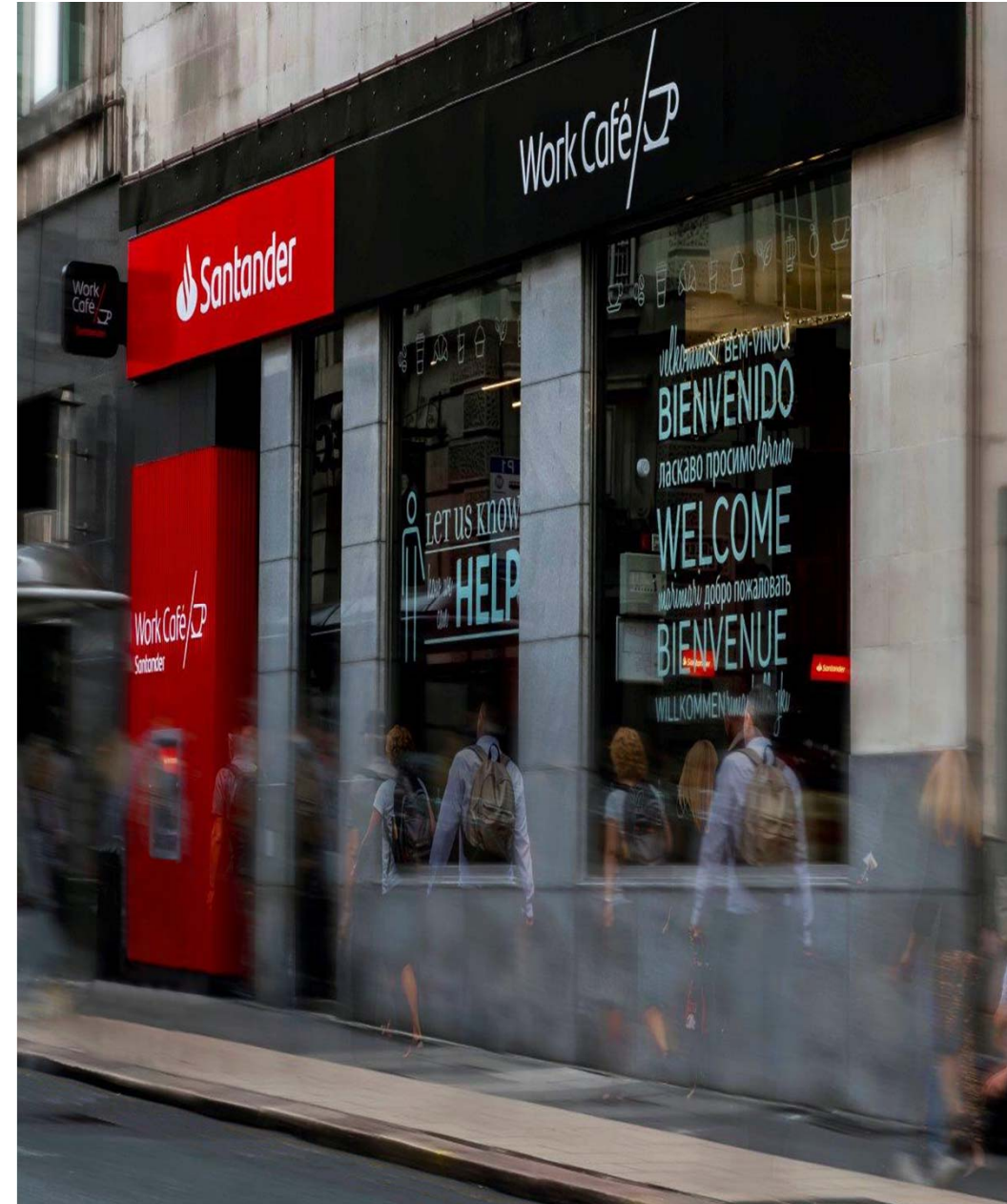


Santander UK Group Holdings plc

# Investor Update for the three months ended 31 March 2020

April 2020



## The Covid-19 crisis poses extraordinary challenges for our customers, colleagues and communities

- We are focused on providing vital banking services to individuals, families and businesses across the UK
- We are working alongside the Government, BoE and regulators, to support the country's economy
- Our Q120 results continued to be impacted by lower mortgage margins as well as the unfolding Covid-19 crisis  
Statutory PBT of £114m, down 58%; Adjusted PBT of £152m, down 57%
- Loan loss allowance increased by c14% with an incremental £122m charge for Covid-19 in Q120
- Transformation programme has slowed as we focused on the Covid-19 crisis, which will impact our efficiency savings
- Expect our income to be further impacted by the lower base rate and significantly reduced new business related to the lockdown affecting the UK economy, partially offset by changes to deposit pricing which will take effect in H220.  
A more severe economic slowdown than forecast could also increase our credit impairment losses
- With strong foundations in place, CET1 of 14.4% and LCR of 138%, we will continue to support our customers, our colleagues and the wider society

# Supporting our customers, our colleagues and our communities during the Covid-19 crisis

## Helping our customers and our communities



- **Providing payment holidays** for our retail customers<sup>1</sup>:
  - > 206,000 mortgages
  - > 18,600 UPLs
  - > 15,000 credit cards
- **Tailored solutions** to business and corporate customers<sup>1</sup>:
  - > £186m CBILS<sup>2</sup> approved, c5% of the total scheme
  - > £1bn of credit facilities accessed
  - > 2,500 payment holidays
- **Donated £1m to Age UK and Alzheimer's Society** to support the most vulnerable people
- **Santander Cycles made free of charge** for NHS, police, social care and critical workers

## Looking after our people and changing the way we work








- **Enabled >20k colleagues** to work from home
- **Branch network and contact centres** remain operational, with a focus on our most vulnerable customers
- Implemented **social distancing** measures in offices and branches
- **Significant capacity improvements** to our digital platform, reducing call centre and branch volumes
- **Full pay** for colleagues unable to work
- **Regular communication** and **updated HR policies**
- **Enhanced wellbeing support**, including access to qualified psychologists








1. Requested, at 24 April 2020. | 2. Coronavirus Business Interruption Loan Scheme.

## Q120 results impacted by lower mortgage margins as well as Covid-19 impairment charge

### Growing our business prudently

Q120 vs Q419		
Mortgage loans		£167.8bn £2.4bn
Customer deposits		£178.7bn £0.9bn
Banking NIM		1.52% 6bps
Stage 3 ratio <sup>1</sup>		1.10% 5bps
CET1 capital ratio		14.4% 10bps

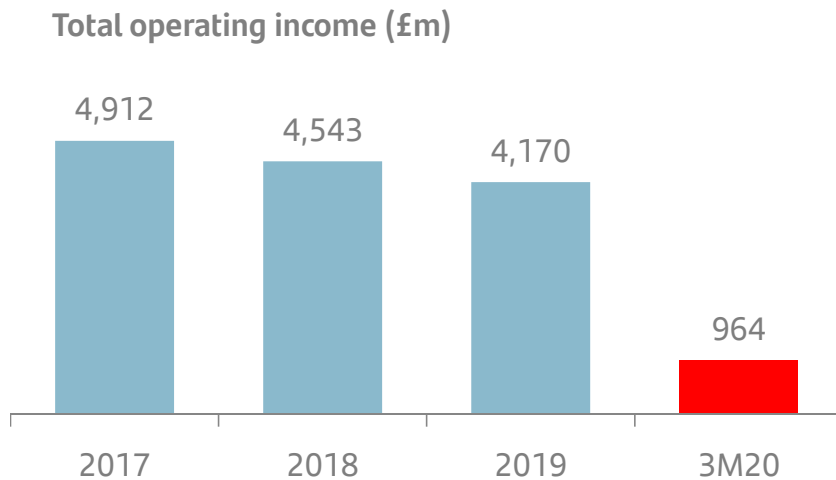
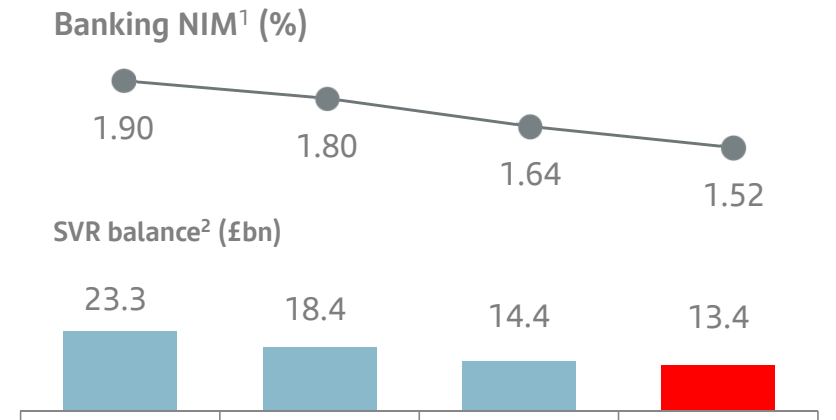
### Results impacted by margin pressure and credit losses

Adjusted <sup>2</sup> income statement, Q120 vs Q119		
Operating income		£933m 10%
Operating expenses		£587m 3%
Credit impairment losses - of which Covid-19 charge		£165m £122m n.m.
Provisions		£29m 53%
Profit before tax		£152m 57%



1. Stage 3 ratio is total stage 3 exposure as a percentage of customer loans plus undrawn stage 3 exposures. | 2. The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £38m in Q120 (Q119: £82m). See Quarterly Management Statement for the three months ended 31 March 2020 for further detail and a reconciliation to PBT.

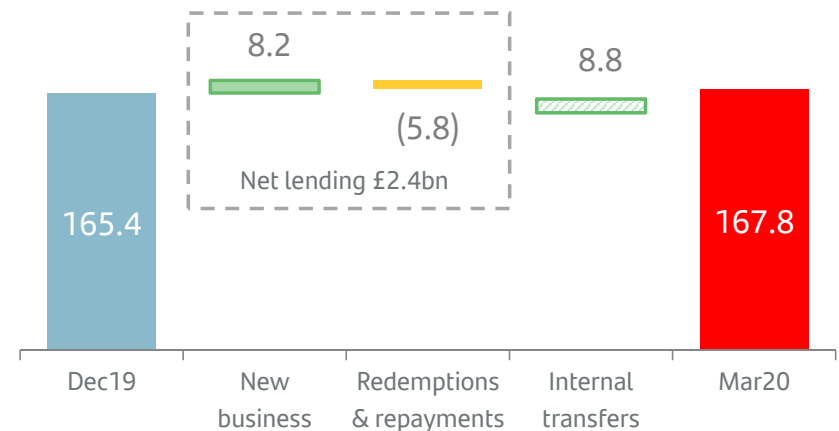
# Income under pressure from lower mortgage margins and SVR attrition



## Income pressures expected to continue

- ↓ Interest rate environment Lower BoE base rate  
Reduced from 75bps to 10bps
- ↓ Mortgage new business Lockdown in Mar20  
New lending market slowdown
- ↑ Liability repricing<sup>3</sup> 1|2|3 Current account  
May 2020

## Mortgage lending breakdown (£bn)



1. Banking NIM is calculated as annual net interest income divided by average customer assets. | 2. SVR balance includes loan balances which moved to Follow-on-Rate which was introduced in January 2018. | 3. Changes to 1|2|3 current account interest rate and cashback announced in January 2020 will take effect in May 2020.

# Adjusted operating expenses down 3% with transformation programme efficiency savings

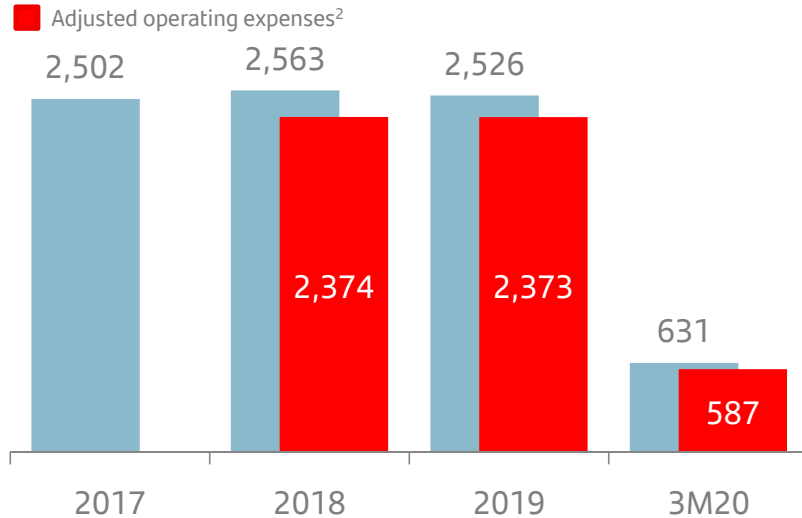
Adjusted cost-to-income ratio (%)<sup>1</sup>



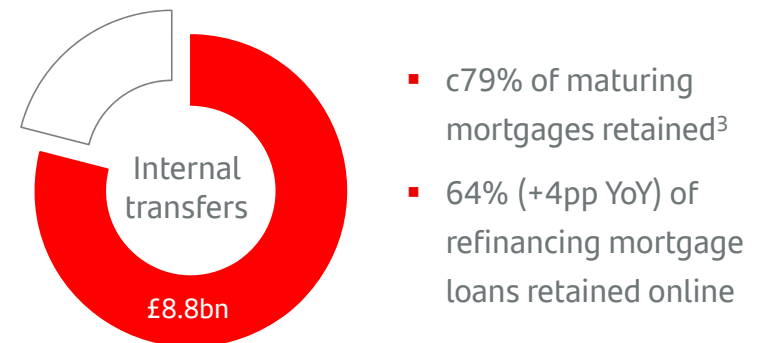
Transformation slowed due to Covid-19 crisis



Total operating expenses (£m)



Mortgage retention improving operational efficiency



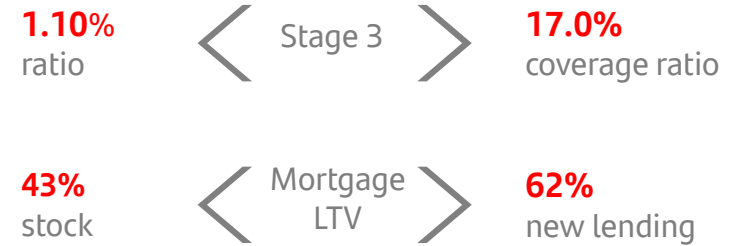
1. See Q120 Quarterly Management Statement for further detail and a reconciliation of adjusting items. | 2. In Q419 we made a new adjustment for operating lease depreciation relating to our consumer (auto) finance business which is included in adjusted non-interest income and excluded from adjusted operating expenses (Q120: £25m, Q119: £21m, 2019: £103m, 2018: £63m). See previous Quarterly Management Statements for further detail and a reconciliation of all adjusting items. | 3. Proportion of customers with a maturing mortgage who remain with Santander. Applied to mortgages four months post maturity.

# Building reserves with an incremental £122m charge for Covid-19 in Q120

Cost of risk<sup>1</sup> (bps)

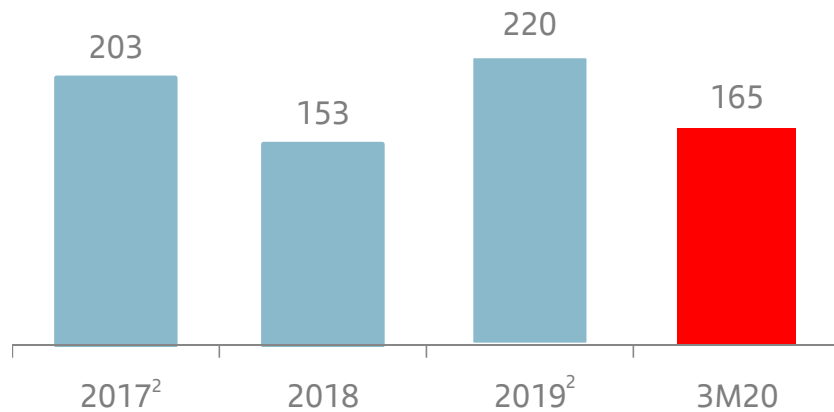


Further economic downturn could increase impairments

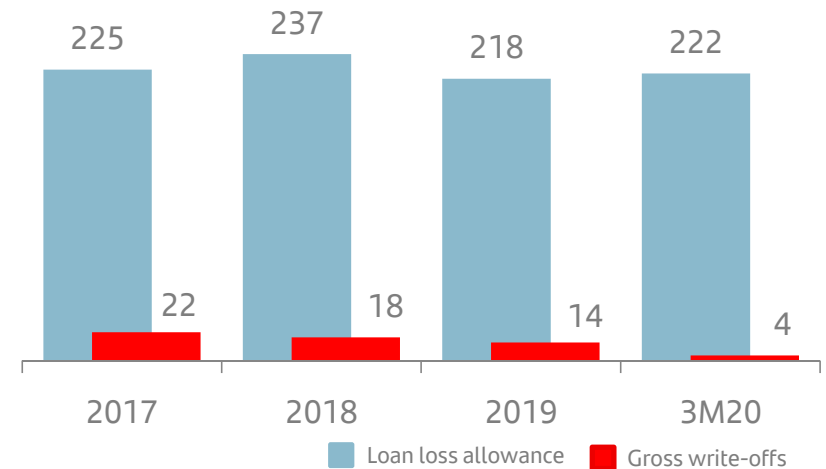


Credit impairment losses (£m)

Of which £122m Covid-19 charge



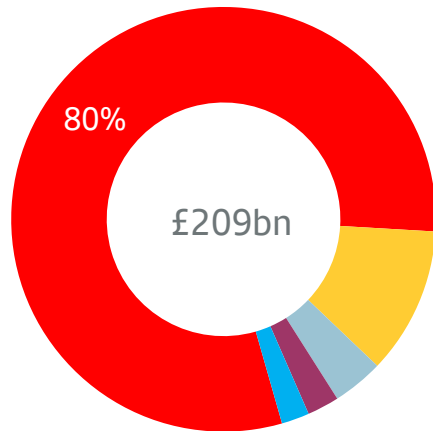
Mortgage loan loss allowance and gross write-offs (£m)



1. Cost of risk is credit impairment charge for the 12 month period as a percentage of average customer loans. | 2. 2017 credit charges relate to Carillion plc. 2019 charges increased largely due to lower mortgage releases as well as a few smaller single name corporate exposures | 3. See Q120 Quarterly Management Statement for further detail

# Resilient balance sheet underpinned by prime mortgage loan book

Total customer loans (Mar20)

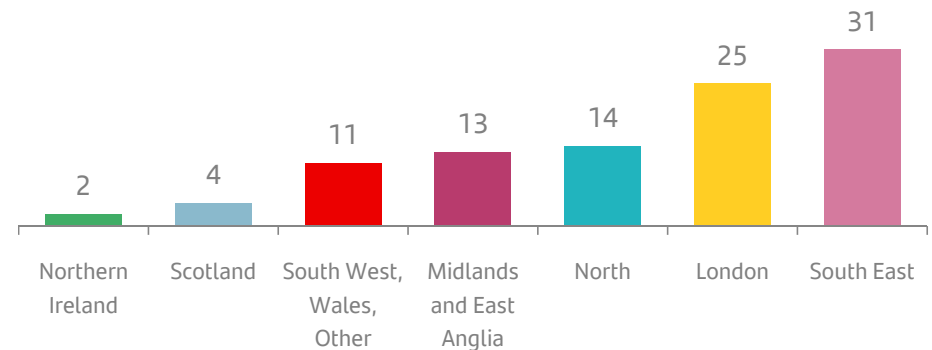


- Mortgages (£167.8bn)
- Corporates (£23.4bn)
- Consumer (auto) finance (£8.1bn)
- Other unsecured lending (£5.1bn)
- Corporate centre (£4.4bn)

Mortgages average loan size, (new business)

	Dec19	Mar20
London and South East	£277k	£273k
Rest of the UK	£154k	£154k
All UK	£207k	£207k

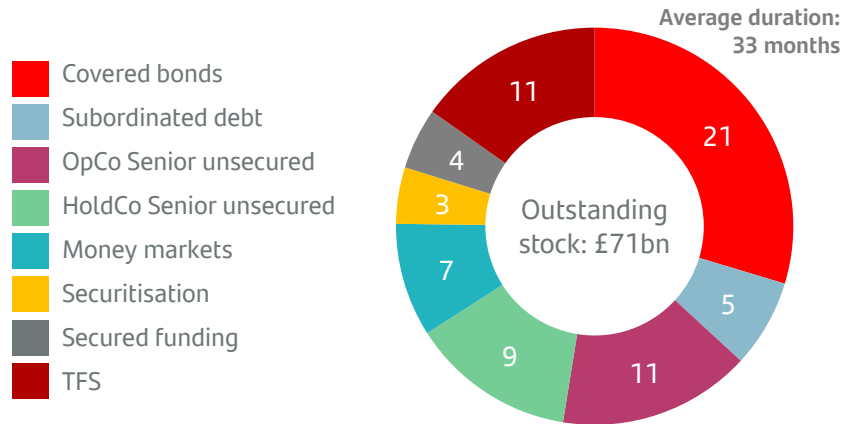
Mortgages geographical distribution stock %, (Mar20)



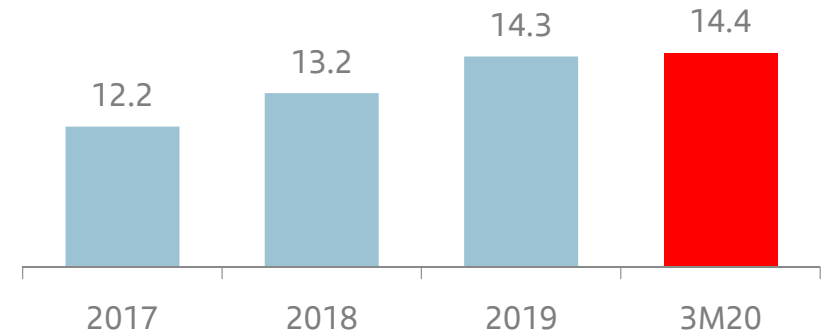


# Strong funding, liquidity and ongoing capital accretion

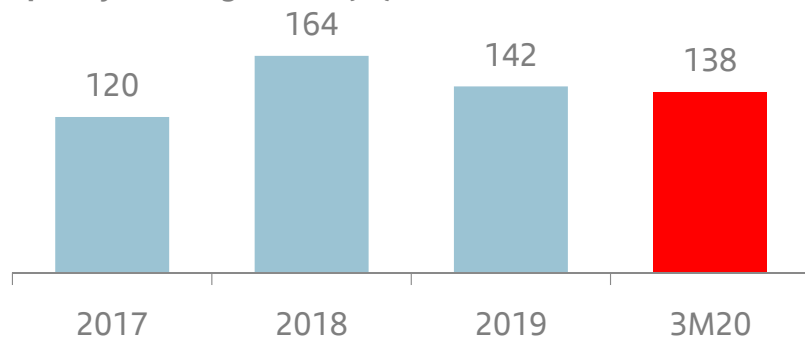
Wholesale funding stock (£bn, Mar20)



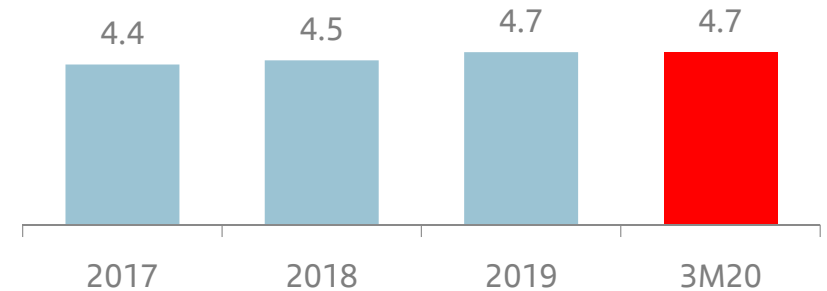
CET 1 ratio (%)



Liquidity Coverage Ratio (%)<sup>1</sup>



UK Leverage ratio (%)



1. With effect from 1 January 2019, and in accordance with our ring-fence structure, SFS was withdrawn from Santander UK's Domestic Liquidity Sub-group. We now monitor and manage liquidity risk for Santander UK plc and SFS separately and 2018 has not been restated. The SFS LCR eligible liquidity pool was £6.0bn and the SFS LCR was 392% at 31 March 2020

## Credit ratings – April 2020

### Covid-19 impacting rating outlooks across the banking sector

#### S&P Global

- 'The outlooks reflects our expectation that the negative economic environment will weigh on asset quality and earnings. We are affirming our issuer and issue ratings because we believe Santander UK's good position in U.K. retail banking and its conservative risk profile underpin its creditworthiness at the current rating level'.<sup>1</sup>

#### FitchRatings

- 'The Negative Outlook reflects our belief that the economic fallout from the pandemic poses risks to the bank's ratings in the medium-term. SanUK enters the economic downturn from a relative position of strength, reflecting its conservative risk appetite, a solid retail banking franchise, low levels of impaired loans, adequate capitalisation and a stable funding and liquidity profile'.<sup>2</sup>

#### MOODY'S

- 'Our outlook for the United Kingdom's (UK, Aa2 negative) banking system is negative, unchanged from December 2019. The outlook reflects our view that disruption related to the coronavirus outbreak will exacerbate an existing slowdown in UK economic growth'.<sup>3</sup>

#### Santander UK Group Holdings plc

	S&P	Moody's	Fitch
Senior unsecured	BBB	Baa1	A
Short-term	A-1	P-1	F-1
AT1	B+	Ba1	BBB-
Outlook	Negative	Negative	Negative

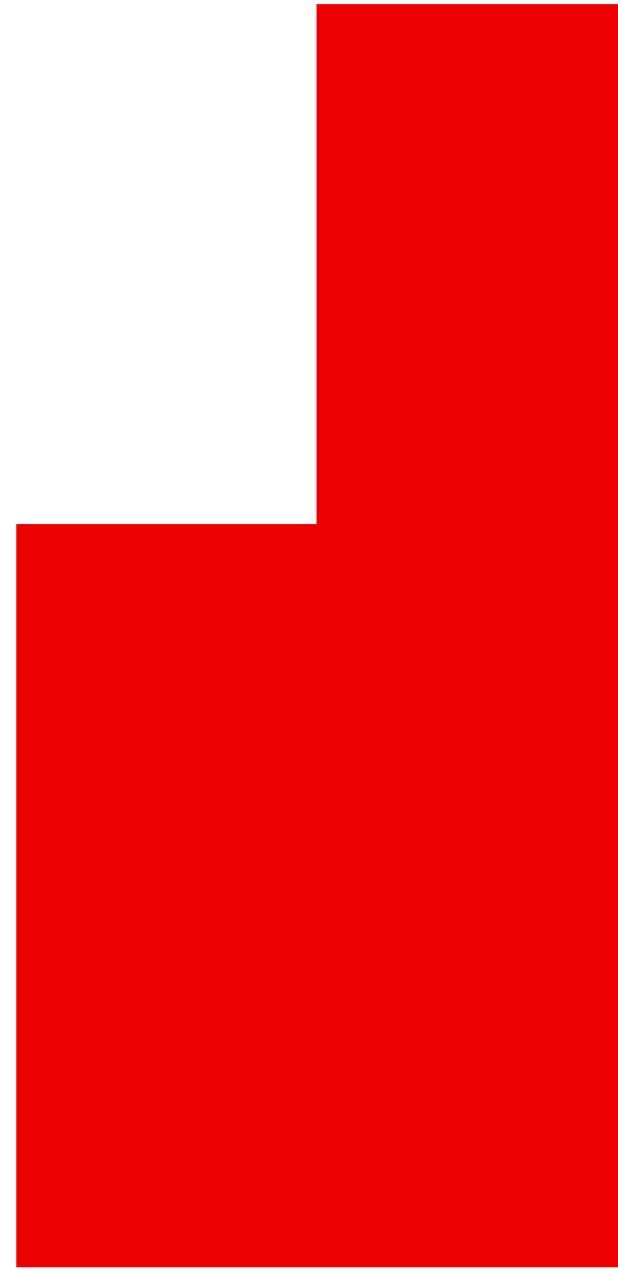
#### Santander UK plc

	S&P	Moody's	Fitch
Senior unsecured	A	Aa3	A+
Short-term	A-1	P-1	F-1
Standalone rating	bbb+	a3	A+
Outlook	Negative	Negative	Negative



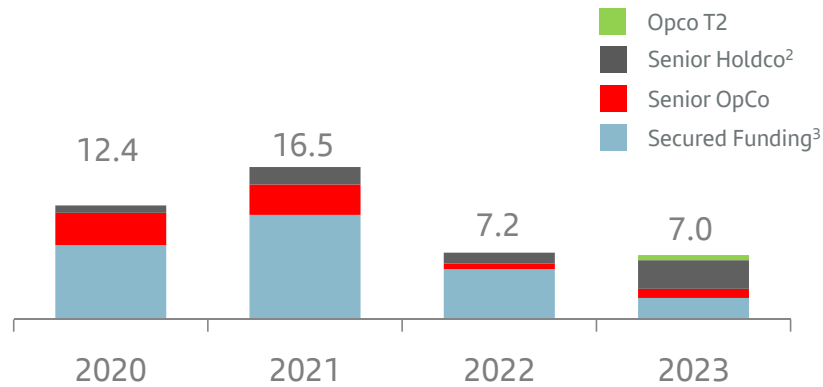
1. S&P Global Ratings, 23 April 2020 | 2. Fitch Ratings, 1 April 2020 | 3. Moody's Investor Services, 26 March 2020

# Fixed Income Appendix

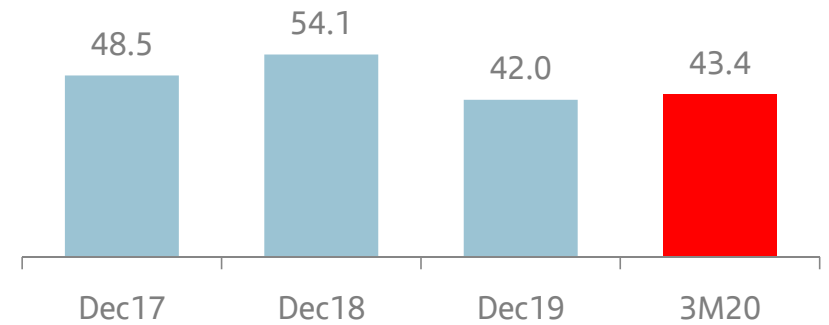


# Strong funding position across a diverse range of products

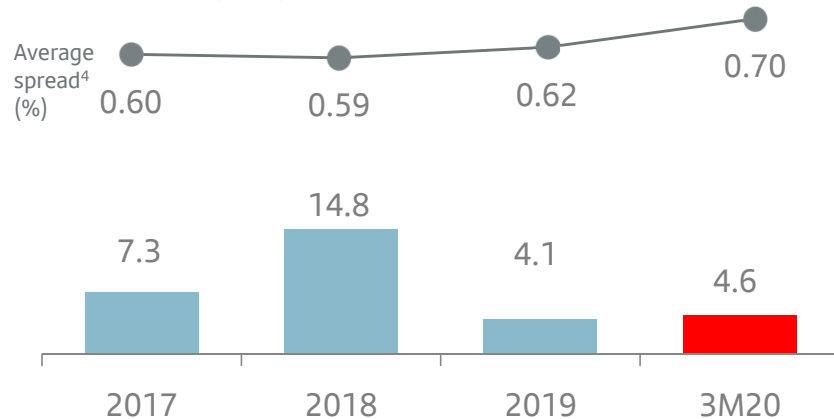
Medium-term funding maturities (£bn, Mar20)<sup>1</sup>



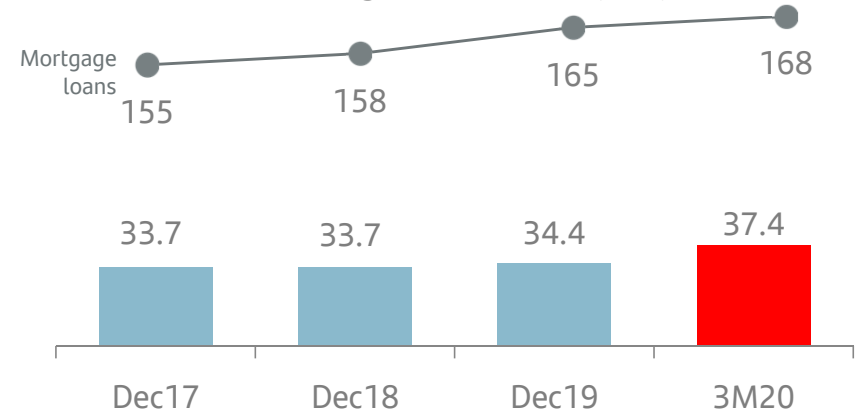
LCR eligible liquidity pool (£bn)



MTF issuance (£bn)



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

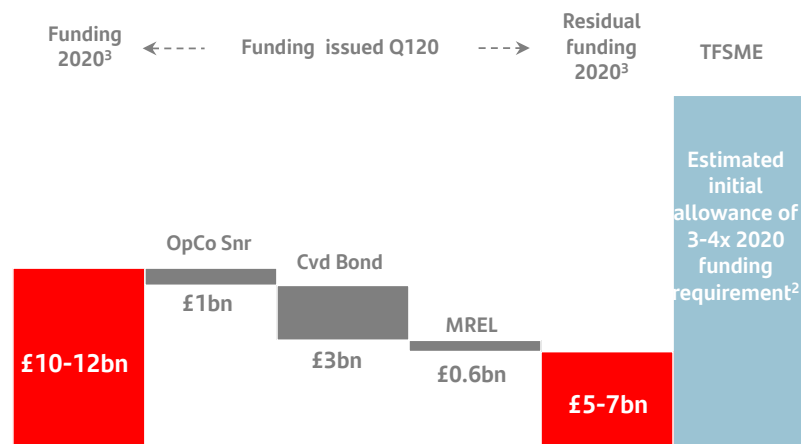


1. Includes issuances from Santander Consumer Finance UK and associated joint ventures and TFS | 2. Earliest between first call date and maturity date. | 3. Including TFS. | 4. Weighted average spread at time of issuance above GBP 3M LIBOR excluding structured notes. Includes issuances from Santander Consumer Finance UK and associated joint ventures. Weighted average spread for 3M20 is issuance above SONIA | 5. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton and covered bond programmes.

# Wholesale funding requirements

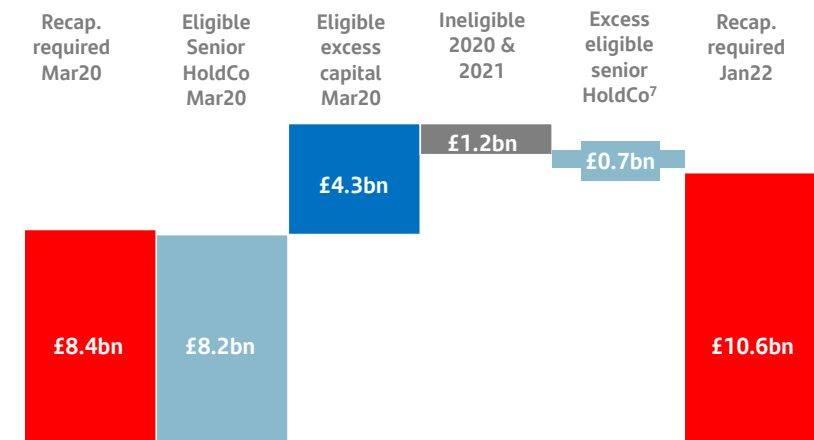
## Funding position

- £4.6bn of funding issued in Q120
- Remaining funding requirement for 2020 c£5bn - £7bn
- Initial allowance for TFSME equivalent to 10% of the TFSME Group stock of real economy lending<sup>1</sup>
- £10.8bn outstanding under the 2016 Term Funding Scheme (TFS) and expect our initial allowance under the new Term Funding Scheme with additional incentives for SMEs (TFSME) to be almost twice this amount



## MREL position<sup>4,5,6</sup>

- MREL eligible outstanding debt, including excess capital and £0.6bn of eligible debt issued in Q120, is £4.1bn in excess of the required recapitalisation amount
- Excluding excess capital, an additional c£3.6bn of eligible Senior HoldCo would be required by 2022
- Assuming a constant balance of excess capital until 2022, no further Senior HoldCo would be required



1. On 11 March 2020, the Bank of England published - Term Funding Scheme with additional incentives for SMEs (TFSME) – Market Notice | 2. Estimated initial allowance based on indicative eligible stock at 31 December 2019 | 3. Based on Jan20 funding plan | 4. Assumes FX remains constant and Pillar 2A requirement remains at 4.8% | 5. Regulatory values at 31 March 2020 | 6. Excess capital above minimum capital requirements at 31 March 2020 | 7. Excess eligible senior HoldCo above minimum requirements in January 2022, assuming £4.3bn of excess capital

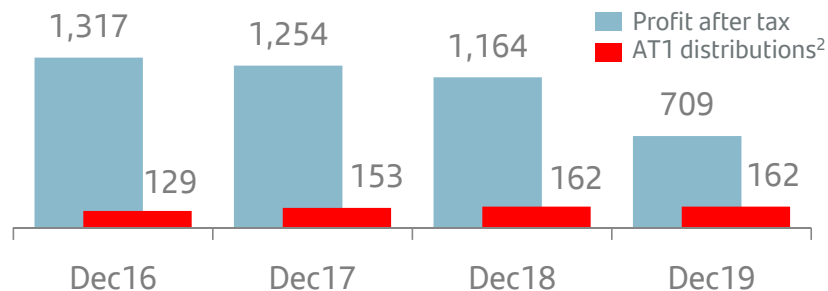
## Resilient capital position

### Capital and leverage

	Dec17	Dec18	Dec19	Mar20
CET1 ratio (%)	12.2	13.2	14.3	14.4
Leverage exposure (£bn)	287.0	275.6	269.9	272.0
UK leverage ratio <sup>1</sup> (%)	4.4	4.5	4.7	4.7
RWAs (£bn)	87.0	78.8	73.2	74.0
HoldCo total capital (%)	17.8	19.1	21.6	21.1
OpCo total capital (%)	19.3	20.3	21.7	21.2

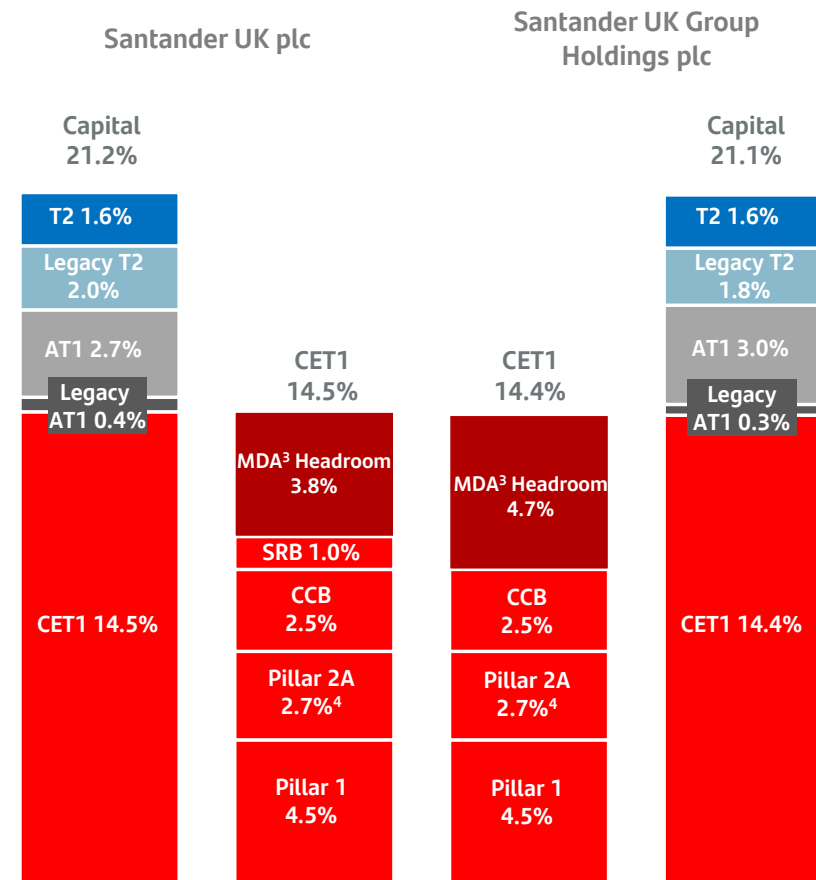
### Profit after tax and AT1 distributions (£m)

- At December 2019, Santander UK Group Holdings plc had distributable items under CRD IV of £4,262m



1. Dec17 and Dec18 leverage ratios were calculated applying the amended definition, as per Jul16 PRA statement. | 2. Additional Tier 1 instruments with shareholder equity treatment classification. | 3. Distribution restrictions expected to apply if Santander UK's CET1 ratio fell between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A and the CRD IV buffers | 4. At 31 March 2020, Santander UK Group Holdings plc and Santander UK plc Pillar 2A requirements were 4.8% (2.7% CET1)

### Total capital ratios

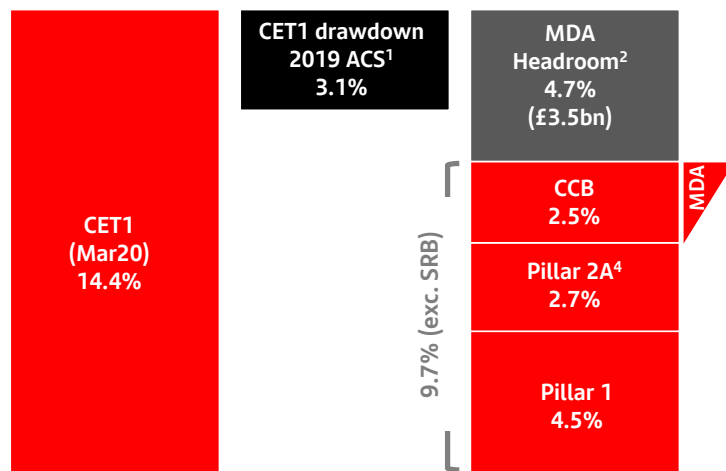


## Well managed CET1 and leverage ratios

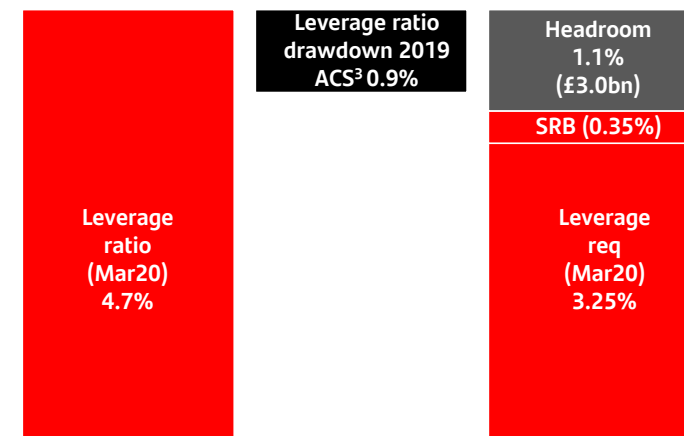
### Significant buffers above CET1 and leverage requirements

- In March 2020, the Financial Policy Committee (FPC) reduced the UK countercyclical buffer (CCyB) from 1% to 0%. The FPC expects to maintain the 0% rate for at least 12 months, implying any increase would not take effect until March 2022 at the earliest. The UK CCyB was scheduled to increase from 1% to 2% in December 2020
- In line with the PRA recommendation, the board of Santander UK Group Holdings has decided that until the end of 2020 there will be no quarterly or interim dividend payments, accrual of dividends, or share buybacks on ordinary shares

### CET1 requirements



### Leverage requirements



1. 2019 stress test of UK Banks - CET1 ratio drawdown is defined as CET1 ratio at Dec18 less minimum stressed CET1 ratio after strategic management actions only. | 2. Distribution restrictions expected to apply if Santander UK's CET1 ratio fell between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A and the CRD IV buffers | 3. 2019 stress test of UK Banks - Leverage ratio drawdown is defined as Leverage ratio at Dec18 less minimum stressed leverage ratio after strategic management actions only. | 4. At March 2020, Santander UK Group Holdings Pillar 2 requirements was 4.8% (CET1; 2.7%)

## Well advanced to comply with MREL requirements

### MREL recapitalisation<sup>1,2</sup>

	Mar-20	Jan-21	Jan-22
Leverage exposure (FPC)	£272.0bn	£272.0bn	£272.0bn
Leverage exposure (CRD IV)	£298.0bn	£298.0bn	£298.0bn
RWAs (CRD IV)	£74.0bn	£74.0bn	£74.0bn
Pillar 1 (8.0%)	£5.9bn	£5.9bn	£5.9bn
Pillar 2A (4.8%)	£3.6bn	£3.6bn	£3.6bn
Leverage exposure (FPC)	<b>6.50%</b> £17.7bn	<b>6.50%</b> £17.7bn	<b>6.50%</b> £17.7bn
Leverage exposure (CRD IV)	<b>6.00%</b> £17.9bn	<b>6.00%</b> £17.9bn	<b>6.75%</b> £20.1bn
RWAs (CRD IV)	<b>2 x P1 + P2A</b> £15.4bn	<b>2 x P1 + P2A</b> £15.4bn	<b>2 x (P1 + P2A)</b> £19.0bn
Senior Hold Co (MREL eligible)	<b>£8.2bn</b>	<b>£7.0bn</b>	<b>£7.0bn</b>
MREL requirement amount (exc. buffers)	£17.9bn	£17.9bn	£20.1bn
Loss absorption amount (P1 + P2A)	£9.5bn	£9.5bn	£9.5bn
Recapitalisation amount	<b>£8.4bn</b>	<b>£8.4bn</b>	<b>£10.6bn</b>
Excess / (Deficit) - exc. excess capital	<b>£(0.2)bn</b>	<b>£(1.4)bn</b>	<b>£(3.6)bn</b>
Excess Capital <sup>3</sup>	£4.3bn		
Excess / (Deficit) - inc. excess capital	<b>£4.1bn</b>		

- It is our intention to have an MREL recapitalisation management buffer in excess of the value of HoldCo Senior unsecured securities that are due to become MREL ineligible during the proceeding 6 months

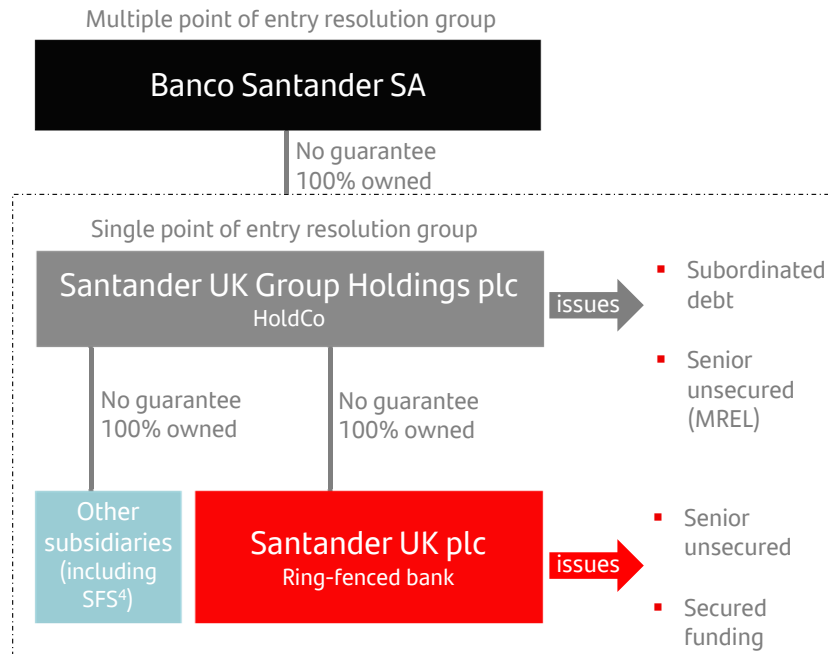


1. In August 2019, the Bank of England (BoE) disclosed Santander UK's indicative minimum MREL requirements. The requirements over and above regulatory capital started in 2019, step up in 2020 and are fully implemented in 2022. Assumes Pillar 2A requirement remains at 4.8%. | 2. Regulatory values at 31 March 2020. | 3. Excess capital above minimum capital requirements at 31 March 2020.



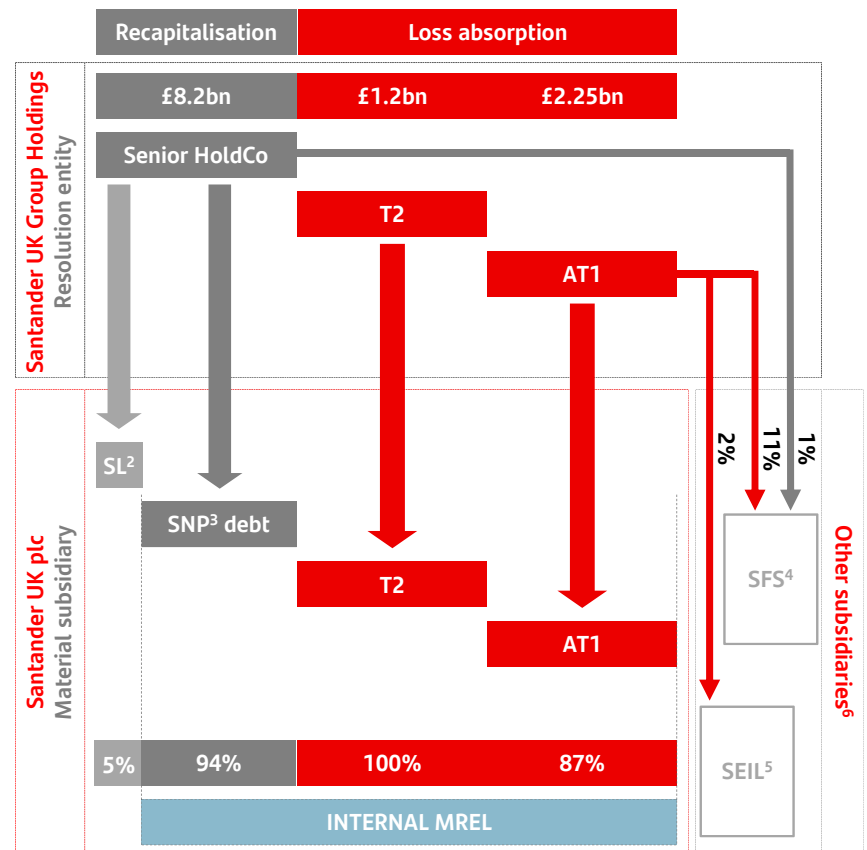
# Santander UK group down-streaming model

## 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 at 31 March 2020. | 2. Senior loan. | 3. Secondary non-preferential. | 4. Santander Financial Services formerly ANTS. | 5.Santander Equity Investments Limited. | 6. Santander UK other subsidiaries will have limited on-going funding requirements.

# Disclaimer

Santander UK Group Holdings plc (Santander UK) is a subsidiary of Banco Santander SA (Santander).

This presentation provides a summary of the unaudited business and financial trends for the three months ended 31 March 2020 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 2019.

## Alternative Performance Measures (APMs)

In addition to the financial information prepared under IFRS, this presentation includes financial measures that constitute APMs, as defined in European Securities and Markets Authority (ESMA) guidelines. These measures are defined and reconciliations to the nearest IFRS measures are available in the appendix to the Santander UK Group Holdings plc Quarterly Management Statement for the three months ended 31 March 2020.

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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 Q1 2020 results 'Quarterly Management Statement for the three months ended 31 March 2020' 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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## Key dates<sup>1</sup>

Q2'20 results: 29 July 2020

Q3'20 results: 28 October 2020

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



1. Indicative, dates subject to change