

Santander UK Group Holdings plc

Investor Update
for the three months ended
31 March 2017

April 2017

**Simple
Personal
Fair**

What a bank should be



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Source: Santander UK Q1 2017 results "Quarterly Management Statement for the three months ended 31 March 2017" 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.

Q117 business and financial highlights

Profit before tax	£525m	Broadly stable vs Q116
Digital customers	4.7m	+14% vs Q116
Net lending	£(0.4)bn mortgages	+£0.9bn corporates
NIM / Banking NIM	1.51% 1.89%	+3bps +10bps
CET1 ratio	11.9%	+30bps

- Excluding specific expenses and charges for Banking Reform and PPI, adjusted PBT of £582m was up 6%,
- Front book: 29% of total openings made digitally
Back book: 44% of mortgages retained online
- Mortgage lending reflects management pricing action in Q416 which impacted new mortgage approvals
- Lending to UK companies increased through ongoing demand from medium and large corporate customers
- Banking NIM supported by retail liability margin improvement, partially offset by SVR attrition and pressure on new asset margins
- Improved CET1 ratio driven by steady profit and capital generation

2017 outlook

- **The UK economy continues to grow, as momentum carries through from robust growth in Q416.** The labour market is still strong, but higher inflation, driven by the lower value of sterling, could reduce households' real earnings growth. This and potentially more challenging macro environment going forward, adds a degree of caution to our outlook.
- **Banking NIM to remain broadly stable** from 1.79% in 2016, predicated on no change to base rate, with improvement in liability margin offsetting SVR attrition and pressures on new asset margins
- **Cost management remains a key focus**, with a comprehensive programme of cost initiatives including digitalisation, organisational simplification and streamlining to further improve customer experience and operational efficiency.
- **Gross mortgage lending** to be broadly in line with the market as we continue to focus on customer service, with the decline in SVR slightly lower than 2016. In Q117, mortgage approval volumes were higher than in Q416, and as a result we expect mortgage completions to normalise in H117
- **Corporate lending** to be slower than in recent years, broadly consistent with overall corporate borrowing growth, and as we manage exposures to certain segments in line with proactive risk management practices.

2018 strategy creating value for all our stakeholders

Our purpose is to help people and businesses prosper

Our strategic priorities



Customers

- Grow customer loyalty and market share
- Deliver operational and digital excellence

Shareholders

- Achieve consistent, growing profitability and a strong balance sheet

People

- Live the Santander Way through our behaviours

Communities

- Support communities through skills, knowledge and innovation

Delivering on our 2016-18 commitments

	FY16	Q117	2018 target	
Customers	Loyal retail customers	3.7 million	3.8 million	4.7 million
	Loyal SME and Corporate customers	290,000	296,000	308,000
	Retail customer satisfaction (FRS) <i>average of 3 highest performing peers</i>	62.9% 62.5%	62.7% 62.7%	Top 3
	Digital customers	4.6 million	4.7 million	6.5 million
Shareholders	Adjusted Return on Tangible Equity / RoTE	10.9%	11.1%	8-10%
	Cost-to-income ratio (CIR)	50%	50%	50-52%
	Non performing loan (NPL) ratio	1.50%	1.40%	<2.0%
	CET1 capital ratio	11.6%	11.9%	c12%
	Dividend payout ratio	51%	n/a	50%

Well positioned as the only UK full-service scale challenger

Meaningful scale and opportunity...

Retail

842 branches

c80% financial centre coverage

3rd UK Mortgage lender²

Corporate

66 Corporate Business Centres

658 Relationship Managers¹

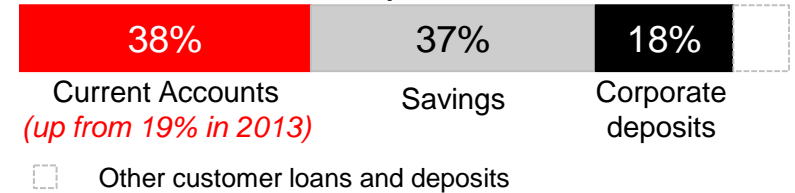
5th UK Commercial lender²

...a more diversified retail and commercial bank...

£200bn customer loans

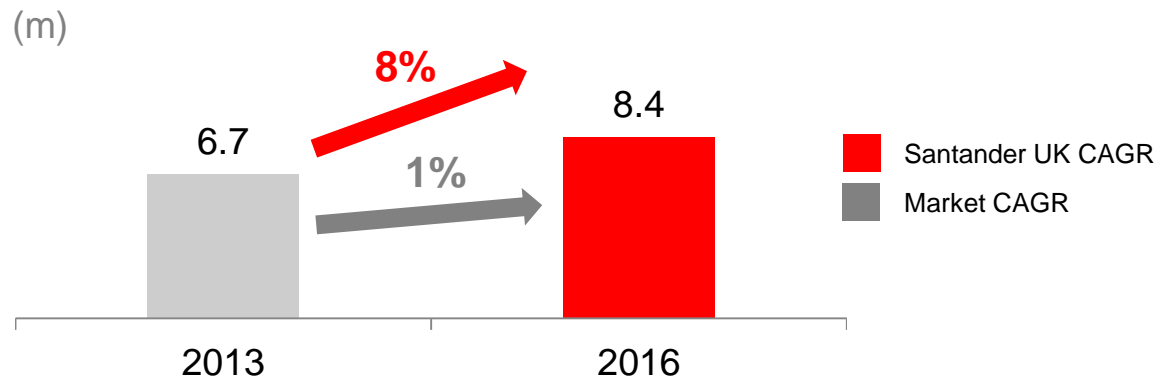


£174bn customer deposits



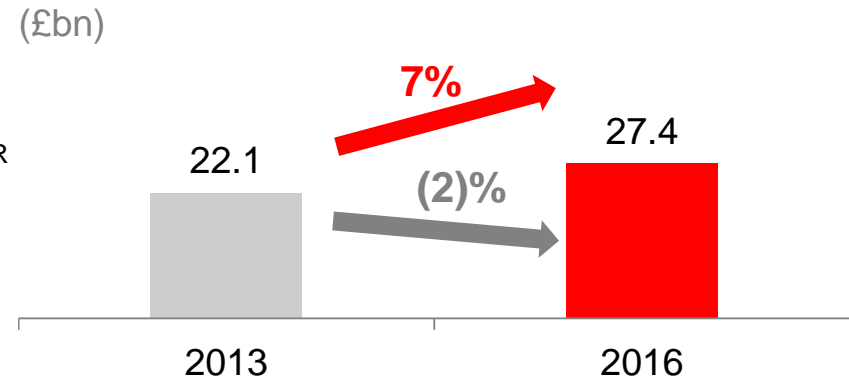
...a significant retail current account provider...

Retail Current Account volumes³



...a full-service corporate market challenger

Lending to UK companies⁴

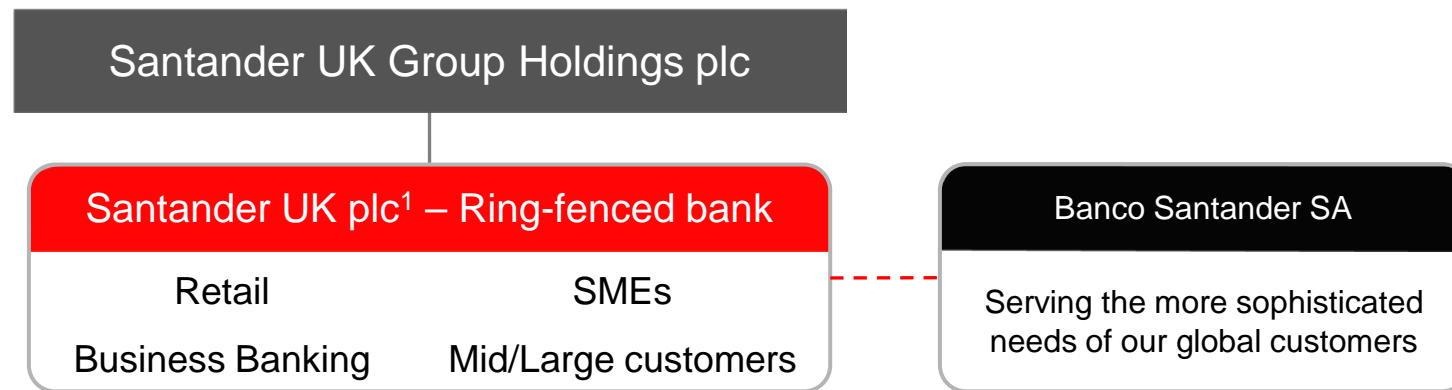


1. Excludes structured finance, product and international relationship managers | 2. Santander UK analysis, as at Q416. Commercial lending refers to loans to small and mid sized corporate clients by UK retail and commercial banks and building societies | 3. Market source: CACI's CSDB, Stock, Volume data as at December 2013 and December 2016 | 4. Market source: Bank of England Bankstats (December 2016), Private Non-Financial Companies (PNFCs). Data as at December 2013 and December 2016

Good progress in implementing 'wide' ring-fence structure

Our ring-fence model will serve all retail, commercial and corporate customers - providing greater certainty and minimal disruption.

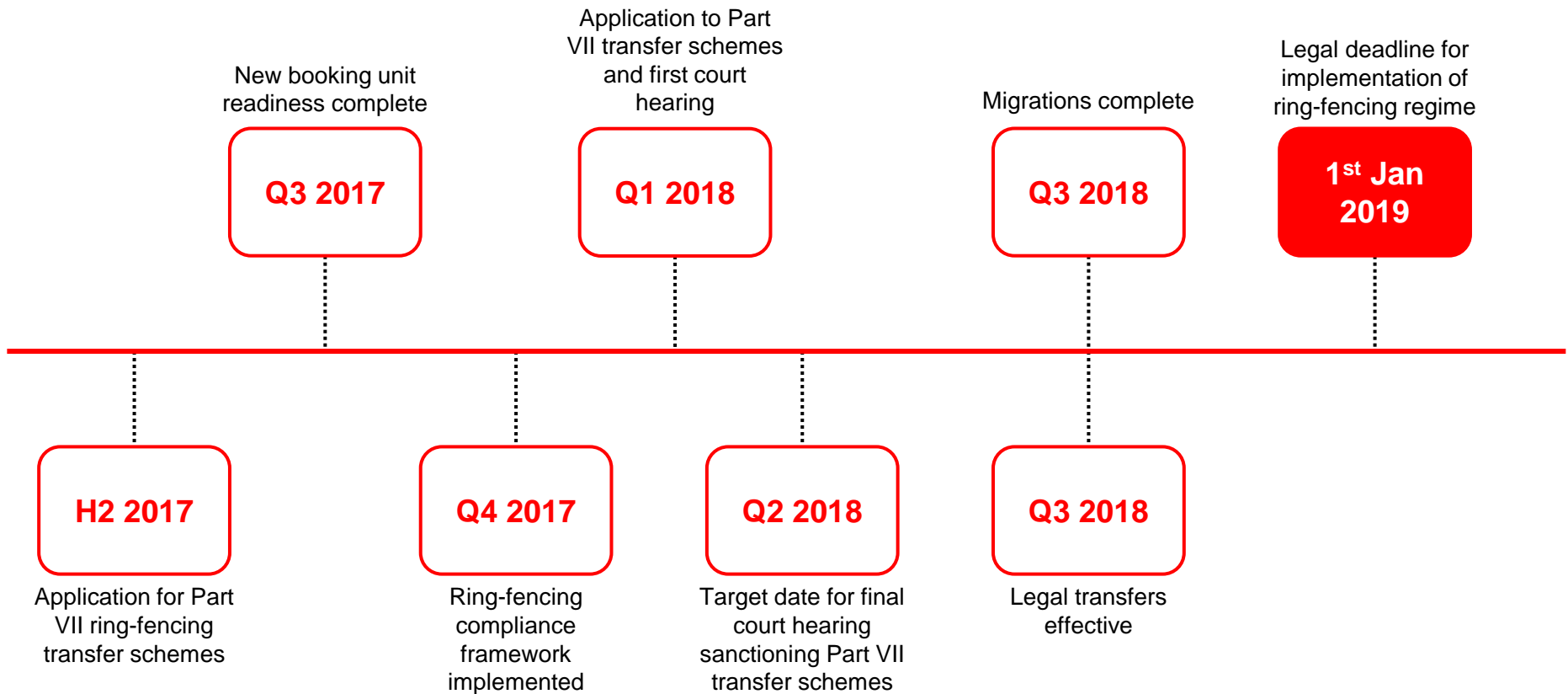
It also maintains longer term flexibility, while lowering the overall programme implementation costs with the migration impacting fewer customers.



- With Santander UK plc as the ring-fenced bank, there will be no change for the majority of our customers
- Transactions and / or customers who are not permitted to remain in the ring-fenced bank, are generally intended to be transferred to Banco Santander SA or its London Branch
- We intend to use both novation and the Part VII Ring Fence Transfer Schemes to complete customer migrations

Timeline of ring-fencing implementation

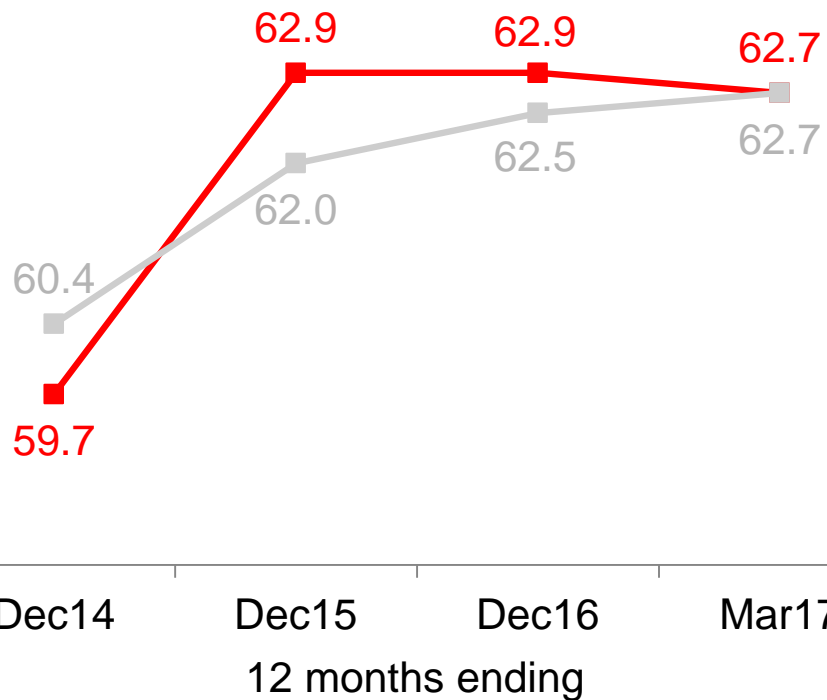
We intend to complete the implementation of our ring-fence plans in advance of the legislative deadline of 1 January 2019, subject to regulatory and court approvals and various other authorisations.



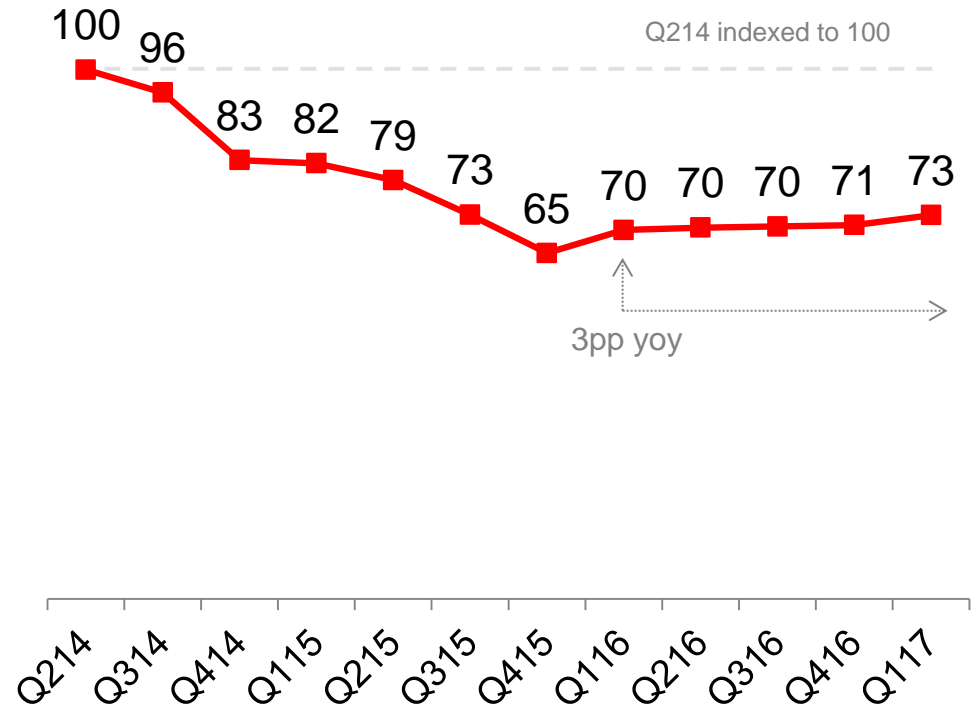
Putting the customer at the heart of everything we do

Retail customer experience at the heart of our plans

Retail customer satisfaction (%)¹



Retail complaints received (indexed)²



- Santander UK
- Average of 3 highest performing peers

1. As measured by FRS. Refer to Appendix 1 in the Q117 Quarterly Management Statement for a full definition and glossary at 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

1|2|3 Current Account has transformed our franchise

An outstanding proposition for many customers

- **Simple and transparent**
Clear value offer supported by 1|2|3 calculator
- **Fee paying account**
Adaptable to market conditions and interest rates
- **Front book and back book**
Available to new and existing customers
- **Reduced customer attrition**
Driving customer long-term transactionality



Non 1 2 3 Current Account		1 2 3 Current Account
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Deeper relationships

24%	loyal	68%
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Improved customer profiles

6%	select / affluent	34%
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More valuable relationships

1.5	products	2.1
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Improved liquidity stability

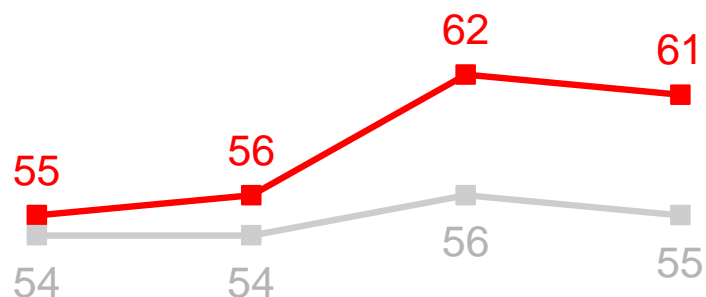
1.0x	average balance	5.3x
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More satisfied customers (FRS)¹

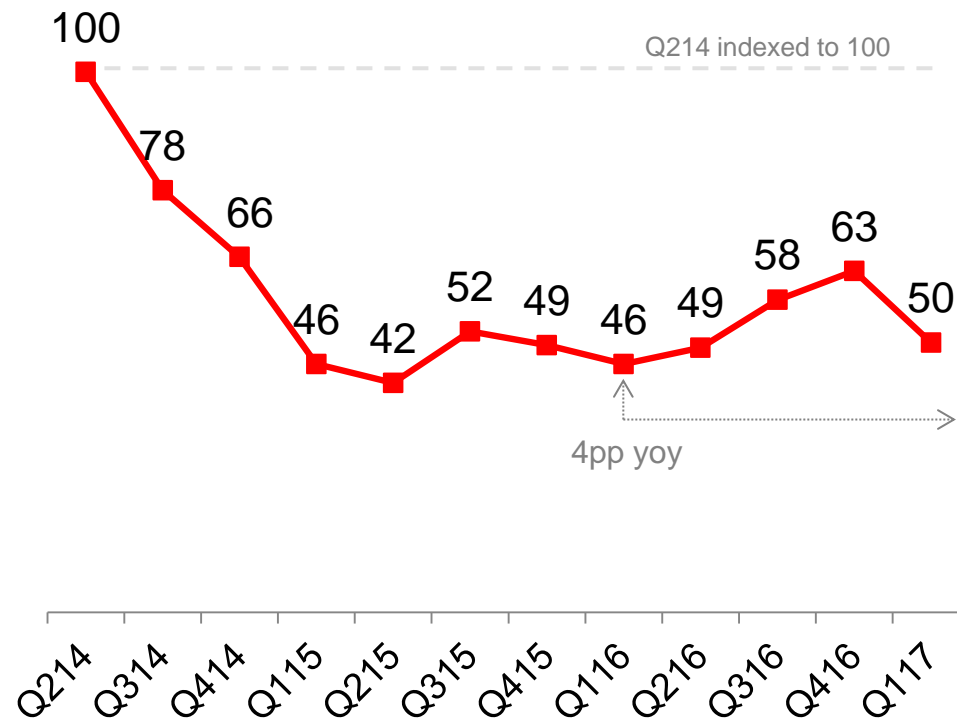
68.0%		71.2%
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Improving corporate customer experience

Corporate customer satisfaction (%)¹



Corporate complaints received (indexed)²





■ Santander UK ■ Market average


1. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the Q117 Quarterly Management Statement for a full definition and glossary at www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary. Mar17 data based on corporate customers with annual turnover of £250,000 to £500m, previous periods on £250,000 to £50m | 2. Source: Santander UK management information. Complaints relate to our commercial and corporate banking businesses

Customer interactions are becoming increasingly digital

Enhancing digital capability to meet changing needs

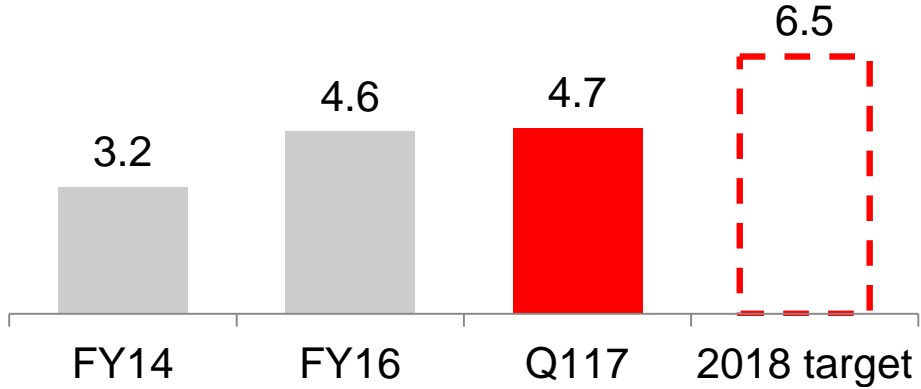
Mobile  Touch ID
Push notifications
Financial management tools
Device token security

Online bank  Intuitive customer journey
Intelligent personalisation
Enhanced accessibility
Agile

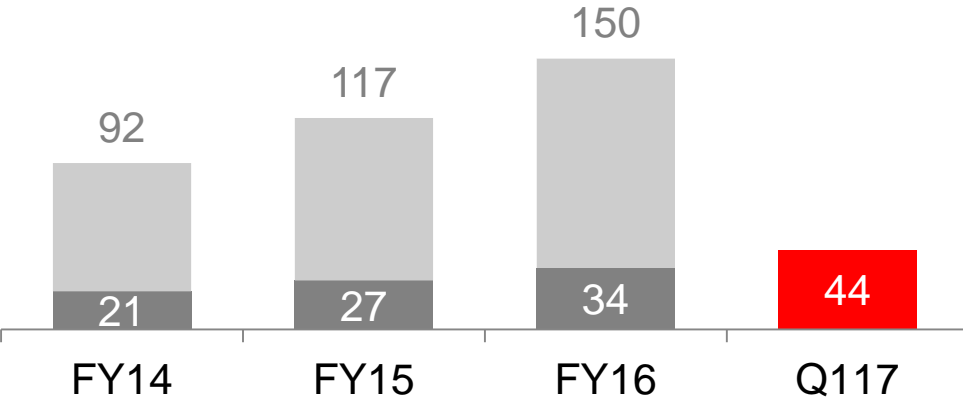
Website  Optimised customer journeys



Total digital customers (m)



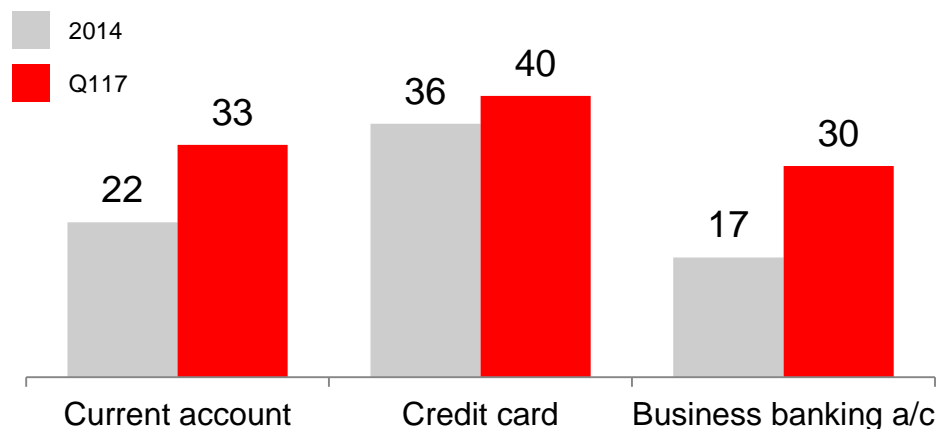
Total digital transactions (m)



 Q1

Digital transformation improving operational efficiency

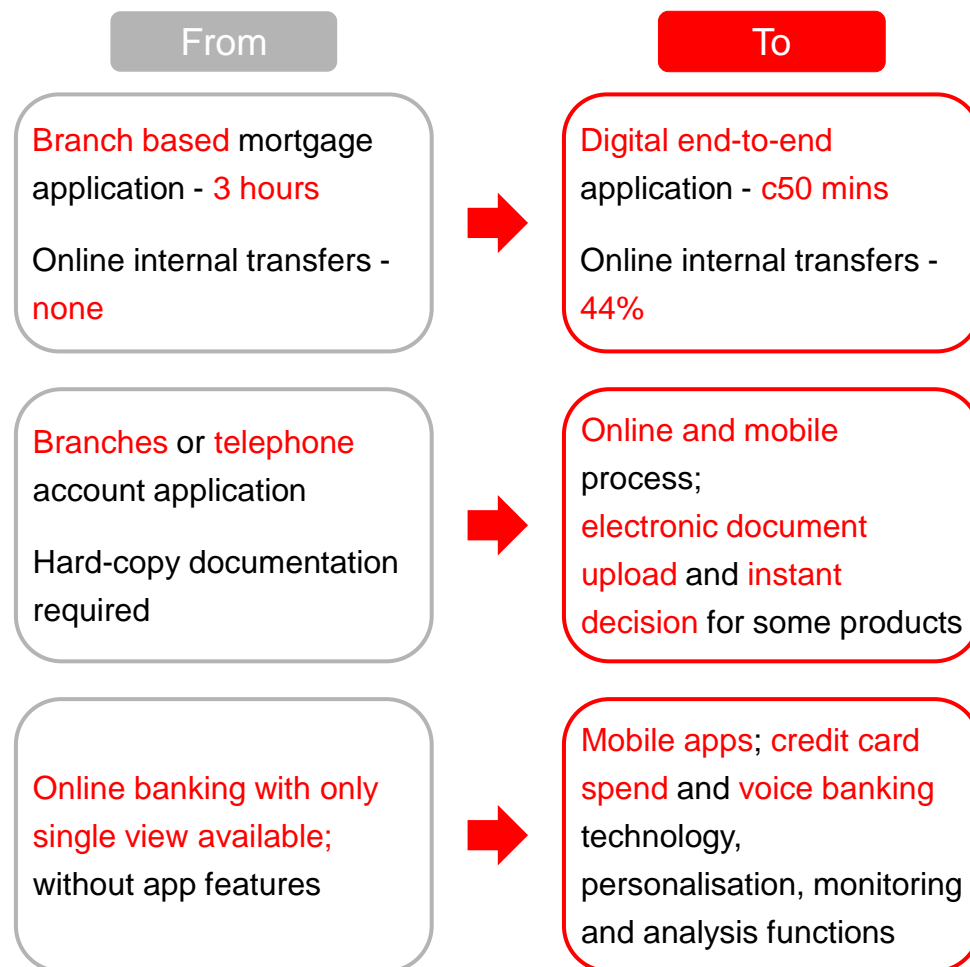
Digital openings (% of total openings)



NEOCRm

- In late 2016, we started to roll out a new customer relationship management tool, to help us deliver a truly omnichannel customer experience
- By bringing together internal, external and market data to personalise our conversations and further simplify key processes in our interaction with customers

Impact of digitalisation



Enhanced offering for our corporate and commercial clients

No. of
customers

Customer loans

Business banking	713,000	£2.1bn
Commercial Banking	13,000	£19.6bn
GCB	350	£6.6bn

Clear strategy to grow corporate franchise

- Leverage Banco Santander's international presence and Latin America expertise
- Further develop digital platform and simplify product offering to improve service proposition
- Event driven finance, looking to meet client needs at key milestones in their growth
- Widening product base to help build a scaled Asset Finance business
- Increasing connectivity between Commercial Banking and GCB, focussing on a client-centric approach and creating long-term relationships
- New mergers and acquisitions advisory team that will strategically complement our existing product capabilities and support fee income growth

Innovative and international offerings



BREAK THROUGH



Consistently profitable, sustainable business

Consistently profitable, sustainable business

Banking NIM (%)¹

NIM



1.82

1.83

1.79

1.89

Dec14

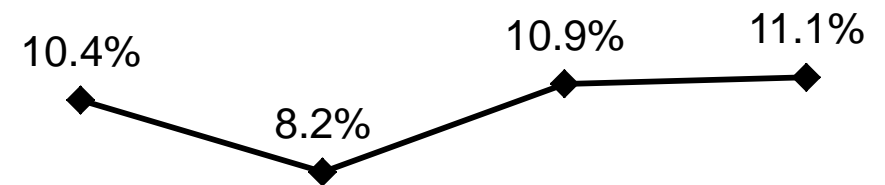
Dec15

Dec16

Mar17

Profit before tax (£m)

Adjusted RoTE / RoTE



1,399

1,342

1,914

416

470

532

525

FY14

FY15

FY16

Q117

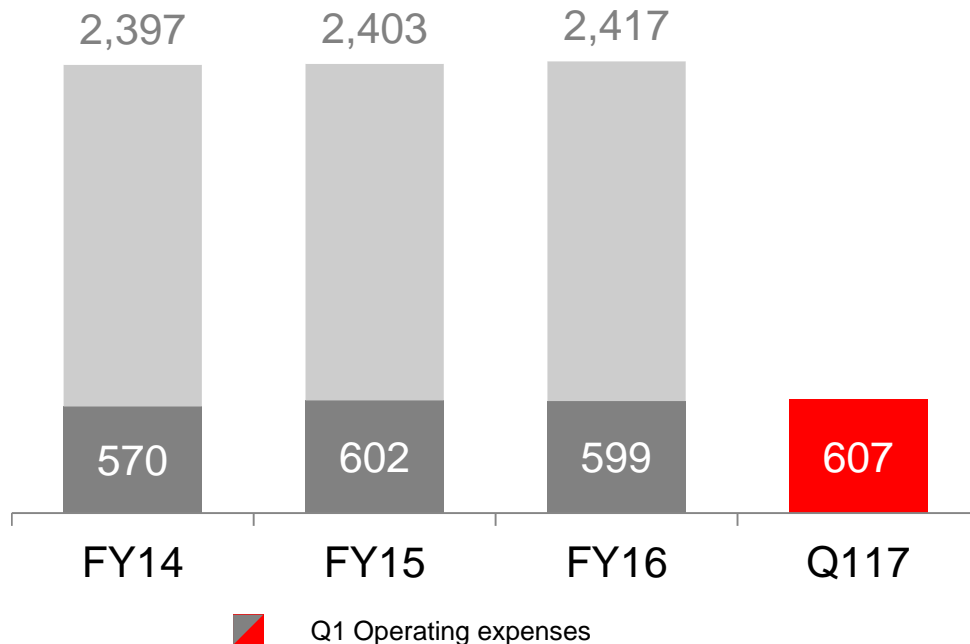
Q1 Profit before tax

1. Banking NIM is calculated as annualised net interest income divided by average customer loans. NIM is considered the most comparable IFRS measure to Banking NIM.

Operational efficiency well managed

Operating expenses (£m)

Cost-to-income ratio



Cost discipline is part of our 'DNA'

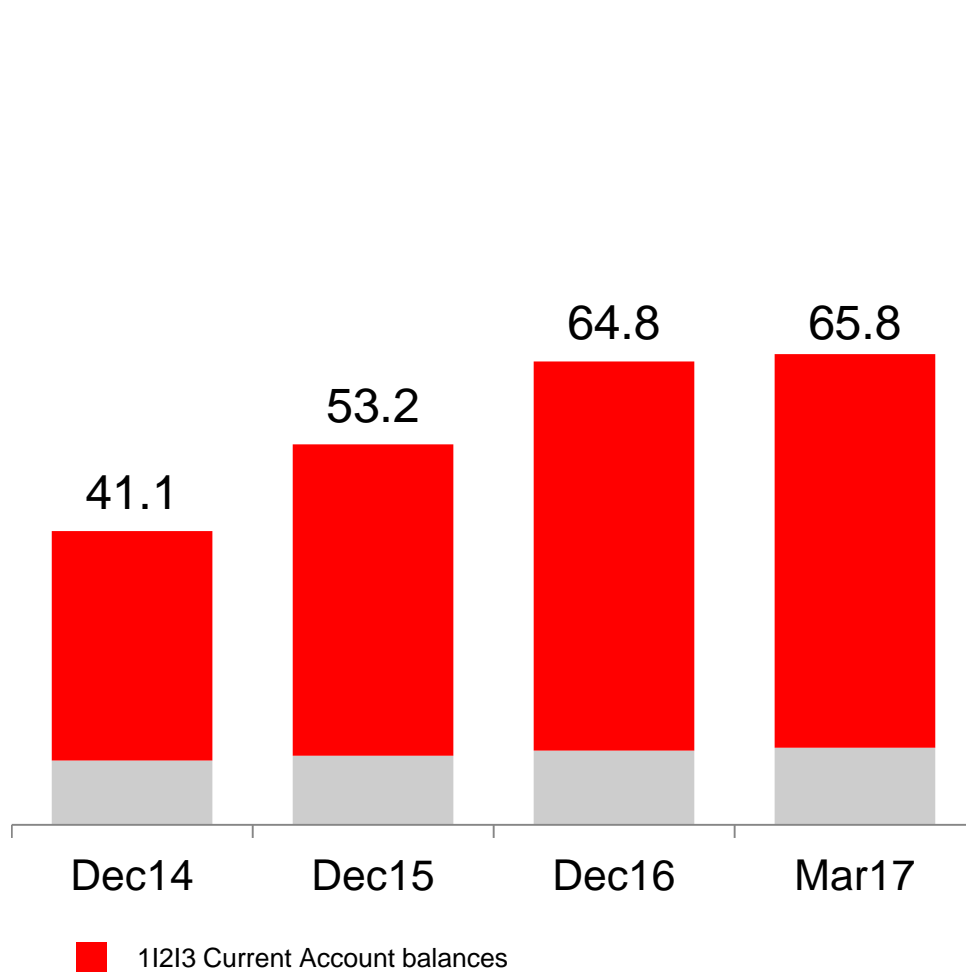
- Cost-to-income ratio improved 2pp year-on-year, with operational efficiency, absorbing investment in business growth and regulatory costs
- Adjusted for Banking Reform costs of £25m in Q117 and £15m in Q116, operating expenses were flat

Comprehensive programme of cost initiatives

- Ongoing simplification and digitalisation of processes across our businesses
- Omni-channel platform with optimised distribution, leading digital tools and remote service and advice
- Leveraging Banco Santander's scale through shared capabilities across countries
- Targeting > £100m reduction in cost base by 2018, while continuing to grow the business

Improved retail customer primacy and liability spread

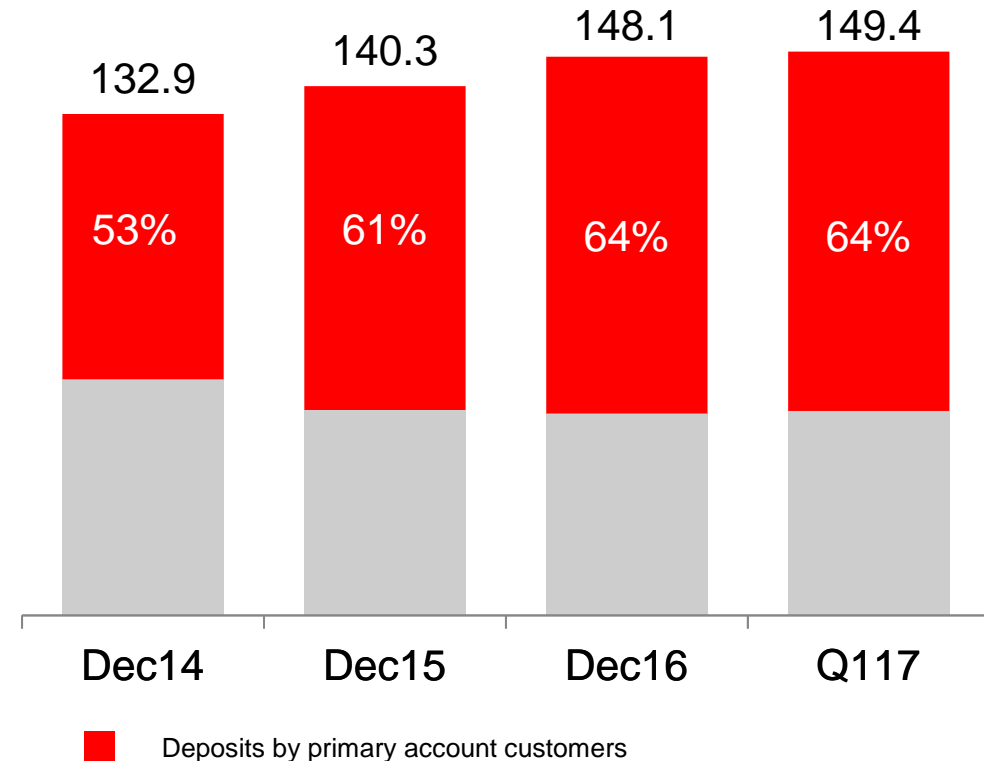
Retail Banking current account balances (£bn)



Retail Banking deposits (£bn)¹

Deposits spread²

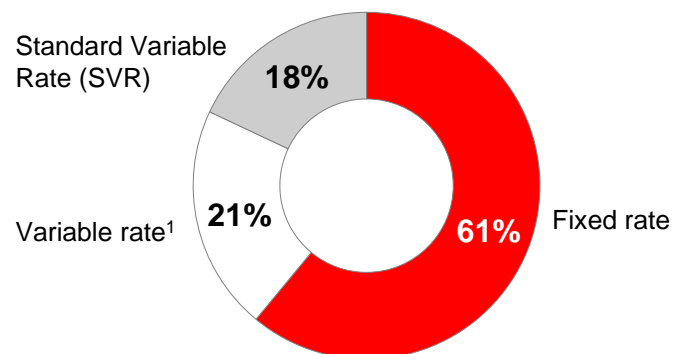
(0.76)% (0.63)% (0.57)% (0.28)%



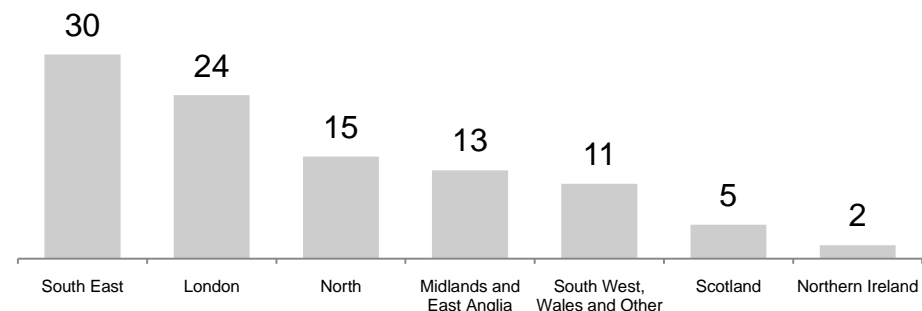
1. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers, includes Jersey and Cater Allen | 2. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR.

Prime residential mortgage book of £153.9bn

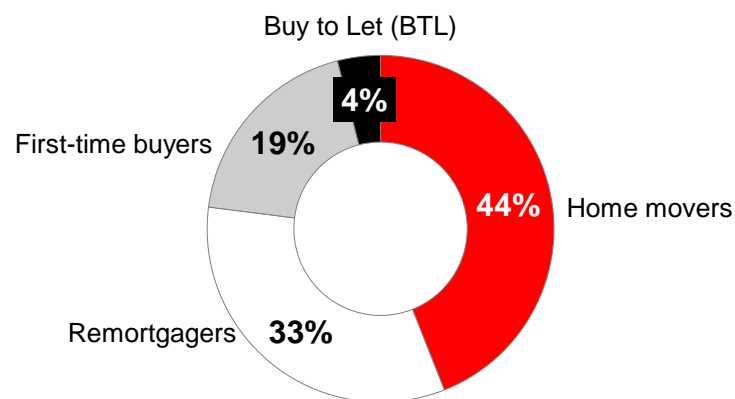
Mortgage product profile (stock, Mar17)



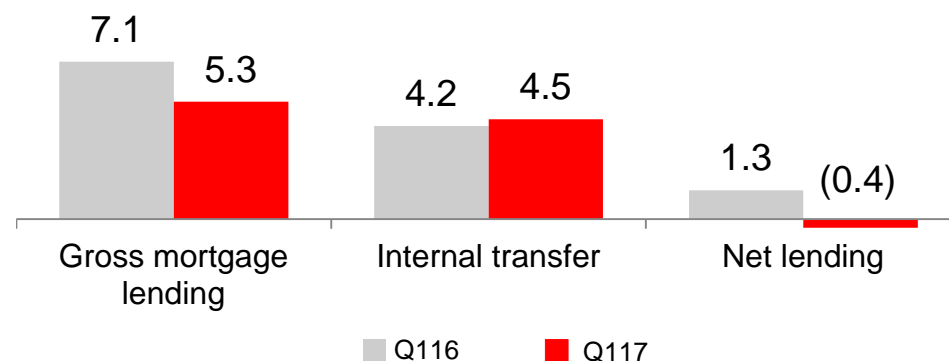
Geographical distribution (stock %, Mar17)



Mortgage borrower profile (stock, Mar17)



Mortgage lending (£bn)



33% interest only mortgages (Dec16: 34%)²

c80% of maturing mortgages 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 glossary at www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary for a full definition

Consistently prudent mortgage lending criteria

Mortgage loan distribution

Dec16

Mar17

Loan size distribution (stock)

Less than £0.25m	71.6%	71.0%
£0.25m - £0.5m	21.3%	21.7%
£0.5m - £1m	6.3%	6.4%
£1m - £2m	0.7%	0.7%
Over £2m	0.1%	0.1%

Average loan size distribution (new business)

London and South East	£264k	£257k
Rest of UK	£144k	£142k
All UK	£198k	£193k
Loan-to-income multiple ¹	3.16	3.14

Loan to value (LTV)

Dec16

Mar17

Simple average LTV²

new lending	65%	62%
stock	43%	43%

Indexed LTV distribution (stock)

> 85% - 100%	4%	4%
> 100%	1%	1%

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

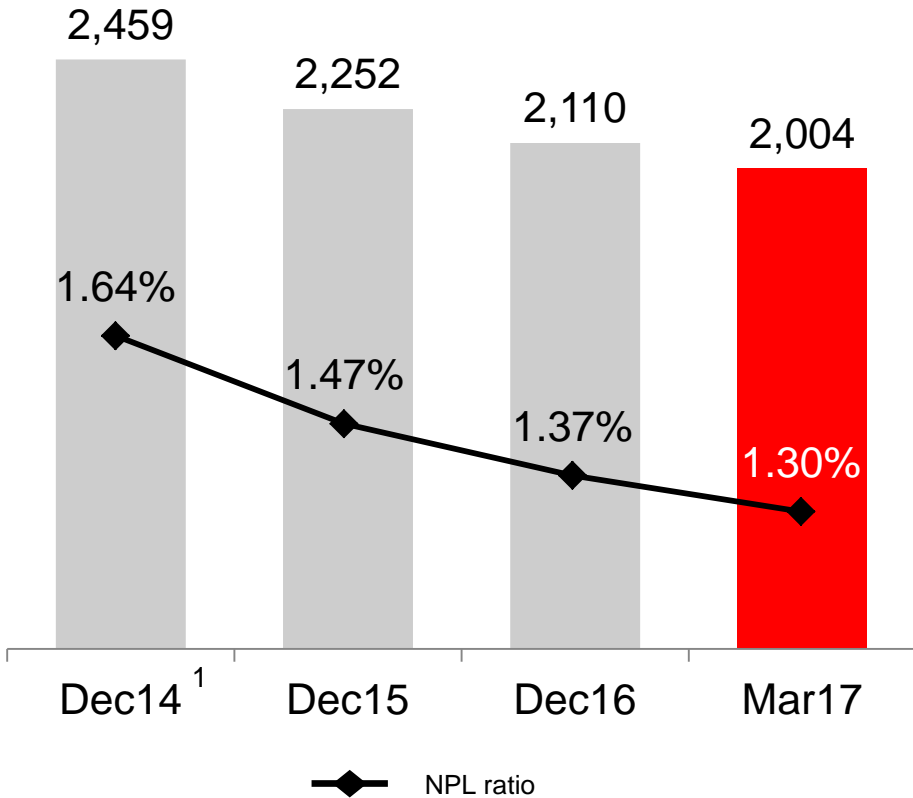
4,600 first-time buyers (£0.7bn gross lending)
1,600 BTL mortgages (average LTV of 64%)

Robust residential mortgage credit performance

Mortgage NPLs (£m)

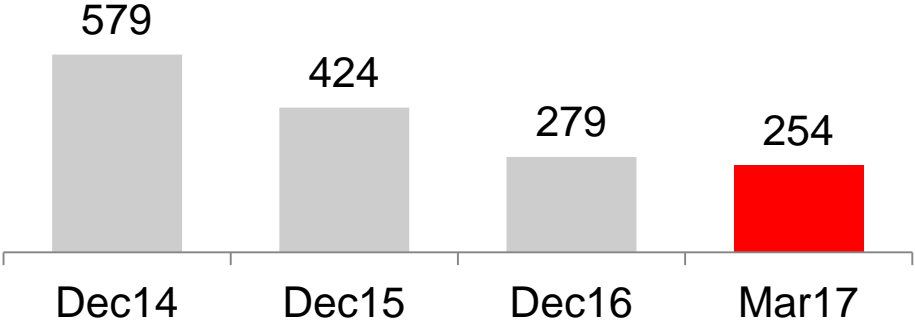
Balance (£bn)

150.1 152.8 154.3 153.9

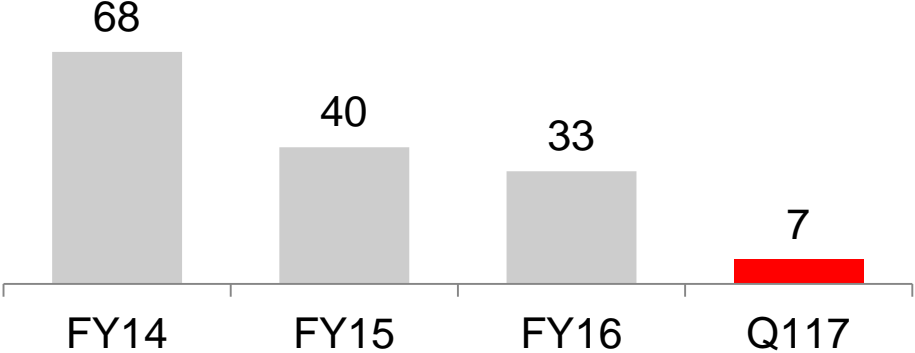


Mortgage loan loss allowances and write-offs (£m)

Loan loss allowance



Write-offs during the period

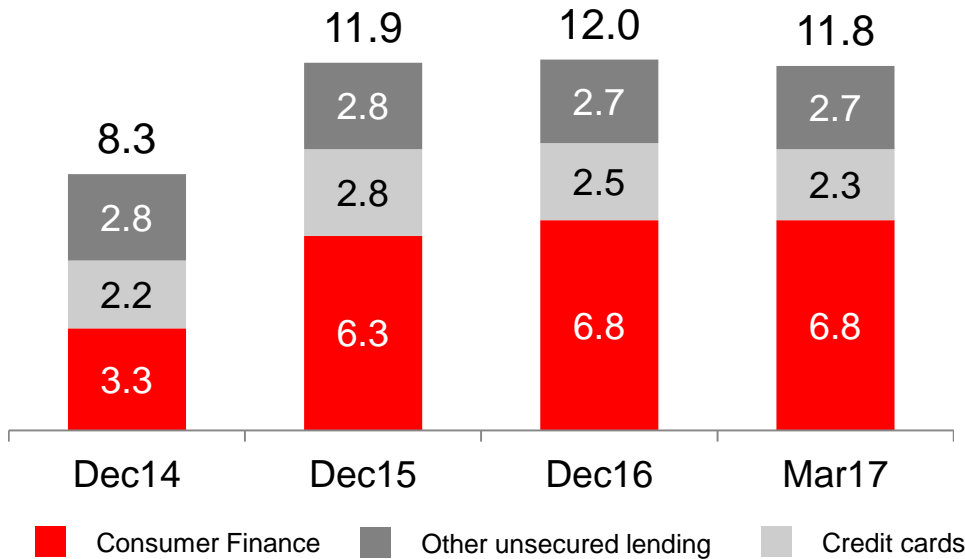


1. Residential mortgages NPL ratio for Dec14 excludes PIPs



Unsecured lending and consumer finance

Retail Banking unsecured lending and consumer finance



Prime consumer finance business

- 7 manufacturer partners and collaboration with over 3,500 motor retailers
- Point of sale quotation and application system
- Flexible point of sale system for an extensive range of finance and related products
- Provision of stock and other dealer funding facilities



NPL ratio (%)

0.45 0.44 0.47 0.47

Banking NIM (%)

4.77 4.62 4.14 3.85

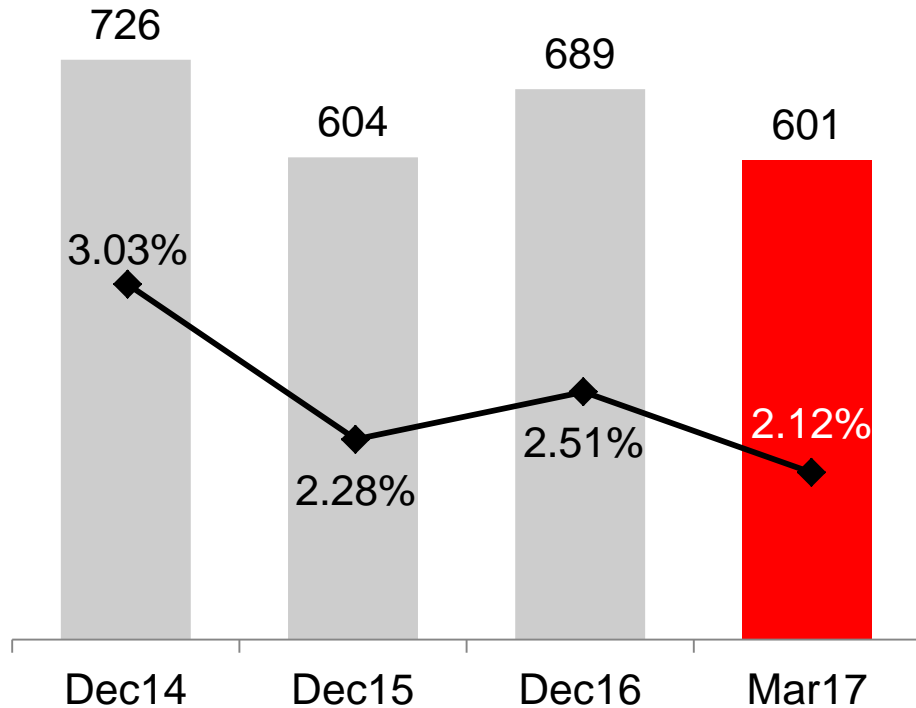


Prudent approach in corporate lending

Corporate NPL (£m)

Balance (£bn)

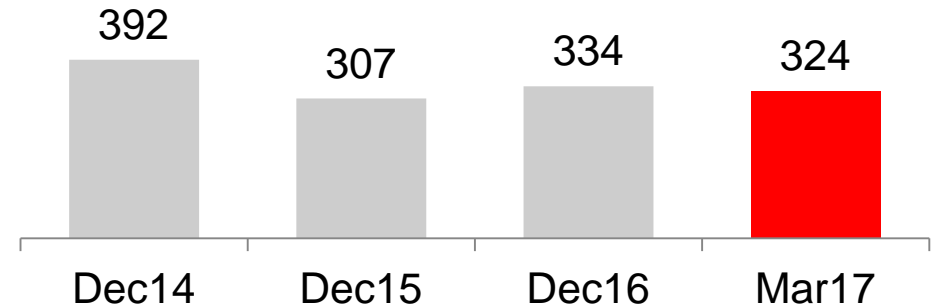
24.0	26.5	27.4	28.3
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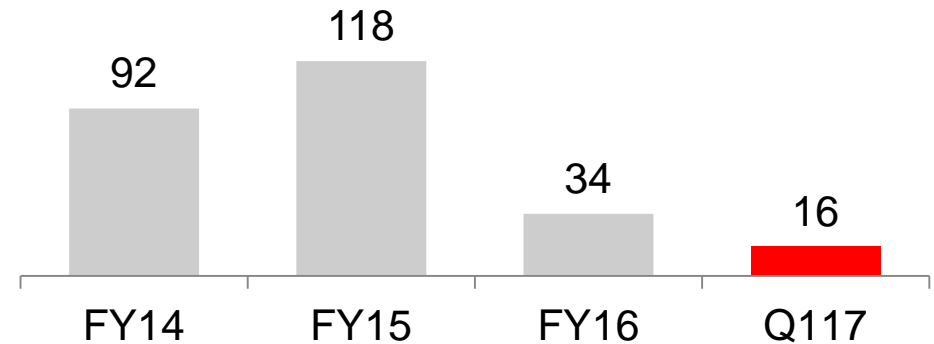
◆ NPL ratio

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

Loan loss allowance



Write-offs during the period



Well diversified CRE portfolio

Credit performance

Dec16

Feb17

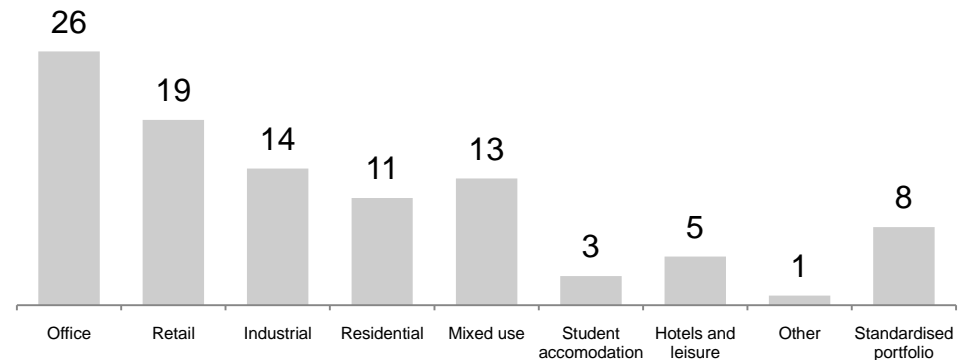
Total committed exposure	£9.0bn	£9.0bn
Up to 70% LTV	88%	87%
70% to 100% LTV	2%	2%
> 100% LTV	1%	1%
Standardised portfolio ¹	7%	8%
Total with collateral	98%	98%
Development loans	2%	2%
	100%	100%

Dec16

Mar17

NPL ratio	2.00%	1.04%
NPL coverage ratio	32%	60%

Sector analysis (stock %, Feb17)



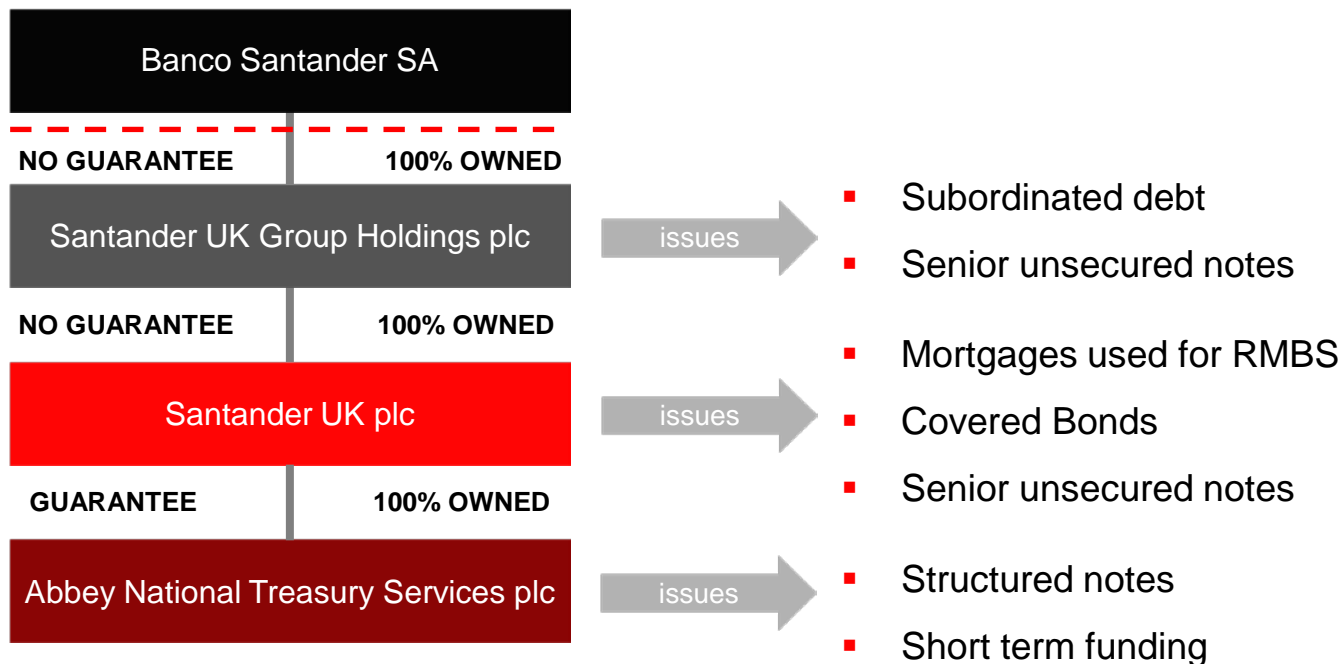
- All new business written at or below 60% LTV at Feb17
- Weighted average LTV on exposures Feb17: 49% (Dec16: 50%)²
- Average loan size of £4.5m at Feb17 (Dec16: £4.8m)
- NPL ratio decreased primarily due to the sale of collateral to repay two impaired loans, as well as other redemptions and write-offs of older vintage loans

Strong capital, liquidity and funding position

Existing wholesale funding issuance model

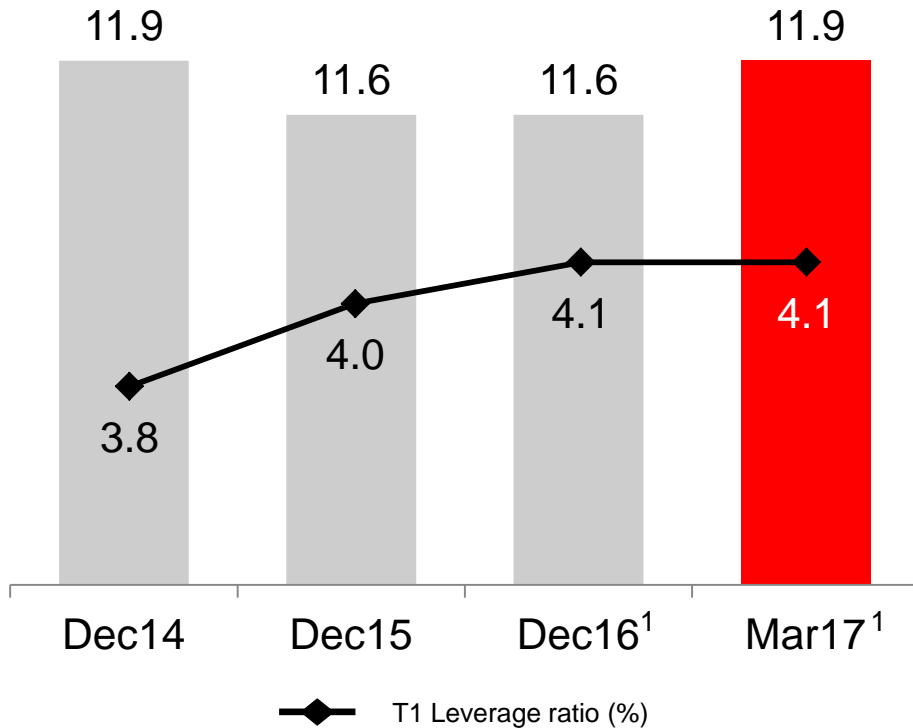
Banco Santander – multiple point of entry resolution group
Santander UK Group Holdings plc – single point of entry resolution group

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

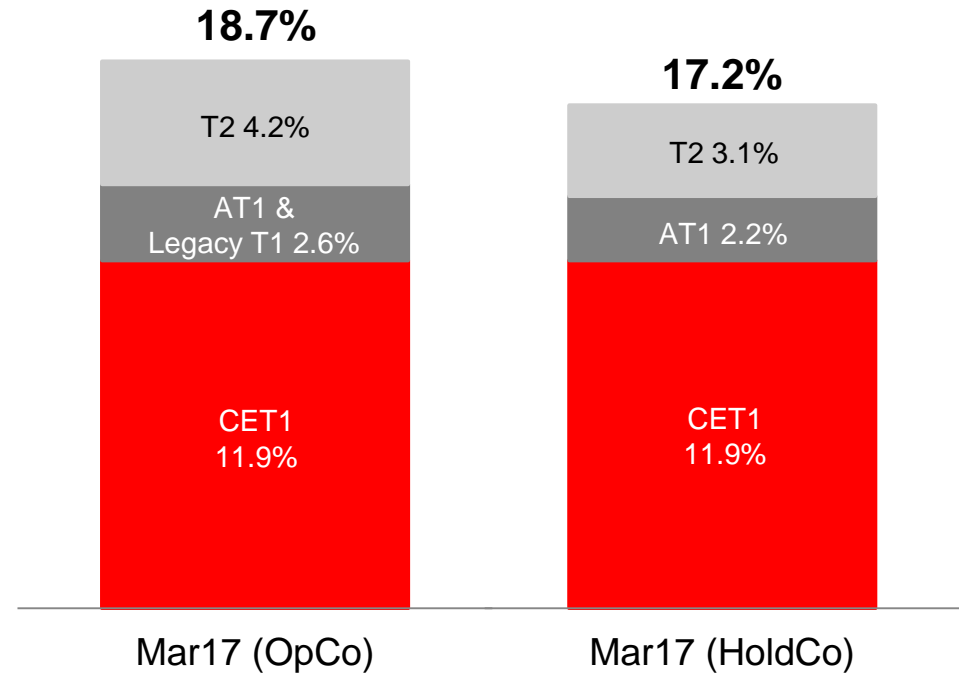


Robust capital and leverage levels

CET1 and T1 leverage ratio (%)



Total capital ratio

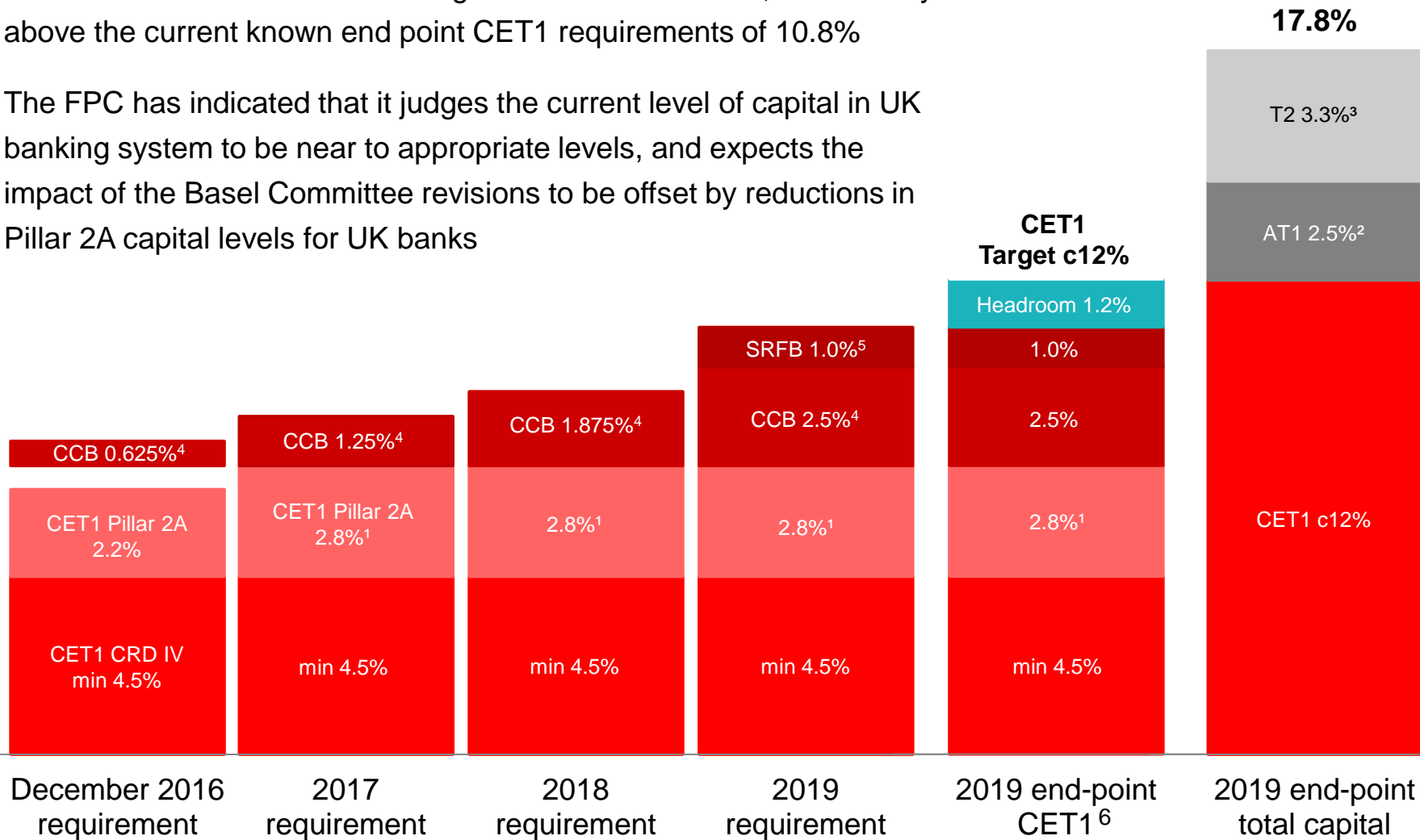


- HoldCo and OpCo total capital difference is driven by the recognition of minority interests, at March 2017 there was a 0.4% T1 and 0.9% T2 minority interest deduction at HoldCo
- At 31 December 2016, Santander Group Holdings plc had £4.2bn of distributable reserves

1. Dec16 and Mar17 leverage ratios were calculated applying the amended definition, as published in the Jul16 PRA statement.

Well placed to meet end-point capital requirement

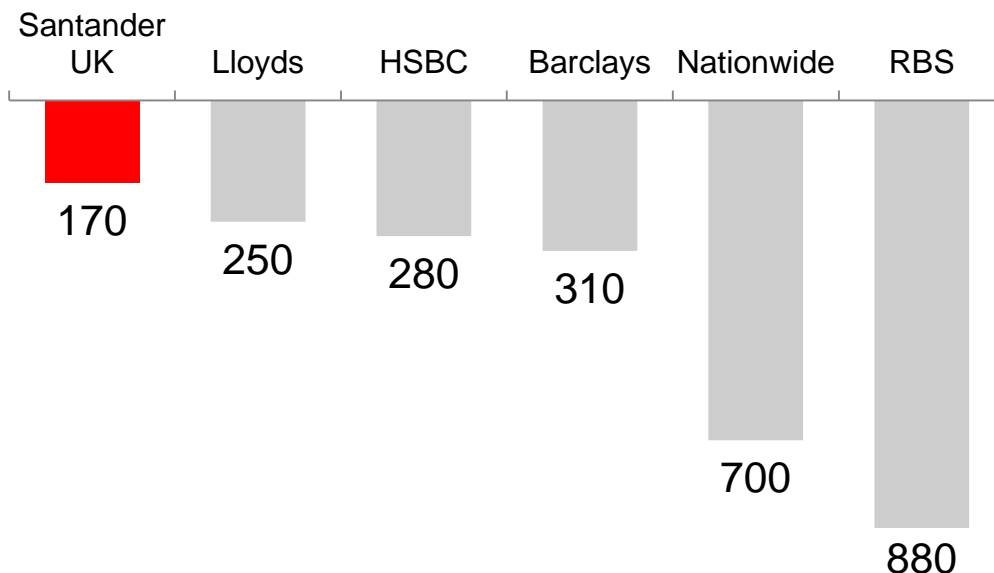
- Santander UK has a end 2018 target CET1 ratio of c12%, comfortably above the current known end point CET1 requirements of 10.8%
- The FPC has indicated that it judges the current level of capital in UK banking system to be near to appropriate levels, and expects the impact of the Basel Committee revisions to be offset by reductions in Pillar 2A capital levels for UK banks



1. Santander UK's Pillar 2A requirement was 5.0% at 1 January 2017, Pillar 2A guidance is a point in time assessment | 2. Current minimum AT1 regulatory requirement is Pillar 1 1.5% and Pillar 2A 0.95% | 3. Current minimum T2 requirement is Pillar 1 2.0% and Pillar 2A 1.25% | 4. 2.5% capital conservation buffer phased in from 2016-2018 | 5. 1% systemic risk buffer (note this applicable from 2019 for the ring-fence bank). | 6. On 30 November 2016, the FPC reaffirmed that it expects to maintain a UK Countercyclical buffer rate at 0% until at least June 2017, in the absence of any material change in the economic outlook.

2016 PRA stress test; Santander UK most resilient of UK banks

CET1 drawdown (bps)¹



Santander UK results

- Significantly exceeded the PRA's stress test CET1 threshold requirement of 7.3%, with a stressed CET1 ratio of 9.9%
- Exceeded the leverage threshold requirement of 3.0%, with a stressed leverage ratio of 3.6% after allowed management actions
- The outcome of the stress test underlines the quality and strength of our UK-based balance sheet as well as our strong risk management practices

2016 PRA stress test assumptions

2016 GDP growth	(4.3)%
Unemployment rate	9.5%
Inflation	(0.2)%
House price inflation	(31)%
Base rate	0%

- Focused on the resilience of UK banks to a synchronised downturn in global economies, particularly those in developing markets
- Included a severe UK property market stress scenario, and rising unemployment
- Conduct and market risk stresses were layered on top of the economic stress

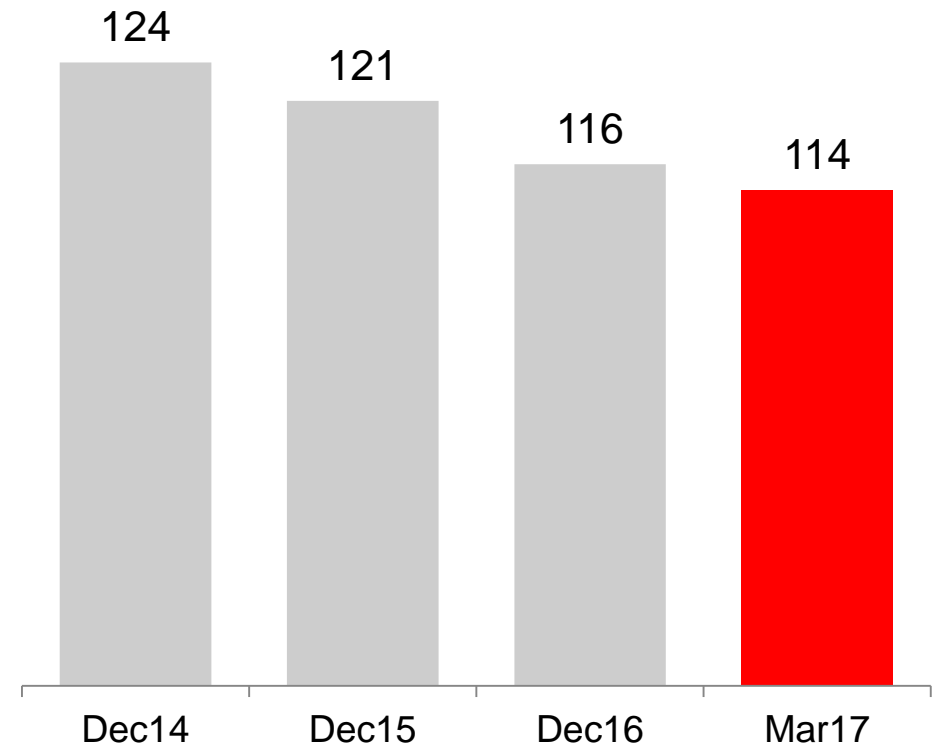
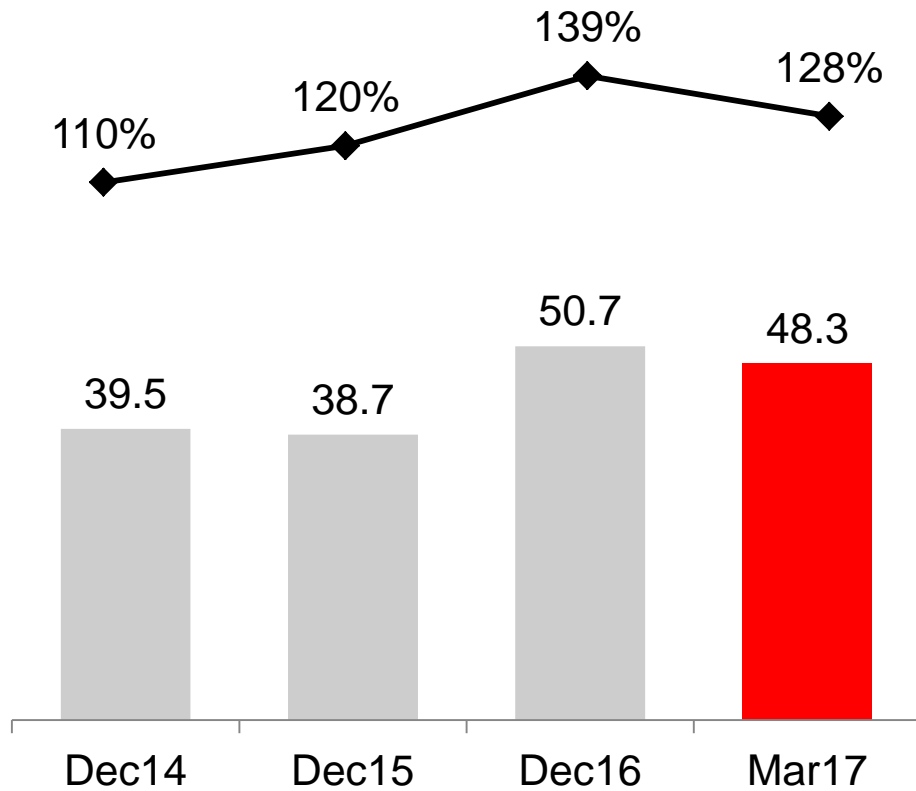
1. Source: Bank of England, Stress testing the UK banking system: 2016 results. CET1 drawdown is defined as CET1 ratio as at Dec15 less minimum stressed ratio (after the impact of 'strategic' management actions and conversion of AT1)

Strong liquidity and funding position

LCR eligible liquidity pool (£bn)

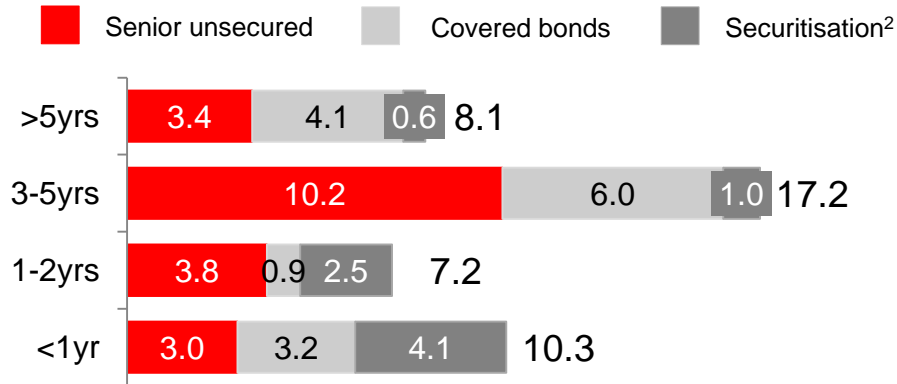
Loan-to-deposit ratio (%)

Liquidity coverage ratio (LCR)

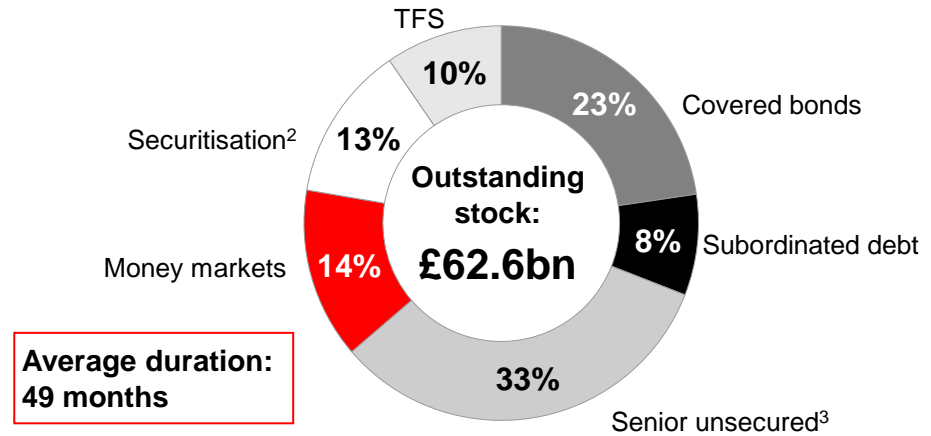


Improved funding profile with reduced encumbrance

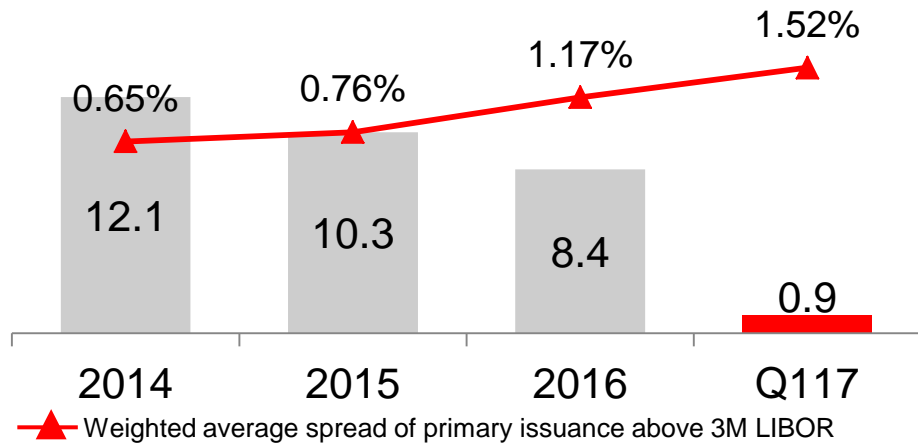
MTF maturities (£bn, Mar17)¹



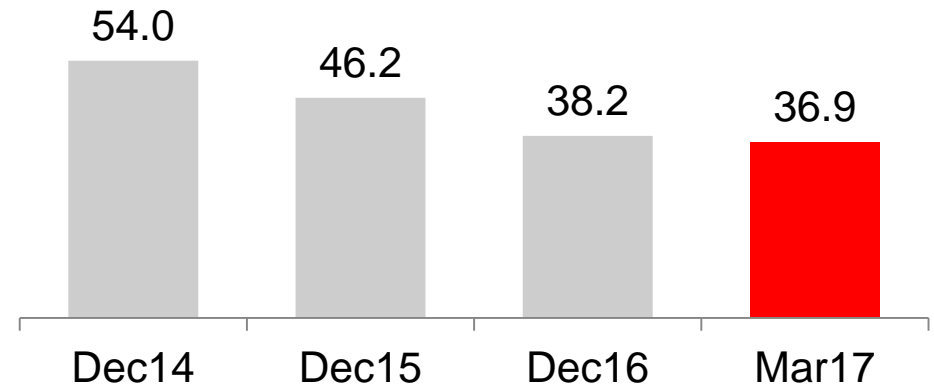
Wholesale funding stock (Mar17)



MTF issuance (£bn) and spread⁴



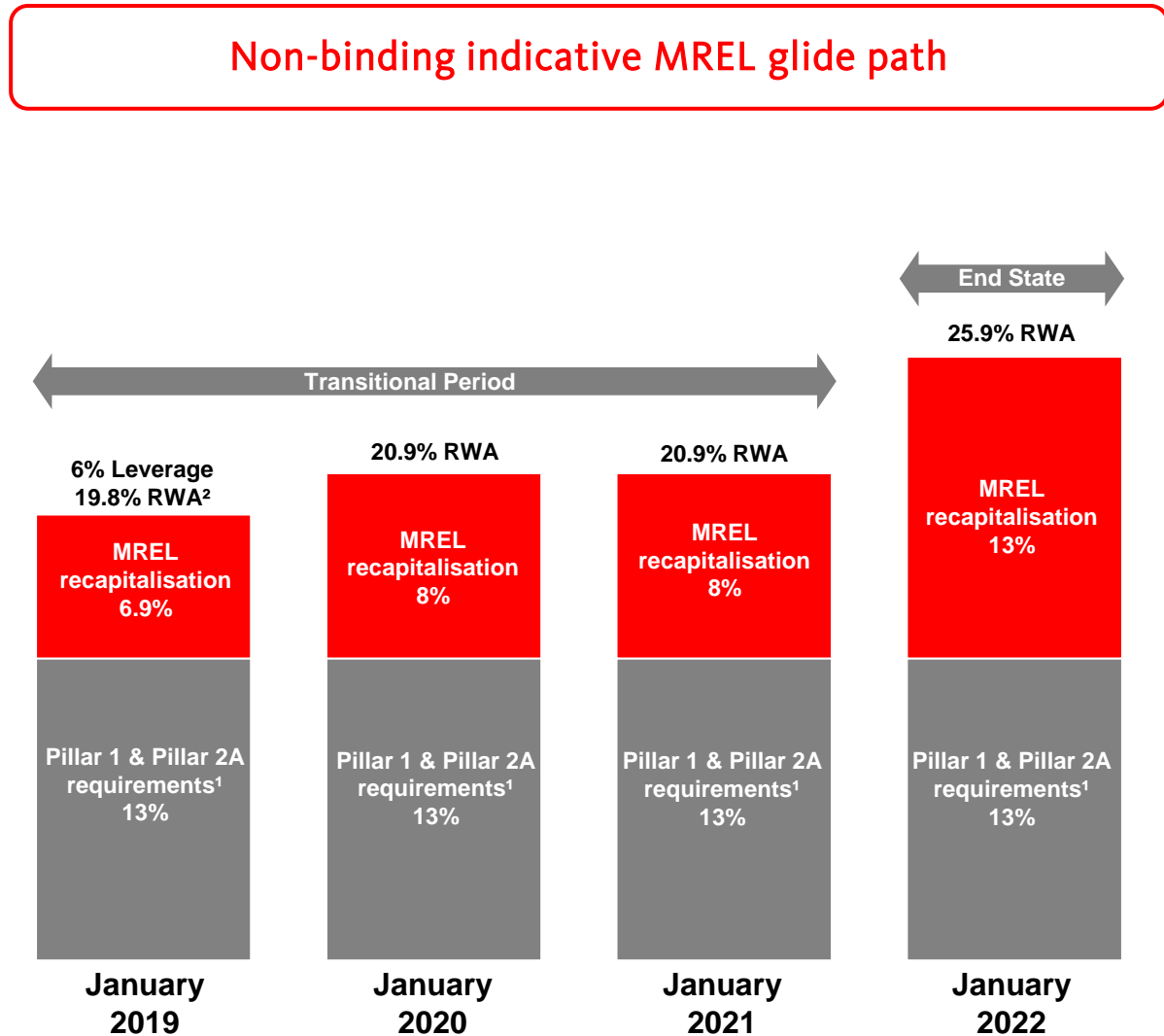
Medium term funding encumbrance⁵ (£bn)



1. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 2. Securitisation includes structured funding | 3. Senior unsecured includes structured notes | 4. Weighted average spread at time of issuance above GBP 3M LIBOR. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 5. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and covered bond programmes

Non-binding indicative MREL requirements

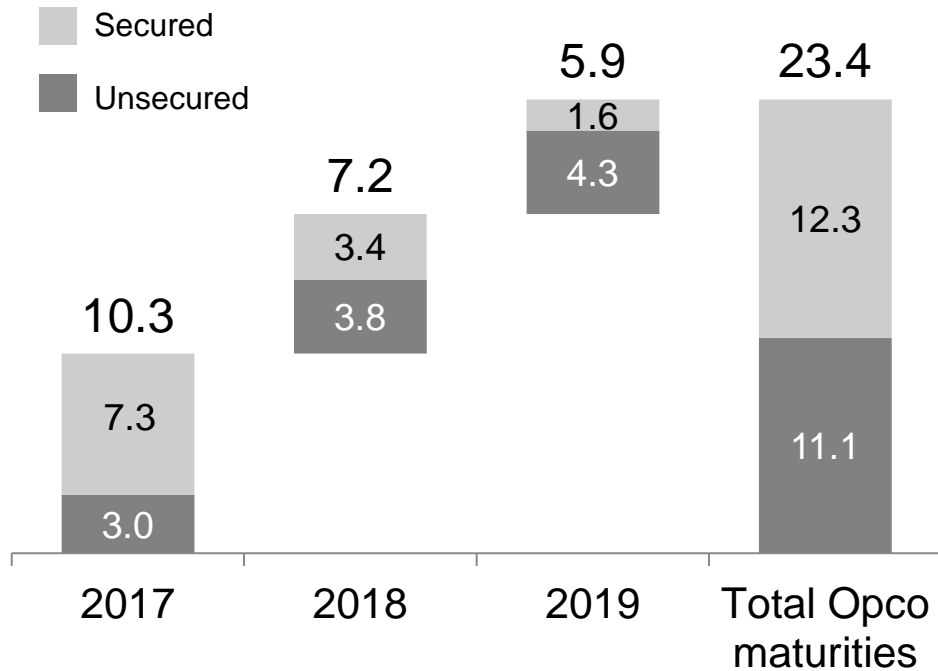
- In March 2017 the Bank of England (BoE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and become fully implemented in 2022
- The indicative requirements include both the Pillar 1 and Pillar 2A capital requirements and the MREL recapitalisation requirements. They do not take into account any combined buffer requirements which effectively 'sit on top' of the MREL requirements
- Final MREL requirements may change as the BoE continues to review Santander UK's resolution strategy



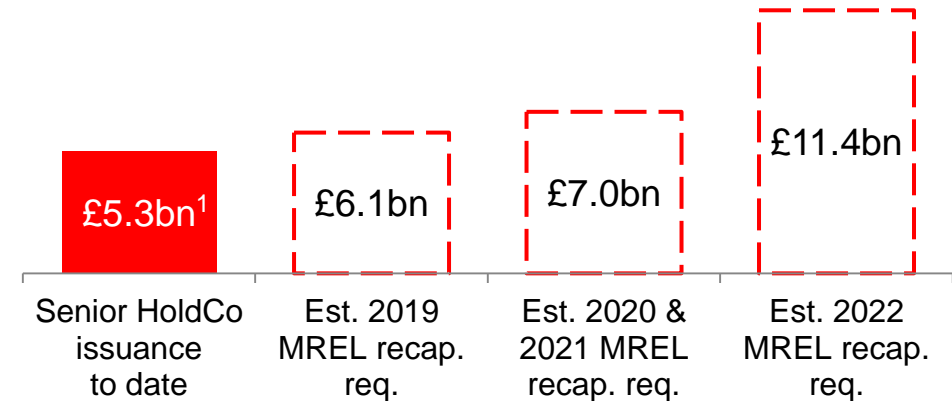
1. Assumes Pillar 2A requirement remains at c.5% | 2. Calculated using RWA and UK leverage exposure as at 31 December 2016

Well placed to meet non capital MREL requirements

OpCo MTF maturities (£bn)

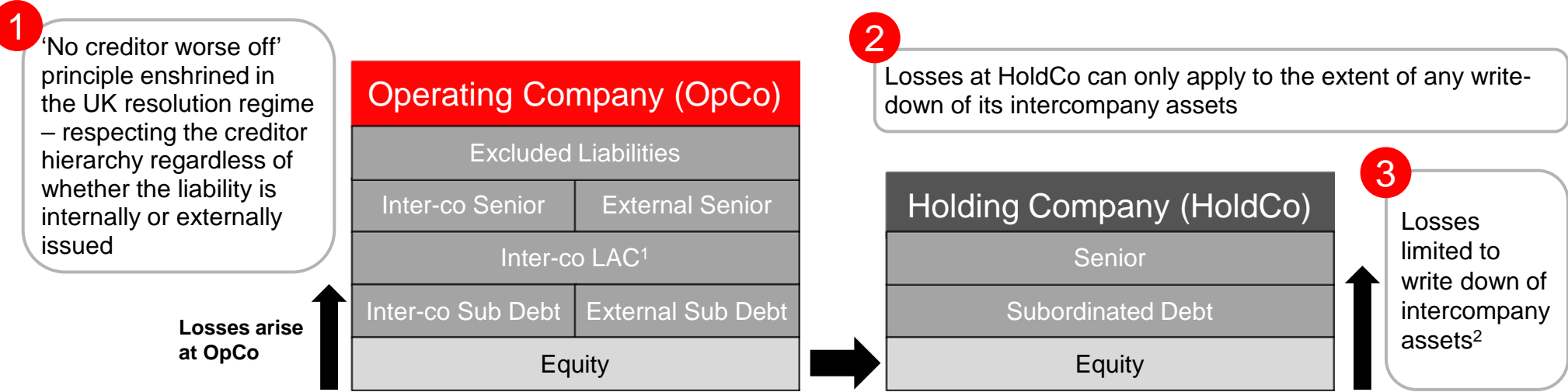


MREL recapitalisation requirements²



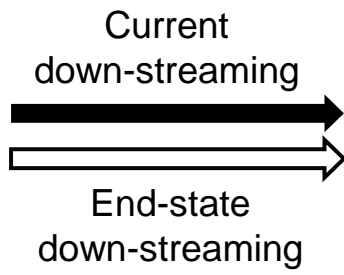
- MREL recapitalisation requirement to be largely met through gradual refinancing of existing OpCo maturities. It will not be additive to wholesale funding requirements
- It is our current intention to have an MREL recapitalisation management buffer in excess of the value of HoldCo senior unsecured paper that is due to become MREL ineligible over the immediately preceding 6 months

UK resolution regime; transparent HoldCo downstream model



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

Santander UK Group Holdings plc	
Senior - £5.3bn ³	
T2 - £1.2bn ³	
AT1 - £2.05bn ⁴	



Santander UK plc	
Senior - £5.3bn ³	OpCo Senior
Internal MREL	
T2 - £1.2bn ³	Legacy T2
AT1 - £2.05bn ⁴	Legacy T1

1. 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 | 2. The write-down of the intercompany assets will be determined by the relevant authority following valuations conducted per BRRD Art 36 | 3. GBP equivalent at 31 March 2017 | 4. Includes issuances up to 31 March 2017 and £500m of AT1 issuance that settled on 10 April 2017



Credit ratings – April 2017

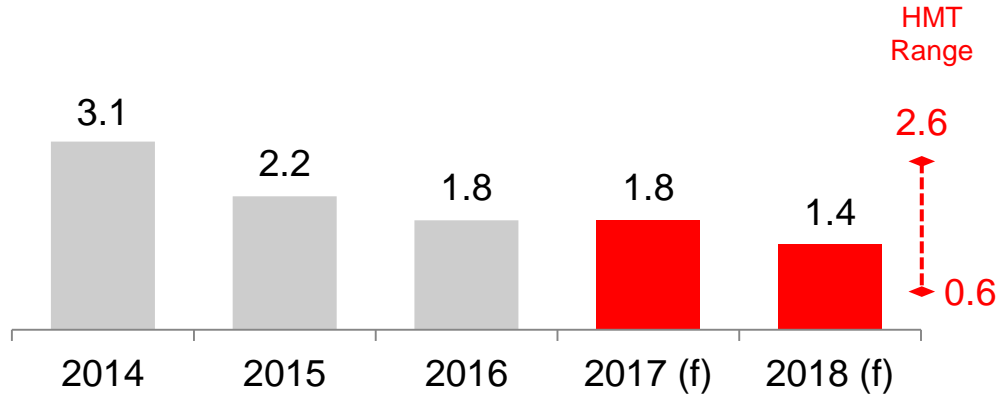
		S&P	Moody's	Fitch
Santander UK Group Holdings plc	Senior unsecured <i>outlook</i>	BBB <i>stable</i>	Baa1 <i>negative</i>	A <i>stable</i>
	Tier 2	BB+	Baa1	A-
	AT1	B+	Ba2	BB+
Santander UK plc	Senior unsecured <i>outlook</i>	A <i>negative</i>	Aa3 <i>negative</i>	A <i>stable</i>
	Short-term	A-1	P-1	F-1
	Standalone rating	bbb+	a3	baa1

- S&P affirmed the long-term rating for Santander UK plc at A, with outlook changed to negative from stable in Jul16, following the EU referendum
- Moody's upgraded the long-term rating for Santander UK plc to Aa3 in Dec16, with outlook change to negative from stable, as a result of HoldCo senior unsecured issuance and prolonged uncertainty for the UK
- Fitch affirmed the long-term credit rating for Santander UK plc at A, with outlook changed to stable from positive outlook in Feb17, as result of weaker prospects for the UK banking sector following the referendum

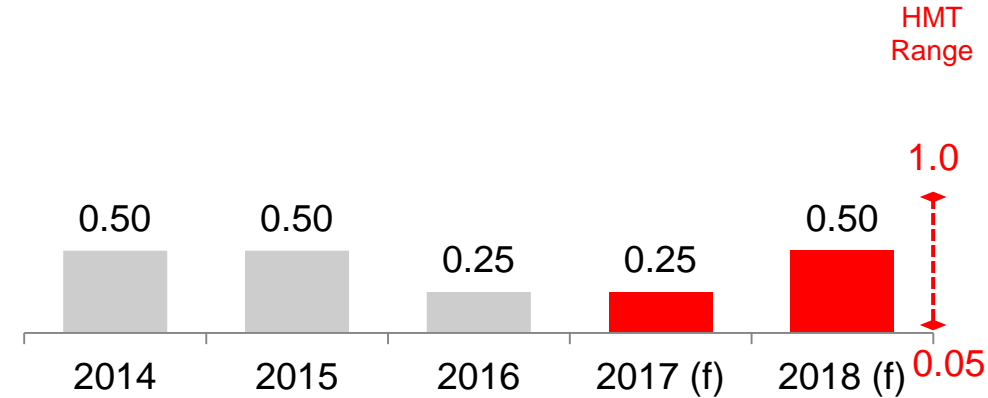
UK economic outlook

Potentially more challenging UK macro environment

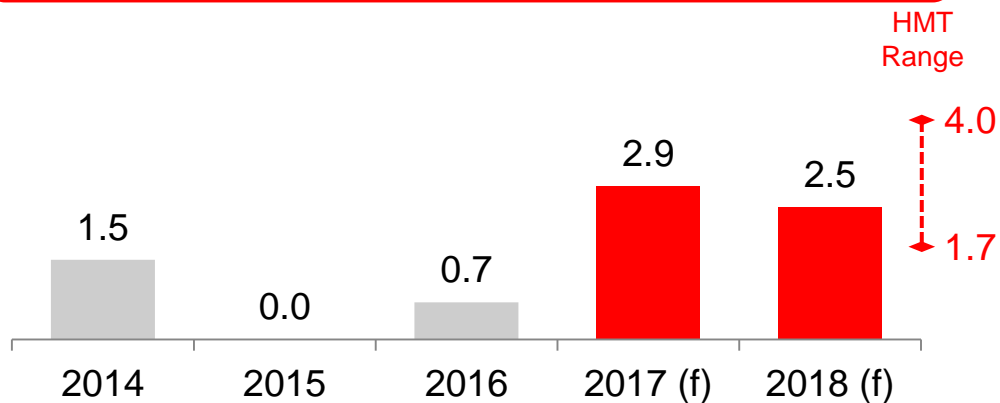
Annual GDP¹ growth (% , annual average)



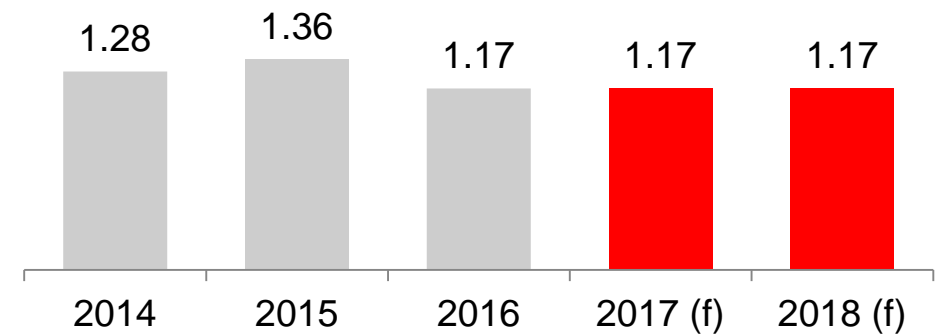
Bank of England base rate (% , year end)



Annual CPI² inflation rate (% , annual average)

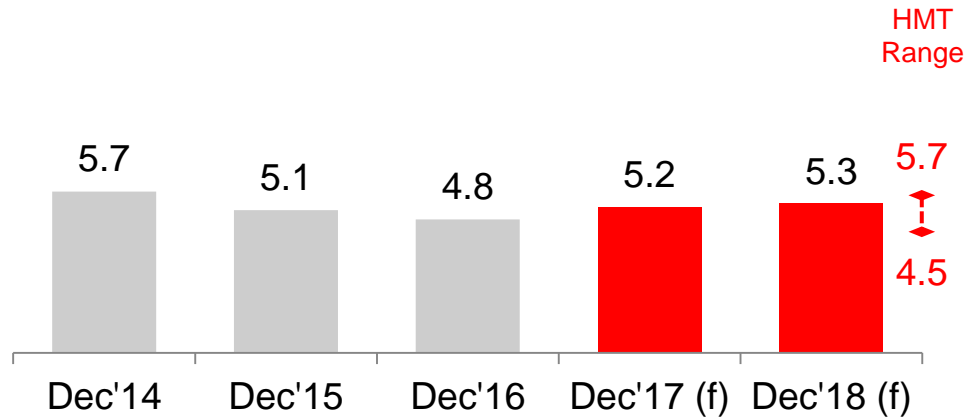


GBP/Euro exchange rates (year end)

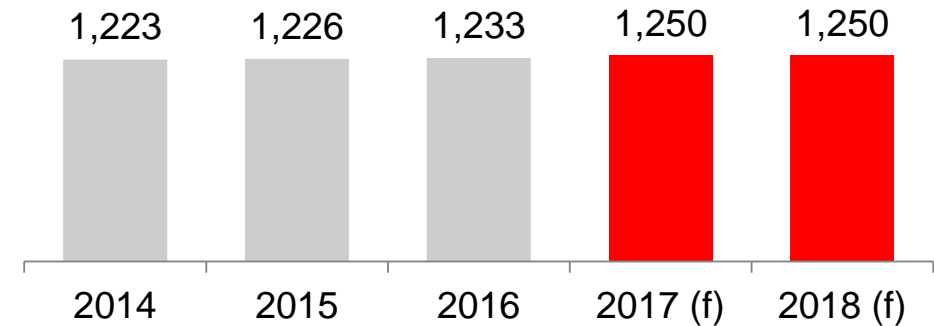


Housing and labour markets could come under pressure

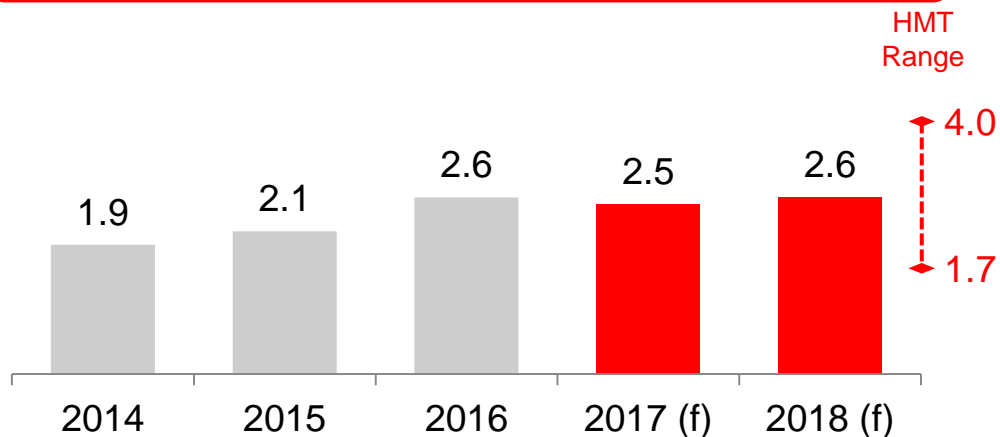
Unemployment rate (ILO¹)



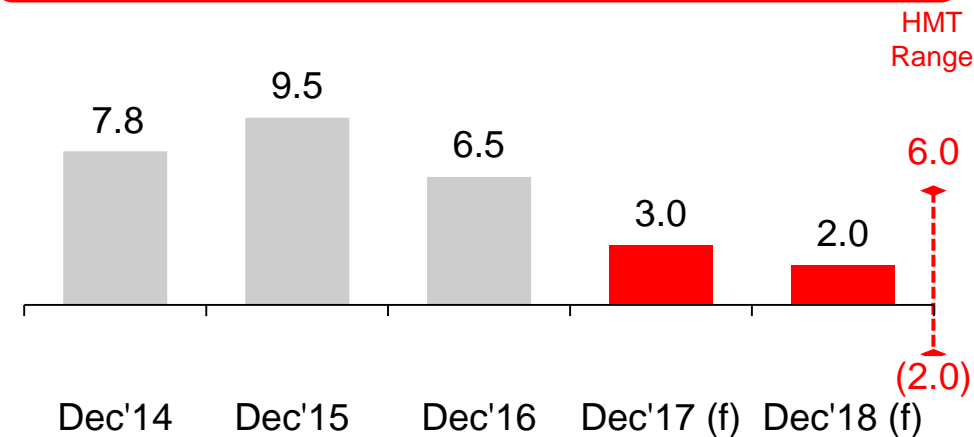
Property transactions (sa², oos)



Average weekly earnings (annual, % inc. bonuses)



House prices³ (%)



Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (April 2017). External forecast ranges from HMT Treasury Consensus March 2017. Only forecasts made in the latest 3 months (Nov, Dec and Jan) have been included in the high / low range.

1. International Labour Organisation | 2. Seasonally adjusted | 3. Halifax house prices (Source: IHS Markit)

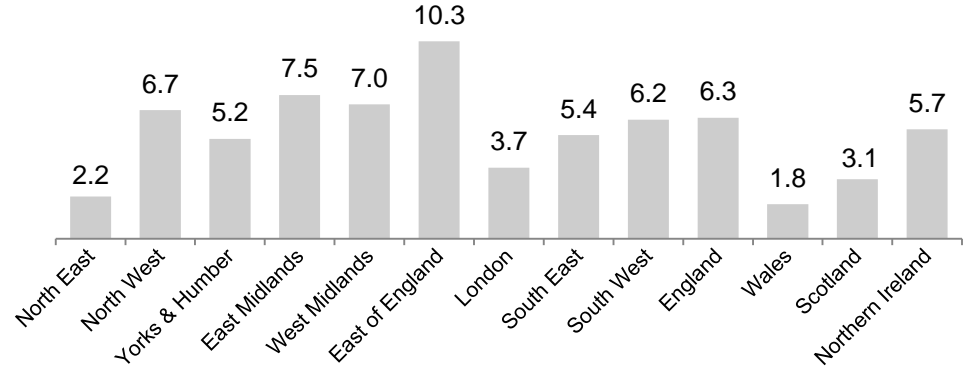
Housing market growth expected to slow in 2017

House price change (annual %, nsa¹)

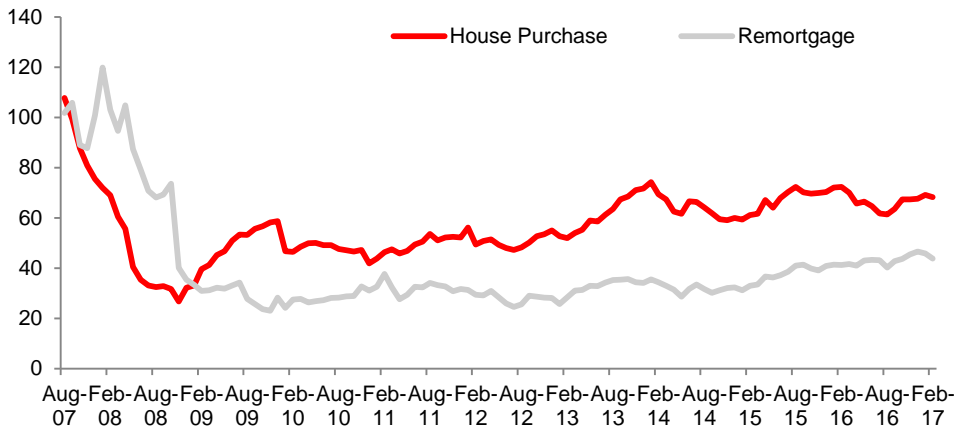
■ December
■ January
■ February



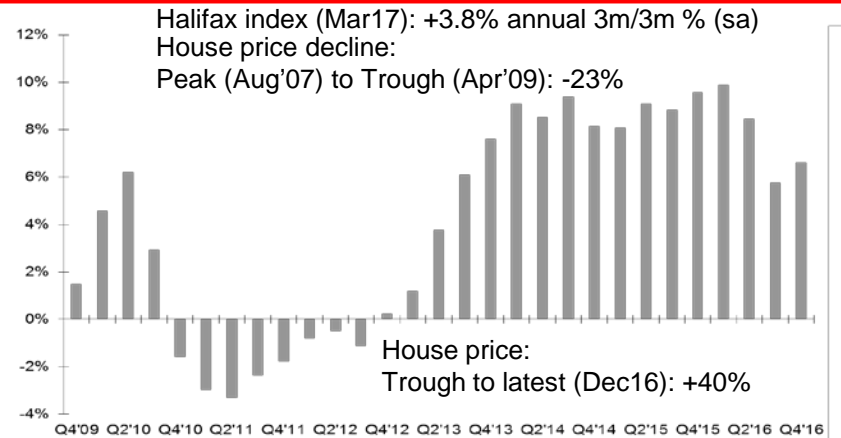
House price change by region Feb17 (annual %, nsa¹)



House purchase and remortgage approvals (000s, sa²)



House price inflation (annual %, sa²)



Sources: House price change and House price change by region Feb17 (annual %, nsa): Office for National Statistics. House purchase and remortgage approvals to Feb17 (000s, sa): Bank of England. House price inflation (annual %, sa): Halifax (IHS Markit) data to Mar17
1. nsa: not seasonally adjusted | 2. sa: seasonally adjusted



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

- **Glossary**

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

- **Key dates¹**

Q217 results: 27 July 2017

Q317 results: 26 October 2017

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1. Indicative, dates subject to change.

