

Santander UK

Issuer View • 13. Mai 2024

Authors: Dr Frederik Kunze // Lukas Kühne

Ratings

Santander UK Group

Holdings

| | Rating | Outlook |
|----------|--------|---------|
| Fitch | A | Stable |
| Moody's* | Baa1 | Stable |
| S&P | A | Stable |

Homepage

www.santander.co.uk

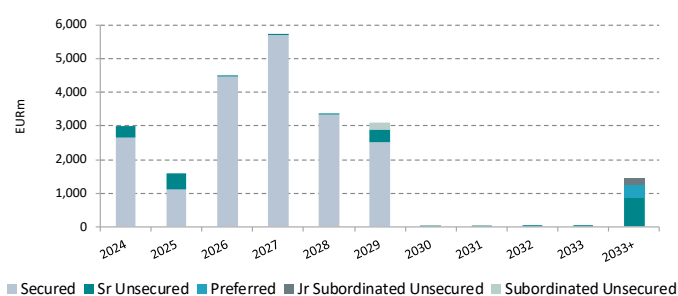
* LT Issuer Rating LC/Senior
Unsecured

Santander UK Group Holdings (Santander UK) is a wholly owned subsidiary of the Spanish Banco Santander SA. Santander UK plc is in turn a wholly owned subsidiary of Santander UK Group Holdings and is itself on the UK Financial Services Authority's list of systemically important banks. The main players within the Group are Santander UK plc (ring-fenced bank) and Santander Financial Services plc (non-ring-fenced bank). With the implementation of the ring-fenced structure, the corporate and investment banking activities of Santander UK were transferred to Banco Santander (London Branch). At the end of Q1 2024, Santander UK served around 14m customers in 444 branches and was, as at 31 December 2023, the fourth largest retail mortgage lender in the UK. Santander UK divides its business activities into the segments "Retail & Business Banking", "Corporate & Commercial Banking", "Consumer Finance" and "Corporate Centre". The Group's loan portfolio consists mainly of mortgages (85%). The other loans (15%) are largely made up of loans to companies (Q1/2024). Customer deposits are the main funding source of the group, which are supplemented by targeted placements on the capital market. The Group's capital market funding is primarily provided by means of covered bonds (Q1/2024: 34%), TFSME (31%) and HoldCo senior unsecured bonds (20%). Santander UK has set itself the target of financing green projects totalling GBP 20.0bn by 2025 (FY/2023: GBP 13.3bn) in order to support its customers in green transmission.

Balance Sheet

| (EURm) | 2022Y | 2023Y | 2024Q1 |
|----------------------------|---------|---------|---------|
| Net Loans to Customers | 252,743 | 243,814 | 238,462 |
| Total Securities | 15,116 | 25,571 | - |
| Total Deposits | 222,816 | 225,374 | 226,287 |
| Tier 1 Common Capital | 12,225 | 12,128 | 12,386 |
| Total Assets | 329,480 | 325,063 | 330,593 |
| Total Risk-weighted Assets | 80,234 | 79,588 | 81,394 |

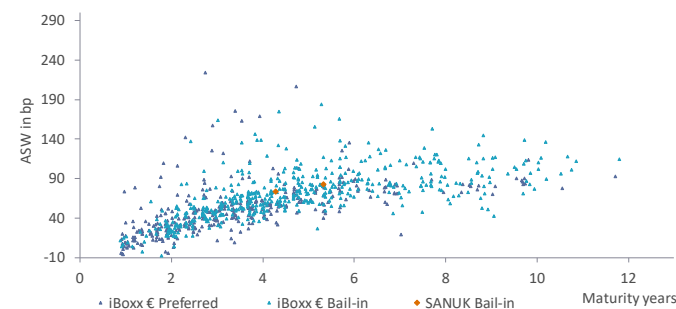
Redemption Profile



Income Statement

| (EURm) | 2022Y | 2023Y | 2024Q1 |
|---------------------------|-------|-------|--------|
| Net Interest Income | 5,246 | 5,367 | 1,230 |
| Net Fee & Commission Inc. | 380 | 340 | - |
| Net Trading Income | 45 | 31 | - |
| Operating Expense | 2,917 | 2,993 | 862 |
| Credit Commit. Impairment | 377 | 237 | 22 |
| Pre-tax Profit | 2,222 | 2,471 | 457 |

Senior Unsecured Bonds (EUR BMK)



Company Ratios

| | 2022Y | 2023Y | 2024Q1 | 2022Y | 2023Y | 2024Q1 | |
|---------------------|-------|-------|--------|-------------------------------|--------|--------|--------|
| Net Interest Margin | 1.56 | 1.66 | - | Liquidity Coverage Ratio | 162.78 | 162.41 | 166.22 |
| ROAE | 8.94 | 10.58 | 7.66 | IFRS Tier 1 Leverage Ratio | 3.74 | 3.76 | - |
| Cost-to-Income | 49.61 | 50.32 | 64.29 | NPL/ Loans at Amortised Cost | 1.17 | 1.40 | 1.57 |
| Core Tier 1 Ratio | 15.24 | 15.24 | 15.22 | Reserves/Loans at Amort. Cost | 0.42 | 0.44 | 0.47 |

As of 13.05.2024; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Floor Research

Strengths / Opportunities

- Retail business in the UK
- Capitalisation
- Profitability

Risks / Weaknesses

- Debt level in comparison with peers
- Influence of the parent company on capitalisation
- Diversification of business areas versus UK peers

Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Mortgage cover pool with a volume of GBP 28,868bn.

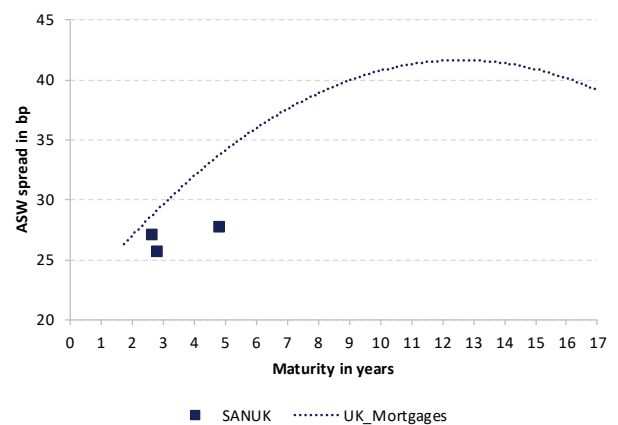
Santander UK reported an outstanding covered bond volume of GBP 17.808bn (EUR 20.9bn) as at 31 March 2024. This is offset by cover assets totalling GBP 28.868bn (EUR 33.8bn). The over-collateralisation ratio of 62.1% is above the legally required over-collateralisation of 8%. In addition to issues in euros, Santander UK also has outstanding covered bonds in Swiss francs, US dollars and its home currency GBP. Santander UK is also represented in the iBoxx EUR Covered with a total of three EUR benchmarks (outstanding volume: EUR 4.5bn). In addition, the issuer has two EUR benchmark issues that are no longer included in the iBoxx EUR Covered due to their respective residual maturity.

Programme data

| 31 March 2024 | Mortgage |
|-----------------------------------|---------------------------|
| Covered bonds outstanding | GBP 17,808m (EUR 20,828m) |
| Cover pool volume | GBP 28,868m (EUR 33,763m) |
| Current OC (nominal / legal) | 62.1% / 8.0% |
| Type | 100% Residential |
| Main country | 100% United Kingdom |
| Main region | 22.1% South East |
| Number of loans | 156,100 |
| Share top 10 exposures | 0.04% |
| NPL | 0.4% |
| Fixed interest (Cover Pool / CBs) | 93.4% / 56.7% |
| WAL (Cover Pool / CBs) | 21.7y / 2.8y |
| CB Rating (Fitch / Moody's / S&P) | AAA / Aaa / AAA |

Source: Issuer, rating agencies, Bloomberg, NORD/LB Floor Research

Spread overview (BMK) – United Kingdom



Exclusively residential cover assets from the UK

Santander UK's mortgage cover pool contains only primary cover assets, all of which are residential loans. In addition, the cover assets are all located within the United Kingdom and are denominated in pounds sterling. The granularity of the pool is reflected in the number of loans (156,100), the average loan amount (EUR 152,441) and the low proportion of the ten largest exposures (0.04%). In terms of regional distribution within the United Kingdom, the South East region accounts for the largest share of original cover assets (22.1%), followed by London (20.2%) and East Anglia (12.8%). 93.4% of the mortgage loans in the cover pool have a fixed interest rate. The average indexed loan-to-value ratio (on a market value basis) is stated as 53.4%.

Rating and regulation

The Santander UKs mortgage-backed covered bonds each have the highest rating from the rating agencies Fitch and Standard & Poor's (both AAA) and Moody's (Aaa). In terms of regulatory treatment, a risk weight of 20% is relevant for the programme's covered bonds. In connection with LCR management, we do not currently consider the suitability or recognition of the EUR benchmarks as Level 2A assets to be assured. In the context of the ECB Collateral Framework, however, the issues can still be used and are considered eligible bonds.

Appendix

Contacts at NORD/LB

Floor Research



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Sales

| | |
|---|-------------------|
| Institutional Sales | +49 511 9818-9440 |
| Sales Sparkassen & Regionalbanken | +49 511 9818-9400 |
| Institutional Sales MM/FX | +49 511 9818-9460 |
| Fixed Income Relationship Management Europe | +352 452211-515 |

Origination & Syndicate

| | |
|------------------------|-------------------|
| Origination FI | +49 511 9818-6600 |
| Origination Corporates | +49 511 361-2911 |

Treasury

| | |
|--------------------------|--|
| Collat. Management/Repos | +49 511 9818-9200 |
| Liquidity Management | +49 511 9818-9620 +49 511 9818-9650 |

Trading

| | |
|------------------|-------------------|
| Covereds/SSA | +49 511 9818-8040 |
| Financials | +49 511 9818-9490 |
| Governments | +49 511 9818-9660 |
| Länder/Regionen | +49 511 9818-9660 |
| Frequent Issuers | +49 511 9818-9640 |

Sales Wholesale Customers

| | |
|---------------|------------------|
| Firmenkunden | +49 511 361-4003 |
| Asset Finance | +49 511 361-8150 |

Relationship Management

| | |
|------------------------|--|
| Institutionelle Kunden | rm-vs@nordlb.de |
| Öffentliche Kunden | rm-oek@nordlb.de |

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