



# INVESTOR DAY 2015

LONDON, 23-24 SEPTEMBER

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Country Head UK

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# Agenda

**1** Market and financial system

**2** Santander UK market positioning

**3** Strategy

**4** Targets

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**1** Market and financial system

**2** Santander UK market positioning

**3** Strategy

**4** Targets

# Four major forces shaping the UK banking market

**1 Favourable macroeconomic environment**

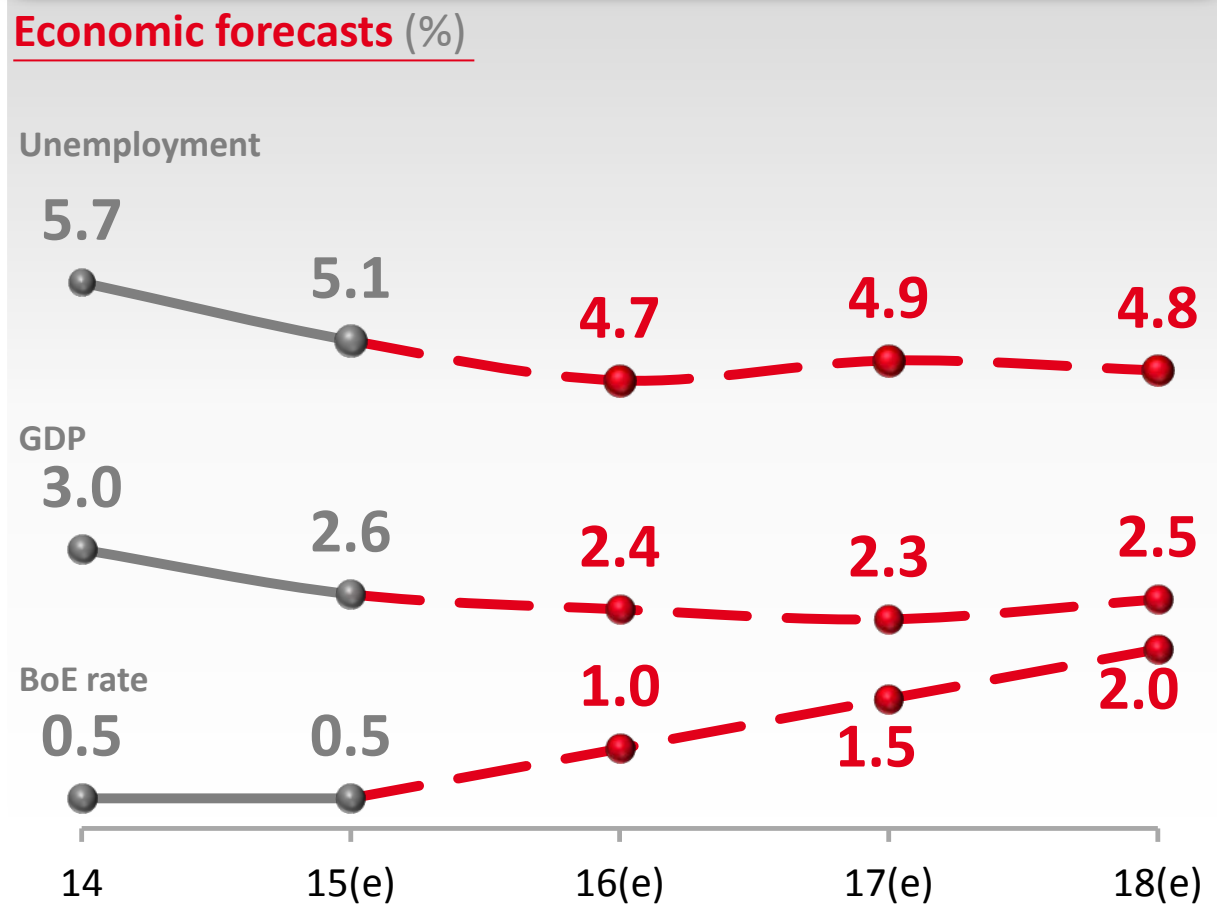
**2 Demanding regulatory agenda**

**3 Increased market competition**

**4 Changing customer behaviour**

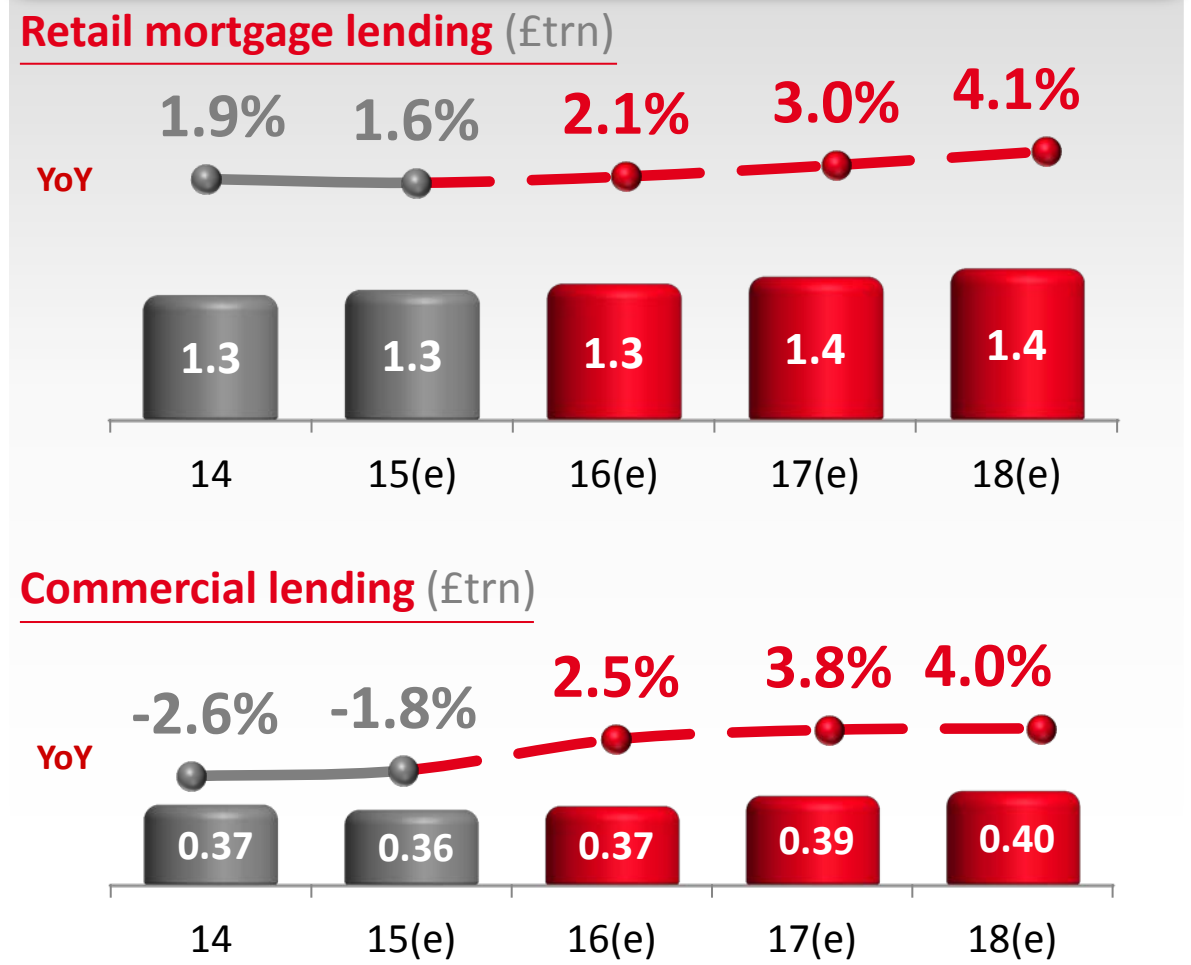
# 1 Favourable macroeconomic environment

## Relatively strong growth of UK economy



Source: HM Treasury Comparison of External Economic Forecasts (unemployment, GDP)  
 Santander Economic Forecast (Bank Rate)  
 Note: Unemployment and Bank Rate are year end, GDP is annual average

## Modest loan growth to continue in the medium term



Source: Bank of England (2014 data); Oxford Economics (2015-2018 data) published Apr'15

## 2 Demanding regulatory agenda

New regulations and greater oversight...

### Prudential



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



### Conduct



### Competition



...maturing regulatory regime, with increased focus on financial strength, customer outcomes and fostering further competition

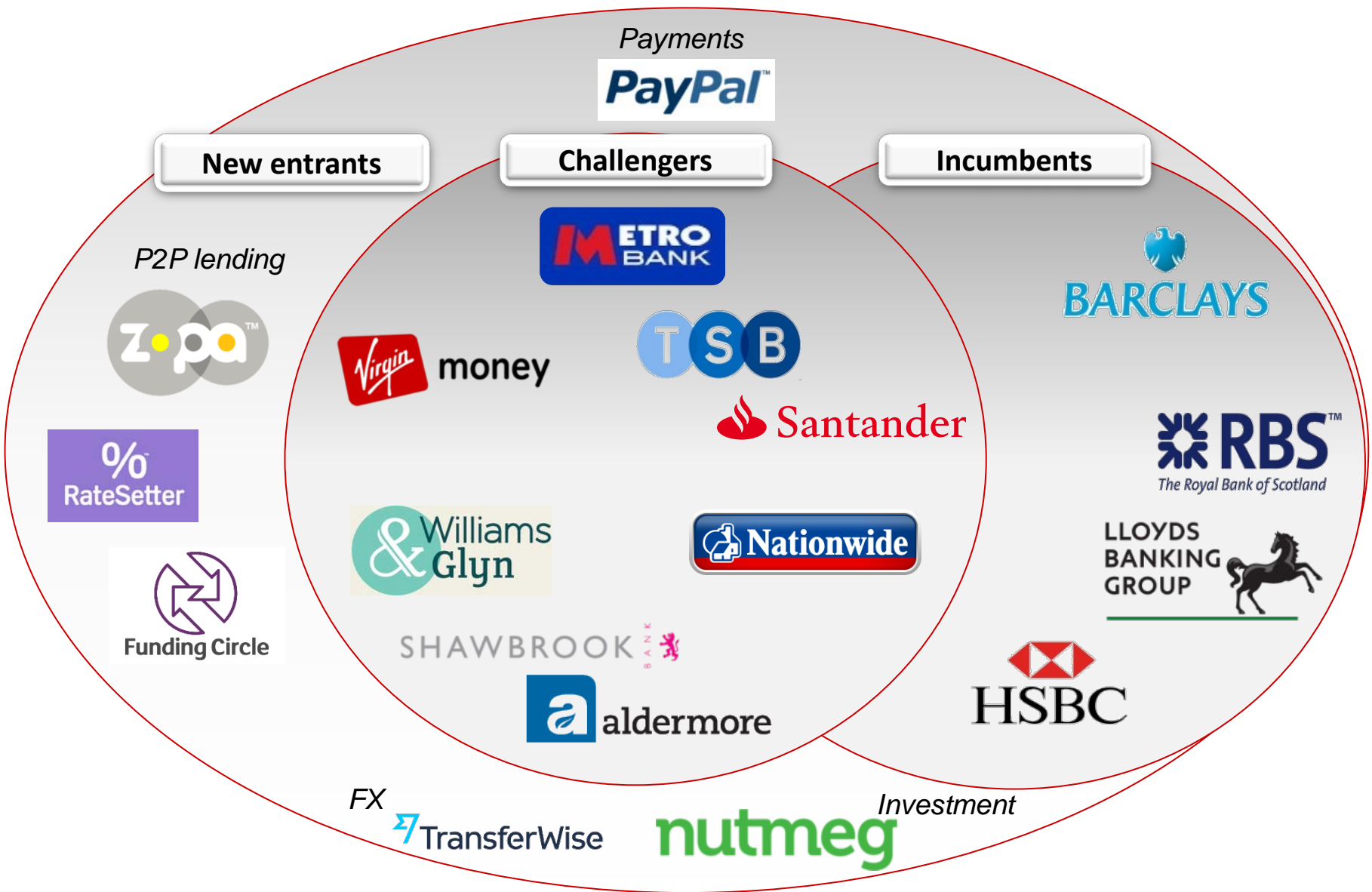
- Banking Reform, Recovery and Resolution
- Capital, stress testing, leverage and liquidity
- Financial Policy Committee
- New (senior) accountability regimes
- Fair and Effective Markets Review
- IT resilience and cyber-risk
- CMA review
- Payment Systems Regulator



Implementation  
of EU directives

Driving significant implementation and on-going compliance costs

### 3 Increased market competition



- **Industry in flux: real need for change**
- **Pressure on margins and growth:**
  - **Incumbents** refocusing on UK banking
  - **Challengers** in search of scale and improved returns
  - **New entrants** focusing on specific parts of the value chain



## 4 Changing customer behaviour

### Growing usage of digital channels, in particular mobile

#### Digital openings (% of total)

UK market<sup>1</sup>



#### Mobile banking users (indexed to 2012)

UK market<sup>1</sup>



**“Consumers check their bank balances on mobile devices more often than on the internet or in a bank branch”**

CACI study for BBA, Jun’15

### Increasing card usage reflecting the trend towards non-cash payments

#### Card transactions (#, bn)

UK market<sup>2</sup>



#### Contactless transactions (#, MM)

UK market<sup>2</sup>



**“Cash overtaken by ‘non-cash’ payments in 2014”**

Payments Council, May’15

(1) Source: Finalta Annual UK Survey (digital = online, smartphone and tablet platforms) (2) Source: UK Cards Association (debit + credit cards)

# Agenda

1 Market and financial system

2 Santander UK market positioning

3 Strategy

4 Targets

# Delivery of our 2012-2015 strategy has positioned Santander UK as a successful scale challenger

Unique position with meaningful scale and opportunity...



**14MM** active customers

**9MM** current accounts **5<sup>th</sup>** largest

**£134bn** retail liabilities

**£151bn** mortgages **3<sup>rd</sup>** largest

**£26bn** corporate assets

Data at Jun'15

...a full-service retail and commercial bank...

## Retail Banking

**840** branches

**>80%** market coverage

## Commercial Banking

**68** Corporate Business Centres

**729** Relationship Managers

Data at Jun'15, branches exclude university

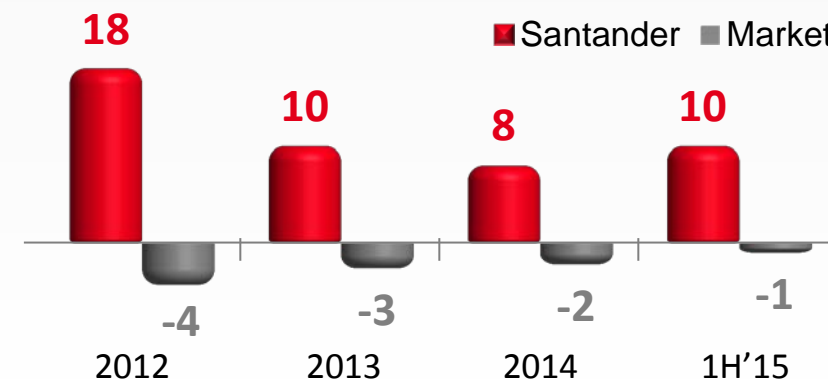
...successfully challenging the big banks

## Guaranteed 7-day switch service<sup>1</sup>

**1 – in – 4** customers

Gaining more than any other UK bank

## SME lending (% YoY growth)



(1) Source: Santander UK management information and Payments Council monthly data (on a banking group basis)

# Challenging the retail market: 1|2|3 is our strategy to grow loyal engaged customers

<b>Deepening relationships</b>	<ul style="list-style-type: none"> <li>68% 1 2 3 are loyal<sup>1</sup> vs. 9% non-1 2 3</li> </ul>	<b>Front book &amp; back book</b>	<ul style="list-style-type: none"> <li>Implemented for new and existing customers</li> <li>Limited cannibalisation costs</li> </ul>
<b>Improved customer profiles</b>	<ul style="list-style-type: none"> <li>37% 1 2 3 are Select/Affluent vs. 7% non-1 2 3</li> <li>£6.4bn banking balance &gt;£20k</li> </ul>	<b>Fee paying account</b>	<ul style="list-style-type: none"> <li>Flexibility to adapt to market conditions and interest rate movements</li> </ul>
<b>Improving liability spread</b>	<ul style="list-style-type: none"> <li>From -1.28% (2012) to -0.64%</li> </ul>	<b>Simple &amp; transparent</b>	<ul style="list-style-type: none"> <li>Clear value offer supported by 1 2 3 calculator</li> <li>Benefits highlighted on statements and online</li> </ul>
<b>Improving liquidity stability</b>	<ul style="list-style-type: none"> <li>60% banking and savings liability held by primary customers vs. 29% 2012</li> </ul>	<b>More satisfied customers</b>	<ul style="list-style-type: none"> <li>74.3% 1 2 3 satisfaction vs. 62.4% non-1 2 3 (FRS<sup>2</sup>)</li> <li>97.2% 1 2 3 'great'/'ok' vs. 89.8% non-1 2 3 (MSE<sup>3</sup>)</li> </ul>
<b>Better savings mix</b>	<ul style="list-style-type: none"> <li>With less rate sensitive money</li> </ul>	<b>High staff advocacy</b>	<ul style="list-style-type: none"> <li>88% of staff hold a San UK account, of these 78% hold a 1 2 3 account</li> </ul>

(1) Loyal customers are primary current account customers (credit turnover >= £500 per month and at least two direct debits on the account) who hold an additional product

(2) Source: Current Account, GfK FRS 12 months ending Jun'15. Refer to Appendix 1 in the Q2'15 QMS for a full definition (3) Current Account, Money Saving Expert (Aug'15)

# Challenging the corporate market: utilising our expanded footprint and full service offering

## Helping UK business...

Innovative and differentiated positioning

**BREAK THROUGH**



Proposition development and international expertise



## ...with an enlarged footprint to be closer to our customers

	2012	1H'15
Business centres (#)	34	68
Relationship Managers (#)	503	729
Customer loans (£bn)	20	26

# Agenda

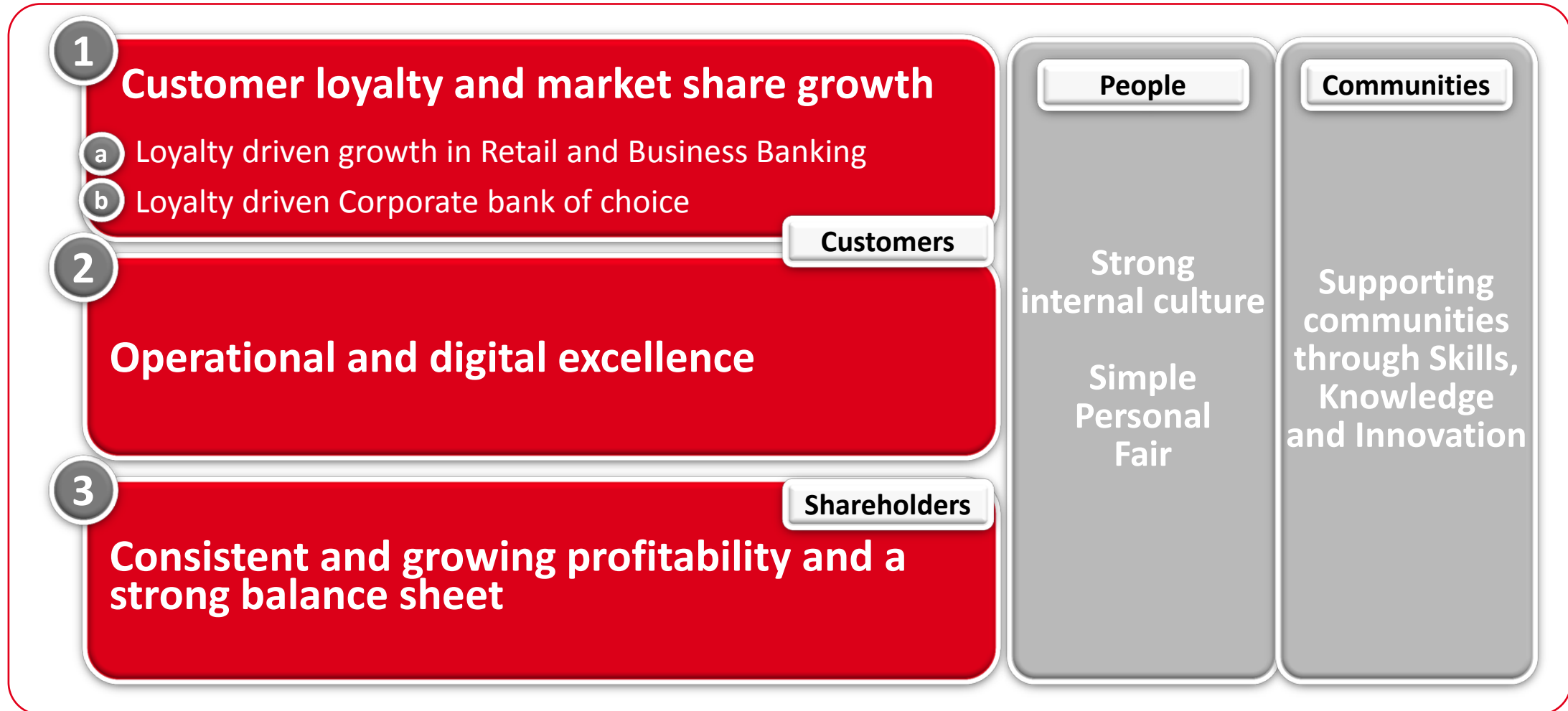
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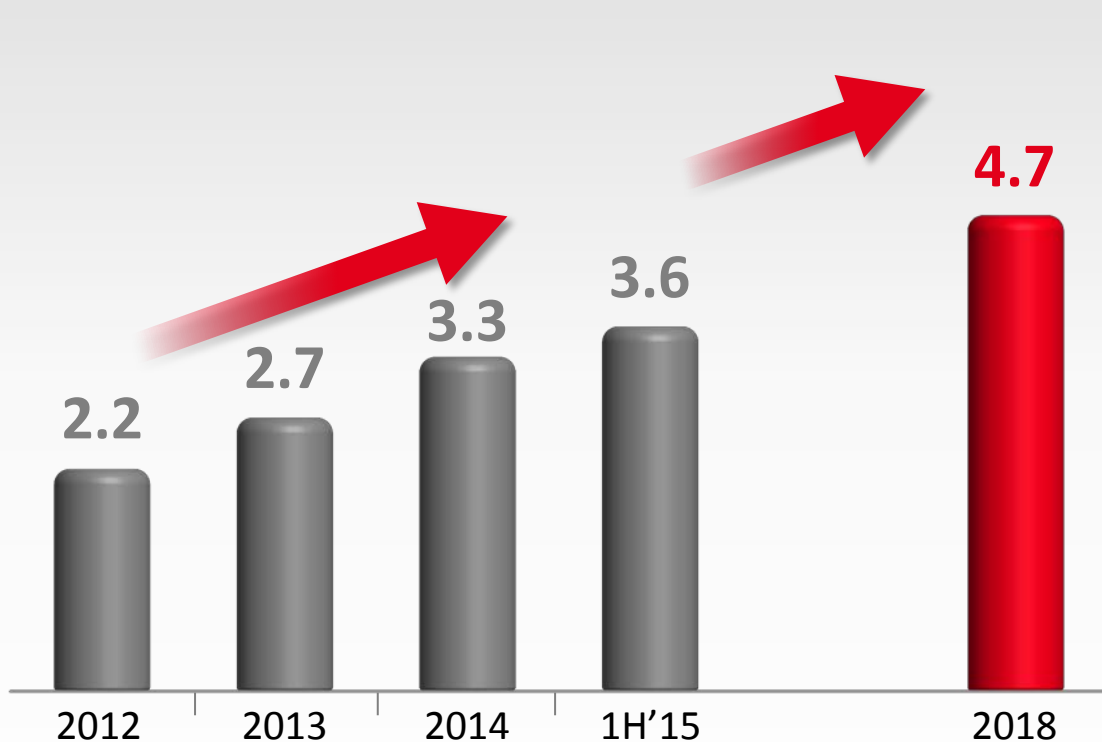
# Moving forward, three clear strategic priorities will create value for stakeholders



# 1a In Retail, we continue to transform our relationships with customers

## Growing our loyal customer base...

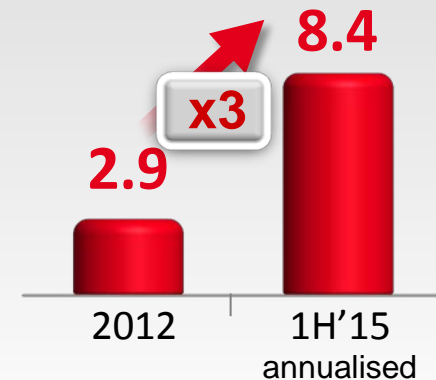
Loyal customers<sup>1</sup> (MM)



(1) Current account customers (credit turnover >= £500 per month and at least two direct debits on the account) who hold an additional product

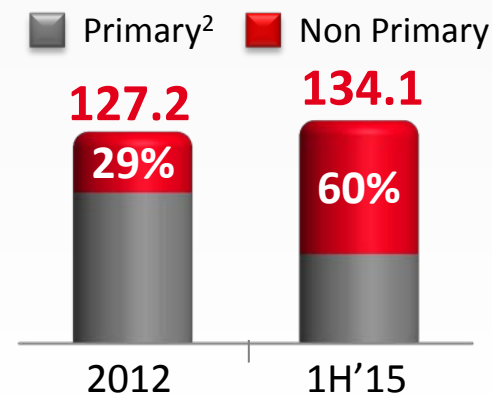
## ...with engaged and transactional relationships

Credit card spend (£bn)



- 16 debit card transactions per month
- 9 direct debits per month

Retail Liabilities (£bn)



Liability Spread<sup>3</sup>



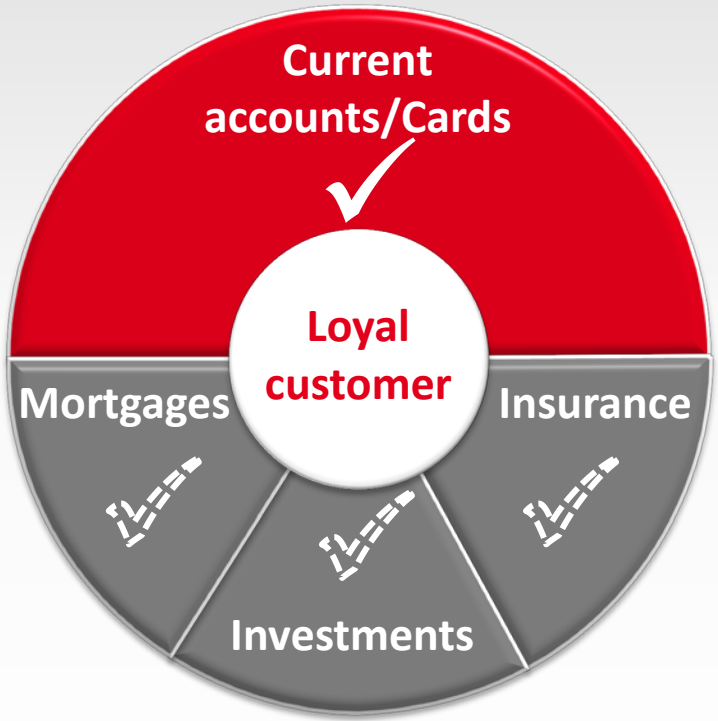
(2) Banking and savings balances of customers with a primary 1|2|3 Current Account or other primary current account (3) Annualised Retail Banking customer deposit spread



# Our opportunity is to meet all customer needs and earn loyalty

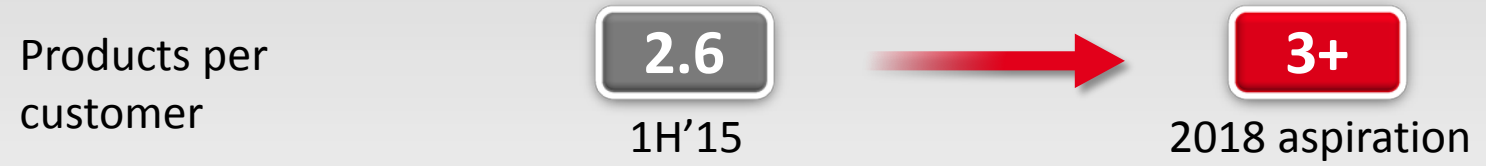


## Meeting all customer needs...

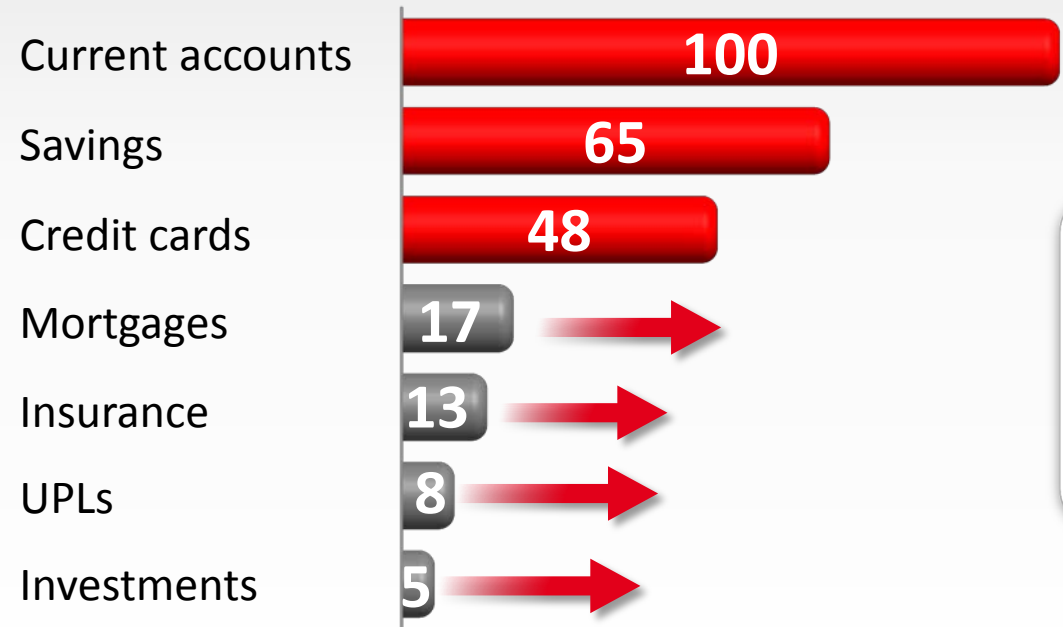


## ...while deepening relationships with loyal customers

### Loyal customers product penetration

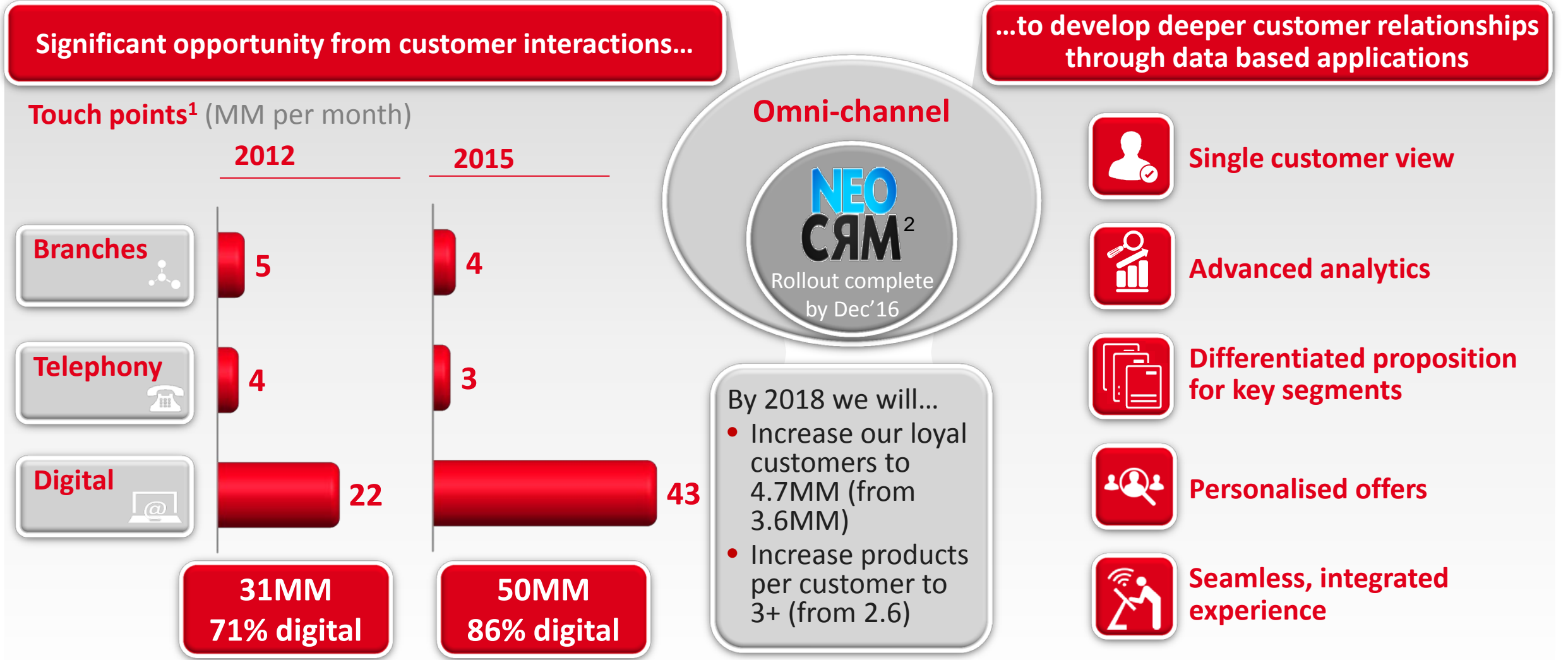


### Penetration (%)



Opportunity to meet broader customer needs in lending, investments and insurance

# 1a We will leverage technology and analytics to improve customer service and engagement



(1) Branch = financial transactions, Telephony = sales/service calls, Digital = online/mobile logons (2) Global tool leveraging data from customer interactions to support front line engagement & customer loyalty

1a We will offer a differentiated proposition based on engagement level and segment

1|2|3 World is the core proposition

Improved products and better rates based on loyalty

Additional services for customers

Mortgages UPLs Cards Savings Investments Insurance

**Mortgages**

- Competitively priced range
- Loyalty based discounts and retention

**Investments**

- New offering via direct investment platform

**Insurance**

- Improved customer access to Life Protection

Santander SELECT

My Offers  
Retailer Offers

Spendlytics  
(customer spending analysis)

2016 - 2018 Fee income CAGR 5%-10%

1a

# We will grow mortgages at least in line with the market by differentiating our proposition



## Intermediary distribution

### Strong service proposition

- **For customers:**  
We will continue to deliver leading service
- **For intermediaries:**  
Leading lender overall scoring 82%



Santander for Intermediaries application in principle

Process improvements

## Direct distribution

### Evolving and optimising distribution and service

- **Digital:**  
Building the end to end online mortgage



- **Branch:**  
Best-in-class productivity



+ video conference  
+ online appointment booking

- **Telephone:**  
Most efficient retention platform

## Extending proposition

### Example: Buy-To-Let

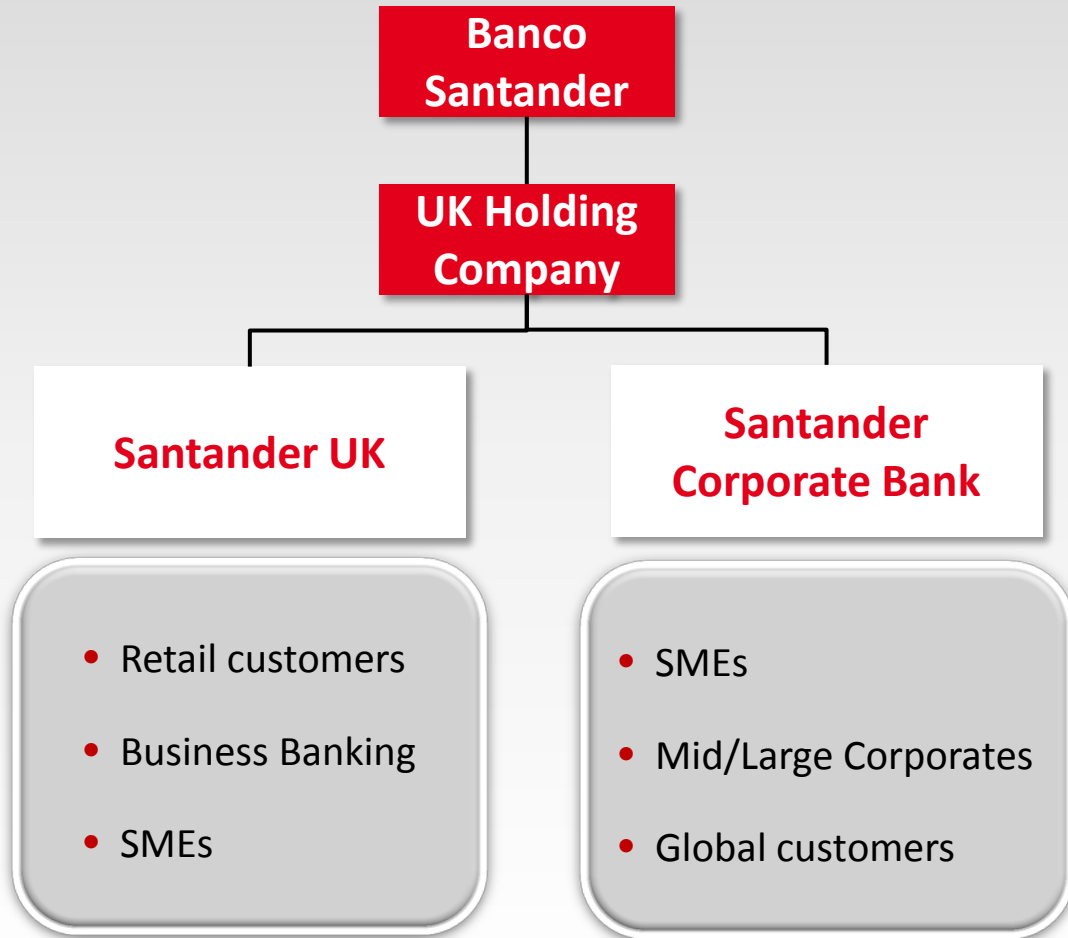
- 15% of market stock
- Very under represented (3% stock, £3.8bn) with opportunity in areas of higher margin and lower arrears
- Redefined proposition with prudent lending criteria

Source: Mortgage Strategy May 2015

# 1b Our target ring-fencing structure will help meet our customers differing needs

A retail and small business bank,  
and a dedicated corporate bank...

...to meet the distinct needs of the  
different segments of our customer base



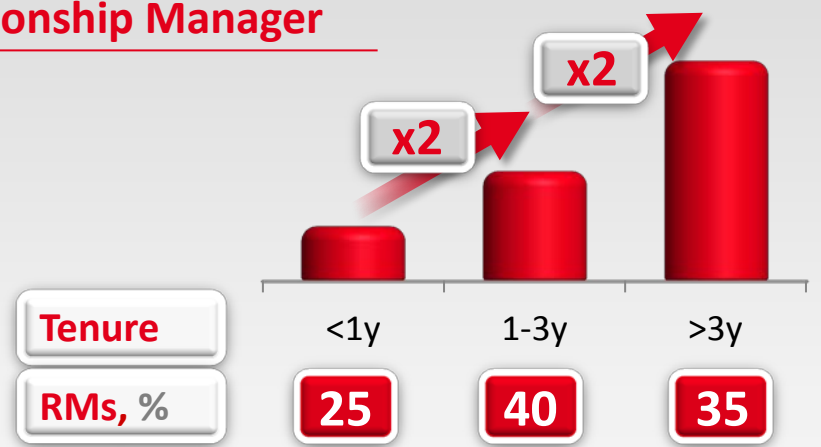
- Specialist, fully dedicated corporate bank with a unique positioning
- Supporting SMEs in their growth path and international expansion
- Covering all the needs of our corporate and institutional customers
- Efficiency and robustness through scale and diversification
- Specialised talent pool

1b In Corporate, we will leverage our new infrastructure and market positioning for continued growth and improved returns



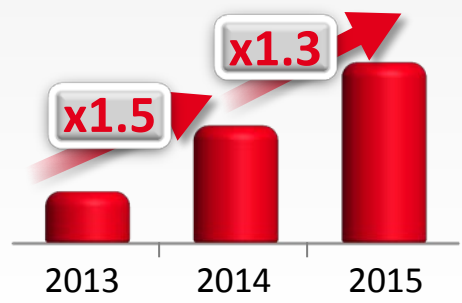
**Our maturing business provides the opportunity for growth and operational leverage**

Assets per Relationship Manager

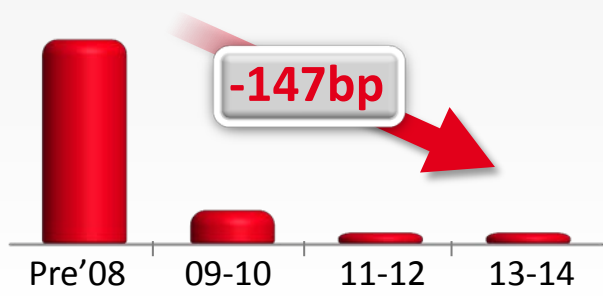


**2016 - 2018**  
 Delivering asset growth ahead of the market  
 >5 p.p. vs market

Non asset income<sup>1</sup>



Cost of credit<sup>2</sup> by vintage



(1) SME. 2015 is June YTD annualised (2) 5 year average loss rate (impairment charge as % of average assets)

# 1b We will help Corporate customers grow through differentiated propositions such as the global Santander Passport



## Customer example #1:

- UK mid corporate with operations in Brazil, Chile and Portugal



## Customer example #2:

- German mid corporate expanding to the UK



**Our opportunity:**

- **3MM** Group customers with **70k** in the UK
- **1.4k** already enrolled to **Santander Passport**
- **>60%** UK business trading internationally<sup>1</sup>

San UK international business **x2** 2015 vs 2012<sup>2</sup>

**2016 - 2018**

Fee income CAGR 5%-10%

(1) Source: Office for National Statistics (companies turnover > £5MM importing/exporting goods or services)

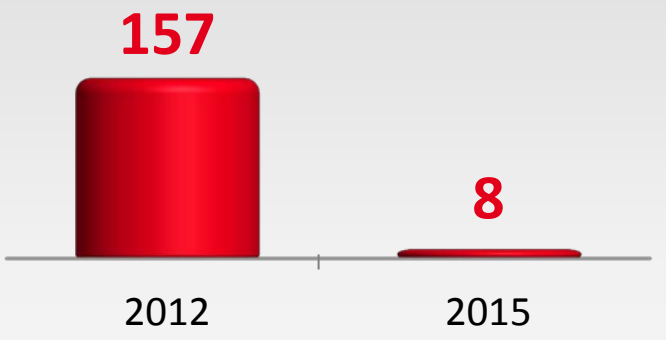
(2) San UK Commercial Banking international fee income (1H'15 annualised vs. FY'12)

## 2 We will simplify the business to drive customer service and efficiency gains

### Products

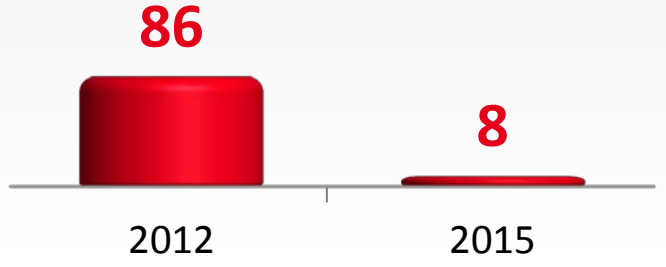
#### Current accounts (#)

Front & back book



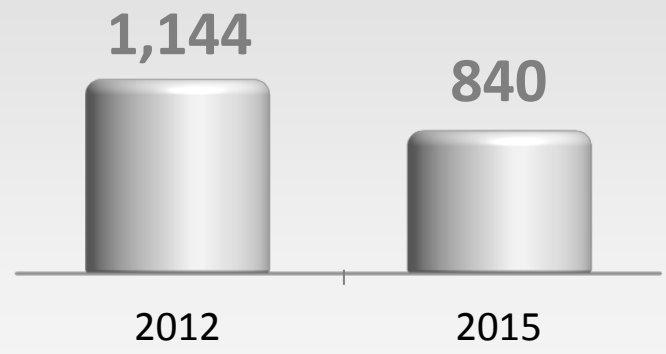
#### Savings accounts (#)

Front & back book

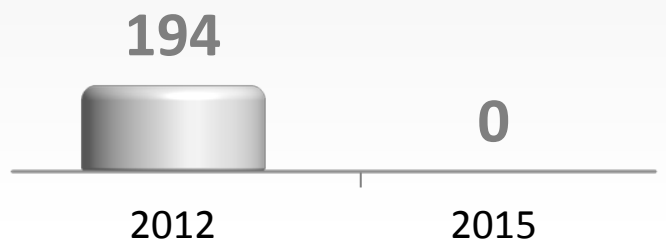


### Channels

#### Retail branches<sup>1</sup> (#)

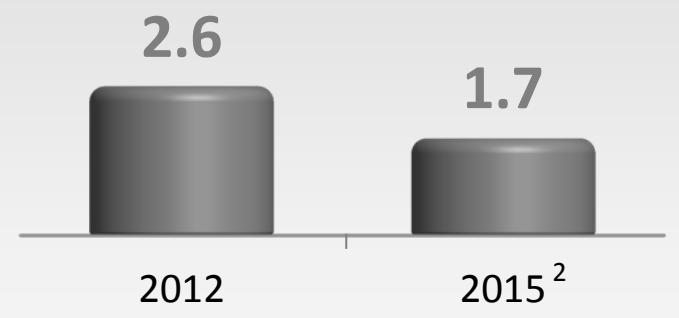


#### Agencies<sup>1</sup> (#)



### Operations

#### Savings closures (#, MM)



#### Current account closures (#, MM)



Simplification will continue to deliver efficiency gains : cost to income <50% by 2018

(1) Retail branches excludes university branches, agencies excludes NAAFI (2012 opening volume shown) (2) Annualised June YTD

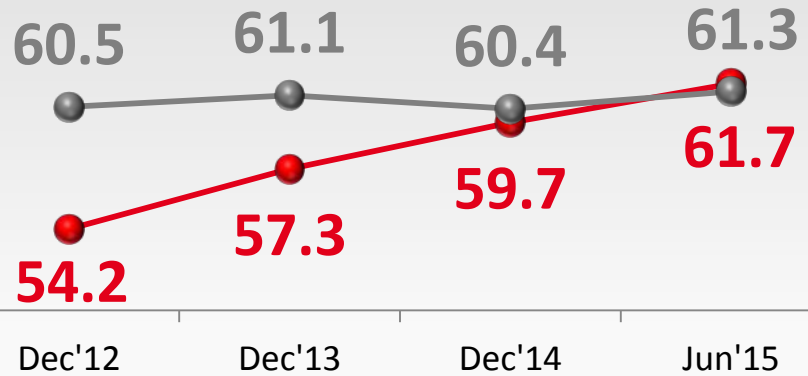


## 2 Our goal is the delivery of leading customer satisfaction

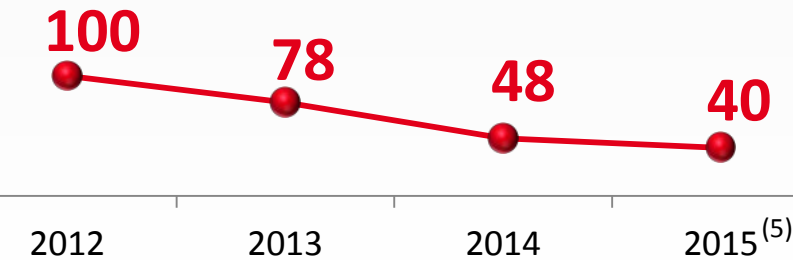
### Retail customer satisfaction in line with highest performing peers

#### Retail customer satisfaction (FRS survey<sup>1</sup> %)

—●— Santander UK —●— Average of 3 highest performing peers



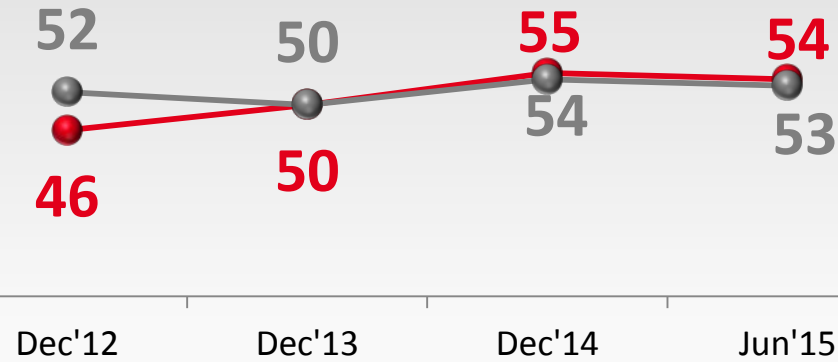
#### Retail complaints received<sup>3</sup> (indexed)



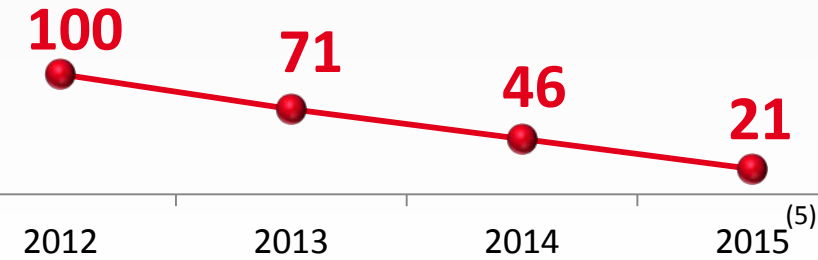
### Improvement in corporate customer satisfaction

#### Corporate customer satisfaction (Charterhouse survey<sup>2</sup> %)

—●— Santander UK —●— Market average



#### Corporate complaints received<sup>4</sup> (indexed)



2018

Top 3 among peers

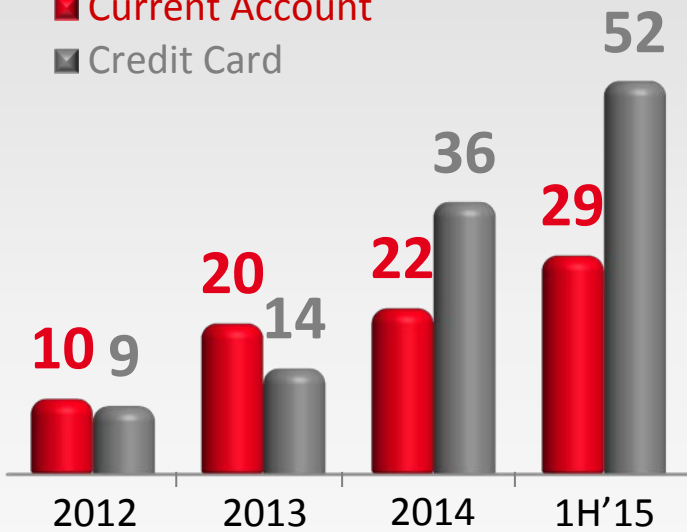
(1) Source: GfK FRS, 12 months rolling data. Refer to Appendix 1 in the Q2'15 QMS for a full definition (2) Source: Charterhouse BBS, 12 months rolling data. Refer to Appendix 1 in the Q2'15 QMS for a full definition (3) Santander UK, all unique complaints excluding legacy issues e.g. PPI (4) Complaints relate to our commercial and corporate banking businesses (5) Annualised June YTD

## 2 Our strategy is to continue the digitalisation of the business

### Digital openings

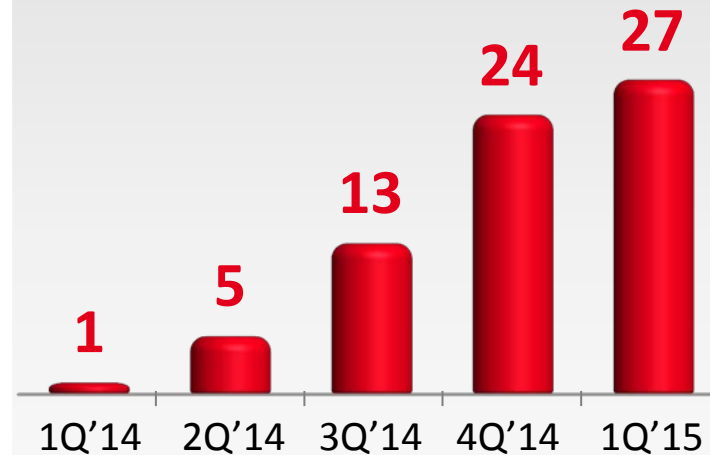
#### Digital openings as % of total

■ Current Account  
■ Credit Card



### Digital mortgage retentions

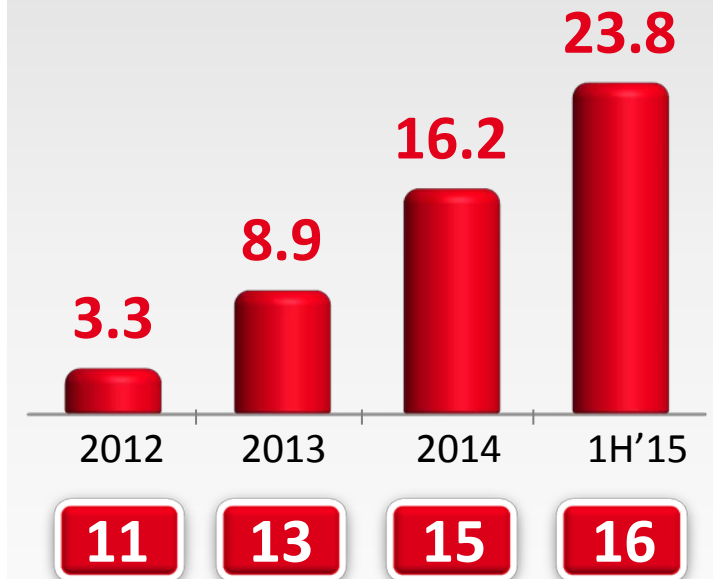
#### Digital retentions as % of total



### Mobile logons

#### Logons per month (MM)

■ Logons per customer per month



Continued investment in further digitalisation of customer touch points

## 2 We are focusing on six areas to further enhance the digital experience

**Credentials** Multi-platform credentials

**See** All products

**Service** New functionality

**Buy** End to end online tools

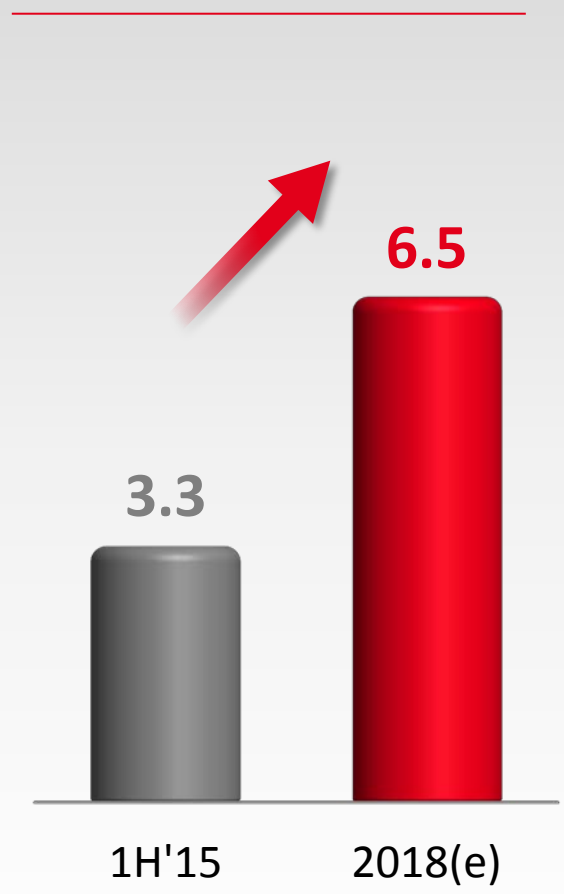
**Mobile** Increased functionality and services

**Analytics** Analyse and monitor activity

Award winning website



Digital customers (#, MM)

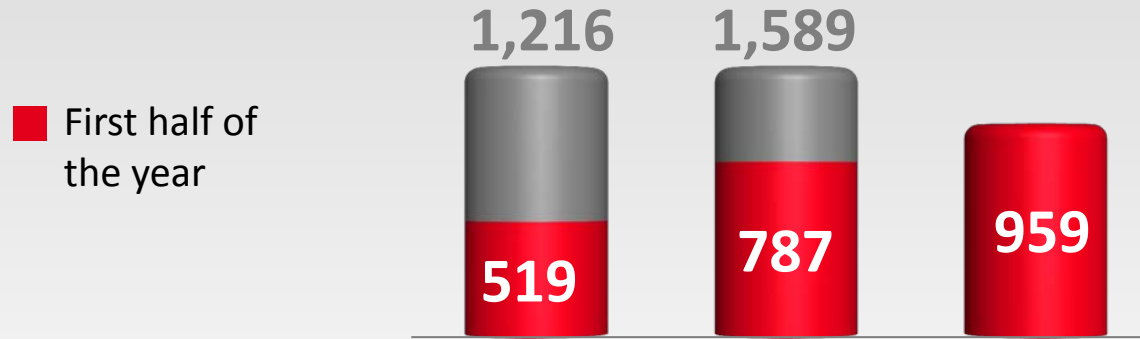


### 3 We will continue to demonstrate robust and sustained profitability



#### Consistent and growing profitability

##### Profit before tax (£MM)



	2013	2014	1H'15
Banking NIM <sup>1</sup> (%)	1.55	1.82	1.86
RoTE (%)	10.0	11.5	13.5 <sup>(2)</sup>

2018 **RoTE 12%-14%**

#### Strong balance sheet

	2013	1H'15
LDR <sup>3</sup> (%)	126	124
LCR (%)	103	109
MTF encumbrance (£bn)	57.8	49.1
MTF spread <sup>4</sup> (%)	1.07	0.61
CET1 (%)	11.6	11.7
Leverage (%)	3.3	4.1

2018 **CET1 c.12%**

(1) Banking NIM is calculated as annualised net interest income divided by average customer loans. Statutory  
 (2) Annualised and adjusted for Bank Levy and FSCS phasing. Group view (3) Statutory (4) Excludes AT1 issuances

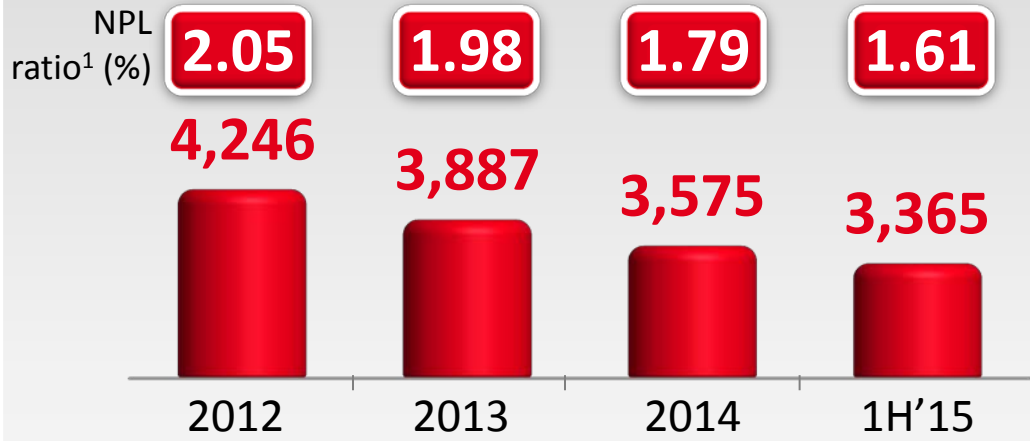
### 3 Risk management will remain at the core of our corporate culture



#### Strong credit performance

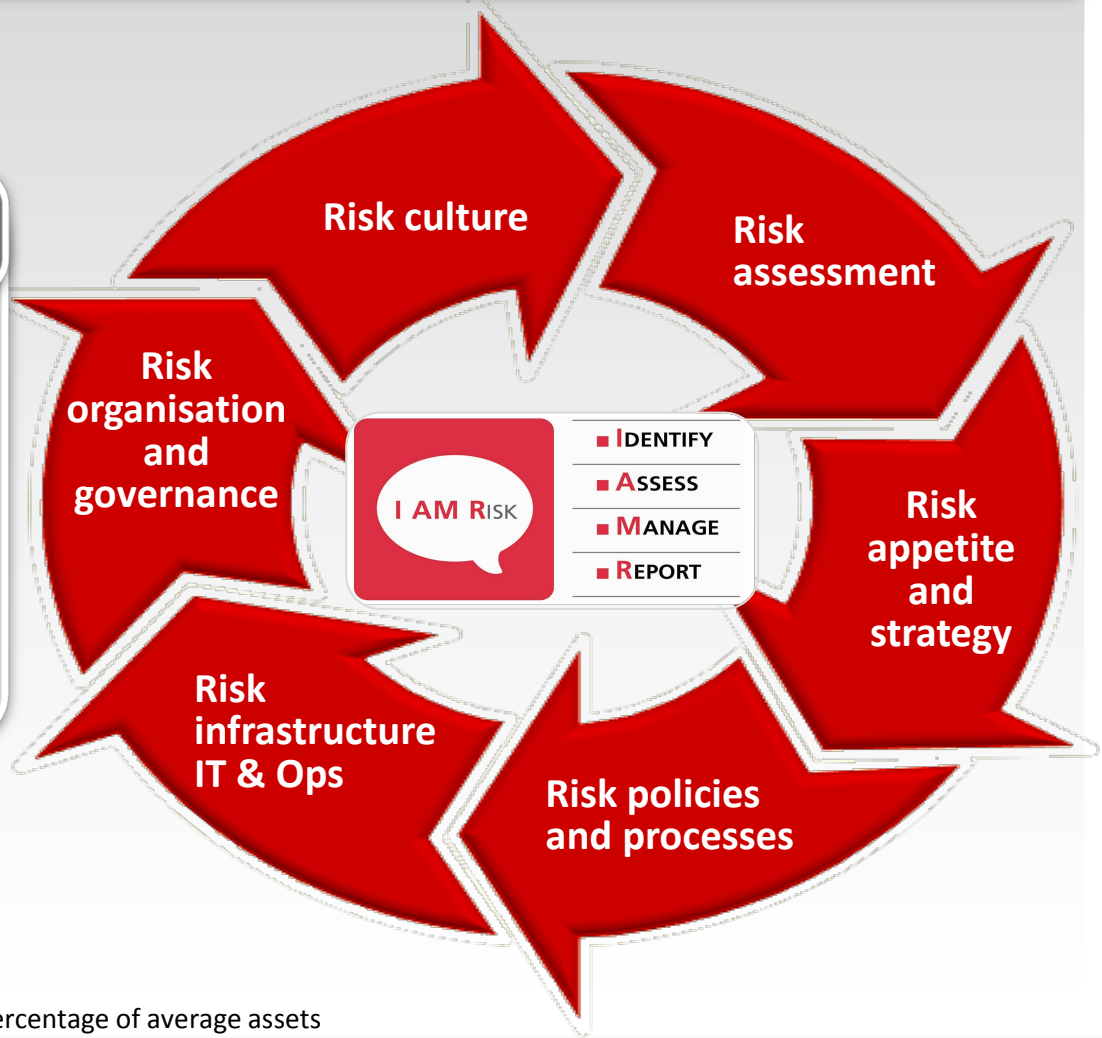
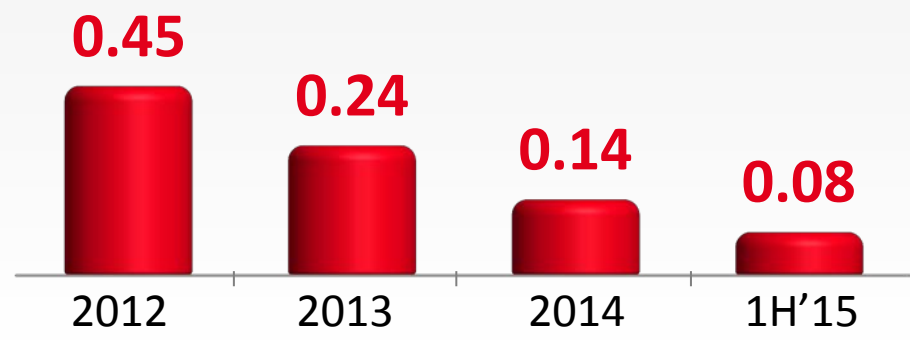
#### Enterprise Wide Risk Management

##### Non performing loans (£MM)



2018  
 NPL <1.5%  
 Cost of credit <0.2%

##### Cost of credit<sup>2</sup> (%)



(1) Non-performing loans as a percentage of loans and advances to customers (2) Impairment charge as a percentage of average assets

# Agenda

1 Market and financial system

2 Santander UK market positioning

3 Strategy

4 **Targets**

# 2018 UK targets

1H'15

2018

## People

Colleague engagement

Top 3  
UK Bank

## Customers

Retail loyal customers (MM)

3.6

4.7

SME and Corporate loyal customers (k)

254

308

Digital customers (MM)

3.3

6.5

Customer satisfaction and advocacy<sup>1</sup> (FRS)

Top 3

Top 3

Fee income CAGR

4%<sup>(2)</sup>

5%-10%<sup>(3)</sup>

## Shareholders

RoTE

13.5%<sup>(4)</sup>

12-14%

FL CET1

11.7%

c.12%

C/I ratio

52%

<50%

NPL ratio

1.61%

<1.50%

Dividend pay-out ratio

n/a

50%

## Communities

Number of scholarships 2016-2018 (k)

24.1

People supported 2016-2018 (k)

600

Note: Group criteria except FL CET1 (1) Source: GfK FRS 12 months rolling data. Refer to Appendix 1 in the Q2'15 QMS for a full definition  
(2) 1H'14-1H'15 (3) 2015-2018 (4) Annualised and adjusted for Bank Levy and FSCS phasing. Group view

# Transparent performance metrics for 2016

Key metric	1H'15	2016	Improvement
Fee income CAGR (%)	4	5-10	1-6p.p.
Digital customers (MM)	3.3	4.3	+30%
Corporate customer loans <sup>1</sup> growth vs. market	>5p.p.	> 5p.p.	

(1) SME lending



## Key takeaways



A **unique position** as a **successful scale challenger** with a **strengthening commercial franchise, strong balance sheet and profitability**



An **opportunity** to **grow our loyal customers, create deeper relationships and increase the scale and returns of our corporate bank**



A **strategic priority** of **operational and digital excellence** to deliver **leading customer satisfaction while improving efficiency**



An **ambitious and transformational plan for 2018** delivering **business growth, value, lower delinquency and capital strength**



Simple | Personal | Fair