

# Santander UK Group Holdings plc

Investor Update  
for the year ended  
31 December 2017

January 2018

Simple  
Personal  
Fair

What a bank should be



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Source: Santander UK Q4 2017 results "Quarterly Management Statement for the year ended 31 December 2017" 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](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.

# Solid 2017 business performance and resilience

<b>Profit before tax</b>	£1,814m	-5% vs FY16
<b>Digital customers</b>	5.0m	+10% from Dec16
<b>Net lending</b>	£0.6bn mortgages	£(0.1)bn corporates
<b>Banking NIM</b>	1.90%	+11bps
<b>CET1 ratio / Leverage ratio</b>	12.2% 4.4%	+60bps +30bps

- Financial results were impacted by a Carillion plc impairment charge, which offset otherwise good profitability growth
- 39% of total openings made digitally (+12pp YoY)  
47% of mortgages retained online (+6pp YoY)
- Focussing on customer service and retention and management pricing actions in a competitive environment
- Strong lending growth to other corporate businesses, up 4%, was reversed by the reduction in CRE
- Banking NIM driven by liability margin improvement, partially offset by new lending margin pressure
- Strong CET1 and leverage ratio, with the implementation of IFRS 9 expected to have no material impact on the capital position

# 2018 outlook

- **We expect the UK economy to continue to grow in 2018** although at a slightly subdued pace. We expect stronger global growth, coming in particular from emerging markets. Nonetheless, for the UK economy, some downside risks could materialise, as a result of higher inflation and low wage growth reducing households' real earnings. This may restrict consumer spending which, when combined with a potentially more challenging macro environment, adds a degree of caution to our outlook. However, with the UK labour market remaining strong and low unemployment, a predicted fall in 2018 inflation and nominal wage growth, could result in improved real earnings.
- **Banking NIM is expected to be lower than in 2017**, as a result of ongoing competition in new mortgage pricing and SVR attrition. The decline in the SVR balance is expected to be slightly lower than the net £5.5bn reduction in 2017.
- **Our gross mortgage lending is expected to be in line with the market**, with continued focus on customer service and retention while delivering operational and digital excellence.
- **We expect our lending to UK companies to be broadly consistent with overall corporate borrowing growth.** Our lending growth to trading business customers will remain strong, partially offset by modest growth in CRE exposures. This will result in slower overall growth than in recent years.
- **Cost management will remain a key focus**, while we look to comply with the demanding regulatory agenda and inflationary pressures. We will continue to invest in strategic projects, including global group initiatives, which over time will further improve our customer experience and operational efficiency.
- **We will continue to purposefully control growth** in line with our proactive risk management policies and low risk appetite. These actions will help deliver sustainable results while supporting our customers in an uncertain environment.

# Delivering on our 2016-18 commitments

		FY16	FY17	2018 target
<b>Customers</b>	Loyal retail customers	3.7 million	3.9 million	4.7 million
	Loyal SME and Corporate customers	290,000	305,000	308,000
	Retail customer satisfaction (FRS) <i>average of 3 highest performing peers</i>	62.9% 62.5%	63.0% 63.1%	Top 3
	Digital customers	4.6 million	5.0 million	6.5 million
	Net fee and commission income CAGR	8%	6%	5-10% <sup>1</sup>
<b>Shareholders</b>	Adjusted Return on Tangible Equity / RoTE	10.9%	10.2%	9-10%
	Cost-to-income ratio (CIR)	50%	51%	50-52%
	Non performing loan (NPL) ratio	1.50%	1.42%	<2.0%
	CET1 capital ratio	11.6%	12.2%	c12%
	Dividend payout ratio	51%	50%	50%
<b>People</b>	Colleague engagement	72%	71%	Top 3 UK bank
<b>Communities</b>	People supported	196,300	478,000	600,000 <sup>2</sup>

For notes see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the year ended 31 December 2017 and for the reconciliation to the nearest IFRS measures. A glossary of the main terms used in the Quarterly Management Statement is available on our website at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary)

1. Measured between FY15 and FY18. Compound annual growth rate (CAGR) | 2. Cumulative from 2016 to 2018

# Well positioned as the only UK scale challenger

## Meaningful scale and opportunity...

### Retail

806 branches

c80% financial centre coverage

3<sup>rd</sup> UK Mortgage lender<sup>2</sup>

### Corporate

64 Corporate Business Centres

545 Relationship Managers<sup>1</sup>

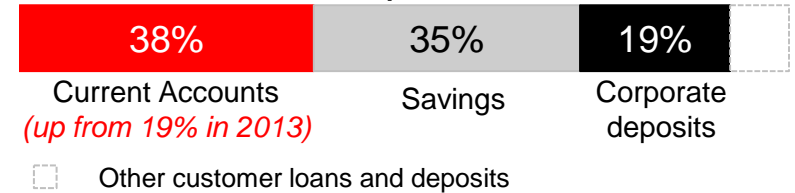
5<sup>th</sup> UK Commercial lender<sup>2</sup>

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

### £200bn customer loans

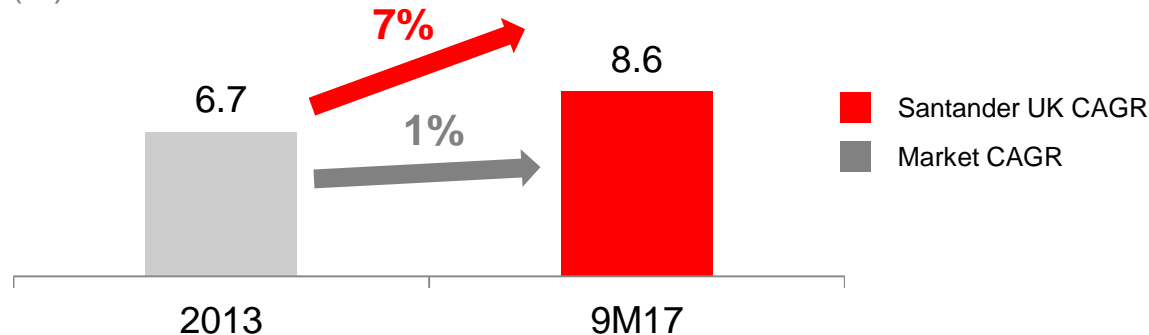


### £176bn customer deposits



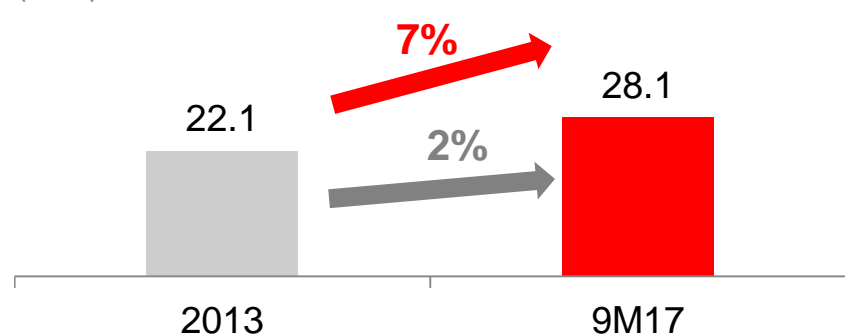
## ...a growing retail current account provider...

### Retail Current Account volumes<sup>3</sup> (m)



## ...an aspiring corporate market challenger

### Lending to UK companies<sup>4</sup> (£bn)

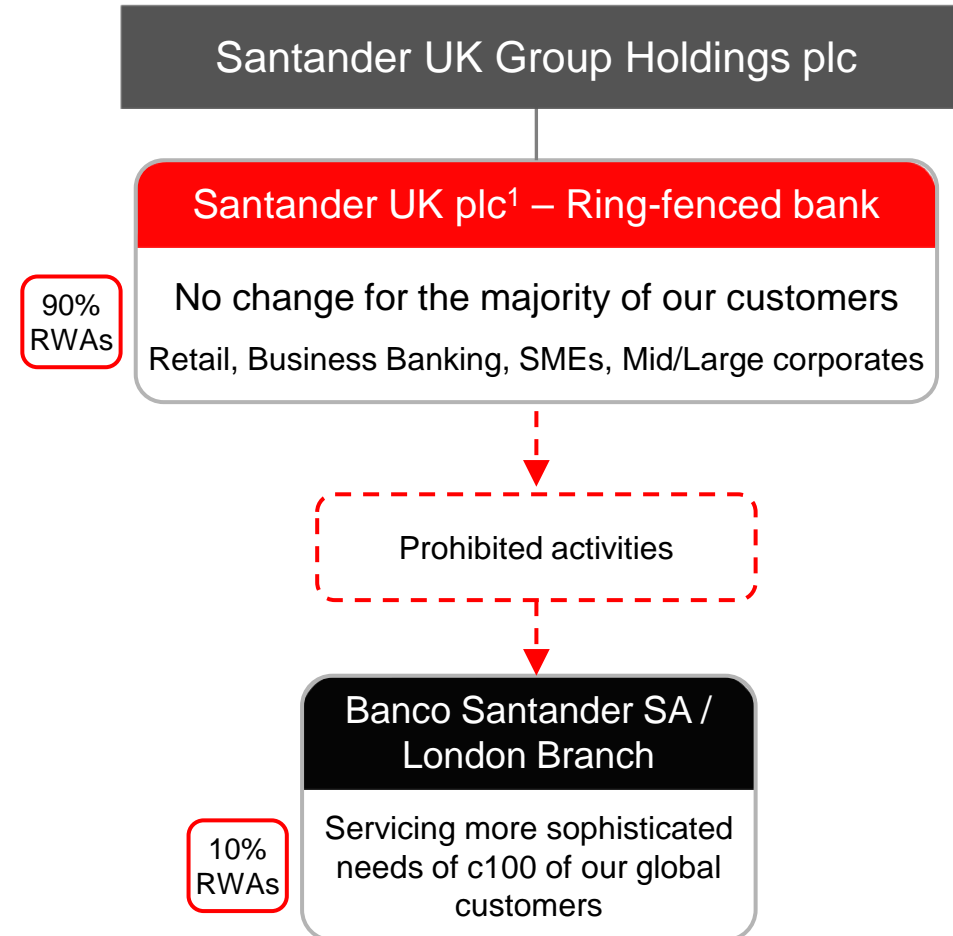


1. Excludes structured finance, product and international relationship managers | 2. Santander UK analysis, as at Q417. Commercial lending refers to loans to small and mid sized corporate clients by UK retail and commercial banks and building societies | 3. Market source: CACI's CSDB, Stock, Volume data as at December 2013 and September 2017 | 4. Market source: Bank of England Bankstats (September 2017), Private Non-Financial Companies (PNFCs). Data as at December 2013 and September 2017

# Good progress in implementing 'wide' ring-fence structure

We are on track to complete the implementation of our ring-fence plans ahead of the 1<sup>st</sup> January 2019 legislative deadline

- **Majority of customer assets and liabilities** will remain within the ring-fenced bank, providing longer term flexibility with minimal disruption
- **Minimal impact on customer sort codes** – changes will only affect certain crown dependency customers
- Santander UK plc and Abbey National Treasury Services plc (ANTS) have entered into an agreement with Banco Santander **for the transfer of the prohibited corporate and wholesale markets businesses**. ANTS will be run off and its US branch closed
- **Jersey and Isle of Man branches** are expected to remain in the UK Group but outside from the ring-fenced bank
- **Expect credit ratings to remain unchanged** from ring-fencing implementation

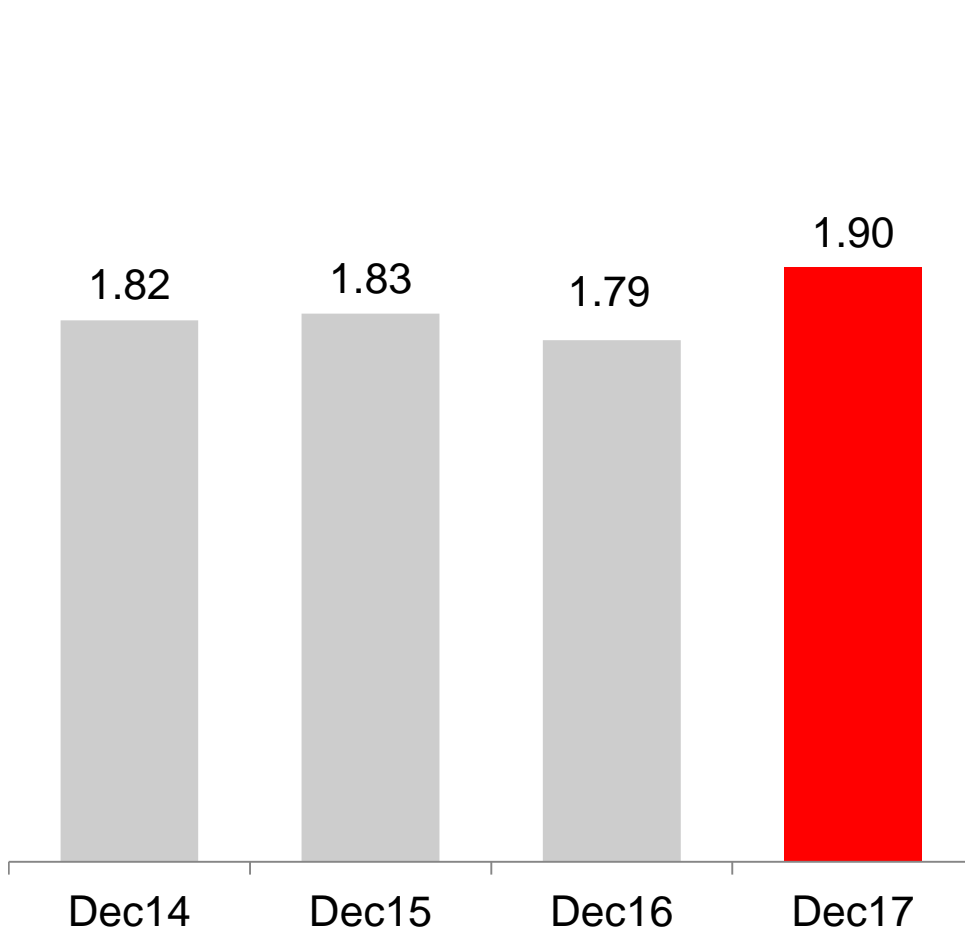


**Consistently profitable, sustainable business**

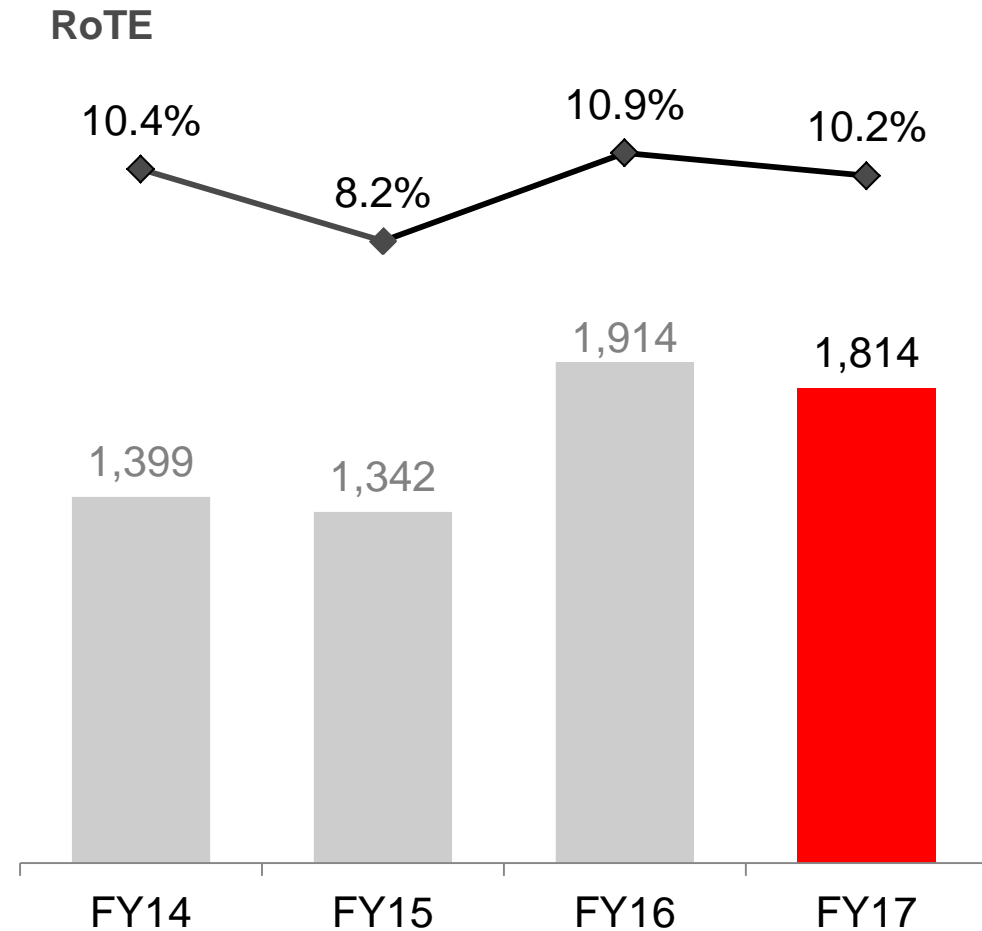


# Steady progress towards our strategic and operational goals

Banking NIM (%)<sup>1</sup>



Profit before tax (£m)

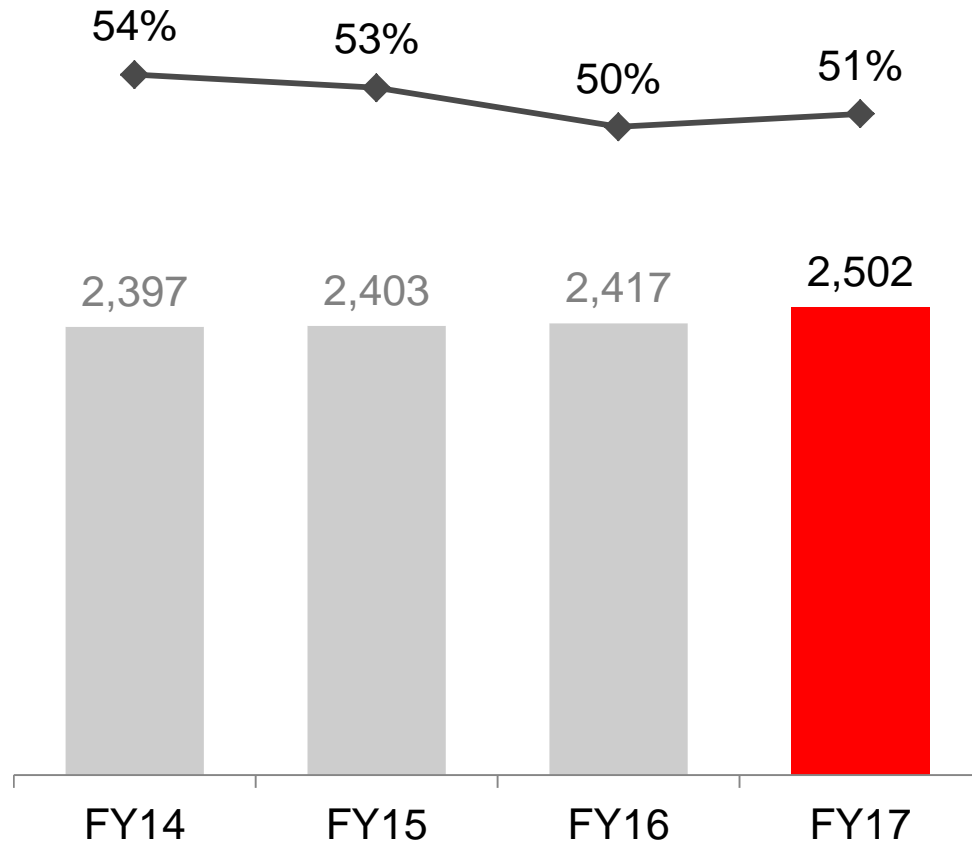


1. Banking NIM is calculated as annualised net interest income divided by average customer loans.

# Managing costs with investments and operational efficiencies

## Operating expenses (£m)

### Cost-to-income ratio



**Simplifying and digitalising** our organisation and processes



**Optimising our distribution** with leading digital tools

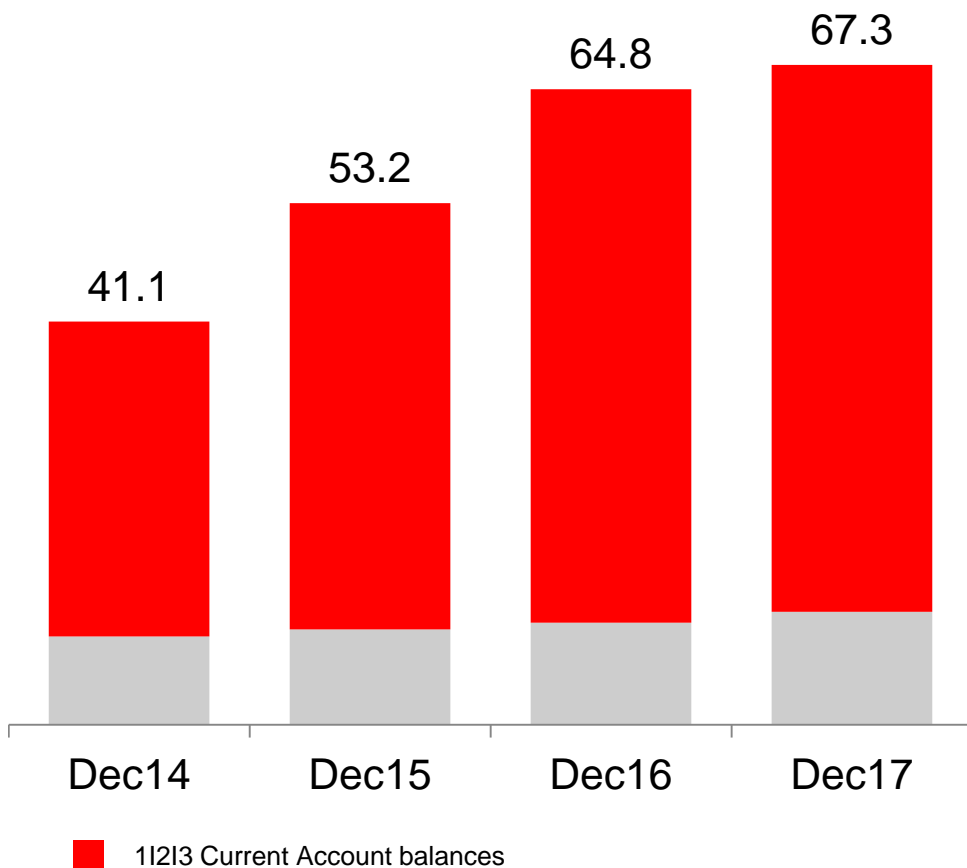


**Leveraging Group scale** through shared capabilities

2018 target: £100m reduction in BAU operating costs from operational and digital efficiencies

# Improved depth of customer relationships

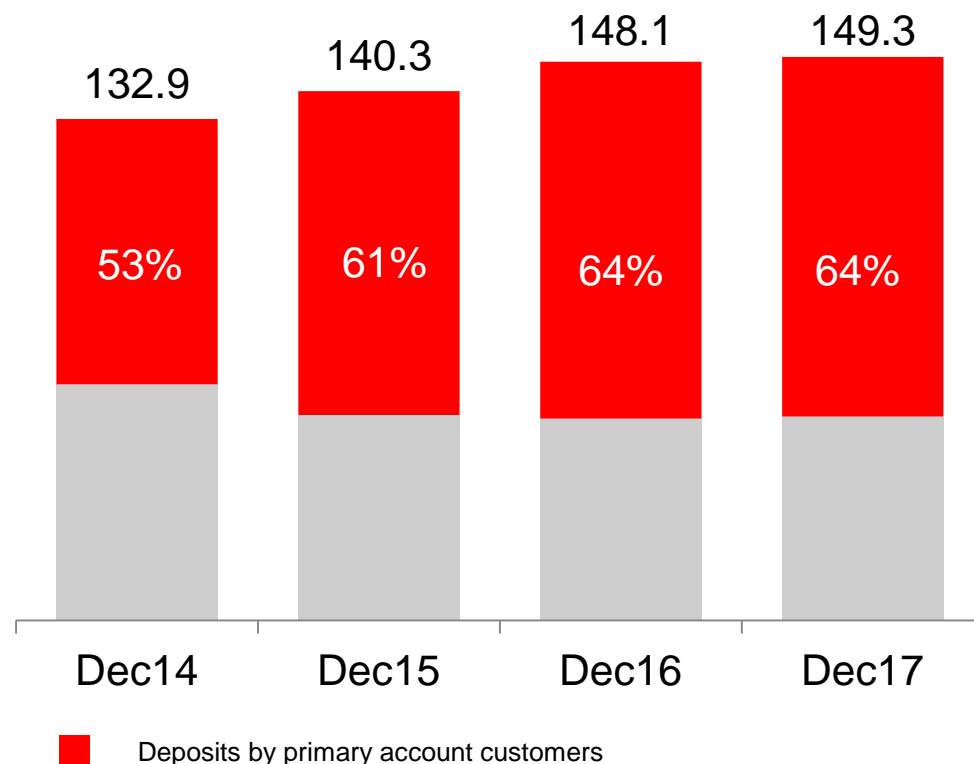
Retail Banking current account balances (£bn)



Retail Banking deposits (£bn)<sup>1</sup>

Deposits spread<sup>2</sup>

(0.76)%      (0.63)%      (0.57)%      (0.23)%



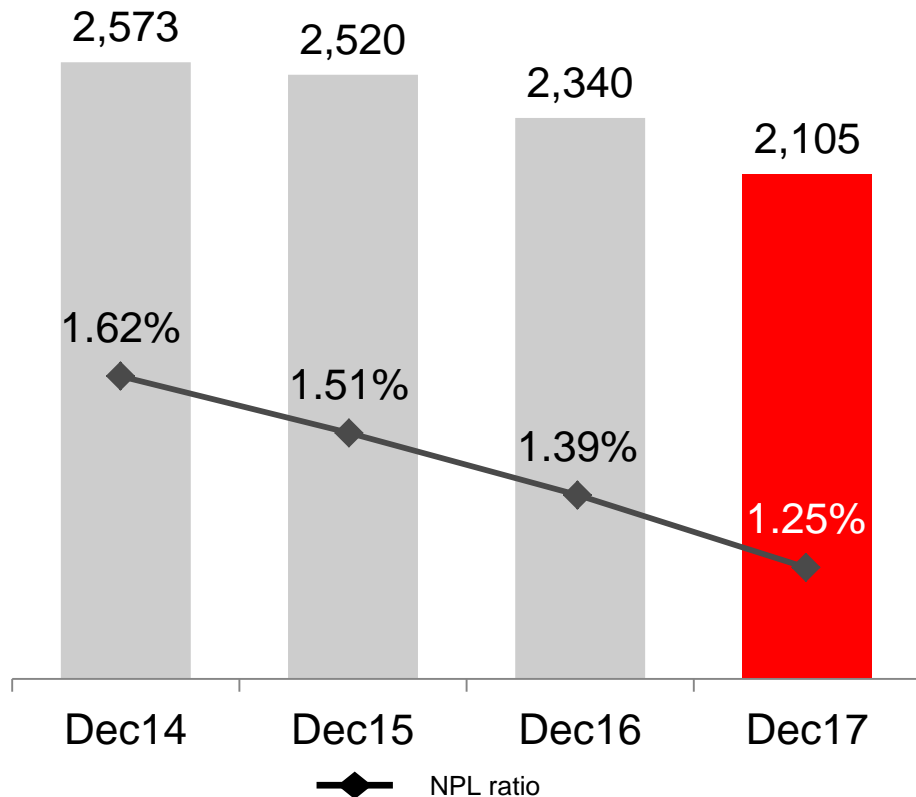
1. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers, includes Jersey and Cater Allen | 2. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR.

# Robust Retail Banking credit performance

## Retail Banking NPLs (£m)

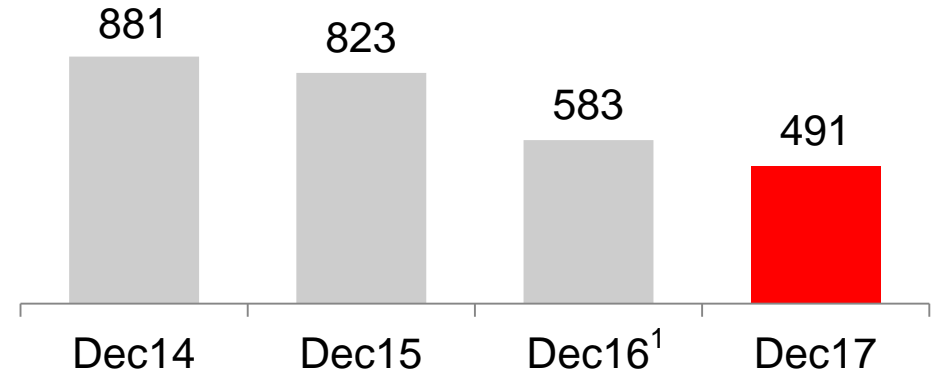
### Balance (£bn)

158.5	167.0	168.6	169.0
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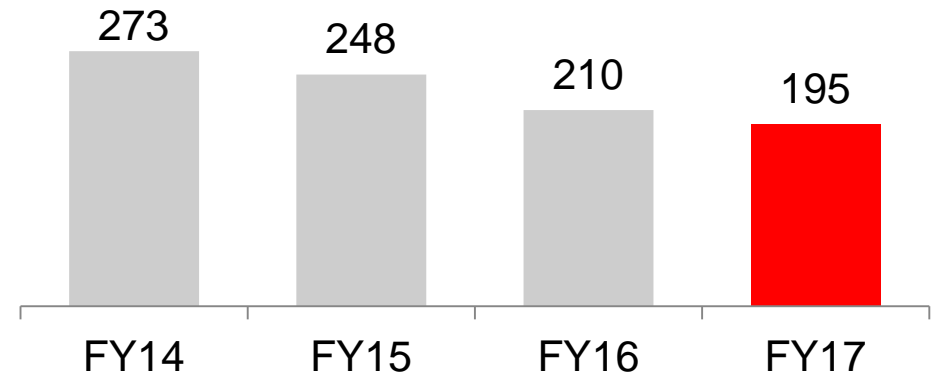


## Retail Banking loan loss allowances and write-offs (£m)

### Loan loss allowance



### Write-offs during the period



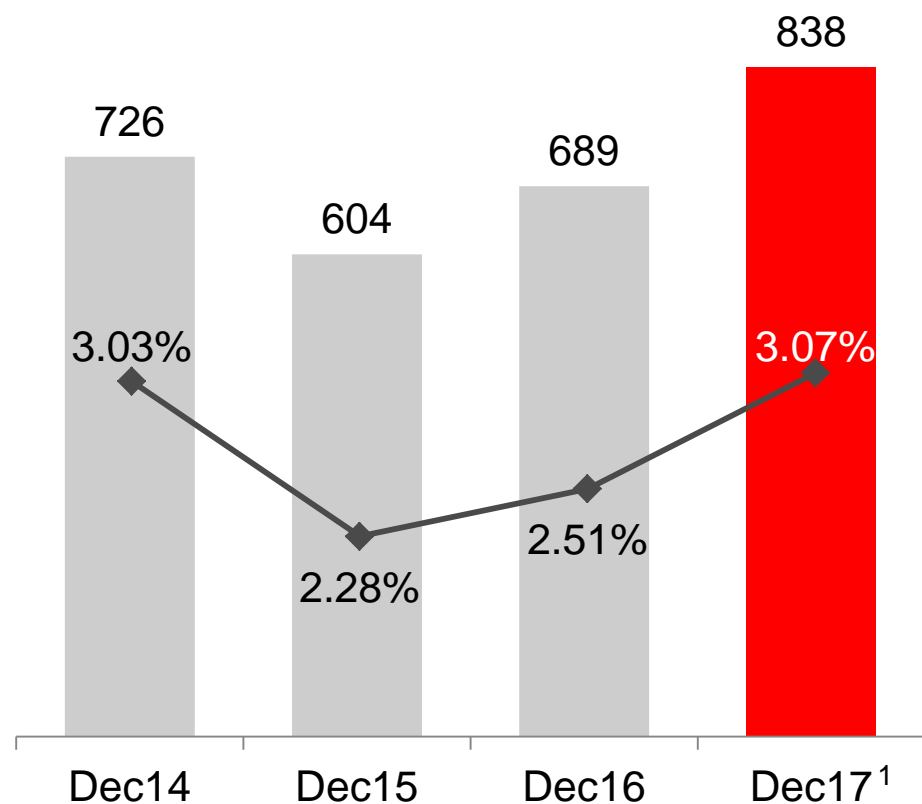
1. In H117, we reclassified our provisions for residual value and voluntary termination from the consumer finance loan loss allowance. In order to facilitate comparison with the current period, Dec16 consumer finance loan loss allowance and NPL coverage ratio were amended. This reclassification is reflected in the Retail Banking loan loss allowance and NPL coverage ratio. See Appendix 2 of the Santander UK Holdings plc QMS of the six months ended 30 June 2017 for a reconciliation.

# Focused growth in lending to UK companies

## Corporate NPLs (£m)

Balance (£bn)

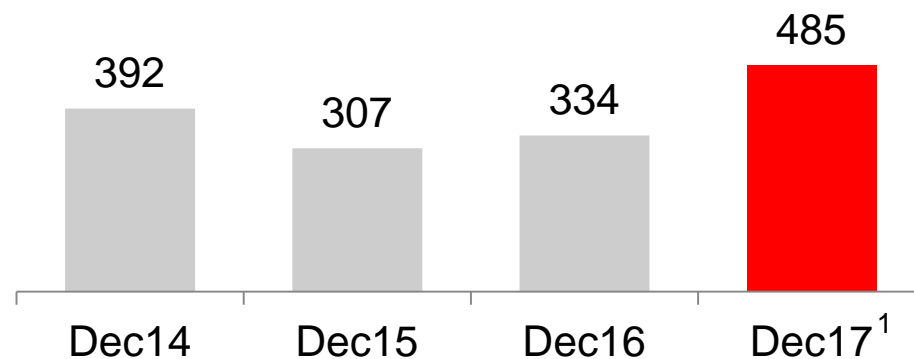
24.0      26.5      27.4      27.3



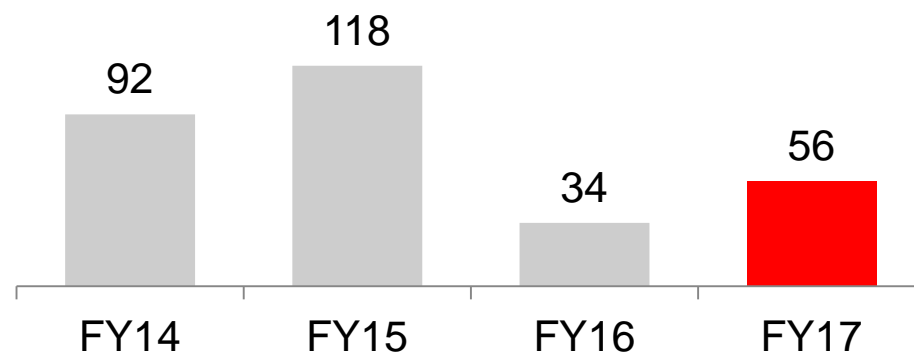
◆ NPL ratio

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

Loan loss allowance



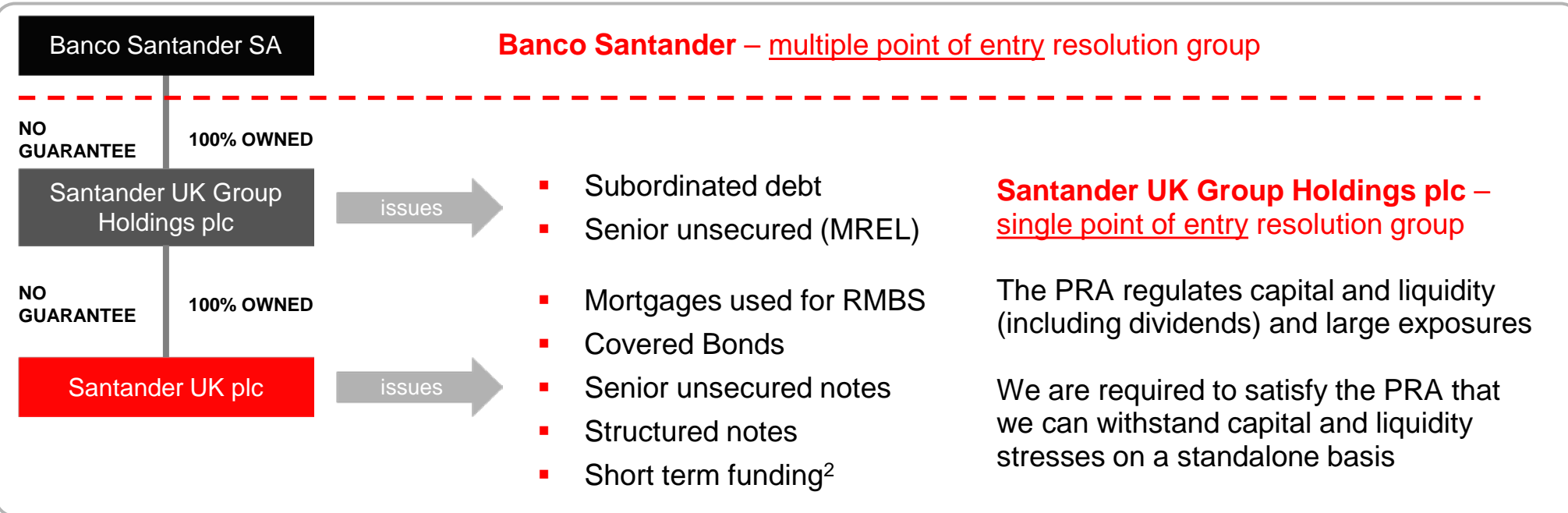
Write-offs during the period



1. Increase in Corporate NPLs and loan loss allowances were predominantly due the Carillion plc exposures that moved to non-performance in 2017

**Strong capital, liquidity and funding position**

# 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 - £6.2bn <sup>1</sup>	
T2 - £1.1bn <sup>1</sup>	
AT1 - £2.05bn	

Current down-streaming

⇒

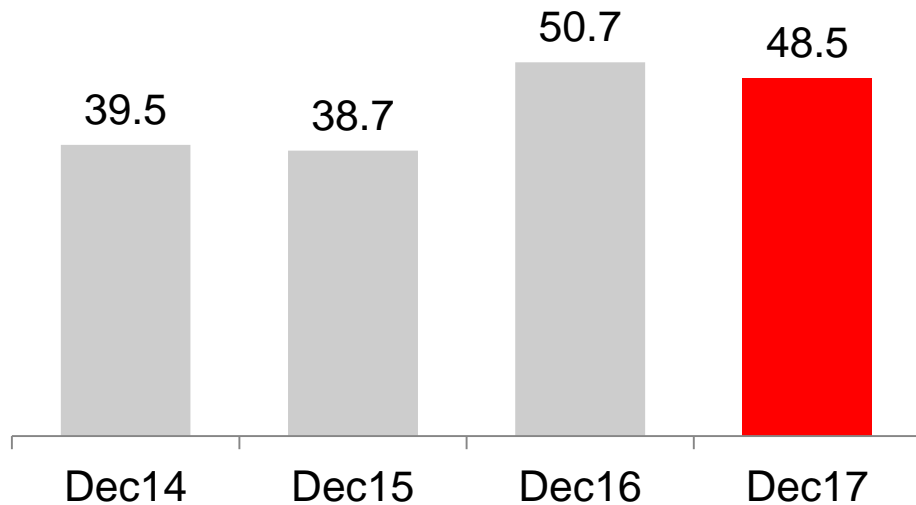
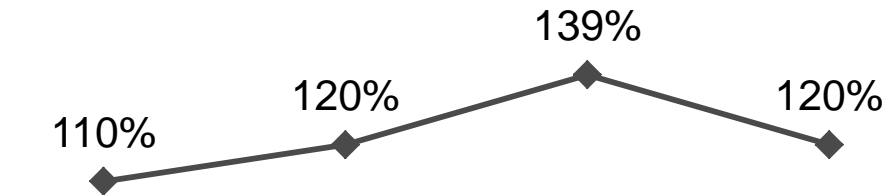
End-state down-streaming

Santander UK plc	
Senior - £6.2bn <sup>1</sup>	OpCo Senior
Internal MREL	
T2 - £1.1bn <sup>1</sup>	Legacy T2
AT1 - £2.05bn	Legacy T1

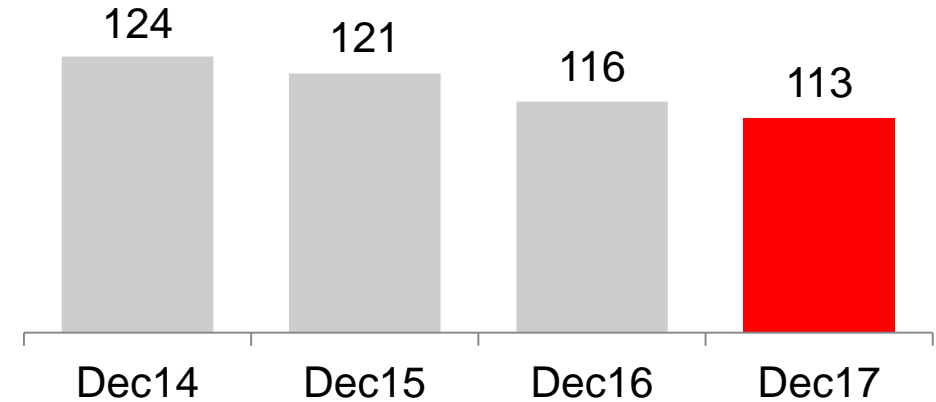
# Strong liquidity and funding position

## LCR eligible liquidity pool (£bn)

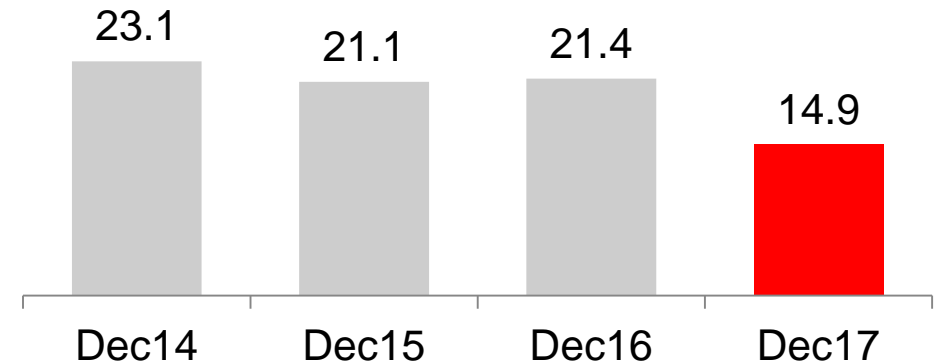
### Liquidity coverage ratio (LCR)



## Loan-to-deposit ratio (%)



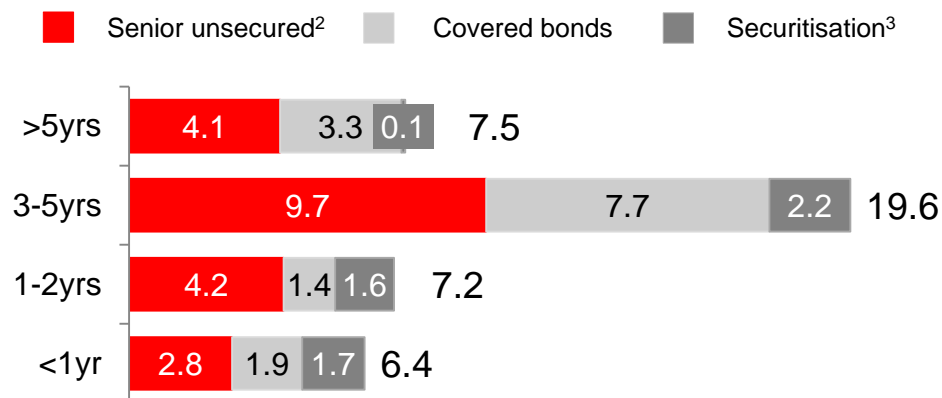
## Wholesale funding with a residual maturity of less than 1 year (£bn)



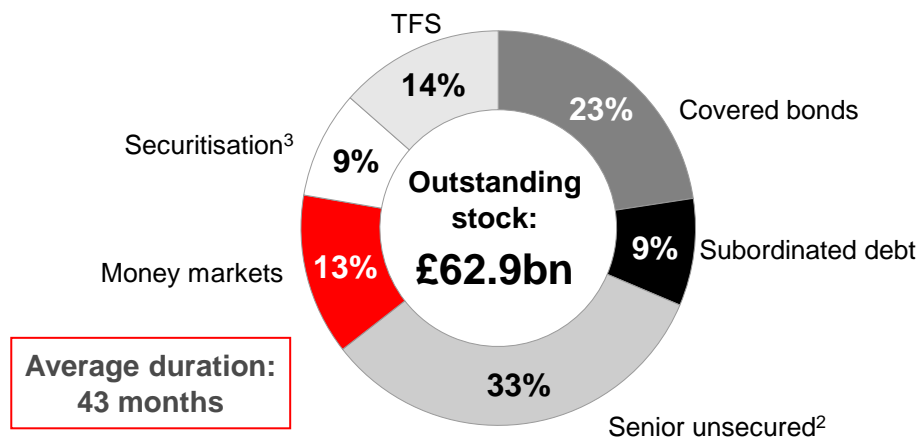


# Improved funding position with reduced encumbrance

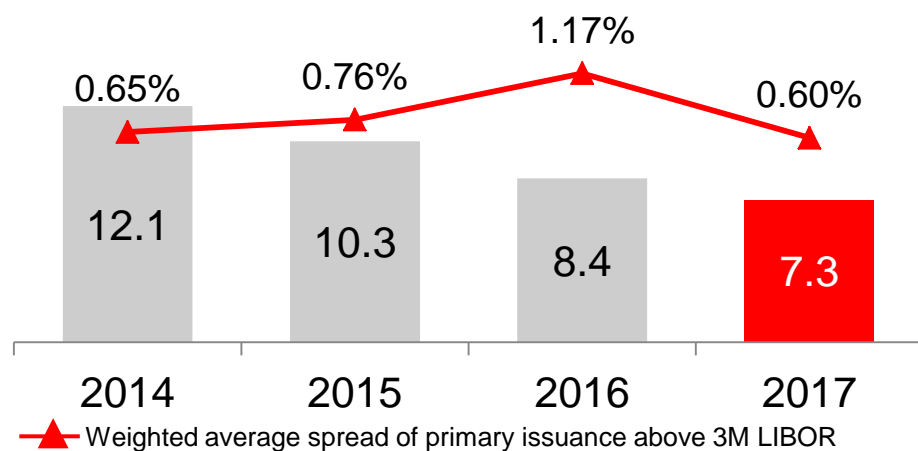
## MTF maturities (£bn, Dec17)<sup>1</sup>



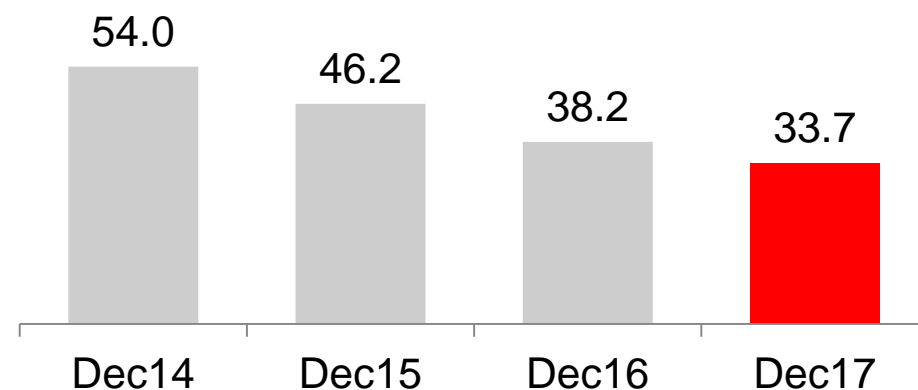
## Wholesale funding stock (Dec17)



## MTF issuance (£bn) and spread<sup>4</sup>



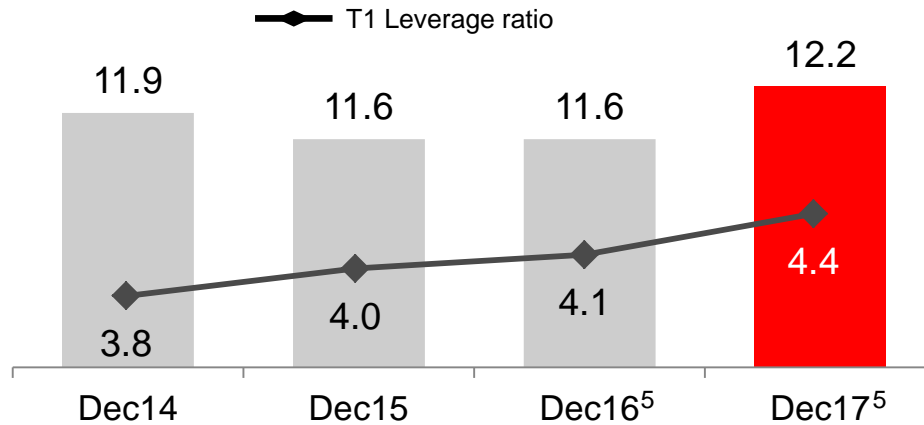
## Medium term funding encumbrance<sup>5</sup> (£bn)



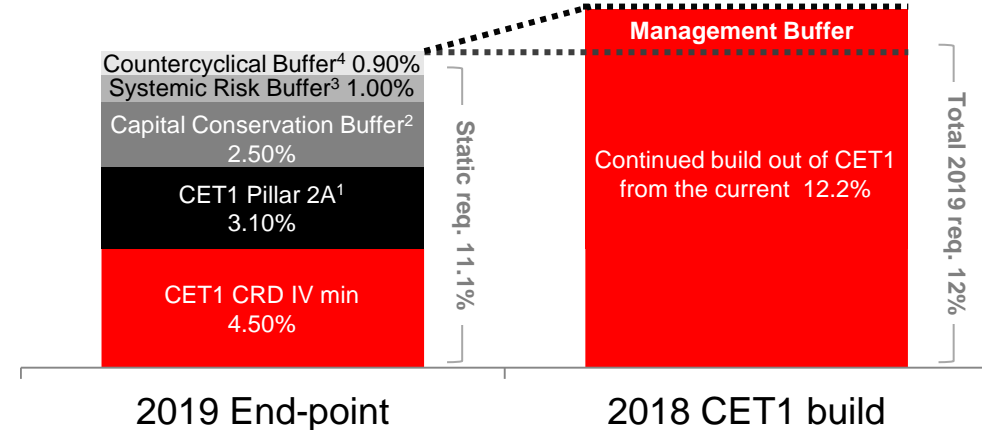
1. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 2. Senior unsecured includes structured notes | 3. Securitisation includes structured funding | 4. Weighted average spread at time of issuance above GBP 3M LIBOR excluding structured notes. Includes issuances from Santander Consumer Finance UK and associated joint ventures | 5. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and covered bond programmes

# Well placed to meet evolving capital requirements

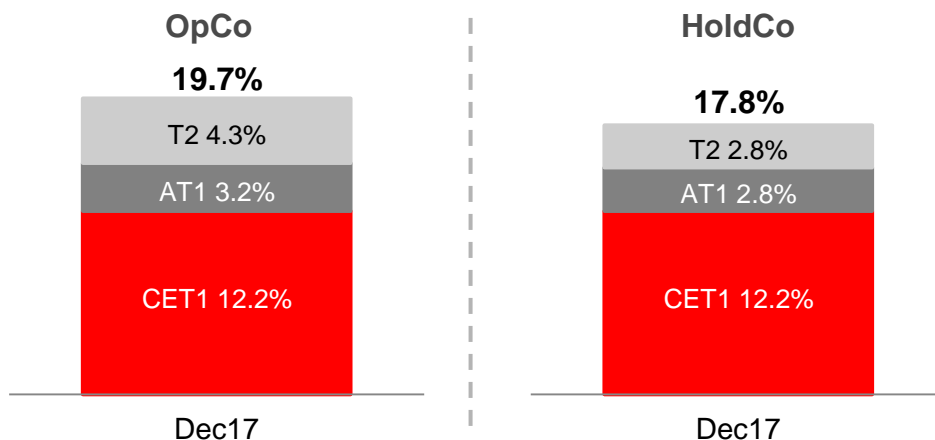
## CET1 and Leverage Ratio (%)



## Evolving CET1 Requirements



## Total Capital Ratio

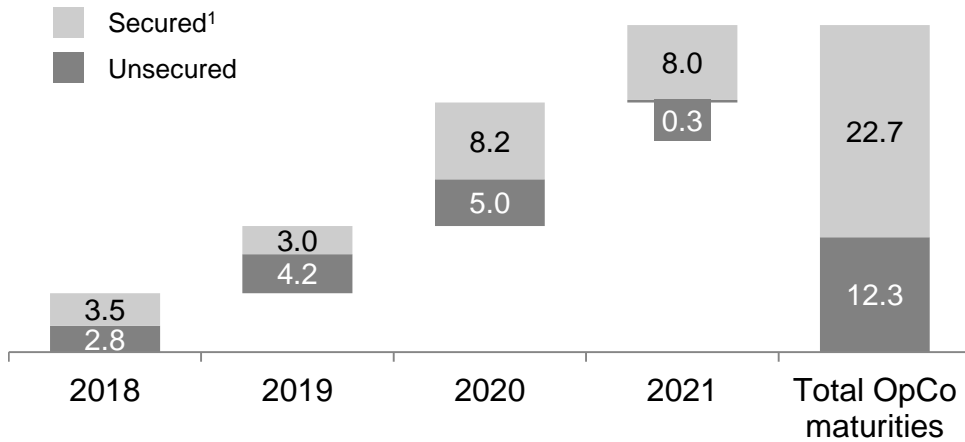


- We will continue to increase our CET1 ratio from the current 12.2%, as we move to our 2019 end state requirements
- It is our current intention to target a CET1 management buffer that is of sufficient size to absorb changes in the regulatory minimum requirement (e.g. application of any dynamic CCyB buffer) and market volatility
- As at 31 December 2017, Santander UK Group Holdings plc had £4.2bn of distributable reserves

1. Santander UK's Pillar 2A requirement was 5.6% at 1 January 2017, Pillar 2A guidance is a point in time assessment | 2. 2.5% CCB phased in from 2016-2018 | 3. 1% SRFB (applicable from 2019 for the ring-fence bank). | 4. During 2017, the FPC increased the UK CCyB rate from 0% to 0.5% with binding effect from 27 June 2018 and 0.5% to 1% from the 28 November 2018. Santander UK's geographical allocation of the CCyB is 90%. | 5. Dec16 and Dec17 leverage ratios were calculated applying the amended definition, as per Jul16 PRA statement.

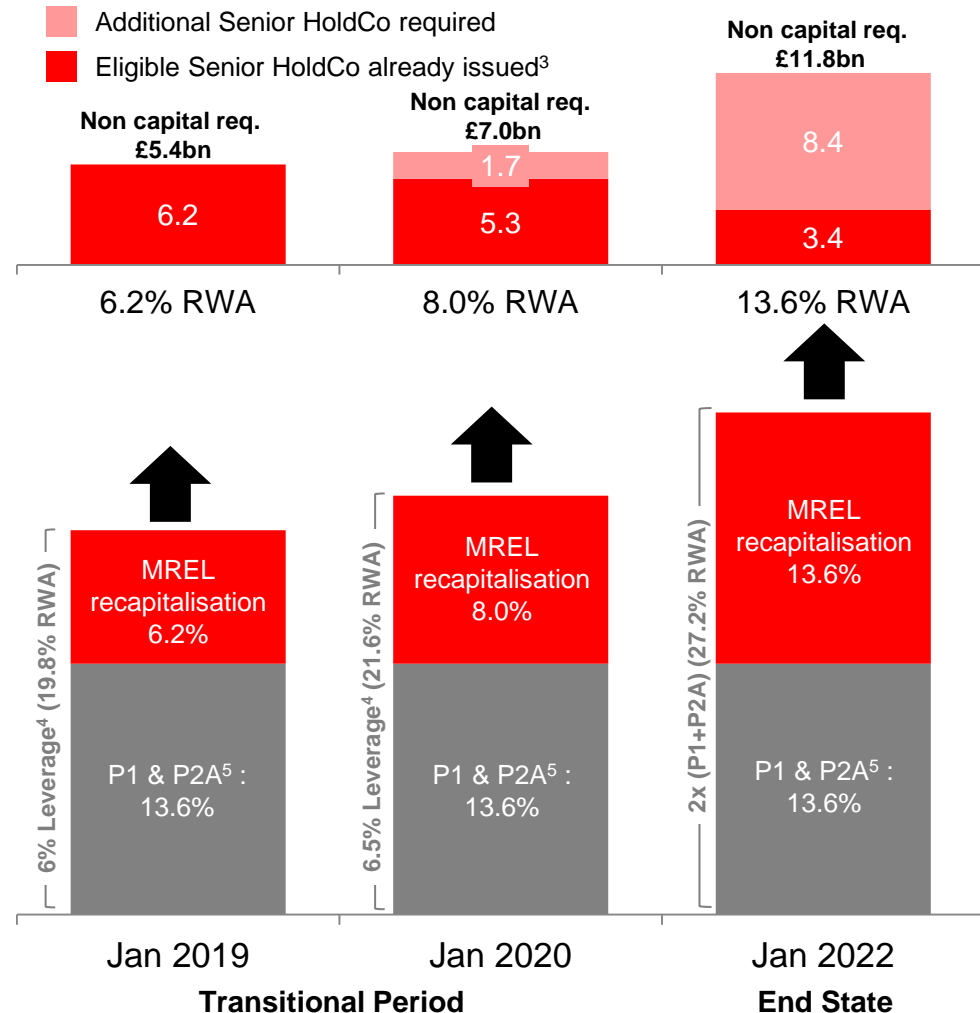
# Major progress to meet non capital MREL requirements

## OpCo MTF maturities (£bn)



- MREL requirements are driven by leverage in 2019, the driver changes to the RWA measure from 2020
- MREL recapitalisation requirement to be largely met through gradual refinancing of existing OpCo maturities. It will not be additive to wholesale funding requirements
- It is our current 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

## MREL requirements (£bn)<sup>2</sup>

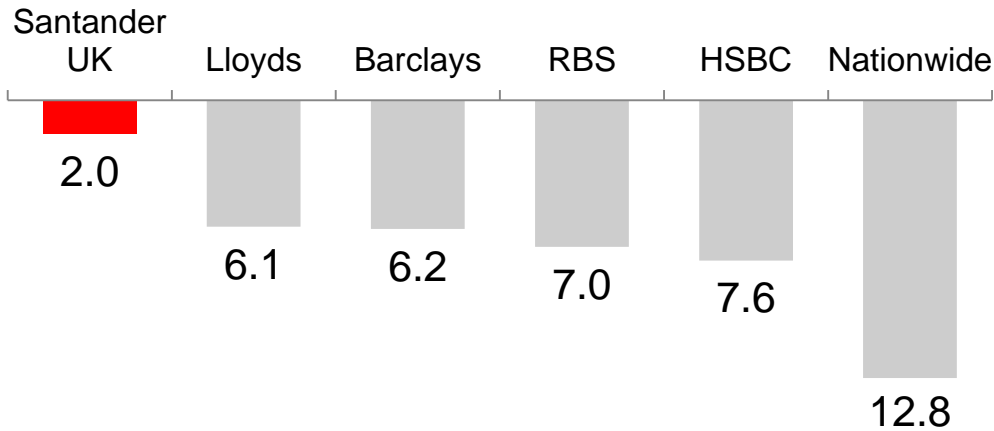


1. Includes TFS | 2. In March 2017 the Bank of England (BOE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and became fully implemented in 2022 | 3. Meeting MREL eligibility criteria and exchange rates as of 31 December 2017 | 4. Calculated using RWA and UK leverage exposure as at 31 December 2017 | 5. Assumes Pillar 2A requirement remains at 5.6%



# 2017 PRA stress test; Santander UK most resilient of UK banks

## CET1 drawdown (%)<sup>1</sup>



## Mortgage RWA transformation ratio (%)<sup>2</sup>

Santander UK	Lloyds	Barclays	RBS	HSBC	Nationwide
16%	11%	13%	10%	5%	7%

## 2017 PRA stress test assumptions<sup>3</sup>

2017 GDP growth	(4.7)%
Unemployment rate	9.5%
Inflation	2.7%
House price inflation	(33)%
Base rate	4%

## Santander UK 2017 results

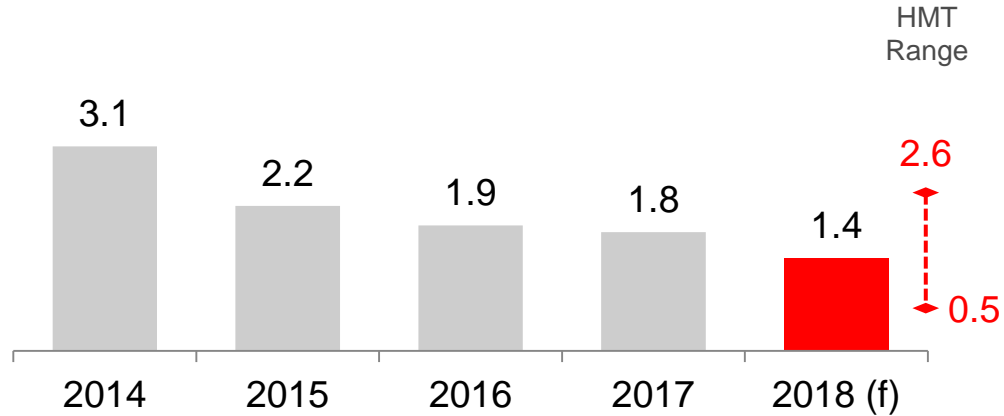
- Significantly exceeded the PRA's stress test CET1 threshold requirement of 7.6%, with a stressed CET1 ratio of 9.6%
- Exceeded the leverage threshold requirement of 3.25%, with a stressed leverage ratio of 3.3% after allowed management actions
- As with the 2016 stress tests, these results underline the quality and strength of our UK-based balance sheet as well as our strong risk management practices and low risk profile
- More severe stressed scenario for global economy
- Includes increase in rate of return demanded for sterling assets alongside depreciation in currency
- New biennial exploratory scenario designed to examine banks' strategic response to a structurally more challenging operating environment

1. Source: Bank of England, Stress testing the UK banking system: 2017 results. CET1 drawdown is defined as CET1 ratio as at Dec16 less minimum stressed ratio (after the impact of 'strategic' management actions and conversion of AT1) | 2. Source: 2016 Annual Reports, except for Nationwide 2017 Annual Report. Mortgage RWA transformation ratio defined as total mortgage (or nearest equivalent) risk-weighted assets divided by total mortgage exposure. | 3. Source: Bank of England, Stress testing the UK banking system: key elements of the 2017 stress test

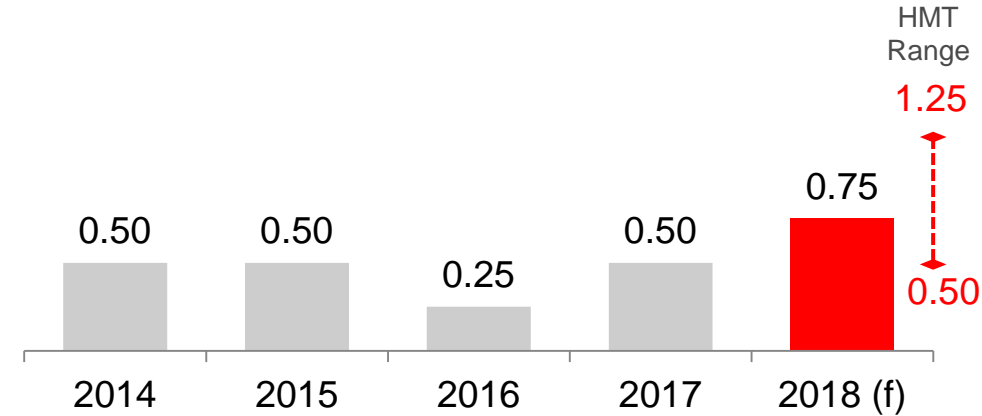
# UK economic outlook

# UK economy is broadly stable but uncertainty remains

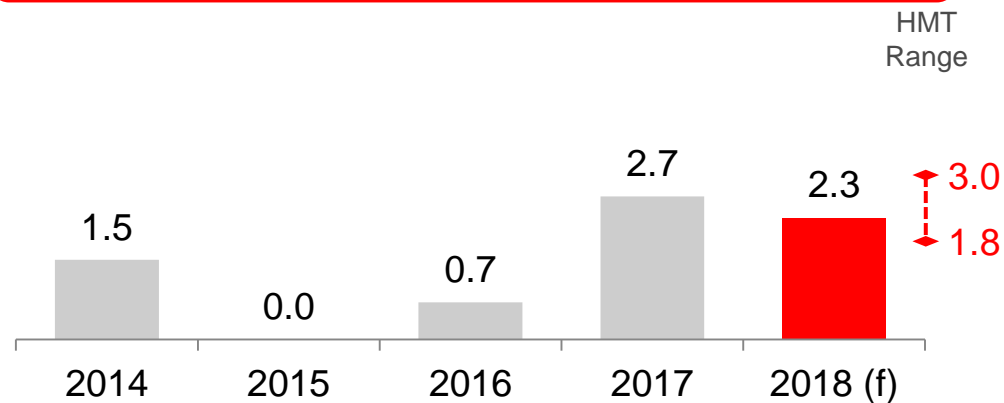
## Annual GDP growth (% , annual average)



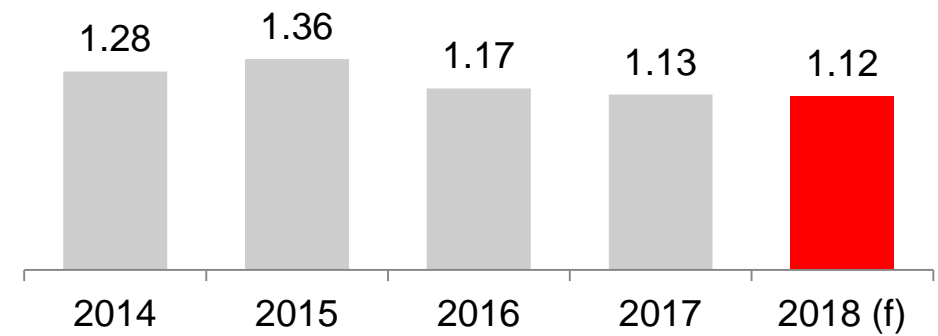
## Bank of England base rate (% , year end)



## Annual CPI<sup>1</sup> inflation rate (% , annual average)



## GBP/Euro exchange rates (year end)

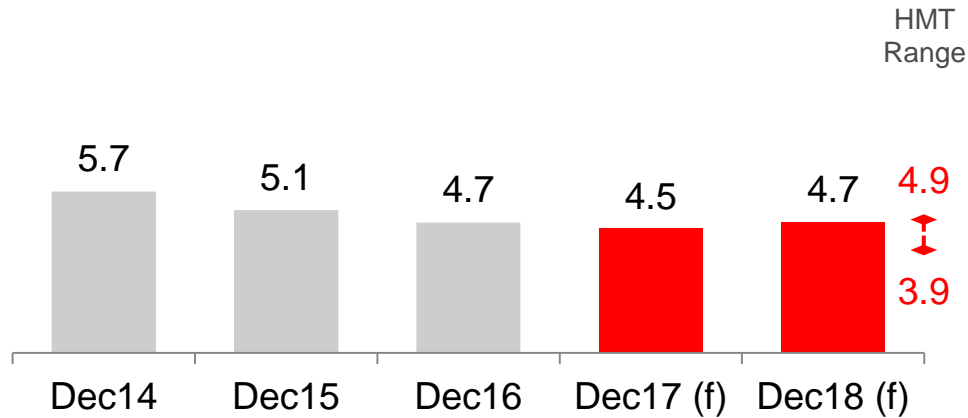


Source: Office for National Statistics and Bank of England. 2017 (f) and 2018 (f) are forecasts by Santander UK (September 2017). External forecast ranges from HM Treasury Consensus December 2017. Only forecasts made in the latest 3 months (Nov, Dec and Jan) have been included in the high / low range.

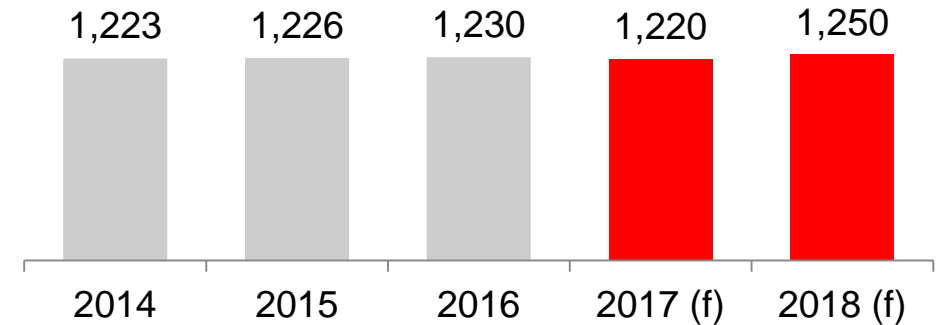
1. Consumer Price Index

# Housing and labour markets could come under pressure

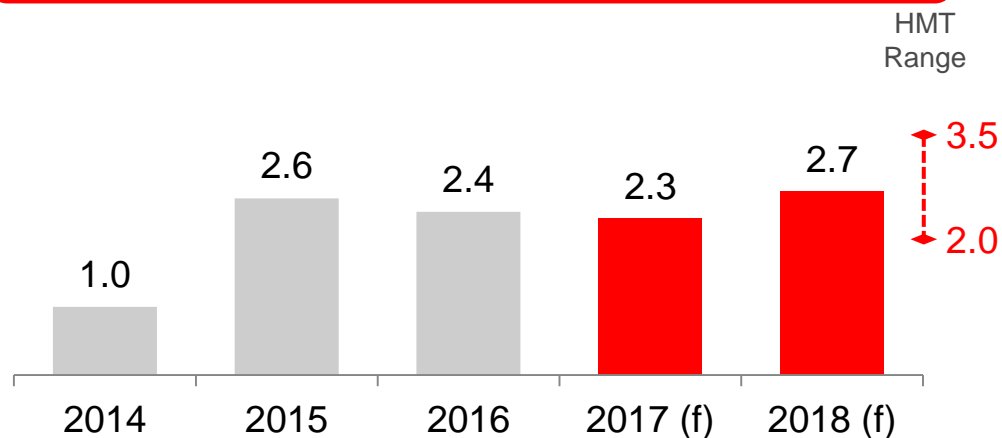
## Unemployment rate (ILO<sup>1</sup>)



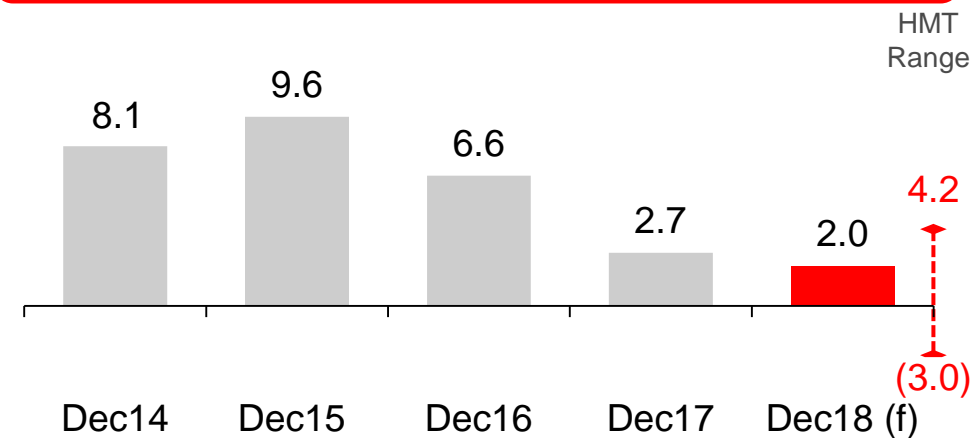
## Property transactions (000s, sa<sup>2</sup>)



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



## House prices<sup>3</sup> (% sa<sup>2</sup>, 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)

# Appendix



# 2018 strategy creating value for all our stakeholders

**Our purpose is to help people and businesses prosper**

**Our strategic priorities**



## Customers

- Grow customer loyalty and market share
- Deliver operational and digital excellence

## Shareholders

- Achieve consistent, growing profitability and a strong balance sheet

## People

- Live the Santander Way through our behaviours

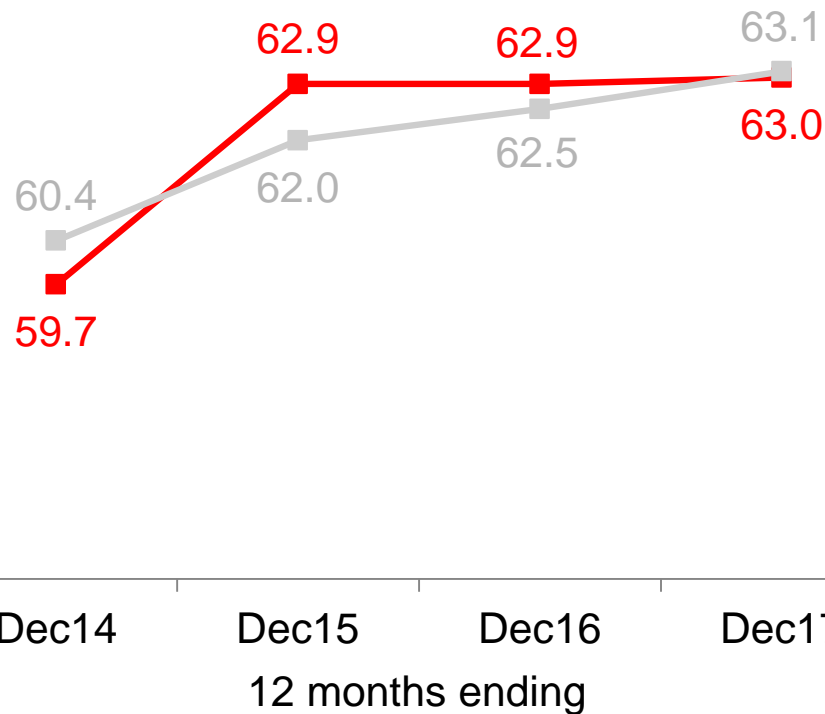
## Communities

- Support communities through skills, knowledge and innovation

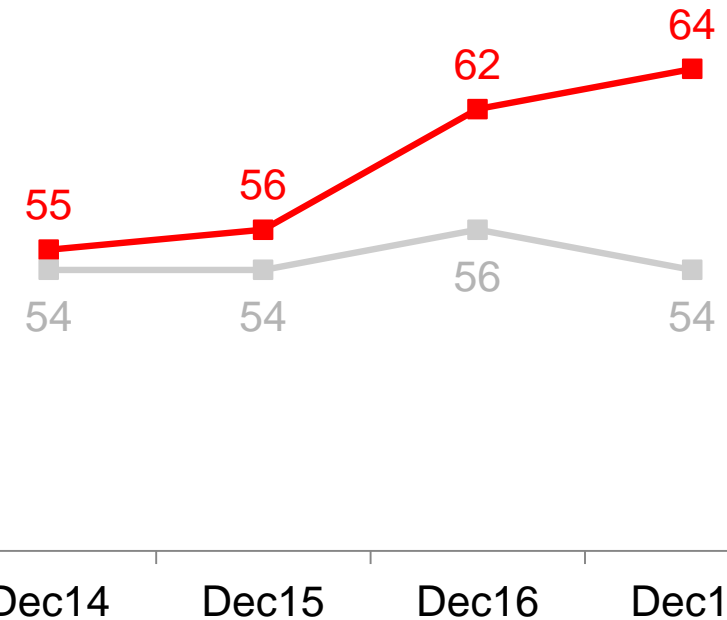
**Simple | Personal | Fair**

# Improving customer experience at the heart of our plans

## Retail customer satisfaction (%)<sup>1</sup>



## Corporate customer satisfaction (%)<sup>2</sup>



■ Santander UK  
■ Average of 3 highest performing peers

■ Santander UK     ■ Market average

1. As measured by FRS. Refer to Appendix 1 in the 2017 Quarterly Management Statement for a full definition and glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary) | 2. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the 2017 Quarterly Management Statement for a full definition and glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary). Dec17 data based on corporate customers with annual turnover of £250,000 to £500m, previous periods on £250,000 to £50m

# Enhancing digital capability to meet changing customer needs

Continuous focus on improved customer journeys

**Customer-centricity**

Personalisation  
Simplicity  
Speed  
Value  
Transparency

**NEOCRm**

**Omni-channel choice**

Full service mobile  
New role of branch

**Frictionless experience**

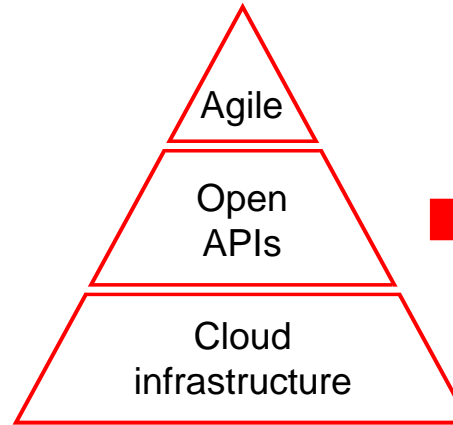


**Innovation & FinTech**



Collaboration and sharing best practice (e.g. payments)

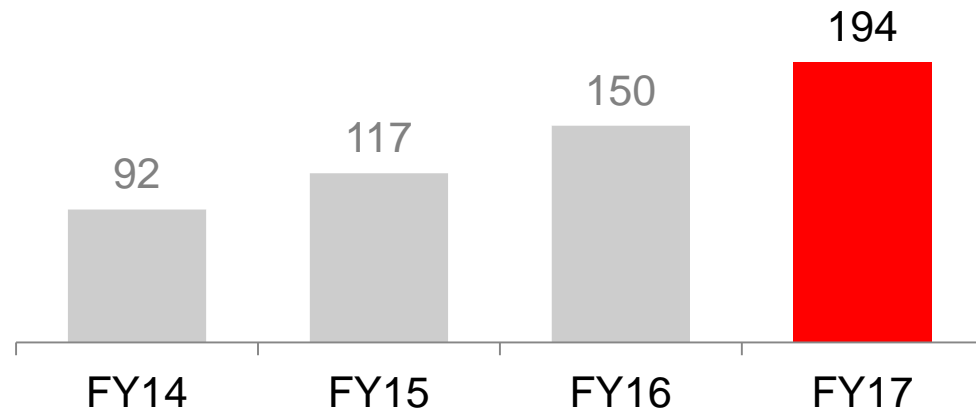
Clear roadmap to become a fully digital bank



**Improved delivery**  
Faster IT deployments

**Enhanced performance**  
Lower IT running costs

**Total digital transactions (m)**



# Building corporate primacy through enhanced offering

**Primacy**

- Completion of core banking proposition
- Scaled asset finance business

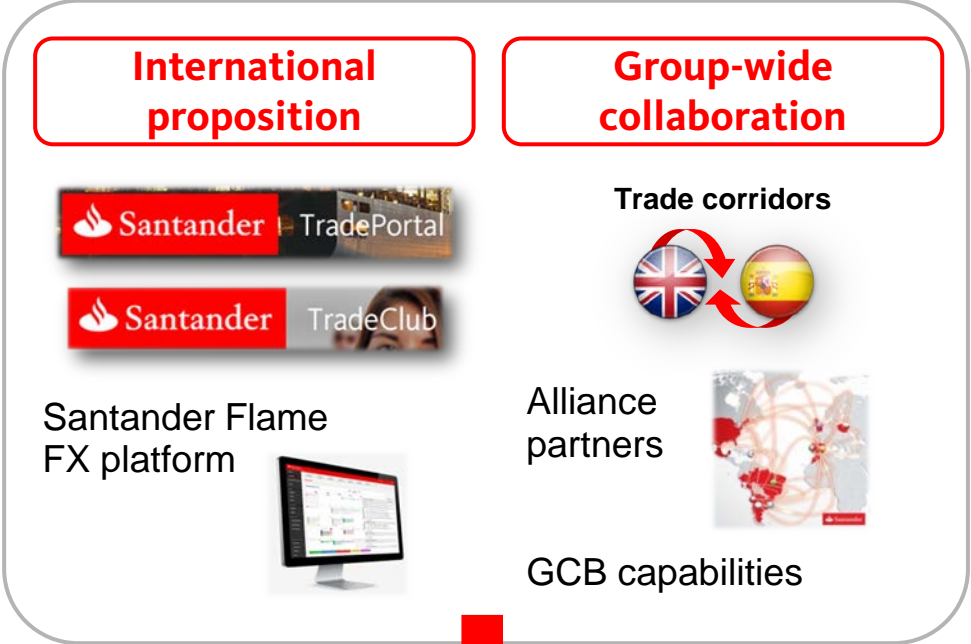
**Differentiation**

- Challenger status
- Global reach and international expertise

**Proximity**

- Local network and unique credit partner model
- Event driven approach to finance solutions

Commercial Banking	Change vs Dec16
New facilities	+8%
Bank account openings	+28%
Online banking (Connect) active users	+17%



**International customer<sup>1</sup>**

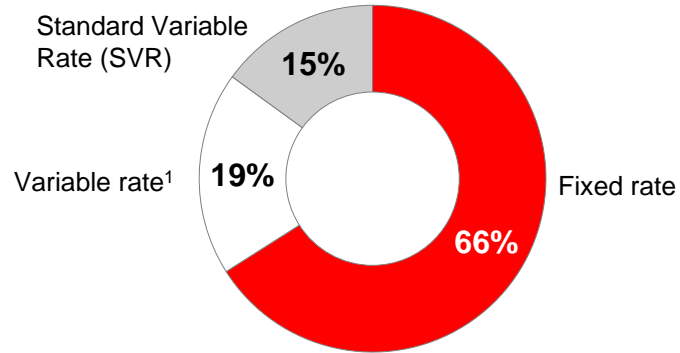
- 2x** products
- 2.5x** income
- Higher resilience** in an economic downturn



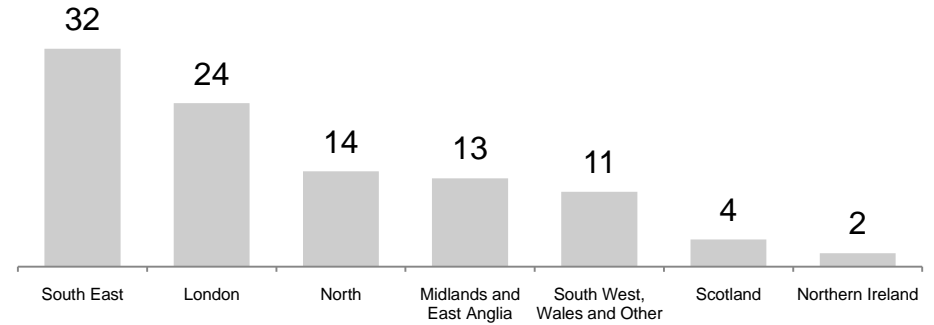
1. International customer vs domestic only

# Prime residential mortgage book of £154.9bn

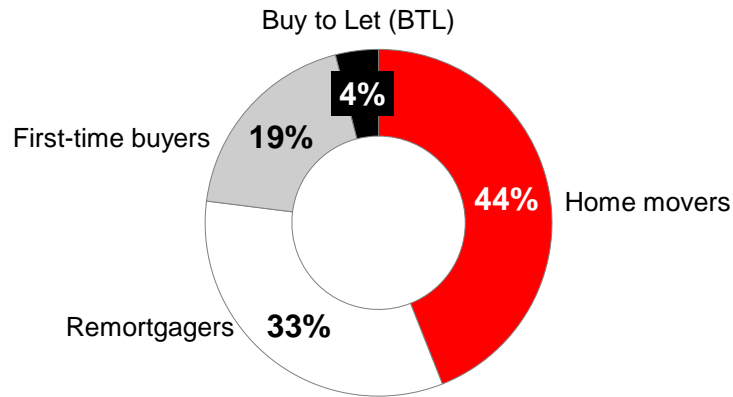
## Mortgage product profile (stock, Dec17)



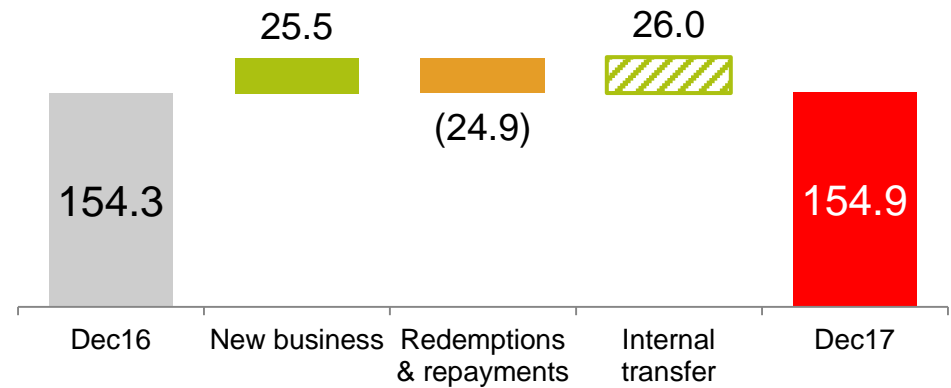
## Geographical distribution (stock %, Dec17)



## Mortgage borrower profile (stock, Dec17)



## Mortgage lending (£bn, Dec17)



29% owner-occupied interest-only mortgages (Dec16: 31%)<sup>2</sup>

c78% of maturing mortgages retained<sup>3</sup>

1. Variable rate includes tracker and base rate linked products | 2. Full interest-only loans and the element of part-and-part attribution to interest-only balances, excluding BTL mortgages | 3. Refer to glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary) for a full definition

# Consistently prudent mortgage lending criteria

## Mortgage loan distribution

Dec16

Dec17

### Loan size distribution (stock)

Less than £0.25m	71.6%	69.1%
£0.25m - £0.5m	21.3%	23.3%
£0.5m - £1m	6.3%	6.8%
£1m - £2m	0.7%	0.7%
Over £2m	0.1%	0.1%

### Average loan size distribution (new business)

London and South East	£264k	£260k
Rest of UK	£144k	£146k
All UK	£198k	£196k
Loan-to-income multiple <sup>1</sup>	3.16	3.16

## Loan to value (LTV)

Dec16

Dec17

### Simple average LTV<sup>2</sup>

new lending	65%	62%
stock	43%	42%

### Indexed LTV distribution (stock)

> 85% - 100%	4%	4%
> 100%	1%	1%

New lending % with LTV > 85%      17%      19%

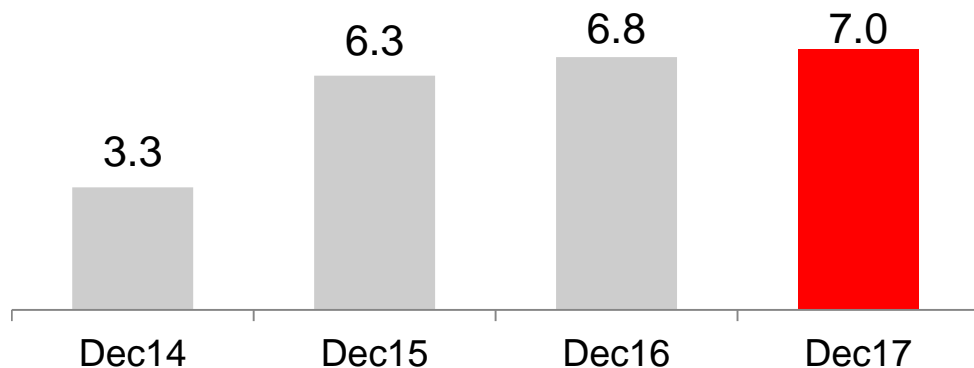
24,000 first-time buyers (£4.0bn gross lending)  
7,500 BTL mortgages (average LTV of 61%)

# Managing growth in consumer and unsecured lending

## Consumer (auto) Finance<sup>1</sup> loans (£bn)

### NPL ratio (%)

0.45      0.44      0.47      0.49

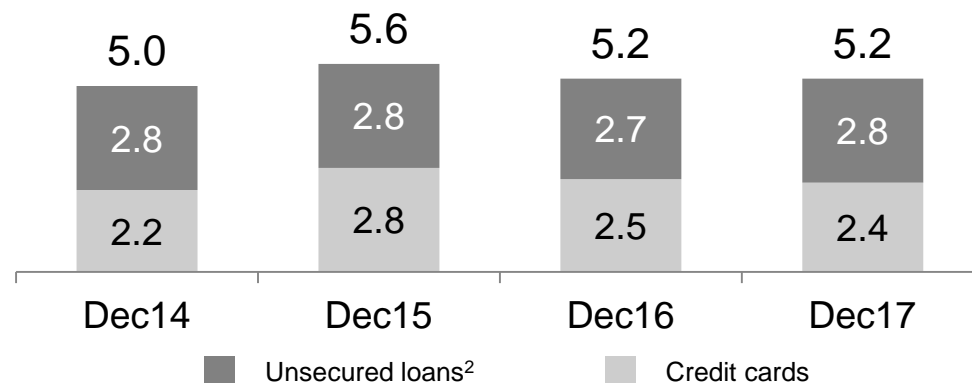


- Prime vehicle finance business, with an average retail loan size of c£12,500
- 7 manufacturer partners (joint ventures with PSA Peugeot Citroen, Hyundai)
- Prudent underwriting criteria including manual assessment for higher risk cases and affordability tests

## Credit cards and unsecured loans (£bn)

### NPL ratio (%)

1.80      1.52      1.73      1.69



- Prime unsecured and credit card business, with average loan size of c£9,300 and average credit card balance of c£1,200
- Defaults stable and at low levels
- Very low exposure to assumed future income flows

1. Consumer Finance is predominantly a vehicle finance business that offers a range of consumer finance and insurance products and services for individuals, businesses and distribution networks in the automotive industry | 2. Includes overdrafts

# Well diversified CRE portfolio

## Credit performance

Dec16

Dec17

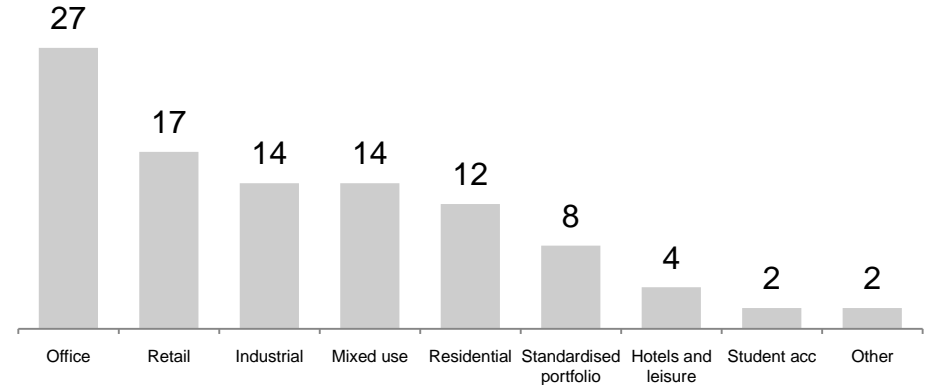
Total committed exposure	£9.0bn	£8.1bn
Up to 70% LTV	88%	88%
70% to 100% LTV	2%	-
> 100% LTV	1%	1%
Standardised portfolio <sup>1</sup>	7%	8%
Total with collateral	98%	97%
Development loans	2%	3%
	100%	100%

Dec16

Dec17

NPL ratio	2.00%	0.85%
NPL coverage ratio	32%	78%

## Sector analysis (stock %, Dec17)



- No new business written above 70% LTV (Dec16: 0%)
- 91% written at or below 60% LTV (Dec16: 95%)
- Weighted average LTV on exposures Dec17: 48% (Dec16: 50%)<sup>2</sup>
- Average loan size of £4.7m at Dec17 (Dec16: £4.8m)
- NPL ratio decreased primarily due to the sale of collateral to repay two impaired loans, as well as other redemptions and write-offs of older vintage loans



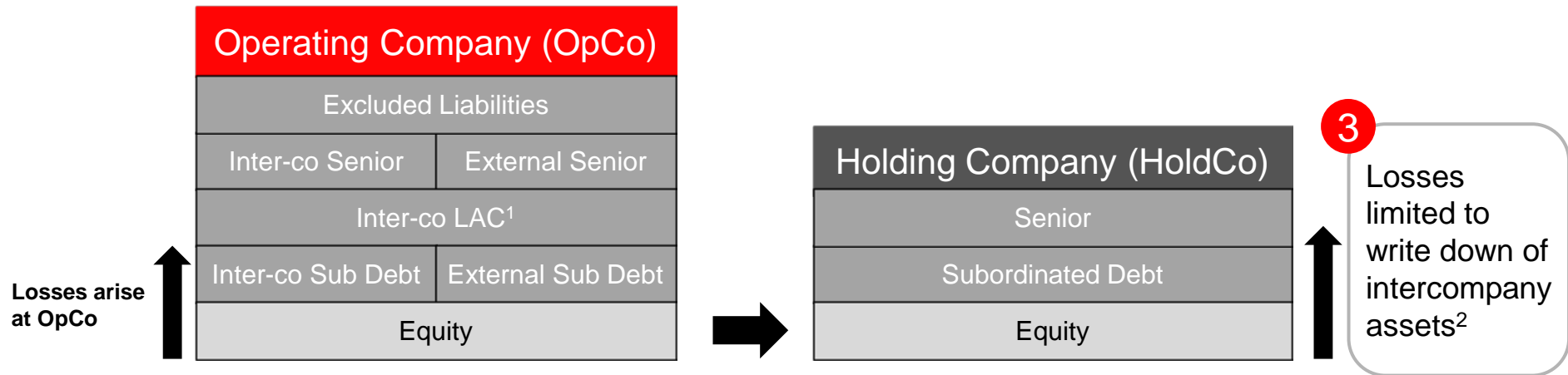
# UK resolution regime; HoldCo downstream model

1

'No creditor worse off' principle enshrined in the UK resolution regime – respecting the creditor hierarchy regardless of whether the liability is internally or externally issued

2

Losses at HoldCo can only apply to the extent of any write-down of its intercompany assets



We aim to implement the end state downstreaming model for our HoldCo senior issuance in a clear and transparent manner during the course of 2018, ahead of the minimum non-regulatory capital MREL requirements coming into effect on 1 January 2019.

# Credit ratings – January 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 Nov17, S&P improved the outlook of Santander UK plc to stable, reflecting their view that the UK banking sector has made substantial progress towards end-state regulatory capital requirements and is showing increased resilience in earnings

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## [www.aboutsantander.co.uk](http://www.aboutsantander.co.uk)

### ▪ **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

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### ▪ **Glossary**

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

### ▪ **Key dates<sup>1</sup>**

Q118 results: 24 April 2018

Q218 results: 25 July 2018

Q318 results: 31 October 2018

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1. Indicative, dates subject to change.

