

31st October 2018



Q3'18 Earnings Presentation



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- 1. Macroeconomic environment and financial system**
- 2. Strategy and business**
- 3. Results**
- 4. Appendix**

Macroeconomic environment and financial system

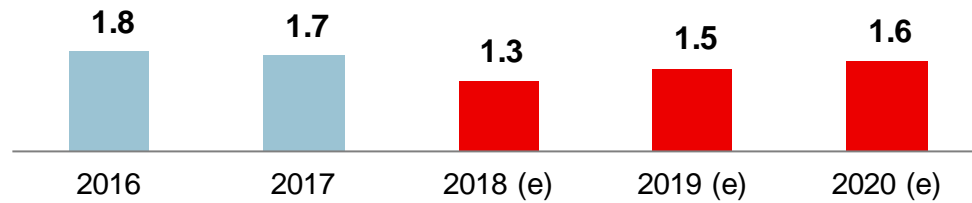


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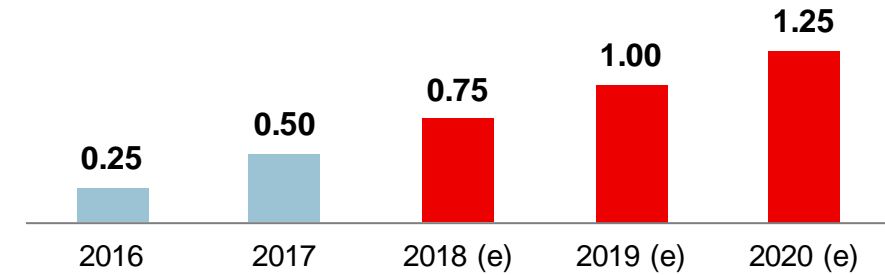
UK economy relatively stable; however uncertainty remains



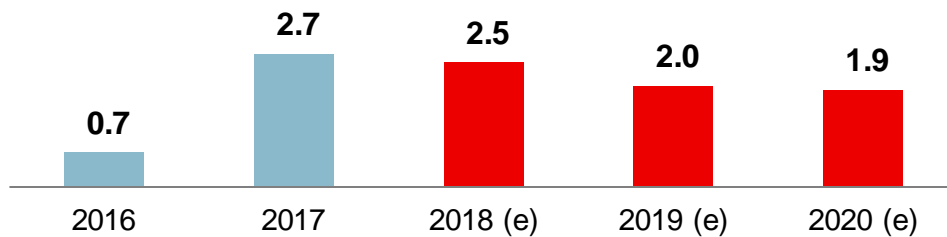
Annual GDP Growth (real, %)



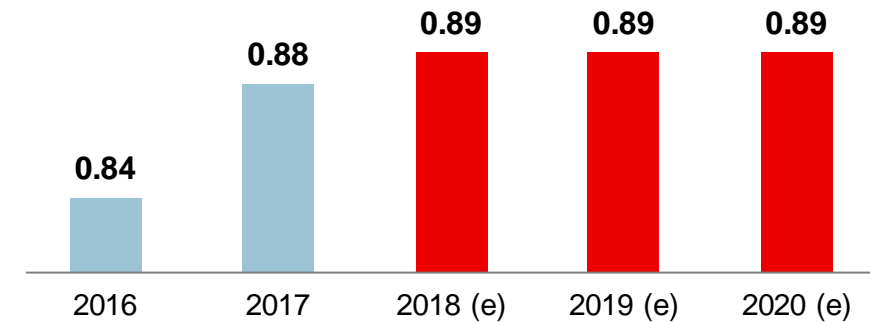
Bank of England base rate (year end, %)



Annual CPI inflation rate (annual average, %)¹



Average exchange rate (EUR / GBP)



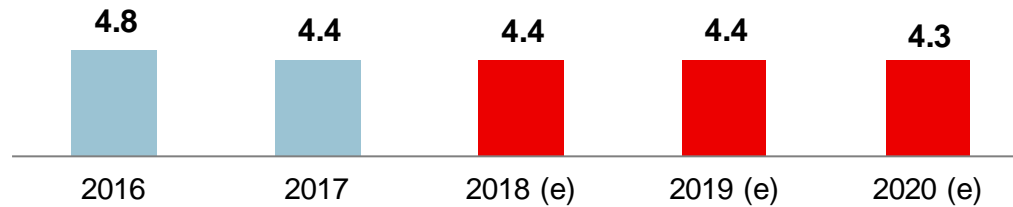
2016 and 2017 source: Office for National Statistics and Bank of England. 2018 (e), 2019 (e) and 2020 (e) source: Santander UK forecasts at September 2018.

(1) Consumer Price Index

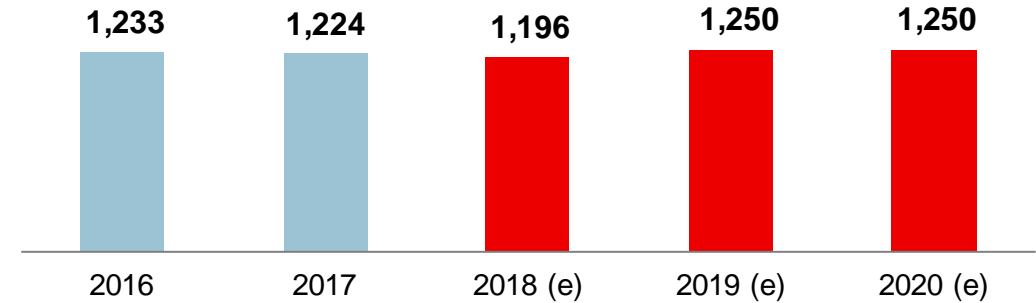
UK economy relatively stable; however uncertainty remains



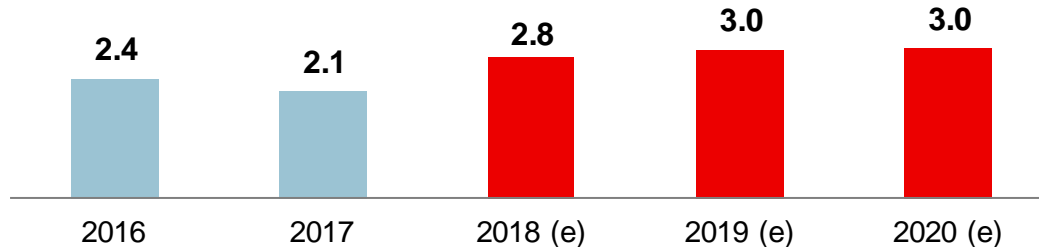
Unemployment rate (ILO, year end)¹



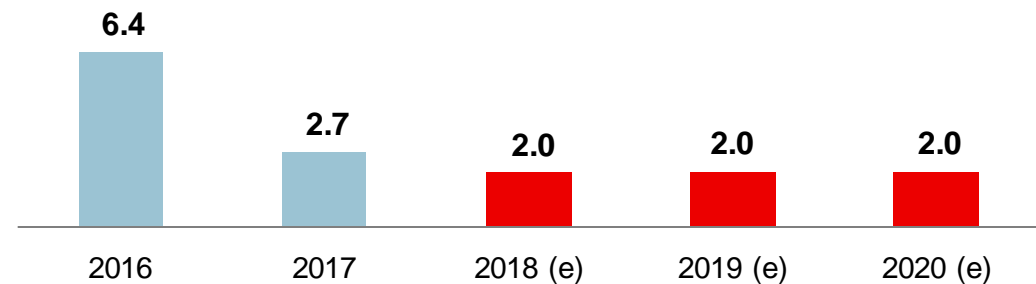
Property transactions (sa, 000s)²



Average weekly earnings (annual average, % inc bonuses)



House prices (% year end)³



Source: IHS Markit, HMRC and Office for National Statistics. 2018 (e), 2019 (e) and 2020 (e) source: Santander UK forecasts at September 2018.

(1) International Labour Organisation

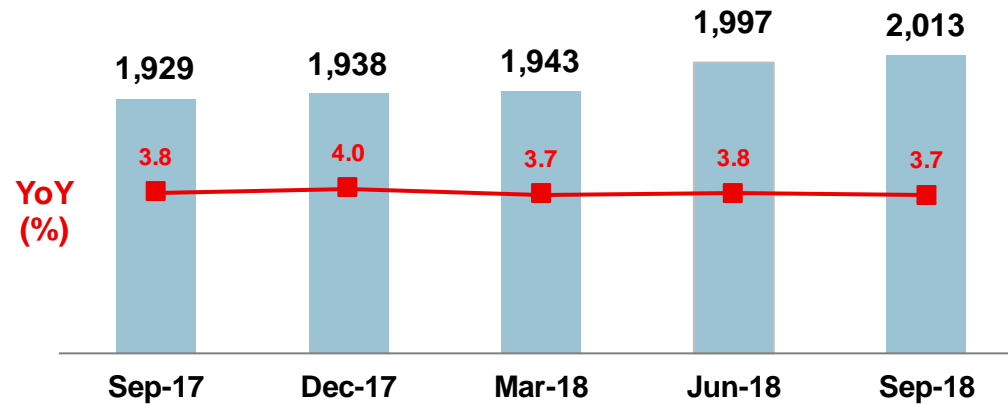
(2) Seasonally adjusted

(3) Halifax house prices (Source: IHS Markit)

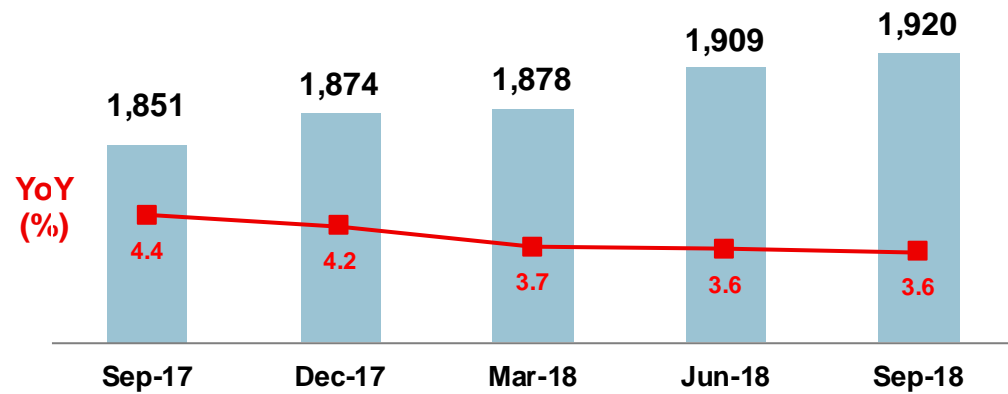
Expect steady loan growth and slight acceleration in deposit growth in 2018



Total loans (GBP bn¹)



Total deposits (GBP bn²)



- ▶ Mortgage lending growth expected at c3% in 2018, with weaker buyer demand and subdued house prices seen to date likely to continue
- ▶ Consumer credit growth has slowed from double-digit rates to 7.7% in September 2018
- ▶ Corporate borrowing market is expected to grow by c2%, as uncertainty continues to dampen investment intentions
- ▶ Retail deposit growth is expected to pick up slightly in late 2018
- ▶ Household saving ratio has fallen slightly from end of 2017 to 3.8% for Q2'18 and remains at historic lows
- ▶ Corporate deposit growth expected to slow by end of 2018

Source: Bank of England Bankstats (Monetary and Financial Statistics) published at end-October 2018. Annual growth rates are calculated using Bank of England methodology. As a result, stated growth rates may differ from percentage change in assets.

(1) Total loans includes household (mortgages and consumer credit) plus corporate loans.

(2) Total deposits include household deposits (with banks and NS&I) and corporate deposits, excluding cash holdings.

Strategy and business



02

Uniquely placed as the only UK scale challenger



STRATEGIC PRIORITIES

- ▶ Grow customer loyalty and market share
- ▶ Deliver operational and digital excellence
- ▶ Achieve consistent, growing profitability and a strong balance sheet
- ▶ Live The Santander Way through our behaviours
- ▶ Support communities through skills, knowledge and innovation

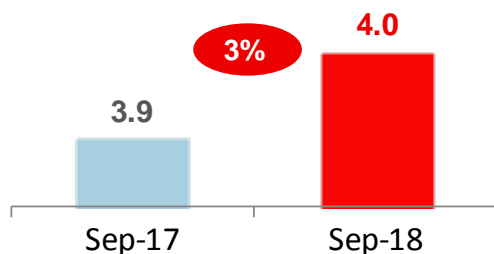


KEY DATA	9M'18	YoY Var.
Gross loans ¹	GBP 204.7 bn	1.1%
Customer funds ¹	GBP 178.7 bn	(1.5%)
Attributable Profit	GBP 951.7 mn	(9.2%)
RoTE	9.9%	(104 bps)
Efficiency ratio	55.2%	(623 bps)
Customer lending market share ²	10%	(0%)
Customer deposit market share ³	9%	(1%)
Loyal customers	4.3 mn	2.9%
Digital customers	5.4 mn	9.2%
Branches	767	(6.5%)
Employees	25,803	0.3%

Business transformation is supported by deeper customer relationships

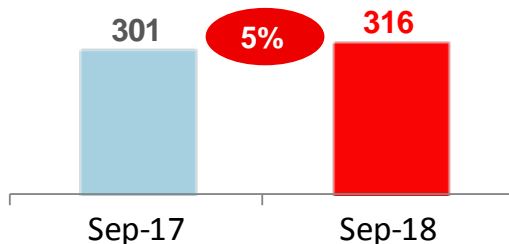


Loyal retail customers (mn)



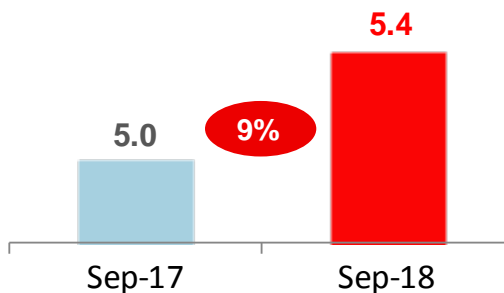
- ▶ Our loyal retail customer base continues to grow, increasing 3% year-on-year.
- ▶ We continued to benefit from the 1I2I3 World proposition, with 96,000 new customers in 9M'18, bringing the total to 5.5 million.

Loyal SME and corporate customers (000's)



- ▶ Loyal SME and corporate customers grew 5%, as we continued to deploy our client-centric infrastructure and international proposition.
- ▶ Digital openings of Business Current Accounts were up 7% year-on-year.

Digital customers (mn)



- ▶ Enhanced digital capability attracted a further 460,000 customers, growth of 9% year-on-year.
- ▶ 55% of our mortgages were retained online (+7pp YoY), 44% of current account openings (+5pp YoY) and 61% of credit card openings were made through digital channels (+11pp YoY).

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

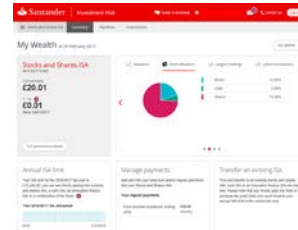


Digital mortgages



New service of video link to advisors and digital end-to-end application processes, increasing the speed and convenience of the application and decision process for customers.

Investment Hub



We expanded the educational content on the Investment Hub to help customers further explore and better understand their investment needs.

Corporate offering



We have 8 trade corridors (of which 3 were launched in 2018) which help UK businesses to establish the necessary contacts and local support services to open up new markets and successfully grow trade overseas.

Santander OnePay FX



Launched a new blockchain-based international payments service in April 2018. Part of Banco Santander initiative for retail customers across UK, Spain, Brazil and Poland.

Our customers complete international transfers on the same day in many cases or by the next day.

Digital Investment Advisor

Launch of Digital Investment Advisor in September 2018 to provide affordable high quality investment advice. This expands our multi-channel investment proposition and helps to make investments accessible for all our customers.

11213 Business Current Account

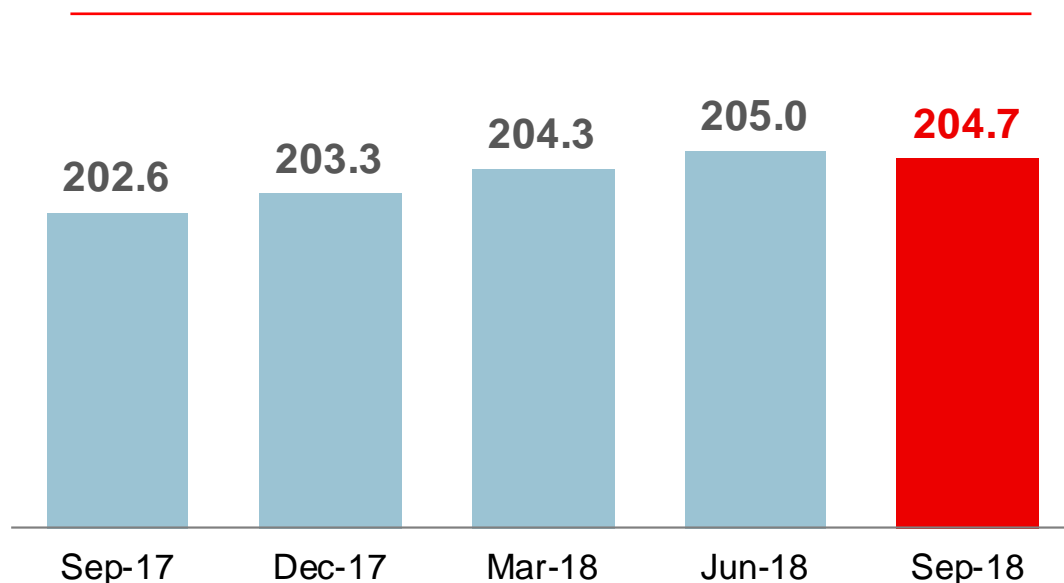


Launch of innovative 11213 Business Current Account in October 2018, offering standout value to the nation's SMEs.

Customer loans broadly flat; growth in mortgages is partially offset by reduction in CRE and non core loans



Total customer loans (GBP bn)



	Sep-18	YoY (%)	QoQ (%)
Individuals	169.5	2	(0)
Mortgages ¹	157.2	2	0
Consumer credit	12.3	4	1
Companies	24.3	(13)	(8)
Business banking	1.8	(9)	(1)
Corporate & Commercial Banking ²	17.9	(8)	(6)
Corporate & Investment Banking ²	4.6	(30)	(16)
Core customer loans	193.8	(0)	(1)
Non core	5.0	(17)	(4)
Total customer loans excl LB	198.8	(1)	(1)
London Branch ²	5.9	>100%	48
Total customer loans	204.7	1	(0)

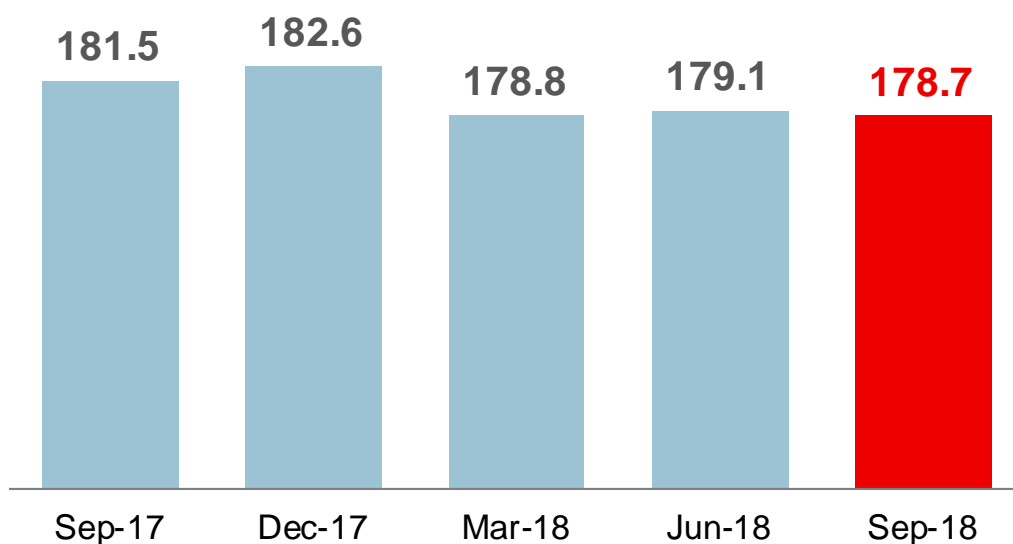
(1) Mortgages refers to residential retail mortgages only and excludes social housing and commercial mortgage assets.

(2) As part of our ring-fencing implementation and risk management initiative, we made a transfer of customer assets from Corporate & Commercial Banking and Corporate & Investment Banking to London Branch which totalled £2.7bn.

Total funding broadly flat; steady growth in demand balances, offset by reduction in time deposits and savings



Total customer funds (GBP bn¹)



	Sep-18	YoY(%)	QoQ(%)
Demand	87.2	5	1
Savings	68.3	(3)	1
Time	16.6	(20)	(10)
Total deposits	172.1	(2)	(0)
Funds distributed¹	6.6	3	2
Total customer funds	178.7	(1)	(0)

(1) Third-party off-balance sheet assets originated by Santander Asset Management in the United Kingdom

Results

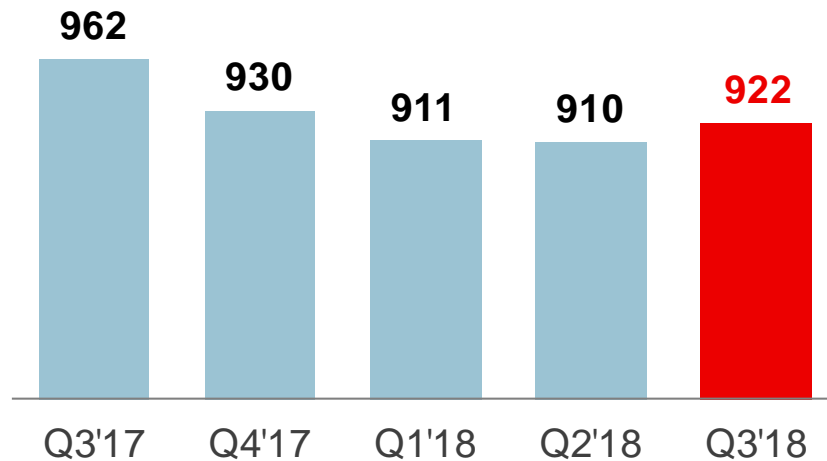


03

NII impacted by the lower new mortgage margins and SVR attrition



Net interest income (GBP mn)



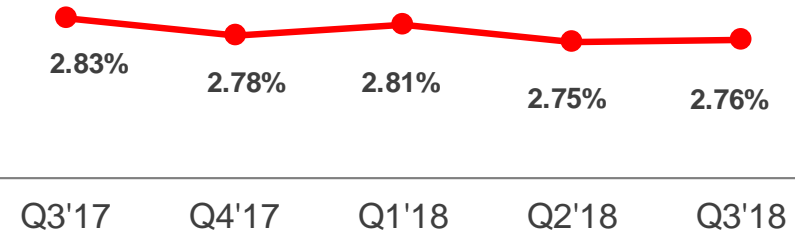
NIM¹ (%)

1.89% 1.83% 1.83% 1.80% 1.78%

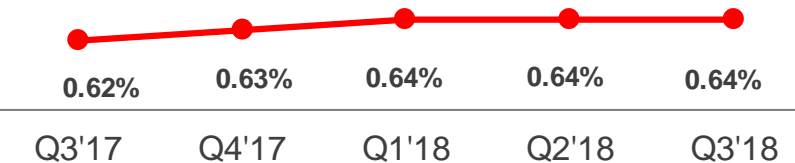
Official interest rate (%)

0.25% 0.50% 0.50% 0.50% 0.75%

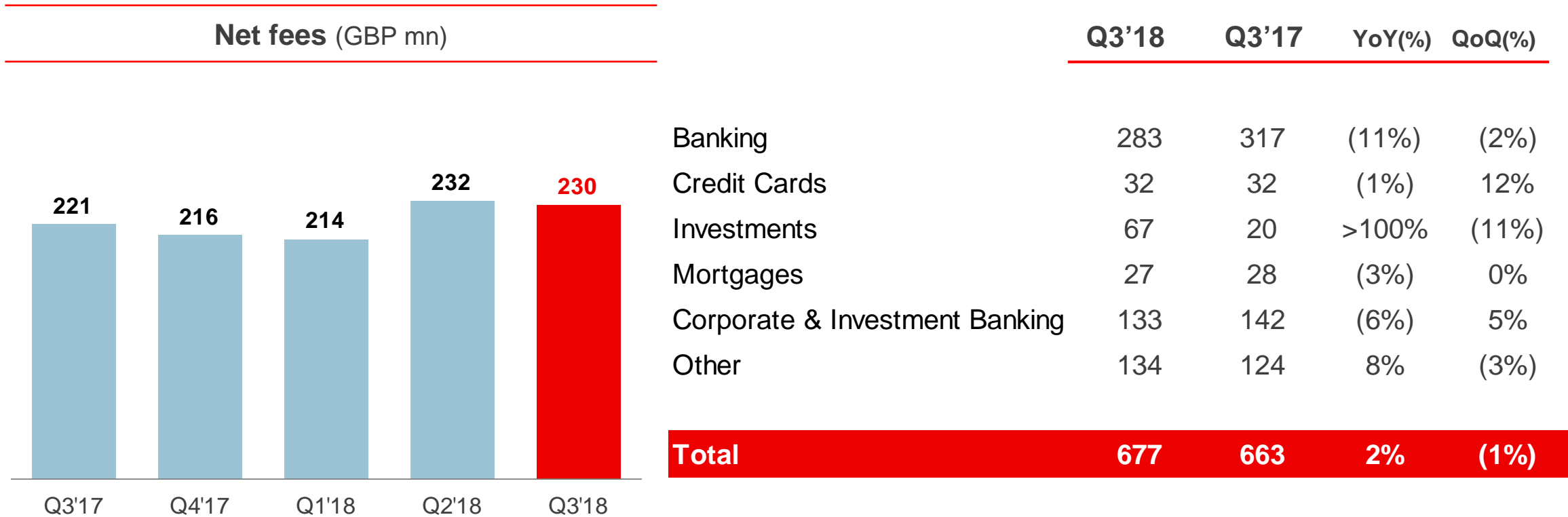
Yield on loans (%)



Cost of deposits (%)



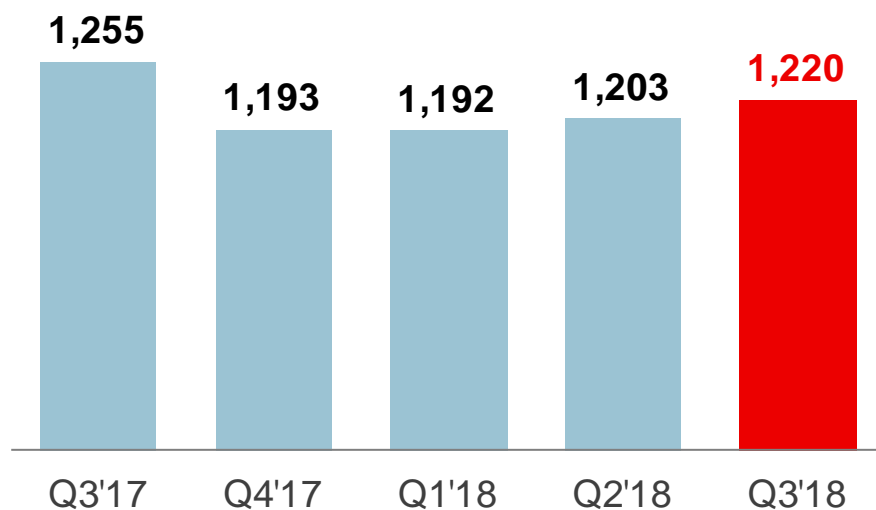
Fee income up slightly due to consolidation of SAM investments, partially offset by lower overdraft fees



Gross income lower; competitive pressure on new mortgage pricing, SVR attrition, absence of gain on sale of Vocalink shares in H1'17



Gross income (GBP mn)



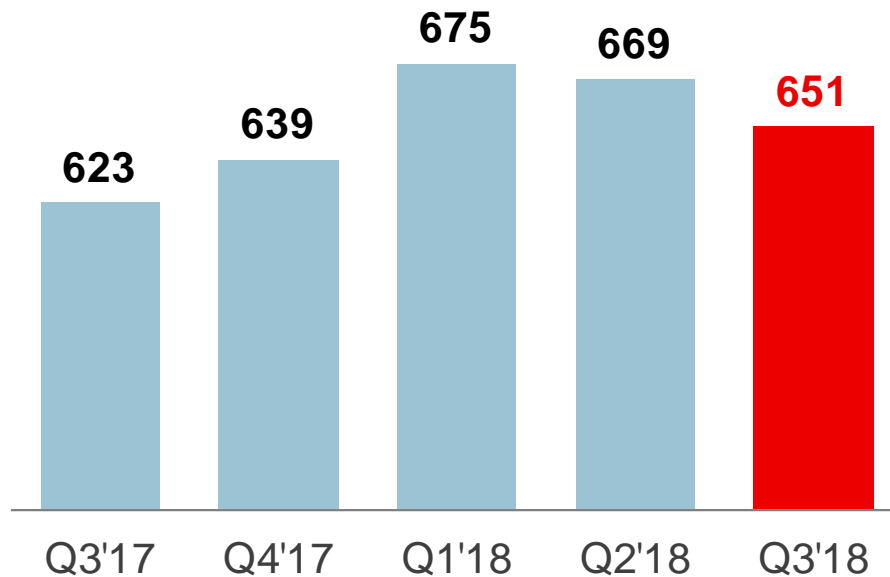
	9M'18	9M'17	YoY(%)	QoQ(%)
Net Interest Income	2,743	2,893	(5)	1
Net Fees	677	663	2	(1)
Subtotal	3,419	3,556	(4)	1
Other ¹	195	259	(25)	13
Gross income	3,614	3,815	(5)	1

(1) Other includes gains/losses on financial transactions and other operating income

Operating expenses increased with 2018 regulatory, risk and control project costs offsetting operational and digital efficiencies



Operating expenses (GBP mn)



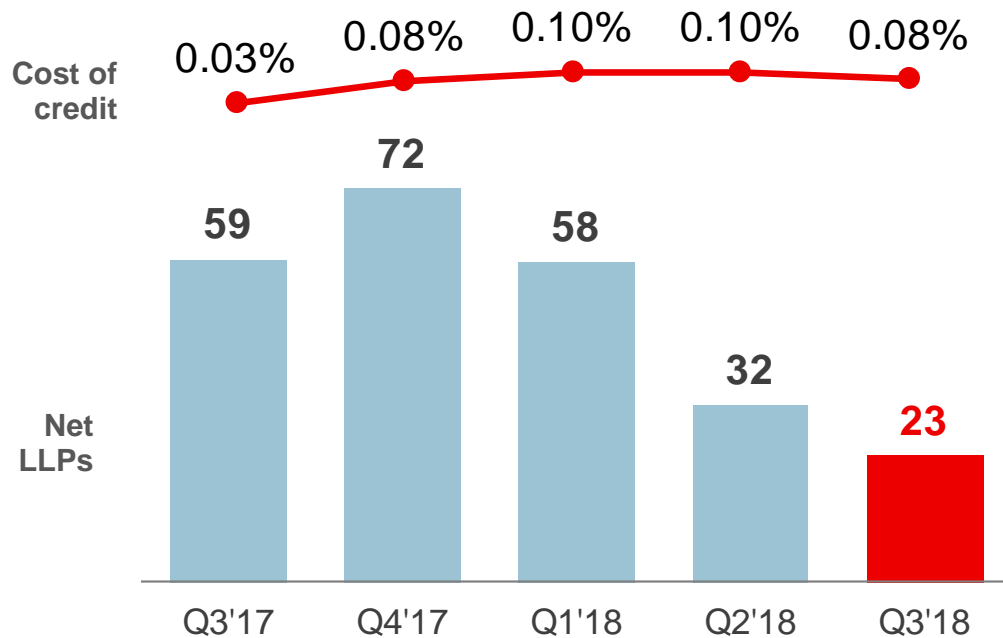
	9M'18	9M'17	YoY(%)	QoQ(%)
General and admin. expenses	1,756	1,647	7	6
Depreciation and amortisation	239	221	8	(49)
Operating Expenses	1,995	1,867	7	(3)

Efficiency ratio (incl.depreciation)	55.2%	49.0%
Branches (#)	767	820
Employees (#)	25,803	25,722

LLPs increased slightly; although credit quality remains strong with low NPL ratio of 1.10%



LLPs and cost of credit¹ (GBP mn, %)



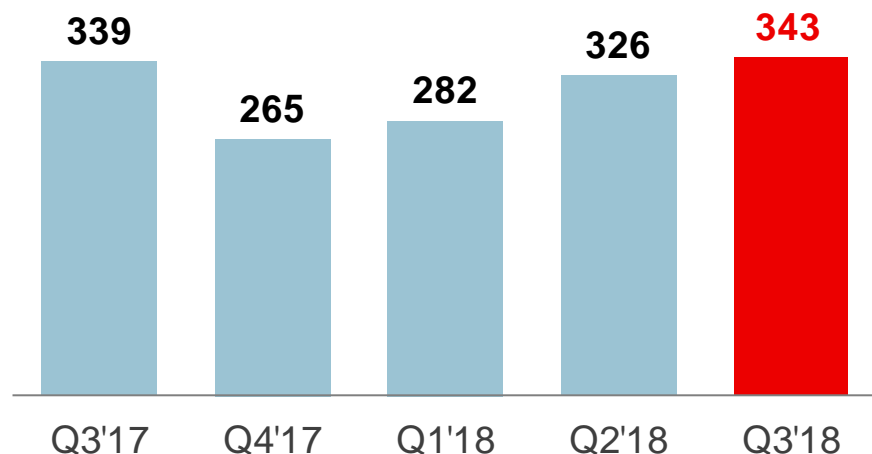
	9M'18	9M'17	YoY (%)	QoQ (%)
Net operating income	1,620	1,947	(17)	6
LLPs	(114)	(108)	6	(29)
Net operating income after LLPs	1,506	1,840	(18)	9
NPL ratio	1.10%	1.32%		
NPL coverage ratio	33%	32%		

(1) Cost of credit based on 12 month loan-loss provisions divided by average customer loans

Attributable profit down, with continued income pressure and increased regulatory, risk and control project costs



Attributable profit (GBP mn)



	9M'18	9M'17	YoY (%)	QoQ (%)
Profit before tax	1,354	1,521	(11)	6
Tax on profit	(385)	(458)	(16)	10
Consolidated profit	969	1,064	(9)	5
Minority Interests	(17)	(16)	10	(16)
Attributable profit	952	1,048	(9)	5
Effective tax rate	28.4%	30.1%		

Delivering for customers in a competitive and uncertain environment



Results

- ▶ Attributable profit down 9% to £952mn and PBT of £1,354mn down 11%, with continued income pressure and increased regulatory, risk and control costs.
- ▶ Targeted cost management programmes have started to positively impact the quarterly cost run rate, costs down 3% QoQ.

Strategy & Business

- ▶ Net mortgage growth of £2.3bn, with a focus on risk management, quality customer service and retention.
- ▶ Enhanced customer capability, with the launch of our Digital Investment Advisor and 11213 Business Current Account. This year, we retained online 55% of refinanced mortgage loans. We also opened 44% of current accounts and 61% of credit cards through digital channels.
- ▶ Our ring-fence structure is now close to completion ahead of the 1 January 2019 legislative deadline. Compliance with ring-fencing legislation has involved significant effort over a number of years, with total cost of c.£240m to date.

Market Environment & Financial System

- ▶ 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 our net mortgage lending to be slightly below market growth as we take a prudent approach to risk, focusing on quality customer service and retention.
- ▶ We will continue to actively manage our CRE exposures and our lending growth to non-CRE trading business customers is expected to remain strong.
- ▶ Banking NIM for 2018 is expected to be lower than in 2017, as a result of ongoing competition in new mortgage pricing and SVR attrition.
- ▶ Costs for 2018 will be higher than in 2017, predominantly due to a number of regulatory, risk and control projects.

Appendix



04

Balance sheet



GBP million

	30-Sep-18	30-Sep-17	Variation	
			Amount	%
Loans and advances to customers ¹	226,773	217,708	9,066	4.2
Cash, central banks and credit institutions ¹	36,643	46,540	(9,897)	(21.3)
Debt securities	23,881	22,830	1,051	4.6
<i>of which: available for sale</i>	<i>13,219</i>	<i>9,155</i>	<i>4,063</i>	<i>44.4</i>
Other financial assets	18,355	20,327	(1,972)	(9.7)
Other assets	8,151	9,020	(868)	(9.6)
Total assets	313,804	316,425	(2,621)	(0.8)
Customer deposits ¹	192,035	200,422	(8,387)	(4.2)
Central banks and credit institutions ¹	27,525	24,624	2,900	11.8
Debt securities issued ¹	60,227	53,598	6,629	12.4
Other financial liabilities	15,909	19,383	(3,474)	(17.9)
Other liabilities	3,491	3,699	(208)	(5.6)
Total liabilities	299,187	301,727	(2,539)	(0.8)
Total equity	14,616	14,698	(82)	(0.6)
Other managed and marketed customer funds	7,526	7,473	53	0.7
Mutual funds	7,429	7,371	57	0.8
Pension funds	—	—	—	—
Managed portfolios	97	101	(4)	(3.7)

(1) Includes all stock of concept classified in the balance sheet.

Income statement



GBP million

	9M'18	9M'17	Variation	
			Amount	%
Net interest income	2,743	2,893	(150)	(5.2)
Net fees	677	663	14	2.1
Gains (losses) on financial transactions	162	220	(58)	(26.2)
Other operating income*	32	39	(7)	(17.4)
Gross income	3,614	3,815	(201)	(5.3)
Operating expenses	(1,995)	(1,867)	(127)	6.8
General administrative expenses	(1,756)	(1,647)	(109)	6.6
<i>Personnel</i>	<i>(1,083)</i>	<i>(889)</i>	<i>(194)</i>	<i>21.8</i>
<i>Other general administrative expenses</i>	<i>(673)</i>	<i>(758)</i>	<i>85</i>	<i>(11.2)</i>
Depreciation and amortisation	(239)	(221)	(18)	8.3
Net operating income	1,620	1,947	(328)	(16.8)
Net loan-loss provisions	(114)	(108)	(6)	6.0
Other income	(152)	(318)	167	(52.4)
Underlying profit before taxes	1,354	1,521	(167)	(11.0)
Tax on profit	(385)	(458)	72	(15.8)
Underlying consolidated profit	969	1,064	(95)	(8.9)
Minority interests	17	16	2	9.9
Underlying attributable profit to the Group	952	1,048	(96)	(9.2)
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	952	1,048	(96)	(9.2)

* Including dividends, income from equity-accounted method and other operating income/expenses.

Quarterly income statements



GBP million	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Variation Q3'18 / Q2'18	
								Amount	%
Net interest income	942	989	962	930	911	910	922	12	1
Net fees	218	224	221	216	214	232	230	(2)	(1)
Gains (losses) on financial transactions	61	102	57	27	51	56	56	0	0
Other operating income*	10	14	15	20	16	5	12	7	145
Gross income	1,231	1,329	1,255	1,193	1,192	1,203	1,220	17	1
Operating expenses	(622)	(622)	(623)	(639)	(675)	(669)	(651)	17	(3)
General administrative expenses	(554)	(547)	(546)	(555)	(593)	(565)	(598)	(33)	6
<i>Personnel</i>	(296)	(296)	(297)	(300)	(352)	(367)	(363)	4	(1)
<i>Other general administrative expenses</i>	(258)	(251)	(249)	(255)	(241)	(197)	(235)	(37)	19
Depreciation and amortisation	(68)	(75)	(77)	(84)	(81)	(104)	(54)	50	(49)
Net operating income	609	706	632	554	517	534	568	34	6
Net loan-loss provisions	(13)	(36)	(59)	(72)	(58)	(32)	(23)	9	(29)
Other income	(90)	(147)	(81)	(90)	(55)	(41)	(56)	(15)	36
Underlying profit before taxes	506	524	492	392	404	461	490	29	6
Tax on profit	(142)	(168)	(148)	(122)	(116)	(128)	(141)	(13)	10
Underlying profit from continuing operations	364	356	344	270	288	333	348	16	5
Net profit from discontinued operations	—	—	—	—	—	—	—	—	—
Underlying consolidated profit	364	356	344	270	288	333	348	16	5
Minority interests	6	5	5	6	5	6	5	(1)	(16)
Underlying attributable profit to the Group	358	351	339	265	282	326	343	17	5
Net capital gains and provisions	—	—	—	—	—	—	—	—	—
Attributable profit to the Group	358	351	339	265	282	326	343	17	5

* Including dividends, income from equity-accounted method and other operating income/expenses.

Thank you.

Our purpose is to help people
and business prosper.

Our culture is based on believing
that everything we do should be:

Simple Personal Fair



MEMBER OF
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