

# UNITED KINGDOM

January – March 2017

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Source: Santander UK Group Holdings Q1 2017 results “Quarterly Management Statement for the three months ended 31<sup>st</sup> of March 2017” or Santander UK Group Holdings Management (‘MI’), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK 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.

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# Content

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► Macroeconomic environment and financial system ◀

Strategy and business

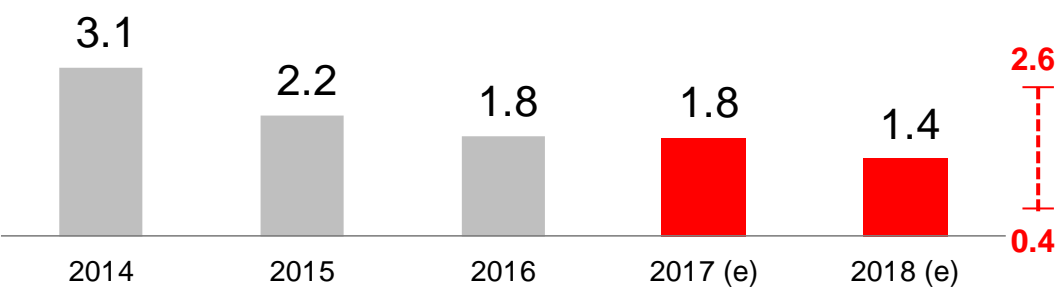
Results

Appendix

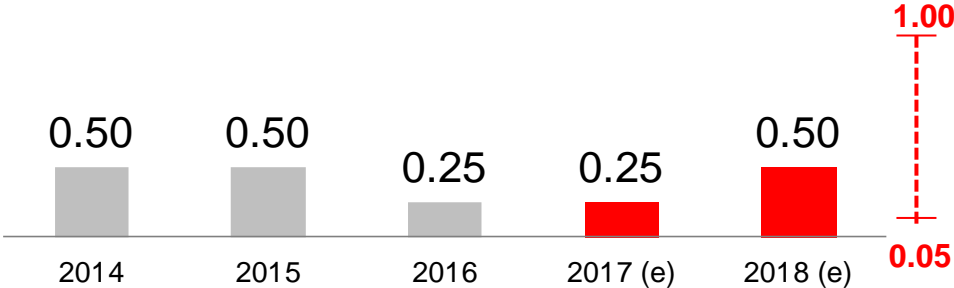
# Macro-economic environment

## Solid economic growth but with continued uncertainty

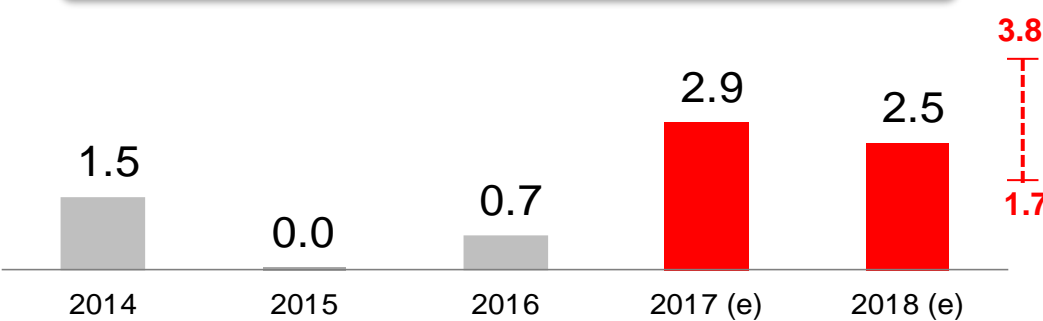
Annual GDP Growth (% , real) <sup>1</sup>



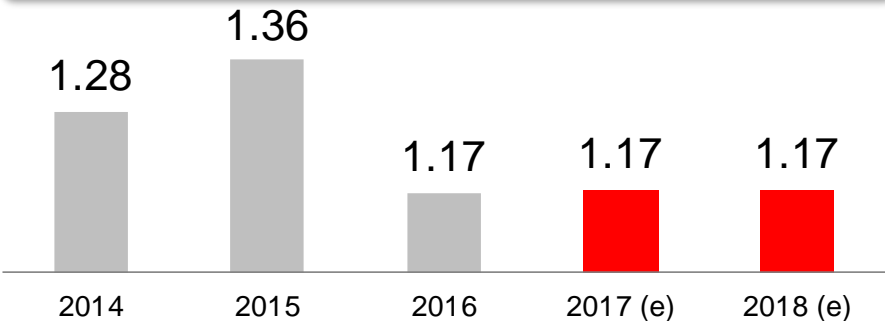
Interest rate (% , year end)



Annual CPI Inflation (% annual average) <sup>2</sup>



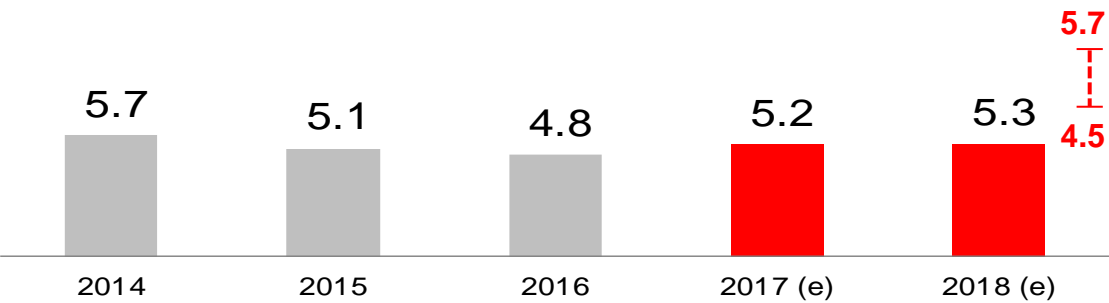
GBP / EUR exchange rates (year end)



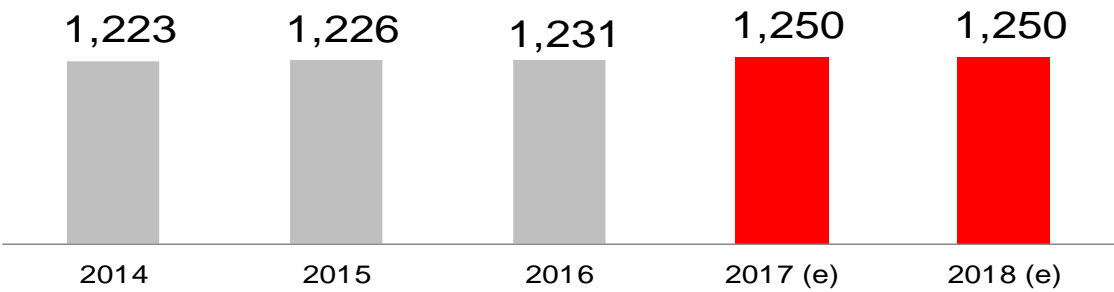
# Macro-economic environment

House price growth showing signs of slowing with higher inflation expected to reduce real income growth

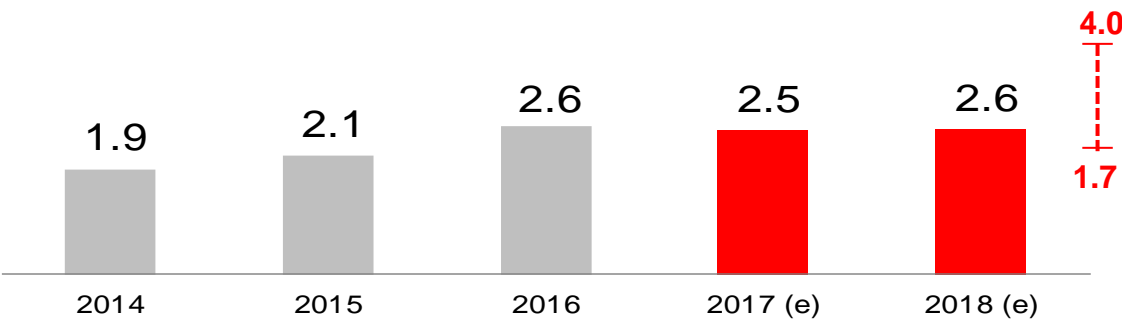
Unemployment rate (ILO, year end) <sup>1</sup>



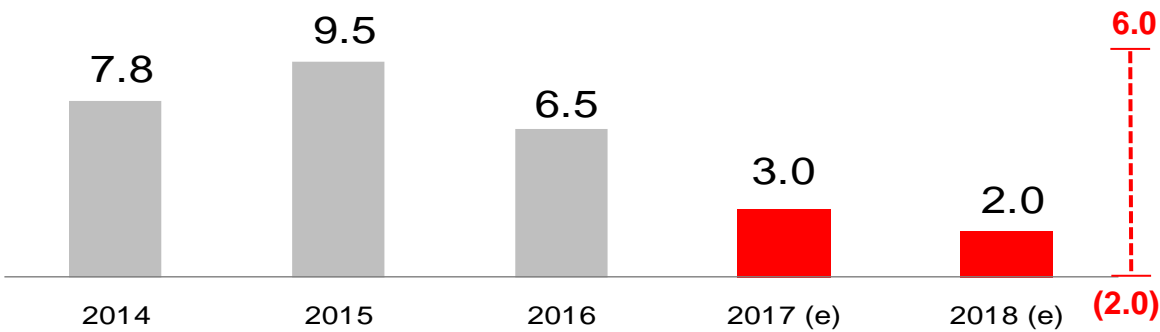
Property transactions (sa<sup>2</sup>,000's)



Average weekly earnings (annual, % inc bonuses)



House prices<sup>3</sup> (% , year end)



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.

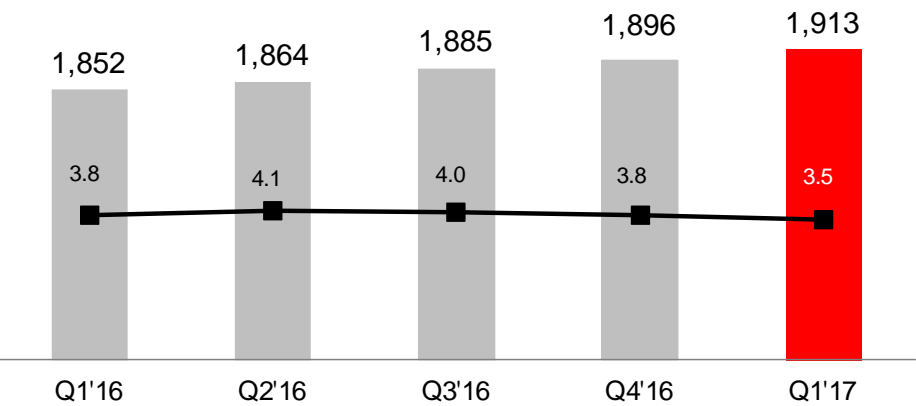
1. International Labour Organisation | 2. Seasonally adjusted | 3. Halifax house prices (Source: IHS Markit)



# Financial system: Loan and deposit growth

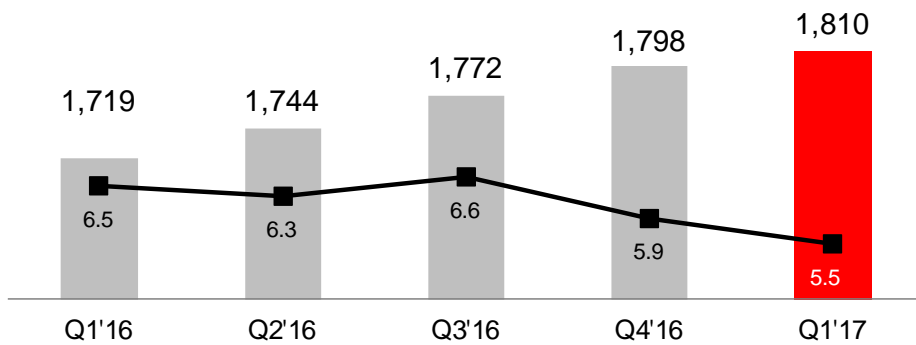
Loan growth relatively steady through 2016; deposit growth has slowed slightly.

Total loans (GBP bn)<sup>1</sup>



- Total loan growth expected to slow further in 2017
- Mortgage lending growth of 2.6% projected for 2017, down from 3.0% at the end of 2016
- Corporate sterling loan growth of around 2.5% for 2017

Total deposits (GBP bn)<sup>2</sup>



- Slower deposit growth expected in Q1'17 reflecting continued balance sheet adjustments
- The household saving ratio moderated through 2016
- Corporate deposit growth picked up slightly in early 2017

—■— Annual % Change



# Content

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Macroeconomic environment  
and financial system



Strategy and business



Results

Appendix

Santander UK is well positioned as the only full-service scale challenger in the UK



STRATEGIC PRIORITIES










Grow customer loyalty  
and market share

Deliver operational  
and digital excellence

Growing profitability and  
a strong balance sheet

Live the “Santander way”  
through our behaviours

Support communities  
through skills, knowledge  
and innovation

KEY DATA	1Q'17	Var. YoY
 Gross loans <sup>1</sup>	£200.2 bn.	(0.3%)
 Customer Funds <sup>1</sup>	£180.3 bn.	6.4%
 Attributable profit <sup>1</sup>	£358.0 mn.	2.6%
 RoTE	11.3%	1.1%
 Efficiency ratio	50.5%	-19 bps
 Loyal retail customers <sup>2</sup>	3.8	3.0%
 Digital customers <sup>2</sup>	4.7	13.9%
 Branches	843	(1.1%)
 Employees	25,954	(0.5%)



# Commercial strategy and business transformation

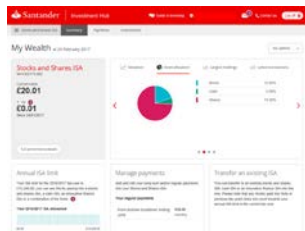
**Our focus on clients and innovation is driving improved customer experience and loyalty across our business**

## Mobile Apps



Through our **SmartBank App** customers can now check their balances and authorise payments using voice commands.

## Investment Hub



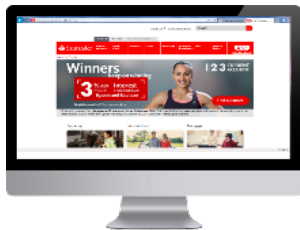
Digital non-advised investment platform with access to over **1,500** funds from the markets.

## Corporate Offering



Leverage Banco Santander's international presence and widening product base to help build a scaled Asset Finance business.

## Mortgages



Digital end-to-end application processes which can be completed in under **1 hour**

## Simplified Processes

Streamlined process to open a current account with fewer questions, instant decisions and a function to upload documents electronically.

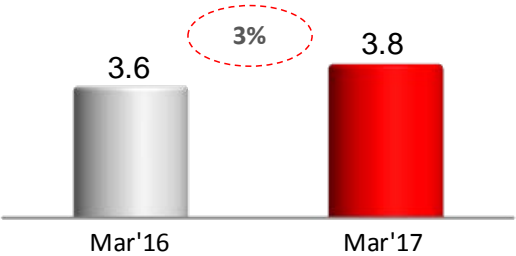
## Neo CRM

**NEO CRM**

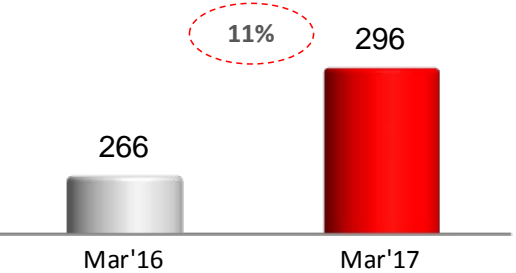
New customer relation tool brings together internal, external and market data to simplify processes further and personalise conversations

Deeper customer relationships are supporting business momentum

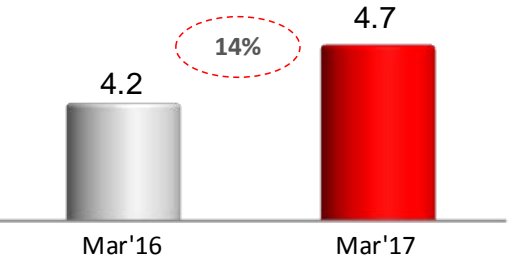
Loyal retail customers (m)



Loyal SME and Corporate customers (000's)



Digital customers (m)



Our loyal retail customer base increased by 110k, impacted in the short-term by 1I2I3 World changes, and lower demand for savings products.

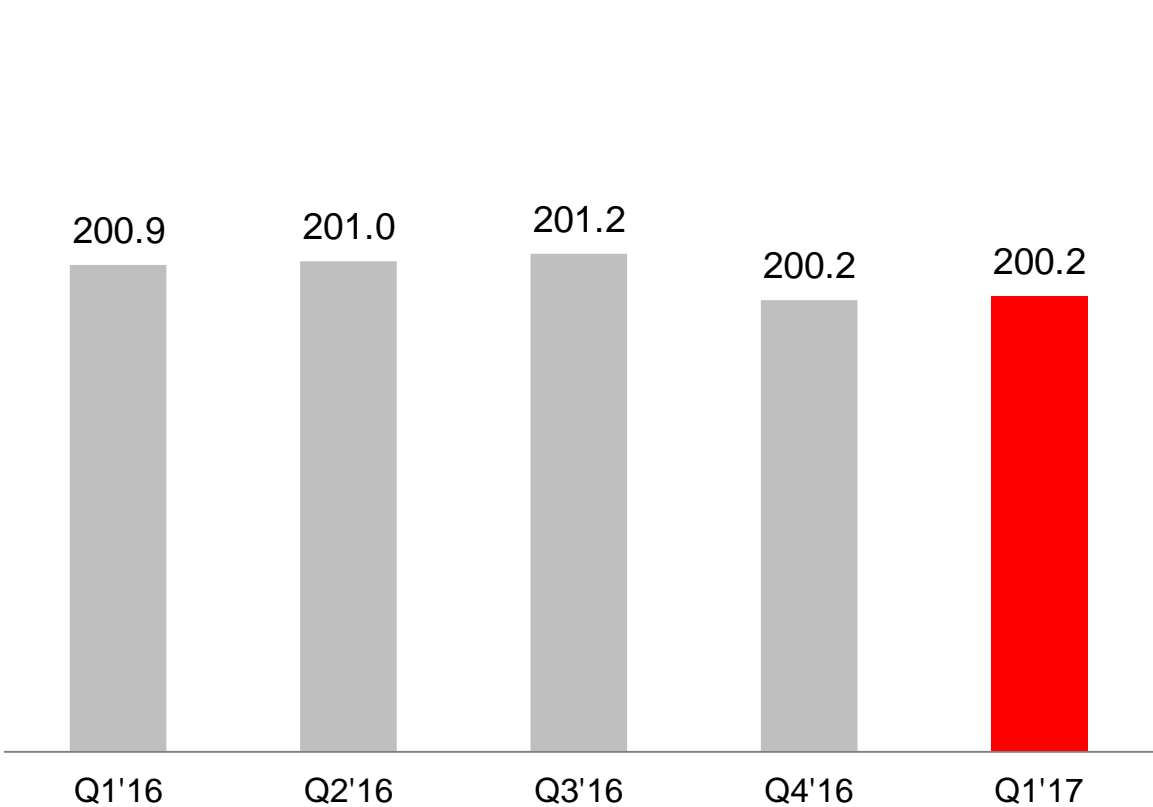
Our client-centric infrastructure and award-winning international proposition continued to improve the depth of customer relationships and to drive business growth with UK companies.

We are increasing the number of digital customers and innovating our offering with enhancements to our Investment Hub, our Smartbank App and a new Client Relationship Management tool introduced into our branches.

# Total loans performance

Good growth in corporate lending; mortgage lending reflects management pricing action in Q416

Total loans (GBP bn)



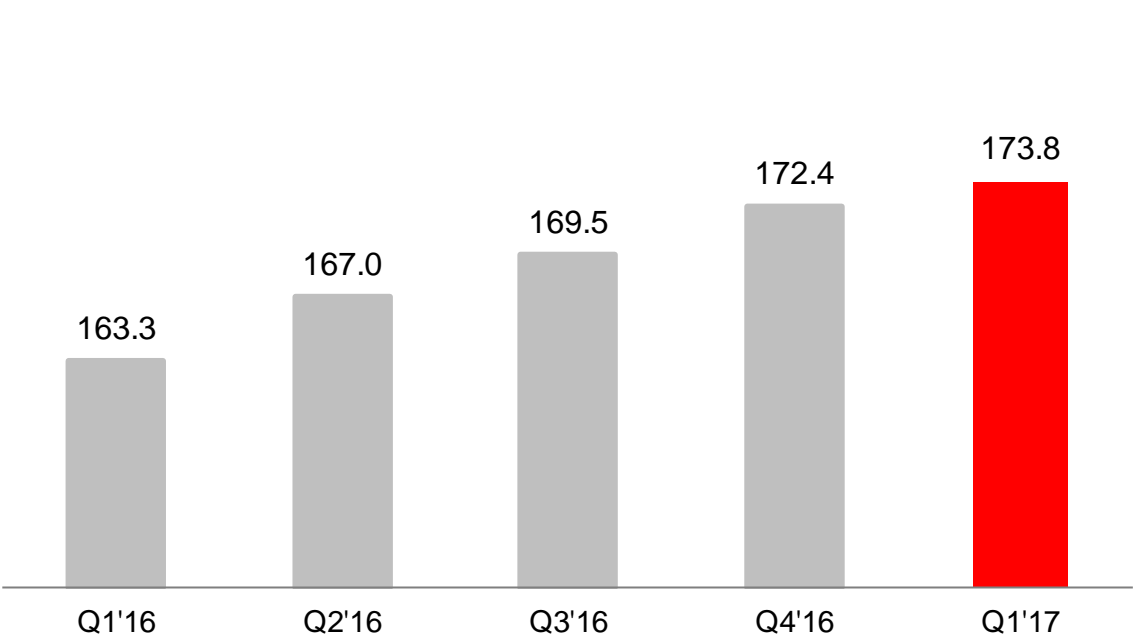
	Mar'17	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>165.7</b>	<b>(0)</b>	<b>(0)</b>
Mortgages <sup>1</sup>	153.9	(0)	(0)
Consumer credit	11.8	0	(2)
<b>Companies</b>	<b>28.3</b>	<b>3</b>	<b>3</b>
Business banking	2.1	(10)	(10)
Commercial Banking	19.6	3	1
Global Corporate Banking	6.6	3	16
<b>Total</b>	<b>194.0</b>	<b>0</b>	<b>0</b>
<b>Non core</b>	<b>6.3</b>	<b>(15)</b>	<b>(3)</b>
<b>Total Customer Loans</b>	<b>200.2</b>	<b>0</b>	<b>0</b>

<sup>1</sup> Mortgages refers to residential retail mortgages only and excludes social housing and commercial mortgage assets.

# Total customer funds performance

Demand balances continued to grow, partially offset by time deposits.

Total deposits (GBP bn)



	Mar'17	YoY (%)	QoQ (%)
Demand	79.2	17	2
Savings	68.5	7	1
Time	26.2	(17)	(3)
Total	173.8	6	1
Funds distributed <sup>1</sup>	6.4	4	1
Total Customer Funds	180.3	6	1

<sup>1</sup>Third-party off-balance sheet assets originated by Santander Asset Management in the United Kingdom.



# Content

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Macroeconomic environment  
and financial system

Strategy and business



Results

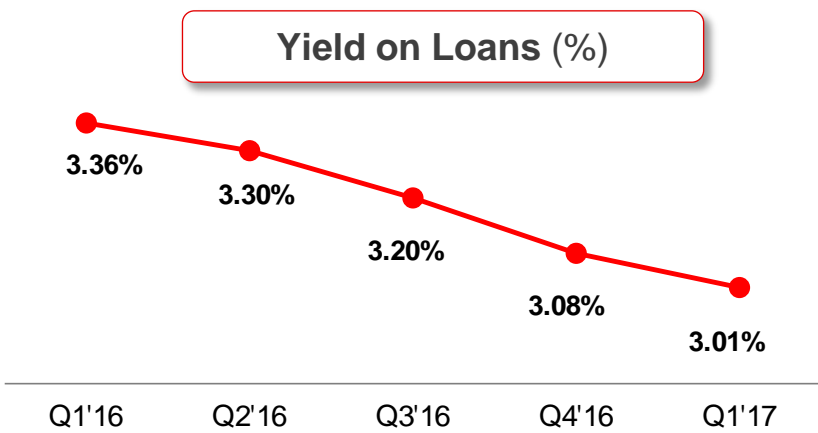
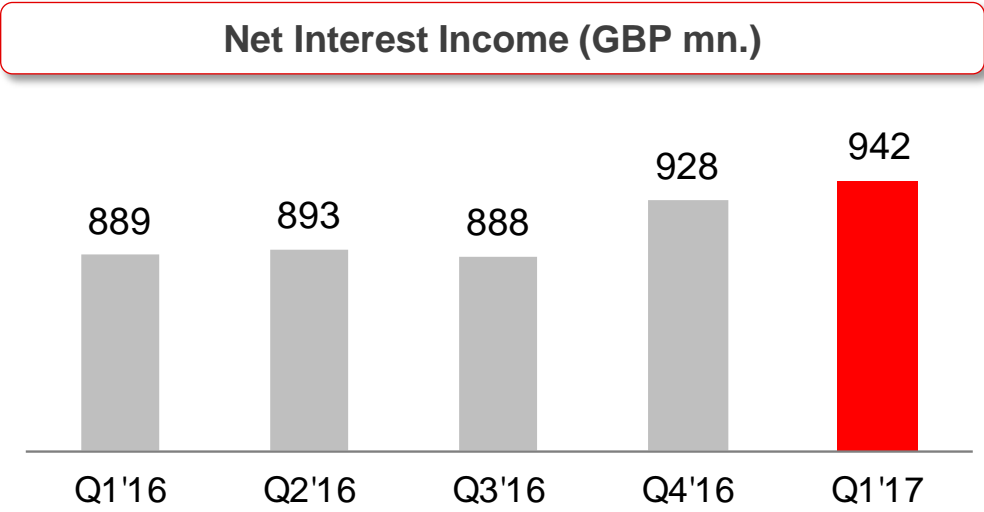


Appendix

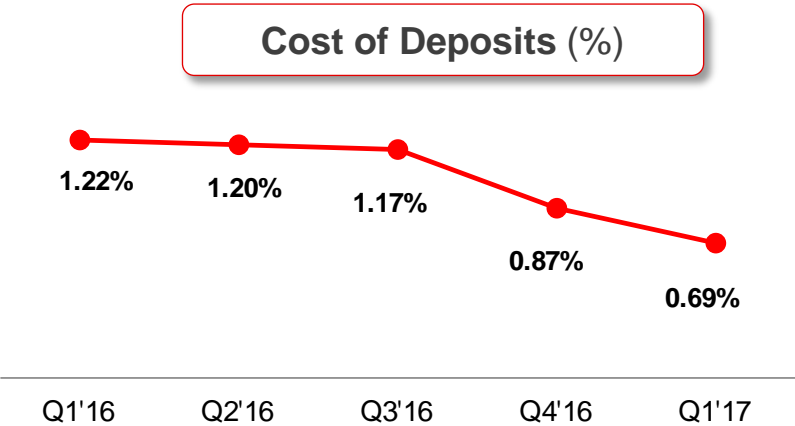


# Net interest income and spreads

Strong NII driven by retail liability margin improvement, partially offset by SVR mortgage attrition and lower new asset margins.



Banking NIM <sup>1</sup> (%)				
1.78%	1.78%	1.75%	1.83%	1.89%
Interest rate (%)				
0.50%	0.50%	0.25%	0.25%	0.25%

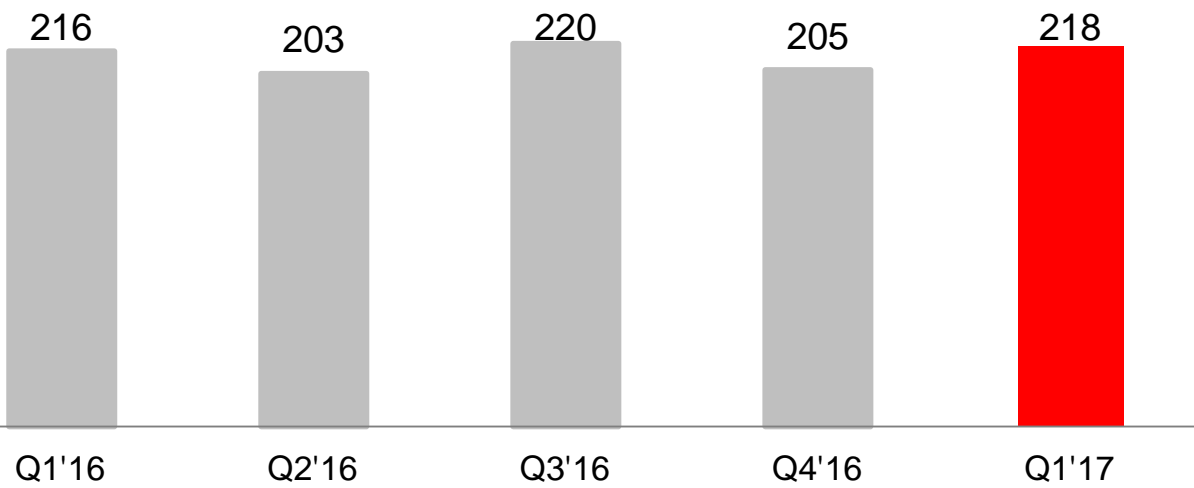


<sup>1</sup>Banking NIM<sup>1</sup> is calculated as annualised statutory net interest income divided by average customer loans.

# Net Fees

Growth in banking fees (11213 World) alongside higher investment fees (Investment Hub)

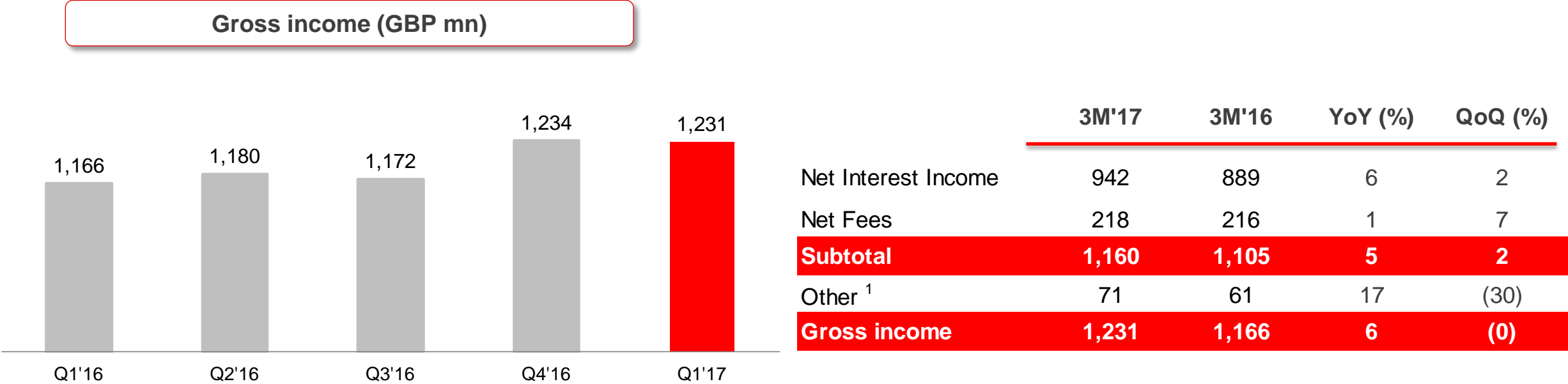
Net fees (GBP mn)



	3M'17	3M'16	YoY (%)	QoQ (%)
Banking	108	97	11	10
Credit Cards	9	6	50	62
Investments	6	1	334	65
Mortgages	9	10	(13)	(3)
Global Corporate Banking	50	55	(10)	1
Other	36	46	(22)	(7)
Total	218	216	1	7

# Gross income

Gross income improvement driven by growth in net interest income following liability re-pricing

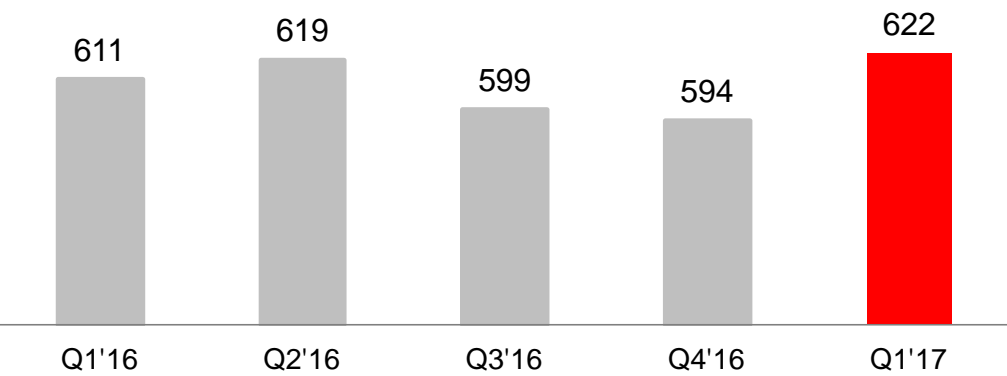


<sup>1</sup> Other includes gains/losses on financial transactions and other operating income.

# Operating expenses

Operational efficiency well managed; excluding banking reform underlying costs remain flat

Operating expenses (GBP mn)



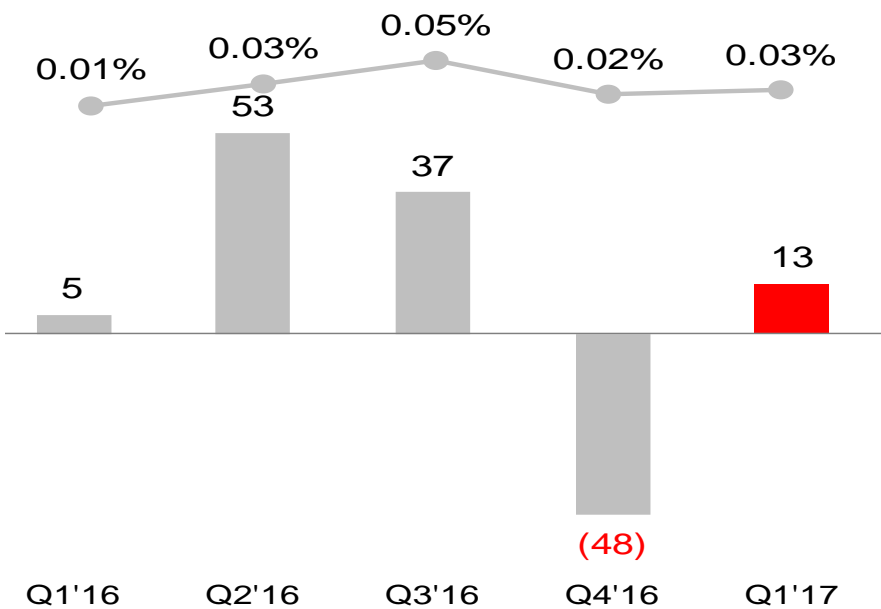
	3M'17	3M'16	YoY (%)	QoQ (%)
General and admin. expenses	554	553	0	5
Depreciation and amortisation	68	59	17	(0)
Operating Expenses	622	611	2	5

Efficiency ratio (incl.depreciation)	50.5%	52.4%
Number of branches	845	854
Number of employees	25,954	26,084

# Net operating income after loan-loss provisions (LLPs)

Strong credit quality in all our loan books, with an improved NPL ratio of 1.31%.

LLPs and Cost of credit<sup>1</sup> (GBP mn)



	3M'17	3M'16	YoY (%)	QoQ (%)
Net operating income	609	554	10	(5)
LLPs	(13)	(5)	162	n.a.
Net operating income after LLPs	596	549	9	(13)

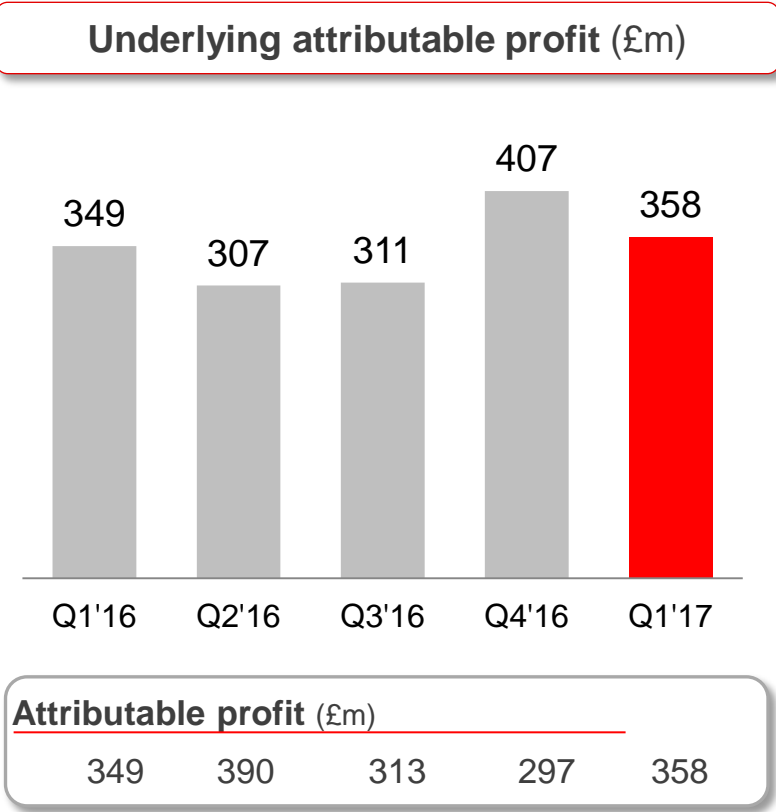
NPL Coverage Ratio	34%	37%
NPL Ratio	1.31%	1.49%

<sup>1</sup> Cost of credit based on 12 month loan-loss provisions divided by average customer loans.



# Attributable profit

Attributable profit up year-on-year with income growth supported by cost discipline and good credit quality



	3M'17	3M'16	YoY (%)	QoQ (%)
Profit before taxes	506	504	0	(13)
Tax on profit	(142)	(148)	(4)	(16)
Minority Interests	(6)	(7)	(17)	(20)
Underlying Attr. profit	358	349	3	(12)
Non-recurring	0	0	-	(100)
Attributable profit	358	349	3	21

Effective tax rate	28%	29%
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# Solid start to 2017, with good net interest income growth, cost control and credit quality.

## Market Environment & Financial System

- The UK economy continues to grow, as momentum carries through from robust growth in Q416.
- House price growth showing signs of slowing with higher inflation impacting real income growth.
- Some downside risks are being mitigated by the monetary policy actions of the Bank of England and by the capital and liquidity strength of the banking sector.

## Strategy & Business

- 11213 World, with 5.1 million customers, continues to transform the quality of our customer base while reducing funding costs.
- Retail customer satisfaction was in line with the average of our three highest performing peers on a rolling 12-month basis at Mar17. Improvement in customer satisfaction remains at the heart of our plans.
- Lending to UK companies continued to increase with demand from medium and large corporate customers.
- Digital customer numbers increased (up 14% since Q116), as we continue to improve our digital proposition.

## Results

- PBT was up £2m at £506m, with income growth supported by cost discipline and good credit performance.
- Attributable profit up 3% to £358m with effective tax rate of 28%.
- Cost efficiency maintained, absorbing investment in business growth and benefiting from operational and digital efficiencies. Operating expenses were broadly flat in the period and CIR improved to 50.5%.



# Content

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Macroeconomic environment  
and financial system

Strategy and business

Results



Appendix



# Balance sheet

	31.03.17	31.03.16	Variance	
			Amount	%
Customer loans <sup>1</sup>	216.7	215.1	1.6	0.7
Central banks and credit institutions <sup>1</sup>	29.2	31.4	(2.1)	(6.8)
Debt securities	23.8	24.0	(0.2)	(0.7)
Available-for-sale financial assets	9.9	10.4	(0.5)	(5.1)
Other financial assets	21.9	23.0	(1.1)	(4.7)
Other assets	9.9	10.4	(0.6)	(5.4)
<b>Total Assets</b>	<b>301.6</b>	<b>303.9</b>	<b>(2.3)</b>	<b>(0.8)</b>
Customer deposits <sup>1</sup>	184.6	181.6	3.0	1.6
Central banks and credit institutions <sup>1</sup>	18.8	18.5	0.3	1.7
Debt securities issued <sup>1</sup>	56.8	60.9	(4.1)	(6.7)
Other financial liabilities	23.0	23.9	(0.9)	(3.7)
Other Liabilities	4.5	4.5	0.0	0.1
<b>Liabilities</b>	<b>287.6</b>	<b>289.3</b>	<b>(1.7)</b>	<b>(0.6)</b>
Total Equity	13.9	14.6	(0.6)	(4.3)
Other Customer Funds under Management	7.4	7.3	0.1	1.3
Investment funds and investment companies	7.3	7.2	0.1	1.3
Managed portfolios	0.1	0.1	(0.0)	(0.3)
<b>Commercial loans included above</b>	<b>200.2</b>	<b>200.8</b>	<b>(0.6)</b>	<b>(0.3)</b>
<b>Commercial deposits included above</b>	<b>173.8</b>	<b>163.3</b>	<b>10.6</b>	<b>6.5</b>

<sup>1</sup> Includes all stock of concept classified in the balance sheet.

<sup>2</sup> Capital + reserves + retained profit + valuation adjustments.

# Income statement

GBP million

	1Q17	1Q16	Variation	
			Amount	%
Net interest income	942	889	53	6.0
Net fees	218	216	2	1.1
Gains (losses) on financial transactions	61	52	9	16.9
Other operating income	10	8	2	17.9
<b>Gross income</b>	<b>1,231</b>	<b>1,166</b>	<b>66</b>	<b>5.6</b>
Operating expenses	(622)	(611)	(11)	1.8
General administrative expenses	(554)	(553)	(1)	0.2
<i>Personnel</i>	(296)	(286)	(10)	3.5
<i>Other general administrative expenses</i>	(258)	(267)	9	(3.4)
Depreciation and amortisation	(68)	(59)	(10)	16.8
<b>Net operating income</b>	<b>609</b>	<b>554</b>	<b>55</b>	<b>9.9</b>
Net loan-loss provisions	(13)	(5)	(8)	162.1
Other income	(90)	(45)	(45)	99.1
<b>Underlying profit before taxes</b>	<b>506</b>	<b>504</b>	<b>2</b>	<b>0.4</b>
Tax on profit	(142)	(148)	6	(4.0)
<b>Underlying profit from continuing operations</b>	<b>364</b>	<b>356</b>	<b>8</b>	<b>2.2</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>364</b>	<b>356</b>	<b>8</b>	<b>2.2</b>
Minority interests	6	7	(1)	(17.0)
<b>Underlying attributable profit to the Group</b>	<b>358</b>	<b>349</b>	<b>9</b>	<b>2.6</b>
Net capital gains and provisions	—	—	—	—
<b>Attributable profit to the Group</b>	<b>358</b>	<b>349</b>	<b>9</b>	<b>2.6</b>



# Quarterly income statements

GBP million

	1Q16	2Q16	3Q16	4Q16	1Q17
Net interest income	889	893	888	928	942
Net fees	216	203	220	205	218
Gains (losses) on financial transactions	52	75	55	78	61
Other operating income	8	10	9	23	10
<b>Gross income</b>	<b>1,166</b>	<b>1,180</b>	<b>1,172</b>	<b>1,234</b>	<b>1,231</b>
Operating expenses	(611)	(619)	(599)	(594)	(622)
General administrative expenses	(553)	(554)	(537)	(526)	(554)
<i>Personnel</i>	(286)	(282)	(294)	(297)	(296)
<i>Other general administrative expenses</i>	(267)	(272)	(243)	(228)	(258)
Depreciation and amortisation	(59)	(65)	(62)	(69)	(68)
<b>Net operating income</b>	<b>554</b>	<b>561</b>	<b>573</b>	<b>640</b>	<b>609</b>
Net loan-loss provisions	(5)	(53)	(37)	48	(13)
Other income	(45)	(56)	(71)	(104)	(90)
<b>Underlying profit before taxes</b>	<b>504</b>	<b>452</b>	<b>465</b>	<b>583</b>	<b>506</b>
Tax on profit	(148)	(136)	(149)	(169)	(142)
<b>Underlying profit from continuing operations</b>	<b>356</b>	<b>316</b>	<b>316</b>	<b>414</b>	<b>364</b>
Net profit from discontinued operations	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>356</b>	<b>316</b>	<b>316</b>	<b>414</b>	<b>364</b>
Minority interests	7	8	6	7	6
<b>Underlying attributable profit to the Group</b>	<b>349</b>	<b>307</b>	<b>311</b>	<b>407</b>	<b>358</b>
Net capital gains and provisions	—	83	2	(110)	—
<b>Attributable profit to the Group</b>	<b>349</b>	<b>390</b>	<b>313</b>	<b>297</b>	<b>358</b>

# Thank you

Our purpose is to help people and businesses prosper.

Our culture is based on the belief that everything we do should be

**Simple** | **Personal** | **Fair**



**ROBECOSAM**  
Sustainability Award  
Silver Class 2017



FTSE4Good