

# Santander UK Group Holdings plc

## Investor Update for the nine months ended 30 September 2016

October 2016

Simple  
Personal  
Fair

What a bank should be



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Source: Santander UK Q3 2016 results "Quarterly Management Statement for the nine months ended 30 September 2016" 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.

# Well positioned as the only full service scale challenger

Meaningful scale and opportunity...

...a full-service retail and commercial bank...



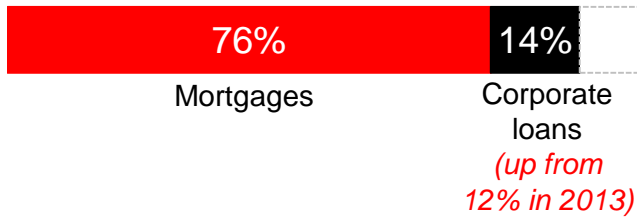
## Retail

841 branches  
 c.80% market coverage  
 3<sup>rd</sup> Mortgage market <sup>2</sup>

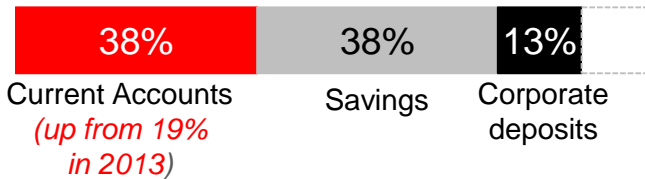
## Corporate

69 Corporate Business Centres  
 703 Relationship Managers  
 27,700 online banking users

## £201bn customer loans



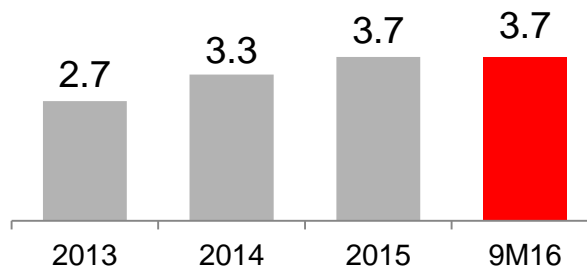
## £170bn customer deposits



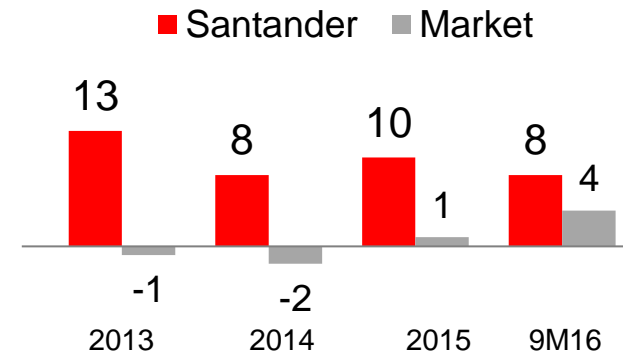
Other customer loans and deposits

...successfully challenging the big banks

## Loyal retail customers



## Corporate and SME lending<sup>1</sup> (% YoY growth)



1. Source market: Bank of England (August 16), PNFC 9M16 vs. 9M15 | 2. Santander UK analysis



# 2018 strategy creating value for all our stakeholders

1 | Customer loyalty and market share growth

Customers

2 | Operational and digital excellence

Shareholders

3 | Consistent and growing profitability and a strong balance sheet

People

4 | Live The Santander Way through our behaviours

Communities

5 | Support communities through skills, knowledge and innovation

# Our 2016-18 commitments

	FY15	9M16	2018 target	
<b>Customers</b>	Loyal retail customers	3.7 million	3.7 million	4.7 million
	Loyal SME and Corporate customers	266,000	285,000	308,000
	Retail customer satisfaction ('FRS')	62.9%	62.7%	Top 3
	<i>average of 3 highest performing peers</i>	62.0%	62.5%	
	Digital customers	3.9 million	4.5 million	6.5 million
<b>Shareholders</b>	Adjusted return on tangible equity ('RoTE')/RoTE <sup>1</sup>	8.2%	11.0% <sup>2</sup>	8-10%
	Cost-to-income ratio ('CIR') <sup>1</sup>	53%	50%	50-52%
	Non performing loan ('NPL') ratio <sup>1</sup>	1.54%	1.54%	< 2.0%
	CET 1 capital ratio	11.6%	11.1%	c. 12%
	Dividend payout ratio	50%	n/a	50%

For notes see Appendix 1 to the Santander UK Group Holdings plc Quarterly Management Statement for the nine months ended 30 September 2016 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. RoTE, CIR and NPL ratio 2018 targets have been revised at the Banco Santander Group Strategy Update even for analysts and investors on 30 Sep 2016, reflecting revised economic forecasts, in particular lower for longer interest rates. Previous targets were: RoTE: 12-14%, CIR < 50%, NPL ratio < 1.50%
2. Adjusted RoTE of 11.0% includes phasing adjustments to facilitate comparison with the year end ratio. See Appendix 1 for details. Statutory RoTE was 12.1%.

# 9M16 business and financial highlights

Profit before tax	£1,555m	+9% vs. 9M15
11213 World customers	5.1m	+440,000
Digital customers	4.5m	+590,000
Net lending	+£1.0bn mortgages	+£1.9bn corporates
Cost-to-income ratio	50%	(3)%
Prudential ratios	11.1% CET 1	4.0% leverage <sup>1</sup>

- Excluding Visa Europe shareholding gain of £119m and Banking Reform costs of £55m, Adjusted PBT of £1,491m, up 5%
- Retail current account balances up £11.3bn in 9M16
- Front book: 37% of bank accounts opened online  
Back book: 42% of mortgages retained online
- Mortgage market impacted by BTL tax changes (Apr16)
- Lending to UK companies subdued but competitive
- Adjusting for Banking Reform costs, operating expenses were down 3%
- Higher profits and steady capital generation, offset by recent rates volatility impact on defined benefit pension schemes accounting position

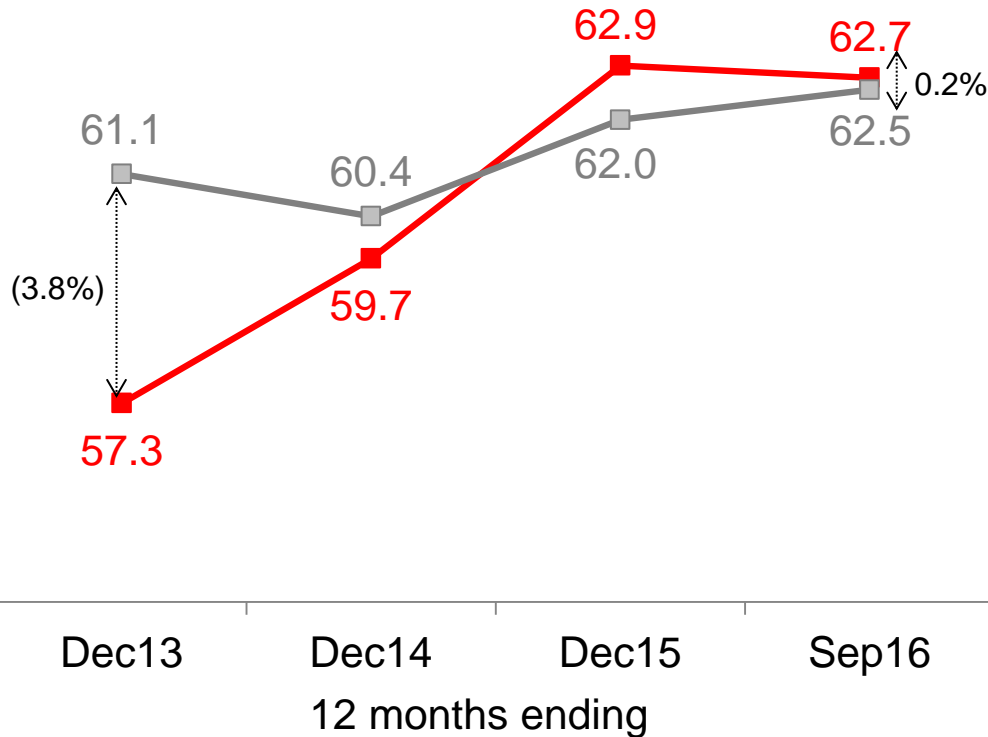
1. 9M16 leverage ratio was calculated applying the amended definition, as published in the Jul16 PRA statement.

# 2016 outlook

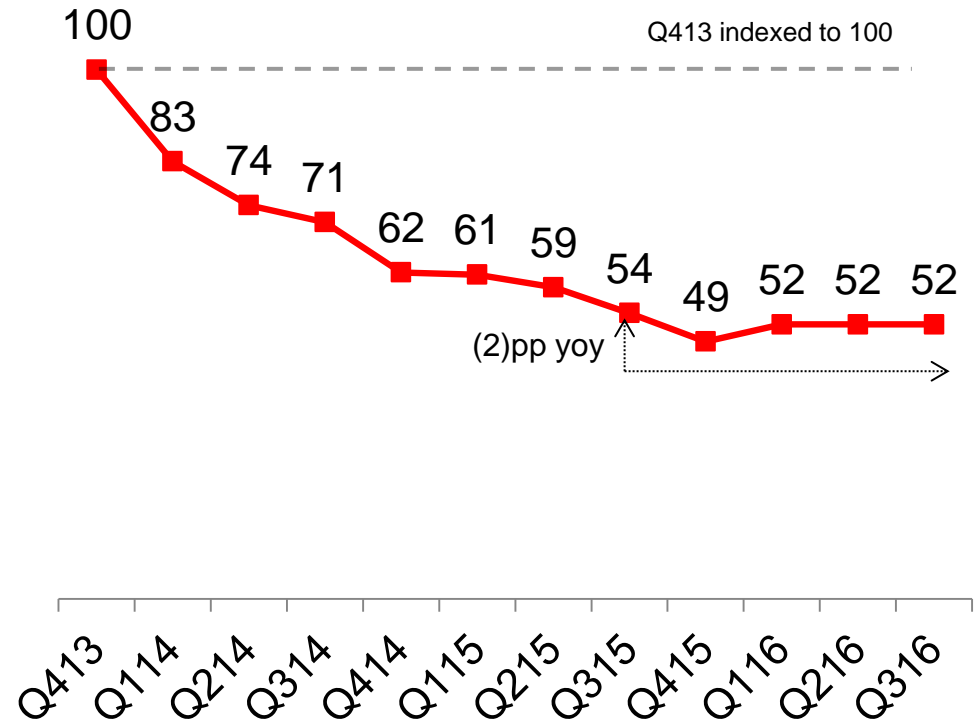
- **Economic uncertainty and financial market volatility to continue**; expect this to result in lower consumer confidence and, over time, lower economic growth; furthermore the lower value of sterling and ongoing increase in oil prices are likely to lead to higher inflation
- **Continued focus on loyalty and deeper customer relationships** while delivering operational and digital excellence, supported by our strong balance sheet and business momentum
- **Expect Banking NIM for 2016 to remain broadly stable** from 1.77% in 9M16, with base rate reduction, SVR attrition and competitive pressures on new asset margins offset by retail liability margin improvement
- Net **mortgage lending** slightly below the market due to a management pricing action; **Corporate lending** growth to be ahead of the market
- **Cost management remains a key focus** as we continue to grow, with key initiatives of operational and digital efficiencies, omni-channel optimisation, organisational simplification and streamlining
- We will provide our **outlook for 2017** at the time of our full year 2016 results

# Continued focus on retail customer experience

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



Retail complaints received (indexed)<sup>2</sup>



—■— Santander UK    —■— Average of 3 highest performing peers

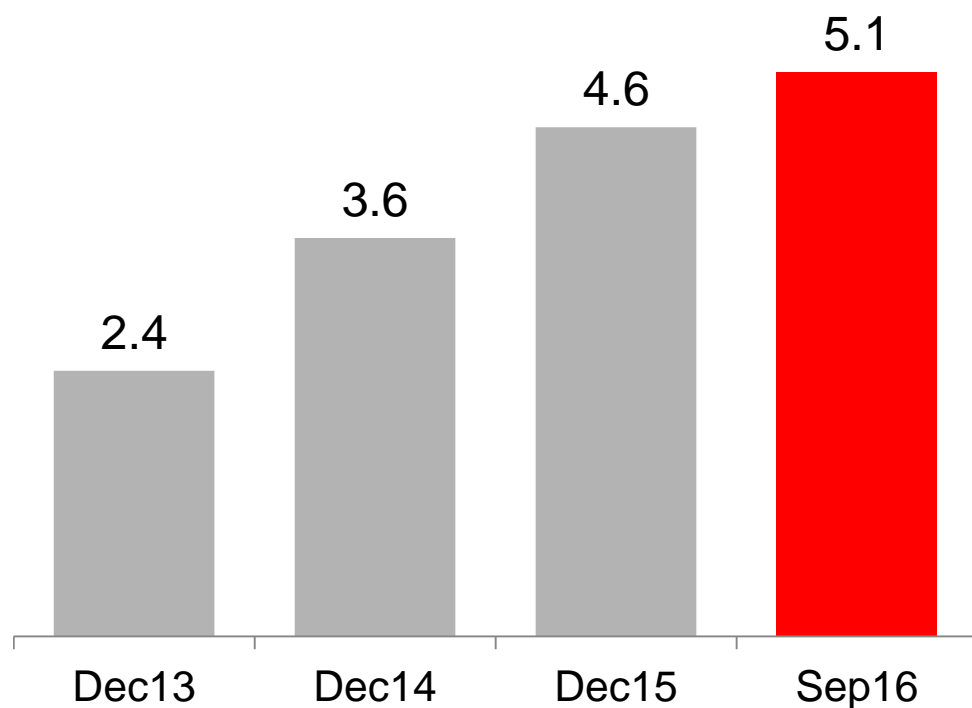
1. Improvement Dec14 vs. Sep16, as measured by FRS. Refer to Appendix 1 in the Q316 Quarterly Management Statement for a full definition and glossary at [www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary](http://www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary) | 2. Source: Santander UK management information. All unique core complaints included. Those relating to legacy issues e.g. PPI and advice related complaints are not included



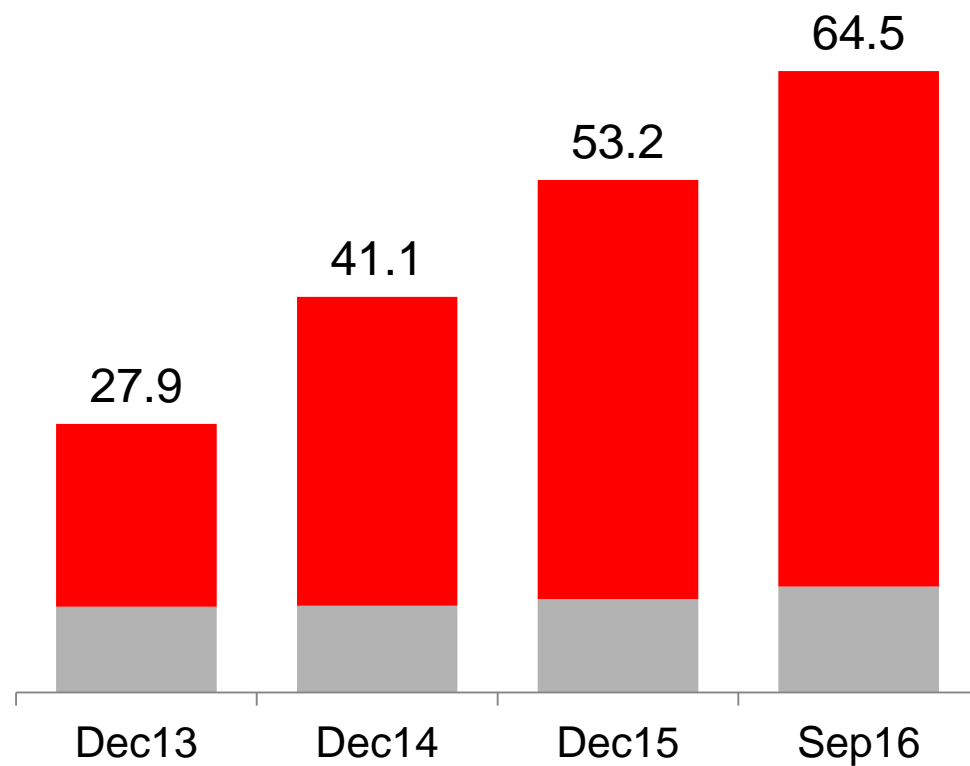


# 440,000 new 11213 World customers in 2016

11213 World customers (million)

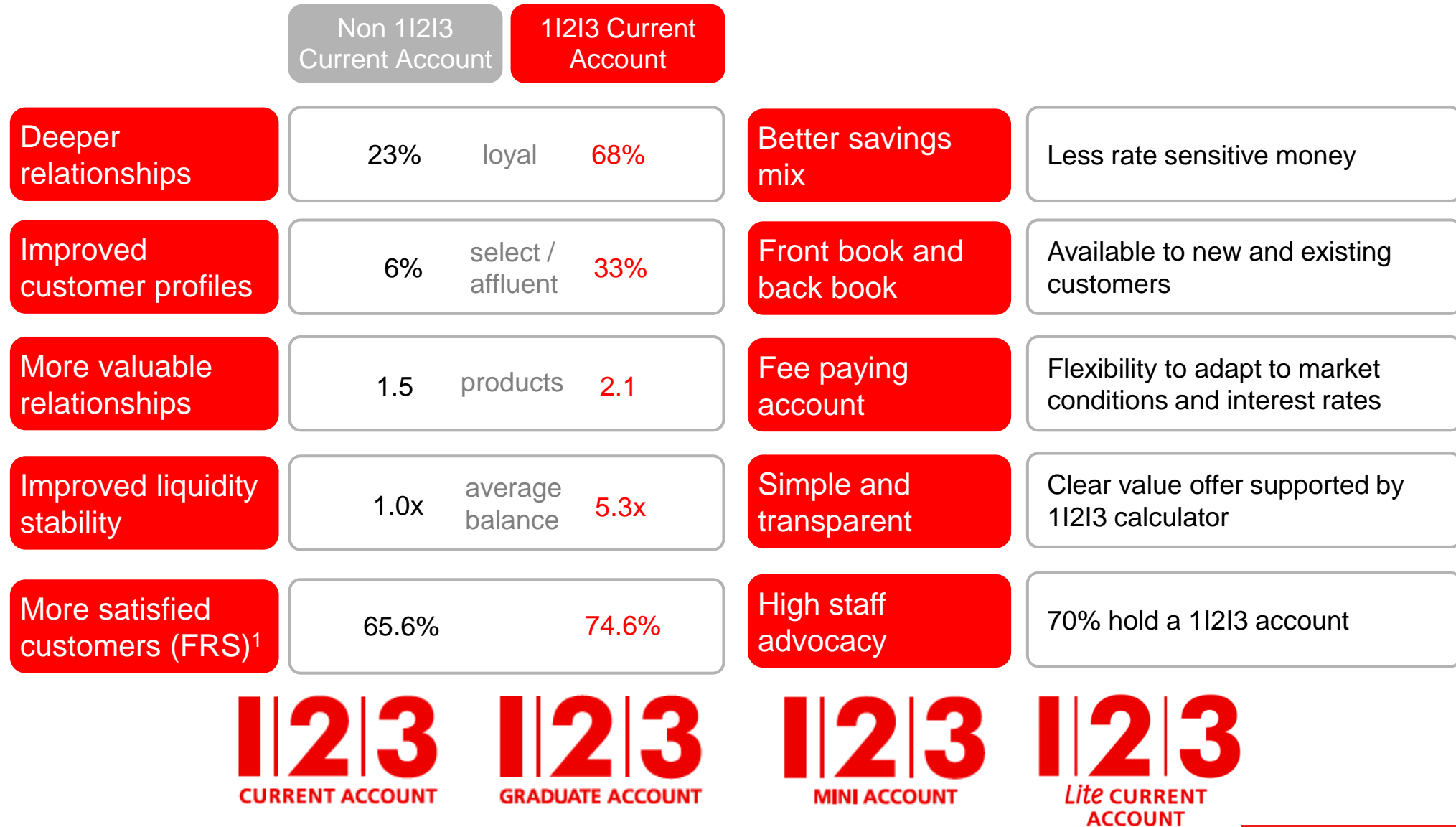


Retail Banking current account balances (£bn)



■ of which 11213 Current Account balances (adult accounts only)

# 1|2|3 World continues to be an outstanding proposition

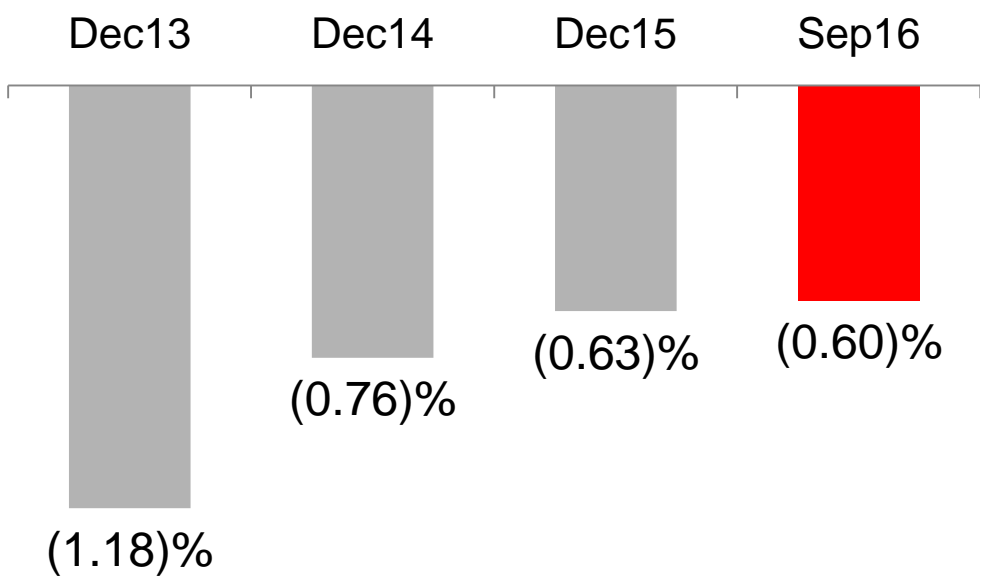
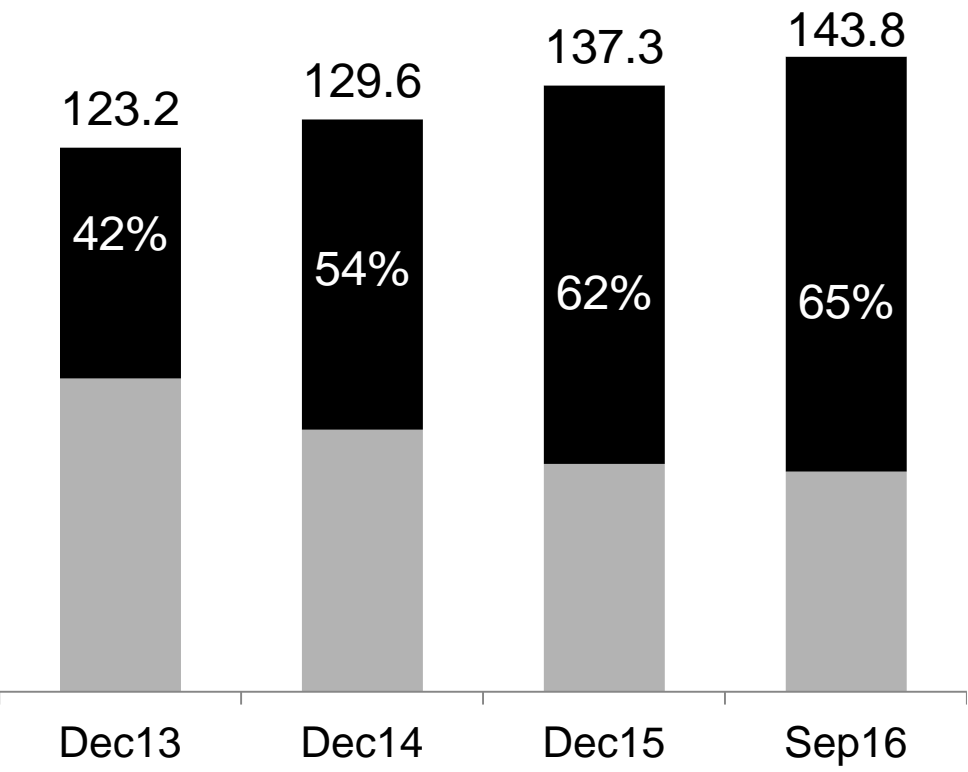


1. Current account, GfK FRS 12 months ending Sep16

# Improved retail customer primacy and liability spread

Retail Banking deposits (£bn)

Retail Banking deposits spread (%)<sup>1</sup>



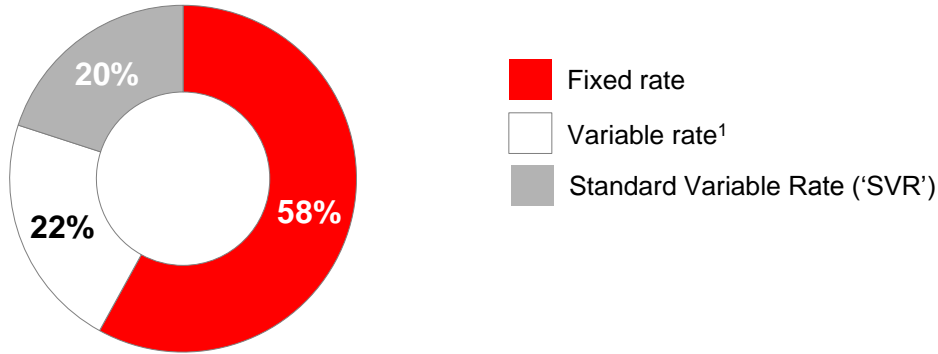
■ Banking and savings balances of customers with a primary 11213 Current Account or other primary current account

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

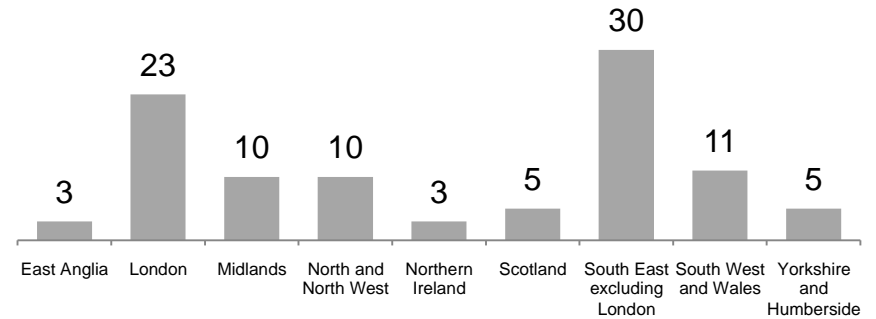


# Prime residential mortgage book of £153.8bn

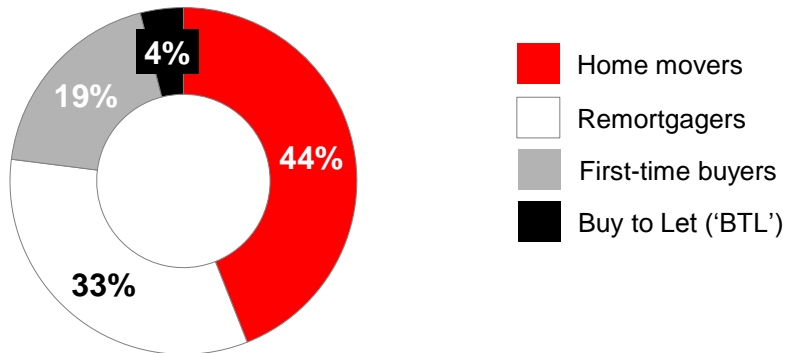
## Mortgage product profile (stock, Sep16)



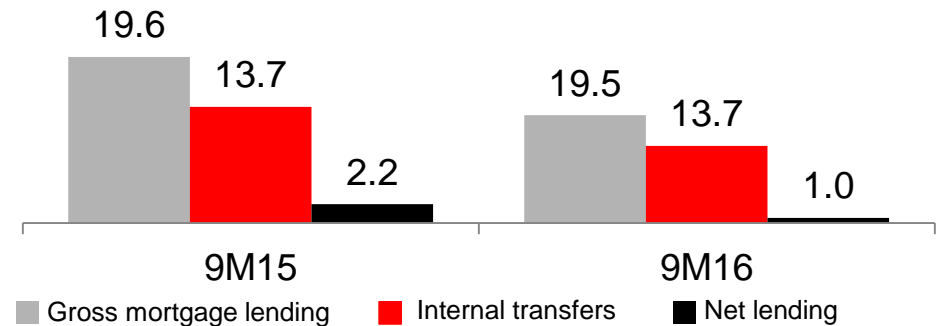
## Geographical distribution (stock %, Sep16)



## Mortgage borrower profile (stock, Sep16)



## Mortgage lending (£bn)



35% interest only mortgages (Dec15: 36%)<sup>2</sup>

c.80% 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 | 3. Refer to Appendix 2 in the Q316 Quarterly Management Statement for a full definition

# Consistently prudent mortgage lending criteria

## Mortgage loan distribution

Dec15

Sep16

### Loan size distribution (stock)

Less than £0.25m	75.0%	72.3%
£0.25m - £0.5m	19.0%	20.7%
£0.5m - £1m	5.2%	6.1%
£1m - £2m	0.7%	0.8%
Over £2m	0.1%	0.1%

### Average loan size distribution (new business)

London and South East	£248k	£265k
Rest of UK	£136k	£143k
All UK	£186k	£200k

Loan-to-income multiple<sup>1</sup>                      3.10                      3.15

## Loan to value ('LTV')

Dec15

Sep16

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

new lending	65%	64%
stock	45%	43%

### Indexed LTV distribution (stock)

> 85% - 100%	6%	4%
> 100%	2%	1%

New lending % with LTV > 85%                      16%                      16%

18,600 first-time buyers (£3.1bn gross lending)  
9,700 BTL mortgages (average LTV of 68%)

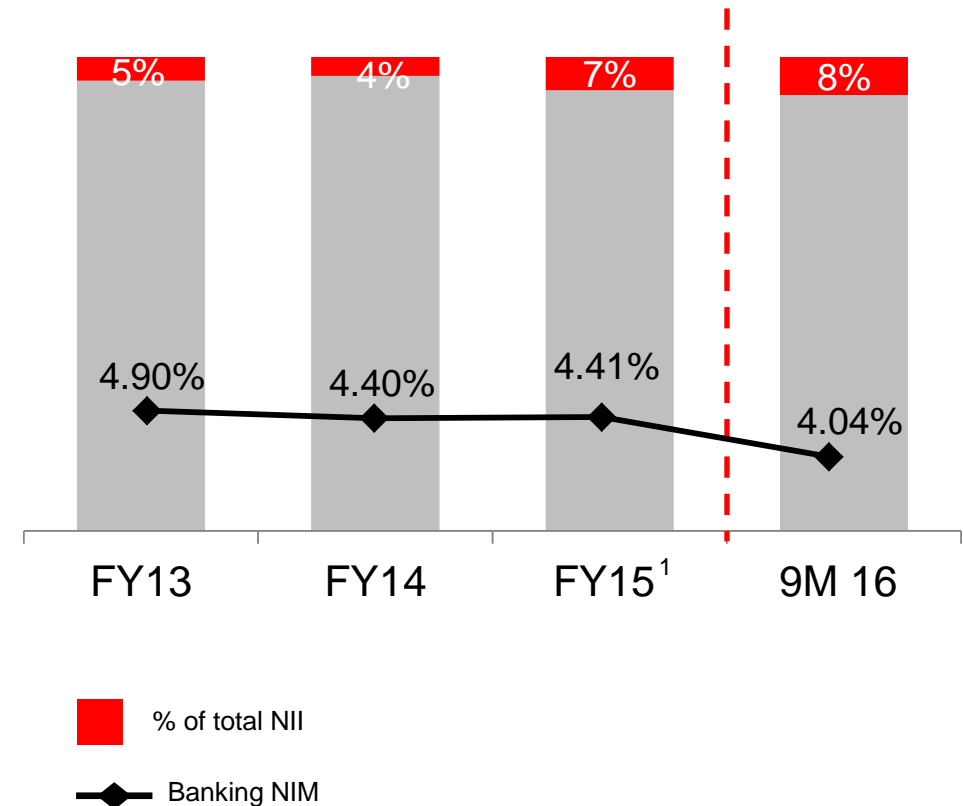
# Capturing opportunities in Consumer Finance

Leading motor finance company in the UK ...

- 7 manufacturer partners
- Collaboration with over 3,500 motor retailers
- Point of sale quotation and application system
- Assortment of 'value-added' products
- Flexible point of sale system for an extensive range of finance and related products
- Provision of stock and other dealer funding facilities



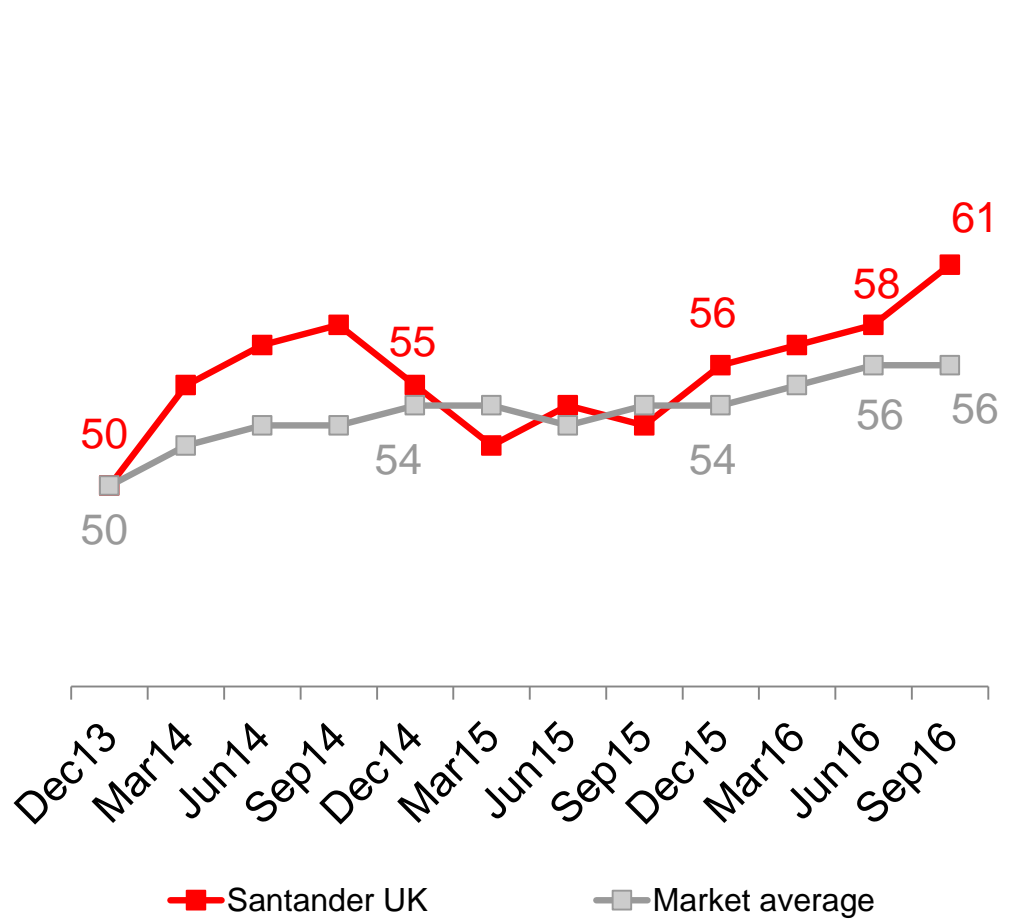
... with a growing income contribution



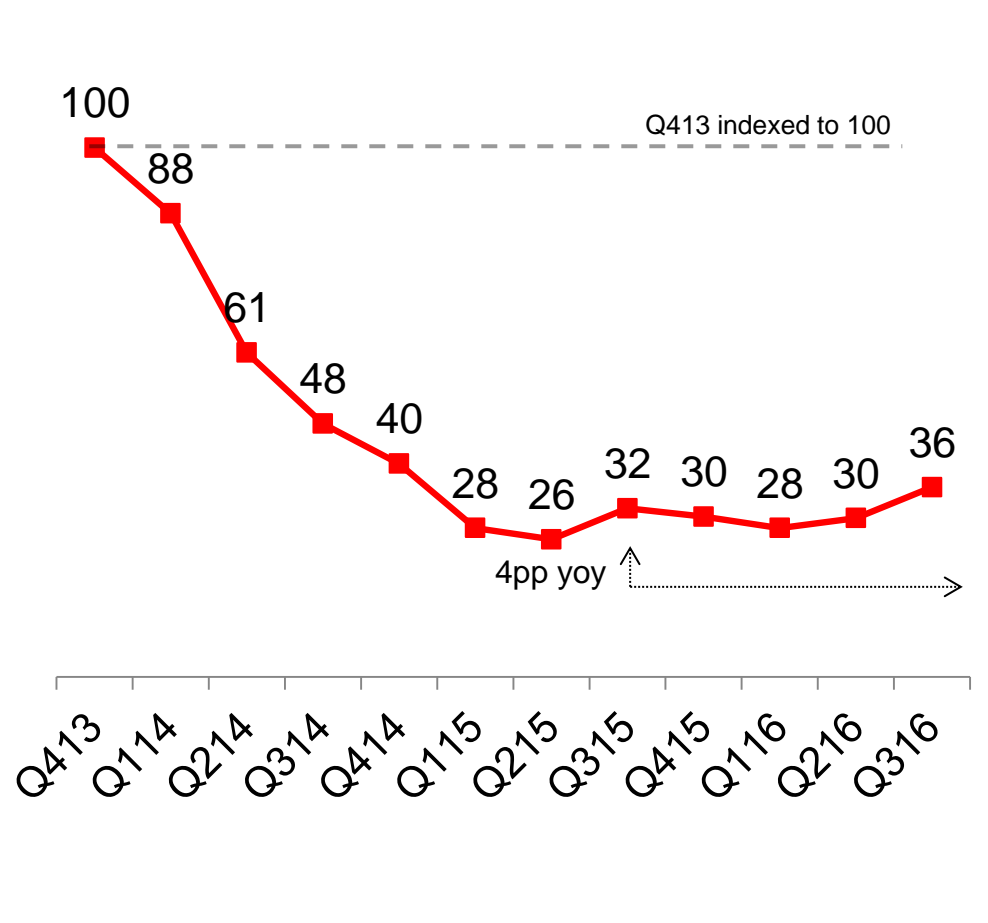
1. Consumer finance balances increased £2.7bn, following the commencement of the PSA cooperation in February 2015.

# Improving corporate customer experience

Corporate customer satisfaction (%)<sup>1</sup>



Corporate complaints received (indexed)<sup>2</sup>



1. Source: Charterhouse Business Banking Survey. Refer to Appendix 1 in the Q316 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: Santander UK management information. Complaints relate to our commercial and corporate banking businesses



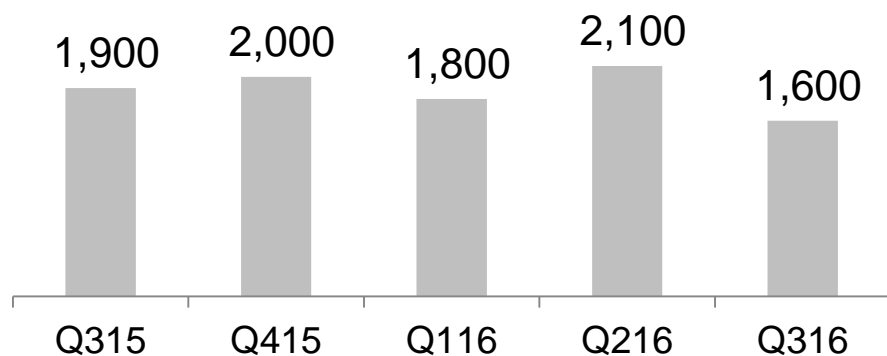
# Utilising full service corporate and commercial offering

	Customers	Customer loans
SME > £250k - £50m	72,000	£13.4bn
Mid corporates > £50m - £500m	1,600	£8.4bn
Large corporates > £500m	300	£6.5bn

Expanded footprint to be closer to our customers

	2012	9M16
Relationship Managers	503	703
Corporate Business Centres	34	69

## Commercial Banking bank account openings



## International expertise and differentiated offering

### BREAK THROUGH





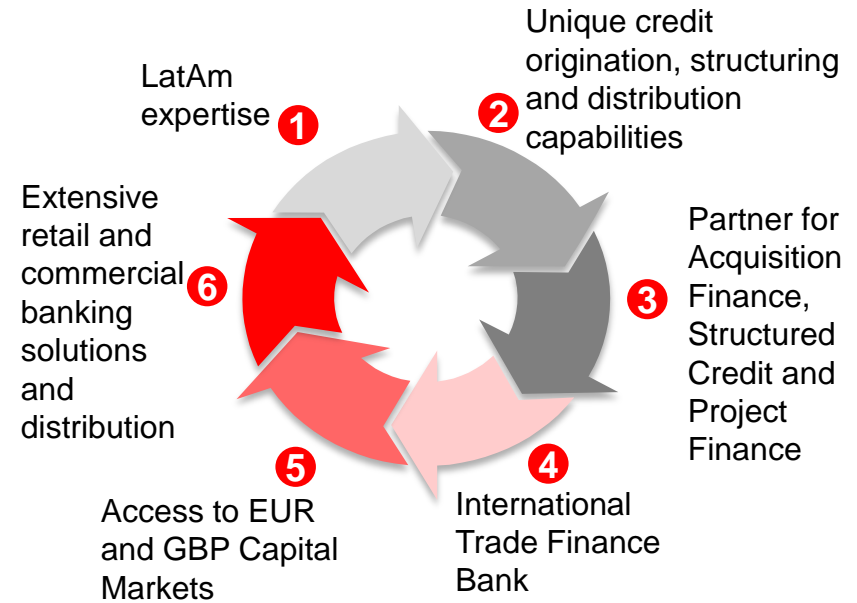
# Customer loyalty and market share growth

## Investing in the GCB UK franchise

### Evolution of our UK franchise

- **Refining our client centric business model** to deepen relationships with clients and increase customer loyalty
- **Increasing connectivity across GCB units** in different geographies with an integrated client coverage
- **Transitioning towards a capital-light business model**, with opportunities for fee income growth and maximum return on capital with our transactional, FX and advisory services
- **Focusing on cost management and governance oversight** as we streamline our processes, while remaining compliant to regulatory and compliance obligations
- **Deploying an end-to-end global client on boarding** management system for improved customer insight

### Our competitive advantage



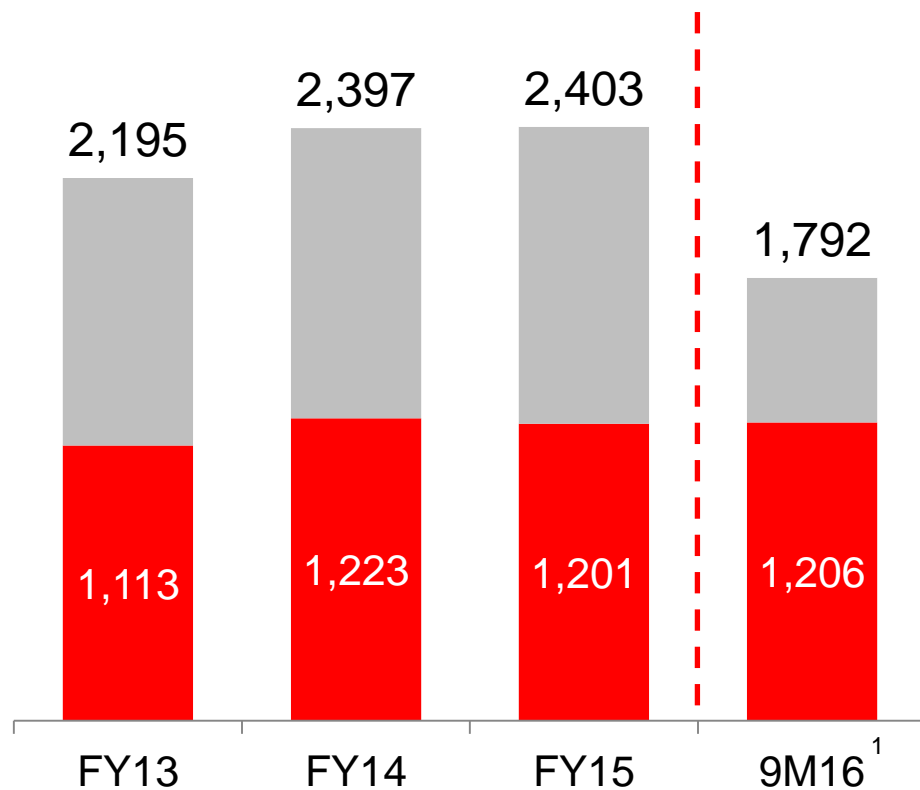
### Strong credentials in chosen businesses

	2013	9M16
UK housing associations bonds <sup>2</sup>	1st	1st
Arranger of UK renewable loans <sup>3</sup>	9th	2nd
UK syndicated loans MLA <sup>1</sup>	6th	5th
UK corporate bonds investment grade (£) <sup>1</sup>	5th	8th

1. Source: Dealogic, Ranking by apportioned amount | 2. Source: Dealogic and Santander UK | 3. Source: Infradeals; Ranking by Volume

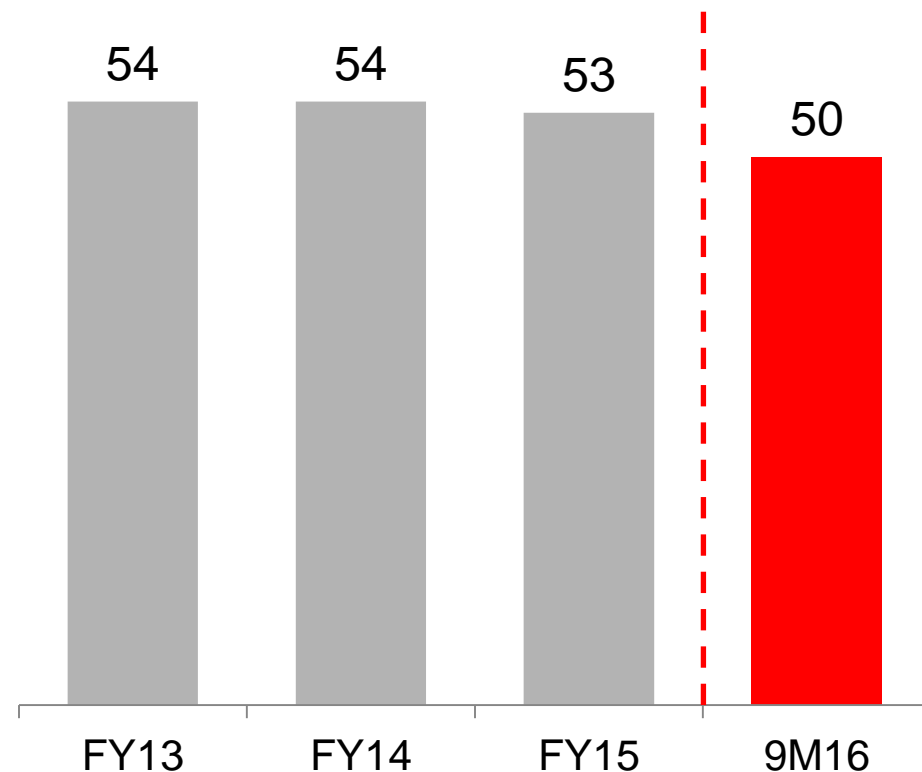
# Operational efficiency well managed

Operating expenses (£m)



■ First half of the year

Cost-to-income ratio (%)



1. 9M16 operating expenses include £55m Banking Reform costs. Adjusting for these costs, operating expenses would have been down 3% versus 9M15

# Six areas of focus for enhanced digital experience



## Credentials

I have **quick** & **easy** access to digital services



## See

I can **see** all my Santander accounts



## Service

I can **do** basic transactions **myself**



## Buy

It is simple for me to **apply** for a new account



## Mobile

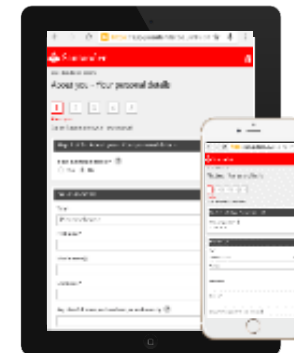
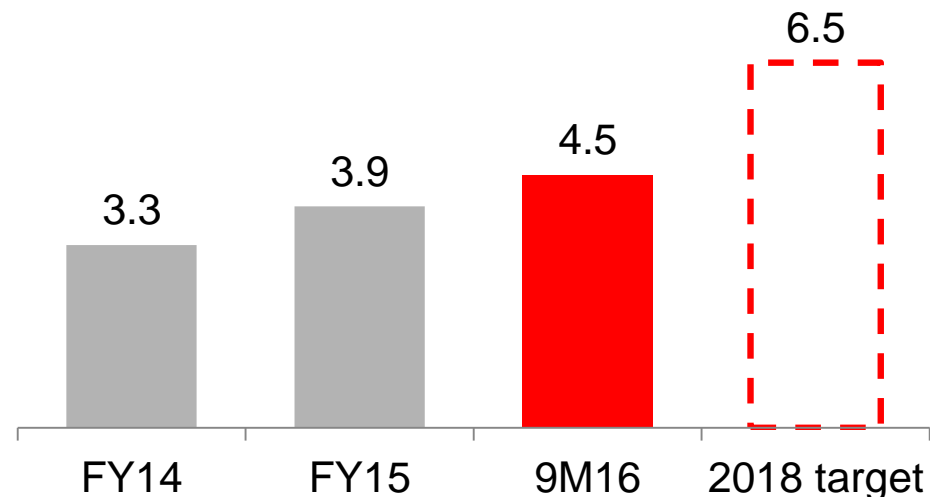
I have access to digital services **on the move**



## Analytics

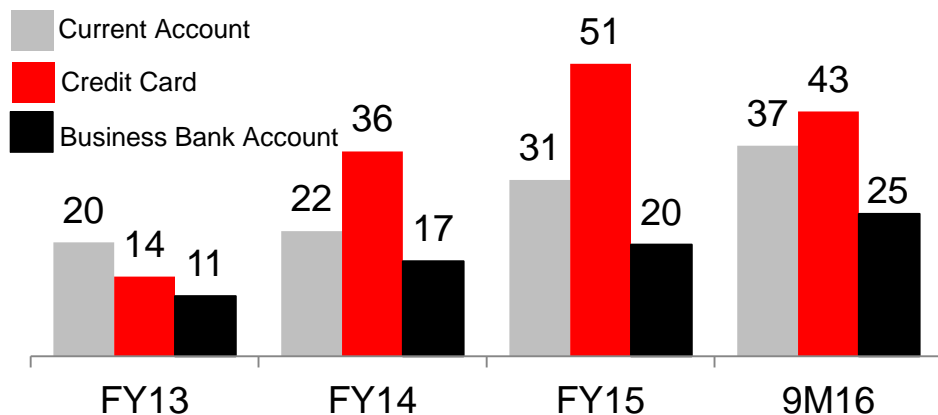
We have **enablers** & **analytics** to optimise our digital services

### Total digital customers (m)



# Accelerating our digital transformation

## Digital openings (% of total openings)

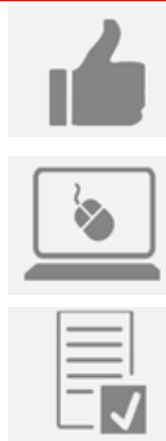


## Impact of new digital functionality<sup>1</sup>

- An average of 1,500 new active mobile users every day
- Over 40% of mortgages retained online
- +39% business bank account online sales
- Over 1 in 3 bank accounts opened online
- +112% increase in account alert subscribers
- Improved cyber risk management capability

## Future digital developments for account openings

- Save and retrieve online application
- Instant on screen decision
- Document upload if ID is required
- Reduced number of questions
- Improved design and interaction



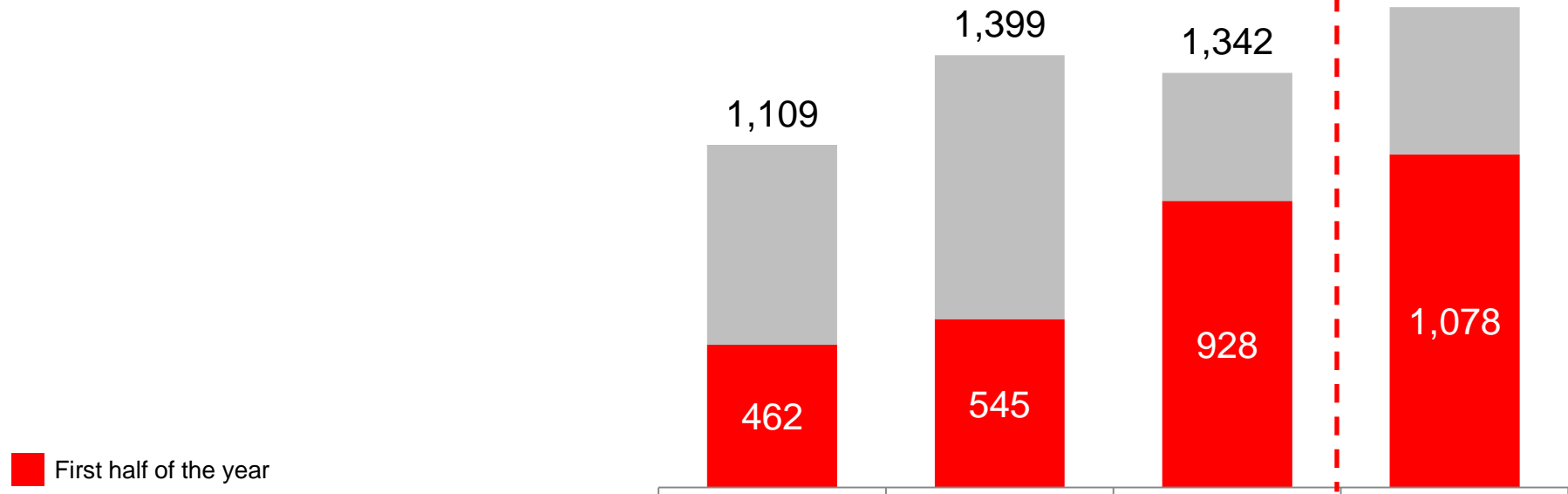
## Key digital developments in 2016

- Launched Investment Hub, a new digital platform for customers to self manage their investments online
- Partnership with Kabbage, to provide same day funding access to UK SMEs
- Pioneered voice banking with SmartBank app
- Expanded mobile payment capabilities with Android Pay
- End to end online mortgage platform

1. Growth volumes 9M16 vs. 9M15

# Consistently profitable, sustainable business

Profit before tax (£m)



■ First half of the year

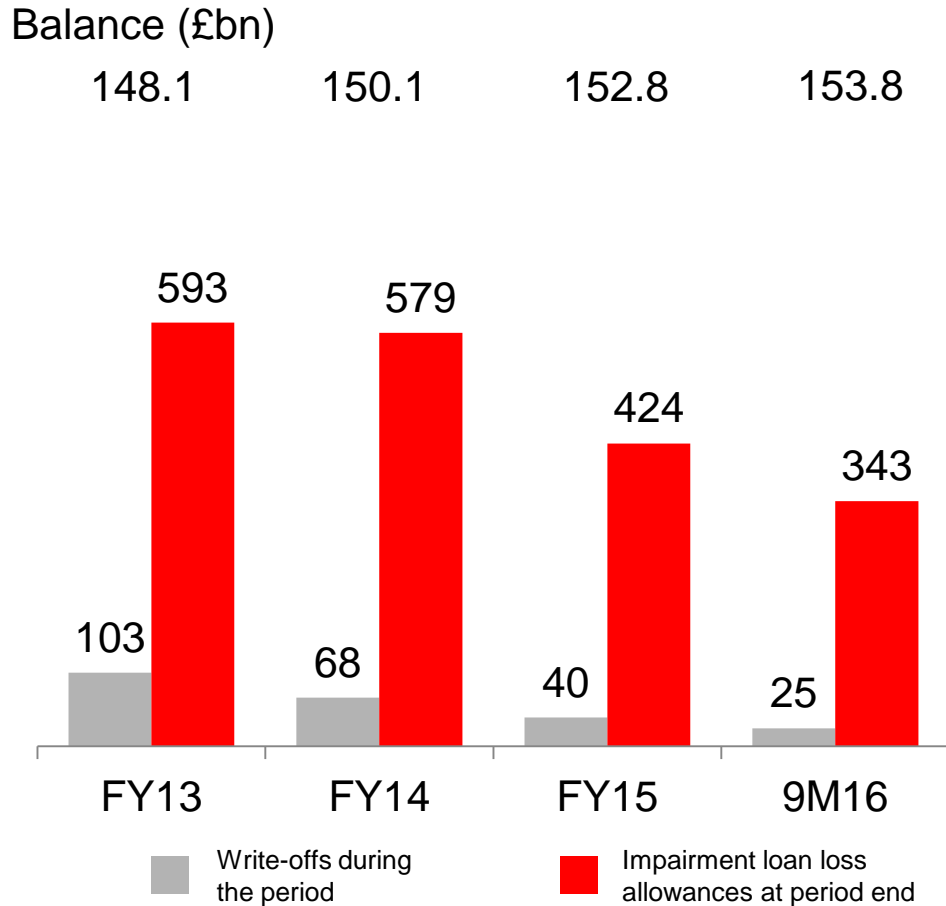
	FY13 <sup>1</sup>	FY14	FY15	9M16 <sup>2</sup>
Adjusted RoTE / RoTE (%)	8.6	10.4	8.2	11.0 <sup>2</sup>
Banking NIM (%) <sup>3</sup>	1.55	1.82	1.83	1.77

1. 2013 PBT excludes discontinued operations | 2. 9M16 PBT excluding Visa Europe Limited gain of £119m and Banking Reform costs of £55m would have been £1,491m. 9M16 adjusted RoTE Adjusted RoTE of 11.0% includes phasing adjustments to facilitate comparison with the year end ratio. See Appendix 1 in the Q316 Quarterly Management Statement for a full definition. Statutory RoTE was 12.1%. | 3. Banking NIM is calculated as annualised net interest income divided by average customer loans

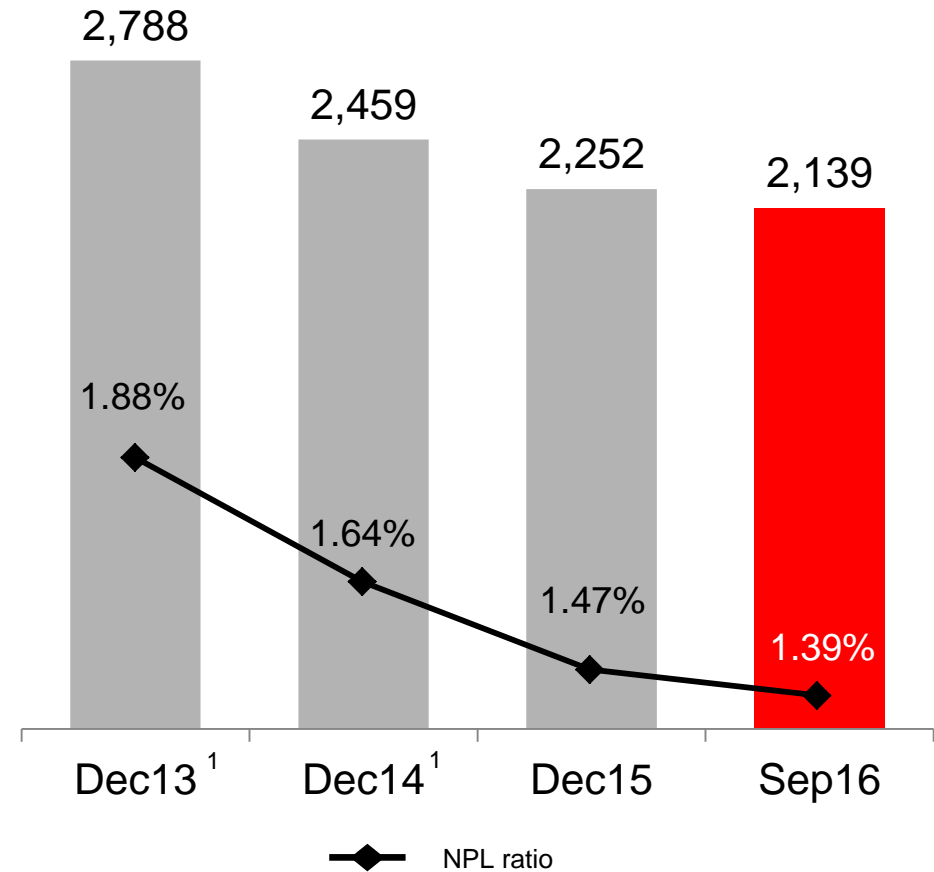


# Robust residential mortgage credit performance

Mortgage impairment loan loss allowances and write-offs (£m)



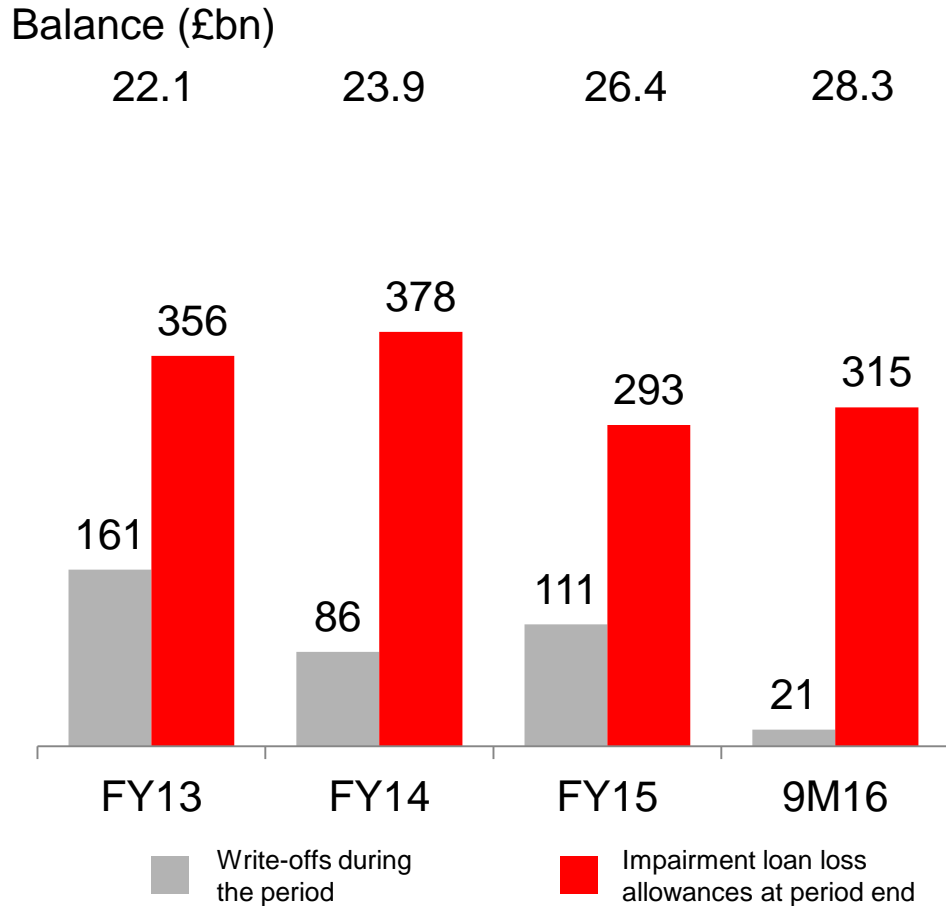
Mortgage NPLs (£m)



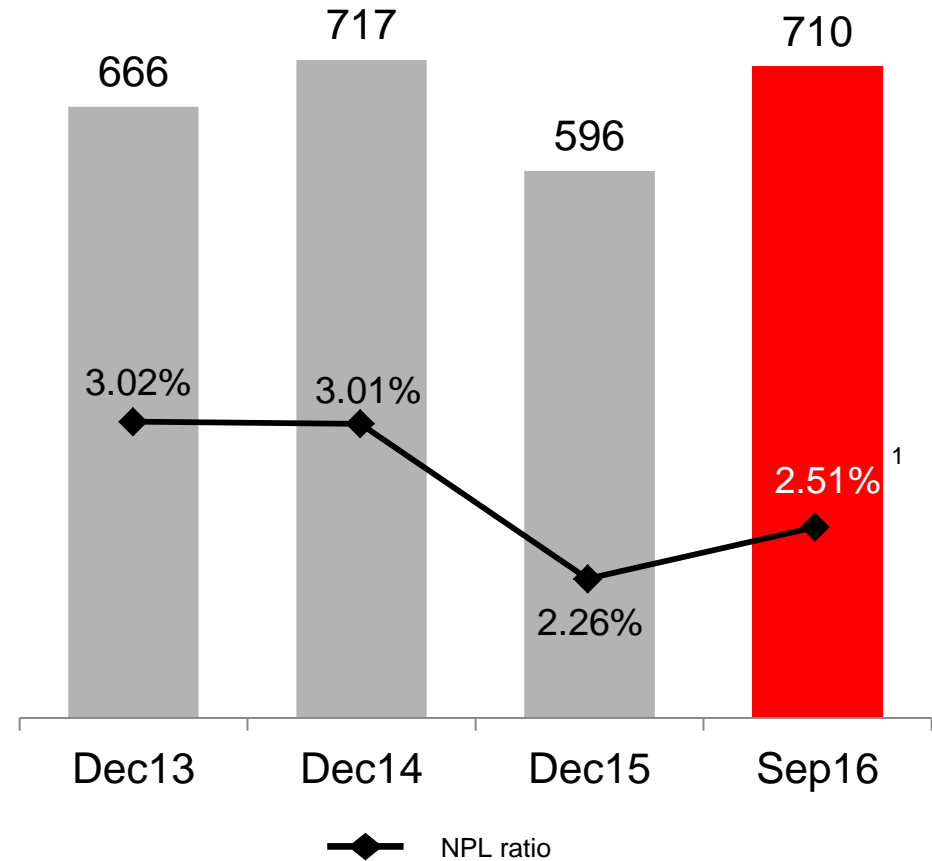
1. Residential mortgages NPL ratio for Dec13 and Dec14 excludes PIPs

# Prudent approach in corporate lending

Corporate loans impairment loan loss allowances and write-offs (£m)



Corporate NPL (£m)



1. The increase reflects a single loan in Commercial Banking and a single loan in Global Corporate Banking which moved to non-performance.

# Well diversified CRE portfolio

## Credit performance

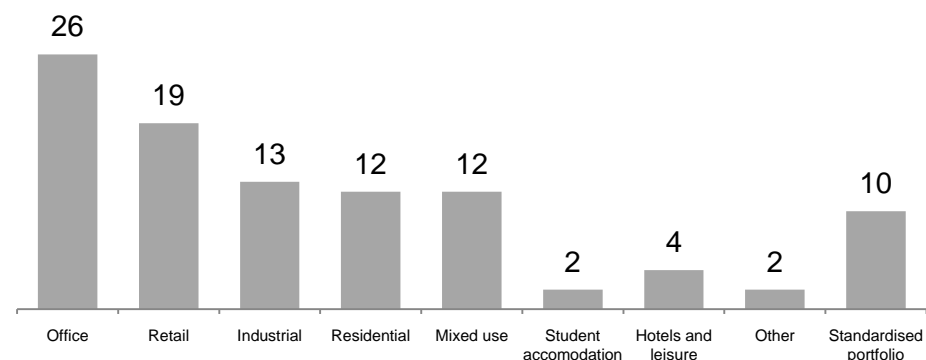
Dec15

Sep16

CRE customer loans	£9.2bn	£9.3bn
NPL ratio	1.83%	2.17%
NPL coverage ratio	43%	31%

Total committed exposure	£10.5bn	£10.5bn
Up to 50% LTV	36%	37%
50% to 60% LTV	33%	34%
60% to 70% LTV	14%	11%
70% to 100% LTV	3%	2%
> 100% LTV	-	1%
Standardised portfolio <sup>1</sup>	10%	10%
Total with collateral	96%	95%
Development loans	4%	5%
	100%	100%

## Sector analysis (stock %, Sep16)



- The CRE portfolio of £9.3bn is 33% of corporate lending and 5% of total customer loans
- The portfolio is well diversified across sectors, with no significant regional or single name concentration
- Conservative approach to new lending in 9M16:
  - no new business written >70% LTV
  - 95% written at or below 60% LTV
- Weighted average LTV on exposures Sep16: 52% (Dec15: 52%)

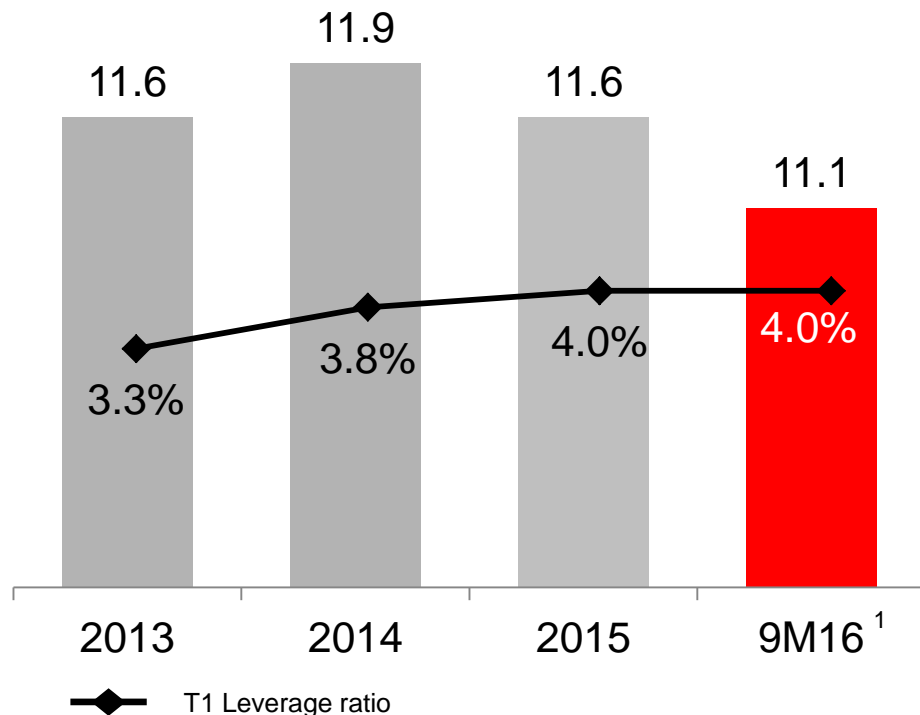
1. Consists of smaller value transactions, mainly commercial mortgages



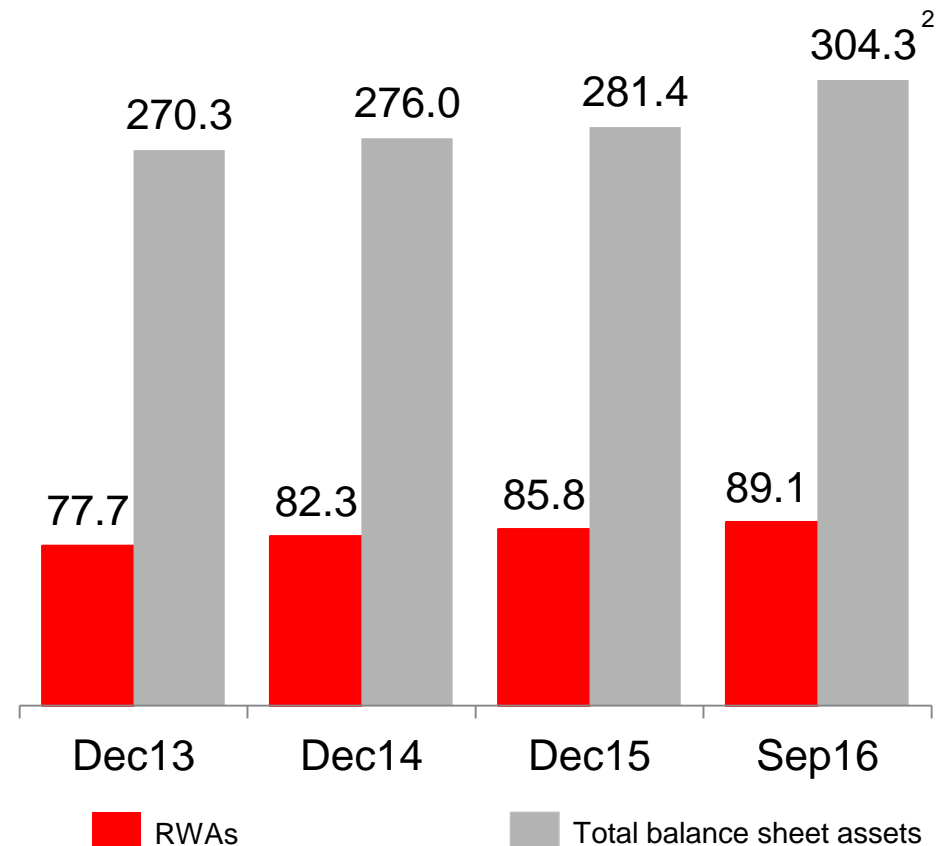
# Robust capital and leverage levels

## CET1 and leverage ratio (%)

CET 1 capital ratio was 11.1% with higher profits and steady capital generation offset by recent rates volatility on defined benefit pension schemes accounting position



## Risk weighted assets and balance sheet assets (£bn)

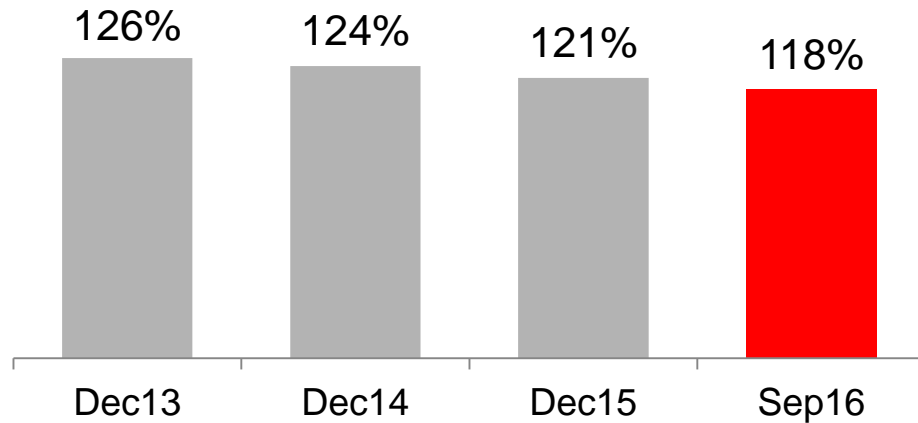


1. 9M16 leverage ratio was calculated applying the amended definition, as published in the Jul16 PRA statement. | 2. The increase reflects higher level of assets held for liquidity purposes and the increases in the fair value of interest rate and cross currency derivative assets as a result of market volatility.

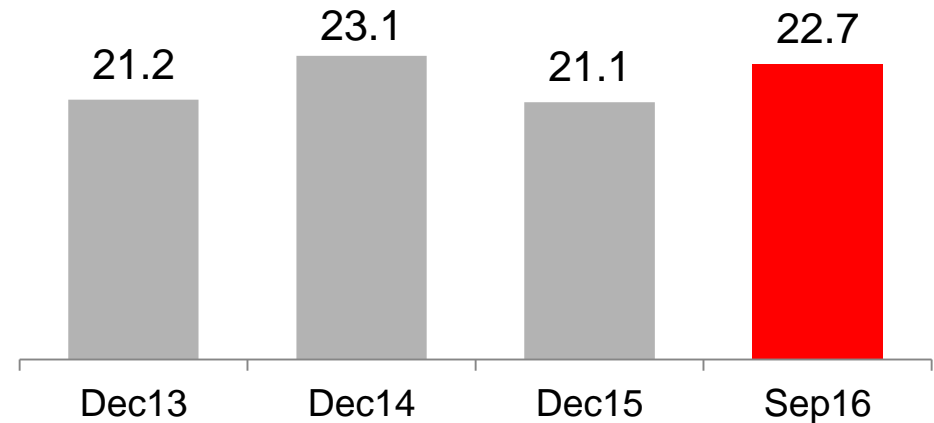
## Fixed income information

# Strong liquidity position

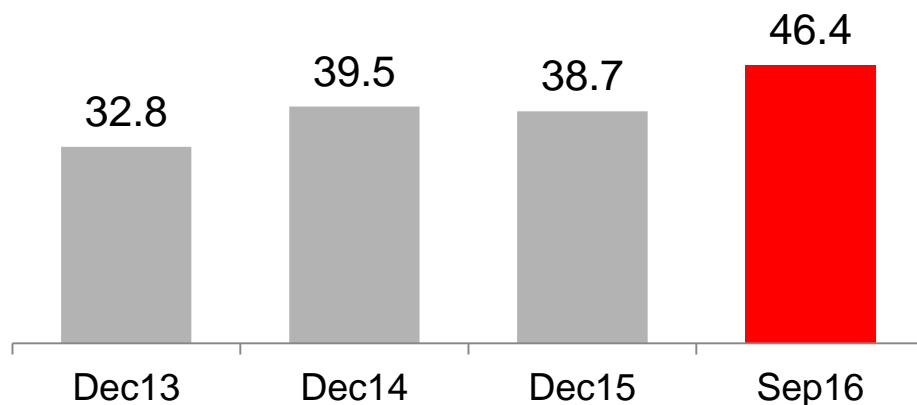
## Loan-to-deposit ratio



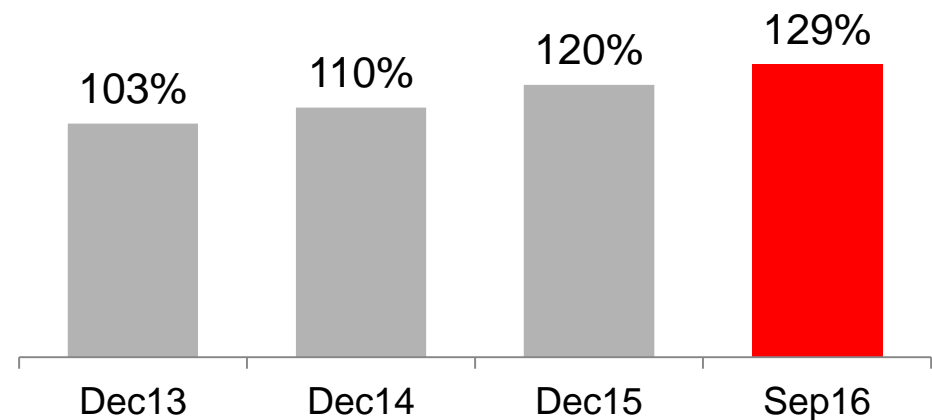
## Wholesale funding with a residual maturity of less than 1 year (£bn)



## LCR eligible liquidity pool (£bn)

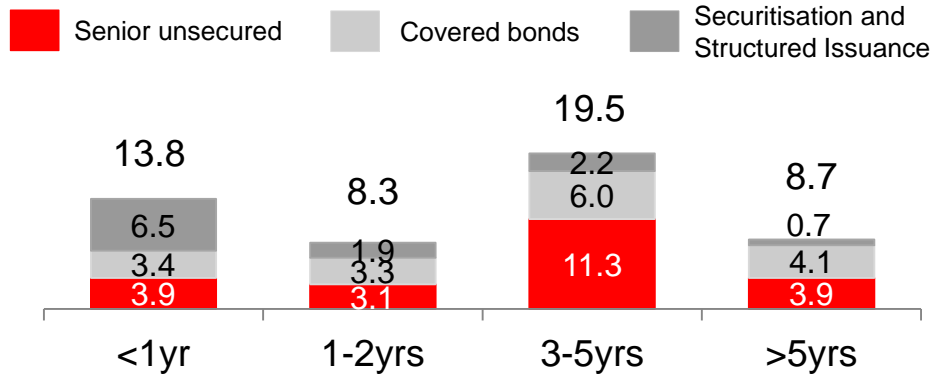


## Liquidity coverage ratio ('LCR')

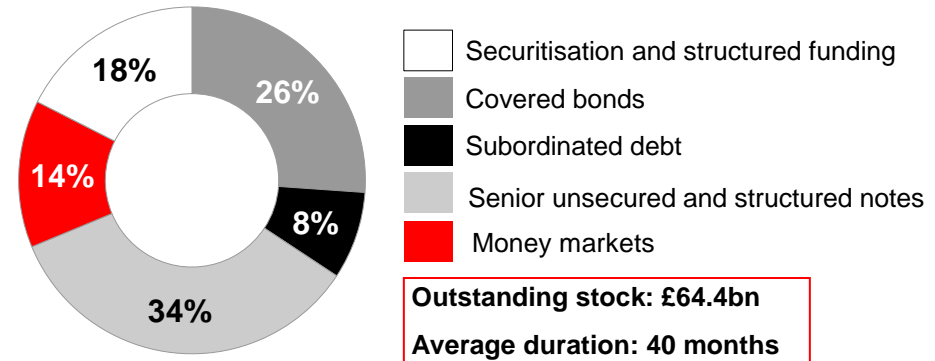


# Improved funding profile with reduced encumbrance

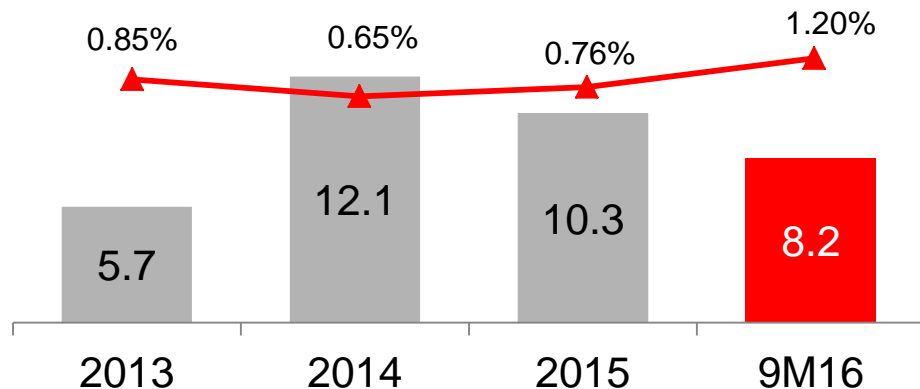
## MTF maturities (£bn, Sep16)



## Wholesale funding stock (Sep16)

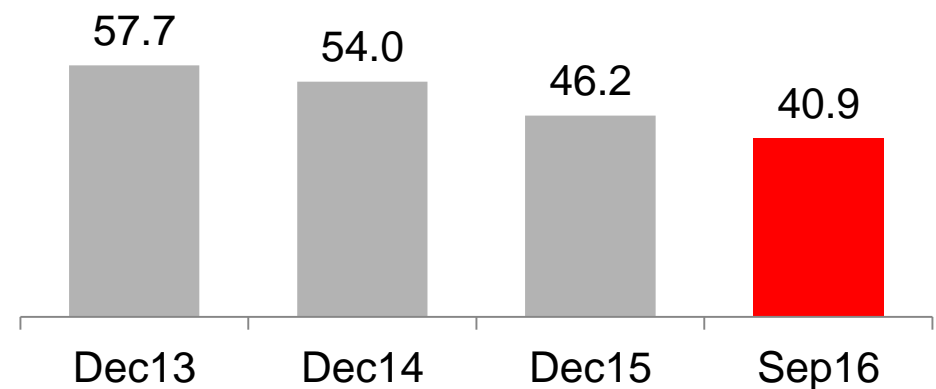


## MTF issuance (£bn) and spread<sup>1</sup>



▲ Weighted average spread of primary issuance above 3M LIBOR

## Medium term funding encumbrance<sup>2</sup> (£bn)



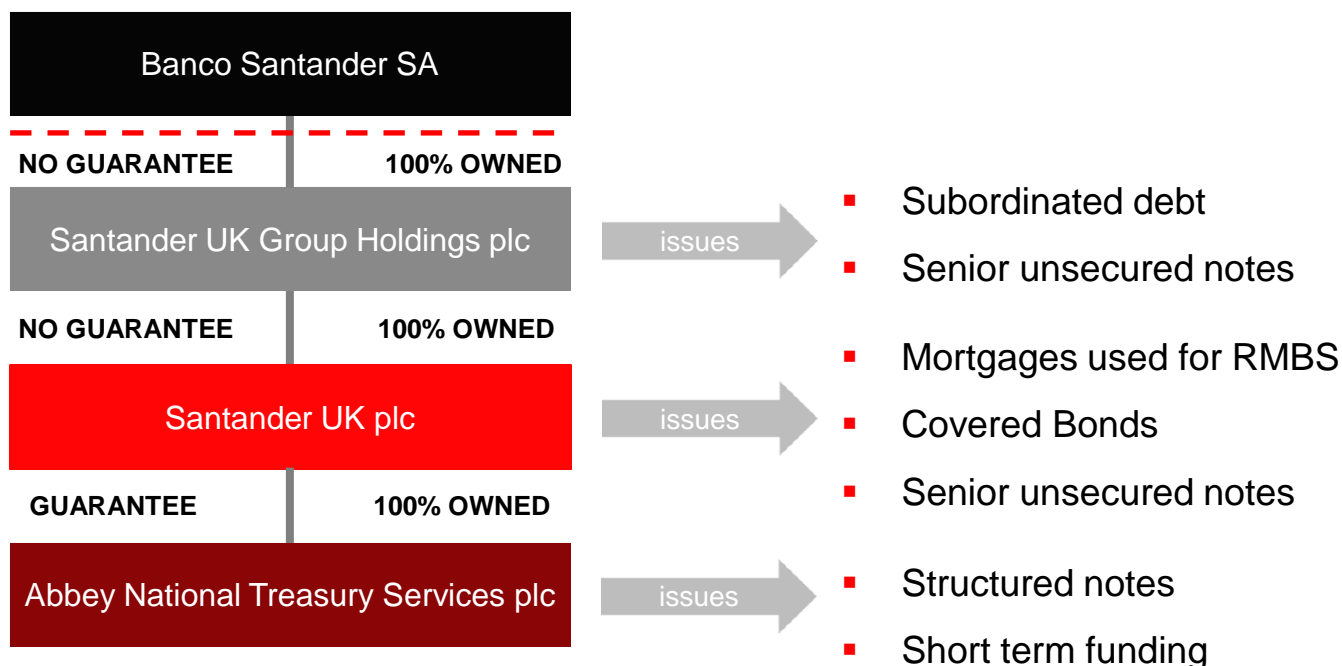
1. Weighted average spread at time of issuance above GBP 3M LIBOR | 2. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and covered bond programmes

# Wholesale funding issuance model

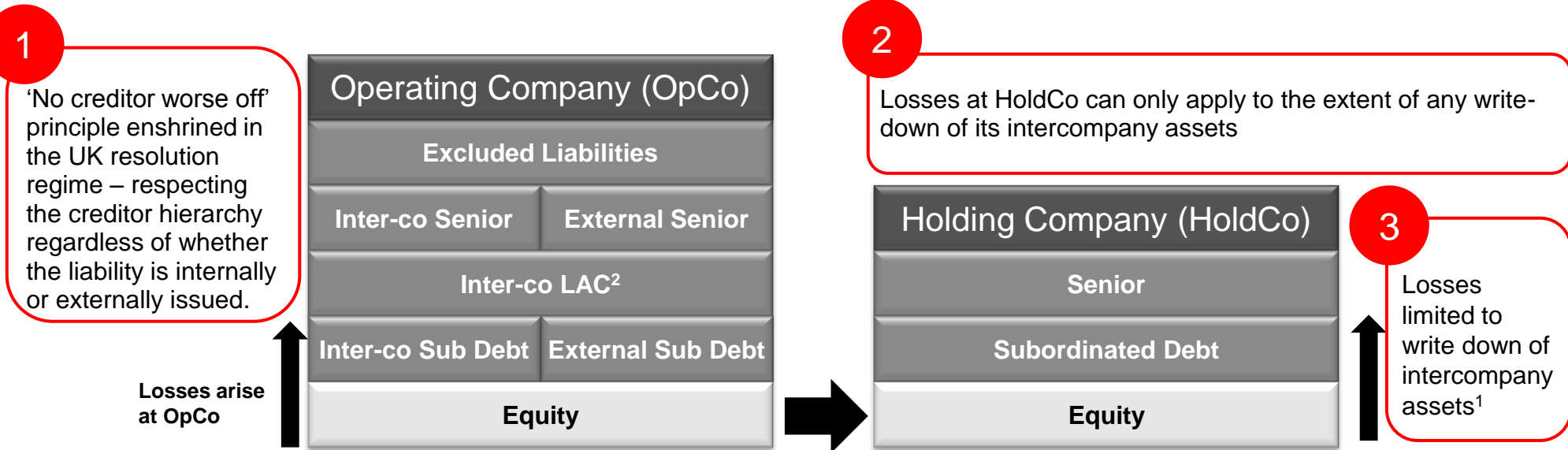
Banco Santander – multiple point of entry resolution group  
Santander UK Group Holdings plc – single point of entry resolution group

- We are required to satisfy the PRA that we can withstand capital and liquidity stresses on a standalone basis
- The PRA regulates capital and liquidity (including dividends) and large exposures

## Santander UK Group wholesale funding structure



# UK resolution regime approach

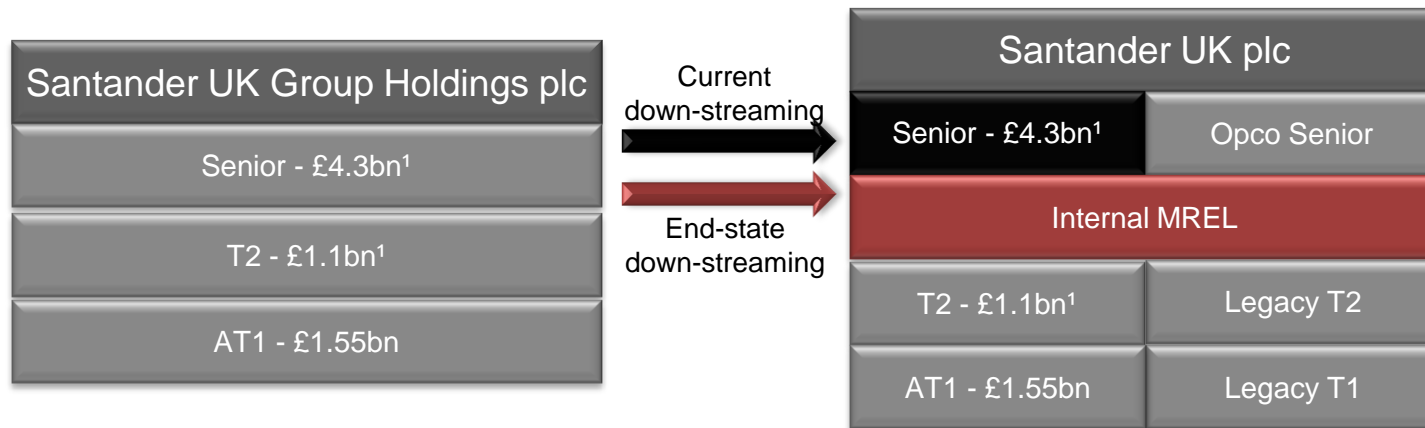


It is important that HoldCo investors understand the nature of the down-streaming arrangements. We are committed to providing transparent disclosure around how external Santander UK Group Holdings plc debt is down-streamed to Santander UK plc

1. The write-down of the intercompany assets will be determined by the relevant authority following valuations conducted per BRRD Art 36 | 2. Inter-co Loss Absorbing Capacity ('LAC') may require terms to be included in the intercompany trade to make it subordinated to non LAC senior liabilities

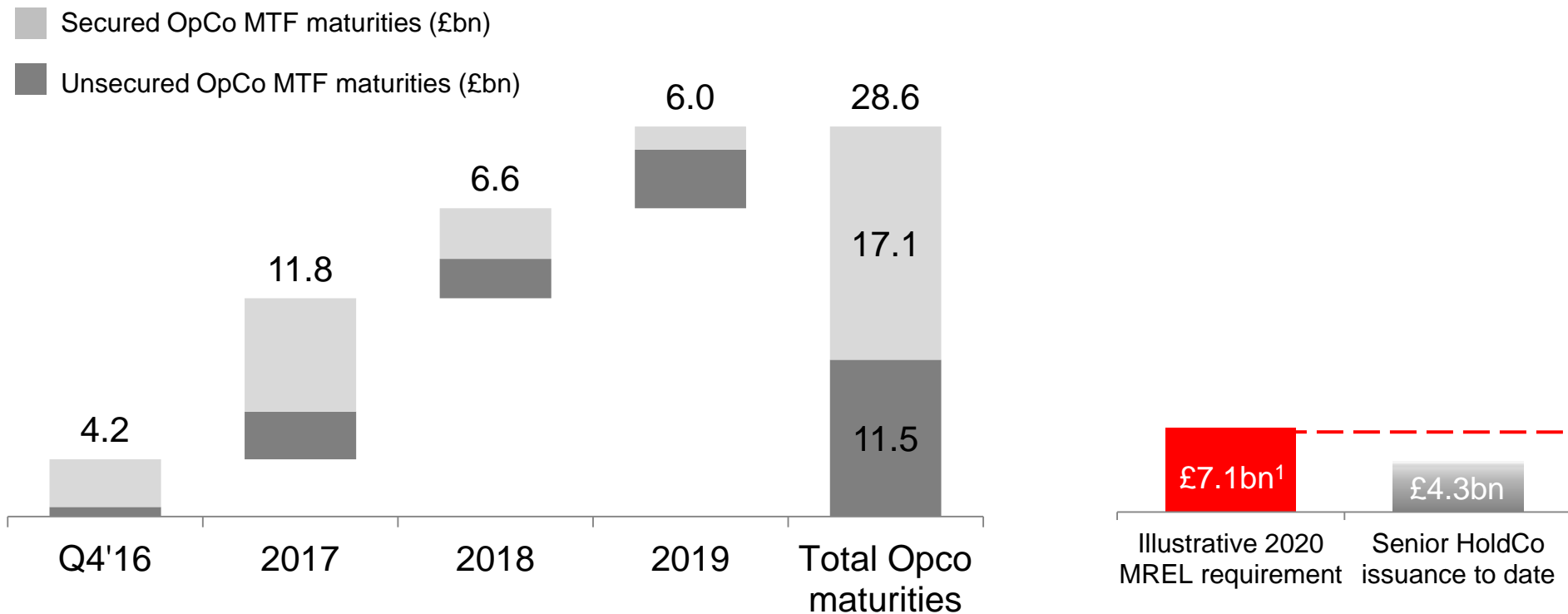
# Transparent HoldCo debt down-streaming model

It is Santander UK's current intention to meet a portion of any regulatory loss absorbing capital requirement through issuance of senior unsecured debt from HoldCo which is down-streamed transparently in a regulatory LAC compliant form



Currently all of our HoldCo debt is down-streamed into Santander UK plc ('OpCo') on an equivalent basis. Under the end-state MREL / TLAC 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

# Well placed to meet end-point MREL requirement

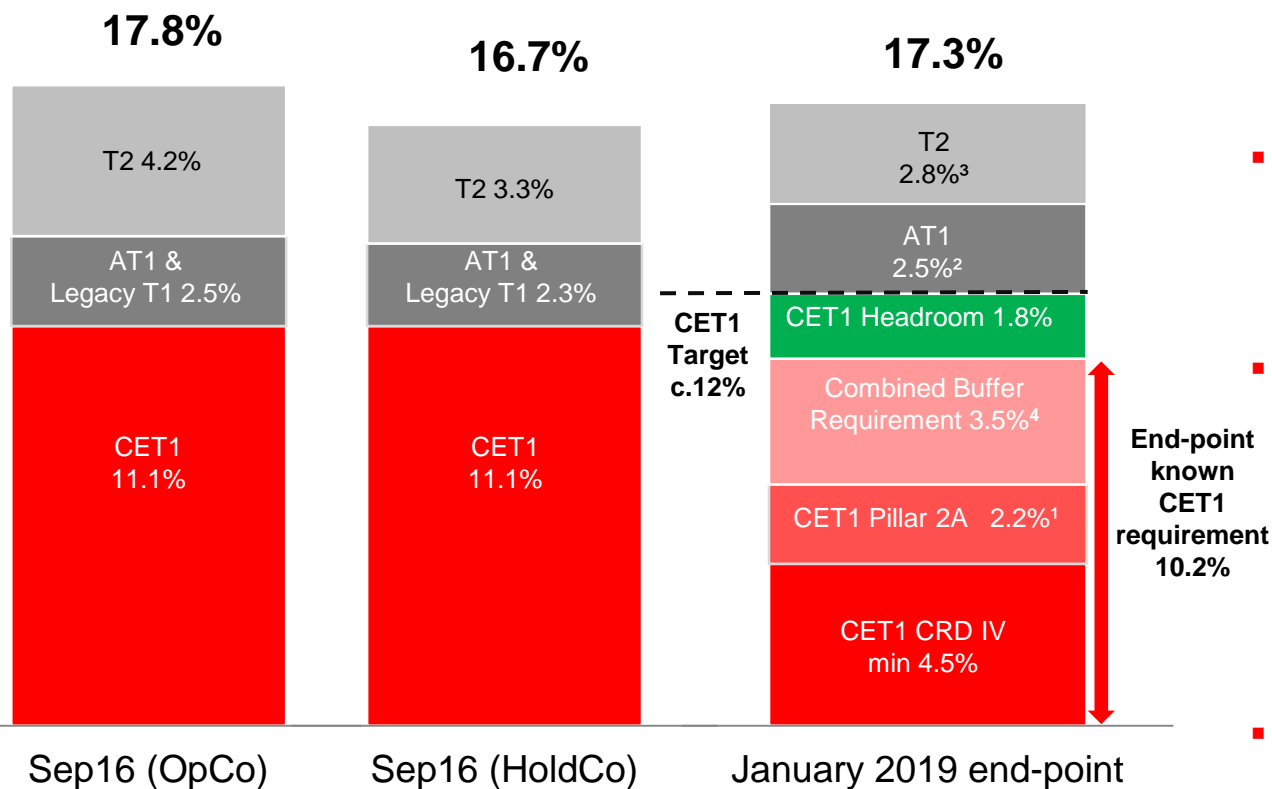


- BoE MREL requirements over and above regulatory capital minimum (recapitalisation amount) likely to apply from 1 Jan 2020
- Final MREL recapitalisation requirement expected to be communicated later in 2016
- The majority of our MREL recapitalisation requirement to be met through gradual refinancing of existing OpCo maturities. It will not be additive to wholesale funding requirements

1. £7.1bn represents 8% of 30 September 2016 RWAs



# Well placed to meet end-point capital requirement



- HoldCo and OpCo total capital difference is driven by the recognition of minority interests
- 17.8% of RWAs is the total subordination available to senior OpCo bondholders
- The FPC has indicated that it judges the current level of capital in UK banking system to be near to appropriate levels, and expects the impact of the Basel Committee revisions to be offset by reductions in Pillar 2A capital levels for UK banks
- At 30 September 2016, Santander Group Holdings plc had £4.2bn of distributable reserves

1. Santander UK's Pillar 2A requirement was 4.0% at 1 January 2016, Pillar 2A guidance is a point in time assessment | 2. Current minimum AT1 regulatory requirement is Pillar 1 1.5% and Pillar 2A 0.8%, however Santander UK expects to issue up to its leverage ratio eligible amount which is currently equal to 2.5% of RWA | 3. Current minimum T2 requirement is Pillar 1 2.0% and Pillar 2A 1.0%, however 0.2% of the T2 requirement will be satisfied from 0.2% of the 2.5% AT1 issuance | 4. Combined Buffer Requirement of 3.5% is made up of a 2.5% capital conservation buffer, a 1% systemic risk buffer (note this applicable from 2019 for the ring-fence bank). Currently the countercyclical buffer is set at 0%

# Credit ratings – October 2016

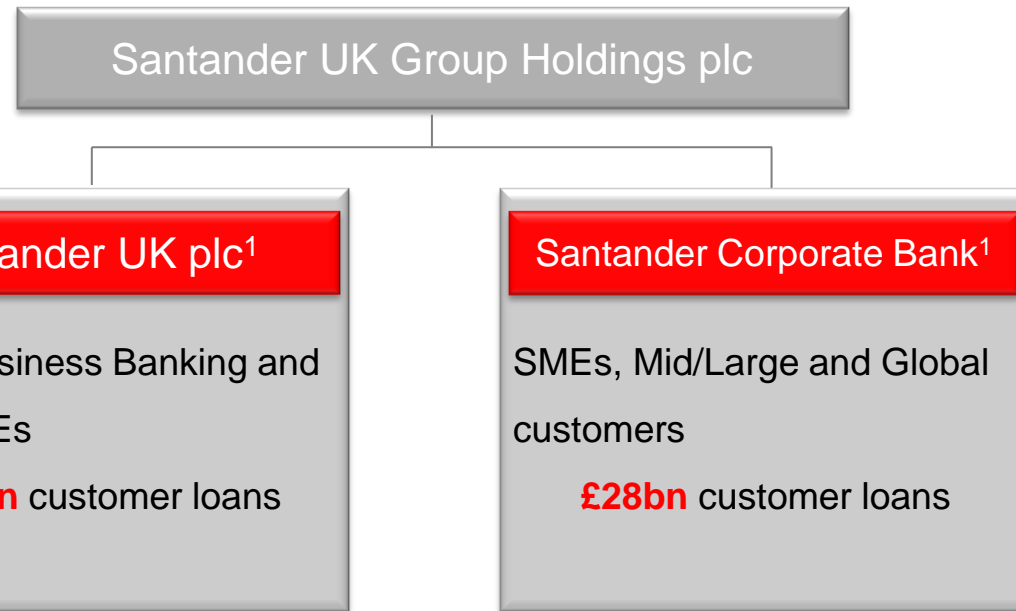
		S&P	Moody's	Fitch
Santander UK Group Holdings plc	Senior unsecured outlook	BBB stable	Baa1 negative	A positive
Santander UK plc	Senior unsecured outlook	A negative	A1 stable	A positive
	Short-term	A-1	P-1	F-1
	Standalone rating	bbb+	a3	baa1

Ratings outlook on most major UK banks operating companies impacted by the UK referendum on EU membership:

- S&P affirmed the long term rating for Santander UK plc at A. Outlook changed to negative from stable
- Moody's also affirmed all of our ratings. Senior unsecured outlook changed to stable from positive
- Fitch affirmed the long-term credit rating for Santander UK plc to A with a positive outlook in May16

Other information

# Our ring-fencing approach will support business growth



**Specialist, dedicated and customer-centric** corporate bank:

- Seamless service covering **all customer needs**
- **International:** global reach and expertise of the Santander Group

**<1%**  
Customers  
re-segmented

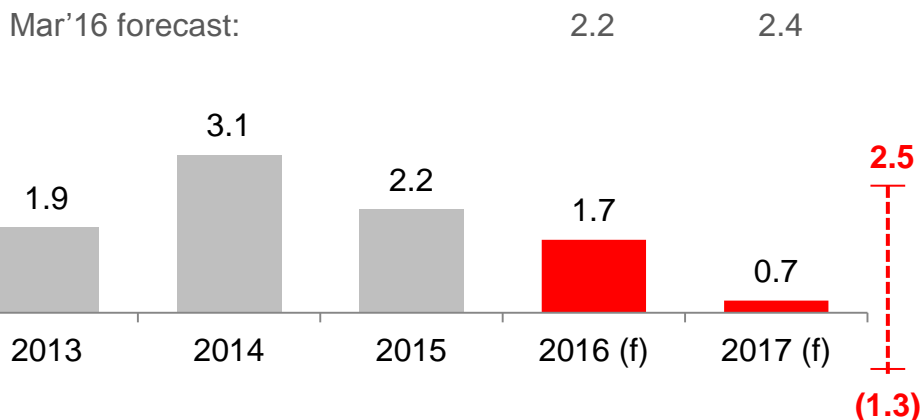
**2H'18**  
Completion

A retail and small business bank and a dedicated corporate bank will meet the distinct needs of the differing segments of our customer base

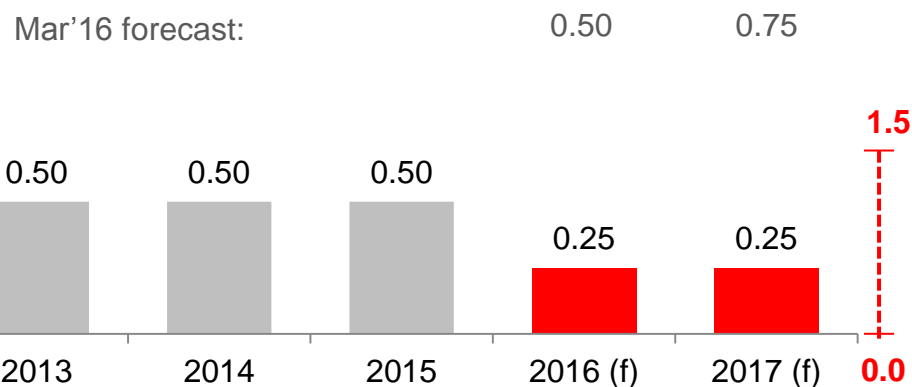
1. Illustration of Santander UK's near final ring-fencing plans. These plans are subject to regulatory approvals. Our current plan is for Santander UK plc to be the legal entity for our ring-fenced bank and Abbey National Treasury Services plc (ANTS) to be the legal entity for our non-ring-fenced bank. Customer loans indicative split as at Jun16.

# Uncertain UK economic outlook

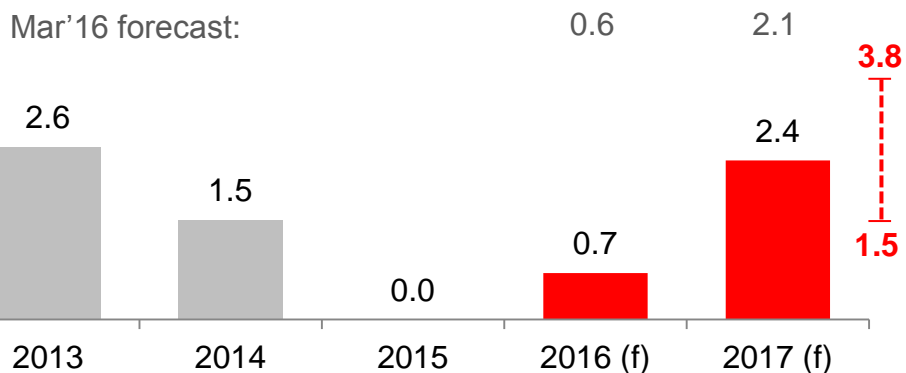
Annual GDP<sup>1</sup> growth (% , annual average)



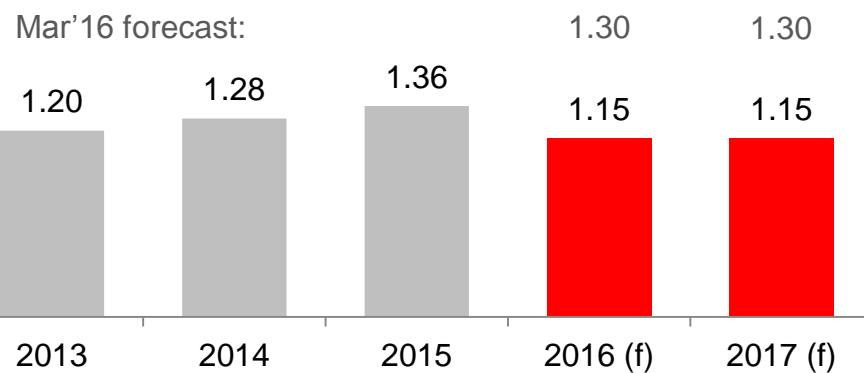
Bank of England base rate (% , year end)



Annual CPI<sup>2</sup> inflation rate (% , annual average)



GBP/Euro exchange rates (year end)



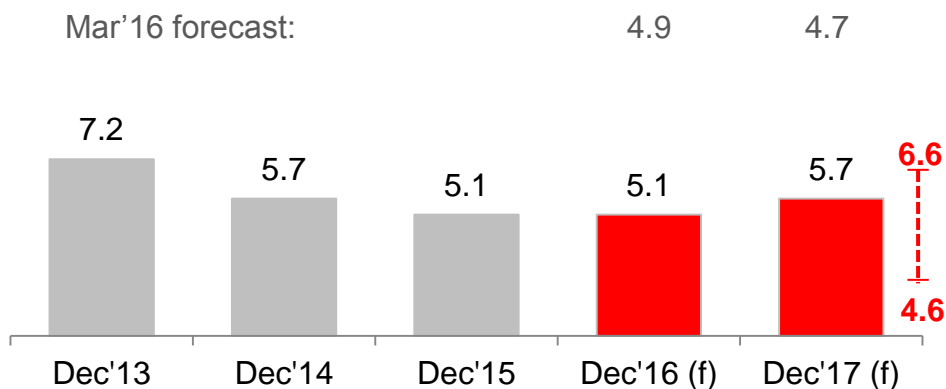
Source: Office for National Statistics and Bank of England. 2016 (f) and 2017 (f) are forecasts by Santander UK (September 2016). External forecast ranges from HMT Treasury Consensus September 2016.

1. Data revisions in the Second Estimate of GDP: Quarter 1 (published 28 August 2016) | 2. Consumer Price Index

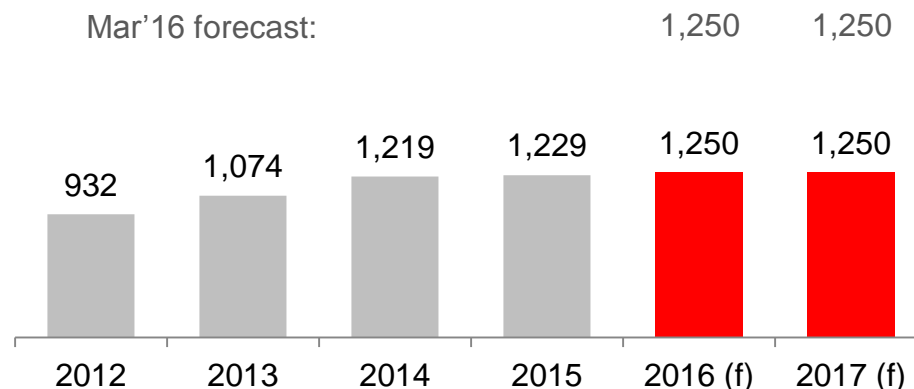


# Housing and labour markets could come under pressure

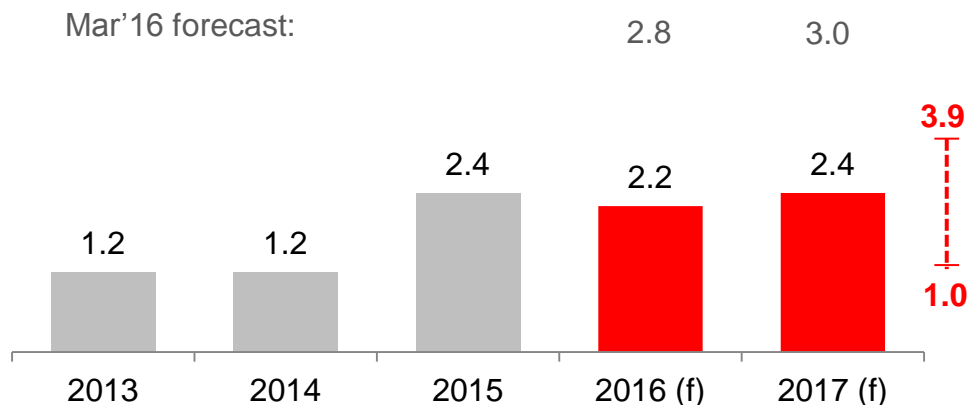
## Unemployment rate (ILO<sup>1</sup>)



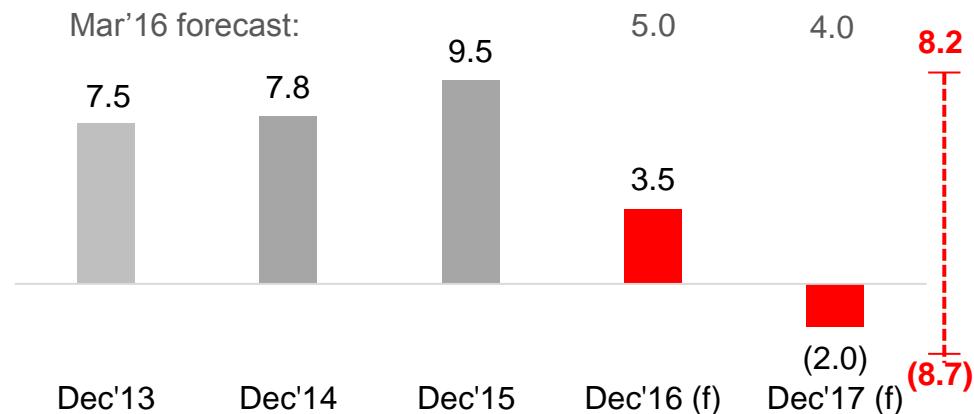
## Property transactions (sa<sup>2</sup>, 000s)



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



## House prices<sup>3</sup> (%)

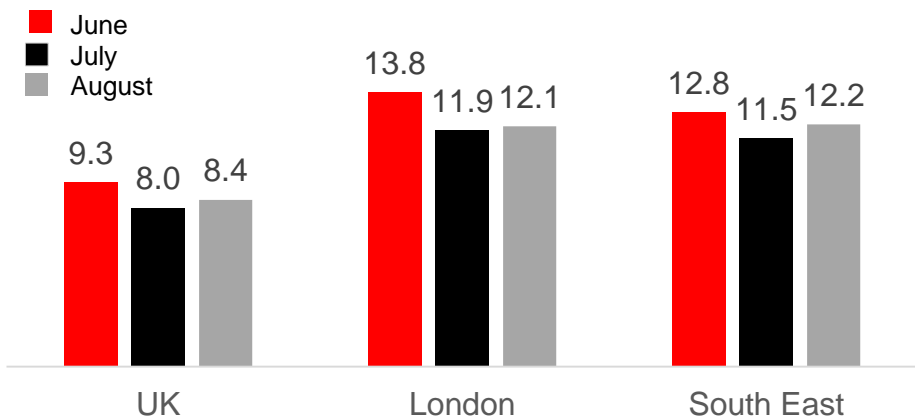


Source: Office for National Statistics and Bank of England. 2016 (f) and 2017 (f) are forecasts by Santander UK (September 2016). External forecast ranges from HMT Treasury Consensus September 2016.

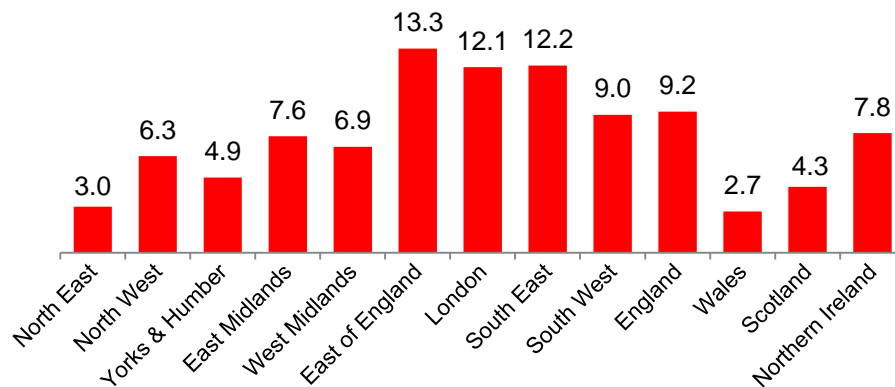
1. International Labour Organisation | 2. Seasonally adjusted | 3. Halifax house prices (Source: IHS Markit)

# Housing market expected to slow in H2 16

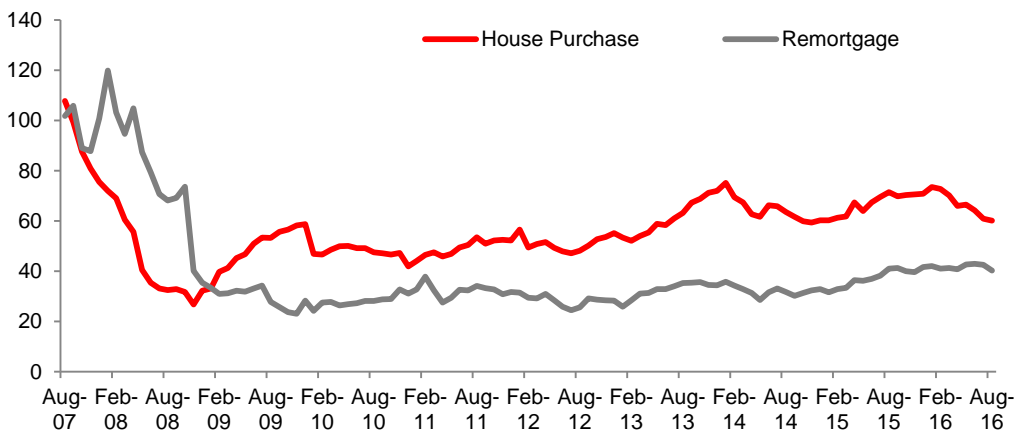
House price change  
(annual %, nsa<sup>1</sup>)



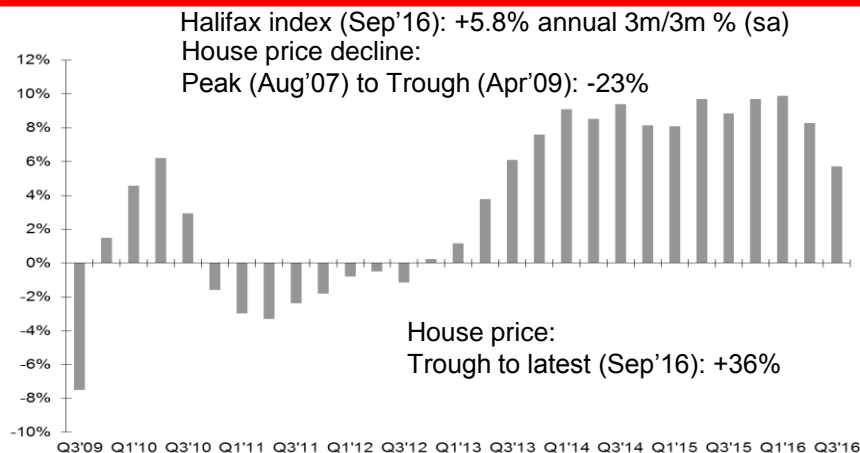
House price change by region  
Aug16 (annual %, nsa<sup>1</sup>)



House purchase and remortgage approvals  
(000s, sa<sup>2</sup>)



House price inflation  
(annual %, sa<sup>2</sup>)



Sources: House price change and House price change by region Aug'16 (annual %, nsa): Office for National Statistics. House purchase and remortgage approvals to Aug'16 (000s, sa): Bank of England. House price inflation (annual %, sa): Halifax (IHS Markit)  
1. nsa: not seasonally adjusted | 2. sa: seasonally adjusted

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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>

Q416 results: 25 January 2017

Q117 results: 26 April 2017

Q217 results: 27 July 2017

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**Investor Relations**

▪ **Bojana Flint**

Head of Investor Relations

**+44 20 7756 6474**

[ir@santander.co.uk](mailto:ir@santander.co.uk)

**Funding Team**

▪ **Tom Ranger**

Director of Funding and

Collateral Management

**+44 20 7756 6303**

▪ **Will Perkins**

Head of Medium Term Funding

**+44 20 7756 4797**

[mtf@santander.co.uk](mailto:mtf@santander.co.uk)

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1. Indicative, dates subject to change.



