

# Santander UK: Delivering growth

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30 September 2014

Simple  
Personal  
Fair

What a bank should be



# Santander UK in 2011

## Bank

- Integration of **three separate building societies**, with different cultures, systems and business models

## Balance sheet

- 33% of Net Interest Income driven by **net structural position**
- **Loan-to-deposit** ratio of 136%

## Competition

- **2<sup>nd</sup> bank** in mortgages; **3<sup>rd</sup>** in deposits; and **5<sup>th</sup>** in current accounts

## Customers

- A '**large**' bank vs. a '**great**' bank; of 25m customers, **only 14m active** and **9m mono-product**

## Reputation

- **Poorest** in customer **satisfaction**

## Employees

- Majority of **employees banking with another bank**
- 50% of branch time dedicated to **renewing deposits**

## Regulation and compliance

- Operating in a **tough regulatory environment**, with a challenging relationship with UK regulators

# Four critical areas stabilised since 2011

## New management team

- 13 of 17 ExCo changes ✓
- 82 of 120 other executives changed ✓
- CEO, CFO, CRO, Head of UKB, Head of Comms, Head of Strategy ✓

## Regulators and risk management

- Improved relationships with the UK regulators ✓
- Strengthened risk management processes, improved mortgage approval process, and rebuilt conduct approach ✓

## Governance

- New CEO-led committees (ExCo, OpCo, Strategy, Risk) ✓
- New risk framework with 3 lines of defence ✓

## Balance sheet

- Customer funding gap reduced by £17bn between 2011 and 2013 ✓
- Converted over £40bn of short term money to longer term financing, 2011 to 2013 ✓
- Weathered the aftershocks from the Eurozone crisis ✓

# A new strategy: 'Best Bank' in the UK, for our people, customers, shareholders and communities

1

Loyal and satisfied  
retail customers

2

'Bank of Choice' for UK  
companies

3

Consistent profitability and a  
strong balance sheet

Simple,  
Personal, Fair  
The Santander  
Way

# 'Best Bank' in the UK, for our people, customers, shareholders and communities

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# 1|2|3 Current Account launch: real innovation and competition in UK retail banking

Financial Times, 5 March 2012

**FT Deal of the week**  
**Santander 123 current account**

**What's the deal?**  
 Santander is launching a new current account on Monday, offering up to 3 per cent interest on money held, plus cashback on household bill payments.

**Is this good?**  
 Cashback, a feature normally offered only on credit cards, means that a small percentage of the bills that are paid from your account will be paid back to you by Santander.

Customers receive up to 3 per cent money back on gas, electricity, water, council tax and phone bills – if they are paid by direct debit. An interest rate of 3 per cent on credit balances up to £20,000 is also competitive, considering that the best variable rate savings account from Cheshire Building Society pays 3.06 per cent – and 2.06 per cent of this is a temporary bonus.

Santander says the cashback and interest could be worth £1,000 a year to customers.

Kevin Mountford of MoneySupermarket.com said the account aims to provide a consistent deal with no introductory incentives, and this innovation in the market is a very good thing.

**What's the catch?**  
 Account holders pay a £2 monthly fee. Customers must also have at least two direct debits paid from their account and credit a minimum of £500 a month. Overdrafts are extremely expensive, particularly for customers who go beyond their authorized limit. Arranged overdrafts cost £1 a day, capped at 20 days per month. Unauthorized



© PA  
 New: Santander 123 current account pays cashback on household bills and pays interest of up to 3 per cent - but you have to play by the rules

Mail Online / This is Money, 5 March 2012

Sunday Express, 4 March 2012

SUNDAY EXPRESS

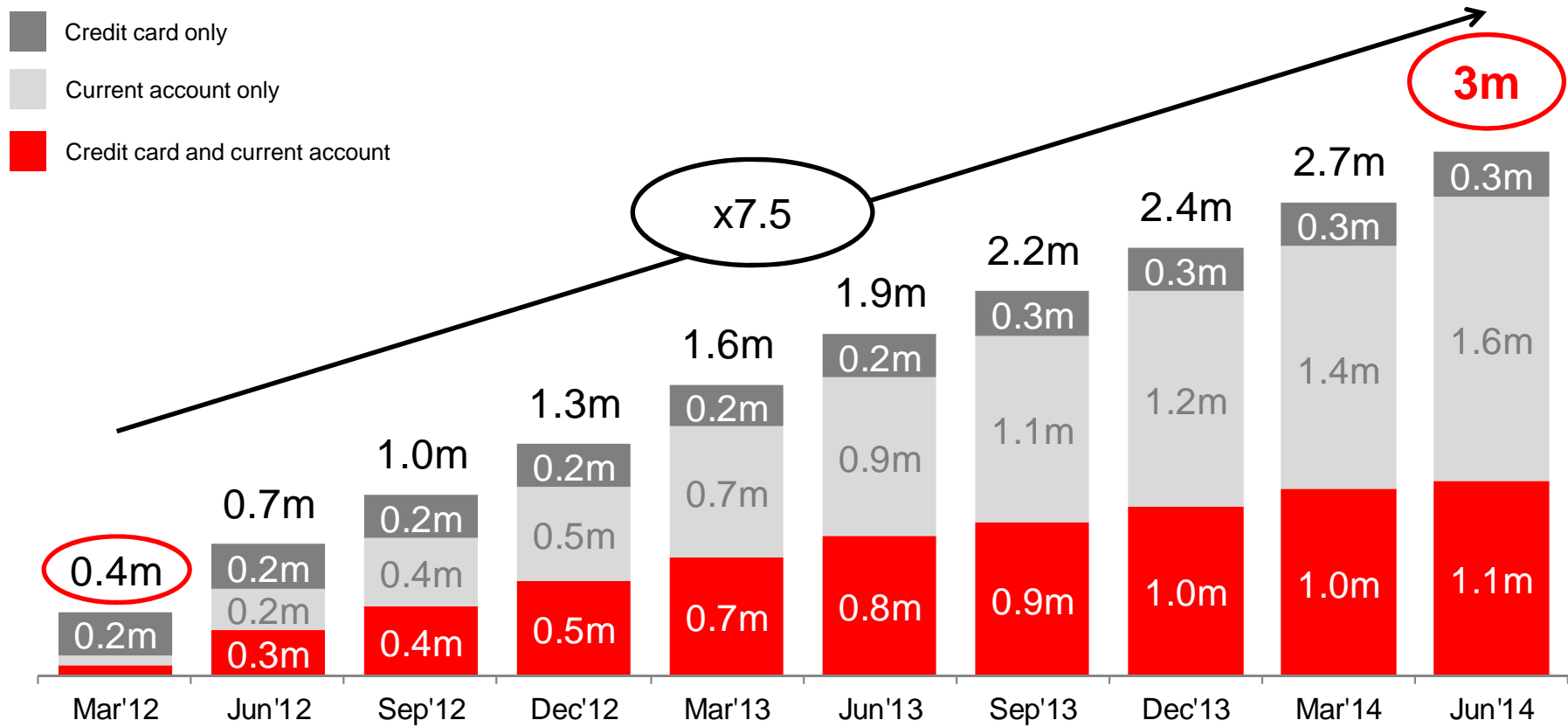
## Is this the best current account ever?

A new weapon has been unveiled in the banking war, says Holly Thomas

Is this Britain's best current account? Santander's new deal pays 3 per cent interest AND gives cashback on bills

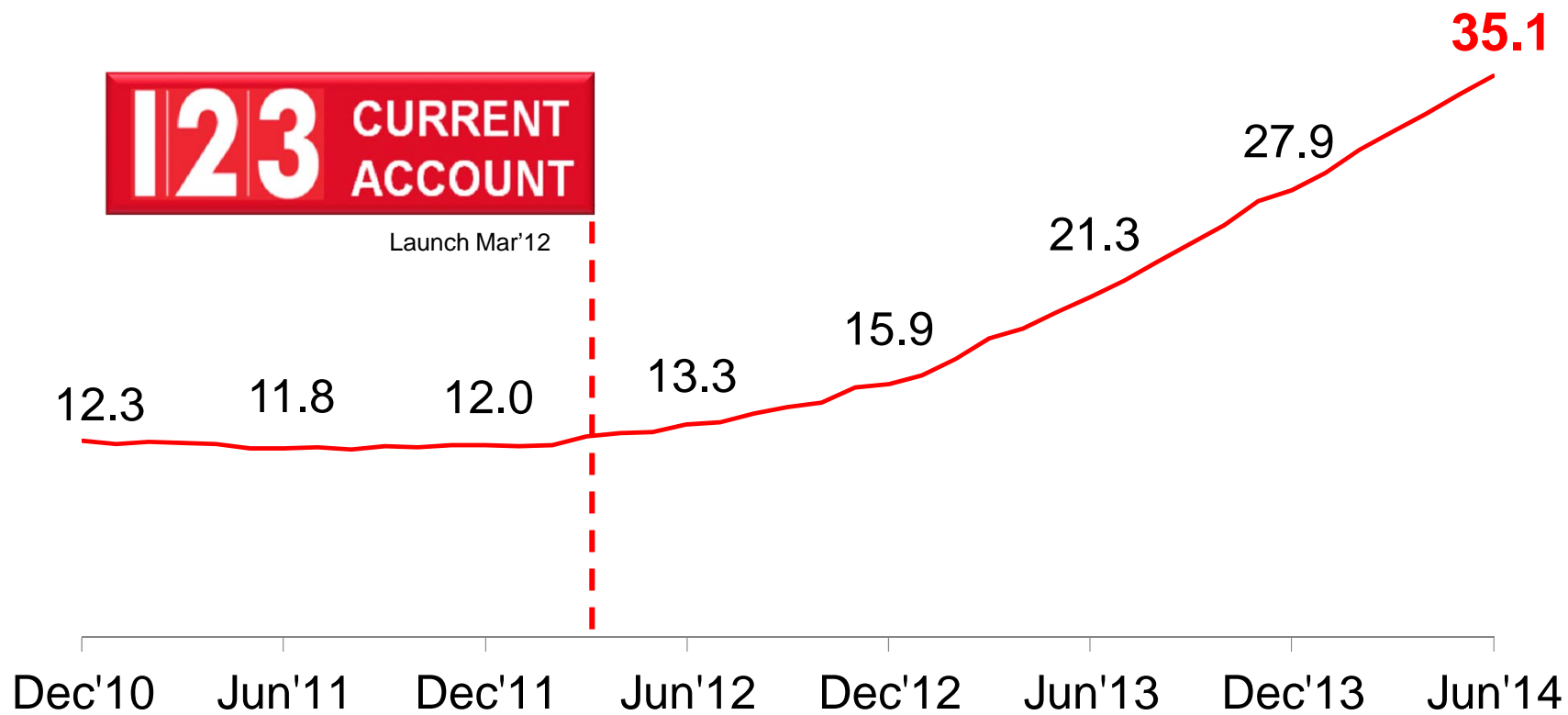
# Growing our loyal customer base

**3 million 1|2|3 World customers**



# Current account deposits rising by £1bn per month since end 2012

Retail Banking current account balances (£bn)





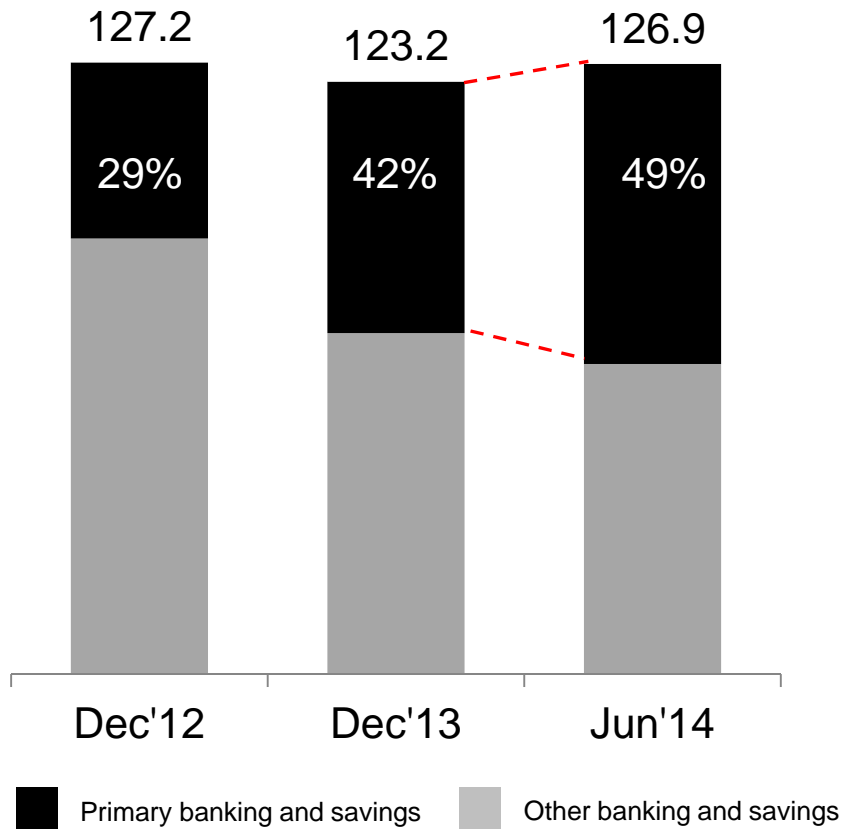
# 1|2|3 World is transforming our customer profile and increasing loyalty

	Non 1 2 3 Current Account	1 2 3 Current Account
Select and Affluent <sup>1</sup>	8%	34%
Primary banking <sup>2</sup>	42%	91%
Products per customer	1.5	2.3
Average account balance <sup>3</sup>	1.0x	4.7x
4+ direct debits	28%	76%

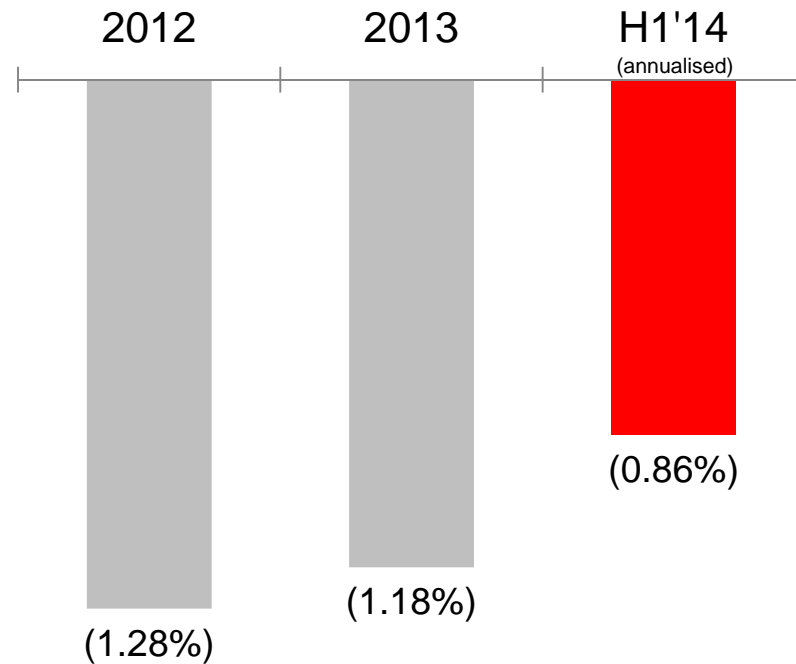
1. Select customers: monthly credit turnover of £5k, savings, banking and investments worth £75k or properties worth a minimum of £500k. Affluent customers have a monthly credit turnover of £4k-5k, savings, banking and investments worth £25k-75k or properties worth £350k-500k
2. Primary banking customers: minimum credit turnover of at least £500 p/m and at least 2 direct debits set up on the account
3. Average account balances are combined savings and banking liability balances

# Winning customers' loyalty, while improving liability spreads

Retail liabilities (£bn)



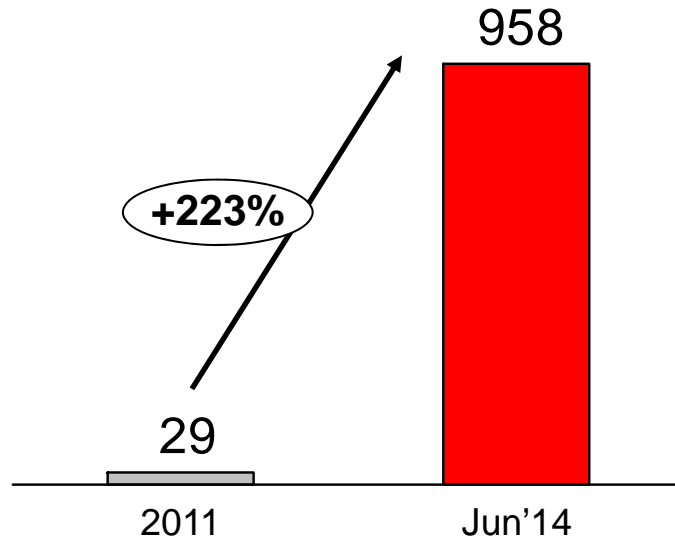
Retail Banking liabilities spread vs. swap rate/LIBOR <sup>1</sup>



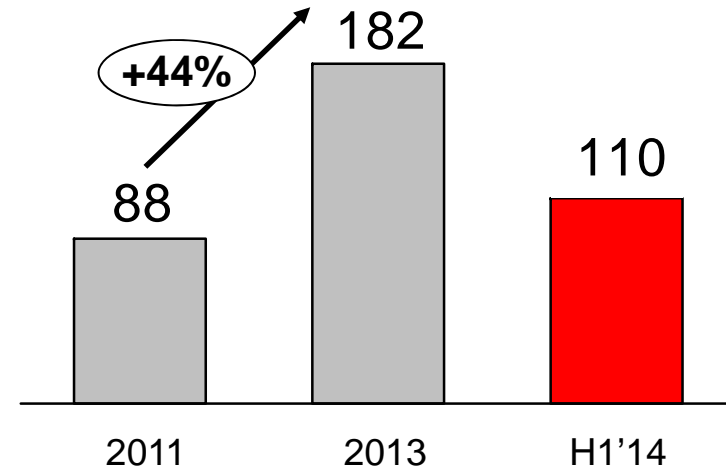
1. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers

# Committing £60m to digital over 2 years

Active mobile customers (000's)



Current account online sales (000's)



## Digital ATMs

- Multi-cheque deposits
- New advanced ATMs piloted
- E-mail
- Tactile and customisable



## Digital Plan

- New public website
- PayM: c.170k registered users
- Online transfer mortgages
- New mobile apps



# Significant improvements in customer and employee satisfaction

- ✓ **Reduced the gap** to top 3 peers in the FRS customer satisfaction survey, from 6 pp in 2012 to 2 pp
- ✓ **55% reduction in complaints** (Jun'12 to Jun'14)
- ✓ **2<sup>nd</sup> place** in moneysavingexpert.com current account service survey - up from last in 2010 <sup>2</sup>
- ✓ **7 pp improvement** in employee satisfaction vs. 2010



**Rating of current account services <sup>1</sup>**

Rank	Entity	Poor	OK	Great
1	First Direct	2%	6%	92%
<b>2</b>	<b>Santander</b>	<b>6%</b>	<b>22%</b>	<b>72%</b>
3	Smile	7%	22%	72%
<b>4</b>	<b>Nationwide</b>	<b>6%</b>	<b>25%</b>	<b>69%</b>
5	Co-op	7%	23%	70%
6	Halifax	9%	36%	55%
7	TSB	12%	36%	52%
8	Bank of Scotland	12%	39%	49%
9	Yorkshire Bank	12%	45%	45%
<b>10</b>	<b>Lloyds Bank</b>	<b>13%</b>	<b>40%</b>	<b>47%</b>
11	RBS	17%	37%	46%
12	HSBC	15%	43%	42%
13	NatWest	15%	46%	38%
<b>14</b>	<b>Barclays</b>	<b>26%</b>	<b>36%</b>	<b>38%</b>

1. Source: moneysavingexpert.com, August 2014. Order calculated by 0 points for poor, 1 for OK and 2 for great. Results may not add up to 100% due to rounding. 7,875 votes in total – banks with fewer than 100 votes disregarded  
 2. Source: moneysavingexpert.com, August 2010. Ranked last with a 38% rating of “Poor”

# 'Best Bank' in the UK, for our people, customers, shareholders and communities

Loyal and satisfied  
retail customers

2

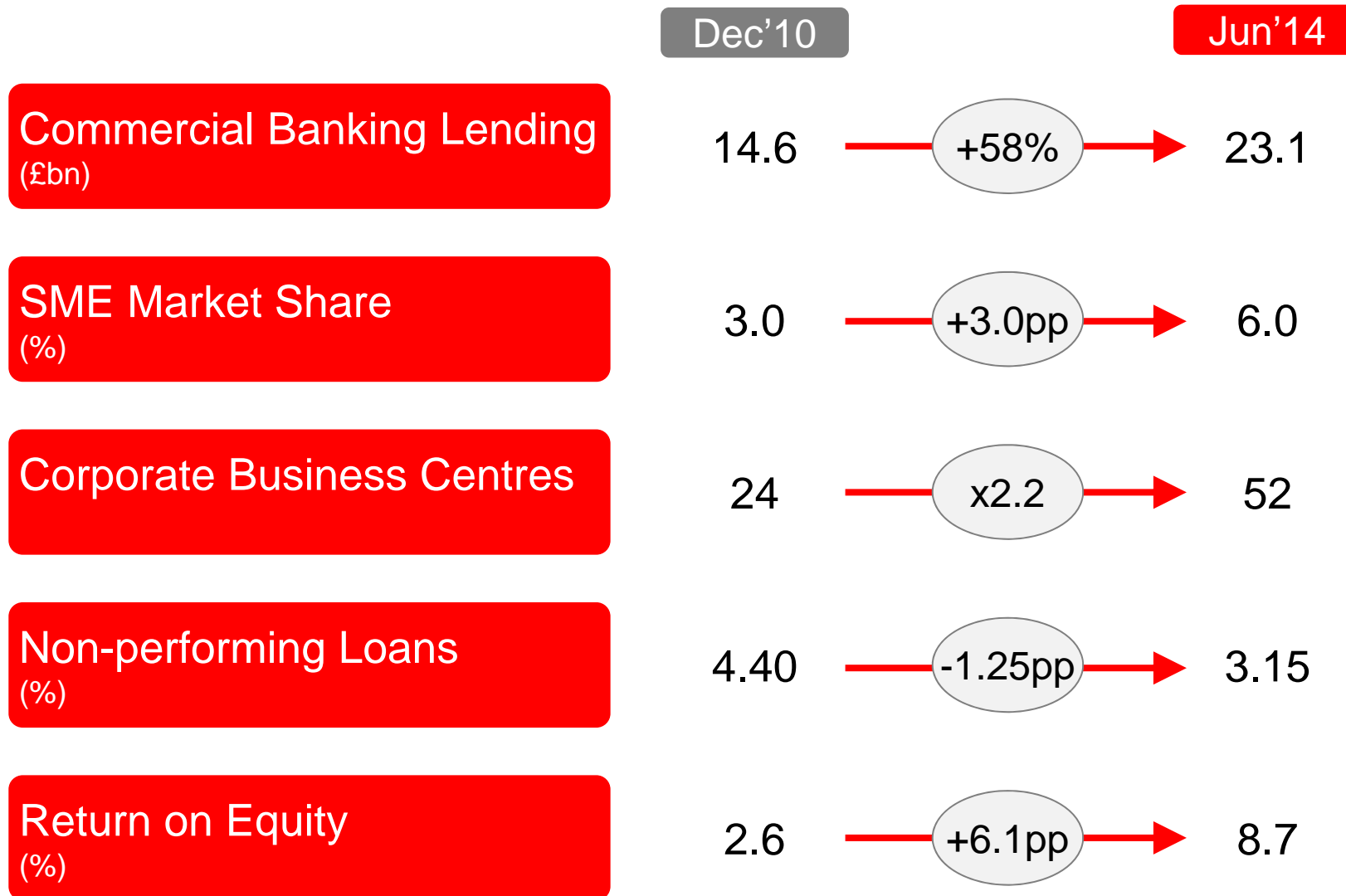
'Bank of Choice' for UK  
companies

Consistent profitability and a  
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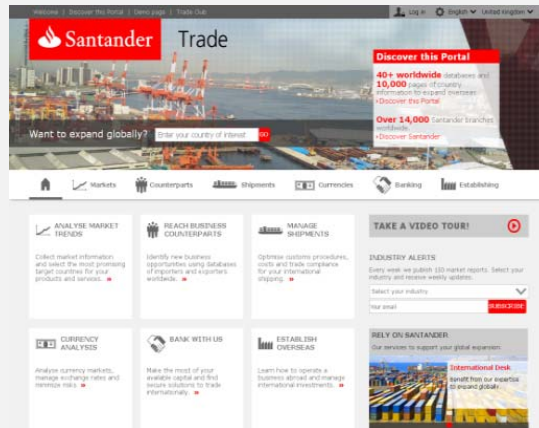
## Key focus on growth of corporate bank



# Customers benefit from shared global expertise and pioneering local innovation

## Helping UK businesses operate globally

- International expertise
- Trade portal and Santander Passport
- International products and services



## BREAK THROUGH

GROWTH ACCELERATION FOR BRITISH BUSINESS

- £50m invested in 25 fast growth companies
- 1,000 new jobs created
- 67 companies on 7 trade missions to the US, Brazil and Mexico
- 150 companies attended 13 Masterclasses
- 2,700 business attended Live Summits and Roundtable events

## Supporting entrepreneurs

- Breakthrough - £200m growth capital fund
- Funding Circle
- Connect
- US\$100m FinTech fund

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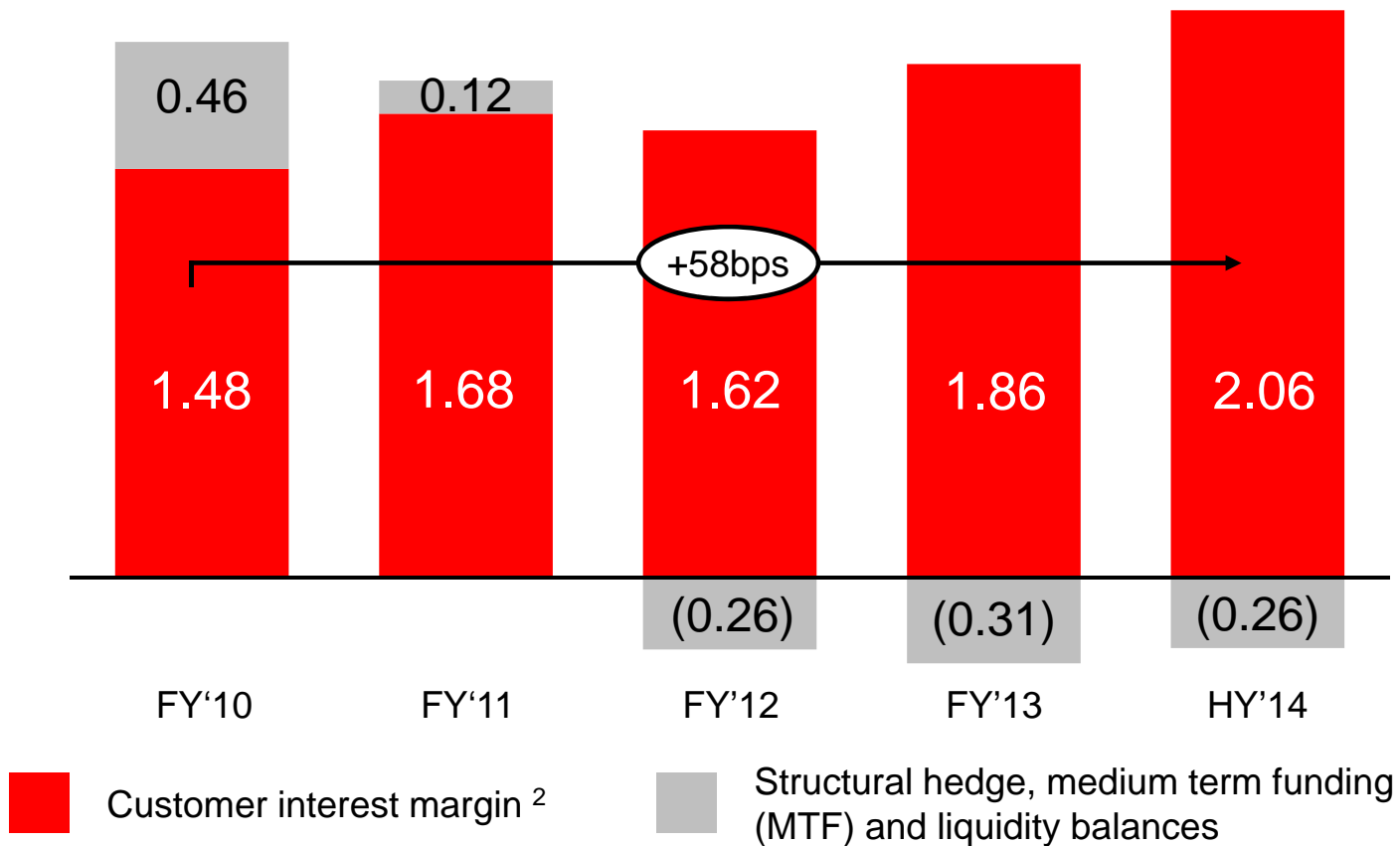
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# Strategic transformation delivering growth in customer margins

Banking NIM <sup>1</sup>	1.94	1.80	1.36	1.55	1.80
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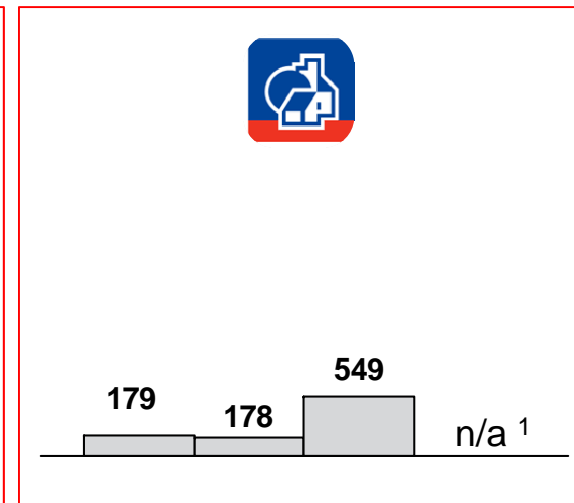
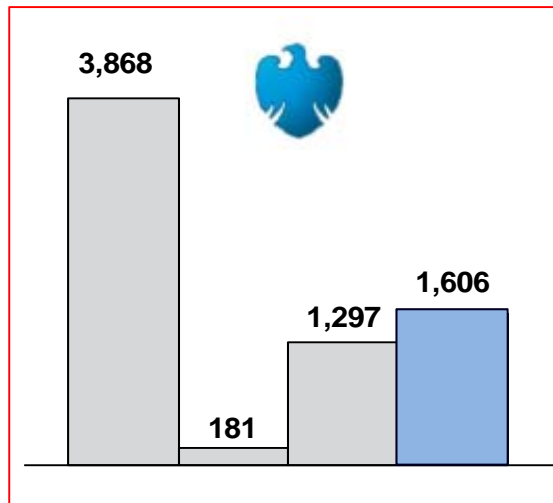
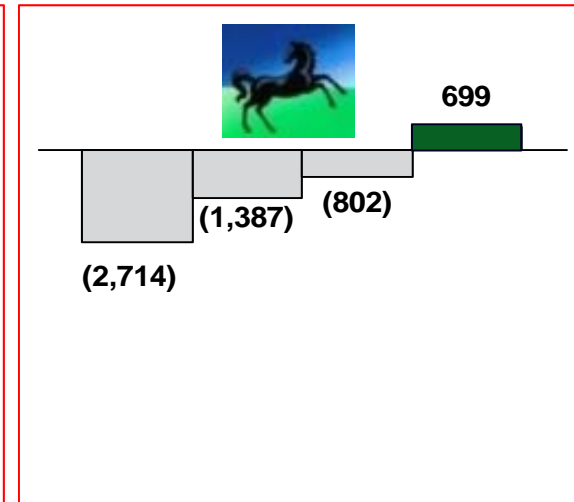
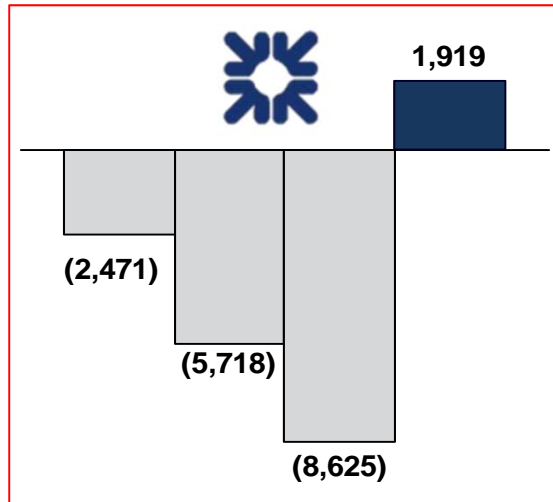
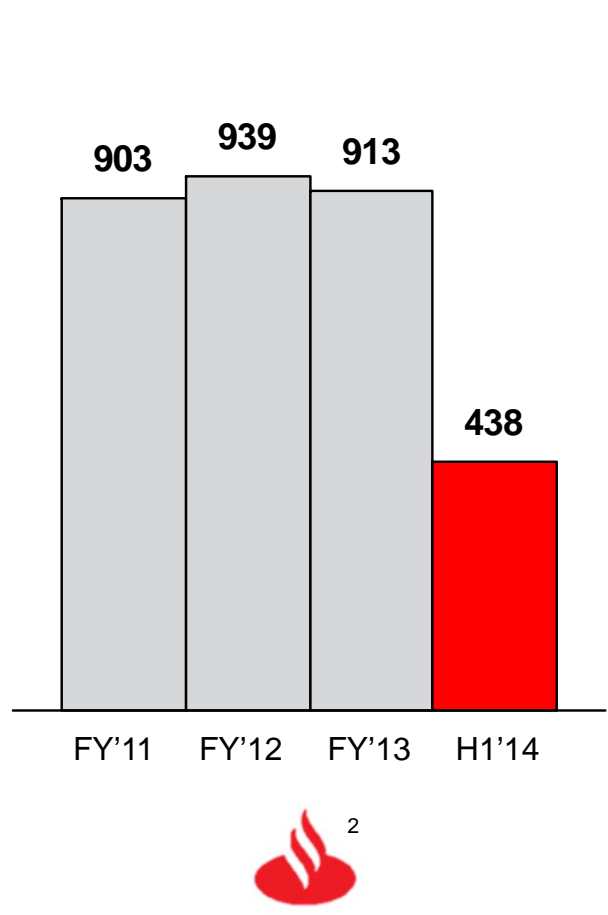


1. Banking NIM is calculated as annualised net interest income divided by average customer loans. Banking NIM is a non-IFRS measure  
 2. Customer interest margin is calculated as annualised net interest income (adjusted for structural hedge, MTF and liquidity balances) divided by average customer loans

# Santander UK is consistently profitable

## Statutory profit after tax (£m)

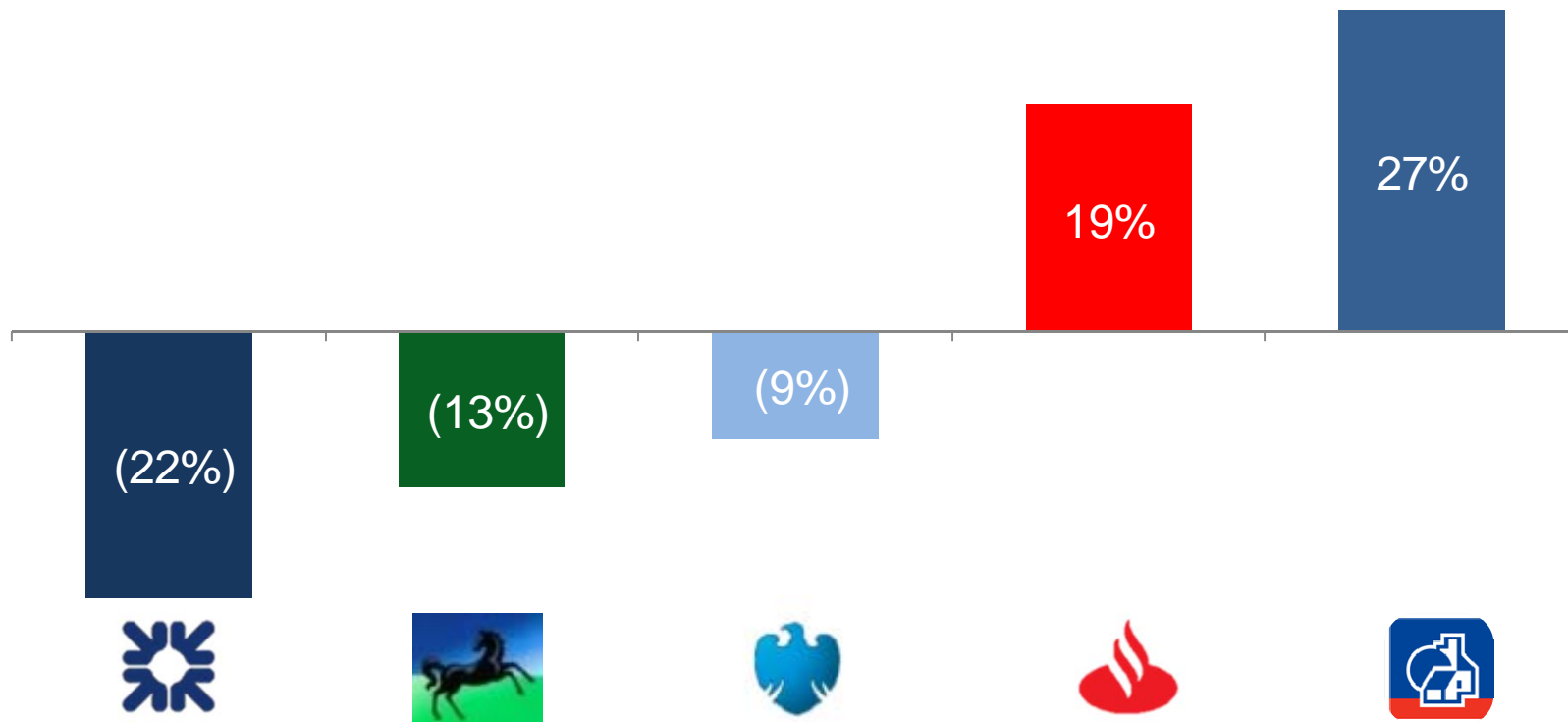
Periods: FY'11, FY'12, FY'13, H1'14 <sup>1</sup>



1. Nationwide April year end  
 2. Santander UK FY'11, FY'12 and FY'13 as reported and not adjusted to reflect the retrospective adoption of IFRIC 21

# Whilst we have grown TNAV and maintained a 50% dividend payout

Tangible Net Asset Value plus dividends distributed <sup>1</sup>  
(change Dec'11 to Jun'14)

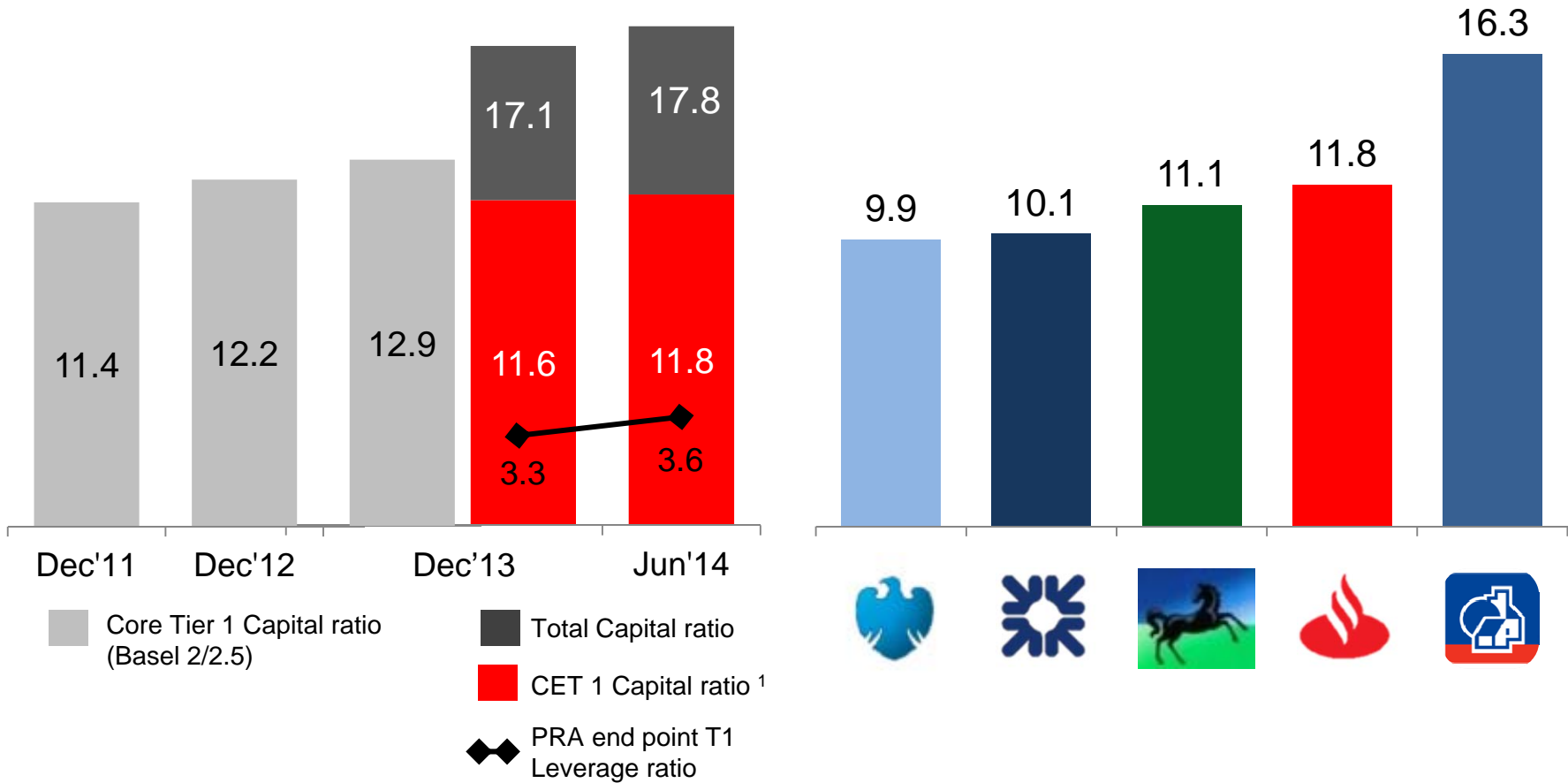


1. Tangible common equity divided by the number of ordinary shares (period end) plus cumulative common dividends paid in 2012, 2013, H1'14. Tangible common equity excludes the non organic impact of: Barclays' £5.8bn rights issue (net of expenses) and Nationwide's £531m CCDS (Core Capital Deferred Shares). Nationwide 30 September 2011 to 4 April 2014. Source: Santander UK MI analysis

# One of the strongest capital ratios

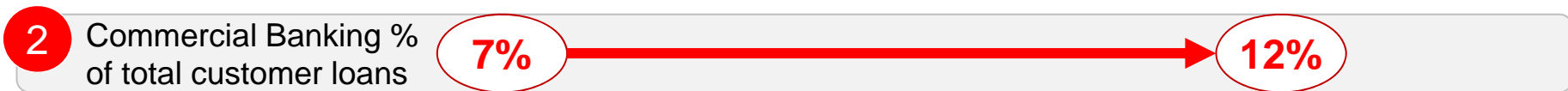
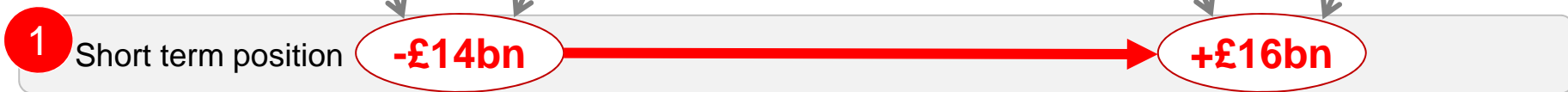
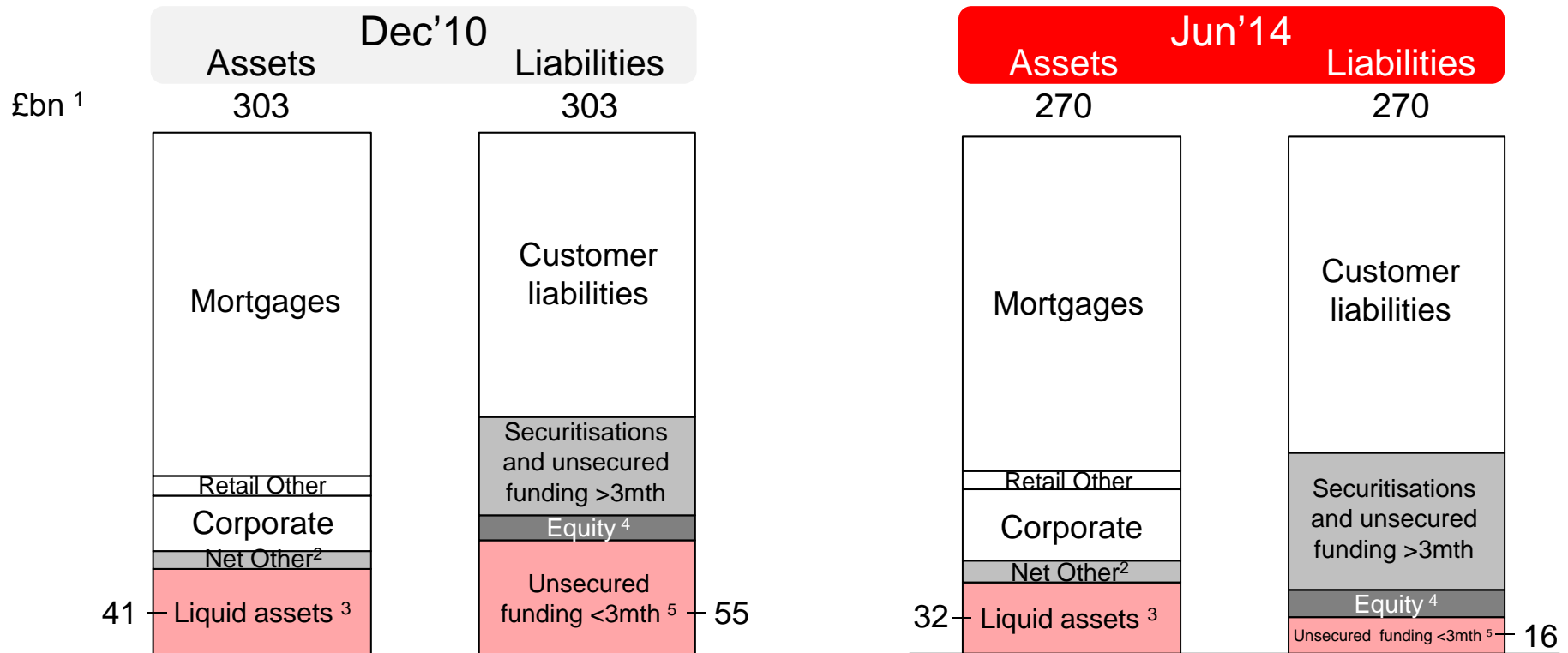
Capital ratios (%)

CET 1 Capital ratio at Jun'14 <sup>1</sup> (%)



1. CRD IV end point Common Equity Tier 1 Capital is calculated in accordance with the PRA CRD IV implementation rules (Policy Statement PS7/13)

# Better funded and more diversified balance sheet



1. Statutory total assets and liabilities. Chart and metrics on a management information basis
2. Net other: fixed assets, illiquid assets, tax assets, intangible assets, derivative assets, non-LAB eligible trading assets, interest rate hedges, provisions, tax liabilities, intercompany deposits, derivative liabilities, non-LAB eligible trading liabilities
3. Eligible liquid assets (BIPRU 12)
4. Excludes RCIs and AT1 Capital
5. Includes outstanding FLS/SLS balances and unsecured medium-term funding and short-term funding (incl. Corp Type A) with a residual duration <3 months

## Key financial metrics

	FY 2011	FY 2012	FY 2013	H1 2014
	%	%	%	%
Banking NIM	1.80	1.36	1.55	1.80
Cost to income ratio <sup>1</sup>	47	53	54	52
Return on Tangible Equity <sup>2</sup>	9.5	9.1	8.6	11.7
Return on Risk Weighted Assets	1.20	1.20	1.13	1.54
PRA end point T1 leverage ratio	n.a.	n.a.	3.3	3.6
NPL ratio	1.93	2.16	2.04	1.96

For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for the 6 months ended 30 June 2014

- Adjusted H1'14 cost-to-income ratio of 52% excludes significant items (56% including significant items). 2012 also adjusted for significant items
- H1'14 RoTE of 11.7% is annualised and adjusted to include the effect of the Bank Levy and to exclude significant items. Prior periods adjusted to reflect the retrospective adoption of IFRIC 21

## Key risk metrics

	FY 2011	FY 2012	FY 2013	H1 2014
	%	%	%	%
Total NPL ratio	1.93	2.16	2.04	1.96
Total NPL coverage ratio <sup>1</sup>	39	43	41	41
Average mortgage LTV (indexed) <sup>2</sup>	52	52	51	49
Mortgage LTV > 90% <sup>2</sup>	12	12	9	8
Commercial Banking NPL ratio	3.95	4.26	3.02	3.15

1. Impairment loss allowances as a percentage of NPLs
2. Based on stock of mortgage loans

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Way



## Our vision? Do things differently



“Our employees are our best ambassadors”

## **Cultural change: strong foundations**

**Our purpose is to help people and businesses prosper**



# Cultural change: strong foundations



# Looking ahead: our purpose is to help people and businesses prosper



## Our Aim

To be the best bank

- for our people
- for our customers
- for our shareholders
- for our communities

A bank that is...

SIMPLE

PERSONAL

FAIR

# Strategic transformation of our business is demonstrated by our financial performance

	FY'11	HY'14	2015 target	
<b>1</b> Loyal and satisfied retail customers	<b>Loyal customers</b>	1.6 million	3.0 million	4 million
	<b>1 2 3 World Customers</b>	0.1 million	3.0 million	4 million
	<b>Customer satisfaction ('FRS')</b> (average of top 3 UK peers)	51.0% (61.0%)	58.4% (60.4%)	Top 3
<b>2</b> 'Bank of Choice' for UK companies	<b>Commercial Banking percentage of total customer loans</b> (Commercial Banking customer loans)	9% (£18.9bn)	12% (£23.1bn)	20%
<b>3</b> Consistent profitability and strong balance sheet	<b>Return on tangible equity</b>	9.5%	11.7% <sup>1</sup>	13% - 15%
	<b>Cost-to-income ratio</b>	47%	52% <sup>2</sup>	< 50%
	<b>Common Equity Tier 1 capital ratio</b>	n/a	11.8%	> 10.5%
	<b>Loan-to-deposit ratio</b>	135%	124%	< 125%
	<b>Non performing loan ratio</b>	1.93%	1.96%	Ratio maintained
	<b>Dividend payout ratio</b>	50%	50%	50%

For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for the 6 months ended 30 June 2014

1. H1'14 RoTE of 11.7% is annualised and adjusted to include the effect of the Bank Levy and to exclude significant items.

2. Adjusted H1'14 cost-to-income ratio of 52% excludes significant items (56% including significant items).

# Santander UK in 2014

## Bank

- Relationship-based retail-commercial bank, with a **strong identity**

## Balance sheet

- Strong CET 1 capital ratio of **11.8%**
- **High quality liabilities**, lower spreads and less short term funding

## Competition

- **Significant growth** in our current accounts and SME market position

## Customers

- **3 million 1|2|3 World** customers; more active and with increased loyalty

## Reputation

- FRS customer **satisfaction gap to top 3 peers narrowed** to -2pp, from -9pp in 2011

## Employees

- **Strong employee advocacy** of Santander UK
- **More time helping customers**, less on renewing deposits

## Regulation and compliance

- **Better relationship** with UK regulators in a tough environment

From ...



*The Guardian; 4 December 2010 and 26 February 2011*

... To



*The Daily Telegraph, 13 May, 2014*

***Is Santander  
that much  
better than the  
rest?***

*The Daily Telegraph, 18 July, 2014*



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Source: Santander UK Q2 2014 results “Quarterly Management Statement for the six months ended 30 June 2014” or Santander UK Management (‘MI’), unless otherwise stated.

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