

24 April 2018

United Kingdom

Q1'18 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

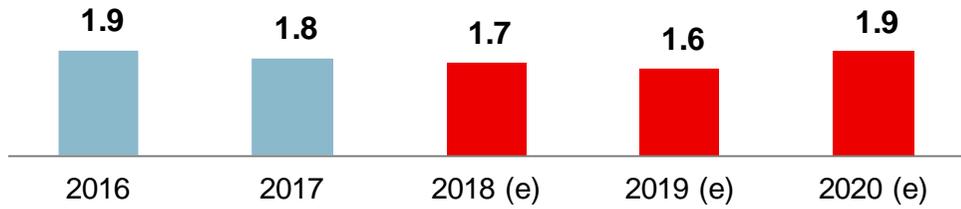


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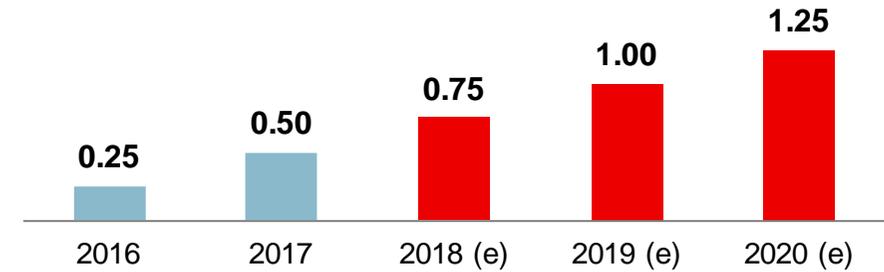
Expect the UK economy to grow in 2018, at a similar pace to 2017



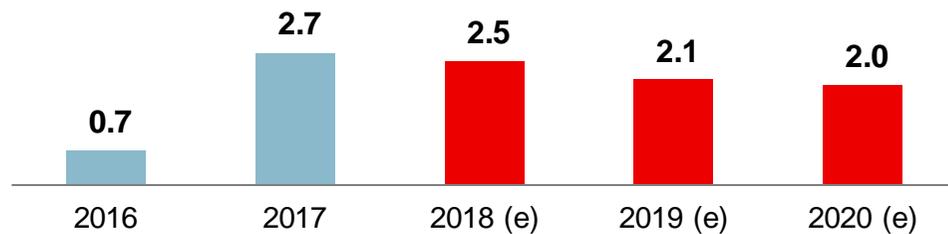
Annual GDP Growth (real, %)



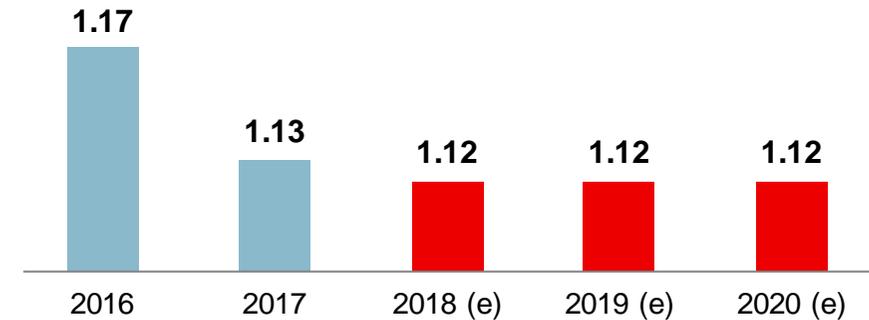
Bank of England base rate (year end, %)



Annual CPI inflation rate (annual average, %)¹



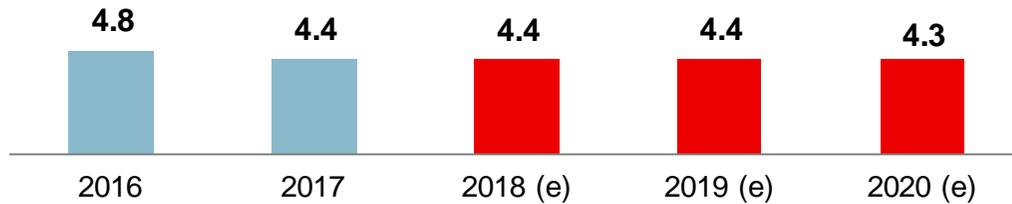
Average exchange rate (GBP / EUR)



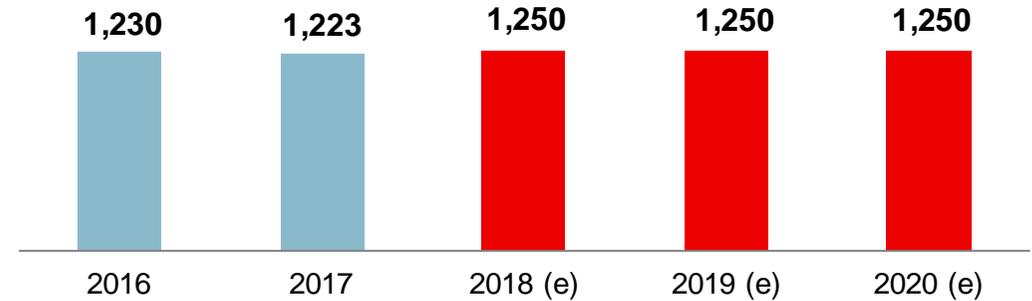


House price growth remains muted while earnings growth is expected to pick up slightly

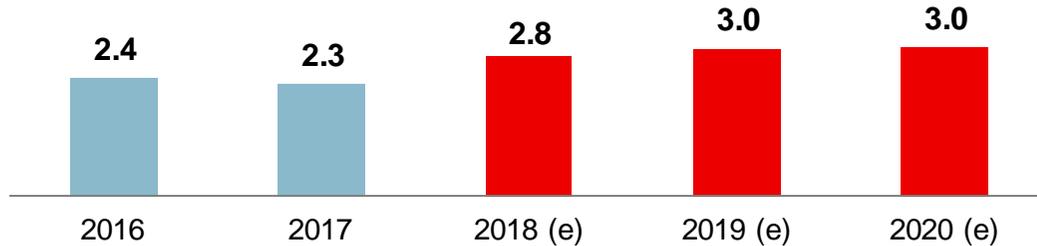
Unemployment rate (ILO, year end) ¹



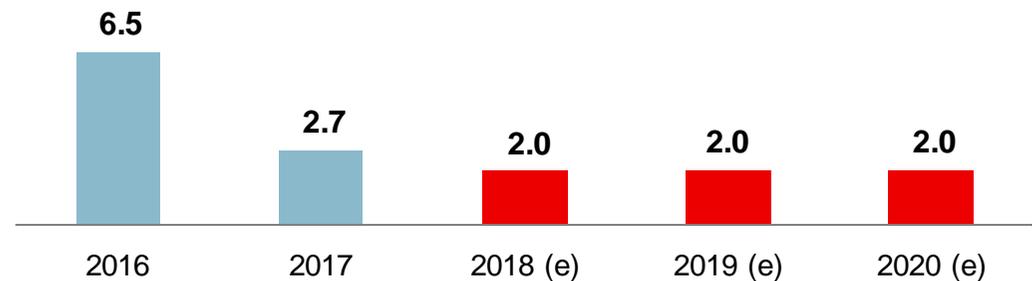
Property transactions (sa, 000s) ²



**Average weekly earnings
(annual average, % inc bonuses)**



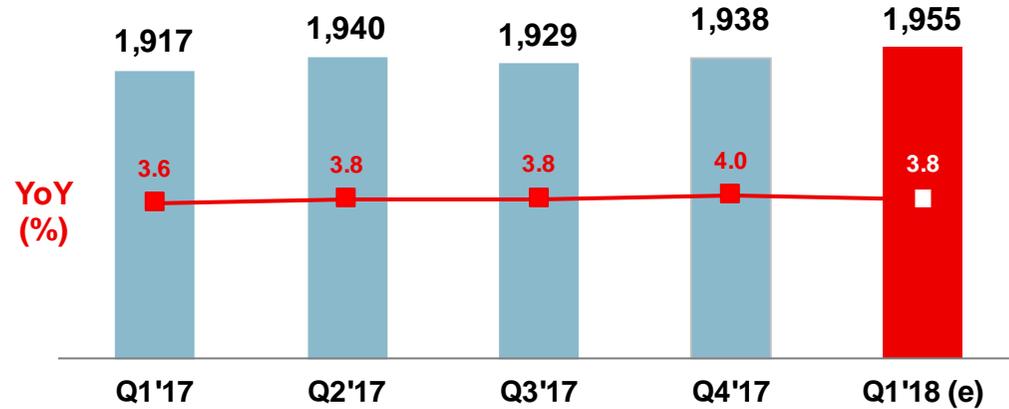
House prices (% year end) ³



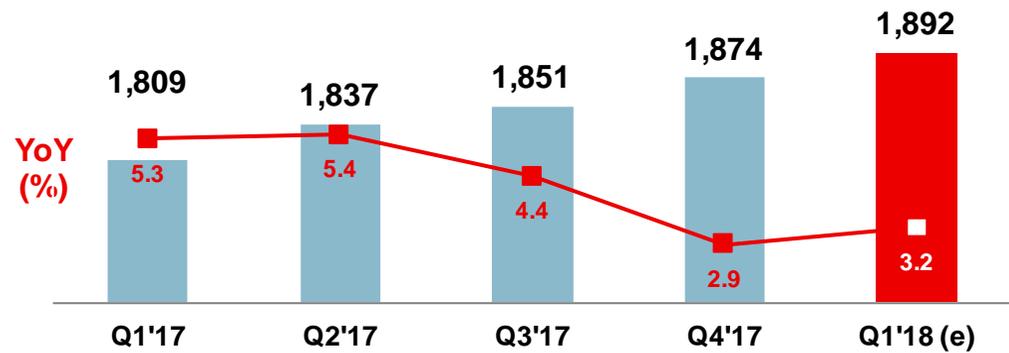


Continued steady loan growth forecast in 2018; deposit growth is expected to accelerate

Total loans (GBP bn¹)



Total deposits (GBP bn²)



- ▶ Mortgage lending growth at end 2017 of 3.3%, expected to end 2018 at c3.5%
- ▶ Consumer credit growth has slowed from double-digit rates in 2017
- ▶ Corporate loan growth has been more volatile but is expected to slow
- ▶ Retail deposit growth moderated in 2017 but expected to pick up slightly in 2018
- ▶ Household saving ratio fell over 2017 and remains close to historic lows
- ▶ Corporate deposit growth stronger than expected in 2017

Strategy and business



02

Santander UK remains well positioned as the leading full-scale challenger in the UK



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 

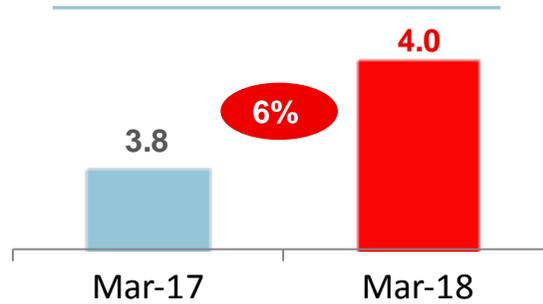
- ▶ Support communities through skills, knowledge and innovation 

KEY DATA	Q1'18	YoY Var. ⁴
 Gross loans ¹	£201.5 bn	0.6%
 Customer funds ¹	£178.7 bn	(0.9%)
 Attributable Profit	£282.4 mn	(21.1%)
 RoTE ²	9.1%	(220 bps)
 Efficiency ratio	56.6%	(608 bps)
 Customer lending market share ³	10%	(0%)
 Customer deposit market share ⁴	9%	(1%)
 Loyal customers	4.3 mn	5.3%
 Digital customers	5.2 mn	9.8%
 Branches	800	(5.3%)
 Employees	26,229	1.1%

Business momentum is supported by deeper customer relationships

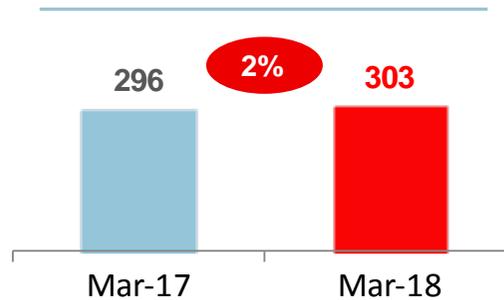


Loyal retail customers (mn)



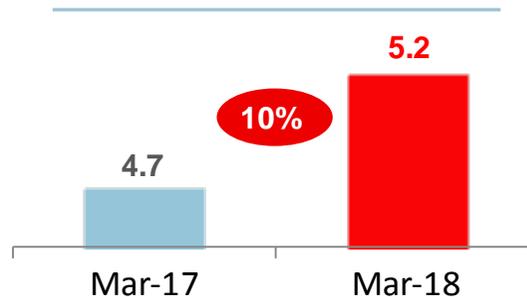
- ▶ Our loyal retail customer base continues to grow, increasing by 200,000 year-on-year.
- ▶ We continued to benefit from the 1I2I3 World proposition, with 21,000 new customers in Q1'18, bringing the total to 5.4 million.

Loyal SME and corporate customers (000's)



- ▶ Loyal SME and corporate customers grew from Q1'17, as we continued to deploy our client-centric infrastructure and international proposition.
- ▶ In Q1'18, Business Current Accounts digital openings were up 9% year-on-year.

Digital customers (mn)



- ▶ Enhanced digital capability attracted a further 180,000 digital customers in the quarter; 10% year-on-year.
- ▶ In Q1'18, 54% (+10pp from Q1'17) of our mortgages were retained online, 40% (+6pp) of current account openings and 53% (+13pp) of credit card openings were made through digital channels.

Our focus on 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



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

Corporate offering



Leverage Banco Santander's international presence and widening product base to help build a scaled Asset Finance business. Build on our broad and deep presence in 10 markets to create strong "trade corridors" for customers in partnership with colleagues around the world.

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.

Simplified processes

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

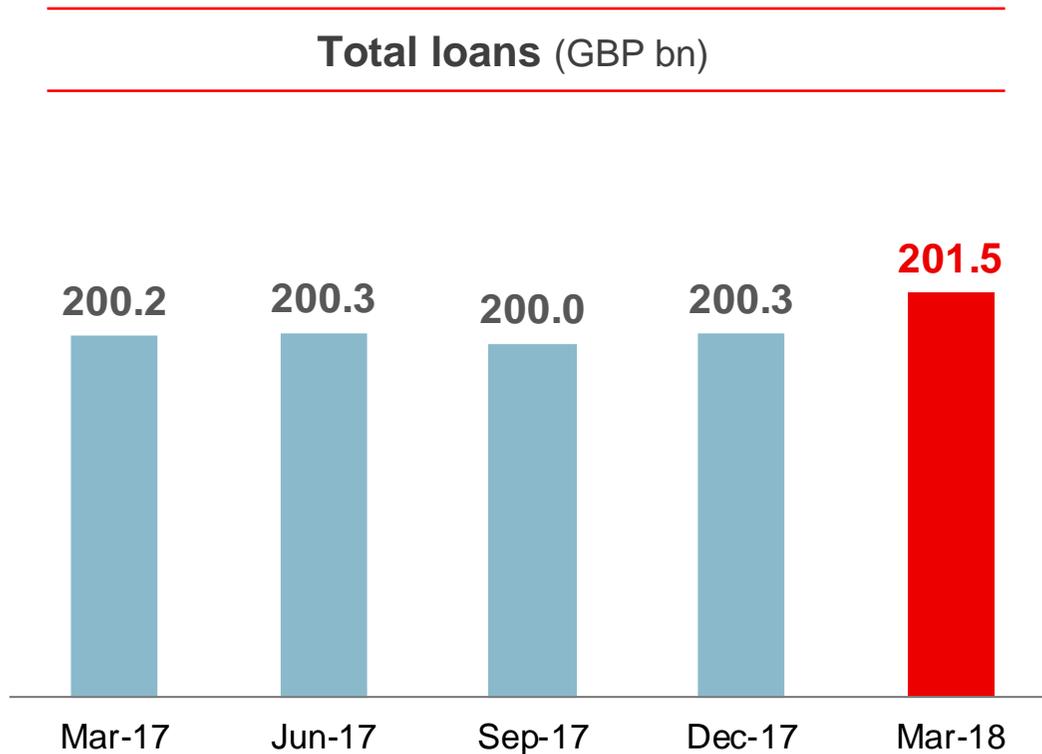
Neo CRM

NEOCRm

Our customer relationship management tool allows us to more effectively engage with, and better serve our customers by bringing together information from across difference channels.



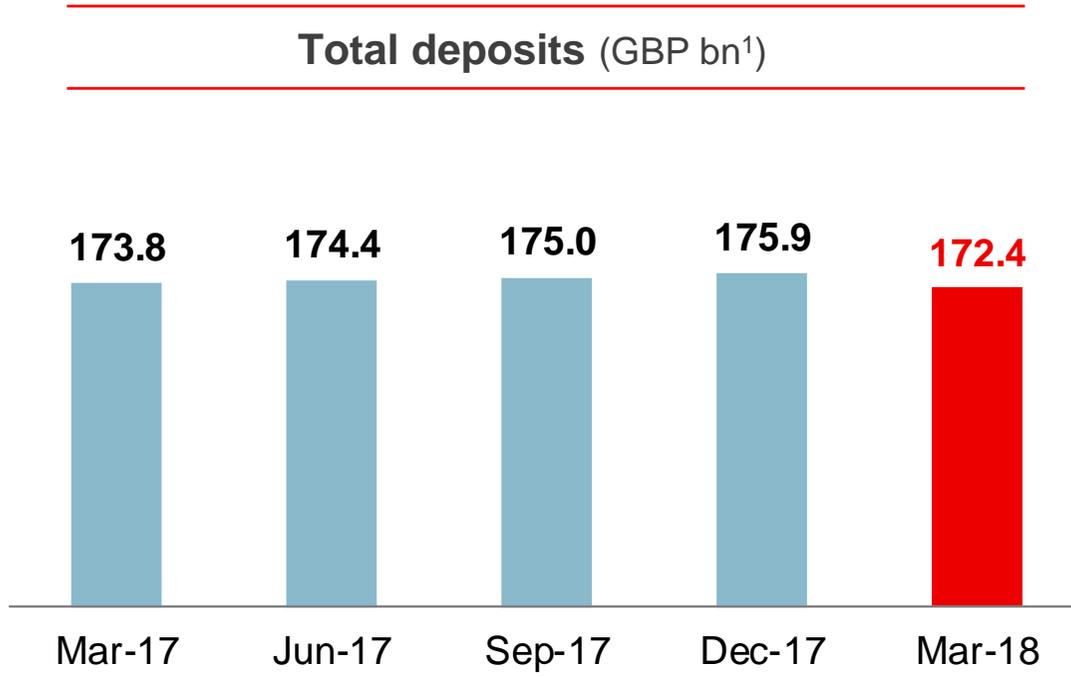
Customer loans increased slightly with growth in mortgages, partially offset by a decrease in Corporate Banking, relating to CRE and care home exposures



	Mar-18	YoY(%)	QoQ(%)
Individuals	168.8	2	1
Mortgages ¹	156.8	2	1
Consumer credit	12.0	(0)	(3)
Companies	27.2	(4)	(1)
Business banking	1.9	(11)	(3)
Commercial Banking	19.3	(2)	(1)
Global Corporate Banking	6.0	(9)	(1)
Total	195.9	1	1
Non core	5.5	(12)	(6)
Total Customer Loans	201.5	1	1



Customer deposits broadly flat with seasonal reductions in corporate deposits and a decrease in Retail Banking savings products



	Mar-18	YoY(%)	QoQ(%)
Demand	85.6	8	0
Savings	67.1	(2)	(5)
Time	19.7	(25)	(1)
Total	172.4	(1)	(2)
Funds distributed¹	6.3	(2)	(5)
Total Customer Funds	178.7	(1)	(2)

Results

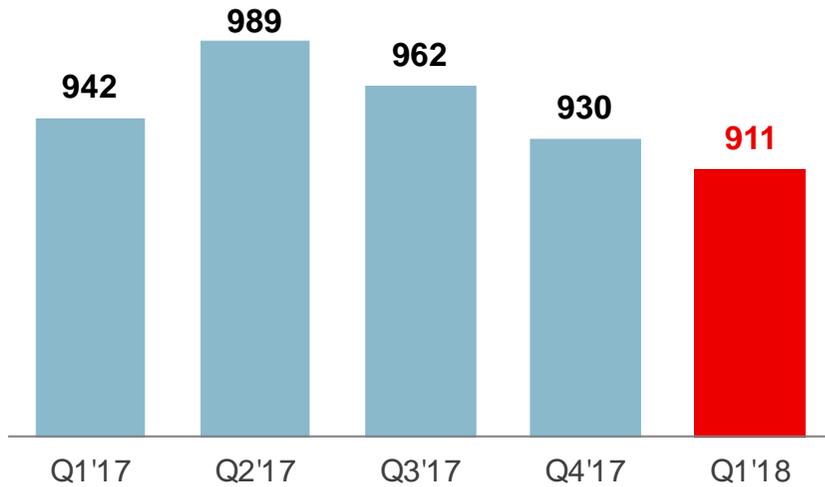


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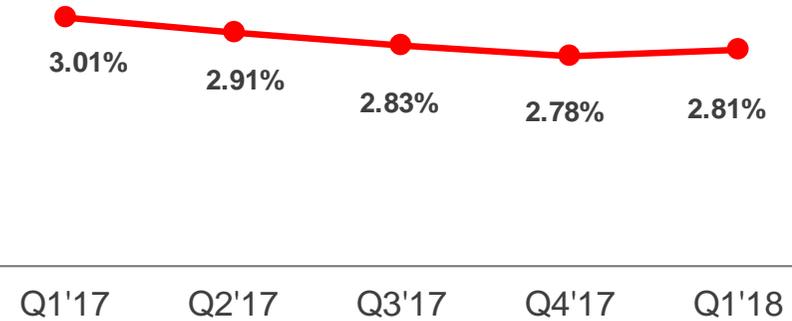
Net interest income impacted by SVR mortgage attrition and the continued pressure on new lending margins, partially offset by improved liability margins

Net interest income (GBP mn)

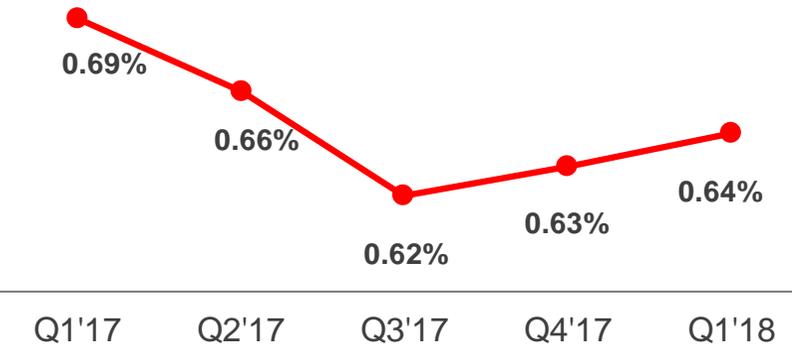


NIM ¹ (%)				
1.89%	1.91%	1.89%	1.83%	1.83%
Official interest rate (%)				
0.25%	0.25%	0.25%	0.50%	0.50%

Yield on loans (%)

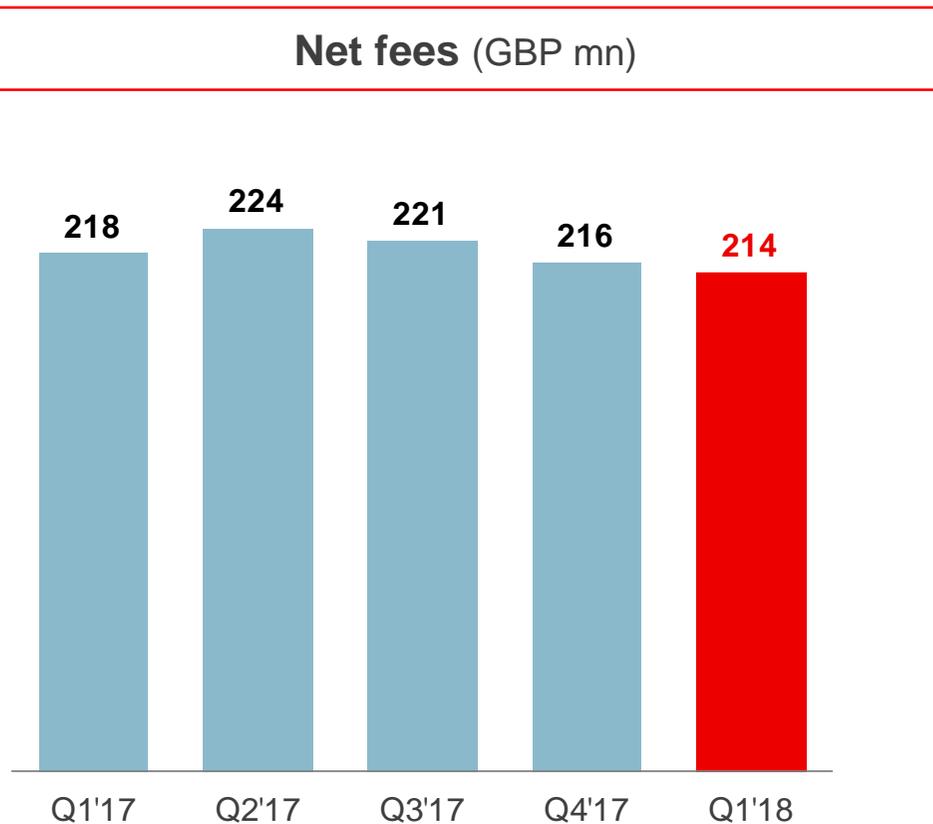


Cost of deposits (%)





Lower fee income due to overdrafts and weaker activity in GCB, partially offset by consolidation of SAM in investments and higher credit card fees

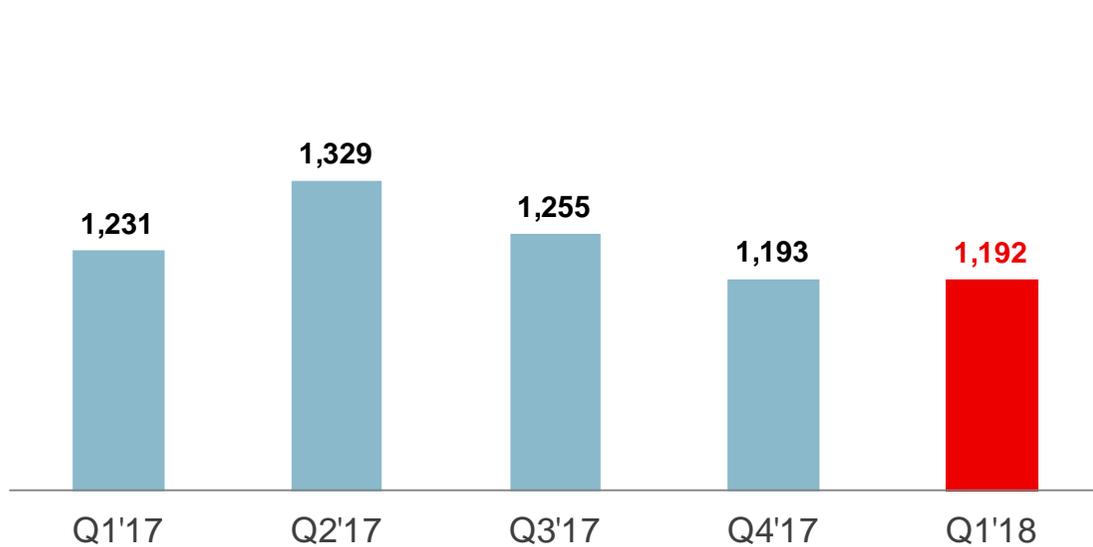


	Q1'18	Q1'17	YoY(%)	QoQ(%)
Banking	96	108	(12%)	(5%)
Credit Cards	12	9	37%	(20%)
Investments	19	6	>100%	>100%
Mortgages	8	9	(6%)	(12%)
Global Corporate Banking	40	50	(20%)	(20%)
Other	39	36	8%	10%
Total	214	218	(2%)	(1%)

Gross income slightly lower, mainly driven by ongoing competitive environment putting pressure on margins



Gross income (GBP mn)

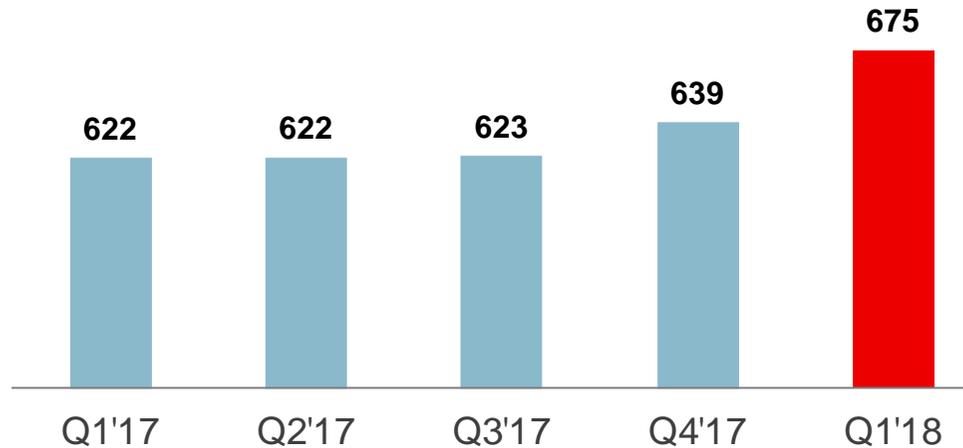


	Q1'18	Q1'17	YoY(%)	QoQ(%)
Net Interest Income	911	942	(3)	(2)
Net Fees	214	218	(2)	(1)
Subtotal	1,125	1,160	(3)	(2)
Other ¹	67	71	(6)	42
Gross income	1,192	1,231	(3)	(0)



Operating expenses increased, with regulatory, risk and control costs increasing for projects during 2018, offsetting operational and digital efficiencies

Operating expenses (GBP mn)



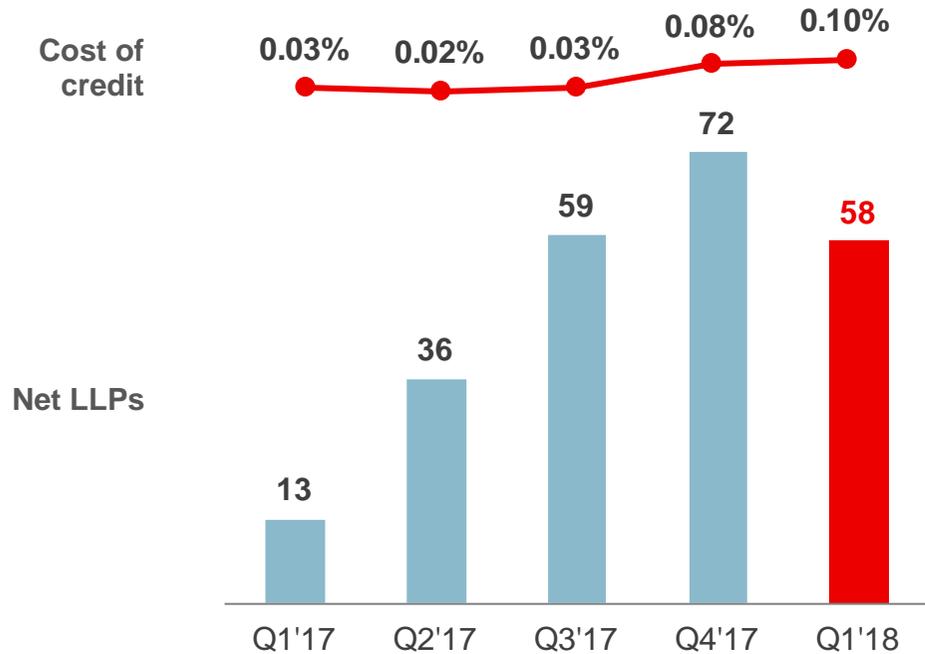
	Q1'18	Q1'17	YoY(%)	QoQ(%)
General and admin. expenses	593	554	7	7
Depreciation and amortisation	81	68	19	(3)
Operating Expenses	675	622	8	6

Efficiency ratio (incl.depreciation)	56.6%	50.5%
Branches (#)	800	845
Employees (#)	26,229	25,954

Credit quality remains strong, despite single names exposures in GCB. NPL ratio improved to 1.17%

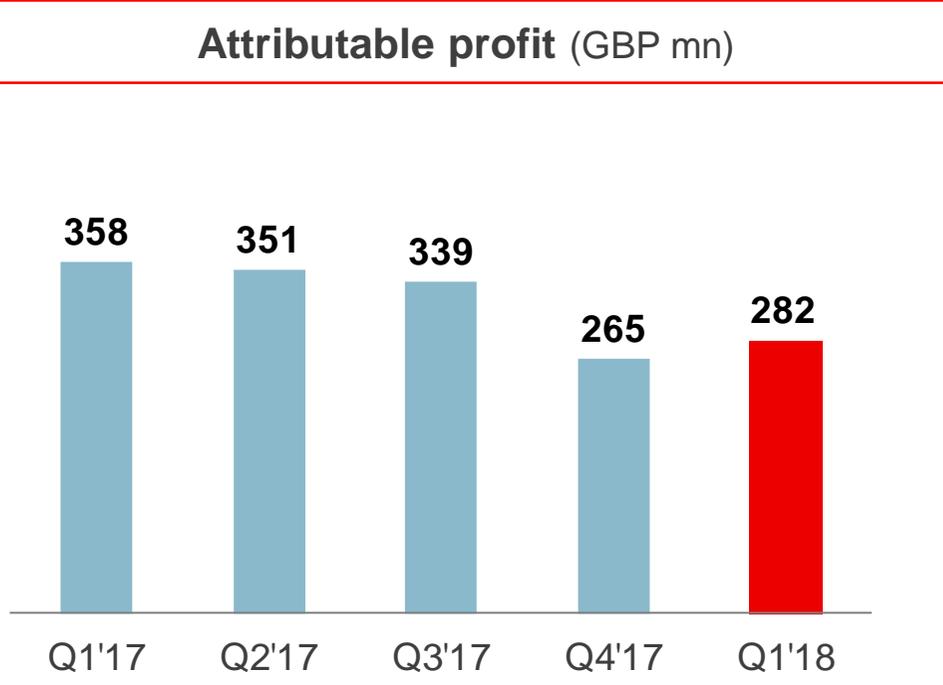


LLPs and cost of credit¹ (GBP mn, %)



	Q1'18	Q1'17	YoY (%)	QoQ (%)
Net operating income	517	609	(15)	(7)
LLPs	(58)	(13)	>100%	(19)
Net operating income after LLPs	459	596	(23)	(5)
NPL ratio	1.17%	1.31%		
NPL coverage ratio	35%	34%		

Attributable profit impacted by income pressure, higher regulatory, risk and control costs and impairment charges for single name cases in GCB



	Q1'18	Q1'17	YoY (%)	QoQ (%)
PBT	404	506	(20)	3
Tax on profit	(116)	(142)	(18)	(5)
Minority Interests	(5)	(6)	(8)	(6)
Attributable profit	282	358	(21)	7
Effective tax rate	28.7%	28.1%		



Delivering for customers in a competitive operating environment

Results

- ▶ Attributable profit down 21% to £282mn and PBT of £404mn impacted by lower income, higher regulatory costs and impairment charges for single name cases in GCB.
- ▶ Cost discipline remains an area of particular focus for management, with targeted actions to reduce the cost run rate over the year and deliver operational efficiencies.

Strategy & Business

- ▶ Exceptionally strong net mortgage growth of £1.9bn with a focus on customer service and retention.
- ▶ Lending to UK companies was broadly stable, with solid growth to non-property backed trading businesses offset by a reduction in CRE lending.
- ▶ Our digital customer base continues to grow, 1,100 new active mobile users per day, of which 2 million exclusively use our mobile app in their transactions with us.

Market Environment & Financial System

- ▶ We expect the UK economy to continue to grow in 2018, at a similar pace to 2017.
- ▶ 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.
- ▶ Our gross mortgage lending is expected to be in line with the market, with continued focus on customer service and retention while delivering operational and digital excellence.
- ▶ We expect our lending to UK companies to be broadly consistent with growth in the corporate borrowing market.

Appendix



04

Balance sheet



GBP bn	Mar-18	Mar-17	Variance	
			Amount	%
Loans and advances to customers ¹	220.9	216.7	4.1	1.9
Cash, central banks and credit institutions ¹	41.7	29.2	12.5	42.6
Debt securities	22.3	23.8	(1.5)	(6.5)
of which: available for sale	10.1	9.9	0.2	2.0
Other financial assets	19.1	21.9	(2.8)	(12.6)
Other assets	9.5	9.9	(0.4)	(4.0)
Total assets	313.5	301.6	11.9	3.9
Customer deposits ¹	193.6	184.6	9.0	4.9
Central banks and credit institutions ¹	25.7	18.8	6.9	36.5
Debt securities issued ¹	56.6	56.8	(0.2)	(0.4)
Other financial liabilities	18.7	23.0	(4.3)	(18.8)
Other liabilities	4.5	4.5	0.0	0.3
Total liabilities	299.0	287.6	11.4	3.9
Total equity	14.5	13.9	0.6	4.0
Other managed and marketed customer funds	7.5	7.4	0.1	1.2
Mutual funds	7.4	7.3	0.1	1.3
Pension funds	0.0	0.0	0.0	0.0
Managed portfolios	0.1	0.1	(0.0)	(6.2)

Income statement



GBP mn	2018	2017	Variance	
	Q1'18	Q1'17	Amount	%
Net interest income	911	942	(31)	(3.3)
Net fees	214	218	(4)	(1.8)
Gains (losses) on financial transactions	51	61	(10)	(17.1)
Other operating income*	16	10	6	60.9
Gross income	1,192	1,231	(40)	(3.2)
Operating expenses	(675)	(622)	(52)	8.4
General administrative expenses	(593)	(554)	(39)	7.1
<i>Personnel</i>	(352)	(296)	(56)	19.0
<i>Other general administrative expenses</i>	(241)	(258)	17	(6.5)
Depreciation and amortisation	(81)	(68)	(13)	19.1
Net operating income	517	609	(92)	(15.1)
Net loan-loss provisions	(58)	(13)	(45)	345.0
Other income	(55)	(90)	35	(38.9)
Underlying profit before taxes	404	506	(102)	(20.2)
Tax on profit	(116)	(142)	26	(18.5)
Underlying consolidated profit	288	364	(76)	(20.9)
Minority interests	5	6	(0)	(8.1)
Underlying attributable profit to the Group	282	358	(76)	(21.1)
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	282	358	(76)	(21.1)

Quarterly income statements



GBP mn	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Variation	
						4Q17 / 1Q18	
						Amount	%
Net interest income	942	989	962	930	911	(19)	(2.0)
Net fees	218	224	221	216	214	(2)	(0.9)
Gains (losses) on financial transactions	61	102	57	27	51	23	85.5
Other operating income*	10	14	15	20	16	(4)	(19.5)
Gross income	1,231	1,329	1,255	1,193	1,192	(1)	(0.1)
Operating expenses	(622)	(622)	(623)	(639)	(675)	(35)	5.5
General administrative expenses	(554)	(547)	(546)	(555)	(593)	(38)	6.9
<i>Personnel</i>	(296)	(296)	(297)	(300)	(352)	(52)	17.2
<i>Other general administrative expenses</i>	(258)	(251)	(249)	(255)	(241)	14	(5.3)
Depreciation and amortisation	(68)	(75)	(77)	(84)	(81)	3	(3.1)
Net operating income	609	706	632	554	517	(37)	(6.6)
Net loan-loss provisions	(13)	(36)	(59)	(72)	(58)	13	(18.6)
Other income	(90)	(147)	(81)	(90)	(55)	35	(38.7)
Underlying profit before taxes	506	524	492	392	404	11	2.9
Tax on profit	(142)	(168)	(148)	(122)	(116)	6	(5.1)
Underlying profit from continuing operatio	364	356	344	270	288	18	6.5
Net profit from discontinued operations	—	—	—	—	—	—	—
Underlying consolidated profit	364	356	344	270	288	18	6.5
Minority interests	6	5	5	6	5	(0)	(6.4)
Underlying attributable profit to the Group	358	351	339	265	282	18	6.8
Net capital gains and provisions	—	—	—	—	—	—	—
Attributable profit to the Group	358	351	339	265	282	18	6.8

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
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM



FTSE4Good