

Santander UK Group Holdings plc

Investor Update

for the nine months ended

30 September 2018

October 2018



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Source: Santander UK Q3 2018 results "Quarterly Management Statement for the nine months ended 30 September 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.

Prudent approach to risk and controlled business growth

Sep18 vs Dec17

Mortgage lending  **£157.2bn**
£2.3bn


Lending to UK companies  **£24.3bn**
£3.0bn¹


Banking NIM  **1.81%**
9bps


NPL ratio  **1.24%**
18bps

CET1 capital ratio  **13.1%**
90bps²

9M18 vs 9M17

Operating income  **£3,461m**
7%

Operating expenses  **£1,914m**
5%

Operating impairment losses, provisions and charges  **£177m**
48%

Profit before tax  **£1,370m**
13%

Return on Tangible Equity  **9.8%**
40bps³

Uniquely placed as the only UK scale challenger

Helping people and businesses prosper

Retail



15m
Active customers



c80%
Financial centre coverage



239,000
Investment Hub accounts
+13k in 2018



3rd
UK Mortgage lender¹



64.8%
retail customer satisfaction
(FRS)²

Corporate



64
Corporate Business Centres



556
Relationship Managers



8 trade corridors
+3 in 2018



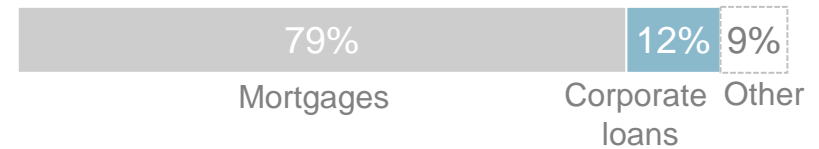
5th
UK Commercial lender¹



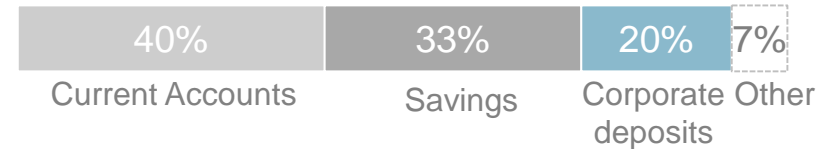
+8pp
customer satisfaction
above market average

Meaningful scale and opportunity

£198.8bn customer loans



£172.1bn customer deposits



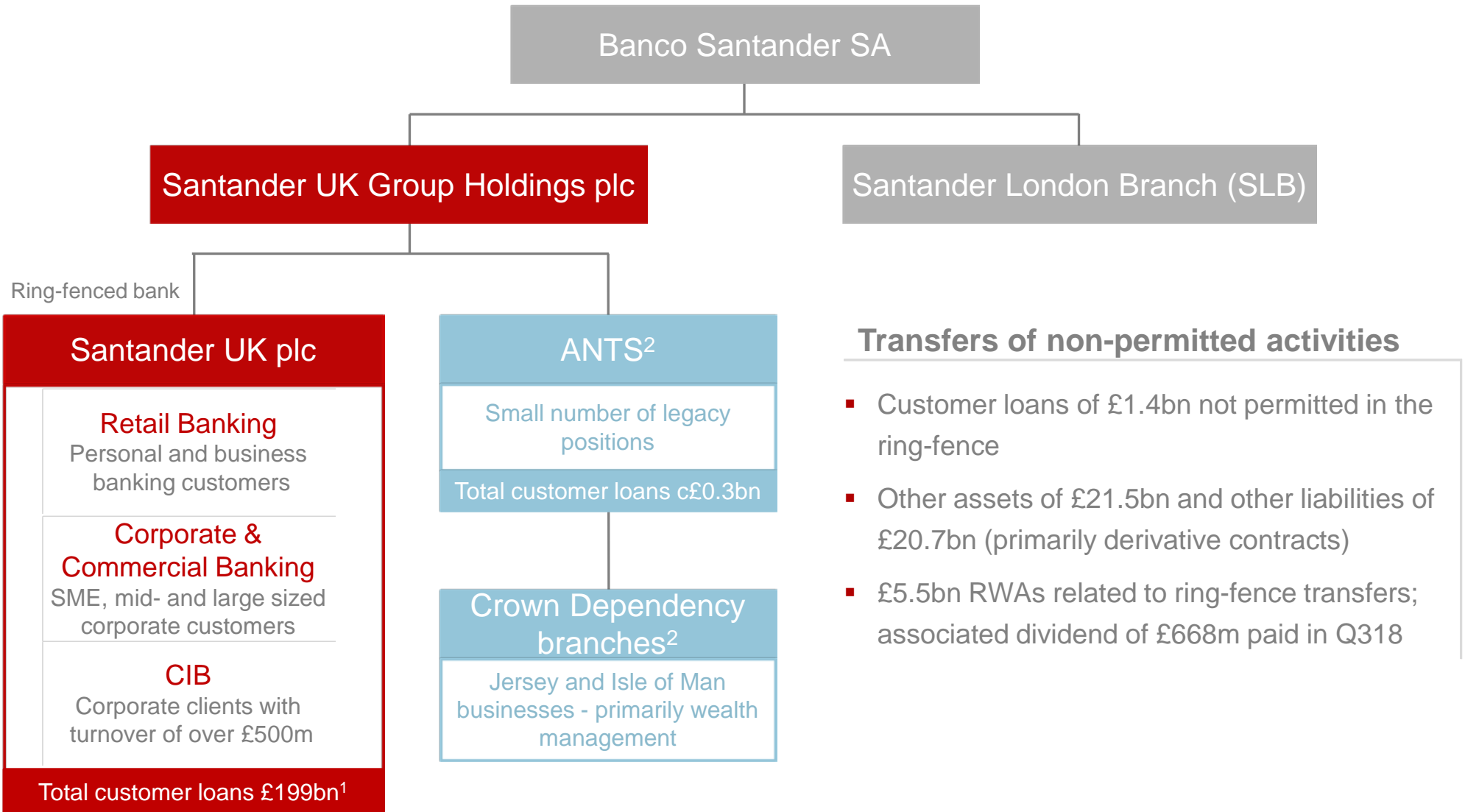
↑↓ Important part of a **well-diversified global bank**

👤 Building **stronger customer relationships**

📱 Aiming for a **seamless customer experience**

🛒 Offering a **differentiated proposition for SMEs**

Ring-fence implementation close to completion



Operating environment and UK economy

UK economy relatively stable; however uncertainty remains

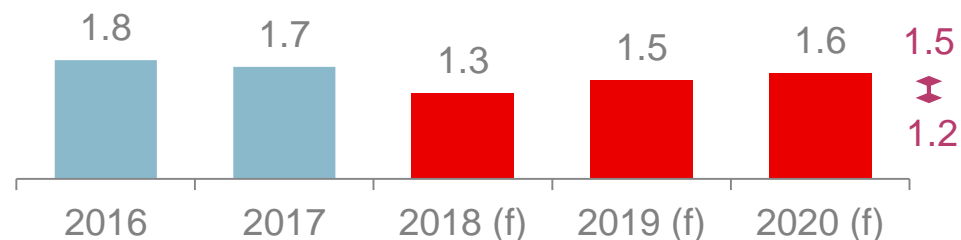
2018 operating environment

- 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. Our base case assumption is that there will be a 25bps rise in base rate in H219
- Mortgage market likely to grow at c3% in 2018, with weaker buyer demand and subdued house price growth seen to date likely to continue
- Corporate borrowing market expected to grow c2%, as uncertainty continues to dampen investment intentions

Annual GDP growth

(%, annual average, (f) Sep18 forecast)

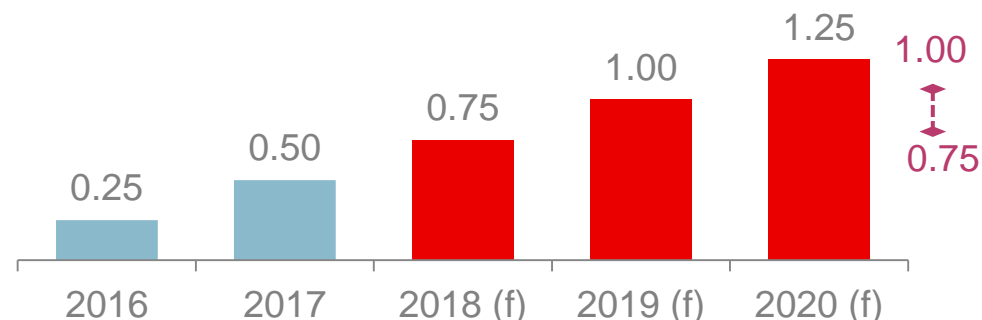
2018 HMT Range



Bank of England base rate

(%, year end)

2018 HMT Range

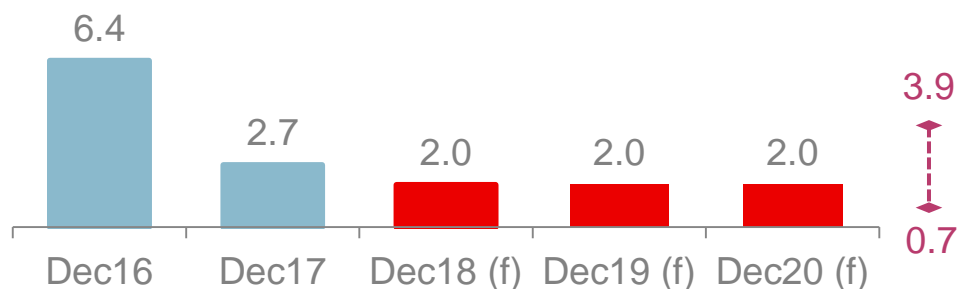


UK economy relatively stable; however uncertainty remains

House prices¹

(%, sa², year end)

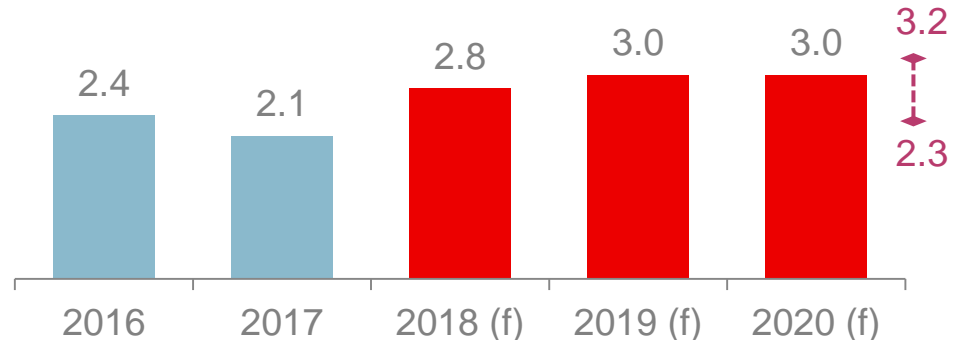
2018 HMT Range



Average weekly earnings

(% inc. bonuses, annual average)

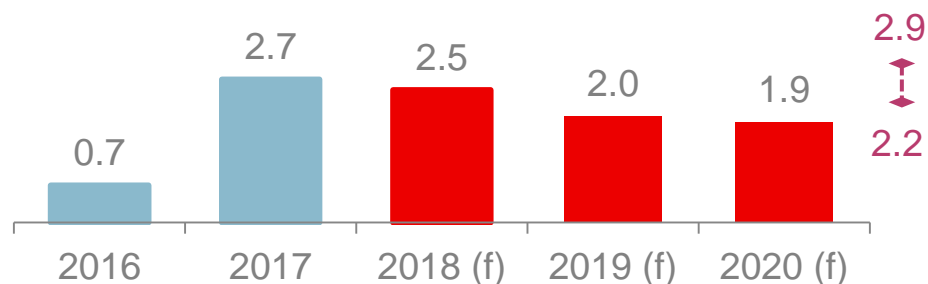
2018 HMT Range



Annual CPI³ inflation rate

(%, annual average)

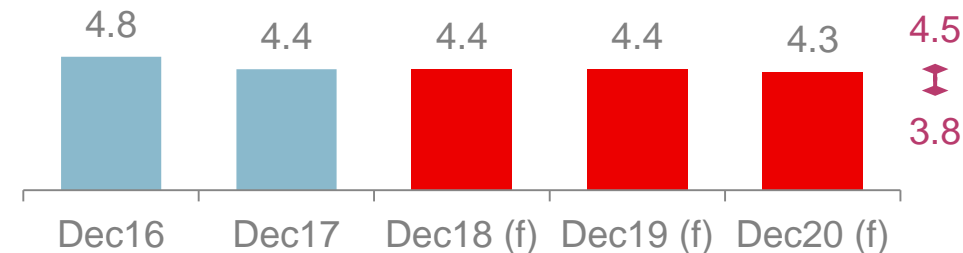
2018 HMT Range



Unemployment rate

(%, ILO⁴)

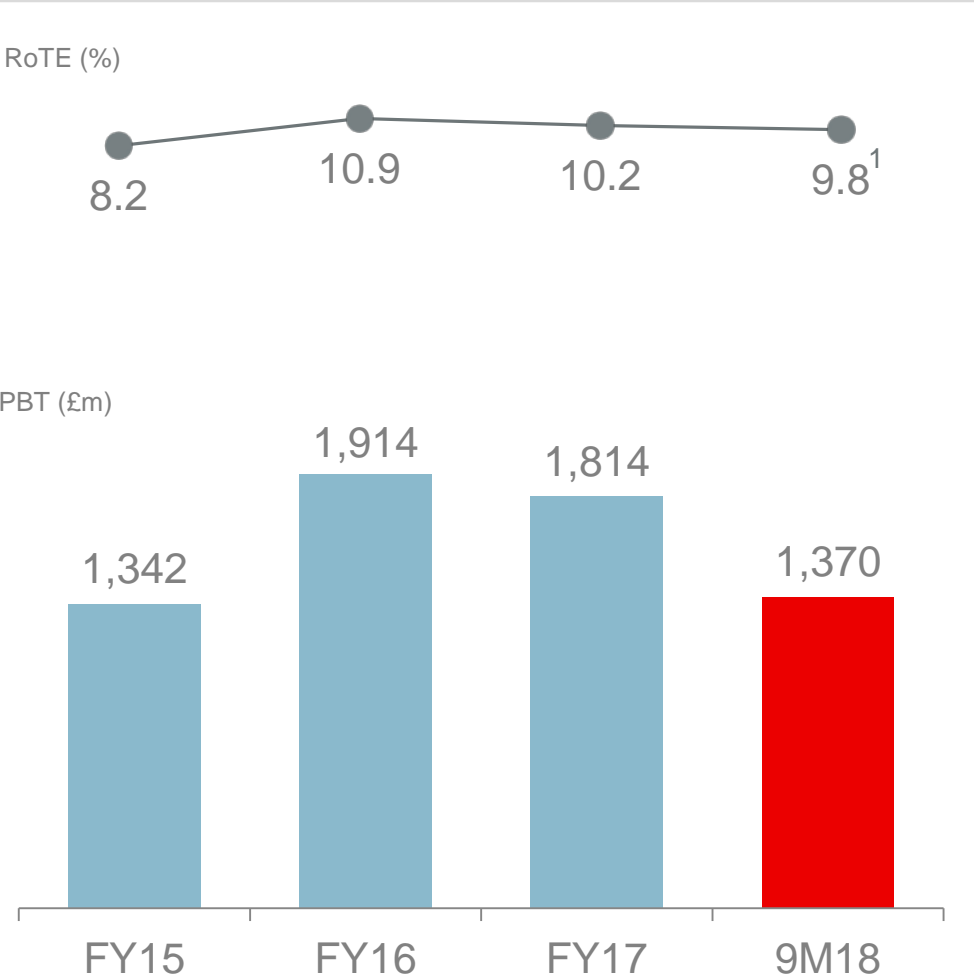
2018 HMT Range



Consistently profitable, sustainable business

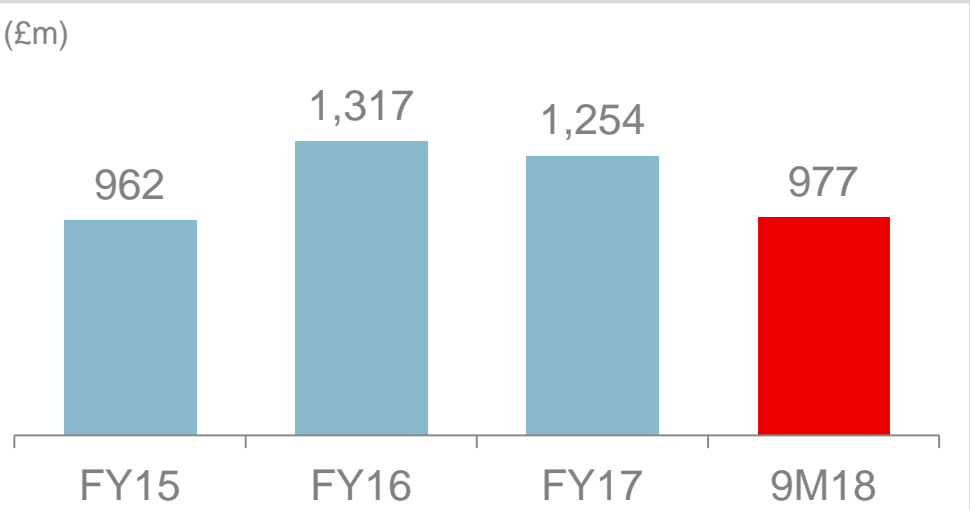
Maintaining financial strength and delivering value

Profit before tax and RoTE



- A track record of 10 years profitability with 50% annual dividend payout
- Continued to deliver attractive shareholder returns with a prudent approach to risk
- RoTE of 9.8%, delivering value despite competitive and uncertain environment

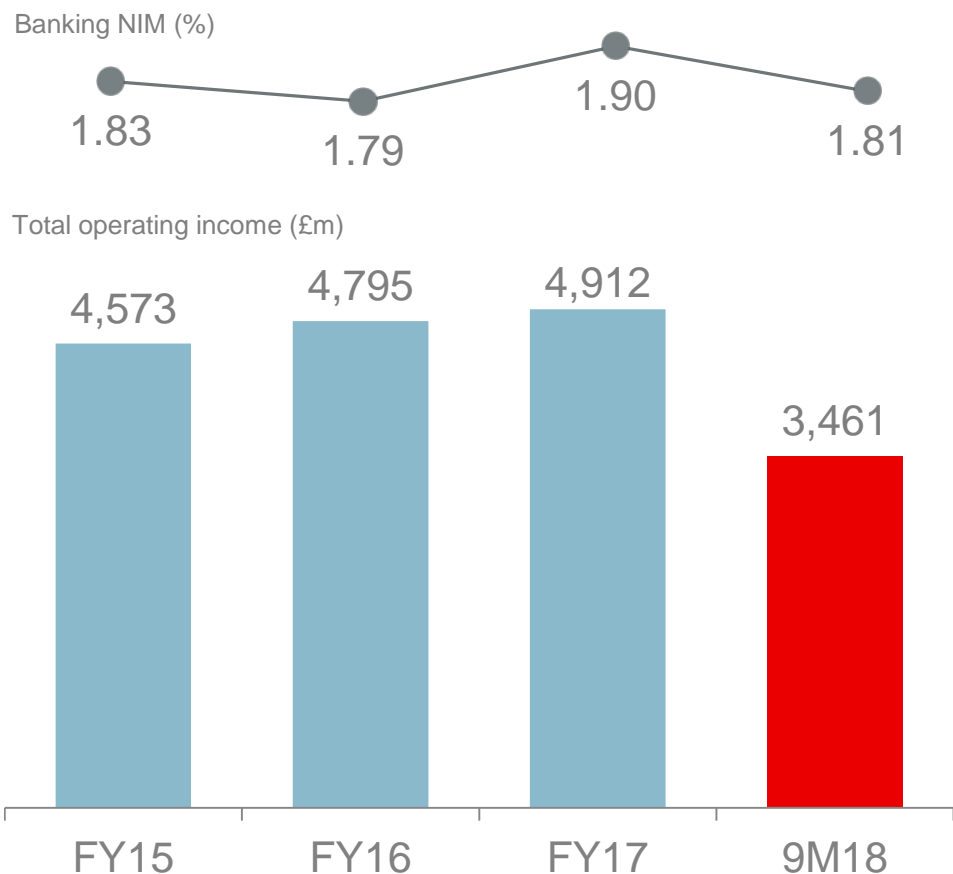
Profit after tax



1. There was a 50bps increase in Q318, largely driven by the £668m dividend payment associated with ring-fence transfers

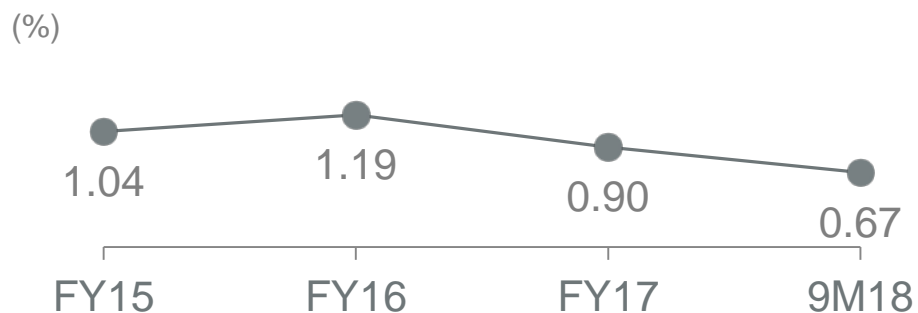
Income impacted by competitive and regulatory pressures

Total operating income and Banking NIM¹



- In an uncertain environment, we continue to actively control growth in higher risk business lines such as CRE, UPLs and credit cards
- Banking NIM and net interest income impacted by lower new mortgage margins and SVR attrition
- Non-interest income impacted by the gain on sale of Vocalink Holdings Ltd shareholdings which was not repeated this year as well as lower overdraft and trading income

Market new mortgage margins²



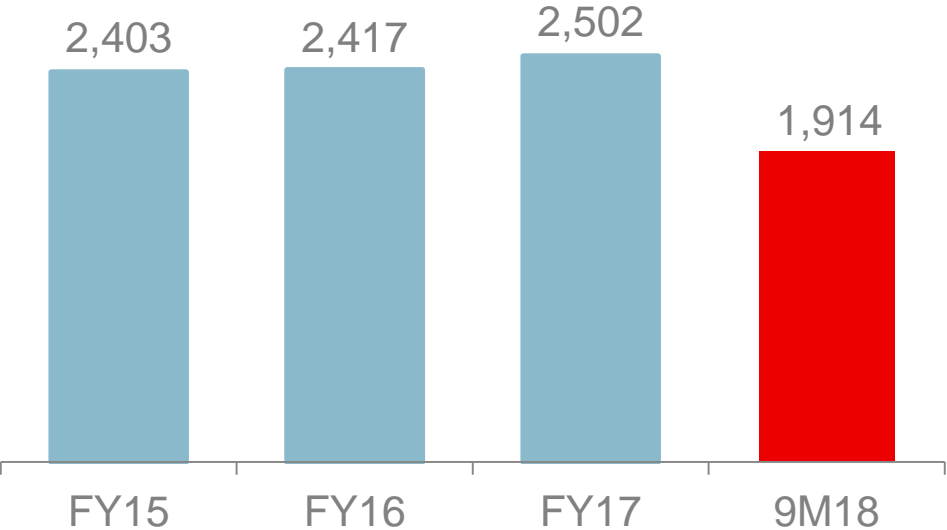
Continued focus on efficiency and transformation initiatives

Operating expenses and cost-to-income ratio

Cost-to-income ratio (%)



Operating expenses (£m)



- Cost-to income ratio impacted by income pressure and increased regulatory, risk and control project costs in 2018
- Strategic investment in business transformation continued with the launch of our Digital Investment Advisor and innovative 11213 Business Current Account



Blockchain



Data & A.I.



Payments



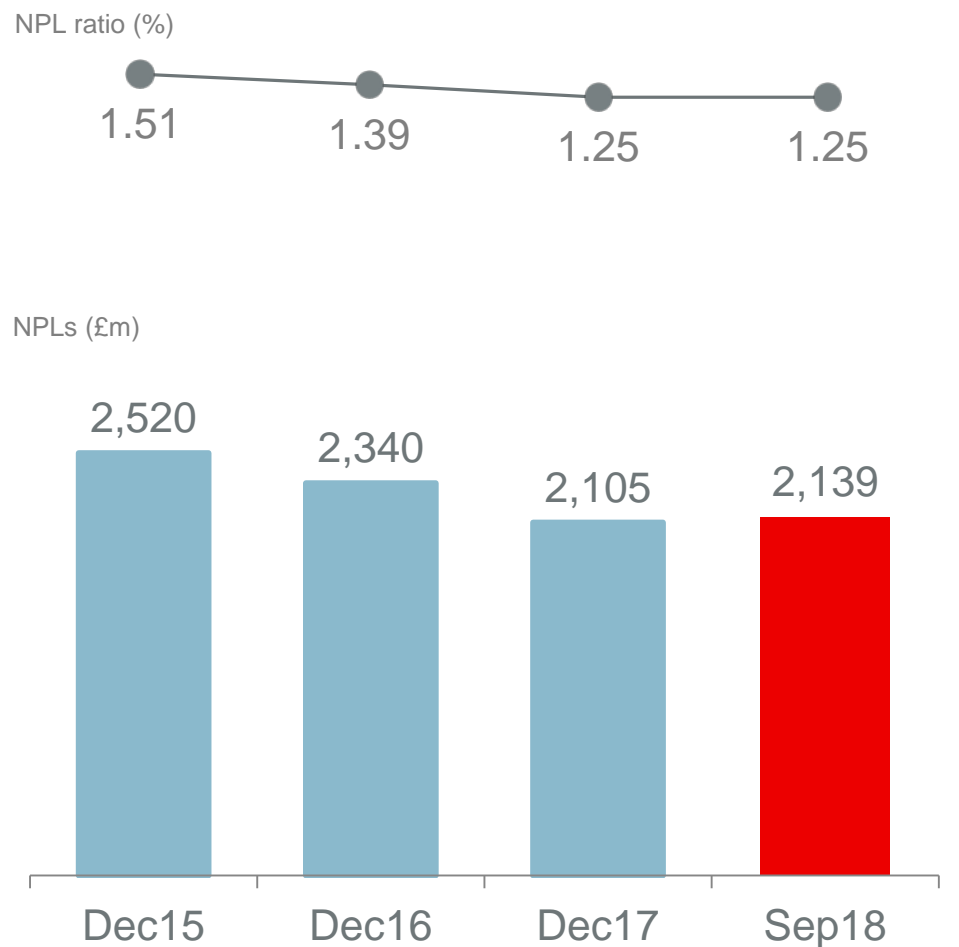
Platforms & services

Digital acquisition and adoption

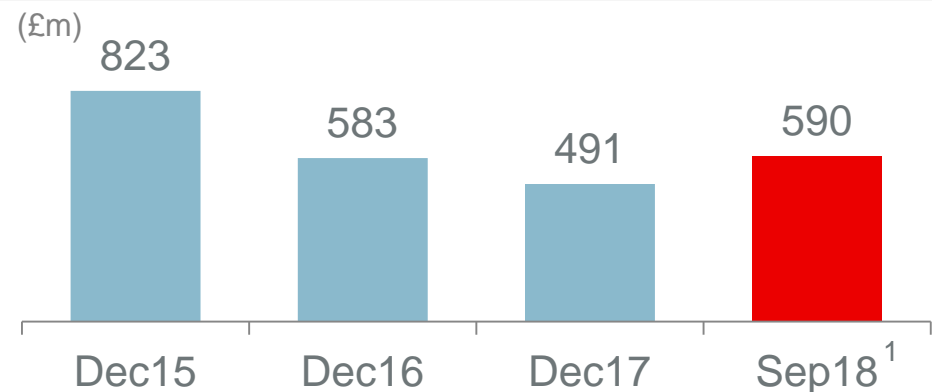
- | | YoY change |
|---|------------|
| ▪ Online mortgage refinancing: 55% retained | +7pp |
| ▪ Current accounts digital openings: 44% | +5pp |
| ▪ Credit cards digital openings : 61% | +11pp |

Strong Retail Banking credit performance

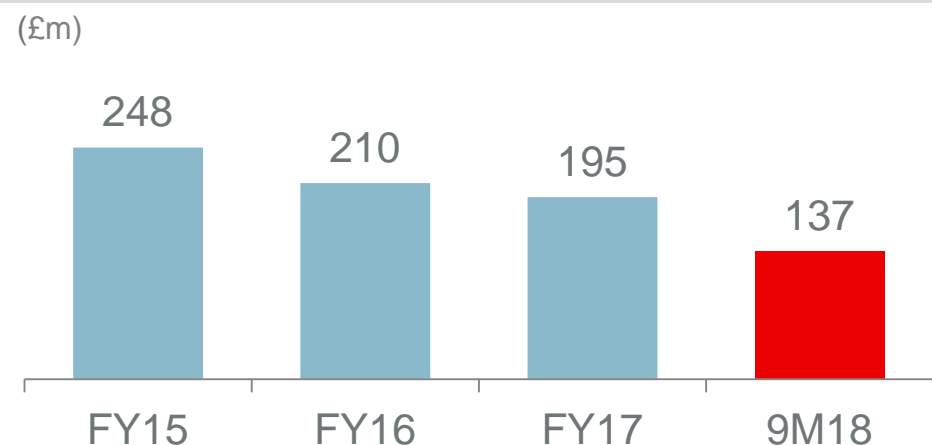
NPLs and NPL ratio



Loan loss allowance

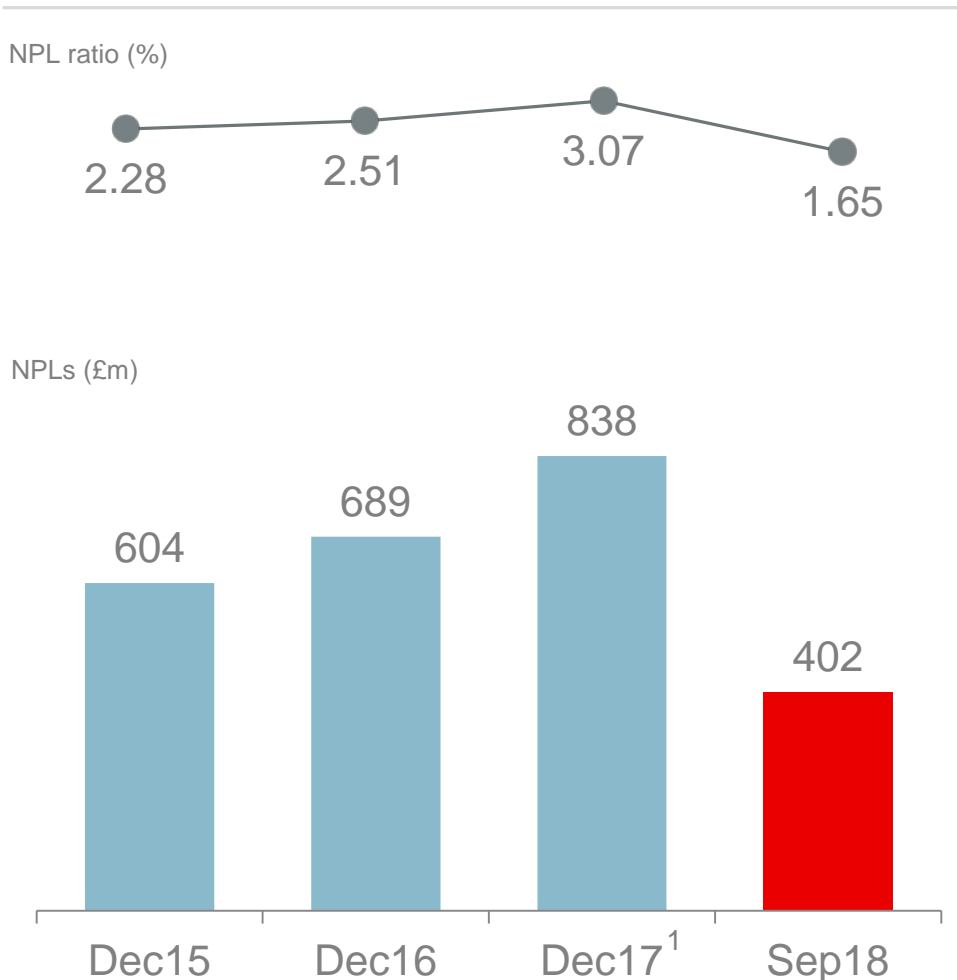


Write-offs during the period

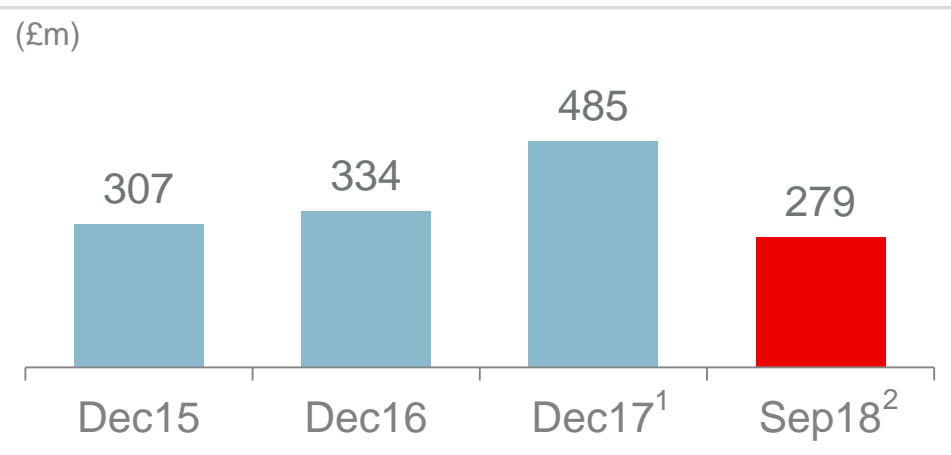


Robust credit performance in corporate lending portfolios

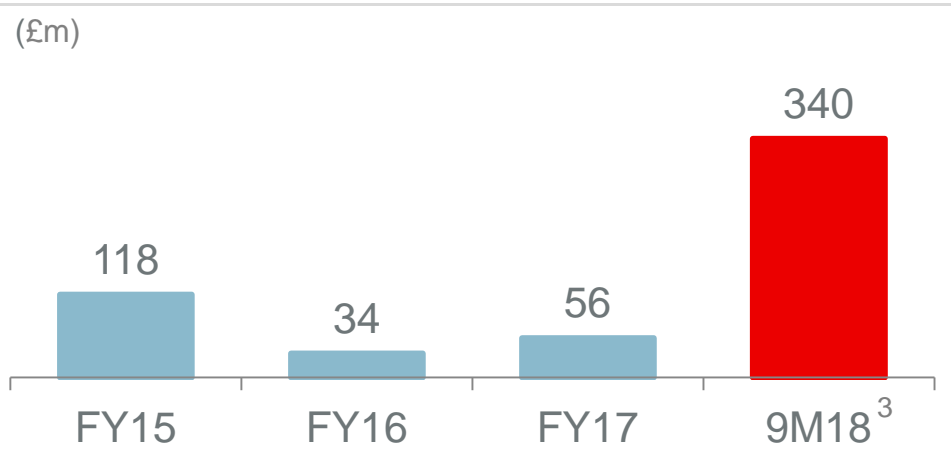
NPLs and NPL ratio



Loan loss allowance








Write-offs during the period



In an uncertain environment, we remain cautious in our outlook

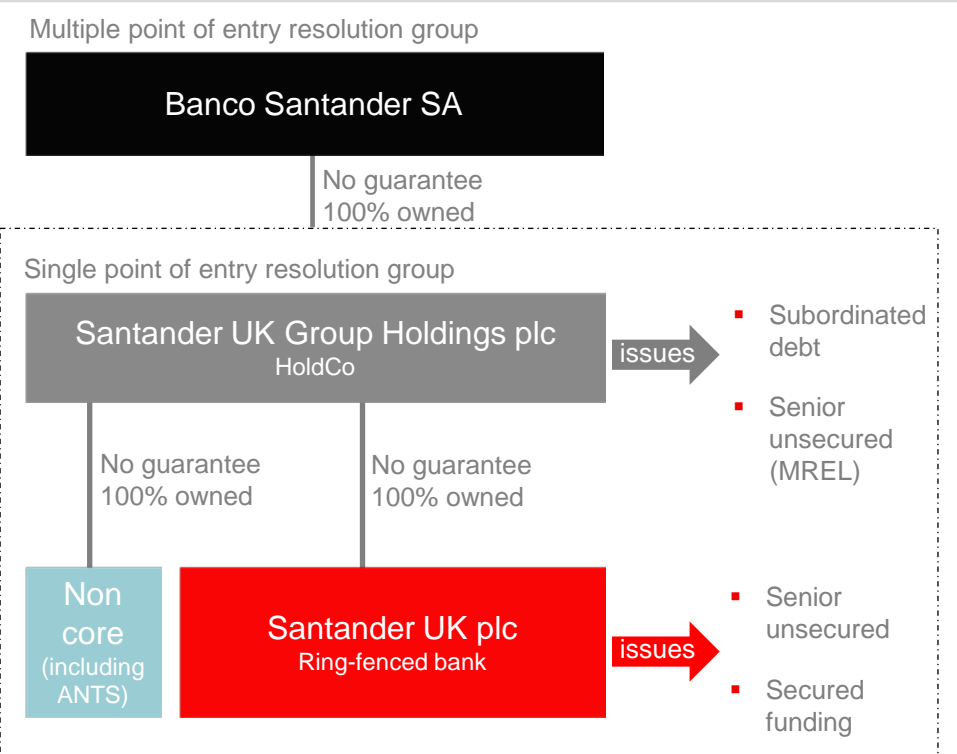
2018 outlook

	FY17	9M18		Outlook (vs FY17)
Net mortgage lending	£0.6bn	£2.3bn	<ul style="list-style-type: none"> Expect to be slightly below market growth as we focus on risk management, quality customer service and retention 	
Net CRE lending	-£0.9bn	-£1.4bn	<ul style="list-style-type: none"> Continue to actively manage CRE exposures. Lending growth to non-CRE trading businesses is expected to be ahead of the market 	
Banking NIM	1.90%	1.81%	<ul style="list-style-type: none"> Impacted by ongoing competition in new mortgage pricing and SVR attrition 	
SVR attrition ¹	£5.5bn	£3.6bn	<ul style="list-style-type: none"> With increased customer refinancing into fixed-rate products influenced by low mortgage rates and the competitive mortgage market 	
Operating expenses	£2,502m	£1,914m	<ul style="list-style-type: none"> Costs for FY18 will be higher than in FY17, due to a number of regulatory, risk and control projects. We continue with efficiency and business transformation initiatives 	

Strong capital, liquidity and funding position

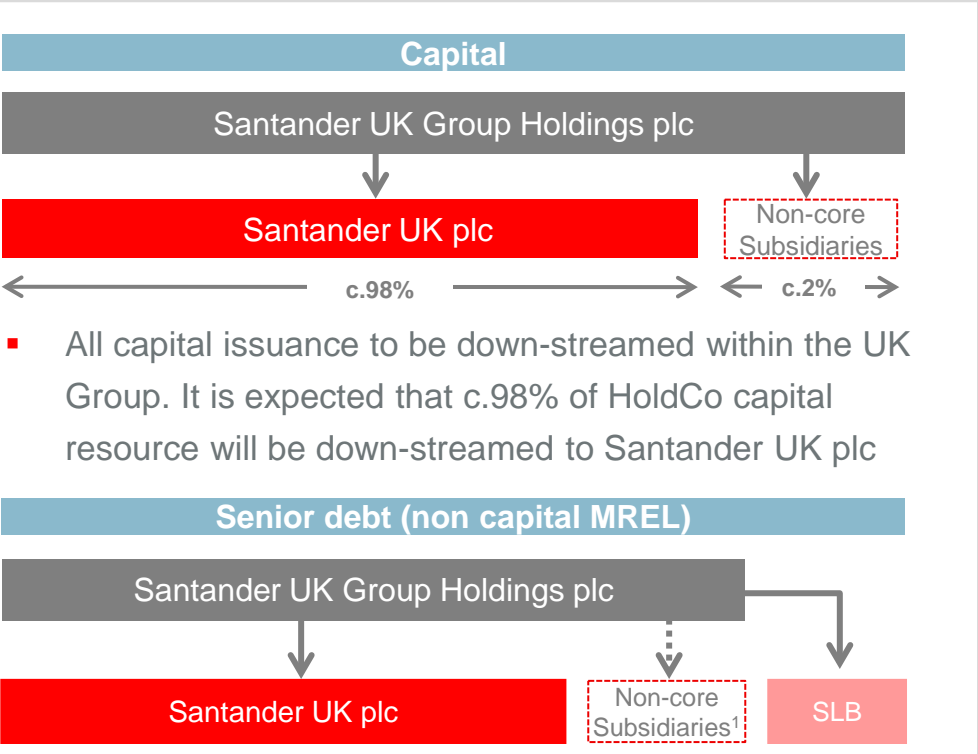
Santander UK funding model post ring-fencing

Wholesale funding model



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

Down-streaming model



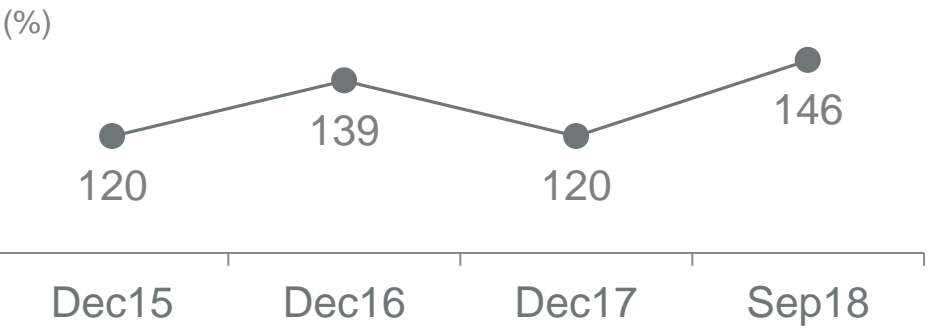
- During the transition to the 2022 fully phased-in MREL requirements, a limited amount of Holdco senior debt may be temporarily lent to the Banco Santander London Branch ('SLB') to fund the UK activities transferred² to SLB that were not permitted in the ring-fenced bank



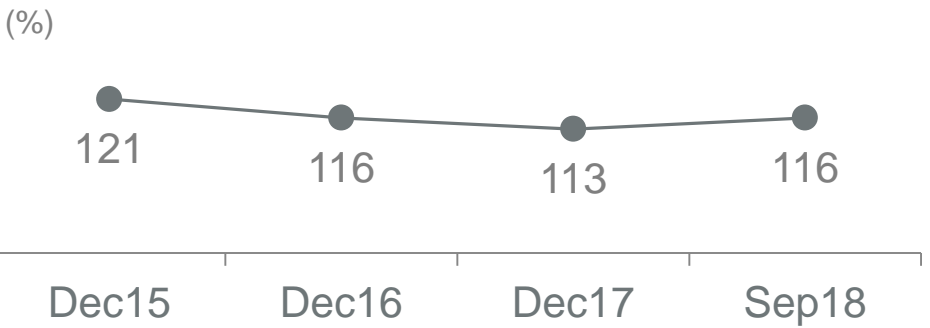
1. Santander UK non-core subsidiaries will have limited on-going funding requirements | 2. As part of the implementation of ring-fencing, during Jun18 and Jul18 we transferred £1.4bn of customer loans, £21.5bn of other assets and £20.7bn of liabilities from Santander UK plc to Banco Santander London Branch. Of these transfers, £19.7bn of assets and £18.8bn of liabilities related to derivatives business

Strong liquidity and funding position

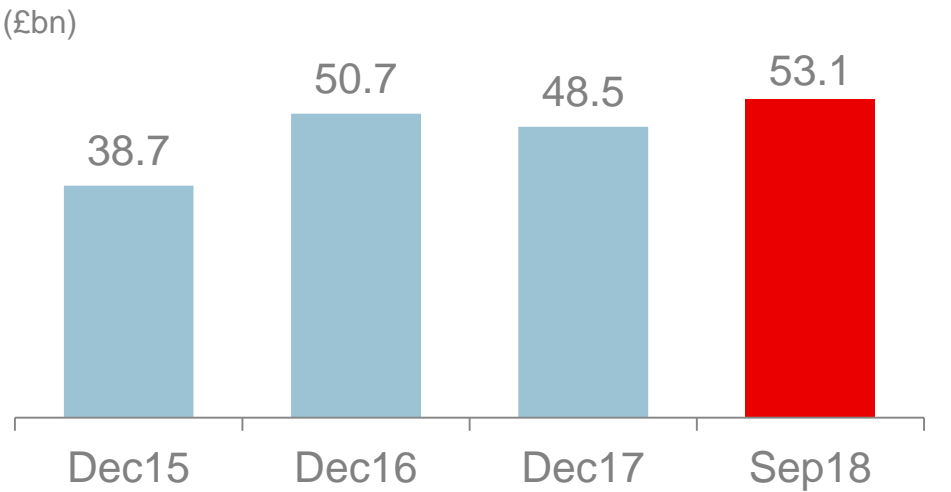
Liquidity coverage ratio (LCR)



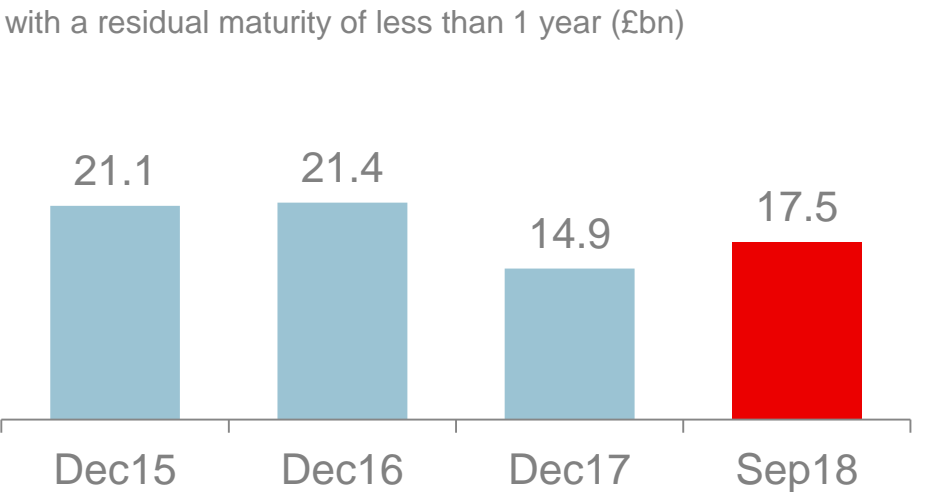
Loan-to-deposit ratio (LDR)



Liquidity coverage pool

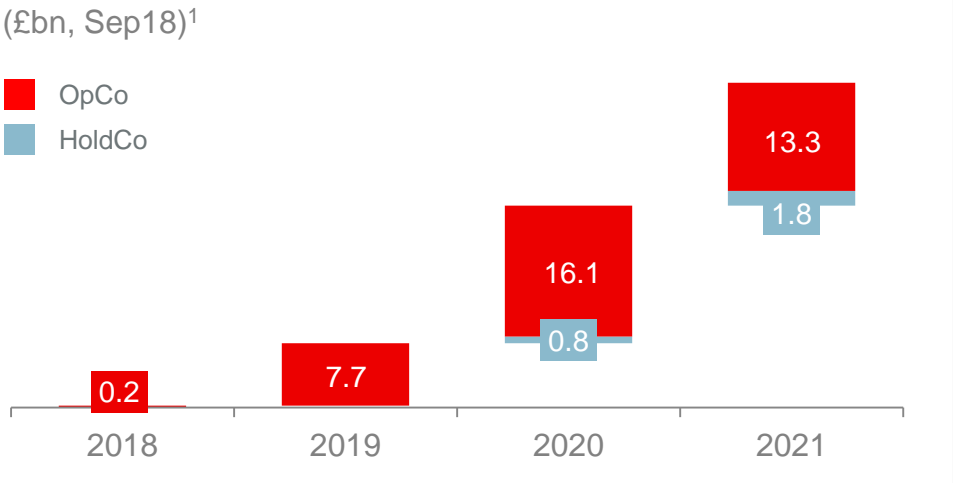


Wholesale funding

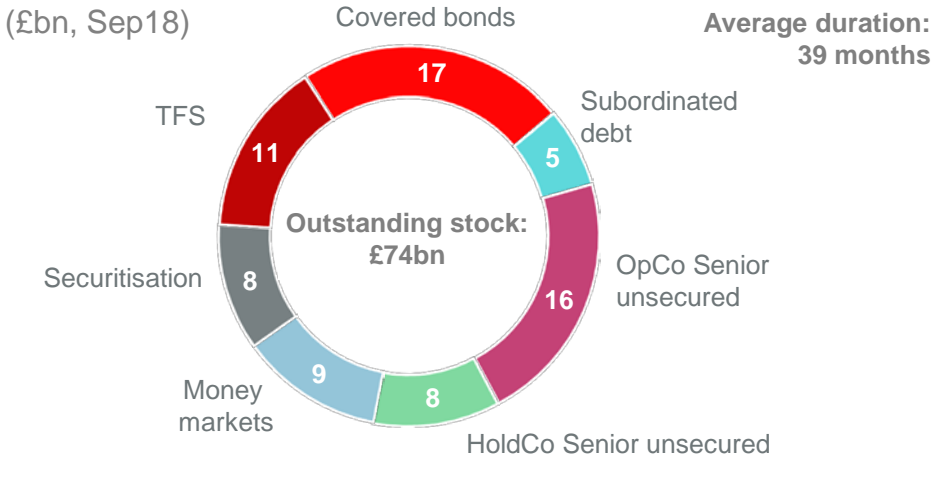


Strong funding position across a diverse range of products

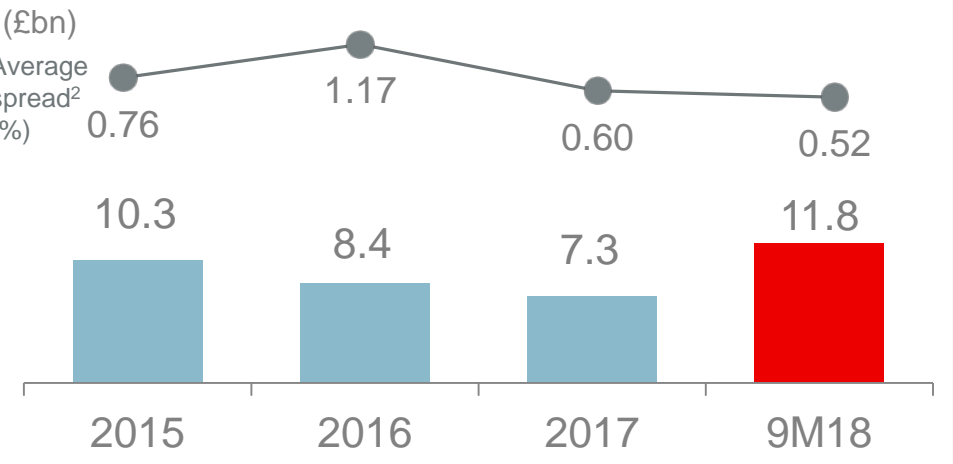
Medium term funding maturities



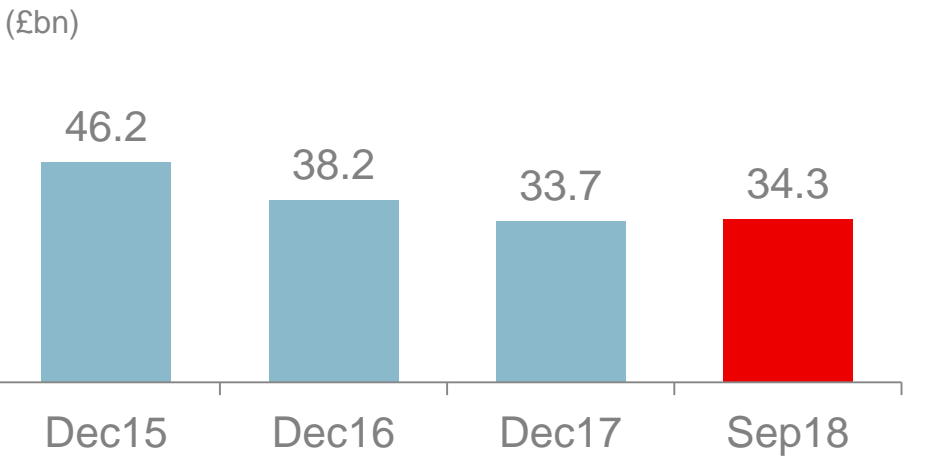
Wholesale funding stock



MTF issuance



Medium term funding encumbrance³



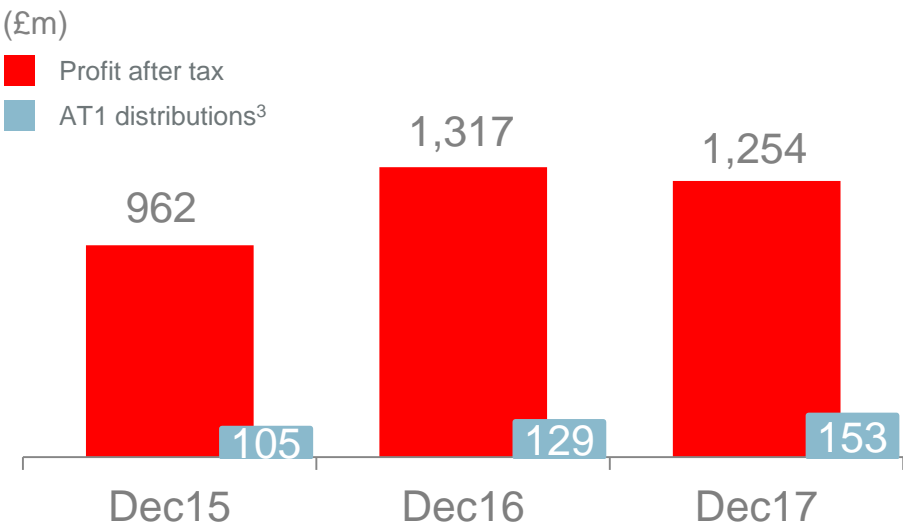
1. Includes issuances from Santander Consumer Finance UK and associated joint ventures and TFS | 2. Weighted average spread at time of issuance above GBP 3M LIBOR excluding structured notes. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 3. Mortgage encumbrance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

Meeting evolving capital requirements

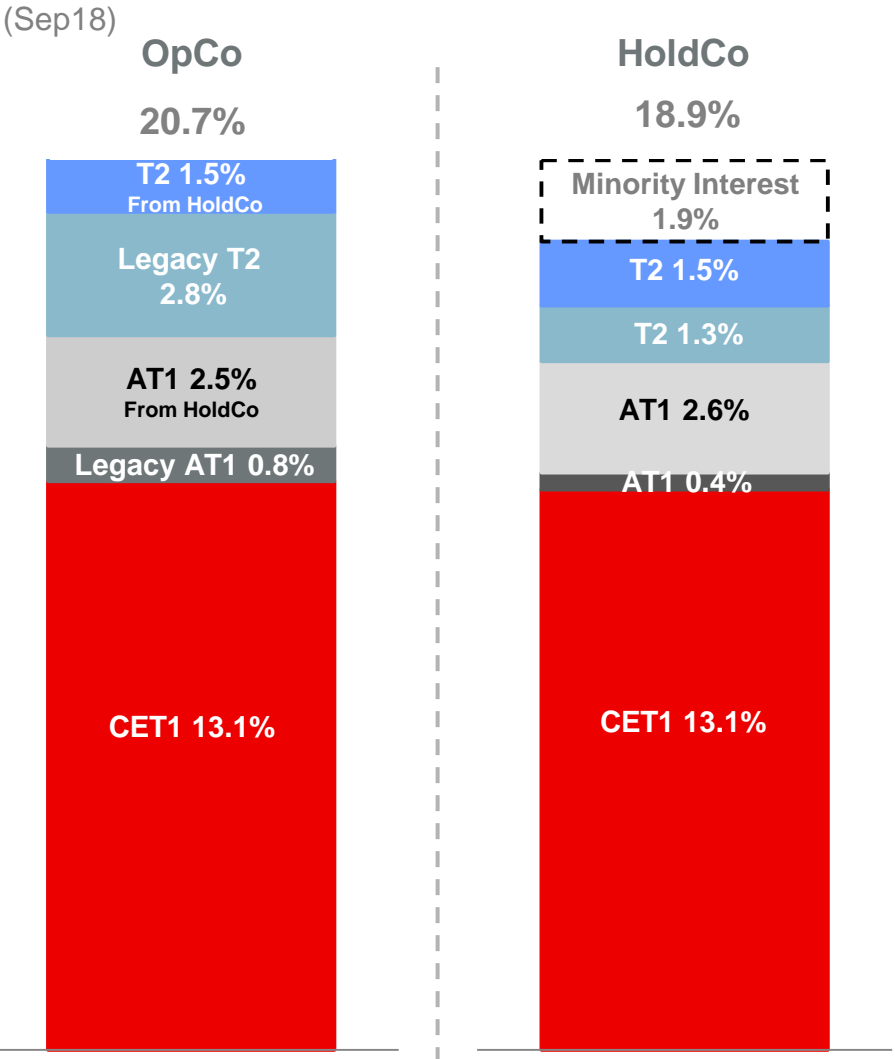
Capital and leverage

	Dec15	Dec16	Dec17	Sep18
CET1 ratio (%)	11.6	11.6	12.2	13.1 ¹
UK leverage ratio ² (%)	4.0	4.1	4.4	4.4
RWAs (£bn)	85.8	87.6	87.0	78.8

Profit after tax and AT1 distributions



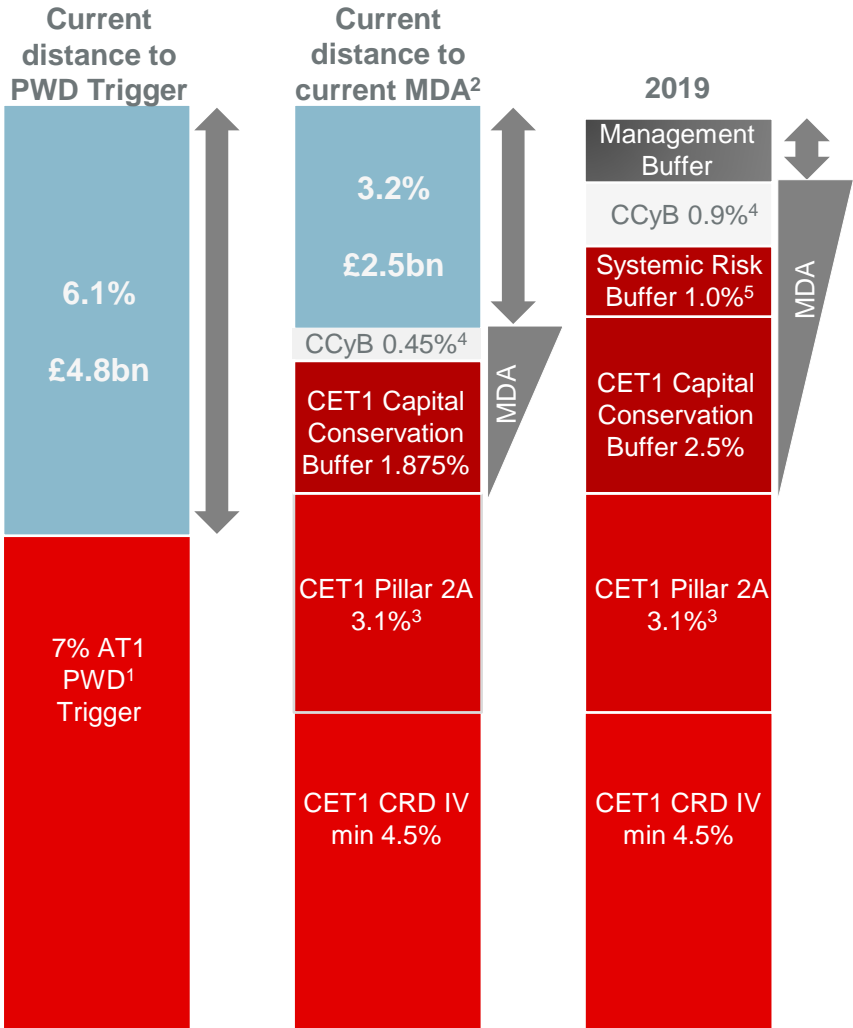
Total capital ratio



1. There was a 40bps increase in Q318, largely driven by retained profits and risk management initiative | 2. Dec16, Dec17 and Sep18 leverage ratios were calculated applying the amended definition, as per Jul16 PRA statement | 3. Additional Tier 1 instruments with shareholder equity treatment classification

Well managed capital structure

Significant buffer to thresholds



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

PRA Stress test

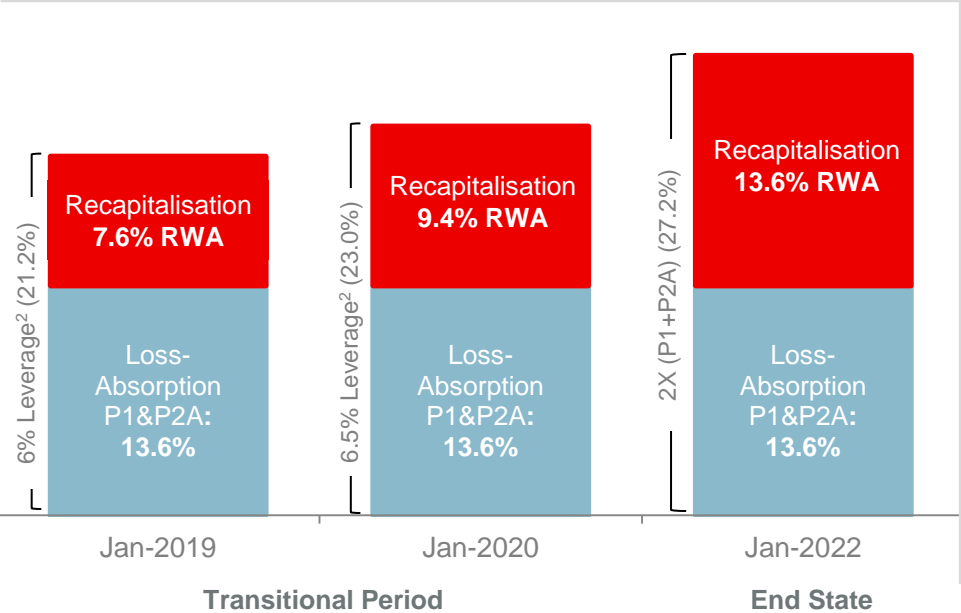
- In the 2017 stress test, Santander UK was the most resilient UK bank, with 2% reduction in the CET1 ratio before any management actions
- These results underline our prudent approach to risk



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 countercyclical capital buffer (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

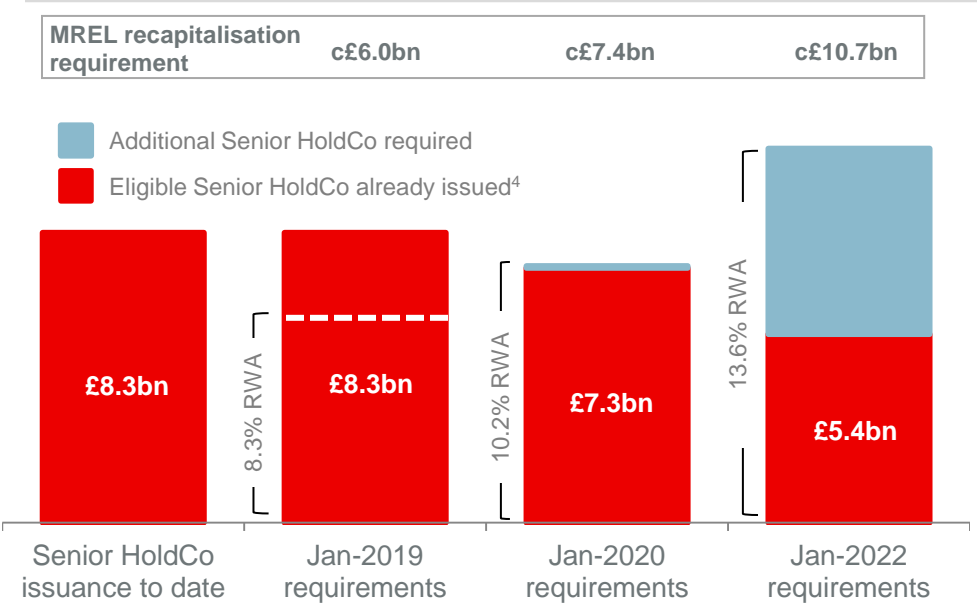
Major progress to meet recapitalisation MREL requirements

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



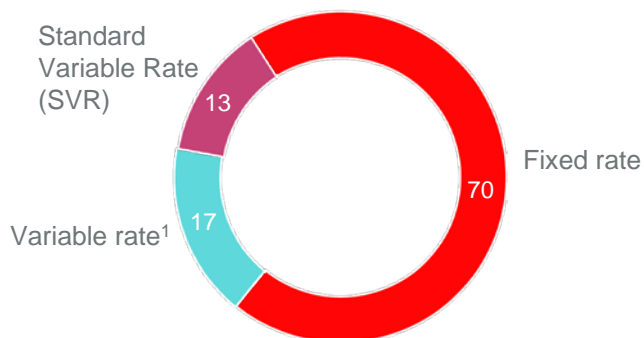
1. In June 2018 the Bank of England (BOE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and are fully implemented in 2022 | 2. Assumes Pillar 2A requirement remains at 5.6% | 3. Calculated using RWA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

Appendix

Prime residential mortgage book of £157.2bn

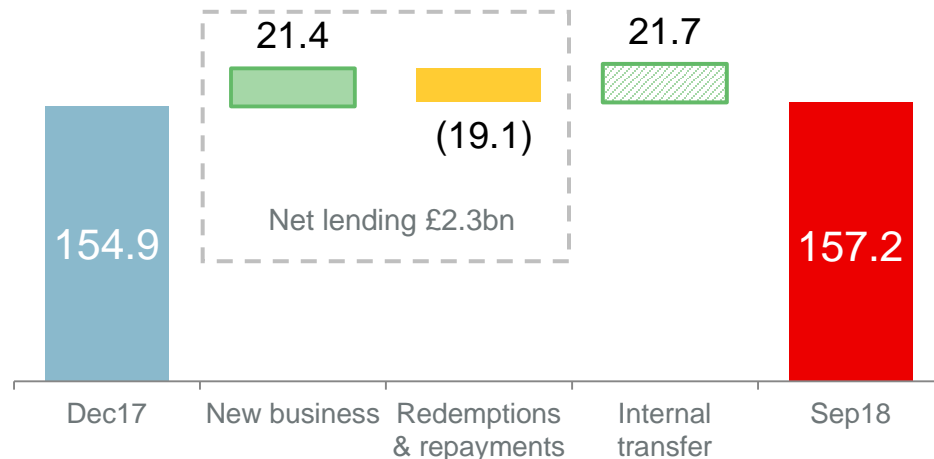
Product profile

(stock %, Jun18)



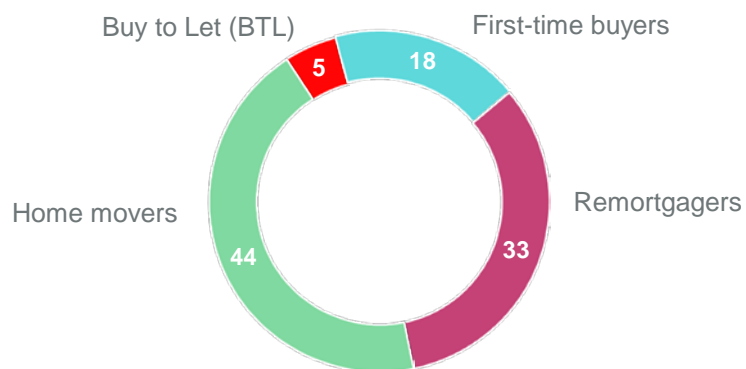
Lending breakdown

(£bn, Sep18)



Borrower profile

(stock %, Jun18)



- Net mortgage growth of £2.3bn in 9M18, with a focus on customer service and retention
- SVR attrition² of £3.6bn in 9M18 (9M17: £3.9bn)
- c78% of maturing mortgages retained
- 55% (+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

Total new lending	62%	62%
London new lending	56%	57%
Stock	42%	42%

House price change by region

(annual %, Aug18, nsa²)



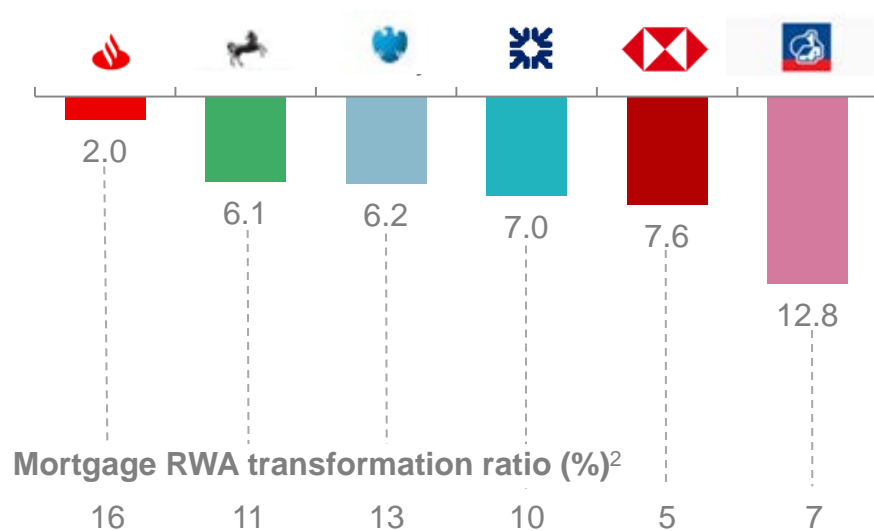
1. Unweighted average loan-to-value of all accounts | 2. Not seasonally adjusted. Source: HM Land Registry, United Kingdom

2017 PRA stress test demonstrated our balance sheet strength

2017 results

- Exceeded PRA's stress test CET1 ratio threshold of 7.6%, with stressed ratio of 9.6%, prior to any management actions
- Exceeded leverage ratio threshold requirement of 3.25%, with a stressed leverage ratio of 3.3% after allowed management actions

CET1 drawdown (%)¹



Mortgage RWA transformation ratio (%)²



Stress test scenario

- Coherent 'tail-risk' scenario designed to be severe and broad enough to assess the resilience of UK banks to adverse shocks
- 2017 annual cyclical scenario³

	Stress scenario %	2017 %	2020 (f) %
UK GDP Growth	(4.7)	1.7	1.3
Unemployment	9.5	4.4	4.4
Inflation	2.7	2.7	2.5
House Price Inflation	(33.0)	2.7	2.0
Base rate	4.00	0.50	0.75

- UK output contracts by 4.7% over the first year of the scenario. Reflecting that fall in output, unemployment rises by 9.5% - a greater rise than observed following the 2008 financial crisis

Credit ratings – October 2018

S&P

Moody's

Fitch

Santander UK Group Holdings plc

Senior unsecured
outlook

BBB
stable

Baa1
stable

A
stable

Tier 2

BB+

Baa1

A-

AT1

B+

Ba2

BB+

Santander UK plc

Senior unsecured
outlook

A
stable

Aa3
stable

A
RWP

Short-term

A-1

P-1

F-1

Standalone rating

bbb+

a3

a

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
Sep18	4.0	Not on track

Retail customer satisfaction (FRS, %)¹

Dec16	62.9	2018 target
Dec17	63.0	Top 3
Sep18	64.8	On track

Loyal SME and corporate customers

2016	290,000	2018 target
2017	305,000	308,000
Sep18	316,000	On track

Digital customers

2016	4.6	2018 target
2017	5.0	6.5 million
Sep18	5.4	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 9%-10% On track
2017	10.2	
9M18	9.8 ¹	

Non-performing loan (NPL) ratio

2016	1.50	2018 target < 2.00% On track
2017	1.42	
Sep18	1.24	

Cost-to-income ratio

2016	50	2018 target 50%-52% Not on track
2017	51	
9M18	55	

CET1 capital ratio

2016	11.6	2018 target c12% On track
2017	12.2	
Sep18	13.1 ²	

Dividend payout ratio

2016	51	2018 target 50% On track
2017	50	
9M18	N/A	

For notes see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the nine months ended 30 September 2018 and for the reconciliation to the nearest IFRS measures. 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

¹There was a 50bps increase in Q318, largely driven by the £668m dividend payment associated with ring-fence transfers | ² There was a 40bps increase in Q318, largely driven by retained profits and risk management initiative

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[Link to glossary](#)



[Key dates¹](#)

Q418 results: 30 January 2019

Q119 results: 30 April 2019

Q219 results: 24 July 2019

Q319 results: 30 October 2019

www.aboutsantander.co.uk

