

Santander UK Group Holdings plc

Investor Update for the year ended 31 December 2018

January 2019



Focused growth in the current uncertain environment

Dec18 vs Dec17

Mortgage lending  **£158.0bn**
£3.3bn

Lending to UK companies  **£24.1bn**
£3.2bn¹

NPL ratio  **1.20%**
22bps





CET1 capital ratio  **13.2%**
100bps

Return on Tangible Equity  **9.0%**
120bps

- Strongest growth in mortgages in over three years, despite the highly competitive market
- Managed reduction in CRE lending of £1.1bn², with greater focus on risk-weighted returns
- Lending growth of £0.5bn² to non-CRE trading businesses, ahead of the market
- Credit quality remains strong with our prudent approach to risk, proactive management actions and the ongoing resilience of the UK economy
- Improved CET1 capital ratio with ongoing capital accretion and risk management initiatives, leaving us strongly capitalised in the current environment
- Delivering shareholder value despite the competitive and uncertain environment, while managing to higher capital requirements

2018 results reflect continued income and cost pressures

2018 vs 2017

Operating income		£4,543m 8%
Operating expenses		£2,563m 2%
Operating impairment losses, provisions and charges		£413m 31%
Profit before tax		£1,567m 14%

- Income pressure from lower new mortgage margins and SVR attrition
- Higher regulatory, risk and control costs and £40m of costs relating to guaranteed minimum pension (GMP) equalisation were partially offset by operational and digital efficiencies
- Impairments and provisions charges down, largely due lower conduct charges in 2018. All portfolios continue to perform well, supported by our prudent approach to risk
- Ring-fence transfers from our statutory perimeter in Q318, had an impact on our 2018 financial performance and reporting

We are uniquely placed as a leading UK scale challenger

Helping people and businesses prosper

Retail

 **15m**
Active customers

 **c80%**
Financial centre coverage

 **254,000**
Investment Hub accounts
+12% in 2018

 **3rd**
UK Mortgage lender¹

 **Top 3**
retail customer satisfaction²

Corporate

 **64**
Corporate Business Centres

 **551**
Relationship Managers

 **8 trade corridors**
+3 in 2018

 **5th**
UK Commercial lender¹

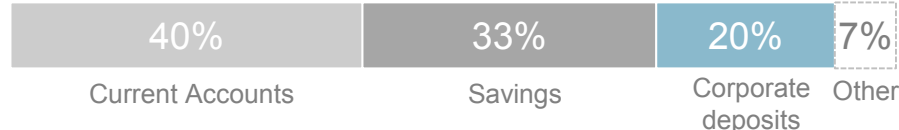
 **+7pp**
customer satisfaction
above market average





Meaningful scale and opportunity

£199.9bn customer loans

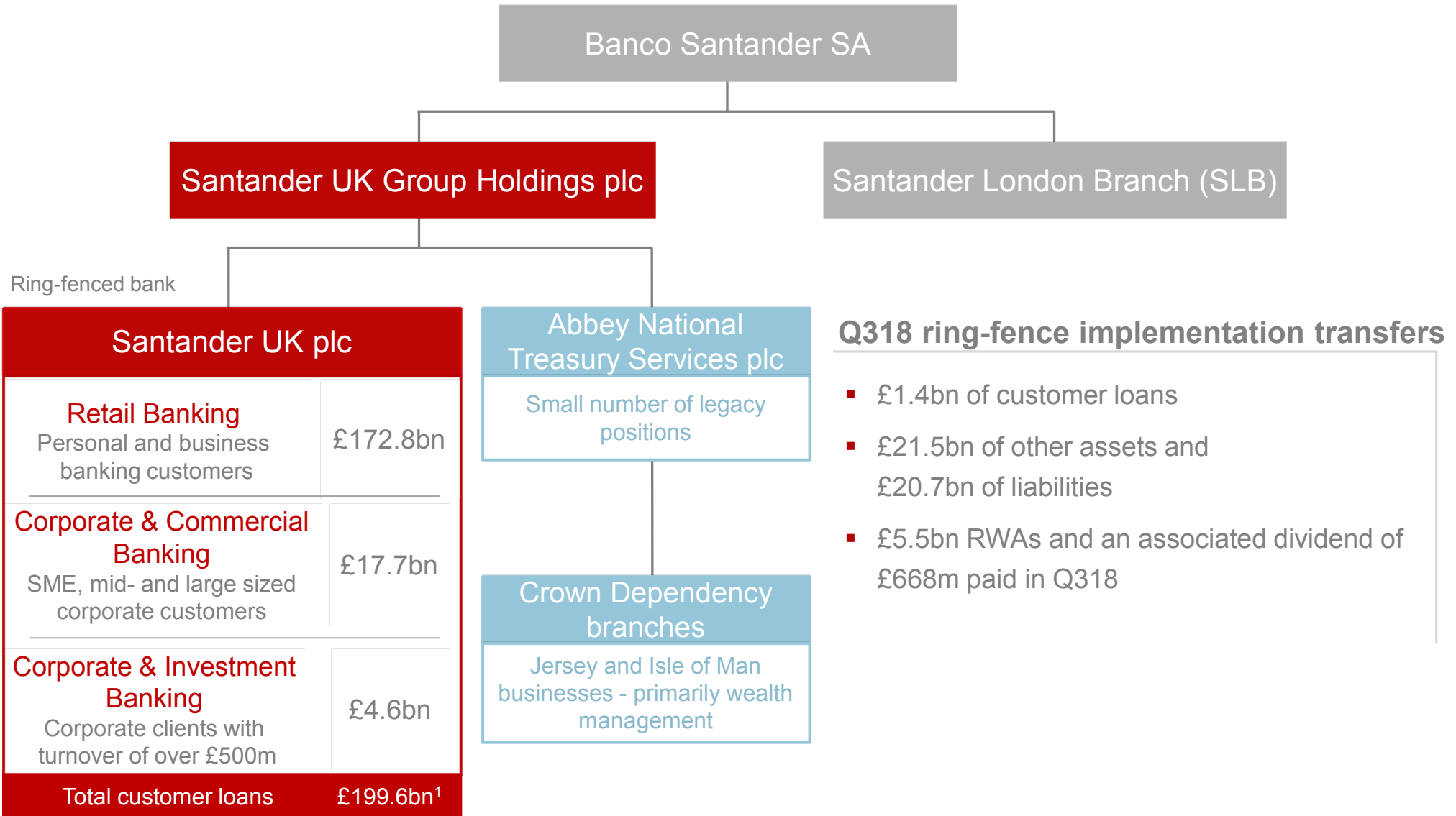


£172.1bn customer deposits



-  Important part of a **well-diversified global bank**
-  Building **stronger customer relationships**
-  Aiming for a **seamless customer experience**
-  Offering a **differentiated proposition for SMEs**

Ring-fence structure implemented, with a total cost of £240m



Q318 ring-fence implementation transfers

- £1.4bn of customer loans
- £21.5bn of other assets and £20.7bn of liabilities
- £5.5bn RWAs and an associated dividend of £668m paid in Q318

Operating environment and 2019 outlook

UK economy relatively stable; however uncertainty remains

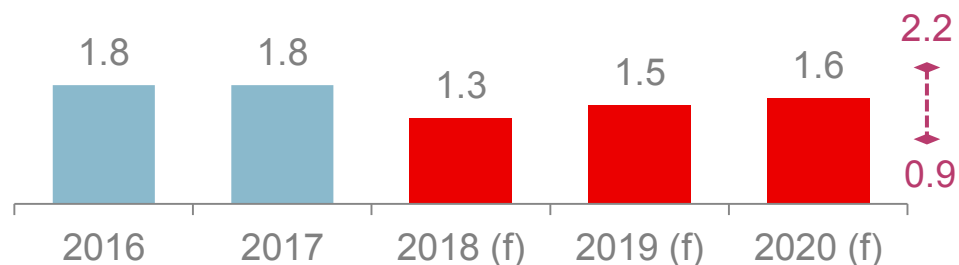
2019 operating environment

- While uncertainty around Brexit remains we are preparing for a number of outcomes in order to minimise the impact on our customers and business
- We expect global economic activity to continue to expand in 2019, albeit at a slower pace with a number of heightened risks to the outlook from the ongoing imposition of trade restrictions, geopolitical tensions and slower growth in developed economies
- Our base case anticipates a slight improvement in economic growth, predicated on the UK's orderly exit from the European Union
- Mortgage market expected to grow at c3%, with weaker buyer demand and subdued house price growth likely to continue
- Corporate borrowing market expected to slow to c2%, as uncertainty continues to dampen investment intentions, particularly in the short term

Annual GDP growth

(%, annual average, (f) Sep18 forecast)

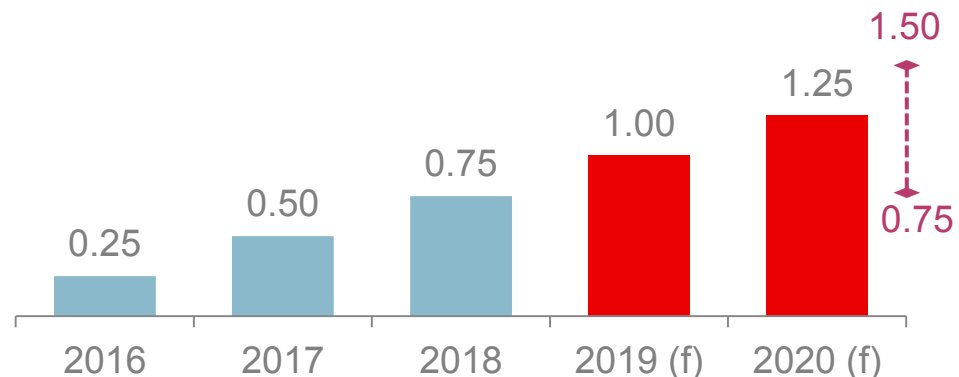
2019 HMT Range



Bank of England base rate

(%, year end)

2019 HMT Range

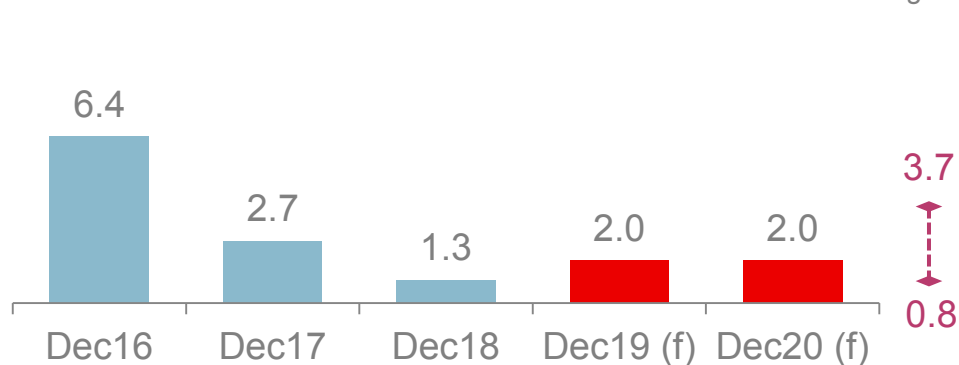


UK economy relatively stable; however uncertainty remains

House prices¹

(%, sa², year end)

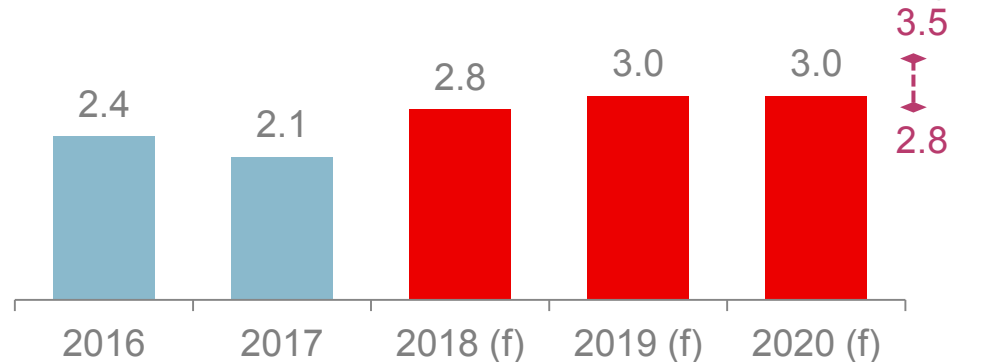
2019 HMT
Range



Average weekly earnings

(% exc. bonuses, annual average)

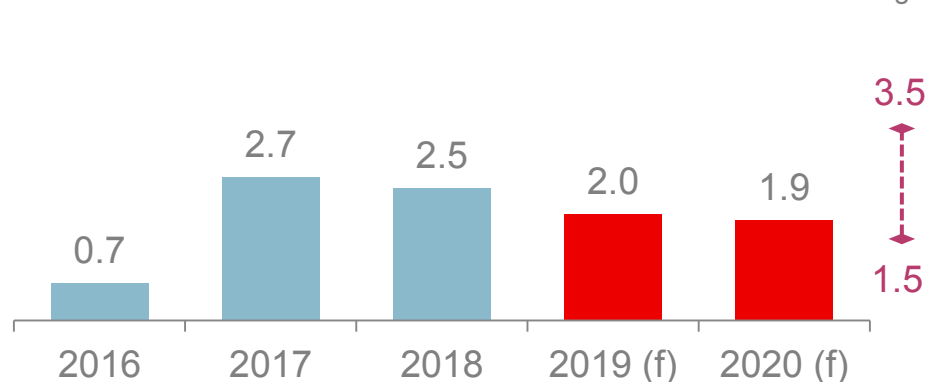
2019 HMT
Range



Annual CPI³ inflation rate

(%, annual average)

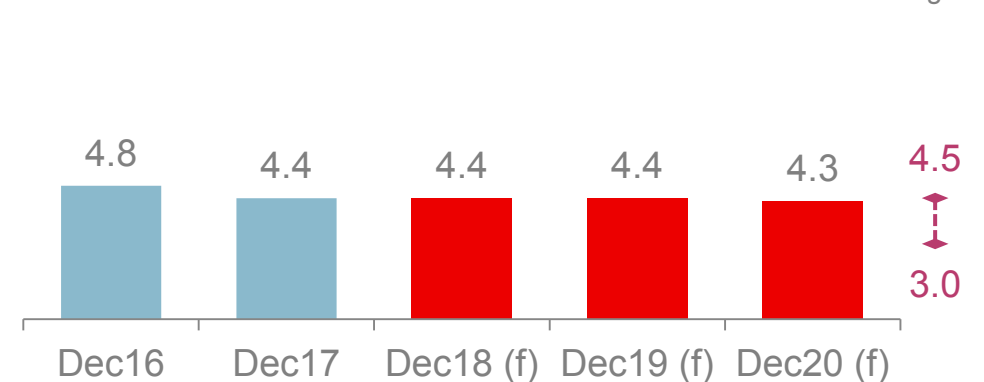
2019 HMT
Range







Unemployment rate

(%, ILO⁴)

2019 HMT
Range



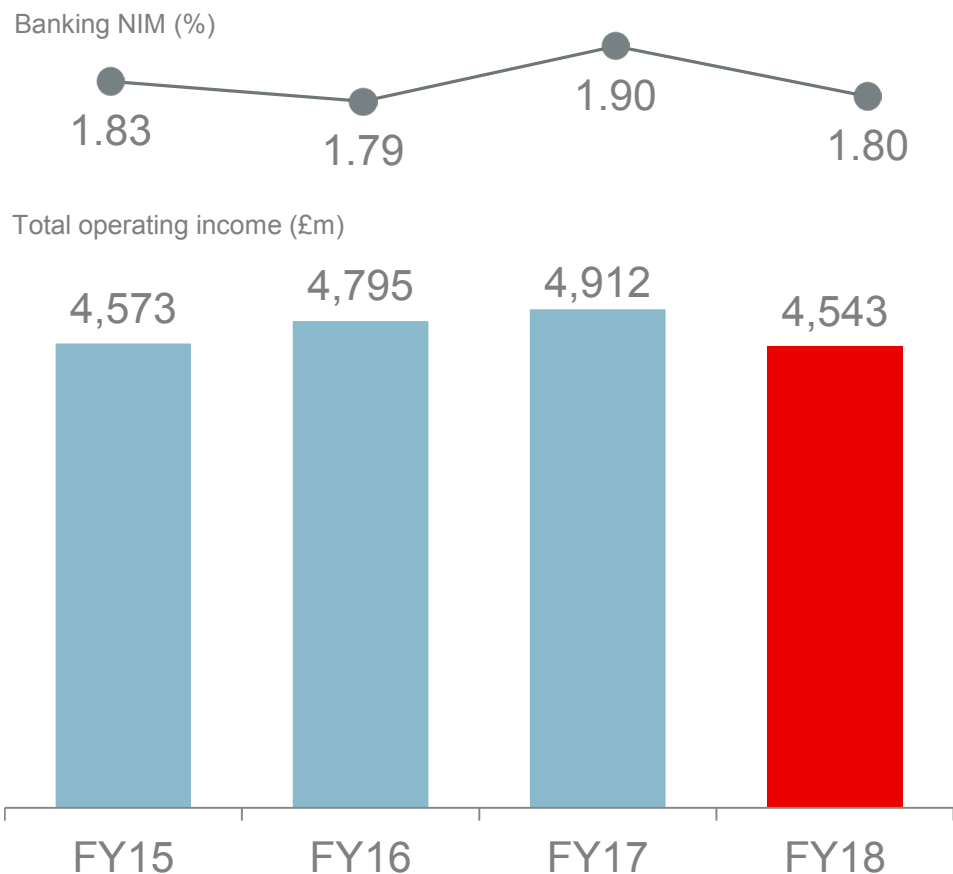
In an uncertain environment, we remain cautious in our outlook

	FY18	2019 outlook	Outlook (vs FY18)
Net mortgage lending	£3.3bn	<ul style="list-style-type: none"> Expected to be broadly in line with 2018, as we focus on quality customer service, retention and improved proposition for first-time buyers 	
Banking NIM	1.80%	<ul style="list-style-type: none"> Expected to be lower as a result of competition in new mortgage pricing, SVR attrition and limited capacity for further liability margin improvement 	
SVR attrition ¹	£4.9bn	<ul style="list-style-type: none"> Expected to be lower than in 2018 	
Operating expenses	£2,563m	<ul style="list-style-type: none"> Expect costs to increase slightly as we invest further in our business transformation, face an intensifying regulatory change agenda and manage inflationary pressures 	

Consistently profitable, sustainable business

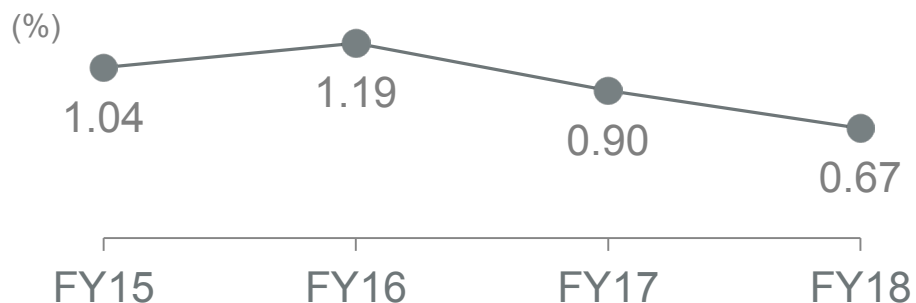
Income impacted by ongoing competitive pressures

Total operating income and Banking NIM¹



- Banking NIM and net interest income impacted by lower new mortgage margins and SVR attrition. This was partially offset by management pricing actions on customer deposits
- Non-interest income lower, largely due the 2017 gain on sale of Vocalink Holdings Limited shareholdings, and reflecting regulatory changes in overdrafts. This was partially offset by increased income in consumer (auto) finance and asset finance

Mortgage market, BoE new lending margins²



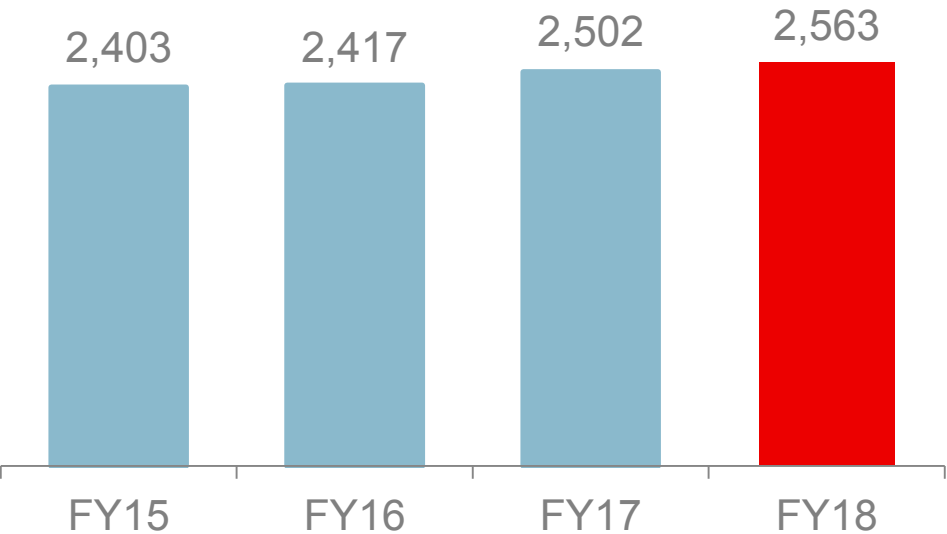
Continued focus on cost management and efficiency

Operating expenses and cost-to-income ratio

Cost-to-income ratio (%)



Operating expenses (£m)



- Cost-to-income ratio impacted by income pressure and increased regulatory, risk and control costs
- Cost management programmes had a positive impact on the cost base in the year
- Launched innovative 11213 Business Current Account, Digital Investment Advisor tool, and additional features to our highly-rated mobile app



Blockchain



Data & A.I.



Payments



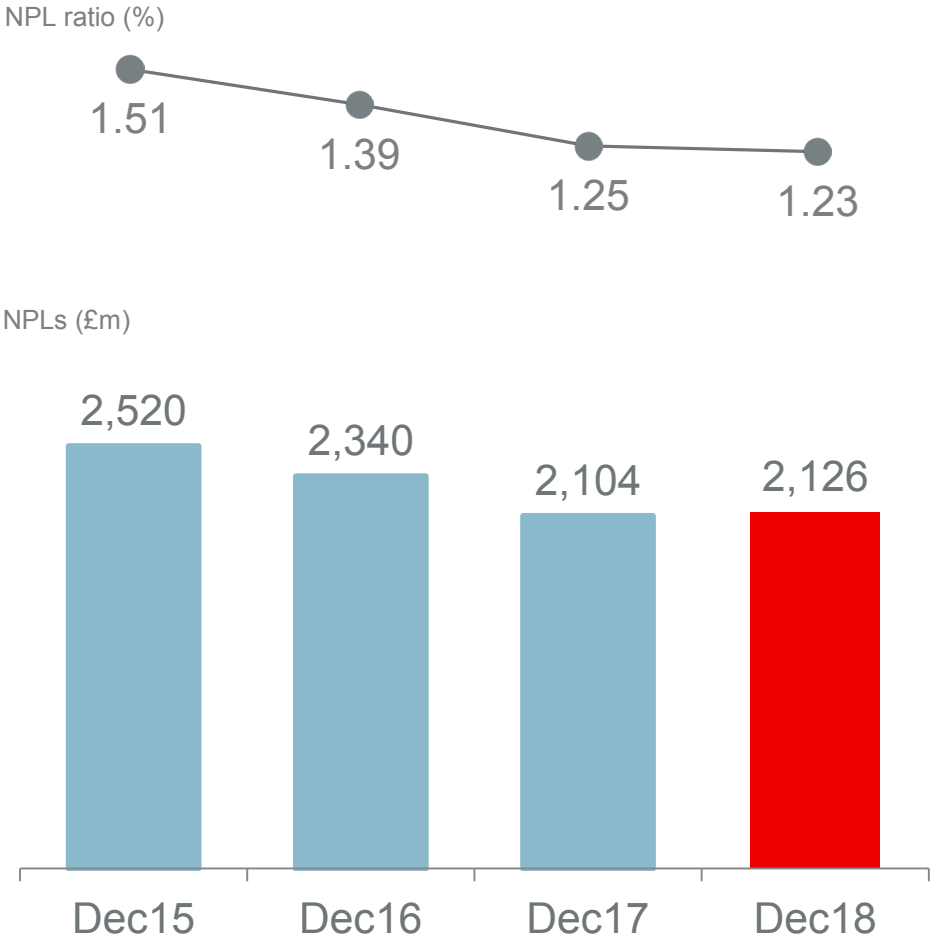
Platforms & services

Digital acquisition and adoption

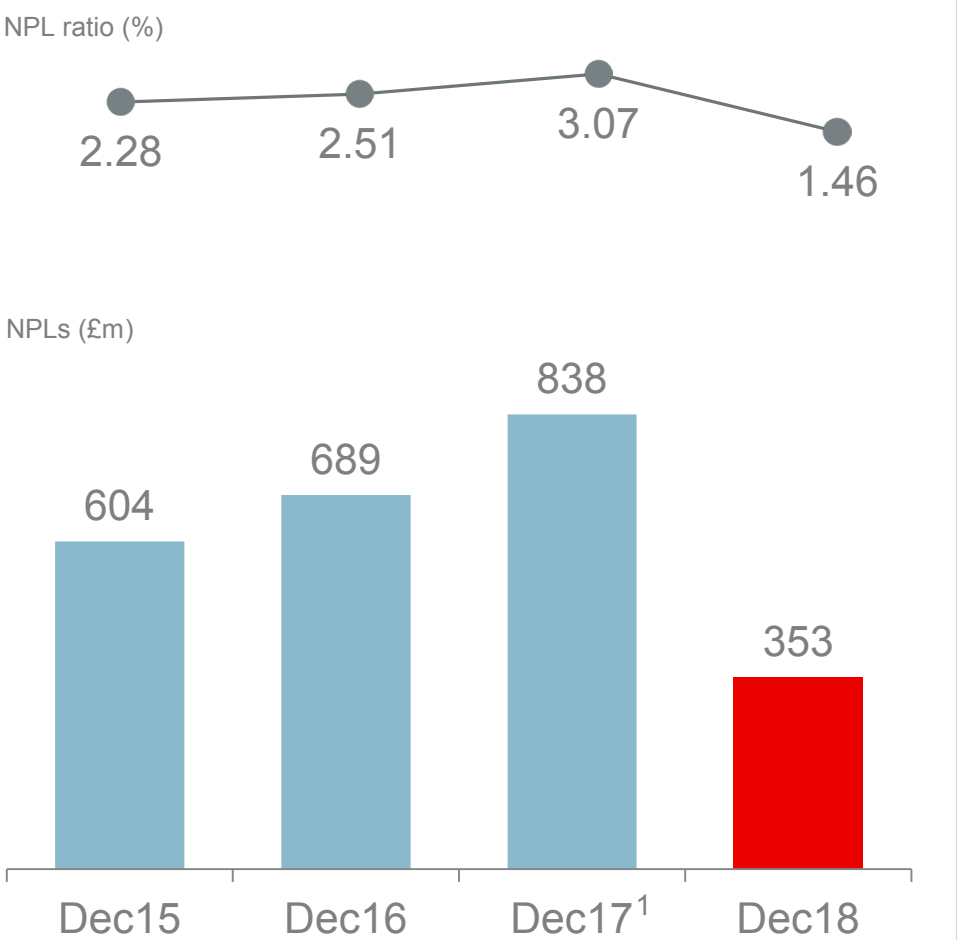
- | | YoY change |
|---|------------|
| ▪ Online mortgage refinancing: 55% retained | +6pp |
| ▪ Current accounts digital openings: 43% | +5pp |
| ▪ Credit cards digital openings: 65% | +13pp |

Strong credit performance in retail and corporate businesses

Retail Banking NPLs and NPL ratio



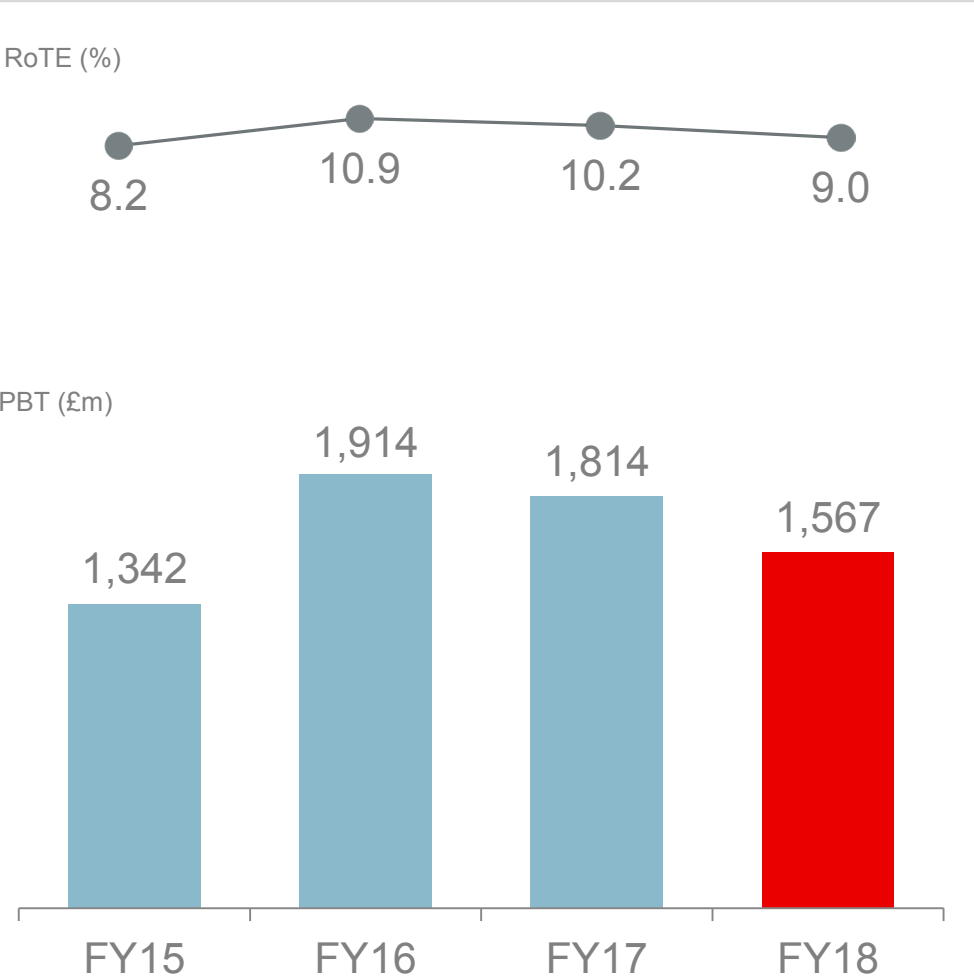
Corporate NPLs and NPL ratio²



1. Increase in Corporate NPLs was predominantly due to the Carillion plc exposures that moved to non-performance in 2017 | 2. Corporate defined as the combined lending to business banking customers in Retail Banking and all customers in our Corporate & Commercial Banking and Corporate & Investment Banking business segments

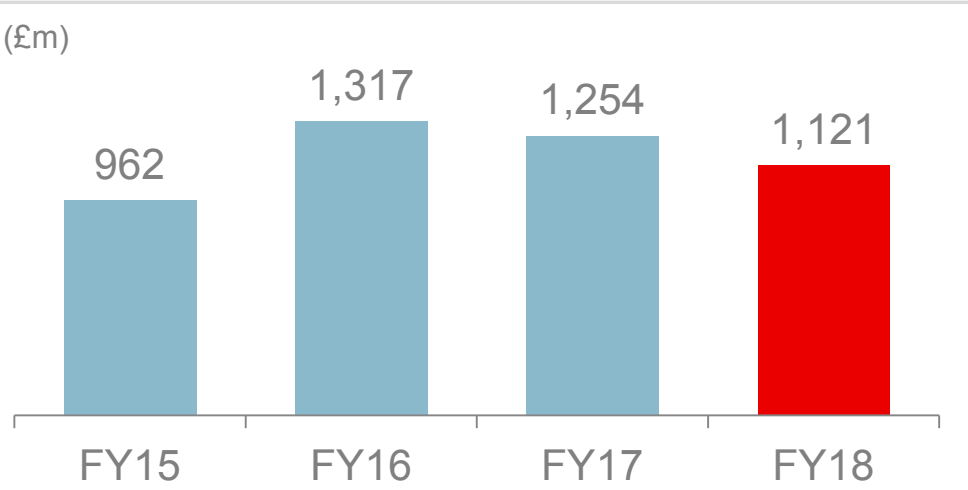
Maintaining financial strength and delivering value

Profit before tax and RoTE



- A track record of over 11 years profitability and dividend paid every year
- Continued to deliver shareholder value with a prudent approach to risk
- RoTE of 9.0%, despite the competitive and uncertain environment, while managing to higher capital requirements

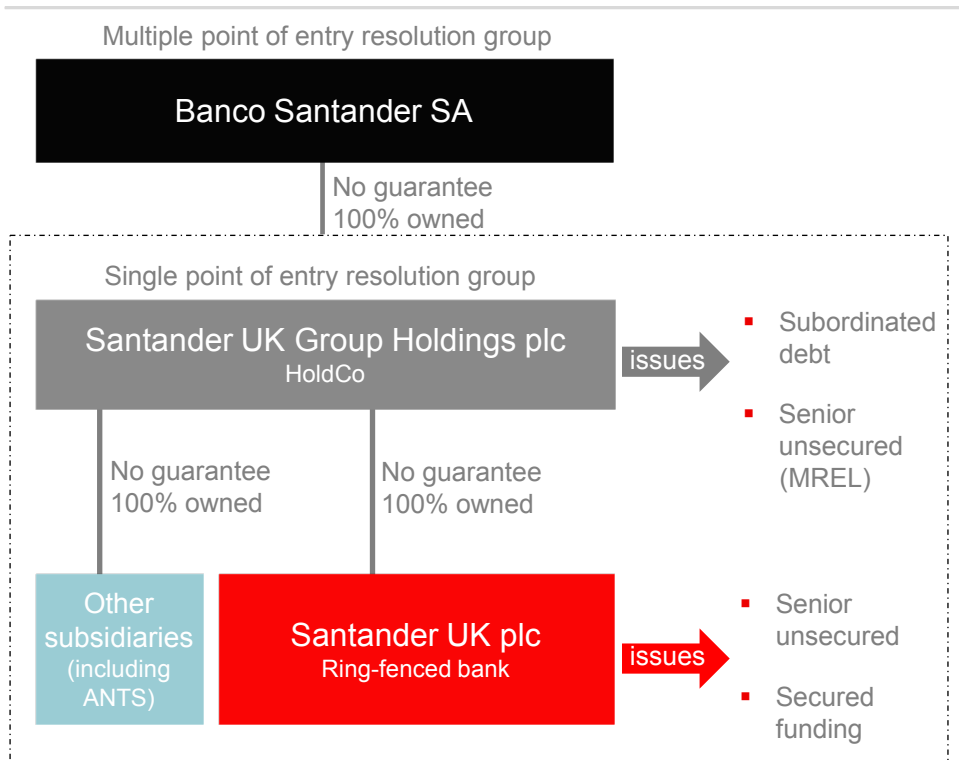
Profit after tax



Capital, liquidity and funding

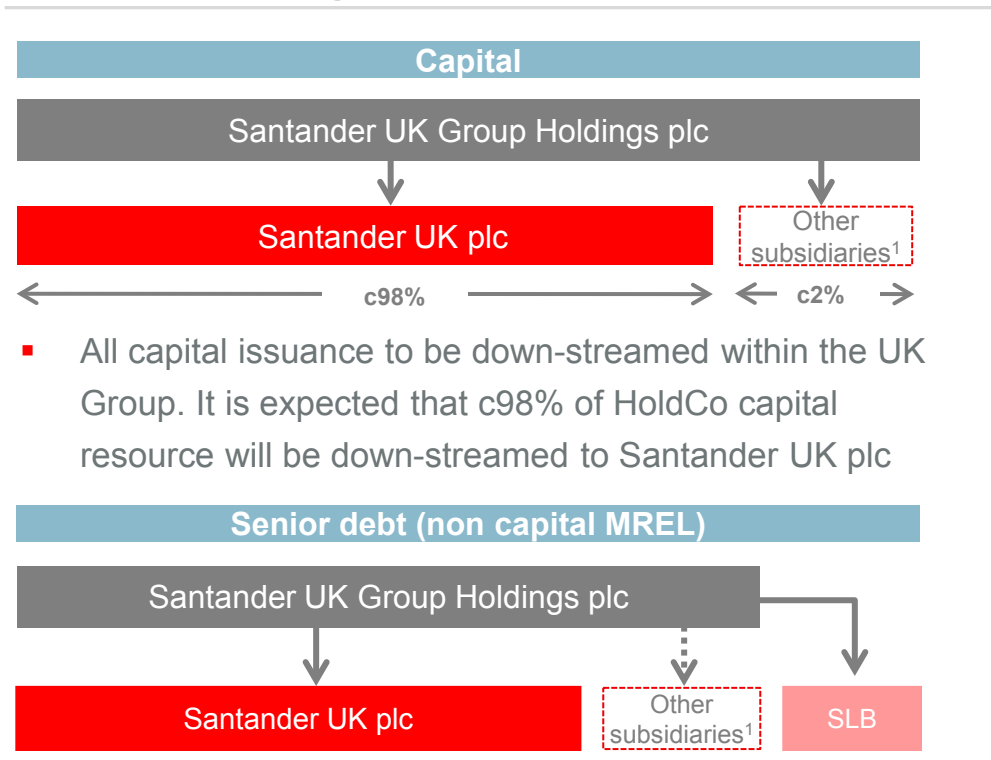
Santander UK funding model post ring-fencing

Wholesale funding model



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

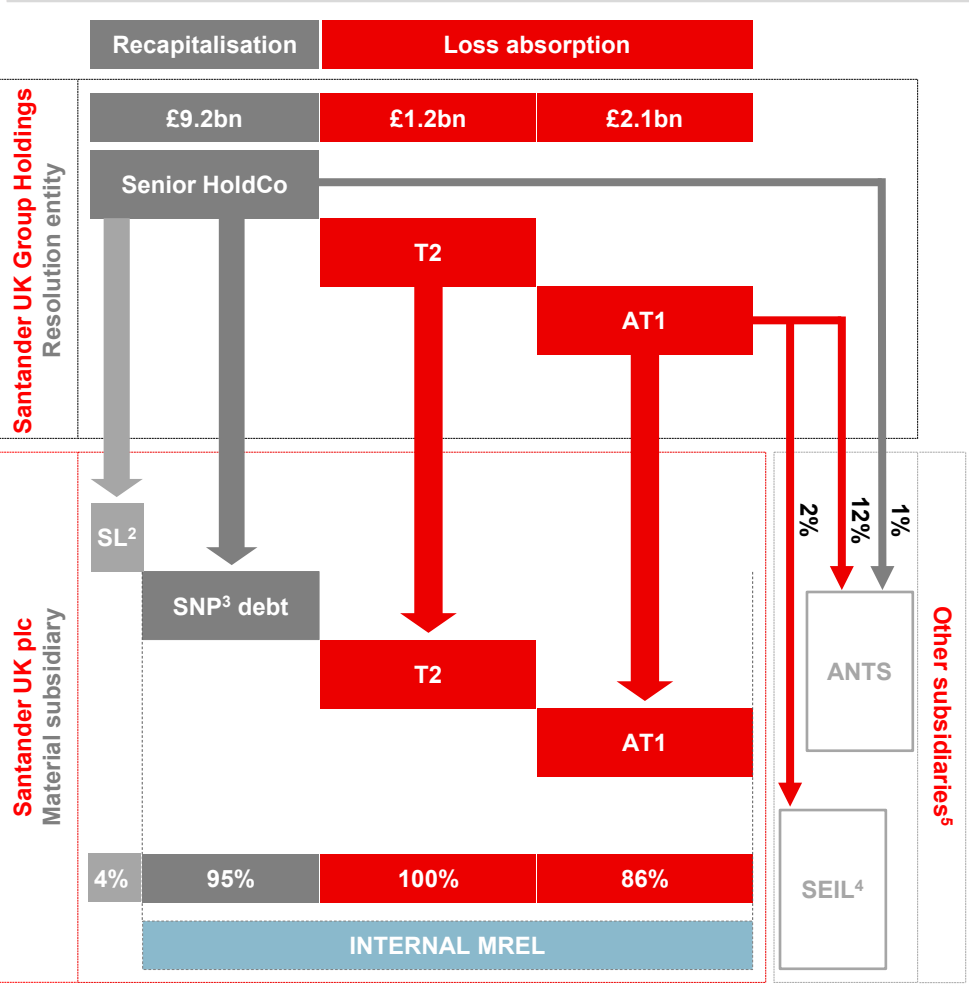
Down-streaming model



- All capital issuance to be down-streamed within the UK Group. It is expected that c98% of HoldCo capital resource will be down-streamed to Santander UK plc
- During the transition to the 2022 fully phased-in MREL requirements, a limited amount of HoldCo senior debt may be temporarily lent to the Banco Santander London Branch (SLB) to fund the UK activities transferred² to SLB that were not permitted in the ring-fenced bank

Santander UK group down-streaming model

Current down-streaming of HoldCo issuance¹



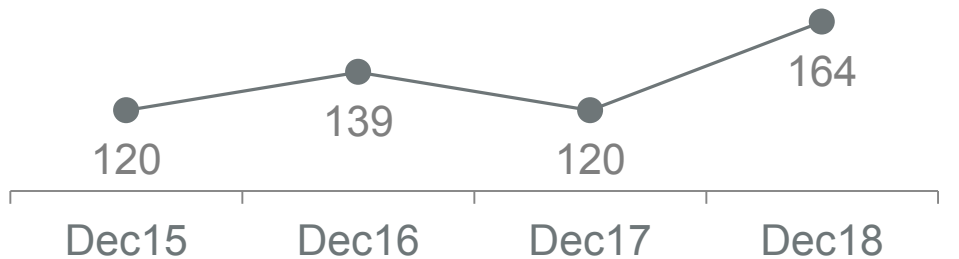
Compliant with internal MREL requirements

- Internal MREL (iMREL), over and above regulatory capital, became a regulatory requirement on 1 January 2019. The transition period to meet iMREL is the same as for external MREL
- iMREL liabilities must be subordinated to operating liabilities. Since 1 January 2019, Santander UK Group Holdings has down-streamed c£8.7bn to Santander UK plc as ‘secondary non-preferential debt’ in line with the guidelines of the Bank of England
- As per the Bank of England’s MREL Policy Statement⁶, the iMREL instrument is required to contain contractual triggers, therefore, giving the Bank of England powers to write down and/or convert to equity without the use of stabilisation powers in relation to the entity which issues them

Prudent liquidity and funding position

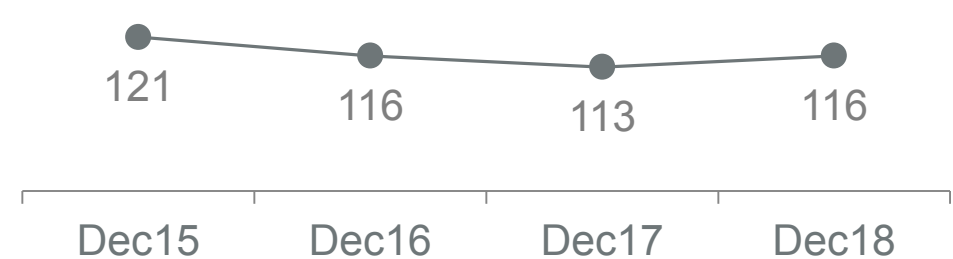
Liquidity coverage ratio (LCR)

(%)



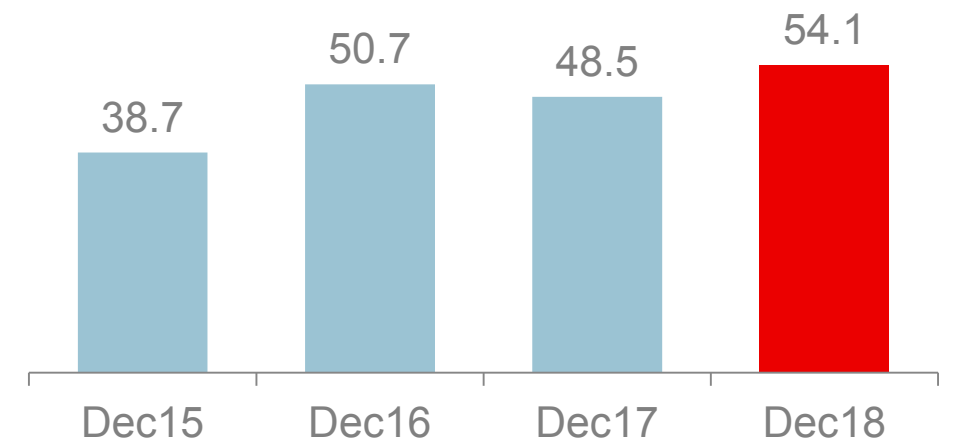
Loan-to-deposit ratio (LDR)

(%)



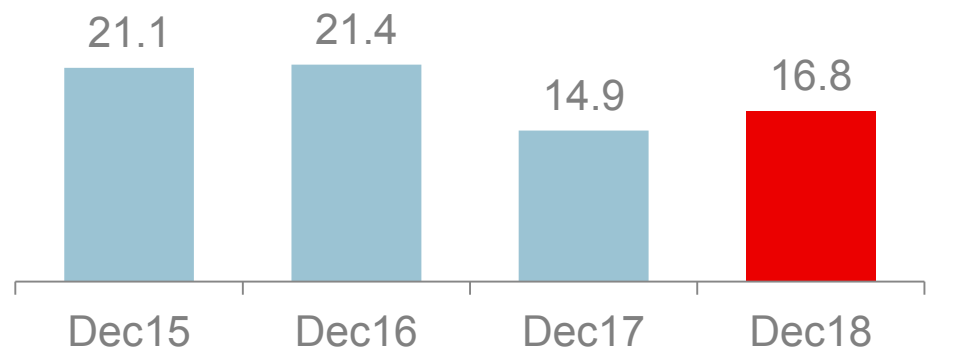
Liquidity coverage pool

(£bn)



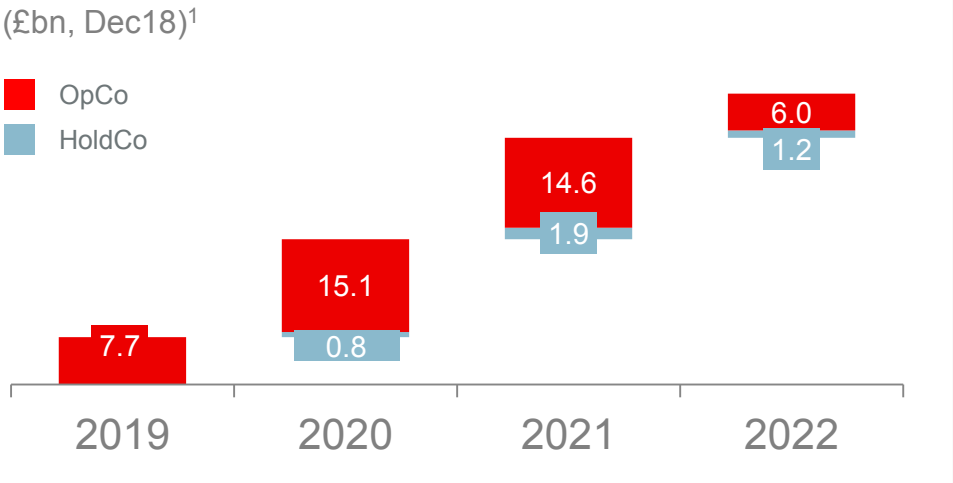
Wholesale funding

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

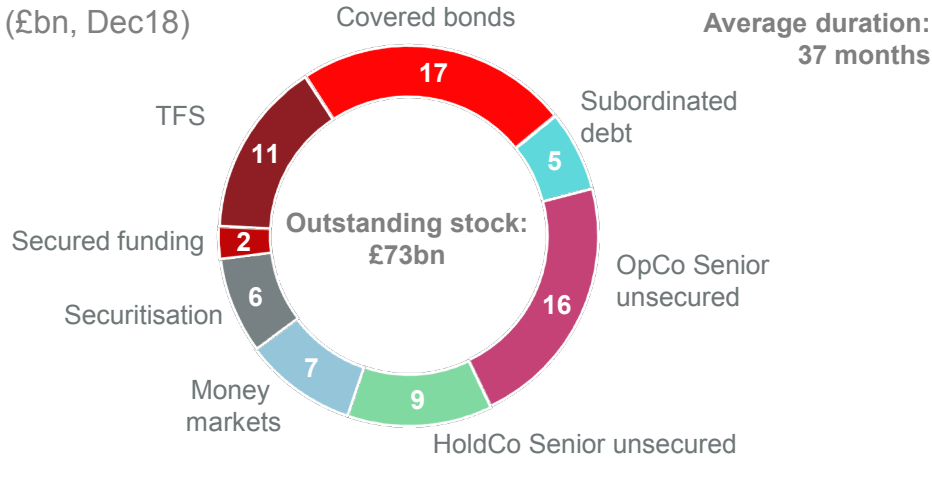


Strong funding position across a diverse range of products

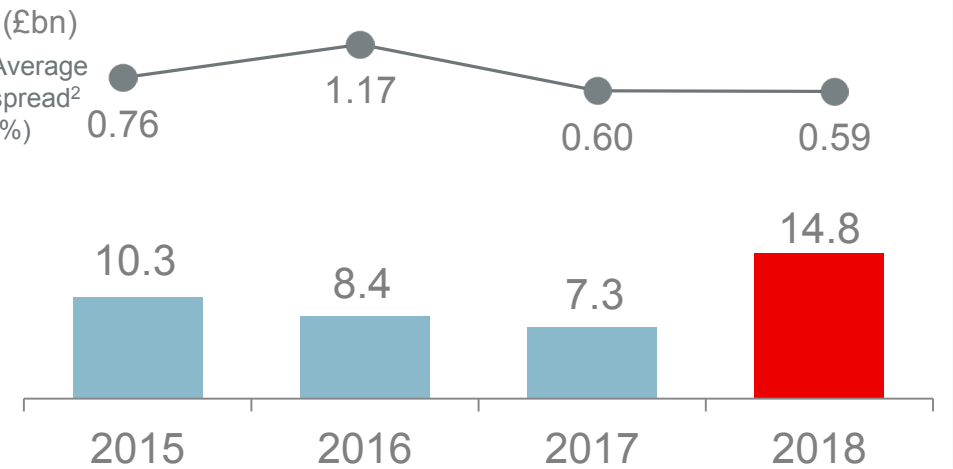
Medium term funding maturities



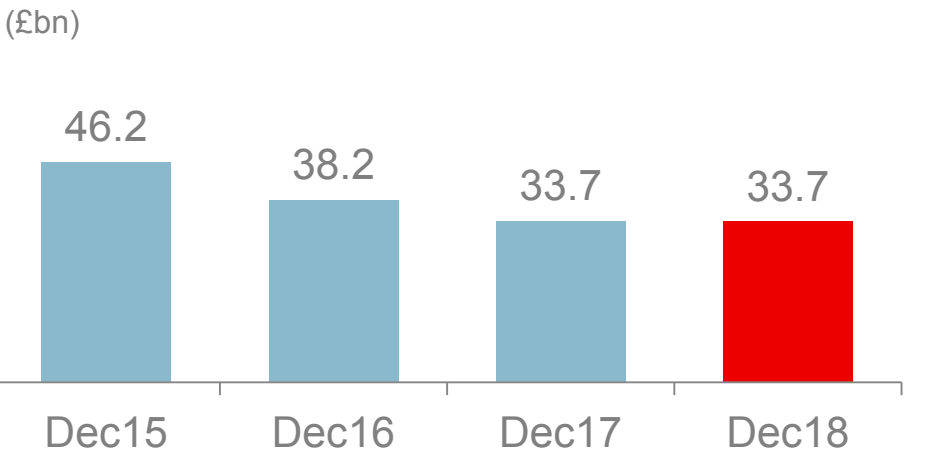
Wholesale funding stock



MTF issuance



Medium term funding encumbrance³



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

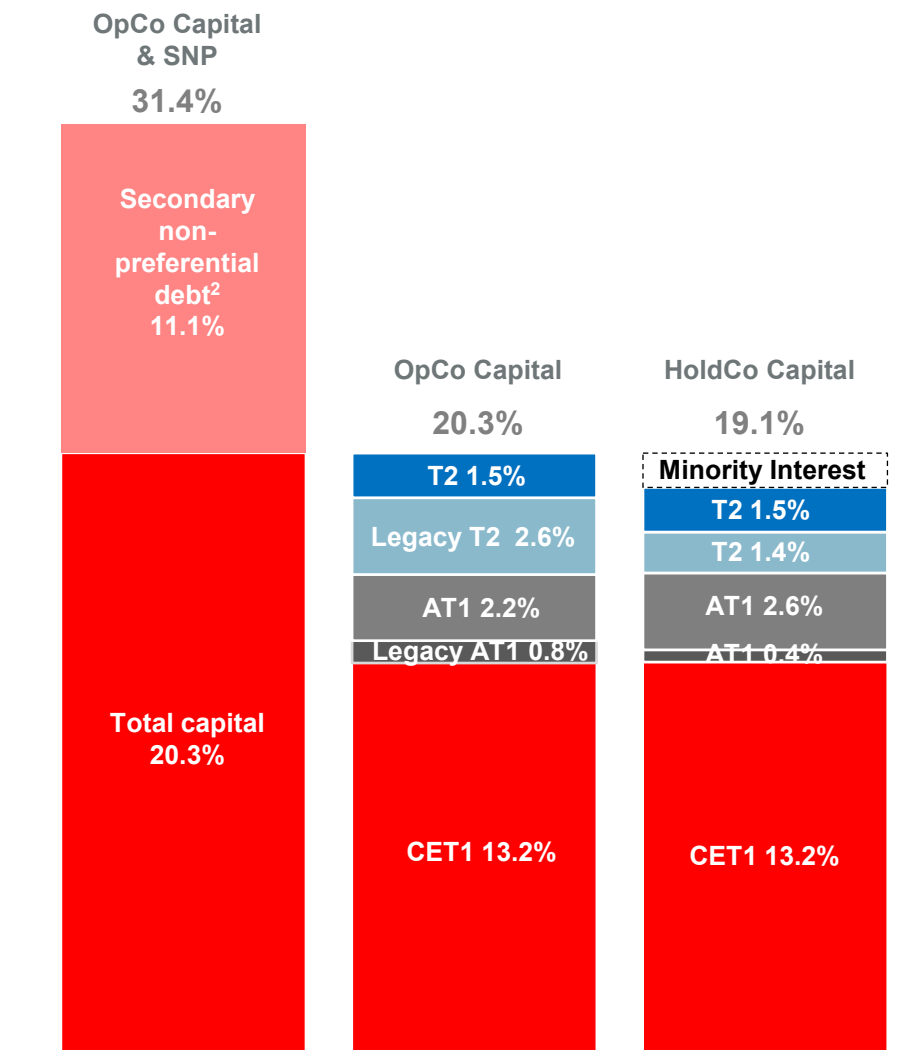
Meeting evolving capital requirements

Capital and leverage

	Dec15	Dec16	Dec17	Dec18
CET1 ratio (%)	11.6	11.6	12.2	13.2
UK leverage ratio ¹ (%)	4.0	4.1	4.4	4.5
RWAs (£bn)	85.8	87.6	87.0	78.8
HoldCo total capital (%)	17.4	17.3	17.8	19.1
OpCo total capital (%)	18.2	18.5	19.3	20.3

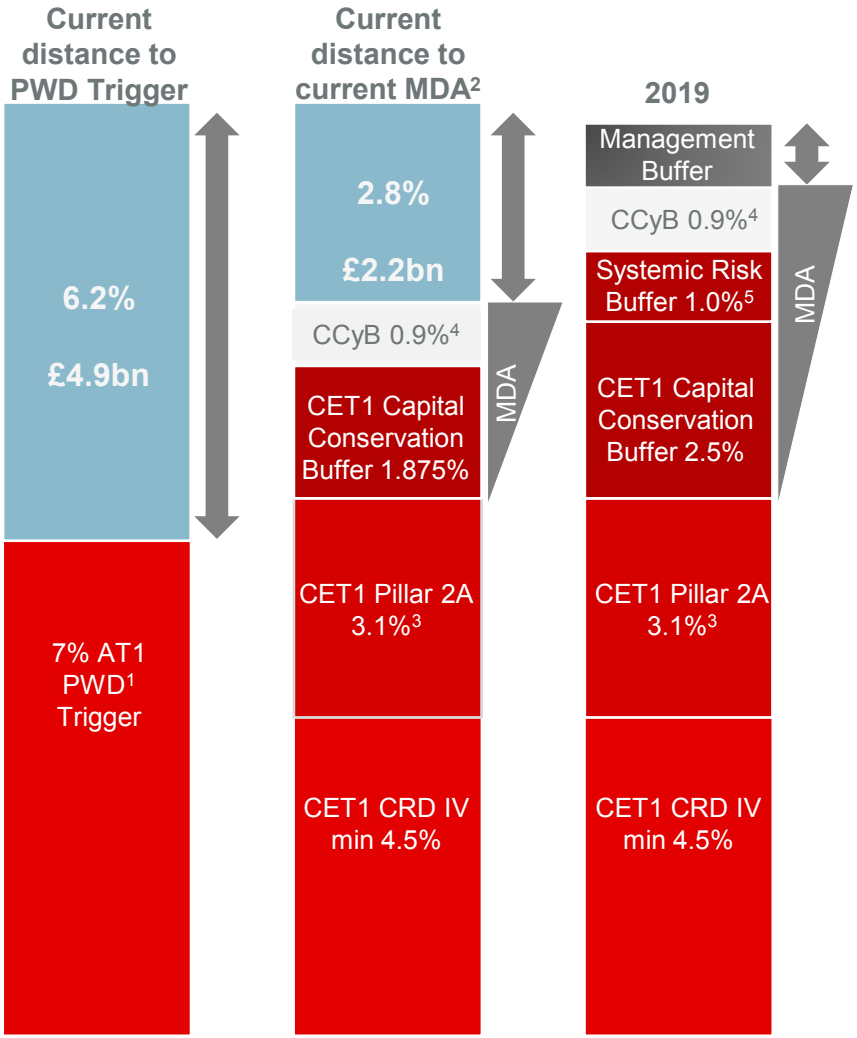
- RWAs decreased £8.2bn, largely as a result of ring-fence transfers (£5.5bn), risk management initiatives (£3.0bn) and the widening of scope of our large corporate risk model
- From 1 January 2019, Santander UK plc senior creditors benefit from 20.3% of capital and 11.1% of secondary non-preferential debt

Total capital and non capital (iMREL) ratios



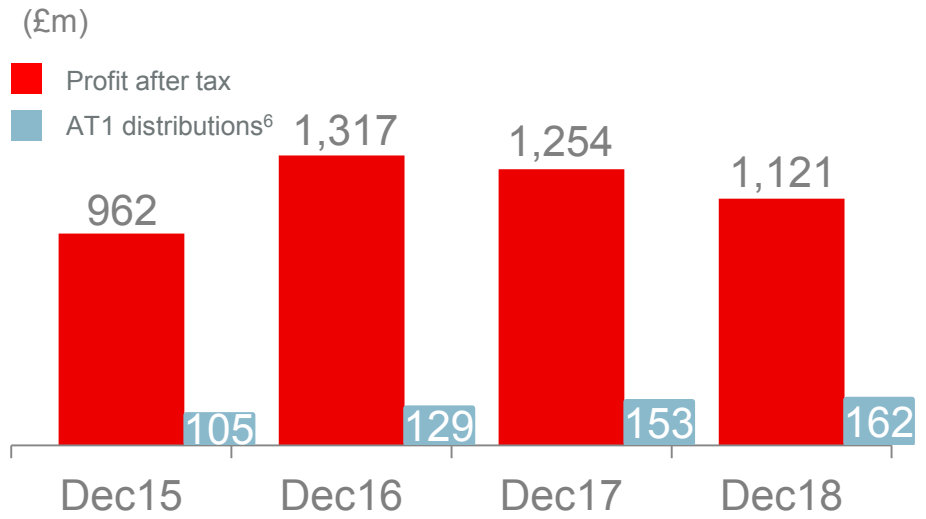
Well managed capital structure

Significant buffer to thresholds



- Our intention is to target a CET1 management buffer of sufficient size to absorb changes in the regulatory minimum requirement (e.g. application of dynamic CCyB buffer) and market volatility
- In the 2018 BoE stress test, Santander UK's CET1 drawdown was the lowest across UK banks at 1.4% before any management actions

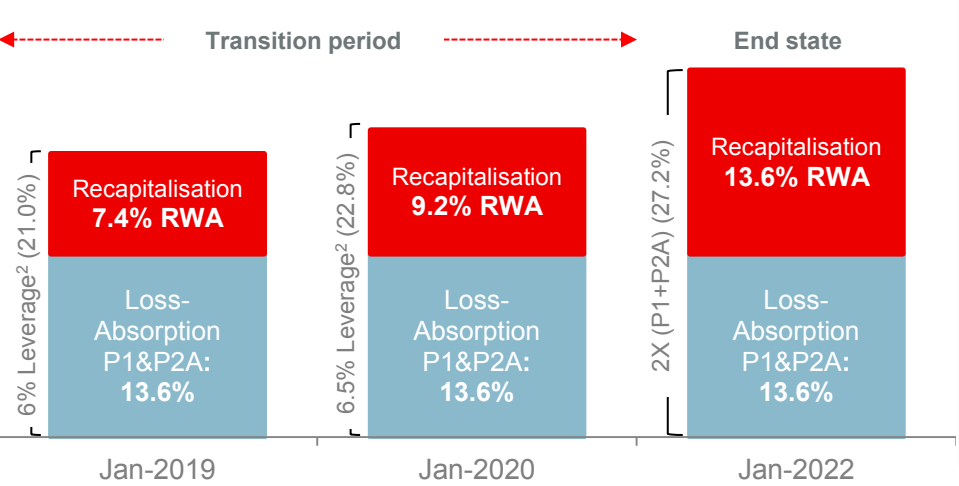
Profit after tax and AT1 distributions



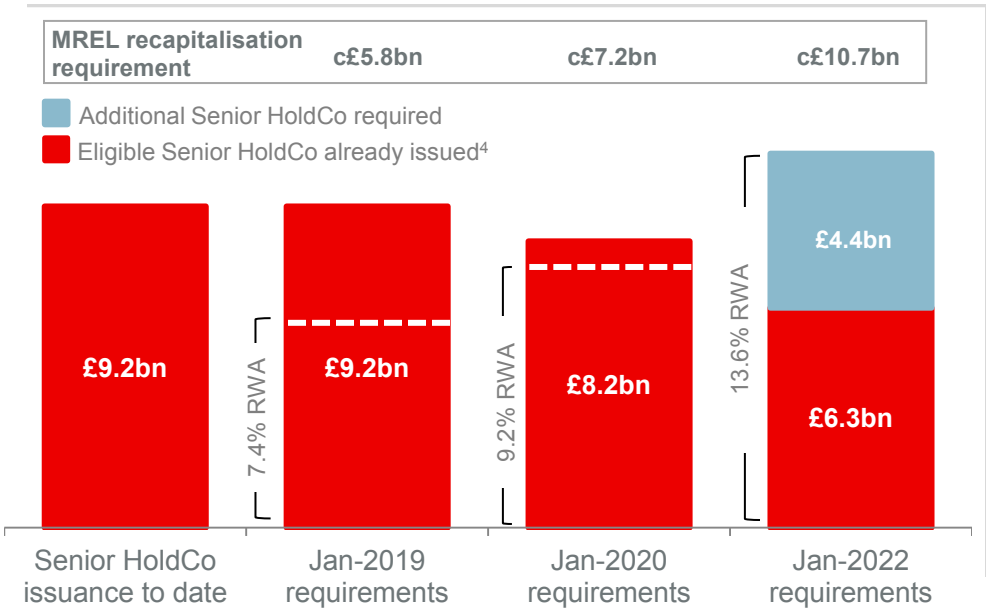
1. Permanent write down | 2. Distribution restrictions would be expected to apply if Santander UK's CET1 ratio would fall between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A 3.1% and the Capital Conservation Buffer of 1.875% | 3. Santander UK's Pillar 2 CET1 requirement was 3.1% as at 31 December 2018, Pillar 2A guidance is a point in time assessment | 4. The current applicable UK countercyclical capital buffer (CCyB) rate is 1.0%. Santander UK's current geographical allocation of the CCyB is 90% | 5. Applicable to the ring-fence bank only, expected implementation H119 | 6. Additional Tier 1 instruments with shareholder equity treatment classification

Major progress to meet recapitalisation MREL requirements

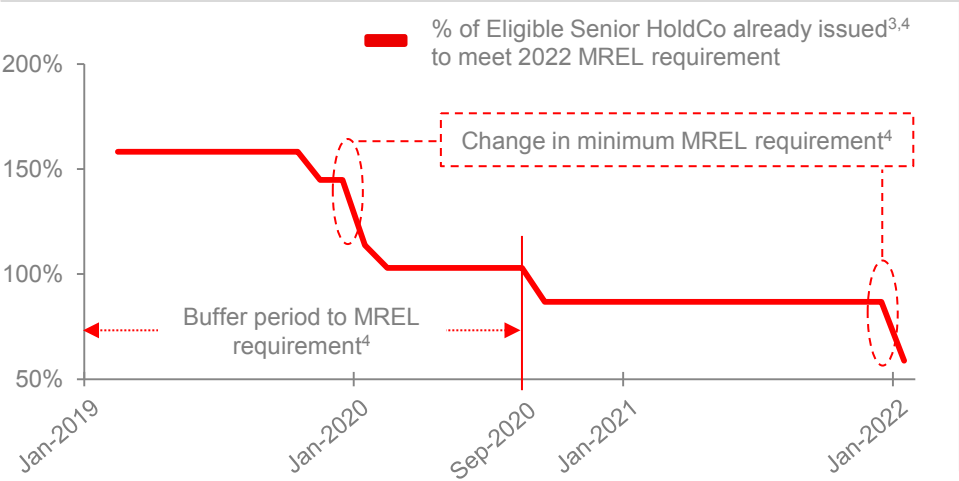
HoldCo MREL requirement^{1,2}



MREL recapitalisation^{2,3}



Significantly ahead of MREL requirements



- MREL requirements are driven by leverage in 2019 and 2020; the driver changes to the RWA measure from 2022
- 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



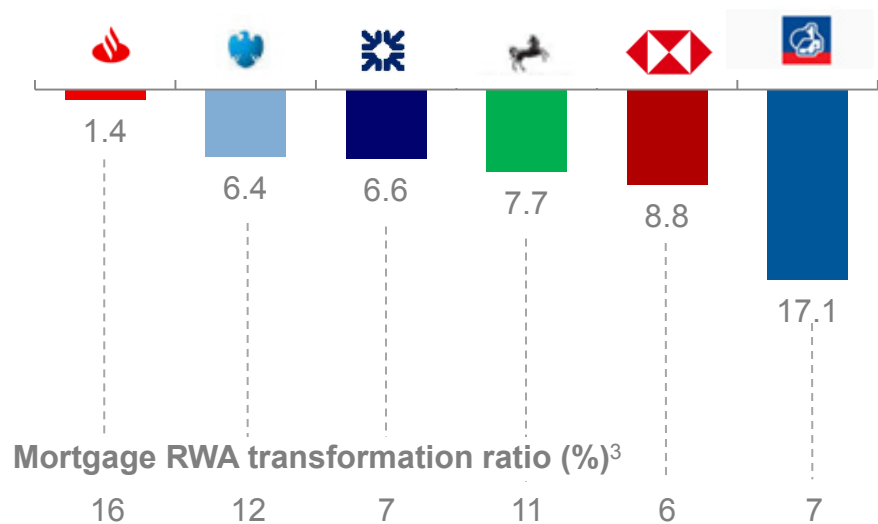
1. In June 2018 the Bank of England (BOE) confirmed Santander UK's non-binding indicative MREL requirements. The requirements over and above regulatory capital start in 2019, step up in 2020 and are fully implemented in 2022 | 2. Assumes Pillar 2A requirement remains at 5.6% | 3. Calculated using RWA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

2018 BoE stress test highlights balance sheet resilience

2018 Bank of England stress tests¹

- Exceeded BoE's stress test CET1 ratio threshold of 7.5%, with stressed ratio of 10.8% before 'strategic' management actions or AT1 conversion
- Exceeded leverage ratio threshold requirement of 3.26%, with a stressed leverage ratio of 3.9% before 'strategic' management actions or AT1 conversion

CET1 drawdown (%)^{1,2}



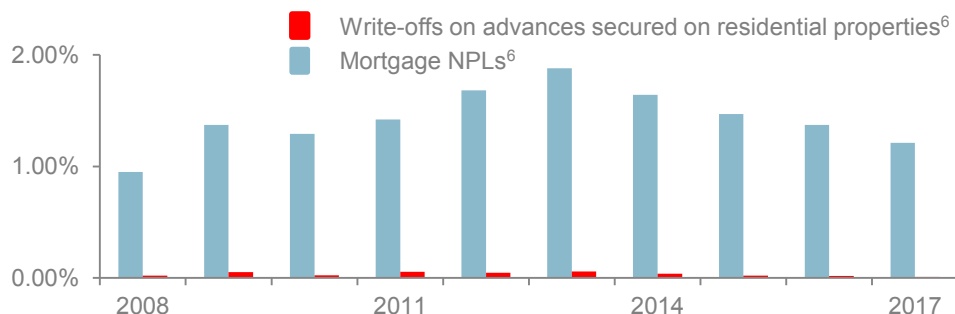
Mortgage RWA transformation ratio (%)³



BoE 2018 stress test scenarios¹

	BoE Stress	Global financial crisis	2018 ⁴	2020 (f) ⁵
	%	%	%	%
UK GDP Growth	(4.75)	(6.25%)	1.3	1.6
Unemployment	9.50	8.00	4.4	4.3
House Price Inflation	(33.00)	(17.00)	1.3	2.0
Base rate	4.00	2.00	0.75	1.25

- The BoE 2018 stress test scenarios are more severe than the global financial crisis¹
- Santander UK plc's write-offs for loans secured on residential property ratio reached 0.05% in 2009. Write-offs peaked in 2013 at 0.06% in 2013



Credit ratings – January 2019

S&P

Moody's

Fitch

Santander UK Group Holdings plc

Senior unsecured
outlook

BBB
stable

Baa1
positive

A
stable

Tier 2

BB+

Baa1

A-

AT1

B+

Ba1

BB+

Santander UK plc

Senior unsecured
outlook

A
stable

Aa3
positive

A+
stable

Short-term

A-1

P-1

F-1

Standalone rating

bbb+

a3

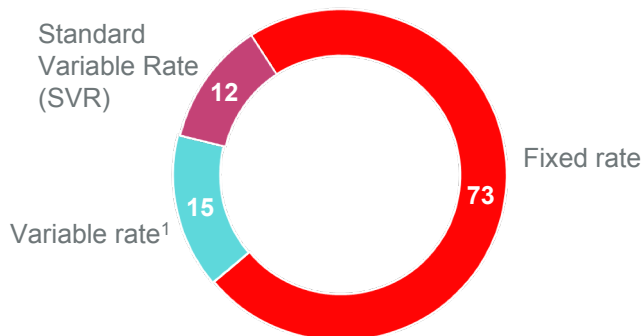
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Business highlights

Prime residential mortgage book of £158.0bn

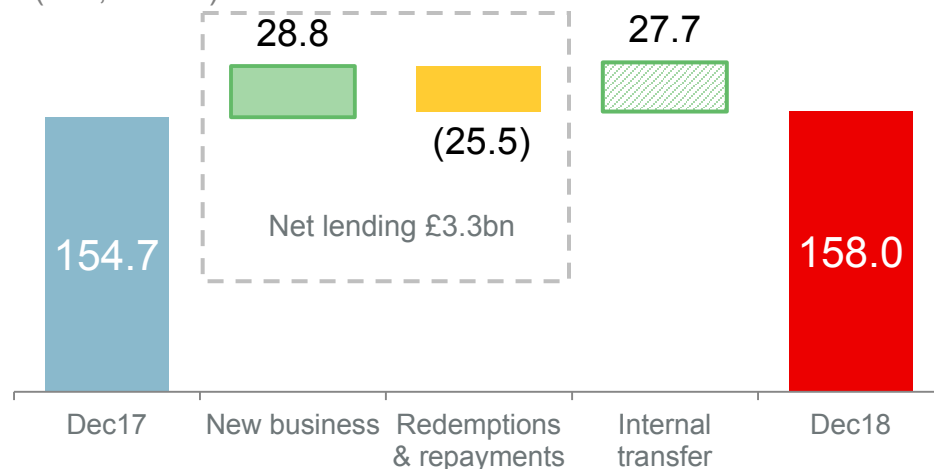
Product profile

(stock %, Dec18)



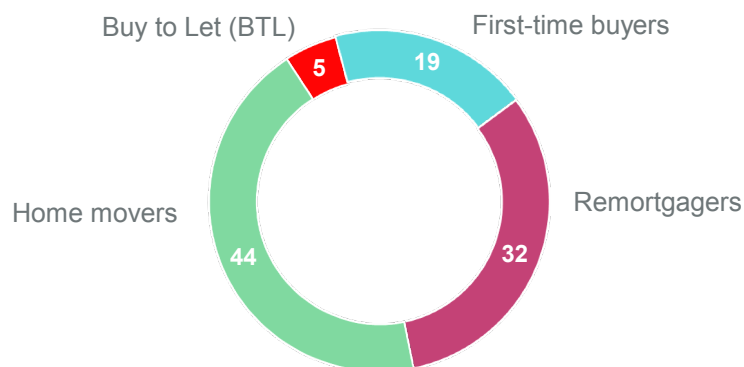
Lending breakdown

(£bn, Dec18)



Borrower profile

(stock %, Dec18)



- Net mortgage growth of £3.3bn; strongest lending in over three years despite the highly competitive market
- SVR attrition² of £4.9bn (2017: £5.5bn)
- c78% of maturing mortgages retained
- 55% (+6pp YoY) of refinancing mortgage loans retained online

Consistently prudent mortgage lending criteria

Average loan size

(new business)

	Dec17	Dec18
London and South East	£260k	£270k
Rest of the UK	£146k	£150k
All UK	£196k	£203k

Geographical distribution

(stock %, Dec18)



Simple average loan-to-value (LTV)¹

	Dec17	Dec18
Total new lending	62%	63%
London new lending	56%	58%
Stock	42%	42%

House price change by region

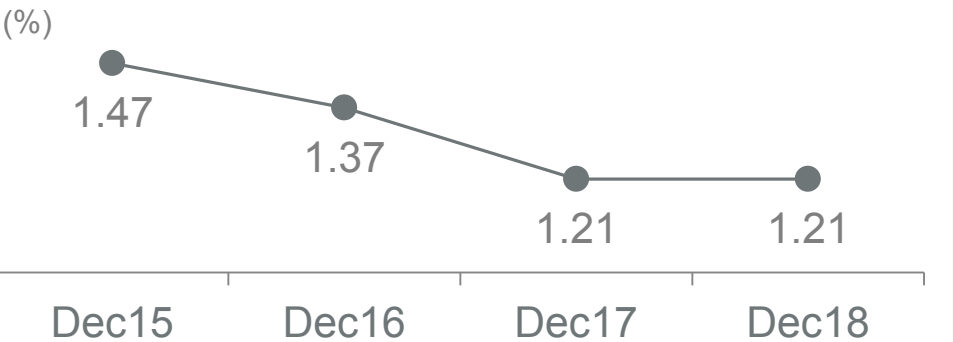
(annual %, Nov18, nsa²)



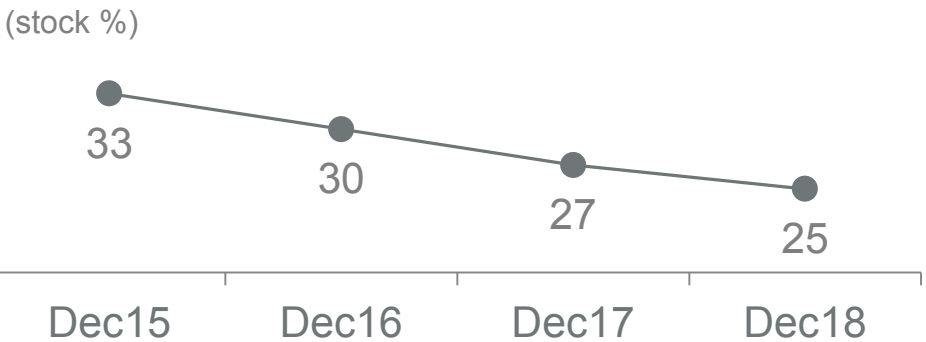
1. Unweighted average loan-to-value of all accounts | 2. Not seasonally adjusted. Source: HM Land Registry, United Kingdom

Maintaining a low risk mortgage book

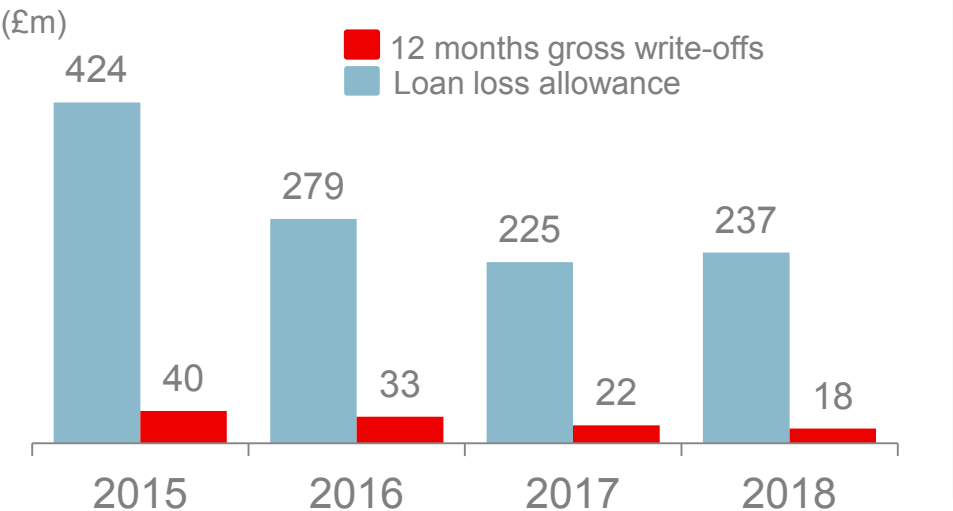
NPL ratio



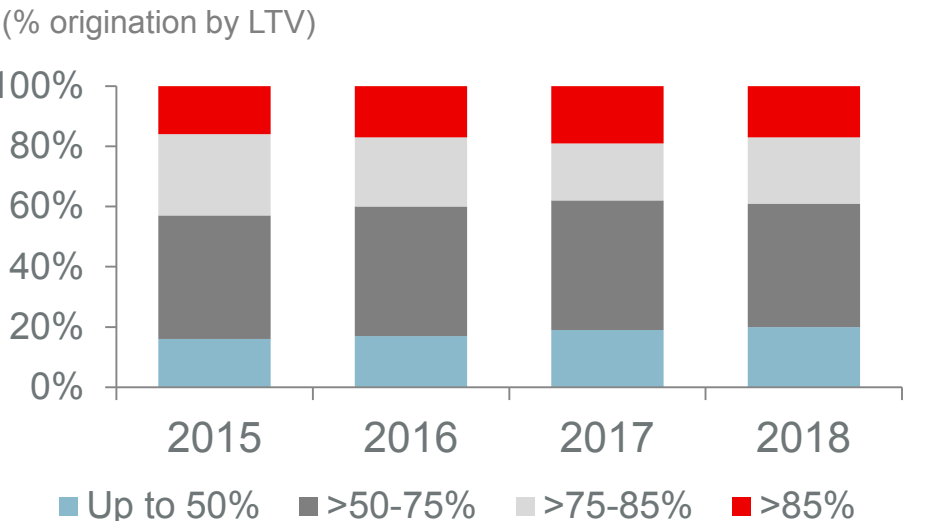
Interest only mortgage book¹



Loan loss allowance and write-offs



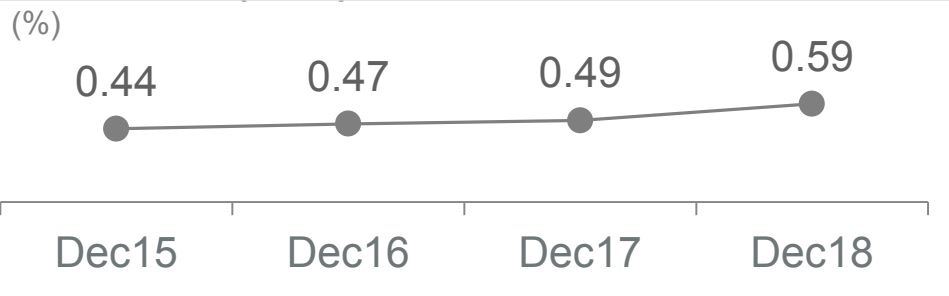
New business



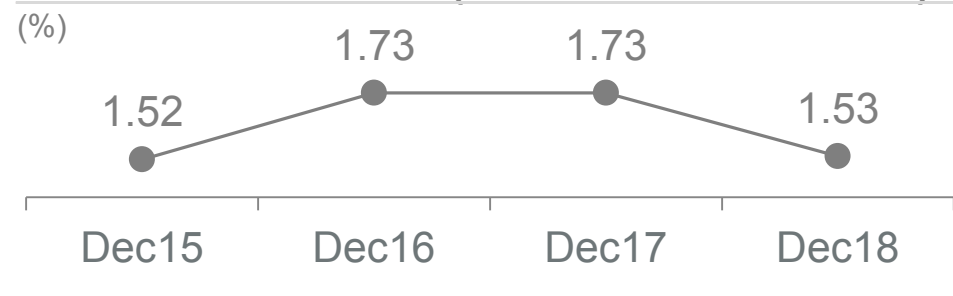
1. Sum of full Interest only and the interest only element of part and part mortgages. Excludes IO BTL mortgages

Selective growth in consumer and unsecured lending

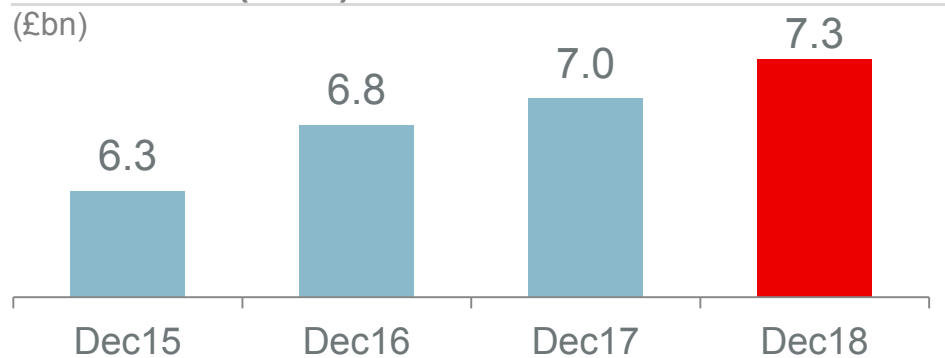
Consumer (auto) finance NPL ratio¹



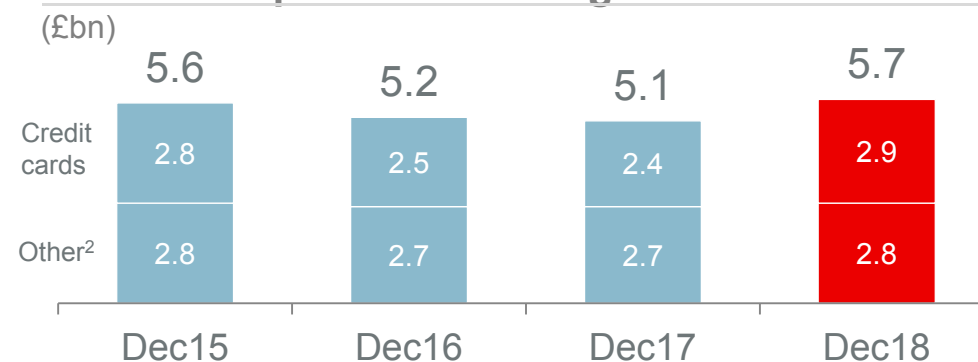
Unsecured NPL ratio (credit cards and loans)



Consumer (auto) finance loans



Unsecured personal lending balances



Prime vehicle finance business

- Average consumer (auto) loan size of c£11,400
- Prudent underwriting criteria; manual assessment for higher risk cases and affordability tests

Prime unsecured and credit card business

- Average unsecured new business loan size of c£9,500 and average credit card balance of c£1,500³
- Very low exposure to assumed future income flows

Developing our business banking proposition

Santander Business performance

	Dec18	vs Dec17
Loyal customers ¹	317k	+5%
Digital customers	387k	+7%

Santander is significantly ahead of peer group average for overall service quality

1|2|3 Business current account

- Innovative proposition launched in October 2018 offering standout value to the nation's SMEs
- Rated 'outstanding' by Business Moneyfacts



1|2|3
BUSINESS CURRENT ACCOUNT

Cashback on your business account

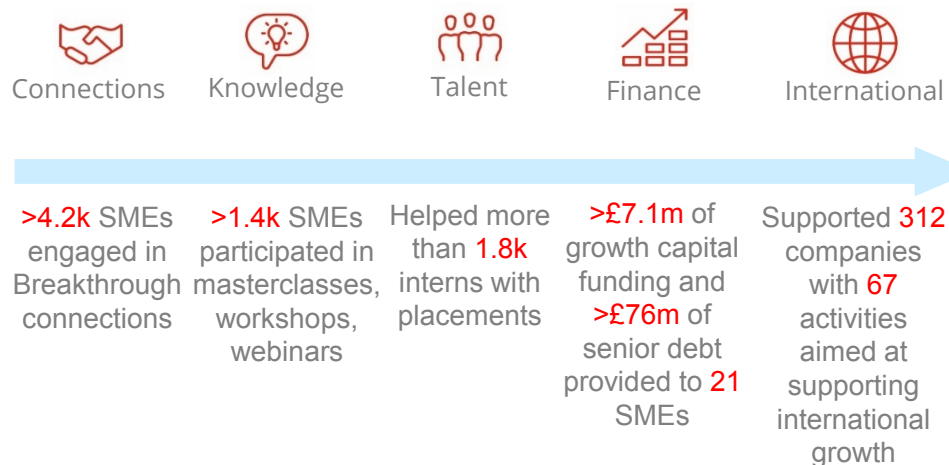
1|2|3 BUSINESS CURRENT ACCOUNT

Learn more



Cashback up to £300 annually on credit turnover. Monthly fee £12.50. For UK based companies with up to 2 directors, owners (shareholders) or partners, aged 18+. Terms & conditions apply.

Breakthrough



Business Banking Switch

- Successfully applied to be part of the Incentivised Switching Scheme (branded Business Banking Switch)
- Eligible RBS business customers incentivised to switch their primary business current accounts and loans to participating challenger banks, including Santander UK
- Scheme launches on 25 February 2019

Driving value in Corporate & Commercial Banking

Differentiated offering

- Global reach and unique international expertise
- Strong local footprint and unique credit partner model
- Track record and innovative approach in supporting high growth companies
- Specialist sector expertise
- Event driven approach to finance solutions



Trade corridors and alliances

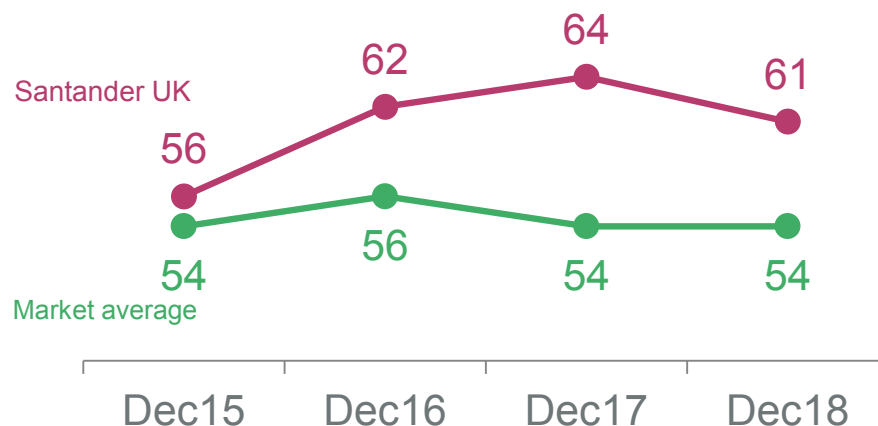


Investing in capability

- Continuing to improve our core banking proposition
- Scaling up our Asset Finance business
- Invoice Finance proposition for SMEs and larger corporates

Corporate customer satisfaction¹

(%)



Greater focus on risk-weighted returns in CRE portfolio

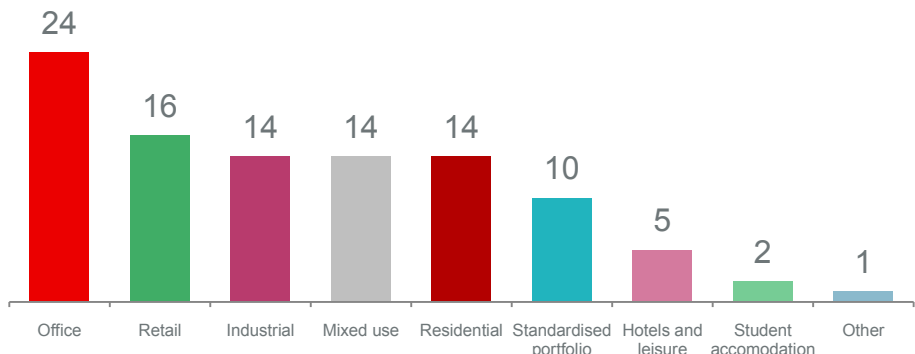
Credit performance

	Dec17	Dec18
Total committed exposure	£8.1bn	£6.4bn
Up to 70% LTV	88%	87%
70% to 100% LTV	-	1%
> 100% LTV	1%	-
Standardised portfolio ¹	8%	10%
Total with collateral	97%	99%
Development loans	3%	1%
	100%	100%

	Dec17	Dec18
NPL ratio	0.85%	0.45%

Sector analysis

(stock %, Dec18)



- No new business written above 70% LTV (Dec17: 0%)
- All new business written at or below 60% LTV (Dec17: 91%)
- Weighted average LTV on exposures of 47% (Dec17: 48%)²
- Average loan size of £3.2m (Dec17: £4.7m)

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Source: Santander UK Q4 2018 results "Quarterly Management Statement for the year ended 31 December 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.

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[Link to glossary](#)



[Key dates¹](#)

Q119 results: 30 April 2019

Q219 results: 24 July 2019

Q319 results: 30 October 2019

www.aboutsantander.co.uk

