

Santander UK Group Holdings plc

Investor Update
for the three months ended
31 March 2018

April 2018

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This presentation provides a summary of the unaudited business and financial trends for the three months ended 31 March 2018 for Santander UK Group Holdings plc and its subsidiaries (Santander UK), including its principal subsidiary, Santander UK plc. Unless otherwise stated, references to results in previous periods and other general statements regarding past performance refer to the business results for the same period in 2017.

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Source: Santander UK Q1 2018 results "Quarterly Management Statement for the three months ended 31 March 2018" or Santander UK Group Holdings Management Information (MI), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK plc 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.


Q118 results reflect competitive operating environment

(vs Q117)

Total operating income	£1,151m		4%
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Operating expenses	£649m		7%
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Credit impairment losses	£60m		£47m
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Provisions for other liabilities and charges	£28m		53%
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Profit before tax	£414m		21%
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(vs Q417)

Mortgage lending	£156.8bn		£1.9bn
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Lending to UK companies	£27.2bn		£(0.1)bn
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Banking NIM	1.83%		0bps
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NPL ratio	1.28%		14bps
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CET1 capital ratio	12.5%		30bps
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Delivering on our 2016-18 commitments



Customers

Grow customer loyalty and market share
Deliver operational and digital excellence

Loyal retail customers

2016	3.7
2017	3.9
Q118	4.0

2018 target

4.7 million

More to do

Retail customer satisfaction (FRS)

2016	62.9
2017	63.0
Q118	63.9

2018 target

Top 3

On track

Loyal SME and corporate customers

2016	290,000
2017	305,000
Q118	303,000

2018 target

308,000

On track

Digital customers

2016	4.6
2017	5.0
Q118	5.2

2018 target

6.5 million

More to do

Delivering on our 2016-18 commitments



Shareholders

Achieve consistent, growing profitability and a strong balance sheet

Adjusted RoTE / RoTE

2016	10.9
2017	10.2
Q118	8.7

2018 target

9%-10%

More to do

Non-performing loan (NPL) ratio

2016	1.50
2017	1.42
Q118	1.28

2018 target

< 2.00%

On track

Cost-to-income ratio

2016	50
2017	51
Q118	56

2018 target

50%-52%

More to do

CET1 capital ratio

2016	11.6
2017	12.2
Q118	12.5

2018 target

c12%

On track

Dividend payout ratio

2016	51
2017	50
Q118	N/A

2018 target

50%

On track

Well positioned as the leading UK scale challenger

Meaningful scale and opportunity...

Retail

14m

Active customers



c80%

Financial centre coverage



3rd UK Mortgage lender²



Corporate

64

Corporate Business Centres



551

Relationship Managers¹



5th UK Commercial lender²

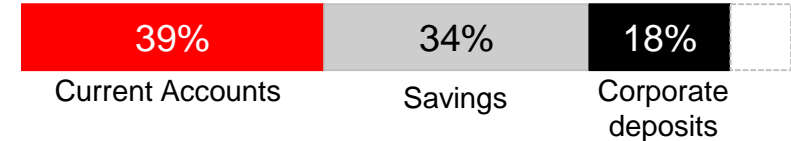


...a more diversified retail and commercial bank...

£201.5bn customer loans



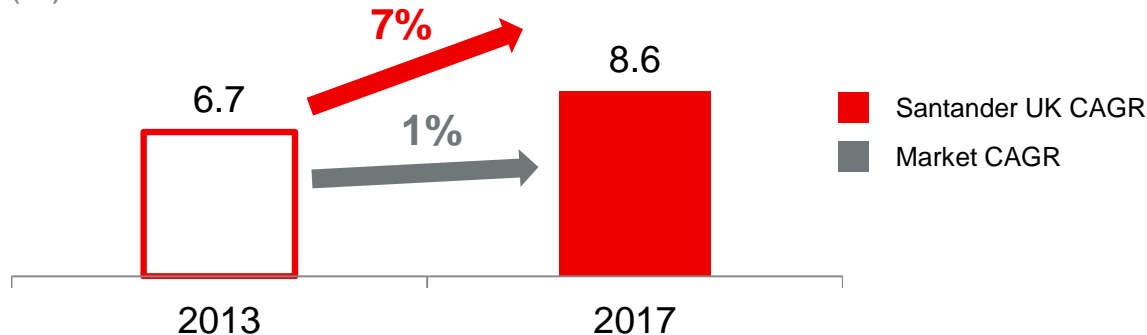
£172.4bn customer deposits



Other customer loans and deposits

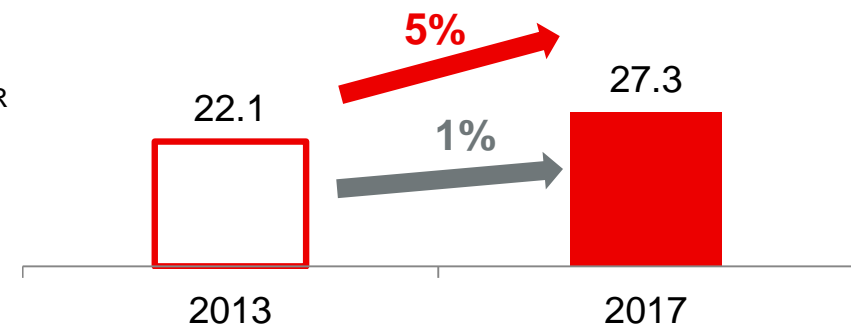
...a growing retail current account provider...

Retail Current Account volumes³ (m)



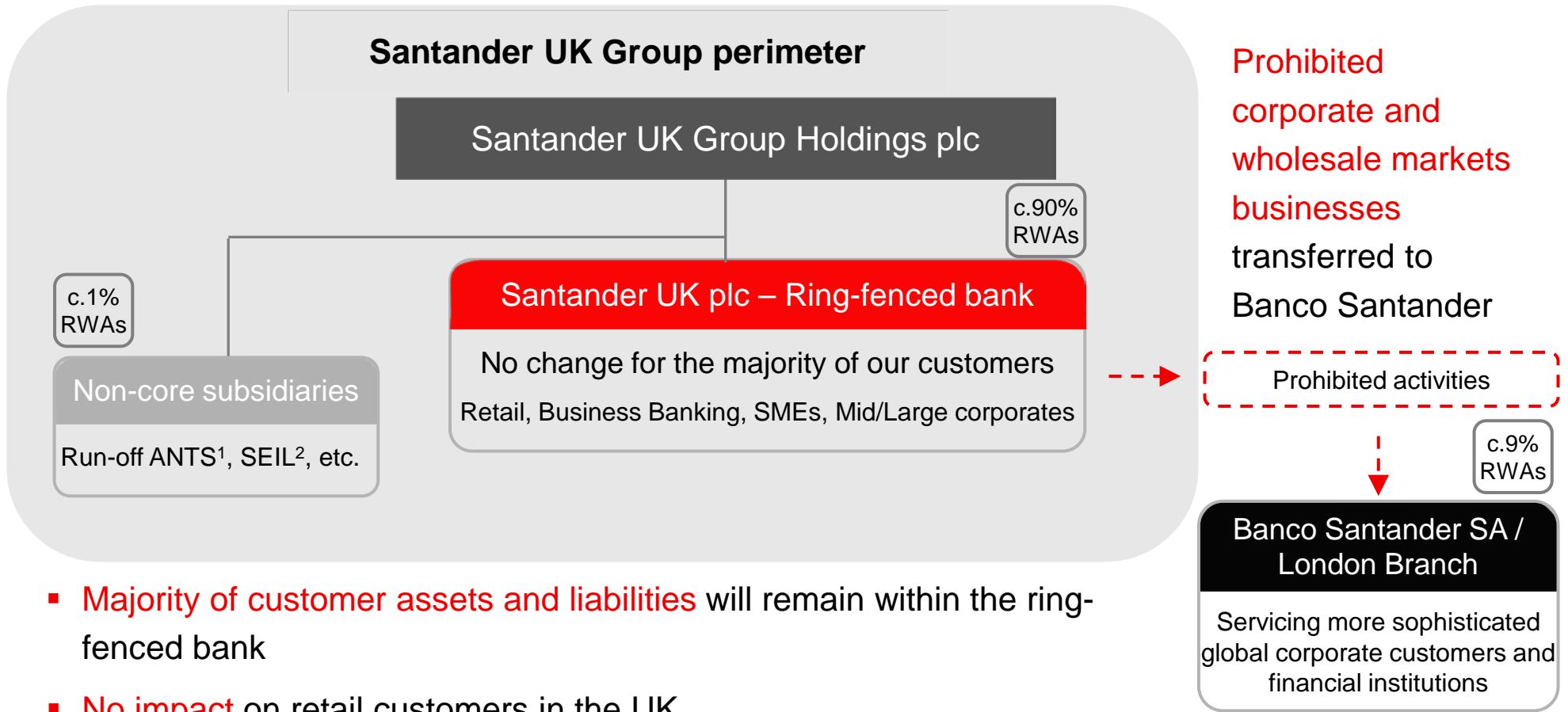
...an aspiring corporate market challenger

Lending to UK companies⁴ (£bn)



1. Excludes structured finance, product and international relationship managers | 2. Santander UK analysis, as at Q118. Commercial lending refers to loans to small and mid sized corporate clients by UK retail and commercial banks and building societies | 3. Market source: CACI's CSDB, Stock, Volume data as at December 2013 and December 2017 | 4. Market source: Bank of England Bankstats (February 2018), Private Non-Financial Companies (PNFCs). Data as at December 2013 and December 2017

On track to implement 'wide' ring-fence structure



- Majority of customer assets and liabilities will remain within the ring-fenced bank
- No impact on retail customers in the UK
- Credit ratings remaining unchanged from implementation

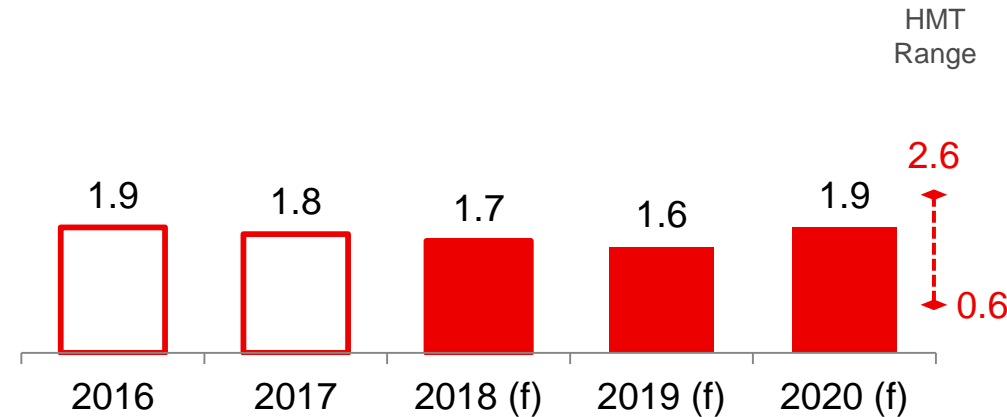
Outlook and UK economy

Expect the UK economy to grow in 2018, at a similar pace to 2017

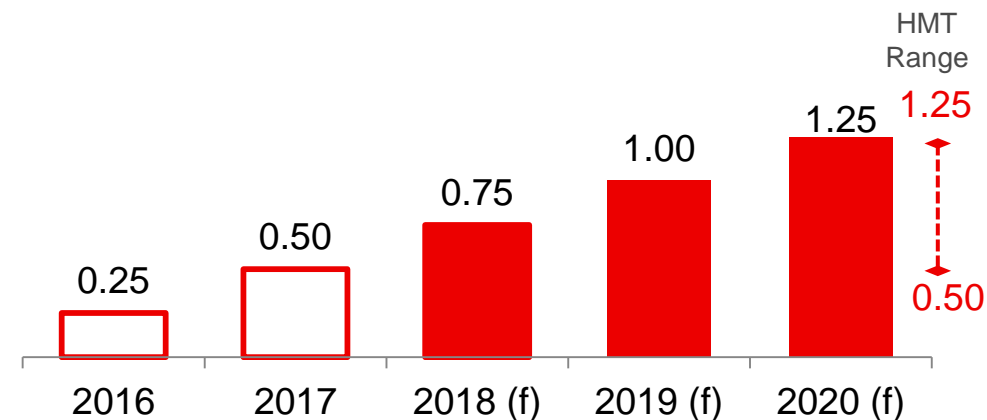
2018 outlook

- Banking NIM is expected to be lower than in 2017
- Our gross mortgage lending is expected to be in line with the market
- We expect our lending to UK companies to be broadly consistent with overall corporate borrowing growth
- We will continue to invest in strategic projects, which will improve our customer experience and deliver operational efficiencies. We expect costs for 2018 to be higher than in 2017 but with targeted actions and cost discipline, we will look to partially offset rising regulatory, risk and control costs and inflationary pressures
- We will continue to purposefully control growth in line with our proactive risk management policies and medium-low risk profile

Annual GDP growth (% , annual average)



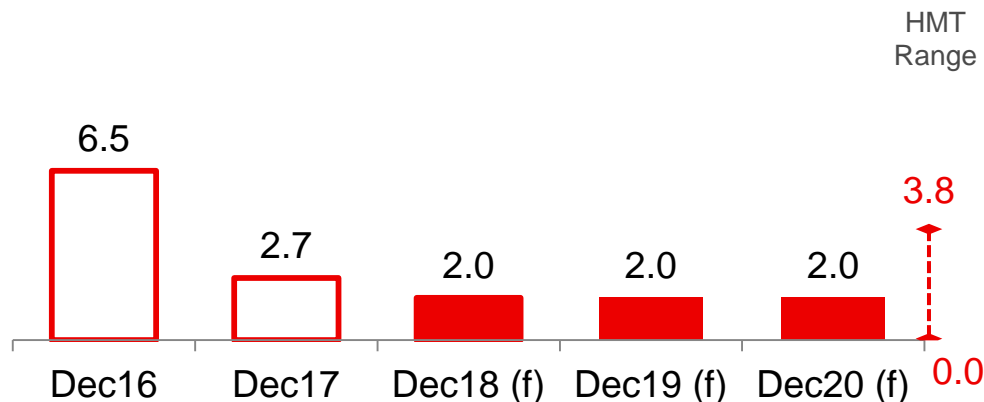
Bank of England base rate (% , year end)



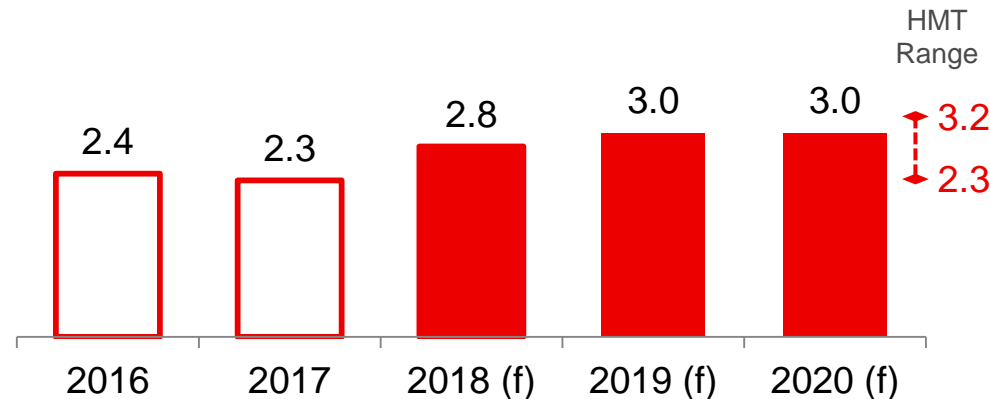
Source: Office for National Statistics and Bank of England. 2018 (f), 2019 (f) and 2020 (f) are forecasts by Santander UK (February 2018). External forecast ranges from HM Treasury Consensus March 2018. Only forecasts made in the latest 3 months (Jan, Feb, Mar) have been included in the high / low range.

UK economy is broadly stable but uncertainty remains

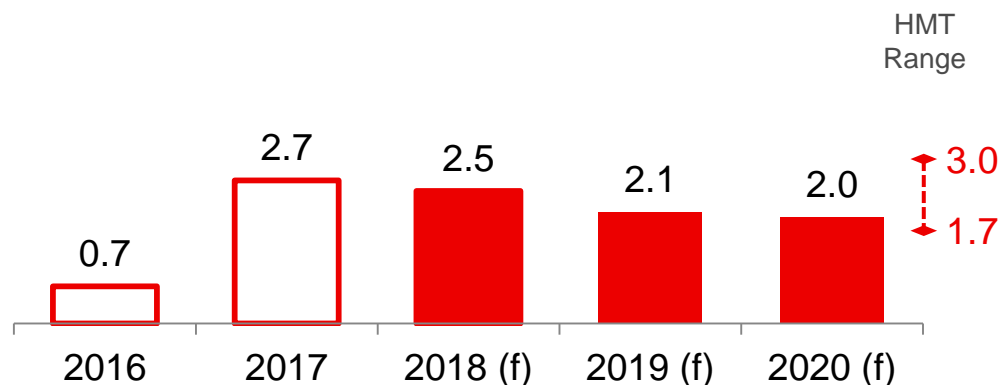
House prices¹ (% sa², year end)



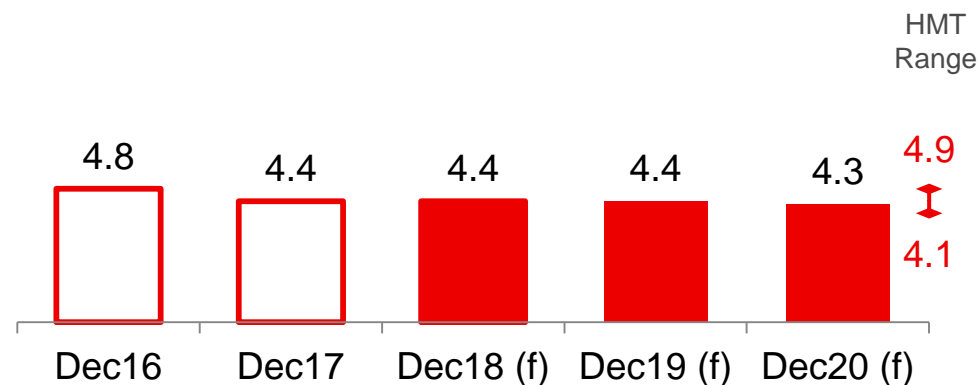
Average weekly earnings
(% inc. bonuses, annual average)



Annual CPI³ inflation rate (% annual average)



Unemployment rate (% ILO⁴)



Source: Office for National Statistics and Bank of England. 2018 (f), 2019 (f) and 2020 (f) are forecasts by Santander UK (February 2018). External forecast ranges from HM Treasury Consensus March 2018. Only forecasts made in the latest 3 months (Jan, Feb, Mar) have been included in the high / low range.

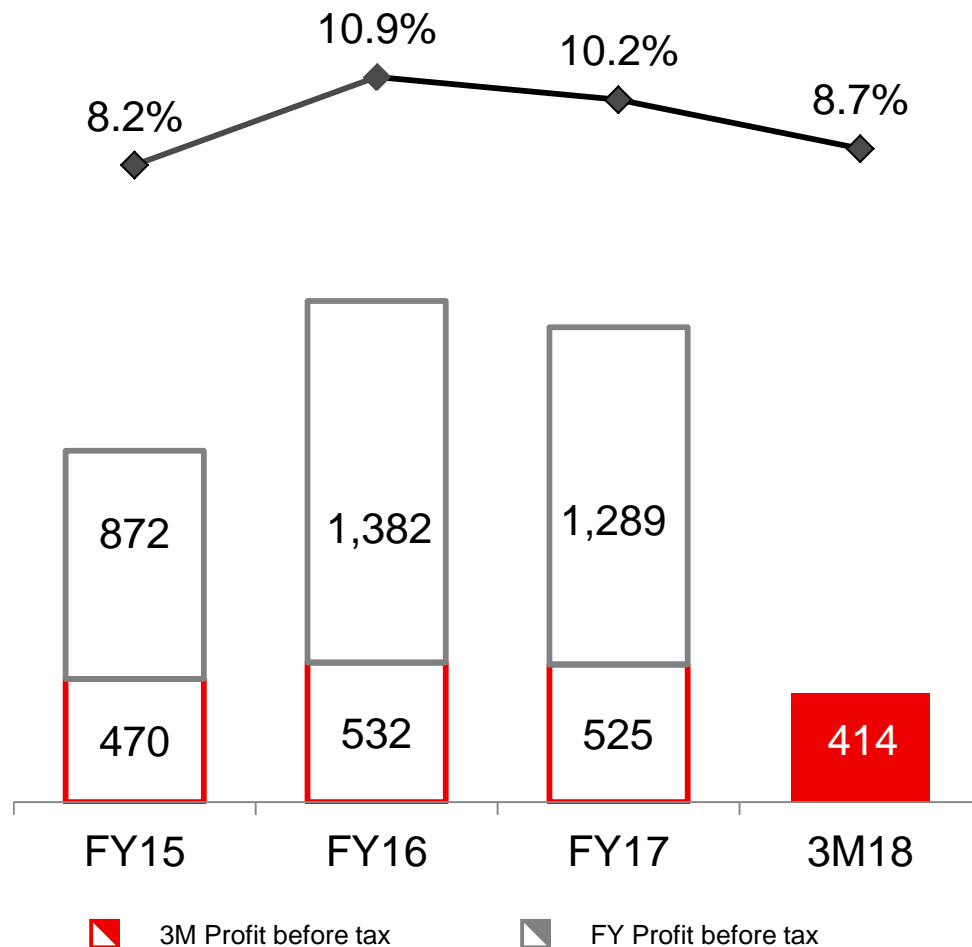
1. Halifax house prices (Source: IHS Markit) | 2. Seasonally adjusted | 3. Consumer Price Index | 4. International Labour Organisation

Consistently profitable, sustainable business

Consistently profitable with a strong balance sheet

Profit before tax (£m)

RoTE

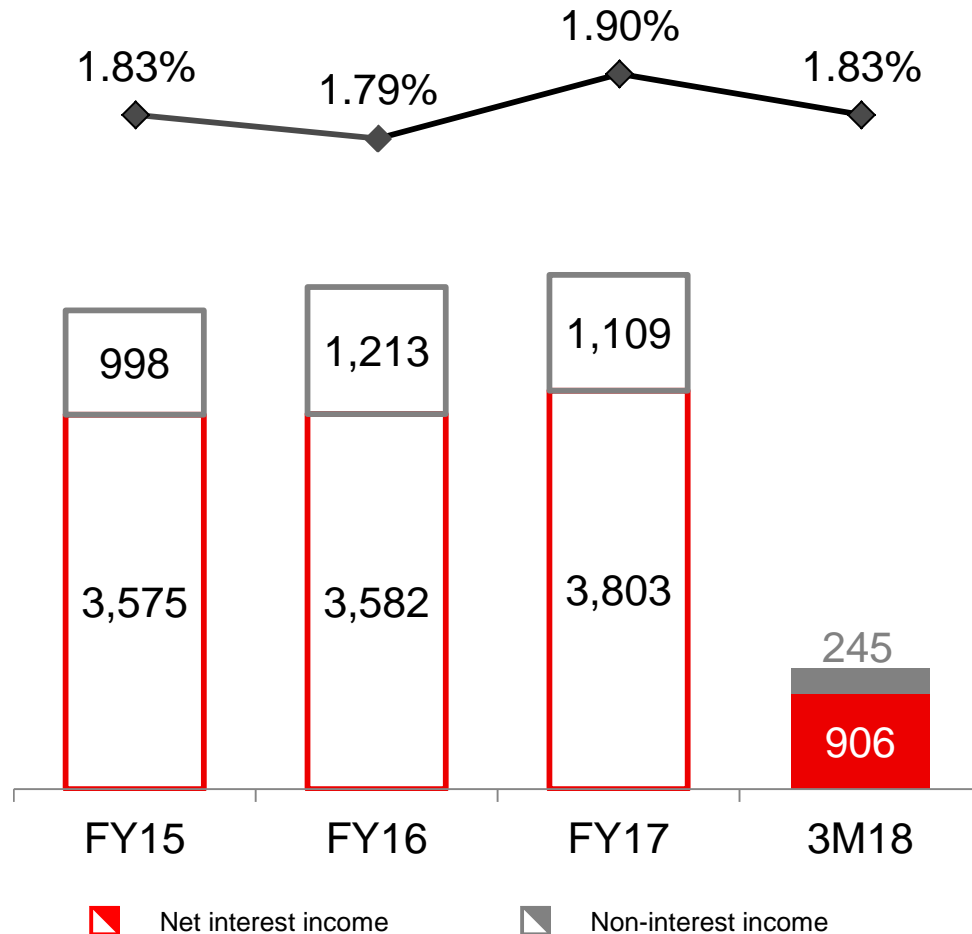


- A track record of 10 years profitability
- 50% annual dividend payout
- Good credit quality with a predictable medium-low risk profile
- Q118 RoTE and profit before tax were impacted by lower operating income, higher operating expenses and impairment charges in Global Corporate Banking
- With ongoing investment in business transformation and growth initiatives and our relentless focus on cost management, we expect to deliver on the majority of our 2016-18 commitments, as previously guided

Competitive pressure impacting operating income

Total operating income (£m)

Banking NIM¹



- Net interest income in Q118 was down 4%, driven by pressure on new mortgage margins and SVR attrition, partially offset by strong lending volumes
- The Banking NIM of 1.83% was unchanged from Q417 with Retail Banking liability margin improvement offset by SVR attrition
- Non-interest income was down 8%, with lower security financing income in GCB and mark-to-market movements on economic hedges and hedge inefficiencies offsetting increases in Retail Banking and Commercial Banking

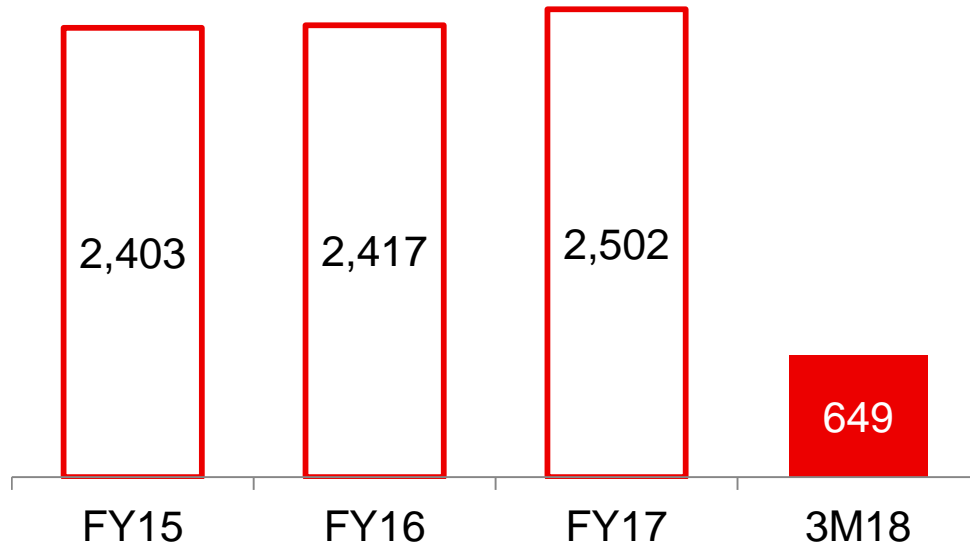
Market average 2 year fixed mortgage price in 2017 was c.25bps lower than what was seen in 2016²

1. Banking NIM is calculated as annualised net interest income divided by average customer loans | 2. Source: Bank of England, annual average of sterling 2 year (75% LTV) fixed rate mortgage to households

Cost discipline is an ongoing area of focus

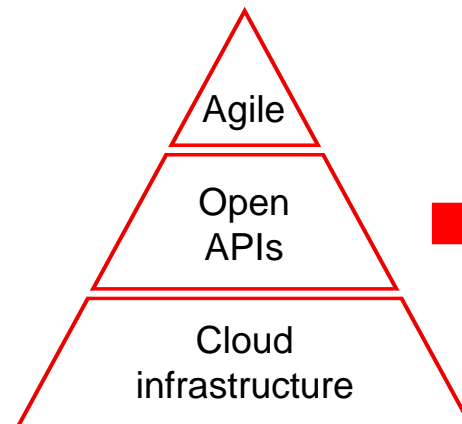
Operating expenses (£m)

Cost-to-income ratio



- We are making progress with our strategic and digital investments to further improve customer experience and operational efficiency
- Regulatory, risk and control costs have increased with a number of major projects due for implementation in 2018
- CIR increased to 56% in Q118, as income pressure and increased regulatory costs continued to offset embedded cost savings

Clear roadmap to become a fully digital bank



Improved delivery
Faster IT deployments

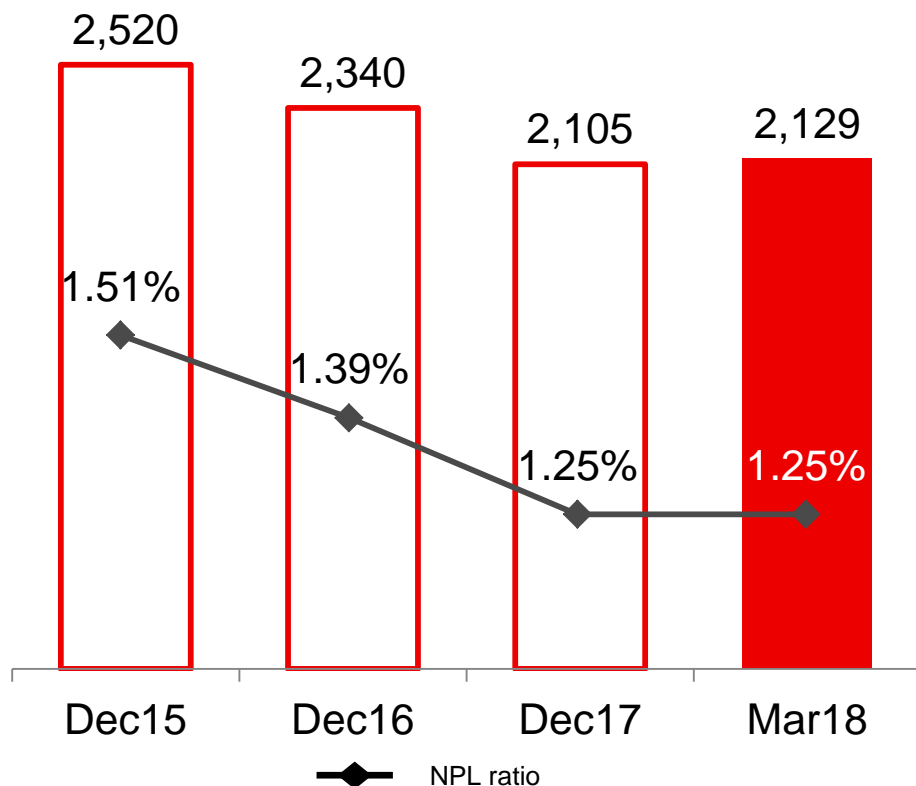
Enhanced performance
Lower IT running costs

Robust Retail Banking credit performance

Retail Banking NPLs (£m)

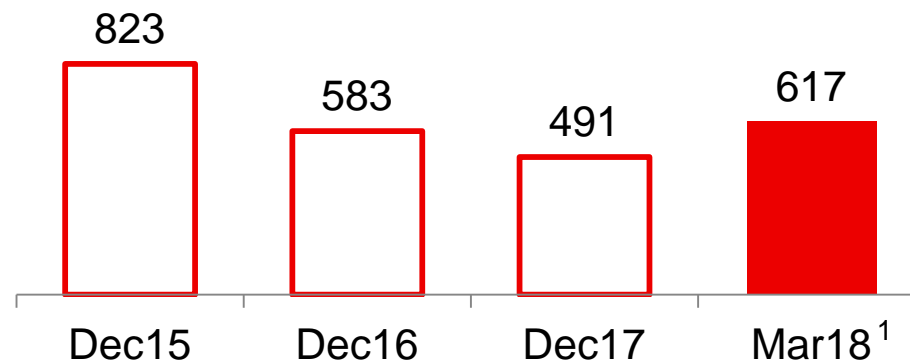
Balance (£bn)

167.0	168.6	169.0	170.6
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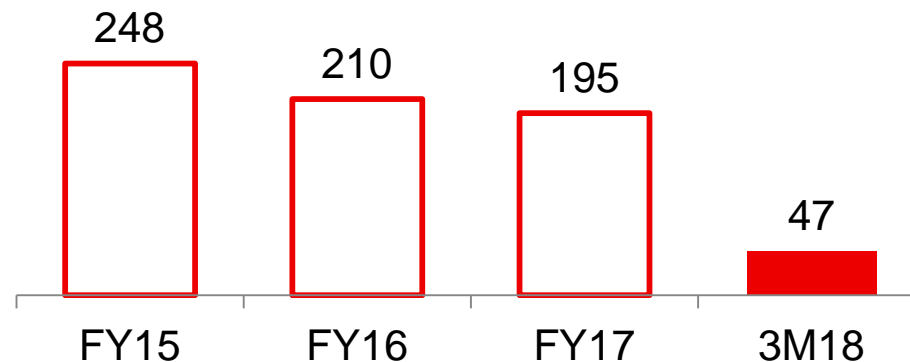


Retail Banking loan loss allowance and write-offs (£m)

Loan loss allowance



Write-offs during the period



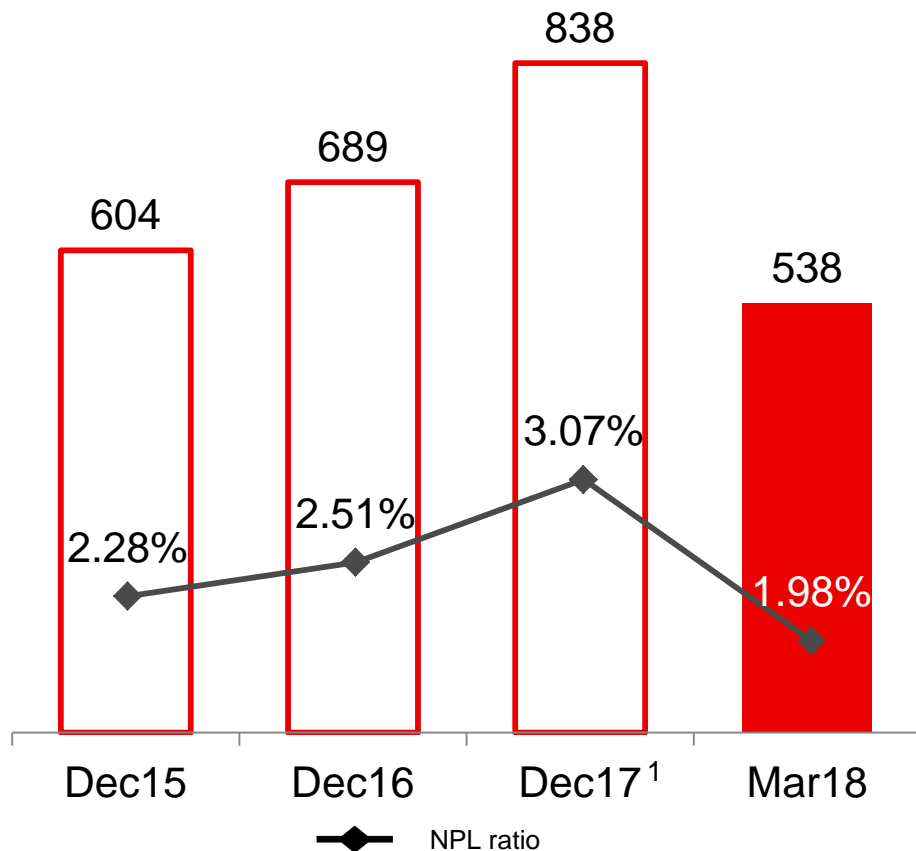
1. On 1 January 2018, Santander UK transitioned to IFRS 9 from the former standard IAS 39. Loan loss allowances have increased from the application of IFRS 9. Prior periods have not been restated

Focused growth in corporate lending

Corporate lending NPLs (£m)

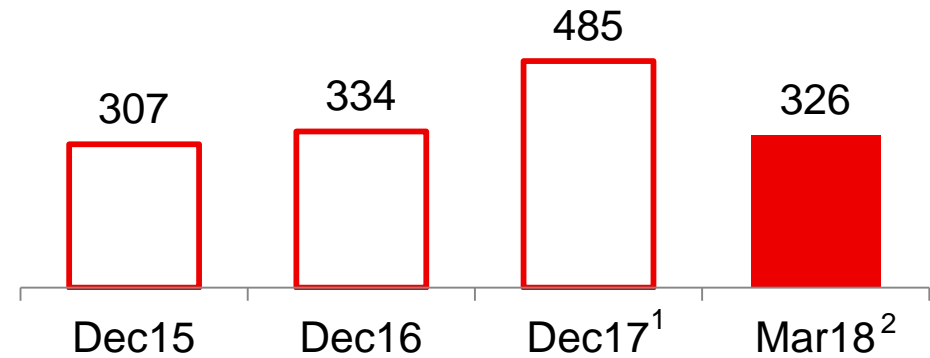
Balance (£bn)

26.5 27.4 27.3 27.2

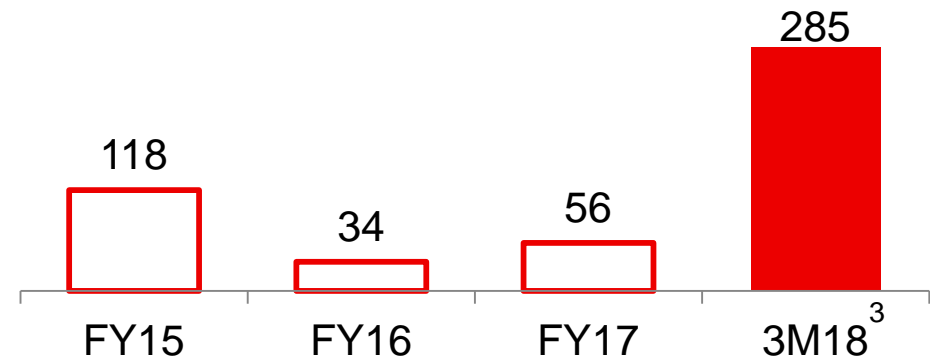


Corporate lending loan loss allowance and write-offs (£m)

Loan loss allowance



Write-offs during the period



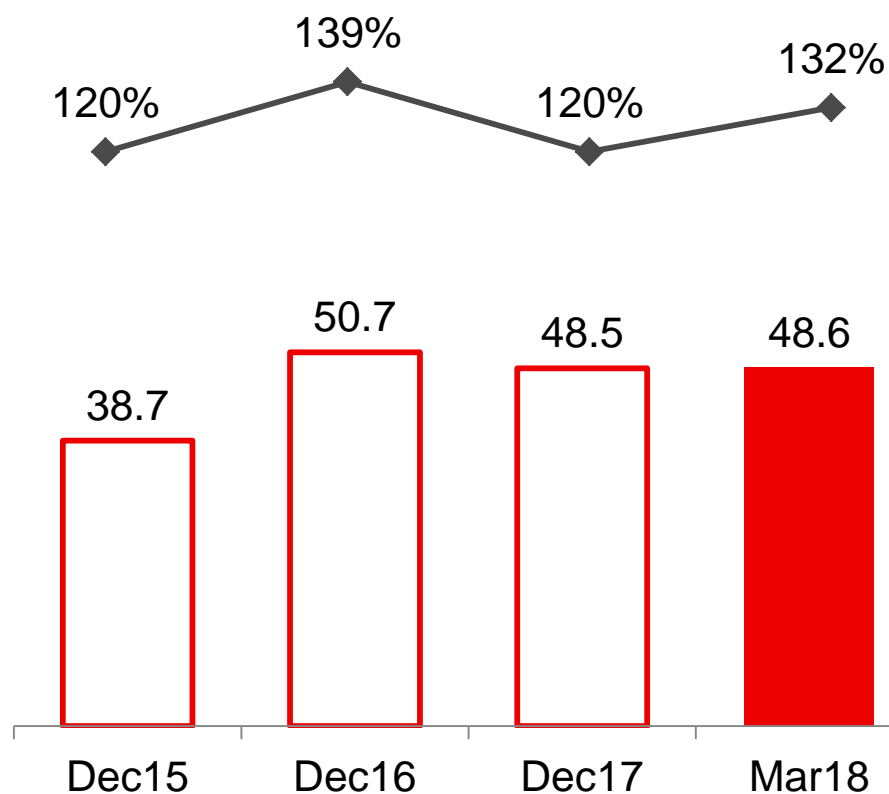
1. Increase in Corporate NPLs and loan loss allowances were predominantly due the Carillion plc exposures that moved to non-performance in 2017 | 2. On 1 January 2018, Santander UK transitioned to IFRS 9 from the former standard IAS 39. Prior periods have not been restated | 3. Carillion plc exposure written off in Q118

Strong capital, liquidity and funding position

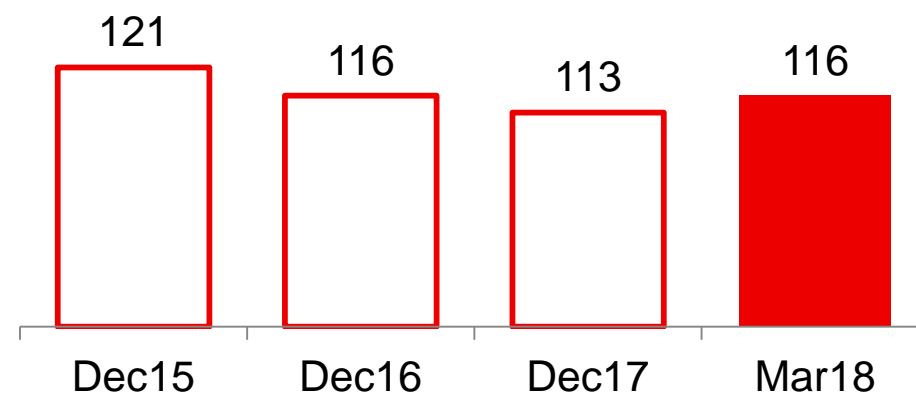
Strong liquidity and funding position

LCR eligible liquidity pool (£bn)

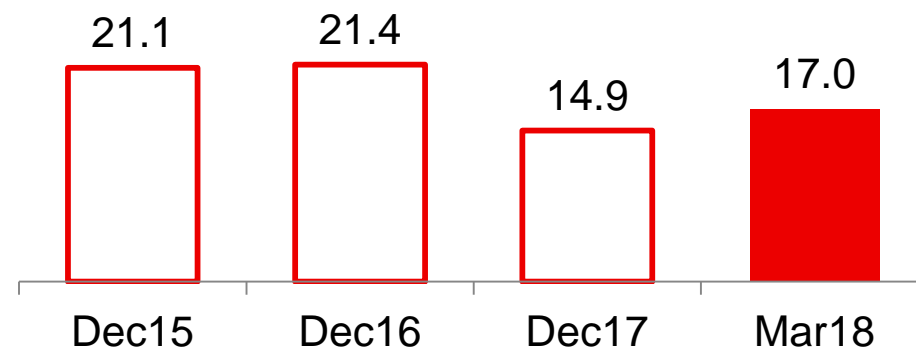
Liquidity coverage ratio (LCR)



Loan-to-deposit ratio (%)

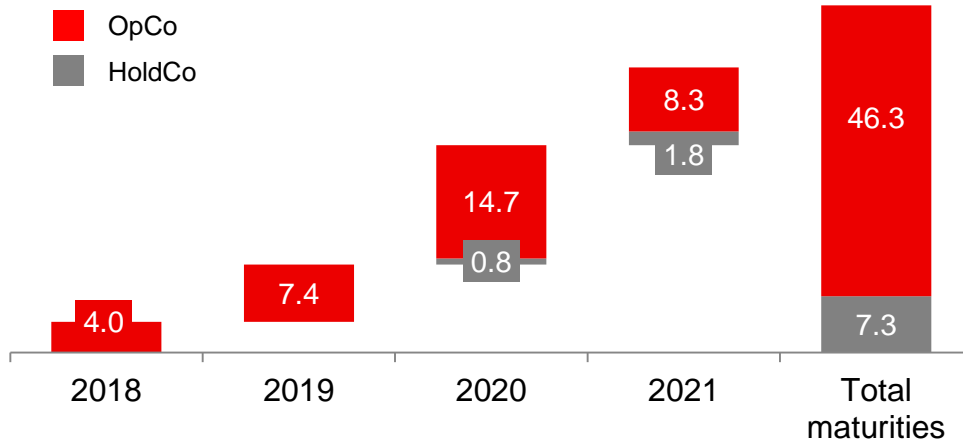


Wholesale funding with a residual maturity of less than 1 year (£bn)



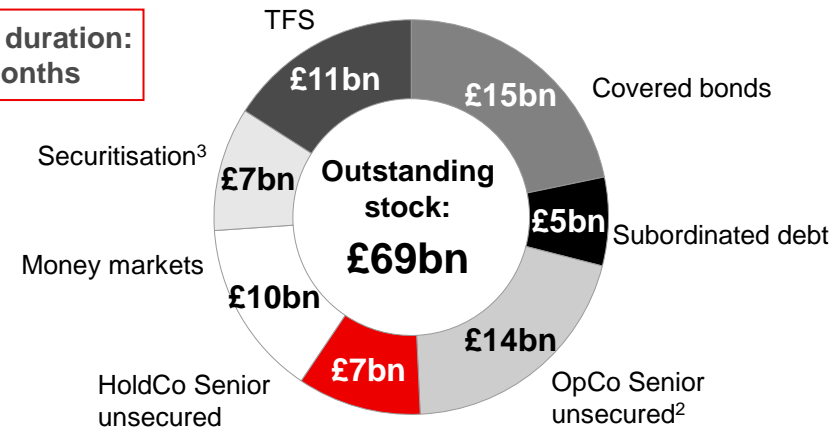
Improved funding position with reduced encumbrance

MTF maturities (£bn, Mar18)¹

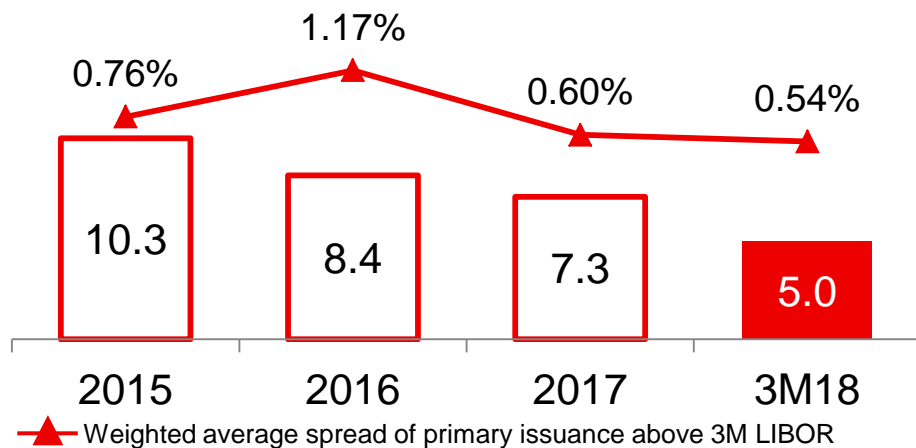


Wholesale funding stock (Mar18)

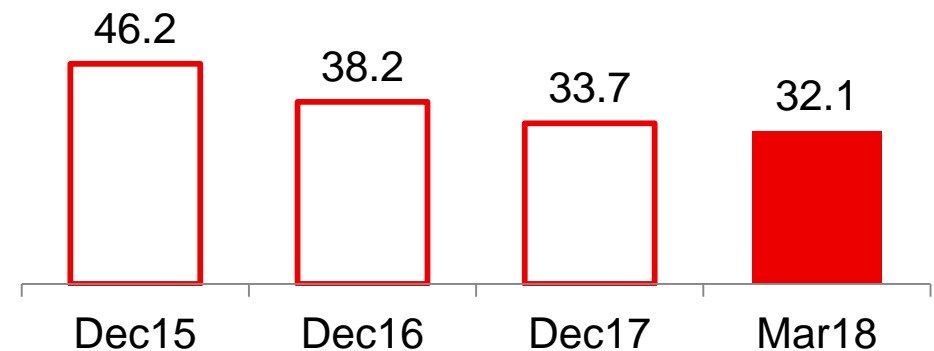
Average duration:
42 months



MTF issuance (£bn) and spread²



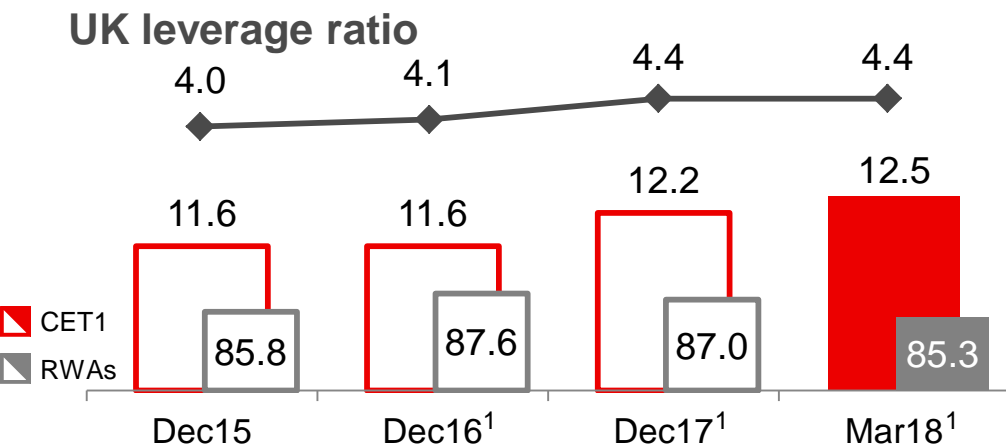
Medium term funding encumbrance³ (£bn)



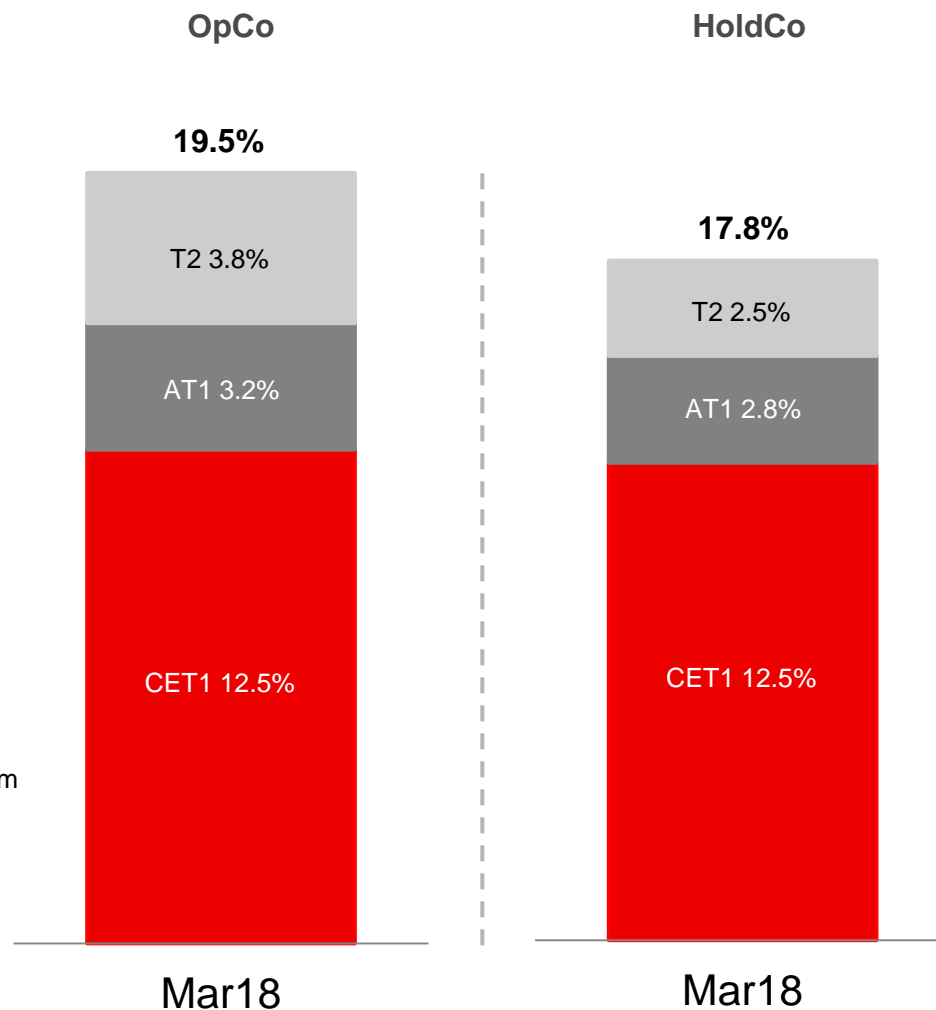
1. Includes issuances from Santander Consumer Finance UK and associated joint ventures and TFS | 2. Weighted average spread at time of issuance above GBP 3M LIBOR excluding structured notes. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 3. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and covered bond programmes

Ongoing capital build-out and resilience

CET1 (%) and Risk-weighted assets (£bn)

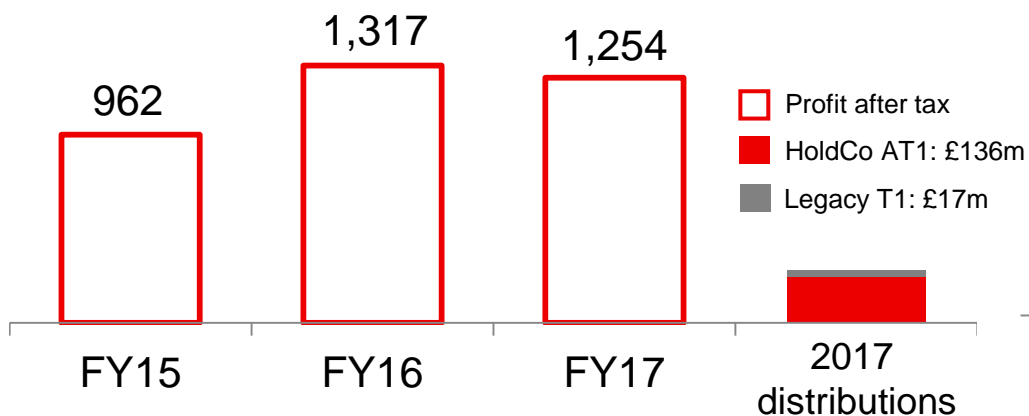


Total Capital Ratio



AT1 distributions relative to profit (£m)

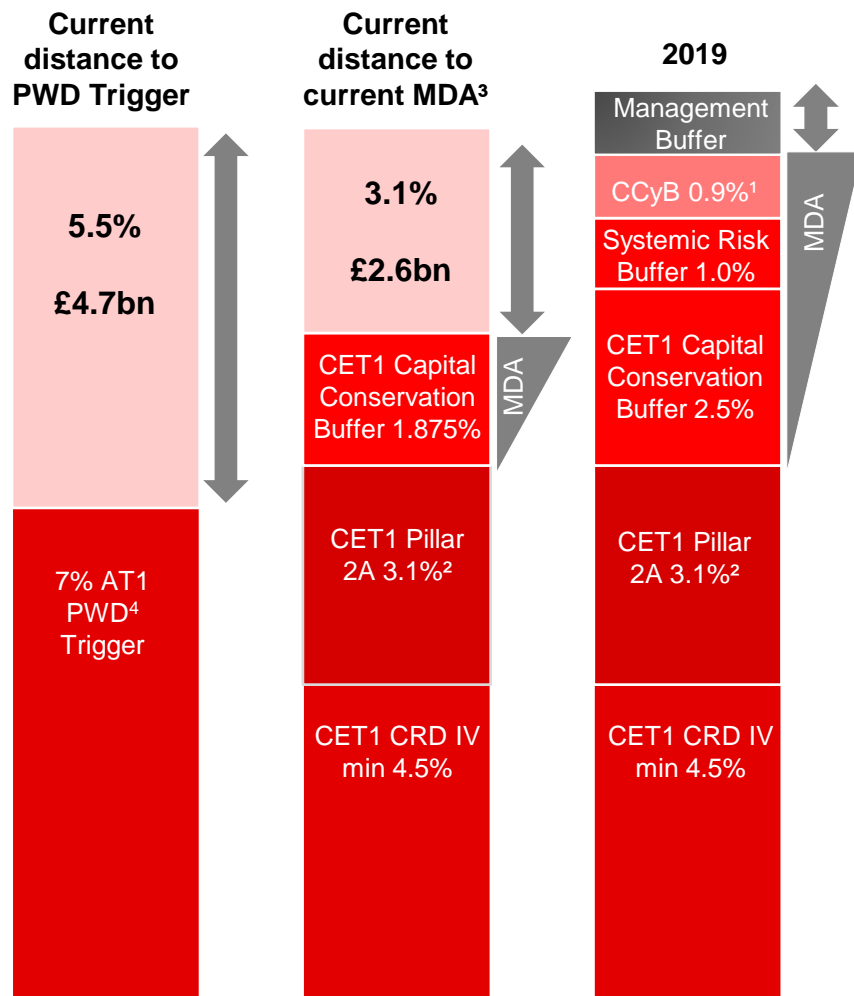
- Significant profits to cover AT1 distributions



1. Dec16, Dec17 and Mar18 leverage ratios were calculated applying the amended definition, as per Jul16 PRA statement

Meeting evolving capital requirements

Significant buffer to thresholds

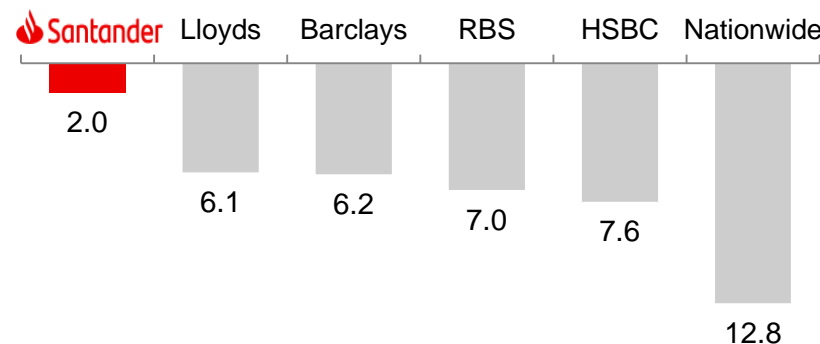


Evolving CET1 requirements

- It is our current intention to target a CET1 management buffer that is of sufficient size to absorb changes in the regulatory minimum requirement (e.g. application of any dynamic CCyB buffer) and market volatility

2017 PRA Stress Test – CET1 drawdown

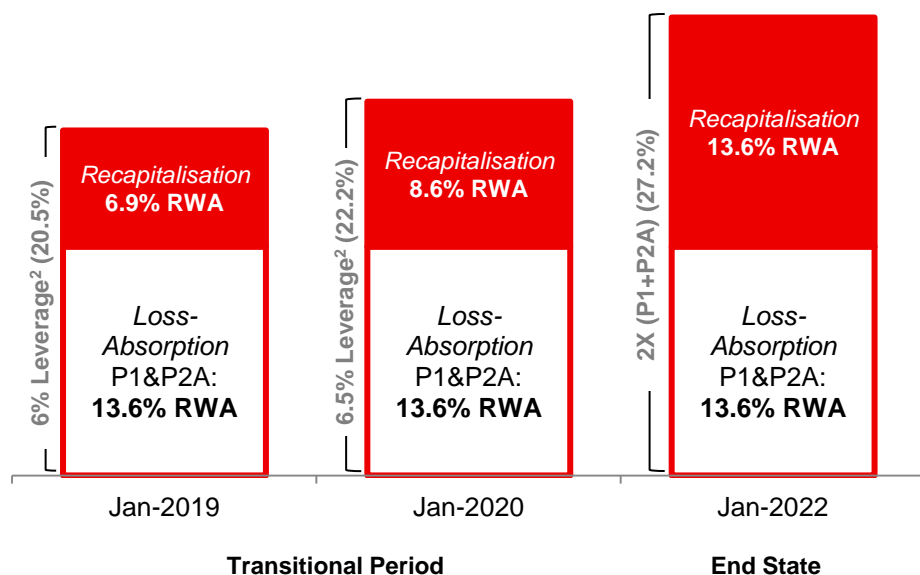
- Most resilient of UK banks, underlines the quality and strength of our UK-based balance sheet as well as our strong risk management practices



1. The current applicable UK CCyB rate is 0%, this is scheduled to increase to 0.5% from June 2018 and 1.0% from November. Santander UK's current geographical allocation of the CCyB is 90%. | 2. Santander UK's Pillar 2 CET1 requirement was 3.1% as at 31 March 2018, Pillar 2A guidance is a point in time assessment | 3. Distribution restrictions would be expected to apply if Santander UK's CET1 ratio would fall between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A 3.1% and the Capital Conservation Buffer of 1.875% | 4. Permanent write down

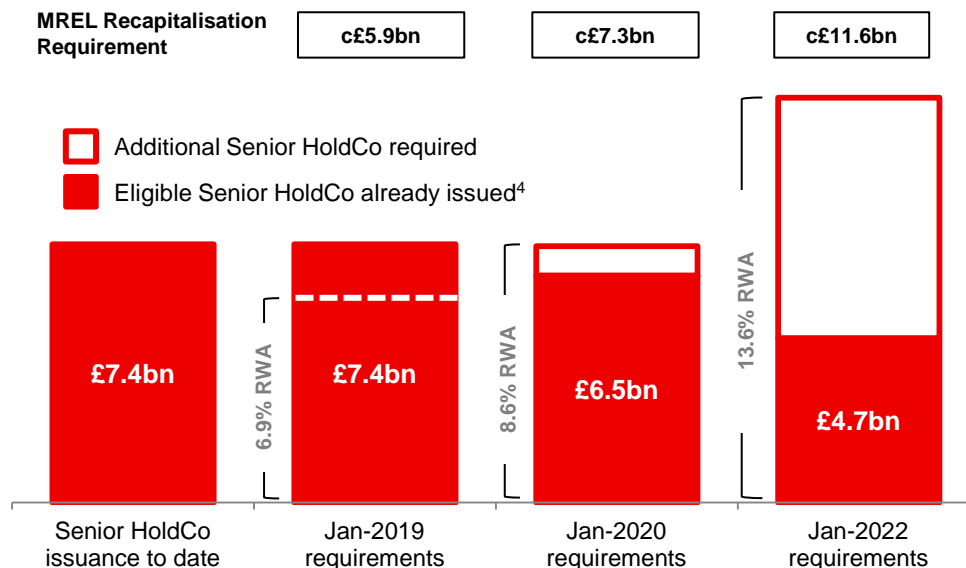
Major progress to meet recapitalisation MREL requirements

HoldCo MREL requirement¹



- Santander UK indicative MREL excluding CRD IV buffer is currently expected to be 27.2% of RWAs from 1 January 2022

MREL recapitalisation^{2,3}



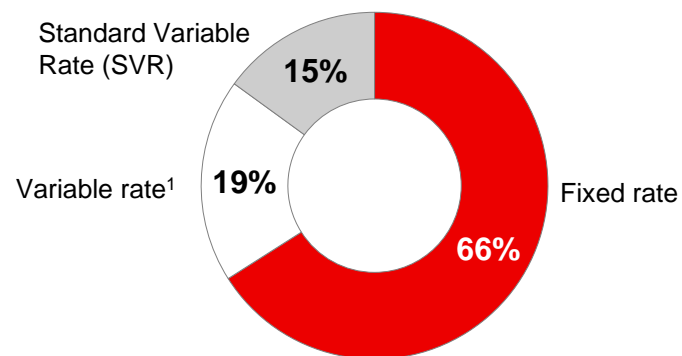
- MREL requirements are driven by leverage in 2019, the driver changes to the RWA measure from 2020
- It is our intention to have an MREL recapitalisation management buffer in excess of the value of HoldCo senior unsecured paper that is due to become MREL ineligible over the following 6 months

1. In March 2017 the Bank of England (BOE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and became fully implemented in 2022 | 2. Assumes Pillar 2A requirement remains at 5.6% | 3. Calculated using RWA and UK leverage exposure as at 31 March 2018 | 4. Meeting MREL eligibility criteria and exchange rates as of 31 March 2018

Appendix

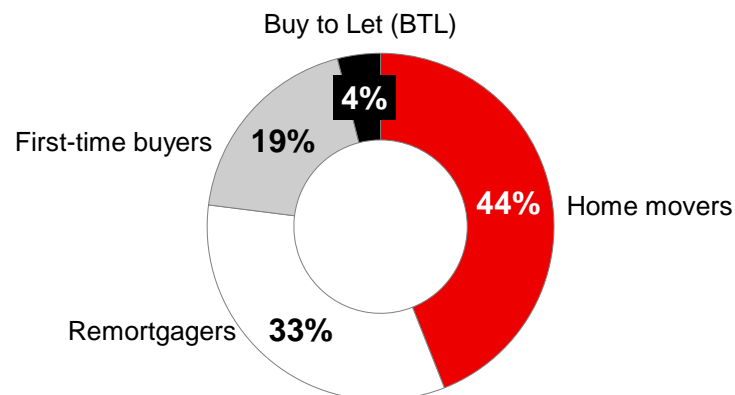
Prime residential mortgage book of £156.8bn

Mortgage product profile (stock, Dec17)

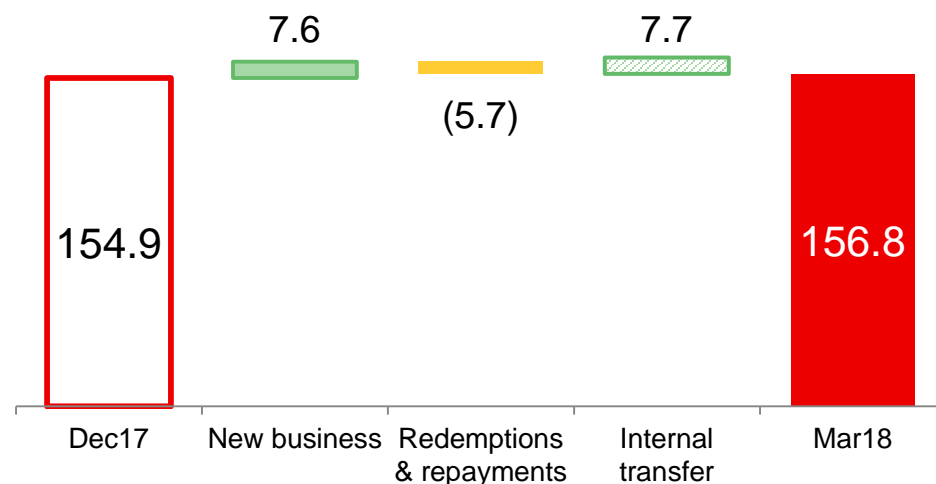


29% owner-occupied interest-only mortgages
(Dec16: 31%)²

Mortgage borrower profile (stock, Dec17)



Mortgage lending (£bn, Mar18)



- Exceptionally strong net mortgage growth of £1.9bn in Q118, with a focus on customer service and retention
- £1.7bn Q118 SVR attrition vs £1.6bn in Q117
- c78% of maturing mortgages retained³
- 54% (+10pp YoY) of our mortgages were retained online

Consistently prudent mortgage lending criteria

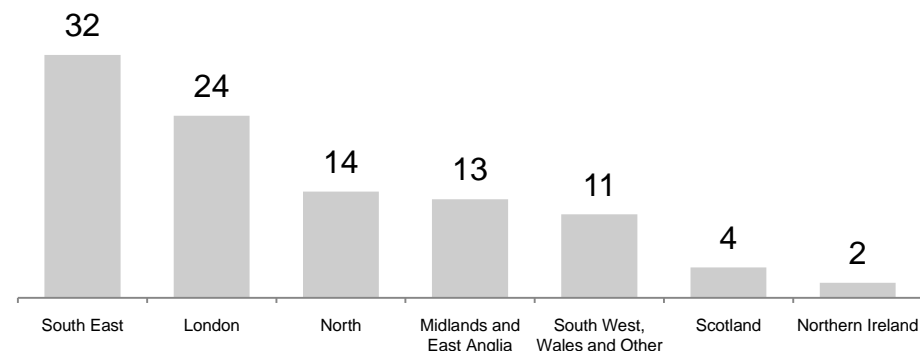
Average loan size (new business)

Dec16

Dec17

London and South East	£264k	£260k
Rest of UK	£144k	£146k
All UK	£198k	£196k

Geographical distribution (stock %, Dec17)



Simple average Loan to Value (LTV)¹

Dec16

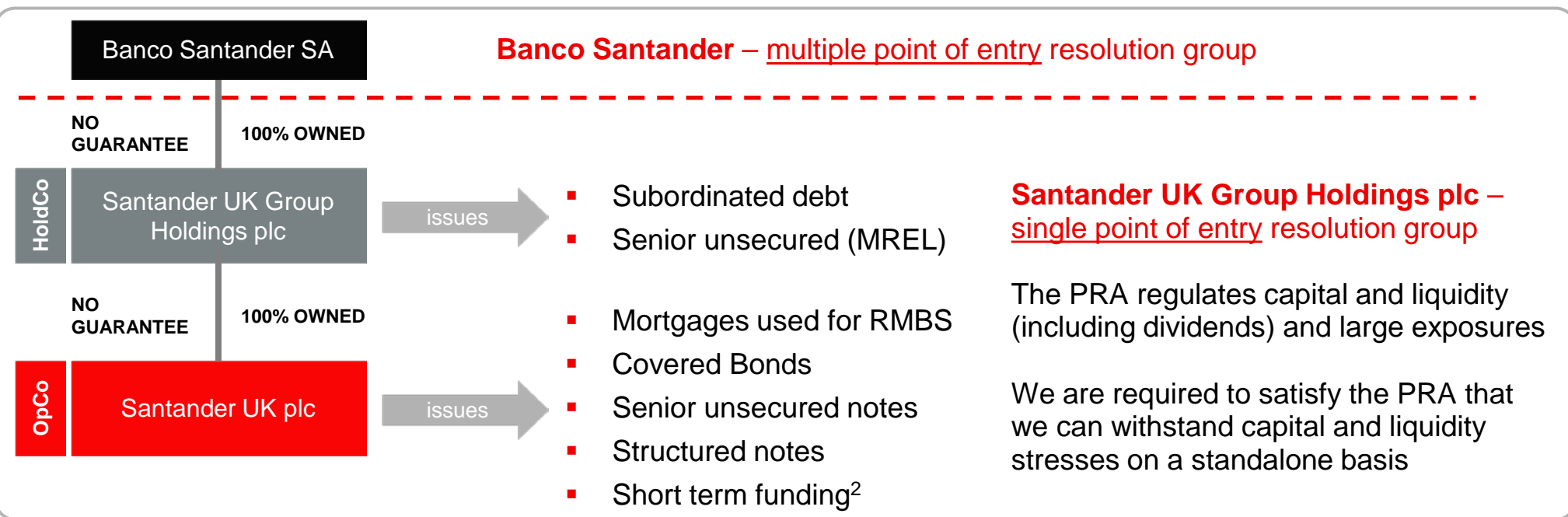
Dec17

New lending	65%	62%
- London	59%	56%
- LTV >85%	17%	19%
Stock	43%	42%

Mortgage loan distribution (Dec17)

- c92% of mortgage loans <£500k
- 3.16 average loan-to-income multiple²
- 61% average BTL LTV

Existing wholesale funding issuance model



Transparent HoldCo downstream model

- Under the end-state MREL regime HoldCo senior unsecured debt will be down-streamed in a form that is subordinated to OpCo senior unsecured debt but senior to subordinated capital instruments

Santander UK Group Holdings plc
Senior - £7.4bn ¹
T2 - £1.1bn ¹
AT1 - £2.05bn

Current down-streaming

 End-state down-streaming

Santander UK plc	
Senior - £7.4bn ¹	OpCo Senior
Internal MREL	
T2 - £1.1bn ¹	Legacy T2
AT1 - £2.05bn	Legacy T1

1. GBP equivalent at 31 March 2018 | 2. Short term funding is in the process of being transferred from ANTS to Santander UK plc

Credit ratings – April 2018

		S&P	Moody's	Fitch
Santander UK Group Holdings plc	Senior unsecured <i>outlook</i>	BBB <i>stable</i>	Baa1 <i>stable</i>	A <i>stable</i>
	Tier 2	BB+	Baa1	A-
	AT1	B+	Ba2	BB+
Santander UK plc	Senior unsecured <i>outlook</i>	A <i>stable</i>	Aa3 <i>stable</i>	A <i>RWP</i>
	Short-term	A-1	P-1	F-1
	Standalone rating	bbb+	a3	a

- In Q118, Moody's and Fitch both affirmed Santander UK Group Holdings plc and Santander UK plc's ratings and outlooks

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▪ **Results and Presentations**

Quarterly, half yearly and annual financial results and presentations

▪ **Debt Investors**

Funding information and details of the covered bond, securitisation and other debt issuance programmes

▪ **Glossary**

A glossary of the main terms is available at:
www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary

▪ **Key dates¹**

Q218 results: 25 July 2018

Q318 results: 31 October 2018

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1. Indicative, dates subject to change

