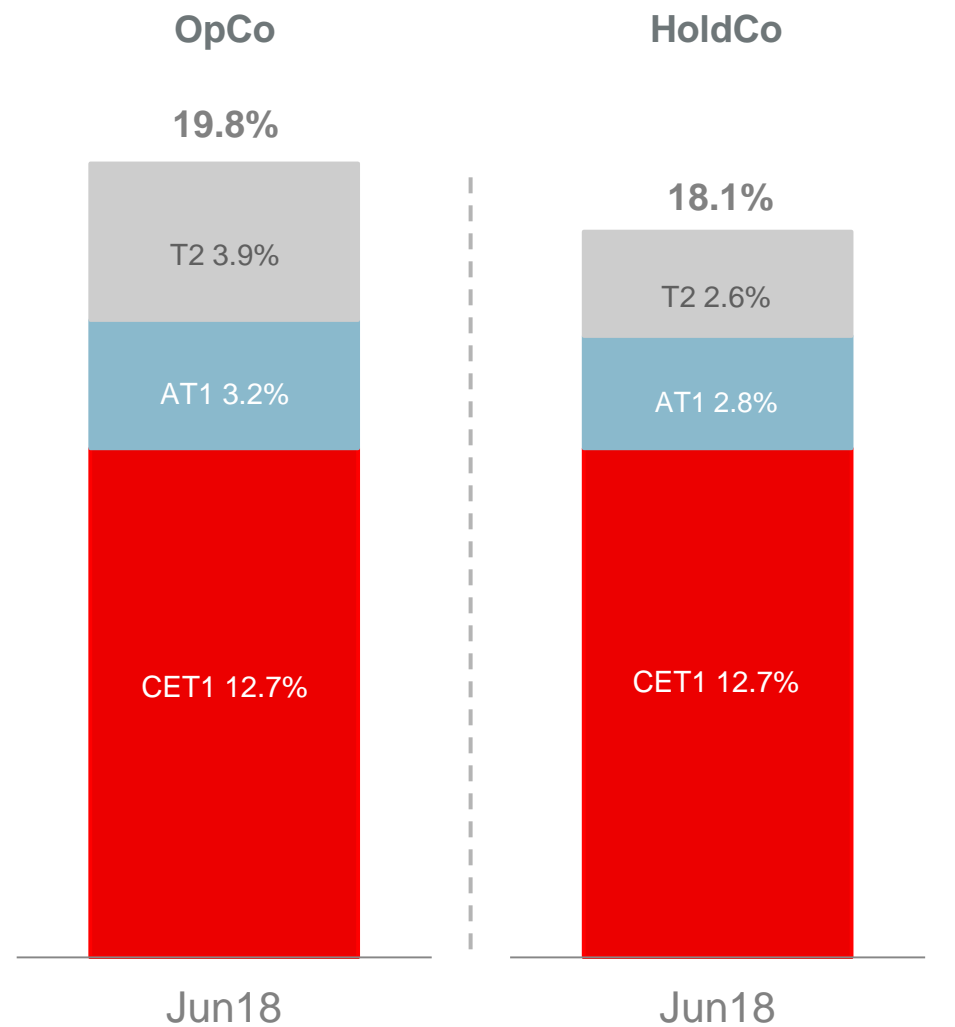


Capital build with significant profits to cover AT1 distributions

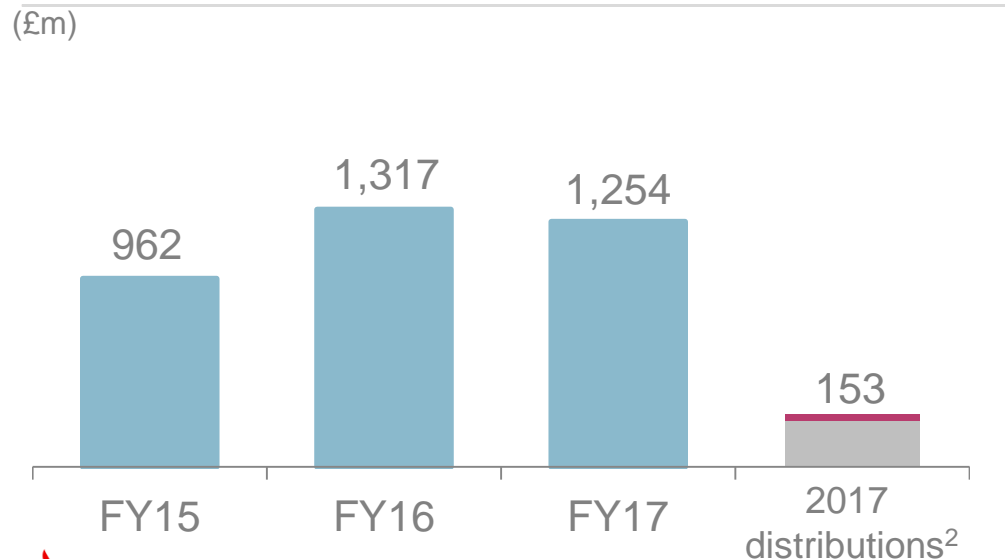
Capital and leverage

	Dec15	Dec16	Dec17	Jun18
CET1 ratio (%)	11.6	11.6	12.2	12.7
UK leverage ratio ¹ (%)	4.0	4.1	4.4	4.4
RWAs (£bn)	85.8	87.6	87.0	85.1

Total capital ratio

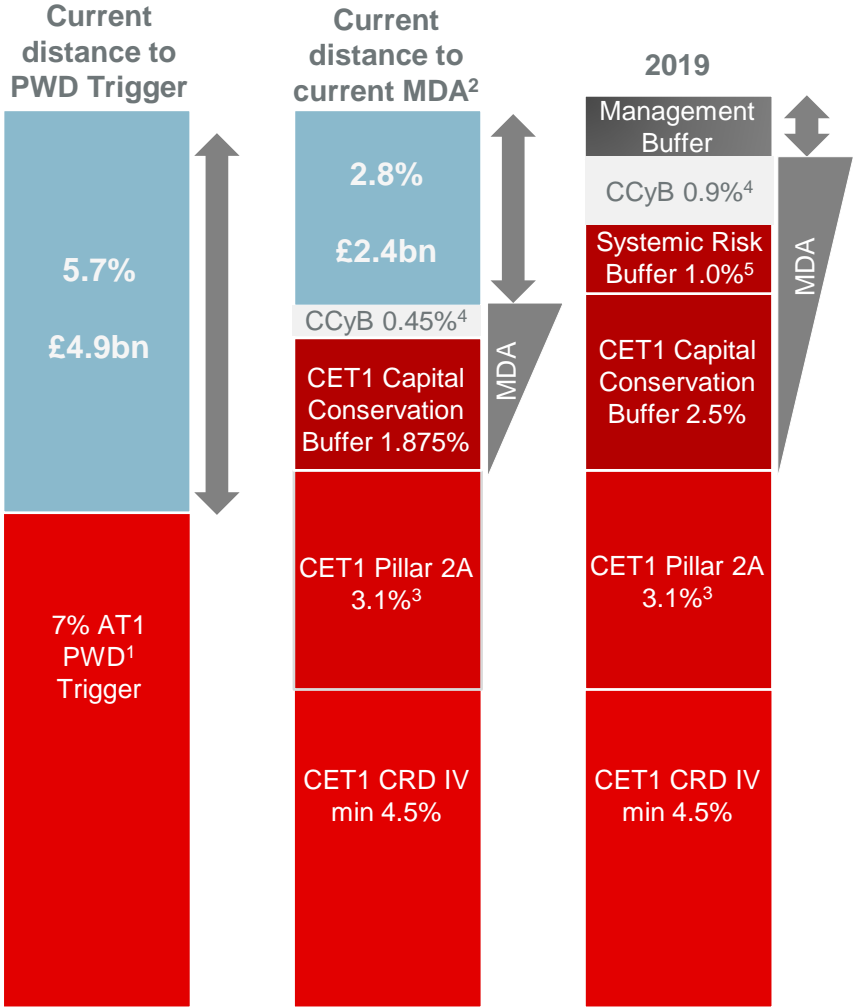


Profit after tax and Tier 1 distributions



Meeting evolving capital requirements

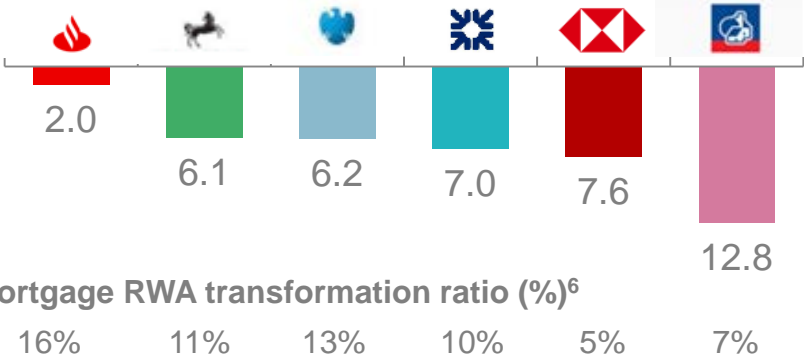
Significant buffer to thresholds



- Our current intention is to target a CET1 management buffer of sufficient size to absorb changes in the regulatory minimum requirement (e.g. application of any dynamic CCyB buffer) and market volatility

CET1 drawdown

(2017 PRA stress test results)

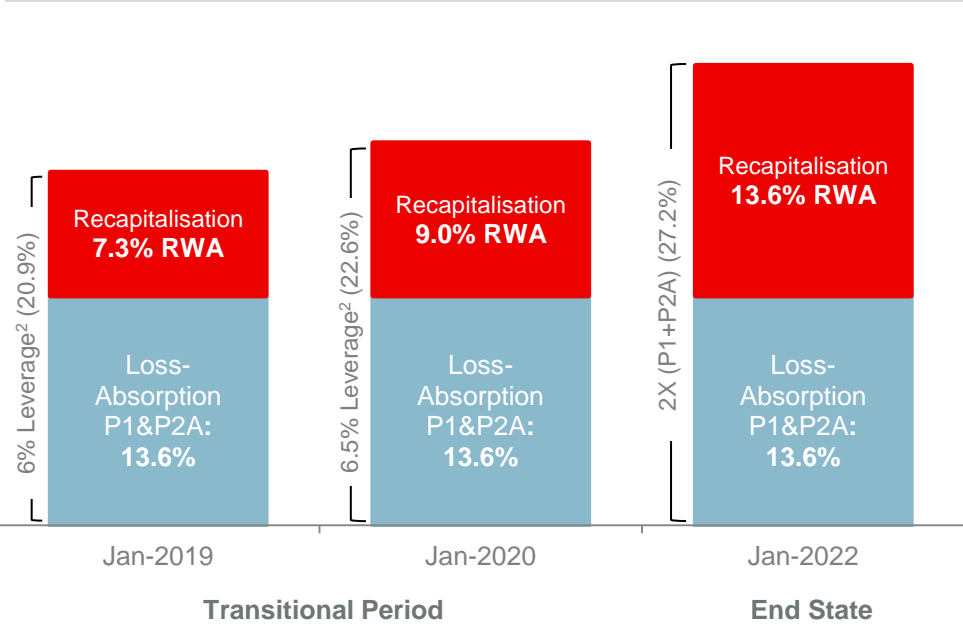


- The result highlights the quality and strength of our UK balance sheet as well as our strong risk management practices

1. Permanent write down | 2. Distribution restrictions would be expected to apply if Santander UK's CET1 ratio would fall between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A 3.1% and the Capital Conservation Buffer of 1.875% | 3. Santander UK's Pillar 2 CET1 requirement was 3.1% as at 30 June 2018, Pillar 2A guidance is a point in time assessment | 4. The current applicable UK CCyB rate is 0.5%, this is scheduled to increase to 1.0% with binding effect in November 2018. Santander UK's current geographical allocation of the CCyB is 90% | 5. Applicable to the ring-fence bank only | 6. Source: 2016 Annual Reports, except for Nationwide 2017 Annual Report. Mortgage RWA transformation ratio defined as total mortgage (or nearest equivalent) risk-weighted assets divided by total mortgage exposure

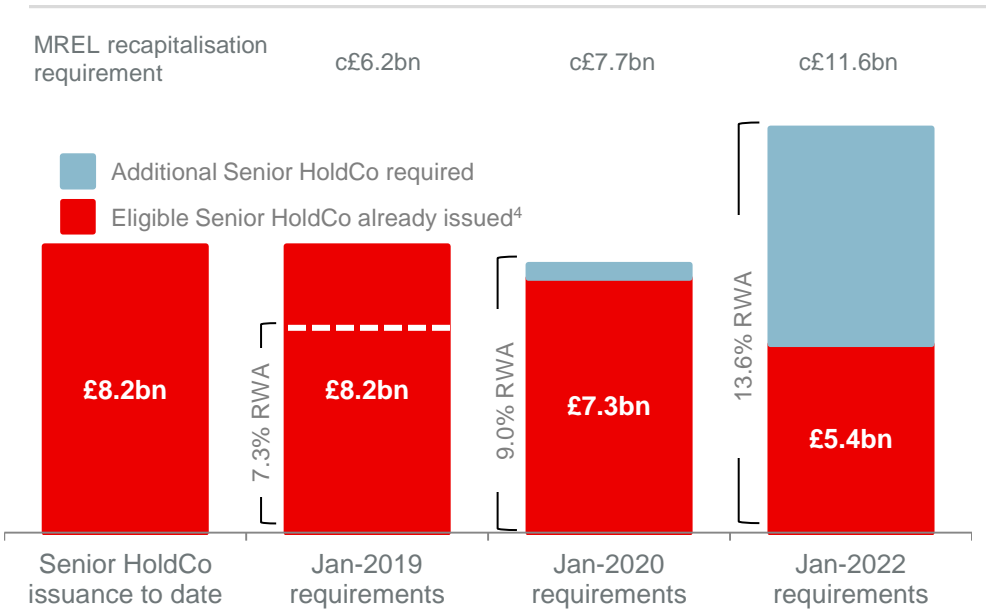
Major progress to meet recapitalisation MREL requirements

HoldCo MREL requirement¹



- Santander UK indicative MREL requirement excluding CRD IV buffer is currently expected to be 27.2% of RWAs from 1 January 2022

MREL recapitalisation^{2,3}



- MREL requirements are driven by leverage in 2019 and 2020, the driver changes to the RWA measure from 2022
- It is our intention to have an MREL recapitalisation management buffer in excess of the value of HoldCo senior unsecured paper that is due to become MREL ineligible over the following 6 months



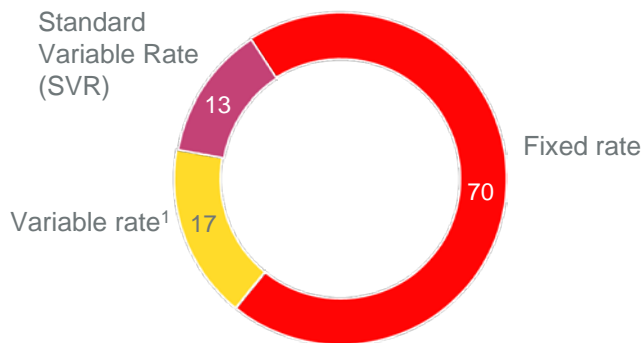
1. In June 2018 the Bank of England (BOE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and are fully implemented in 2022 | 2. Assumes Pillar 2A requirement remains at 5.6% | 3. Calculated using RWA and UK leverage exposure as at 30 June 2018 | 4. Meeting MREL eligibility criteria and exchange rates as at 30 June 2018

Appendix

Prime residential mortgage book of £157.2bn

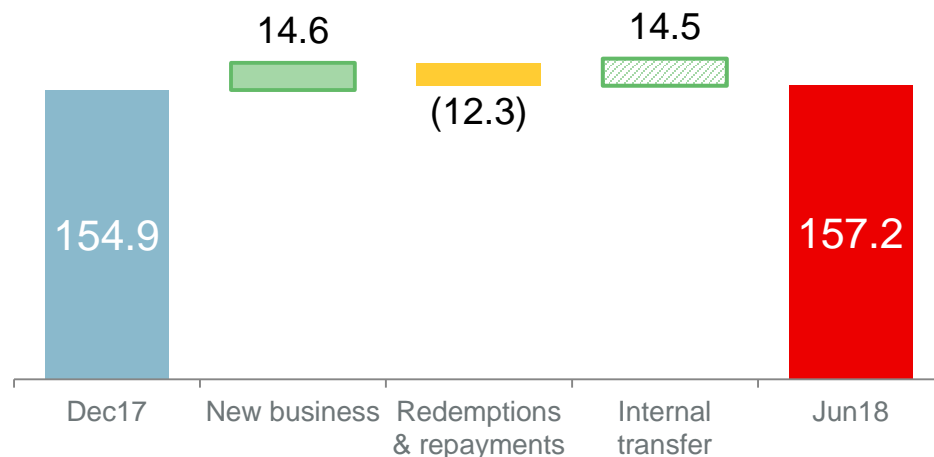
Product profile

(stock %, Jun18)



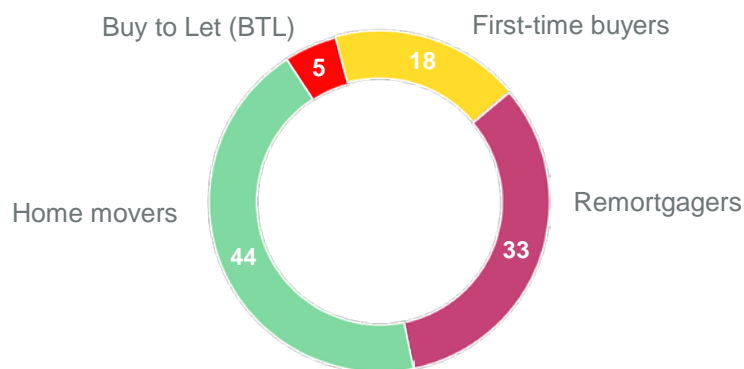
Lending breakdown

(£bn, Jun18)



Borrower profile

(stock %, Jun18)



- Net mortgage growth of £2.3bn in H118, with a focus on customer service and retention
- SVR attrition² of £2.4bn in H118 (H117: £2.5bn)
- c78% of maturing mortgages retained
- 54% (+7pp YoY) of refinancing mortgage loans retained online

Consistently prudent mortgage lending criteria

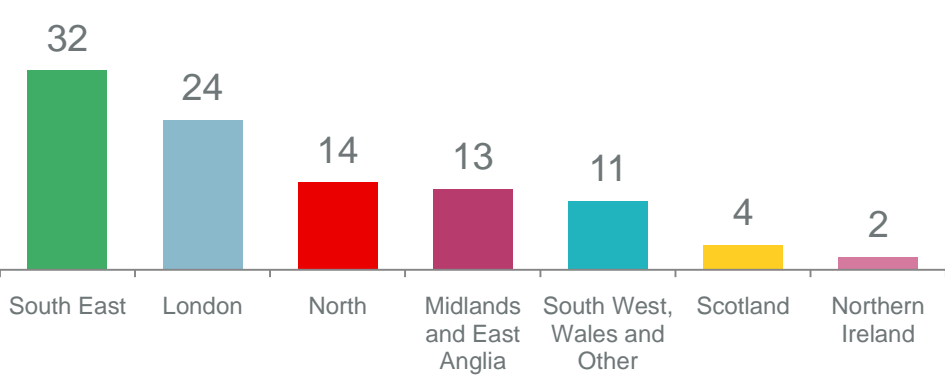
Average loan size

(new business)

	Dec17	Jun18
London and South East	£260k	£263k
Rest of UK	£146k	£146k
All UK	£196k	£198k

Geographical distribution

(stock %, Jun18)



Simple average Loan to Value (LTV)¹

	Dec17	Jun18
New lending	62%	62%
- London	56%	57%
- LTV >85%	19%	14%
Stock	42%	42%

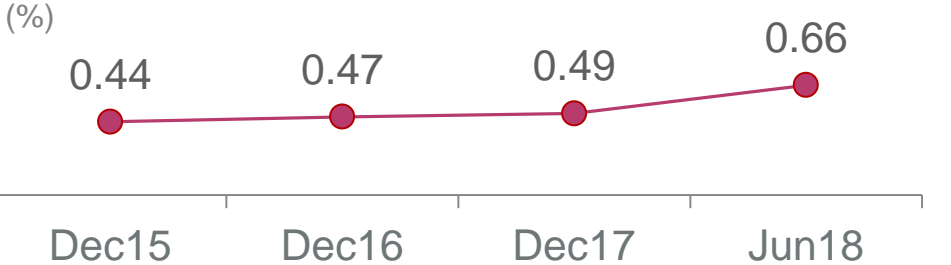
Mortgage loan distribution

(Jun18)

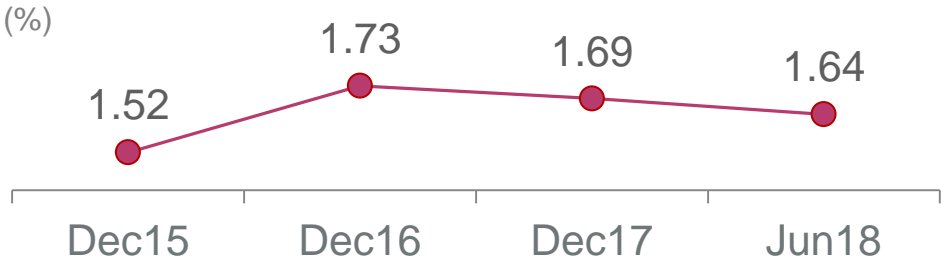
- c.92% of loans <£500k
- 3.13 average loan-to-income multiple²
- 62% average BTL LTV

Managing growth in consumer and unsecured lending

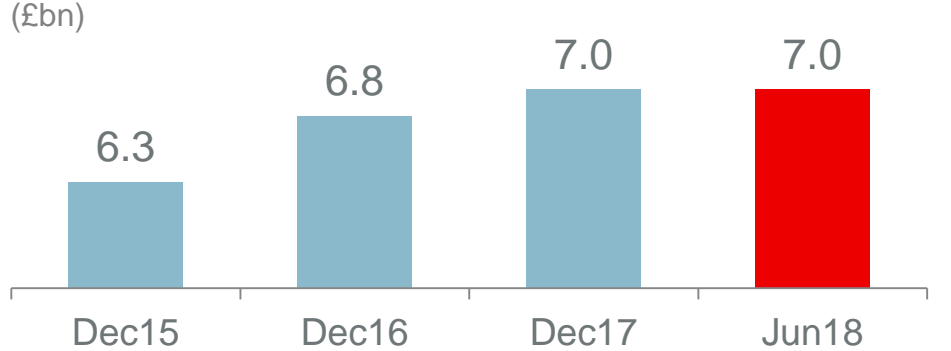
Consumer (auto) finance NPL ratio¹



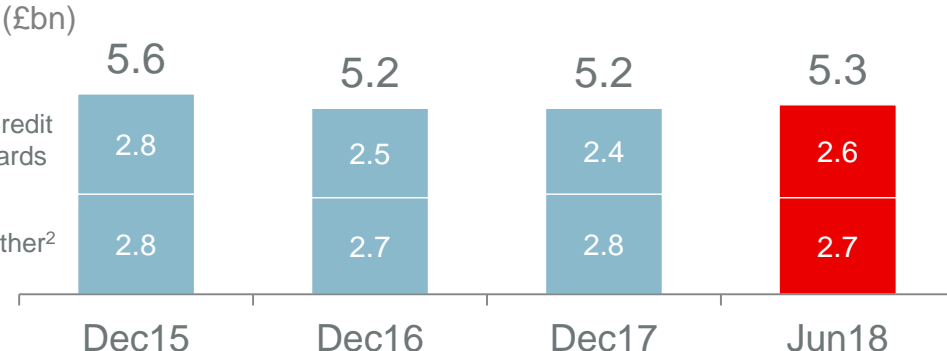
Unsecured NPL ratio (credit cards and loans)



Consumer (auto) finance loans



Unsecured personal lending balances



Prime vehicle finance business

- Average consumer (auto) loan size of c£12,500
- Prudent underwriting criteria; manual assessment for higher risk cases and affordability tests

Prime unsecured and credit card business



- Average unsecured loan size of c£5,900 and average credit card balance of c£1,000³
- Very low exposure to assumed future income flows






1. Consumer (auto) finance is predominantly a vehicle finance business that offers a range of consumer finance and insurance products and services for individuals, businesses and distribution networks in the automotive industry | 2. Unsecured personal loans and overdrafts | 3. On stock

Leveraging the potential of our Santander Business proposition

Jun18 vs Jun17

Loyal customers ¹		311k +5%
Digital customers		389k +8%

H118 vs H117

Banking income		+3%
International (non-FX) income		+38%
FX income		+15%

Deepening our customer proposition

- 3,100 businesses engaged in our Breakthrough Programme in H118
- Innovative scale challenger; dedicated relationship managers to support our customers
- Working in partnership with Santander Universities to support entrepreneurial ambition
- Ranked 1st for customer satisfaction by Charterhouse (Q118)

International direct model launched in Apr18

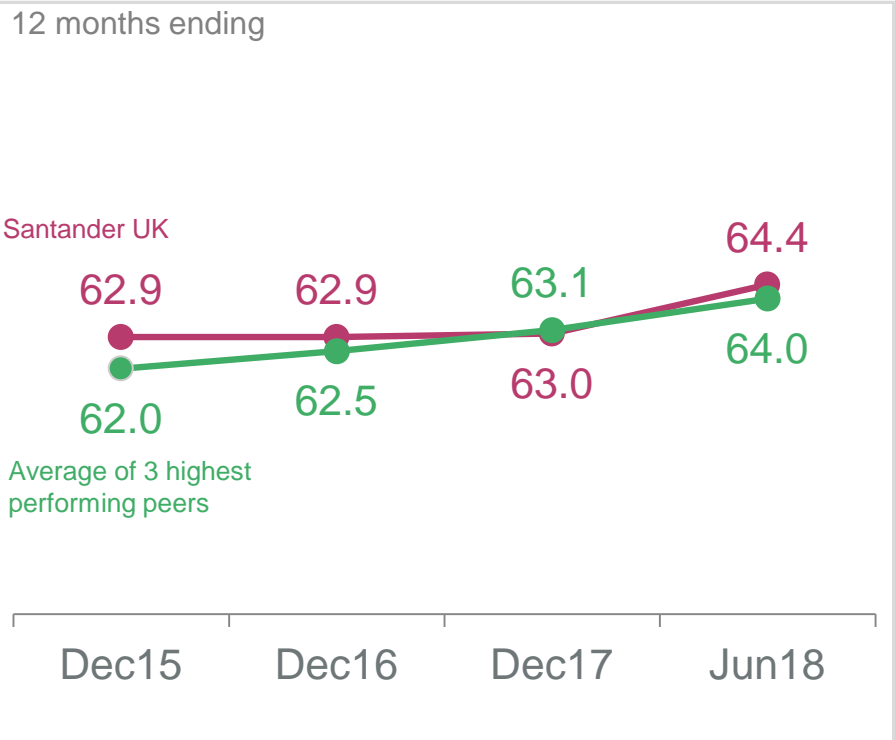
- Dedicated specialists part of our award winning International team
- Supporting customers international growth aspirations providing access to technology and knowledge
- Santander Trade Platform rollout to all SME's



Focused on further improvement in customer satisfaction

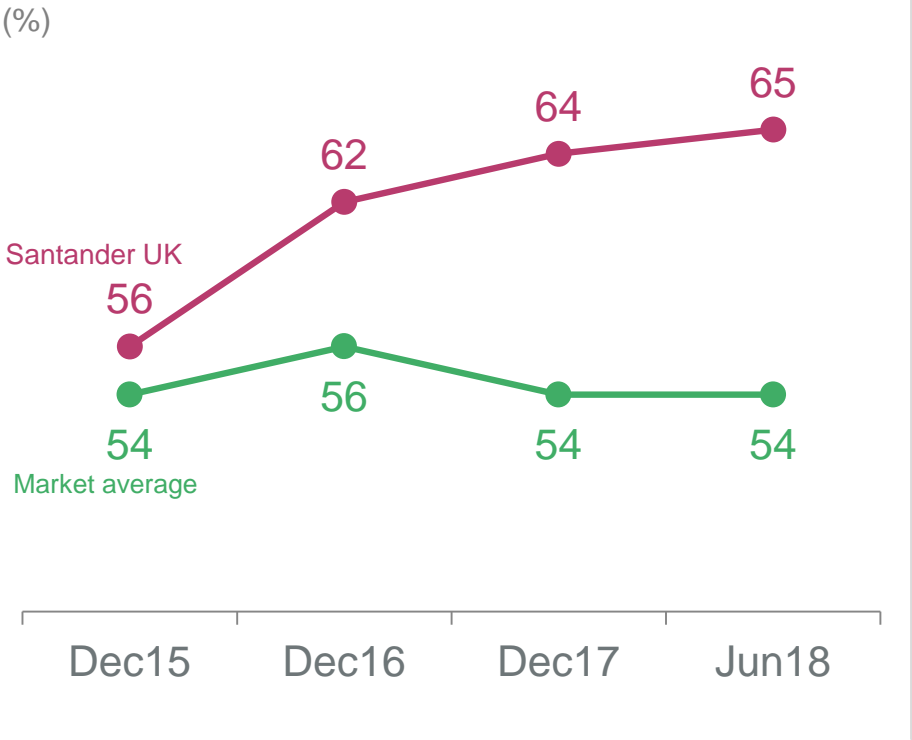
Retail customer satisfaction¹

(%) 12 months ending



Corporate customer satisfaction²

(%)



1. GfK Financial Research Survey (FRS), 12 months ending June 2018, 14,131 adults interviewed. Refer to Appendix 1 in the Q218 Quarterly Management Statement for a full definition and glossary at www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary | 2. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the Q218 Quarterly Management Statement for a full definition and glossary at www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary. Dec17 and Jun18 data based on corporate customers with annual turnover of £250,000 to £500m, previous periods on £250,000 to £50m

Diversified and well performing CRE portfolio

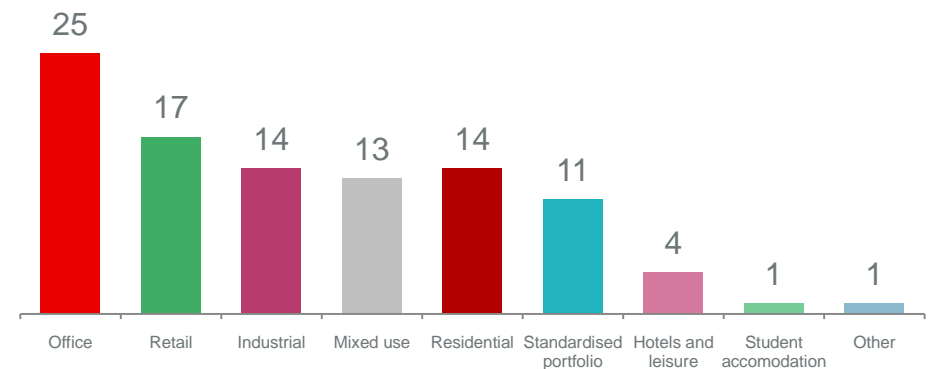
Credit performance

	Dec17	Jun18
Total committed exposure	£8.1bn	£7.5bn
Up to 70% LTV	88%	89%
70% to 100% LTV	-	1%
> 100% LTV	1%	-
Standardised portfolio ¹	8%	8%
Total with collateral	97%	98%
Development loans	3%	2%
	100%	100%

	Dec17	Jun18
NPL ratio	0.85%	0.65%
NPL coverage ratio	78%	65%

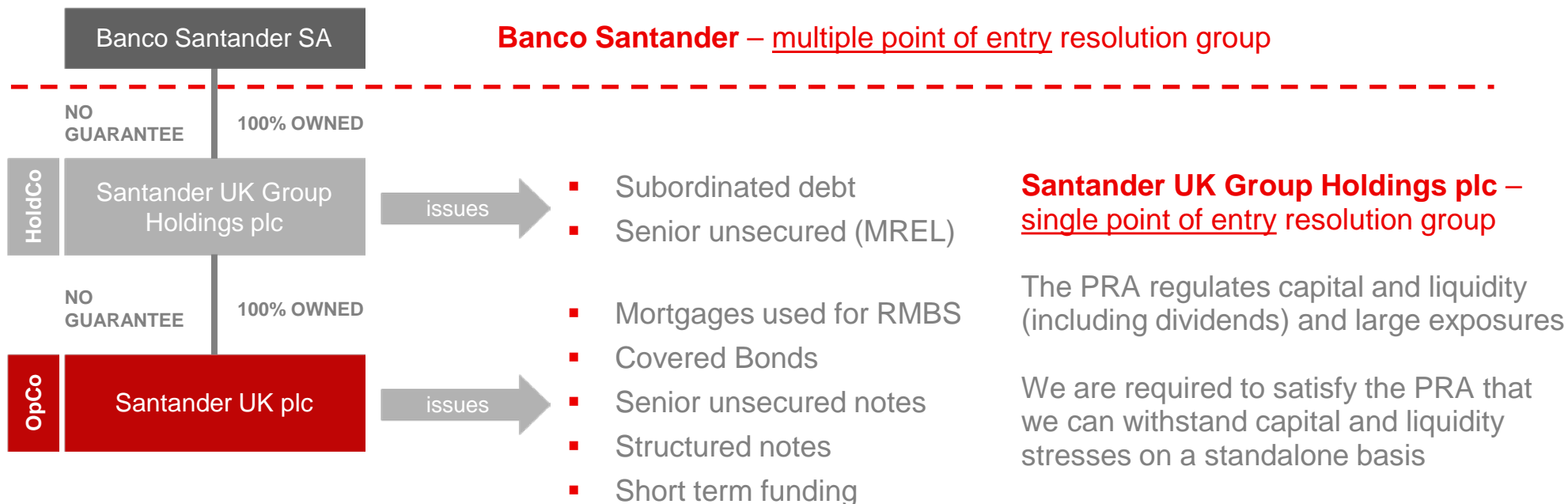
Sector analysis

(stock %, Jun18)



- No new business written above 70% LTV (Dec17: 0%)
- All new business written at or below 60% LTV (Dec17: 91%)
- Weighted average LTV on exposures of 48% (Dec17: 48%)²
- Average loan size of £4.7m (Dec17: £4.7m)

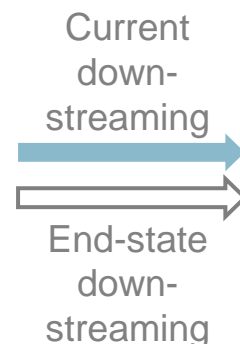
Existing wholesale funding issuance model



Transparent HoldCo downstream model

- Under the end-state MREL 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

Santander UK Group Holdings plc	
Senior - £8.2bn ¹	
T2 - £1.1bn ¹	
AT1 - £2.05bn	



Santander UK plc	
Senior - £8.2bn ¹	OpCo Senior
Internal MREL	
T2 - £1.1bn ¹	Legacy T2
AT1 - £2.05bn	Legacy T1

Credit ratings – July 2018

S&P

Moody's

Fitch

Santander UK Group Holdings plc

Senior unsecured <i>outlook</i>	BBB <i>stable</i>	Baa1 <i>stable</i>	A <i>stable</i>
Tier 2	BB+	Baa1	A-
AT1	B+	Ba2	BB+

Santander UK plc

Senior unsecured <i>outlook</i>	A <i>stable</i>	Aa3 <i>stable</i>	A <i>RWP</i>
Short-term	A-1	P-1	F-1
Standalone rating	bbb+	a3	a

- In Q218, S&P affirmed Santander UK Group Holdings plc and Santander UK plc's ratings and outlooks

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[Link to glossary](#)



[Key dates¹](#)

Q318 results: 31 October 2018

Q418 results: 30 January 2019

www.aboutsantander.co.uk

