

UNITED KINGDOM

January – June 2017

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Source: Santander UK Group Holdings Q2 2017 results Quarterly Management Statement for the six months ended 30th of June 2017” or Santander UK Group Holdings Management (MI), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK continues to have its preference shares listed on the London Stock Exchange. Further information in relation to Santander UK can be found at: www.santander.co.uk/uk/about-santander-uk. Neither the content of Santander UK’s website nor any website accessible by hyperlinks on Santander UK’s website is incorporated in, or forms part of, this presentation.

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Strategy and business

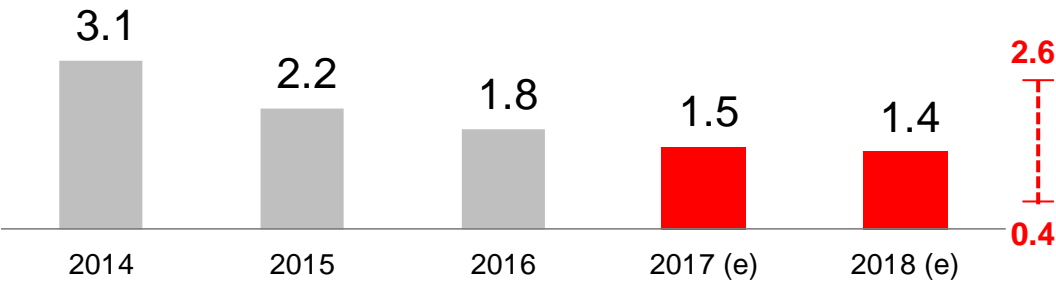
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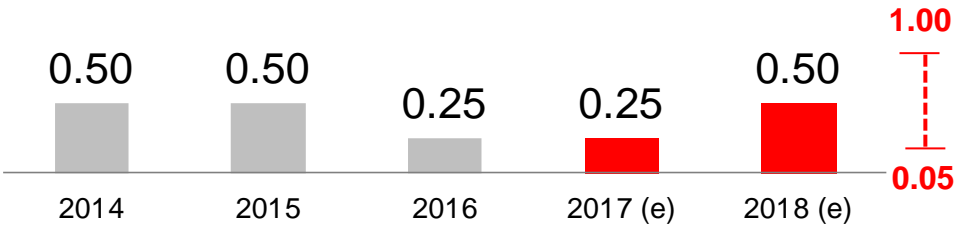
Macro-economic environment

Slower economic growth with continued uncertainty

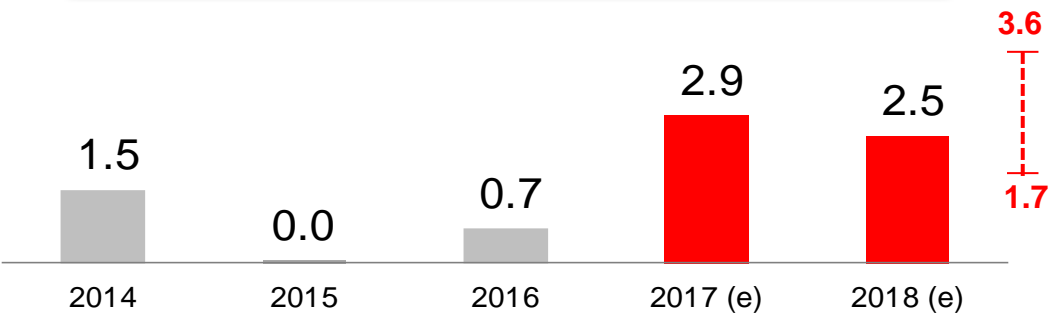
Annual GDP Growth (% , real) ¹



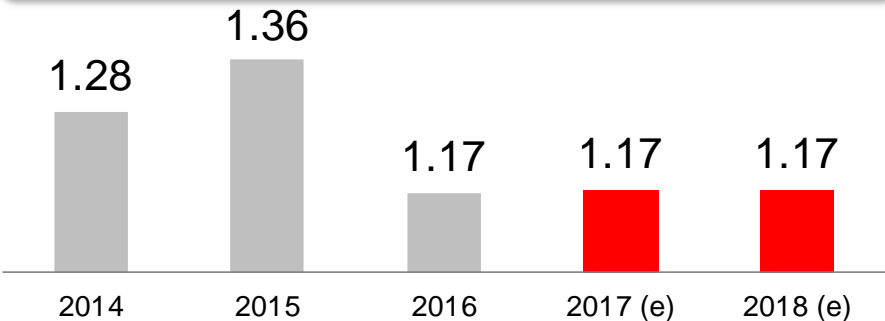
Interest rate (% , year end)



Annual CPI Inflation (% annual average) ²



GBP / EUR exchange rates (year end)



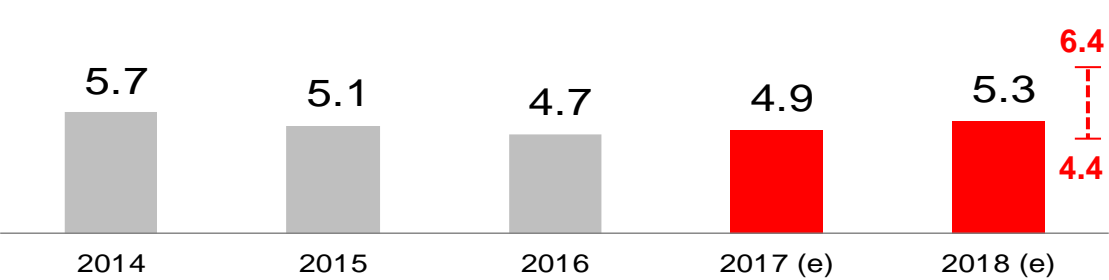
Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (Feb 2017). External forecast ranges from HMT Treasury Consensus June 2017. Only forecasts made in the latest 3 months (Apr, May and Jun) have been included in the high / low range.

1. Data revisions to Quarter 1 2017 in the third estimate of GDP (published 29 June 2017) | 2. Consumer Price Index (HMT range is for 2018 Q4).

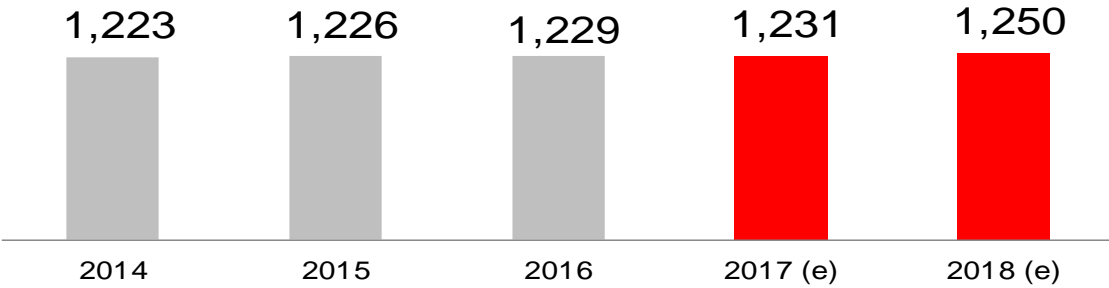
Macro-economic environment

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

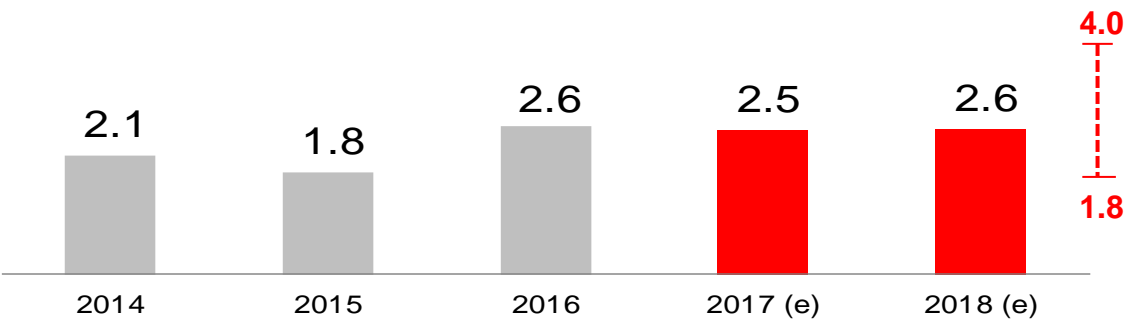
Unemployment rate (ILO, year end) ¹



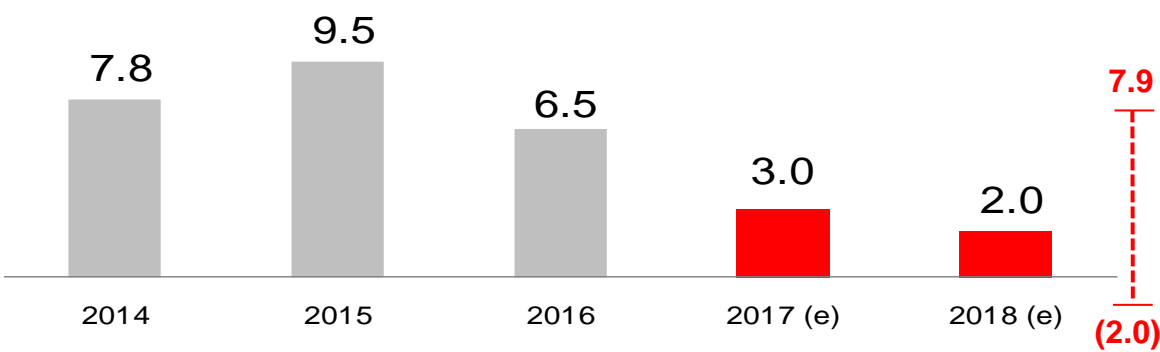
Property transactions (sa²,000's)



Average weekly earnings (annual, % inc bonuses)



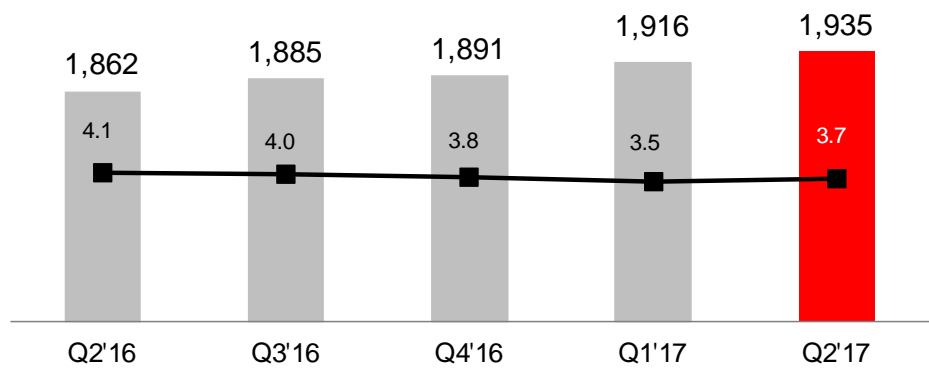
House prices³ (% , year end)



Financial system: Loan and deposit growth

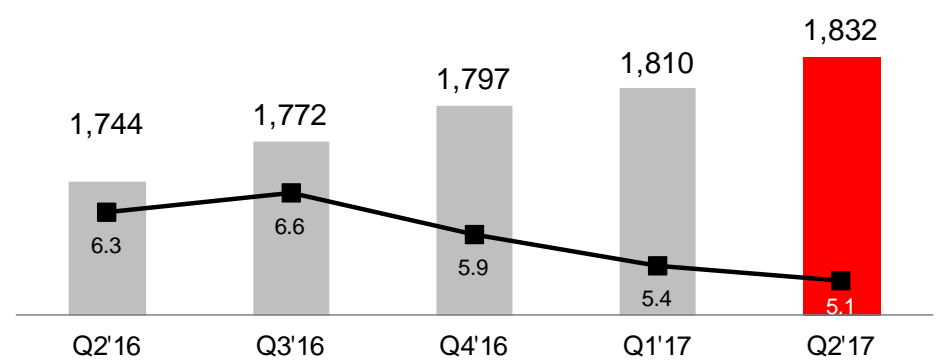
Loan growth continues to be steady in 2017; deposit growth has slowed slightly.

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 10.2% at May 2017 with a slowing expected in H2 2017
- Corporate sterling loan growth of around 2.5% expected for 2017

Total deposits (GBP bn)²



- Slower retail deposit growth in H1 2017 likely reflecting pressure on household finances
- The household saving ratio fell in Q1 2017
- Corporate deposit growth picked up during H1 2017

—■— Annual % Change

Source: Bank of England, Bankstats (Monetary and Financial Statistics) early January 2017 (November data). Annual growth is calculated using growth of net lending on existing stock.
¹ Total loans stock and annual % change include household and PNFC sterling borrowing from banks. ² Total deposits include household deposits (with banks and NS&I) and PNFC deposits, excluding cash holdings.



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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		6M'17	Var YoY
	Gross loans ¹	£200.3 bn.	(0.4%)
	Customer funds ¹	£180.9 bn.	4.5%
	Underlying Att. Profit ²	£709.0 mn.	8.1%
	RoTE ³	11.1%	118 bps
	Efficiency ratio	48.6%	(3.9%)
	Loyal retail customers	3.9 mn.	4.3%
	Digital customers	4.8 mn.	10.6%
	Branches	829	(2.5%)
	Employees	25,740	(1.0%)
	Customer lending market share ⁴	10%	0%
	Customer deposit market share ⁵	10%	0%

(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) 1H'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

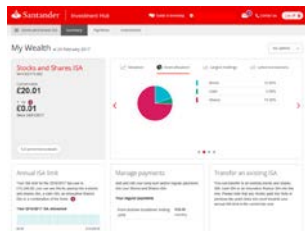
Our focus on innovation is driving improved customer experience and loyalty across our business

Mobile Apps



Through our **SmartBank App** customers can now check their balances and authorise payments using voice commands.

Investment Hub



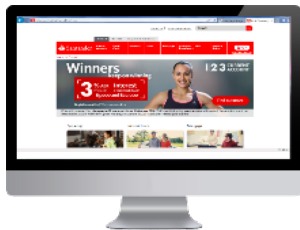
Digital non-advised investment platform with access to over **1,500** funds from the markets.

Corporate Offering



Leverage Banco Santander's international presence and widening product base to help build a scaled Asset Finance business.

Mortgages



New service of video link to advisors and digital end-to-end application processes which can be completed in under **1 hour**

Simplified Processes

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

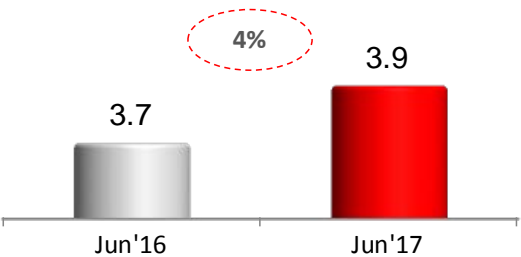
Neo CRM

NEO CRM

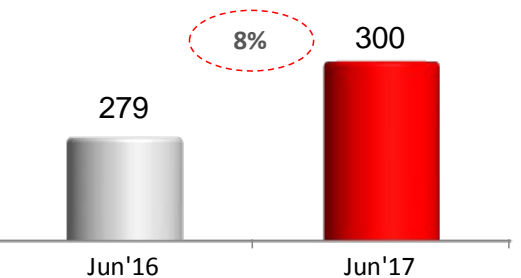
New customer relation tool brings together internal, external and market data to simplify processes further and personalise conversations

Deeper customer relationships are supporting business momentum

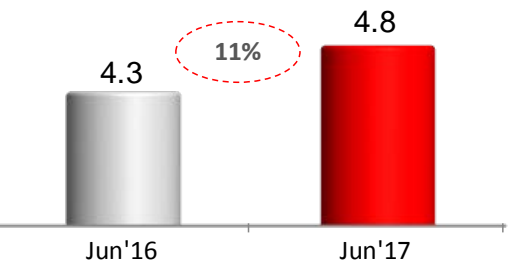
Loyal retail customers (m)



Loyal SME and Corporate customers (000's)



Digital customers (m)



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

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.

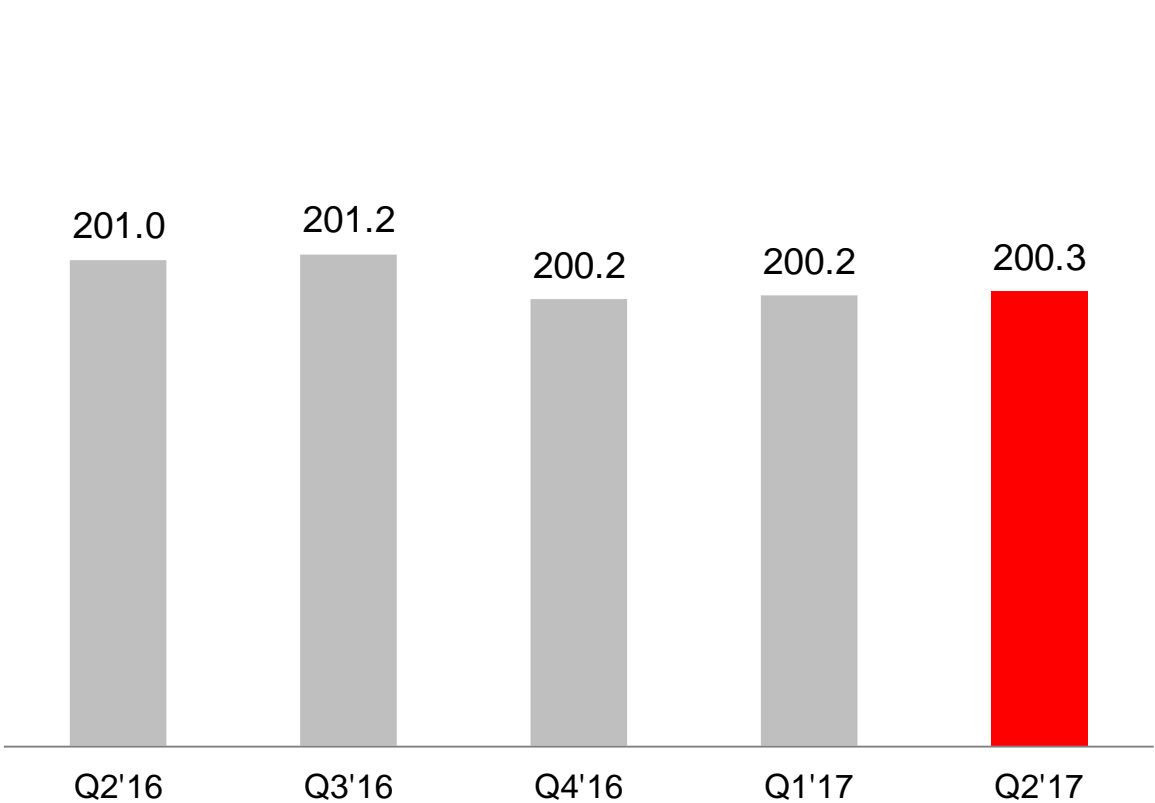
We are increasing the number of digital customers and investing in digitalisation for improved customer experience.

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

Total loans performance

Mortgage lending reflects management pricing actions in late 2016 that impacted new mortgage completions; managed reduction of non-core portfolio

Total loans (GBP bn)



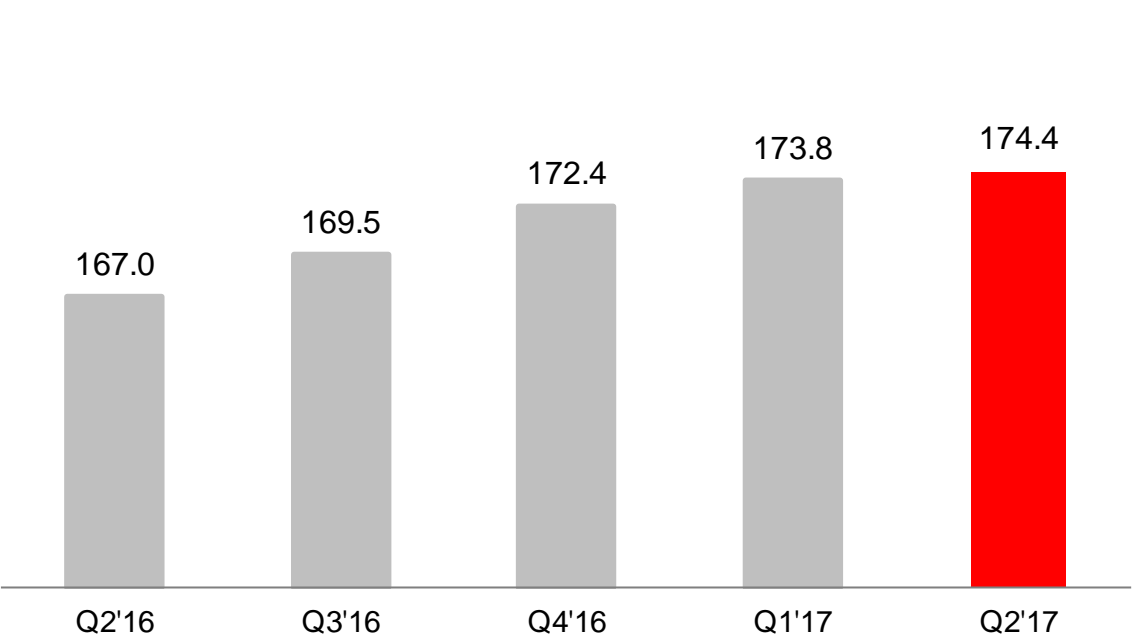
	Jun'17	YoY (%)	QoQ (%)
Individuals	166.2	1	0
Mortgages ¹	154.1	0	0
Consumer credit	12.1	1	2
Companies	28.1	(2)	(1)
Business banking	2.0	(10)	(2)
Commercial Banking	19.6	1	(0)
Global Corporate Banking	6.5	(5)	(1)
Total	194.3	0	0
Non core	6.0	(16)	(4)
Total Customer Loans	200.3	(0)	0

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)



	Jun'17	YoY (%)	QoQ (%)
Demand	80.5	11	2
Savings	71.0	7	4
Time	22.9	(17)	(13)
Total	174.4	4	0
Funds distributed ¹	6.5	6	1
Total Customer Funds	180.9	4	0

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



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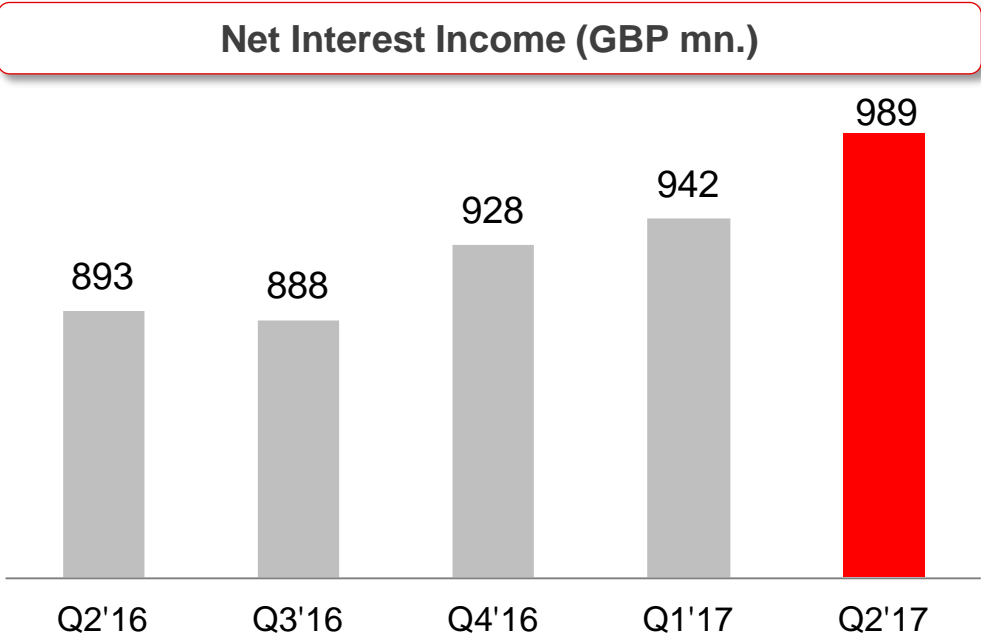
Results



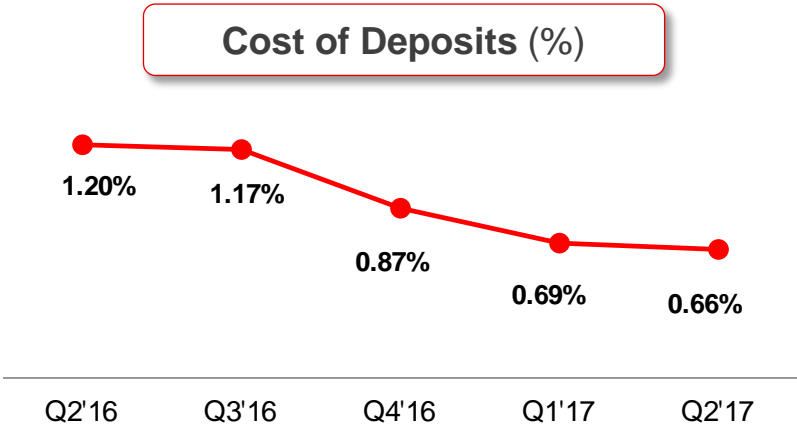
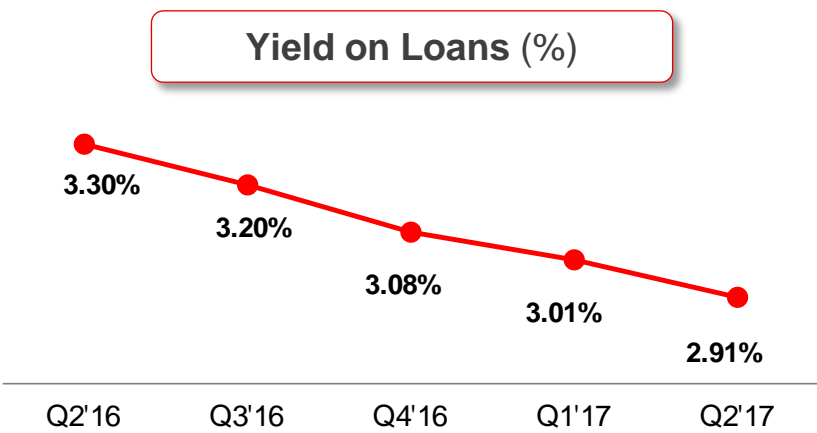
Appendix

Net interest income and spreads

Strong NII driven by driven by retail liability margin improvement and an accrued interest release, partially offset by continued SVR mortgage attrition and pressure on new lending margins



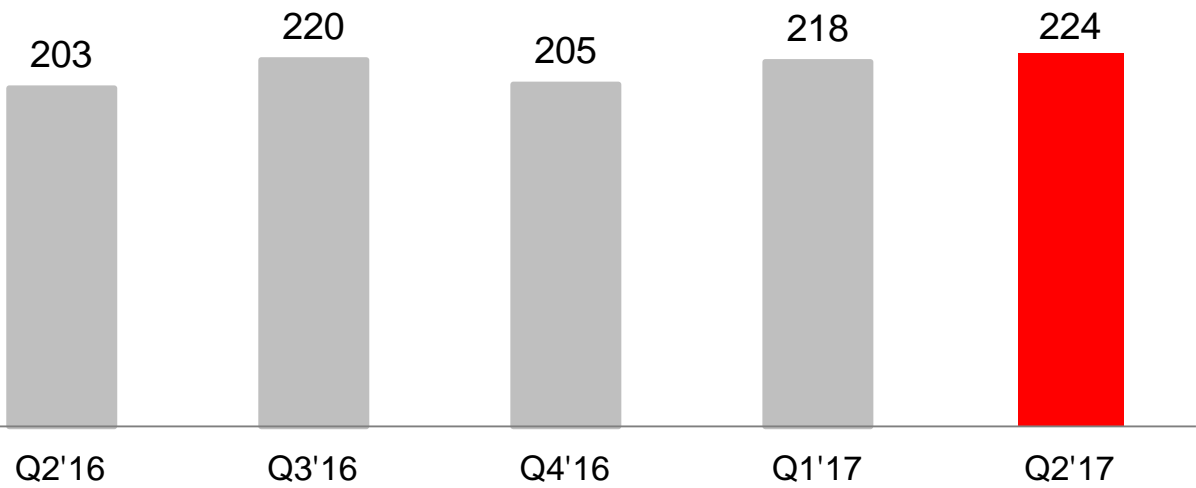
Banking NIM ¹ (%)				
1.78%	1.75%	1.83%	1.89%	1.91%
Interest rate (%)				
0.50%	0.25%	0.25%	0.25%	0.25%



Net Fees

Continued strong fee income growth in Retail Banking driven by higher current account and wealth management fees

Net fees (GBP mn)

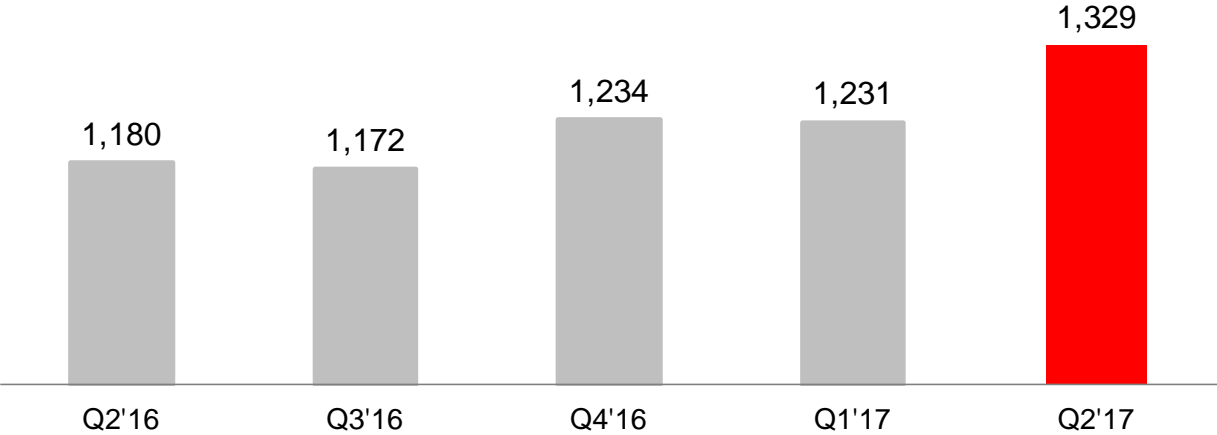


	6M'17	6M'16	YoY (%)	QoQ (%)
Banking	214	192	12	(2)
Credit Cards	21	14	47	35
Investments	13	3	319	7
Mortgages	18	20	(11)	7
Global Corporate Banking	94	100	(6)	(11)
Other	82	90	(9)	27
Total	442	418	6	3

Gross income

Gross income improvement driven by growth in net interest income following liability re-pricing, as well as gain on sale of Vocalink shares in H1 2017

Gross income (GBP mn)

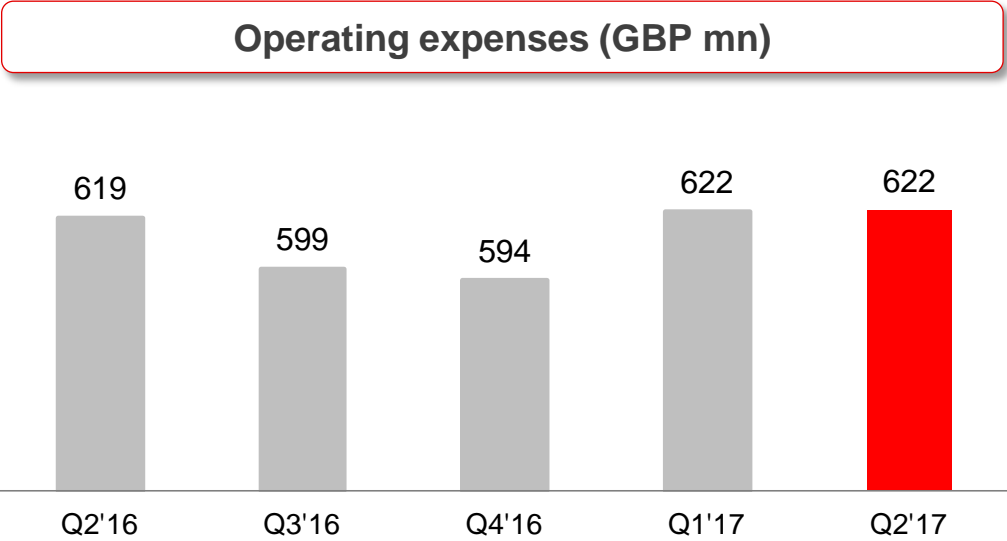


	6M'17	6M'16	YoY (%)	QoQ (%)
Net Interest Income	1,931	1,782	8	5
Net Fees	442	418	6	3
Subtotal	2,373	2,201	8	4
Other ¹	187	145	29	63
Gross income	2,560	2,346	9	8

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

Operating expenses

Operational efficiency well managed; excluding Banking Reform costs underlying expenses were broadly flat



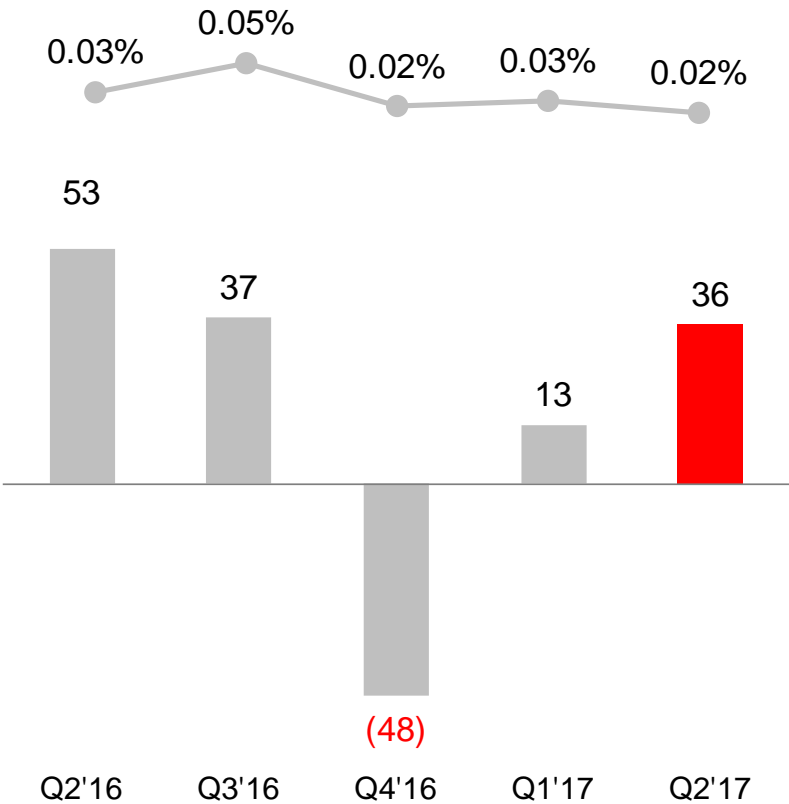
	6M'17	6M'16	YoY (%)	QoQ (%)
General and admin. expenses	1,101	1,107	(1)	(1)
Depreciation and amortisation	144	124	16	10
Operating Expenses	1,244	1,231	1	0

Efficiency ratio (incl.depreciation)	48.6%	52.5%
Number of branches	829	850
Number of employees	25,740	26,010

Net operating income after loan-loss provisions (LLPs)

Strong credit quality in all our loan books, with an improved NPL ratio of 1.23%.

LLPs and Cost of credit¹ (GBP mn)



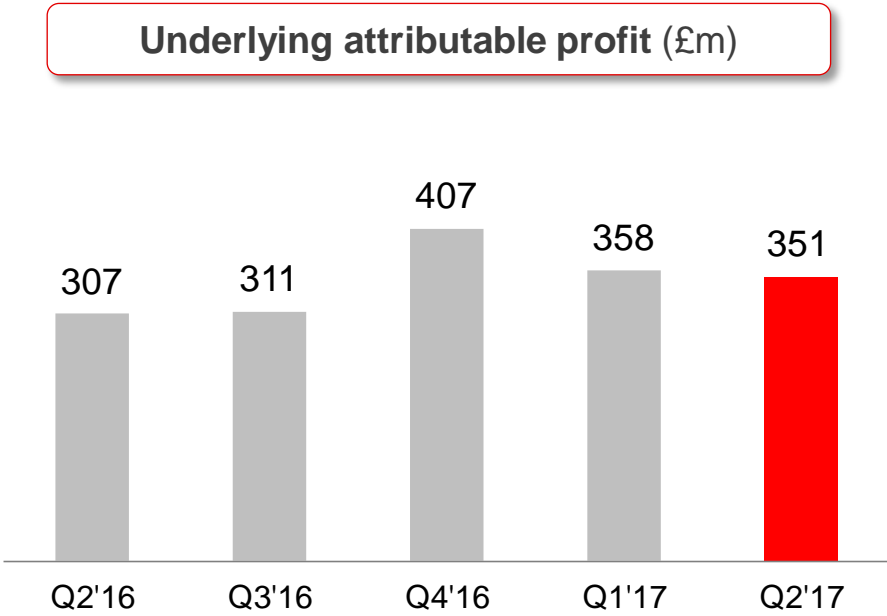
	6M'17	6M'16	YoY (%)	QoQ (%)
Net operating income	1,316	1,115	18	16
LLPs	(49)	(58)	(16)	n.a
Net operating income after LLPs	1,267	1,057	20	12

NPL Coverage Ratio	33%	37%
NPL Ratio	1.23%	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



Attributable profit (£m)				
390	313	297	358	351

	6M'17	6M'16	YoY (%)	QoQ (%)
Profit before taxes	1,029	956	8	3
Tax on profit	(310)	(284)	9	18
Minority Interests	(11)	(16)	(31)	(18)
Underlying att. Profit	709	656	8	(2)
Non-recurring	0	83	n.a	n.a
Attributable Profit	709	739	(4)	(2)
Effective tax rate	30%	30%		

Solid first half of 2017, with good net interest income growth, cost control and credit quality.

Market Environment & Financial System

- The UK economy continues to grow with the concern that some downside risks could materialise later this year and into 2018.
- The labour market remained 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. Solid UK economic growth expected despite this.

Strategy & Business

- 11213 World, with 5.2 million customers, continues to transform the quality of our customer base while reducing funding costs.
- In line with our expectations, FRS reported lower retail customer satisfaction at 61.7% on a rolling 12-month basis at Jun17, following fee and interest rate changes in Jan16 and Nov16, respectively. Improvement in customer satisfaction remains at the heart of our plans.
- Lending to UK companies continued to increase with demand from medium and large corporate customers.
- Digital customer numbers increased (up 11% since H116), as we continue to improve our digital proposition.

Results

- PBT was up 8% at £1,029m, with income growth supported by cost discipline and good credit performance.
- Underlying attributable profit up 8% to £709m with effective tax rate of 30%.
- Cost efficiency maintained, absorbing investment in business growth and benefiting from operational and digital efficiencies. Income growth outpaced cost growth resulting in improved CIR at 48.6%.



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Balance sheet

GBP £bn	30.06.17	30.06.16	Variance	
			Amount	%
Customer loans ¹	217.0	214.8	2.2	1.0
Cash, central banks and credit institutions ¹	34.8	30.0	4.8	16.0
Debt securities	22.6	17.0	5.6	32.8
of which: available for sale	9.5	9.8	(0.3)	(2.8)
Other financial assets	22.4	27.1	(4.7)	(17.4)
Other assets	9.6	10.4	(0.8)	(8.0)
Total assets	306.4	299.3	7.0	2.4
Customer deposits ¹	190.5	175.3	15.1	8.6
Central banks and credit institutions ¹	21.1	17.3	3.8	22.2
Debt securities issued ¹	55.8	60.0	(4.2)	(7.0)
Other financial liabilities	20.7	27.9	(7.2)	(25.8)
Other liabilities	3.8	5.1	(1.2)	(24.0)
Total liabilities	291.9	285.6	6.3	2.2
Total equity	14.5	13.7	0.7	5.2
Other managed and marketed customer funds	7.5	6.9	0.5	7.9
Mutual funds	7.4	6.8	0.5	8.0
Pension funds	0.0	0.0	0.0	0.0
Managed portfolios	0.1	0.1	0.0	1.6

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

² Capital + reserves + retained profit + valuation adjustments.

Income statement

GBP million	2017	2016	Variance	
	6M'17	6M'16	Amount	%
Net interest income	1,931	1,782	148	8.3
Net fees	442	418	23	5.6
Gains (losses) on financial transactions	163	127	36	28.3
Other operating income	24	18	6	33.6
Gross income	2,560	2,346	214	9.1
Operating expenses	(1,244)	(1,231)	(14)	1.1
General administrative expenses	(1,101)	(1,107)	7	(0.6)
<i>Personnel</i>	(592)	(568)	(24)	4.2
<i>Other general administrative expenses</i>	(509)	(539)	31	(5.7)
Depreciation and amortisation	(144)	(124)	(20)	16.3
Net operating income	1,316	1,115	200	18.0
Net loan-loss provisions	(49)	(58)	9	(15.7)
Other income	(237)	(101)	(136)	134.0
Underlying profit before taxes	1,029	956	74	7.7
Tax on profit	(310)	(284)	(26)	9.0
Underlying consolidated profit	720	672	48	7.1
Minority interests	11	16	(5)	(30.9)
Underlying attributable profit to the Group	709	656	53	8.1
Net capital gains and provisions	—	83	(83)	(100.0)
Attributable profit to the Group	709	739	(30)	(4.1)

Quarterly income statements

GBP million							Variation	
							2Q17 / 1Q17	
	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	Amount	%
Net interest income	889	893	888	928	942	989	46	4.9
Net fees	216	203	220	205	218	224	6	2.7
Gains (losses) on financial transactions	52	75	55	78	61	102	41	66.8
Other operating income	8	10	9	23	10	14	4	41.7
Gross income	1,166	1,180	1,172	1,234	1,231	1,329	97	7.9
Operating expenses	(611)	(619)	(599)	(594)	(622)	(622)	(0)	0.0
General administrative expenses	(553)	(554)	(537)	(526)	(554)	(547)	7	(1.2)
<i>Personnel</i>	(286)	(282)	(294)	(297)	(296)	(296)	0	(0.0)
<i>Other general administrative expenses</i>	(267)	(272)	(243)	(228)	(258)	(251)	7	(2.6)
Depreciation and amortisation	(59)	(65)	(62)	(69)	(68)	(75)	(7)	10.2
Net operating income	554	561	573	640	609	706	97	15.9
Net loan-loss provisions	(5)	(53)	(37)	48	(13)	(36)	(23)	172.1
Other income	(45)	(56)	(71)	(104)	(90)	(147)	(57)	63.0
Underlying profit before taxes	504	452	465	583	506	524	18	3.5
Tax on profit	(148)	(136)	(149)	(169)	(142)	(168)	(26)	18.0
Underlying consolidated profit	356	316	316	414	364	356	(8)	(2.2)
Minority interests	7	8	6	7	6	5	(1)	(18.0)
Underlying attributable profit to the Group	349	307	311	407	358	351	(7)	(2.0)
Net capital gains and provisions	—	83	2	(110)	—	—	—	—
Attributable profit to the Group	349	390	313	297	358	351	(7)	(2.0)

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**



ROBECOSAM
Sustainability Award
Silver Class 2017



FTSE4Good