# Investor Update H1-24

## for the six months ended 30 June 2024

Santander UK Group Holdings Plc

Becoming a **digital bank** with a **human touch**

through helping **people** and **businesses prosper**

Santander

- Mortgage focused lender, with a strong retail deposit base and a diversification strategy
- Prudent approach to risk, delivering good returns through the cycle
- Resilient balance sheet with strong capital, liquidity and funding
- Benefit from being part of a global banking group

**14 million**
active UK customers

**7 million**
digital customers

**444 branches**
across the UK

**2.08%**
Banking NIM
(H1-23: 2.21%)

**£804m**
Profit before tax
(H1-23: £1,173m)

**10.9%**
Return on Tangible Equity
(2023: 14.4%)

| Customer lending (£bn) | | |
|---|---|---|
| Mortgage | 170.8 | 85% |
| CCB[1] | 18.1 | 9% |
| Consumer Finance | 4.9 | 2% |
| Other | 7.9 | 4% |
| **Total** | **201.7** | **100%** |

| Customer deposits (£bn) | | |
|---|---|---|
| Banking | 62.8 | 33% |
| Savings | 73.2 | 39% |
| CCB[1] | 25.4 | 14% |
| Other | 26.6 | 14% |
| **Total** | **188.0** | **100%** |

**Note:**
1. CCB is Corporate & Commercial Banking.

## Consistent delivery with a strong capital position

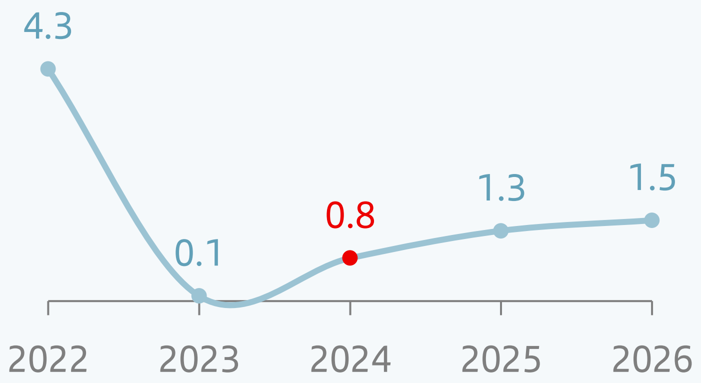
- Banking NIM improved 2bps quarter on quarter in Q2-24
- Q2-24 CIR improved 2pp, with stable income and lower costs
- Lower cost of risk in 2024, reflecting improved economic outlook
- CET1 capital ratio and UK leverage ratio above regulatory requirements

### Key metrics

| Metric | 2021 | 2022 | 2023 | Q1-24 | Q2-24 |
|---|---|---|---|---|---|
| Banking NIM (%)[1] | 1.92 | 2.06 | 2.20 | 2.07 | 2.09 |
| CIR (%)[1] | 56 | 47 | 48 | 57 | 55 |
| Cost of risk (bps) | (11) | 15 | 10 | 8 | 8 |
| RoTE (%)[1,2] | 11.2 | 12.0 | 14.4 | 10.3 | 10.9 |
| CET1 capital ratio (%) | 15.9 | 15.2 | 15.2 | 15.2 | 15.2 |
| Leverage ratio (%) | 5.2 | 5.2 | 5.1 | 5.1 | 4.9 |
| LCR (%)[3] | 166 | 163 | 162 | 166 | 147 |
| Stage 3 ratio (%) | 1.43 | 1.24 | 1.49 | 1.57 | 1.57 |

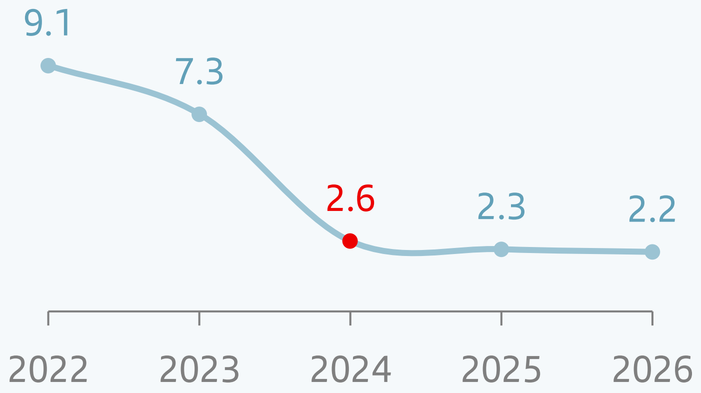
Note:
1. Non-IFRS measure. See Appendix of QMS for each year for details.
2. Q2-24 RoTE figure is calculated using H1-24 results.
3. Liquidity metrics reported for Santander UK, our Holding Company following adoption of CRR2 regulation from 2022.

## GDP growth[1] (%)



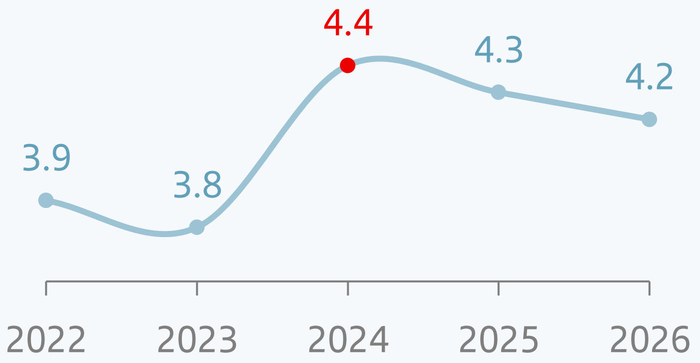

- Another year of slow economic growth expected in 2024
- Consumer spending continues to be impacted by cost of living pressures and adjustment to higher borrowing costs

## Annual CPI[2] (%)




- Inflation has continued to ease, falling towards target range over 2024
- Our base case forecast for BoE Base Rate at 31-Dec-2024 is now 4.75%
- This has been updated to reflect two bank rate cuts rather than three in 2024

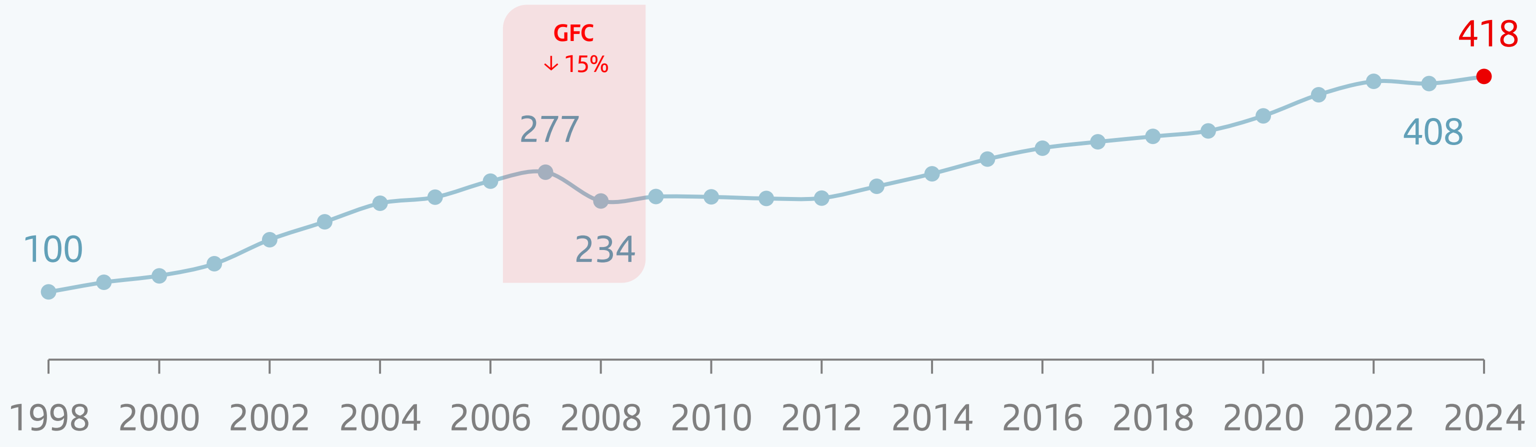
## Unemployment[3] (%)




- Unemployment is forecast to increase to 4.4% in 2024
- Improvement from Q4-23 forecast of 4.8% at 31-Dec-2024, however slightly higher than Q1-24 forecast of 4.2%

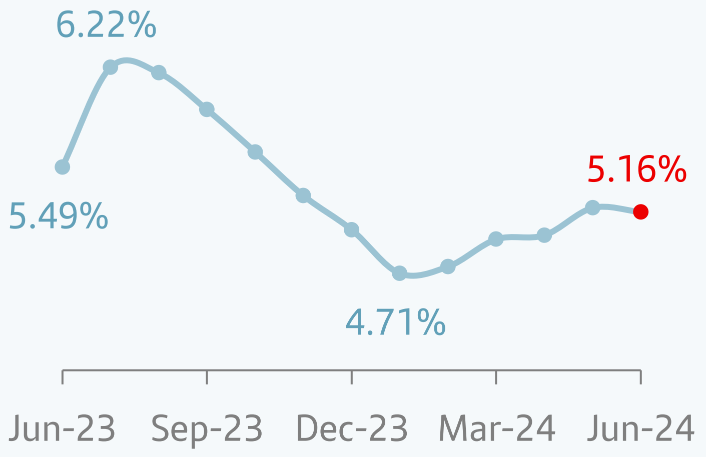
Note:
1. Calendar year annual growth rate.
2. Consumer Price Index annual average.
3. At 31-Dec for each period.

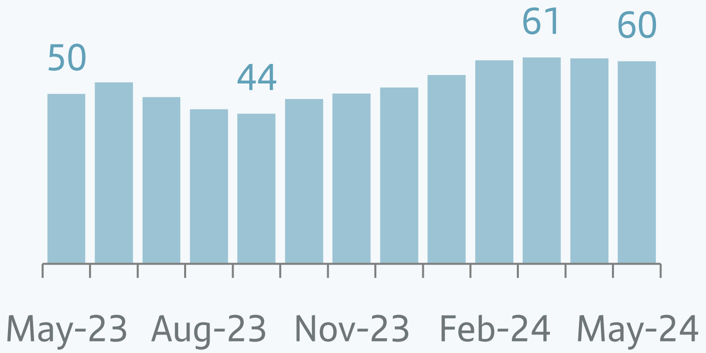
## Halifax HPI (rebased to 1998)




- Stronger than expected housing market performance over H1-24, despite a slower rise in growth across Q2-24
- Current HPI forecast (Santander UK base case) for 2024 shows a 2.5% increase
- Mortgage approvals are recovering following a particularly weak 2023 summer, approaching 2022 average of 63k
- Assisted by rates falling from summer peak and inflationary pressures easing

## Mortgage rates[1] (%) & approvals[2] ('000)




**Note:**
1. Bank of England quoted calendar year annual 2 Year (75% LTV) Fixed Rate Mortgage.
2. Number of Total Sterling Approvals for House Purchase to Individuals. Jun-24 data unavailable at time of publication.

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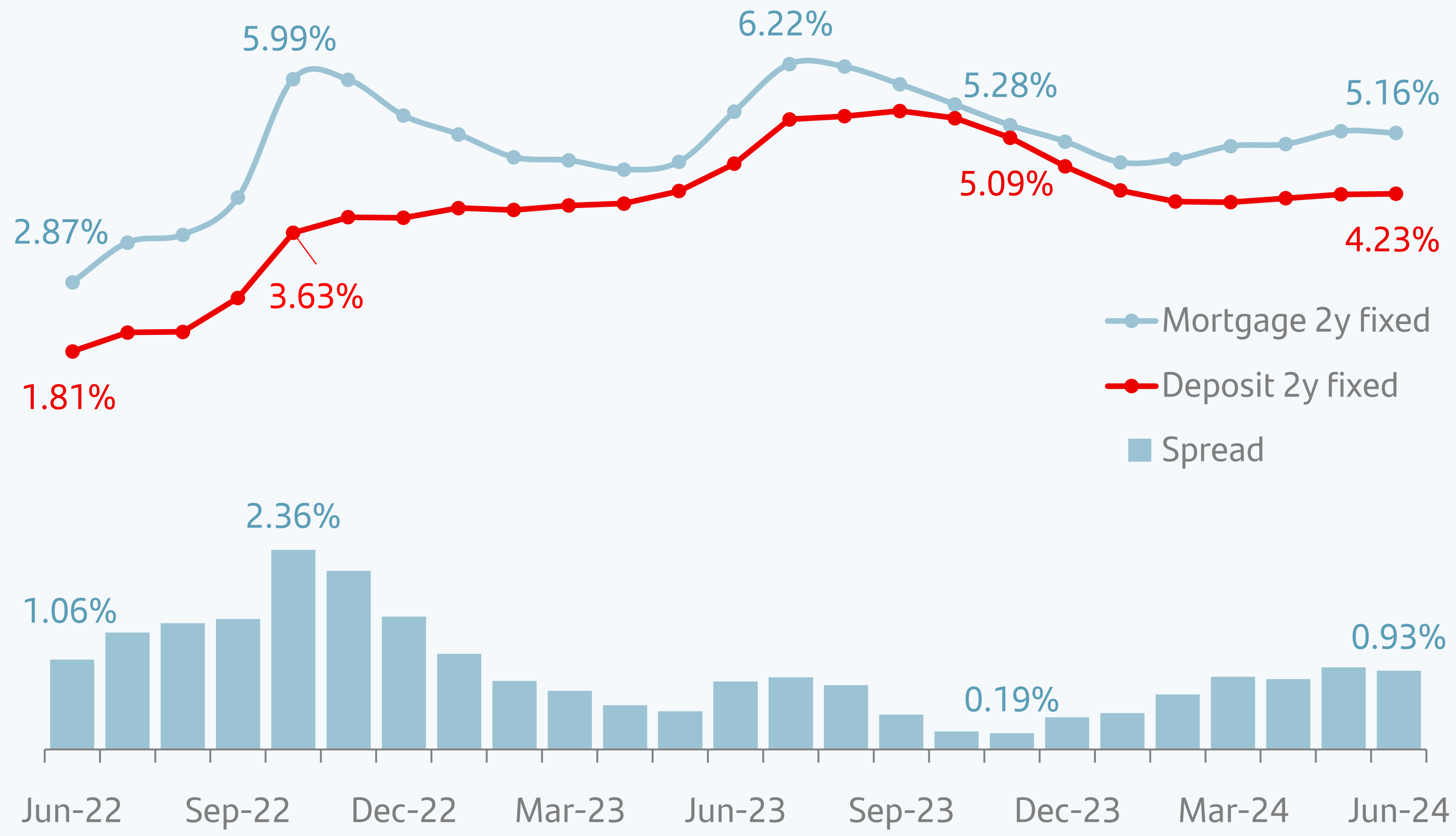
- Spreads increased throughout H1-24, following lows of Q4-23
- New business rates for mortgages increased slightly in late Q2-24, but remain below summer 2023 peak
- Term deposit acquisition rates stabilised in Q2-24, remaining below last year's peak
- Competition for deposits continued to remain high

## Quoted market interest rates[1] and spread (%)




Note:
1. Source: Bank of England. United Kingdom, Mortgage Lending Rates, Interest Rate of UK Monetary Financial Institutions (Excluding Central Bank) Sterling 2 Year (75% LTV).

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## Good second quarter performance

- Net interest income stable in the quarter, following active margin management
- Operating expenses down 2%, as management continue to focus on simplifying and automating the business
- Banking NIM increased by 2bps in Q2-24
- See H1-24 overview on page 29

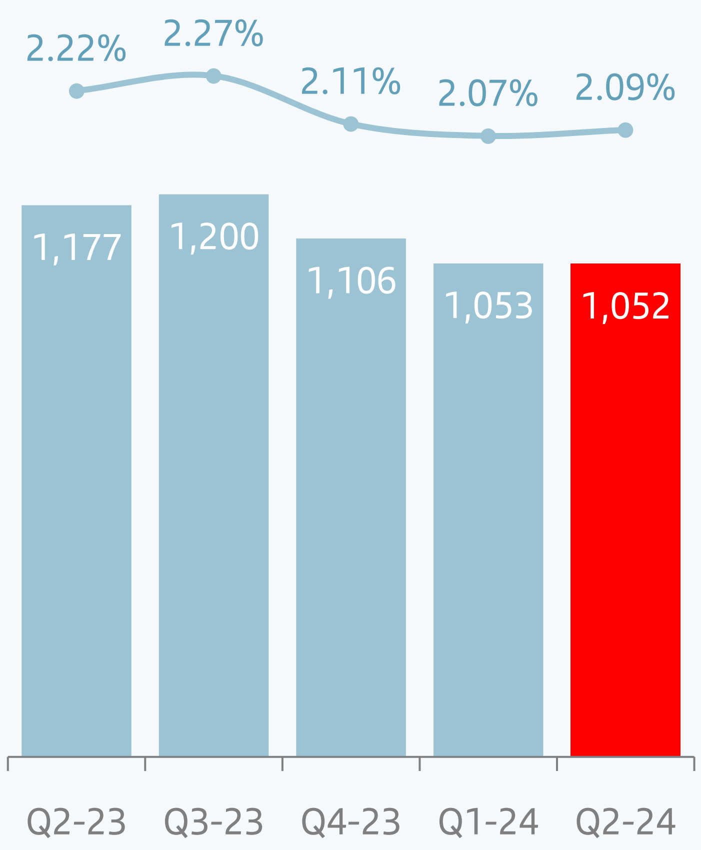
### Income statement (£m)

| Key income lines | Q1-24 | Q2-24 | Var # | Var % |
|---|---|---|---|---|
| Net interest income | 1,053 | 1,052 | (1) | (0%) |
| Non-interest income | 95 | 101 | 6 | 6% |
| Operating expenses | (655) | (639) | 16 | (2%) |
| Credit impairment losses | (19) | (41) | (22) | 116% |
| Provisions for other liabilities | (83) | (60) | 23 | (28%) |
| **Profit before tax** | **391** | **413** | **22** | **6%** |

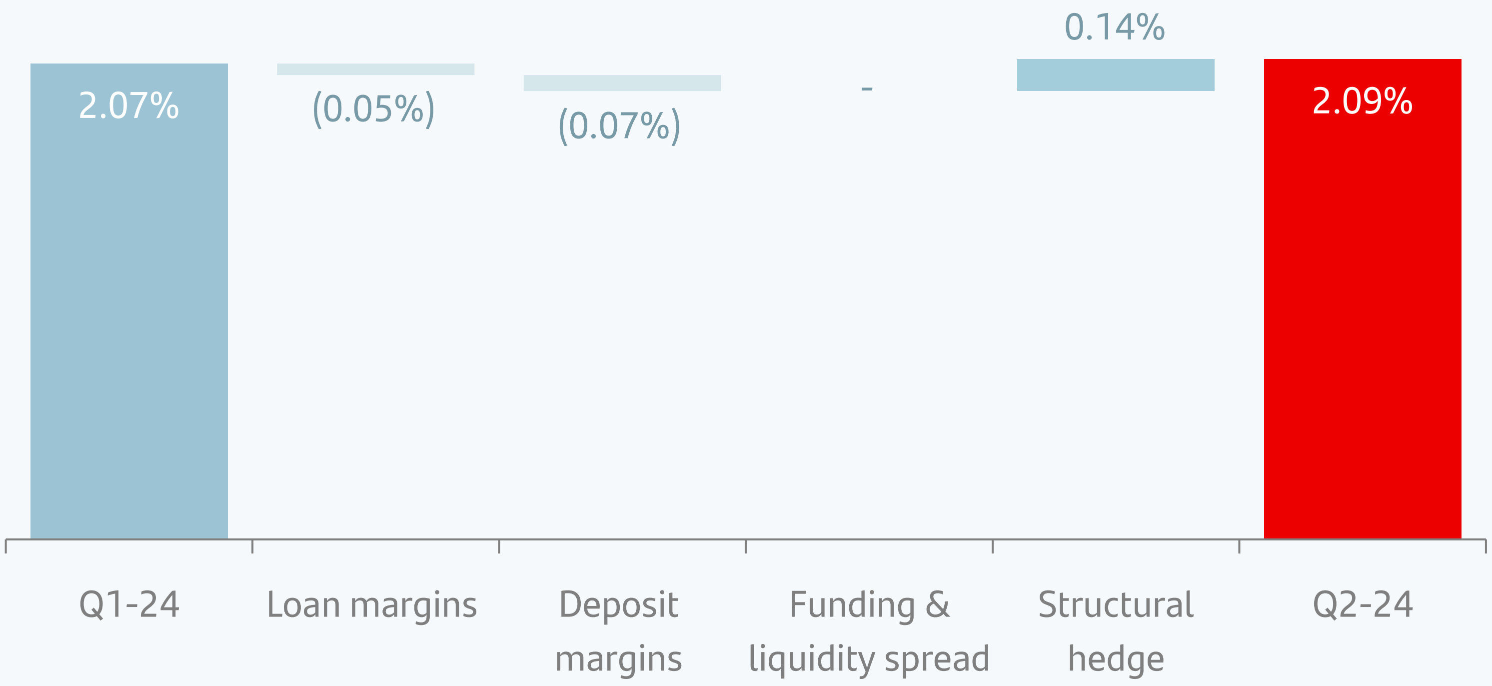
| Other key metrics | Q1-24 | Q2-24 | Var # | Var % |
|---|---|---|---|---|
| Banking NIM[1] (%) | 2.07% | 2.09% | 2bps | n/a |
| Cost-to-income ratio[1] (%) | 57% | 55% | (2pp) | n/a |

**Note:**
1. Non-IFRS measure.

## NII (£m) and Banking NIM (%)




## Banking NIM[1] bridge (%)

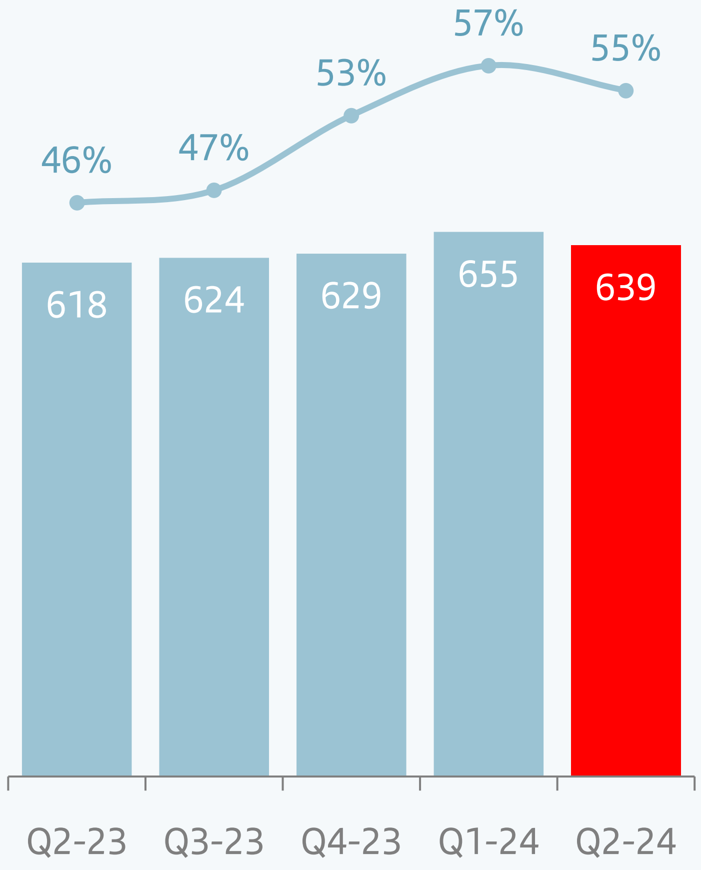



- Pricing actions taken and increased contribution from the structural hedge positively impacted Banking NIM towards the end of Q2-24
- These factors are expected to provide tailwinds into H2-24

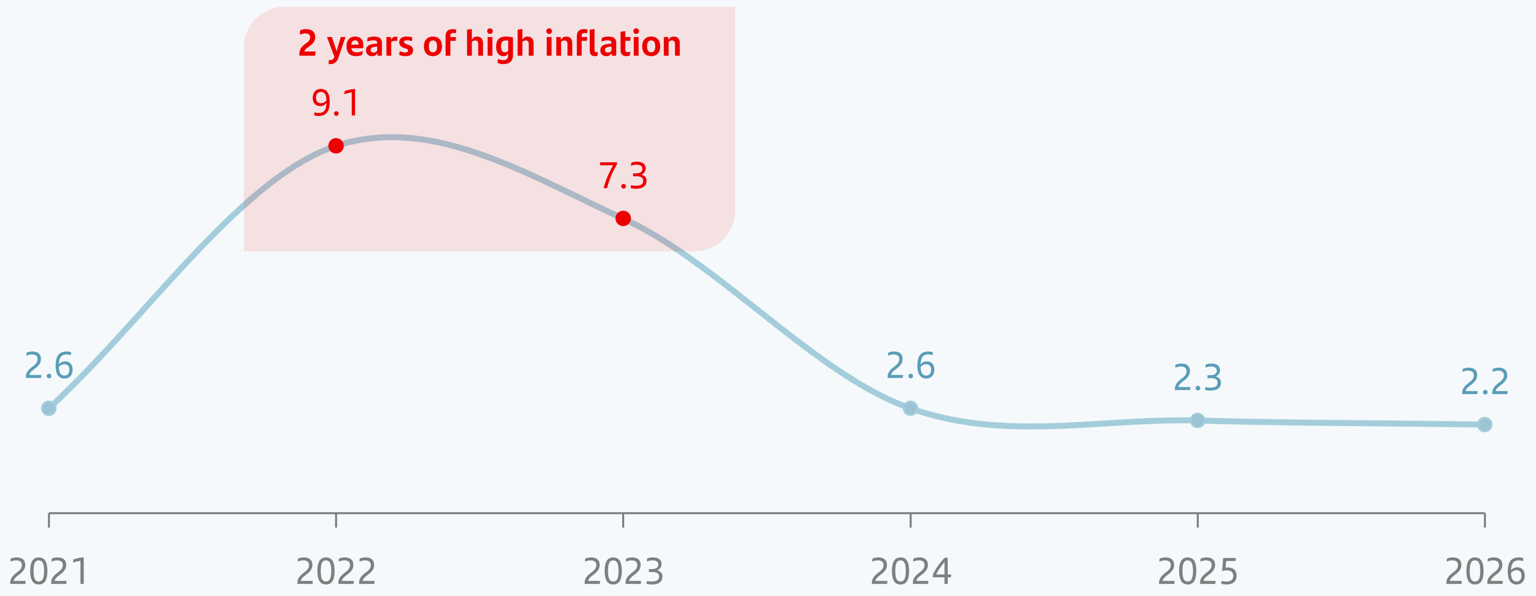
**Note:**

1. Banking NIM is calculated as net interest income divided by average customer assets. Loan margins and deposit margins calculated against the relevant risk-free rate. Structural hedge is gross yield only and associated liability costs in deposit margins. Funding and Liquidity includes cost of wholesale funding and income from liquid assets buffer.

## Operating expenses (£m) and CIR (%)

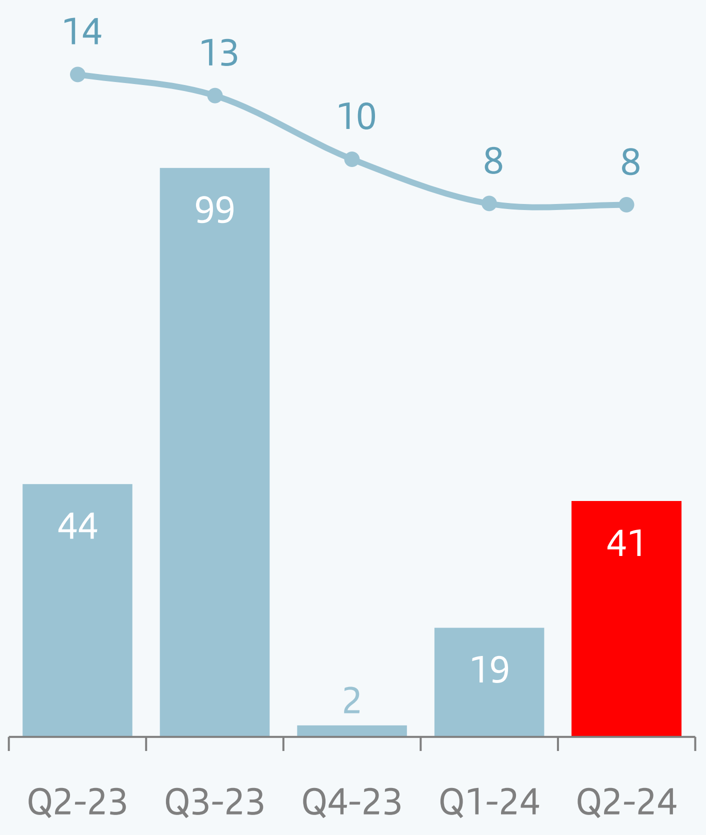



## CPI link with cost growth (%)




- Simplification and automation of the business drove the reduction in costs in Q2-24
- Two consecutive years of high inflation and annual pay increases to staff driving costs higher than 2023 corresponding period

## Credit impairment (£m) & CoR[1] (bps)




## ECL impact (£m)

| Economic scenarios | Jun-24 | | Dec-23 | |
|---|---|---|---|---|
| | ECL | Weighting | ECL | Weighting |
| Upside | 781 | 10% | 834 | 10% |
| Base Case | 844 | 50% | 898 | 50% |
| Downside 1 | 994 | 20% | 993 | 10% |
| Downside 2 | 1,547 | 10% | 1,412 | 10% |
| Stubborn inflation | 1,139 | 10% | 1,179 | 20% |
| **Weighted** | **960** | **100%** | **994** | **100%** |

Decrease in cost of risk is being driven by:

- Improved economic outlook; and
- Smaller loan portfolio & stable credit quality

**Note:**

1. Cost of risk is the sum of credit impairment (charges) or write-backs for the last 12-month period as a percentage of average customer loans for the last 12 months.

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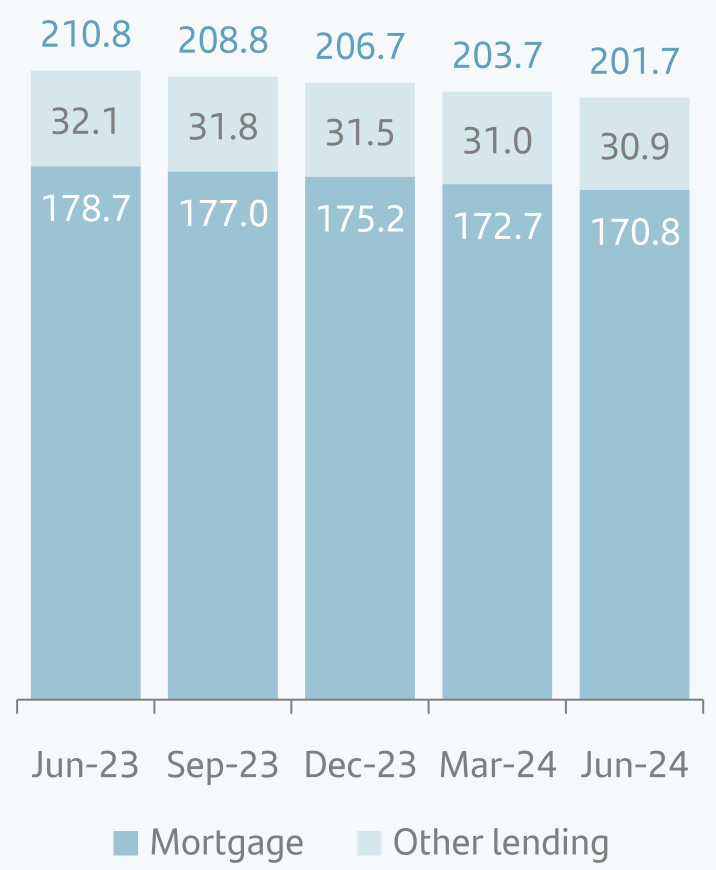
## Resilient, low-risk and high-quality customer lending portfolio

- Reduction of the mortgage portfolio continues
- CCB portfolio continues to grow, with 320 new clients in 2024
- Limited exposure to CRE. BTL remains a small portion of our mortgage book at 9% (Dec-23: 9%)
- Stock LTV of 51% (Dec-23: 51%)

### Customer lending (£bn)




### Customer lending breakdown (£bn)

| Segment | Jun-24 |
|---|---|
| Retail & Business Banking | 177.4 |
| - Mortgage | 170.8 |
| - Business Banking[1] | 1.5 |
| - Credit cards | 2.6 |
| - UPL | 2.1 |
| - Overdrafts | 0.4 |
| Consumer Finance | 4.9 |
| CCB | 18.1 |
| Corporate Centre | 1.3 |
| **Total** | **201.7** |

**Note:**
1. Business Banking includes £1.4bn of BBLS with 100% Government guarantee (Dec-23: £1.7bn).

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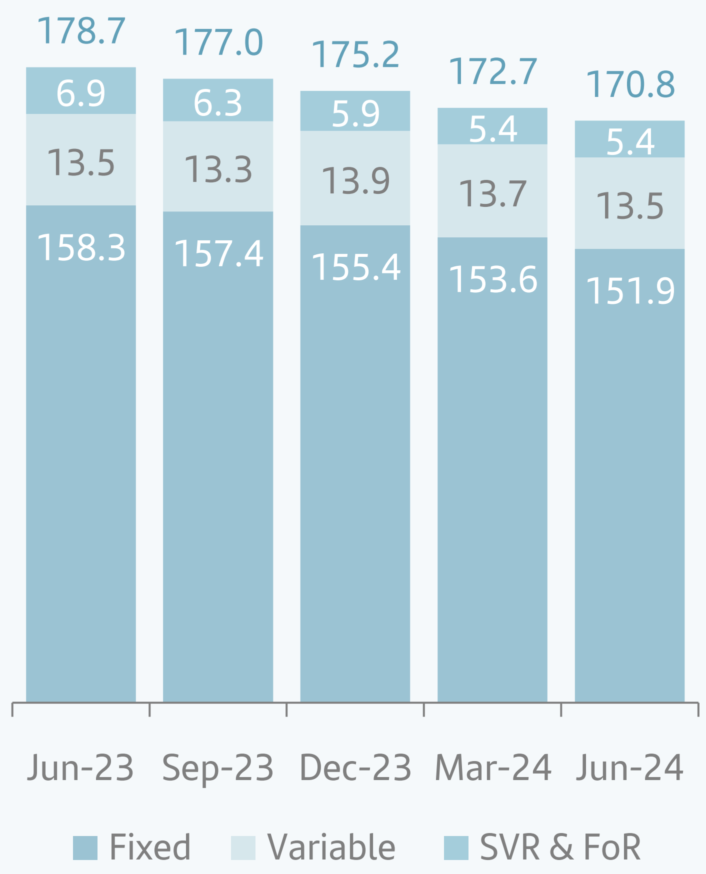
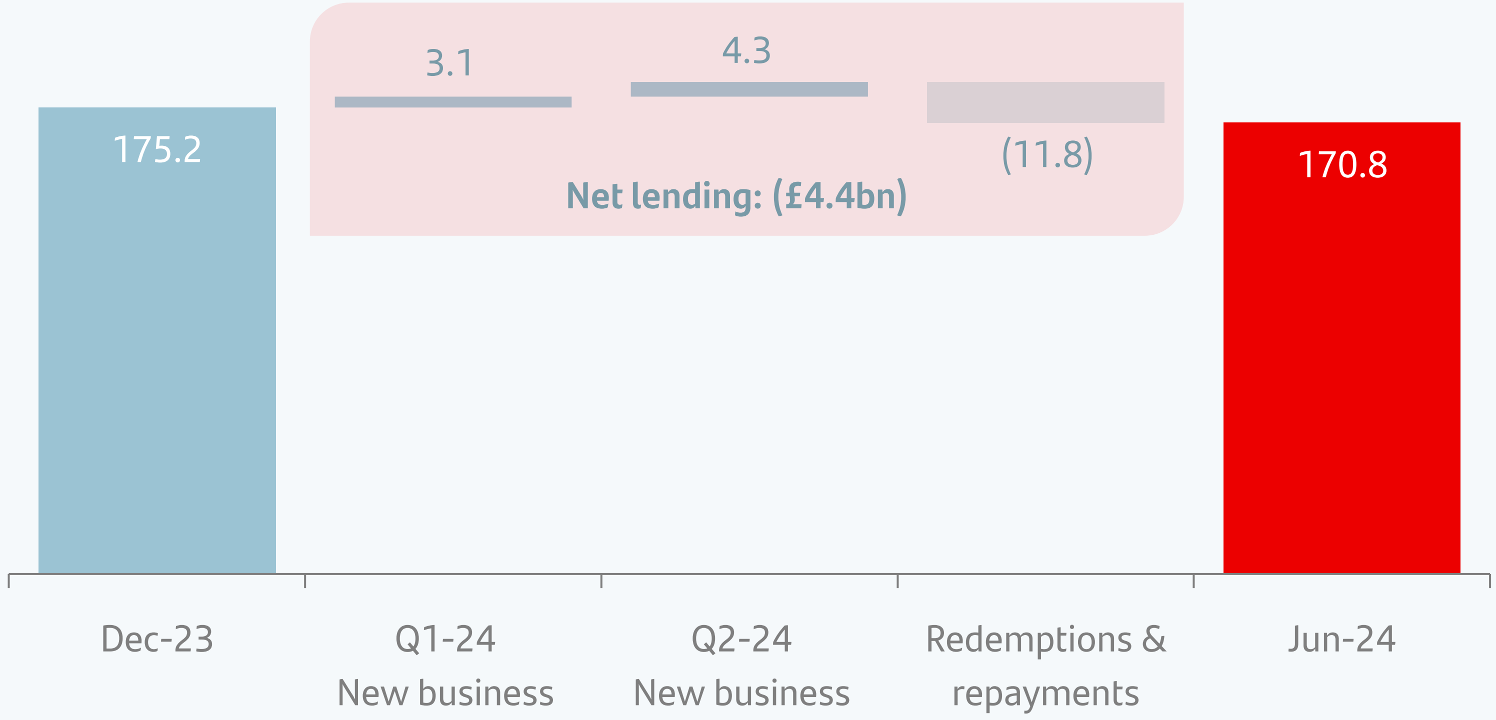
## Interest rate profile (£bn)




## Mortgage lending breakdown[1] (£bn)




- Increase in new business in Q2-24 following improved lending margins
- £70.5bn of new business and internal transfers across 2023 & H1-24 (41% of the portfolio)

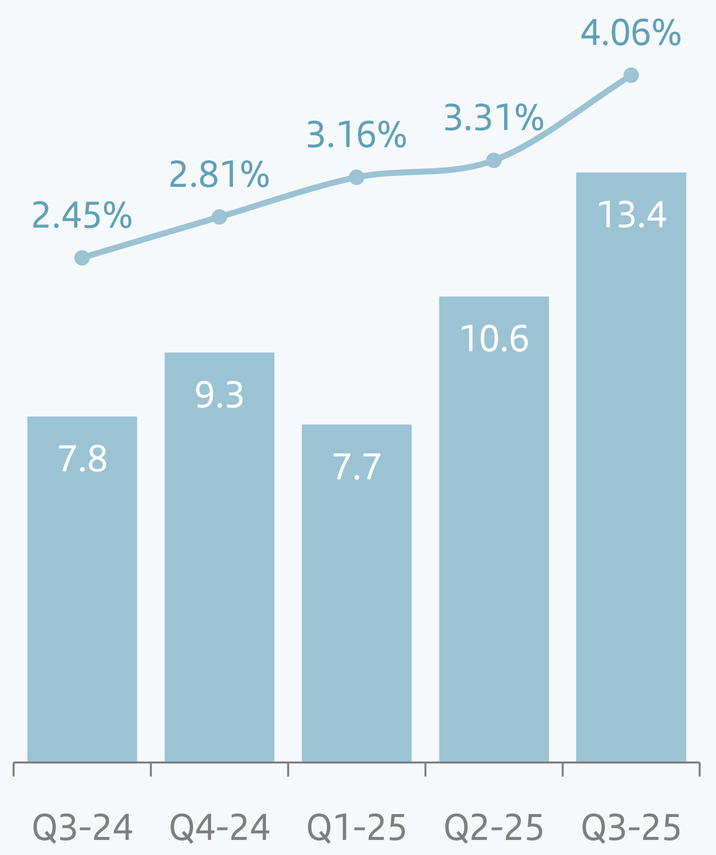
**Note:**

1. New Business includes further advances and drawdown on flexible mortgages.

## Low risk profile for maturities, with maturing customer rates below historical stress rates

- c. 20% of the mortgage portfolio matures in the next 12 months
- 77%[1] of mortgages reaching the end of their incentive period were retained
- Current new business rates[2] (2 year fixed: 5.16%) are below the minimum historical stress rates[3] (c. 6.35%) used for affordability assessments at origination

### Maturities (£bn) and customer rate (%)




### H2-24 maturities by LTV band (£bn)

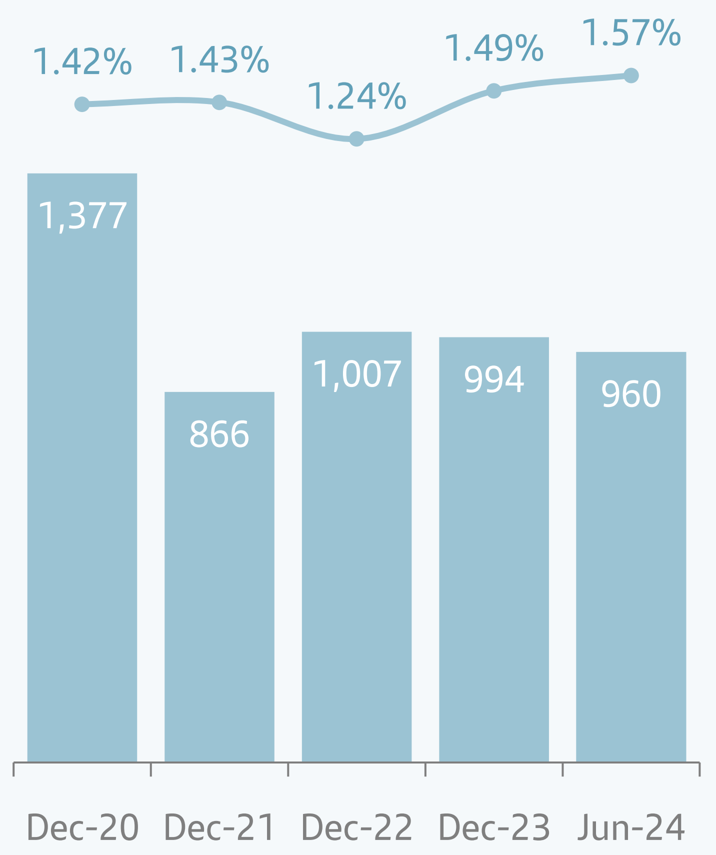
| | |
|---|---|
| LTV <50% | 7.6 |
| LTV 50-75% | 7.5 |
| LTV 75-90% | 1.7 |
| LTV 90-95% | 0.2 |
| LTV >95% | 0.1 |
| **Total** | **17.1** |

**Note:**
1. Applied to mortgages four months post maturity and is calculated as a 12-month average of retention rates to Mar-24.
2. Jun-24 Bank of England quoted 2 Year (75% LTV) Fixed Rate Mortgage (latest available).
3. Mortgage application stress rate applied prior to Dec-21, excluding lending with fixed rates for 5 or more years and remortgages without additional lending.

## Resilient loan portfolio

- ECL provision of £960m, down £34m from Dec-23
- Stage 3 ratio up from Dec-23 due to a smaller mortgage book and additional single name cases in CCB, however remained stable in the quarter
- Arrears remain low[1], reflecting our prudent approach to risk

### ECL provisions (£m) and stage 3 ratio (%)




### Arrears over 90 days rate (%)

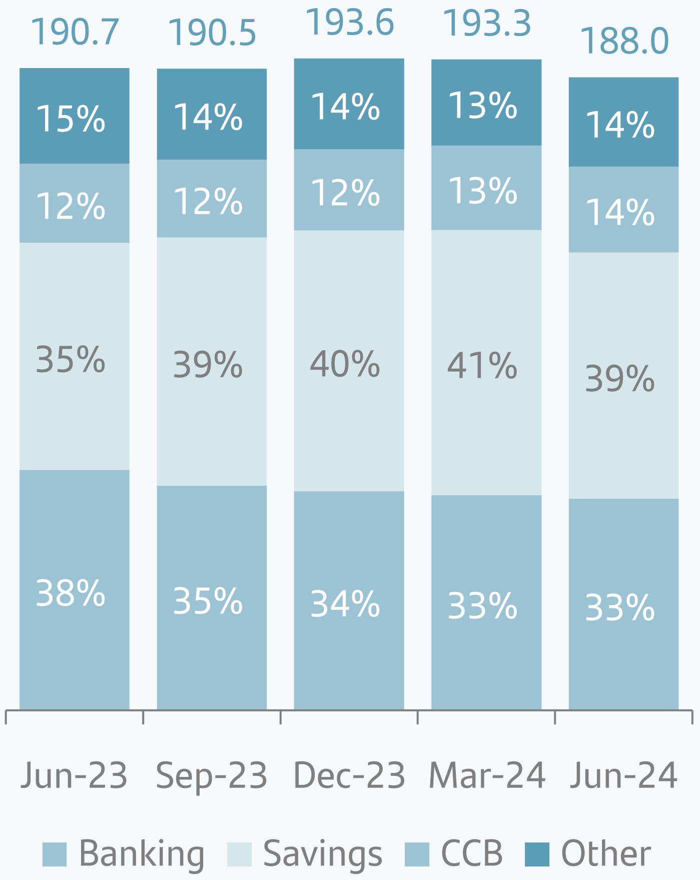
| Arrears Rate | Dec-23 | Jun-24 |
|---|---|---|
| Mortgages | 0.80% | 0.84% |
| Credit Cards | 0.51% | 0.54% |
| UPLs | 0.73% | 0.85% |
| Overdrafts | 2.43% | 2.58% |
| Business Banking | 4.15% | 4.13% |
| Consumer Finance | 0.43% | 0.52% |
| CCB | 1.04% | 1.30% |

**Note:**
1. Pre Covid-19 average mortgage arrears rate for the 9 years to Dec-19 of 1.31%.

## Diversified deposit base

- Deposit migration to savings ceased in Q2-24 following repricing actions on savings accounts
- 14 million active customers
- Personal savings: average customer balance c.£6k
- 86% of core retail[1] deposits insured

### Customer deposits[2] (£bn)




### Customer deposit breakdown (£bn)

| Segment | Jun-24 |
|---|---|
| Retail & Business Banking | 151.0 |
| - Banking | 62.8 |
| - Savings | 73.2 |
| - Business Banking | 9.7 |
| - Other Retail | 5.3 |
| CCB | 25.4 |
| Corporate Centre | 11.6 |
| **Total** | **188.0** |

Note:
1. Core retail is Retail Banking excluding Cater Allen and Santander Business Banking. Deposits in the Crown Dependencies aren't eligible for the FSCS.
2. Other includes Business Banking, Other Retail and Corporate Centre.

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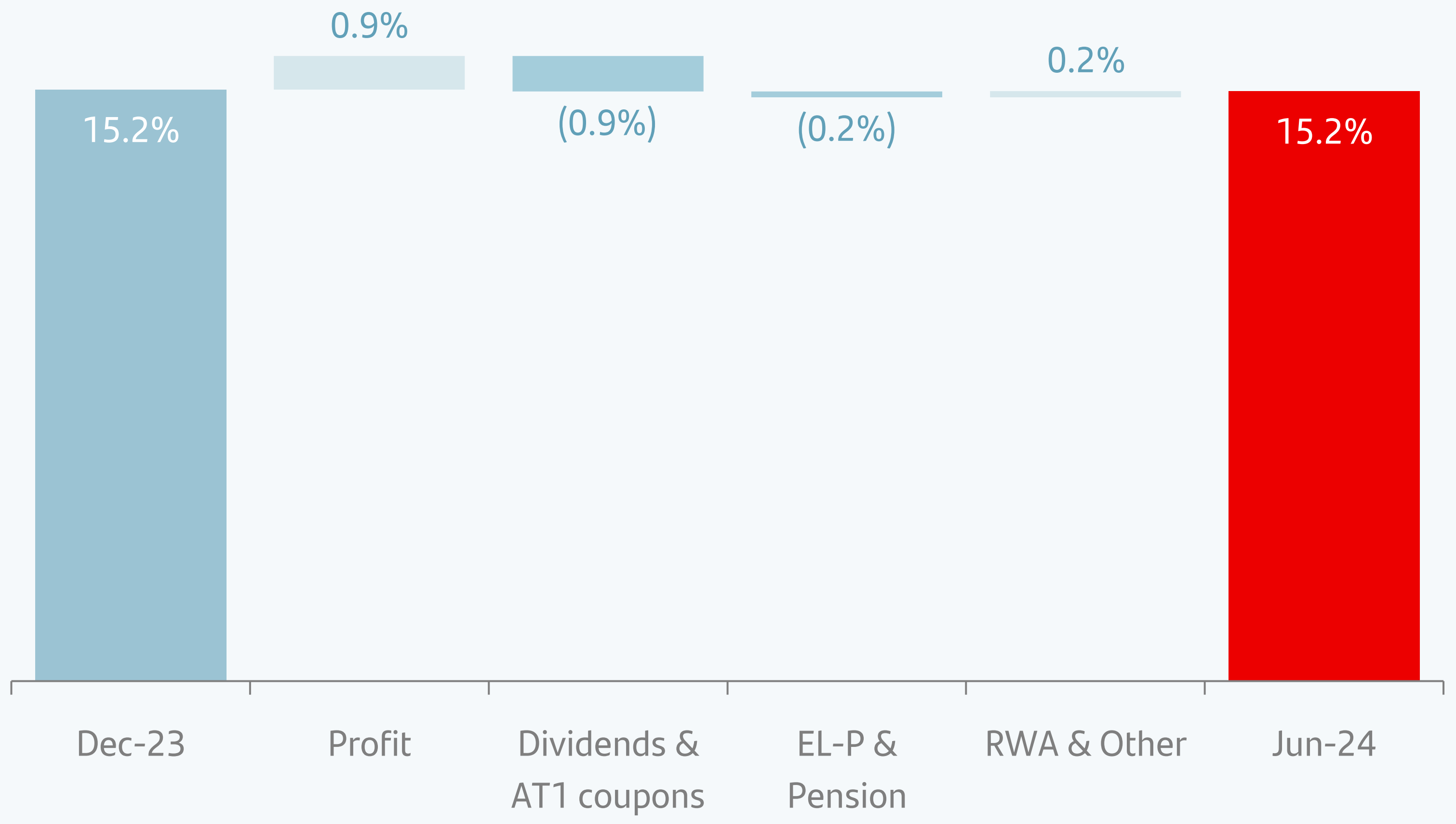
## We continue to be strongly capitalised

- CET1 capital ratio remained stable at 15.2%
- Profits offset by £556m in interim dividends paid in Jun-24

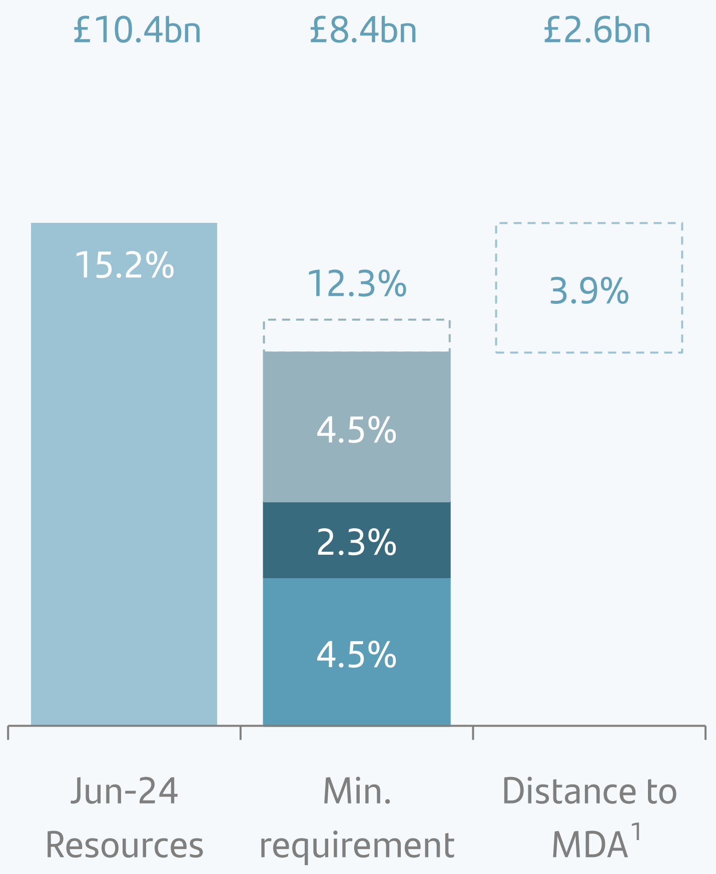
### CET1 capital ratio bridge (%)



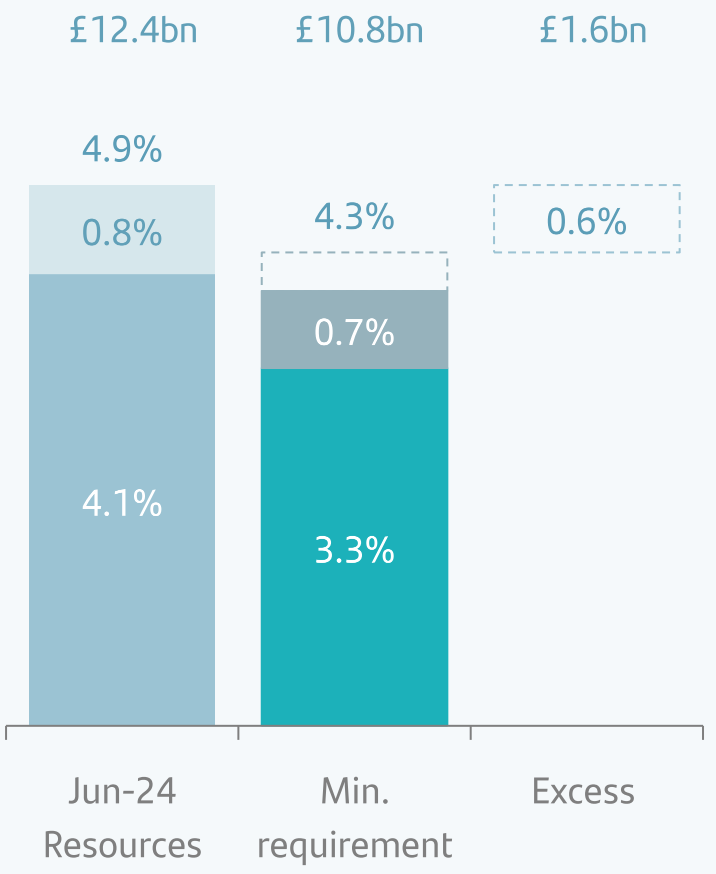
## Maintained capital buffer, with headroom to minimum requirements

- Remain strongly capitalised with significant headroom to minimum requirements and MDA
- CET1 capital ratio headroom over regulatory minimum of 3.9% of RWA at Jun-24
- Combined Buffer Requirement includes CCB 2.5% and CCyB 2% and will be met exclusively with CET1

### CET1 capital ratio (% RWA)




### UK leverage ratio (% leverage exposure)

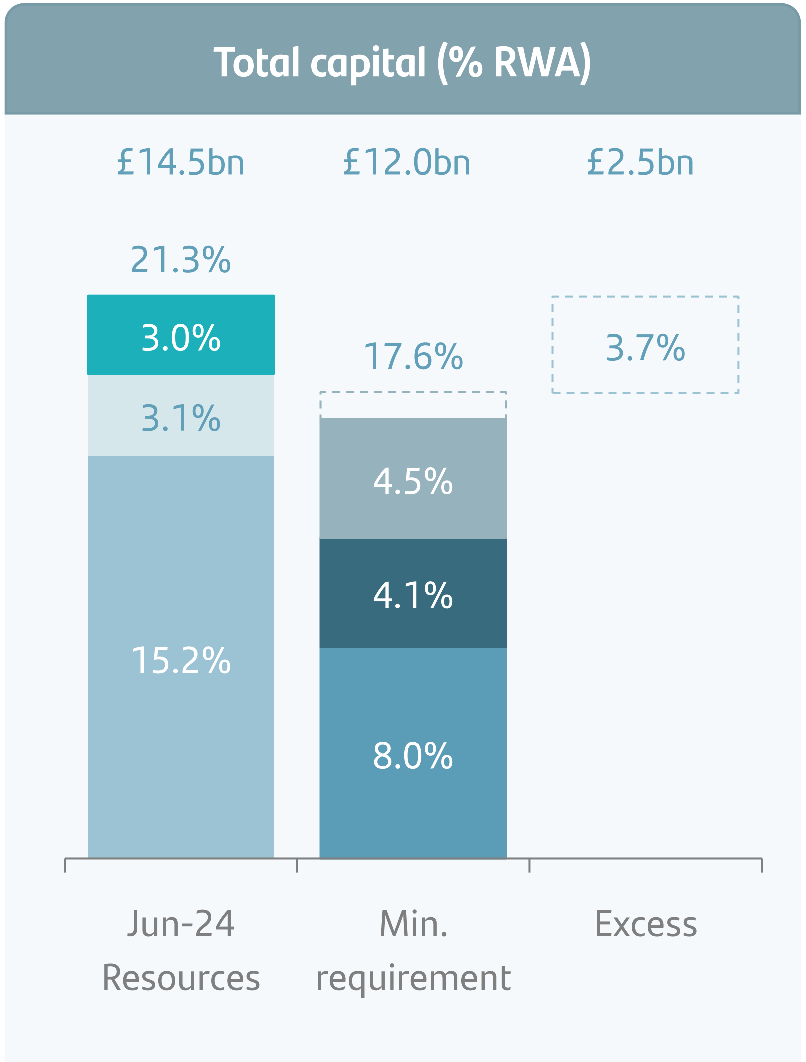


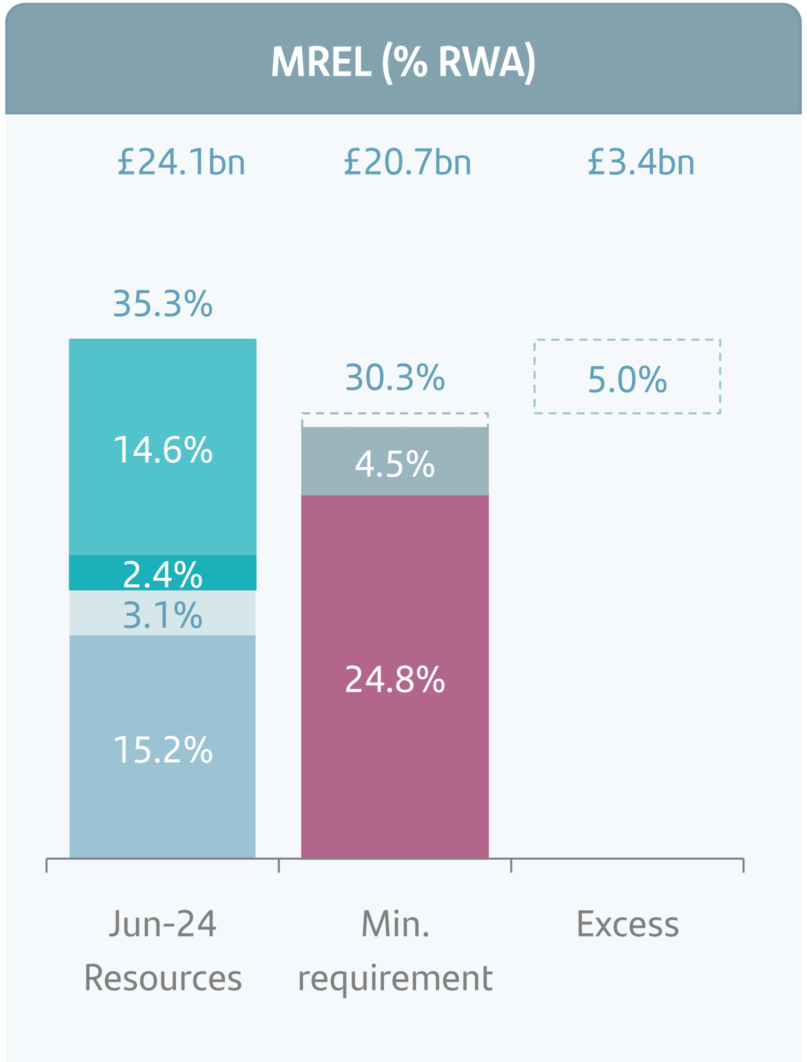

CET 1 | AT1 | Pillar 1 | Pillar 2A | CBR | Base Leverage | Systemic[2]

Note:
1. Distance to MDA is measured on HoldCo requirements and excludes RFB systemic buffer.
2. O-SII requirements for RFB: 1.0% for CET1 capital ratio and 0.35% for UK leverage ratio.

## Capital and MREL above minimum requirements

- From RWA perspective part of our T2 requirements are met with CET1 and AT1
- At Jun-24 SanUK's Pillar 2A capital requirement remained with RWA percentage-based element
- Fully compliant with end state MREL requirements




**Note:**
1. O-SII requirements from RFB: 1.0% for total capital ratio and MREL.

- £19bn of TFSME repayments made to date. £13bn due for repayment:
  - 2025: c.£9bn (Oct-25)
  - 2027 to 2031: c.£4bn

- Future TFSME repayments will be scheduled to give funding flexibility

- Any TFSME surplus to current funding requirement deposited at BoE (net zero cost) or deployed as high quality liquid assets

**Term funding stock (£bn)**

| Funding type | Jun-24 |
|---|---|
| TFSME | 13.0 |
| Covered Bonds | 16.9 |
| RMBS | 3.5 |
| OpCo Senior Unsecured | 1.5 |
| HoldCo Senior Unsecured | 9.9 |
| Subordinated Debt | 2.2 |
| **Total** | **47.0** |

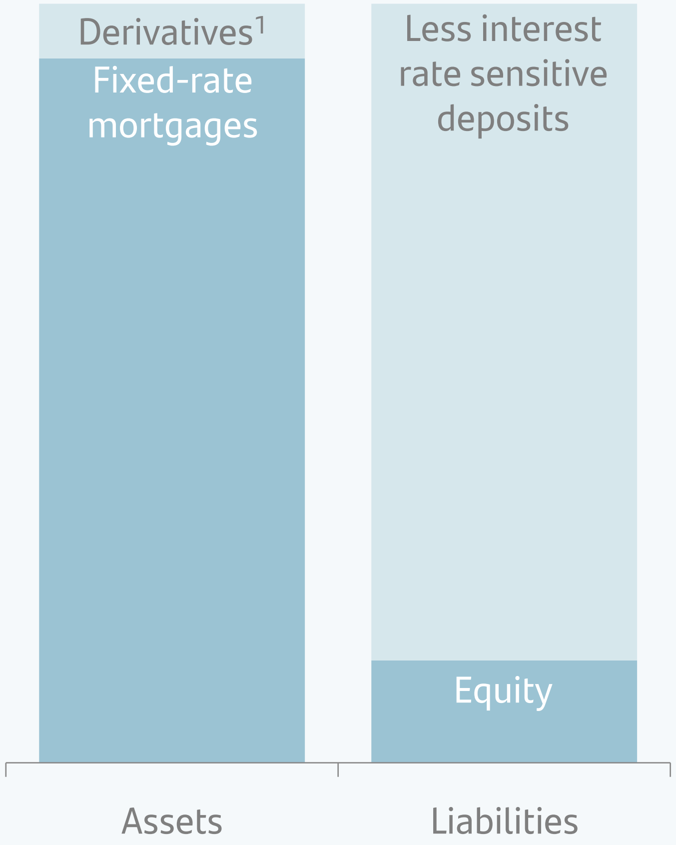
*Average funding duration of 3 years*

**2024 funding overview (£bn)**

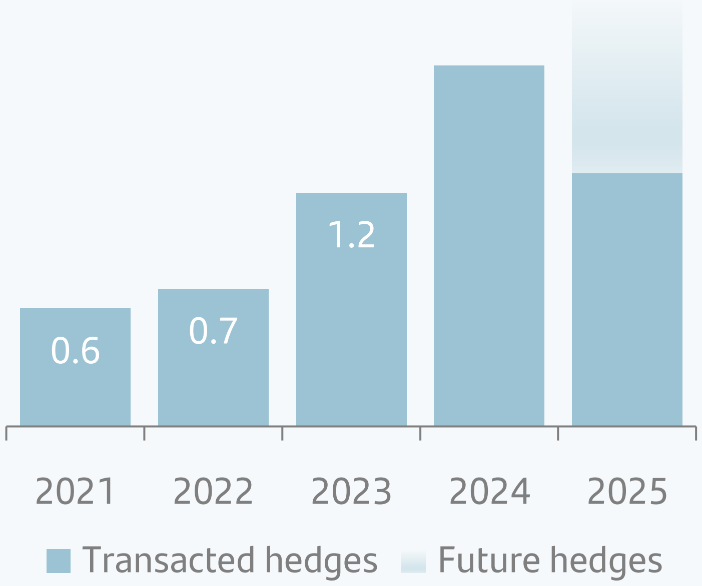
| Funding type | YTD | Forecast |
|---|---|---|
| | | |
| Covered bonds | 4.1 | 4.5 to 5.5 |
| RMBS | 0.8 | 1.0 to 1.5 |
| OpCo Senior Unsecured | - | Up to 1.0 |
| HoldCo Senior Unsecured | - | 0.5 to 1.0 |
| AT1 | 0.4 | 0.4 |

- The balance on the structural hedge grew to £114bn (Dec-23: £106bn)
- Hedge duration of c.2.5 years (Dec-23: c.2.4 years)
- Over the medium term we expect structural hedge contribution to stabilise
- 100% of hedge income already locked in for 2024

## Indicative structural hedge composition




## Hedge income (£bn) and NII sensitivity




| Rate shift[2] (£m) | Dec-23 | Jun-24 |
|---|---|---|
| +100 bps | 218 | 122 |
| - 100 bps | (220) | (122) |

Note:
1. Hedge accounted derivatives.
2. Based on parallel instantaneous shocks to the yield curve over a 12-month period.

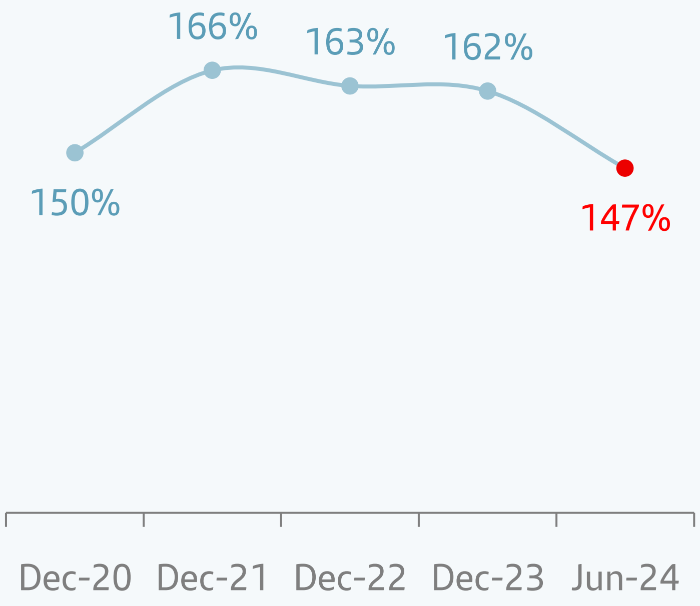
## Maintained strong liquidity position

- Term duration in the liquidity pool is hedged with swaps to offset mark to market movements from interest rate changes
- £13.3bn of high-quality liquid assets are short term securities financing transactions, with 71% maturing within 90 days
- NSFR[1] of 137% (Dec-23: 138%)

### LCR eligible assets (£bn)

| LCR eligible assets | Jun-24 |
|---|---|
| Cash and central bank reserves | 29.2 |
| High quality liquid assets | 19.9 |
| - Level 1 | 17.2 |
| - Level 2 | 2.7 |
| **Total** | **49.1** |

### Liquidity coverage ratio (%)



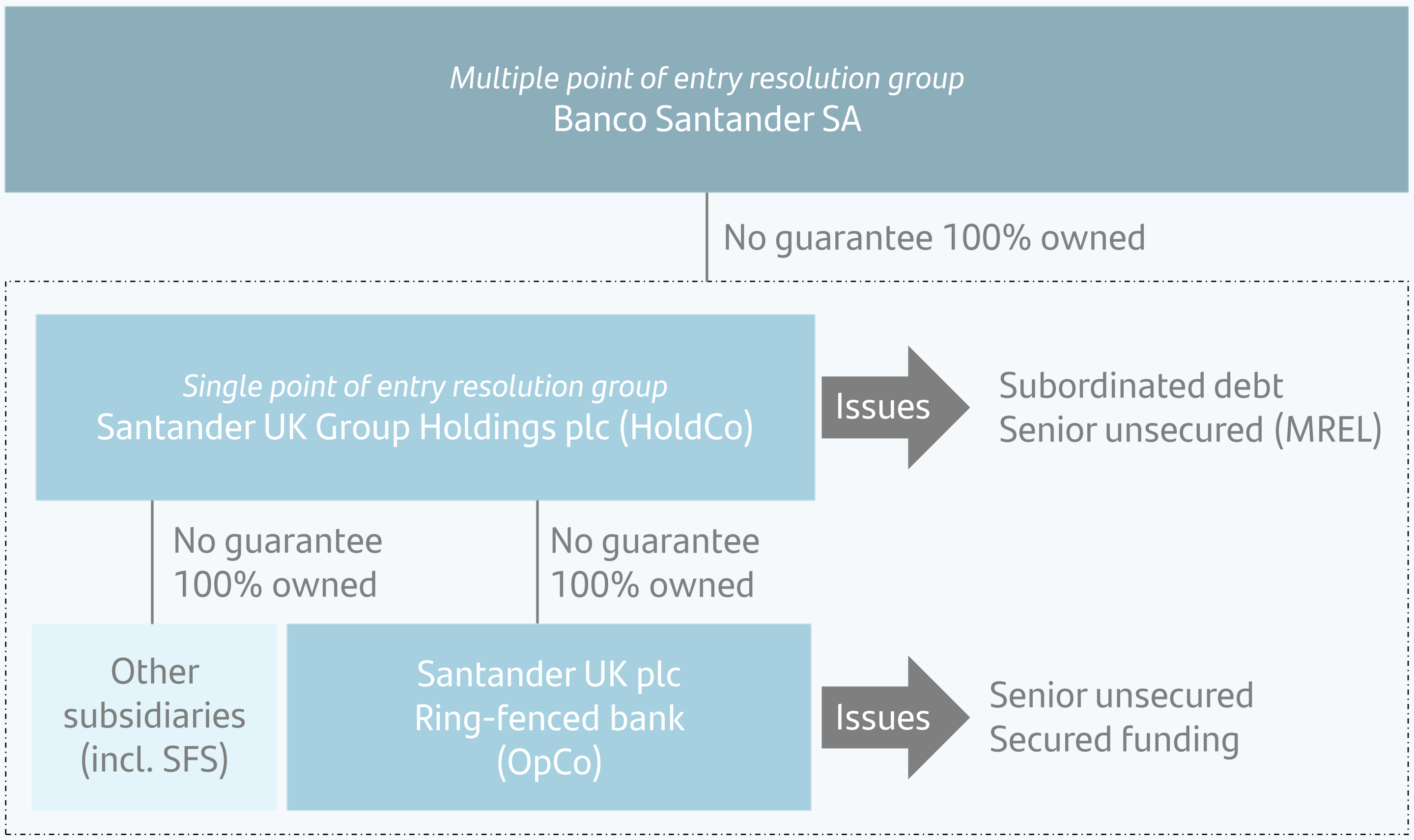

- LCR reduced following TFSME repayments, with a £15.5bn surplus LCR eligible liquid assets to requirement

Note:
1. Jun-24 NSFR data unavailable at time of publication. Figure disclosed is for May-24.

## Santander UK Group down-streaming model

- Banco Santander SA holds a no guarantee 100% ownership over Santander UK Group Holdings plc
- Santander Financial Services (SFS) operate in the UK, the Isle of Man and Jersey

## Wholesale funding model



## Santander UK plc ratings

- S&P rating A / A-1 / Stable
  Reviewed in Jun-23
- Fitch rating A+ / F1 / Stable
  Reviewed in May-24
- Moody's rating A1 / P-1 / Stable
  Reviewed in Feb-24

**Credit ratings**

| Instrument | Issuer | S&P | Fitch | Moody's |
|---|---|---|---|---|
| Covered Bond | OpCo | AAA | AAA | Aaa |
| Senior Unsecured | OpCo | A | A+ | A1 |
| Senior Unsecured | HoldCo | BBB | A | Baa1 |
| Tier 2 | HoldCo | BB+ | BBB+ | Baa2 |
| AT1 | HoldCo | BB- | BBB- | Ba1 |

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- Net interest income down 11%, largely due to higher customer deposit costs
- Operating expenses up 5%, with further investment in efficiency and customer experience, and following two years of high inflation
- Credit impairment charges down 43%, driven by the improved economic outlook

## Income statement (£m)

| Key income lines | H1-23 | H1-24 | Var # | Var % |
|---|---|---|---|---|
| Net interest income | 2,361 | 2,105 | (256) | (11%) |
| Non-interest income | 297 | 196 | (101) | (34%) |
| Operating expenses | (1,232) | (1,294) | (62) | 5% |
| Credit impairment losses | (105) | (60) | 45 | (43%) |
| Provisions for other liabilities | (148) | (143) | 5 | (3%) |
| **Profit before tax** | **1,173** | **804** | **(369)** | **(31%)** |

| Other key metrics | H1-23 | H1-24 | Var # | Var % |
|---|---|---|---|---|
| Banking NIM[1] (%) | 2.21% | 2.08% | (13bps) | n/a |
| Cost-to-income ratio[1] (%) | 46% | 56% | 10pp | n/a |

**Note:**
1. Non-IFRS measure. See Appendix of QMS for each period for details.

## Environment

Ambition

Contribute towards Banco Santander's ambitions to be net zero carbon by 2050 and meet all regulatory requirements

Strategic pillars

- Aligning our portfolios to meet the Paris Agreement goals
- Supporting our customers in the green transition
- Reducing our environmental impact
- Embedding climate in risk management

## Social

Ambition

Support productive inclusive growth across our three key stakeholder groups:

- Customers
- Communities
- Our People

Strategic pillars

- Make our customers better happen
- Help build better communities
- Thriving Workplace for our people

## Governance

Ambition

Clear & robust governance with well-defined accountability which promotes the success of Santander, its customers and other stakeholders

Strategic pillars

- Shareholder engagement
- Effective Board of Directors
- Responsible practices & stakeholders' interests

Our SRB performance will be updated in our H1-24 ESG Supplement, which will be released **here** in Aug-24.

## Economic scenarios updated to reflect better than expected performance in H1-24

- Inflation is forecast to remain above the 2% target rate in 2024, however easing from 2023 levels
- We expect house prices to grow by 2.5% in 2024

**Economic scenarios[1] (%)**

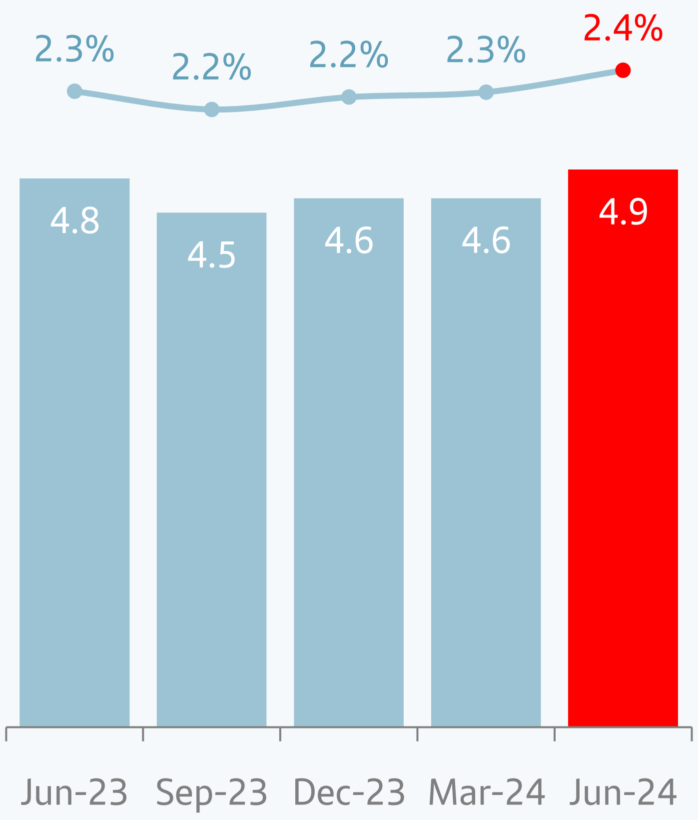
| Key metric | | Upside | Base case | Downside 1 | Stubborn inflation | Downside 2 |
|---|---|---|---|---|---|---|
| GDP<br>Calendar year annual growth rate | 2024 | 1.1 | **0.8** | 0.6 | (0.5) | (1.2) |
| | 2025 | 2.1 | **1.3** | 0.4 | (1.4) | (3.5) |
| Base Rate<br>At 31-Dec for each period | 2024 | 4.50 | **4.75** | 5.50 | 6.00 | 4.00 |
| | 2025 | 3.50 | **3.75** | 4.25 | 5.75 | 2.00 |
| HPI<br>Annual growth rate at Q4 for each period | 2024 | 9.1 | **2.5** | (1.7) | (4.4) | (9.2) |
| | 2025 | 8.7 | **3.0** | (5.0) | (9.0) | (16.5) |
| Unemployment<br>At 31-Dec for each period | 2024 | 4.2 | **4.4** | 4.4 | 4.9 | 6.6 |
| | 2025 | 4.1 | **4.3** | 4.7 | 5.8 | 8.3 |
| CRE<br>Annual price growth for each period | 2024 | 1.3 | **(0.5)** | (1.7) | (4.7) | (6.7) |
| | 2025 | 2.2 | **0.5** | (0.9) | (1.2) | (2.2) |
| Weight (%) | | 10 | **50** | 20 | 10 | 10 |

Note:
1. Santander UK's Q2-24 forecast used for ECL calculation. See Q2-24 QMS for full 5-year forecast figures.

## CRE portfolio is well diversified across sectors with no significant regional or single name concentration

- No CRE lending for standalone development purposes
- Well capitalised with all new business[1] written at or below 60% LTV
- Stock LTV of 45%

### CRE portfolio (£bn) and % of book




### CRE sector analysis and features

| Sector | £bn |
|---|---|
| Office | 1.0 |
| Industrial | 0.8 |
| Residential | 0.8 |
| Mixed use | 0.7 |
| Retail | 0.6 |
| Other[2] | 1.0 |
| **Total** | **4.9** |

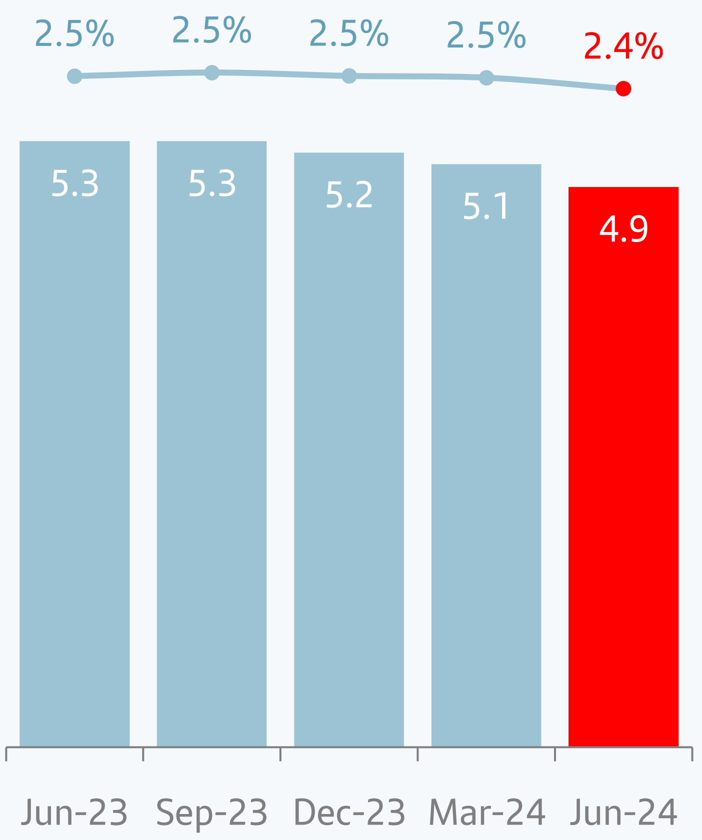
- Average term[3]: 2-3 years
- Average loan size[3]: c. £2m
- Stage 3 ratio[3]: 2.20%

**Note:**
1. Business written in 2023.
2. Other is mainly unsecured real estate and health related sectors calculation.
3. Jun-24 additional CRE data unavailable at time of publication. Figures disclosed is for Dec-23.

## Prime lending portfolio, with 92% of loans secured

- 93% of assets in Stage 1, negligible Stage 3
- Significant customer equity in residual values
- 25% of new business was green assets such as electric vehicles[1]

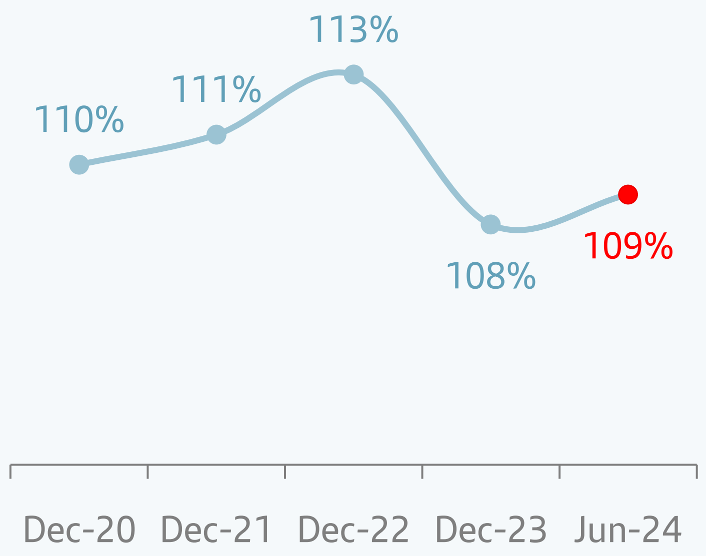
## Consumer portfolio (£bn) and % of book




## Partners and relationships

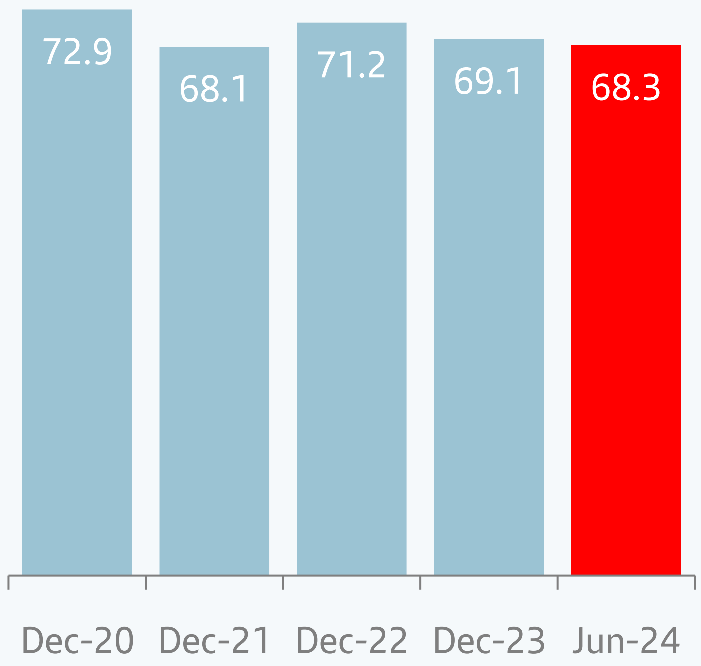
Note:
1. Vehicles that produce less than 50g/co2 per km and includes Electric vehicles, hybrids etc.

## LDR (%)



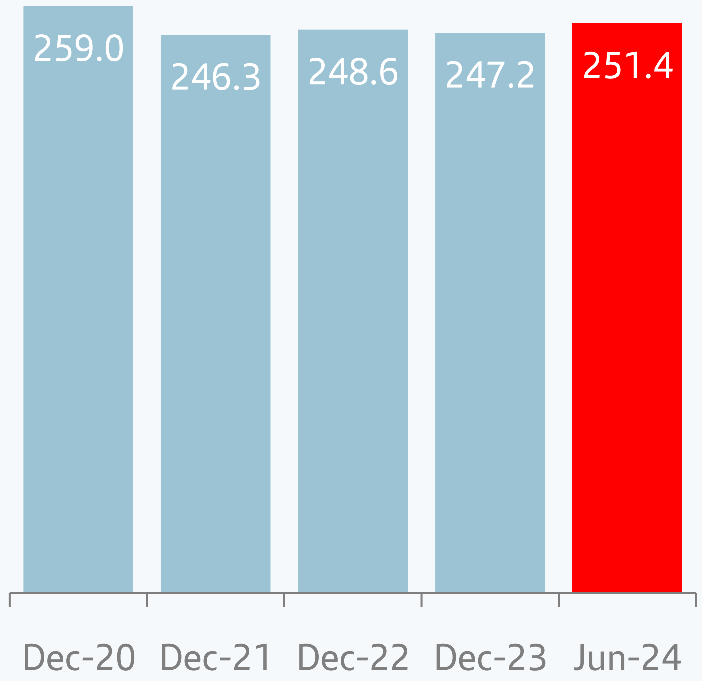

- LDR increased due to deposit outflows post pricing actions

## RWA (£bn)




- RWAs decreased slightly, following active balance sheet management

## Leverage exposure (£bn)




- Leverage exposure increased slightly, following optimisation of liquid assets

## Glossary

| | | | | | |
|---|---|---|---|---|---|
| AT1 | Additional Tier 1 | ESG | Environment, Social and Governance | NSFR | Net stable funding ratio |
| Banco Santander | Banco Santander SA | FSCS | Financial Service Compensation Scheme | OpCo | Santander UK plc Ring-fenced bank |
| BBLS | Bounce Back Loan Scheme | FoR | Follow on Rate | O-SII | Other Systematically Important Institutions |
| BoE | Bank of England | GDP | Gross Domestic Product | QMS | Quarterly Management Statement |
| BTL | Buy To Let | HoldCo | Santander UK Group Holdings plc | RFB | Ring-Fenced Bank |
| CBR | Combined Buffer Requirement | HPI | House Price Index | RMBS | Residential Mortgage-Backed Securities |
| CCyB | Countercyclical Capital Buffer | IFRS | International Financial Reporting Standard | RoTE | Return on Tangible Equity |
| CET1 | Common Equity Tier 1 | LCR | Liquidity Coverage Ratio | RWA | Risk-Weighted Assets |
| CIR | Cost To Income Ratio | LDR | Loan to Deposit Ratio | SFS | Santander Financial Services plc |
| CoR | Cost of Risk | LTV | Loan To Value | SRB | Sustainability & Responsible Banking |
| CPI | Consumer Price Index | MDA | Maximum Distributable Amount | SVR | Standard Variable Rate |
| CRE | Commercial Real Estate | MREL | Min Requirement for Eligible Liabilities | TFSME | Term Funding Scheme for SMEs |
| ECL | Expected Credit Loses | NII | Net Interest Income | UK | United Kingdom |
| EL-P | Expected Loss less Provision | NIM | Net Interest Margin | UPL | Unsecured Personal Loans |

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## Sections & detail

| Investor relations | Funding | Key dates |
|---|---|---|
| **Paul Sharratt**<br>Head of Investor Relations<br>*ir@santander.co.uk* | **Chris Heath**<br>Head of Wholesale Funding<br>*mtf@santander.co.uk* | **Q3-24 reporting:** 30-Oct-24<br>**Q4-24 reporting:** 05-Feb-25 |

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