

UNITED KINGDOM

January – December 2017

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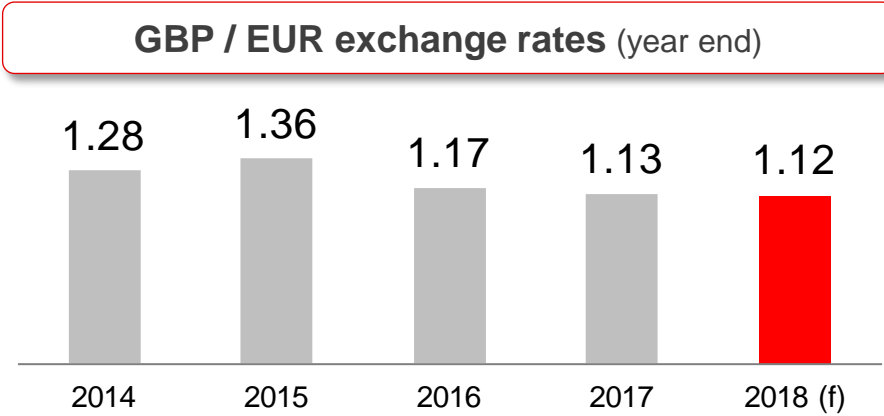
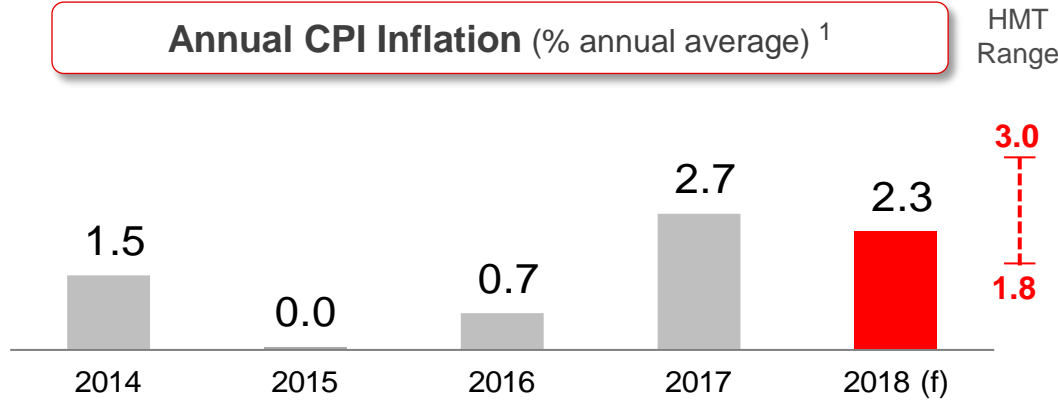
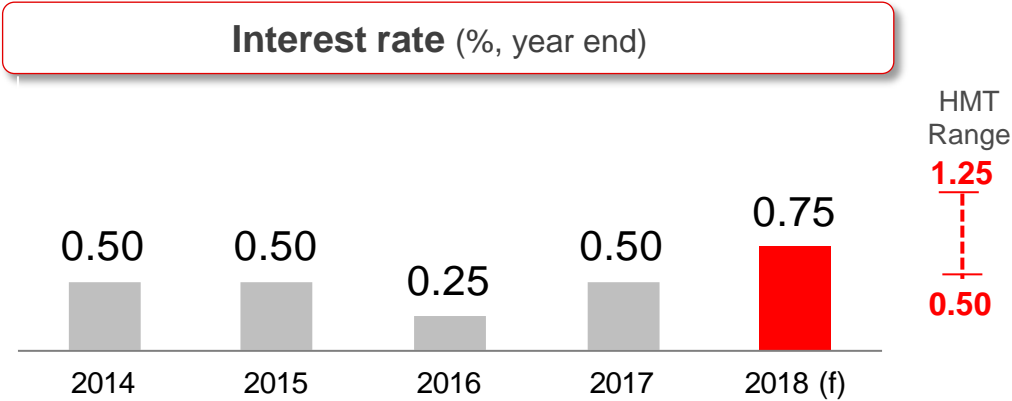
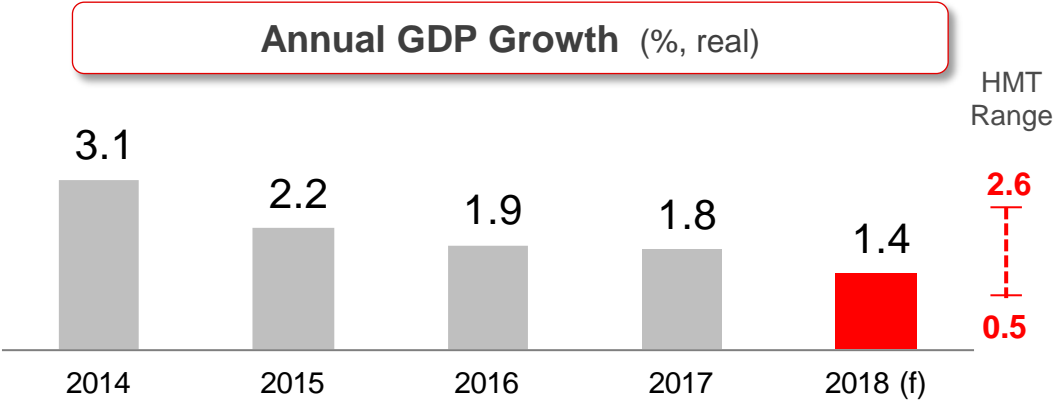
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Macro-economic environment

UK economy is expected to continue to grow in 2018, although at a slightly subdued pace



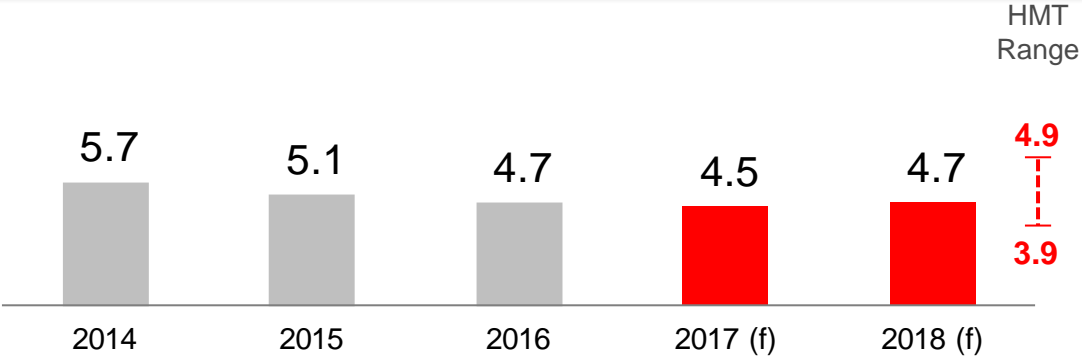
Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (September 2017). External forecast ranges from HM Treasury Consensus December 2017. Only forecasts made in the latest 3 months (Nov, Dec and Jan) have been included in the high / low range.

1. Consumer Price Index

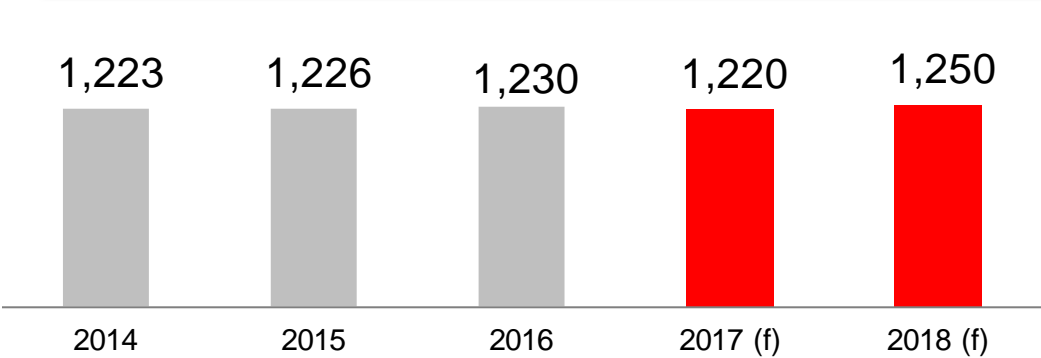
Macro-economic environment

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

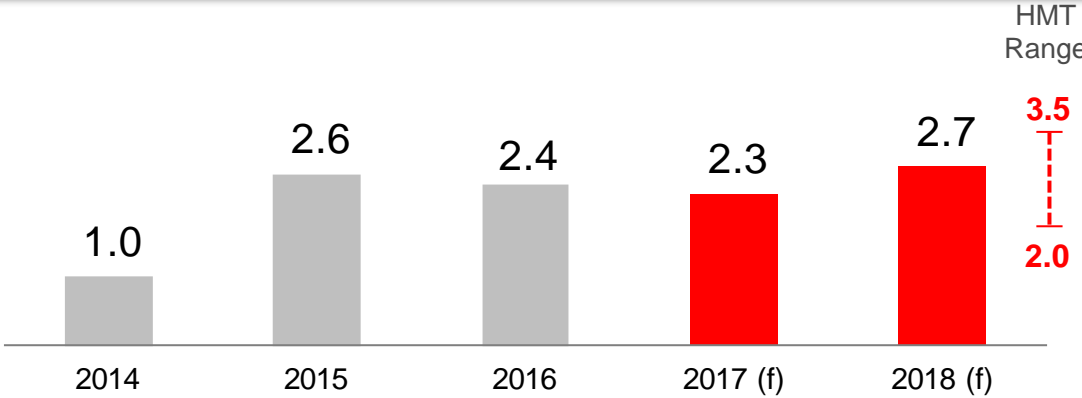
Unemployment rate (ILO, year end) ¹



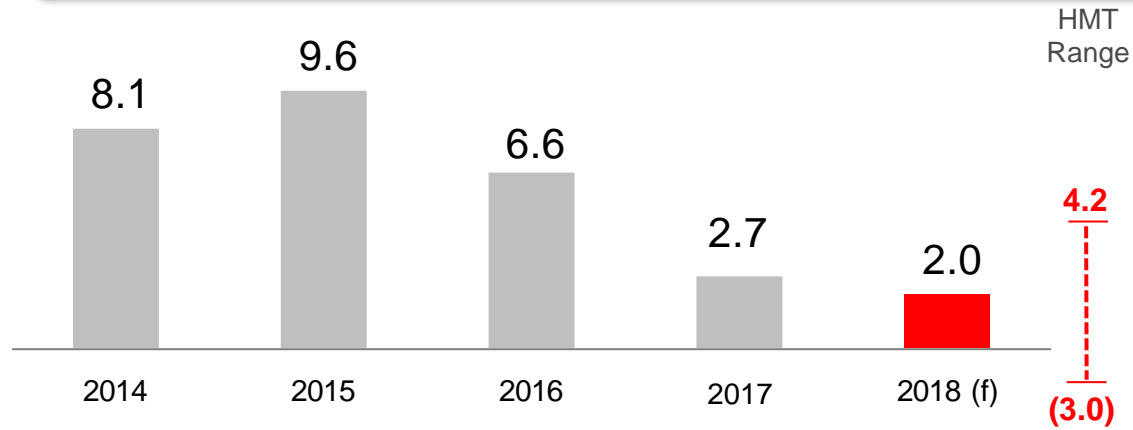
Property transactions (sa²,000's)



Average weekly earnings (annual average, % inc bonuses)



House prices³ (% , year end)



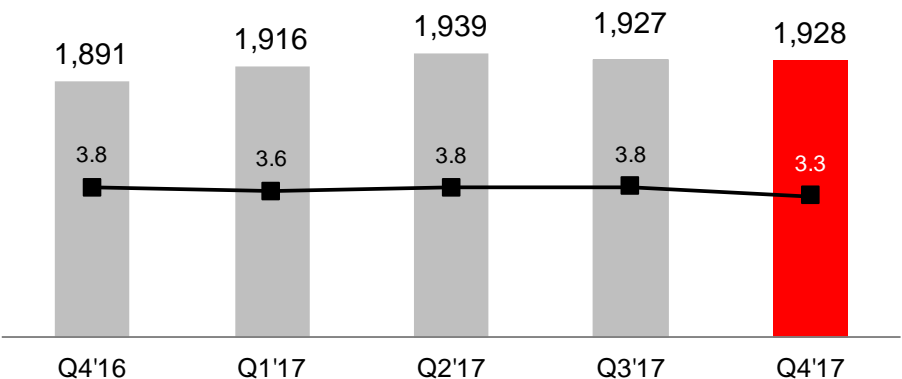
Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (September 2017). External forecast ranges from HM Treasury Consensus December 2017. Only forecasts made in the latest 3 months (Nov, Dec and Jan) have been included in the high / low range.

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

Financial system: Loan and deposit growth

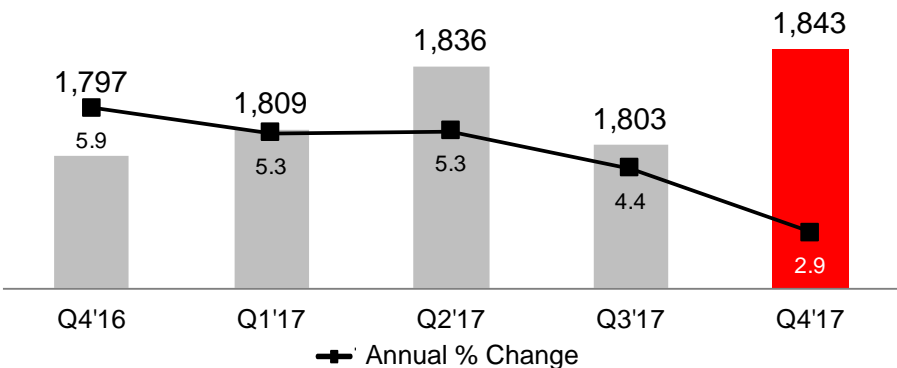
Loan growth was broadly steady in 2017; deposit growth is slowing

Total loans (GBP bn)¹



- Total loan growth slowed down a little further in 2017
- Mortgage lending growth at year end 2017 is expected at around 3.3%
- Consumer credit growth of 9.1% at November with a further slowdown expected over December 2017
- Corporate sterling loan growth is projected to come in at around 3% in 2017

Total deposits (GBP bn)²



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



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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		12M'17	Var YoY
	Gross loans ¹	£200.3 bn.	0.1%
	Customer funds ¹	£182.6 bn.	2.1%
	Attributable Profit ²	£1,312.6 mn.	(2.7%)
	RoTE ³	10.3%	(30 bps)
	Efficiency ratio	50.1%	(96 bps)
	Loyal customers	4.2 mn.	5.2%
	Digital customers	5 mn.	10.4%
	Branches	808	(4.3%)
	Employees	25,971	1.1%
	Customer lending market share ⁴	10%	0%
	Customer deposit market share ⁵	10%	(1%)

(1) Excludes Repos (2) Including in Q2'16 capital gains from the disposal of the stake in Visa Europe and restructuring costs and in Q4'16 PPI (3) 12M'17 and 12M'16 underlying RoTE (4) Customer lending market share defined as total customer loans as a percentage of total financial system loans, as defined on slide 6 (5) Customer deposits market share defined as total deposits as a percentage of total financial system deposits, as defined on slide 6

Commercial strategy and business transformation

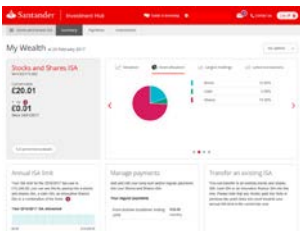
Our focus on innovation is driving improved customer experience and loyalty across our business

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.

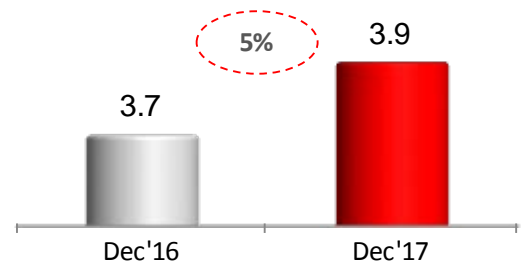
Neo CRM

NEOCRm

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

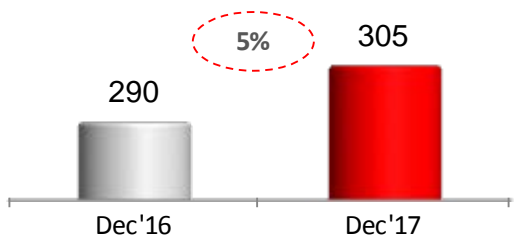
Deeper customer relationships are supporting business momentum

Loyal retail customers (m)



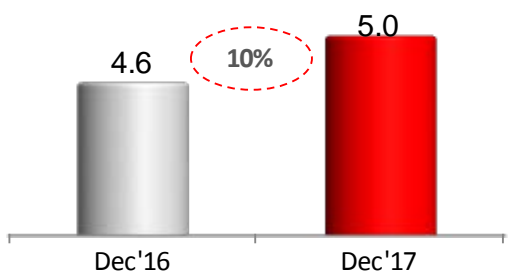
Loyal retail customers conversion was impacted by customer demand for higher interest rate savings products, which encouraged consolidation of deposits into our competitively priced 1|2|3 Current Account.

Loyal SME and Corporate customers (000's)



Loyal SME and corporate customers grew as we continued to deploy our client-centric infrastructure and international proposition. In 2017, we announced UK trade corridors with Spain, US, Poland, Brazil, India and Southeast Asia to enable cross-border client referrals.

Digital customers (m)

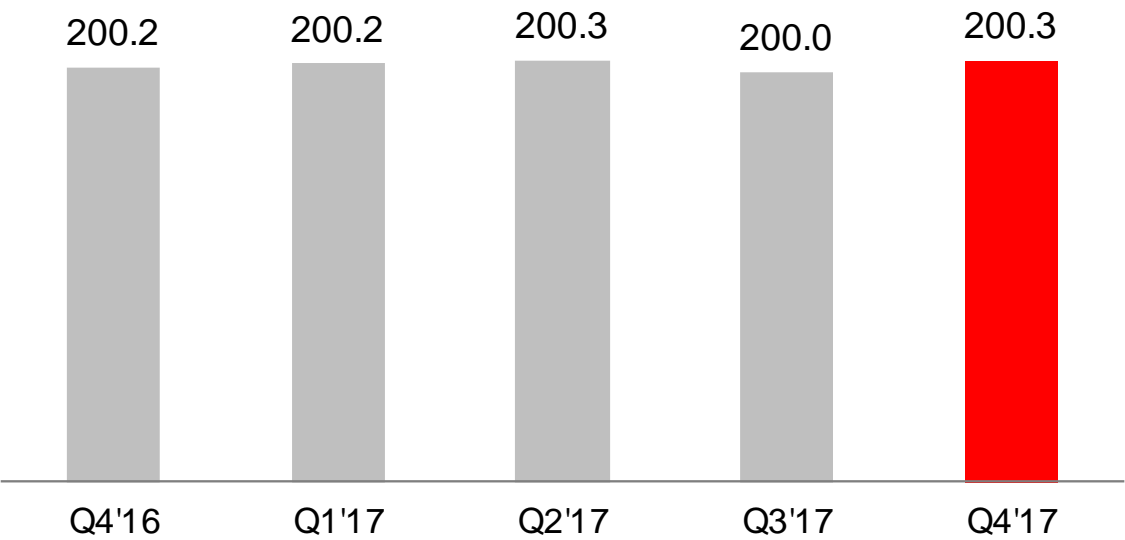


Digital customers continued to grow, gaining an average of 1,400 new active mobile users per day, of which 1.9 million exclusively use our mobile app in their transactions with us.

Total loans performance

Customer loans were broadly flat, with mortgages and corporate trading businesses growth, partially offset by a decrease in CRE and care home exposures

Total loans (GBP bn)



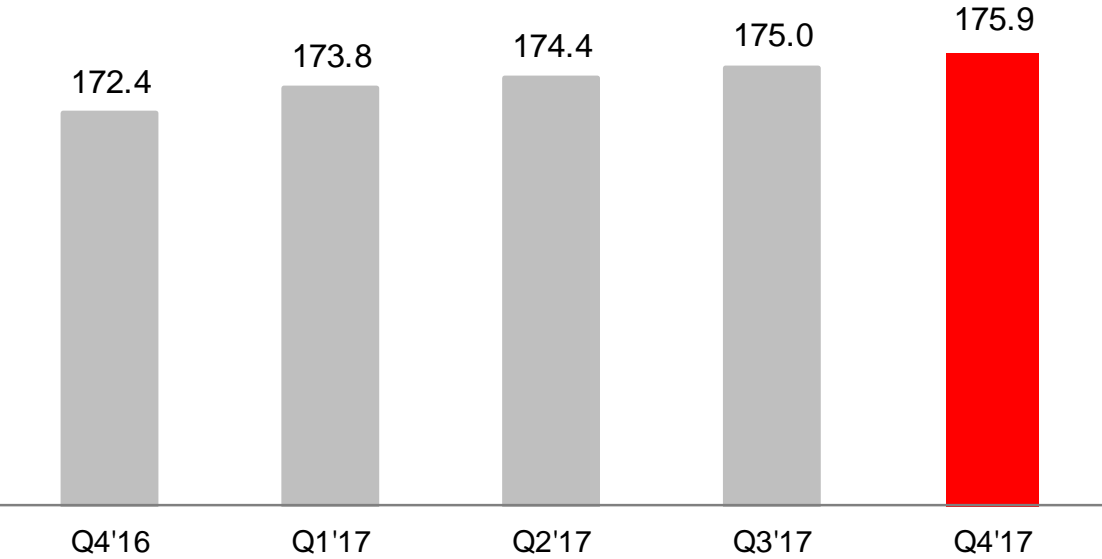
	Dec'17	YoY (%)	QoQ (%)
Individuals	167.1	0	1
Mortgages ¹	154.9	0	1
Consumer credit	12.1	1	2
Companies	27.3	(0)	(3)
Business banking	1.9	(18)	(4)
Commercial Banking	19.4	0	(1)
Global Corporate Banking	6.0	7	(8)
Total	194.4	0	0
Non core	5.9	(9)	(2)
Total Customer Loans	200.3	0	0

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

Total customer funds performance

Demand balances continued to grow, offset by lower time deposits

Total deposits (GBP bn)



	Dec'17	YoY (%)	QoQ (%)
Demand	85.5	10	3
Savings	70.5	4	(0)
Time	20.0	(26)	(4)
Total	175.9	2	1
Funds distributed ¹	6.7	3	2
Total Customer Funds	182.6	2	1

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



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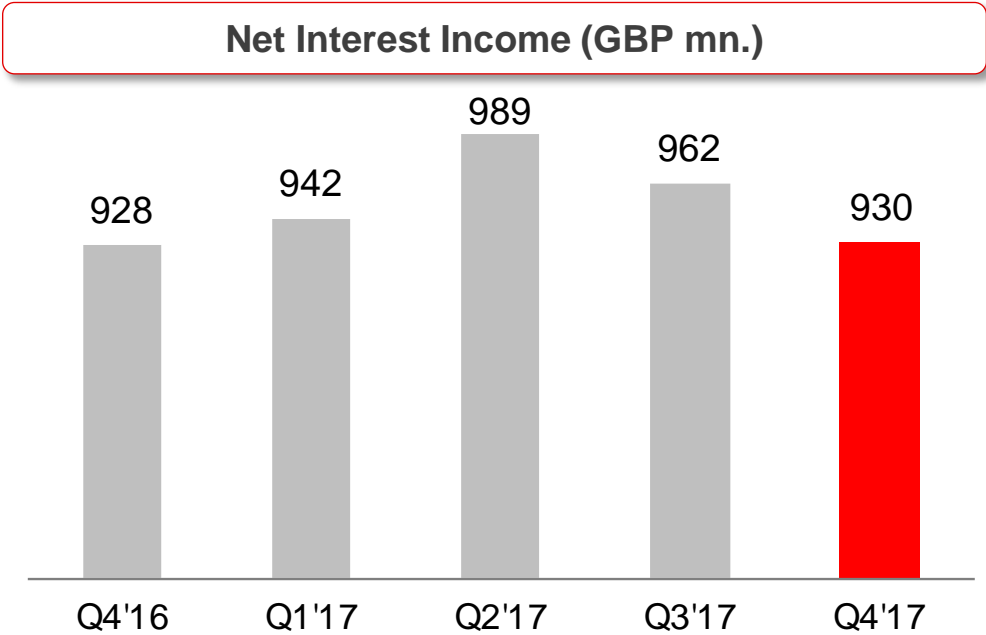
Results



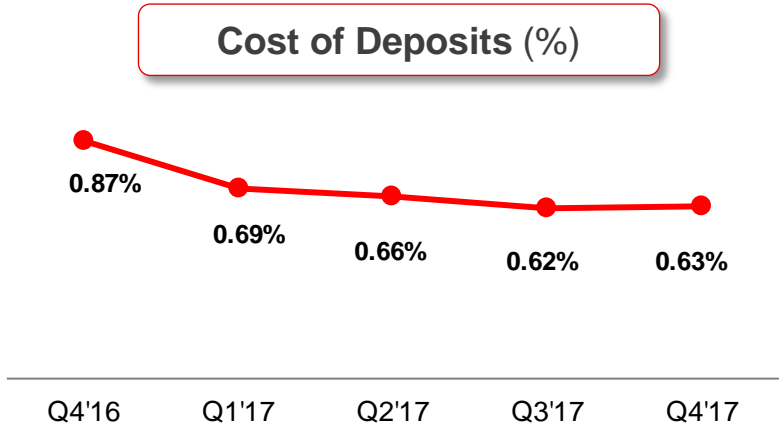
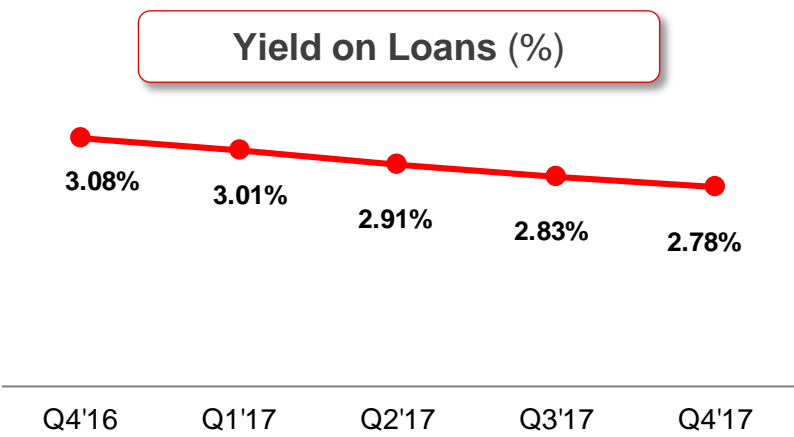
Appendix

Net interest income and spreads

Net interest income impacted by continued pressure on new lending margins and SVR mortgage attrition, partially offset by liability margin improvement. There was a £39m accrued interest release in Q2'17



Banking NIM ¹ (%)				
1.83%	1.89%	1.91%	1.89%	1.83%
Interest rate (%)				
0.25%	0.25%	0.25%	0.25%	0.50%

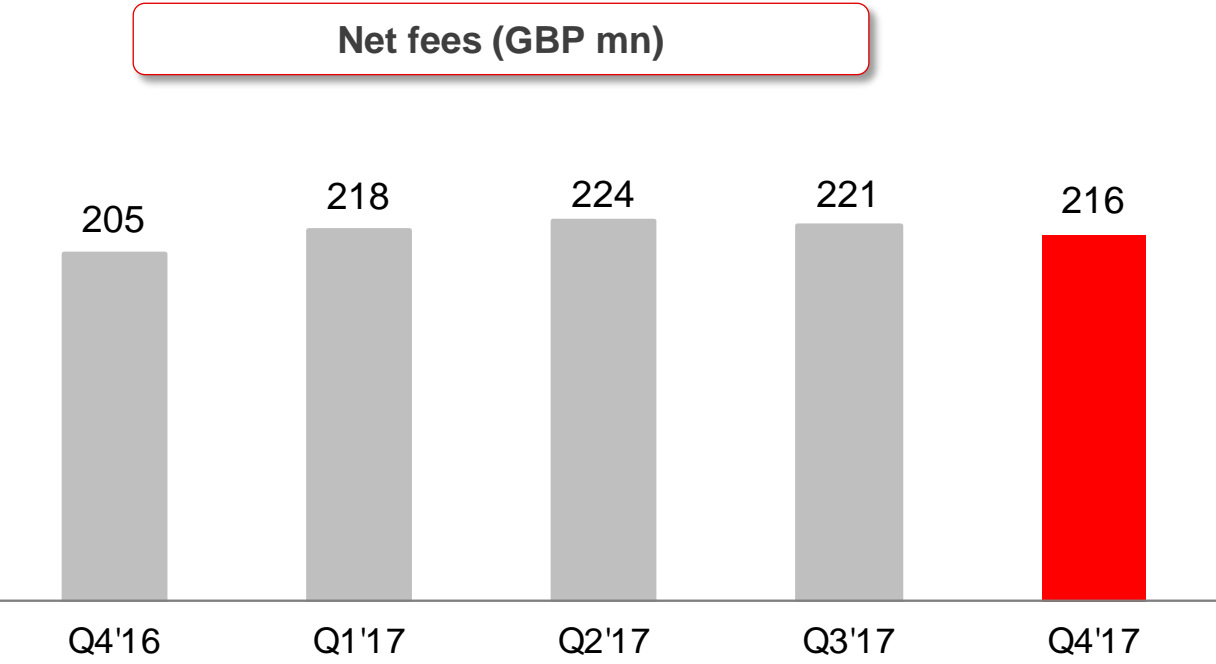


¹Banking NIM¹ is calculated as annualised statutory net interest income divided by average customer loans.

Net Fees

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

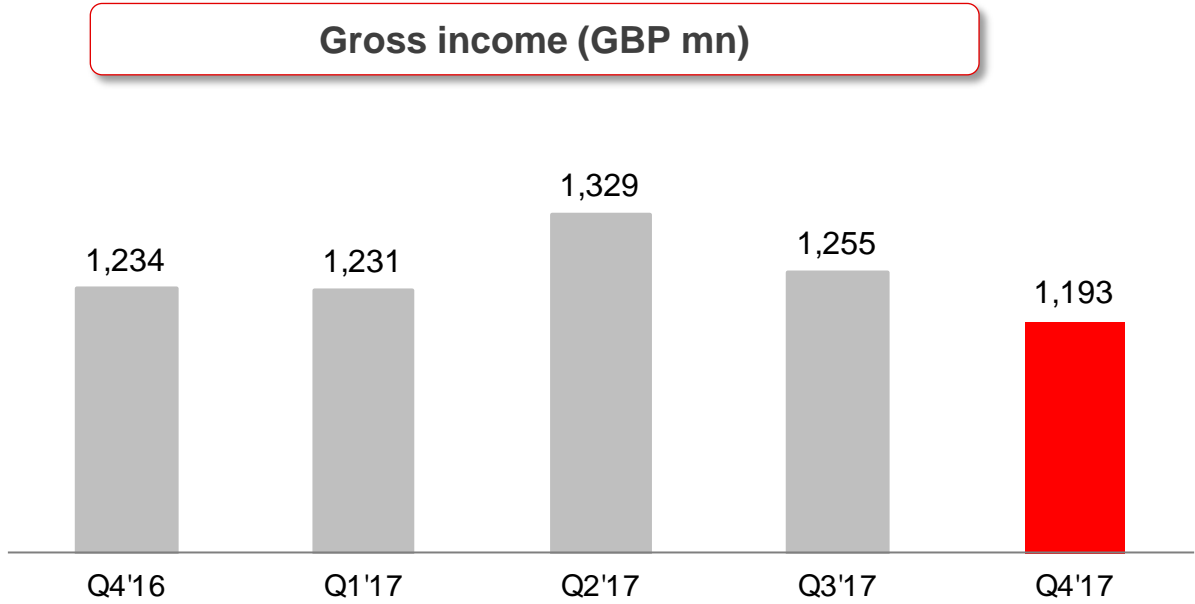
Net fees (GBP mn)



	12M'17	12M'16	YoY (%)	QoQ (%)
Banking	418	395	6%	(3%)
Credit Cards	47	28	67%	26%
Investments	27	9	200%	6%
Mortgages	37	40	(6%)	(6%)
Global Corporate Banking	192	191	0%	3%
Other	159	180	(12%)	(15%)
Total	879	843	4%	(2%)

Gross income

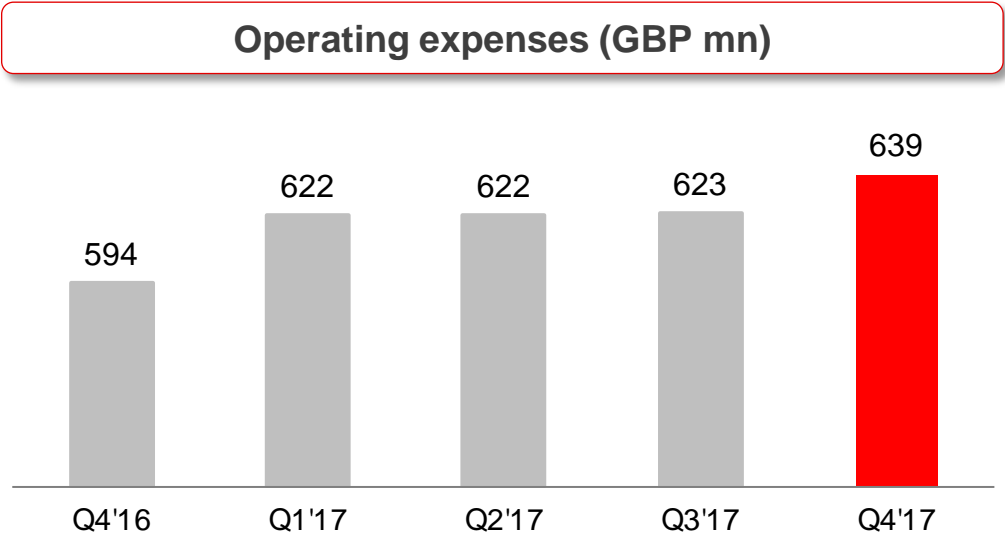
Gross income improvement in 2017 driven by growth in net interest income, net fee income, and the gain on sale of Vocalink shares in Q2'17



	12M'17	12M'16	YoY (%)	QoQ (%)
Net Interest Income	3,823	3,599	6	(3)
Net Fees	879	843	4	(2)
Subtotal	4,702	4,442	6	(3)
Other ¹	307	310	(1)	(34)
Gross income	5,008	4,752	5	(5)

Operating expenses

Costs were managed for strategic investment, enhancements to our digital channels, and despite inflationary pressures



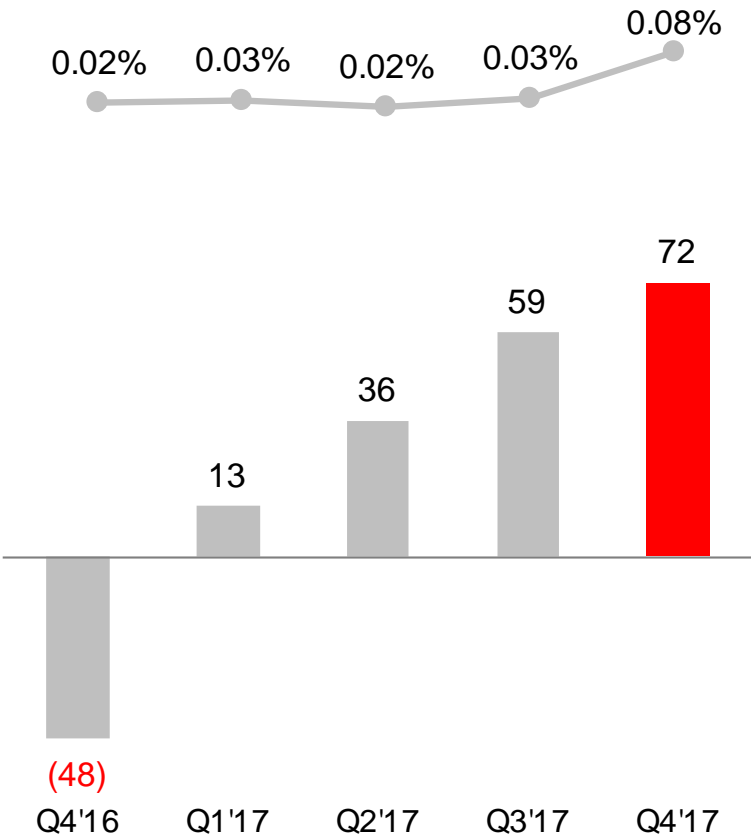
	12M'17	12M'16	YoY (%)	QoQ (%)
General and admin. expenses	2,202	2,170	1	2
Depreciation and amortisation	305	254	20	9
Operating Expenses	2,507	2,424	3	3

Efficiency ratio (incl.depreciation)	50.1%	51.0%
Number of branches	808	844
Number of employees	25,971	25,688

Net operating income after loan-loss provisions (LLPs)

Improved NPL ratio of 1.33%. Credit quality remains solid, despite single name LLP charge in GCB

LLPs and Cost of credit¹ (GBP mn)

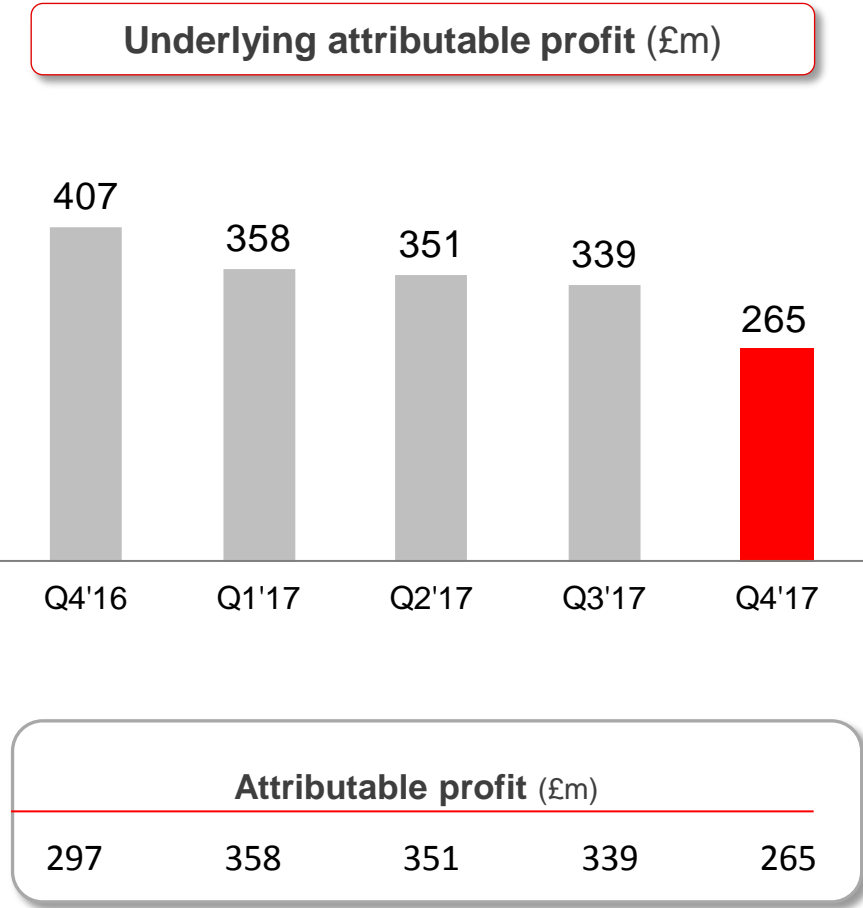


	12M'17	12M'16	YoY (%)	QoQ (%)
Net operating income	2,502	2,328	7	(12)
LLPs	(179)	(48)	277	22
Net operating income after LLPs	2,322	2,281	2	(16)

NPL Coverage Ratio	32%	33%
NPL Ratio	1.33%	1.41%

Attributable profit

Underlying attributable profit impacted by a single name LLP charge



	12M'17	12M'16	YoY (%)	QoQ (%)
Profit before taxes	1,914	2,004	(4)	(20)
Tax on profit	(580)	(602)	(4)	(18)
Minority Interests	(22)	(29)	(25)	21
Underlying att. Profit	1,313	1,373	(4)	(22)
Non-recurring	0	(24)	n.a	n.a
Attributable Profit	1,313	1,349	(3)	(22)
Effective tax rate	30%	30%		

2017 results impacted by a single name LLP charge, which offset otherwise good profitability growth

Market Environment & Financial System

- We expect the UK economy continue to grow in 2018, although at a slightly subdued pace. However, we are concerned that some downside risk could materialise, as a result of higher inflation and low wage growth reducing households' real earnings.
- Lower consumer spending growth, when combined with a potentially more challenging macro environment adds a degree of caution to our outlook.
- The UK labour market remains strong with low unemployment. A predicted fall in 2018 inflation and nominal wage growth could result in improved real earnings.

Strategy & Business

- 11213 World, with 5.4 million customers, continues to transform the quality of our customer base while reducing funding costs. Retail Banking current account balances were up £2.5bn in the year.
- FRS reported our retail customer satisfaction was broadly in line with the average of our three highest performing peers on a 12-month basis at Dec17. Ongoing improvement remains at the heart of our plans.
- Net lending to UK companies remains broadly flat, driven by active management of Commercial Real Estate and care home exposures, offsetting 6% growth in other corporate sectors.
- Our digital customer base continues to grow, 47% of our mortgages were retained online, 38% of current account openings and 51% of credit card openings were made through digital channels.

Results

- PBT was down 4% at £1,914m. Core businesses performed well with income growth, cost management and continued good credit quality.
- Attributable profit down 3% to £1,313m with effective tax rate of 30%.
- Cost increase is attributed to investment in strategic projects and enhancements to our digital channels. Income growth continues to outpace cost growth resulting in improved CIR of 50.1%.



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Balance sheet

GBP £bn	31.12.17	31.12.16	Variance	
			Amount	%
Customer loans ¹	216.1	215.1	1.0	0.5
Cash, central banks and credit institutions ¹	50.4	31.4	19.0	60.5
Debt securities	23.2	24.0	(0.8)	(3.2)
of which: available for sale	8.8	10.4	(1.7)	(16.1)
Other financial assets	21.9	23.0	(1.1)	(4.6)
Other assets	8.8	10.4	(1.6)	(15.3)
Total assets	320.5	303.9	16.6	5.5
Customer deposits ¹	204.5	181.6	22.9	12.6
Central banks and credit institutions ¹	24.7	18.5	6.2	33.6
Debt securities issued ¹	54.2	60.9	(6.7)	(10.9)
Other financial liabilities	18.8	23.9	(5.1)	(21.4)
Other liabilities	3.8	4.5	(0.6)	(14.5)
Total liabilities	306.0	289.3	16.7	5.8
Total equity	14.5	14.6	(0.1)	(0.7)
Other managed and marketed customer funds	7.7	7.3	0.3	4.7
Mutual funds	7.6	7.2	0.3	4.8
Pension funds	0.0	0.0	0.0	0.0
Managed portfolios	0.1	0.1	0.0	0.7

Income statement

GBP million	2017	2016	Variance	
	12M'17	12M'16	Amount	%
Net interest income	3,823	3,599	224	6.2
Net fees	879	843	36	4.3
Gains (losses) on financial transactions	247	261	(13)	(5.1)
Other operating income*	59	50	10	19.2
Gross income	5,008	4,752	256	5.4
Operating expenses	(2,507)	(2,424)	(82)	3.4
General administrative expenses	(2,202)	(2,170)	(32)	1.5
<i>Personnel</i>	<i>(1,189)</i>	<i>(1,159)</i>	<i>(31)</i>	<i>2.6</i>
<i>Other general administrative expenses</i>	<i>(1,012)</i>	<i>(1,011)</i>	<i>(1)</i>	<i>0.1</i>
Depreciation and amortisation	(305)	(254)	(51)	20.0
Net operating income	2,502	2,328	173	7.4
Net loan-loss provisions	(179)	(48)	(132)	276.7
Other income	(408)	(277)	(131)	47.4
Underlying profit before taxes	1,914	2,004	(90)	(4.5)
Tax on profit	(580)	(602)	22	(3.6)
Underlying consolidated profit	1,334	1,402	(68)	(4.8)
Minority interests	22	29	(7)	(25.3)
Underlying attributable profit to the Group	1,313	1,373	(61)	(4.4)
Net capital gains and provisions	—	(24)	24	(100.0)
Attributable profit to the Group	1,313	1,349	(36)	(2.7)

Quarterly income statements

GBP million									Variation	
									4Q17 / 3Q17	
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	Amount	%
Net interest income	889	893	888	928	942	989	962	930	(32)	(3.3)
Net fees	216	203	220	205	218	224	221	216	(5)	(2.3)
Gains (losses) on financial transactions	52	75	55	78	61	102	57	27	(30)	(52.1)
Other operating income *	8	10	9	23	10	14	15	20	5	31.7
Gross income	1,166	1,180	1,172	1,234	1,231	1,329	1,255	1,193	(62)	(4.9)
Operating expenses	(611)	(619)	(599)	(594)	(622)	(622)	(623)	(639)	(16)	2.6
General administrative expenses	(553)	(554)	(537)	(526)	(554)	(547)	(546)	(555)	(9)	1.6
<i>Personnel</i>	(286)	(282)	(294)	(297)	(296)	(296)	(297)	(300)	(3)	1.1
<i>Other general administrative expenses</i>	(267)	(272)	(243)	(228)	(258)	(251)	(249)	(255)	(6)	2.3
Depreciation and amortisation	(59)	(65)	(62)	(69)	(68)	(75)	(77)	(84)	(7)	9.2
Net operating income	554	561	573	640	609	706	632	554	(78)	(12.3)
Net loan-loss provisions	(5)	(53)	(37)	48	(13)	(36)	(59)	(72)	(13)	22.4
Other income	(45)	(56)	(71)	(104)	(90)	(147)	(81)	(90)	(9)	10.9
Underlying profit before taxes	504	452	465	583	506	524	492	392	(100)	(20.2)
Tax on profit	(148)	(136)	(149)	(169)	(142)	(168)	(148)	(122)	26	(17.7)
Underlying profit from continuing operations	356	316	316	414	364	356	344	270	(73)	(21.4)
Net profit from discontinued operations	—	—	—	—	—	—	—	—	—	—
Underlying consolidated profit	356	316	316	414	364	356	344	270	(73)	(21.4)
Minority interests	7	8	6	7	6	5	5	6	1	21.2
Underlying attributable profit to the Group	349	307	311	407	358	351	339	265	(74)	(22.0)
Net capital gains and provisions	—	83	2	(110)	—	—	—	—	—	—
Attributable profit to the Group	349	390	313	297	358	351	339	265	(74)	(22.0)

Thank you

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