

30 January 2019



2018 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

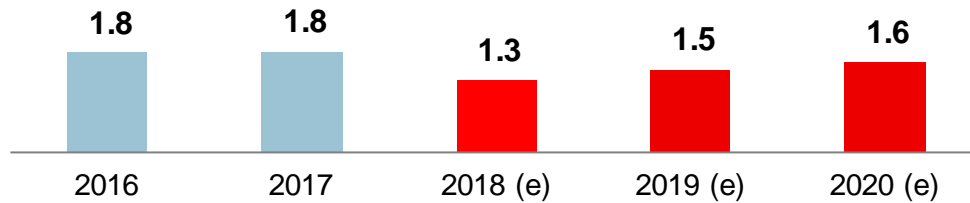


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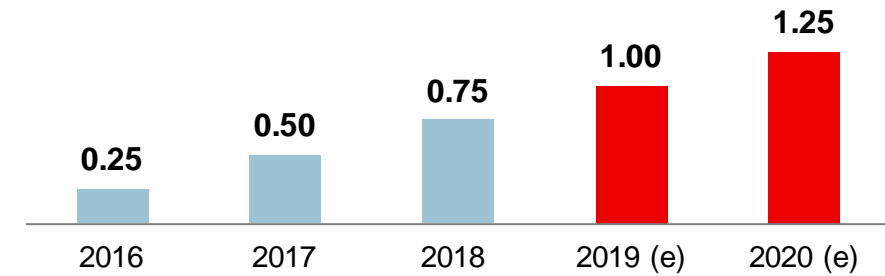
UK economy relatively stable; however uncertainty remains



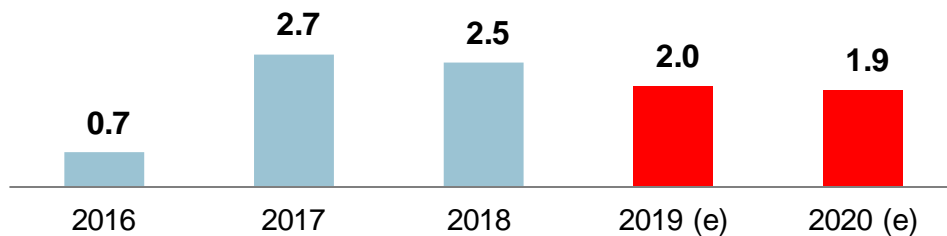
Annual GDP Growth (real, %)



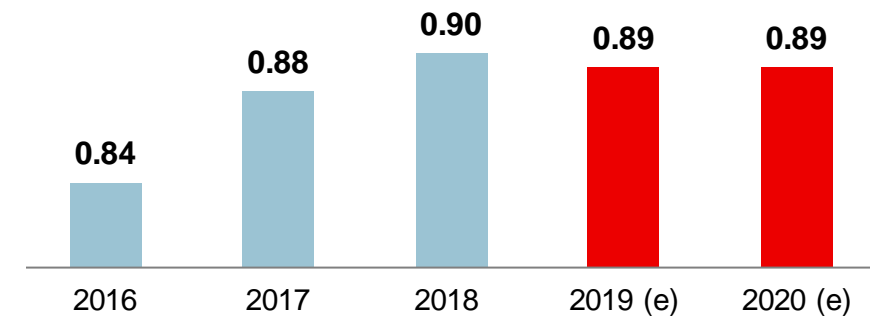
Bank of England base rate (year end, %)



Annual CPI inflation rate (annual average, %)¹



Average exchange rate (GBP / EUR)

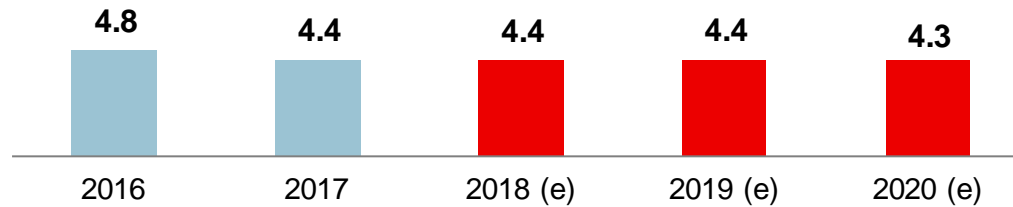


2016, 2017 and 2018 source: Office for National Statistics and Bank of England. 2018 (e), 2019 (e) and 2020 (e) source: Santander UK forecasts at September 2018
(1) Consumer Price Index

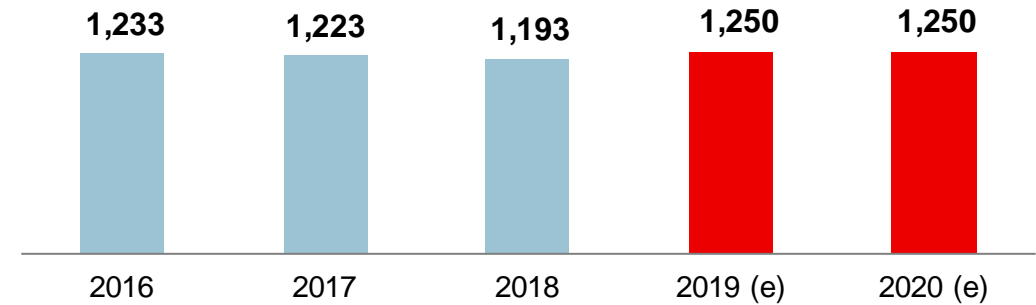
UK economy relatively stable; however uncertainty remains



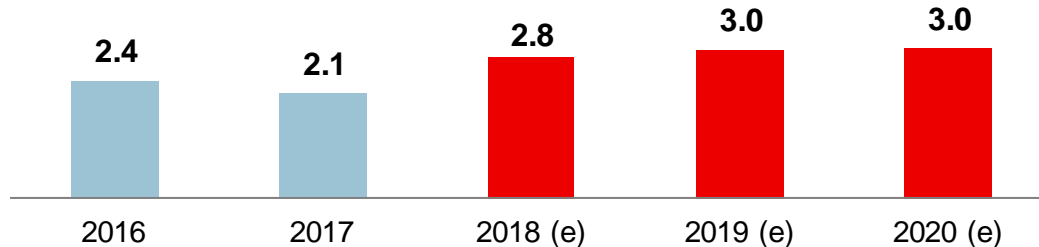
Unemployment rate (ILO, year end)¹



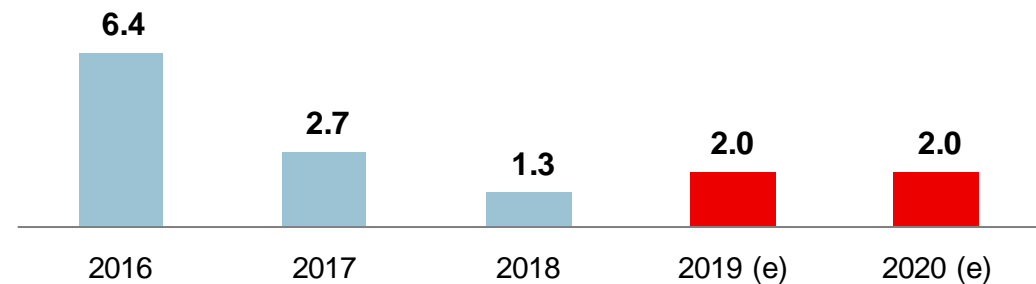
Property transactions (sa, 000s)²



Average weekly earnings (annual average, % exc bonuses)



House prices (% year end)³



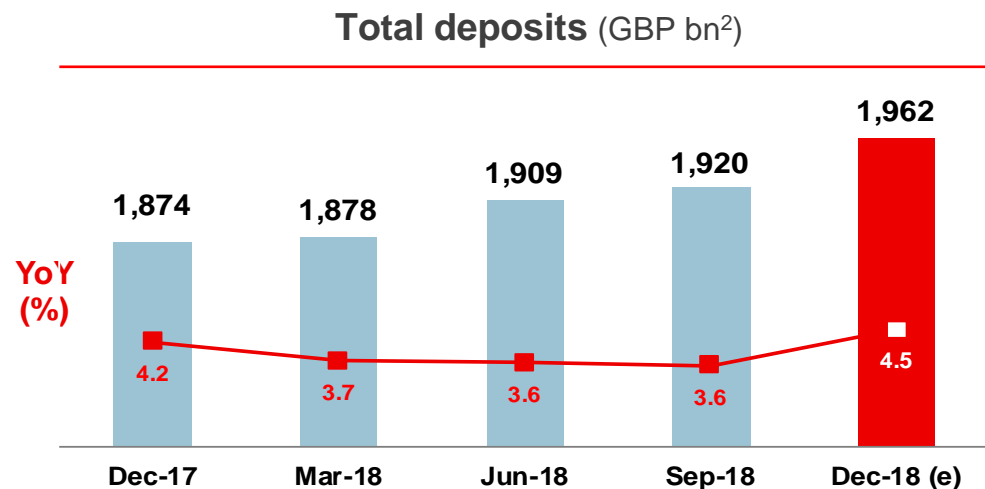
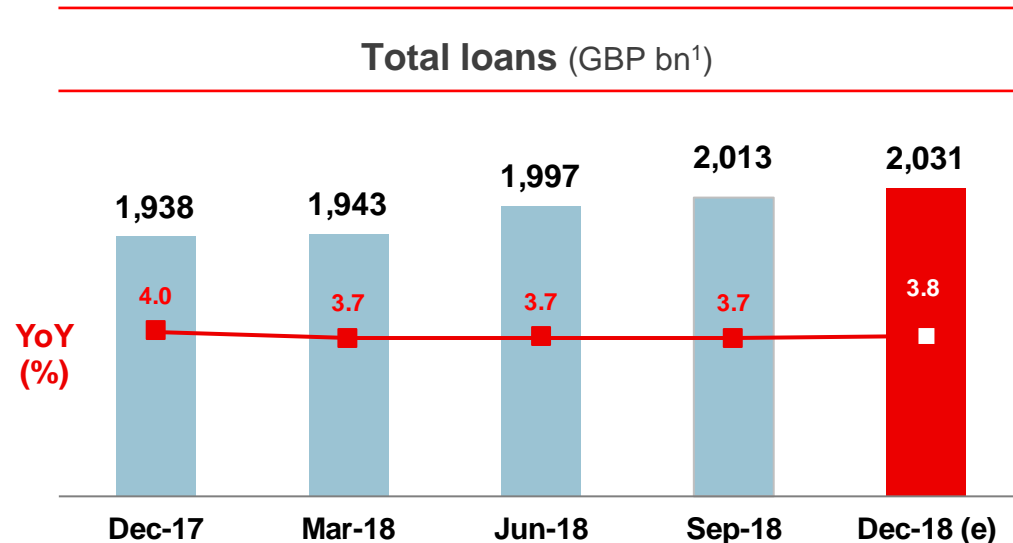
Source: IHS Markit, HMRC and Office for National Statistics. 2018 (e), 2019 (e) and 2020 (e) source: Santander UK forecasts at September 2018.

(1) International Labour Organisation

(2) Seasonally adjusted

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

Steady loan growth and slight acceleration in deposit growth expected to continue



- ▶ Mortgage lending growth at c.3% in 2018, with weaker buyer demand and subdued house prices seen to date likely to continue in 2019.
- ▶ Consumer credit growth has slowed from double-digit rates to c.7%, and is expected to be c.6% in 2019.
- ▶ Corporate borrowing market is expected to grow by c.2-3%, as uncertainty continues to dampen investment intentions.
- ▶ Retail deposit growth is expected to be c.4% in 2018.
- ▶ Household saving ratio has fallen slightly from end of 2017 to 3.8% for Q3'18 and remains near historic lows.
- ▶ Corporate deposit growth expected to slow by end of 2018.

Source: Bank of England Bankstats (Monetary and Financial Statistics) published at early-Jan 2019, internal estimates for latest month. 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



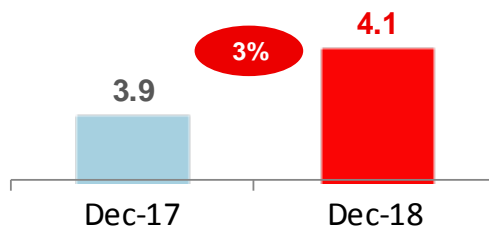
STRATEGIC PRIORITIES

- ▶ 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	12M'18	YoY Var.
Gross loans ¹	GBP 206.7 bn	0.9%
Customer funds ¹	GBP 178.1 bn	(2.4%)
Attributable Profit	GBP 1,205.3 mn	(8.2%)
RoTE	9.3%	(94 bps)
Efficiency ratio	55.2%	(520 bps)
Customer lending market share ²	10%	(16 bps)
Customer deposit market share ³	9%	(56 bps)
Loyal customers	4.4 mn	3.5%
Digital customers	5.5 mn	9.3%
Branches	756	(6.4%)
Employees	25,872	(0.4%)

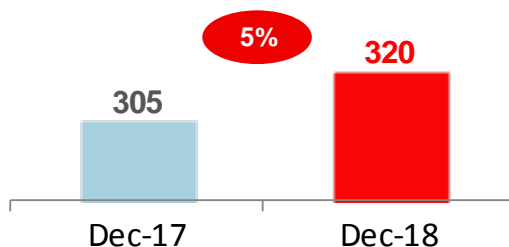
Business transformation is supported by deeper customer relationships

Loyal individuals (mn)



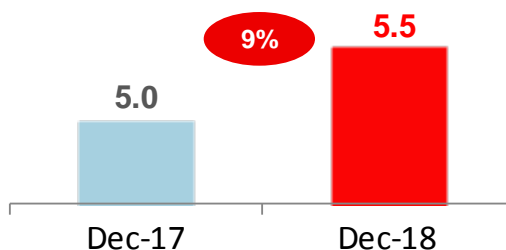
- ▶ Our loyal individuals base continues to grow, increasing 3% YoY.
- ▶ We continued to benefit from the *1/2/3 World* proposition, with 112,000 new customers in the year, bringing the total to 5.5 million.

Loyal corporates (k)



- ▶ Loyal SME and corporate customers grew 5%, as we continued to deploy our customer-centric infrastructure and international proposition.
- ▶ 40% of business account openings were made through digital channels (+6pp YoY).

Digital customers (mn)



- ▶ Enhanced digital capability attracted a further 467,000 customers, growth of 9% year-on-year.
- ▶ 55% of our mortgages were retained online (+6 pp YoY), 43% of current account openings (+5 pp YoY) and 65% of credit card openings were made through digital channels (+13 pp 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.

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.

Mobile app

Improvements made to our mobile banking app. New features include fingerprint log on, easier viewing for transaction, easy account transfers, and improved credit card overview. Our iOS rating has improved since launch from 2.4 to 4.8 based in Dec-18 with 181,000 reviews.

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.

Corporate offering



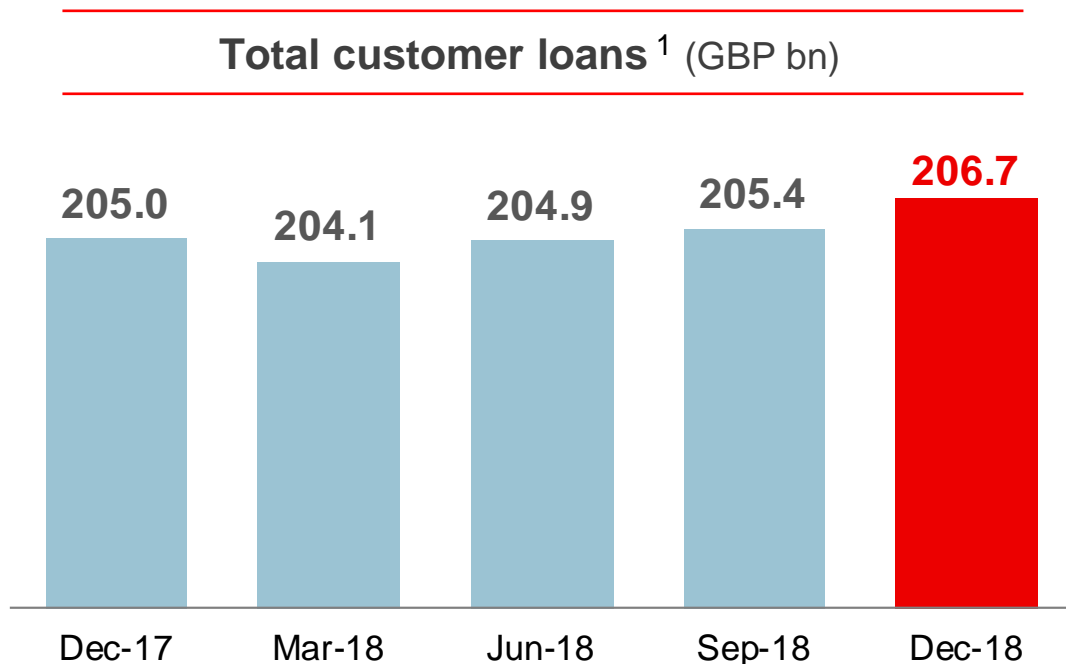
We have 8 trade corridors (of which 3 were launched in 2018) which help UK businesses to establish the necessary contacts and local support services to open up new markets and successfully grow trade overseas.

1|2|3 Business Current Account



Launch of innovative *1|2|3 Business Current Account* in October 2018, offering standout value to the nation's SMEs.

Customer loans growth driven by mortgages, partially offset by reduction in CRE and non-core loans

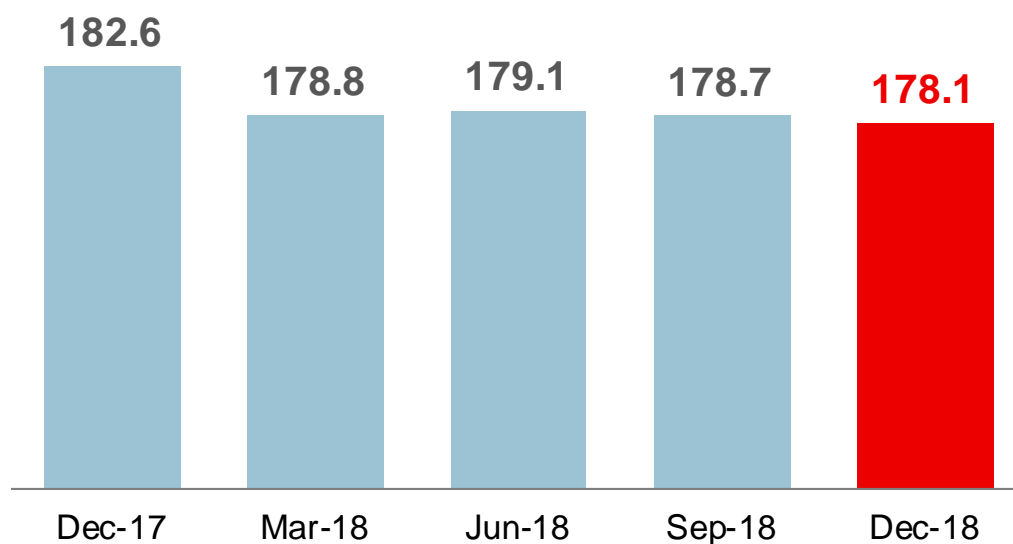


	Dec-18	YoY (%)	QoQ (%)
Individuals	171.0	2	1
Mortgages ²	158.0	2	1
Consumer credit	13.0	7	5
Companies	24.1	(12)	(1)
Business banking	1.8	(6)	(0)
Corporate & Commercial Banking ³	17.7	(9)	(1)
Corporate & Investment Banking ³	4.6	(24)	(0)
Core customer loans	195.1	0	1
Non core	4.8	(22)	(8)
Total customer loans excl LB	199.9	(0)	1
London Branch ³	6.8	>100%	10
Total customer loans	206.7	1	1

Customer funds slightly down; with growth in demand balances, offset by reduction in time deposits and savings



Total customer funds (GBP bn)



	Dec-18	YoY (%)	QoQ (%)
Demand	87.3	2	0
Savings	69.1	(2)	1
Time	15.7	(21)	(6)
Total deposits	172.1	(2)	(0)
Funds distributed¹	6.0	(10)	(9)
Total customer funds	178.1	(2)	(0)

Results

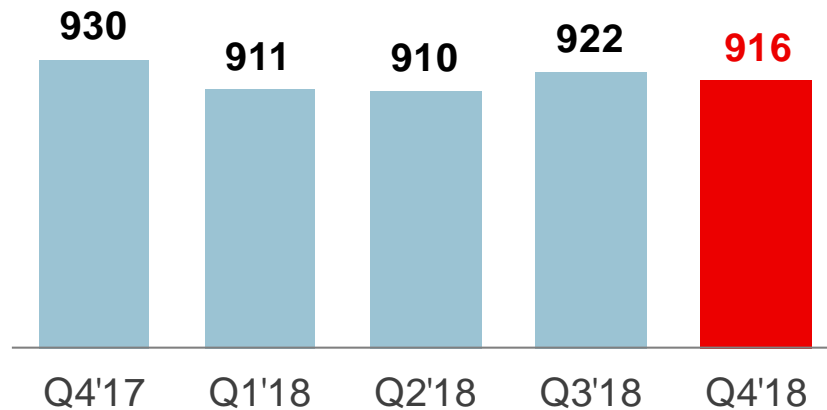


03



NII impacted by the lower new mortgage spreads and SVR attrition

Net interest income (GBP mn)



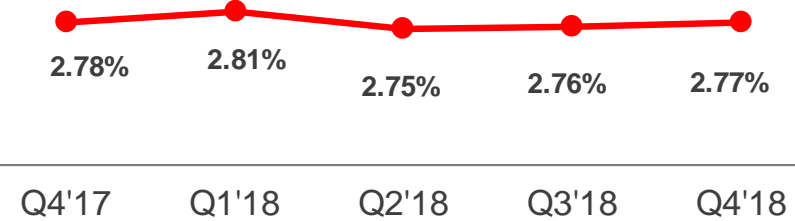
NIM¹ (%)

1.83%	1.83%	1.80%	1.78%	1.77%
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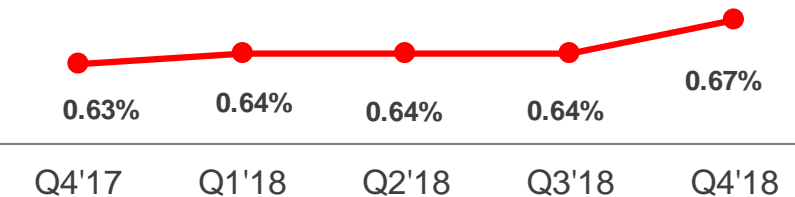
Official interest rate (%)

0.50%	0.50%	0.50%	0.75%	0.75%
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Yield on loans (%)

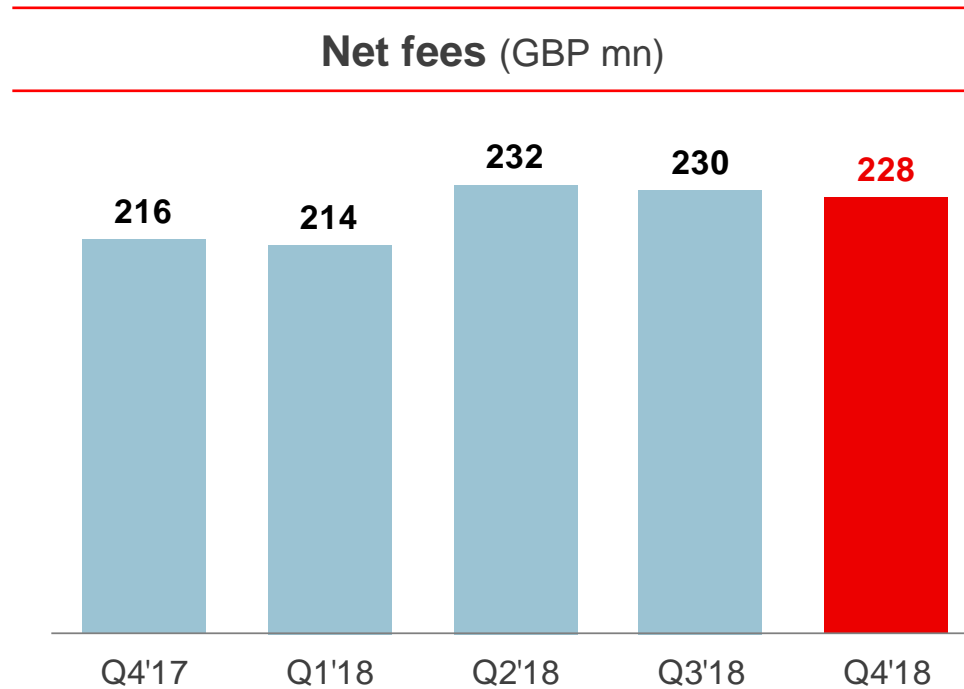


Cost of deposits (%)





Fee income growth driven by consolidation of SAM investments, higher SME and Commercial Banking fees, partially offset by lower overdraft fees

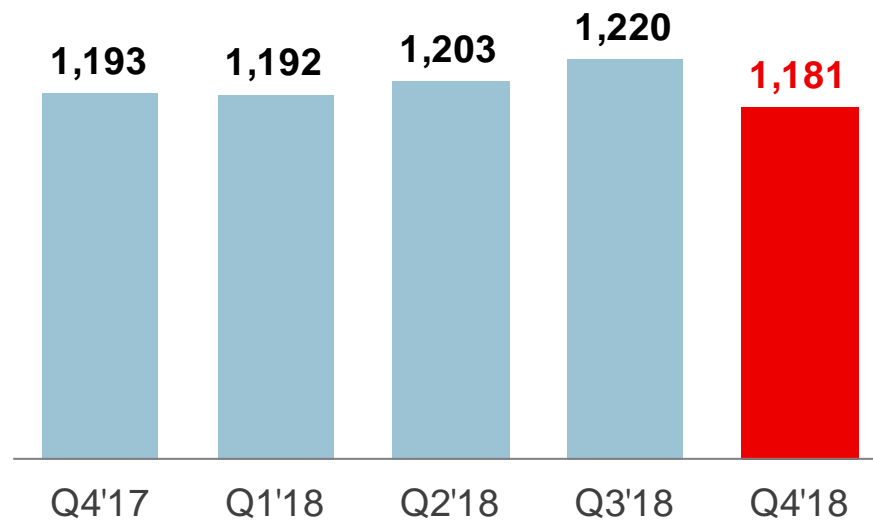


	12M'18	12M'17	YoY(%)	QoQ(%)
Banking	374	418	(10%)	(3%)
Investments	88	27	>100%	(9%)
Credit Cards	42	47	(11%)	(4%)
Insurance	70	67	5%	7%
Business Banking	64	59	8%	5%
Commercial Banking	70	62	13%	(15%)
Corporate & Investment Banking	181	192	(6%)	(2%)
Other	16	8	>100%	>100%
Total	905	879	3%	(1%)

Lower gross income: competitive pressure on new mortgage pricing, SVR attrition, absence of gain on sale of Vocalink shares in 2017



Gross income (GBP mn)



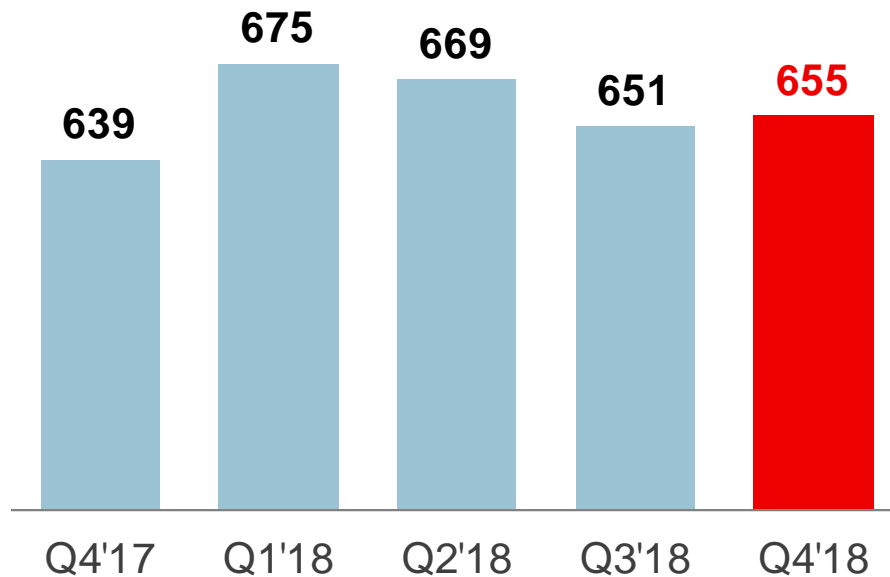
	12M'18	12M'17	YoY (%)	QoQ (%)
Net Interest Income	3,659	3,823	(4)	(1)
Net Fees	905	879	3	(1)
Subtotal	4,564	4,702	(3)	(1)
Other ¹	231	307	(25)	(46)
Gross income	4,795	5,008	(4)	(3)

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

Operating expenses increased with 2018 regulatory, risk and control costs, partially offset by operational and digital efficiencies



Operating expenses (GBP mn)



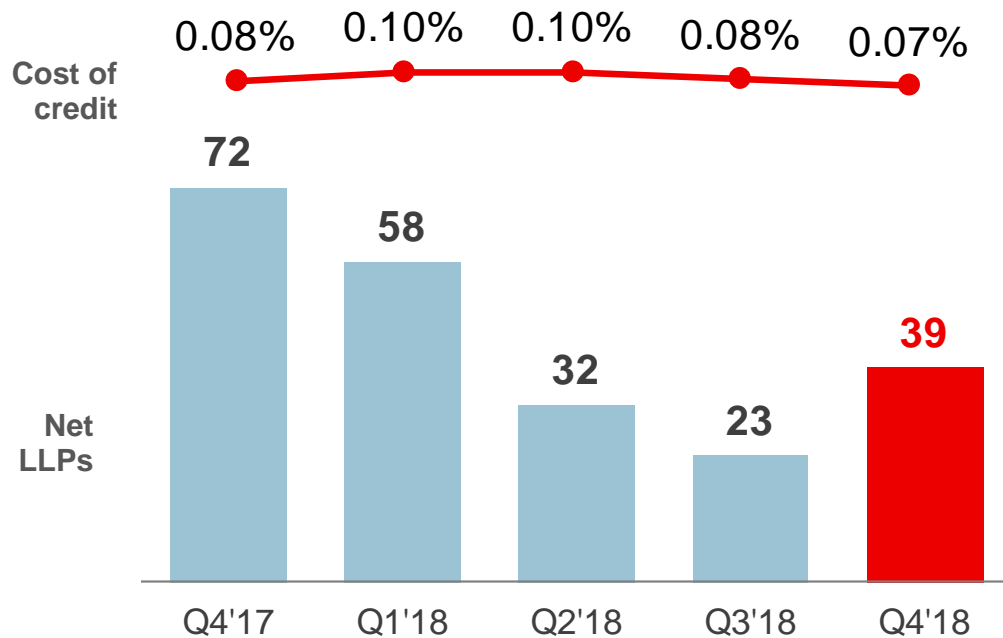
	12M'18	12M'17	YoY (%)	QoQ (%)
General and admin. expenses	2,303	2,202	5	(8)
Depreciation and amortisation	346	305	14	100
Operating Expenses	2,649	2,507	6	1

Efficiency ratio (incl.depreciation)	55.2%	50.1%
Branches (#)	756	808
Employees (#)	25,872	25,971

Excluding the impact of a single name LLP charge in 2017, LLPs remain at historic lows of recent years, with low NPL ratio and cost of credit



LLPs and cost of credit¹ (GBP mn, %)



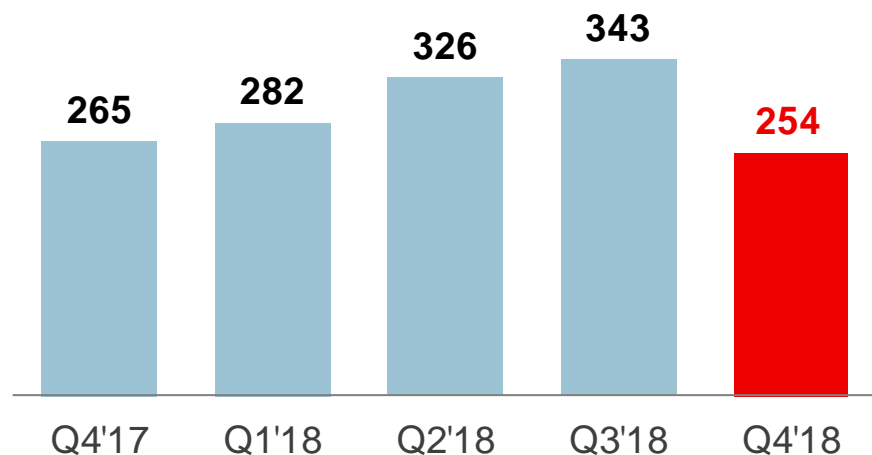
	12M'18	12M'17	YoY (%)	QoQ (%)
Net operating income	2,146	2,502	(14)	(7)
LLPs	(153)	(179)	(14)	70
Net operating income after LLPs	1,992	2,322	(14)	(11)
NPL ratio	1.05%	1.33%		
NPL coverage ratio	33%	32%		

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

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



Attributable profit (GBP mn)



	12M'18	12M'17	YoY (%)	QoQ (%)
Profit before tax	1,704	1,914	(11)	(29)
Tax on profit	(477)	(580)	(18)	(35)
Consolidated profit	1,227	1,334	(8)	(26)
Minority Interests	(22)	(22)	2	(13)
Attributable profit	1,205	1,313	(8)	(26)
Effective tax rate	28.0%	30.3%		

Delivering for customers in a competitive and uncertain environment

Market Environment & Financial System

- ▶ We expect global economic activity to continue to expand in 2019, albeit at a slower pace with a number of heightened risks to the outlook from the ongoing imposition of trade restrictions, geopolitical tensions and slower growth in developed economies.
- ▶ We expect our net mortgage lending to be broadly in line with 2018, as we focus on quality customer service, retention and improved proposition for first-time buyers. We will continue to actively manage our CRE exposures while our lending growth to non-CRE trading business customers is expected to remain robust.

Strategy & Business

- ▶ Net mortgage growth of GBP 3.3 bn in 2018, our strongest lending in over three years despite the highly competitive market.
- ▶ Launched innovative 11213 Business Current Account, Digital Investment Advisor tool and additional features to our highly-rated mobile app.
- ▶ We retained 55% of refinanced mortgage loans online, an increase of 6 pp year-on-year. We also opened 43% of current accounts and 65% of credit cards through digital channels, an increase of 5pp and 13pp YoY, respectively
- ▶ Our ring-fence structure is now in place with all required transfers completed. Compliance with ring-fencing legislation has involved significant effort over a number of years, with a total cost of c. GBP 240 mn.

Results

- ▶ Attributable profit down 8% to GBP 1,205 mn and PBT of GBP 1,704 mn down 11%, with continued income pressure and increased regulatory, risk and control costs.
- ▶ Banking NIM of 1.80% in 2018, down 10bps YoY, with lower new mortgage margins, SVR attrition. This was partially offset by management pricing actions on customer deposits.
- ▶ Increased regulatory, risk and control costs have been partly offset by cost management programmes through the year.

Appendix



04

Balance sheet



GBP million

	31-Dec-18	31-Dec-17	Variation	
			Amount	%
Loans and advances to customers	230,149	216,144	14,005	6.5
Cash, central banks and credit institutions	35,641	50,361	(14,720)	(29.2)
Debt securities	26,112	23,235	2,877	12.4
<i>o/w: designated at fair value through equity</i>	13,229	8,772	4,458	50.8
Other financial assets	11,984	21,905	(9,921)	(45.3)
Other assets	8,622	8,849	(228)	(2.6)
Total assets	312,507	320,494	(7,987)	(2.5)
Customer deposits	188,198	204,510	(16,312)	(8.0)
Central banks and credit institutions	29,904	24,695	5,209	21.1
Debt securities issued	60,431	54,220	6,211	11.5
Other financial liabilities	14,834	18,780	(3,946)	(21.0)
Other liabilities	3,740	3,824	(84)	(2.2)
Total liabilities	297,107	306,029	(8,922)	(2.9)
Total equity	15,400	14,465	935	6.5
Other managed and marketed customer funds	6,863	7,681	(818)	(10.7)
Mutual funds	6,777	7,579	(802)	(10.6)
Pension funds	—	—	—	—
Managed portfolios	86	101	(16)	(15.5)

Income statement



GBP million

	2018	2017	Variation	
			Amount	%
Net interest income	3,659	3,823	(164)	(4.3)
Net fees	905	879	26	2.9
Gains (losses) on financial transactions	176	247	(71)	(28.7)
Other operating income	55	59	(4)	(7.0)
Gross income	4,795	5,008	(213)	(4.3)
Operating expenses	(2,649)	(2,507)	(143)	5.7
General administrative expenses	(2,303)	(2,202)	(101)	4.6
<i>Personnel</i>	<i>(1,440)</i>	<i>(1,189)</i>	<i>(251)</i>	<i>21.1</i>
<i>Other general administrative expenses</i>	<i>(863)</i>	<i>(1,012)</i>	<i>150</i>	<i>(14.8)</i>
Depreciation and amortisation	(346)	(305)	(41)	13.5
Net operating income	2,146	2,502	(356)	(14.2)
Net loan-loss provisions	(153)	(179)	26	(14.5)
Other income	(289)	(408)	120	(29.3)
Underlying profit before taxes	1,704	1,914	(210)	(11.0)
Tax on profit	(477)	(580)	103	(17.8)
Underlying profit from continuing operations	1,227	1,334	(107)	(8.0)
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	1,227	1,334	(107)	(8.0)
Minority interests	22	22	0	1.6
Underlying attributable profit to the Group	1,205	1,313	(107)	(8.2)
Net capital gains and provisions	—	—	—	—
Attributable profit to the Group	1,205	1,313	(107)	(8.2)

Quarterly income statements



GBP million

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Net interest income	942	989	962	930	911	910	922	916
Net fees	218	224	221	216	214	232	230	228
Gains (losses) on financial transactions	61	102	57	27	51	56	56	14
Other operating income	10	14	15	20	16	5	12	23
Gross income	1,231	1,329	1,255	1,193	1,192	1,203	1,220	1,181
Operating expenses	(622)	(622)	(623)	(639)	(675)	(669)	(651)	(655)
General administrative expenses	(554)	(547)	(546)	(555)	(593)	(565)	(598)	(548)
<i>Personnel</i>	(296)	(296)	(297)	(300)	(352)	(367)	(363)	(358)
<i>Other general administrative expenses</i>	(258)	(251)	(249)	(255)	(241)	(197)	(235)	(190)
Depreciation and amortisation	(68)	(75)	(77)	(84)	(81)	(104)	(54)	(107)
Net operating income	609	706	632	554	517	534	568	526
Net loan-loss provisions	(13)	(36)	(59)	(72)	(58)	(32)	(23)	(39)
Other income	(90)	(147)	(81)	(90)	(55)	(41)	(56)	(137)
Underlying profit before taxes	506	524	492	392	404	461	490	350
Tax on profit	(142)	(168)	(148)	(122)	(116)	(128)	(141)	(91)
Underlying profit from continuing operations	364	356	344	270	288	333	348	258
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Underlying consolidated profit	364	356	344	270	288	333	348	258
Minority interests	6	5	5	6	5	6	5	5
Underlying attributable profit to the Group	358	351	339	265	282	326	343	254
Net capital gains and provisions	—	—	—	—	—	—	—	—
Attributable profit to the Group	358	351	339	265	282	326	343	254

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



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