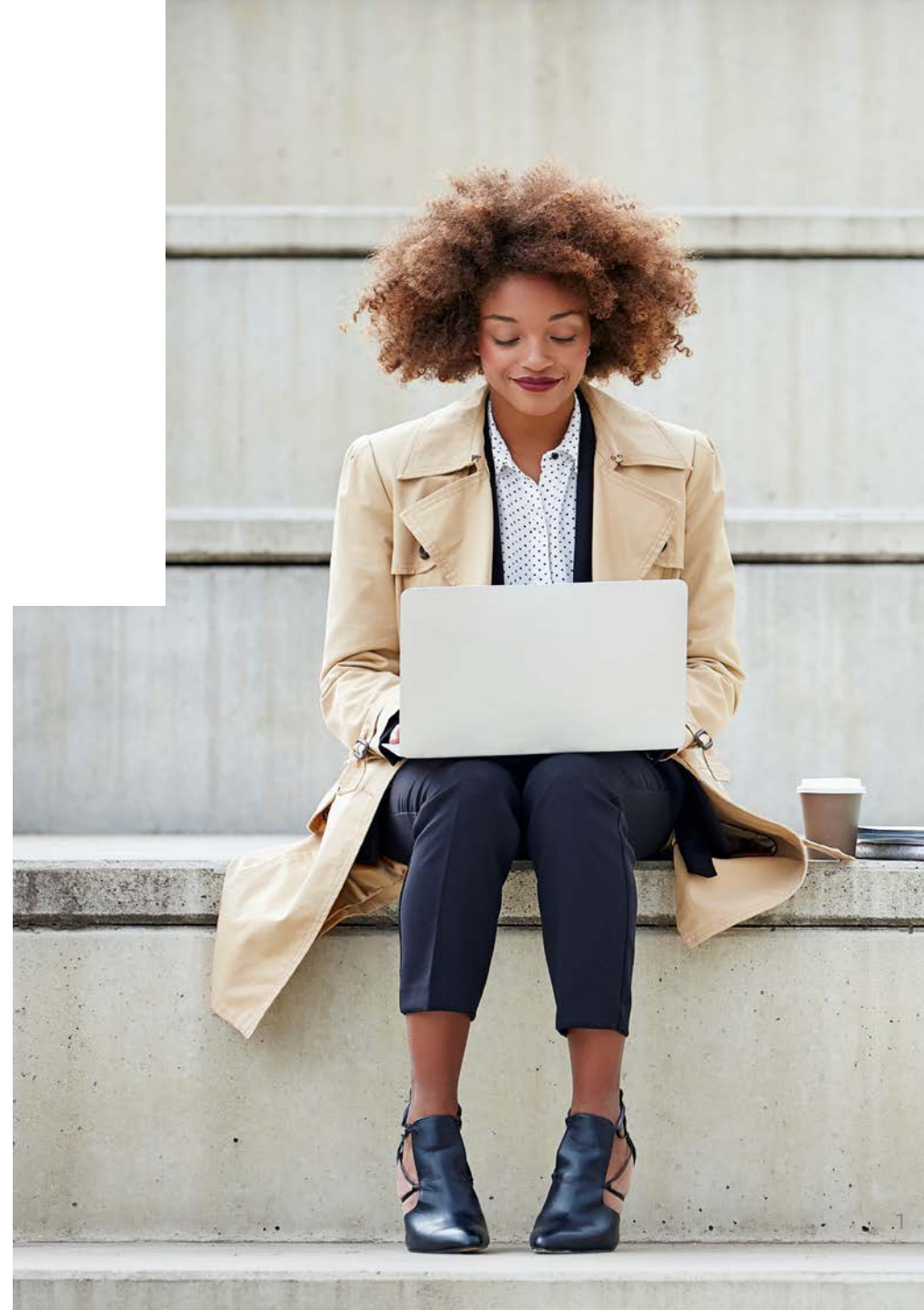


Santander UK Group Holdings plc

# Investor Update for the six months ended 30 June 2019

July 2019



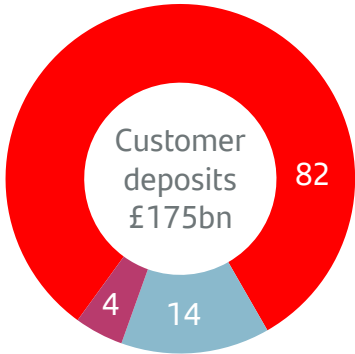
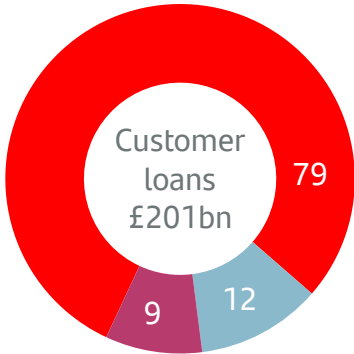
# UK scale challenger with a prudent strategy and a resilient balance sheet

## Well established UK market position

- 15m** Active customers
- c80% coverage** of UK financial centres
- 5.7m** Digital customers
- 1.4k** New daily mobile users
- 3<sup>rd</sup>** largest mortgage lender<sup>1</sup>
- 5<sup>th</sup>** largest commercial lender<sup>1</sup>

## Helping people and businesses prosper

Customer balances,% (change vs. Dec18)

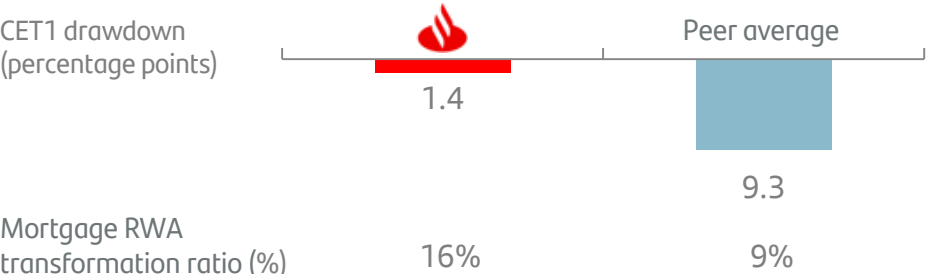


## Prudent approach to risk

- 1.28%** ratio < Stage 3 > **14.4%** coverage ratio<sup>3</sup>
- 0.01%** H119 < Mortgage write-offs > **0.06%** 2013 peak

## Most resilient UK bank<sup>2</sup>









2018 BoE stress tests



1. Santander UK analysis, as at Q219. Commercial lending refers to loans to SME and mid corporate clients by UK retail and commercial banks and building societies | 2. CET1 drawdown is CET1 ratio as at Dec17 less minimum stressed ratio (before the impact of 'strategic' management actions and conversion of AT1). Source: BoE. Mortgage RWA transformation ratio is total UK mortgage (or nearest equivalent) RWA divided by total UK mortgage exposure, including both IRB and STD. Simple average of LBG, RBS, HSBC, BARC, Nationwide | 3. Stage 3 coverage ratio calculated as total Stage 3 ECL over total Stage 3 exposures.

# Delivering for our customers while building loyalty

## Delivering for our customers

 <p><b>Top 3</b> Retail net promoter score (NPS)<sup>1</sup></p>	 <p><b>1st</b> Business and Corporate NPS<sup>1</sup></p>
 <p><b>15,000</b> first time buyers helped buy a home in 2019</p>	 <p><b>169,000</b> customers helped finance a car in 2019</p>
 <p><b>31,000</b> new 11213 Business accounts since Oct18 launch</p>	 <p><b>60%</b> refinanced mortgages retained online</p>
 <p><b>+£0.1m</b> net lending to non-CRE trading businesses</p>	 <p><b>13 trade corridors</b> +3 in 2019</p>

## Our priorities and customer loyalty goal

Building **stronger customer relationships**

Developing a **seamless customer experience**

Offering a **differentiated proposition for SMEs**

	2018	Medium-term goal
Loyal/Active customers	30%	<b>34%</b>

## Building customer loyalty

- Deepen existing, and build new, customer relationships
- Protect our share of the mortgage market
- Deliver new product propositions and advanced digital offering
- Focused Corporate Banking origination in chosen sectors
- Continue to develop our international proposition

<sup>1</sup> NPS measures customer experience and predicts business growth. This proven metric provides the core measurement for customer experience management programs and the loyalty of customers to a company. Source: Business and Corporate NPS is measured by the MarketVue Business Banking from Savanta, Retail NPS is measured by IPSOS MORI.

# Investing in strategic transformation for improved medium-term returns


## Utilising access to global best practice


### Technology & Operations:

- Purchasing scale – better terms with global vendors
- Shared expertise – global best practice benefit
- Emerging technologies – leveraging Group labs
- Common platforms & services – ‘Build once, available to all’
- Contact centre digitalisation – automation and robotics

### Market leading solutions:

 ▶ Santander One Pay FX – a low-cost way to send international transfers

 ▶ Group platform selectively deployed with further potential opportunities

 ▶ A fintech platform to help small businesses and sole traders manage and grow their business



## Our priorities and returns goal

- Profitable growth in Retail Banking business
- Improved returns for the Corporate business
- Enhanced efficiency and capital discipline

	2018		Medium-term goal
RoTE	9%	>	9-11%

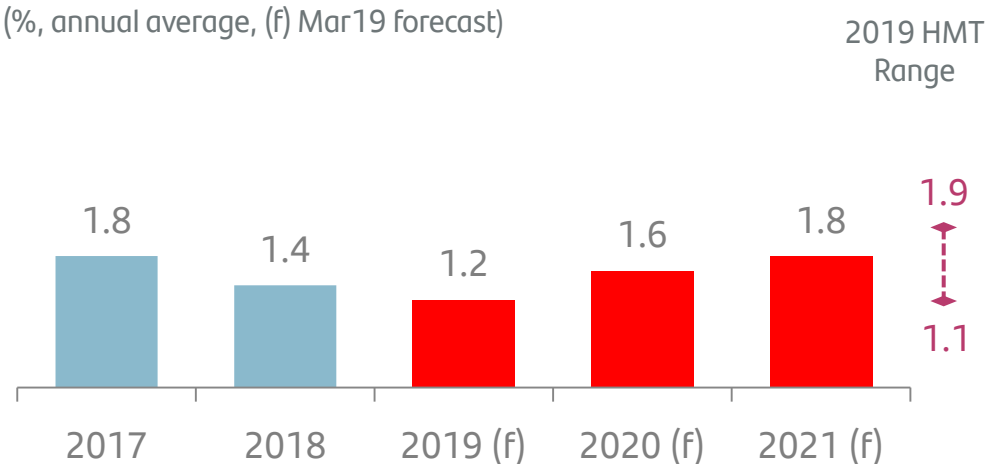
Our multiyear transformation programme aims to **simplify, digitise and automate** the bank by focusing on our **operating model, structures and productivity**

End 2021 planned investment			2-3 year payback
£400m		>	

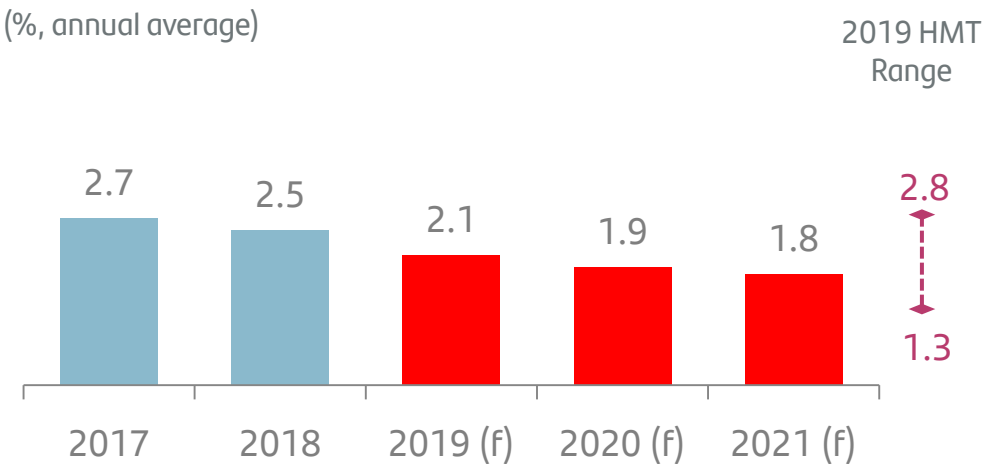
# Operating environment and performance

# UK economy remains relatively stable, however uncertainty continues

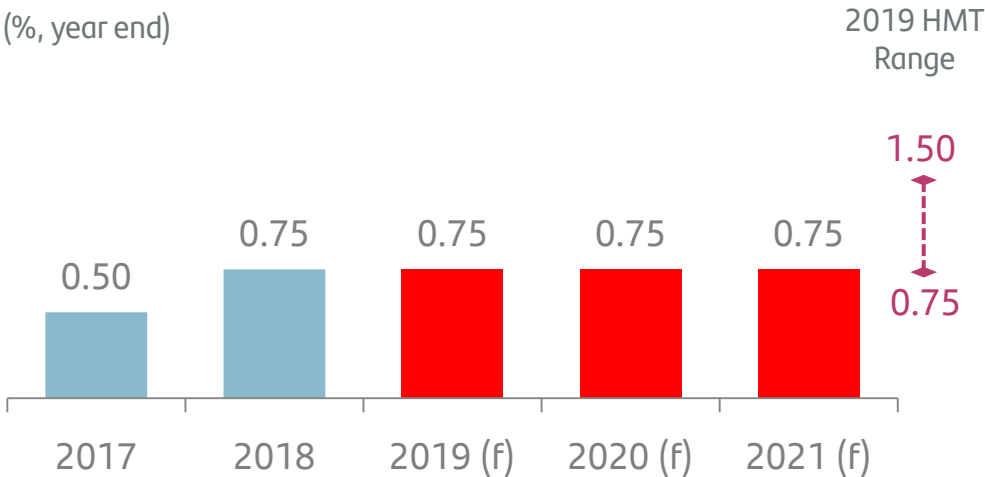
## Annual GDP growth



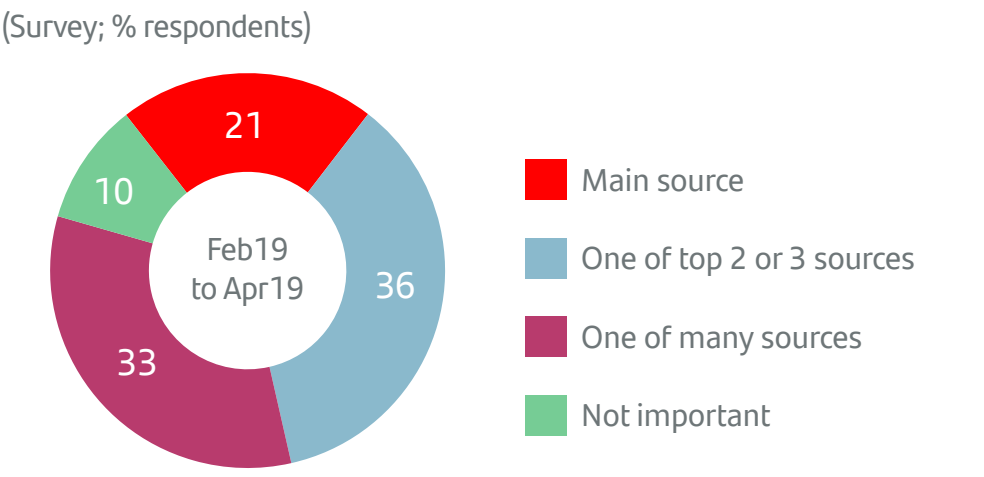
## Annual CPI inflation rate



## Bank of England base rate



## Brexit - a source of business uncertainty<sup>1</sup>

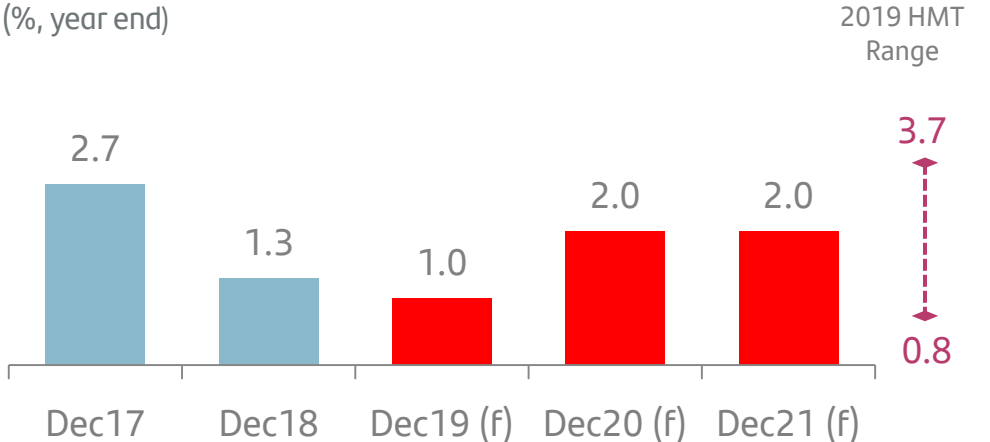


2017 and 2018 source: Office for National Statistics and Bank of England. 2019 (f), 2020 (f) and 2021 (f) source: Santander UK forecasts at June 2019. 2019 HMT range source: HM Treasury Consensus at July 2019 with forecasts made in the latest 3 months (April, May, June) included.

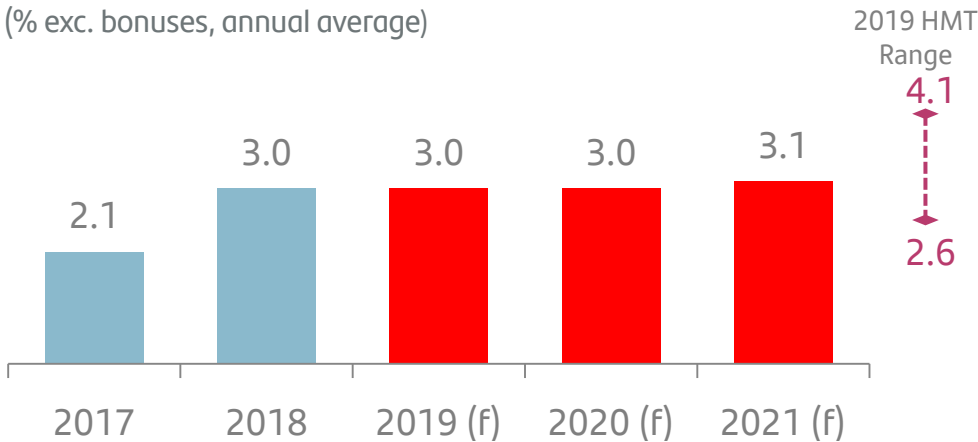
1. Source: Bank of England Decision Maker Panel survey. Question: 'How much has the result of the EU referendum affected the level of uncertainty affecting your business?'

# UK economy remains relatively stable, however uncertainty continues

## House price change<sup>1</sup>



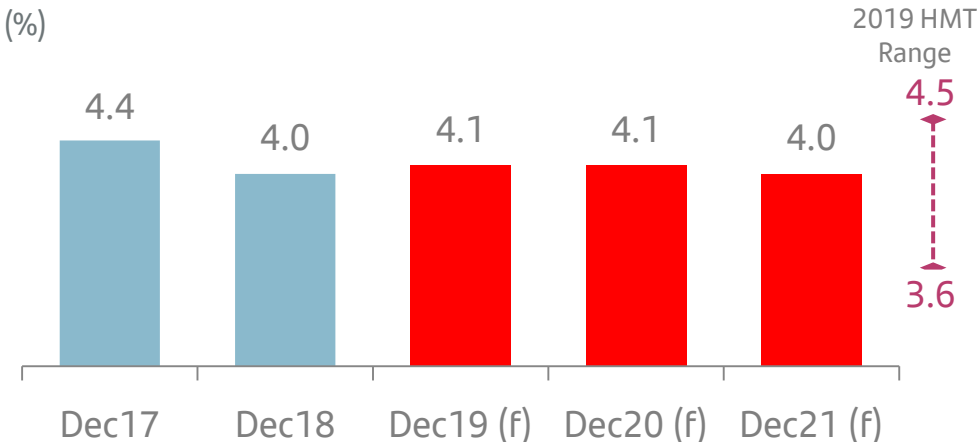
## Average weekly earnings



## House price change by region<sup>2</sup>



## Unemployment rate



2017 and 2018 source: Office for National Statistics and Bank of England. 2019(f), 2020 (f), and 2021 (f) source: Santander UK forecasts at June 2019. 2019 HMT range source: HM Treasury Consensus at June 2019 with forecasts made in the latest 3 months (April, May, June) included.











1. Halifax house price index (Source: IHS Markit) | 2. Nationwide regional house prices

# Our strategy, combining prudence with decisive actions, will deliver significant benefits over the medium-term

- PBT of £575m (-36%) and adjusted PBT of £743m (-17%) predominantly driven by income pressure from the mortgage back book  
Statutory PBT was also impacted by investment in our transformation programme and PPI charges
- Started our multi-year strategic transformation programme and plan to invest £400m before the end of 2021  
We expect to achieve a 2-3 year payback on our investment alongside a better customer experience
- Transformation programme spend of £113m year-to-date, largely on restructuring the branch network and actions to re-shape our corporate business, will quickly translate into improved efficiency
- We expect income pressure to continue to impact our results, with the significant cost savings from our transformation programme largely offsetting this over the medium-term
- Banking NIM of 1.69% (-11bps) with mortgage back book pressure and continued SVR attrition (-£2.1bn)  
New mortgage margins improved slightly during the year
- CET1 capital ratio up 60bps to 13.8%; reaching our end-state capital position through capital accretion and active RWA management

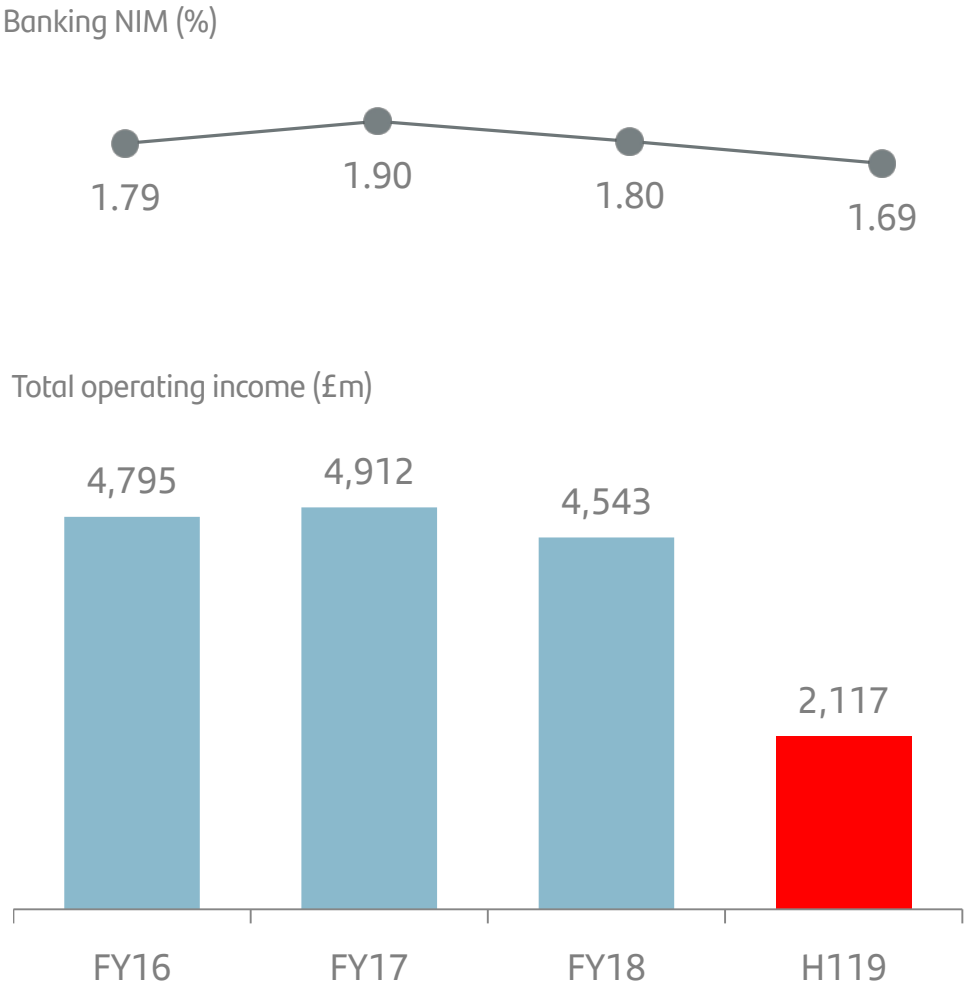


# Our results reflect the start of a multi-year strategic transformation programme, a number of external factors and our prudent approach to risk

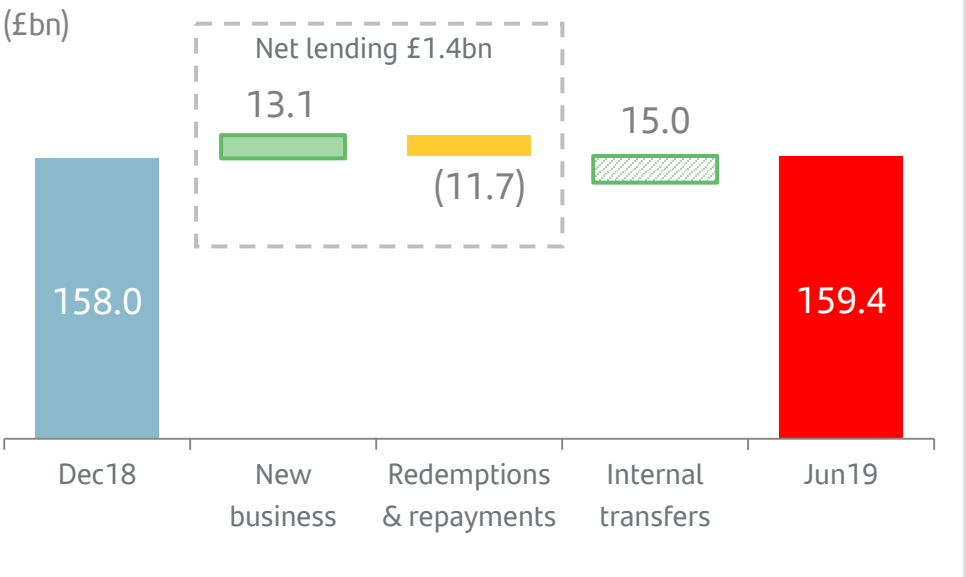
		H119 vs FY18	Adjusted <sup>1</sup>	H119 vs H118
Mortgage lending		£159.4bn £1.4bn	Operating income	 £2,102m 6%
Consumer and unsecured lending		£13.4bn £0.4bn	Operating expenses	 £1,254m 3%
Banking NIM		1.69% 11bps	Provisions	 £36m 18%
Stage 3 Ratio <sup>2</sup>		1.28% 1bps	Profit before tax	 £743m 17%
CET1 capital ratio		13.8% 60bps	RoTE	 7.9% 180bps

# Income impacted by mortgage back book repricing and continued SVR attrition

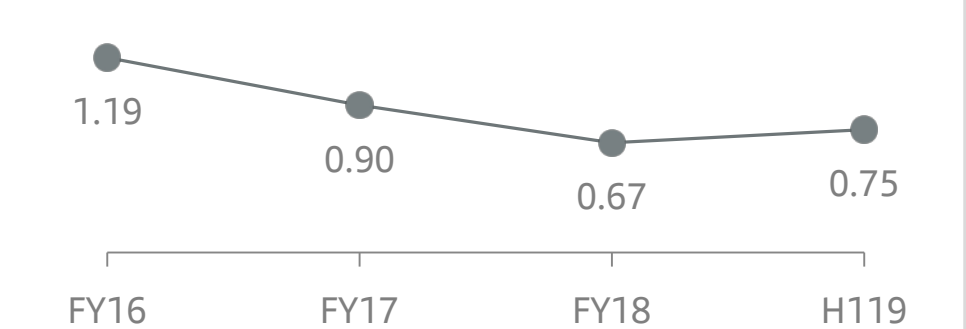
## Total operating income and Banking NIM<sup>1</sup>



## Mortgage lending breakdown

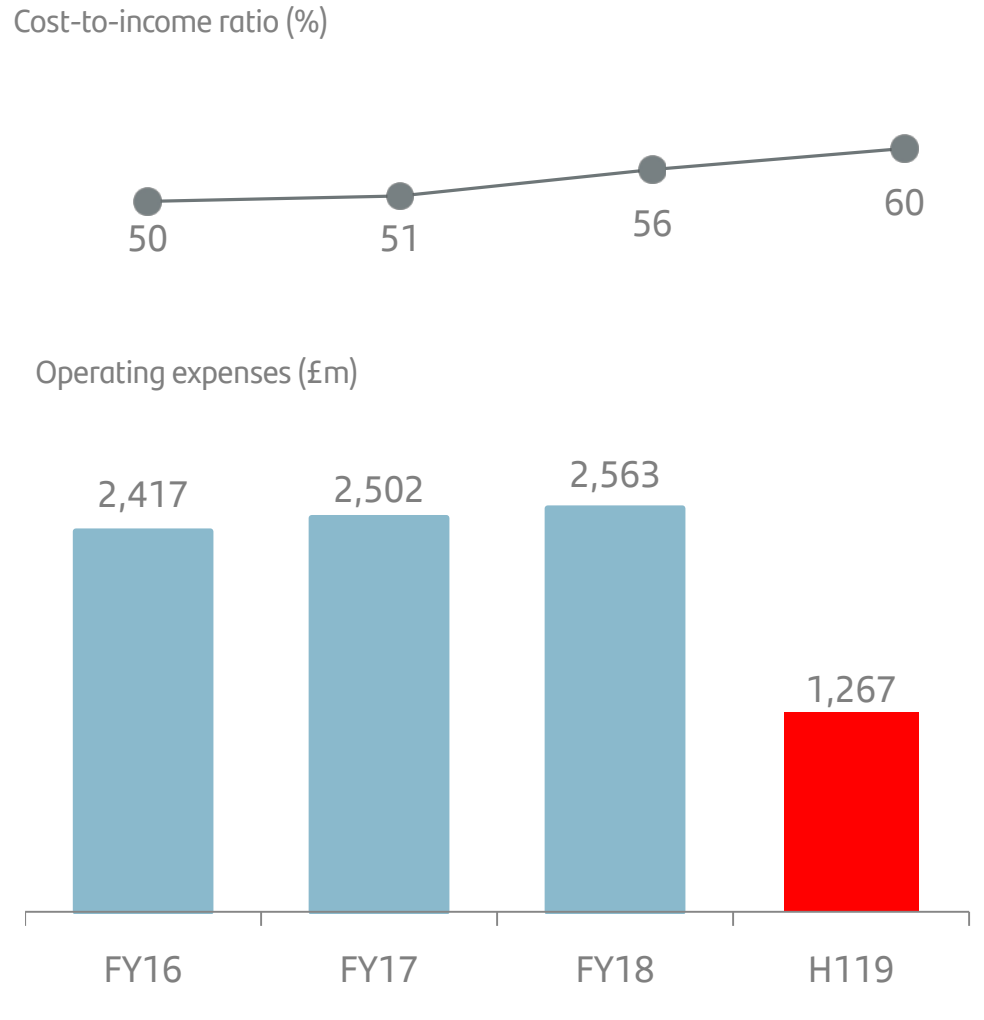


## Mortgage market, BoE new lending margins<sup>2</sup>



# Focused on improving efficiency through our transformation programme as well as ongoing digitalisation and innovation







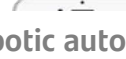


## Operating expenses and cost-to-income ratio



## Our multi-year transformation programme

- Retail branch network optimised - c20% smaller
- Corporate business reshaped and refocused
- Operating models
- Structures and productivity
- Systems rationalisation
- Distribution and estate management
- 3rd party contracts
- Paperless communications
- Cloud migration

## Advanced digital offering and innovation

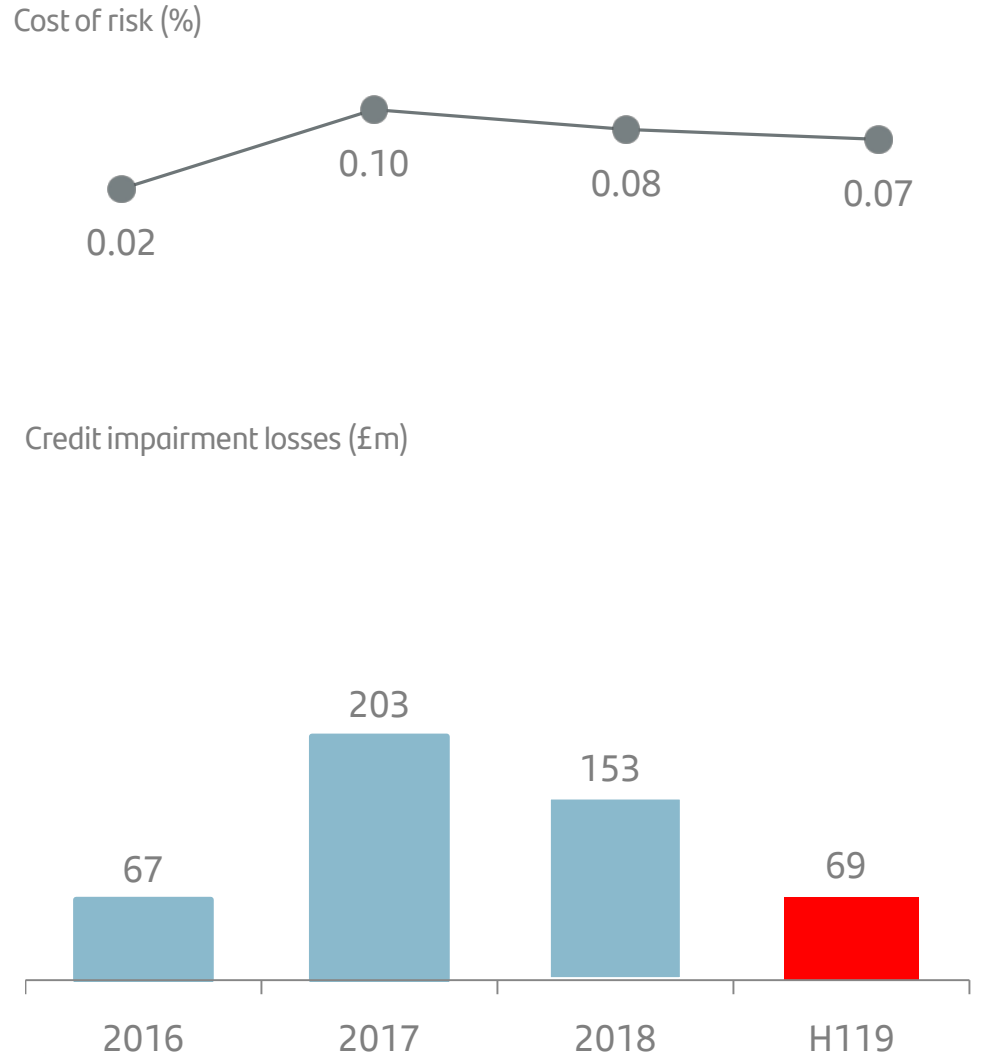
 <b>Mobile App</b>  <b>Natural language IVR</b> 	 <b>Live chat/chatbots</b>  <b>Voice biometrics</b> 	 <b>Robotic automation</b>  <b>Speech and Text Analytics</b> 
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Google Virtual Assistant    Open Innovation Challenges

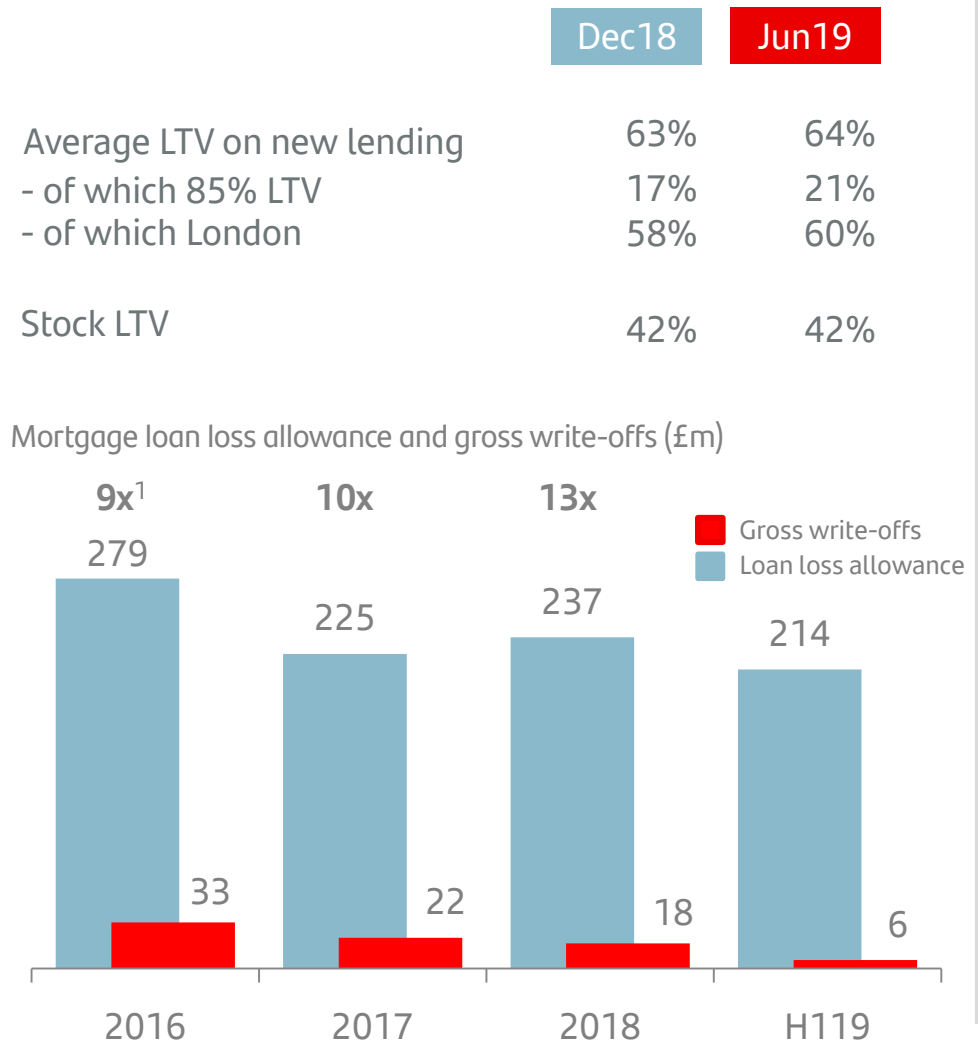
Enhanced API developer portal

# Credit quality remains very strong, supported by our prudent approach to risk

## Credit impairment losses and cost of risk



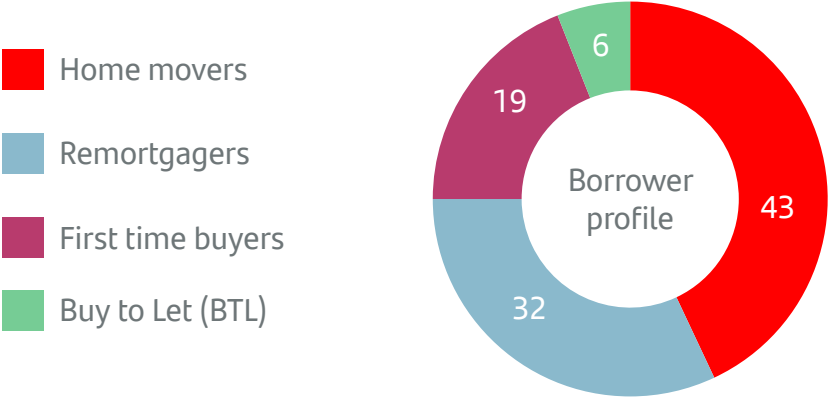
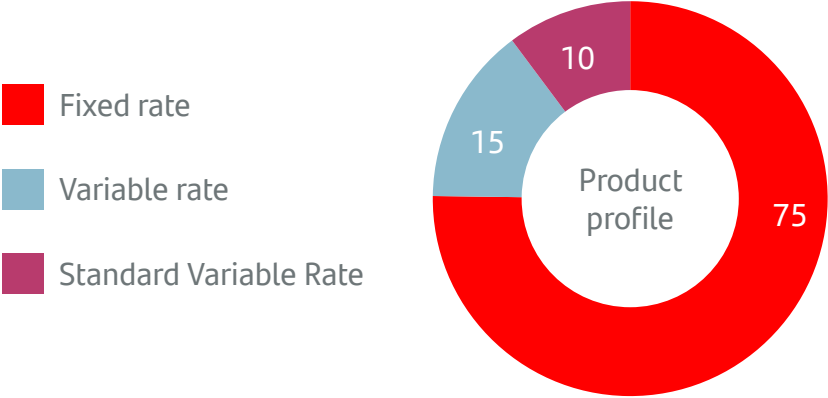
## Prudent mortgage lending criteria



# Prime residential mortgage book

## Residential mortgage portfolio of £159.4bn

(stock %, Jun19)

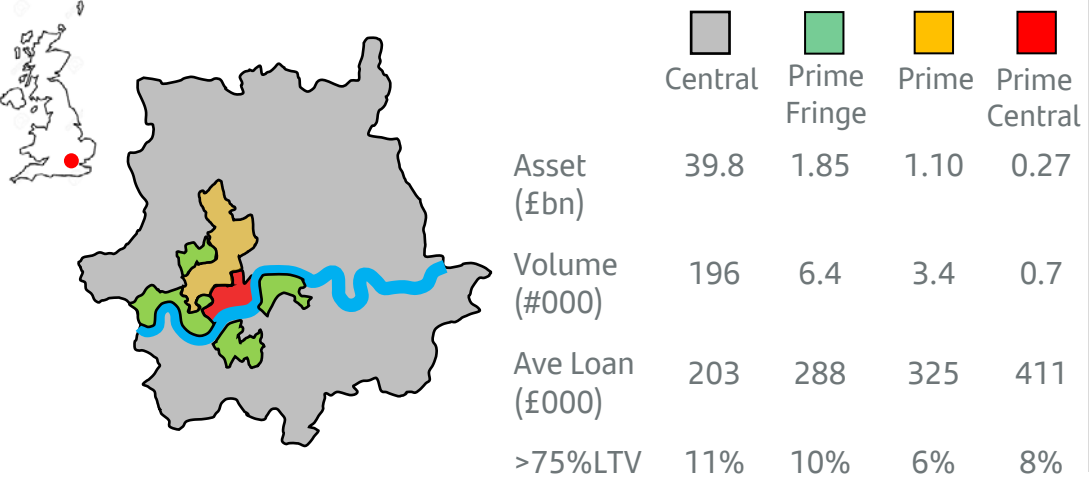


## Geographical distribution

(stock %, Jun19)



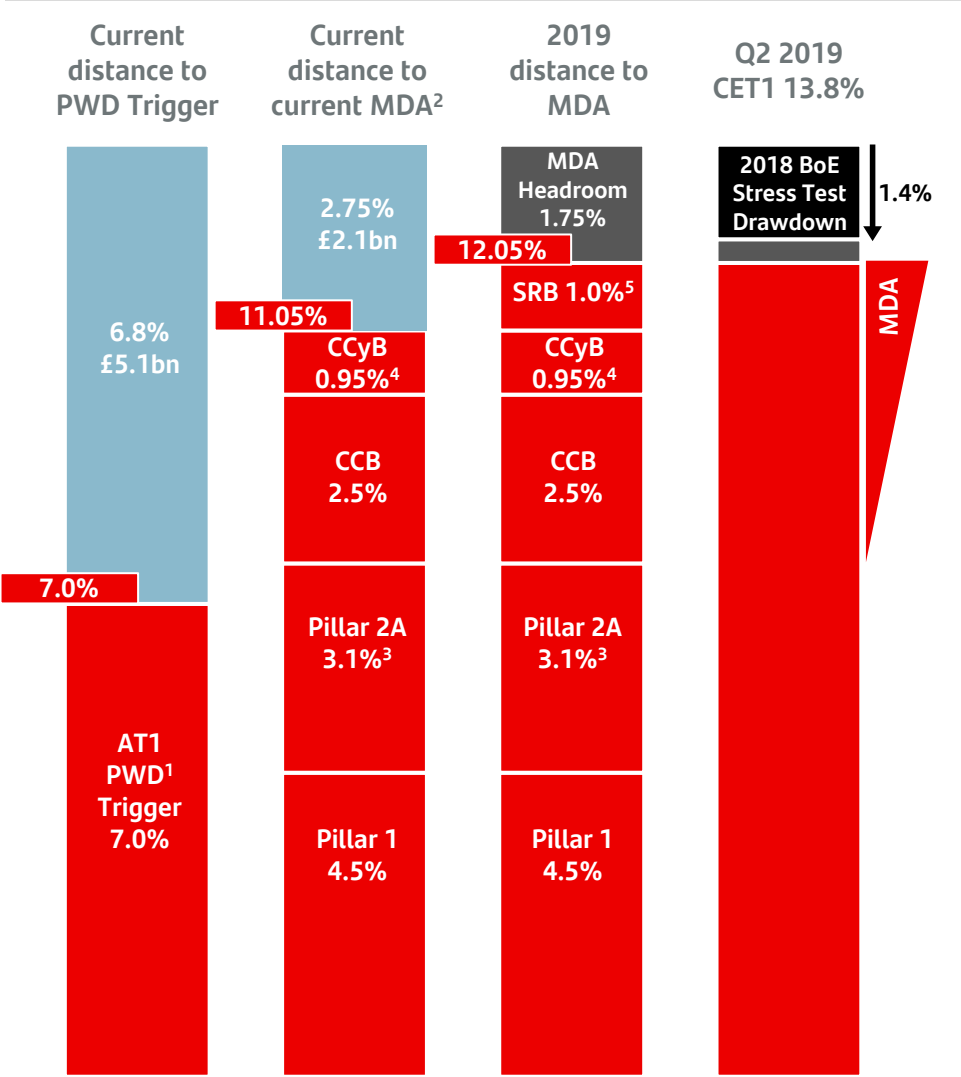
## Prime London Lending



# Capital, Liquidity and Funding

# Well managed capital structure

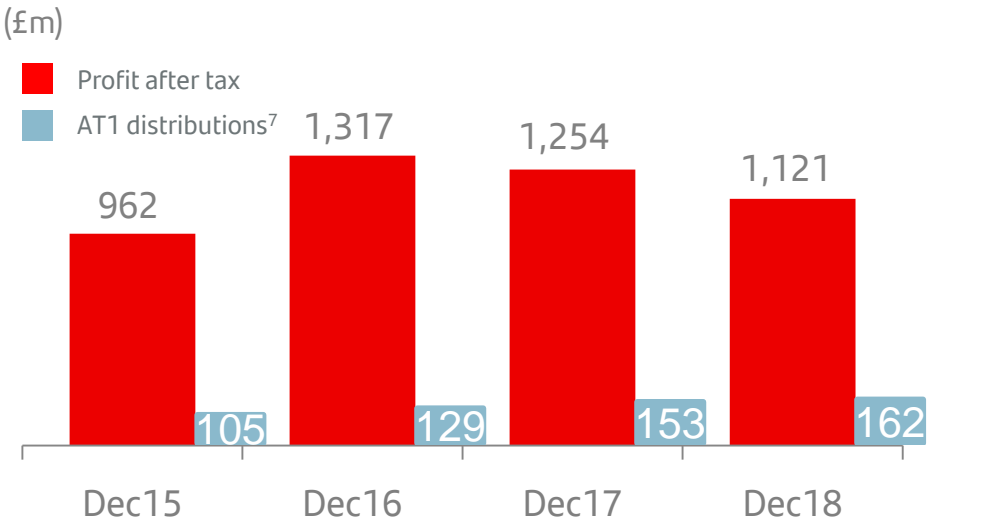
## Significant buffer to thresholds



## Strong CET1 ratio under the BoE stress test<sup>6</sup>

- In the 2018 BoE stress test, Santander UK's CET1 drawdown was the lowest across UK banks at 1.4% before any management actions
- The stress test shows the UK banking system is resilient to deep simultaneous recessions in the UK and global economies that are more severe than the global financial crisis

## 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 CRD IV buffers consisting of the Capital Conservation Buffer (CCB) of 2.5% and CCyB of 0.95% | 3. Santander UK's Pillar 2 CET1 requirement was 3.1% as at 30 June 2019, 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 95% | 5. Applicable to the ring-fence bank sub-group with an equivalent amount held at HoldCo Group, expected implementation H219 | 6. Source: BoE, Stress testing the UK banking system: 2018 results | 7. Additional Tier 1 instruments with shareholder equity treatment classification.

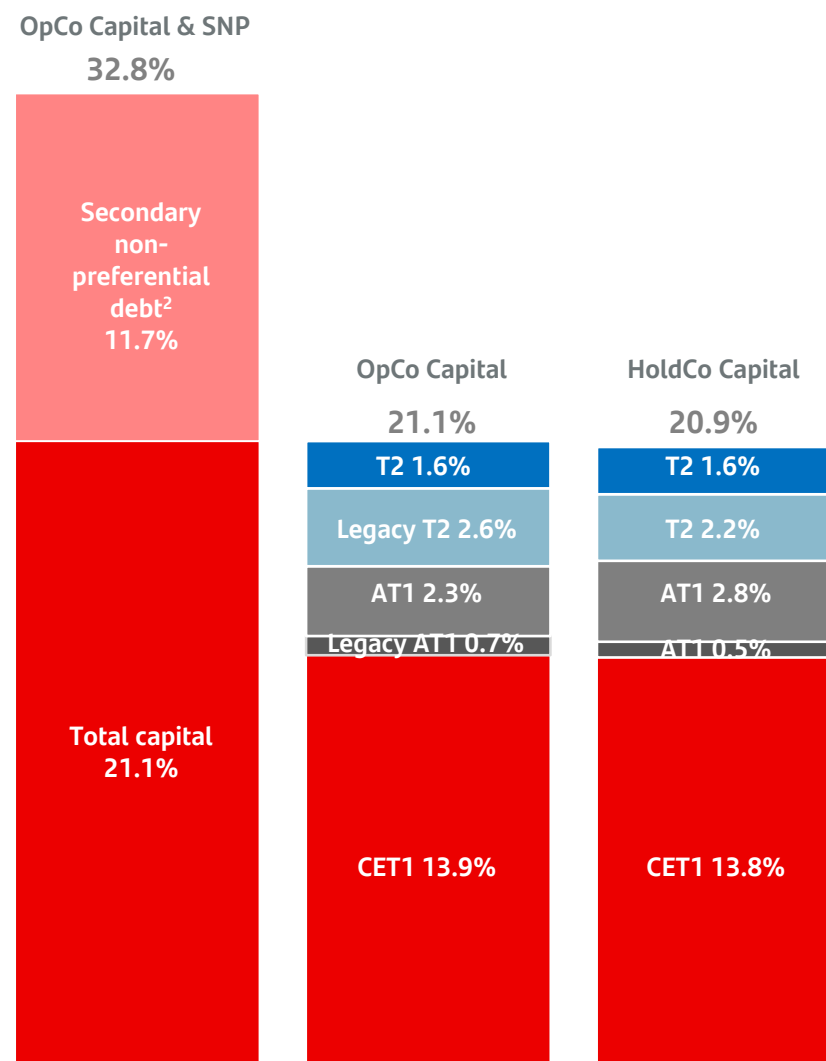
# We continue to meet evolving capital requirements

## Capital and leverage

	Dec16	Dec17	Dec18	Jun19
CET1 ratio (%)	11.6	12.2	13.2	13.8
Leverage Exposure (£bn)	289.6	287.0	275.6	275.7
UK leverage ratio <sup>1</sup> (%)	4.1	4.4	4.5	4.5
RWAs (£bn)	87.6	87.0	78.8	75.3
HoldCo total capital (%)	17.3	17.8	19.1	20.9
OpCo total capital (%)	18.5	19.3	20.3	21.1

- CET1 capital ratio increased 60bps to 13.8%, reaching our end-state capital position, notwithstanding any future changes to the counter-cyclical buffer
- As our CET1 capital ratio efficiency improves it is likely that leverage will become the binding constraint and as a result CET1 capital ratio could continue to increase alongside lending growth

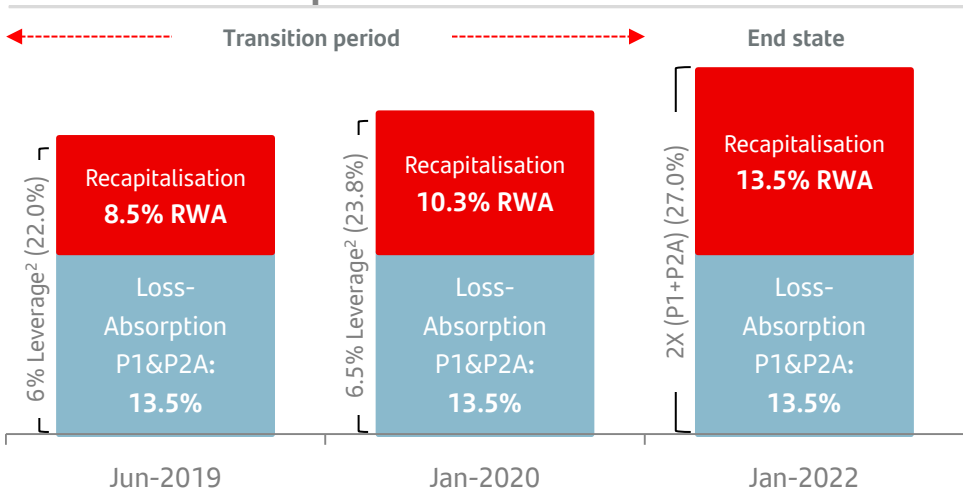
## Total capital and non capital (iMREL) ratios



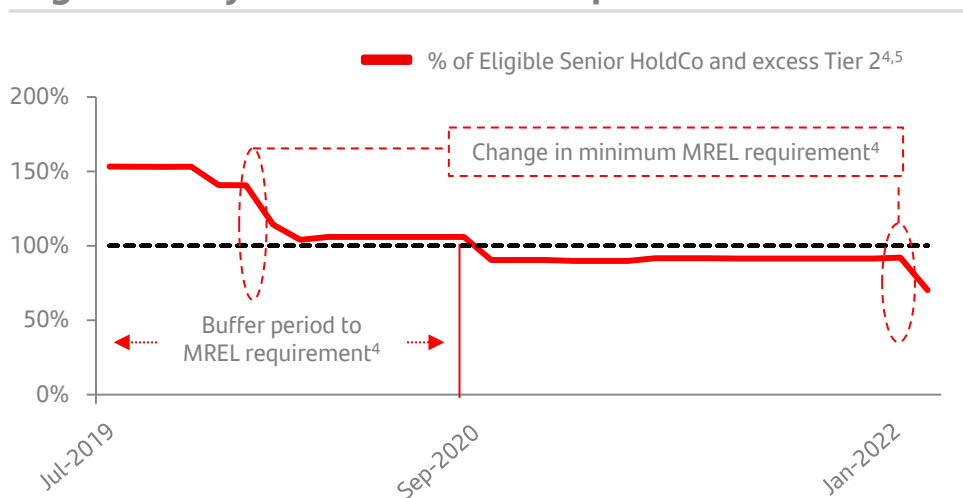


# Major progress to meet recapitalisation MREL requirements

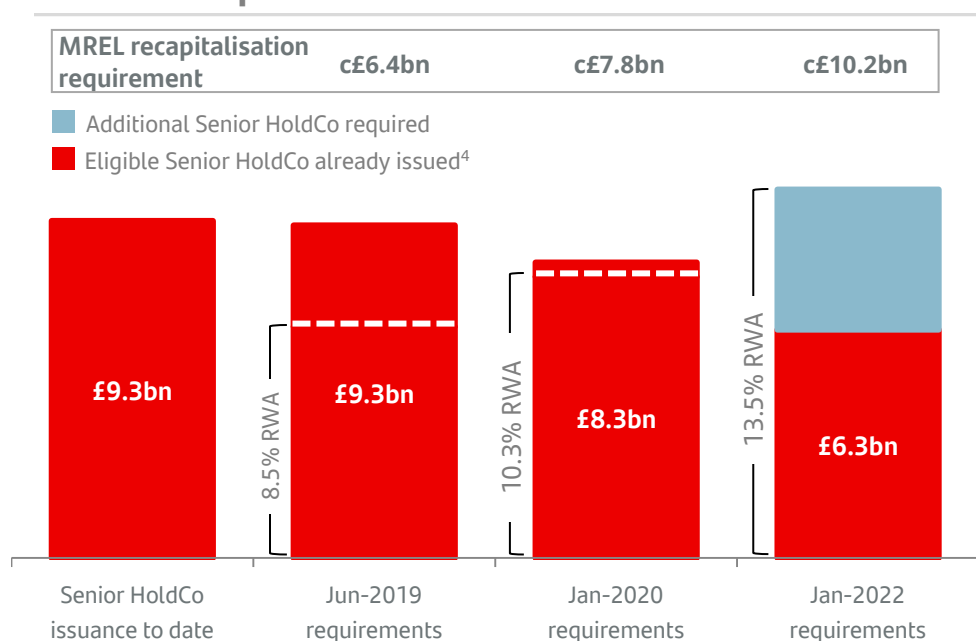
## HoldCo MREL requirement<sup>1,2</sup>



## Significantly ahead of MREL requirements



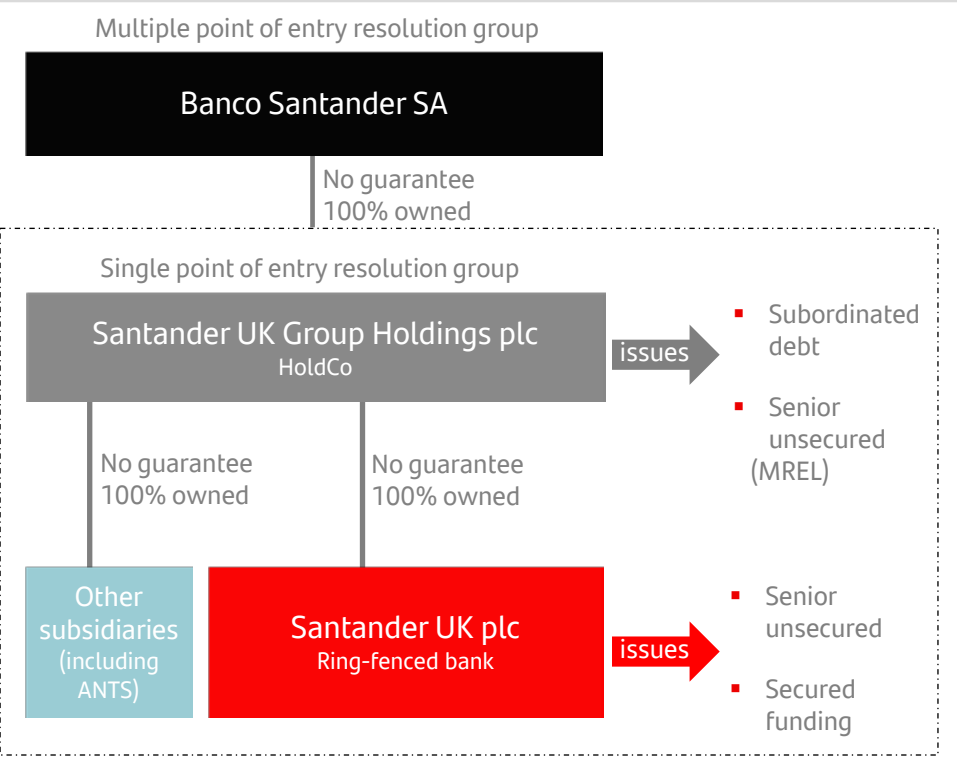
## MREL recapitalisation<sup>2,3</sup>



- MREL requirements are driven by leverage in 2019 and 2020; the driver changes to the RWA measure from 2022
- Under CRR2, all our Senior Unsecured securities issued from Santander UK Group Holdings qualify as eligible liabilities. There are four securities issued between 2015 and 2016 that are subject to CRR2 grandfathering rules

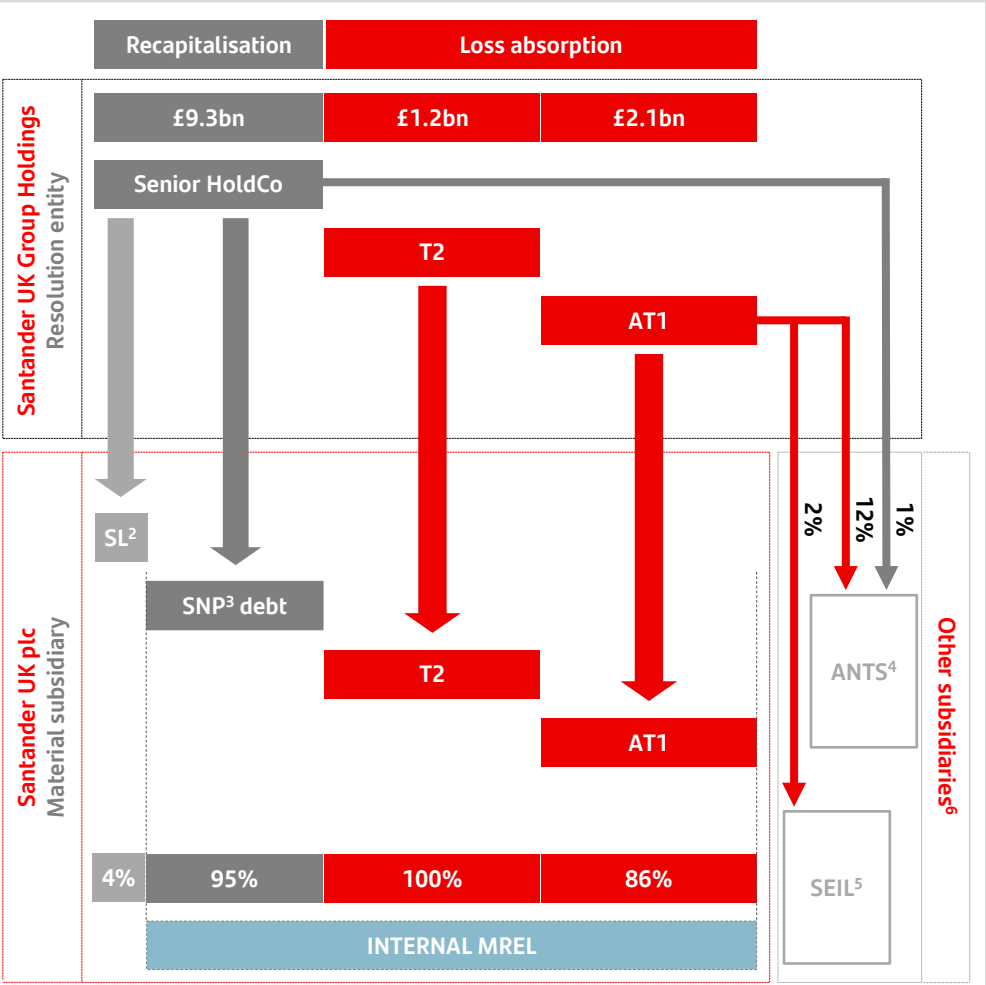
# Santander UK group down-streaming model

## 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

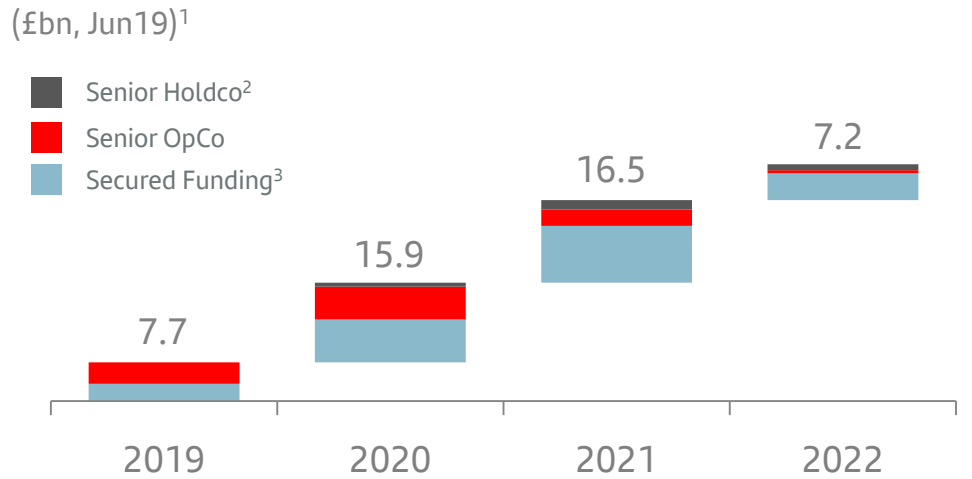
## Current down-streaming of HoldCo issuance<sup>1</sup>



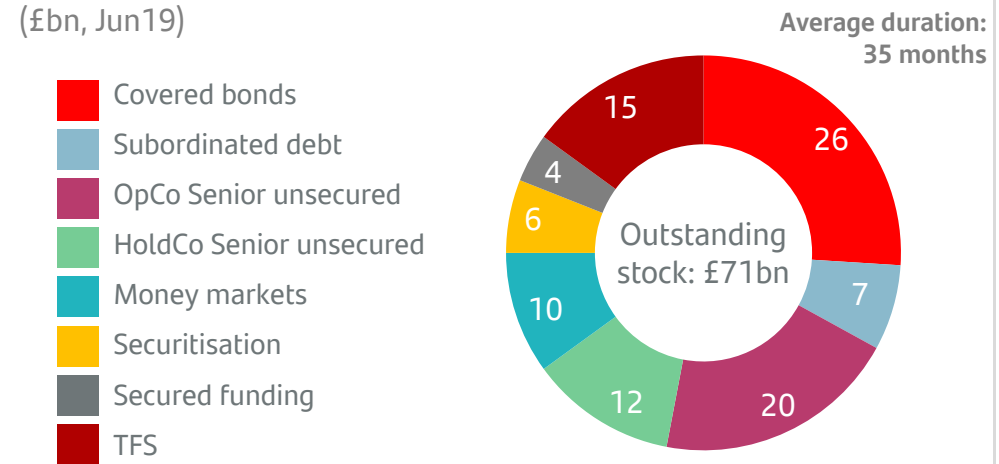
1. Meeting MREL eligibility criteria and exchange rates as at 30 June 2019 | 2. Senior loan | 3. Secondary non-preferential | 4. Abbey National Treasury Services | 5. Santander Equity Investments Limited | 6. Santander UK other subsidiaries will have limited on-going funding requirements

# Strong funding position across a diverse range of products

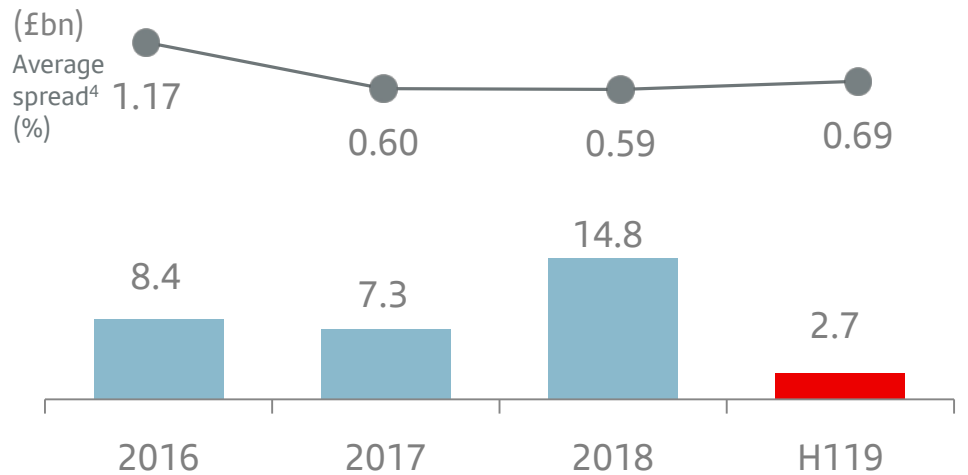
## Medium-term funding maturities



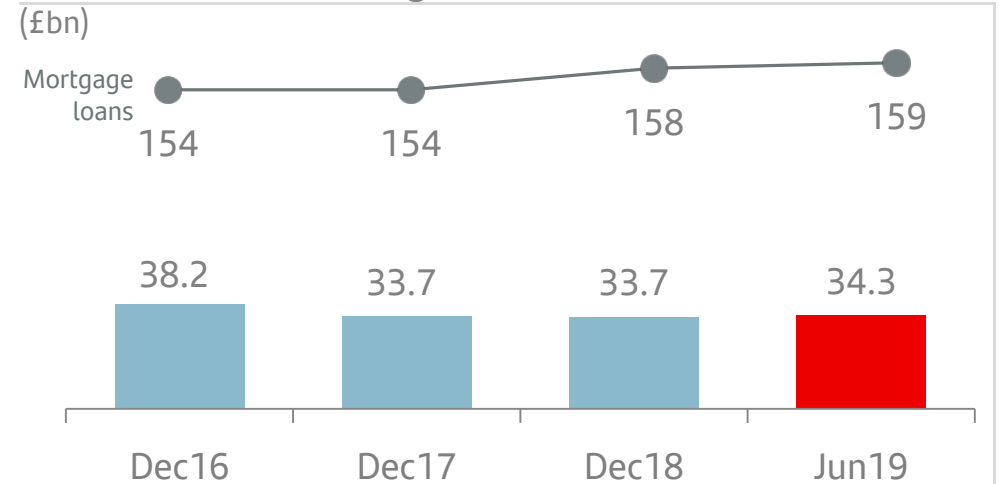
## Wholesale funding stock



## MTF issuance



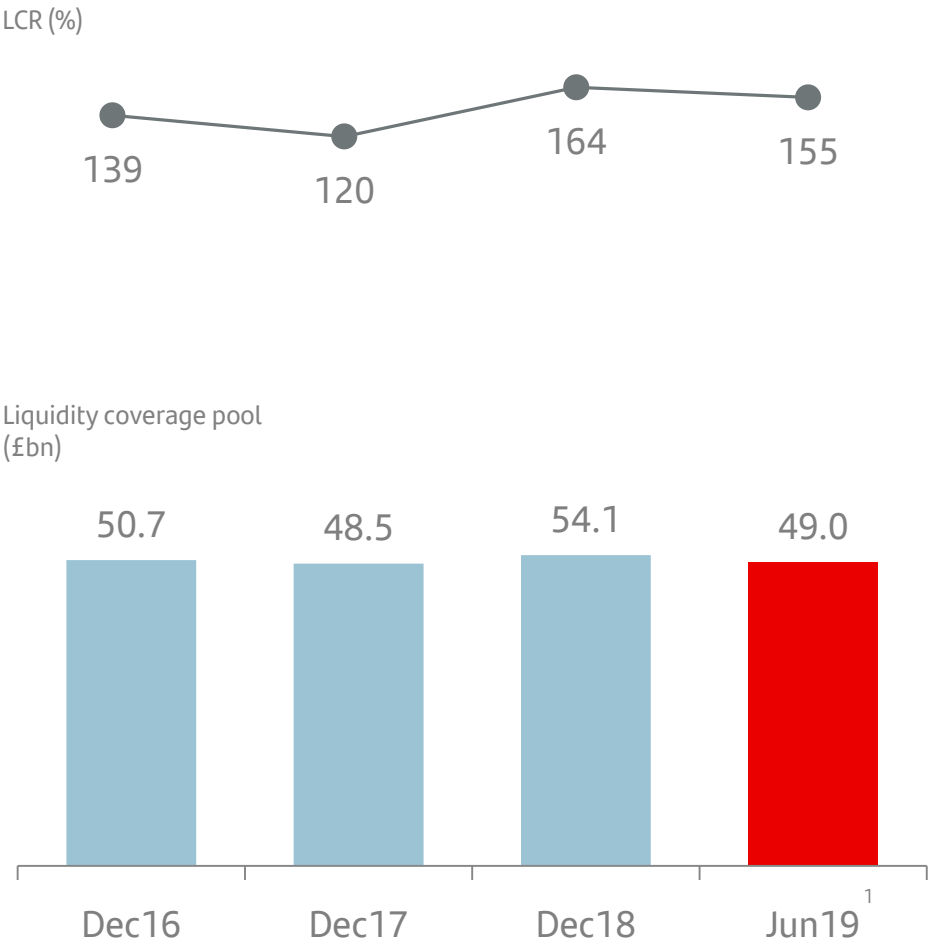
## Medium-term funding encumbrance<sup>5</sup>



1. Includes issuances from Santander Consumer Finance UK and associated joint ventures and TFS | 2. Earliest between first call date and maturity date | 3. Including TFS | 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

# Prudent liquidity and funding position

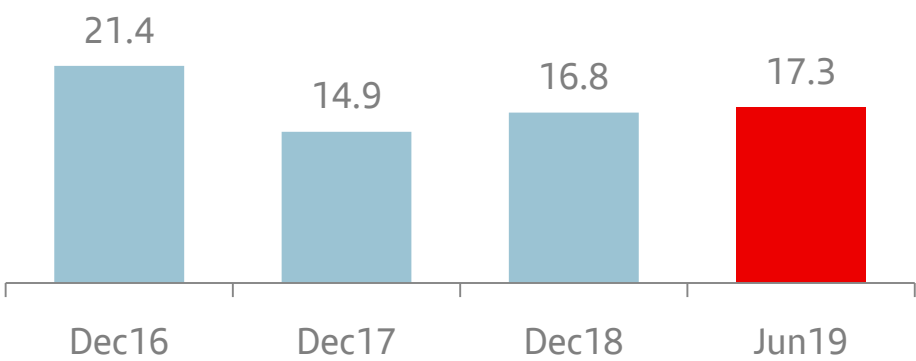
## LCR and liquidity coverage pool



- The RFB DoISub LCR and LCR eligible liquidity pool both decreased following the transfer of our Isle of Man and Jersey businesses into ANTS
- We continue to maintain high levels of liquidity to ensure we are well prepared for possible Brexit uncertainty later in the year

## Wholesale funding

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



<sup>1</sup> With effect from 1 January 2019, and in accordance with our ring-fence structure, ANTS was withdrawn from Santander UK's Domestic Liquidity Sub-group. We now monitor and manage liquidity risk for Santander UK plc and ANTS separately and 2018 has not been restated. The ANTS LCR eligible liquidity pool was £4.7bn and the ANTS LCR was 504% as at 30 June 2019.

# Credit ratings – June 2019

	S&P	Moody's	Fitch
<b>Santander UK Group Holdings plc</b>			
Senior unsecured <i>outlook</i>	BBB <i>stable</i>	Baa1 <i>positive</i>	A <i>RW Negative<sup>1</sup></i>
Tier 2	BB+	Baa1	A-
AT1	B+	Ba1	BB+
<b>Santander UK plc</b>			
Senior unsecured <i>outlook</i>	A <i>stable</i>	Aa3 <i>positive</i>	A+ <i>RW Negative<sup>1</sup></i>
Short-term	A-1	P-1	F-1
Standalone rating	bbb+	a3	a

# Disclaimer

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This presentation provides a summary of the unaudited business and financial trends for the six months ended 30 June 2019 for Santander UK Group Holdings plc and its subsidiaries (Santander UK), including its principal subsidiary, Santander UK plc. Unless otherwise stated, references to results in previous periods and other general statements regarding past performance refer to the business results for the same period in 2018.

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Santander UK is a frequent issuer in the debt capital markets and regularly meets with investors via formal roadshows and other ad hoc meetings. In line with Santander UK's usual practice, over the coming quarter it expects to meet with investors globally to discuss the updates and results contained in this presentation as well as other matters relating to Santander UK.

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Source: Santander UK Q2 2019 results "Quarterly Management Statement for the six months ended 30 June 2019" 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.

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[Link to glossary](#)



[Key dates<sup>1</sup>](#)

Q319 results: 30 October 2019

Q419 results: 29 January 2020

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

