

Santander UK Group Holdings plc

Investor Update

for the six months ended 30 June 2021

July 2021








Becoming a digital bank with a human touch













Strong H121 results with higher operating income, mortgage loans and customer deposits

Balance sheet highlights Jun21 vs Dec20

Mortgage loans		£173.4bn £3.6bn
Customer deposits		£195.0bn £3.3bn
Adj. Banking NIM		1.87% 34bps
Stage 3 ratio		1.41% 1bp
CET1 capital ratio		15.5% 30bps

Adjusted income statement¹

	H121	vs H120	Q221 vs Q121
Operating income	£2,093m	 18%	 10%
Operating expenses	£1,098m	 2%	 2%
Credit impairment losses	£70m	 119%	 > 500%
Provisions	£78m	 47%	 60%
Profit before tax	£987m	 318%	 39%



Note: See Santander UK Quarterly Management Statement for the six months ended 30 June 2021 (QMS) for explanations and definitions. Customer loans and customer deposits includes assets and financial liabilities classified as held for sale.

1. Summarised adjusted consolidated income statement from continuing operations. The financial results were impacted by a number of specific income, expenses and charges with an aggregate impact on profit before tax of £236m in H121. Statutory profit from continuing operations before tax was £751m.

Committed to the objectives of the Paris Agreement



Environmental: supporting the green transition

Helping customers go green¹



£3.3bn
green finance
since 2019

1st
top UK renewables
lender 2020

Going green ourselves

98%
single-use plastic
removed from sites

Carbon neutral
in our operations

Aligning to Paris targets

95%²
mortgage lending at
negligible or very low
flood risk

>230 large clients
engaged as part of
CBES preparation



Social: building a more inclusive society

Talented and diverse team

Top Employer
UK and Europe³

24.3%
women in leadership
positions

Financially empowering people

>600,000
People empowered
since 2019⁴

>58k
unique downloads
helping improve maths

Supporting society

15,690
people helped
in H1'21

3,480
scholarships
granted in H1'21



Governance: doing business the right way

A strong culture: Simple, Personal, Fair

82%
employees
proud to work
for Santander

Remuneration policy
takes account of people
and sustainability
performance

Enhanced ESG governance

**21 Sustainability
Business Partners**
embedding ESG
across the bank

**Established climate
governance**
with Board oversight
and executive leads



Banco Santander United Kingdom



1. Banco Santander United Kingdom metrics. Renewables rank - Inframation League Tables. | 2. 2020 assessment of our UK mortgage portfolio, see page 26, 2020 Santander UK Strategic Report. | 3. Top Employers Institute. Top 10 company to work for | 4. People financially empowered through Santander initiatives.

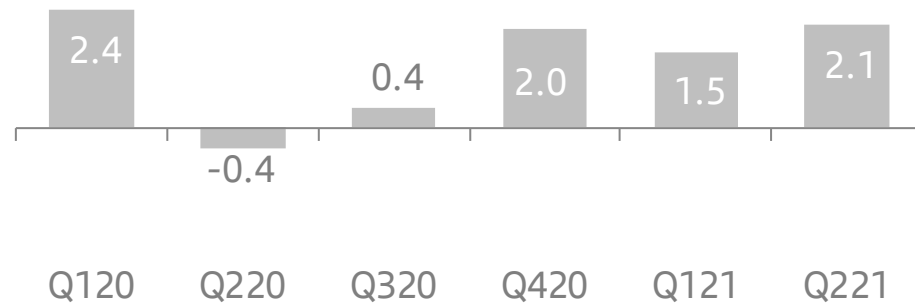
Key trends and 2021 outlook

Mortgage growth expected to be in line with market

Net mortgage lending (£bn)

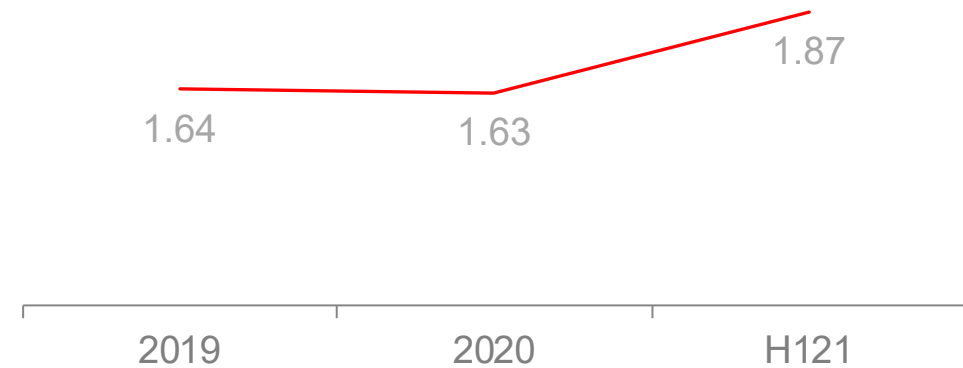
2020 mortgage growth

- Santander UK: 2.7%
- Market: c3%



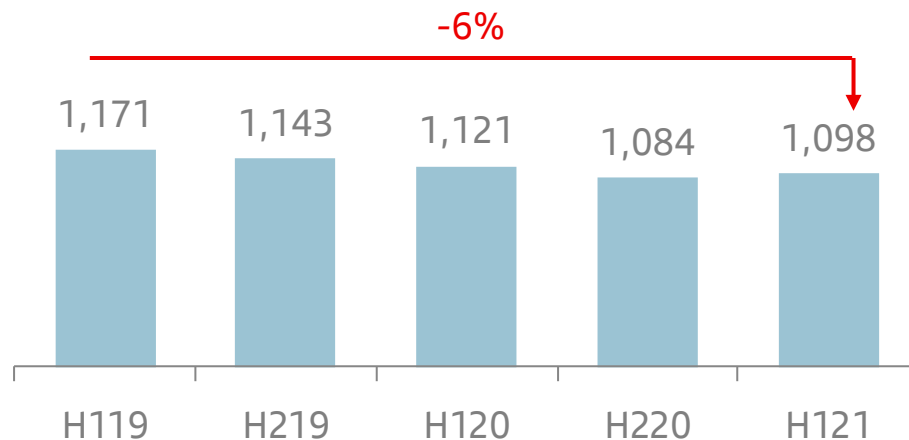
Banking NIM expected to be maintained in H221

Adjusted Banking NIM (%)



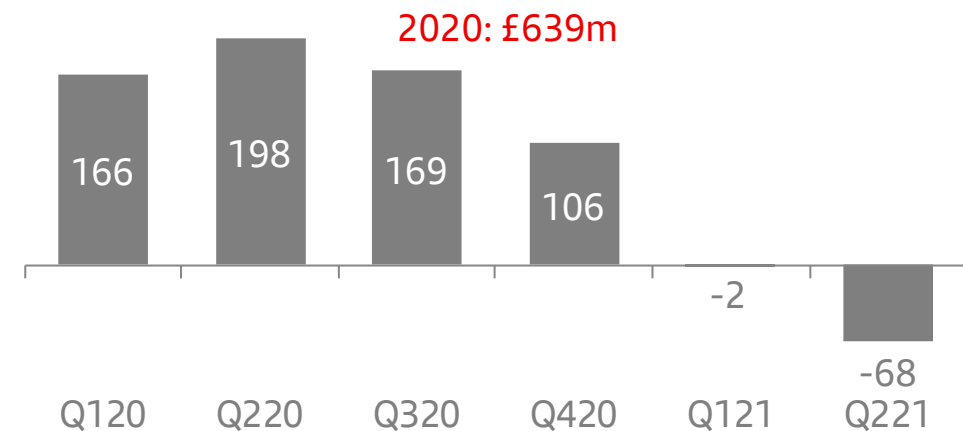
Operating expenses expected to continue to trend downward

Adjusted operating expenses (£m)



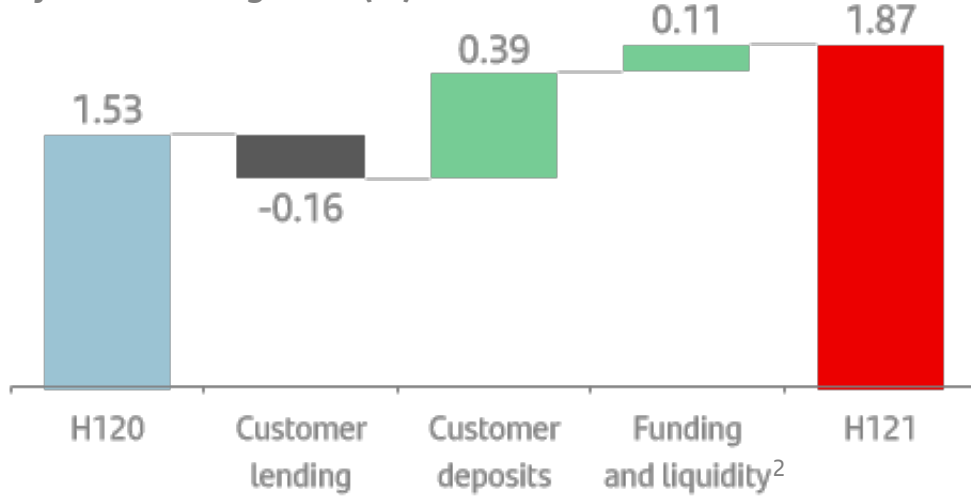
Benign credit environment in H121, likely to be similar in H221

Credit impairment losses (£m)

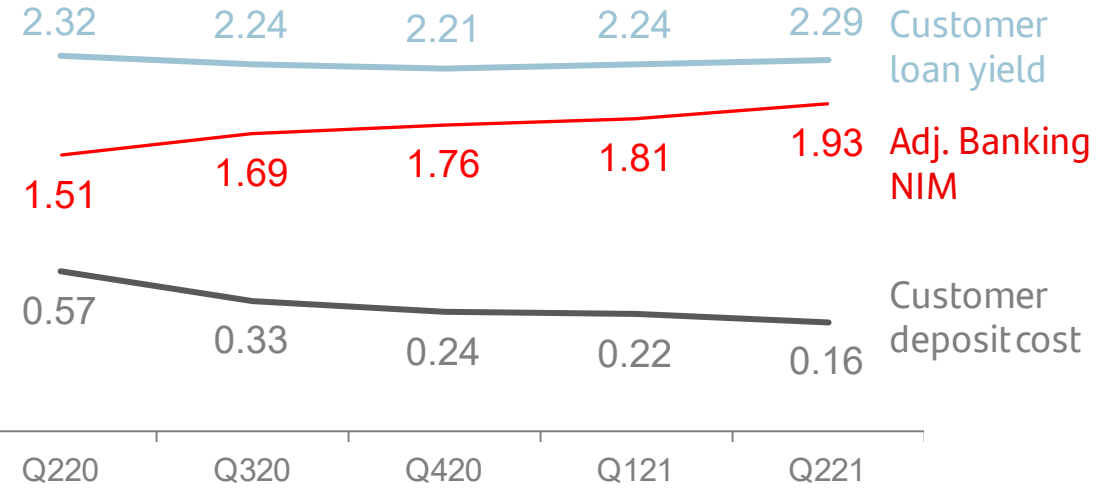


Banking NIM improvement largely driven by deposit repricing

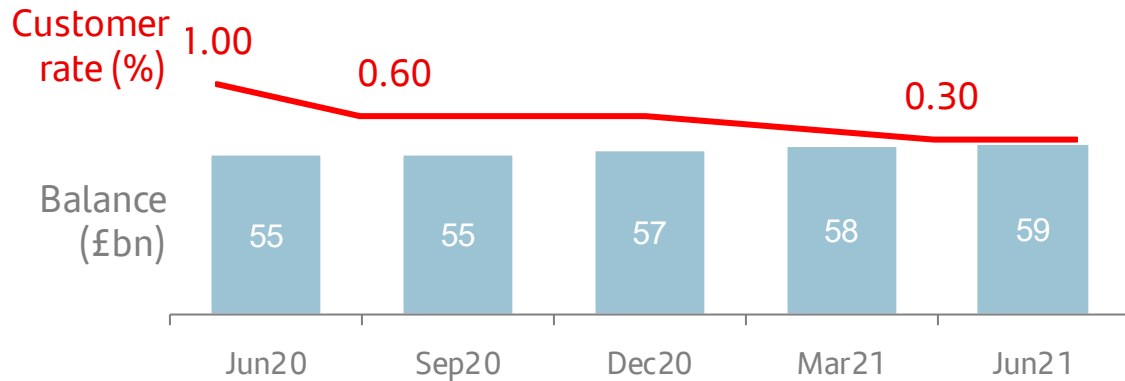
Adjusted Banking NIM¹ (%)



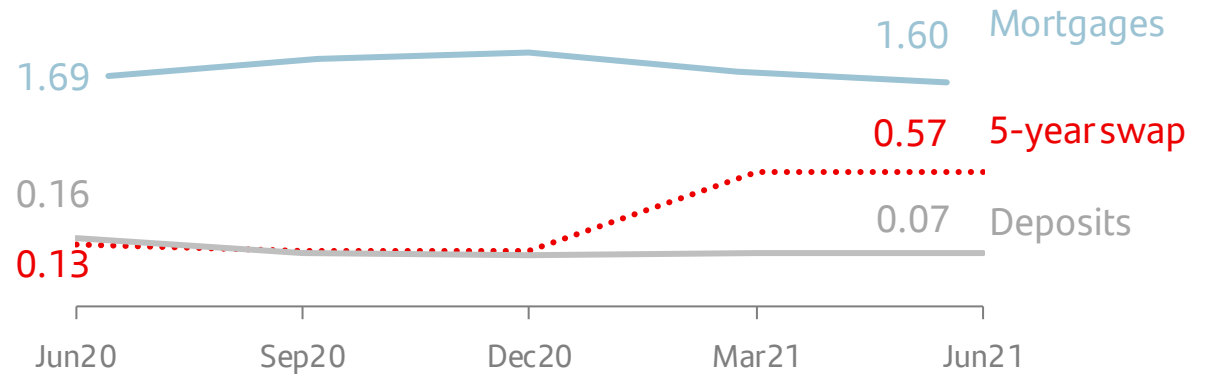
Adjusted Banking NIM, customer loan yield and deposit cost (%)



1|2|3 Current Account³

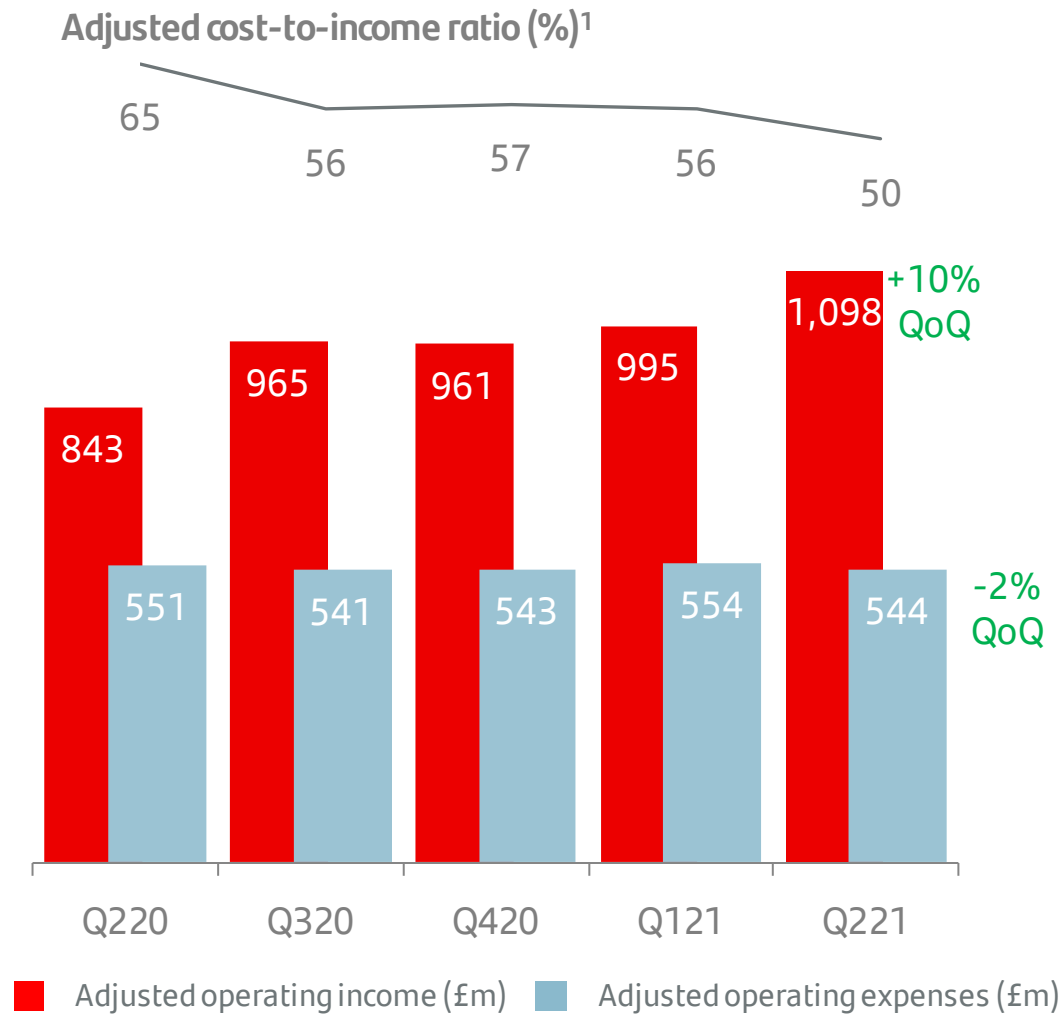


Market customer and swap rates⁴ (%)



1. Adjusted Banking NIM is calculated as adjusted net interest income divided by average customer assets. | 2. Includes cost of wholesale funding and income from liquid assets (LAB). | 3. Changes to 1|2|3 current account interest rate and cashback effective in August 2020 (-40bps) and April 2021 (-30bps). | 4. Source: Bank of England. Mortgages: 5 Year Fixed Mortgage (75% LTV), Instant Access Deposit incl. unconditional bonus.

Multi-year transformation programme focused on efficiency and customers



Transformation programme investment

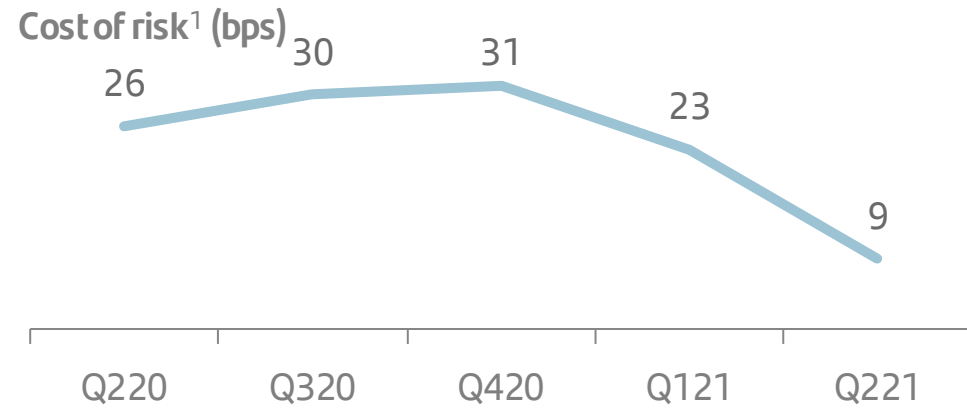
- Strategic focus on efficiency and meeting the changing needs of our customers and people
- Since 2019, £638m of investment has realised £342m of savings to date
- In March 2021, announced 111 branch closures and a 40% reduction in head office space, with 56 branch closures to date²
- £150m to be invested in a state-of-the-art new campus in Milton Keynes which will become the bank's UK headquarters

Aligned to One Santander in Europe: grow our business by better serving our customers; redefine how we interact with our customers; create a common operating model

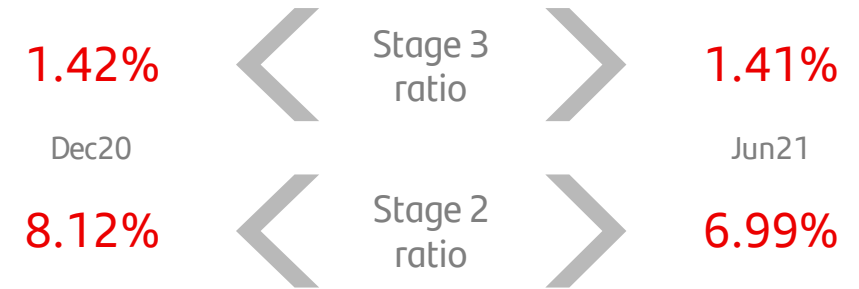


1. Adjusted operating income and expenses from continuing operations. See Quarterly Management Statement for the six months ended 30 June 2021 for further details and a reconciliation of adjusting items. | 2. At end July 2021. Remaining 55 branches to close by end August 2021.

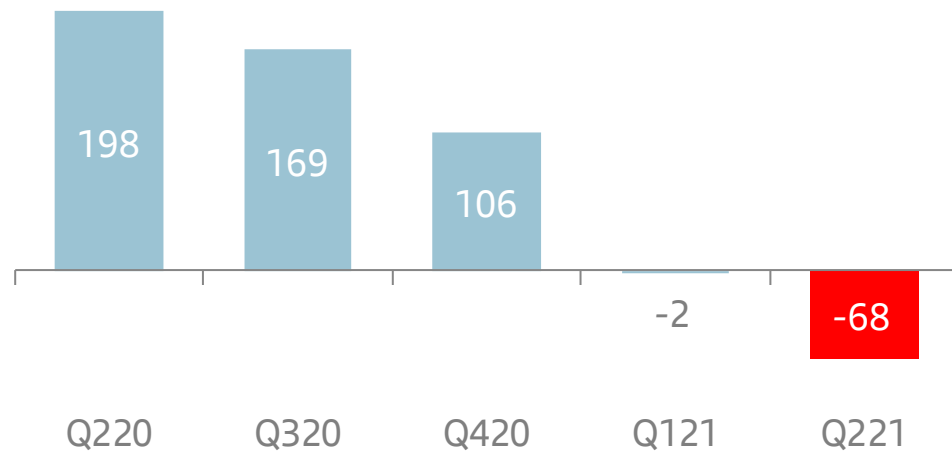
Credit impairment write back following improvement in economic outlook



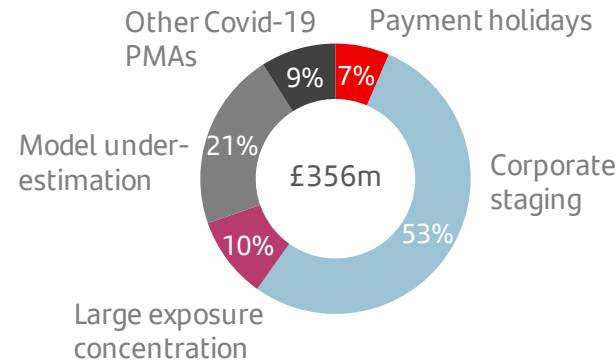
Credit impairments outlook remains highly uncertain



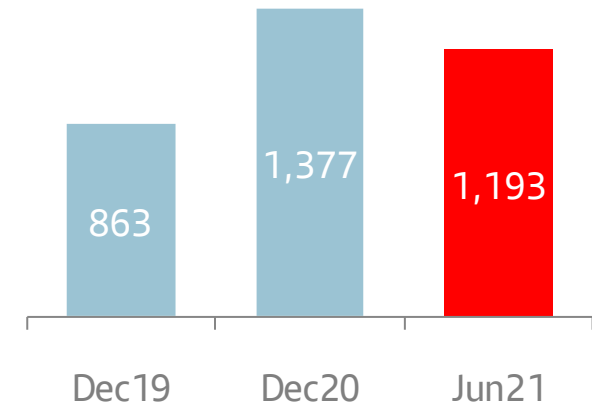
Credit impairment losses (£m)



Covid-19 related post model adjustments²

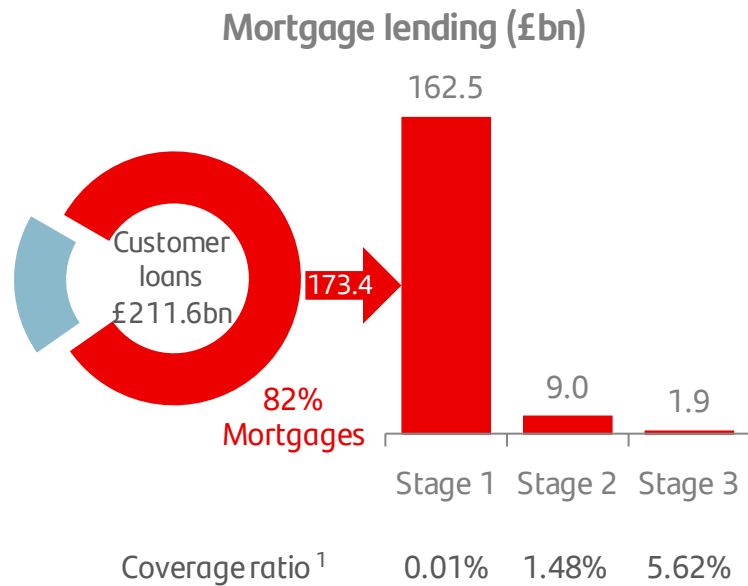


ECL provision build (£m)

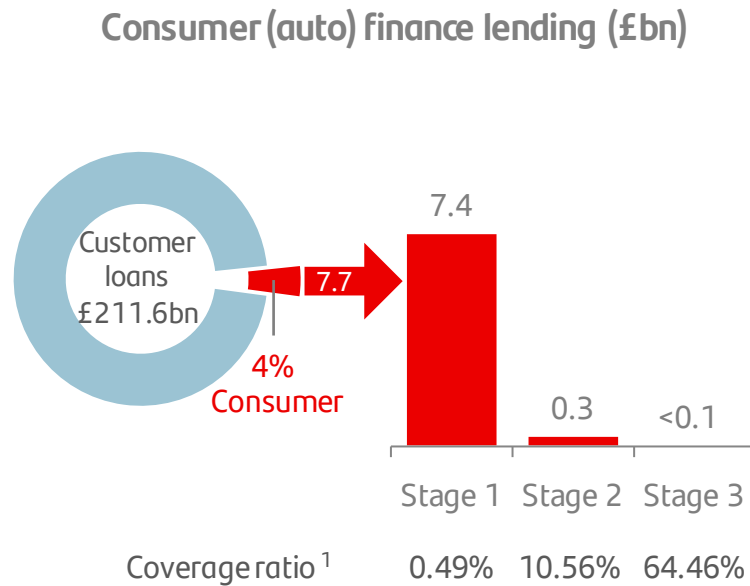


1. Cost of risk (CoR) is rolling 12-month credit impairment losses as a percentage of average customer loans. | 2. Remaining on balance sheet.

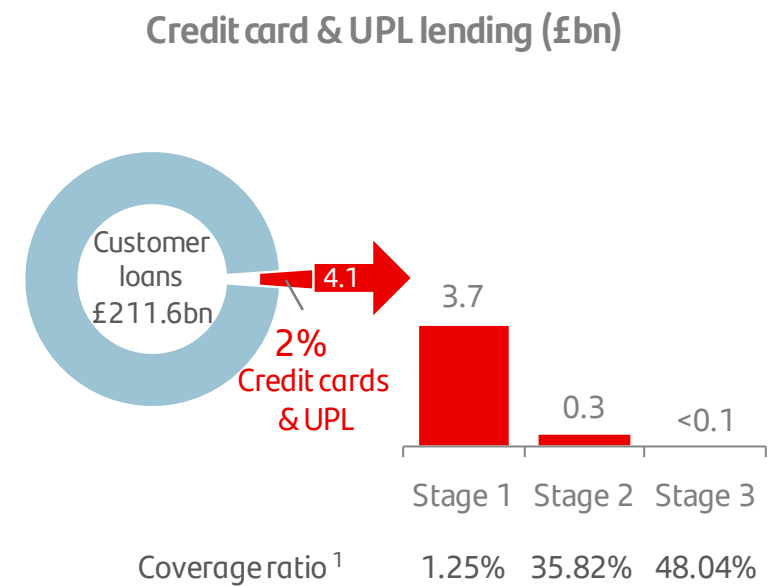
Proven balance sheet resilience with limited unsecured retail exposure



- 86% of customers have LTV of <75%
- New business LTV: 63%
 - London lending LTV: 61%
 - Buy-to-let lending LTV : 68%



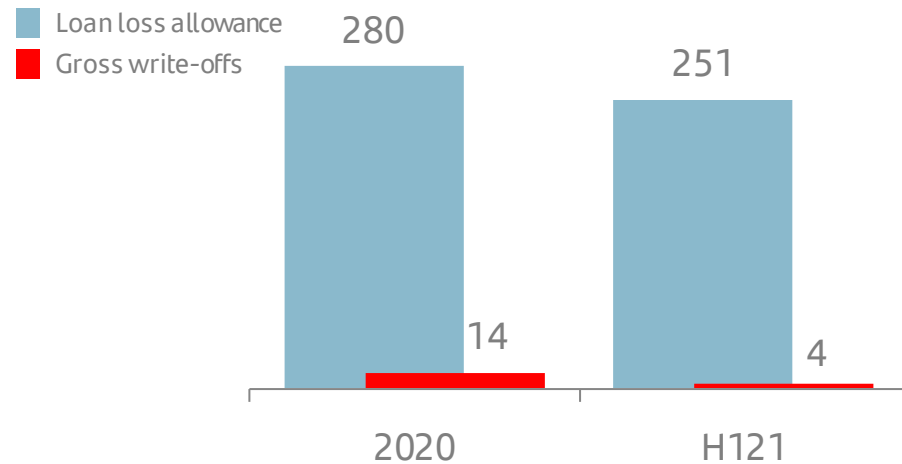
- Prime lending with 83% of the book secured on the vehicle



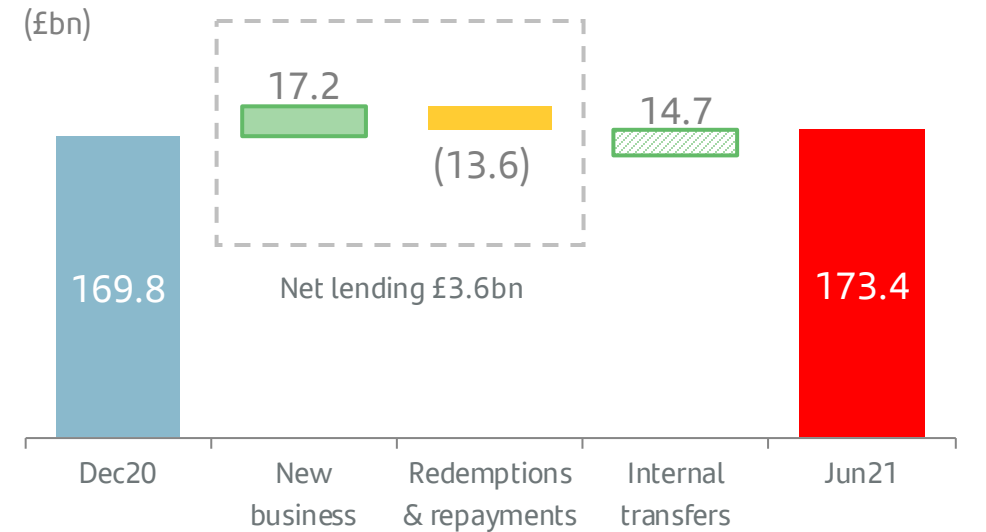
- 54% credit card customers pay-off balance in full each month
- 45% of UPL have average loan balance of <£5k

Prime mortgage portfolio reflects our prudent approach to risk

Loan loss allowance and write-offs (£m)



Mortgage lending breakdown (£bn)



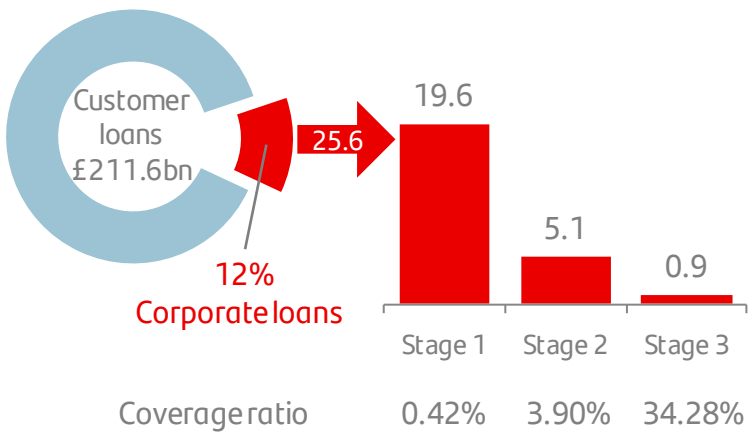
Stock LTV distribution		Mortgage loan size		Borrower profile		Interest rate profile	
>100%	0%	>£2.0m	<1%	Home movers	43%	Fixed rate	82%
>85-100%	3%	£1.0 to £2.0m	2%	Re-mortgagers	29%	Variable rate	11%
>75-85%	11%	£0.5m to £1.0m	9%	First-time buyers	20%	Standard variable rate ³	7%
>50-75%	43%	£0.25m to £0.5m	29%	BTL	8%		
Up to 50%	43%	<£0.25m	60%				
Average LTV	42%	Ave. loan size (stock)¹	£170k	BTL balance	£13.4bn	SVR balance²	£11.4bn



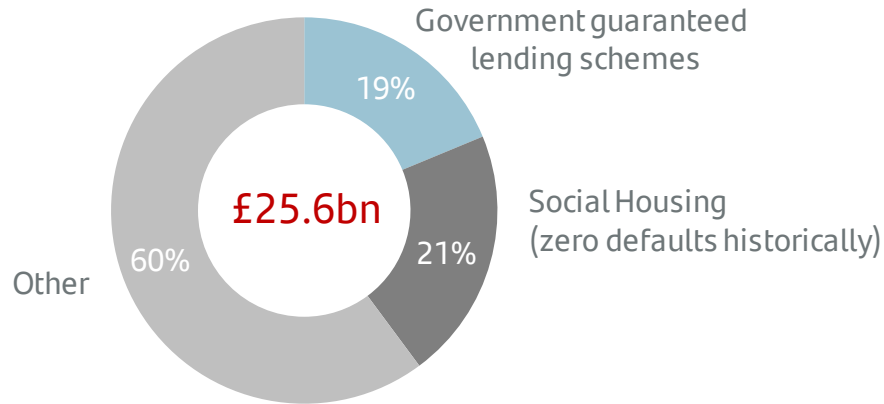
1. Average loan size of new business £239k. | 2. Standard variable rate: reversion rate products includes follow on rate.

Diversified corporate portfolio with prudent coverage ratio

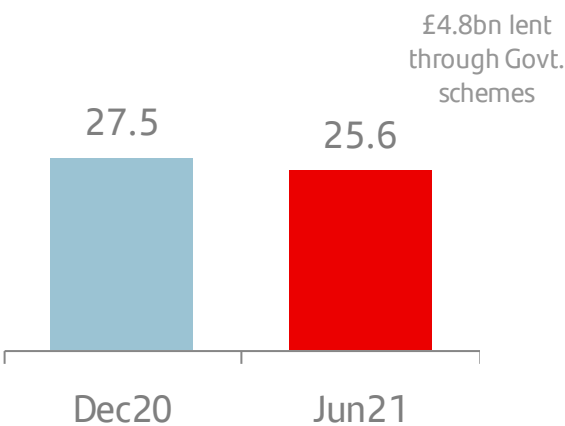
Corporate loans ¹ (£bn)



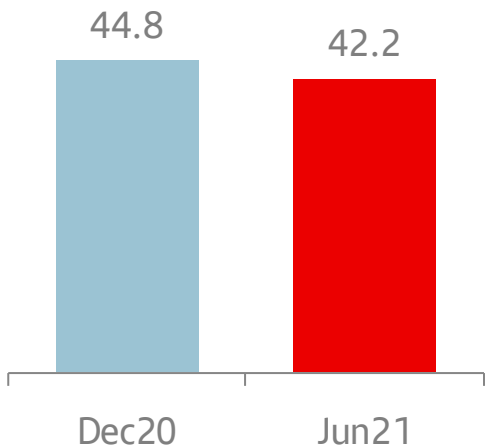
Corporate loans customer sector split



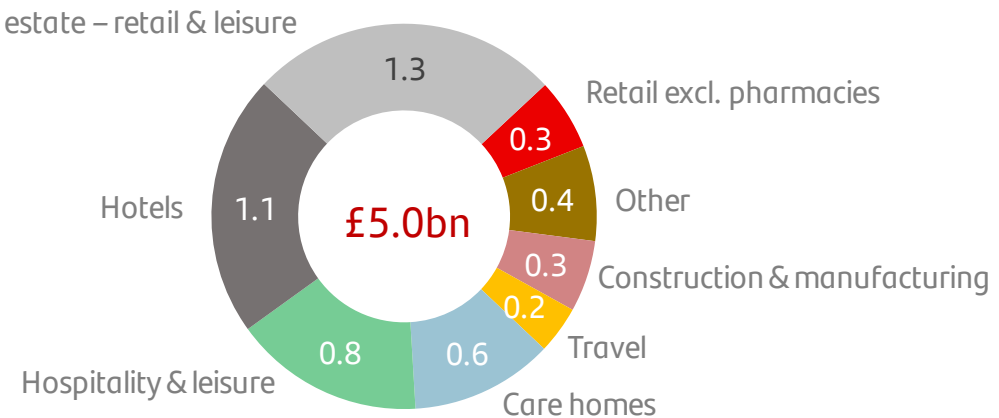
Corporate loans (£bn)



Corporate deposits² (£bn)



Exposure to most-at-risk Covid-19 sectors ³ (£bn)

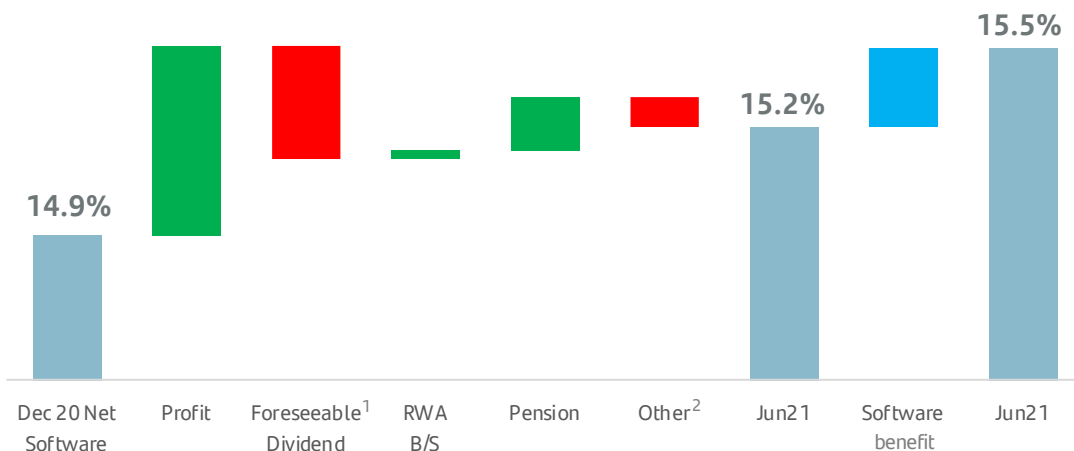


1. Corporate loans consists of Corporate lending (CCB, CIB and Business Banking) and non-core loans in Corporate Centre (which is mostly Social Housing). |
 2. Corporate deposits includes CCB, CIB and Business Banking. | 3. Exposure includes drawn and undrawn amounts, excludes lending through BBLs and SCIB.

Fixed Income Appendix

Continued resilience through strong capital position

CET1 ratio



- CET1 capital ratio increased 30bps to 15.5%, with capital accretion through retained profits, RWA management and market driven improvements in the Defined Benefit Pensions scheme
- The UK leverage ratio improved 10bps to 5.2%, 160bps above regulatory minimum
- CET1 capital ratio includes a benefit from software of c30bps and UK leverage ratio c10bps. The PRA have outlined in Policy Statement PS17/21 on the Implementation of Basel Standards that this benefit will fall away at the start of 2022
- The PRA has removed the extraordinary guardrails within which it asked bank boards to determine the appropriate level of distributions in relation to full year 2020 results, following the removal we intend to pay a half year ordinary share dividend to our parent in July

Capital and leverage

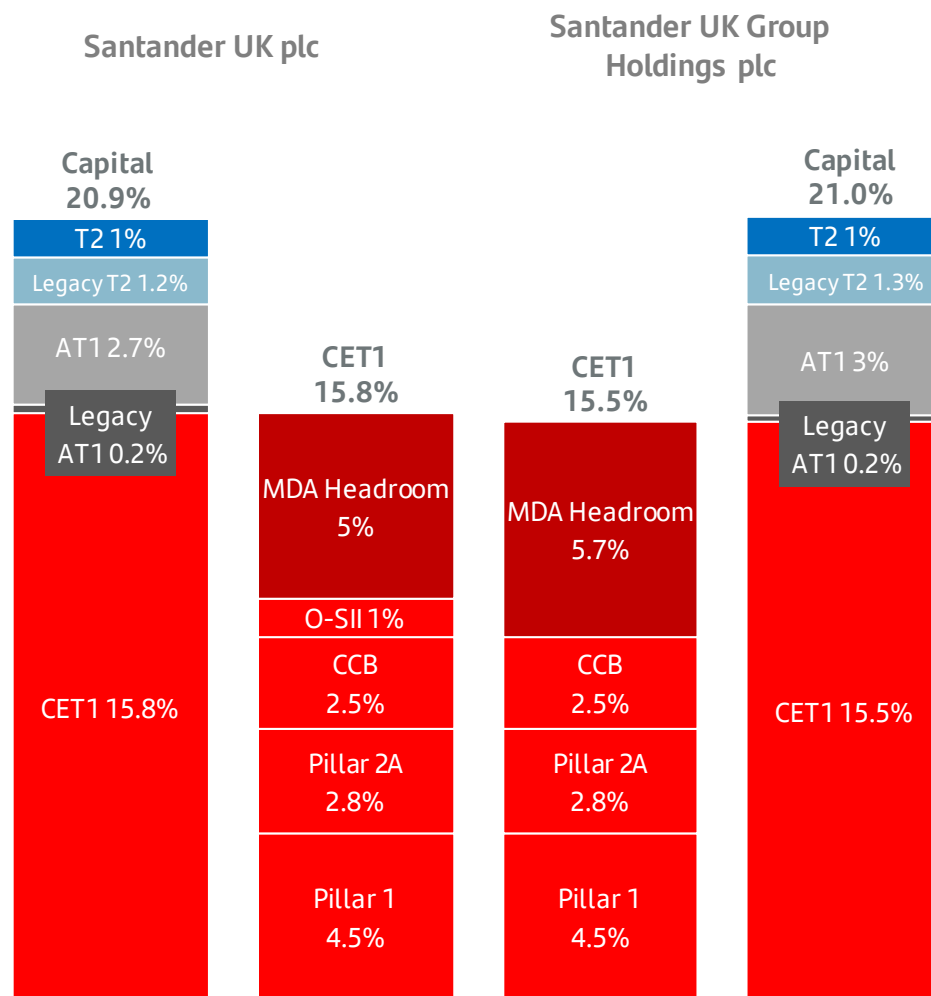
	Dec18	Dec19	Dec20	Jun21
CET1 ratio (%)	13.2	14.3	15.2	15.5
Leverage exposure (£bn)	275.6	269.2	258.9	254.7
UK leverage ratio (%)	4.5	4.7	5.1	5.2
RWAs (£bn)	78.8	73.2 ³	72.9 ³	72.8 ³
HoldCo total capital (%)	19.1	21.6	21.1	21.0
OpCo total capital (%)	20.3	21.7	21.2	20.9



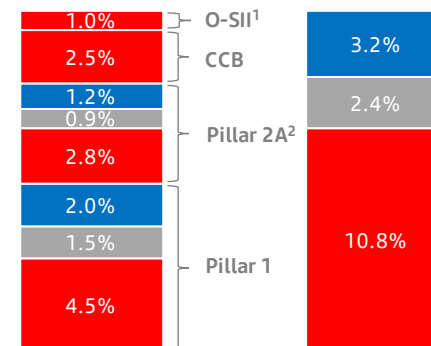
1. Includes H121 AT1 and preference share distributions. | 2. IFRS adjustment, expected loss provisions, intangible assets and other CET1. | 3. RWA includes c£225m of change in treatment of software assets.

Maintaining resilient capital position in a changing regulatory environment

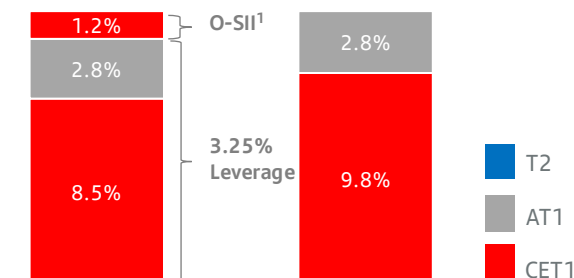
Total capital ratios - RWA



RWA Capital Req. – RWA Basis



Leverage Capital Req. – RWA Basis



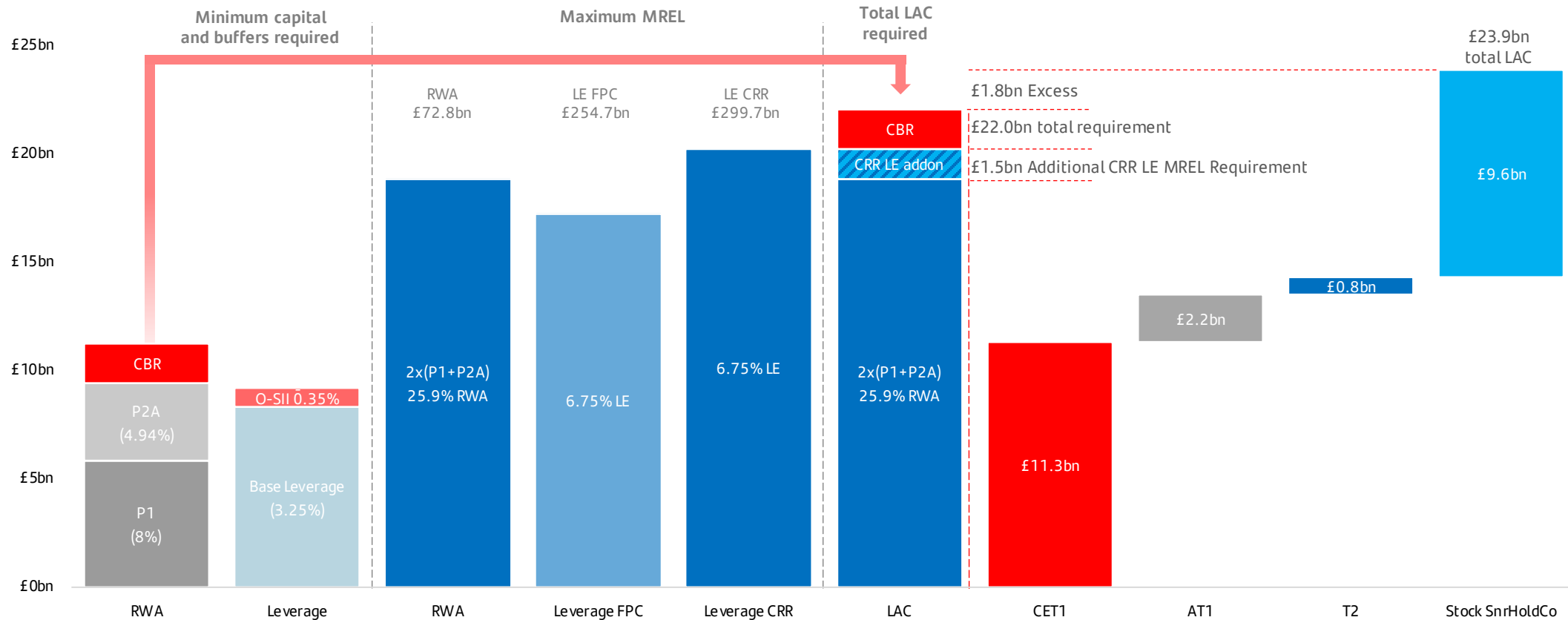
- Buffer to MDA showed a small increase of 0.1% to 5.7%, driven primarily by management of risk weighted assets
- At 30 June 2021 SanUK's P2A capital requirement remained with an RWA percentage based element
- Our AT1 outstanding is sized on leverage ratio requirements



1. Distribution restrictions expected to apply if Santander UK's CET1 ratio fell between current Regulatory Minimum Capital level, equal to CRD IV 4.5% minimum plus Pillar 2A and the CRD IV buffers. | 2. At 30 June 2021, Santander UK Group Holdings plc and Santander UK plc Pillar 2A requirements were 4.94% (2.8% CET1).

End state Loss Absorbing Capacity HoldCo requirements^{1,2,3}

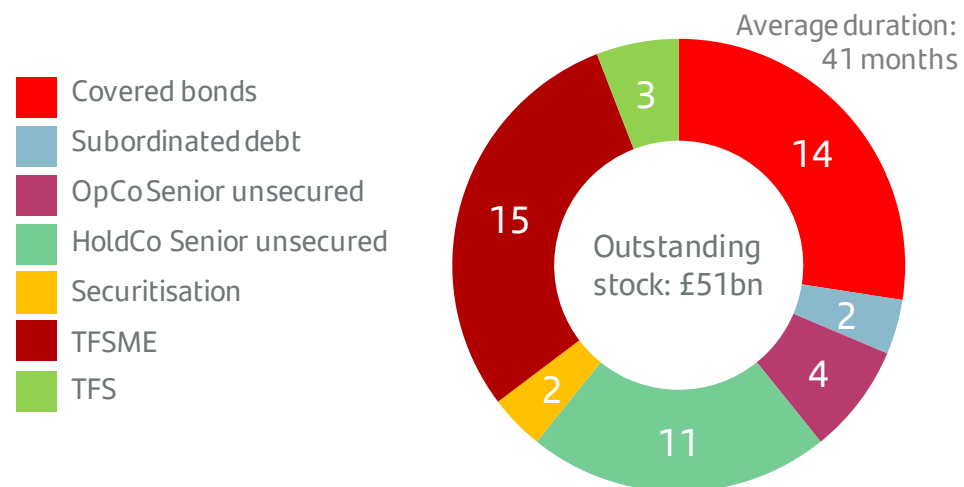
- Santander UK end state MREL is currently driven by CRR leverage, should this switch to RWA's requirements fall by c£1.5bn
- Combined Buffer Requirement (CBR) will always be fulfilled from CET1
- MREL recapitalisation management buffer size will be driven by the value of HoldCo senior unsecured securities due to become MREL ineligible during the preceding 6 months



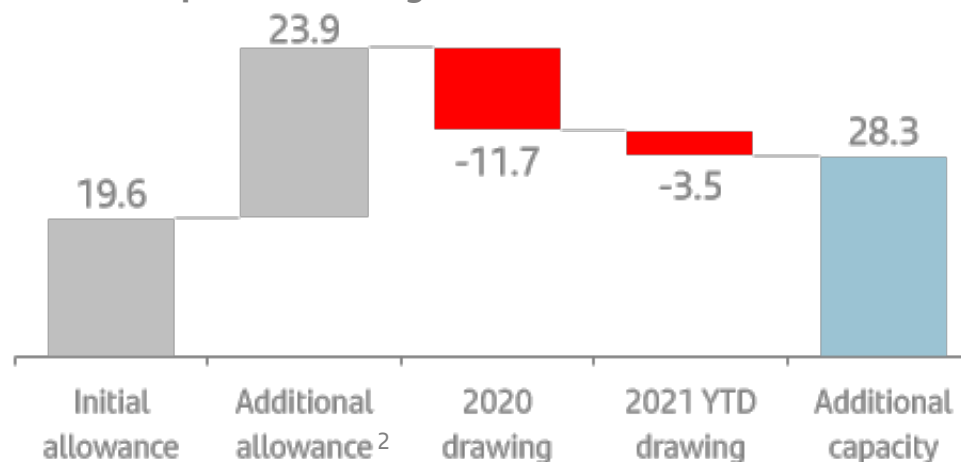
1. Assumes RWA and Leverage Exposure at Q2 2021. | 2. At June 2021, Santander UK Group Holdings Pillar 2A requirements was 4.94%. | 3. End state requirements as of Jan 2022. | 4. Combined Buffer Requirement includes CCB 2.5% and CCyB 0% and will be met exclusively with CET1.

Strong funding position across a diverse range of products

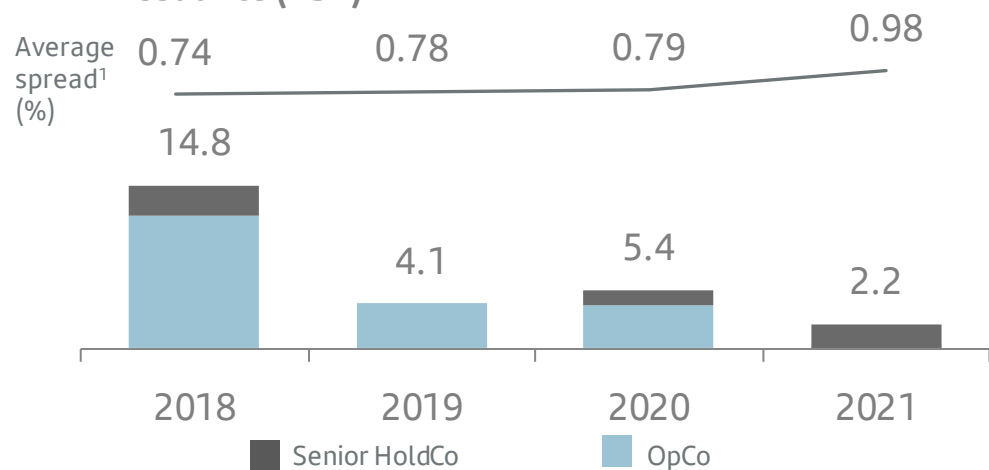
Term funding stock (£bn, Jun21)



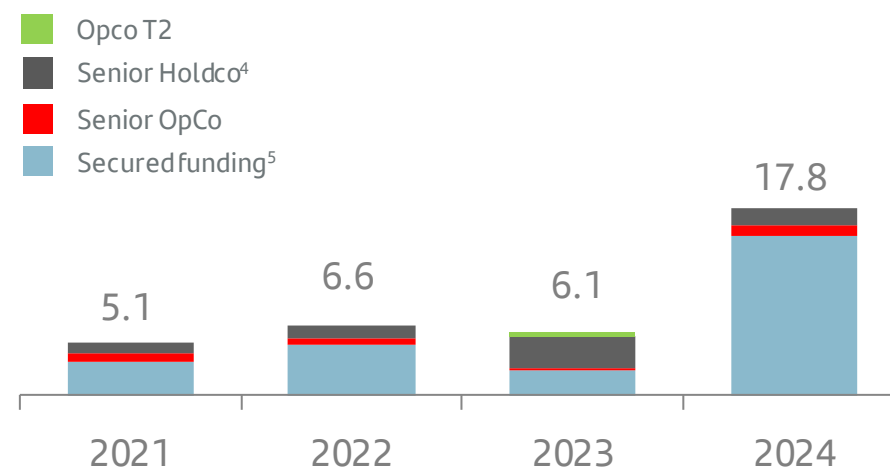
TFSME impact to funding



MTF issuance (£bn)



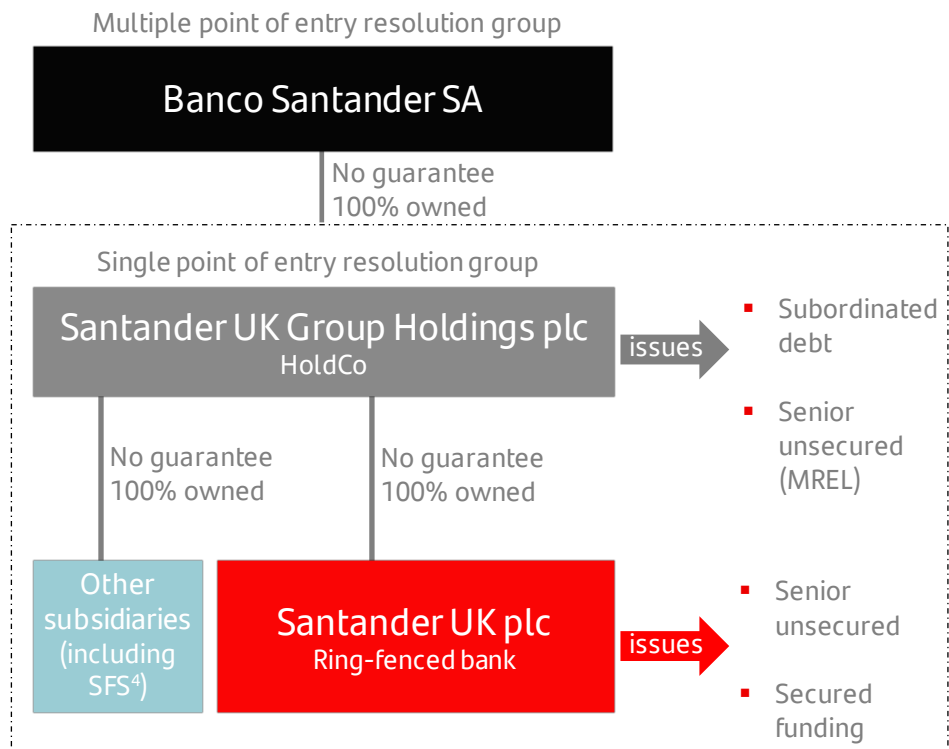
MTF maturities (£bn, Jun21)³



1. Average spread is the weighted margin above SONIA for issuance in that calendar year. | 2. Mar21 allowance. | 3. Includes issuances from Santander Consumer Finance UK and associated joint ventures and TFS. | 4. Earliest between first call date and maturity date. | 5. Including TFS and TFSME.

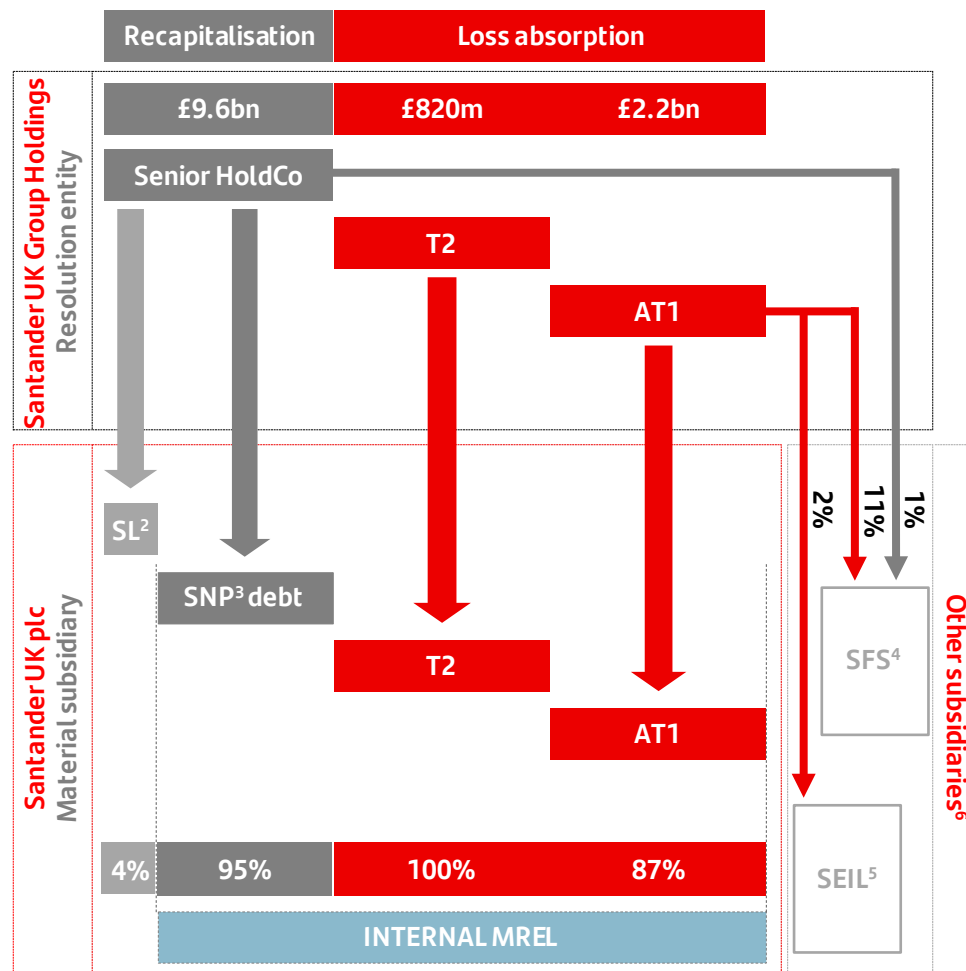
Santander UK group down-streaming model

Wholesale funding model



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

Current down-streaming of HoldCo issuance¹



1. Meeting MREL eligibility criteria and exchange rates at 30 June 2021. | 2. Senior loan. | 3. Secondary non-preferential. | 4. Santander Financial Services formerly ANTS. | 5. Santander Equity Investments Limited. | 6. Santander UK other subsidiaries will have limited on-going funding requirements.

Credit ratings – July 2021

S&P	A / A-1 / Stable	
AAA	OpCo	Covered Bond
AA+		
AA		
AA-		
A+		
A	OpCo	Senior Unsecured
A-		
BBB+		
BBB	HoldCo	Senior Unsecured
BBB-		
BB+	HoldCo	Tier 2
BB		
BB-		
B+	HoldCo	AT1

Moody's	A1 / P-1 / Stable	
Aaa	OpCo	Covered Bond
Aa1		
Aa2		
Aa3		
A1	OpCo	Senior Unsecured
A2		
A3		
Baa1	HoldCo	Senior Unsecured Tier 2
Baa2		
Baa3		
Ba1	HoldCo	AT1
Ba2		
Ba3		
B1		

Fitch	A+ / F1 / Stable	
AAA	OpCo	Covered Bond
AA+		
AA		
AA-		
A+	OpCo	Senior Unsecured
A	HoldCo	Senior Unsecured
A-		
BBB+	HoldCo	Tier 2
BBB		
BBB-	HoldCo	AT1
BB+		
BB		
BB-		
B+		

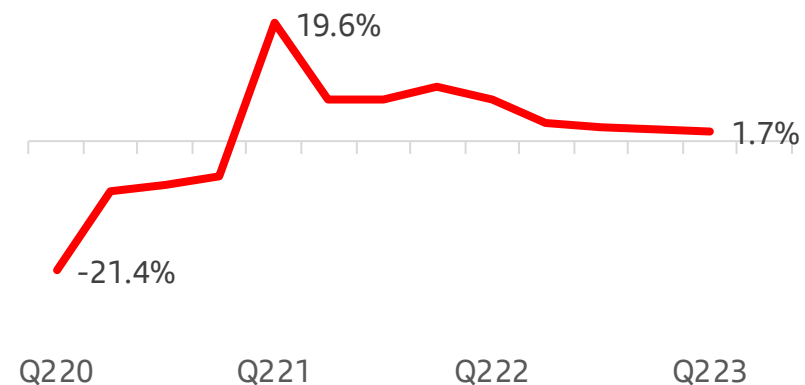
Appendix

Wide range of potential outcomes for the UK economy

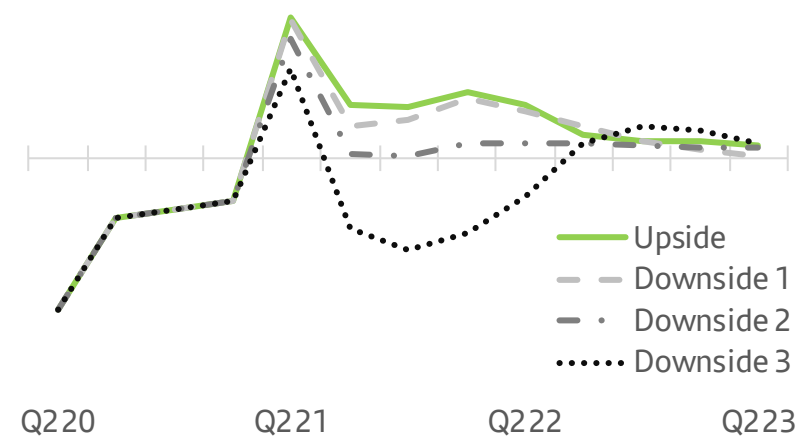
Economic scenarios (%)

		Downside 3	Downside 2	Downside 1	Base case	Upside
GDP	2020	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)
	2021	(4.7)	2.2	5.2	6.1	6.5
	2022	(2.7)	2.0	5.4	5.2	5.5
Base rate	2020	0.10	0.10	0.10	0.10	0.10
	2021	(0.50)	0.10	0.10	0.10	0.10
	2022	(0.50)	1.00	0.10	0.10	0.25
House price inflation (HPI)	2020	6.9	6.9	6.9	6.9	6.9
	2021	(11.7)	(3.7)	(1.5)	2.0	(0.6)
	5-yr CAGR	(4.8)	(4.1)	(2.1)	1.9	0.8
Unemployment (ILO)	2020	5.1	5.1	5.1	5.1	5.1
	2021	9.7	8.1	6.8	6.5	6.0
	5-yr peak	11.9	8.1	6.8	6.5	6.1
Weighting		5	25	15	50	5

Base case GDP (%)

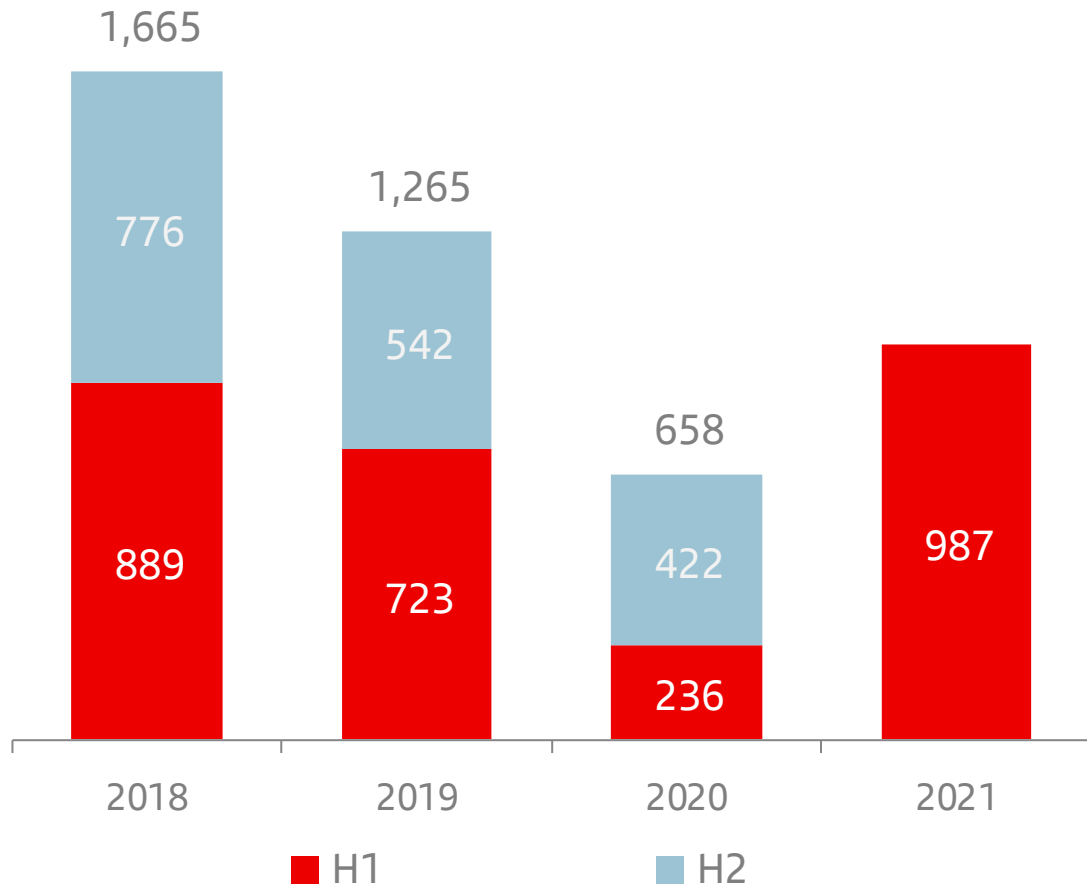


GDP scenarios (%)



Strong results underpinned by improving efficiency and our prudent approach to lending

Adjusted profit before tax¹ (£m)



KPIs	H118	H119	H120	H121
Banking NIM (%)	1.84	1.69	1.53	1.87
Cost-to-income ratio (%)	54	59	63	52
Cost of risk (bps)	12	7	26	9
Mortgage lending (£bn)	156.9	159.4	167.8	173.4
Customer deposits (£bn)	172.6	174.8	185.7	195.0

Disclaimer

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

This presentation provides a summary of the unaudited business and financial trends for the six months ended 30 June 2021 for Santander UK Group Holdings plc and its subsidiaries (Santander UK), including its principal subsidiary, Santander UK plc. Unless otherwise stated, references to results in previous periods and other general statements regarding past performance refer to the business results for the same period in 2020.

Alternative Performance Measures (APMs)

In addition to the financial information prepared under IFRS, this presentation includes financial measures that constitute APMs, as defined in European Securities and Markets Authority (ESMA) guidelines. These measures are defined and reconciliations to the nearest IFRS measures are available in the appendix to the Santander UK Group Holdings plc Quarterly Management Statement for the six months ended 30 June 2021.

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Source: Santander UK Q2 2021 results 'Quarterly Management Statement for the six months ended 30 June 2021' or Santander UK Group Holdings Management Information (MI), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK plc continues to have its preference shares listed on the London Stock Exchange. Further information in relation to Santander UK can be found at: www.santander.co.uk/uk/about-santander-uk. Neither the content of Santander UK's website nor any website accessible by hyperlinks on Santander UK's website is incorporated in, or forms part of, this presentation.

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Key dates

Q3'21 results: 27 October 2021



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