Half Yearly Financial Report 2019

Santander UK Group Holdings plc

PART OF THE BANCO SANTANDER GROUP

Important information for readers

Santander UK Group Holdings plc and its subsidiaries (collectively called Santander UK or the Santander UK group) operate primarily in the UK, and are part of Banco Santander (comprising Banco Santander SA and its subsidiaries). Santander UK plc is regulated by the UK Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and certain other companies within the Santander UK group are regulated by the FCA.

This Half Yearly Financial Report contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See 'Forward-looking statements' in the Financial review section.

Santander UK Group Holdings plc
Half Yearly Financial Report 2019

Chief Executive Officer's review

Nathan Bostock commented

"The results for the first half of the year reflect the start of a multi-year investment in our strategic transformation programme, a number of external factors and our prudent approach to risk. Our business remains strong, with the further enhancement of our mortgage franchise and increases in our retail and corporate deposits, both important customer loyalty drivers.

These are uncertain times, and our profitability has been impacted by a fall in income due to the highly competitive UK mortgage market. Against this external backdrop, we continue to invest in our business in order to strengthen our competitive position and improve efficiency which has resulted in additional strategic transformation costs.

As our customers' needs are changing fast – so are we - becoming simpler and more focused, more effective at harnessing technology, and faster at turning innovative new ideas into reality. Our goal is to provide our customers with an experience that is second to none.

We are confident that our strategy, combining prudence with decisive actions, will deliver significant benefits over the medium-term and leave us strongly positioned for the future."

Delivering on our purpose

Our purpose is to help people and businesses prosper. We aim to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities, with a culture that is Simple, Personal and Fair. Customer loyalty remains at the core of our strategy, while we transform the bank for improved returns.

Building customer loyalty

We are focused on building stronger customer relationships and a seamless customer experience. On a net promoter score basis (NPS)[(1)], we are ranked first in our peer group for business and corporate and top three amongst our peers for retail. During the first half of 2019, we helped 15,000 first time buyers purchase a home and 169,000 customers finance their cars.

We are strengthening our mortgage franchise through innovative launches, such as an online mortgage overpayments tool, as well as the introduction of 40-year mortgages to help more people buy their first home. We launched a new advertising campaign, which resulted in the highest monthly uplift in Ad Awareness according to YouGov research in June 2019. This is helping to drive improved brand awareness as well as an increased mortgage application pipeline.

This year we are proud to have been awarded Best Business Current Account Provider again, for the 17th year running, and Business Bank of the Year again, for the 5th year running, by Moneyfacts[(2)]. We have opened 31,000 1I2I3 Business Current Accounts since launch in October 2018, with strong switcher levels. The 1I2I3 Business World proposition has also been strengthened through the launch of a 1I2I3 Fixed Term Bond in June 2019.

Digital acquisition and adoption is driving change in the organisation. Since the start of the year, we retained 60% of refinanced mortgage loans online. We also opened 46% of current accounts and 66% of credit cards through digital channels. We are continuing to develop our international proposition, supported by the 13 trade corridors we have established to date. We continue to utilise our access to global best practice and market leading solutions through Banco Santander.

Transforming the bank for improved returns

Earlier in the year, we outlined a significant restructure to make our branch network smaller and optimised for the future. We also announced plans to reshape our Corporate & Commercial Banking (CCB) business, with a continued focus on SME and mid-sized businesses, particularly those with international trade ambitions. Our multi-year transformation programme aims to simplify, digitise and automate the bank by focusing on our operating model, structures and productivity. We have already taken a number of decisive actions and plan to invest £400m by the end of 2021 with a 2-3 year payback. Over the medium-term, and subject to further strategic transformation opportunities, we expect to invest an additional £100m with a similar payback period.

We are prioritising growth in portfolios with attractive returns, such as mortgages and consumer (auto) finance as we aim to become a more focused and efficient bank. We will continue to leverage our relationship with our parent and to collaborate with the wider Banco Santander group on a number of initiatives including One Pay FX, Openbank and Asto. We have some exciting innovations in the pipeline, including improvements to customer service utilising Google Virtual Assistant, enhancing efficiency and customer experience.

Outlook

Our 2019 outlook remains broadly unchanged and is predicated on the UK's orderly exit from the European Union. Given market perception that there is an increased likelihood of a 'no deal' outcome in October 2019, we continue to prepare for all potential outcomes. 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.

With strong foundations already in place, the proven stability and resilience of our balance sheet, and an ambitious transformation programme, we believe we are well positioned to deliver sustainable results and achieve our medium-term goals of 34% Loyal/Active customers and 9-11% [(3)] RoTE for the UK business.

Since 30 June 2019, trends evident in the business operating results have not changed significantly.

Nathan Bostock
Chief Executive Officer

(1) Net promoter score is defined in the 'Glossary' section of the Financial review.
(2) Business Moneyfacts Awards are run by Moneyfacts Group, the independently owned and impartial provider of UK personal finance data. Business Moneyfacts Awards are highly coveted awards which are totally independent. The awards are presented annually for product excellence and outstanding service and cover products from across the range of financial services.
(3) Non-IFRS measure.

Chief Financial Officer's review

In a competitive market and against a backdrop of continued uncertainty, the business remained resilient. Competitive mortgage margin pressure affected income, and with transformation programme spend of £113m year-to-date and Payment Protection Insurance (PPI) charges of £70m, profit before tax was £575m for the period, down 36% year-on-year. Adjusted profit before tax[1] was £743m, down 17%. The cost-to-income ratio (CIR) increased 4bps to 60%, largely driven by income pressures.

We maintained a robust capital position and resilient balance sheet, reflected in the increase of our CET1 capital ratio to 13.8%, up 60bps this year. Our credit quality remained very strong, with a Stage 3 ratio of 1.28% and low cost of risk at 7bps, demonstrating our prudent approach to risk and the resilience of the UK economy.

Consistently profitable, sustainable business

Income statement highlights	Half year to 30 June 2019 £m	Half year to 30 June 2018[2] £m
Net interest income	1,671	1,811
Non-interest income[3]	446	501
Operating income	2,117	2,312
Operating expenses before credit impairment losses, provisions and charges	(1,267)	(1,285)
Credit impairment losses	(69)	(91)
Provisions for other liabilities and charges	(206)	(33)
Profit before tax	575	903
Tax on profit	(164)	(233)
Profit after tax	411	670
Adjusted profit before tax[1]	743	894

Net interest income was down 8%, largely impacted by pressure from the mortgage back book and £2.1bn of Standard Variable Rate (SVR) attrition.

Non-interest income was down 11%, largely due to £63m of ring-fencing perimeter changes in Corporate & Investment Banking (CIB). This was partially offset by £15m additional consideration received in connection with the 2017 Vocalink Holdings Limited shareholding sale (Vocalink). Following a change in accounting treatment of operating leases, consumer (auto) finance income also increased. Non-interest income was down 2%[1], when adjusted for ring-fencing perimeter changes and the additional consideration received in connection with Vocalink.

Operating expenses before credit impairment losses, provisions and charges were down 1%, largely due to £41m of ring-fencing perimeter changes and £28m of Banking Reform costs from H118, partially offset by £13m of transformation costs this year. We also incurred higher depreciation costs related to prior year investment projects and the change in accounting treatment of operating leases in consumer (auto) finance. These increases were partially offset by lower employee costs. Operating expenses increased 3%[1], when adjusted for ring-fencing perimeter changes, Banking Reform and transformation costs. We also incurred higher depreciation costs related to prior year investment projects and the change in accounting treatment of operating leases in consumer (auto) finance. These increases were partially offset by lower employee costs.

Credit impairment losses decreased 24%, with a release from a significant risk transfer (SRT) securitisation in June 2019 and single name charges in CIB which were not repeated this year. All portfolios continue to perform very well.

Provisions for other liabilities and charges were up £173m to £206m, with £100m of transformation programme charges (predominantly restructuring costs) in Corporate Centre and a £70m PPI provision charge in Retail Banking. We made an additional PPI provision in Q219 reflecting an increase of claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019. We will continue to monitor our provision levels and take account of the impact of any further change in claims received and FCA guidance. Provisions for other liabilities and charges were down £8m[1], when adjusted for transformation charges, PPI charges and other conduct provision releases.

Banking Net Interest Margin (NIM) of 1.69% was down 11bps since FY18, with pressure from the mortgage back book and continued SVR attrition. New mortgage margins have improved slightly during the year.

RoTE of 7.9%[1] was down 180bps year-on-year, largely driven by income pressure from the mortgage back book.

Maintaining balance sheet strength

Customer balances	30 June 2019 £bn	31 December 2018 £bn
Customer loans	200.6	199.9
- of which retail mortgages	159.4	158.0
- of which consumer (auto) finance and unsecured lending	13.4	13.0
- of which corporates	23.3	24.1
Customer deposits	174.8	172.1

Customer loans increased £0.7bn, with higher mortgage and consumer (auto) finance lending partially offset by continued reduction in CIB and Commercial Real Estate (CRE) exposures.

Customer deposits increased £2.7bn, driven by higher corporate deposits as well as increased savings and business banking deposits in Retail Banking.

(1) Non-IFRS measure. The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £168m in H119 and £(9)m in H118. See 'Alternative Performance Measures' in the Financial review for details and reconciliation to the nearest IFRS measure.
(2) Adjusted to reflect the amendment to IAS 12, as described in Note 1 to the Condensed Consolidated Interim Financial Statements.
(3) Comprised of Net fee and commission income and Net trading and other income.

Capital and funding	30 June 2019 £bn	31 December 2018 £bn
CET1 capital	**10.4**	10.4
Risk-weighted assets	**75.3**	78.8
CET1 capital ratio	**13.8%**	13.2%
UK leverage ratio	**4.5%**	4.5%
Total wholesale funding	**70.9**	73.2
- of which with a residual maturity of less than one year	**17.3**	16.8

CET1 capital was stable at £10.4bn, with ongoing capital accretion through retained profits, offset by market-driven pension movements.

Risk-weighted assets (RWAs) reduced, largely as a result of the June 2019 SRT securitisation and lower lending in our corporate business as we continue to focus on risk-weighted returns. This was partially offset by increased RWAs in Retail Banking with lending growth in mortgages and consumer (auto) finance. We take a prudent approach to risk and our calculation of RWAs uses through-the-cycle modelling of unexpected losses. As a result we have a higher mortgage RWA translation ratio than other large UK banks. Following implementation of planned PRA changes by 1 January 2021, RWA calculation models will have to use a hybrid of through-the-cycle and point-in-time assumptions and as a result we expect a significant decrease in our RWAs.

CET1 capital ratio increased 60bps to 13.8%, achieving our end-state capital position, notwithstanding any future changes to the counter-cyclical buffer. As leverage becomes the binding constraint, CET1 capital ratio could continue to increase alongside lending growth.

Medium Term Funding balances decreased, reflecting maturities in the period, partially offset by covered bond issuances of £1bn in January 2019 and €1bn in May 2019, as well as senior unsecured issuance of $1bn in June 2019.

Liquidity	30 June 2019 £bn	31 December 2018 £bn
Santander UK plc Domestic Liquidity Sub-group (RFB DoLSub)		
- Liquidity Coverage Ratio (LCR)	**155%**	164%
- LCR eligible liquidity pool	**49.0**	54.1
Abbey National Treasury Services (ANTS)		
- LCR	**504%**	n/a
- LCR eligible liquidity pool	**4.7**	n/a

In accordance with our ring-fence structure, we now monitor and manage liquidity risk for our ring-fenced bank (RFB) Santander UK plc, and ANTS separately. The RFB DoLSub LCR and LCR eligible liquidity pool both decreased following the transfer of our Isle of Man and Jersey businesses (Crown Dependencies) into ANTS as part of the ring-fencing implementation. ANTS liquidity benefits from £5.1bn of deposits in our Crown Dependencies business. We continue to maintain high levels of liquidity to ensure we are well prepared for potential Brexit uncertainty later in the year.

To optimise the overall funding structure of the bank we are considering the transfer of some RFB assets to ANTS to enable more efficient use of Crown Dependencies deposits.

Antonio Roman
Chief Financial Officer

Directors' responsibilities statement

The Directors confirm that to the best of their knowledge these Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and that the half-year management report herein includes a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R, namely:

- An indication of important events that have occurred during the six months ended 30 June 2019 and their impact on the Condensed Consolidated Interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and
- Material related party transactions in the six months ended 30 June 2019 and any material changes in the related party transactions described in the last Annual Report.

By Order of the Board

Nathan Bostock
Chief Executive Officer
8 August 2019

Risk review

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Risk overview

All our activities involve identifying, assessing, managing and reporting risks. Sound risk management is at the centre of our day-to-day activities. It benefits our business and our customers by helping to ensure balanced and responsible growth.

RISK TYPES

Our key risk types help us define the risks to which we are exposed. For key risk type definitions, see 'How we define risk' on page 64 of the 2018 Annual Report. We set out below the main changes in our risk profile across H119 in terms of these key risk types.

Credit

Stage 3 ratio (%)
30 June 2019: 1.28
31 December 2018: 1.29

The Stage 3 ratio was broadly stable, with a very strong credit quality, supported by our prudent approach to risk and a low cost of risk in H119 at 7bps that demonstrates the resilience of our balance sheet.

The benign credit environment, including low unemployment levels, continued to support our customers and helped to reduce credit risk. Whilst the UK market continues to show resilience, we remain cautious on the outlook in light of continuing economic uncertainty.

Market (Banking market)

NIM sensitivity +50 bps (£m)
30 June 2019: 187
31 December 2018: 207

The Santander UK plc group NIM sensitivity reduced in H119 reflecting the removal of ANTS exposures from the sensitivity (and their separate monitoring and management) following the implementation of our ring-fencing plans.

The UK interest rate environment has remained low and stable for a prolonged period. As a commercial bank we are positioned to benefit from rising rates, although the pace and scale of expected change will moderate any impact on income.

Capital

Total capital ratio (%)
30 June 2019: 20.9
31 December 2018: 19.1

CET1 capital was stable at £10.4bn, with ongoing capital accretion through retained profits, offset by market-driven pension movements.

RWAs reduced largely as a result of the June 2019 SRT securitisation and lower lending in our corporate business as we continue to focus on risk-weighted returns. This was partially offset by increased RWAs in Retail Banking with lending growth in mortgages and consumer (auto) finance.

Pension

Funded defined benefit pension scheme accounting surplus (£m)
30 June 2019: 567
31 December 2018: 766

We continue to focus on achieving the right balance between risk and reward. In H119, overall asset returns were positive with positive performance from all major asset classes.

In H119, the pension fund surplus, measured on an accounting basis, decreased, largely as a result of a lower discount rate, resulting from falling corporate bond yields which increased the value placed on liabilities.

Conduct & Regulatory

Conduct provision (£m)
30 June 2019: 277
31 December 2018: 276

We made an additional provision of £70m in Q219 reflecting an increase in PPI claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019. In H119, we continued to receive significant volumes of PPI claims. The provision remains in line with our assumptions and claims experience, and includes a provision for PPI redress as well as our best estimate of liability in respect of a legal dispute regarding allocation of responsibility for a specific portfolio which was disclosed in our 2018 Annual Report.

Following FCA confirmation of the deadline for customer PPI complaints and roll-out of related advertising campaigns, we continue to monitor our provision levels, and will take account of any change in claims volumes received.

Operational

12% increase in operational risk losses (excluding PPI)

In H119, we prioritised the careful risk management of change initiatives in the context of the increasing need to drive forward with digital and other initiatives. We also focused on maintaining and developing our Operational Resiliency. Cyber risk continues to feature prominently in our risk management. In H119, we had no material disruption from cyber-attacks.

The risks associated with using third parties to deliver services also remain key, and we continue to enhance our operating model in this area.

Financial crime

£65m investment in financial crime enhancements planned for 2019, of which £35m has been spent in H119

In H119, we continued to enhance our Financial Crime Control Framework through our Transformation Programme. It aims to deliver a sustainable operating model for how we manage financial crime across our business. The Programme will build on our current capabilities to ensure that effective systems and controls are in place to manage financial crime risk across the Ring-Fenced Bank (RFB).

TOP RISKS

A top risk is a current risk within our business that could have a material impact on our financial results, reputation and the sustainability of our business model. In 2018, we identified our top risks as follows, and discussed them on page 16 of the 2018 Annual Report:

– Brexit
– Mitigating the impact of a low rate environment
– Ring-fencing implementation
– Building and maintaining capital strength
– Pension scheme
– Financial crime
– Managing a complex change agenda
– Cyber-attacks
– Conduct risks
– Third party risks.

30 June 2019 compared to 31 December 2018

In H119, our top risks remained largely the same. The more notable movements in the top risks across the period related to the following:

- Given the mitigating action we have undertaken, the risk associated with 'Mitigating the impact of a low rate environment' has been removed from our list of top risks. However, we continue to keep the situation under close review, especially given the heightened level of volatility experienced in market interest rates during the first half of the year.
- We consider that a range of different Brexit scenarios remain possible, but that the risk of a 'no deal' Brexit is significant as evidenced by recent movements in market interest rates and sterling. Following the results of the EU elections in May 2019 and the subsequent resignation of the Prime Minister, the political uncertainty has increased further, with the focus now moving to the new Prime Minister's Brexit strategy. Our Brexit planning approach remains unchanged, with a focus on remaining operationally ready, in the event that the UK leaves the EU without a deal. We have a Brexit Response Group which is our key forum for co-ordinating and escalating operational impacts, and which is designed for the business and support functions to take proactive steps where necessary. Oversight of key Brexit related matters is also provided by Senior Management Committee and the Board.
- The Interest rate and Foreign Exchange hedging programs we have in place are designed to limit Income Statement volatility arising from short-term market movements, and give resilience to our business model. Our view of the longer-term outlook remains unchanged, although the economic uncertainty and the impact of rates remaining low, if prolonged over time, could impact our Net Interest Margin.
- We successfully implemented our Ring-fencing programme in 2018. We have retained it as a top risk while we maintain focus on embedding ring-fencing culture throughout our governance and operations.
- We have continued to build and strengthen our capital position through a combination of management actions and retained profits.

EMERGING RISKS

An emerging risk is a risk with largely uncertain outcomes which may develop or crystallise in the future. Crystallisation of an emerging risk could have a material effect on long-term strategy. In 2018, we identified our emerging risks as follows, and discussed them on page 17 of the 2018 Annual Report:

– Changing customer behaviour
– Strong market competition
– Rapid technological change
– Demanding regulatory agenda
– Uncertain economic and geopolitical environment.

30 June 2019 compared to 31 December 2018

In H119, our emerging risks remained largely unchanged, with the exceptions of climate change, which we already recognise is a significant global issue and have been tracking through various emerging regulatory developments; and also developments in both the UK economy and the global geopolitical environment:

- Climate change risk – reflecting the significant potential risks posed by climate change to the economy and to the financial system, in April 2019, the PRA became the first regulator in the world to publish supervisory expectations setting out how banks and insurance companies need to develop an enhanced approach to managing the financial risks from climate change. For 2019, our programme of work is focused on enhancing our understanding of the most material climate change related risk drivers of our business model, and producing an implementation plan to fully deliver the PRA's expectations under Supervisory Statement 3/19. We are addressing climate change related risk issues through ongoing engagement across our business and support functions, co-ordinated and led by the Risk Division, and now intend to formally recognise it as an emerging risk.
- Uncertain economic and geopolitical environment - In H119, the UK economy continued to grow in Q1, but indications from purchasing managers indices are that activity could have stayed flat or even contracted in Q2. It remains to be seen whether this is a temporary situation. Unemployment remains low and real wage growth remains firmly positive, which should continue to support both consumption and the economy. However, consumer and business surveys remain weak due to concerns over Brexit and the economy generally. Arrears remain at historically low levels, with good credit quality being maintained across our lending portfolios, supported by our prudent approach to lending. Some normalisation from these cyclically low levels could arise over the medium term, should the credit cycle reach a turning point. Outside of the UK, there are concerns that global economic growth could continue to slow, with trade tensions remaining elevated between the US and China. Geo-political risks are also high across a number of geographies, which could also have adverse implications for global growth.

Risk governance

As a financial services provider, managing risk is a core part of our day-to-day activities. To be able to manage our business effectively, it is critical that we understand and control risk in everything we do. We aim to use a prudent approach and advanced risk management techniques to help us deliver robust financial performance and build sustainable value for our stakeholders. We aim to keep a predictable medium-low risk profile, consistent with our business model. This is key to achieving our strategic objectives.

30 June 2019 compared to 31 December 2018

There were no significant changes in our risk governance, including how we define risk and our key risk types, as described in the 2018 Annual Report. In H119, we also renamed 'Strategic risk' as 'Strategic and Business risk' to reflect that its scope includes the risk of underperformance against planned objectives.

Credit risk

Overview

Credit risk is the risk of loss due to the default or credit quality deterioration of a customer or counterparty to which we provided credit, or for which we assumed a financial obligation.

In this section we begin by reviewing the latest forward-looking information used in our Expected Credit Loss (ECL) assessments. We then analyse our credit risk profile and performance at a Santander UK group level followed by Retail Banking, which is covered separately from our other business segments: Corporate & Commercial Banking, Corporate & Investment Banking and Corporate Centre.

Key metrics

Stage 3 ratio was broadly stable at 1.28% (2018: 1.29%).

Loss allowances increased to £817m (2018: £807m).

Average LTV of 64% (2018: 63%) on new mortgage lending.

Credit risk – Santander UK group level

Introduction

We manage credit risk across all our business segments in line with the credit risk lifecycle. We tailor the way we manage risk across the lifecycle to the type of customer. There have been no significant changes in the way we manage credit risk as described in the 2018 Annual Report.

The segmental basis of presentation in this Half Yearly Financial Report has been changed, and the prior period restated, to report our short term markets business in Corporate Centre rather than in Corporate & Investment Banking. This reflects the run down or transfer to Banco Santander London Branch of the prohibited part of the business in 2018, as part of the transition to our ring-fenced model, with the remaining permitted business forming part of our liquidity risk management function. See Note 2 to the Condensed Consolidated Interim Financial Statements for more information.

We provide an update on the key changes to the inputs to our ECL model below.

Risk measurement and control

Key metrics

Following the introduction of IFRS 9 in 2018, the Stage 3 ratio became the main indicator of credit quality performance and replaces the NPL ratio which is no longer reported. The Stage 3 ratio is total Stage 3 exposure as a percentage of customer loans plus undrawn Stage 3 exposures.

Recognising ECL

The ECL approach estimates the credit losses arising from defaults in the next 12 months on qualifying exposures, or defaults over the lifetime of the exposure where there is evidence of a significant increase in credit risk (SICR) since the origination date. The ECL approach takes into account forward-looking data, including a range of possible outcomes, which should be unbiased and probability-weighted in order to reflect the likelihood of a loss being incurred even when it is considered unlikely.

Multiple economic scenarios and probability weights

For all our portfolios, except CIB, we use five forward-looking economic scenarios. They consist of a central base case, two upside scenarios and two downside scenarios. We use five scenarios to reflect a wide range of possible outcomes in the performance of the UK economy. For example, the Downside 2 scenario reflects the possibility of a recession occurring. We believe that our five scenarios, in particular Downside 1 and Downside 2, reflect the range of outcomes that Brexit may take, including a deal with a transition period or a no-deal Brexit. Our scenarios are also in line with a number of scenarios that have been produced by, for example, the Bank of England and its disruptive scenario, and other economic forecasters' no deal scenarios. As such our scenarios and weights reflect the range of possible outcomes that the UK may face in H219 and beyond.

Base case for H119

- Our base case assumes that the UK will negotiate an orderly exit with the EU that avoids a so-called 'cliff-edge' event when the UK leaves the EU and that there will be a relatively smooth transition period.
- The GDP forecast for 2019 was lowered in March 2019 to reflect the weak start to the year and continuing Brexit uncertainty, however, growth starts to slowly pick up after 2019 as Brexit uncertainty starts to wane and reverts back to the long run growth rate of 1.6% pa.
- Unemployment continues its current trend over the forecast period, tightening labour markets further and pushing up average earnings growth. This growth along with inflation trending at the Bank of England target rate of 2%, result in positive real earnings growth.
- Whilst the low value of sterling continues in 2019, it is expected to rally against the dollar once the withdrawal agreement on Brexit has been ratified, making exports less competitive. Even though the Brexit negotiations are likely to result in some increased trade costs between the EU and UK, these are not projected to significantly impact the downwards trend in the share of UK exports going to the EU.
- For Bank Rate forecast, the base case currently assumes a flat profile for the 5-year planning horizon.
- In the medium-term, the forecast projections assume that current demographic and productivity trends will continue, causing a reduction in the UK's growth potential, which is reflected in an average growth expectation of less than 2% pa.
- In summary, the base case assumes that activity will continue to run at a sluggish pace as we move through 2019. CPI inflation is forecast to remain around the target rate and a positive increase in wage growth is predicted. Both of these will provide a boost to household spending power. However, the effect of limited business investment on growth will continue until the Brexit uncertainty starts to wane. Furthermore, with household savings ratios at or near historic lows and consumer credit growth slowing, consumer demand will be driven increasingly by the fundamentals of household income growth.

The key changes to the base case from 2018 to H119 are that GDP for 2019 is now 1.2% compared to 1.5%; unemployment is lower across all years of the forecast (on average 4.0% compared to 4.3%); house prices growth is lower for 2019 at 1% compared to 2%; and there are no interest rate increases planned over the period compared to increases of 0.25% in 2019, 2020 and 2022.

For details on our methodology to derive the scenarios we use in our ECL model and the weights we apply to them, see the 'Multiple economic scenarios and probability weights' section in the 2018 Annual Report.

The annual growth rates over the five year forecast for each of our scenarios at 30 June 2019 and 31 December 2018 were:

30 June 2019	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
House price index(1)	**4.80**	**3.40**	**1.70**	**(2.20)**	**(8.70)**
GDP(1)	**2.60**	**2.20**	**1.80**	**0.70**	**1.00**
Unemployment rate	**1.90**	**3.00**	**4.00**	**6.50**	**7.80**
Interest rate	**0.75**	**0.75**	**0.75**	**2.00**	**2.25**
31 December 2018					
House price index(1)	3.40	2.30	2.00	(2.00)	(9.50)
GDP(1)	2.50	2.10	1.60	0.70	0.30
Unemployment rate	2.80	3.80	4.30	6.90	8.60
Interest rate	1.00	1.25	1.50	2.50	2.25

(1) Compound annual growth rate

The probability weights we applied to the scenarios at 30 June 2019 and 31 December 2018 were:

Probability weights	Upside 2 %	Upside 1 %	Base case %	Downside 1 %	Downside 2 %
30 June 2019	**5**	**15**	**40**	**30**	**10**
31 December 2018	5	15	40	30	10

CIB portfolio

The average global annual growth rates over the four year forecast for each of the scenarios for our CIB portfolio at 30 June 2019 and 31 December 2018 were:

GDP assumption	Upside %	Base case %	Downside %
30 June 2019	**3.8**	**3.5**	**3.0**
31 December 2018	4.2	3.6	2.7

The probability weights we applied to the scenarios for our CIB portfolio at 30 June 2019 and 31 December 2018 were:

Probability weights	Upside %	Base case %	Downside %
30 June 2019	**30**	**40**	**30**
31 December 2018	20	60	20

Significant Increase in Credit Risk

There have been no changes to the way that we measure SICR as described in the 2018 Annual Report, except that we changed the absolute thresholds for unsecured personal loans and Corporate & Commercial Banking exposures to be calculated on an annualised basis to bring them into line with our other portfolios.

Management judgement applied in calculating ECL

IFRS 9 recognises that expert management judgement is an essential part of calculating ECL. Specifically, where the historical information that we use in our models does not reflect current or future expected conditions or the data we have does not cover a sufficient period or is not robust enough. We discussed what we consider to be the significant management judgements in calculating ECL in the 2018 Annual Report, which are:

- Definition of default
- Forward-looking multiple economic scenarios
- Probability weights
- SICR thresholds
- Post Model Adjustments

Post Model Adjustments (PMAs)

The most significant PMAs that we applied at 30 June 2019 and 31 December 2018 were:

PMAs	30 June 2019 £m	31 December 2018 £m
Interest-only maturity default risk	**51**	69
Buy-to-Let (BTL)	**18**	20
Long-term indeterminate arrears	**20**	23
Temporary economics	**22**	-

In addition to updating the PMAs we applied in 2018, in H119 we applied a temporary economics PMA of £22m. In June 2019, management updated the economic scenarios for Q2 2019, which resulted in a release of ECL, mainly arising from changes to Base Rate/Libor, unemployment and HPI. While the risks facing the UK macro economy are materially unchanged and our scenarios capture a plausible range of possible loss distributions under alternative economic conditions, uncertainty around the outcome of Brexit and its effect on the UK macro environment continues. Management therefore applied a temporary PMA of £22m to defer the impacts in full for the Q2 2019 changes in assumptions on Base Rate/Libor and unemployment, and partially for HPI.

SANTANDER UK GROUP LEVEL – CREDIT RISK REVIEW

Credit performance

The customer loans in the tables below and in the rest of the 'Credit risk' section are presented differently from the balances in the Consolidated Balance Sheet. The main difference is that customer loans exclude interest we have accrued but not charged to customers' accounts yet.

30 June 2019	Customer loans £bn	Stage 3 drawn exposure(1)(2) £m	Stage 3 undrawn exposure £m	Stage 3 ratio(3) %	Gross write–offs £m	Loss allowances £m
Retail Banking:	**174.6**	**2,156**	**42**	**1.26**	**96**	**584**
– of which mortgages	**159.4**	**1,922**	**15**	**1.22**	**6**	**214**
Corporate & Commercial Banking	**17.4**	**300**	**26**	**1.87**	**4**	**205**
Corporate & Investment Banking	**4.1**	**–**	**26**	**0.63**	**–**	**16**
Corporate Centre	**4.5**	**16**	**–**	**0.35**	**1**	**12**
	200.6	**2,472**	**94**	**1.28**	**101**	**817**
31 December 2018						
Retail Banking:	172.8	2,211	43	1.30	182	594
– of which mortgages	158.0	1,982	17	1.27	18	237
Corporate & Commercial Banking	17.7	264	12	1.56	97	182
Corporate & Investment Banking	4.6	–	26	0.56	252	18
Corporate Centre	4.8	16	–	0.33	3	13
	199.9	2,491	81	1.29	534	807
Of which: Corporate lending						
30 June 2019	**23.3**	**394**	**53**	**1.92**	**13**	**274**
31 December 2018	24.1	353	38	1.62	364	253

(1) We define Stage 3 in the 'Credit risk – Santander UK group level' section.
(2) Interest on Stage 3 exposures is derecognised in line with the requirements of IFRS 9.
(3) Total Stage 3 exposure as a percentage of customer loans plus undrawn Stage 3 exposures.

Corporate lending comprises the business banking portfolio in our Retail Banking segment, and our Corporate & Commercial Banking and Corporate & Investment Banking segments.

For more on the credit performance of our key portfolios by business segment, see the 'Retail Banking – credit risk review' and 'Other business segments – credit risk review' sections.

Credit quality

Total on-balance sheet exposures at 30 June 2019 comprised £200.6bn of customer loans, L&A to banks of £3.0bn, £29.6bn of sovereign assets measured at amortised cost, £13.4bn of assets measured at FVOCI and £26.0bn of cash and balances at central banks.

			Stage 2				
30 June 2019	Average PD[(1)] %	Stage 1 £m	≤ 30 DPD £m	>30 DPD £m	Sub total £m	Stage 3 £m	Total £m
Exposures							
On-balance sheet							
Retail Banking	0.50	162,180	9,383	871	10,254	2,156	174,590
– of which mortgages	0.44	148,203	8,450	814	9,264	1,922	159,389
Corporate & Commercial Banking	1.06	15,622	1,333	110	1,443	300	17,365
Corporate & Investment Banking	0.29	3,868	192	–	192	–	4,060
Corporate Centre	0.13	76,401	119	14	133	16	76,550
Total on-balance sheet		258,071	11,027	995	12,022	2,472	272,565
Off-balance sheet							
Retail Banking[(2)]		25,283	173	–	173	42	25,498
– of which mortgages[(2)]		13,054	65	–	65	15	13,134
Corporate & Commercial Banking		5,333	184	–	184	26	5,543
Corporate & Investment Banking		10,451	202	–	202	26	10,679
Corporate Centre		1,190	–	–	–	–	1,190
Total off-balance sheet[(3)]		42,257	559	–	559	94	42,910
Total exposures		300,328	11,586	995	12,581	2,566	315,475
ECL							
On-balance sheet							
Retail Banking		86	212	34	246	224	556
– of which mortgages		9	90	13	103	98	210
Corporate & Commercial Banking		32	26	4	30	130	192
Corporate & Investment Banking		2	–	–	–	–	2
Corporate Centre		4	3	1	4	4	12
Total on-balance sheet		124	241	39	280	358	762
Off-balance sheet							
Retail Banking		14	13	–	13	1	28
– of which mortgages		3	1	–	1	–	4
Corporate & Commercial Banking		6	5	–	5	2	13
Corporate & Investment Banking		3	2	–	2	9	14
Total off-balance sheet		23	20	–	20	12	55
Total ECL		147	261	39	300	370	817
Coverage ratio[(4)]		%	%	%	%	%	%
On-balance sheet							
Retail Banking		0.1	2.3	3.9	2.4	10.4	0.3
– of which mortgages		–	1.1	1.6	1.1	5.1	0.1
Corporate & Commercial Banking		0.2	2.0	3.6	2.1	43.3	1.1
Corporate & Investment Banking		0.1	–	–	–	–	–
Corporate Centre		–	2.5	7.1	3.0	25.0	–
Total on-balance sheet		–	2.2	3.9	2.3	14.5	0.3
Off-balance sheet							
Retail Banking		0.1	7.5	–	7.5	2.4	0.1
– of which mortgages		–	1.5	–	1.5	–	–
Corporate & Commercial Banking		0.1	2.7	–	2.7	7.7	0.2
Corporate & Investment Banking		–	1.0	–	1.0	34.6	0.1
Total off-balance sheet		0.1	3.6	–	3.6	12.8	0.1
Total coverage		–	2.3	3.9	2.4	14.4	0.3

(1) Average PDs are 12-month, scenario-weighted PDs. Financial assets in default are excluded from the calculation, as they are allocated a 100% PD.
(2) Off-balance sheet exposures include £7.2bn of retail mortgage offers in the pipeline.
(3) Off-balance sheet amounts consist of contingent liabilities and commitments.
(4) ECL as a percentage of the related exposure.

Stage 2 analysis

	30 June 2019 £m	31 December 2018 £m
Currently in arrears	995	960
Currently up-to-date:		
– PD deterioration	7,929	8,509
– Other[(1)]	3,657	2,544
Total Stage 2	12,581	12,013

(1) Mainly due to forbearance.

Total on-balance sheet exposures at 31 December 2018 comprised £199.9bn of customer loans, L&A to banks of £3.5bn, £28.4bn of sovereign assets measured at amortised cost, £13.3bn of assets measured at FVOCI and £24.2bn cash and balances at central banks.

31 December 2018	Average PD[1] %	Stage 1 £m	Stage 2 ≤ 30 DPD £m	Stage 2 >30 DPD £m	Stage 2 Sub total £m	Stage 3 £m	Total £m
Exposures							
On-balance sheet							
Retail Banking	0.53	160,212	9,375	949	10,324	2,211	172,747
– of which mortgages	0.48	146,619	8,466	890	9,356	1,982	157,957
Corporate & Commercial Banking	0.92	16,394	1,044	–	1,044	264	17,702
Corporate & Investment Banking	0.36	4,535	78	–	78	–	4,613
Corporate Centre	0.14	74,010	122	11	133	16	74,159
Total on-balance sheet		255,151	10,619	960	11,579	2,491	269,221
Off-balance sheet							
Retail Banking[2]		22,819	196	–	196	43	23,058
– of which mortgages[2]		11,120	76	–	76	17	11,213
Corporate & Commercial Banking		4,939	182	–	182	12	5,133
Corporate & Investment Banking		12,923	56	–	56	26	13,005
Corporate Centre		531	–	–	–	–	531
Total off-balance sheet[3]		41,212	434	–	434	81	41,727
Total exposures		296,363	11,053	960	12,013	2,572	310,948
ECL							
On-balance sheet							
Retail Banking		84	217	39	256	228	568
– of which mortgages		10	98	20	118	106	234
Corporate & Commercial Banking		31	26	–	26	111	168
Corporate & Investment Banking		1	1	–	1	–	2
Corporate Centre		5	3	–	3	5	13
Total on-balance sheet		121	247	39	286	344	751
Off-balance sheet							
Retail Banking		12	13	–	13	1	26
– of which mortgages		2	1	–	1	–	3
Corporate & Commercial Banking		6	6	–	6	2	14
Corporate & Investment Banking		4	2	–	2	10	16
Total off-balance sheet		22	21	–	21	13	56
Total ECL		143	268	39	307	357	807
Coverage ratio[4]		%	%	%	%	%	%
On-balance sheet							
Retail Banking		0.1	2.3	4.1	2.5	10.3	0.3
– of which mortgages		–	1.2	2.2	1.3	5.3	0.1
Corporate & Commercial Banking		0.2	2.5	–	2.5	42.0	0.9
Corporate & Investment Banking		–	1.3	–	1.3	–	–
Corporate Centre		–	2.5	–	2.3	31.3	–
Total on-balance sheet		–	2.3	4.1	2.5	13.8	0.3
Off-balance sheet							
Retail Banking		0.1	6.6	–	6.6	2.3	0.1
– of which mortgages		–	1.3	–	1.3	–	–
Corporate & Commercial Banking		0.1	3.3	–	3.3	16.7	0.3
Corporate & Investment Banking		–	3.6	–	3.6	38.5	0.1
Total off-balance sheet		0.1	4.8	–	4.8	16.0	0.1
Total coverage		–	2.4	4.1	2.6	13.9	0.3

(1) Average PDs are 12-month, scenario-weighted PDs. Weighted averages were determined using EAD for the first year. Financial assets in default are excluded from the calculation, as they are allocated a 100% PD.
(2) Off-balance sheet exposures include £5.2bn of retail mortgage offers in the pipeline.
(3) Off-balance sheet amounts consist of contingent liabilities and commitments.
(4) ECL as a percentage of the related exposure.

30 June 2019 compared to 31 December 2018

Key movements in exposures and ECL in the period by Stage were:

- The increase in Stage 1 exposures was largely driven by lending growth in the mortgage and Consumer Finance portfolios, with further growth coming from the reverse repos, and cash and balances at central banks held in Corporate Centre. Stage 1 ECLs increased to reflect this lending growth, with further increases coming from credit cards as economic scenarios were updated to reflect lower growth in the unsecured lending markets, although these were partially offset by the mortgage portfolio as average LTVs reduced.
- Stage 2 exposures increased due to a small increase in single name corporate cases moving onto our Watchlist. Stage 2 ECLs reduced as more favourable forecasts of HPI, and LTV decreases resulted in lower expected losses in the mortgage portfolio.
- Stage 3 exposures were broadly unchanged from 31 December 2018, as cures from the mortgage portfolio were offset by entries in Corporate & Commercial Banking. Stage 3 ECLs increased as the reduction in mortgage cures was more than offset by the ECLs on Stage 3 entries, and the reclassification of a few cases within Corporate & Commercial Banking to non-performing.

Reconciliation of exposures, loss allowance and net carrying amounts

The table below shows the relationships between disclosures in this Credit risk review section which refer to drawn exposures and the associated ECL, and the total assets as presented in the Consolidated Balance Sheet.

	On-balance sheet			Off-balance sheet	
30 June 2019	Exposures £m	Loss allowance £m	Net carrying amount £m	Exposures £m	Loss allowance £m
Retail Banking	174,590	556	174,034	25,498	28
– of which mortgages	159,389	210	159,179	13,134	4
Corporate & Commercial Banking	17,365	192	17,173	5,543	13
Corporate & Investment Banking	4,060	2	4,058	10,679	14
Corporate Centre	76,550	12	76,538	1,190	–
Total exposures presented in Credit Quality tables	272,565	762	271,803	42,910	55
Other items(1)			2,839		
Adjusted net carrying amount			274,642		
Assets classified at FVTPL			6,819		
Non–financial assets			8,811		
Total assets per the Consolidated Balance Sheet at 30 June 2019			290,272		
31 December 2018					
Retail Banking	172,747	568	172,179	23,058	26
– of which mortgages	157,957	234	157,723	11,213	3
Corporate & Commercial Banking	17,702	168	17,534	5,133	14
Corporate & Investment Banking	4,613	2	4,611	13,005	16
Corporate Centre	74,159	13	74,146	531	–
Total exposures presented in Credit Quality tables	269,221	751	268,470	41,727	56
Other items(1)			2,501		
Adjusted net carrying amount			270,971		
Assets classified at FVTPL			11,458		
Non–financial assets			6,952		
Total assets per the Consolidated Balance Sheet at 31 December 2018			289,381		

(1) These assets carry low credit risk and therefore have an immaterial ECL.

Movement in total exposures and the corresponding ECL

The following table shows changes in total exposures subject to ECL assessment, and the corresponding ECL, in the period. The table presents total gross carrying amounts and ECLs at a Santander UK group level.

	Non–credit impaired				Credit impaired			
	Stage 1 Subject to 12m ECL		Stage 2 Subject to lifetime ECL		Stage 3 Subject to lifetime ECL		Total	
	Exposures(1) £m	ECL £m	Exposures(1) £m	ECL £m	Exposures(1) £m	ECL £m	Exposures(1) £m	ECL £m
At 1 January 2019	296,363	143	12,013	307	2,572	357	310,948	807
Change in economic scenarios(2)	–	2	–	(6)	–	(4)	–	(8)
Transfer to lifetime ECL (Stage 2)(3)	(3,290)	(10)	3,290	10	–	–	–	–
Transfer to credit impaired (Stage 3)(3)	(224)	(3)	(504)	(26)	728	29	–	–
Transfer to 12–month ECL (Stage 1)(3)	2,959	69	(2,959)	(69)	–	–	–	–
Transfer from credit impaired(3)	3	1	348	16	(351)	(17)	–	–
Transfers of financial instruments	(552)	57	175	(69)	377	12	–	–
Net ECL remeasurement on stage transfer(4)	–	(61)	–	75	–	66	–	80
New assets originated or purchased (5)	21,868	18	544	11	3	–	22,415	29
Other(6)	1,222	(1)	362	(9)	(72)	47	1,512	37
Assets derecognised – closed good(7)	(18,573)	(11)	(513)	(9)	(195)	(7)	(19,281)	(27)
Assets derecognised – written off(7)	–	–	–	–	(119)	(101)	(119)	(101)
At 30 June 2019	300,328	147	12,581	300	2,566	370	315,475	817
Net movement in the period	3,965	4	568	(7)	(6)	13	4,527	10
ECL charge/(release) to the Income Statement		4		(7)		114		111
Less: ECL relating to derecognised income		–		–		(4)		(4)
Less: Recoveries net of collection costs		–		–		(38)		(38)
Total ECL charge/(release) to the Income Statement		4		(7)		72		69

(1) Exposures that have attracted an ECL, and as reported in the Credit Quality table above.
(2) Changes to assumptions in the period. Isolates the impact on ECL from changes to the economic variables for each scenario, changes to the scenarios themselves as well as changes in the probability weights from all other movements. The impact of changes in economics on exposure Stage allocations are shown within Transfers of financial instruments.
(3) Total impact of facilities that moved Stage(s) in the period. This means, for example, that where risk parameter changes (model inputs) or model changes (methodology) result in a facility moving Stage, the full impact is reflected here (rather than in Other). Stage flow analysis only applies to facilities that existed at both the start and end of the period. Transfers between Stages are based on opening balances and ECL at the start of the period.
(4) Relates to the revaluation of ECL following the transfer of an exposure from one Stage to another.
(5) Exposures and ECL of facilities that did not exist at the start of the period, but did at the end. Amounts in Stage 2 and 3 represent assets which deteriorated in the period after origination in Stage 1.
(6) Residual movements on facilities that did not change Stage in the period, and which were neither acquired nor purchased in the period. Includes the impact of changes in risk parameters in the period, repayments, draw downs on accounts open at the start and end of the period, unwind of discount rates and increases in ECL requirements of accounts which ultimately were written off in the period.
(7) Exposures and ECL for facilities that existed at the start of the period, but not at the end.

RETAIL BANKING – CREDIT RISK REVIEW

RESIDENTIAL MORTGAGES

We offer mortgages to people who want to buy a property, and offer additional borrowing (known as further advances) to existing mortgage customers.

Borrower profile

In this table, 'home movers' include both existing customers moving house and taking out a new mortgage with us, and customers who switch their mortgage to us when they move house. 'Remortgagers' are external customers who are remortgaging with us.

	Stock				New business			
	30 June 2019		31 December 2018		**Half year to 30 June 2019**		Half year to 30 June 2018	
	£m	**%**	£m	%	**£m**	**%**	£m	%
Home movers	**69,153**	**43**	69,198	44	**4,666**	**38**	5,161	37
Remortgagers	**51,259**	**32**	51,272	32	**3,940**	**32**	5,351	38
First-time buyers	**30,005**	**19**	29,235	19	**2,751**	**22**	2,028	15
Buy-to-let	**8,972**	**6**	8,252	5	**1,055**	**8**	1,318	10
	159,389	**100**	157,957	100	**12,412**	**100**	13,858	100

As well as the new business in the table above, there were £15.0bn (H118: £14.2bn) of internal remortgages where we kept existing customers with maturing products on new mortgages. We also provided £0.7bn (H118: £0.7bn) of further advances and flexible mortgage drawdowns.

30 June 2019 compared to 31 December 2018

The borrower profile of stock remained broadly unchanged. The change in borrower profile of new business reflected product initiatives designed to help first-time buyers and changes to credit policy in H119 to increase the maximum loan term from 35 to 40 years. In H119, we helped 15,000 (H118: 11,700) first-time buyers purchase their new home with £2.8bn of gross lending (H118: £2.0bn).

Interest rate profile

The interest rate profile of our mortgage asset stock was:

	30 June 2019		31 December 2018	
	£m	**%**	£m	%
Fixed rate	**119,880**	**75**	115,178	73
Variable rate	**23,241**	**15**	24,396	15
Standard Variable Rate (SVR)	**16,268**	**10**	18,383	12
	159,389	**100**	157,957	100

30 June 2019 compared to 31 December 2018

In H119, we continued to see customer refinancing from SVR products into fixed rate products influenced by low mortgage rates and the competitive mortgage market.

Geographical distribution

The geographical distribution of our mortgage asset stock was:

	Stock		New business	
Region	**30 June 2019 £bn**	31 December 2018 £bn	**30 June 2019 £bn**	31 December 2018 £bn
London	**39.8**	39.0	**3.3**	7.1
Midlands and East Anglia	**21.2**	21.1	**1.7**	3.8
North	**22.1**	22.2	**1.5**	3.4
Northern Ireland	**3.3**	3.4	**0.1**	0.2
Scotland	**6.7**	6.7	**0.5**	1.0
South East excluding London	**49.5**	48.7	**4.1**	9.0
South West, Wales and other	**16.8**	16.9	**1.2**	2.8
	159.4	158.0	**12.4**	27.3
Average loan size for new business			**£'000**	£'000
South East including London			**274**	270
Rest of the UK			**151**	150
UK as a whole			**206**	203

30 June 2019 compared to 31 December 2018

The geographical distribution of the portfolio continued to represent a broad footprint across the UK, whilst maintaining a concentration around London and the South East, in line with the distribution of the population across the UK. The loan-to-income multiple of mortgage lending during the period, representing average earnings of new business at inception, was 3.31 (2018: 3.24).

Loan-to-value analysis

This table shows the LTV distribution for our mortgage stock, Stage 3 stock and new business. We use our estimate of the property value at the balance sheet date. We include fees that have been added to the loan in the LTV calculation. For flexible products, we only include the drawn amount, not undrawn limits.

	30 June 2019			31 December 2018		
		Of which:			Of which:	
LTV	Stock %	Stage 3 stock %	New business %	Stock %	Stage 3 stock %	New business %
Up to 50%	45	44	17	45	43	20
>50-75%	41	35	40	41	35	41
>75- 85%	9	8	22	9	8	22
>85-100%	4	6	21	4	7	17
>100%	1	7	–	1	7	–
	100	100	100	100	100	100
Collateral value of residential properties[1]	£159,242m	£1,850m	£12,411m	£157,787m	£1,904m	£27,274m
	%	%	%	%	%	%
Simple average[2] LTV (indexed)	42	43	64	42	43	63
Valuation weighted average[3] LTV (indexed)	40	38	60	39	38	59

(1) Collateral value shown is limited to the balance of each related loan. Excludes the impact of over-collateralisation (where the collateral is higher than the loan). Includes collateral against loans in negative equity of £864m (2018: £969m).
(2) Total of all LTV% divided by the total of all accounts.
(3) Total of all loan values divided by the total of all valuations.

At 30 June 2019, the parts of loans in negative equity which were effectively uncollateralised before deducting loss allowances reduced to £147m (2018: £170m).

In H119, the simple average LTV of mortgage total new lending in London was 60% (2018: 58%).

Credit performance

	30 June 2019 £m	31 December 2018 £m
Mortgage loans and advances to customers of which:	159,389	157,957
– Stage 1	148,203	146,619
– Stage 2	9,264	9,356
– Stage 3	1,922	1,982
Loss allowances[3]	214	237
Stage 2 ratio[1]	5.81%	5.92%
Stage 3 ratio[2]	1.22%	1.25%

(1) Stage 2 exposures as a percentage of customer loans.
(2) Total Stage 3 exposure as a percentage of customer loans plus undrawn Stage 3 exposures.
(3) The ECL allowance is for both on and off–balance sheet exposures.

Movement in total exposures and the corresponding ECL

The following table shows changes in total exposures subject to ECL assessment, and the corresponding ECL, for residential mortgages in the period. The footnotes to the Santander UK group level analysis on page 14 are also applicable to this table.

	Non-credit impaired				Credit impaired			
	Stage 1 Subject to 12-month ECL		Stage 2 Subject to lifetime ECL		Stage 3 Subject to lifetime ECL			
Mortgages	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m	Exposures[1] £m	ECL £m
At 1 January 2019	157,739	12	9,432	119	1,999	106	169,170	237
Change in economic scenarios[2]	–	(5)	–	(8)	–	(4)	–	(17)
Transfer to lifetime ECL (Stage 2)[3]	(1,932)	(1)	1,932	1	–	–	–	–
Transfer to credit impaired (Stage 3)[3]	(111)	(1)	(382)	(8)	493	9	–	–
Transfer to 12-month ECL (Stage 1)[3]	2,237	21	(2,237)	(21)	–	–	–	–
Transfer from credit impaired[3]	1	–	322	10	(323)	(10)	–	–
Transfers of financial instruments	195	19	(365)	(18)	170	(1)	–	–
Net ECL remeasurement on stage transfer[4]	–	(20)	–	14	–	4	–	(2)
New assets originated or purchased[5]	12,733	3	417	4	–	–	13,150	7
Other[6]	(1,591)	4	198	(4)	(38)	5	(1,431)	5
Assets derecognised – closed good[7]	(7,819)	(1)	(353)	(3)	(184)	(6)	(8,356)	(10)
Assets derecognised – written off[7]	–	–	–	–	(10)	(6)	(10)	(6)
At 30 June 2019	161,257	12	9,329	104	1,937	98	172,523	214
Net movement in the period	3,518	–	(103)	(15)	(62)	(8)	3,353	(23)
Charge/(release) to the Income Statement		–		(15)		(2)		(17)
Less: Recoveries/ECL on derecognised income		–		(1)		(3)		(4)
Income statement charge/(release) for period		–		(16)		(5)		(21)

Loan modifications

Forbearance and other loan modifications

At 30 June 2019, there were £1.4bn (2018: £1.3bn) of mortgages on the balance sheet that we had forborne. At 30 June 2019, there were £4.5bn (2018: £4.5bn) of other mortgages on the balance sheet that we had modified since January 2008.

RESIDENTIAL MORTGAGES – PORTFOLIOS OF PARTICULAR INTEREST

For a description of the types of mortgage that have higher risk or stand out for different reasons, see the 'Credit risk' section of the Risk review of the 2018 Annual Report.

Credit performance

		Portfolio of particular interest[1]					
30 June 2019	Total £m	Interest-only £m	Part interest-only, part repayment[2] [3] £m	Flexible[3] £m	LTV >100% £m	Buy-to-let £m	Other portfolio £m
Mortgage portfolio	**159,389**	**37,891**	**13,041**	**12,111**	**1,012**	**8,972**	**103,296**
– Stage 1	**148,203**	**33,037**	**11,749**	**10,951**	**669**	**8,334**	**98,738**
– Stage 2	**9,264**	**3,905**	**1,032**	**886**	**221**	**609**	**3,962**
– Stage 3	**1,922**	**949**	**260**	**274**	**122**	**29**	**596**
Stage 3 ratio	**1.22%**	**2.50%**	**1.99%**	**2.26%**	**12.06%**	**0.32%**	**0.58%**
PIPs	**34**	**14**	**7**	**3**	**15**	**1**	**8**
31 December 2018							
Mortgage portfolio	157,957	38,035	13,201	12,926	1,140	8,252	101,158
– Stage 1	146,619	33,001	11,824	11,558	740	7,906	96,767
– Stage 2	9,356	4,029	1,115	1,082	273	317	3,802
– Stage 3	1,982	1,005	262	286	127	29	589
Stage 3 ratio	1.27%	2.64%	1.98%	2.21%	11.14%	0.35%	0.58%
PIPs	25	12	5	3	8	–	7

(1) Where a loan falls into more than one category, we have included it in all the categories that apply. As a result, the sum of the mortgages in the segments of particular interest and the other portfolio does not agree to the total mortgage portfolio.
(2) Mortgage balance includes both the interest-only part of £9,674m (2018: £9,756m) and the non-interest-only part of the loan.
(3) Includes legacy Alliance & Leicester flexible loans that work in a more limited way than our current Flexi loan product.

30 June 2019 compared to 31 December 2018

– In H119, the value of interest-only loans together with part interest-only, part repayment and flexible loans reduced, reflecting our strategy to manage down the overall exposure to these lending profiles.
– BTL mortgage balances increased £0.7bn to £9.0bn (2018: £8.3bn). We continue to focus our BTL book on non-professional landlords, as this segment is closely aligned with mortgages and accounts for the majority of the volume in the BTL market. In 2019, we completed 5,607 BTL mortgages (2018: 11,400), representing 8% of the value of our new business flow (2018: 9%), at an average LTV of 65% (2018: 62%).

CONSUMER (AUTO) FINANCE AND OTHER UNSECURED LENDING

30 June 2019 compared to 31 December 2018

- With a focus on increasing transactions and deepening customer relationships in our consumer (auto) finance business, this year we helped 169,000 customers finance their cars.
- Consumer (auto) finance balances increased by £430m to £7,777m at 30 June 2019 (2018: £7,347m). In H119, Consumer (auto) finance gross lending was £2.0bn (H118: £1.9bn).
- Other unsecured lending was broadly flat.
- Forbearance levels were similar to last year, with balances at 30 June 2019 of £78m for other unsecured (2018: £80m).
- At 30 June 2019, the average Consumer (auto) finance loan size was £14,200 (2018: £11,400). The average unsecured loan and credit card balances at 30 June 2019 were £9,100 (2018: £9,500) and £1,800 (2018: £1,500), respectively.
- Consumer (auto) finance Stage 3 ratio was down by 3bps, largely due to an increase in total assets since 2018, with Stage 3 assets remaining flat. Credit quality remains good with continued low levels of write-offs of £17m in H119 (H118: £13m).

Credit performance

		Other unsecured				
30 June 2019	Consumer (auto) finance £m	Personal loans £m	Credit cards £m	Overdrafts £m	Total other unsecured £m	Total £m
Loans and advances to customers of which:	**7,777**	**2,177**	**2,901**	**544**	**5,622**	**13,399**
– Stage 1	**7,323**	**2,127**	**2,576**	**402**	**5,105**	**12,428**
– Stage 2	**411**	**28**	**276**	**117**	**421**	**832**
– Stage 3	**43**	**22**	**49**	**25**	**96**	**139**
Loss allowances[2]	**86**	**48**	**125**	**58**	**231**	**317**
Stage 3 ratio[1]	**0.55%**				**2.18%**	**1.23%**
Gross write-offs in H119	**17**				**65**	**82**
31 December 2018						
Loans and advances to customers of which:	7,347	2,182	2,865	593	5,640	12,987
– Stage 1	6,950	2,113	2,560	422	5,095	12,045
– Stage 2	354	48	256	144	448	802
– Stage 3	43	21	49	27	97	140
Loss allowances[2]	85	47	112	61	220	305
Stage 3 ratio[1]	0.58%				2.17%	1.27%
Gross write-offs in the year	24				125	149

(1) Total Stage 3 exposure as a percentage of loans and advances to customers plus undrawn Stage 3 exposures.
(2) The ECL allowance is for both on and off–balance sheet exposures.

BUSINESS BANKING

30 June 2019 compared to 31 December 2018

- Business banking balances were flat and Stage 3 exposures increased slightly.

Credit performance

	30 June 2019 £m	31 December 2018 £m
Loans and advances to customers of which:	**1,802**	1,802
– Stage 1	**1,549**	1,548
– Stage 2	**159**	165
– Stage 3	**94**	89
Loss allowances[2]	**53**	53
Stage 3 ratio[1]	**5.27%**	4.99%
Gross write offs in H119/the year	**9**	15

(1) Total Stage 3 exposure as a percentage of loans and advances to customers plus undrawn Stage 3 exposures.
(2) The ECL allowance is for both on and off–balance sheet exposures.

OTHER BUSINESS SEGMENTS – CREDIT RISK REVIEW

Committed exposures

Rating distribution

These tables show our credit risk exposure according to our internal rating scale (see 'Credit quality' in the 'Santander UK group level – credit risk review' section in the 2018 Annual report) for each portfolio. On this scale, the higher the rating, the better the quality of the counterparty.

	Santander UK risk grade								
30 June 2019	9 £m	8 £m	7 £m	6 £m	5 £m	4 £m	3 to 1 £m	Other[1] £m	Total £m
Corporate & Commercial Banking	1,124	3,699	778	2,091	8,747	5,290	1,060	30	22,819
Corporate & Investment Banking	–	3,045	4,565	5,355	711	84	26	–	13,786
Corporate Centre	41,546	9,888	1,697	237	31	209	43	620	54,271
Total	42,670	16,632	7,040	7,683	9,489	5,583	1,129	650	90,876
Of which:									
Stage 1	42,670	16,632	7,013	7,428	8,891	4,495	590	634	88,353
Stage 2	–	–	27	255	590	1,046	220	16	2,154
Stage 3	–	–	–	–	8	42	319	–	369
31 December 2018									
Corporate & Commercial Banking	680	3,899	204	2,047	10,313	5,274	941	36	23,394
Corporate & Investment Banking	12	3,187	5,535	6,361	888	3	78	–	16,064
Corporate Centre	39,588	10,385	2,008	424	49	145	133	357	53,089
Total	40,280	17,471	7,747	8,832	11,250	5,422	1,152	393	92,547
Of which:									
Stage 1	40,280	17,471	7,747	8,759	10,802	4,780	527	377	90,743
Stage 2	–	–	–	73	448	635	318	16	1,490
Stage 3	–	–	–	–	–	7	307	–	314

(1) Smaller exposures mainly in the commercial mortgage portfolio. We use scorecards for them, instead of a rating model.

Geographical distribution

We typically classify geographical location according to the counterparty's country of domicile unless a full risk transfer guarantee is in place, in which case we use the guarantor's country of domicile instead.

	30 June 2019					31 December 2018				
	UK £m	Europe £m	US £m	Rest of World £m	Total £m	UK £m	Europe £m	US £m	Rest of World £m	Total £m
Corporate & Commercial Banking	22,749	69	–	1	22,819	23,319	74	–	1	23,394
Corporate & Investment Banking	11,595	2,160	4	27	13,786	13,080	2,752	124	108	16,064
Corporate Centre	41,061	4,599	1,075	7,536	54,271	39,770	4,830	1,310	7,179	53,089

30 June 2019 compared to 31 December 2018

In Corporate & Commercial Banking, committed exposures decreased slightly. Our CRE portfolio decreased by 6.6% as we continue to manage our exposure in line with proactive risk management policies. This was partially offset by a 3.5% increase in our Social Housing portfolio.

In CIB, committed exposures decreased by 14.2% mainly due to reductions in our Large Corporate portfolio driven by the transfer of exposures to Banco Santander London Branch. Credit quality remained stable. The portfolio profile remained short-term, reflecting the purpose of the holdings.

In Corporate Centre, committed exposures increased by 2.2% mainly driven by our Sovereign and Supranational portfolio as part of normal liquid asset portfolio management. Legacy Portfolios in run–off reduced by 13.5%. Social Housing exposures reduced by 3.7%.

Credit performance

We monitor exposures that show potentially higher risk characteristics using our Watchlist process (described in 'Monitoring' in the 'Credit risk management' section of the 2018 Annual Report). The table below shows the exposures we monitor, and those we classify as non–performing by portfolio at 30 June 2019 and 31 December 2018.

	Committed exposure					
		Watchlist				
30 June 2019	Fully performing £m	Enhanced monitoring £m	Proactive management £m	Stage 3 Exposure £m	Total[1] £m	Loss allowances £m
Corporate & Commercial Banking	**20,656**	**1,340**	**497**	**326**	**22,819**	**205**
Corporate & Investment Banking	**12,830**	**697**	**233**	**26**	**13,786**	**16**
Corporate Centre	**54,212**	**34**	**9**	**16**	**54,271**	**12**
Total loss allowances						**233**
31 December 2018						
Corporate & Commercial Banking	21,402	1,336	380	276	23,394	182
Corporate & Investment Banking	15,304	548	186	26	16,064	18
Corporate Centre	53,016	48	7	18	53,089	13
Total loss allowances						213

(1) Includes committed facilities and derivatives.

30 June 2019 compared to 31 December 2018

In Corporate & Commercial Banking, in the SME and mid corporate portfolio and our CRE portfolio, Stage 3 exposures increased, largely due to underlying structural changes impacting some sectors. Exposures subject to enhanced monitoring were broadly unchanged.

In CIB, Large Corporate exposures subject to enhanced monitoring increased due to a small number of cases that were experiencing performance issues. However, Stage 3 exposures remained unchanged. Financial Institutions exposures are fully performing.

In Corporate Centre, Legacy Portfolios in run–off exposures subject to enhanced monitoring and proactive management remained stable, and Social Housing exposures subject to enhanced monitoring reduced. Stage 3 exposures were broadly unchanged.

PORTFOLIOS OF PARTICULAR INTEREST

Commercial Real Estate

In H119, there was a managed reduction in CRE lending of £0.4bn, with a focus on risk-weighted returns.

Market risk

Overview

Market risk comprises banking market risk and trading market risk.

Market risk management
In H119, there were no significant changes in the way we manage market risk as described in the 2018 Annual Report, except that from 1 January 2019, and in accordance with our ring-fence structure, we now manage market risk separately for the Santander UK plc group (our RFB group) and ANTS (our main subsidiary outside the RFB group).

Market risk review
In this section, we analyse our key banking and trading market risk metrics.

Key metrics

Santander UK plc group Net Interest Margin (NIM) sensitivity to +50bps decreased to £187m and to -50bps decreased to £1m (2018: £207m and £(23)m)

ANTS NIM sensitivity to +50bps was £17m and to -50bps was £(12)m

Santander UK plc group Economic Value of Equity (EVE) sensitivity to +50bps decreased to £160m and to -50bps increased to £(216)m (2018: £162m and £(124)m)

ANTS EVE sensitivity to +50bps was £19m and to -50bps was £(15)m

BANKING MARKET RISK REVIEW

Interest rate risk

Yield curve risk

The tables below show how our base case income and valuation would be affected by a 50 basis point parallel shift (both up and down) applied instantaneously to the yield curve at 30 June 2019 and 31 December 2018 for the Santander UK plc group and ANTS.

	Santander UK plc group			
	30 June 2019		31 December 2018	
	+50bps £m	**-50bps £m**	+50bps £m	-50bps £m
NIM sensitivity	**187**	**1**	207	(23)
EVE sensitivity	**160**	**(216)**	162	(124)
	ANTS[1]			
NIM sensitivity	**17**	**(12)**	n/a	n/a
EVE sensitivity	**19**	**(15)**	n/a	n/a

(1) NIM and EVE sensitivities for ANTS were not monitored separately in 2018 i.e. before the implementation of our ring-fencing plans.

30 June 2019 compared to 31 December 2018

The movement in Santander UK plc group NIM sensitivities in H119 reflected the removal of ANTS exposures from the sensitivities following the implementation of our ring-fencing plans. The movement in Santander UK plc group EVE sensitivities in H119 was driven by more margin compression as a result of lower levels of the yield curve.

TRADING MARKET RISK REVIEW

VaR

This table and graph shows our Internal VaR for exposure to each of the main classes of risk for 30 June 2019 and 31 December 2018. ANTS has no trading market risk.

	Period-end exposure		Average exposure		Highest exposure		Lowest exposure	
Trading instruments	**30 June 2019 £m**	31 December 2018 £m	**30 June 2019 £m**	31 December 2018 £m	**30 June 2019 £m**	31 December 2018 £m	**30 June 2019 £m**	31 December 2018 £m
Interest rate risks	**0.2**	0.5	**0.5**	1.4	**0.6**	3.9	**0.1**	0.2
Equity risks	**–**	–	**–**	0.2	**0.1**	0.6	**–**	–
Foreign exchange risks	**0.2**	0.1	**0.2**	0.3	**0.3**	0.9	**–**	–
Diversification offsets[1]	**(0.2)**	(0.2)	**(0.3)**	(0.5)	**(0.4)**	–	**0.1**	–
Total correlated one-day VaR	**0.2**	0.4	**0.4**	1.4	**0.6**	3.8	**0.2**	0.3

(1) The highest and lowest exposures for each risk type did not necessarily happen on the same day as the highest and lowest total correlated one-day VaR. It is impossible to calculate a corresponding correlation offset effect, so we have not included it.

30 June 2019 compared to 31 December 2018

At 30 June 2019, only a small amount of trading market risk from permitted products and permitted customers remained, in the Santander UK ring-fenced bank.

Liquidity risk

Overview

Liquidity risk is the risk that, while still being solvent, we do not have the liquid financial resources to meet our obligations when they fall due, or we can only obtain them at high cost.

Liquidity risk management
In H119, there were no significant changes in the way we manage liquidity risk as described in the 2018 Annual Report, except that from 1 January 2019, and in accordance with our ring-fence structure, we now manage liquidity risk separately for the RFB DoLSub, the RFB group and ANTS.

Liquidity risk review
In this section, we analyse our key liquidity metrics, including our Liquidity Coverage Ratio (LCR), our Liquidity Risk Appetite (LRA) and our wholesale funding. We also provide details on asset encumbrance.

Key metrics

RFB DoLSub LCR of 155% (2018: 164%)

Wholesale funding with maturity <1 year £17.3bn (2018: £16.8bn)

RFB DoLSub LCR eligible liquidity pool of £49.0bn (2018: £54.1bn)

LIQUIDITY RISK REVIEW

Prior to 1 January 2019, for the purpose of managing liquidity risk, Santander UK plc, ANTS and Cater Allen Limited formed the Domestic Liquidity Sub-group (DoLSub), which allowed the entities to collectively meet regulatory requirements. Each member of the DoLSub would support the others by transferring surplus liquidity in times of stress. With effect from 1 January 2019, and in accordance with our ring-fence structure, Santander UK plc was granted a new DoLSub permission (the RFB DoLSub), withdrawing ANTS from the previous DoLSub. As a result, from 1 January 2019 we monitor and manage liquidity risk for the Santander UK plc group (i.e. in line with the RFB DoLSub) and ANTS plc separately.

We continue to transfer liquidity risks from the products Santander UK Group Holdings plc issues, or the contracts it executes, into our subsidiaries largely through back-to-back transactions. We fund any mismatches, if needed, by ordinary share dividends from subsidiaries.

Liquidity Coverage Ratio

The tables below show our LCR and LRA at 30 June 2019 and 31 December 2018. The LCR at 30 June 2019 reflects the RFB DoLSub, and at 31 December 2018 reflects the previous DoLSub. We also show the ANTS LCR and LRA at 30 June 2019, reflecting the fact that we monitor and manage liquidity risk for ANTS separately from 1 January 2019. The LRA data reflect the stress testing methodology in place at that time.

				LCR RFB DoLSub / LRA RFB
	LCR[1]		LRA[2]	
	30 June 2019 £bn	31 December 2018 £bn	**30 June 2019 £bn**	31 December 2018 £bn
Eligible liquidity pool (liquidity value)	**47.7**	53.0	**47.1**	52.2
Net stress outflows	**(30.7)**	(32.4)	**(31.8)**	(32.1)
Surplus	**17.0**	20.6	**15.3**	20.1
Eligible liquidity pool as a percentage of anticipated net cash flows	**155%**	164%	**148%**	163%
				ANTS
Eligible liquidity pool (liquidity value)	**4.7**	n/a	**4.5**	n/a
Net stress outflows	(0.9)	n/a	(0.9)	n/a
Surplus	**3.8**	n/a	**3.6**	n/a
Eligible liquidity pool as a percentage of anticipated net cash flows	**504%**	n/a	**478%**	n/a

(1) For 30 June 2019, in accordance with our ring-fence structure, data is for the RFB DoLSub. For 31 December 2018, i.e. before the implementation of ring-fencing, data is for the previous DoLSub.
(2) The LRA is calculated for the Santander UK plc group (RFB Group) and is a three-month Santander UK specific requirement.

30 June 2019 compared to 31 December 2018
We continue to maintain high levels of liquidity to ensure we are well prepared for further Brexit uncertainty later in the year. The RFB DolSub LCR and LCR eligible liquidity pool both decreased following the transfer of our Isle of Man and Jersey businesses (Crown Dependencies) into ANTS in 2018, and ANTS' removal from the DoLSub on 1 January 2019, as part of ring-fencing implementation.

ANTS liquidity benefits from £5.1bn of deposits in our Crown Dependencies business.

OUR FUNDING STRATEGY AND STRUCTURE

Our overall funding strategy remains to develop and sustain a diversified funding base. We also need to fulfil regulatory requirements as well as support our credit ratings.

Maturity profile of wholesale funding

This table shows our main sources of wholesale funding. It does not include securities financing repurchase agreements. The table is based on exchange rates at issue and scheduled repayments and call dates. It does not reflect the final contractual maturity of the funding.

30 June 2019	≤ 1 month £bn	>1 and ≤3 months £bn	>3 and ≤6 months £bn	>6 and ≤9 months £bn	>9 and ≤12 months £bn	Sub-total ≤1 year £bn	>1 and ≤2 years £bn	>2 and ≤5 years £bn	>5 years £bn	Total £bn
Santander UK Group Holdings plc(1)										
Senior unsecured – public benchmark	-	-	-	-	-	-	1.5	5.4	1.8	8.7
– privately placed	-	-	-	-	-	-	-	-	0.1	0.1
Subordinated liabilities and equity (incl. AT1)	-	0.5	0.3	-	-	0.8	-	1.3	1.0	3.1
	-	0.5	0.3	-	-	0.8	1.5	6.7	2.9	11.9
Santander UK plc										
Deposits by banks	0.1	0.3	0.2	-	-	0.6	-	-	-	0.6
Certificates of deposit and commercial paper	1.3	2.5	2.3	0.3	0.1	6.5	-	-	-	6.5
Senior unsecured – public benchmark	-	0.6	-	2.2	-	2.8	4.7	2.8	0.8	11.1
– privately placed	-	0.3	-	0.9	-	1.2	1.2	0.2	0.4	3.0
Covered bonds	0.5	0.9	-	-	1.8	3.2	4.7	6.5	4.0	18.4
Securitisation and structured issuance(2)	0.3	0.5	0.6	0.2	0.2	1.8	0.8	2.3	-	4.9
Term Funding Scheme	-	-	-	-	-	-	7.5	3.3	-	10.8
Subordinated liabilities	-	-	-	-	-	-	-	0.9	1.3	2.2
	2.2	5.1	3.1	3.6	2.1	16.1	18.9	16.0	6.5	57.5
Other group entities										
Securitisation and structured issuance(3)	-	0.1	0.1	0.1	0.1	0.4	0.4	0.7	-	1.5
Total at 30 June 2019	2.2	5.7	3.5	3.7	2.2	17.3	20.8	23.4	9.4	70.9
Of which:										
– Secured	0.9	1.5	0.8	0.3	2.1	5.6	13.4	12.8	4.0	35.8
– Unsecured	1.3	4.2	2.7	3.4	0.1	11.7	7.4	10.6	5.4	35.1
	2.2	5.7	3.5	3.7	2.2	17.3	20.8	23.4	9.4	70.9
Total at 31 December 2018	3.1	6.8	3.3	2.7	0.9	16.8	15.9	30.1	10.4	73.2
Of which:										
– Secured	0.8	0.7	0.7	1.7	0.5	4.4	8.5	18.3	4.0	35.2
– Unsecured	2.3	6.1	2.6	1.0	0.4	12.4	7.4	11.8	6.4	38.0

(1) 94% of Senior Unsecured debt issued from Santander UK Group Holdings plc has been downstreamed to Santander UK plc as 'secondary non-preferential debt' in line with the guidelines from the Bank of England for Internal MREL.
(2) Includes funding from mortgage-backed securitisation vehicles where Santander UK plc is the asset originator.
(3) Includes funding from asset-backed securitisation vehicles where entities other than Santander UK plc are the asset originator.

Term issuance

In H119, our external term issuance (sterling equivalent) was:

	Sterling £bn	US Dollar £bn	Euro £bn	Total H119 £bn	Total H118 £bn
Santander UK Group Holdings plc					
Senior unsecured – public benchmark	-	-	-	-	1.9
	-	-	-	-	1.9
Santander UK plc					
Securitisations and other secured funding	-	-	-	-	1.0
Covered bonds	1.0	-	0.9	1.9	2.4
Senior unsecured – public benchmark	-	0.8	-	0.8	2.0
– privately placed	-	-	-	-	0.9
Term Funding Scheme (TFS)	-	-	-	-	2.3
	1.0	0.8	0.9	2.7	8.6
Total gross issuances	1.0	0.8	0.9	2.7	10.5

30 June 2019 compared to 31 December 2018

In H119, our total term funding was £2.7bn (H118: £10.5bn), all of which was medium-term issuance (H118: £8.2bn). The total consisted of £0.8bn of senior unsecured notes, and £1.9bn of covered bonds from our operating company Santander UK plc. Maturities in H119 were £5.4bn (H118: £4.0bn).

At 30 June 2019, 77% (2018: 77%) of wholesale funding had a maturity of greater than one year, with an overall residual duration of 36 months (2018: 37 months). The total drawdown outstanding from the TFS was £10.8bn (2018: £10.8bn) and the total drawdowns of UK Treasury Bills under the Funding for Lending Scheme were at £1.0bn (2018: £1.0bn).

Encumbrance

Encumbrance of customer loans and advances

We have issued prime retail mortgage-backed and other asset-backed securitised products to a diverse investor base through our mortgage-backed and other asset-backed funding programmes.

We have raised funding with mortgage-backed notes, both issued to third parties and retained – the latter being central bank eligible collateral for funding purposes in other Bank of England facilities. We also have a covered bond programme, under which we issue securities to investors secured by a pool of residential mortgages.

For more on how we have issued notes from our secured programmes externally and also retained them, and what we have used them for, see Notes 11 and 24 to the Condensed Consolidated Interim Financial Statements.

30 June 2019 compared to 31 December 2018

Our level of encumbrance from external and internal issuance of mortgage securitisations and covered bonds increased slightly in H119 to £34.3bn (2018: £33.7bn), as planned. For more, see Note 11 to the Condensed Consolidated Interim Financial Statements.

Capital risk

Overview

Capital risk is the risk that we do not have an adequate amount or quality of capital to meet our internal business needs, regulatory requirements and market expectations, including dividend and AT1 distributions.

Capital risk management
In H119, there were no significant changes in the way we manage capital risk as described in the 2018 Annual Report.

Capital risk review
In this section, we analyse our capital resources and key capital ratios including our leverage and RWAs.

Key metrics

CET1 capital ratio of 13.8% (2018: 13.2%)

Total qualifying regulatory capital increased to £15.7bn (2018: £15.0bn)

UK leverage ratio of 4.5% (2018: 4.5%)

THE SCOPE OF OUR CAPITAL ADEQUACY

Regulatory supervision

For capital purposes, we are subject to prudential supervision by the PRA, as a UK banking group, and by the European Central Bank (ECB) as a member of the Banco Santander group. The ECB supervises Banco Santander as part of the Single Supervisory Mechanism (SSM). Although we are part of the Banco Santander group, we do not have a guarantee from our immediate and ultimate parent Banco Santander SA and we operate as an autonomous subsidiary. As we are part of the UK sub-group that is regulated by the PRA, we have to meet the PRA capital requirements on a standalone basis. We also have to show the PRA that we can withstand capital stress tests without the support of our parent. Reinforcing our corporate governance framework, the PRA exercises oversight through its rules and regulations on the Board and senior management appointments. Santander UK Group Holdings plc is the holding company of Santander UK plc and is the head of the Santander UK group for regulatory capital and leverage purposes. The basis of consolidation for our capital disclosures is substantially the same as for our Consolidated Financial Statements. Following the implementation of our ring-fencing plans, with effect from 1 January 2019 Santander UK plc is now the head of the ring-fenced bank sub-group and is subject to regulatory capital and leverage rules.

Meeting evolving capital requirements

Significant buffer to trigger

We target a CET1 management buffer of sufficient size to absorb volatility in CET1 deductions, capital supply and capital demand whilst remaining above the regulatory CET1 requirement. Distribution restrictions would be expected to be applied if we were unable to meet both our minimum requirement, which consists of the Pillar 1 minimum plus Pillar 2A, and the CRD IV buffers consisting of the Capital Conservation Buffer (CCoB) and the Countercyclical capital buffer (CCyB). From the 1 August 2019, the application of the Systemic Risk Buffer (SRB) at the level of the RFB Group will increase the amount of CET1 the RFB Group will be required to maintain in order to avoid triggering maximum distributable amount (MDA) restrictions.

At 30 June 2019, the distance of our CET1 capital ratio of 13.8% to our 7% AT1 permanent write down (PWD) securities trigger was 6.8% of total RWAs or £5.1bn (2018: 6.2% of total RWAs or £4.9bn).

The distance of our CET1 capital ratio to our current MDA trigger level at 30 June 2019 was:

	Current MDA %
Pillar 1	4.50
Pillar 2A(1)	3.10
CCoB	2.50
CCyB(2)	0.95
Current MDA trigger	11.05
Distance to current MDA	2.75
Total CET1 capital ratio	13.8

(1) Santander UK's Pillar 2 CET1 requirement was 3.1% at 30 June 2019, Pillar 2A guidance is a point in time assessment
(2) The current applicable UK CCyB rate is 1.0%. Santander UK's current geographical allocation of the CCyB is 95%

MREL recapitalisation

We have made major progress to meet MREL recapitalisation requirements. We have issued £9.3bn MREL compliant senior unsecured bonds to date and we are in excess of our June 2019 requirement of £6.4bn (8.5% RWA). Our forward-looking MREL recapitalisation glide path assumes the Pillar 2A requirement remains at 5.5% and is calculated using RWA and UK leverage exposures at 30 June 2019. Based on this set of assumptions, our MREL requirements are driven by leverage from 2019 and switching to the RWA measure from 2022. Santander UK's indicative MREL excluding CRD IV buffer is currently expected to be 27.0% of RWAs from 1 January 2022. Assuming the current glide path by 2022, we expect to issue a further £3.9bn of senior unsecured bonds to cover the maturities and meet our total 2022 MREL recapitalisation requirement of £10.2bn (13.5% RWA).

In addition to meeting our minimum requirement, we intend to have an MREL recapitalisation management buffer in excess of the value of Santander UK Group Holdings plc senior unsecured paper that is due to become MREL ineligible over the following six months.

CAPITAL RISK REVIEW

Key capital ratios

	Santander UK Group Holdings plc		Santander UK plc	
	30 June 2019 %	31 December 2018 %	**30 June 2019 %**	31 December 2018 %
CET1 capital ratio	**13.8**	13.2	**13.9**	13.2
AT1	**2.7**	2.6	**2.3**	2.2
Grandfathered Tier 1	**0.5**	0.4	**0.7**	0.8
Tier 2	**3.9**	2.9	**4.2**	4.1
Total capital ratio	**20.9**	19.1	**21.1**	20.3

The total capital difference between Santander UK Group Holdings plc and Santander UK plc was due to the recognition of minority interests. The total subordination available to Santander UK plc bondholders was 21.1% (2018: 20.3%) of RWAs.

30 June 2019 compared to 31 December 2018
Our CET1 capital ratio increased 60bps to 13.8% at 30 June 2019 (2018: 13.2%), achieving our end-state capital position, notwithstanding any future changes to the counter-cyclical buffer or Pillar 2A requirements. As leverage becomes the binding constraint, CET1 capital ratio could continue to increase alongside lending growth.

Regulatory capital resources

This table shows our qualifying regulatory capital.

	30 June 2019 £m	31 December 2018 £m
CET1 capital instruments and reserves:		
– Capital instruments	**7,060**	7,060
– Retained earnings	**6,360**	6,439
– Accumulated other reserves and non-controlling interests	**690**	431
CET1 capital before regulatory adjustments	**14,110**	13,930
CET1 regulatory adjustments:		
– Additional value adjustments	**(38)**	(42)
– Goodwill (net of tax)	**(1,159)**	(1,161)
– Other intangibles	**(594)**	(610)
– Fair value reserves related to gains or losses on cash flow hedges	**(492)**	(251)
– Negative amounts resulting from the calculation of regulatory expected loss amounts	**(642)**	(599)
– Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**(20)**	(67)
– Deferred tax assets that rely on future profitability excluding timing differences	**(5)**	(20)
– Defined benefit pension fund assets	**(584)**	(631)
– Dividend accrual	**(22)**	(18)
– IFRS 9 Transitional Adjustment	**20**	21
– Deduction for non-controlling interests	**(159)**	(151)
CET1 capital	**10,415**	10,401
AT1 capital instruments:		
– Capital instruments	**2,041**	2,041
– Amount of qualifying items subject to phase out from AT1	**579**	593
– Regulatory deductions for instruments issued by subsidiary undertakings	**(186)**	(268)
AT1 capital	**2,434**	2,366
Tier 1 capital	**12,849**	12,767
Tier 2 capital instruments:		
– Capital instruments	**2,855**	2,888
– Amount of qualifying items subject to phase out from Tier 2	**389**	369
– Regulatory deductions for instruments issued by subsidiary undertakings or subject to CRDIV amortisation	**(380)**	(986)
Tier 2 capital	**2,864**	2,271
Total qualifying regulatory capital(1)	**15,713**	15,038

(1) Capital resources include a transitional IFRS 9 benefit at 30 June 2019 of £20m (2018: £21m).

30 June 2019 compared to 31 December 2018
CET1 capital was stable at £10.4bn, with ongoing capital accretion through retained profits, offset by market-driven pension movements.

Movements in regulatory capital:

	CET1 capital £m	AT1 capital £m	Tier 2 capital £m	Total £m
At 1 January 2019	**10,401**	**2,366**	**2,271**	**15,038**
– Retained earnings	(79)	–	–	(79)
– Other reserves and non-controlling interests	259	–	–	259
– Additional value adjustments	4	–	–	4
– Goodwill (net of tax)	2	–	–	2
– Other intangibles	16	–	–	16
– Fair value reserves related to gains and losses on cash flow hedges	(241)	–	–	(241)
– Negative amounts resulting from the calculation of regulatory expected loss amounts	(43)	–	–	(43)
– Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	47	–	–	47
– Deferred tax assets that rely on future profitability excluding timing differences	15	–	–	15
– Defined benefit pension fund assets	47	–	–	47
– Dividend accrual	(4)	–	–	(4)
– Deductions for non-controlling interests	(8)	–	–	(8)
– Capital instruments	–	–	(33)	(33)
– IFRS 9 Transitional Adjustment	(1)	–	–	(1)
– Amount of qualifying items subject to phase out from AT1	–	(14)	–	(14)
– Amount of qualifying items subject to phase out from Tier 2	–	–	20	20
– Deductions for instruments issued by subsidiary undertakings or subject to CRDIV amortisation	–	82	606	688
At 30 June 2019	**10,415**	**2,434**	**2,864**	**15,713**

Risk-weighted assets

The tables below are consistent with our regulatory filings for 30 June 2019 and 31 December 2018.

RWAs by risk	**30 June 2019 £bn**	31 December 2018 £bn
Credit risk	**65.6**	67.7
Counterparty risk	**1.8**	2.5
Market risk	**0.3**	1.0
Operational risk	**7.6**	7.6
	75.3	78.8
RWAs by segment		
Retail Banking	**48.6**	47.9
Corporate & Commercial Banking	**14.3**	17.0
Corporate & Investment Banking	**5.3**	6.9
Corporate Centre	**7.1**	7.0
	75.3	78.8

Movements in RWAs by risk:

	Credit/ Counterparty risk £bn	Market risk £bn	Operational risk £bn	Total £bn
At 1 January 2019	**70.2**	**1.0**	**7.6**	**78.8**
Asset size	(1.5)	(0.1)	–	(1.6)
Asset quality	0.8	–	–	0.8
Model updates	(1.5)	–	–	(1.5)
Methodology and policy	(0.6)	–	–	(0.6)
Other	–	(0.6)	–	(0.6)
At 30 June 2019	**67.4**	**0.3**	**7.6**	**75.3**

30 June 2019 compared to 31 December 2018

RWAs reduced largely as a result of the June 2019 SRT securitisation and lower lending in our corporate business as we continue to focus on risk-weighted returns. This was partially offset by increased RWAs in Retail Banking with lending growth in mortgages and consumer (auto) finance.

We take a prudent approach to risk and our calculation of RWAs uses through-the-cycle modelling of unexpected losses. As a result we have a higher mortgage RWA translation ratio than other large UK banks. Following implementation of planned PRA changes by 1 January 2021, RWA calculation models will have to use a hybrid of through-the-cycle and point-in-time assumptions and as a result we expect a significant decrease in RWAs.

Regulatory leverage

	30 June 2019 £m	31 December 2018 £m
Regulatory exposure	**275,695**	275,551
End-point Tier 1 capital	**12,456**	12,442
UK leverage ratio	**4.5%**	4.5%

Under the PRA rules, we adjust our total assets per the Consolidated Balance Sheet to calculate our regulatory exposure for leverage purposes. We do this as follows:

	30 June 2019 £m	31 December 2018 £m
Total assets per the Consolidated Balance Sheet	**290,272**	289,381
Derivatives netting and potential future exposure	**(2,239)**	(2,349)
Securities financing current exposure add-on	**659**	812
Removal of IFRS netting	**1,228**	1,337
Removal of qualifying central bank claims	**(26,139)**	(24,776)
Commitments calculated in accordance with Basel Committee Leverage Framework	**13,932**	13,414
CET1 regulatory adjustments	**(2,018)**	(2,268)
	275,695	275,551

Distributable items

At 30 June 2019, Santander UK Group Holdings plc had distributable items under CRD IV of £4,246m (2018: £4,221m). Movements in distributable items in H119 and FY18 were:

	30 June 2019 £m	31 December 2018 £m
At 1 January	**4,221**	4,209
Dividends approved:		
– AT1 Capital Securities	**(73)**	(145)
– Tax on above item	**20**	27
– Ordinary shares	**(138)**	(1,123)
Dividends receivable:		
– Investment in AT1 Capital Securities	**63**	139
– Tax on above item	**(17)**	(28)
– Investment in ordinary shares of subsidiary	**174**	1,139
Other Income Statement items (Company)	**(4)**	3
At 30 June/31 December	**4,246**	4,221

Other key risks

Overview

Other key risks management
In H119, there were no significant changes in the way we manage and monitor other key risks, as described in the 2018 Annual Report.

Other key risks review
In this section, we discuss pension risk, conduct and regulatory risk, operational risk and financial crime risk.

Key metrics

Pension Funding Deficit at Risk was £1,450m (2018: £1,410m)

Funded defined benefit pension scheme accounting surplus was £567m (2018: £766m)

Conduct provision was £277m (2018: £276m)

12% increase in operational risk losses (exc. PPI)

£65m investment in financial crime enhancements planned for 2019, of which £35m has been spent in H119

PENSION RISK

30 June 2019 compared to 31 December 2018
We continue to focus on achieving the right balance between risk and reward, while minimising the impact on our capital and financial position. In H119, overall asset returns were positive with positive performance from all major asset classes. The Funding Deficit at Risk increased to £1,450m (2018: £1,410m). Our long-term objective is to reduce the risk of the Santander (UK) Group Pension Scheme (the Scheme) and eliminate the deficit on the funding basis. In H119, the CF Trustee continued to move away from pro-cyclical assets and increasing the allocation to alternative strategies. In H119, interest rate and inflation hedging levels were maintained.

Accounting position
In H119, the accounting surplus of the Scheme and other funded arrangements decreased, with sections in surplus of £780m at 30 June 2019 (2018: £842m) and sections in deficit of £213m (2018: £76m). The overall position was £567m surplus (2018: £766m surplus). There were also unfunded scheme liabilities of £39m at 30 June 2019 (2018: £39m). The deterioration in the overall position was mainly driven by a decrease in the discount rate over the year resulting from falling corporate bond yields which increased the value placed on liabilities. This was partially offset by the rise in overall asset values over the year.

For more on our pension schemes, including the current asset allocation, see Note 22 to the Condensed Consolidated Interim Financial Statements.

CONDUCT AND REGULATORY RISK

30 June 2019 compared to 31 December 2018
In H119, to ensure we fully consider customer impacts across our business, we continued to maintain a strong focus on robust oversight and control of the full customer journey. We maintain Compliance teams across all our key business divisions, and conduct and regulatory risk frameworks are in place across all business divisions that operate alongside our wider risk framework to identify, assess, manage and report conduct and regulatory risk.

In H119, we continued to build on our progress in 2018 and remained vigilant in taking a customer-focused approach in developing strategy, products and policies that support fair customer outcomes and market integrity. As part of this, we:

- Assessed the views and new policy areas in the FCA's 2019/20 Business Plan and built them into our three-year business planning activities
- Continued to manage technological change and increased digitalisation in line with regulatory initiatives
- Delivered change to meet the evolving regulatory landscape, including changes brought about by Second Payment Services Directive (PSD2) and Open Banking; General Data Protection Regulation; Banking Reform and implementing the Banking Reform compliance model; and the FCA High-cost Credit Review and Consumer Protection Agenda
- Continued to prepare for the transition from LIBOR to risk-free rates at the end of 2021, including planning for customer communications and recognition of potential conduct risks, and
- Developed specific conduct risk training to strengthen the business-wide I AM Risk training.

Following the launch of the Contingent Reimbursement Model, a voluntary code of good practice for dealing with authorised push payment fraud, we agreed along with seven other banks to a funding loan for no-blame cases. We continue to engage with the industry and authorities in developing the code.

Accounting position
The remaining provision for PPI redress and related costs was £248m at 30 June 2019. This includes a provision for PPI redress as well as our best estimate of liability for a specific portfolio which was disclosed in our 2018 Annual Report. Payments are being made in respect of the portfolio of complaints which were on hold pending further regulatory clarification at the end of 2018. We made an additional provision of £70m in Q219 reflecting an increase of claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019. We will continue to monitor our provision levels and take account of the impact of any further change in claims received and FCA guidance.

For more on our provisions, including sensitivities, see Note 21 to the Condensed Consolidated Interim Financial Statements.

OPERATIONAL RISK

30 June 2019 compared to 31 December 2018
Business, regulatory and legal change continues to gather pace and H119 saw a substantial review of our portfolio of change initiatives to re-focus, concentrate and re-prioritise scarce capital resources at the most pressing initiatives. The Open Banking Initiative and PSD2, both of which introduce further requirements during 2019, together bring significant opportunity for us to develop new products and services to enhance the ways customers use their data and pay for services. However, they also introduce a new layer of risk to both customers and Santander UK. We continued to carry out detailed operational risk assessments in relation to these initiatives, in order to identify, assess, manage and report the key risks involved. These regulatory requirements were added to by significant new initiatives such as the high cost of credit review and the migration of a certain segment of customers across to a new banking platform. As we must deliver new and innovative solutions to market faster than ever before, we recognise the need to manage the risks associated with change as a priority in our design processes. We have concentrated effort on further refining our Operational Risk Management identification and assessment methodologies to streamline, remove inefficiency, and focus on risk.

Change management also remains a key factor when we engage with our key outsourcing partners (Third Party Service Providers). The demand for innovative solutions and digital services brings additional risks, new technologies, widening spans of control across the supply chain, and cyber threats. To enable us to manage these challenges we continue to review our governance processes and introduce new systems solutions which provide data and focus on our supplier relationships and performance. This work will continue, develop and strengthen for the rest of 2019, aligned with the requirements of the EBA Outsourcing Guidelines due for implementation in September.

Cyber and information security also remains a top priority for us. We continue to invest to ensure we have the right skills and resources to manage cyber and information security risk effectively across all our lines of defence. Our comprehensive cyber transformation programme continues to enhance our capabilities and ensure we continue to deliver secure products and solutions for our customers and the communities that we serve. Whilst we continue to be subject to cyber-attack, we did not suffer any material cyber or information security events in H119 and we continue to actively participate in the Cyber Defence Alliance with industry peers to share cyber threat intelligence, expertise and experience to help identify common features of cyber-attacks and effective mitigation strategies.

Data Management is an increasingly important risk factor for Santander UK. We enable our programme of Digital Transformation by managing risk across three main areas: the quality of primary data, the consistency of derived data and the ability to meet regulatory requirements. We manage and report data risk at a number of levels across the business. To mitigate data risk we invested in a Santander UK Data Management Strategy to develop and mature our core data management systems and capabilities. This includes a data domain view across the business to establish data ownership and accountability; operational risk tools to identify and manage data quality; and a governance model overseen by the Board Risk Committee and the Board Audit Committee. The maturity of our Data Management Strategy will continue to be a specific focus to enable us to deliver our goal of becoming the Best Digital Bank through 2019.

The Bank of England, PRA and FCA published a joint discussion paper in 2018 to help financial firms evolve their approach to operational resilience. They expect firms to assume disruptive operational incidents will occur, and be able to demonstrate that they can withstand, absorb, recover and manage these in a way which considers the needs of all affected parties. We will improve our operational resilience by enhancing our operational risk framework and implementing a Board-approved strategy. This will be focused on defining our key business services; providing enriched management data; mapping our dependencies end-to-end; and setting, approving and testing the impact tolerances of our ability to provide those services to the absolute limit. In addition to regulatory compliance, this will achieve business and operational benefits through a programme of work in 2019 designed to embed operational resilience in our Digital Transformation programme as well as business-as-usual activities.

In H119, we saw a 12% increase in operational risk losses (excluding PPI). This was primarily driven by external fraud and reflects trends across the industry. We discuss developments with respect to PPI in the Conduct and regulatory risk section on the previous page.

We continue to enhance our anti-fraud measures to help protect our customers from fraud and scams. When compared with H118, the volume of Operational Risk Events has gradually risen, due mainly to the mandatory breach reporting requirements of PSD2 and GDPR. We have seen fewer events in relation to legacy system and processing issues. However, we have noted a rise in both events and losses prompted by the increasing level of change, driven in turn by regulation, industry developments and the need to digitalise the bank.

FINANCIAL CRIME RISK

30 June 2019 compared to 31 December 2018
We have a £65m investment in financial crime enhancements planned for 2019 through our Transformation Programme, of which £35m has been spent in H119. The financial crime landscape continues to be difficult and complex, with geo-political factors and continually evolving criminal methods influencing the risks we face. In H119, we enhanced our strategic capabilities and supporting infrastructure, despite some of the challenges inherent in the control framework and external environment. We made good progress in embedding our three-year Anti-Financial Crime strategy, policies and training. In H119, we increased awareness of financial crime through culture focus programmes and encouraged our staff to use their judgement to do the right thing and make responsible decisions. Our financial crime control environment is evolving but still needs significant enhancement and investment. Our Financial Crime Transformation Programme delivered improvements across the control environment in H119 and the foundations of key strategic controls are now in place. Implementing strategic systems and enhancing our control framework in key focus areas such as Know Your Customer, Data Quality and Due Diligence are priorities with top-level commitment for investment in H219.

UK regulatory change after Brexit may add further complexity. The UK Government has published more than ten Statutory Instruments under the Sanctions and Anti-Money Laundering Act 2018, which would come into force should the UK leave the EU without a deal. Material changes to global sanctions regimes including Iran and Venezuela are also a key area of our focus.

We continued to actively collaborate with the public sector to address financial crime challenges. We actively collaborate with industry and the UK Government to combat financial crime which also helps us further develop our own capabilities. For example, in H119, we increased our collaboration with the industry and law enforcement. We have plans to further support 'Stop the Traffic' with wider scope to identify crime through targeted typology reviews and building on the joint branch visits conducted in Lincolnshire – purely focusing on protecting the victims of these crimes and identifying the suspects.

We also worked closely with law enforcement to deliver an education programme to all financial investigators, explaining the way banks identify and report financial crime, which will result in presenting at the UK's National Police Chiefs' conference. This is a first for a bank to deliver such training to a wide audience and has been significantly welcomed.

Financial review

Contents

Income statement review

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Half year to 30 June 2019 £m	Half year to 30 June 2018[2] £m
Net interest income	**1,671**	1,811
Non-interest income[1]	**446**	501
Total operating income	**2,117**	2,312
Operating expenses before credit impairment losses, provisions and charges	**(1,267)**	(1,285)
Credit impairment losses	**(69)**	(91)
Provisions for other liabilities and charges	**(206)**	(33)
Total operating credit impairment losses, provisions and charges	**(275)**	(124)
Profit before tax	**575**	903
Tax on profit	**(164)**	(233)
Profit after tax for the period	**411**	670
Attributable to:		
Equity holders of the parent	**385**	641
Non-controlling interests	**26**	29
Profit after tax for the period	**411**	670

(1) Comprised of Net fee and commission income and Net trading and other income.
(2) Adjusted to reflect the amendment to IAS 12, as described in Note 1 to the Condensed Consolidated Interim Financial Statements.

A more detailed Consolidated Income Statement is contained in the Condensed Consolidated Interim Financial Statements.

H119 compared to H118
By income statement line item, the movements were:

- Net interest income was down 8%, largely impacted by pressure from the mortgage back book and £2.1bn of SVR attrition (Q219: £0.5bn).
- Non-interest income was down 11%, largely due to £63m of ring-fencing perimeter changes in CIB, partially offset by £15m additional consideration received in connection with the 2017 Vocalink sale. Following a change in accounting treatment of operating leases consumer (auto) finance income also increased.

  Non-interest income was down 2%, when adjusted for ring-fencing perimeter changes and the additional consideration received in connection with Vocalink.[3]
- Operating expenses before credit impairment losses, provisions and charges were down 1%, largely due to £41m of ring-fencing perimeter changes and £28m of Banking Reform costs from H118, as well as £13m of transformation costs this year.

  Operating expenses increased 3%, when adjusted for ring-fencing perimeter changes, Banking Reform and transformation costs. [3] We also incurred higher depreciation costs related to prior year investment projects and the change in accounting treatment of operating leases in consumer (auto) finance. These increases were partially offset by lower employee costs.
- Credit impairment losses decreased 24%, with a release from a SRT securitisation in June 2019 and single name charges in CIB which were not repeated this year. All portfolios continue to perform very well.
- Provisions for other liabilities and charges were up £173m to £206m, with £100m of transformation programme charges (predominantly restructuring costs) in Corporate Centre and £70m PPI provision charge in Retail Banking.
  Provisions for other liabilities and charges were down £8m, when adjusted for transformation charges, PPI charges and other conduct provision releases. [3]
- Profit before tax was down 36% to £575m, adjusted profit before tax was down 17% to £743m[3], for the reasons outlined above.
- Tax on profit decreased £69m to £164m, as a result of lower taxable profits in H119, with PPI charges not tax deductible.

PPI provision charge

- At 30 June 2019, the remaining provision for redress and related costs was £248m (2018: £246m). This includes a provision for PPI redress as well as our best estimate of liability for a specific portfolio which was disclosed in our 2018 Annual Report.
- We made an additional provision of £70m in Q219 reflecting an increase in PPI claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019.
- We will continue to monitor our provision levels, and take account of the impact of any further change in claims received and FCA guidance.

(3) Non-IFRS measure. The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £168m in H119 and £(9)m in H118. See 'Alternative Performance Measures' for details and reconciliation to the nearest IFRS measure.

PROFIT BEFORE TAX BY SEGMENT

The segmental information in this Half Yearly Financial Report reflects the reporting structure in place at the reporting date. For more, see Note 2 to the Condensed Consolidated Interim Financial Statements.

- **Retail Banking** offers a wide range of products and financial services to individuals and small businesses through a network of branches and ATMs, as well as through telephony, digital and intermediary channels. Retail Banking includes business banking customers, small businesses with an annual turnover up to £6.5m, and Santander Consumer Finance, predominantly a vehicle finance business.
- **Corporate & Commercial Banking** covers businesses with an annual turnover of £6.5m to £500m. Corporate & Commercial Banking offers a wide range of products and financial services provided by relationship teams that are based in a network of regional CBCs and through telephony and digital channels.
- **Corporate & Investment Banking** services corporate clients with an annual turnover of £500m and above. CIB clients require specially tailored solutions and value-added services due to their size, complexity and sophistication. We provide these clients with products to manage currency fluctuations, protect against interest rate risk, and arrange capital markets finance and specialist trade finance solutions, as well as providing support to the rest of Santander UK's business segments.
- **Corporate Centre** mainly includes the treasury, non-core corporate and legacy portfolios, including Crown Dependencies. Corporate Centre is also responsible for managing capital and funding, balance sheet composition, structure, pension and strategic liquidity risk. To enable a more targeted and strategically aligned apportionment of capital and other resources, revenues and costs incurred in Corporate Centre are allocated to the three business segments. The non-core corporate and legacy portfolios are being run-down and/or managed for value.

Half year to 30 June 2019	Retail Banking £m	Corporate & Commercial Banking £m	Corporate & Investment Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	**1,465**	**189**	**32**	**(15)**	**1,671**
Non-interest income[1]	**353**	**38**	**47**	**8**	**446**
Total operating income/(expense)	**1,818**	**227**	**79**	**(7)**	**2,117**
Operating expenses before credit impairment losses, provisions and charges	**(1,011)**	**(138)**	**(83)**	**(35)**	**(1,267)**
Credit impairment (losses)/releases	**(63)**	**(9)**	**4**	**(1)**	**(69)**
Provisions for other liabilities and charges	**(95)**	**(1)**	**(11)**	**(99)**	**(206)**
Total operating credit impairment losses, provisions and charges	**(158)**	**(10)**	**(7)**	**(100)**	**(275)**
Profit/(loss) before tax	**649**	**79**	**(11)**	**(142)**	**575**
Half year to 30 June 2018[2]					
Net interest income	1,565	202	33	11	1,811
Non-interest income[1]	304	40	115	42	501
Total operating income	1,869	242	148	53	2,312
Operating expenses before credit impairment losses, provisions and charges	(957)	(134)	(145)	(49)	(1,285)
Credit impairment (losses)/releases	(52)	(22)	(18)	1	(91)
Provisions for other liabilities and (charges)/releases	(34)	8	(2)	(5)	(33)
Total operating credit impairment losses, provisions and charges	(86)	(14)	(20)	(4)	(124)
Profit/(loss) before tax	826	94	(17)	–	903

(1) Comprised of Net fee and commission income and Net trading and other income.
(2) Restated to reflect the resegmentation of our short term markets business to Corporate Centre as described in Note 2 to the Condensed Consolidated Interim Financial Statements.

H119 compared to H118

For Retail Banking, profit before tax was lower, largely impacted by pressure from the mortgage back book and £2.1bn of SVR attrition. Following a change in accounting treatment of operating leases, higher non-interest income was partially offset by higher operating expenses.

For Corporate & Commercial Banking, profit before tax was lower, largely due to the interest expense related to the 2018 SRT securitisations. Credit impairment losses decreased £13m, as a result of a release from the completion of the June 2019 SRT securitisation.

For Corporate & Investment Banking, profit before tax was lower largely reflecting the changes in the statutory perimeter, following the transfers of activities to Banco Santander London Branch as part of ring-fence implementation.

For Corporate Centre, loss before tax was largely due to transformation programme investment of £113m, as well as the impact of holding higher liquidity and lower yields on non-core assets. Following ring-fence implementation, some short-term markets activity is now accounted for in net interest income, rather than non-interest income.

Balance sheet review

SUMMARISED CONSOLIDATED BALANCE SHEET

	30 June 2019 £bn	31 December 2018 £bn
Assets		
Cash and balances at central banks	25,967	24,180
Financial assets at fair value through profit or loss	6,819	11,458
Financial assets at amortised cost	235,237	233,489
Financial assets at fair value through other comprehensive income	13,438	13,302
Interest in other entities	96	88
Property, plant and equipment	2,073	1,835
Retirement benefit assets	780	842
Tax, intangibles and other assets	5,862	4,187
Total assets	290,272	289,381
Liabilities		
Financial liabilities at fair value through profit or loss	3,666	7,880
Financial liabilities at amortised cost	265,230	261,933
Retirement benefit obligations	252	115
Tax, other liabilities and provisions	4,738	3,233
Total liabilities	273,886	273,161
Equity		
Total shareholders' equity	15,992	15,820
Non-controlling interests	394	400
Total equity	16,386	16,220
Total liabilities and equity	290,272	289,381

A more detailed Consolidated Balance Sheet is contained in the Condensed Consolidated Interim Financial Statements.

30 June 2019 compared to 31 December 2018

Assets

Cash and balances at central banks

Cash and balances at central banks increased by 7% to £25,967m at 30 June 2019 (2018: £24,180m) due to higher balances with the Bank of England, partially offset by lower cash balances in the retail branches.

Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss decreased by 40% to £6,819m at 30 June 2019 (2018: £11,458m), mainly due to:

- £2.1bn of senior tranches of credit linked notes, which were previously classified as other financial assets at fair value through profit or loss, are now presented on a net basis. For more information see Note 9 to the Condensed Consolidated Interim Financial Statements.
- The maturity of non-trading reverse repurchase agreements held at FVTPL, which totalled £2.3bn at 31 December 2018.

Financial assets at amortised cost:

Financial assets at amortised cost increased by 1% to £235,237m at 30 June 2019 (2018: £233,489m), mainly due to:

- Customer loans increased £0.7bn, with higher mortgage and consumer (auto) finance lending partially offset by a reduction in Corporate & Investment Banking and CRE exposures.
- Reverse repurchase agreements – non trading increasing by £1.3bn, reflecting the classification of all non-trading reverse repurchase agreements at amortised cost in line with our ring-fenced model and as part of normal liquidity risk management.

These increases were partially offset by a decrease of £0.5bn in loans and advances to banks.

Property, plant and equipment

Property, plant and equipment increased by 13% to £2,073m at 30 June 2019 (2018: £1,835m) mainly due to the application of IFRS 16 with effect from 1 January 2019.

Retirement benefit assets

Retirement benefit assets decreased by 7% to £780m at 30 June 2019 (2018: £842m). This was mainly due to actuarial losses in the period driven by a fall in gilt yields and a narrowing of credit spreads, partially offset by asset growth mainly driven by the increase in gilt values.

Tax, intangibles and other assets

Tax, intangibles and other assets increased by 40% to £5,862m at 30 June 2019 (2018: £4,187m), mainly due to the settlement timings of financial transactions with payment agents in the normal course of business.

Liabilities

Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss decreased by 53 % to £3,666m at 30 June 2019 (2018: £7,880m), mainly due to:

- £2.1bn of senior cash deposits, which were previously classified as other financial liabilities at fair value through profit or loss, are now presented on a net basis. For more information see Note 16 to the Condensed Consolidated Interim Financial Statements.
- The maturity of non-trading repurchase agreements held at FVTPL, which totalled £2.1bn at 31 December 2018.

These decreases were partially offset by a small increase in the carrying value of derivative liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost increased by 1% to £265,230m at 30 June 2019 (2018: £261,933m). This was mainly due to the following:

- Repurchase agreements – non trading increased by £3.9bn reflecting the classification of all non-trading repurchase agreements at amortised cost in line with our ring-fenced model and as part of normal liquidity risk management.
- Customer deposits increased £2.7bn, driven by higher corporate deposits as well as increased savings and business banking deposits in Retail Banking.
- Deposits by banks decreased by £1.3bn due to a reduction in the deposits placed with Banco Santander and lower balances held as cash collateral.
- Debt securities in issue decreased by £1.9bn, reflecting maturities in the period, partially offset by covered bond issuances of £1bn in February 2019 and €1bn in May 2019, as well as a senior unsecured issuance of $1bn in June 2019.

Retirement benefit obligations

Retirement benefit obligations increased by £137m to £252m at 30 June 2019 (2018: £115m). This was mainly due to actuarial losses in the period driven by a fall in gilt yields and a narrowing of credit spreads, partially offset by asset growth mainly driven by the increase in gilt values.

Tax, other liabilities and provisions

Tax, other liabilities and provisions increased by 47% to £4,738m at 30 June 2019 (2018: £3,233m) mainly due to the settlement timings of financial transactions with payment agents in the normal course of business.

Equity

Total shareholders' equity

Total shareholders' equity increased slightly by 1% to £15,992m at 30 June 2019 (2018: £15,820m). This net increase was principally due to retained profits for the period and increases in the fair value of effective cash flow hedges, partially offset by reductions in the defined benefit surplus and own credit adjustments.

CUSTOMER BALANCES

Consolidated

	30 June 2019 £bn	31 December 2018 £bn
Customer loans	**200.6**	199.9
Other assets	**89.7**	89.5
Total assets	**290.3**	289.4
Customer deposits	**174.8**	172.1
Medium Term Funding (MTF)	**47.0**	49.0
Other liabilities	**52.1**	52.1
Total liabilities	**273.9**	273.2
Shareholders' equity	**16.0**	15.8
Non-controlling interest	**0.4**	0.4
Total liabilities and equity	**290.3**	289.4

Further analyses of credit risk on customer loans, and on our funding strategy, are included in the Credit risk and Liquidity risk sections of the Risk review.

30 June 2019 compared to 31 December 2018

- Customer loans increased £0.7bn, with higher mortgage and consumer (auto) finance lending partially offset by a reduction in CIB and CRE exposures.
- Customer deposits increased by £2.7bn, driven by higher corporate deposits, as well as increased savings and business banking deposits in Retail Banking.
- The MTF balance decreased, reflecting maturities in the period, partially offset by covered bond issuances of £1bn in February 2019 and €1bn in May 2019, as well as a senior unsecured issuance of $1bn in June 2019.

Retail Banking

	30 June 2019 £bn	31 December 2018 £bn
Mortgages	**159.4**	158.0
Business banking	**1.8**	1.8
Consumer (auto) finance	**7.8**	7.3
Other unsecured lending	**5.6**	5.7
Customer loans	**174.6**	172.8
Current accounts	**67.8**	68.4
Savings	**57.0**	56.0
Business banking accounts	**12.1**	11.9
Other retail products	**5.9**	5.8
Customer deposits	**142.8**	142.1

Corporate & Commercial Banking

	30 June 2019 £bn	31 December 2018 £bn
Trading businesses	**11.6**	11.5
Commercial Real Estate	**5.8**	6.2
Customer loans	**17.4**	17.7
Customer deposits	**18.0**	17.6

Corporate & Investment Banking

	30 June 2019 £bn	31 December 2018 £bn
Customer loans	**4.1**	4.6
Customer deposits	**6.1**	4.8

Corporate Centre

	30 June 2019 £bn	31 December 2018 £bn
Customer loans	**4.5**	4.8
– of which Social Housing	**3.6**	3.8
– of which Crown Dependencies	**0.3**	0.3
– of which non-core	**0.6**	0.7
Customer deposits	**7.9**	7.6
– of which Crown Dependencies	**5.1**	4.8

Capital and funding

	30 June 2019 £bn	31 December 2018 £bn
Capital and leverage		
CET1 capital	**10.4**	10.4
Total qualifying regulatory capital	**15.7**	15.0
CET1 capital ratio	**13.8%**	13.2%
Total capital ratio	**20.9%**	19.1%
UK leverage ratio	**4.5%**	4.5%
RWAs	**75.3**	78.8
- of which Retail Banking[1]	**48.6**	47.9
- of which Corporate & Commercial Banking	**14.3**	17.0
- of which Corporate & Investment Banking[1]	**5.3**	6.9
- of which Corporate Centre[1]	**7.1**	7.0
Funding		
Total wholesale funding	**70.9**	73.2
- of which with a residual maturity of less than one year	**17.3**	16.8

(1) Segmental RWAs for 2018 have been restated to reflect the transfer of our short term markets activity from CIB to Corporate Centre and the reallocation of an equity stake in a joint venture from Corporate Centre to Retail Banking.

Further analysis of capital and funding is included in the Capital risk and Liquidity risk sections of the Risk review.

30 June 2019 compared to 31 December 2018

- CET1 capital was stable at £10.4bn, with ongoing capital accretion through retained profits, offset by market-driven pension movements.
- RWAs reduced largely as a result of the June 2019 SRT securitisation and lower lending in our corporate business as we continue to focus on risk-weighted returns. This was partially offset by increased RWAs in Retail Banking with lending growth in mortgages and consumer (auto) finance.
- CET1 capital ratio increased 60bps to 13.8%, achieving our end-state capital position, notwithstanding any future changes to the counter-cyclical buffer. As leverage becomes the binding constraint, CET1 capital ratio could continue to increase alongside lending growth.
- We take a prudent approach to risk and our calculation of RWAs uses through-the-cycle modelling of unexpected losses. As a result we have a higher mortgage RWA translation ratio than other large UK banks. Following implementation of planned PRA changes by 1 January 2021, RWA calculation models will have to use a hybrid of through-the-cycle and point-in-time assumptions and as a result we expect a significant decrease in our RWAs.

Liquidity

	30 June 2019 £bn	31 December 2018 £bn
Santander UK Domestic Liquidity Sub Group (RFB DoLSub)		
Liquidity Coverage Ratio (LCR)	**155%**	164%
LCR eligible liquidity pool	**49.0**	54.1
Abbey National Treasury Services (ANTS)		
LCR	**504%**	–
LCR eligible liquidity pool	**4.7**	–

Further analysis of liquidity is included in the Liquidity risk section of the Risk review.

30 June 2019 compared to 31 December 2018

- We continue to maintain high levels of liquidity to ensure we are well prepared for potential Brexit uncertainty later in the year.
- The RFB DoLSub LCR and LCR eligible liquidity pool both decreased following the transfer of our Isle of Man and Jersey businesses (Crown Dependencies) into ANTS as part of ring-fencing implementation.
- ANTS liquidity benefits from £5.1bn of deposits in our Crown Dependencies business.

Proposed changes to our operating companies' structure

- As part of ring-fencing implementation, we adopted a wide ring-fenced bank model with most of our operations within Santander UK plc, our ring-fenced bank. ANTS is outside the RFB and also holds our wealth management businesses in the Crown Dependencies, which are not permitted within the ring-fence as they are located outside the UK.
- To optimise our overall funding structure, we are considering the transfer of some RFB assets to ANTS to enable more efficient use of Crown Dependencies deposits.

Alternative Performance Measures (APMs)

This Half Yearly Financial Report includes certain financial measures which are not accounting measures within the scope of IFRS. Management reviews APMs to measure our overall performance, position and profitability and believes that presentation of these provides useful information to investors regarding our results of operations. The APMs outlined below identify and quantify items management believes to be significant, to improve the assessment of period-on-period performance and underlying trends in the business and to align internal and external reporting. These APMs are not accounting measures within the scope of IFRS and are not a substitute for IFRS measures. The APMs exclude or include amounts that would not be adjusted in the most comparable IFRS measures, in compliance with European Securities and Markets Authority (ESMA) guidelines.

1. Adjusted profit before tax
2. Adjusted cost-to-income ratio
3. Return on Tangible Equity (RoTE)

	Half year to 30 June 2019	Half year to 30 June 2018
Adjusted profit before tax	£743m	£894m
Adjusted cost-to-income ratio	60%	54%
RoTE	7.9%	9.7%

1. Adjusted profit before tax
Adjusted profit before tax is defined as profit before tax excluding ring-fencing perimeter changes, Vocalink Holdings Limited shareholding, Banking Reform costs, transformation costs/charges, PPI provision charges and other conduct provision releases.

A reconciliation between adjusted profit before tax and profit before tax, the nearest IFRS measure, is as follows:

	30 June 2019 £m	30 June 2018 £m
Net interest income		
Reported	1,671	1,811
Adjust for ring-fencing perimeter changes	–	(4)
Adjusted	1,671	1,807
Non-interest income		
Reported	446	501
Adjust for ring-fencing perimeter changes	–	(63)
Adjust for Vocalink Holdings Limited shareholding	(15)	–
Adjusted	431	438
Operating expenses before credit impairment losses, provisions and charges		
Reported	(1,267)	(1,285)
Adjust for Banking Reform costs	–	28
Adjust for ring-fencing perimeter changes	–	41
Adjust for transformation costs	13	–
Adjusted	(1,254)	(1,216)
Provisions for other liabilities and charges		
Reported	(206)	(33)
Adjust for transformation charges	100	–
Adjust for PPI provision charge	70	–
Adjust for other conduct provision (release) / charge	–	(11)
Adjusted	(36)	(44)
Profit before tax		
Reported	575	903
Specific income, expenses and charges	168	(9)
Adjusted profit before tax	743	894

- **Vocalink Holdings Limited Shareholding**
  Santander UK was part of the consortium of banks that sold a majority of the shares in Vocalink Holdings Limited to Mastercard in 2017. Under the terms of the sale agreement, we retained a shareholding of 0.775%. In respect of the shares we sold in in 2017, we were entitled to receive additional consideration where Vocalink's 2018 earnings performance exceeded an agreed amount and in June 2019 we received additional consideration of £15m.
- **Transformation costs and charges**
  Transformation costs and charges relate to a multi-year project to deliver on our strategic priorities and enhance efficiency in order for us to better serve our customers and meet our medium term targets. Q119 charges largely related to restructuring our branch network. Further charges in Q219 were largely associated with the announced plans to reshape our Corporate & Commercial Banking business.
- **PPI**
  We have been closely involved in the additional industry activities to support the regulatory time-bar for claims and orderly closure of the FCA remediation campaign. We made an additional provision of £70m in Q219 reflecting an increase of claims volumes and additional industry activities taking into account guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019.

2. Adjusted cost-to-income ratio

	30 June 2019 £m	31 December 2018 £m
Adjusted net interest income	1,671	1,807
Adjusted non-interest income	431	438
Adjusted total operating income	2,102	2,245
Adjusted operating expenses before credit impairment losses, provisions and charges	(1,254)	(1,216)
Adjusted cost-to-income ratio	60%	54%

3. RoTE (revised APM)

The calculation of RoTE has been revised. Profit after tax is now adjusted for the specific income, expenses and charges outlined in the adjusted profit before tax reconciliation on the previous page. IAS 12 'Income Taxes' amendment has also been applied to profit after tax.

Half year to 30 June 2019	£m	Specific income, expenses and charges £m	Adjusted £m
Profit after tax	411	142	553
Annualised H119 profit after tax	829		1,115
Phasing adjustments	–		(116)
Less non-controlling interests of annualised profit	(41)		(41)
Profit due to equity holders of the parent (A)	788		958

Half year to 30 June 2019	£m	Equity phasing adjustments £m	Adjusted £m
Average shareholders' equity	16,303		
Less average AT1 securities	(2,041)		
Less average non-controlling interests	(397)		
Average ordinary shareholders' equity (B)	13,865		
Average goodwill and intangible assets	(1,806)		
Average tangible equity (C)	12,059	106	12,165
Return on ordinary shareholders' equity (A/B)	5.7%		
RoTE (A/C)			7.9%

Half year to 30 June 2018	£m	Specific income, expenses and charges £m	Adjusted £m
Profit after tax	670	(10)	660
Annualised H118 profit after tax	1,351		1,331
Phasing adjustments	–		(106)
Less non-controlling interests of annualised profit	(37)		(37)
Profit due to equity holders of the parent (A)	1,314		1,188

Half year to 30 June 2018	£m	Equity phasing adjustments £m	Adjusted £m
Average shareholders' equity	16,383		
Less average AT1 securities	(2,041)		
Less average non-controlling interests	(407)		
Average ordinary shareholders' equity (B)	13,935		
Average goodwill and intangible assets	(1,763)		
Average tangible equity (C)	12,172	98	12,270
Return on ordinary shareholders' equity (A/B)	9.4%		
RoTE (A/C)			9.7%

- **Specific income, expenses, charges**
  Details of these items are outlined on the previous page with a total impact on profit before tax of £168m. The tax on these items is £26m (PPI charges are not deductible for corporation tax) and profit after tax on these items is £142m.

- **Phasing adjustments**
  To facilitate comparison with the full year ratio we adjust profit due to equity holders of the parent and average tangible equity for charges, releases or accounting changes which only relate to this period. The most significant of these adjustments is the UK Bank Levy which is charged on 31 December annually, as required under IFRS.

- **Equity phasing adjustments**
  These adjustments are made to reflect the impact of annualisation and adjustments to profit on average tangible equity.

Measures no longer considered to be APMs
In 2018, CRE lending and lending to non-CRE trading businesses were presented as APMs to exclude the impact of transfers of customer loans to Banco Santander London Branch. These transfers related to ring-fence implementation and were completed in Q318 as outlined in our 2018 Annual Report. These measures are therefore no longer adjusted, and are not APMs or non-IFRS financial measures.

Forward-looking statements

The Company and its subsidiaries (together Santander UK) may from time to time make written or oral forward-looking statements. The Company makes written forward-looking statements in this Half Yearly Financial Report and may also make forward-looking statements in its periodic reports to the SEC on Forms 20-F and 6-K, in its offering circulars and prospectuses, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Santander UK cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by Santander UK or on its behalf. For more, see 'Forward-looking statements' in the Shareholder information section of the 2018 Annual Report. Please also refer to our latest filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the year ended 31 December 2018) for a discussion of certain risk factors and forward-looking statements. Undue reliance should not be placed on forward-looking statements when making decisions with respect to any Santander UK member and/or its securities. Investors and others should take into account the inherent risks and uncertainties of forward-looking statements and should carefully consider the non-exhaustive list of important factors in the 2018 Annual Report. Forward-looking statements speak only as of the date on which they are made and are based on the knowledge, information available and views taken on the date on which they are made; such knowledge, information and views may change at any time. Santander UK does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Glossary

Our glossary of industry and other main terms is available on our website: www.santander.co.uk/uk/about-santander-uk/investor-relations-glossary.

The definition of Net Promoter Score is as follows:

Term	Definition
Net Promoter Score (NPS)	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. Business and corporate NPS is measured by the MarketVue Business Banking from Savanta. This is an ongoing telephone based survey designed to monitor usage and attitude of UK businesses towards banks. 15,000 structured telephone interviews are conducted each year among businesses of all sizes from new start-ups to large corporates. The data is based upon 9,925 interviews made in twelve months ended 30 June 2019 with businesses turning over from £0 - £500m per annum and are weighted by region and turnover to be representative of businesses in Great Britain. NPS - recommendation score is based on an 11 point scale (%Top 2 - %Bottom 7). The competitor set included in this analysis is Barclays, RBS, HSBC, Lloyds Bank, TSB and NatWest. The Financial Research Survey (FRS) is a monthly personal finance survey of around 5,000 consumers prepared by the independent market research agency, IPSOS MORI. The NPS is based on a 11-point scale (%Top2 - %Bottom 7) across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands. Data shown is for the twelve months ended 30 June 2019, based on 13,803 interviews and compared against twelve months ended data for the period as indicated. The competitor set used to calculate the product weights is Barclays, Halifax, HSBC, Lloyds Bank, Nationwide, NatWest, TSB and RBS. The competitor set included in this analysis for the ranking and highest performing peers is Barclays, Halifax, HSBC, Lloyds Bank, Nationwide, NatWest, TSB and RBS.

Financial statements

Contents

Independent review report to Santander UK Group Holdings plc

Report on the Condensed Consolidated Interim Financial Statements

Our conclusion

We have reviewed Santander UK Group Holdings plc's Condensed Consolidated Interim Financial Statements (the 'interim financial statements') in the Half Yearly Financial Report of Santander UK Group Holdings plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise of the:

- consolidated balance sheet as at 30 June 2019;
- consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- consolidated cash flow statement for the period then ended;
- consolidated statement of changes in equity for the period then ended; and
- explanatory notes to the interim financial statements.

The interim financial statements included in the Half Yearly Financial Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Yearly Financial Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half yearly Financial Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Half Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of the interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

8 August 2019

Condensed Consolidated Interim Financial Statements

Consolidated Income Statement (unaudited)

For the half year to 30 June 2019 and the half year to 30 June 2018

	Notes	Half year to 30 June 2019 £m	Half year to 30 June 2018[1] £m
Interest and similar income		**2,997**	3,001
Interest expense and similar charges		**(1,326)**	(1,190)
Net interest income		**1,671**	1,811
Fee and commission income		**540**	584
Fee and commission expense		**(205)**	(204)
Net fee and commission income		**335**	380
Net trading and other income	3	**111**	121
Total operating income		**2,117**	2,312
Operating expenses before credit impairment losses, provisions and charges	4	**(1,267)**	(1,285)
Credit impairment losses	5	**(69)**	(91)
Provisions for other liabilities and charges	5	**(206)**	(33)
Total operating credit impairment losses, provisions and charges		**(275)**	(124)
Profit before tax		**575**	903
Tax on profit	6	**(164)**	(233)
Profit after tax for the period		**411**	670
Attributable to:			
Equity holders of the parent		**385**	641
Non-controlling interests	26	**26**	29
Profit after tax for the period		**411**	670

(1) Adjusted to reflect the amendment to IAS 12, as described in Note 1.

The accompanying Notes to the Financial Statements form an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Financial Statements

Consolidated Statement of Comprehensive Income (unaudited)

For the half year to 30 June 2019 and the half year to 30 June 2018

	Half year to 30 June 2019 £m	Half year to 30 June 2018[1] £m
Profit after tax for the period	**411**	670
Other comprehensive income that may be reclassified to profit or loss subsequently:		
Movement in fair value reserve (debt instruments):		
– Change in fair value	**167**	(94)
– Income statement transfers	**(152)**	67
– Taxation	**(4)**	6
	11	(21)
Cash flow hedges:		
– Effective portion of changes in fair value	**362**	84
– Income statement transfers	**(41)**	(190)
– Taxation	**(81)**	21
	240	(85)
Net other comprehensive income that may be reclassified to profit or loss subsequently	**251**	(106)
Other comprehensive income that will not be reclassified to profit or loss subsequently:		
Pension remeasurement:		
– Change in fair value	**(280)**	529
– Taxation	**70**	(132)
	(210)	397
Own credit adjustment:		
– Change in fair value	**(58)**	(31)
– Taxation	**15**	8
	(43)	(23)
Net other comprehensive income that will not be reclassified to profit or loss subsequently	**(253)**	374
Total other comprehensive income for the period net of tax	**(2)**	268
Total comprehensive income for the period	**409**	938
Attributable to:		
Equity holders of the parent	**383**	908
Non-controlling interests	**26**	30
Total comprehensive income for the period	**409**	938

(1) Adjusted to reflect the amendment to IAS 12, as described in Note 1.

The accompanying Notes to the Financial Statements form an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Financial Statements

Consolidated Balance Sheet (unaudited)

At 30 June 2019 and 31 December 2018

	Notes	30 June 2019 £m	31 December 2018 £m
Assets			
Cash and balances at central banks		**25,967**	24,180
Financial assets at fair value through profit or loss:			
– Derivative financial instruments	8	**5,498**	5,321
– Other financial assets at fair value through profit or loss	9	**1,321**	6,137
Financial assets at amortised cost:			
– Loans and advances to customers	10	**202,726**	201,619
– Loans and advances to banks		**2,966**	3,515
– Reverse repurchase agreements – non trading	12	**22,409**	21,127
– Other financial assets at amortised cost	13	**7,136**	7,228
Financial assets at fair value through other comprehensive income	14	**13,438**	13,302
Interests in other entities	15	**96**	88
Intangible assets		**1,798**	1,814
Property, plant and equipment		**2,073**	1,835
Current tax assets		**148**	106
Retirement benefit assets	22	**780**	842
Other assets		**3,916**	2,267
Total assets		**290,272**	289,381
Liabilities			
Financial liabilities at fair value through profit or loss:			
– Derivative financial instruments	8	**2,033**	1,594
– Other financial liabilities at fair value through profit or loss	16	**1,633**	6,286
Financial liabilities at amortised cost:			
– Deposits by customers	17	**176,344**	173,692
– Deposits by banks	18	**16,503**	17,824
– Repurchase agreements – non trading	19	**14,771**	10,910
– Debt securities in issue	20	**53,967**	55,906
– Subordinated liabilities		**3,645**	3,601
Other liabilities		**3,937**	2,507
Provisions	21	**551**	515
Deferred tax liabilities		**250**	211
Retirement benefit obligations	22	**252**	115
Total liabilities		**273,886**	273,161
Equity			
Share capital		**7,060**	7,060
Other equity instruments		**2,041**	2,041
Retained earnings		**6,360**	6,439
Other reserves		**531**	280
Total shareholders' equity		**15,992**	15,820
Non-controlling interests	26	**394**	400
Total equity		**16,386**	16,220
Total liabilities and equity		**290,272**	289,381

The accompanying Notes to the Financial Statements form an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Financial Statements

Consolidated Cash Flow Statement (unaudited)

For the half year to 30 June 2019 and the half year to 30 June 2018

	Notes	Half year to 30 June 2019 £m	Half year to 30 June 2018[1] £m
Cash flows from operating activities			
Profit after tax for the period		411	670
Adjustments for:			
Non-cash items included in profit		61	178
Change in operating assets		728	(2,643)
Change in operating liabilities		1,032	(3,061)
Corporation taxes paid		(169)	(236)
Effects of exchange rate differences		(314)	583
Net cash flows from operating activities		1,749	(4,509)
Cash flows from investing activities			
Investments in other entities	15	–	(66)
Purchase of property, plant and equipment and intangible assets		(67)	(350)
Proceeds from sale of property, plant and equipment and intangible assets		32	13
Purchase of financial assets at amortised cost and financial assets at fair value through other comprehensive income		(4,141)	(5,047)
Proceeds from sale and redemption of financial assets at amortised cost and financial assets at fair value through other comprehensive income		4,259	1,301
Net cash flows from investing activities		83	(4,149)
Cash flows from financing activities			
Issue of debt securities and subordinated notes		2,770	8,352
Issuance costs of debt securities and subordinated notes		(9)	(18)
Repayment of debt securities and subordinated notes		(4,693)	(4,601)
Repurchase of non-controlling interests and other equity instruments		(14)	–
Dividends paid on ordinary shares	7	(138)	(250)
Dividends paid on other equity instruments		(73)	(73)
Dividends paid on non-controlling interests		(18)	(18)
Net cash flows from financing activities		(2,175)	3,392
Change in cash and cash equivalents		(343)	(5,266)
Cash and cash equivalents at beginning of the period		30,969	42,229
Effects of exchange rate changes on cash and cash equivalents		3	206
Cash and cash equivalents at the end of the period		30,629	37,169
Cash and cash equivalents consist of:			
Cash and balances at central banks		25,967	21,342
Less: regulatory minimum cash balances		(678)	(631)
		25,289	20,711
Net trading other cash equivalents		–	2,591
Net non-trading other cash equivalents		5,340	13,867
Cash and cash equivalents at the end of the period		30,629	37,169

(1) Adjusted to reflect the amendment to IAS 12, as described in Note 1.

The accompanying Notes to the Financial Statements form an integral part of these Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Financial Statements

Consolidated Statement of Changes in Equity (unaudited)

For the half year to 30 June 2019 and the half year to 30 June 2018

			Other reserves							
	Share capital £m	Other equity instruments £m	Available-for-sale[1] £m	Fair value[1] £m	Cash flow hedging £m	Currency translation £m	Retained earnings[2] £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2019	**7,060**	**2,041**		**24**	**251**	**5**	**6,439**	**15,820**	**400**	**16,220**
Profit after tax	–	–		–	–	–	385	385	26	411
Other comprehensive income, net of tax:										
– Fair value reserve (debt instruments)	–	–		11	–	–	–	11	–	11
– Cash flow hedges	–	–		–	240	–	–	240	–	240
– Pension remeasurement	–	–		–	–	–	(210)	(210)	–	(210)
– Own credit adjustment	–	–		–	–	–	(43)	(43)	–	(43)
Total comprehensive income	–	–		11	240	–	132	383	26	409
Repurchase of non-controlling interests and other equity instruments	–	–		–	–	–	–	–	(14)	(14)
Dividends on ordinary shares	–	–		–	–	–	(138)	(138)	–	(138)
Dividends on other equity instruments	–	–		–	–	–	(73)	(73)	–	(73)
Dividends on non-controlling interests	–	–		–	–	–	–	–	(18)	(18)
At 30 June 2019	**7,060**	**2,041**		**35**	**491**	**5**	**6,360**	**15,992**	**394**	**16,386**
At 31 December 2017	7,060	2,041	68		228	5	6,399	15,801	401	16,202
Adoption of IFRS 9	–	–	(68)	63	–	–	(187)	(192)	–	(192)
At 1 January 2018	7,060	2,041	–	63	228	5	6,212	15,609	401	16,010
Profit after tax	–	–		–	–	–	641	641	29	670
Other comprehensive income, net of tax:										
– Fair value reserve (debt instruments)	–	–		(21)	–	–	–	(21)	–	(21)
– Cash flow hedges	–	–		–	(85)	–	–	(85)	–	(85)
– Pension remeasurement	–	–		–	–	–	396	396	1	397
– Own credit adjustment	–	–		–	–	–	(23)	(23)	–	(23)
Total comprehensive income	–	–		(21)	(85)	–	1,014	908	30	938
Other	–	–		–	–	–	(45)	(45)	–	(45)
Dividends on ordinary shares	–	–		–	–	–	(250)	(250)	–	(250)
Dividends on other equity instruments	–	–		–	–	–	(73)	(73)	–	(73)
Dividends on non-controlling interests	–	–		–	–	–	–	–	(18)	(18)
At 30 June 2018	7,060	2,041		42	143	5	6,858	16,149	413	16,562

(1) Following the adoption of IFRS 9, a fair value reserve was introduced to replace the available-for-sale reserve, as described in Note 1 to the Consolidated Financial Statements in the 2018 Annual Report.
(2) Adjusted to reflect the amendment to IAS 12, as described in Note 1.

The accompanying Notes to the Financial Statements form an integral part of these Condensed Consolidated Interim Financial Statements.

1. ACCOUNTING POLICIES

The financial information in these Condensed Consolidated Interim Financial Statements does not constitute statutory accounts as defined in section 434 of the UK Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) of the UK Companies Act 2006.

The Condensed Consolidated Interim Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair statement of the results of operations for the interim period. All such adjustments to the financial information are of a normal, recurring nature. Because the results from common banking activities are so closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority (FCA). They do not include all the information and disclosures normally required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of Santander UK Group Holdings plc (the Santander UK group) for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Those Consolidated Financial Statements were also prepared in accordance with International Financial Reporting Standards as issued by the IASB including interpretations issued by the IFRS Interpretations Committee (IFRIC) of the IASB (together IFRS). The Santander UK group has also complied with its legal obligation to comply with International Financial Reporting Standards as adopted by the European Union as there are no applicable differences between the two frameworks for the periods presented.

Except as noted below, the same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the presentation of the Santander UK group's 2018 Annual Report.

Recent accounting developments

IFRS 16

On 1 January 2019 the Santander UK group adopted IFRS 16 'Leases' (IFRS 16) and the revised accounting policies as lessee which have been applied from 1 January 2019 are set out below. Comparatives have not been restated. The impact of applying IFRS 16 is disclosed in section (ii).

i) Accounting policy change

The Santander UK group as lessee

The Santander UK group assesses whether a contract is or contains a lease at the inception of the contract and recognises a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases, except for leases with a term of 12 months or less which are expensed in the income statement on a straight-line basis over the lease terms. Lease payments exclude irrecoverable VAT which is expensed in the income statement as lease payments are made.

The lease liability, which is included within Other liabilities on the balance sheet, is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate appropriate to the lease term. The lease liability is subsequently measured at amortised cost using the effective interest rate method. Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset.

At inception, the ROU asset, which is included within Property, plant and equipment on the balance sheet, comprises the lease liability, initial direct costs and the obligations to restore the asset, less any incentives granted by the lessor. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset and is reviewed for indications of impairment as for owned assets. The obligation to restore the asset is included within Provisions on the balance sheet.

ii) Impact of adoption

IFRS 16 became effective for periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model which requires the recognition of a ROU asset representing the lessee's right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, IFRS 16 substantially carries forward the requirements from the previous leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

The Santander UK group elected to apply the modified retrospective approach whereby the ROU asset at the date of initial application was measured at an amount equal to the lease liability. The ROU asset was adjusted for any prepaid lease payments and incentives relating to the relevant leases that were recognised on the balance sheet at 31 December 2018 and included an estimate of the costs of restoring the underlying assets to the condition required by the terms of the lease.

The application of IFRS 16 at 1 January 2019 increased property, plant and equipment by £211m (being the net increase in ROU assets referred to above), reduced other assets by £12m, increased other liabilities by £182m from recognising lease liabilities, and increased provisions by £17m (see Note 21). There was no impact on shareholders' equity. The amount of the lease liabilities above differed from the amount of operating lease commitments disclosed in Note 32 to the Consolidated Financial Statements in the 2018 Annual Report due to the effects of discounting the lease liabilities and excluding short-term leases that are outside the scope of IFRS 16.

In addition to the choice of transition approach, the determination of the discount rate is the most significant area of judgement. The Santander UK group applies an incremental borrowing rate (based on 3-month GBP LIBOR plus a credit spread to reflect the cost of raising unsecured funding in the wholesale markets) appropriate to the relevant remaining lease term.

IAS 12

The Santander UK group has also applied the amendment to IAS 12 'Income Taxes' (part of 'Annual Improvements to IFRS Standards 2015-2017 Cycle') in these Condensed Consolidated Interim Financial Statements. The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. This means that, to the extent that profits from which dividends on equity instruments were recognised in the income statement, the income tax consequences would be similarly recognised in the same statement. The amendment, which has been applied retrospectively, reduces the effective tax rate where the tax relief on dividends in respect of other equity instruments is recognised in the income statement rather than in equity. There was no impact on shareholders' equity from applying the amendment to IAS 12 at 1 January 2019. The impact of the amendment to IAS 12 on the income statement for H119 was to reduce tax on profit by £21m (H118: £23m), increasing profit after tax by the same amount.

Going Concern

After making enquiries, the Directors have a reasonable expectation that Santander UK has adequate resources to continue in operational existence for at least twelve months from the date that the balance sheet is signed. Having reassessed the principal risks and uncertainties, the Directors consider it appropriate to adopt the 'going concern' basis of accounting in preparing the Condensed Consolidated Interim Financial Statements.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the Condensed Consolidated Interim Financial Statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

In the course of preparing the Condensed Consolidated Interim Financial Statements, no significant judgements have been made in the process of applying the accounting policies, other than those involving estimations about credit impairment losses, conduct remediation and pensions.

There have been no significant changes in the basis upon which judgements and accounting estimates have been determined compared to that applied in the 2018 Annual Report.

a) Credit impairment allowance

Sensitivity of ECL allowance

At 30 June 2019, the probability-weighted ECL allowance totalled £817m (2018: £807m), of which £801m (2018: £789m) related to exposures in Retail Banking, Corporate & Commercial Banking and Corporate Centre, and £16m (2018: £18m) related to exposures in Corporate & Investment Banking.

Probability weights

The amounts shown in the tables below illustrate the ECL allowances that would have arisen had management applied a 100% weighting to each economic scenario, and were calculated using the same methodology described in Note 1 to the Consolidated Financial Statements, and the Credit risk section of the Risk review, within the 2018 Annual Report.

ECL for Retail Banking, Corporate & Commercial Banking and Corporate Centre	Upside 2 £m	Upside 1 £m	Base case £m	Downside 1 £m	Downside 2 £m
30 June 2019	**601**	**629**	**667**	**861**	**1,726**
31 December 2018	554	596	648	843	1,930

ECL for Corporate & Investment Banking(1)	Upside £m	Base case £m	Downside £m
30 June 2019	**7**	**14**	**23**
31 December 2018	8	17	27

(1) As described in more detail in the 'Santander UK Group Level – Credit Risk Management' section in the 2018 Annual Report, our Corporate & Investment Banking segment uses three forward-looking economic scenarios, whereas our other segments use five scenarios. The results of the 100% weighting ECL for the Corporate & Investment Banking segment are therefore presented separately.

b) Provisions

Sensitivity of PPI conduct remediation provision

At 30 June 2019, the remaining provision for redress and related costs was £248m (2018: £246m). We made an additional provision of £70m in Q219 reflecting an increase in PPI claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019.

Had management used different assumptions around future expected claims, a larger or smaller provision charge would have resulted that could have had a material impact on the Santander UK group's reported profit before tax. For more on the provision for PPI conduct remediation, including details on the future expected claims assumption, and the associated sensitivity, see Note 21.

2. SEGMENTS

The Santander UK group's business is managed and reported on the basis of the following segments: Retail Banking, Corporate & Commercial Banking, Corporate & Investment Banking and Corporate Centre. The segments are strategic business units that offer different products and services. They are managed separately because each business has different customers and requires different technology and marketing strategies. The segmental basis of presentation in these Condensed Consolidated Interim Financial Statements has been changed, and the prior period has been restated, for the following:

- To report our short term markets business in Corporate Centre rather than in Corporate & Investment Banking. This reflects the run down or transfer to Banco Santander London Branch of the prohibited part of the business in 2018, as part of the transition to our ring-fenced model, with the remaining permitted business forming part of our liquidity risk management function.
- As reflected in the Consolidated Financial Statements in the 2018 Annual Report, to report our Jersey and Isle of Man branches in Corporate Centre rather than in Retail Banking, as a result of their transfer from Santander UK plc to ANTS in December 2018.

Results by segment

Half year to 30 June 2019	Retail Banking £m	Corporate & Commercial Banking £m	Corporate & investment Banking £m	Corporate Centre £m	Total £m
Net interest income/(expense)	1,465	189	32	(15)	1,671
Non-interest income	353	38	47	8	446
Total operating income/(expense)	1,818	227	79	(7)	2,117
Operating expenses before credit impairment losses, provisions and charges	(1,011)	(138)	(83)	(35)	(1,267)
Credit impairment (losses)/releases	(63)	(9)	4	(1)	(69)
Provisions for other liabilities and charges	(95)	(1)	(11)	(99)	(206)
Total operating credit impairment losses, provisions and charges	(158)	(10)	(7)	(100)	(275)
Profit/(loss) before tax	649	79	(11)	(142)	575
Revenue from external customers	2,166	281	85	(415)	2,117
Inter-segment revenue	(348)	(54)	(6)	408	–
Total operating income/(expense)	1,818	227	79	(7)	2,117
Revenue from external customers includes the following fee and commission income disaggregated by income type:[1]					
– Current account and debit card fees	345	15	14	–	374
– Insurance, protection and investments	37	–	–	–	37
– Credit cards	42	–	–	–	42
– Non-banking and other fees[2]	36	26	24	1	87
Total fee and commission income	460	41	38	1	540
Fee and commission expense	(184)	(12)	(7)	(2)	(205)
Net fee and commission income	276	29	31	(1)	335
30 June 2019					
Customer loans	174,590	17,365	4,060	4,634	200,649
Total assets[3]	182,785	17,365	4,929	85,193	290,272
Customer deposits	142,814	18,021	6,059	7,936	174,830
Total liabilities	143,788	18,045	6,946	105,107	273,886

(1) The disaggregation of fees and commission income as shown above is not included in reports provided to the chief operating decision maker but is provided to show the split by reportable segments.
(2) Non-banking and other fees include mortgages, consumer finance, commitment commission, asset finance, invoice finance and trade finance.
(3) Includes customer loans, net of credit impairment loss allowances.

Half year to 30 June 2018[1]	Retail Banking £m	Corporate & Commercial Banking £m	Corporate & investment Banking £m	Corporate Centre £m	Total £m
Net interest income	1,565	202	33	11	1,811
Non-interest income	304	40	115	42	501
Total operating income	1,869	242	148	53	2,312
Operating expenses before credit impairment losses, provisions and charges	(957)	(134)	(145)	(49)	(1,285)
Credit impairment (losses)/releases	(52)	(22)	(18)	1	(91)
Provisions for other liabilities and charges	(34)	8	(2)	(5)	(33)
Total operating credit impairment losses, provisions and (charges)/releases	(86)	(14)	(20)	(4)	(124)
Profit/(loss) before tax	826	94	(17)	–	903
Revenue from external customers	2,183	322	177	(370)	2,312
Inter-segment revenue	(314)	(80)	(29)	423	–
Total operating income/(expense)	1,869	242	148	53	2,312
Revenue from external customers includes the following fee and commission income disaggregated by income type: [2]					
– Current account and debit card fees	311	13	14	–	338
– Insurance, protection and investments	46	–	–	–	46
– Credit cards	45	–	–	–	45
– Non-banking and other fees[3]	67	32	50	6	155
Total fee and commission income	469	45	64	6	584
Fee and commission expense	(183)	(13)	(8)	–	(204)
Net fee and commission income	286	32	56	6	380
31 December 2018					
Customer loans	172,747	17,702	4,613	4,807	199,869
Total assets[4]	179,572	17,702	8,607	83,500	289,381
Customer deposits	142,065	17,606	4,853	7,607	172,131
Total liabilities	142,839	17,634	8,885	103,803	273,161

(1) Restated to reflect the resegmentation of our short term markets business and our Jersey and Isle of Man branches to Corporate Centre.
(2) The disaggregation of fees and commission income as shown above is not included in reports provided to the chief operating decision maker but is provided to show the split by reportable segments.
(3) Non-banking and other fees include mortgages, consumer finance, commitment commission, asset finance, invoice finance and trade finance.
(4) Includes customer loans, net of credit impairment loss allowances.

3. NET TRADING AND OTHER INCOME

	Half year to 30 June 2019 £m	Half year to 30 June 2018 £m
Net trading and other income	**111**	121

Included in net trading and other income in H119 is additional consideration of £15m in connection with the 2017 Vocalink Holdings Limited shareholding sale.

In H119 and H118, the Santander UK group did not repurchase any of its debt instruments.

4. OPERATING EXPENSES BEFORE CREDIT IMPAIRMENT LOSSES, PROVISIONS AND CHARGES

	Half year to 30 June 2019 £m	Half year to 30 June 2018 £m
Staff costs	**653**	693
Other administration expenses	**354**	411
Depreciation, amortisation and impairment	**260**	181
	1,267	1,285

5. CREDIT IMPAIRMENT LOSSES AND PROVISIONS

	Half year to 30 June 2019 £m	Half year to 30 June 2018 £m
Credit impairment losses:		
Loans and advances to customers (See Note 10)	**108**	102
Recoveries of loans and advances, net of collection costs	**(38)**	(21)
Off-balance sheet exposures (See Note 21)	**(1)**	10
	69	91
Provisions for other liabilities and charges (excluding off-balance sheet credit exposures) (See Note 21)	**205**	33
Provisions for residual value (RV) and voluntary termination (See Note 10)	**1**	–
	206	33
	275	124

There were no material credit impairment losses on loans and advances to banks, non-trading reverse repurchase agreements, other financial assets at amortised cost and financial assets at fair value through other comprehensive income.

6. TAXATION

	Half year to 30 June 2019 £m	Half year to 30 June 2018[1] £m
Profit before tax	**575**	903
Tax calculated at a tax rate of 19% (H118: 19%)	**109**	172
Bank surcharge on profits	**38**	64
Non-deductible preference dividends paid	**5**	5
Non-deductible UK Bank Levy	**13**	13
Non-deductible conduct remediation, fines and penalties	**11**	(2)
Net disallowable items and non-taxable income	**9**	10
Tax relief on dividends in respect of other equity instruments	**(21)**	(23)
Adjustment to prior period provisions	**–**	(6)
Tax charge	**164**	233

(1) Adjusted to reflect the amendment to IAS 12, as described in Note 1.

Interim period corporation tax is accrued based on the estimated average annual effective corporation tax for the year of 28.5% (H118: 25.8%). The standard rate of UK corporation tax was 27% for banking entities and 19% for non-banking entities (2018: 27% for banking entities and 19% for non-banking entities) following the introduction of an 8% surcharge to be applied to banking companies from 1 January 2016. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. The Finance Act 2016, introduced a further reduction in the standard rate of corporation tax rate to 17% from 2020. The effects of this future change in tax rates is included in the deferred tax balances at both 30 June 2019 and 31 December 2018.

7. DIVIDENDS ON ORDINARY SHARES

An interim dividend of £138m was declared on 18 June 2019 and paid on 27 June 2019 on the Company's ordinary shares in issue (H118: £250m).

8. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2019			31 December 2018		
		Fair value			Fair value	
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Derivatives held for trading						
Exchange rate contracts	17,407	861	714	14,165	455	351
Interest rate contracts	51,179	830	530	79,522	1,455	1,326
Equity and credit contracts	2,693	288	156	2,854	278	168
Total derivatives held for trading	71,279	1,979	1,400	96,541	2,188	1,845
Derivatives held for hedging						
Designated as fair value hedges:						
Exchange rate contracts	1,542	229	14	3,010	357	–
Interest rate contracts	91,598	1,020	1,636	86,422	1,065	1,315
Equity derivative contracts	–	–	–	–	–	–
	93,140	1,249	1,650	89,432	1,422	1,315
Designated as cash flow hedges:						
Exchange rate contracts	32,870	3,334	203	33,901	3,537	200
Interest rate contracts	19,333	197	39	18,808	46	102
Equity derivative contracts	65	–	2	69	–	4
	52,268	3,531	244	52,778	3,583	306
Total derivatives held for hedging	145,408	4,780	1,894	142,210	5,005	1,621
Derivative netting[(1)]		(1,261)	(1,261)		(1,872)	(1,872)
Total derivatives	216,687	5,498	2,033	238,751	5,321	1,594

(1) Derivative netting excludes the effect of cash collateral, which is offset against the gross derivative position. The amount of cash collateral received that had been offset against the gross derivative assets was £218m (2018: £9m) and the amount of cash collateral paid that had been offset against the gross derivative liabilities was £756m (2018: £354m).

9. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 £m	31 December 2018 £m
Loans and advances to customers:		
Loans to housing associations	13	13
Other loans	520	496
	533	509
Debt securities	662	3,263
Equity securities	126	93
Reverse repurchase agreements – non trading	–	2,272
	1,321[(1)]	6,137[(1)]

(1) Comprised of £463m (2018: £1,521m) of financial assets designated at FVTPL and £858m (2018: £4,616m) of financial assets mandatorily at FVTPL.

In H119 £2.1bn of senior tranches of credit linked notes, which were previously classified as debt securities in the table above, were presented on a net basis. This followed a deed of amendment, including a legal right of set-off between the principal amounts of the senior tranches of credit linked notes and the senior cash deposits included as collateral in Note 16. At 30 June 2019 the amount of this netting was £1.8bn.

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2019 £m	31 December 2018 £m
Loans and advances to customers	201,373	200,442
Amounts due from fellow Banco Santander subsidiaries and joint ventures	2,183	1,997
Loans and advances to customers	203,556	202,439
Credit impairment loss allowances on loans and advances to customers	(761)	(751)
RV and voluntary termination provisions on finance leases	(69)	(69)
Net loans and advances to customers	202,726	201,619

Movement in credit impairment loss allowances:

	Loans secured on residential properties £m	Corporate loans £m	Finance leases £m	Other unsecured loans £m	Total £m
At 1 January 2019	234	226	85	206	751
(Release)/charge to the income statement	(18)	30	18	78	108
Write-offs and other items	(6)	(7)	(17)	(68)	(98)
At 30 June 2019	210	249	86	216	761
At 31 December 2017	225	490	46	179	940
Adoption of IFRS 9[1]	47	99	11	54	211
Re-allocation of expected credit losses (ECL) on off-balance sheet exposures[1]	(3)	(25)	–	(22)	(50)
At 1 January 2018	269	564	57	211	1,101
(Release)/charge to the income statement	(13)	24	17	74	102
Write-offs and other items	(7)	(318)	(15)	(71)	(411)
At 30 June 2018	249	270	59	214	792

(1) The adjustment for the adoption of IFRS 9 related to the re-measurement of loss allowances on loans and advances to customers at amortised cost. The re-allocation of ECL on off-balance sheet exposures was a transfer to provisions following the adoption of a methodology to enable their separate identification from ECL on drawn exposures.

11. SECURITISATIONS AND COVERED BONDS

The information in this Note relates to securitisations and covered bonds for consolidated structured entities, used to obtain funding or collateral. It excludes unconsolidated structured entities, including credit protection vehicles that are described in more detail in Note 15.

The gross assets securitised, or for the covered bond programme assigned, at 30 June 2019 and 31 December 2018 were:

	30 June 2019 £m	31 December 2018 £m
Mortgage-backed master trust structures:		
– Holmes	4,256	4,414
– Fosse	4,200	4,646
– Langton	2,671	3,034
	11,127	12,094
Other asset-backed securitisation structures:		
– Motor	737	1,055
– Auto ABS UK Loans	1,358	1,468
	2,095	2,523
Total securitisation programmes	13,222	14,617
Covered bond programme:		
– Euro 35bn Global Covered Bond Programme	23,157	21,578
Total securitisation and covered bond programmes	36,379	36,195

The following table sets out the internal and external issuances and redemptions for the half year ended 30 June 2019 and the half year ended 30 June 2018 for each securitisation and covered bond programme.

	Internal issuances		External issuances		Internal redemptions		External redemptions	
	H119 £bn	H118 £bn	H119 £bn	H118 £bn	H119 £bn	H118 £bn	H119 £bn	H118 £bn
Mortgage-backed master trust structures:								
– Holmes	–	–	–	1.0	–	–	0.8	–
– Fosse	–	–	–	–	–	–	–	0.4
Other asset-backed securitisation structures:								
– Motor	–	–	–	–	0.1	0.1	0.2	–
– Auto ABS UK Loans	–	–	–	–	–	–	0.1	–
Covered bond programme	–	–	1.9	2.4	–	0.5	–	1.9
	–	–	1.9	3.4	0.1	0.6	1.1	2.3

12. REVERSE REPURCHASE AGREEMENTS – NON TRADING

	30 June 2019 £m	31 December 2018 £m
Agreements with banks	**4,258**	3,254
Agreements with customers	**18,151**	17,873
	22,409	21,127

13. OTHER FINANCIAL ASSETS AT AMORTISED COST

	30 June 2019 £m	31 December 2018 £m
Asset backed securities	**454**	719
Debt securities	**6,682**	6,509
	7,136	7,228

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019 £m	31 December 2018 £m
Debt securities	**13,369**	13,229
Loans and advances to customers	**69**	73
	13,438	13,302

A significant portion of the debt securities are held in our eligible liquidity pool and consist mainly of government bonds and covered bonds. Detailed disclosures can be found in the 'Liquidity risk' section of the Risk review.

15. INTERESTS IN OTHER ENTITIES

The Santander UK group has interests in subsidiaries, associates, joint ventures and unconsolidated structured entities, as set out in Note 21 to the Consolidated Financial Statements in the 2018 Annual Report.

Interests in subsidiaries

As part of ring-fencing implementation, we adopted a wide ring-fenced bank model with most of our operations within Santander UK plc, our ring-fenced bank. ANTS is outside the RFB and also holds our wealth management businesses in the Crown Dependencies, which are not permitted within the ring-fence as they are located outside the UK. To optimise the overall funding structure of the bank we are considering the transfer of some RFB assets to ANTS to enable more efficient use of Crown Dependencies deposits.

Interests in unconsolidated structured entities

Santander UK has established four (2018: three) credit protection entities, which are Designated Activity Companies limited by shares, incorporated in Ireland. Each entity has issued a series of credit linked notes varying in seniority which reference portfolios of Santander UK group loans. Concurrently, these entities sell credit protection to Santander UK in respect of the referenced loans and, in return for a fee, are liable to make protection payments to Santander UK upon the occurrence of a credit event in relation to any of the referenced loans.

Senior credit linked notes, which amounted to £4,786m (2018: £3,053m), are issued to, and held by, Santander UK. Junior credit linked notes, which amounted to £766m (2018: £408m), are all held by third party investors and suffer the first losses incurred in the referenced portfolios. Funds raised by the sale of the credit linked notes are deposited with Santander UK as collateral for the credit protection.

£194m (2018: £3,053m) of the senior credit linked notes are presented on a gross basis and included within 'Other financial assets at fair value through profit or loss' on the balance sheet (see Note 9). Deposits and associated guarantees relating to the senior notes are included within 'Other financial liabilities at fair value through profit or loss' (see Note 16). The remainder of the senior credit linked notes, along with the deposits and associated guarantees, are presented on a net basis, to reflect a legal right of set-off between the principal amounts of senior notes and the senior cash deposits. Deposits and associated guarantees in respect of the junior credit linked notes are included within 'Deposits by customers' (see Note 17).

The entities are not consolidated by Santander UK because the third party investors have the exposure, or rights, to all of the variability of returns from the performance of the entities. No assets are transferred to, or income received from, these vehicles. Because the credit linked notes (including those held by Santander UK) are fully cash collateralised, Santander UK's maximum exposure to loss is equal to any unamortised fees paid to the credit protection entities in connection with the credit protection outlined above.

16. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 £m	31 December 2018 £m
US$30bn Euro Medium Term Note Programme	168	165
Structured Notes Programmes	773	696
Eurobonds	131	129
Structured deposits	133	133
Collateral and associated financial guarantees	428	3,053
Repurchase agreements – non trading	–	2,110
	1,633 [1]	6,286[1]

(1) At 30 June 2019 and 31 December 2018 all amounts were designated at fair value through profit or loss.

In H119 £2.1bn of senior cash deposits, which were previously included within collateral and associated financial guarantees in the table above, were presented on a net basis. This followed a deed of amendment, including a legal right of set-off between the principal amounts of senior tranches of credit linked notes, classified as debt securities in Note 9, and the senior cash deposits. At 30 June 2019 the amount of this netting was £1.8bn.

17. DEPOSITS BY CUSTOMERS

	30 June 2019 £m	31 December 2018 £m
Current and demand accounts	87,493	87,316
Savings accounts[1]	68,771	69,102
Time deposits	18,776	16,204
Amounts due to fellow Banco Santander subsidiaries and joint ventures	1,304	1,070
	176,344	173,692

(1) Includes equity index-linked deposits of £1,122m (2018: £1,176m). The capital amount guaranteed/protected and the amount of return guaranteed in respect of the equity index-linked deposits were £1,122m and £20m (2018: £1,176m and £28m) respectively.

18. DEPOSITS BY BANKS

	30 June 2019 £m	31 December 2018 £m
Items in the course of transmission	326	262
Deposits held as collateral	3,585	4,058
Other deposits[1]	12,592	13,504
	16,503	17,824

(1) Includes drawdown from the TFS of £10.8bn (2018: £10.8bn).

19. REPURCHASE AGREEMENTS – NON TRADING

	30 June 2019 £m	31 December 2018 £m
Agreements with banks	9,619	5,865
Agreements with customers	5,152	5,045
	14,771	10,910

20. DEBT SECURITIES IN ISSUE

	30 June 2019 £m	31 December 2018 £m
Medium-term notes	26,724	29,198
Euro 35bn Global Covered Bond Programme	19,926	18,114
Certificates of deposit	3,226	3,221
Credit linked notes	–	42
Securitisation programmes	4,091	5,331
	53,967	55,906

21. PROVISIONS

	Conduct remediation						
	PPI £m	Other products £m	FSCS and Bank Levy £m	Property £m	Off-balance sheet ECL £m	Regulatory and other £m	Total £m
At 31 December 2018	**246**	**30**	**44**	**40**	**56**	**99**	**515**
Adoption of IFRS 16 (see Note 1)	–	–	–	17	–	–	17
At 1 January 2019	**246**	**30**	**44**	**57**	**56**	**99**	**532**
Additional provisions (see Note 5)	70	–	–	38	–	114	222
Provisions released (see Note 5)	–	–	(2)	(8)	(1)	(7)	(18)
Utilisation	(68)	(1)	(42)	(4)	–	(70)	(185)
At 30 June 2019	**248**	**29**	**–**	**83**	**55**	**136**	**551**
At 31 December 2017	356	47	57	39		59	558
Reallocation of ECL on off-balance sheet exposures[1]	–	–	–	–	50	–	50
At 1 January 2018	356	47	57	39	50	59	608
Additional provisions (see Note 5)	–	–	–	11	10	54	75
Provisions released (see Note 5)	–	(14)	(4)	–	–	(14)	(32)
Utilisation	(55)	(2)	(37)	(7)	–	(46)	(147)
At 30 June 2018	301	31	16	43	60	53	504

(1) ECL on off-balance sheet exposures following the adoption of a methodology to enable their separate identification from ECL on drawn exposures. See Note 10.

Conduct remediation

At 30 June 2019, the remaining provision for Payment Protection Insurance (PPI) redress and related costs was £248m. This includes a provision for PPI redress as well as our best estimate of liability for a specific portfolio which was disclosed in our 2018 Annual Report.

For every additional 25,000 inbound PPI complaints above the future expected claims of c.311k from June to the end of the industry deadline, we would expect an additional charge of £6.9m.

30 June 2019 compared to 31 December 2018

We made an additional provision of £70m in Q219 reflecting an increase in PPI claims volumes, additional industry activities and having considered guidance provided by the FCA, in advance of the PPI claims deadline on 29 August 2019.

We will continue to monitor our provision levels and take account of the impact of any further change in claims received and FCA guidance.

Property

Property provisions include vacant property provisions, as described in Note 30 to the Consolidated Financial Statements in the 2018 Annual Report, and property dilapidation provisions within the scope of IFRS 16.

Property provisions were impacted by £38m of transformation charges in H119. These relate to a multi-year project to deliver on our strategic priorities and enhance efficiency in order for us to better serve our customers and meet our medium term targets. Q119 charges largely related to restructuring of our branch network associated with the announcement made earlier in the year to reshape our branch network.

Regulatory and other

Regulatory and other provisions were impacted by £62m of transformation charges in H119, also relating to the multi-year project described above. In addition to the Q119 charges largely related to the restructuring of our branch network, further charges in Q219 were largely associated with the announced plans to reshape our Corporate & Commercial Banking business.

22. RETIREMENT BENEFIT PLANS

The amounts recognised in the balance sheet were as follows:

	30 June 2019 £m	31 December 2018 £m
Assets/(liabilities)		
Funded defined benefit pension scheme – surplus	**780**	842
Funded defined benefit pension scheme – deficit	**(213)**	(76)
Unfunded defined benefit pension scheme	**(39)**	(39)
Total net assets	**528**	727

a) Defined contribution pension plans
An expense of £34m (H118: £23m) was recognised for defined contribution plans in the period and is included in staff costs classified within operating expenses (see Note 4). None of this amount was recognised in respect of key management personnel for H119 and H118.

b) Defined benefit pension schemes

The total amount charged to the income statement was £10m (H118: £22m).

Movements in the present value of defined benefit obligations and fair value of scheme assets in H119 and H118 were as follows:

	Half year to 30 June 2019 £m	Half year to 30 June 2018 £m
Return on plan assets (excluding amounts included in net interest expense)	**(916)**	72
Actuarial (gains)/losses arising from experience adjustments	**(5)**	39
Actuarial losses/(gains) arising from changes in financial assumptions	**1,201**	(640)
Pension remeasurement	**280**	(529)

The net assets recognised in the balance sheet were determined as follows:

	30 June 2019 £m	31 December 2018 £m
Present value of defined benefit obligations	**(11,996)**	(10,805)
Fair value of scheme assets	**12,524**	11,532
Net defined benefit assets	**528**	727

Actuarial assumptions
There have been no significant changes to the methods for setting the principal actuarial assumptions used as set out in Note 31 to the Consolidated Financial Statements in the 2018 Annual Report.

23. CONTINGENT LIABILITIES AND COMMITMENTS

	30 June 2019 £m	31 December 2018 £m
Guarantees given to third parties	**1,055**	1,611
Formal standby facilities, credit lines and other commitments	**41,866**	40,126
	42,921	41,737

At 30 June 2019, the Santander UK group had credit impairment loss provisions relating to guarantees given to third parties and undrawn loan commitments. See Note 21 for further details.

There have been no significant changes to the contingent liabilities as set out in Note 32 to the Consolidated Financial Statements in the 2018 Annual Report, including in respect of the following:

Other legal actions and regulatory matters
Santander UK engages in discussion, and co-operates, with the FCA, PRA and other regulators and government agencies in various jurisdictions in their supervision and review of Santander UK including reviews exercised under statutory powers, regarding its interaction with past and present customers, both as part of general thematic work and in relation to specific products, services and activities. During the ordinary course of business, Santander UK is also subject to complaints and threatened legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, in addition to legal and regulatory reviews, challenges and tax or enforcement investigations or proceedings in various jurisdictions. All such matters are assessed periodically to determine the likelihood of Santander UK incurring a liability.

In those instances where it is concluded that it is not yet probable that a quantifiable payment will be made, for example because the facts are unclear or further time is required to fully assess the merits of the case or to reasonably quantify the expected payment, no provision is made. In addition where it is not currently practicable to estimate the possible financial effect of these matters, no provision is made.

Payment Protection Insurance

Note 21 details our provisions including those in relation to PPI. In relation to a specific PPI portfolio of complaints, a legal dispute regarding allocation of liability is ongoing. There are factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is difficult to reliably predict the resolution of the matter including timing or the significance of the possible impact. The PPI provision includes our best estimate of Santander UK's liability to the specific portfolio. Further information has not been provided on the basis that it would be seriously prejudicial.

German dividend tax arbitrage transactions

Santander UK plc, ANTS and Cater Allen International Limited (all subsidiaries of Santander UK Group Holdings plc) are currently under investigation by the Cologne Criminal Prosecution Office and the German Federal Tax Office in relation to historical involvement in German dividend tax arbitrage transactions (known as cum/ex transactions). We are cooperating with the German authorities and are conducting our own internal investigation into the matters in question. There are factual issues to be resolved which may have legal consequences including potentially material financial penalties. These issues create uncertainties which mean that it is difficult to predict with reasonable certainty the resolution of the matter including timing or the significance of the possible impact.

Consumer credit

The Santander UK group's unsecured lending and other consumer credit business is governed by consumer credit law and related regulations, including the CCA. Claims brought by customers in relation to potential breaches of these requirements could result in costs to the Santander UK group where such potential breaches are not found to be de minimis. The CCA includes very detailed and prescriptive requirements for lenders, including in relation to post contractual information.

As described in Note 30 to the 2018 Annual Report, other provisions includes an amount of £58m arising from a systems related historical issue identified by Santander UK, relating to compliance with certain requirements of the CCA. This provision has been based on detailed reviews of relevant systems related to consumer credit business operations, supported by external legal and regulatory advice, but these reviews are not yet complete, such that the approach and timing to any remediation has not yet been finalised. As a result, the actual cost of customer compensation could differ materially from the amount provided, and it is not currently practicable to provide a reliable estimate of the amount or timing of any additional financial effects.

24. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Securitisations and covered bonds

As described in Note 15 to the Consolidated Financial Statements in the 2018 Annual Report, Santander UK plc and certain of its subsidiaries issue securitisations and covered bonds. At 30 June 2019, there were £36,379m (2018: £36,195m) of gross assets in these secured programmes and £439m (2018: £501m) of these related to internally retained issuances and were available for use as collateral for liquidity purposes in the future.

At 30 June 2019, a total of £3,939m (2018: £4,039m) of notes issued under securitisation and covered bond programmes had been retained internally, a proportion of which had been used as collateral for raising funds via third party bilateral secured funding transactions, which totalled £1,834m at 30 June 2019 (2018: £1,834m), or for use as collateral for liquidity purposes in the future.

25. OTHER EQUITY INSTRUMENTS

	Interest rate %	Next call date	30 June 2019 £m	31 December 2018 £m
AT1 securities:				
– £500m Fixed Rate Reset Perpetual AT1 Capital Securities	6.75	June 2024	**496**	496
– £750m Fixed Rate Reset Perpetual AT1 Capital Securities	7.375	June 2022	**745**	745
– £300m Fixed Rate Reset Perpetual AT1 Capital Securities	7.60	December 2019	**300**	300
– £500m Fixed Rate Reset Perpetual AT1 Capital Securities	5.33	September 2019	**500**	500
			2,041	2,041

26. NON-CONTROLLING INTERESTS

	Initial interest rate %	First call date	30 June 2019 £m	31 December 2018 £m
Santander UK plc issued:				
– £300m Fixed/Floating Rate Non-Cumulative Callable Preference Shares	6.222	May 2019	**–**	14
– £300m Step-up Callable Perpetual Reserve Capital Instruments	7.037	February 2026	**235**	235
PSA Finance UK Limited			**159**	151
			394	400

27. RELATED PARTY DISCLOSURES

The financial position and performance of the Santander UK group have not been materially affected in H119 by any related party transactions, or changes to related party transactions. These transactions were made in the ordinary course of business, on substantially the same terms as for comparable transactions with third party counterparties, and within limits acceptable to the PRA. Such transactions do not involve more than the normal risk of collectability or present any unfavourable features. In addition, transactions with pension schemes operated by the Santander UK group are described in Note 31 to the Consolidated Financial Statements in the 2018 Annual Report.

28. FINANCIAL INSTRUMENTS

a) Measurement basis of financial assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1 to the Consolidated Financial Statements in the 2018 Annual Report describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

At 30 June 2019 and 31 December 2018, the Santander UK group categorised assets and liabilities measured at fair value within the fair value hierarchy based on the fair value measurement and hierarchy, and valuation techniques, described in Note 41(b) and (c) to the Consolidated Financial Statements in the 2018 Annual Report.

b) Fair values of financial instruments carried at amortised cost

The following table analyses the fair value of the financial instruments carried at amortised cost at 30 June 2019 and 31 December 2018. It does not include fair value information for financial assets and financial liabilities carried at amortised cost if the carrying amount is a reasonable approximation of fair value. Details of the valuation methodology of the financial assets and financial liabilities carried at amortised cost can be found in Note 41(e) to the Consolidated Financial Statements in the 2018 Annual Report.

	30 June2019		31 December 2018	
	Fair value £m	**Carrying value £m**	Fair value £m	Carrying value £m
Assets				
Loans and advances to customers	**207,289**	**202,726**	204,391	201,619
Loans and advances to banks	**2,949**	**2,966**	3,476	3,515
Reverse repurchase agreements- non trading	**22,416**	**22,409**	21,130	21,127
Other financial assets at amortised cost	**7,167**	**7,136**	7,110	7,228
	239,821	**235,237**	236,107	233,489
Liabilities				
Deposits by customers	**176,504**	**176,344**	173,783	173,692
Deposits by banks	**16,514**	**16,503**	17,836	17,824
Repurchase agreements- non trading	**14,779**	**14,771**	10,923	10,910
Debt securities in issue	**55,218**	**53,967**	56,695	55,906
Subordinated liabilities	**4,235**	**3,645**	3,825	3,601
	267,250	**265,230**	263,062	261,933

c) Fair values of financial instruments measured at fair value

The following tables summarise the fair values of the financial assets and liabilities accounted for at fair value at 30 June 2019 and 31 December 2018, analysed by their levels in the fair value hierarchy – Level 1, Level 2 and Level 3.

		30 June 2019				31 December 2018				
		Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Valuation technique
Assets										
Derivatives	Exchange rate contracts	–	4,402	22	4,424	–	4,324	25	4,349	A
	Interest rate contracts	–	2,042	5	2,047	–	2,560	6	2,566	A & C
	Equity and credit contracts	–	209	79	288	–	194	84	278	B & D
	Netting	–	(1,261)	–	(1,261)	–	(1,872)	–	(1,872)	
		–	5,392	106	5,498	–	5,206	115	5,321	
Other financial assets at FVTPL	Loans and advances to customers	–	439	94	533	–	427	82	509	A
	Debt securities	24	76	562	662	26	2,343	894	3,263	A, B & D
	Equity securities	16	–	110	126	14	–	79	93	B
	Reverse repurchase agreements – non trading	–	–	–	–	–	2,272	–	2,272	A
		40	515	766	1,321	40	5,042	1,055	6,137	
Financial assets at FVOCI	Debt securities	12,781	588	–	13,369	12,487	742	–	13,229	D
	Loans and advances to customers	–	–	69	69	–	–	73	73	D
		12,781	588	69	13,438	12,487	742	73	13,302	
Total assets at fair value		12,821	6,495	941	20,257	12,527	10,990	1,243	24,760	
Liabilities										
Derivatives	Exchange rate contracts	–	930	1	931	–	528	23	551	A
	Interest rate contracts	–	2,197	8	2,205	–	2,736	7	2,743	A & C
	Equity and credit contracts	–	127	31	158	–	132	40	172	B & D
	Netting	–	(1,261)	–	(1,261)	–	(1,872)	–	(1,872)	
		–	1,993	40	2,033	–	1,524	70	1,594	
Other financial liabilities at FVTPL	Debt securities in issue	–	1,065	7	1,072	–	983	7	990	A
	Structured deposits	–	104	29	133	–	104	29	133	A
	Repurchase agreements – non trading	–	–	–	–	–	2,110	–	2,110	A
	Collateral and associated financial guarantees	–	407	21	428	–	3,040	13	3,053	D
		–	1,576	57	1,633	–	6,237	49	6,286	
Total liabilities at fair value		–	3,569	97	3,666	–	7,761	119	7,880	

Transfers between levels of the fair value hierarchy

During H119, there were no significant transfers of financial instruments from Level 1 to Level 2, or from Level 2 to Level 3 (H118: none).

d) Fair value adjustments

The internal models incorporate assumptions that Santander UK believes would be made by a market participant to establish fair value. Fair value adjustments are adopted when Santander UK considers that there are additional factors that would be considered by a market participant that are not incorporated in the valuation model.

Santander UK classifies fair value adjustments as either 'risk-related' or 'model-related'. The fair value adjustments form part of the portfolio fair value and are included in the balance sheet values of the product types to which they have been applied. The magnitude and types of fair value adjustment are listed in the following table:

	30 June 2019 £m	31 December 2018 £m
Risk-related:		
– Bid-offer and trade specific adjustments	17	13
– Uncertainty	37	36
– Credit risk adjustment	8	9
– Funding fair value adjustment	5	4
	67	62
Model-related	1	5
	68	67

Risk-related adjustments

Risk-related adjustments are driven, in part, by the magnitude of Santander UK's market or credit risk exposure, and by external market factors, such as the size of market spreads. For further details, see the 'Risk-related adjustments' section in Note 41(g) to the Consolidated Financial Statements in the 2018 Annual Report.

e) Internal models based on information other than market data (Level 3)

Valuation techniques

There have been no significant changes to the valuation techniques as set out in Note 41(h) to the Consolidated Financial Statements in the 2018 Annual Report.

Reconciliation of fair value measurement in Level 3 of the fair value hierarchy

The following table sets out the movements in Level 3 financial instruments in H119 and H118:

	Assets						Liabilities			
	Derivatives £m	Other financial assets at FVTPL £m	Financial assets at FVOCI £m	Financial investments £m	Assets held for sale £m	Total £m	Derivatives £m	Other financial liabilities at FVTPL £m	Liabilities held for sale £m	Total £m
At 1 January 2019	115	1,055	73		–	1,243	(70)	(49)	–	(119)
Total gains/(losses) recognised in profit or loss:										
– Fair value movements	3	32	–		–	35	(1)	(5)	–	(6)
– Foreign exchange/other movements	–	3	–		–	3	–	(3)	–	(3)
Transfers in	–	11	–		–	11	–	–	–	–
Additions	3	188	–		–	191	–	(2)	–	(2)
Settlements	(15)	(523)	(4)		–	(542)	31	2	–	33
At 30 June 2019	106	766	69		–	941	(40)	(57)	–	(97)
Gains/(losses) recognised in profit or loss relating to assets and liabilities held at the end of the period	3	35	–		–	38	(1)	(8)	–	(9)
At 31 December 2017	64	240		53	–	357	(63)	(6)	–	(69)
Adoption of IFRS 9	–	598	199	(53)	–	744	–	–	–	–
At 1 January 2018	64	838	199		–	1,101	(63)	(6)	–	(69)
Total gains/(losses) recognised in profit or loss:										
– Fair value movements	26	(5)	(4)		–	17	4	–	–	4
– Foreign exchange/other movements	(5)	–	–		–	(5)	5	–	–	5
Transfers in	–	19	–		–	19	–	–	–	–
Transfer to held for sale	(2)	(69)	–		71	–	1	–	(1)	–
Additions	–	–	17		–	17	–	–	–	–
Sales	–	(23)	–		–	(23)	–	–	–	–
Settlements	(21)	–	(37)		–	(58)	15	–	–	15
At 30 June 2018	62	760	175		71	1,068	(38)	(6)	(1)	(45)
Gains/(losses) recognised in profit or loss on assets and liabilities held at the end of the period	21	(5)	(4)			12	9	–	–	9

Effect of changes in significant unobservable assumptions to reasonably possible alternatives (Level 3)

Other than as described above, there has been no significant change to the unobservable inputs and sensitivities used in Level 3 fair values as set out in Note 41(h) to the Consolidated Financial Statements in the 2018 Annual Report.

29. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between 30 June 2019 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.