

UNITED KINGDOM

January – September 2017

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Content

▶ Macroeconomic environment and financial system ◀

Strategy and business

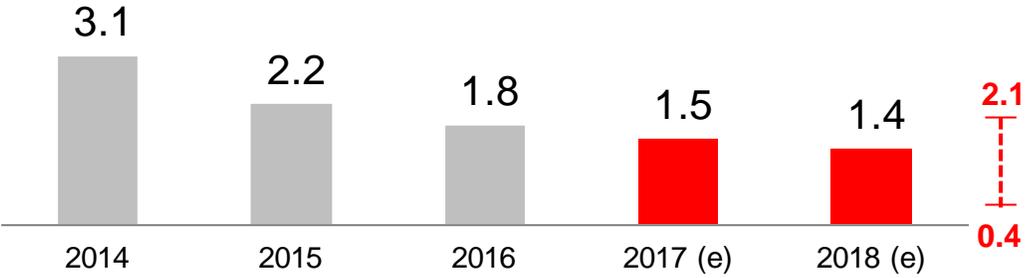
Results

Appendix

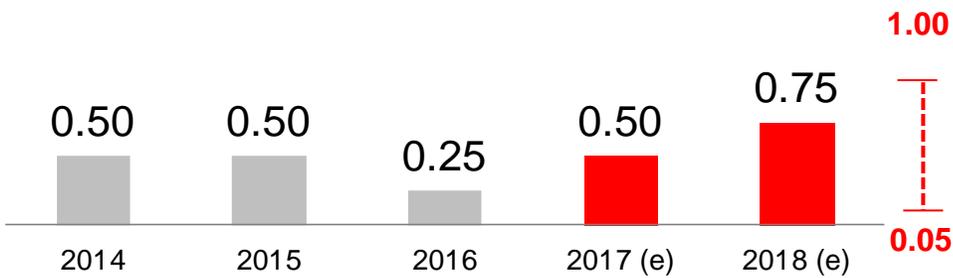
Macro-economic environment

The UK macro-economic outlook is broadly stable but uncertainty remains

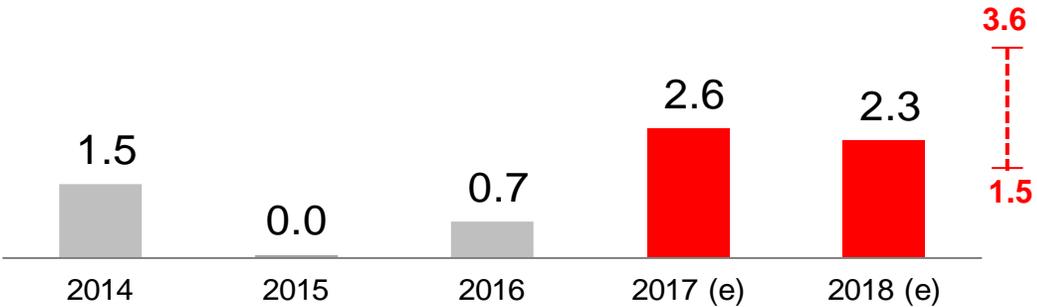
Annual GDP Growth (% , real) ¹



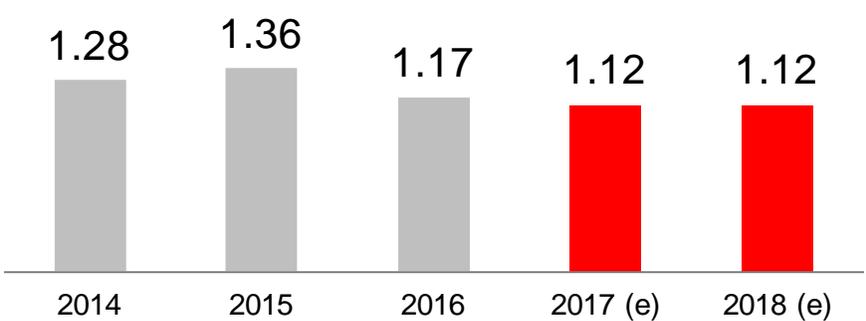
Interest rate (% , year end)



Annual CPI Inflation (% annual average) ²



GBP / EUR exchange rates (year end)

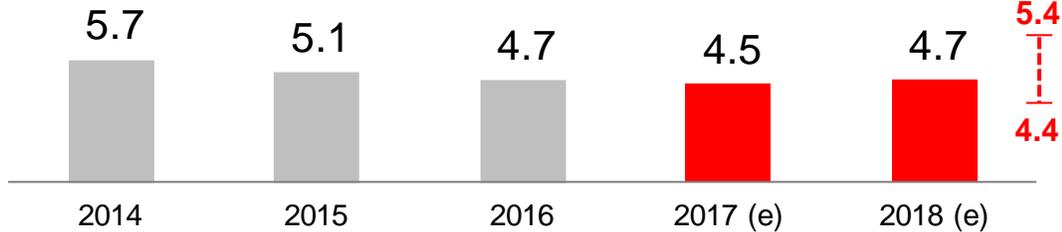


Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (September 2017). External forecast ranges from HMT Treasury Consensus September 2017. Only forecasts made in the latest 3 months (Jul, Aug and Sep) have been included in the high / low range. 1. Data revisions to Quarter 2 2017 in the third estimate of GDP (published 29 September 2017) | 2. Consumer Price Index (HMT range is for 2018 Q4).

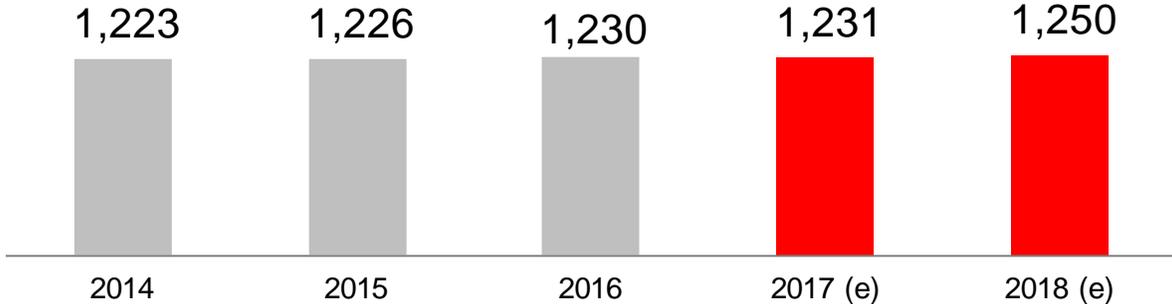
Macro-economic environment

House price growth showing signs of slowing with higher inflation reducing real earnings growth

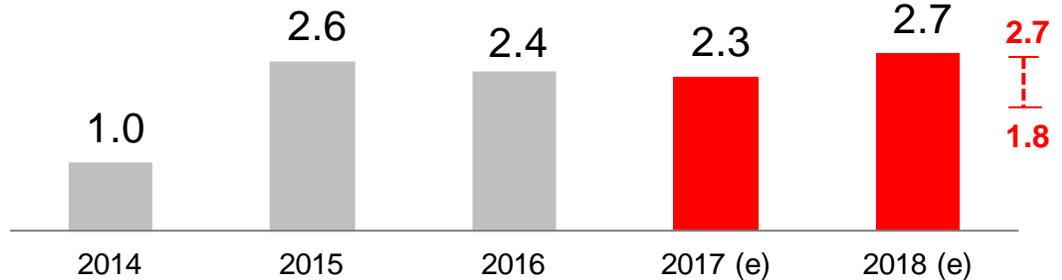
Unemployment rate (ILO, year end) ¹



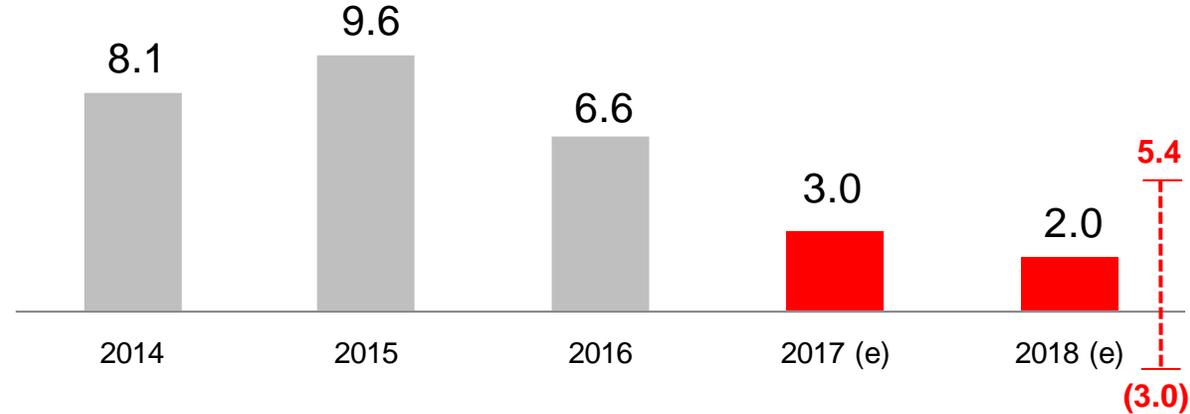
Property transactions (sa²,000's)



Average weekly earnings (annual average, % inc bonuses)



House prices³ (% , year end)

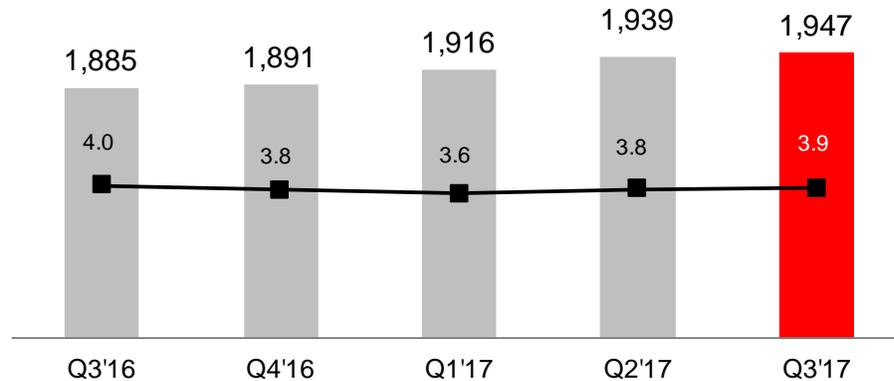


Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (September 2017). External forecast ranges from HMT Treasury Consensus September 2017. Only forecasts made in the latest 3 months (Jul, Aug and Sep) have been included in the high / low range. 1. International Labour Organisation, Q4 figures | 2. Seasonally adjusted | 3. Halifax house prices (Source: IHS Markit), Q4 figures

Financial system: Loan and deposit growth

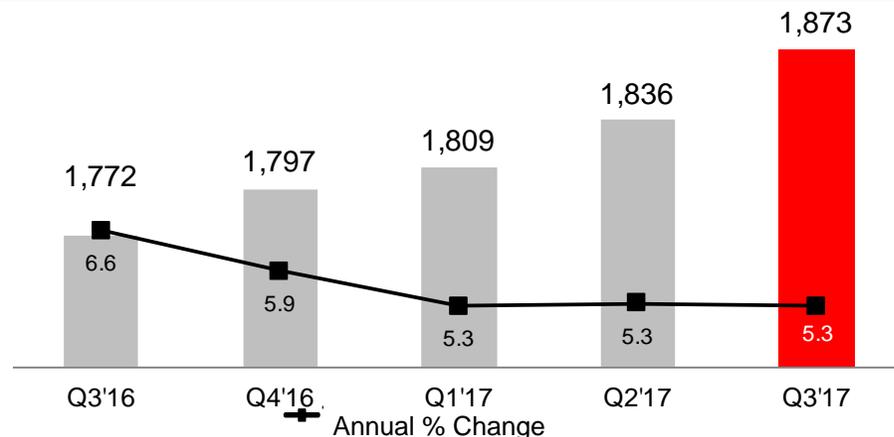
Loan growth continues to be steady in 2017; deposit growth is slowing slightly.

Total loans (GBP bn) ¹



- Total loan growth expected to slow a little further in 2017
- Mortgage lending growth of 2.6% projected for end of 2017, down from 3.0% at the end of 2016
- Consumer credit growth of 9.7% at August with a further slowing expected through the rest of 2017
- Corporate sterling loan growth of around 2.5% expected for 2017

Total deposits (GBP bn) ²



- Slightly slower retail deposit growth in 9M 2017 likely reflecting pressure on household finances
- The household saving ratio moderated in 9M 2017 compared to 9M 2016
- Corporate deposit growth picked up during 9M 2017



Content

Macroeconomic environment
and financial system



Strategy and business



Results

Appendix

Santander UK remains 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	9M'17	Var YoY
 Gross loans¹	£200.0 bn.	(0.6%)
 Customer funds¹	£181.4 bn.	3.1%
 Underlying Att. Profit²	£1,048.1 mn.	8.4%
 RoTE³	10.9%	102 bps
 Efficiency ratio	49.0%	(306 bps)
 Loyal retail customers	3.9 mn.	4.0%
 Digital customers	5 mn.	9.4%
 Branches	820	(2.8%)
 Employees	25,722	(0.5%)
Customer lending market share⁴	10%	0%
Customer deposit market share⁵	9%	(1%)

Commercial strategy and business transformation

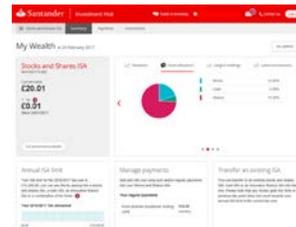
Our focus on innovation is driving improved customer experience and loyalty across our business

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.

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.

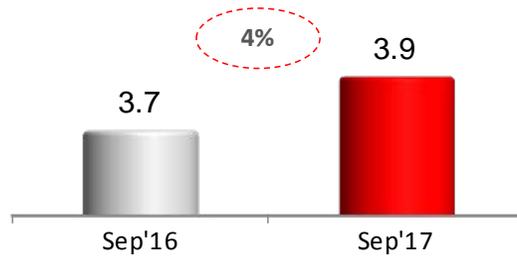
Neo CRM

NEOCRm

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

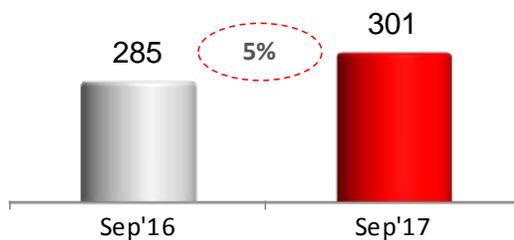
Deeper customer relationships are supporting business momentum

Loyal retail customers (m)



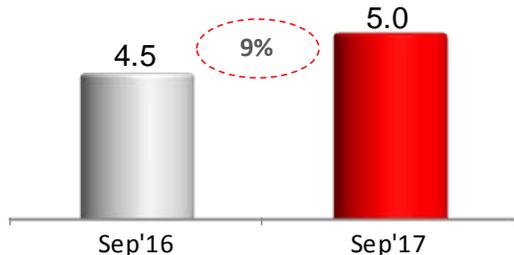
Our loyal retail customer base continues to grow although at a slower rate, impacted by the changes to the 11213 World and low market rates for savings products.

Loyal SME and Corporate customers (000's)



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.

Digital customers (m)



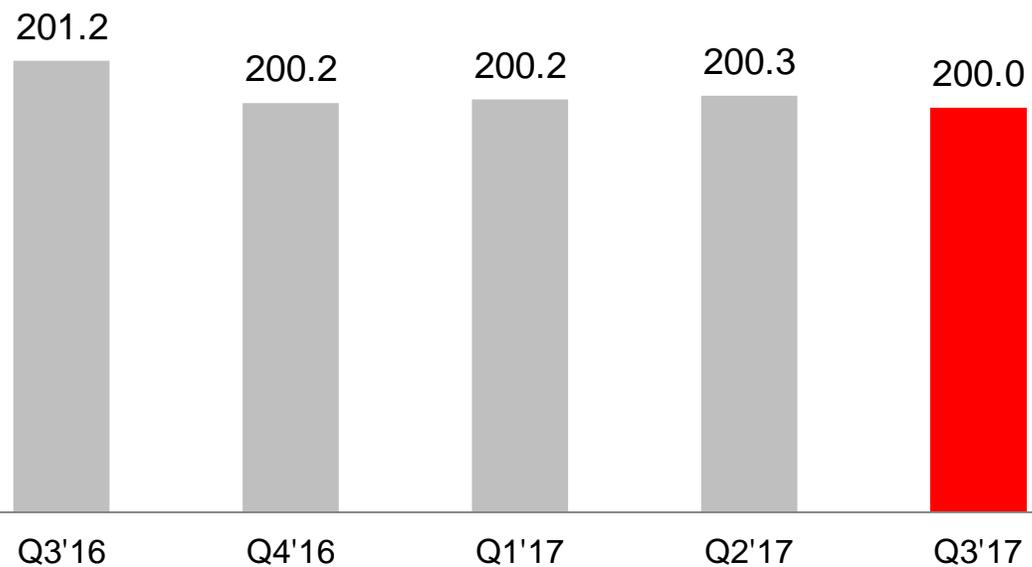
We are increasing the number of digital customers and investing in technologies for improved customer experience.

We introduced video link mortgage applications, enhanced our wealth management offering and launched a new Santander Private Banking website.

Total loans performance

Mortgage lending impacted by management pricing actions in a competitive market

Total loans (GBP bn)

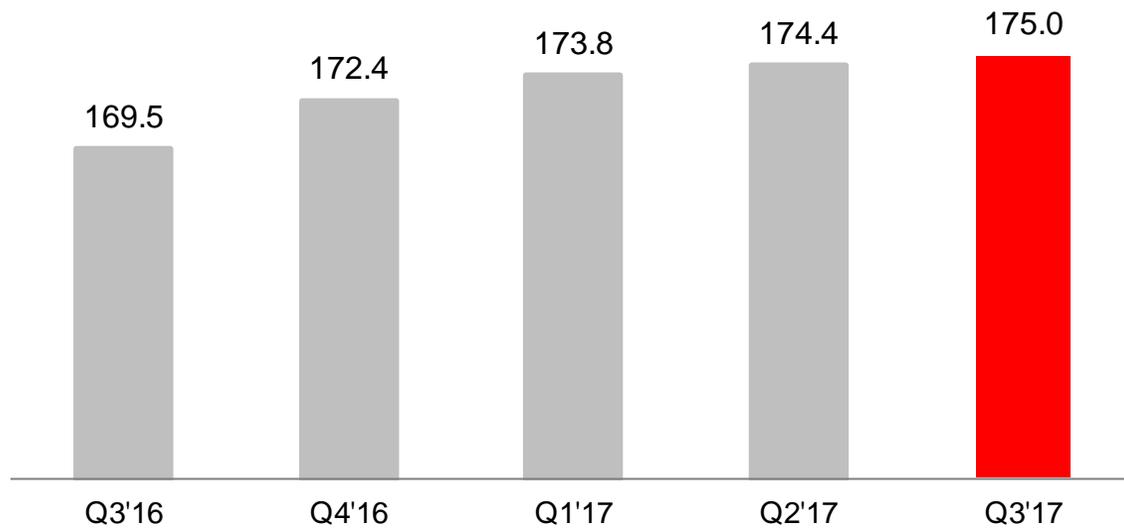


	Sep'17	YoY (%)	QoQ (%)
Individuals	166.0	0	(0)
Mortgages ¹	154.1	0	(0)
Consumer credit	11.9	0	(1)
Companies	28.1	(1)	(0)
Business banking	2.0	(15)	(2)
Commercial Banking	19.5	(0)	(0)
Global Corporate Banking	6.6	0	1
Total	194.0	0	0
Non core	6.0	(15)	(0)
Total Customer Loans	200.0	(1)	(0)

Total customer funds performance

Demand balances continued to grow, offset by lower time deposits

Total deposits (GBP bn)



	Sep'17	YoY (%)	QoQ (%)
Demand	83.4	9	4
Savings	70.8	6	(0)
Time	20.9	(20)	(9)
Total	175.0	3	0
Funds distributed¹	6.4	(0)	(1)
Total Customer Funds	181.4	3	0



Content

Macroeconomic environment
and financial system

Strategy and business



Results

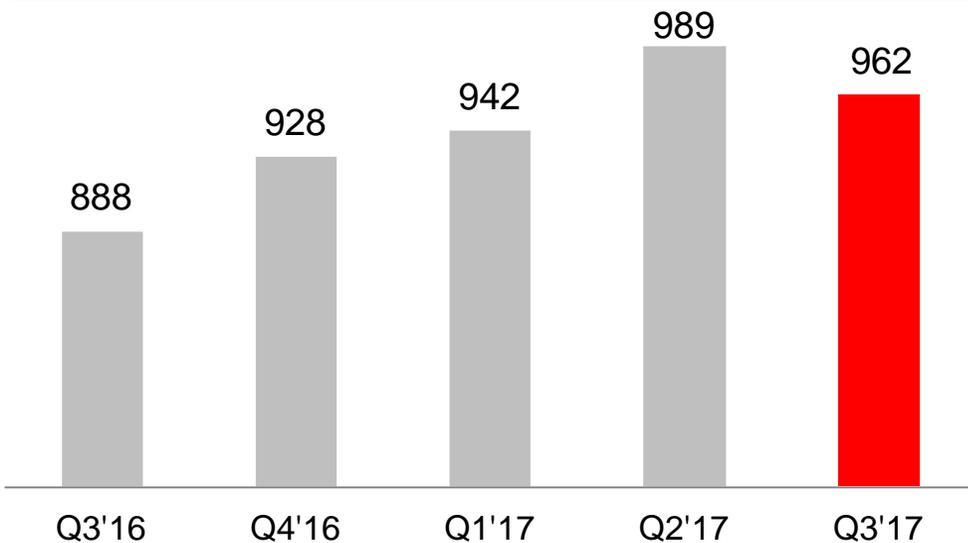


Appendix

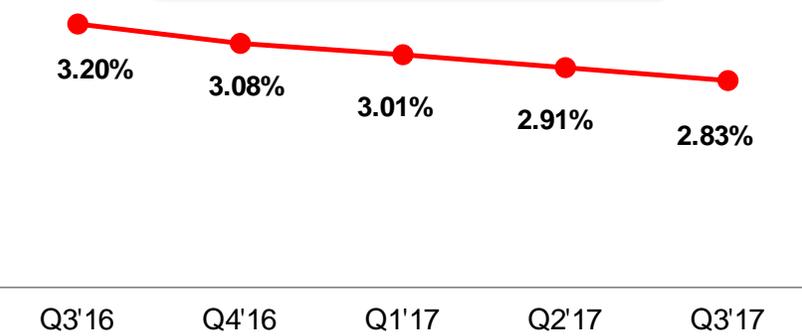
Net interest income and spreads

Net interest income growth driven by retail liability margin improvement, partially offset by continued pressure on new lending margins, SVR mortgage attrition and absence of Q217 accrued interest release

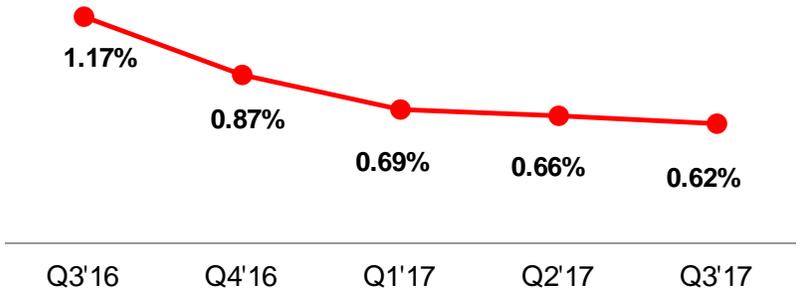
Net Interest Income (GBP mn.)



Yield on Loans (%)



Cost of Deposits (%)



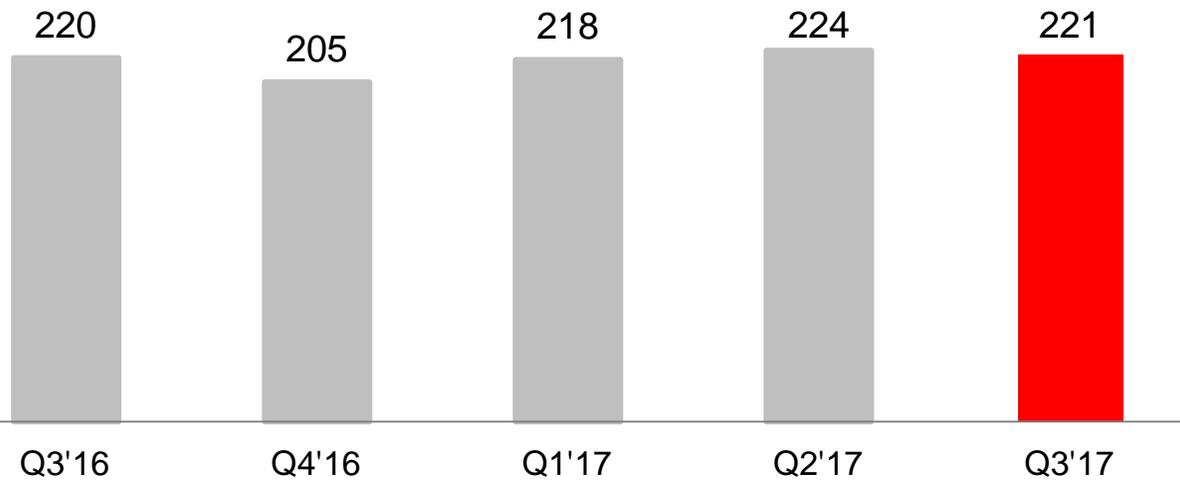
Banking NIM ¹ (%)				
1.75%	1.83%	1.89%	1.91%	1.89%
Interest rate (%)				
0.25%	0.25%	0.25%	0.25%	0.25%

¹Banking NIM¹ is calculated as annualised statutory net interest income divided by average customer loans. Income from accrued interest release and non-recurring items have not been annualised.

Net Fees

Fee Income growth in Retail Banking driven by higher current account, wealth management and credit card fees

Net fees (GBP mn)

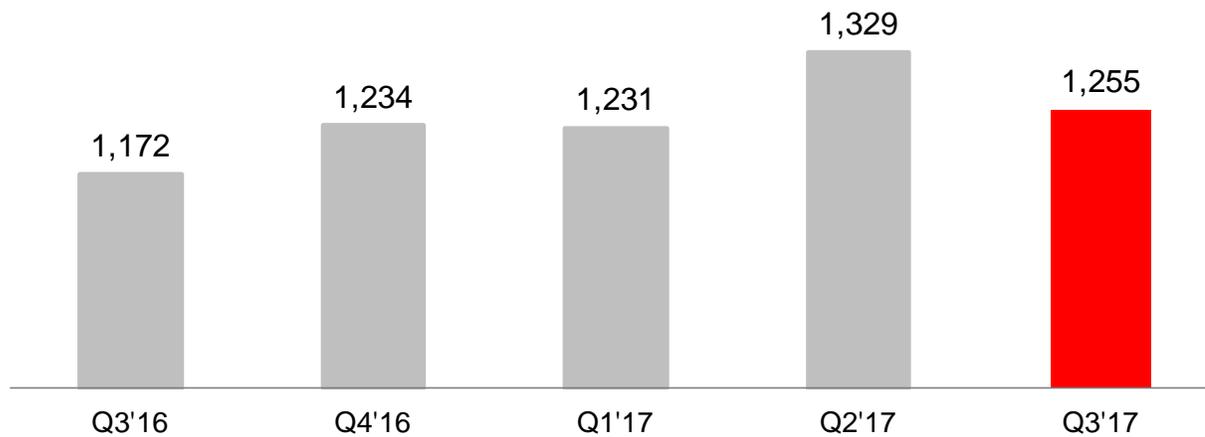


	9M'17	9M'16	YoY (%)	QoQ (%)
Banking	317	296	7	(3)
Credit Cards	32	22	45	(6)
Investments	20	5	296	(6)
Mortgages	28	31	(9)	8
Global Corporate Banking	142	142	(0)	9
Other	124	142	(13)	(8)
Total	663	638	4	(1)

Gross income

Gross income improvement driven by growth in net interest income, net fee income, as well as gain on sale of Vocalink shares in Q2 2017

Gross income (GBP mn)

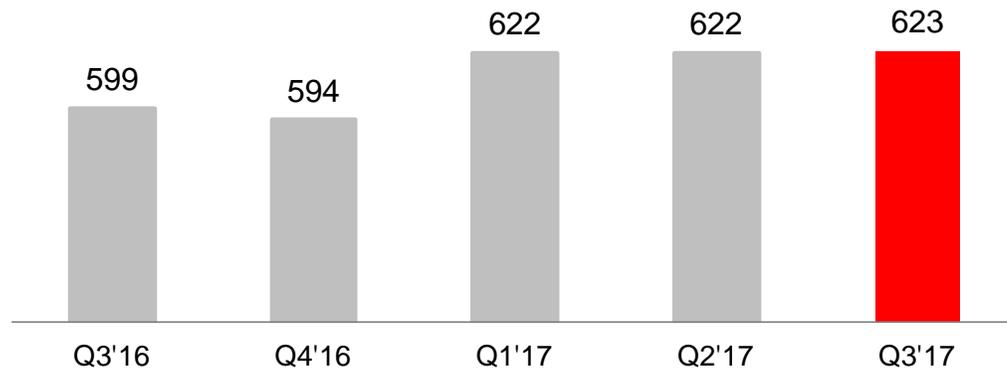


	9M'17	9M'16	YoY (%)	QoQ (%)
Net Interest Income	2,893	2,671	8	(3)
Net Fees	663	638	4	(1)
Subtotal	3,556	3,309	7	(2)
Other ¹	259	210	24	(38)
Gross income	3,815	3,519	8	(6)

Operating expenses

Operational efficiency well managed despite inflationary pressures

Operating expenses (GBP mn)



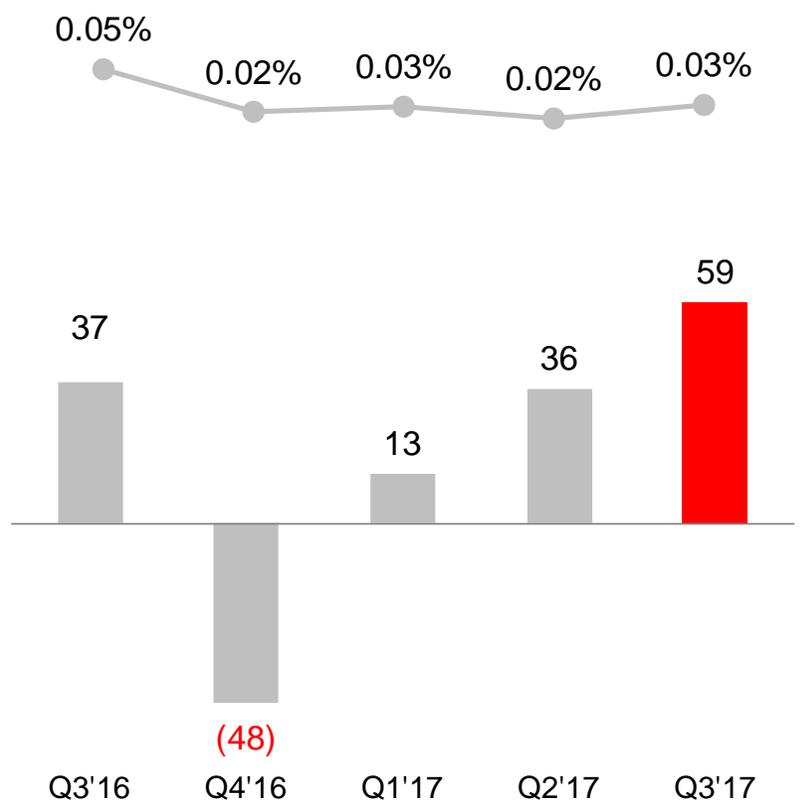
	9M'17	9M'16	YoY (%)	QoQ (%)
General and admin. expenses	1,647	1,645	0	(0)
Depreciation and amortisation	221	185	19	2
Operating Expenses	1,867	1,830	2	0

Efficiency ratio (incl.depreciation)	49.0%	52.0%
Number of branches	820	844
Number of employees	25,722	25,840

Net operating income after loan-loss provisions (LLPs)

Solid loan book performance, with low cost of credit and an improved NPL ratio of 1.32%

LLPs and Cost of credit¹ (GBP mn)



	9M'17	9M'16	YoY (%)	QoQ (%)
Net operating income	1,947	1,689	15	(11)
LLPs	(108)	(95)	13	64
Net operating income after LLPs	1,840	1,593	15	(15)

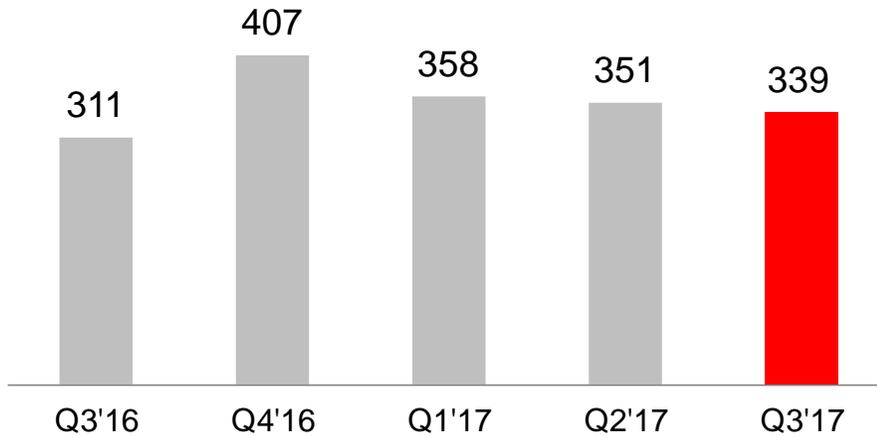
NPL Coverage Ratio	32%	36%
NPL Ratio	1.32%	1.47%

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

Attributable profit

Underlying attributable profit up with income growth supported by cost discipline and good credit quality

Underlying attributable profit (£m)



Attributable profit (£m)

313	297	358	351	339
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	9M'17	9M'16	YoY (%)	QoQ (%)
Profit before taxes	1,521	1,421	7	(6)
Tax on profit	(458)	(433)	6	(12)
Minority Interests	(16)	(21)	(27)	(1)
Underlying att. Profit	1,048	967	8	(3)
Non-recurring	0	85	n.a	n.a
Attributable Profit	1,048	1,052	(0)	(3)
Effective tax rate	30%	30%		

Solid results in 2017 so far, with good net interest income growth, cost control and credit quality.

Market Environment & Financial System

- We expect solid UK economic growth in 2017. However, we see greater uncertainty in the outlook, with the concern that some downside risks could materialise later this year and into 2018.
- The labour market remains strong but higher inflation, largely from the lower value of sterling, is now reducing households' real earnings growth.
- Lower consumer spending growth combined with a potentially more challenging macro environment adds caution to our outlook.

Strategy & Business

- 11213 World, with 5.3 million customers, continues to transform the quality of our customer base while reducing funding costs. Retail Banking current account balances, up £2.4bn.
- FRS reported an improved retail customer satisfaction score of 62.4% on a rolling 12-month basis at Sep17. Further improvement is at the heart of our plans as we continue to aim to be in the top 3 highest performers.
- Solid growth in lending to UK companies with continued focus on deeper customer relationships.
- Digital customer numbers increased (up 9% since 9M16), as we continue to improve our proposition.

Results

- PBT was up 7% at £1,521m, core businesses performed well with income growth, improving efficiency and continued good credit quality.
- Underlying attributable profit up 8% to £1,048m with effective tax rate of 30%.
- Cost efficiency maintained, absorbing investment in business growth and benefiting from operational and digital efficiencies. Income growth continues to outpace cost growth resulting in improved CIR of 49.0%.



Content

Macroeconomic environment
and financial system

Strategy and business

Results



Appendix



Balance sheet

GBP £bn	30.09.17	30.09.16	Variance	
			Amount	%
Customer loans ¹	217.7	215.5	2.2	1.0
Cash, central banks and credit institutions ¹	46.5	29.1	17.5	60.1
Debt securities	22.8	22.7	0.2	0.8
of which: available for sale	9.2	10.3	(1.2)	(11.4)
Other financial assets	20.3	26.0	(5.6)	(21.7)
Other assets	9.0	11.4	(2.4)	(20.8)
Total assets	316.4	304.6	11.8	3.9
Customer deposits ¹	200.4	175.5	25.0	14.2
Central banks and credit institutions ¹	24.6	19.2	5.4	28.2
Debt securities issued ¹	53.6	63.0	(9.4)	(15.0)
Other financial liabilities	19.4	27.5	(8.1)	(29.5)
Other liabilities	3.7	5.3	(1.6)	(30.3)
Total liabilities	301.7	290.5	11.2	3.9
Total equity	14.7	14.1	0.6	4.4
Other managed and marketed customer funds	7.5	7.4	0.1	1.6
Mutual funds	7.4	7.3	0.1	1.6
Pension funds	0.0	0.0	0.0	0.0
Managed portfolios	0.1	0.1	0.0	0.3

Income statement

GBP million	2017	2016	Variance	
	9M'17	9M'16	Amount	%
Net interest income	2,893	2,671	222	8.3
Net fees	663	638	25	3.9
Gains (losses) on financial transactions	220	182	38	20.6
Other operating income *	39	27	12	44.5
Gross income	3,815	3,519	296	8.4
Operating expenses	(1,867)	(1,830)	(38)	2.1
General administrative expenses	(1,647)	(1,645)	(2)	0.1
<i>Personnel</i>	(889)	(862)	(27)	3.2
<i>Other general administrative expenses</i>	(758)	(783)	25	(3.2)
Depreciation and amortisation	(221)	(185)	(35)	19.0
Net operating income	1,947	1,689	259	15.3
Net loan-loss provisions	(108)	(95)	(12)	12.9
Other income	(318)	(173)	(146)	84.5
Underlying profit before taxes	1,521	1,421	101	7.1
Tax on profit	(458)	(433)	(25)	5.8
Underlying consolidated profit	1,064	988	76	7.7
Minority interests	16	21	(6)	(26.7)
Underlying attributable profit to the Group	1,048	967	81	8.4
Net capital gains and provisions	—	85	(85)	(100.0)
Attributable profit to the Group	1,048	1,052	(4)	(0.4)

Quarterly income statements

GBP million	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	Variation	
								3Q17 / 2Q17	
								Amount	%
Net interest income	889	893	888	928	942	989	962	(27)	(2.7)
Net fees	216	203	220	205	218	224	221	(3)	(1.3)
Gains (losses) on financial transactions	52	75	55	78	61	102	57	(45)	(44.1)
Other operating income	8	10	9	23	10	14	15	1	7.1
Gross income *	1,166	1,180	1,172	1,234	1,231	1,329	1,255	(74)	(5.6)
Operating expenses	(611)	(619)	(599)	(594)	(622)	(622)	(623)	(1)	0.1
General administrative expenses	(553)	(554)	(537)	(526)	(554)	(547)	(546)	1	(0.1)
<i>Personnel</i>	(286)	(282)	(294)	(297)	(296)	(296)	(297)	(1)	0.4
<i>Other general administrative expenses</i>	(267)	(272)	(243)	(228)	(258)	(251)	(249)	2	(0.8)
Depreciation and amortisation	(59)	(65)	(62)	(69)	(68)	(75)	(77)	(2)	2.1
Net operating income	554	561	573	640	609	706	632	(75)	(10.6)
Net loan-loss provisions	(5)	(53)	(37)	48	(13)	(36)	(59)	(23)	64.1
Other income	(45)	(56)	(71)	(104)	(90)	(147)	(81)	66	(44.9)
Underlying profit before taxes	504	452	465	583	506	524	492	(32)	(6.0)
Tax on profit	(148)	(136)	(149)	(169)	(142)	(168)	(148)	19	(11.6)
Underlying profit from continuing operations	356	316	316	414	364	356	344	(12)	(3.4)
Net profit from discontinued operations	—	—	—	—	—	—	—	—	—
Underlying consolidated profit	356	316	316	414	364	356	344	(12)	(3.4)
Minority interests	7	8	6	7	6	5	5	(0)	(1.2)
Underlying attributable profit to the Group	349	307	311	407	358	351	339	(12)	(3.4)
Net capital gains and provisions	—	83	2	(110)	—	—	—	—	—
Attributable profit to the Group	349	390	313	297	358	351	339	(12)	(3.4)

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**

