

# Santander UK Group Holdings plc

**Investor Update  
for the six months ended  
30 June 2016**

**July 2016**

**Simple  
Personal  
Fair**

What a bank should be



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This presentation provides a summary of the unaudited business and financial trends for the six months ended 30 June 2016 for Santander UK Group Holdings plc and its subsidiaries (Santander UK), including its principal subsidiary Santander UK plc. Unless otherwise stated, references to Santander UK and other general statements refer to the business results of the same period in 2015.

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Source: Santander UK Q2 2016 results Quarterly Management Statement for the six months ended 30 June 2016 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](http://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.

# H116 business and financial highlights

- Profit before tax of £1,078m, up 16% versus H115; adjusted profit before tax of £989m, up 7% with solid business performance, continued cost discipline and good credit quality
- 276,000 new 11213 World customers and growth in retail current account balances of £7.8bn
- Retail customer satisfaction above the average of our three highest performing peers
- Net mortgage lending of £0.6bn and net lending to corporates of £2.0bn
- Banking NIM of 1.78%, down 2bps from Q415, impacted by SVR attrition and asset margin pressure
- Strong non-interest income growth, up 10% excluding £119m gain on the sale of Visa Europe Ltd shareholding
- Adjusting for Banking Reform costs in the period, operating expenses were down 2%
- CET 1 ratio of 11.2% and leverage ratio of 3.9%; adversely impacted by market volatility and rates including those in the last week of June

# 2018 strategy creating value for all our stakeholders

1| Customer loyalty and market share growth

Customers

2| Operational and digital excellence

Shareholders

3| Consistent and growing profitability and a strong balance sheet

People

4| Live The Santander Way through our behaviours

Communities

5| Support communities through skills, knowledge and innovation

# Delivering on our 2016-18 commitments

	FY15	H116	2018 target	
<b>Customers</b>	Loyal retail customers	3.7 million	3.7 million	4.7 million
	Loyal SME and Corporate customers	266,000	279,000	308,000
	Retail customer satisfaction ('FRS') <i>average of 3 highest performing peers</i>	62.9% 62.0%	63.5% 62.3%	Top 3
	Digital customers	3.9 million	4.3 million	6.5 million
<b>Shareholders</b>	Adjusted return on tangible equity ('RoTE')/RoTE	8.2%	11.0% <sup>1</sup>	12-14%
	Cost-to-income ratio ('CIR')	53%	49% <sup>2</sup>	< 50%
	CET 1 capital ratio	11.6%	11.2%	c. 12%
	Non performing loan ('NPL') ratio	1.54%	1.54%	< 1.50%
	Dividend payout ratio	50%	n/a	50%

For notes see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the six months ended 30 June 2016. A glossary of the main terms used in the Quarterly Management Statement is available on our website at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary)

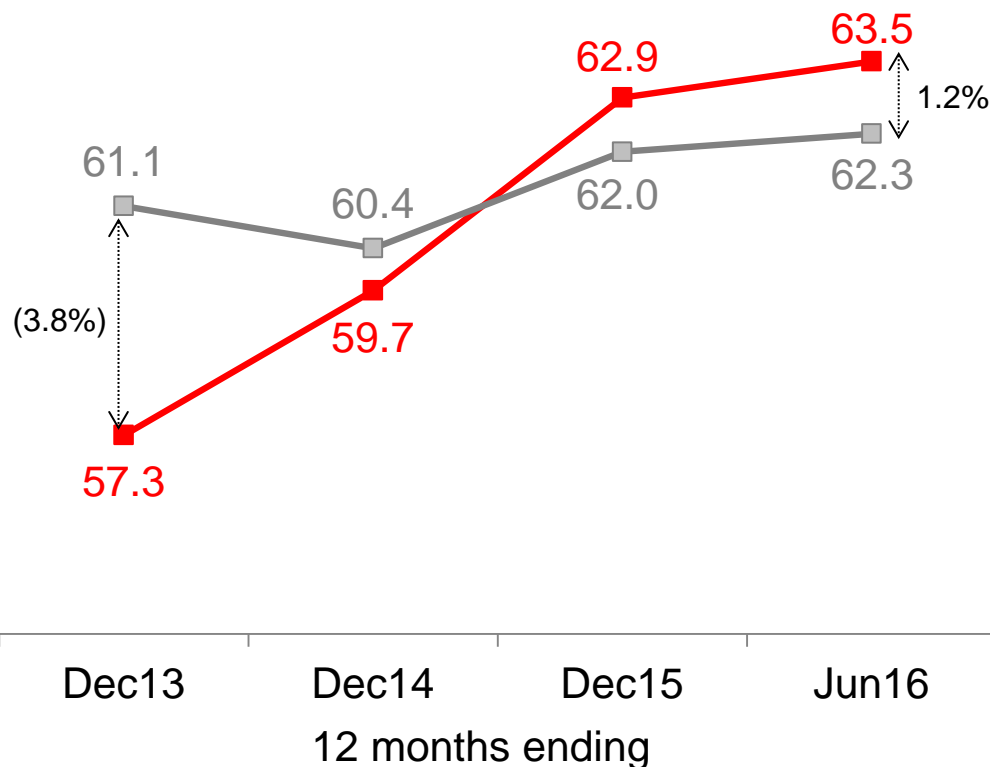
1. Adjusted RoTE of 11.0% is annualised and adjusted for the UK Bank Levy and FSCS phasing that in 2015 was £101m and £76m, respectively. The gain on the sale of our Visa Europe Limited shareholding is not annualised. Statutory RoTE was 12.8% | 2. H116 CIR when adjusted for the £119m gain from the Visa Europe Limited shareholding sale and Banking Reform costs of £30m would have been 51%

# 2016 outlook

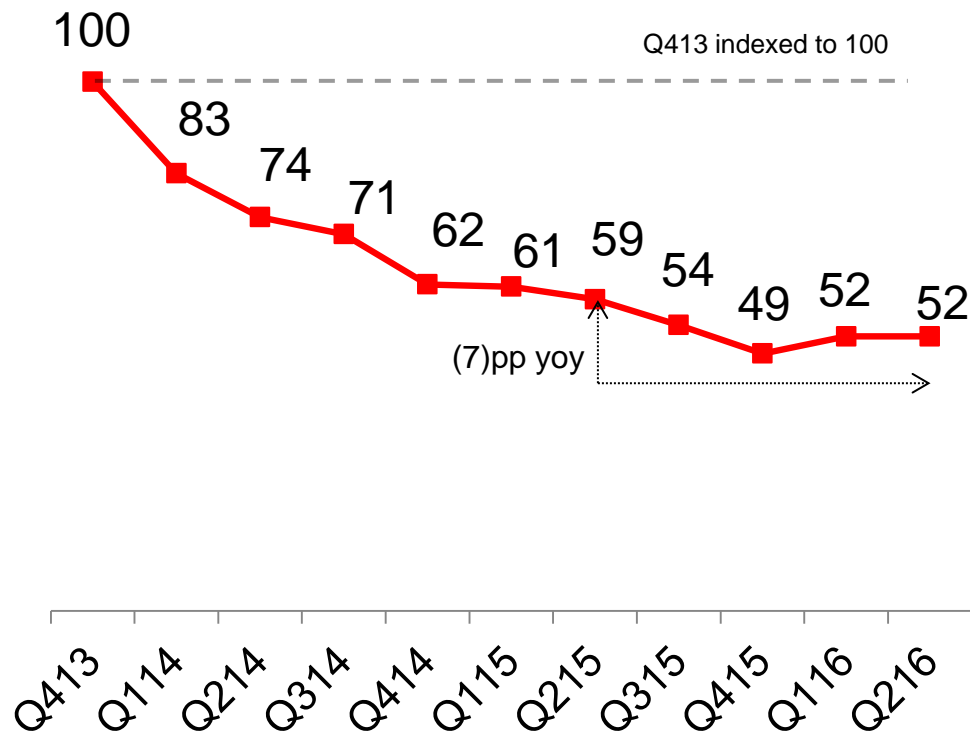
- In a period of significant uncertainty, our commitment to businesses, customers and our people remains as strong as ever. As the only full-service scale challenger, we can face the expected macroeconomic headwinds while managing performance and maintaining balance sheet strength
- We expect the slowdown of the UK economy, seen in the run up to the EU referendum to continue, as economic uncertainties prevail. With a wide range of possible outcomes, some economic downside risks are likely to be mitigated by monetary policy actions by the BoE and the capital and liquidity strength of the banking sector
- Expect the Banking NIM for 2016 to decline further, driven by continued competitive pressures on asset margins and SVR attrition. Offsetting some of the NII pressure, we see an opportunity to drive fee income growth
- Cost management remains a key focus as we continue to invest and grow, while capturing future operational efficiencies
- Expect net mortgage lending to be broadly in line with the market, with a decline in SVR mortgage attrition slightly lower than in 2015

# Continued improvement in retail customer experience

Retail customer satisfaction (%)<sup>1</sup>



Retail complaints received (indexed)<sup>2</sup>



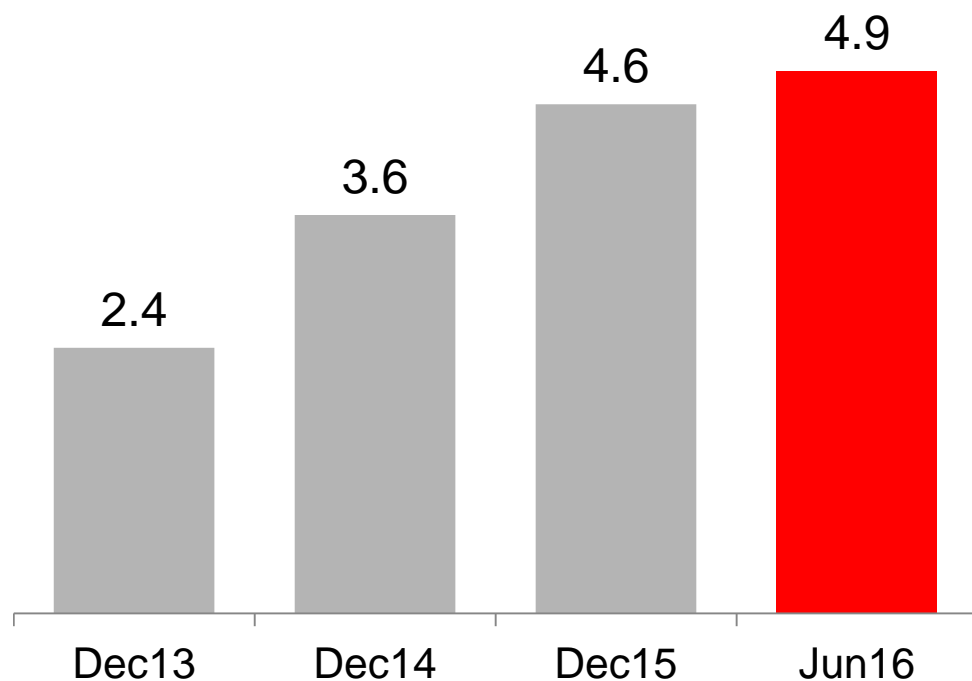
—■— Santander UK    —■— Average of 3 highest performing peers

1. Continued annual improvement Dec14 vs Jun16, as measured by FRS. Refer to Appendix 1 in the Q216 Quarterly Management Statement for a full definition and glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary) | 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

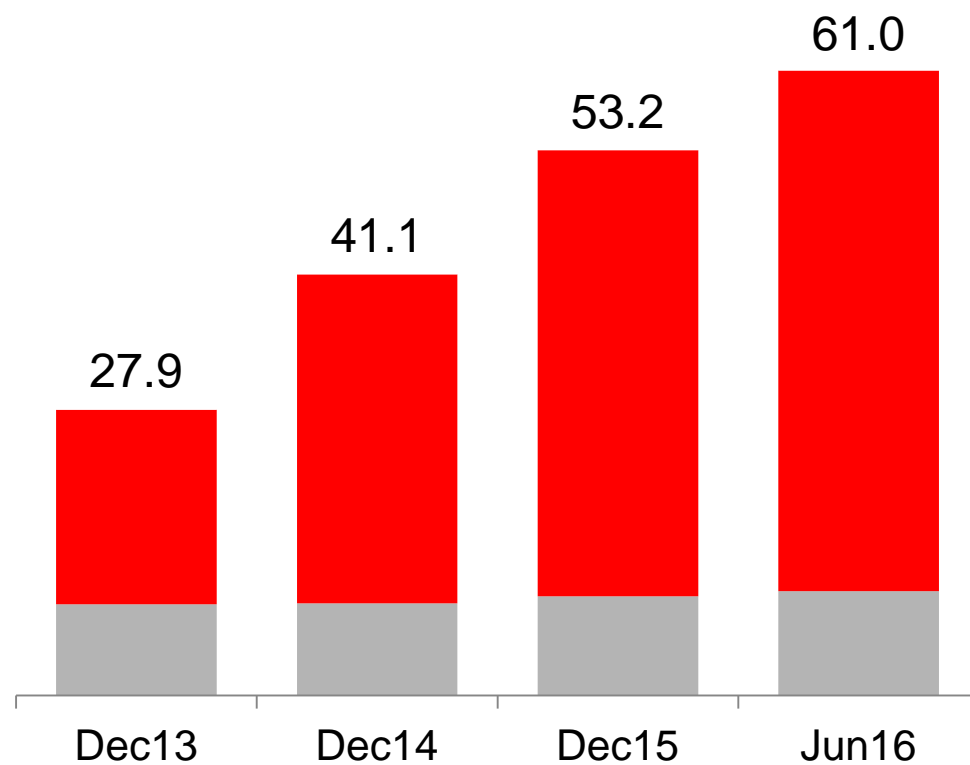


# 276,000 new 1I2I3 World customers in H116

1I2I3 World customers (million)



Retail Banking current account balances (£bn)



of which 1I2I3 Current Account balances (adult accounts only)



# 1|2|3 World continues to transform our customer profile

	Non 1 2 3 Current Account	1 2 3 Current Account		
Deepening relationships	23%	loyal 68%	Better savings mix	Less rate sensitive money
Improved customer profiles	6%	select / affluent 34%	Front book and back book	Available to new and existing customers
Building valuable relationships	1.5	products 2.1	Fee paying account	Flexibility to adapt to market conditions and interest rates
Improving liquidity stability	1.0x	average balance 5.5x	Simple and transparent	Clear value offer supported by 1 2 3 calculator
More satisfied customers (FRS) <sup>1</sup>	64.9%	76.7%	High staff advocacy	70% hold a 1 2 3 account

**1|2|3**  
CURRENT ACCOUNT

**1|2|3**  
CREDIT CARD

**1|2|3**  
GRADUATE ACCOUNT

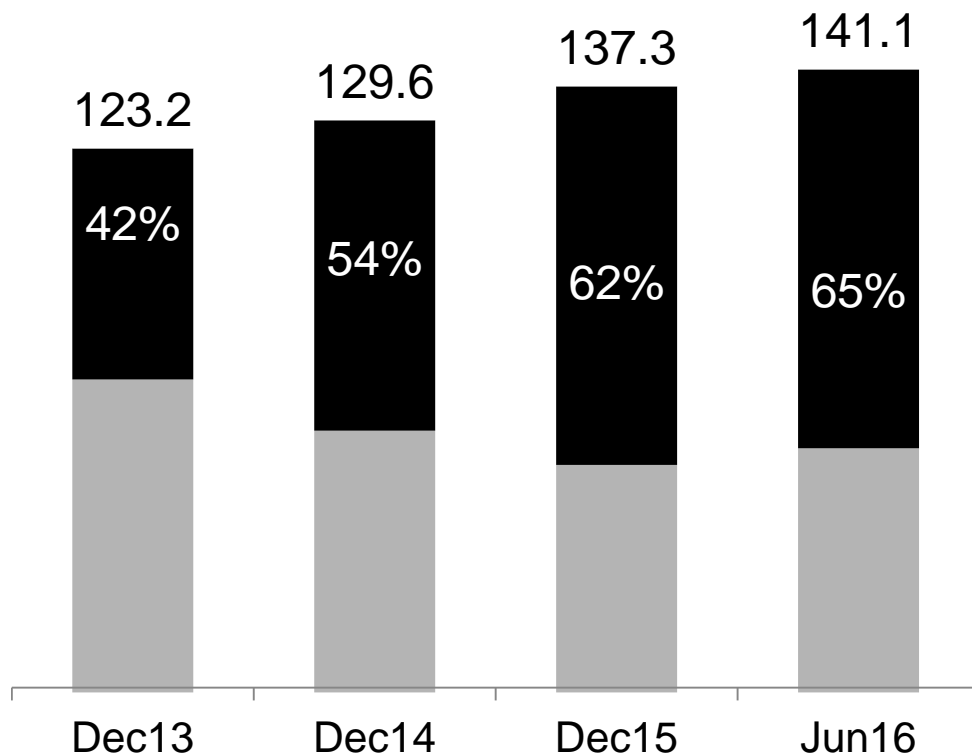
**1|2|3**  
MINI ACCOUNT

**1|2|3**  
Lite CURRENT ACCOUNT

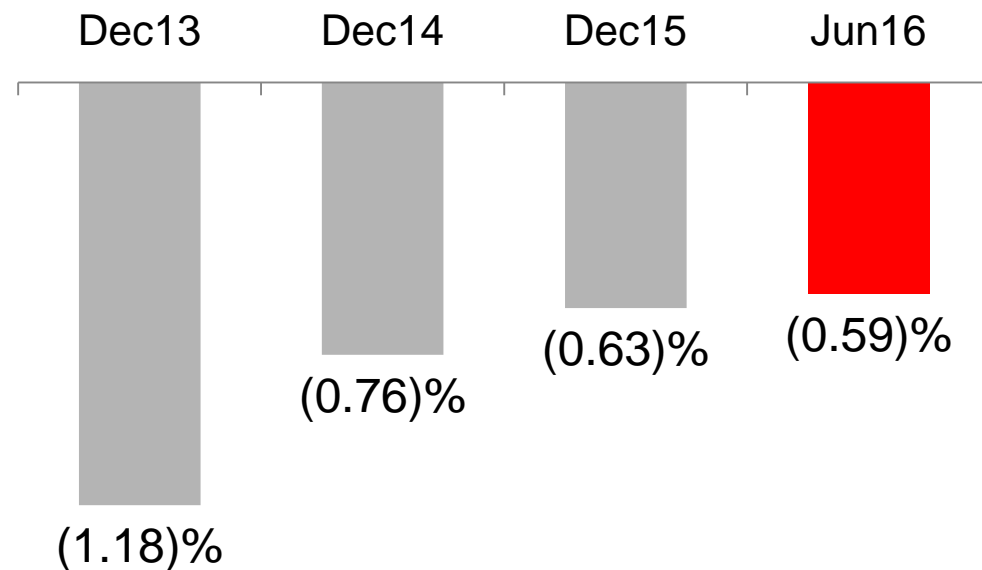
1. Current account, GfK FRS 12 months ending Jun16

# Improved retail customer primacy and liability spread

Retail Banking deposits (£bn)



Retail Banking deposits spread (%)<sup>1</sup>

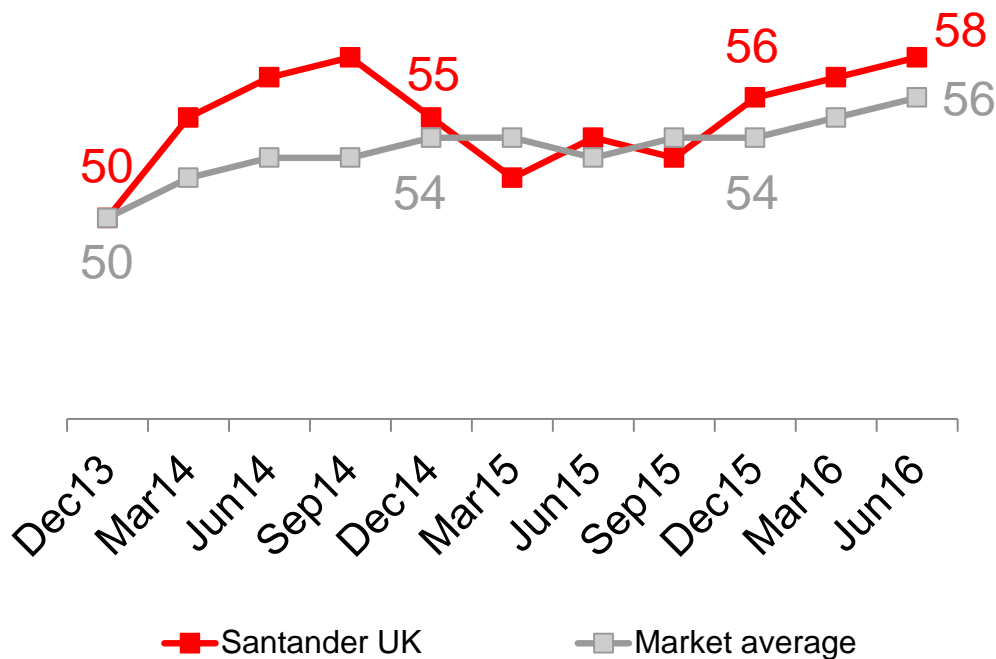


■ Banking and savings balances of customers with a primary 11213 Current Account or other primary current account

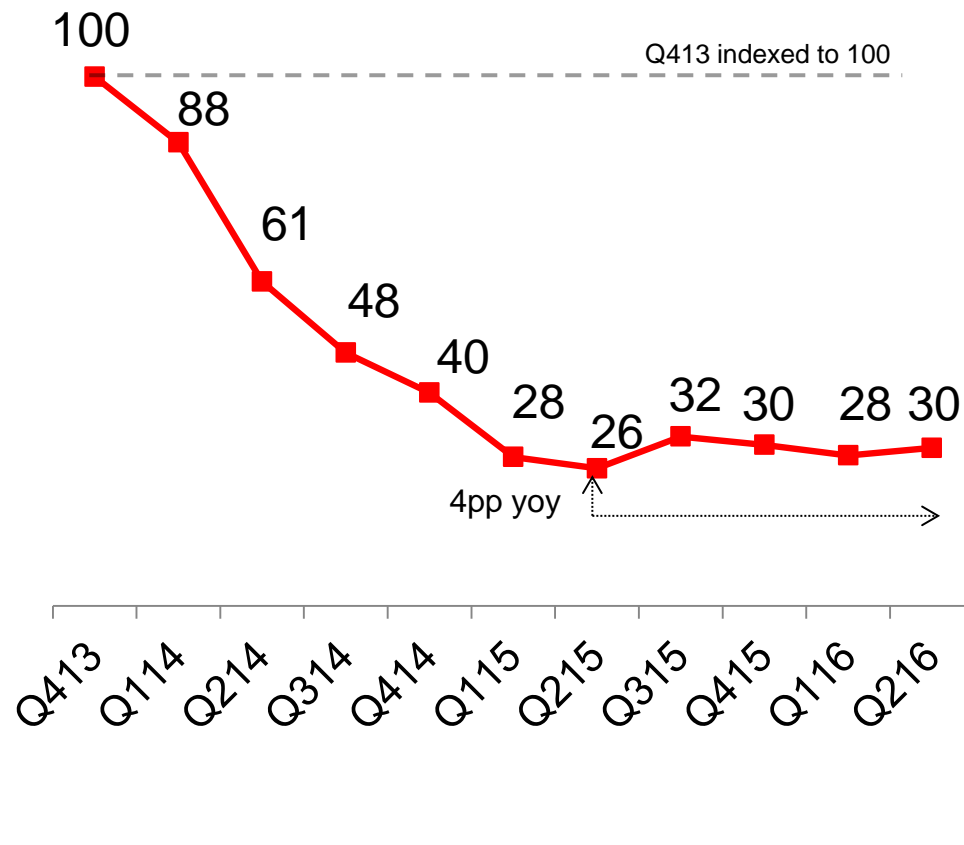
1. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers, includes Jersey and Cater Allen

# Improving corporate customer experience

Corporate customer satisfaction (%)<sup>1</sup>



Corporate complaints received (indexed)<sup>2</sup>



1. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the Q216 Quarterly Management Statement for a full definition and glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary) | 2. Source: Santander UK management information. Complaints relate to our commercial and corporate banking businesses

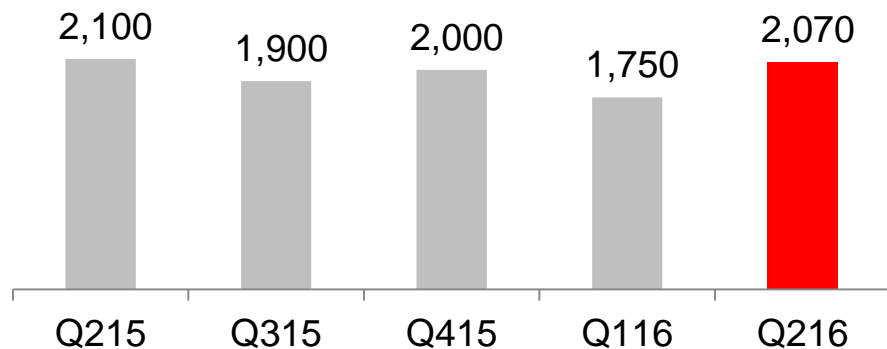
# Utilising full service corporate and commercial offering

	Customers	Customer loans
SME > £250k - £50m	71,860	£13.4bn
Mid corporates > £50m - £500m	1,460	£8.2bn
Large corporates > £500m	350	£6.8bn

Expanded footprint to be closer to our customers

	2012	H116
Relationship Managers	503	716
Corporate Business Centres	34	69

## Commercial Banking bank account openings



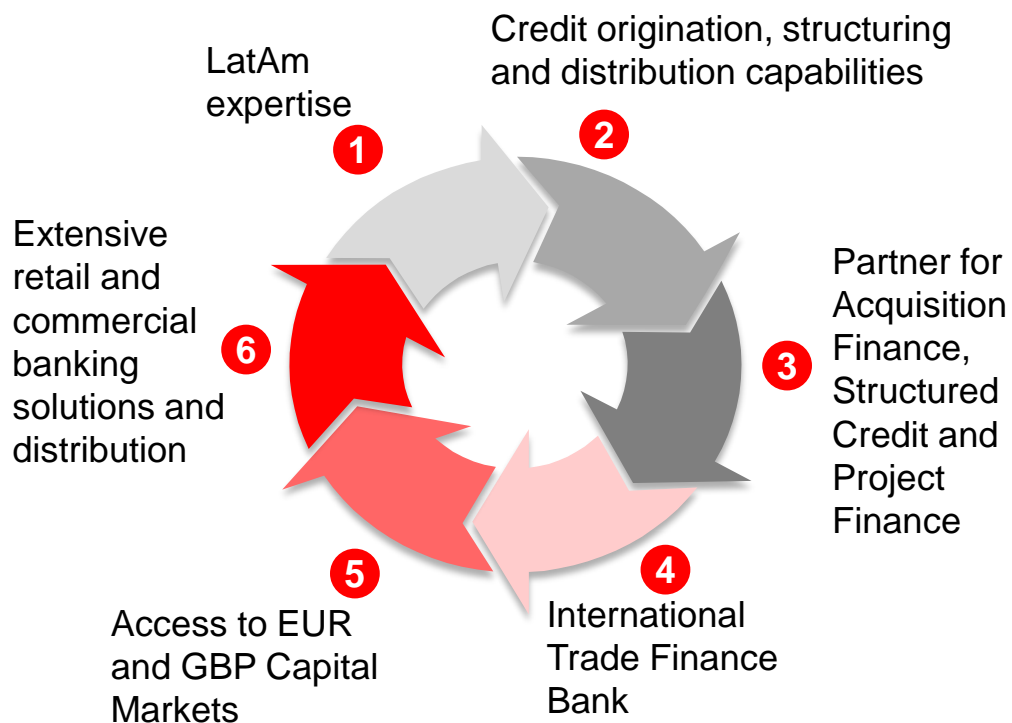
## International expertise and differentiated offering

### BREAK THROUGH



# Investing in the GCB UK franchise

## Our competitive advantage



## Our strategy and key actions

- Focus on traditional banking activities
- Client coverage leverages global relationship model
- Niche player with clear market focus
- On-going enhancement of systems, controls and processes

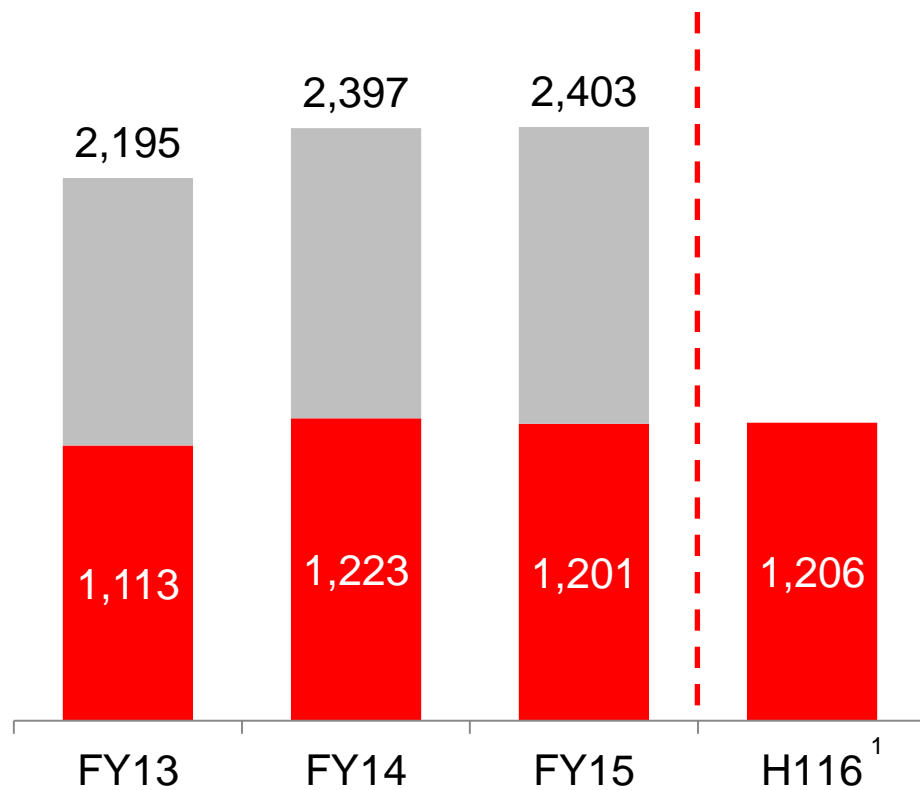
## Strong credentials in chosen businesses

	2013	H116
UK corporate bonds investment grade (£) <sup>1</sup>	#5	#4
UK housing associations bonds <sup>2</sup>	#1	#1
UK syndicated loans MLA <sup>1</sup>	#6	#4
Arranger of UK renewable loans <sup>3</sup>	#9	#2

1. Source: Dealogic, Ranking by apportioned amount | 2. Source: Dealogic and Santander UK | 3. Source: Clean Energy and Santander UK

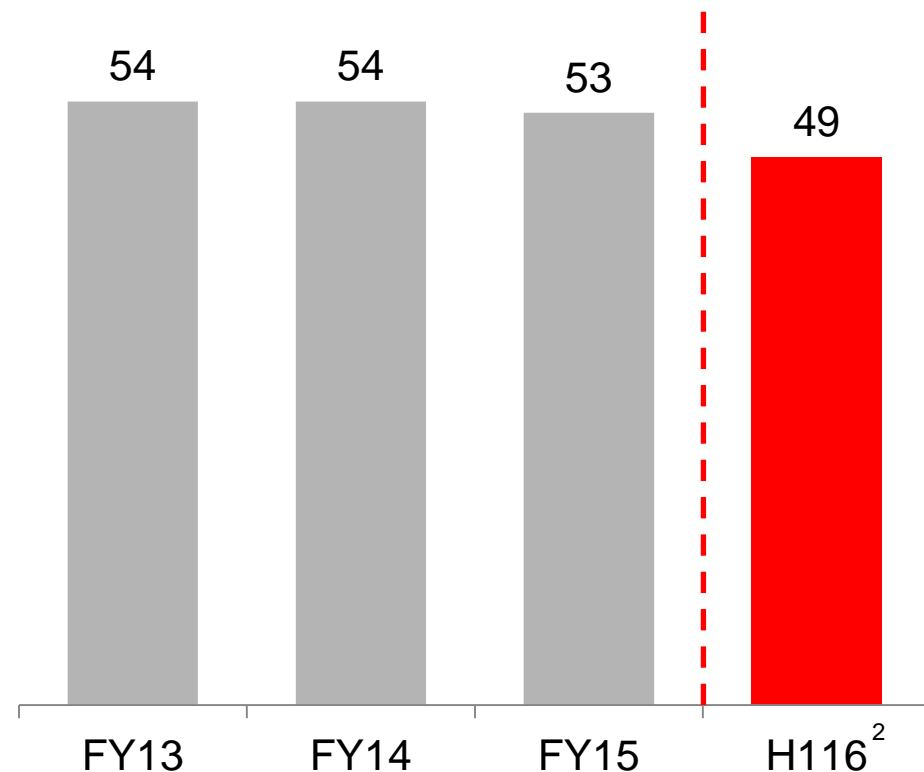
# Operational efficiency well managed

## Operating expenses (£m)



■ First half of the year

## Cost-to-income ratio (%)



1. H116 operating expenses included £30m Banking Reform costs. Adjusting for these costs, operating expenses would have been down 2% versus H115 | 2. H116 CIR when adjusted for the £119m gain from the Visa Europe Limited shareholding sale and £30m of Banking Reform costs would have been 51%

# Six areas of focus for enhanced digital experience



## Credentials

I have **quick** & **easy** access to digital services



## See

I can **see** all my Santander accounts



## Service

I can **do** basic transactions **myself**



## Buy

It is simple for me to **apply** for a new account



## Mobile

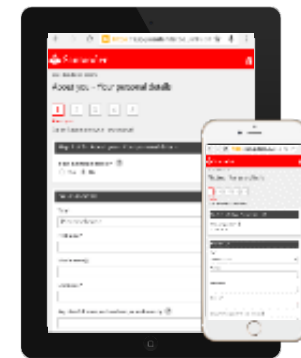
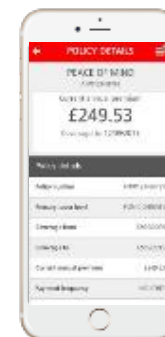
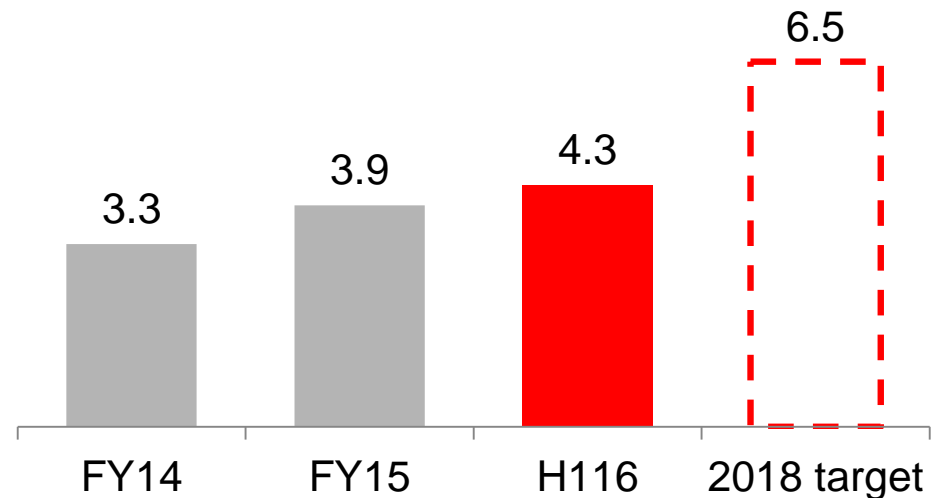
I have access to digital services **on the move**



## Analytics

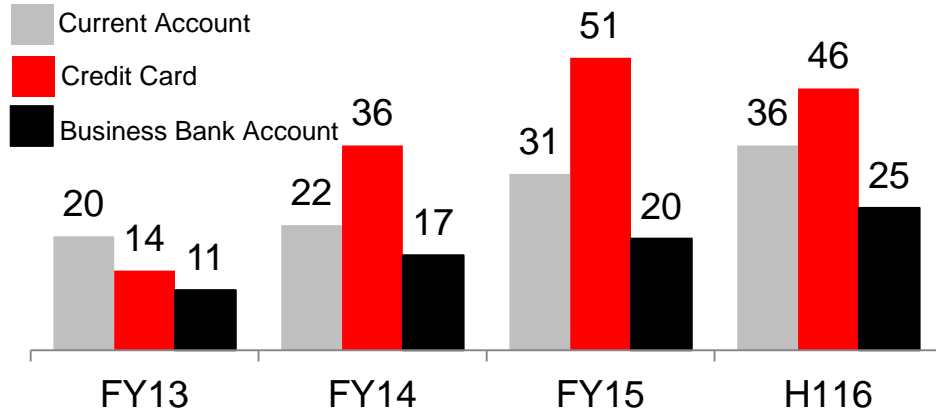
We have **enablers** & **analytics** to optimise our digital services

### Total digital customers (m)



# Accelerating our digital transformation

## Digital openings (% of total openings)

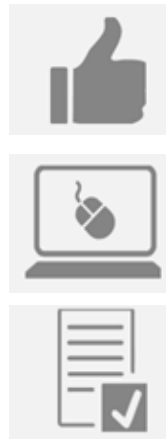


## Impact of new digital functionality<sup>1</sup>

- 1,350 new active mobile users every day
- Over 40% of mortgages retained online
- +35% business bank account online sales
- 1 in 3 bank accounts sold online
- +110% increase in account alert switchers

## Future digital developments for account openings

- Save and retrieve online application
- Instant on screen decision
- Document upload if ID is required
- Reduced number of questions
- Improved design and interaction



## Key digital developments for 2016

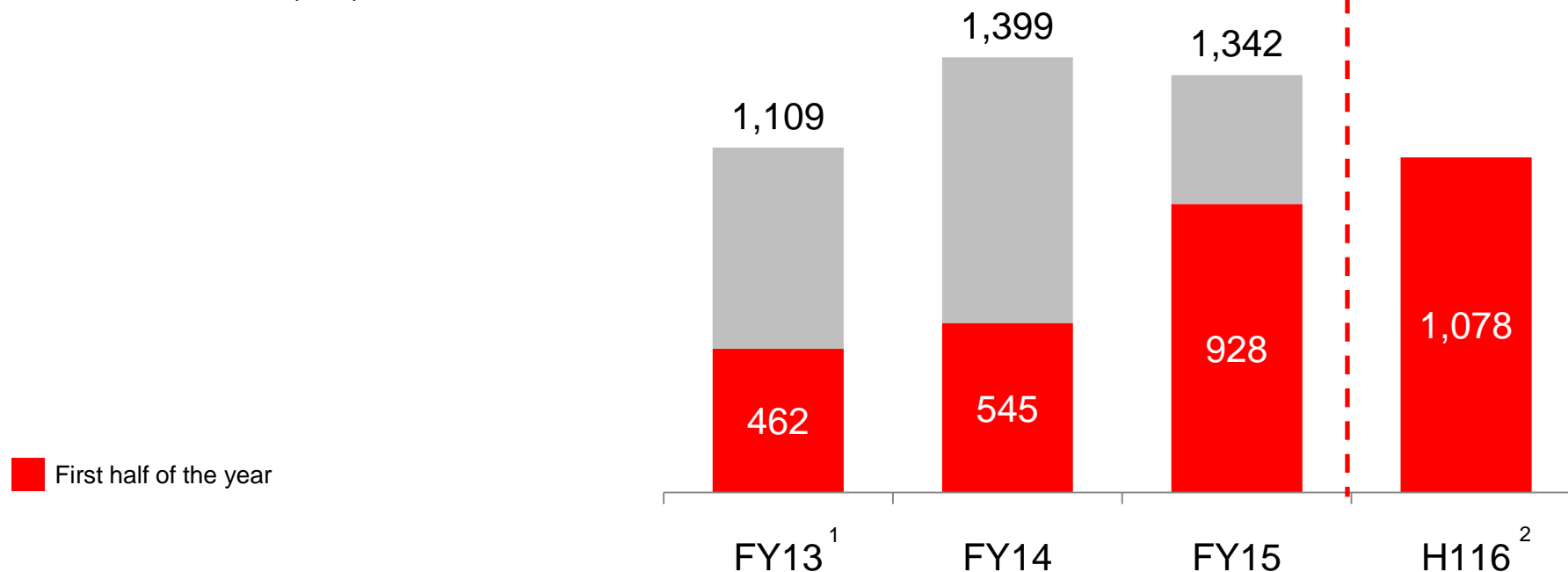
- Launched Investment Hub, a new digital platform for customers to self manage their investments online
- Partnership with Kabbage, providing the technology platform for our Working Capital Loans solution giving UK SMEs access to same day funding
- First to introduce voice banking SmartBank app, which allows customers to verbally query card spend

1. Growth volumes H116 vs H115



# Consistently profitable, sustainable business

Profit before tax (£m)



Adjusted RoTE / RoTE (%)

FY13 <sup>1</sup>	8.6	FY14	10.4	FY15	8.2	H116 <sup>2</sup>	11.0 <sup>2</sup>
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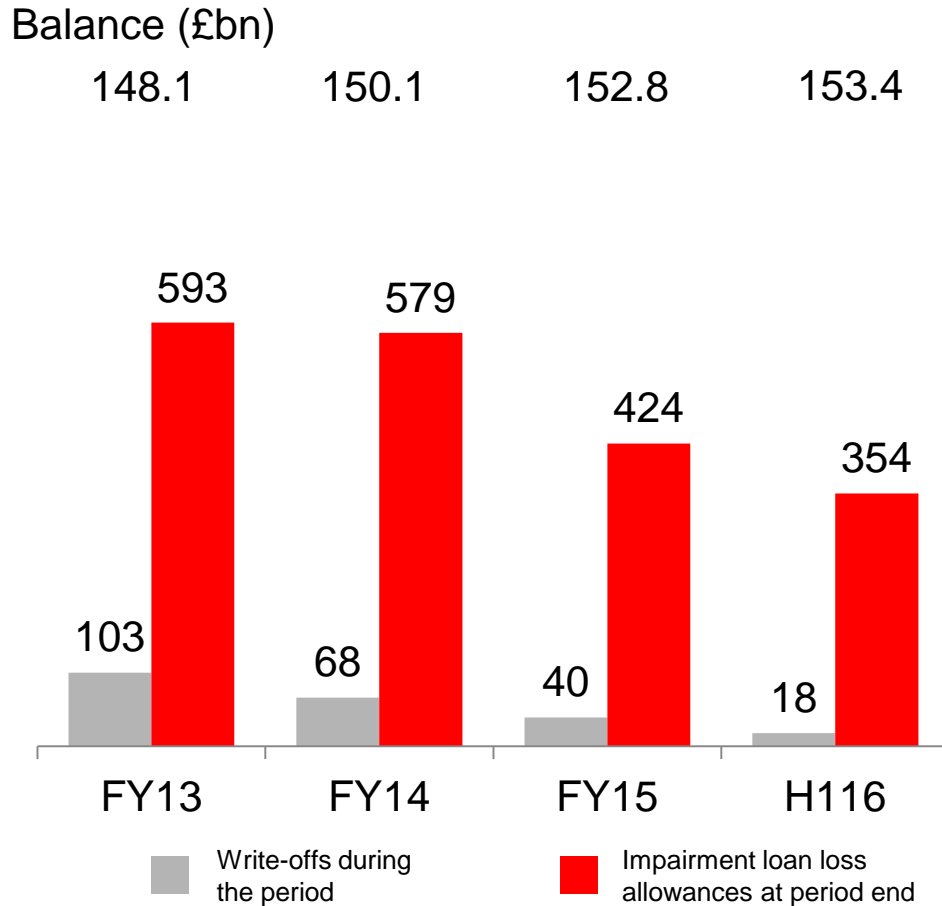
Banking NIM (%)<sup>3</sup>

FY13 <sup>1</sup>	1.55	FY14	1.82	FY15	1.83	H116 <sup>2</sup>	1.78
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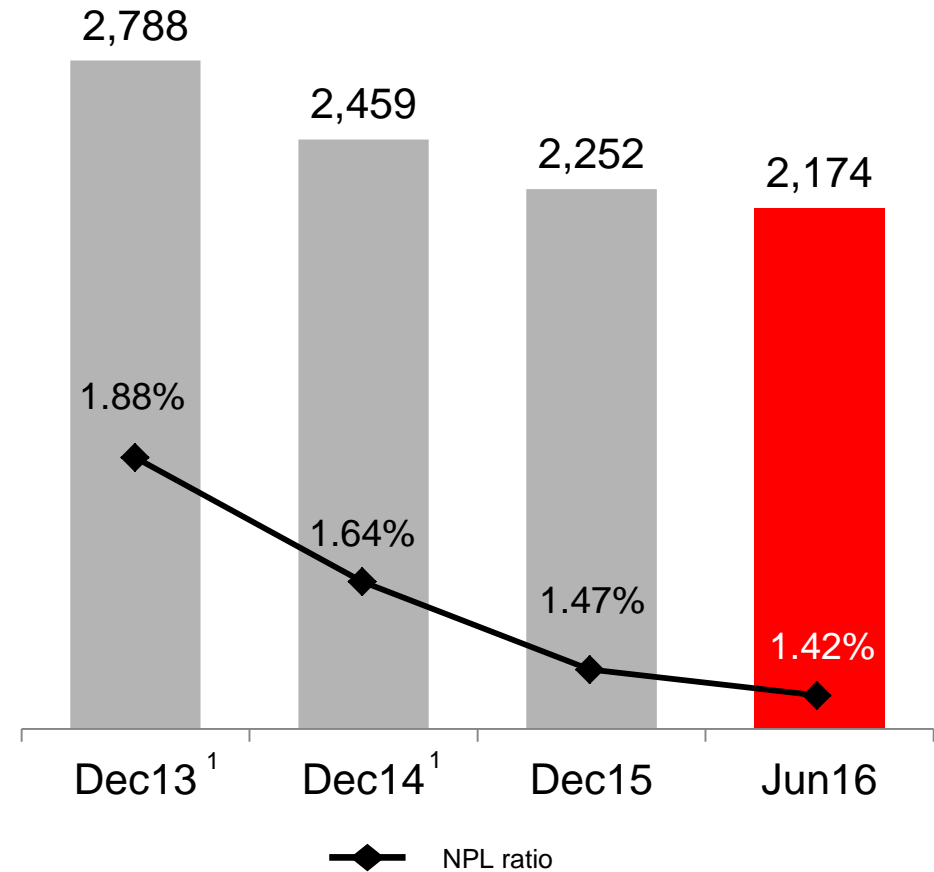
1. 2013 PBT excludes discontinued operations | 2. H116 PBT excluding Visa Europe Limited gain of £119m and Banking Reform costs of £30m, would have been £989m. H116 adjusted RoTE of 11.0% is annualised and adjusted for the UK Bank Levy and FSCS phasing that in 2015 was £101m and £76m, respectively. The gain on the sale of our Visa Europe Limited shareholding is not annualised. Statutory RoTE was 12.8% | 3. 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)



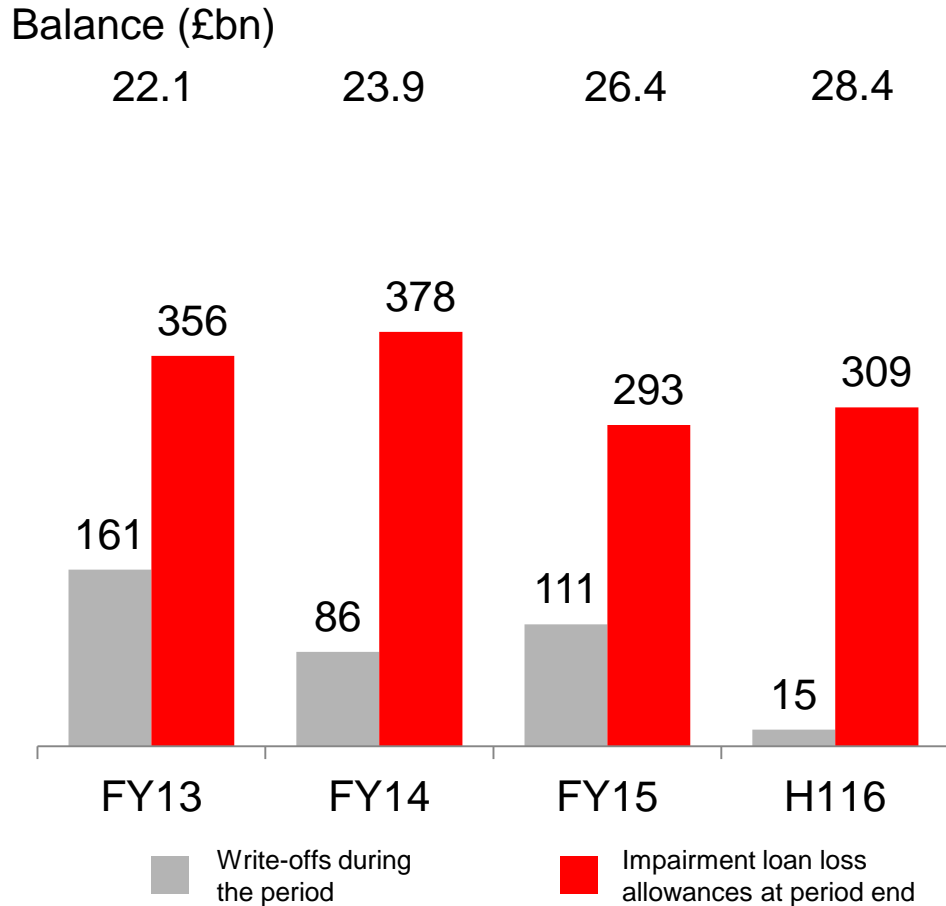
## Mortgage NPLs (£m)



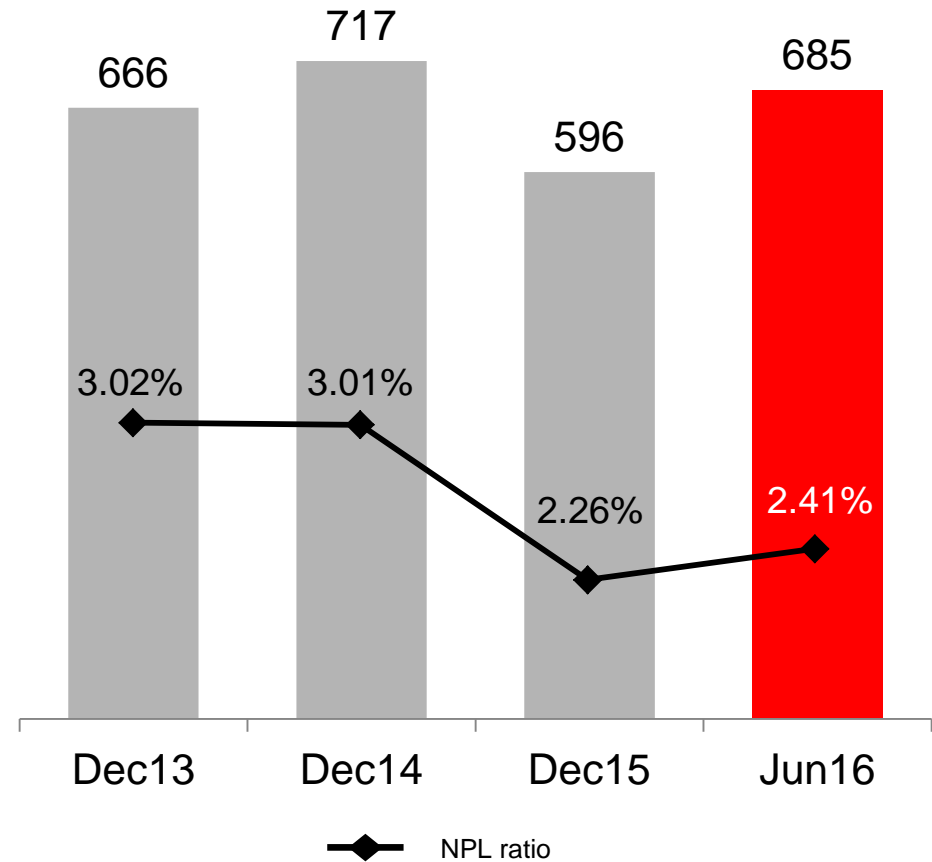
1. Residential mortgages NPL ratio for Dec13 and Dec14 excludes PIPs

# Prudent approach in corporate lending

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



Corporate NPL (£m)



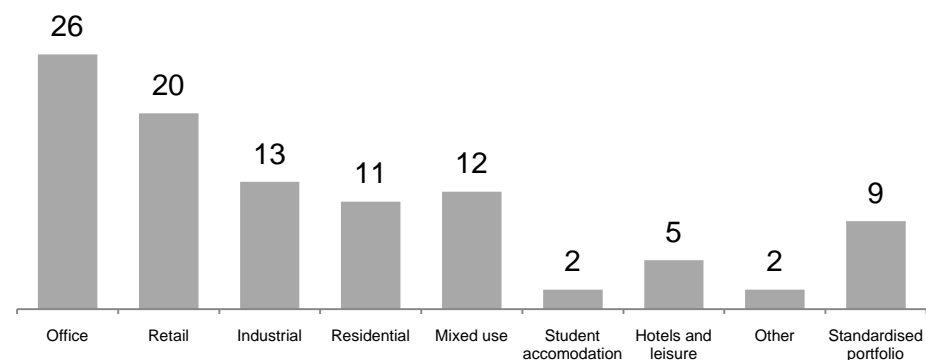
# Well diversified CRE portfolio

## Credit performance

	Dec15	Jun16
CRE customer loans	£9.2bn	£9.4bn
NPL ratio	1.83%	2.03%
NPL coverage ratio	43%	33%

	Dec15	Jun16
Total committed exposure	£10.5bn	£10.9bn
Up to 50% LTV	36%	38%
50% to 60% LTV	33%	35%
60% to 70% LTV	14%	10%
70% to 100% LTV	3%	2%
> 100% LTV	-	1%
Standardised portfolio <sup>1</sup>	10%	9%
Total with collateral	96%	95%
Development loans	4%	5%
	100%	100%

## Sector analysis (stock %, Jun16)



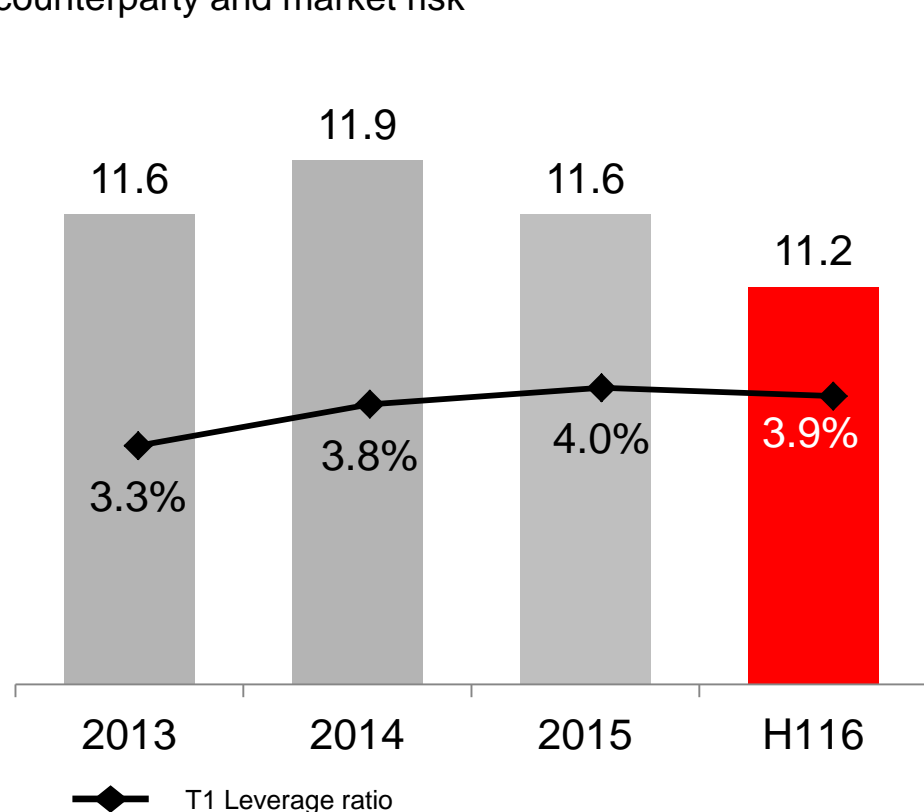
- The CRE portfolio of £9.4bn is 33% of corporate lending and 5% of total customer loans
- The portfolio is well diversified across sectors, with no significant regional or single name concentration
- Conservative approach to new lending in H116:
  - no new business written >70% LTV
  - 96% written at or below 60% LTV
- Weighted average LTV on exposures Jun16: 52% (Dec15: 52%)

1. Consists of smaller value transactions, mainly commercial mortgages

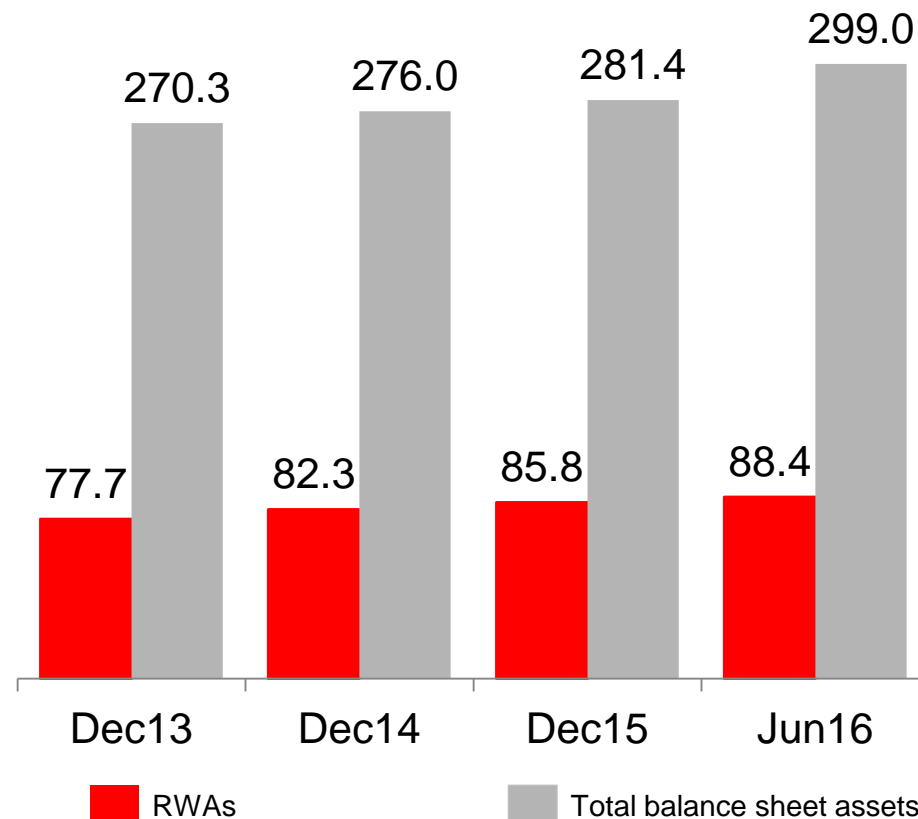
# Robust capital and leverage levels

CET1 and leverage ratio (%)

H116 decline reflects market-driven accounting impacts on defined benefit pension schemes; adverse impact in the AFS portfolio, PVA, and RWA levels for credit, counterparty and market risk



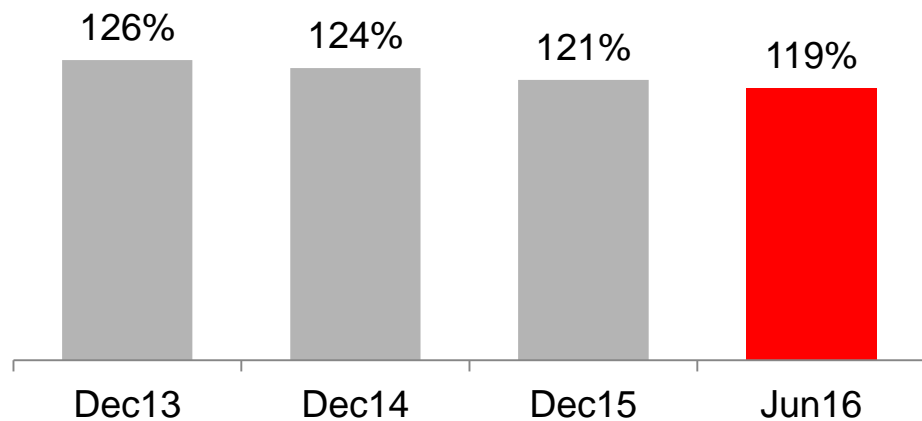
Risk weighted assets and balance sheet assets (£bn)



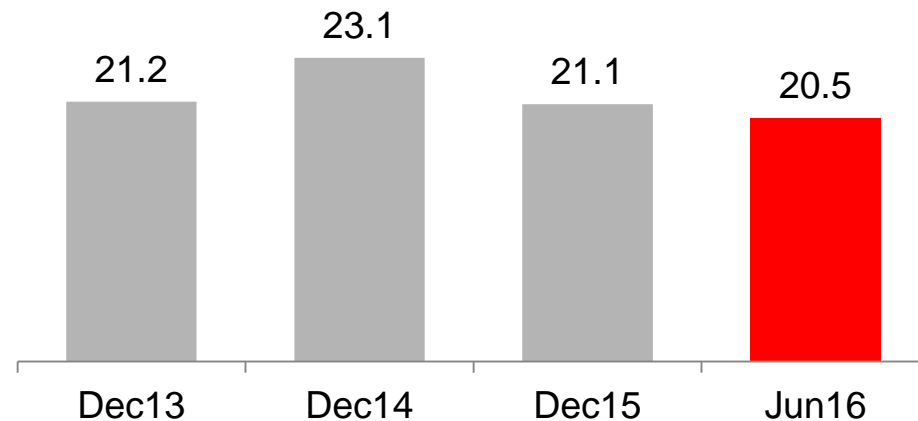
## Fixed income information

# Strong liquidity position

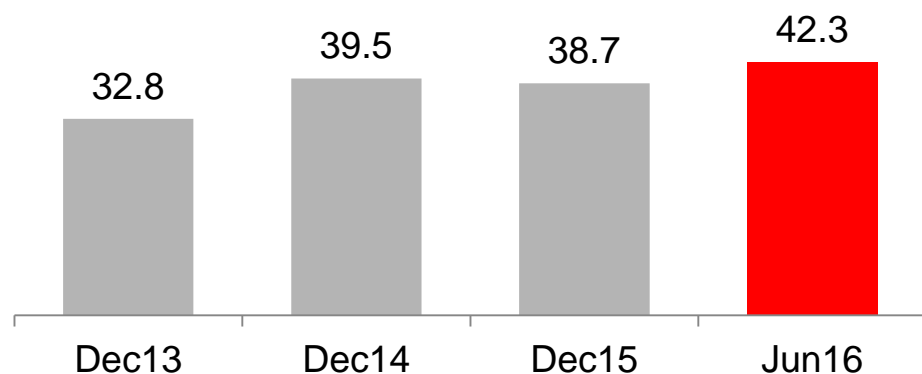
## Loan-to-deposit ratio



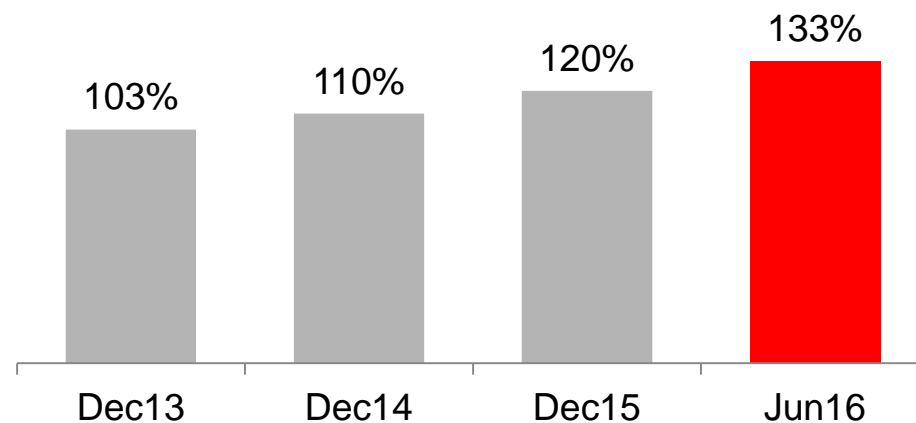
## Wholesale funding with a residual maturity of less than 1 year (£bn)



## LCR eligible liquidity pool (£bn)

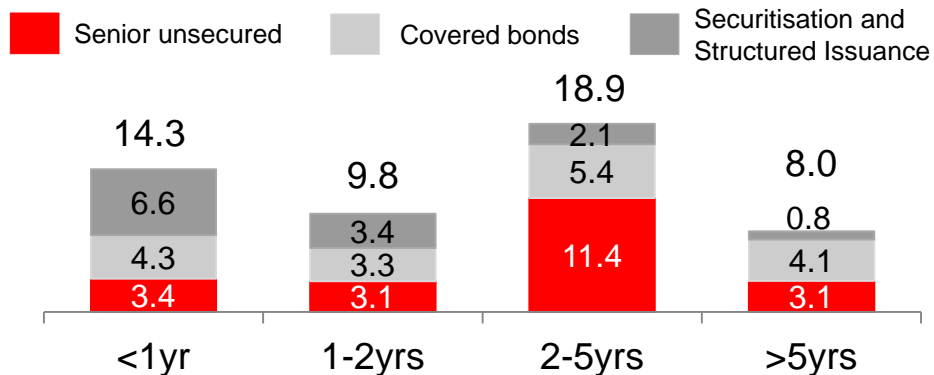


## Liquidity coverage ratio ('LCR')

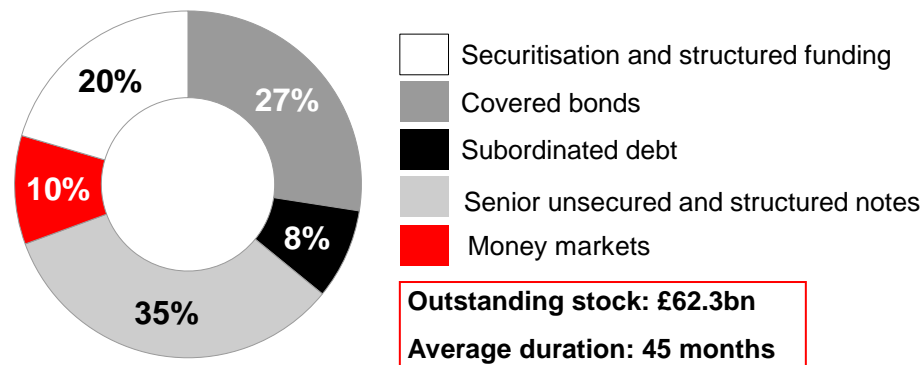


# Improved funding profile with reduced encumbrance

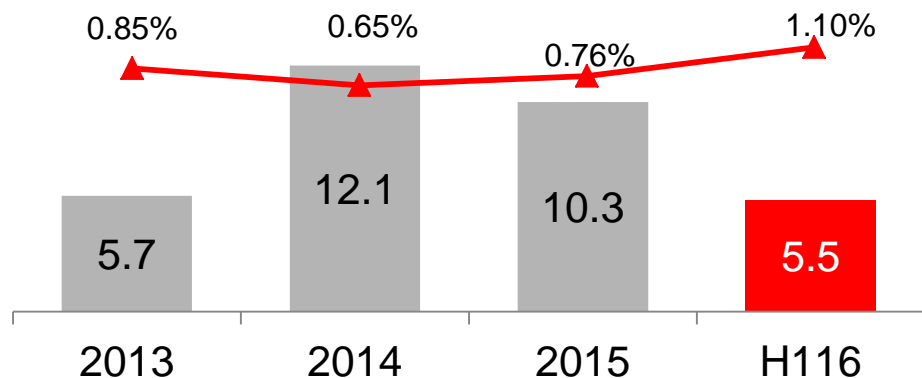
MTF maturities (£bn, Jun16)



Wholesale funding stock (Jun16)

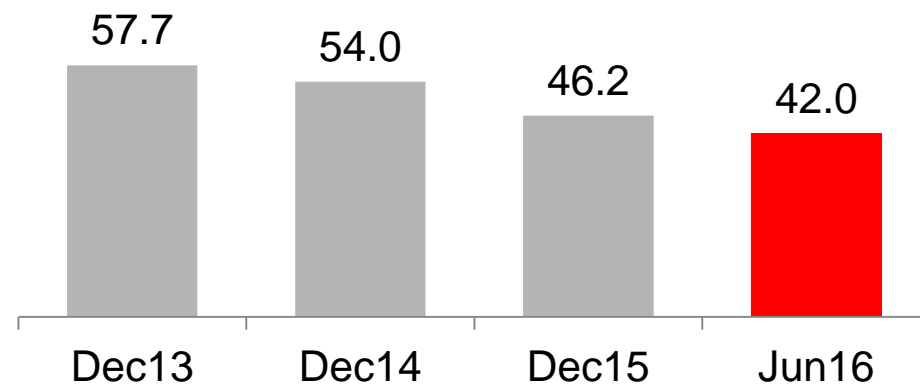


MTF issuance (£bn) and spread<sup>1</sup>



▲ Weighted average spread of primary issuance above 3M LIBOR

Medium term funding encumbrance<sup>2</sup> (£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 covered bond programmes

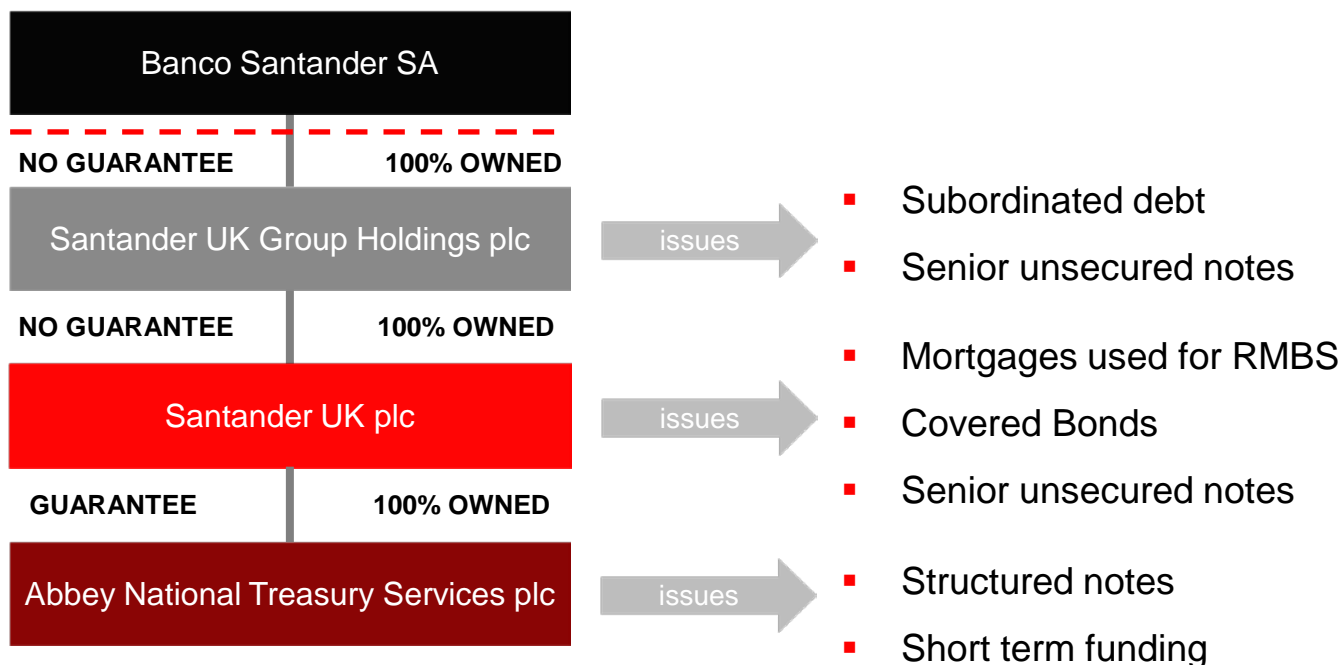


# Wholesale funding issuance model

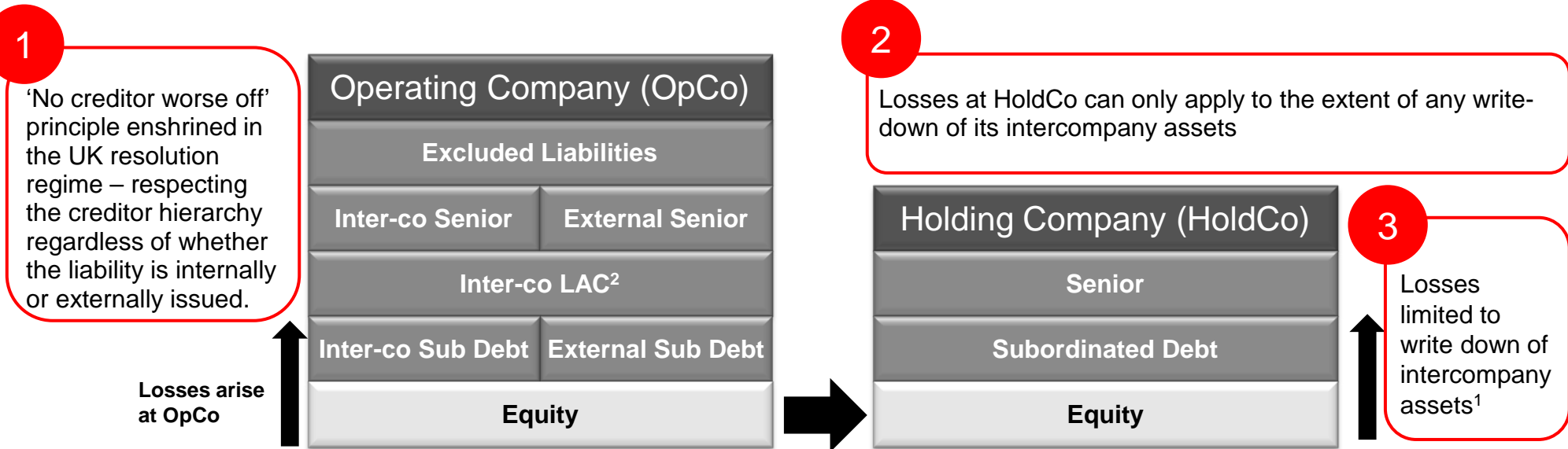
Banco Santander – multiple point of entry resolution group  
Santander UK Group Holdings plc – single point of entry resolution group

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

## Santander UK Group wholesale funding structure



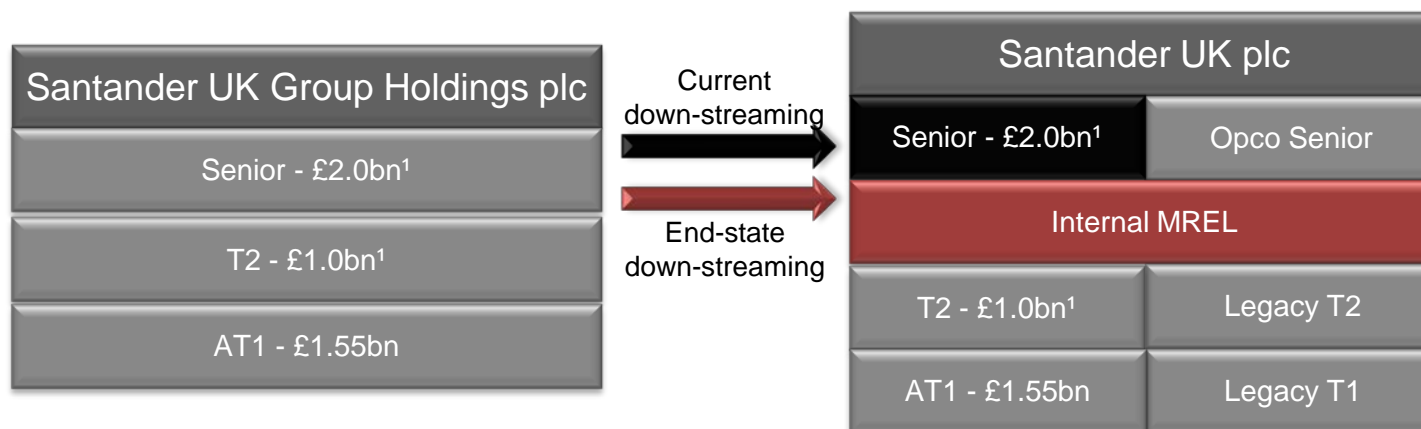
# UK resolution regime approach



It is important that HoldCo investors understand the nature of the down-streaming arrangements. We are committed to providing transparent disclosure around how external Santander UK Group Holdings plc debt is down-streamed to Santander UK plc

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

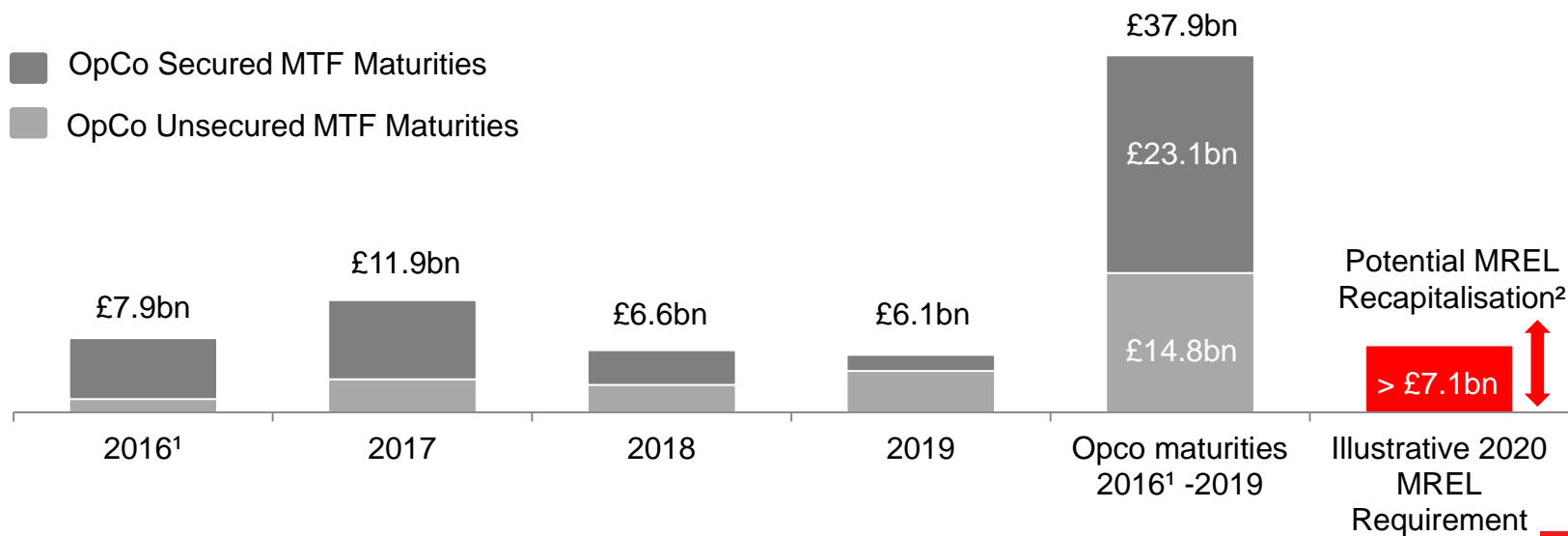


Currently all of our HoldCo debt is down-streamed into Santander UK plc ('OpCo') on an equivalent basis. Under the end-state MREL / TLAC regime HoldCo senior unsecured debt will be down-streamed in a form that is subordinated to OpCo senior unsecured debt but senior to subordinated capital instruments

# Well placed to meet end-point MREL requirement

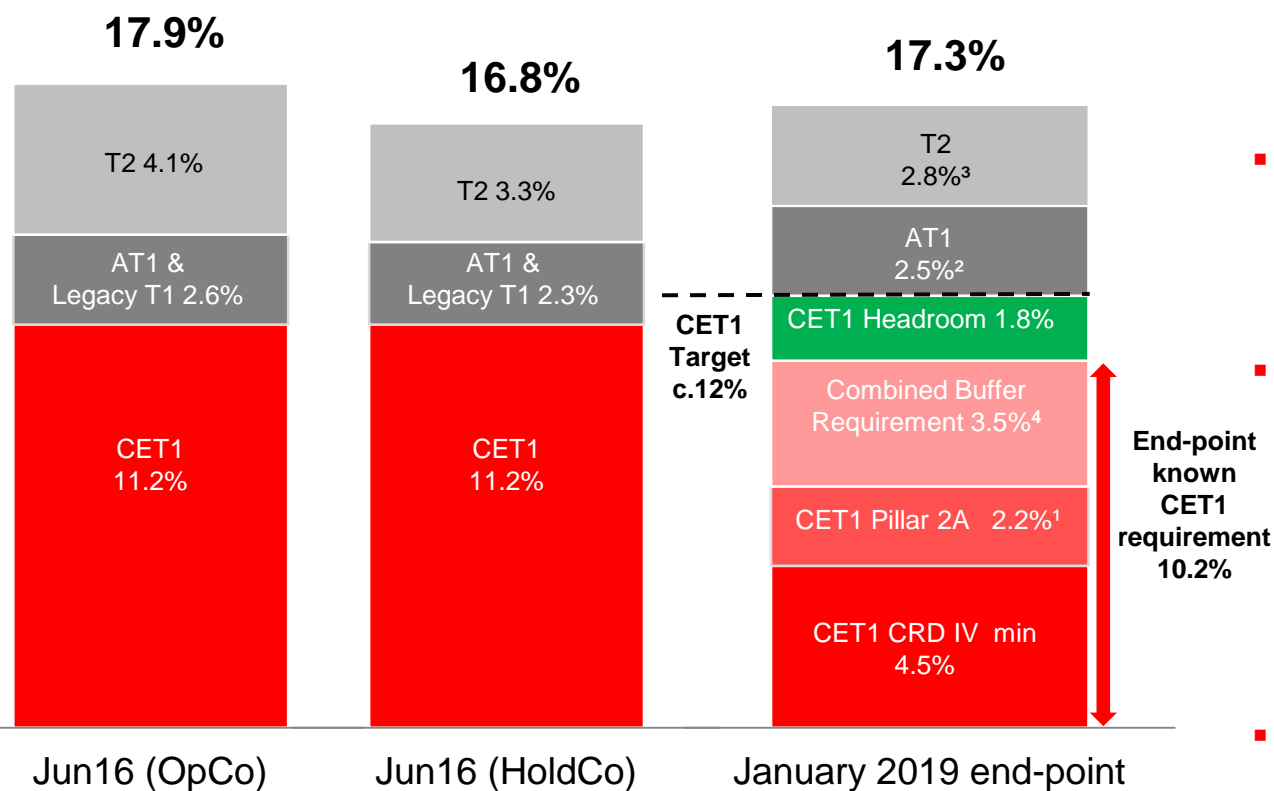
It is Santander UK's current intention to meet a portion of any regulatory loss absorbing capital requirement through issuance of senior unsecured debt from HoldCo which is down-streamed transparently in a regulatory LAC compliant form

- In Dec15 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
- Based on Santander UK's £88.4bn of RWAs at Jun16, an 8% MREL recapitalisation amount would equal £7.1bn, our final MREL requirement is expected to be communicated to us later in 2016. The precise make up of the MREL stack will be dependent amongst other things on capital levels vs. capital requirements. MREL requirement will not be additive to wholesale funding requirements
- Our MREL requirement will be satisfied via a gradual refinancing of existing OpCo maturities into new HoldCo issuance



1. 2016 includes maturities post 30 June 2016 | 2. £7.1bn represents 8% of Santander UK's 30 June 2016 RWA

# Well placed to meet end-point capital requirement



- HoldCo and OpCo total capital difference is driven by the recognition of minority interests
- 17.9% of RWAs is the total subordination available to senior OpCo bondholders
- The FPC has indicated that it judges the current level of capital in UK banking system to be near to appropriate levels, and expects the impact of the Basel Committee revisions to be offset by reductions in Pillar 2A capital levels for UK banks
- At 30 June 2016, Santander Group Holdings plc had £4.2bn of distributable reserves

1. Santander UK's Pillar 2A requirement was 4.0% at 1 January 2016, 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. Combined Buffer Requirement of 3.5% is made up of a 2.5% capital conservation buffer, a 1% systemic risk buffer (note this applicable from 2019 for the ring-fence bank). Currently the countercyclical buffer is set at 0%

## Credit ratings – July 2016

		S&P	Moody's	Fitch
Santander UK Group Holdings plc	Senior unsecured outlook	BBB stable	Baa1 negative	A positive
Santander UK plc	Senior unsecured outlook	A negative	A1 stable	A positive
	Short-term	A-1	P-1	F-1
	Standalone rating	bbb+	a3	baa1

- Following the results of the UK referendum on EU membership, S&P and Moody's changed the ratings outlook on most major UK banks operating companies because of the medium term impact of political and market uncertainty
- S&P affirmed the long term rating for Santander UK Group Holdings at BBB with a stable outlook. The long term rating for Santander UK plc was affirmed at A, and outlook changed to negative from stable
- Moody's also affirmed all of our ratings, with a change to the senior unsecured outlook to stable from positive
- Fitch affirmed the long-term credit rating for Santander UK plc to A with a positive outlook in May16

Other information

# Well positioned as the only full service scale challenger

Unique position with meaningful scale and opportunity...



14m active customers  
 £141.1bn retail liabilities  
 £153.4bn mortgages  
 £28.4bn corporate assets

**Our purpose**

To help people and businesses prosper

**Our aim**

To be the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities

**Our values**

Simple | Personal | Fair

...successfully challenging the big banks

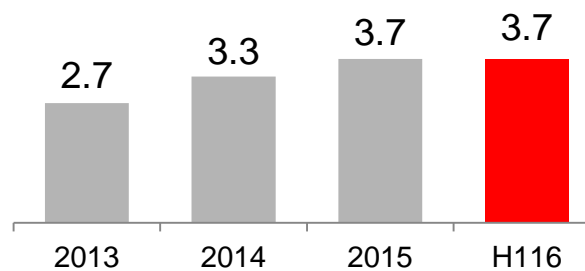
## Retail Banking

849 branches<sup>1</sup>  
 4.3m digital customers

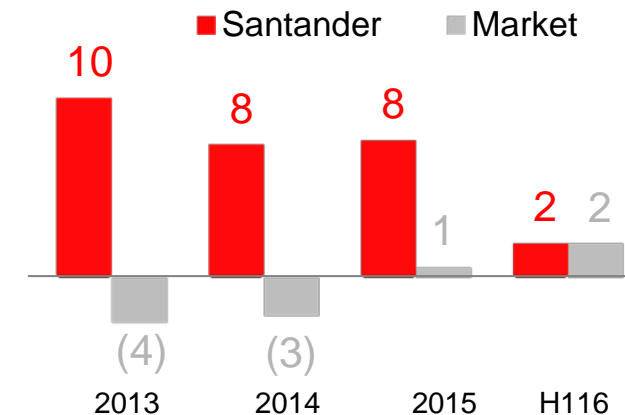
## Commercial Banking and GCB

69 Corporate Business Centres  
 716 Relationship Managers  
 350 Large corporate customers

## Loyal retail customers



## SME lending<sup>2</sup> (% YoY growth)

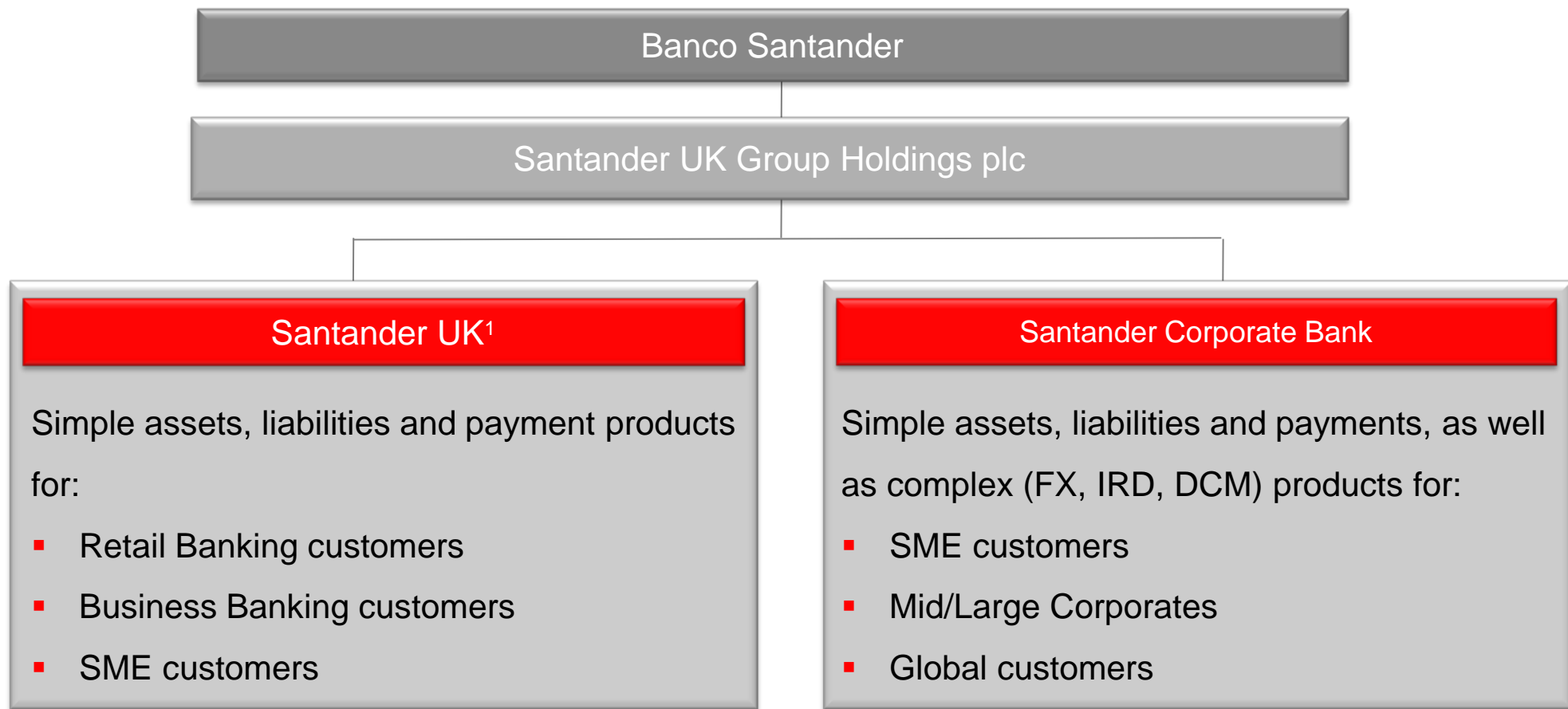


1. Includes agencies | 2. Source market: Bank of England (May16), H116 vs H115





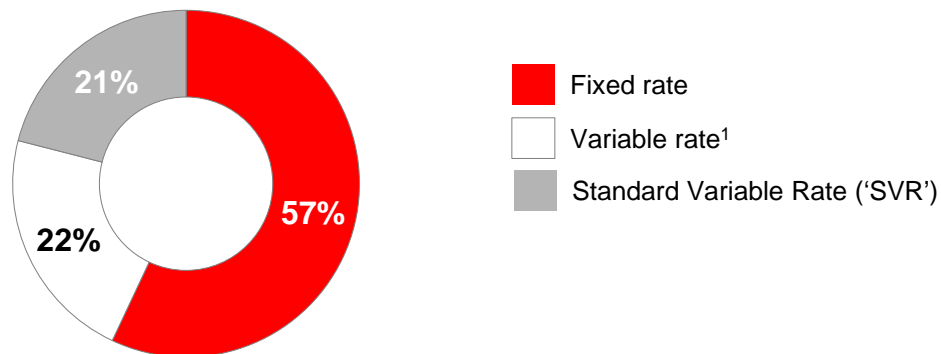
# Our proposed ring-fencing business model



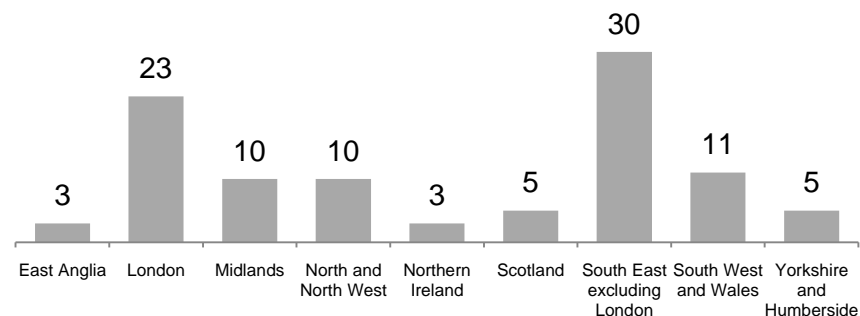
A retail and small business bank and a dedicated corporate bank will meet the distinct needs of the differing segments of our customer base

# Prime residential mortgage book of £153.4bn

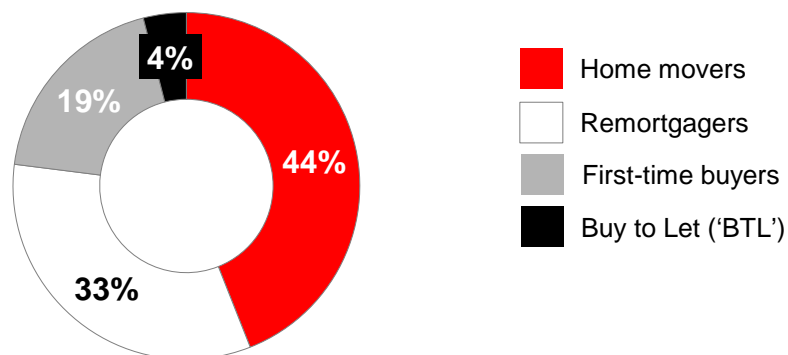
## Mortgage product profile (stock, Jun16)



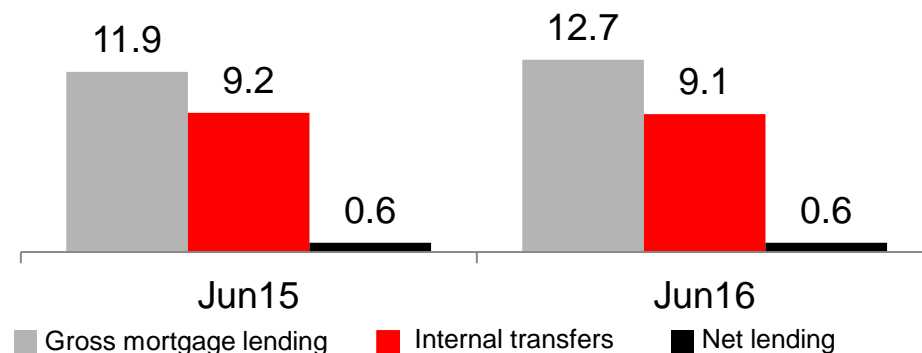
## Geographical distribution (stock %, Jun16)



## Mortgage borrower profile (stock, Jun16)



## Mortgage lending (£bn)



35% interest only mortgages (Dec15: 36%)<sup>2</sup>

c.80% of maturing customers retained<sup>3</sup>

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 Q216 Quarterly Management Statement for a full definition

# Consistently prudent mortgage lending criteria

## Mortgage loan distribution

Dec15

Jun16

### Loan size distribution (stock)

Less than £0.25m	75.0%	73.2%
£0.25m - £0.5m	19.0%	20.2%
£0.5m - £1m	5.2%	5.8%
£1m - £2m	0.7%	0.8%
Over £2m	0.1%	0.1%

### Average loan size distribution (new business)

London and South East	£248k	£264k
Rest of UK	£136k	£142k
All UK	£186k	£199k

Loan-to-income multiple<sup>1</sup>                      3.10                      3.13

## Loan to value ('LTV')

Dec15

Jun16

### Simple average LTV<sup>2</sup>

new lending	65%	65%
stock	45%	44%

### Indexed LTV distribution (stock)

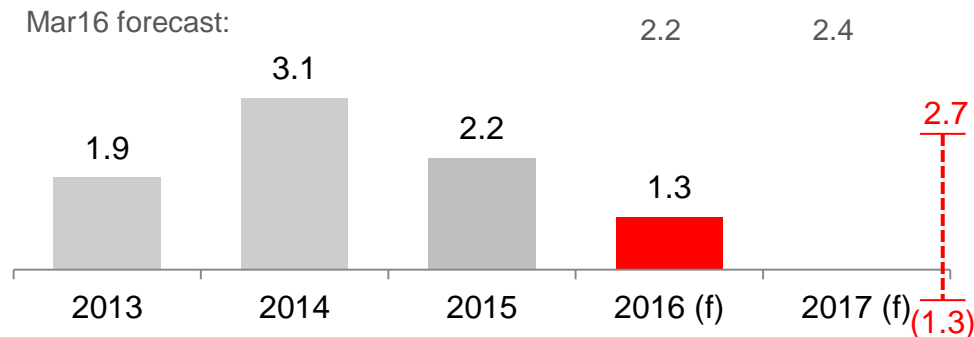
> 85% - 100%	6%	4%
> 100%	2%	1%

New lending % with LTV > 85%                      16%                      15%

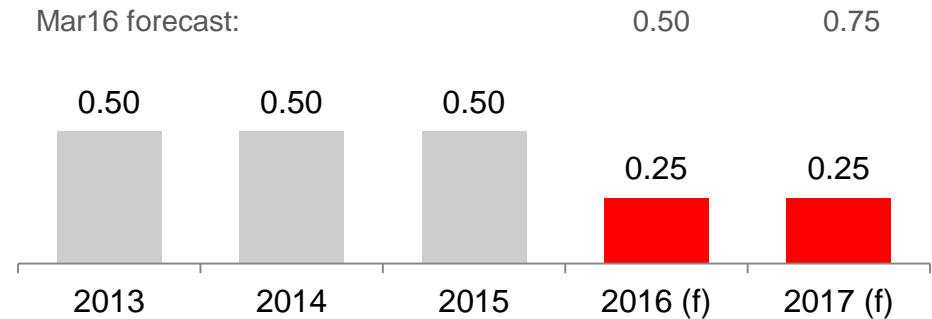
12,000 first-time buyers (£2.0bn gross lending)  
7,200 BTL mortgages (average LTV of 70%)

# Uncertain UK economic outlook

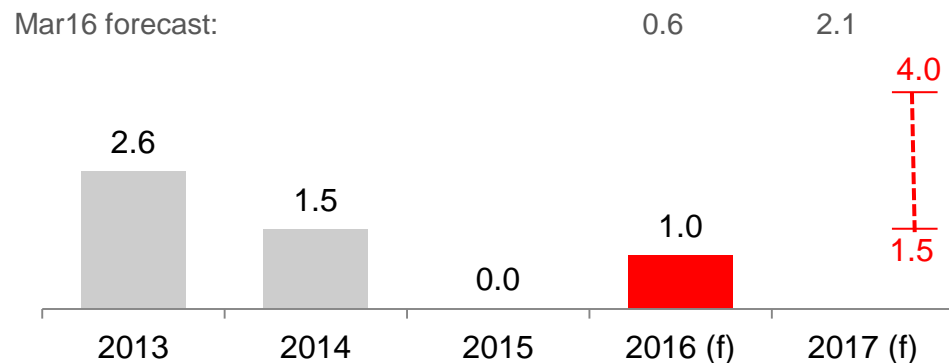
## Annual GDP<sup>1</sup> growth (% , annual average)



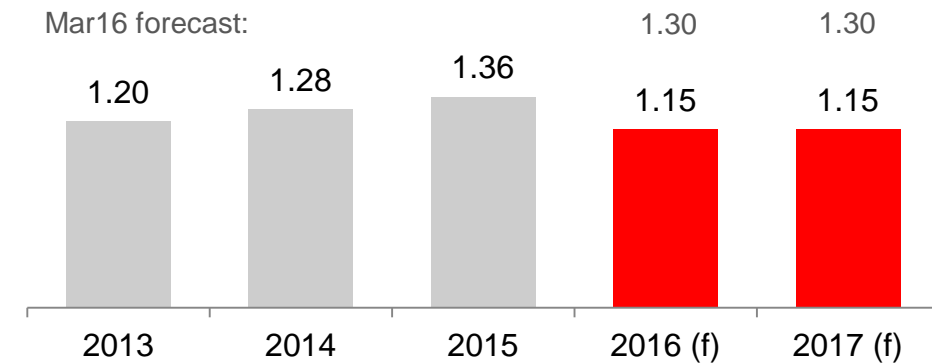
## Bank of England base rate (% , year end)



## Annual CPI<sup>2</sup> inflation rate (% , annual average)



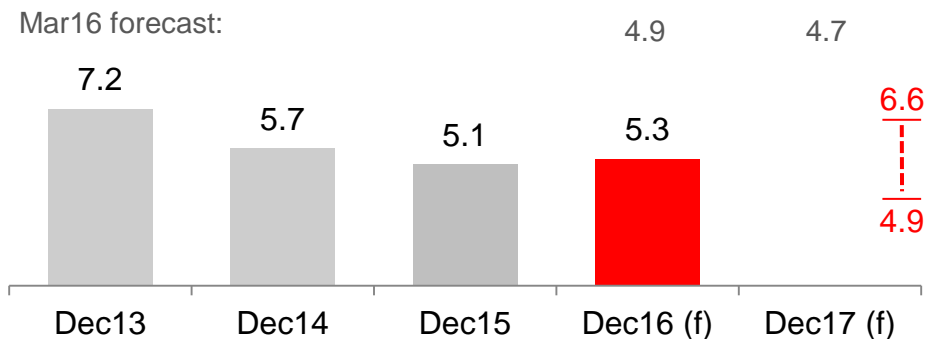
## GBP/Euro exchange rates (year end)



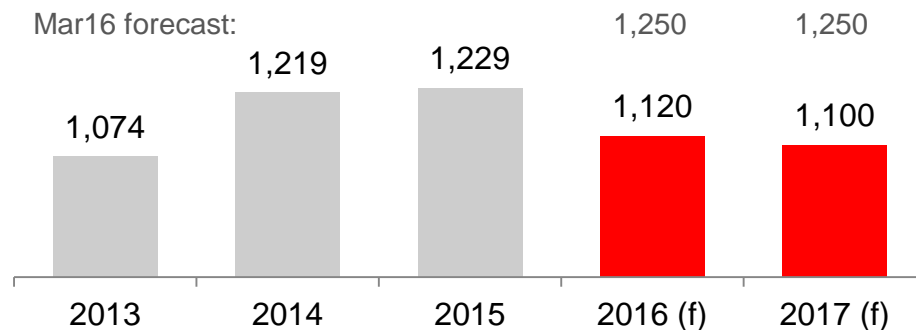
The current economic forecasts are of different trajectory to that previously envisaged.  
Further data is required to help validate alternative outlooks

# Housing and labour markets could come under pressure

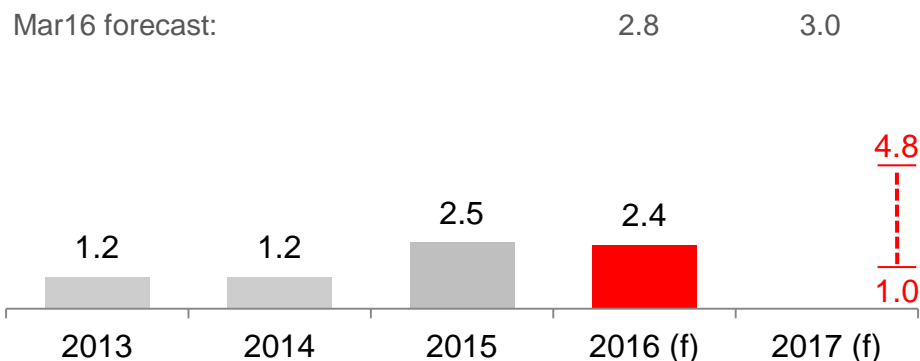
## Unemployment rate (ILO<sup>1</sup>)



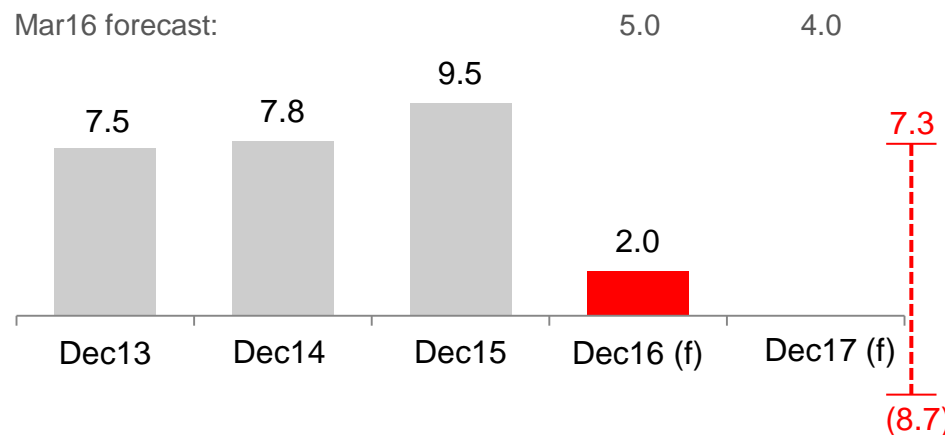
## Property transactions (sa<sup>2</sup>, 000s)



## Average weekly earnings (annual, % inc. bonuses)



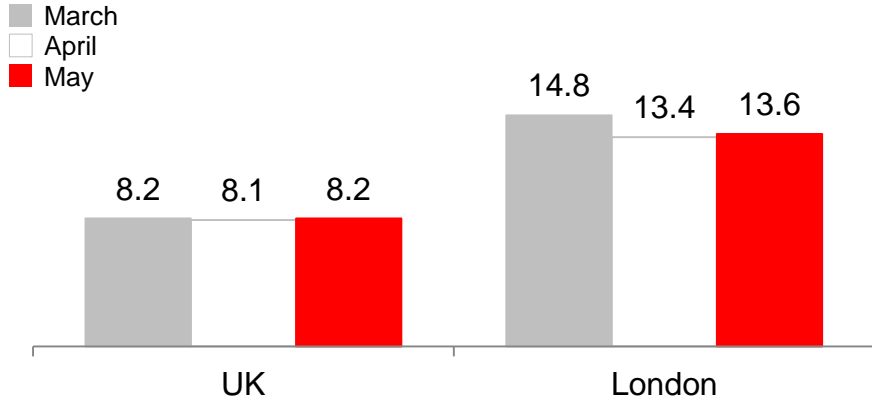
## House prices<sup>3</sup> (%)



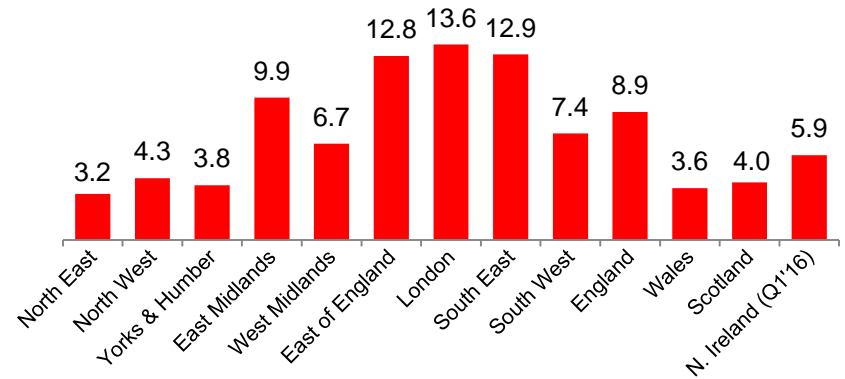
The current economic forecasts are of different trajectory to that previously envisaged.  
Further data is required to help validate alternative outlooks

# Housing market expected to slow in H216

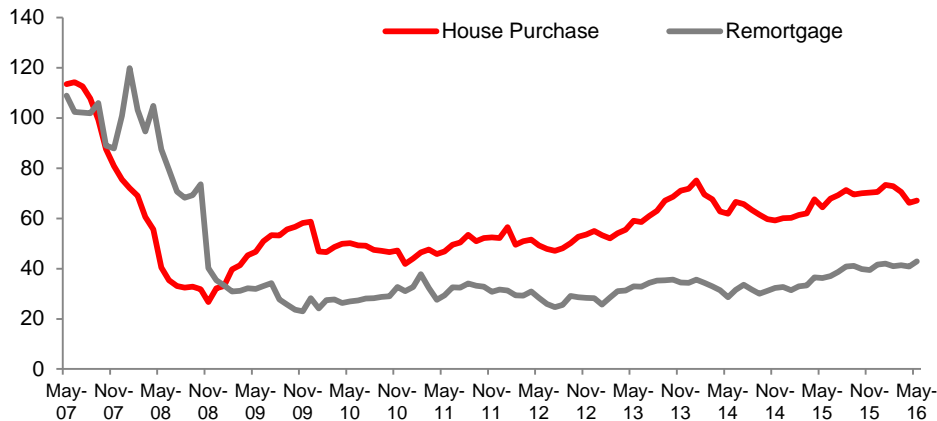
House price change  
(annual %, nsa<sup>1</sup>)



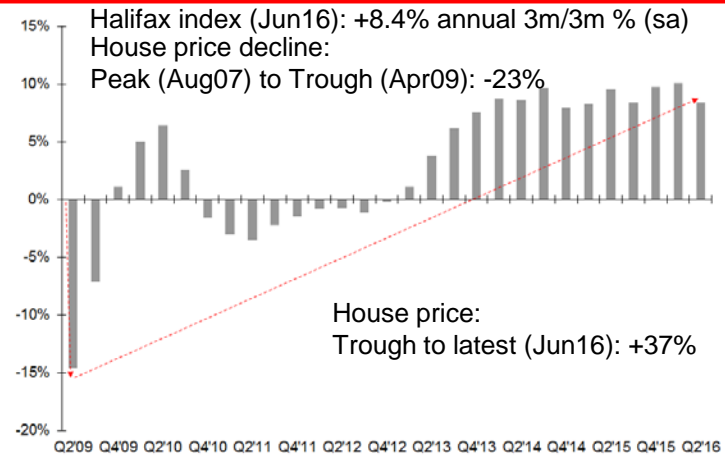
House price change by region  
May16 (annual %, nsa<sup>1</sup>)



House purchase and remortgage approvals  
(000s, sa<sup>2</sup>)



House price inflation  
(annual %, sa<sup>2</sup>)



Sources: House price change and House price change by region May16 (annual %, nsa): Office for National Statistics. House purchase and remortgage approvals to May16 (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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[www.aboutsantander.co.uk](http://www.aboutsantander.co.uk)

▪ **Results and Presentations**

Quarterly, half yearly and annual financial results and presentations

▪ **Debt Investors**

Funding information and details of the covered bond, securitisation and other debt issuance programmes

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▪ **Glossary**

A glossary of the main terms is available at:  
[www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary)

▪ **Key dates**

Group Strategy update, London: 30 September 2016  
Q316 results: 26 October 2016  
Q416 results: 25 January 2017

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