

# UNITED KINGDOM

January – December 2016

Simple | Personal | Fair



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Source: Santander UK Group Holdings Q4 2016 results “Quarterly Management Statement for the year ended 31 December 2016” 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](http://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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# Agenda

- **Macro-economic environment and financial system**

- Strategy and business

- Results

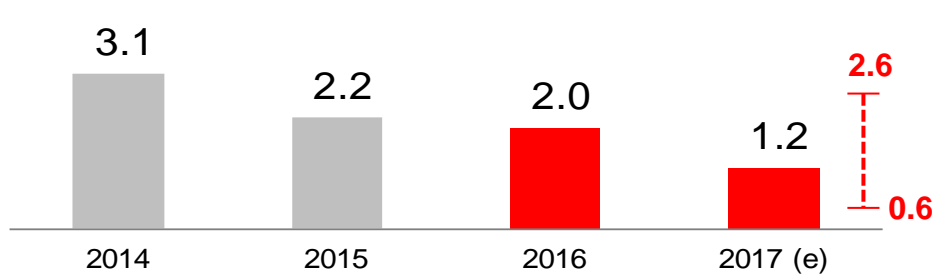
- Appendix



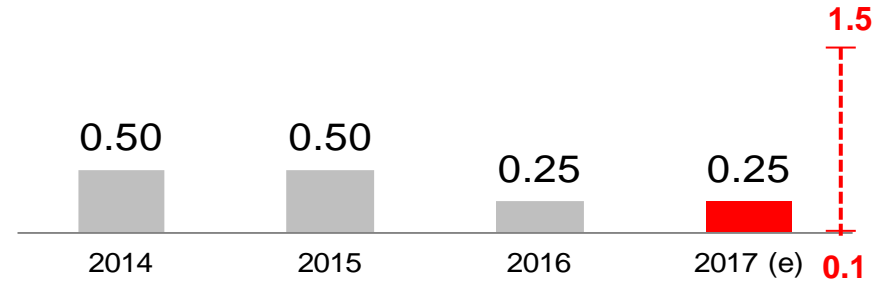
# Macro-economic environment

## Uncertain UK economic outlook

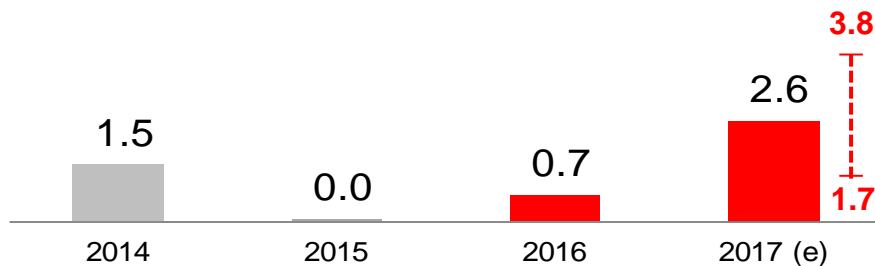
**Annual GDP Growth** (% , real) <sup>1</sup>



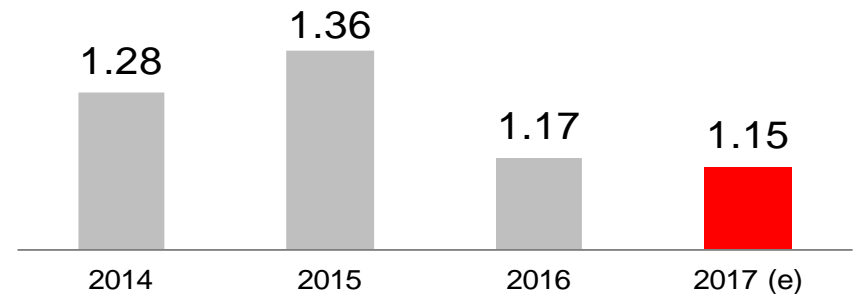
**Interest rates** (% , year end) <sup>2</sup>



**Annual CPI Inflation** (% annual average) <sup>3</sup>



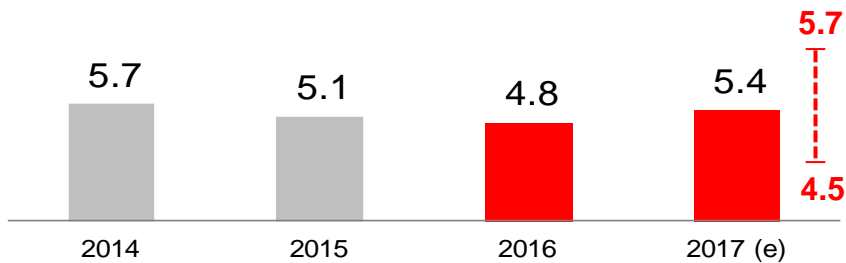
**GBP / EUR exchange rates** (year end)



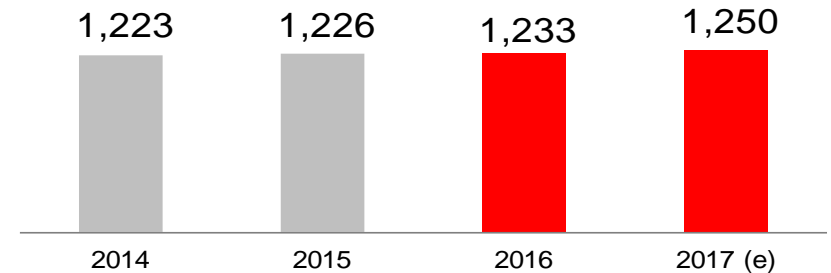
# Macro-economic environment

House price growth showing signs of slowing with higher inflation expected to reduce real income growth

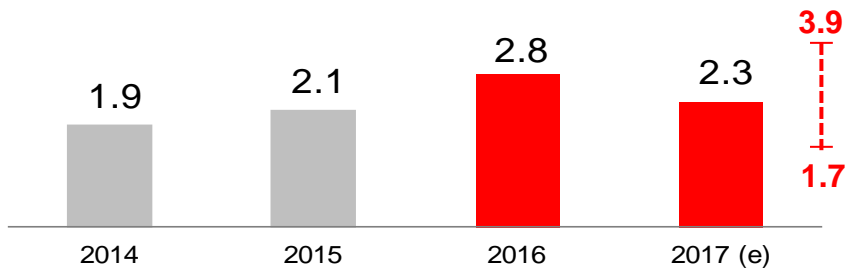
Unemployment rate (ILO, year end) <sup>1</sup>



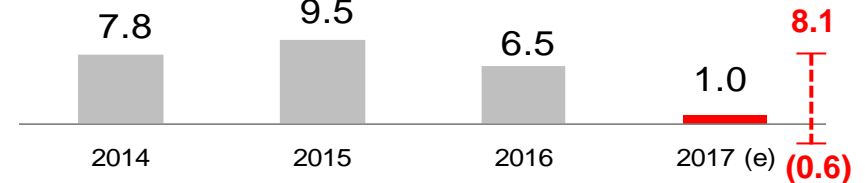
Property transactions (sa<sup>2</sup>,000's)



Average weekly earnings (annual, % inc bonuses)



House prices<sup>3</sup> (% , year end)

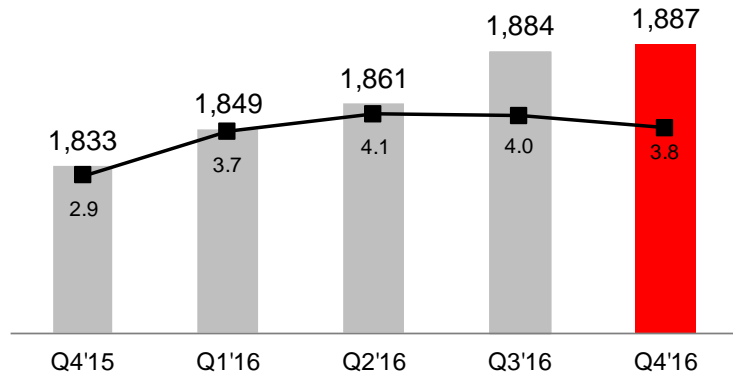




# Financial system: Loan and deposit growth

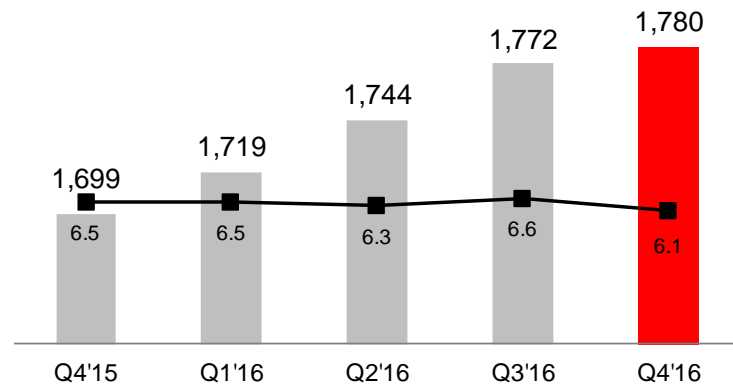
**Loan growth relatively steady through 2016; deposit growth has slowed slightly.**

**Total loans (GBP bn) <sup>1</sup>**



- Total loan growth expected to slow slightly to 3.8% in Q4'16.
- Mortgage growth of 3.0% projected for 2016, close to 2.7% at end 2015.
- Corporate sterling loan growth of around 2.5% for 2016.

**Total deposits (GBP bn) <sup>2</sup>**



- Slightly slower deposit growth reflecting continued balance sheet adjustments.
- The household saving ratio has moderated in 2016.
- Corporate deposit growth has slowed through 2016. Q4'16(e) consistent with November 2016 actual.

# Agenda

- Macro-economic environment and financial system

- **Strategy and business**

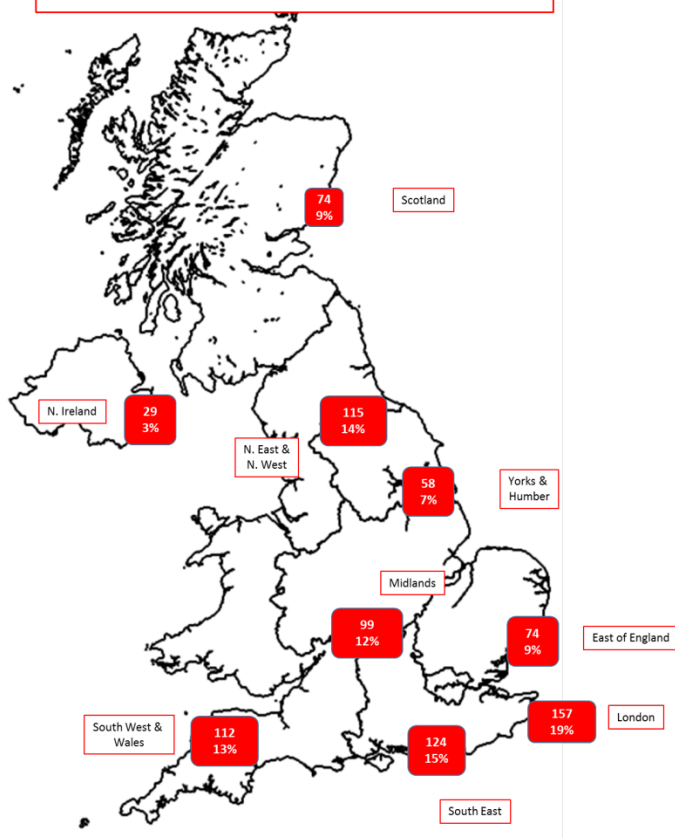
- Results
- Appendix



# Our franchise

**Santander UK is well positioned as the only full-service scale challenger in the UK**

Santander UK Branch Distribution



## Business and Results

### Customer Loans

	Dec'16	Var. YoY
Customer Loans	£200.2 bn.	1%
Customer Deposits	£172.4 bn.	6%
Total customer funds	£178.7 bn.	6%
PBT	£2,004 mn.	8%
Attributable profit	£1,373 mn.	(4%)

### Customer Deposits

### Total customer funds

### PBT

### Attributable profit

## Network and Customers

### Clients - active customers<sup>1</sup>

### Branches<sup>2</sup>

### ATMs

## Other Key Metrics

### Loan-to-Deposit ratio (LDR)<sup>3</sup>

### Return on Risk Weighted Assets (RoRWA)

### Return on Tangible Equity (RoTE)<sup>4</sup>



# Our 2016 - 2018 Strategy

## Creating value for all our stakeholders

1|

Customer loyalty and market share growth

Customers

2|

Operational and digital excellence

3|

Consistent and growing profitability and a strong balance sheet

Shareholders

4|

Live The Santander Way through our behaviours

People

5|

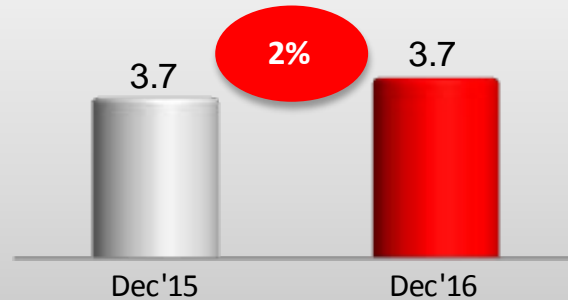
Support communities through skills, knowledge and innovation

Communities

# Our 2016 - 2018 Strategy

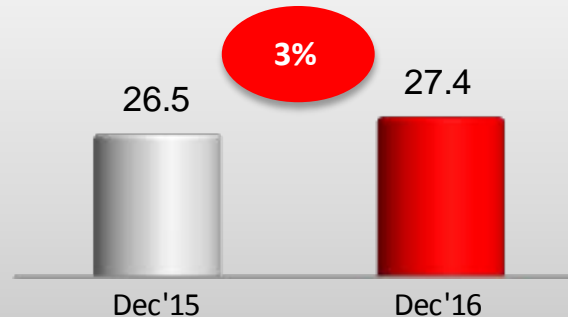
## Deeper customer relationships are supporting business momentum

### Loyal retail customers (mn)



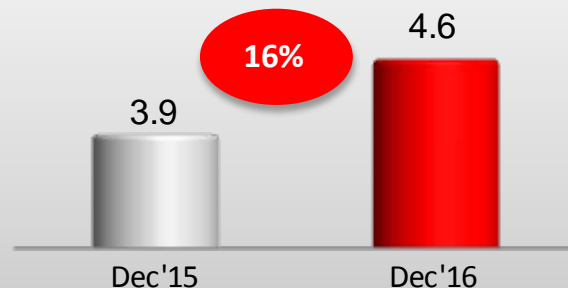
Our loyal retail customer base increased by 90k, impacted in the short-term by 11213 World changes, and lower demand for savings products.

### Lending to UK companies (GBP bn)



We continue to grow though at a slower rate, with competition and economic uncertainty resulting in a slowdown of activity.

### Digital customers <sup>1</sup> (mn)

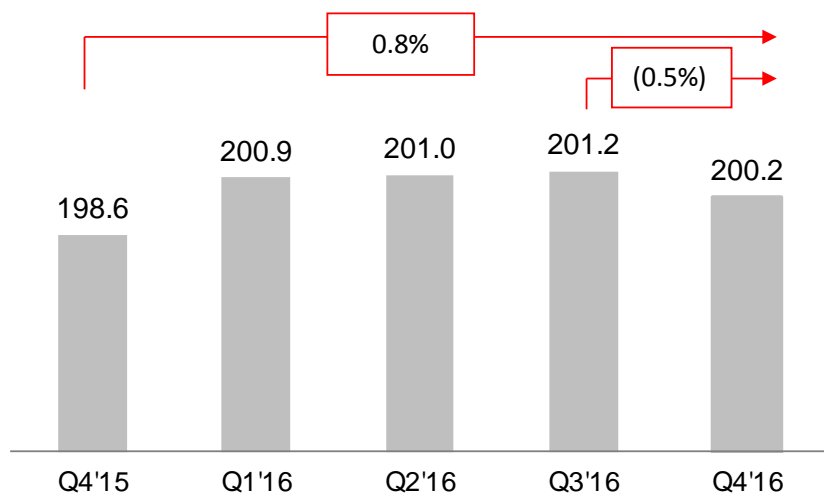


We are increasing the number of our digital customers and launching innovative enhancements to our offering.

# Total loans performance

**Robust business flows in both retail and corporates, both growing in-line with the market.**

## Total loans (GBP bn)

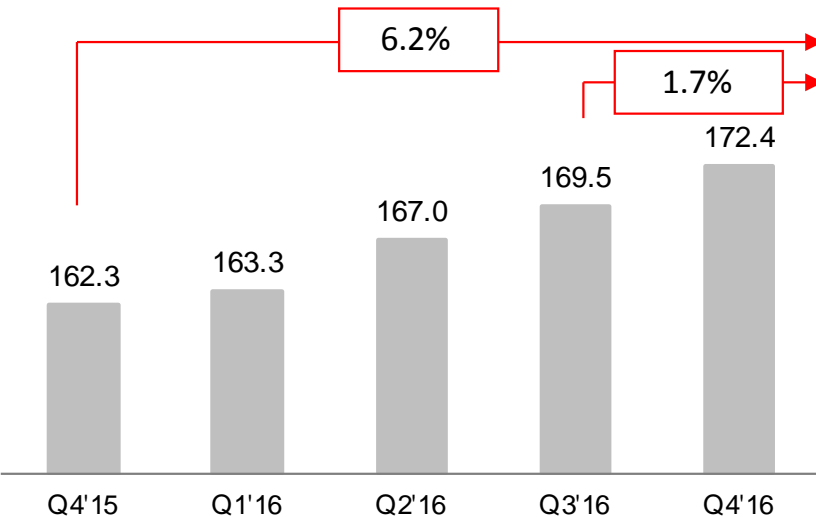


	Dec'16	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>166.3</b>	<b>1</b>	<b>0</b>
Mortgages <sup>1</sup>	154.3	1	0
Consumer credit	12.0	1	1
<b>Companies</b>	<b>27.4</b>	<b>3</b>	<b>(3)</b>
SMEs	12.9	(5)	(3)
Mid corporates	8.8	19	5
Large corporates	5.7	3	(14)
<b>Total</b>	<b>193.7</b>	<b>1</b>	<b>0</b>
<b>Non core</b>	<b>6.48</b>	<b>(12)</b>	<b>(8)</b>
<b>Total Loans</b>	<b>200.2</b>	<b>1</b>	<b>0</b>

# Total customer funds performance

**Demand balances continued to grow, partially offset by time deposits.**

## Total deposits (GBP bn)



	Dec'16	YoY (%)	QoQ (%)
Demand	77.6	20	1
Savings	67.7	4	2
Time	27.0	(17)	2
<b>Total</b>	<b>172.4</b>	<b>6</b>	<b>2</b>
Funds distributed <sup>1</sup>	6.4	1	(1)
<b>Total Customer Funds</b>	<b>178.7</b>	<b>6</b>	<b>2</b>

# Agenda

- Macro-economic environment and financial system
- Strategy and business

## ■ Results

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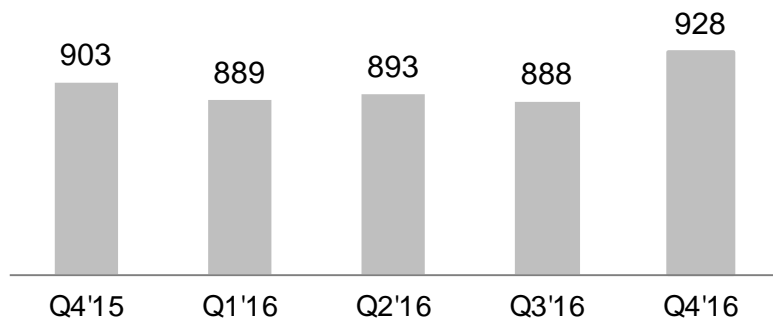




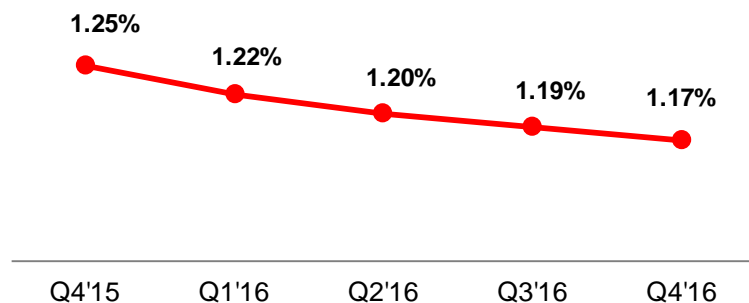
# Net interest income and spreads

**NII driven by retail liability margin improvement in Q4'16, offset by SVR mortgage attrition and lower new asset margins.**

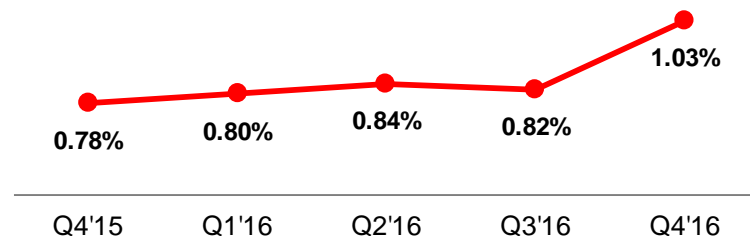
Net Interest Income (GBP mn.)



Loan spread (%)



Deposit spread (%)



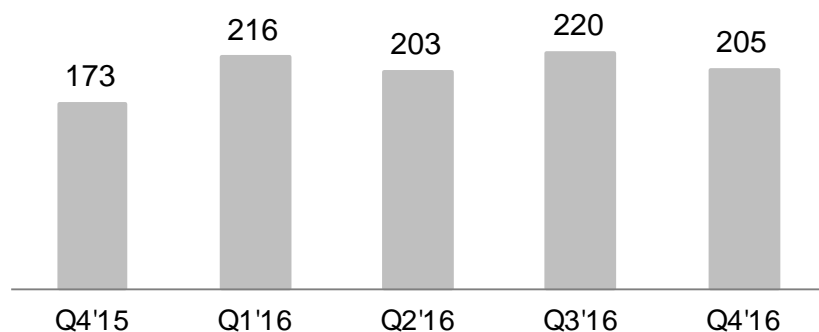
Banking NIM <sup>1</sup>

Quarter	Banking NIM <sup>1</sup>
Q4'15	1.80%
Q1'16	1.78%
Q2'16	1.78%
Q3'16	1.75%
Q4'16	1.83%

## Net fees

**Banking net fee income growth driven by 112I3 Current Account, partially offset by lower credit card income from interchange and reduced investment fees.**

Net fees (GBP mn)

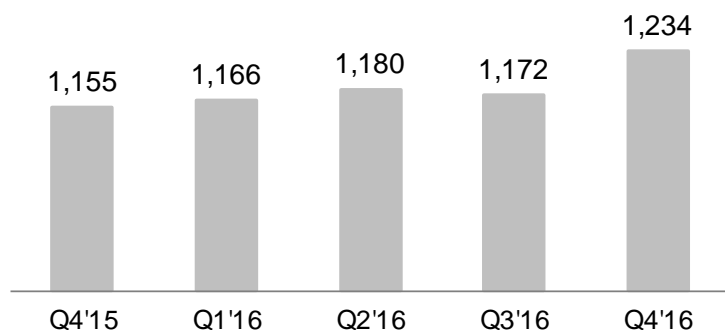


	12M'16	12M'15	YoY (%)	QoQ (%)
Banking	395	275	43	(6)
Credit Cards	28	61	(55)	(32)
Investments	9	55	(84)	115
Mortgages	40	35	13	(15)
GCB	191	175	9	14
Other	182	190	(4)	(25)
<b>Total</b>	<b>843</b>	<b>791</b>	<b>7</b>	<b>(7)</b>

# Gross income

**Gross income improvement driven by net fees and gains on financial transactions.**

## Gross income (GBP mn)

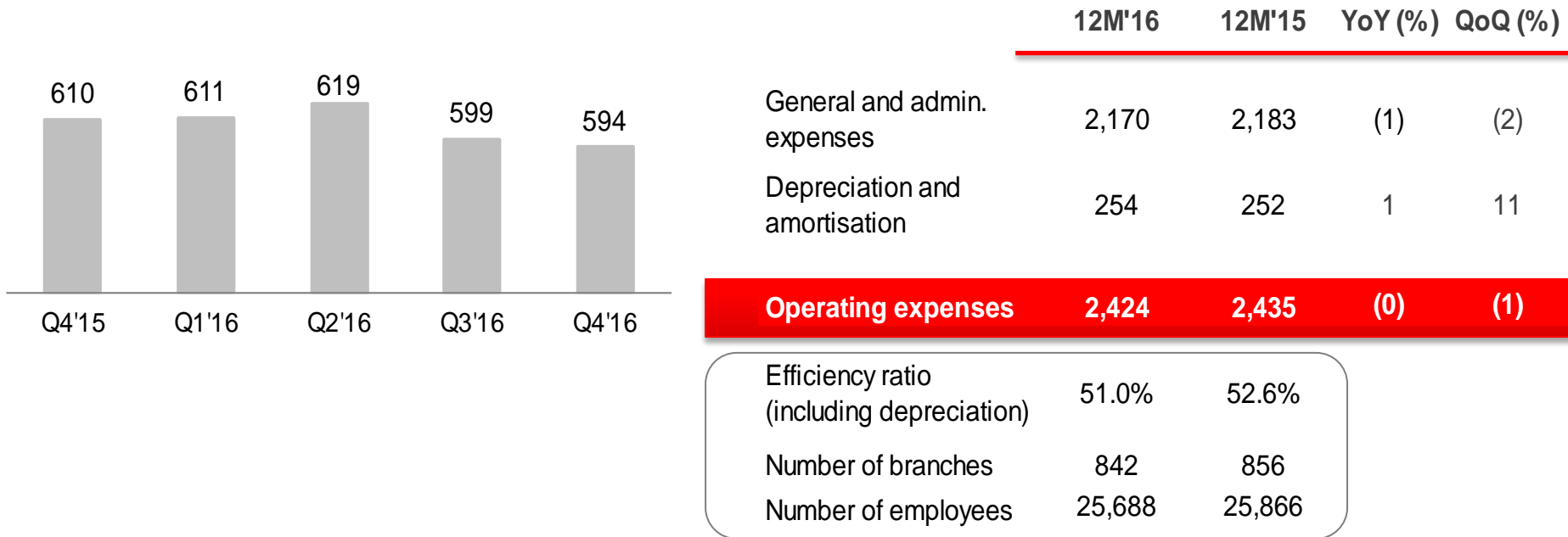


	12M'16	12M'15	YoY (%)	QoQ (%)
Net Interest Income	3,599	3,585	0	5
Net Fees	843	791	7	(7)
<b>Subtotal</b>	<b>4,442</b>	<b>4,377</b>	<b>1</b>	<b>2</b>
Other <sup>1</sup>	310	253	23	56
<b>Gross income</b>	<b>4,752</b>	<b>4,630</b>	<b>3</b>	<b>5</b>

## Operating expenses

Operational efficiency well managed, absorbing investment in business growth, digital and Banking Reform costs.

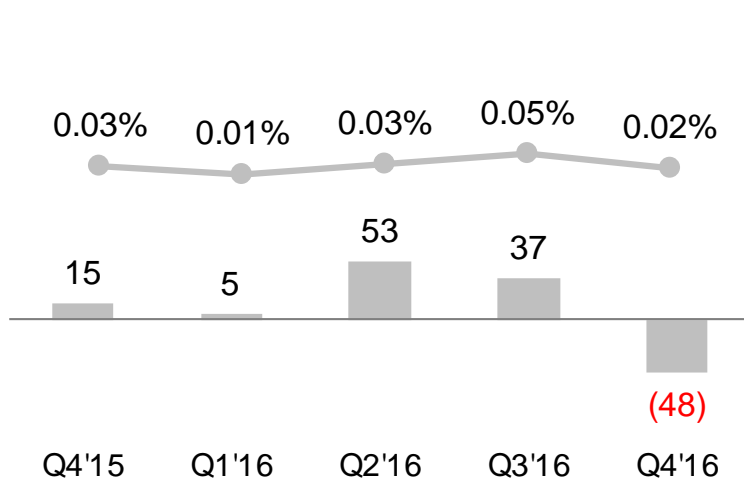
### Operating expenses (GBP mn)



# Net operating income after loan-loss provisions (LLPs)

**Strong credit quality in all our loan books, with an improved NPL ratio of 1.41%.**

## LLPs and Cost of credit<sup>1</sup> (GBP mn)



	12M'16	12M'15	YoY (%)	QoQ (%)
<b>Net operating income</b>	<b>2,328</b>	<b>2,195</b>	<b>6</b>	<b>12</b>
LLPs	(48)	(78)	(39)	n.a.
<b>Net op. income after LLPs</b>	<b>2,281</b>	<b>2,117</b>	<b>8</b>	<b>28</b>

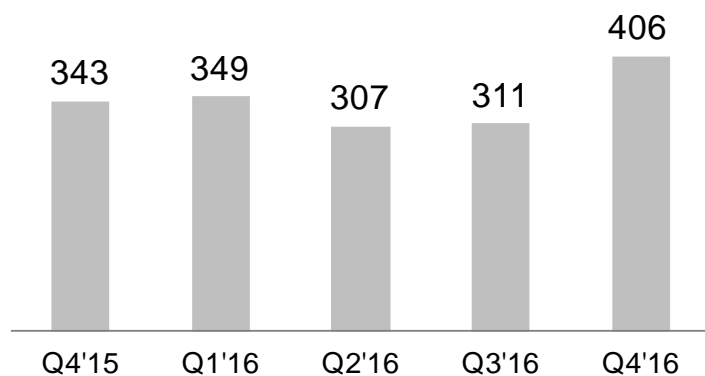
NPL Coverage Ratio	33%	38%
NPL Ratio	1.41%	1.52%



# Attributable profit

**Attributable profit impacted by bank corporation tax surcharge.**

## Attributable profit (GBP mn)



	12M'16	12M'15	YoY (%)	QoQ (%)
Profit before taxes	2,004	1,860	8	25
Tax on profit	(602)	(403)	49	14
<b>Attributable profit</b>	<b>1,373</b>	<b>1,430</b>	<b>(4)</b>	<b>31</b>

Effective tax rate <sup>1</sup>	30%	22%
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# Strong 2016 results, with solid income growth, cost control and credit quality.

## Market Environment & Financial System

- Significant uncertainty about UK economic outlook following the EU referendum and global issues.
- House price growth showing signs of slowing and expect higher inflation would slow real income growth.
- Some downside risks are being mitigated by the monetary policy actions of the Bank of England and by the capital and liquidity strength of the banking sector.

## Strategy & Business

- 11213 World, with 5.1 million customers, continues to transform the quality of our customer base while reducing funding costs.
- Ongoing improvement in customer experience continues to deepen customer relationships.
- Lending to UK companies continued to increase though at a slower rate, with the competitive environment and economic uncertainty affecting growth.
- Digital customer numbers increased strongly in the period, as we continue to improve our digital proposition and enhance our customer experience.

## Results

- PBT was up 8% mainly due to fee income growth, cost discipline and good credit performance partially offset by pressure on NII.
- Attributable profit impacted by the introduction of the 8% bank corporation surcharge in 2016, partially offset by improvement in other income.
- Cost efficiency maintained, as we continue to absorb investment in business growth and benefit from operational and digital efficiencies. Operating expenses were flat in the period and CIR improved to 51.0%.

# Agenda

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- Macro-economic environment and financial system
- Strategy and business
- Results
- **Appendix**

# Balance sheet

	31.12.16	31.12.15	Variance	
			Amount	%
Customer loans <sup>1</sup>	215.1	207.5	7.6	3.7
Financial assets held for trading (w/o loans)	29.1	29.5	(0.4)	(1.2)
Available-for-sale financial assets	10.6	9.0	1.5	17.2
Central banks and credit institutions <sup>1</sup>	13.1	10.3	2.8	26.8
Tangible and intangible assets	2.2	2.2	(0.0)	(0.5)
Other assets	33.8	22.7	11.1	48.9
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>303.9</b>	<b>281.2</b>	<b>22.7</b>	<b>8.1</b>
Customer deposits <sup>1</sup>	181.6	170.2	11.4	6.7
Debt securities issued <sup>1</sup>	60.9	54.5	6.4	11.7
Central banks and credit institutions <sup>1</sup>	18.5	17.3	1.1	6.5
Other liabilities	29.2	26.5	2.6	9.9
Stockholders' equity <sup>2</sup>	13.8	12.6	1.2	9.4
<b>Off-balance-sheet funds</b>	<b>7.3</b>	<b>7.1</b>	<b>0.2</b>	<b>3.0</b>
Mutual funds	7.2	7.0	0.2	3.0
Pension funds	0.0	0.0	0.0	-
Managed portfolios	0.1	0.1	(0.0)	(1.4)
<b>Customer funds under management</b>	<b>249.8</b>	<b>231.9</b>	<b>18.0</b>	<b>7.7</b>
<b>Commercial loans included above</b>	<b>200.2</b>	<b>198.6</b>	<b>1.5</b>	<b>0.8</b>
<b>Commercial deposits included above</b>	<b>172.4</b>	<b>162.3</b>	<b>10.1</b>	<b>6.2</b>

<sup>1</sup> Includes all stock of concept classified in the balance sheet.

<sup>2</sup> Capital + reserves + retained profit + valuation adjustments.

# Income statement

	12M'16	12M'15	Variance	
			Amount	%
<b>Net interest income</b>	<b>3,599</b>	<b>3,585</b>	<b>13</b>	<b>0</b>
Net Fees	843	791	52	7
Gains (losses) on financial transactions	261	219	42	19
Other operating income <sup>1</sup>	50	34	16	47
<b>Gross income</b>	<b>4,752</b>	<b>4,630</b>	<b>123</b>	<b>3</b>
Operating Expenses	(2,424)	(2,435)	11	(0)
General administrative expenses	(2,170)	(2,183)	13	(1)
Personnel	(1,159)	(1,155)	(4)	0
Other general administrative expenses	(1,011)	(1,028)	16	(2)
Depreciation and amortisation	(254)	(252)	(2)	1
<b>Net Operating Income</b>	<b>2,328</b>	<b>2,195</b>	<b>133</b>	<b>6</b>
Net loan-loss provisions	(48)	(78)	30	(39)
Other income	(277)	(257)	(20)	8
<b>Profit before taxes</b>	<b>2,004</b>	<b>1,860</b>	<b>143</b>	<b>8</b>
Tax on profit	(602)	(403)	(199)	49
<b>Consolidated profit</b>	<b>1,402</b>	<b>1,457</b>	<b>(55)</b>	<b>(4)</b>
Minority interests	(29)	(27)	(2)	6
<b>Attributable profit to the Group</b>	<b>1,373</b>	<b>1,430</b>	<b>(57)</b>	<b>(4)</b>



# Quarterly income statements

	Q4'16	Q3'16	Q2'16	Q1'16	Q4'15
<b>Net interest income</b>	<b>928</b>	<b>888</b>	<b>893</b>	<b>889</b>	<b>903</b>
Net Fees	205	220	203	216	173
Gains (losses) on financial transactions	78	55	75	52	72
Other operating income <sup>1</sup>	23	9	10	8	7
<b>Gross income</b>	<b>1,234</b>	<b>1,172</b>	<b>1,180</b>	<b>1,166</b>	<b>1,155</b>
Operating Expenses	(594)	(599)	(619)	(611)	(610)
General administrative expenses	(526)	(537)	(554)	(553)	(535)
Personnel	(297)	(294)	(282)	(286)	(279)
Other general administrative expenses	(228)	(243)	(272)	(267)	(256)
Depreciation and amortisation	(69)	(62)	(65)	(59)	(75)
<b>Net Operating Income</b>	<b>640</b>	<b>573</b>	<b>561</b>	<b>554</b>	<b>545</b>
Net loan-loss provisions	48	(37)	(53)	(5)	(15)
Other income	(104)	(71)	(56)	(45)	(85)
<b>Profit before taxes</b>	<b>583</b>	<b>465</b>	<b>452</b>	<b>504</b>	<b>444</b>
Tax on profit	(169)	(149)	(136)	(148)	(94)
<b>Profit from continuing operations</b>	<b>414</b>	<b>316</b>	<b>316</b>	<b>356</b>	<b>350</b>
Net profit from discontinued operations	0	0	0	0	0
<b>Consolidated profit</b>	<b>414</b>	<b>316</b>	<b>316</b>	<b>356</b>	<b>350</b>
Minority interests	(7)	(6)	(8)	(7)	(7)
<b>Attributable profit to the Group</b>	<b>407</b>	<b>311</b>	<b>307</b>	<b>349</b>	<b>343</b>

# 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**

