Santander UK Group Holdings plc

Investor Update for the nine months ended 30 September 2019

October 2019

Santander

UK scale challenger with a prudent strategy and resilient balance sheet

Well established UK market position

14m
Active customers

c80% coverage
of UK financial centres

5.8m
Digital customers

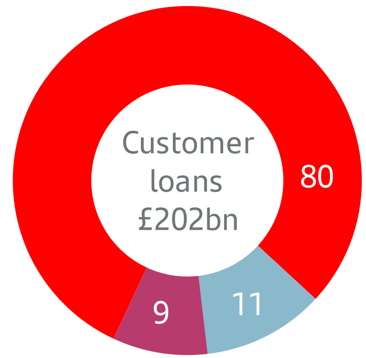
1.8k
New daily mobile users

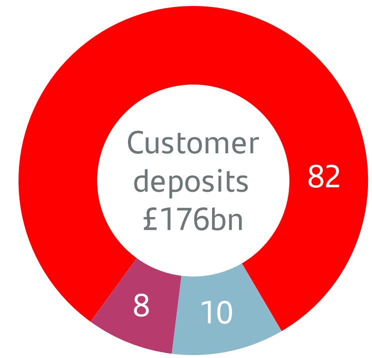
3rd largest mortgage lender[1]

5th largest commercial lender[1]

Helping people and businesses prosper

Customer balances,% (change vs. Dec18)





- Mortgages (+£3.6bn)
- Corporate (-£1.3bn)
- Other (£0.0bn)

- Retail (+£1.7bn)
- Corporate (+£2.2bn)
- Other (+£0.3bn)

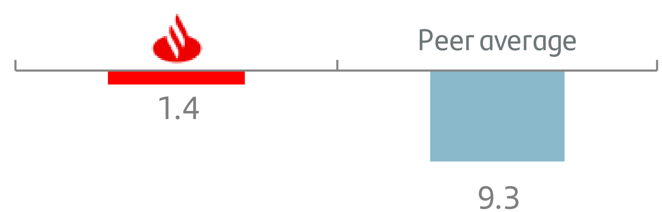
Prudent approach to risk

1.23% ratio	Stage 3	**15.0%** coverage ratio[2]
0.01% H119	Mortgage write-offs	**0.06%** 2013 peak[3]

Most resilient UK bank[4]

2018 BoE stress tests

CET1 drawdown (percentage points)



	Santander	Peer average
Mortgage RWA transformation ratio (%)	16%	9%

1. Santander UK analysis, as at Q219. Commercial lending refers to loans to SME and mid corporate clients by UK retail and commercial banks and building societies. | 2. Stage 3 coverage ratio calculated as total Stage 3 ECL over total Stage 3 exposures. | 3. Write-offs for loans secured on residential property reached 0.05% in 2009. Write-offs peaked post financial crisis in 2013 at 0.06%. | 4. CET1 drawdown is CET1 ratio as at Dec17 less minimum stressed ratio (before the impact of 'strategic' management actions and conversion of AT1. Source: BoE. Mortgage RWA transformation ratio is total UK mortgage (or nearest equivalent) RWA divided by total UK mortgage exposure, including both IRB and STD. Simple average of LBG, RBS, HSBC, BARC, Nationwide.

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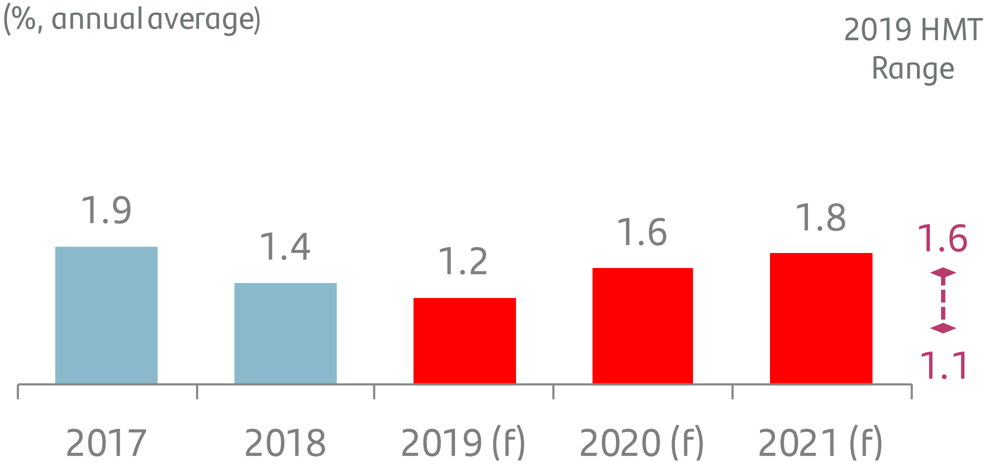
UK economy remains relatively stable, however uncertainty remains

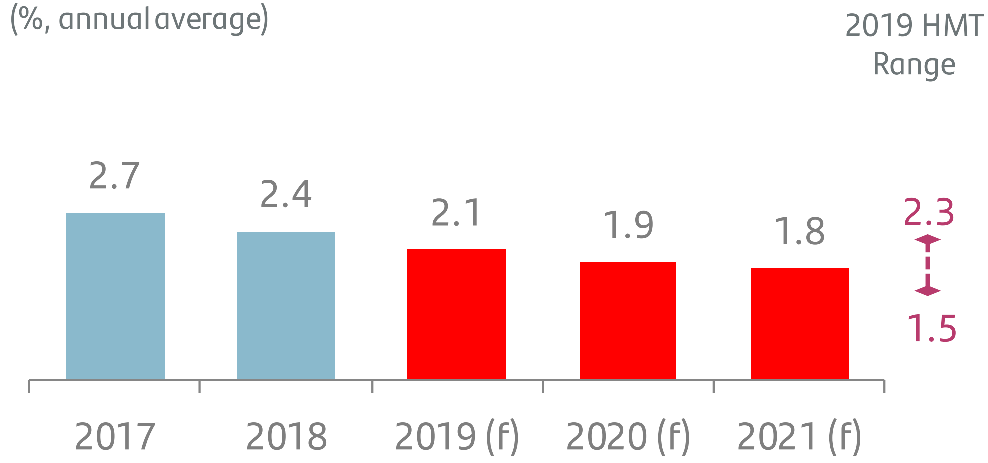
Annual GDP growth

(%, annual average)



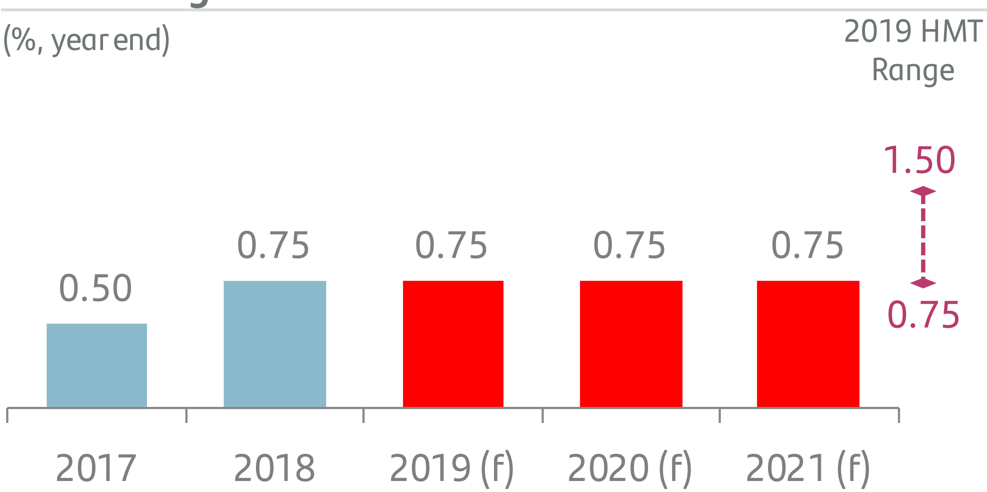
Annual CPI inflation rate

(%, annual average)



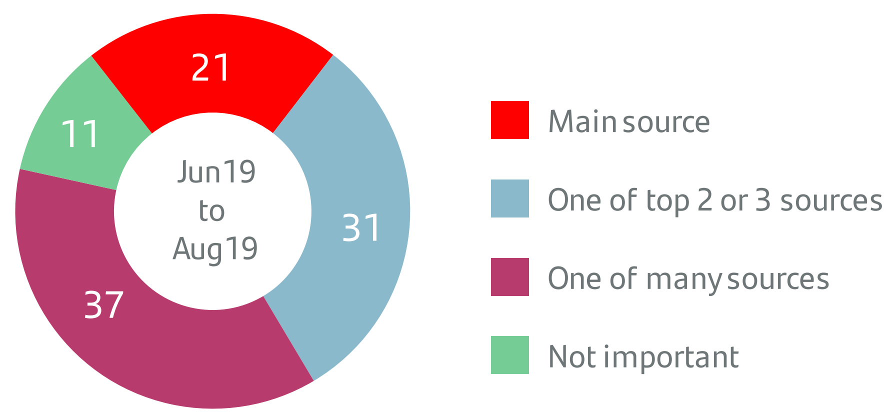
Bank of England base rate

(%, year end)



Brexit - a source of business uncertainty[1]

(Survey; % respondents)

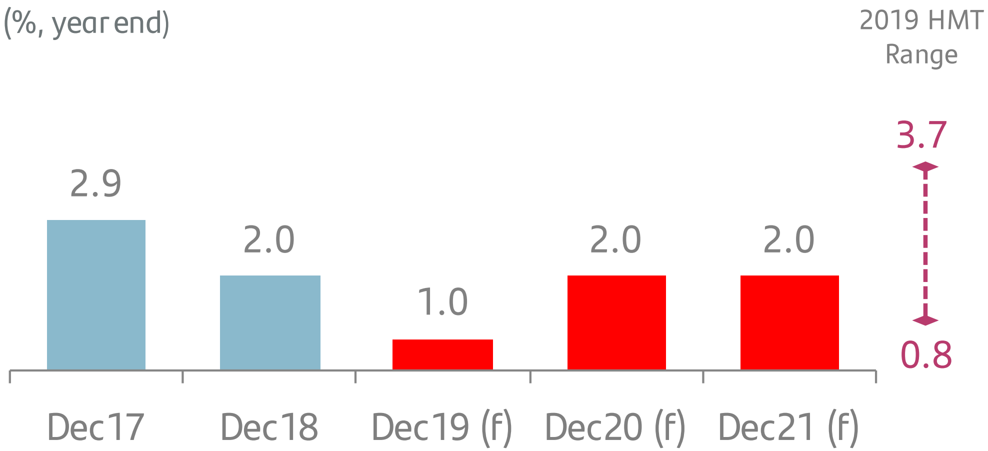


2017 and 2018 source: Office for National Statistics and Bank of England. 2019 (f), 2020 (f) and 2021 (f) source: Santander UK forecasts at September 2019. 2019 HMT range source: HM Treasury Consensus at October 2019 with forecasts made in the latest 3 months (August, September, October) included.

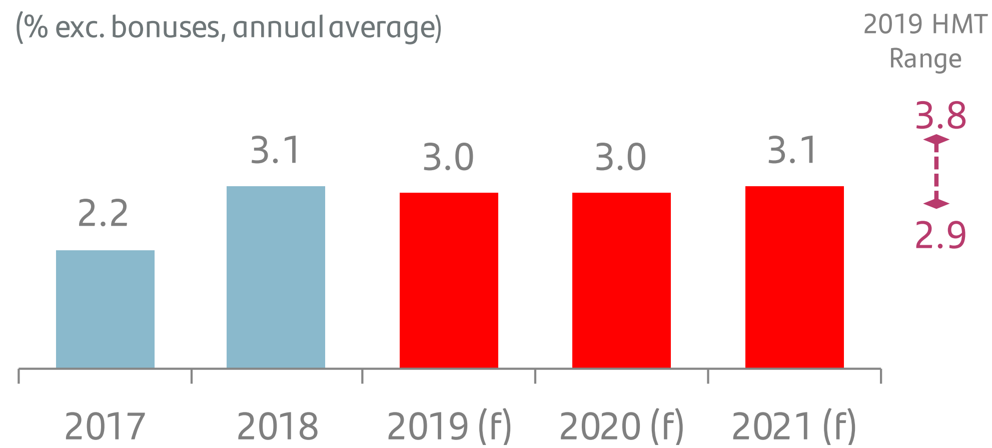
1. Source: Bank of England Decision Maker Panel survey. Question: 'How much has the result of the EU referendum affected the level of uncertainty affecting your business?'

UK economy remains relatively stable, however uncertainty remains

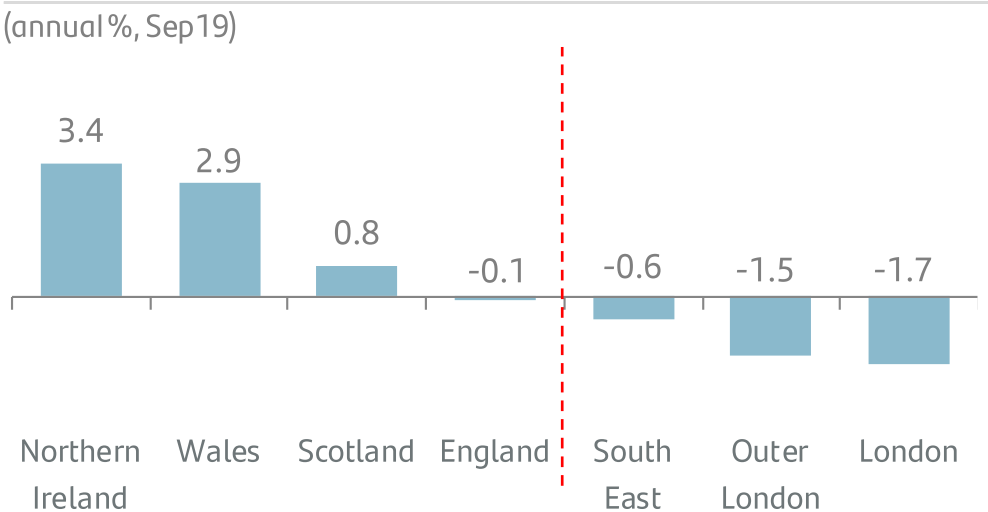
House price change[1]



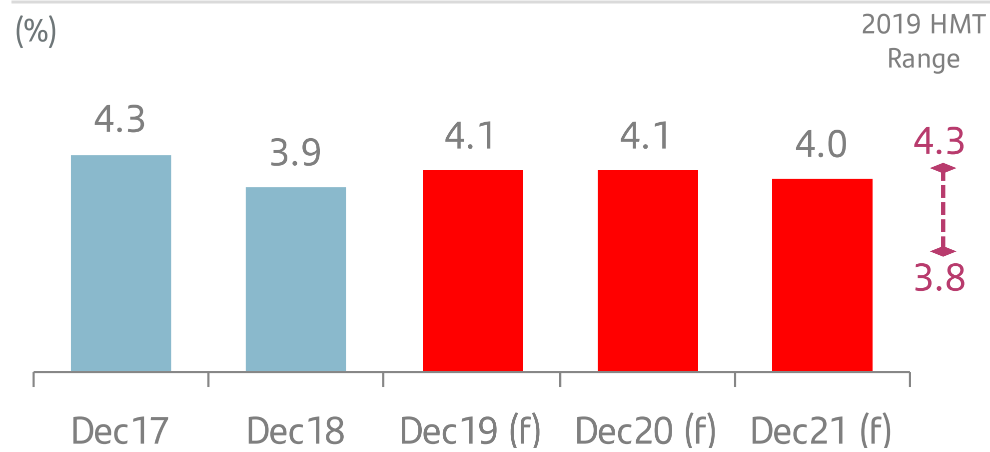
Average weekly earnings



House price change by region[2]



Unemployment rate



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2017 and 2018 source: Office for National Statistics and Bank of England. 2019(f), 2020 (f), and 2021 (f) source: Santander UK forecasts at September 2019. 2019 HMT range source: HM Treasury Consensus at October 2019 with forecasts made in the latest 3 months (August, September, October) included.

1. Halifax house price index (Source: IHS Markit) | 2. Nationwide regional house prices.

9M19 profitability was impacted by ongoing competitive income pressure, additional PPI costs as well as transformation programme investment

- Statutory PBT of £785m (-43% year-on-year); adjusted PBT of £1,066m (-23%) and RoTE of 7.3% (-280bps) predominantly driven by competitive income pressure in the mortgage market
- Statutory PBT was also impacted by £169m of PPI charges and £127m investment in our transformation programme
- Our multi-year transformation programme will improve future returns; we plan to invest £400m before the end of 2021 and expect to achieve a 2-3 year payback on our investment alongside a better customer experience
- We have invested £127m to date, predominately on restructuring. This is beginning to translate into improved efficiency, with a meaningful impact expected in 2020 and onwards
- We are supporting our customers while strengthening our business; strong net mortgage growth of £3.6bn, customer deposits up £4.2bn
- Strong balance sheet and very good credit quality; CET1 capital ratio of 13.9% (+70bps) Stage 3 ratio of 1.23% (-6bps)
- Maintaining prudent liquidity and funding position with an LCR of 148%

Financial results reflect competitive and regulatory pressures as well as the uncertain operating environment

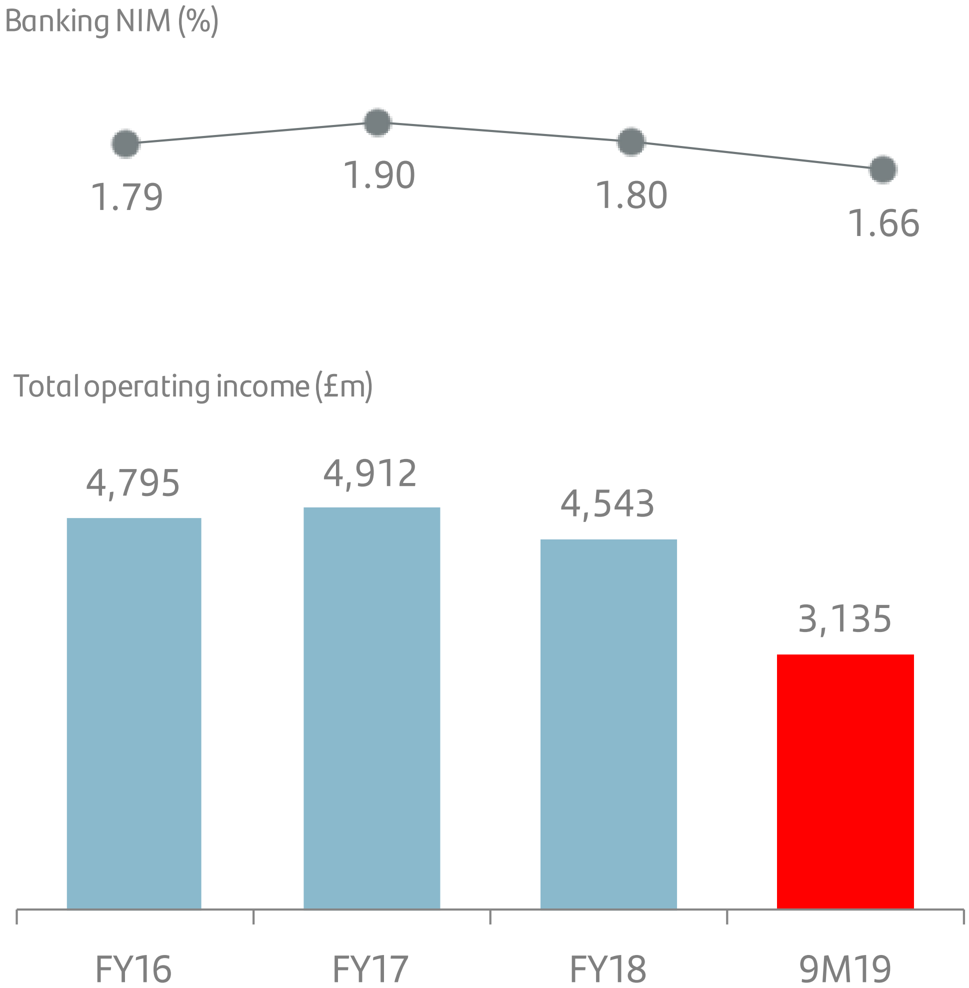
		9M19 vs FY18
Mortgage lending	↑	£161.6bn £3.6bn
Customer deposits	↑	£176.3bn £4.2bn
Banking NIM	↓	1.66% 14bps
Stage 3 ratio[2]	↓	1.23% 6bps
CET1 capital ratio	↑	13.9% 70bps

Adjusted[1]		9M19 vs 9M18
Operating income	↓	£3,120m 8%
Operating expenses	↑	£1,862m 2%
Provisions	↓	£55m 26%
Profit before tax	↓	£1,066m 23%
RoTE	↓	7.3% 280bps

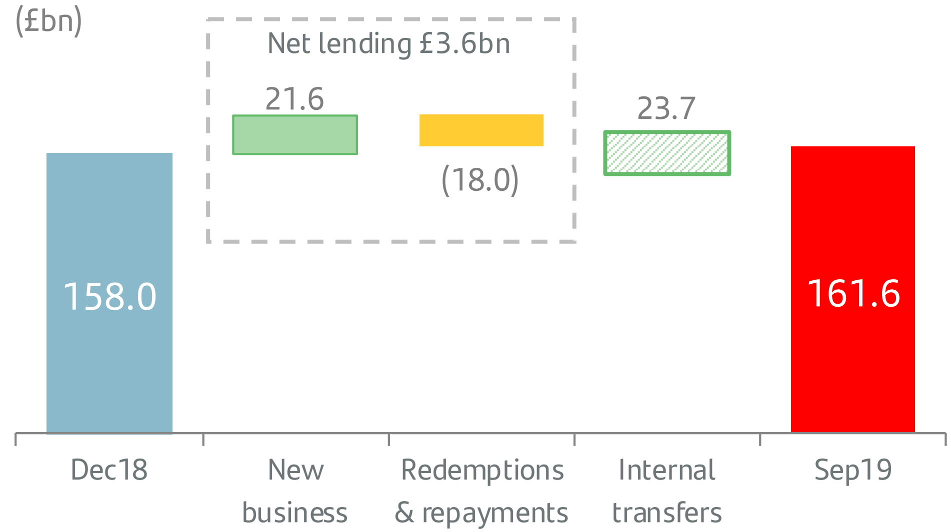
1. The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £281m in 9M19 and £6m in 9M18. See Quarterly Management Statement for the nine months ended 30 September 2019 for further detail. | 2. Stage 3 ratio is total stage 3 exposure as a percentage of customer loans plus undrawn stage 3 exposures.

Income impacted by mortgage back book repricing and continued SVR attrition

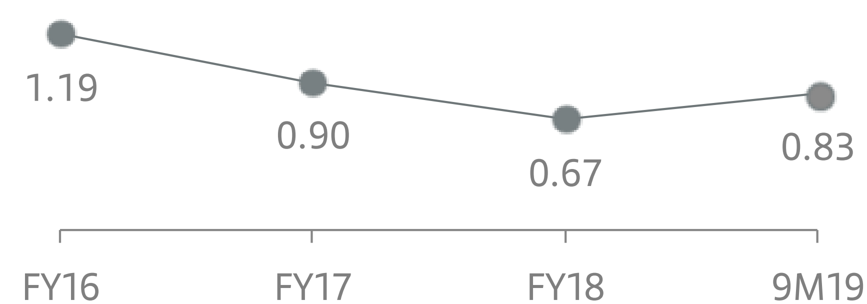
Total operating income and Banking NIM[1]



Mortgage lending breakdown



Mortgage market, BoE new lending margins[2]



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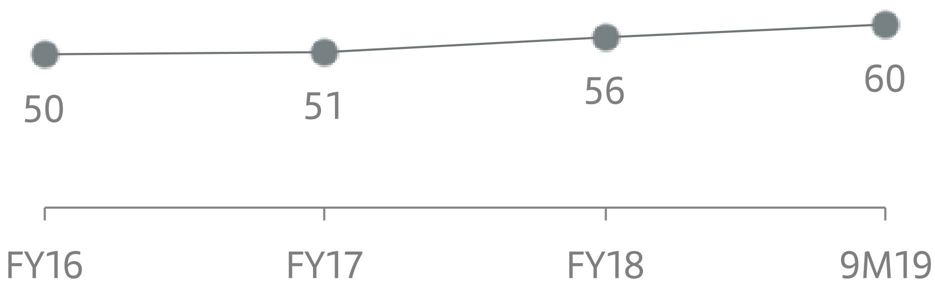
1. Banking NIM is calculated as annual net interest income divided by average customer assets | 2. Source: BoE average 2 year fixed mortgages 75% LTV less average 2 year swap rate from Bloomberg.

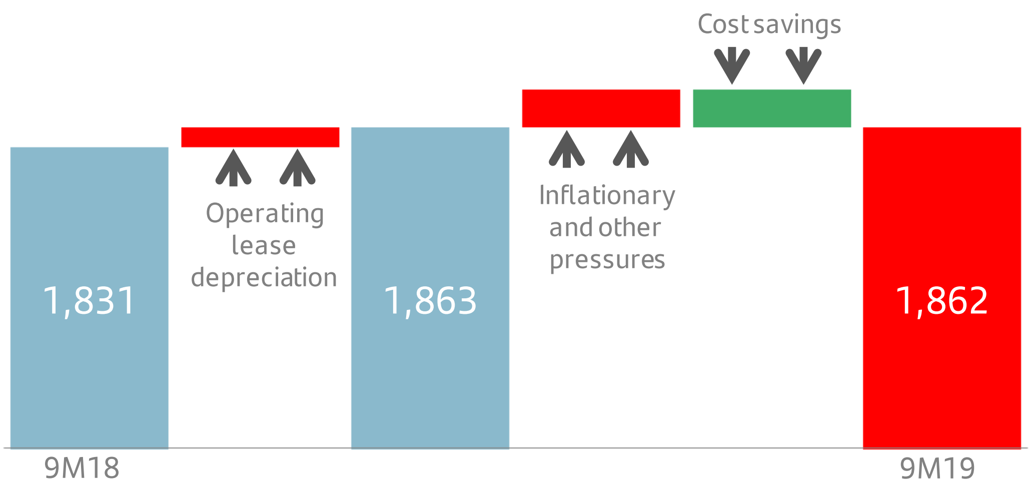
Cost management is beginning to translate into improved efficiency, with a meaningful impact expected in 2020 and onwards

Adjusted operating expenses and CIR

Cost-to-income ratio (%)



Adjusted operating expenses (£m)



Investing in transformation for improved returns

Planned investment by end 2021

£400m

RoTE medium-term goal

9-11%

Simplifying, digitising and automating the bank

60% Online mortgage retention +5% YoY

52% Current account openings +8% YoY

213m Total digital transactions[1] +21% YoY

63% Credit card openings +2% YoY

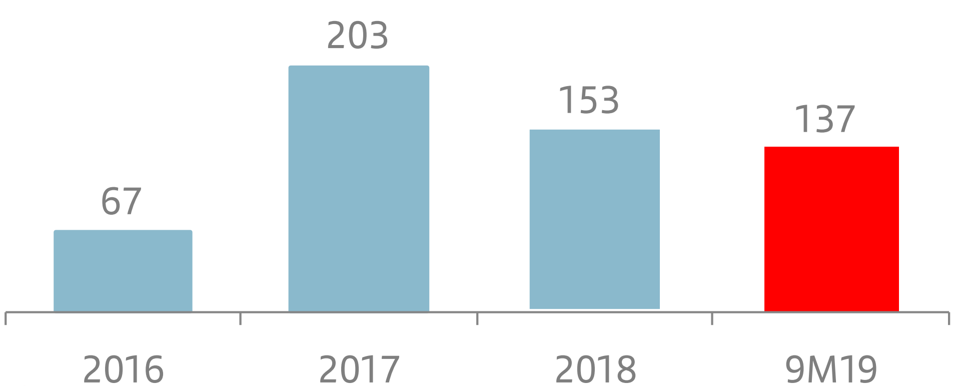
1. Total retail customer actioned financial transactions (online banking + mobile).

Credit quality remains very good, supported by our prudent approach to risk

Credit impairment losses and cost of risk

Cost of risk[1] (%)

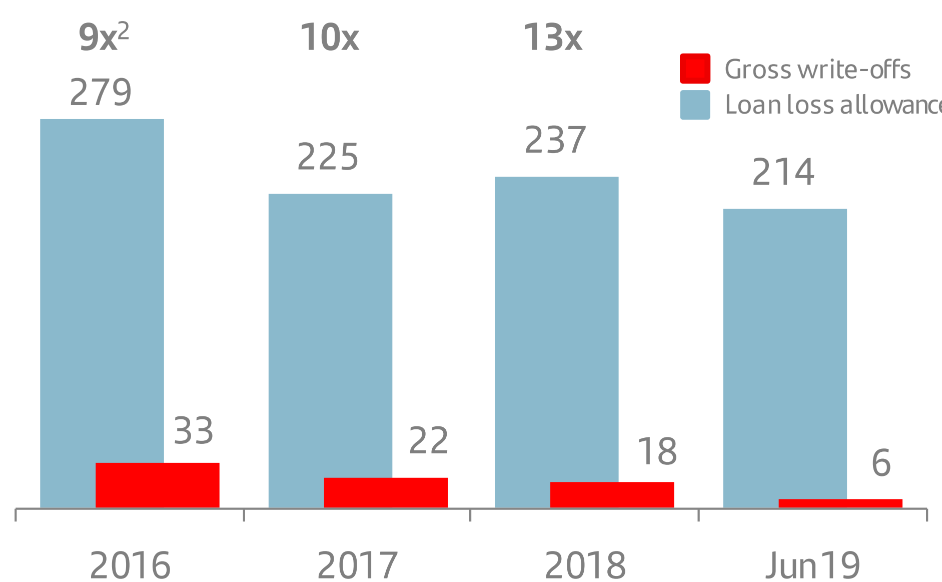
Credit impairment losses (£m)



Prudent mortgage lending criteria

	Dec18	Jun19
Average LTV on new lending	63%	64%
- of which London	58%	60%
- mix of >85% LTV	17%	21%
Stock LTV	42%	42%

Mortgage loan loss allowance and gross write-offs (£m)

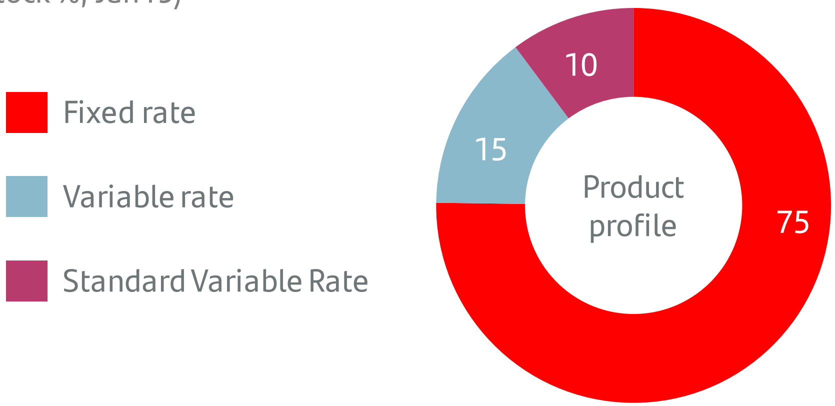


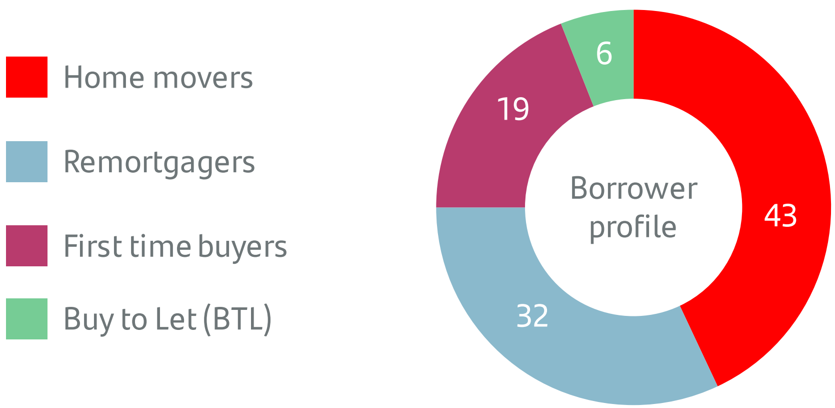
1. Cost of risk is credit impairment charge for the 12 month period as a percentage of average customer loans. | 2. Illustrates how many times the current value of write-offs would be covered by the current stock of mortgage impairment loan loss allowances.

Growing our prime mortgage book to £162bn despite strong competition

Residential mortgage portfolio

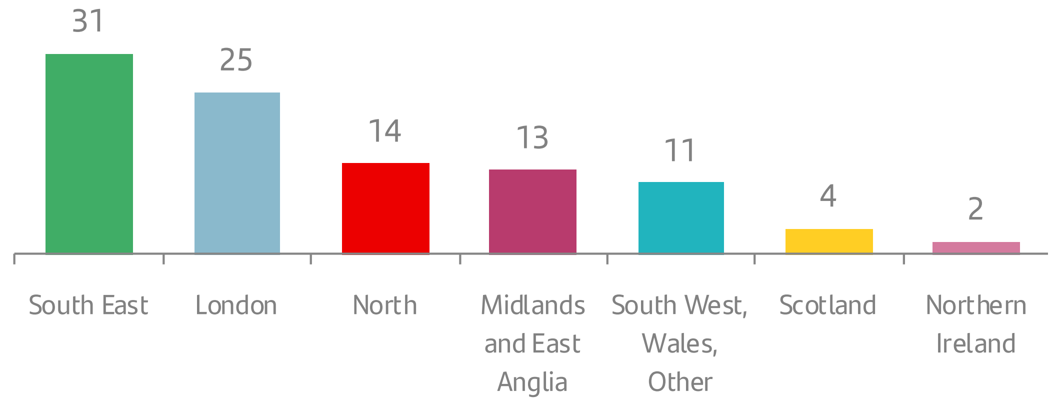
(stock %, Jun19)



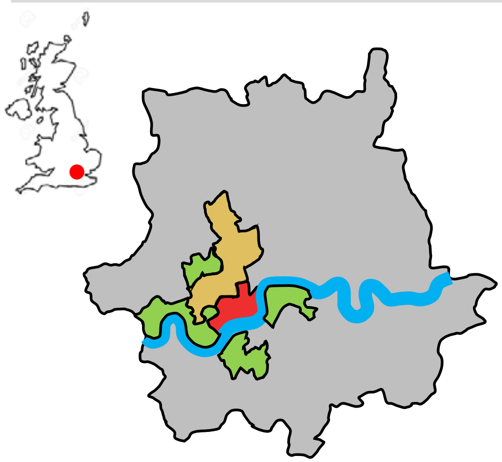


Geographical distribution

(stock %, Jun19)



Prime London Lending



	Central	Prime Fringe	Prime	Prime Central
Asset (£bn)	39.8	1.85	1.10	0.27
Volume (#000)	196	6.4	3.4	0.7
Ave Loan (£000)	203	288	325	411
>75%LTV	11%	10%	6%	8%

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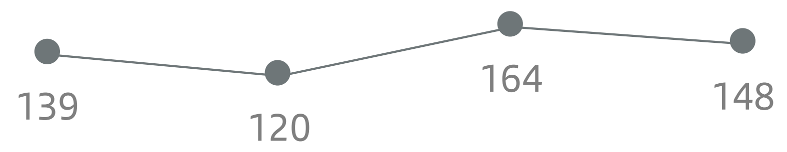
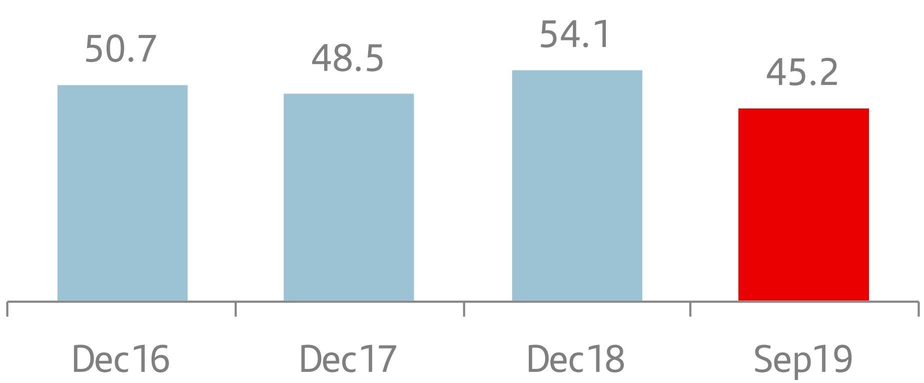
Maintaining prudent liquidity and funding position

LCR and liquidity coverage pool

LCR (%)



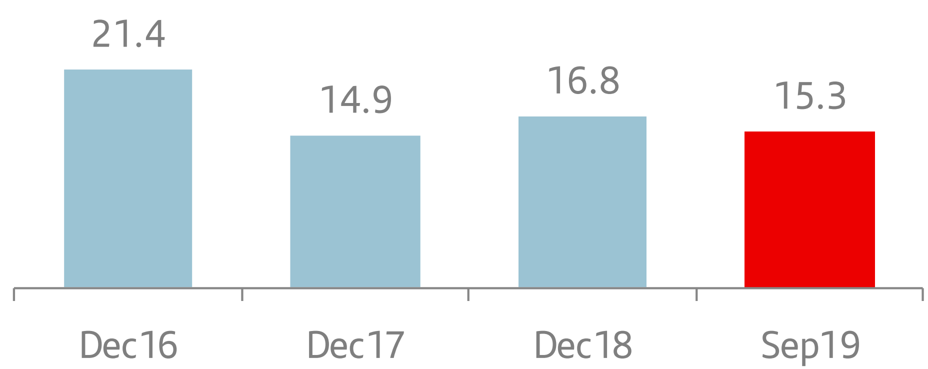
Liquidity coverage pool
(£bn)



- The RFB DolSub LCR and LCR eligible liquidity pool both decreased following the transfer of our Isle of Man and Jersey businesses into SFS[1] as part of ring-fencing implementation
- We continue to maintain high levels of liquidity to ensure we are well prepared for all potential Brexit outcomes

Wholesale funding

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



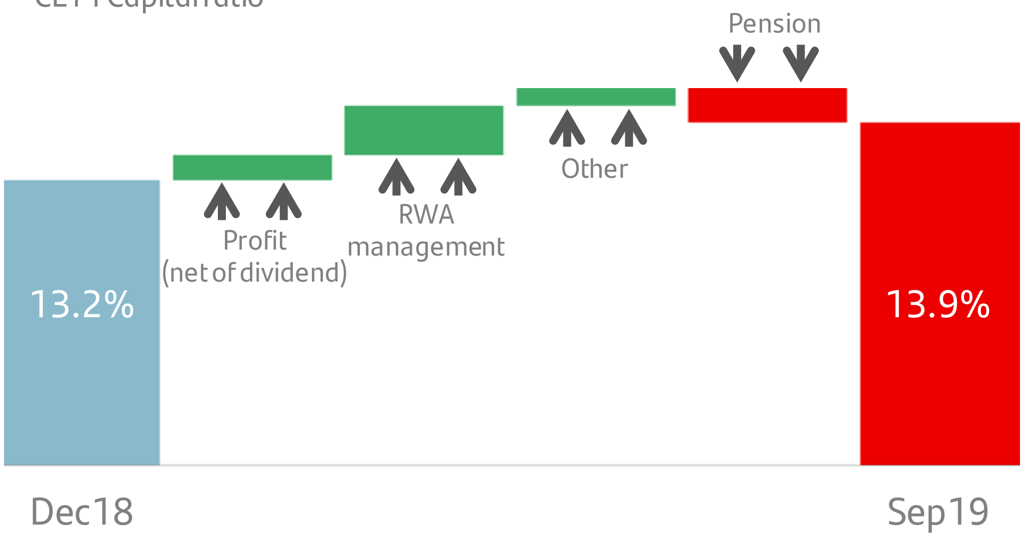
1. Santander Financial Services, formerly ANTS | 2. With effect from 1 January 2019, and in accordance with our ring-fence structure, SFS was withdrawn from Santander UK's Domestic Liquidity Sub-group. We now monitor and manage liquidity risk for Santander UK plc and SFS separately and 2018 has not been restated. The SFS LCR eligible liquidity pool was £5.2bn and the SFS LCR was 4765% as at 30 September 2019.

Strong capital progression

Capital and leverage

	Dec16	Dec17	Dec18	Sep19
CET1 ratio (%)	11.6	12.2	13.2	13.9
Leverage exposure (£bn)	289.6	287.0	275.6	273.5
UK leverage ratio[1] (%)	4.1	4.4	4.5	4.6
RWAs (£bn)	87.6	87.0	78.8	74.5
HoldCo total capital (%)	17.3	17.8	19.1	21.4
OpCo total capital (%)	18.5	19.3	20.3	21.6

CET1 Capital ratio

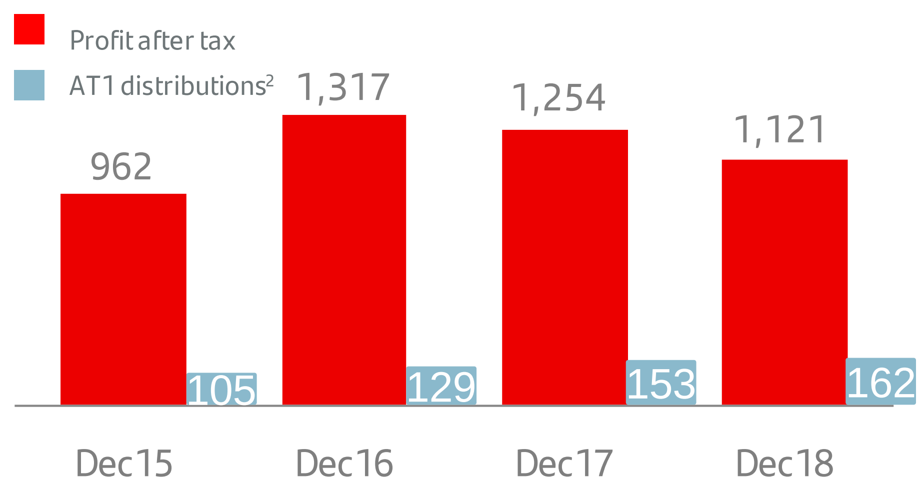


Strong CET1 Capital ratio

- Increased 70bps to 13.9%, through capital accretion and active RWA management
- UK leverage ratio increased 10bps to 4.6%
- As leverage becomes the binding constraint, CET1 capital ratio could continue to increase alongside lending growth

Profit after tax and AT1 distributions

(£m)



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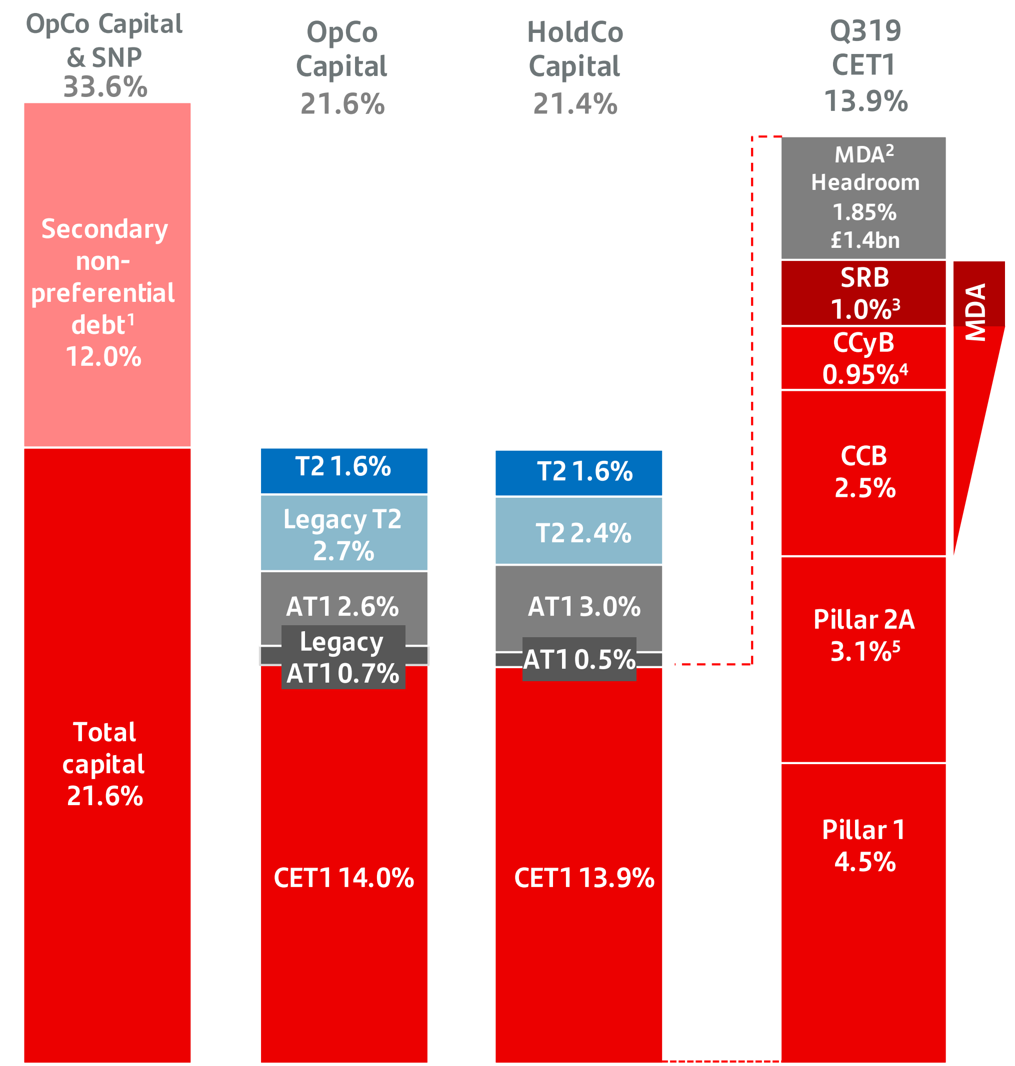
1. Dec16, Dec17, Dec18 and Sept19 leverage ratios were calculated applying the amended definition, as per Jul16 PRA statement | 2. Additional Tier 1 instruments with shareholder equity treatment classification.

Well positioned on loss absorption and recapitalisation amount

Total capital and non capital (iMREL) ratios



- In August, Santander UK Group Holdings increased its AT1 outstanding by £200m via the issuance of a new £500m 6.3% AT1 to Banco Santander and the repurchase of the £300m 7.6% AT1 from Banco Santander. The increase in notional aims to maximise our leverage ratio AT1 capacity

- Our current CET1 management buffer provides adequate headroom to MDA. In the 2018 BoE stress test, Santander UK's CET1 drawdown was the lowest across UK banks at 1.4%, pre strategic management actions

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1. Secondary non-preferential debt as of 30 September 2019 | 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 CRD IV buffers consisting of the Capital Conservation Buffer (CCB) of 2.5% and CCyB of 0.95% | 3. Applicable to the ring-fence bank sub-group with an equivalent amount held at HoldCo Group, applicable from 1 August 2019 | 4. The current applicable UK countercyclical capital buffer (CCyB) rate is 1.0%. Santander UK's current geographical allocation of the CCyB is 95% | 5. Santander UK's Pillar 2 CET1 requirement was 3.1% as at 30 September 2019, Pillar 2A guidance is a point in time assessment.

Well advanced to comply with MREL requirements

MREL recapitalisation[1]

	Sep-19	Jan-20	Jan-21	Jan-22
Leverage exposure (FPC)	£273.5bn	£273.5bn	£273.5bn	£273.5bn
Leverage exposure (CRD IV)	£293.5bn	£293.5bn	£293.5bn	£293.5bn
RWAs (CRD IV)	£74.5bn	£74.5bn	£74.5bn	£74.5bn
Pillar 1 (8.0%)	£6.0bn	£6.0bn	£6.0bn	£6.0bn
Pillar 2A (5.5%)	£4.1bn	£4.1bn	£4.1bn	£4.1bn
Leverage exposure (FPC)	**N/A**	**6.50%** *£17.8bn*	**6.50%** *£17.8bn*	**6.50%** *£17.8bn*
Leverage exposure (CRD IV)	**6.00%** *£17.6bn*	**6.00%** *£17.6bn*	**6.00%** *£17.6bn*	**6.75%** *£19.8bn*
RWAs (CRD IV)	**16%** *£11.9bn*	**2 x P1 + P2A** *£16.0bn*	**2 x P1 + P2A** *£16.0bn*	**2 x (P1 + P2A)** *£20.2bn*
Senior Hold Co (MREL eligible)	**£9.4bn**	**£8.4bn**	**£6.4bn**	**£6.4bn**
MREL requirement amount (exc. buffers)	£17.6bn	£17.8bn	£17.8bn	£20.2bn
Loss absorption amount (P1 + P2A)	£10.1bn	£10.1bn	£10.1bn	£10.1bn
Recapitalisation amount	**£7.6bn**	**£7.7bn**	**£7.7bn**	**£10.1bn**
Excess / (Deficit)	**£1.8bn**	**£0.7bn**	**£(1.3)bn**	**£(3.7)bn**

Assumed static (Sep-19 to Jan-20, for leverage exposures, RWAs and Pillar 2A)

- As of September 2019, the excess capital above minimum capital requirements, including current regulatory buffers, equated to c.£2.5bn[2,3]
- It is our intention to have an MREL recapitalisation management buffer in excess of the value of HoldCo Senior unsecured securities that are due to become MREL ineligible during the proceeding 6 months

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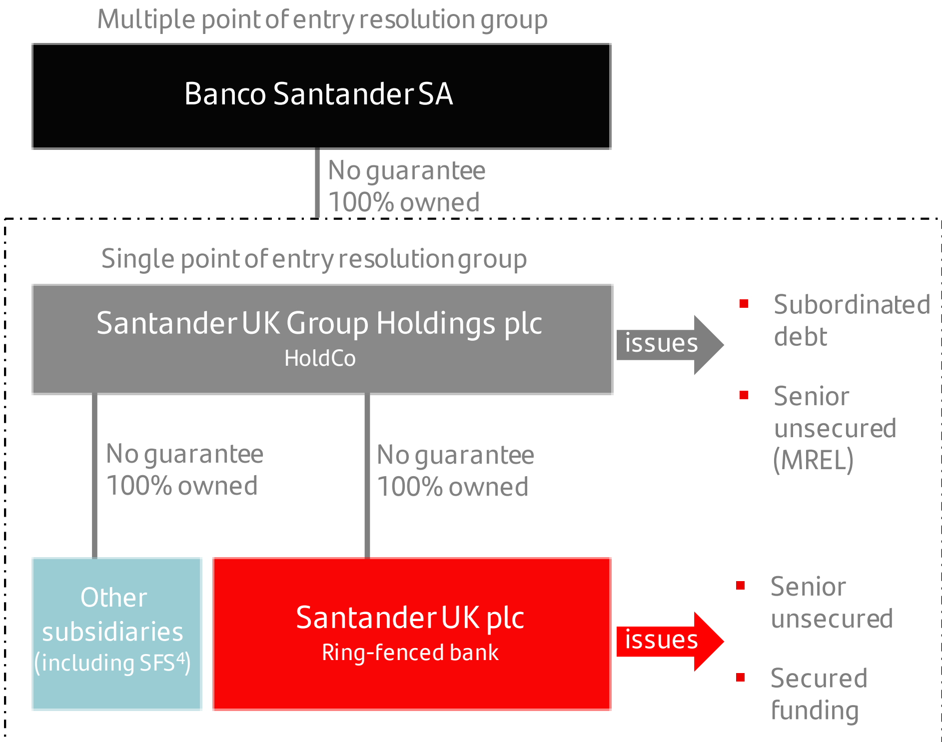
1. In August 2019 the Bank of England (BOE) disclosed Santander UK's indicative minimum MREL requirements. The requirements over and above regulatory capital started in 2019, step up in 2020 and are fully implemented in 2022. Assumes Pillar 2A requirement remains at 5.5% and the calculations do not include any excess capital | 2. Regulatory values as at 30 September 2019 | 3. Excess capital above minimum requirements as at 30 September 2019

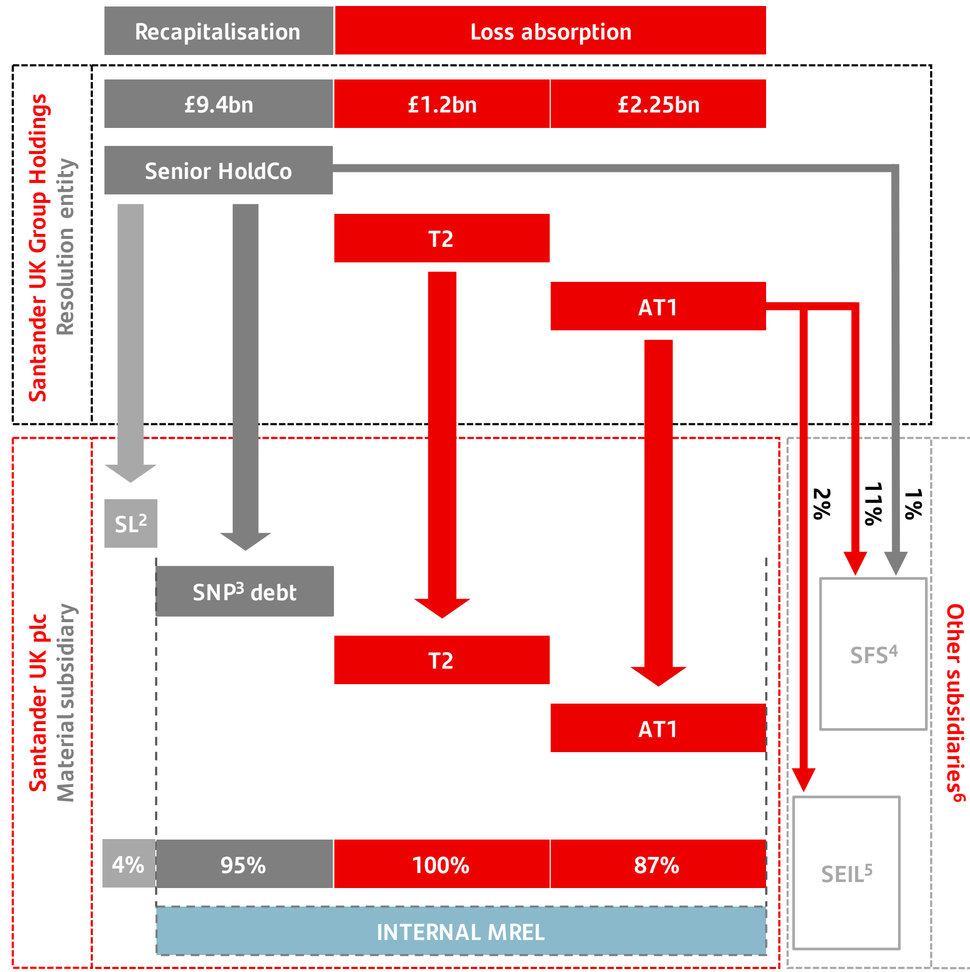
Santander UK group down-streaming model

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

Current down-streaming of HoldCo issuance[1]



1. Meeting MREL eligibility criteria and exchange rates as at 30 September 2019 | 2. Senior loan | 3. Secondary non-preferential | 4. Santander Financial Services formerly ANTS | 5. Santander Equity Investments Limited | 6. Santander UK other subsidiaries will have limited on-going funding requirements.

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Key dates[1]

FY'19 results: 29 January 2019

Q1'20 results: 06 May 2020

Q2'20 results: 22 July 2020

Q3'20 results: 28 October 2020

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1. Indicative, dates subject to change