

Santander UK

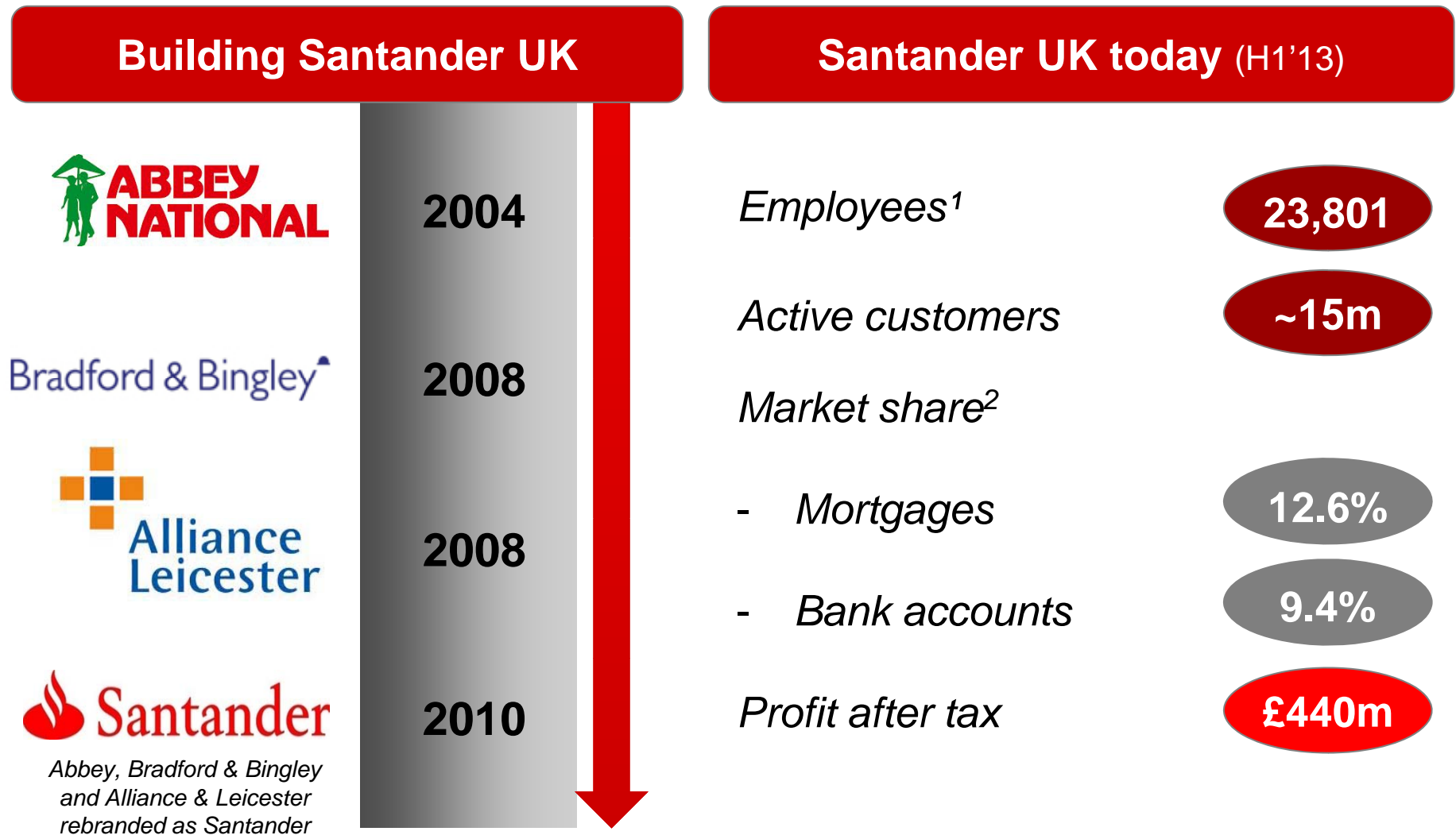
**Transforming our bank
around the customer**

*Bank of America Merrill Lynch
Annual Banking & Insurance Conference*

*Ana Botín, CEO
London, 24 September 2013*



Santander has a significant market presence in UK retail banking



¹ On a Santander Group reporting basis
² Market share sources: Residential Mortgages (BOE), Bank Accounts (CACI)

We have a clear vision

**Santander UK
today...**



Building society
heritage

5

5th Bank
in the UK



Emerging
corporate franchise



Branches/
intermediaries
based

... our vision

**To become the Best Bank
in the UK**

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

A bank that is...

**SIMPLE
PERSONAL
FAIR**

We are delivering against our strategic and financial goals

| | | 2011 | H1'13 | |
|---|--|---|-------|-------|
| 1 | Retail: loyal and satisfied customers | Loyal customers¹ | 1.6m | 2.5m |
| | | No of 1 2 3 World customers | 0.1m | 1.9m |
| | | Customer satisfaction (FRS) | 50% | 57% |
| 2 | Corporate: 'Bank of Choice' for UK companies | SME² market share | 4.3% | 5.5% |
| | | Corporate banking (% of loans) | 9% | 11% |
| 3 | Financial Strength: consistent profitability and strong balance sheet | RoTBV | 9.0% | 8.3% |
| | | Cost income ratio | 47% | 57% |
| | | Common Equity Tier 1 ratio³ | - | 11.4% |
| | | Loan to deposit ratio | 136% | 125% |
| | | NPL ratio | 1.93% | 2.17% |

¹ Loyal customers' are primary current account customers who hold a debit card and an additional product. Primary current account customers have a minimum credit turnover of at least £500 per month and at least two direct debits set up on the account

² Measured as SME balances (customers with annual turnover of more than £250,000 up to £50m) divided by the equivalent of Santander SME market size from BoE lending data

³ Fully loaded Basel III / CRD IV. Subject to CRD IV implementation

1

Retail

4

In Retail, we are acting on a number of levers

Key levers

Examples



Delivering simple and innovative products that add value

Product simplification

2012 2013

Adult current accounts

12

3

Savings accounts

90

5



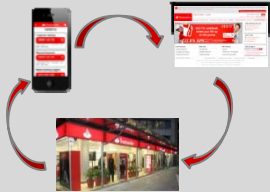
Segmented value proposition



Santander

SELECT

500k customers¹



New commercial and distribution model

Omni-channel capabilities

e.g. iPhone and Android mobile applications



Improving customer satisfaction

96% satisfied with 1|2|3 Current Account²

¹ Select defined as customers with CTO average £5k per month for 12months (max £10k counted in a single month) or £75k in Savings and investments + banking liabilities (minimum balance in prior 3 months) or £500k property value

² Source: moneysavingexpert.com website from Feb'13

1

Retail

5

1|2|3 World is the way to transform product holders into customers

1.9m 1|2|3 World customers

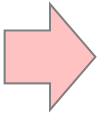
Transforming the customer profile

Banking liabilities³ (£bn)

Non 1|2|3 1|2|3 World

Primary banking

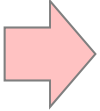
39%



83%

Affluent¹

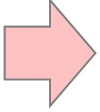
8%



28%

Average account balance per customer

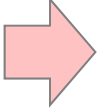
x1



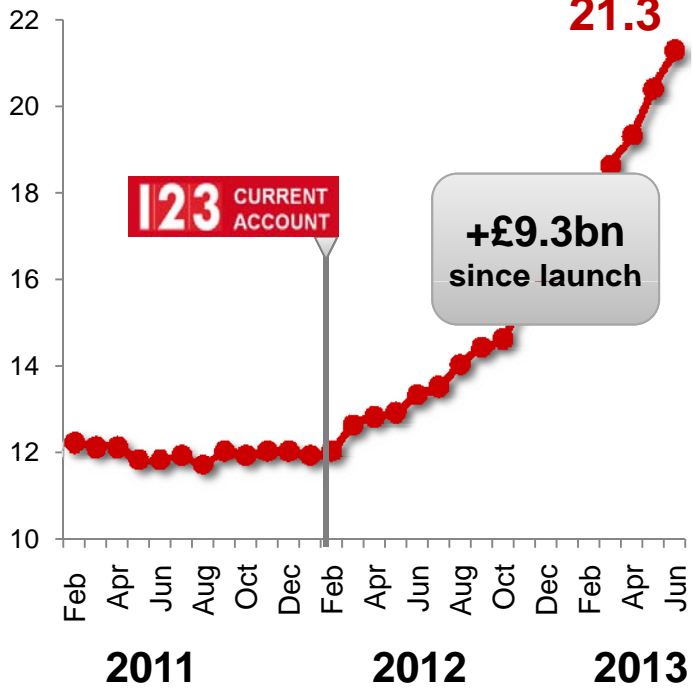
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4 Direct debits²

42%



71%



¹ Customers with significantly higher average balances
² Data as at Q1'13
³ Source: San UK Marketing MI

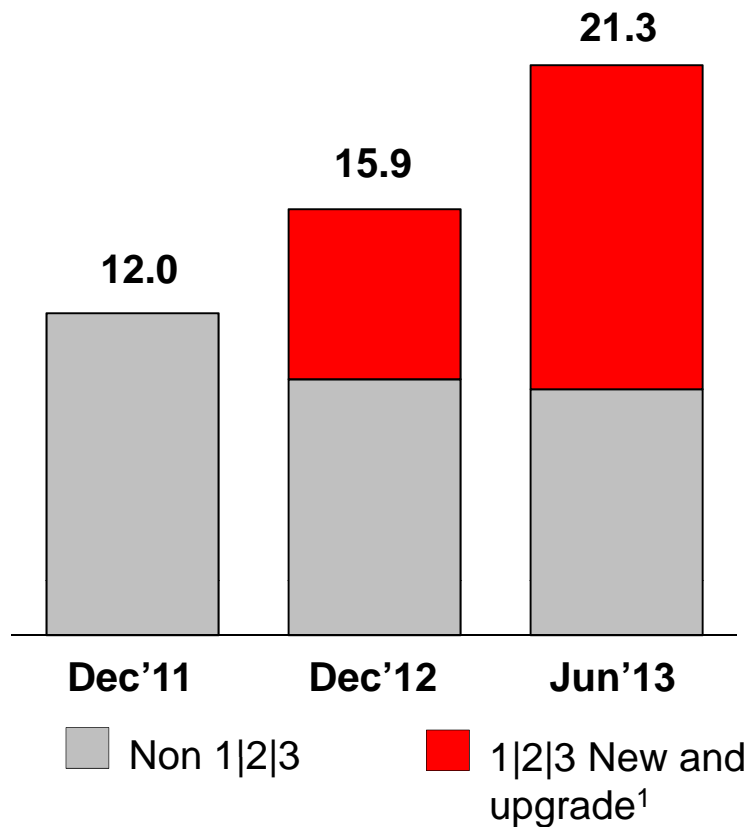
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Retail

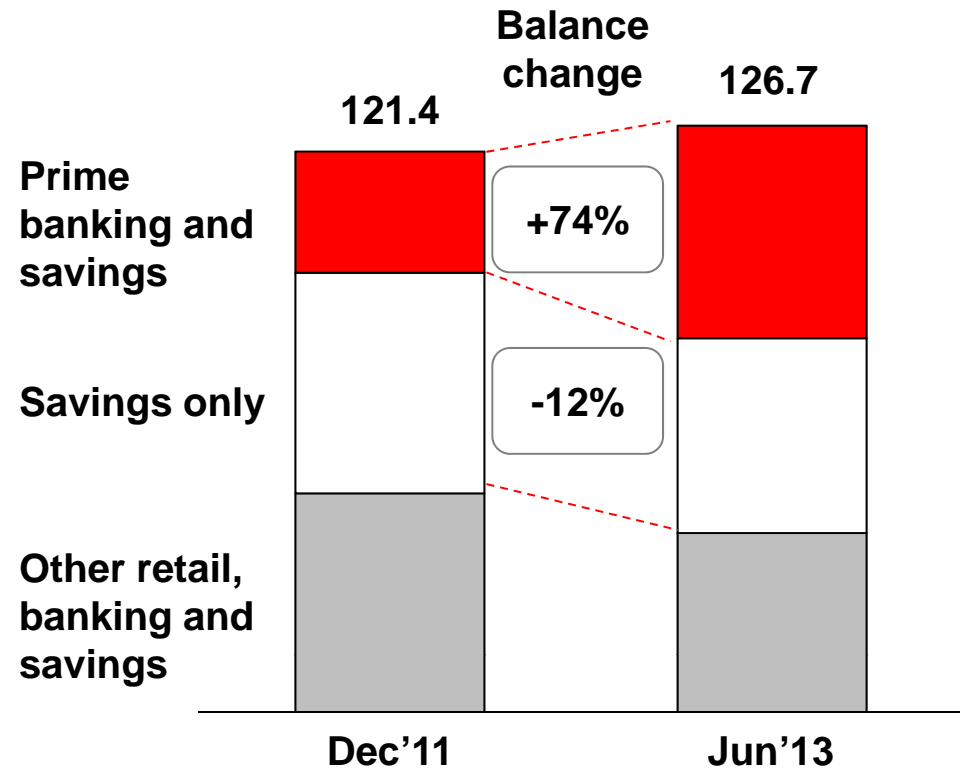
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1|2|3 World is also contributing to our stronger financial performance, increasing relationship based deposits

Current account deposits (£bn)



Retail deposits evolution (£bn)



Source: Santander UK Marketing MI
¹ Incremental and existing balance upgrades

1

Retail

Most importantly, 1|2|3 World is highly valued and drives improved customer satisfaction

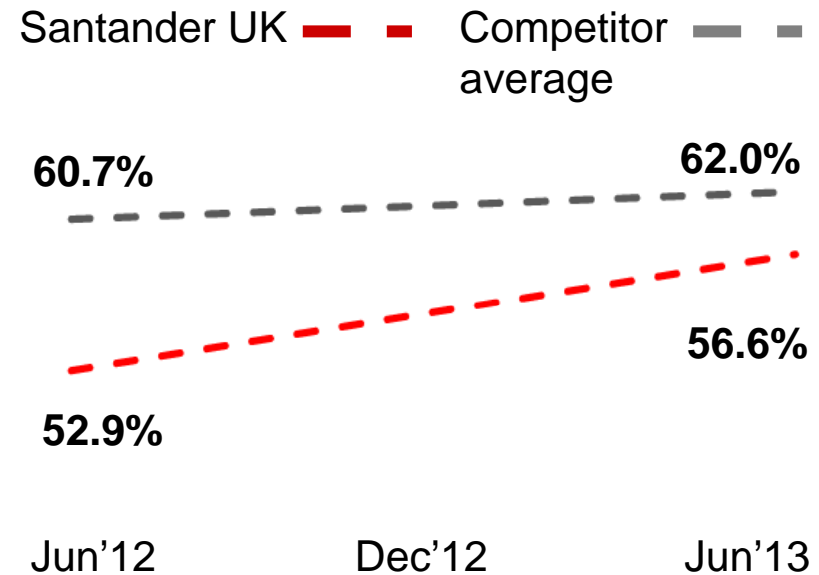


Which bank is the best for customer service?

| Rank | Provider | 'Great' | 'OK' | 'Poor' |
|------|---------------------------------------|---------|------|--------|
| 1 | Peer 1 | 93% | 6% | 1% |
| 2 | Peer 2 | 76% | 18% | 6% |
| 3 | Santander - 1 2 3 account only | 75% | 20% | 5% |
| 4 | Peer 3 | 73% | 22% | 5% |
| 5 | Santander - all accounts | 62% | 27% | 11% |
| 6 | Peer 4 | 56% | 35% | 9% |
| 7 | Peer 5 | 53% | 37% | 10% |
| 8 | Peer 6 | 51% | 40% | 10% |
| 9 | Peer 7 | 48% | 40% | 13% |
| 10 | Peer 8 | 48% | 39% | 14% |
| 11 | Peer 9 | 47% | 40% | 13% |
| 12 | Peer 10 | 44% | 42% | 15% |

- **96% Satisfied** with 1|2|3 Current Account
- **91% Satisfied** with 1|2|3 Credit Card

FRS customer satisfaction trends¹



Closing gap with competitors, mainly in multi-product relationships

¹ As measured by Financial Research Survey (FRS), an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK NOP. Overall Satisfaction: Satisfaction score refers to proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands. Competitor set includes Barclays, Halifax, HSBC, Lloyds TSB and NatWest
 Source: GfK NOP Financial Research Survey (FRS). Satisfaction data for the 13 months ending May 2013. Moneysavingexpert.com website from Feb'13 and Aug'13

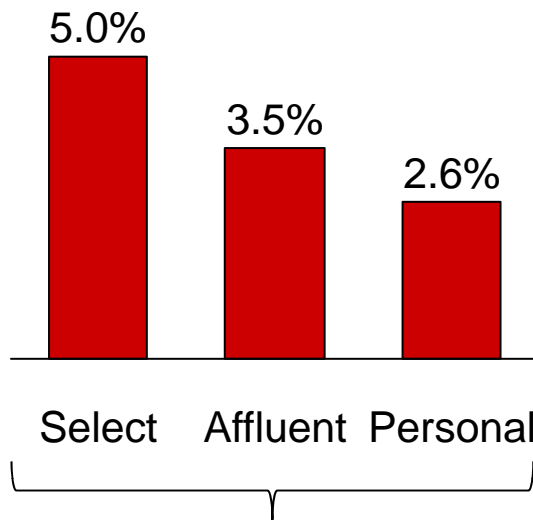
1 Retail In Mortgages, we are also accessing new segments and strengthening relationships

Our new approach: 'The FREEDOM of a Santander Mortgage'



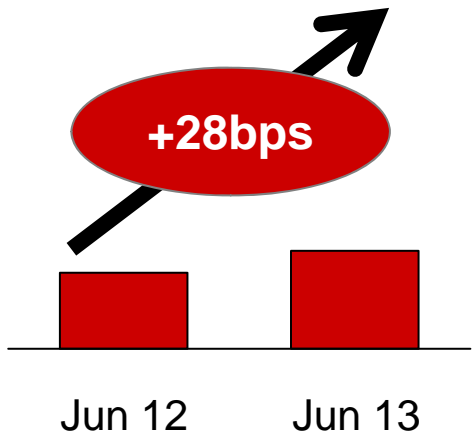
- Freedom to Join
- Freedom to Overpay
- Freedom to Leave

Identified customers with mortgage products in other banks¹ (% of total segment)



Identified opportunities ~400k

Mortgages stock margin evolution



¹ Customers with a Mortgage Direct Debit payment set up from a Santander UK current account. This estimate does not consider current Santander UK customers with a Mortgage DD payment set up from a non Santander UK current account

2

Corporate

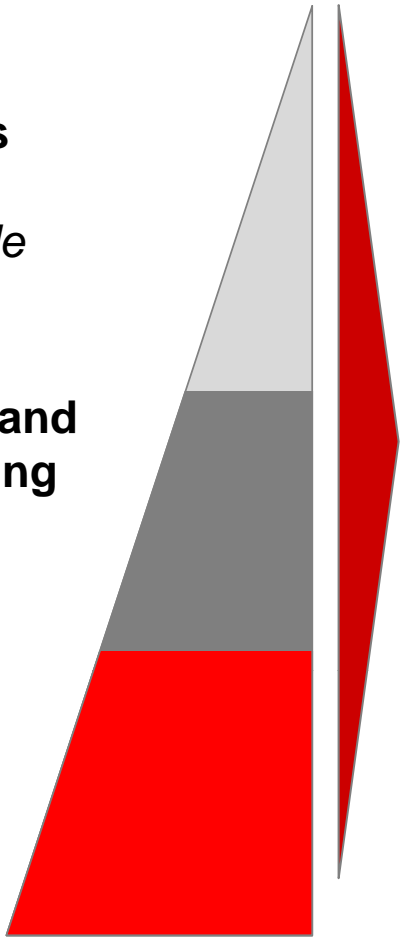
In Corporate, we have developed enhanced capabilities and invested in new infrastructure

Segmentation¹

Large Corporates
>£500m
"Tailor-made solutions"

Corporate and SME Banking
>£250k
"Growth"

Business Banking
<£250k
"Value and efficiency"



Investment in enhanced capabilities

Transactional forex



Trade services



Internet migration



Mobile banking



Cash management



Key infrastructure



New corporate IT platform
(Partenón)



37 corporate business centres
(+9 since Dec'11)



538 relationship managers
(+81 since Dec'11)

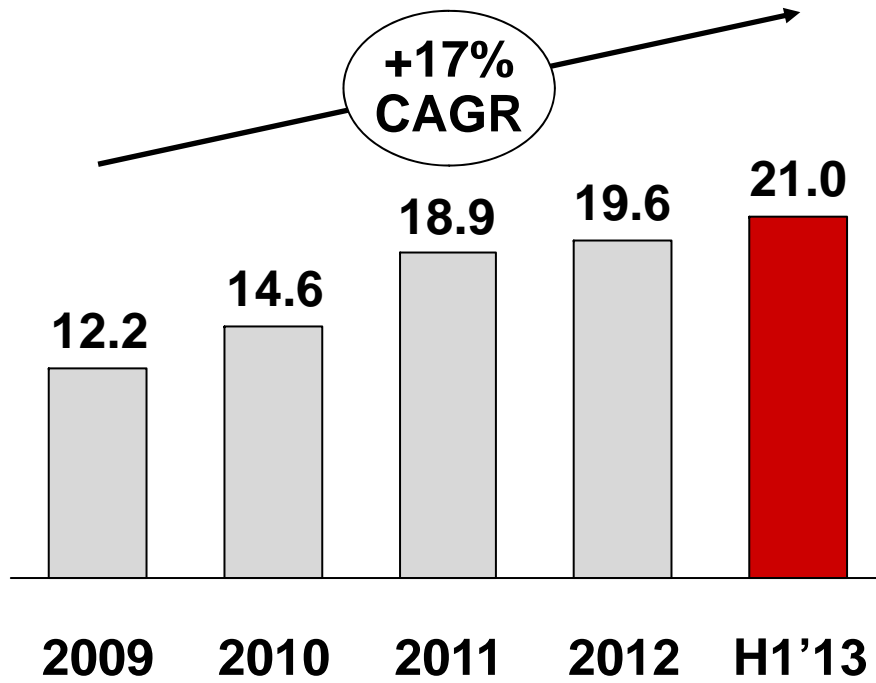
¹ Business Banking services small business customers and is reported within Retail Banking business. Large Corporates and Corporate and SME Banking are reported within Corporate Banking business

2

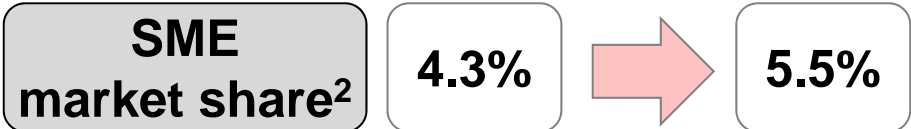
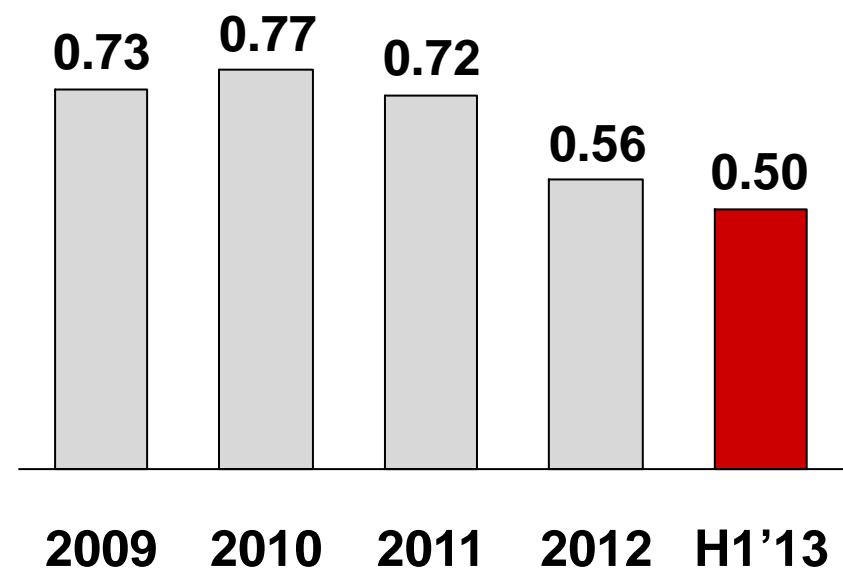
Corporate

We are expanding our market presence while maintaining our low risk profile

Corporate Banking customer assets evolution (£bn)



Corporate Banking impairment charge (%)¹

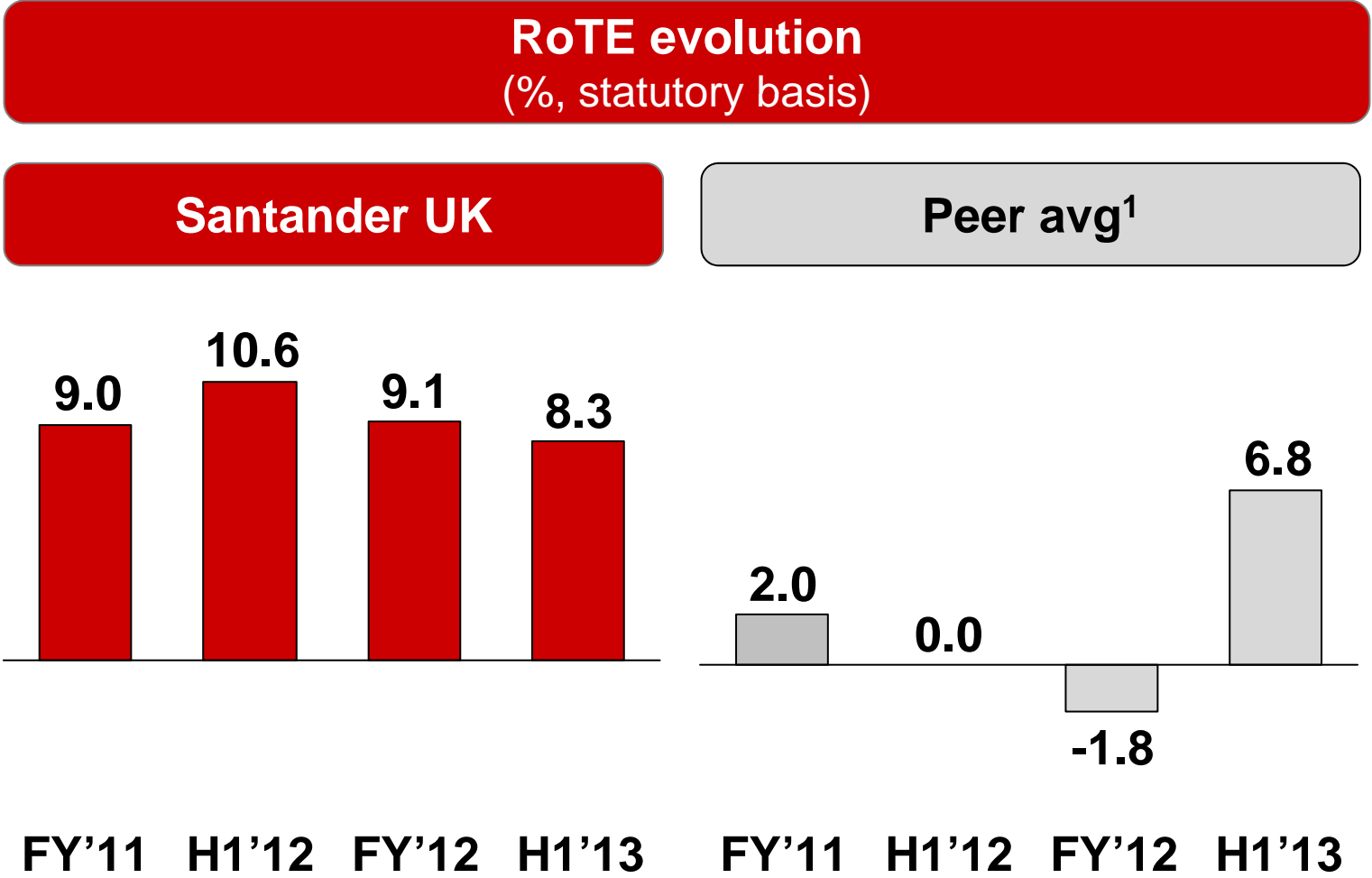


¹ Calculated as Corporate Banking impairment divided by the average Corporate Banking lending balance for the period
² Measured as SME balances (customers with annual turnover of more than £250,000 up to £50m) divided by the equivalent of Santander SME market size from BoE lending data

3

Financial Strength

Our low risk model delivers sustainable results through the cycle



¹ Source for peer data: Santander UK plc analysis. Peer data includes Barclays plc, HSBC Bank plc, Nationwide, RBS plc and Lloyds Banking Group.

Note: Half year results annualised

Definition for RoTE: Return on Tangible Equity = Statutory profit after tax attributable to ordinary shareholders / Average Tangible Equity.

For SAN UK, average tangible equity as monthly average. For peers, average tangible equity as 2 point average except Barclays (average tangible equity as quoted)



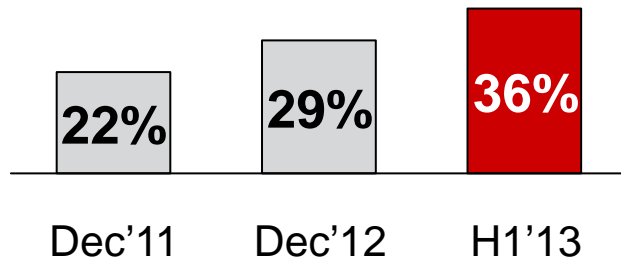
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Financial Strength

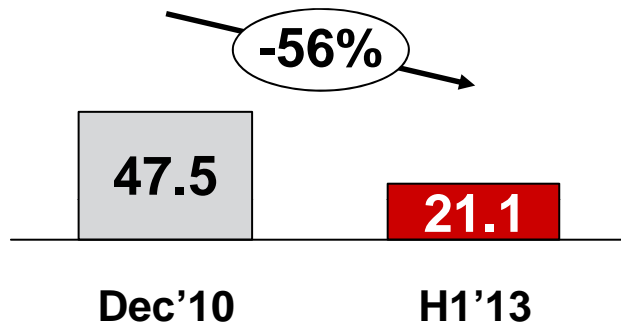
Our financial strength has been reinforced

Strong funding and liquidity

Prime customer deposits as % of total deposits



Short term funding (£bn)



Good credit quality and capital strength

Prudent risk management

Indexed LTV on mortgage book

52%

Mortgage NPL coverage

20%

Strong capital base

11.4%

Basel III CET1 Fully Loaded¹

18.4%

Total Capital ratio

Source: Santander UK H1 2013 results

Note: Short term funding as Wholesale funding of less than one year' has a residual maturity of less than 1 year at the balance sheet date. Dec'10 data considers participation on SLS programme

¹ Proforma 30 June 2013 CRD IV End Point

Note: "Prime customer deposits " item includes prime banking and savings products.

3 Financial Strength

This commercial transformation and focus on our people and customers is delivering value to our shareholders and communities

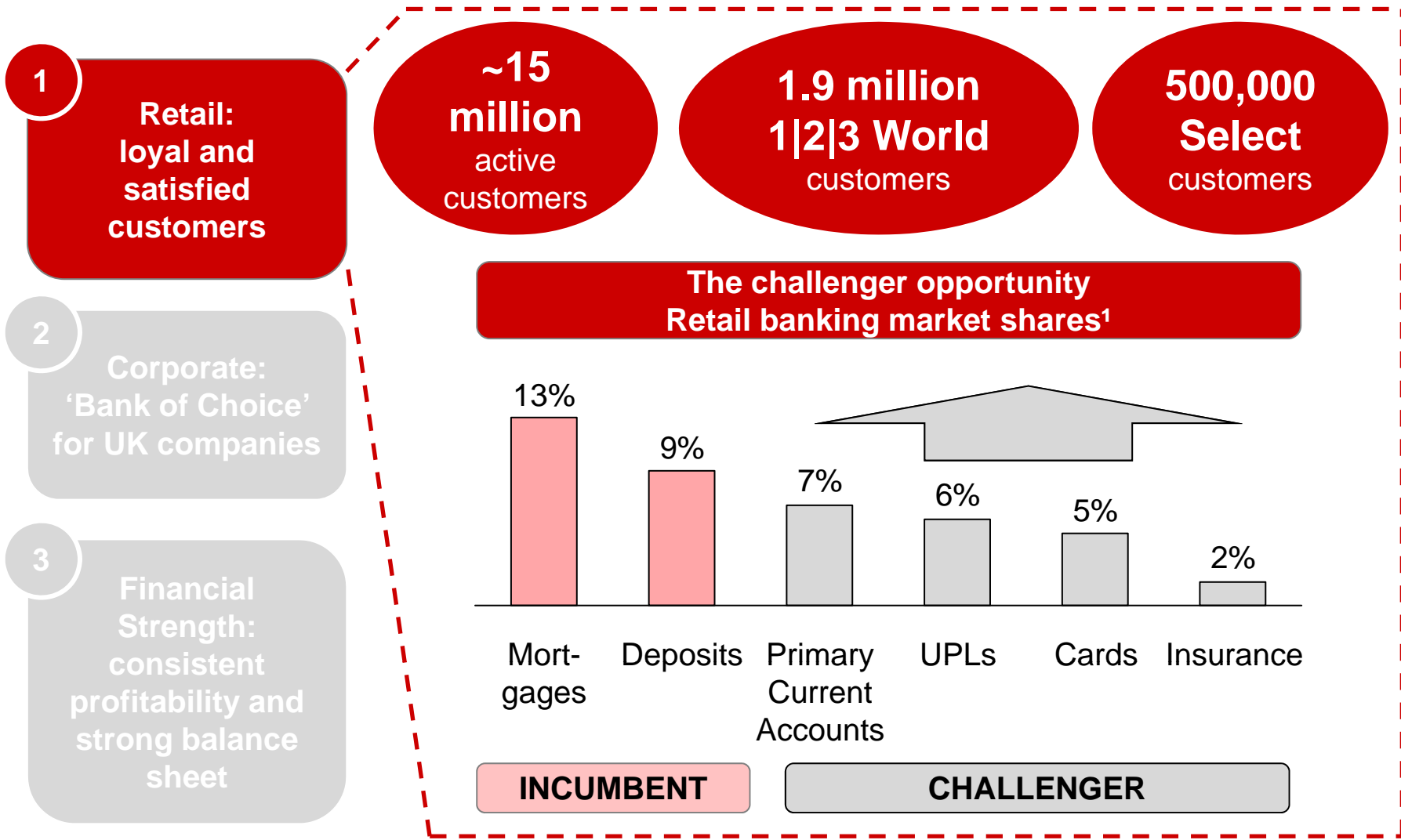
| £ million | H2'12 | H1'13 | H1'13 vs. H2'12 |
|-------------------------------------|--------------|--------------|----------------------------------|
| Net interest income (NII) | 1,269 | 1,391 | NII +10% |
| Non interest income ¹ | 1,295 | 570 | |
| Operating expenses | (1,037) | (1,113) | |
| Provisions and charges ² | (1,070) | (299) | |
| Profit after tax (PAT) | 353 | 440 | PAT +25% |
| Banking NIM | 1.27% | 1.46% | Banking NIM +19bp |
| Cost-to-income ratio ³ | 56% | 57% | |
| Loan-to-deposit ratio (LDR) | 129% | 125% | LDR -4p.p. |
| NPL ratio | 2.16% | 2.17% | |

¹ Non-interest income in H2'12 included the impact of a capital management exercise which resulted in a £705m gain

² Total operating provisions and charges in H2'12 was affected by a number of significant items totalling £621m

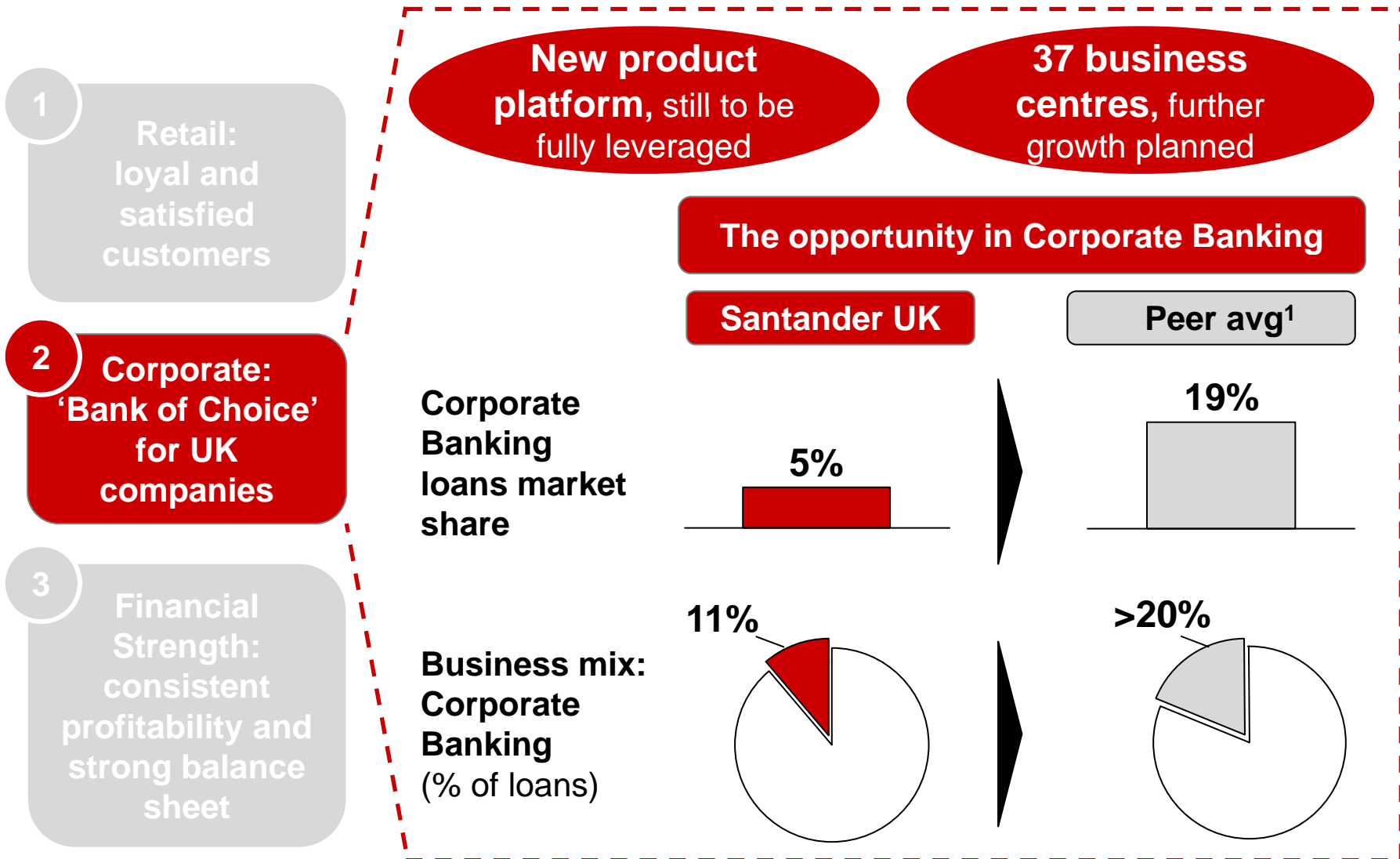
³ Income for 2012 included a gain from the capital management exercise. The cost-to-income ratio for H2'12 of 56% excludes this gain. Including this gain the cost-to-income ratio was 40%

Looking forward, we are working to capture tangible and clear opportunities within our customer base



¹ Retail Banking stock market share sources: Mortgages and Deposits (BoE); Primary bank accounts (Santander UK plc estimate); UPLs and Cards (BBA); Insurance (GfK)

Our investment in the SME and corporate franchise and infrastructure has significant upside



¹ Source for peer data: Santander UK plc analysis. Peer data includes Barclays plc, HSBC Bank plc, RBS plc and Lloyds Banking Group core only. Santander UK plc and peers at H1'13

Our leading financial position allows us to continue to invest in profitable opportunities

1 Retail: loyal and satisfied customers

2 Corporate: 'Bank of Choice' for UK companies

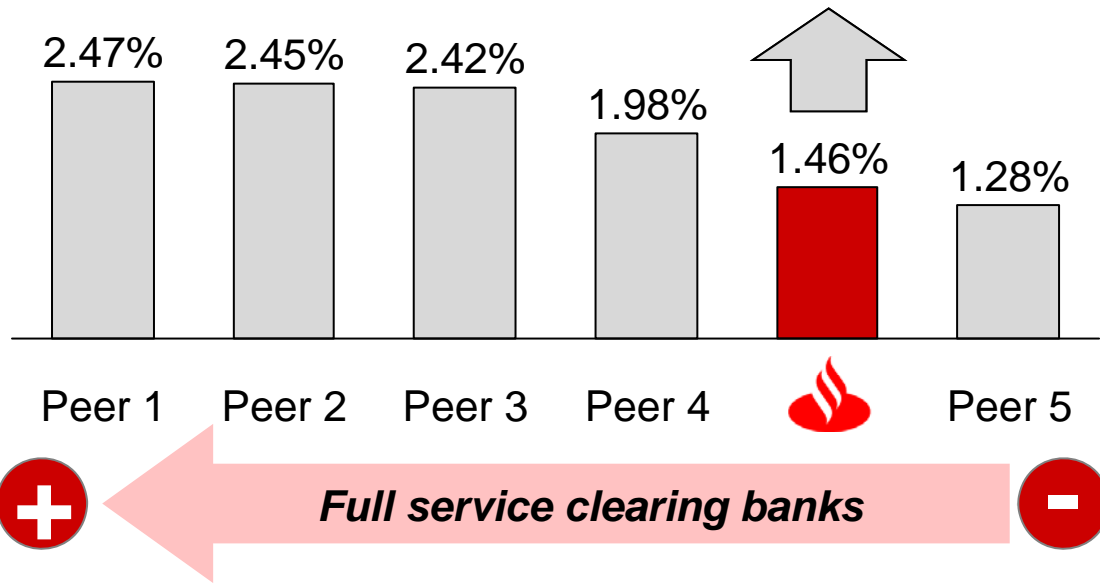
3 **Financial Strength: consistent profitability and strong balance sheet**

Strong capital ratios

Consistently prudent risk profile


The opportunity in our results

Net Interest Margin¹ (H1'13; annualised)



¹ Net Interest Margin comprises net interest income divided by average gross commercial assets. Santander UK is 'Banking NIM'. Source for peer data: Santander UK plc analysis. Peer data includes Barclays plc, HSBC Bank plc, Nationwide, RBS plc and Lloyds Banking Group (underlying basis). Santander UK plc and peers at H1'13 (Nationwide FY ending 4 April 2013)

We are delivering on our strategic plan to achieve our 2015 goals

| | | H1'13 | 2015 goals | |
|--|---|---|------------|-------------------------|
|  <p>Santander</p> <p>Best Bank in the UK</p> <ul style="list-style-type: none"> •for our people •for our customers •for our shareholders | Loyal and satisfied customers | Loyal customers¹ | 2.5m | 4.0m |
| | | No of 1 2 3 World customers | 1.9m | 4.0m |
| | | Customer satisfaction (FRS) | 57% | Top 3 |
| ----- | | | | |
| | 'Bank of Choice' for UK companies | SME² market share | 5.5% | 8.0% |
| | | Corporate banking (% of loans) | 11% | 20% |
| ----- | | | | |
| <p>SIMPLE</p> <p>PERSONAL</p> <p>FAIR</p> | <p>Consistent profitability and strong balance sheet</p> | RoTBV³ | 8.3% | 13%-15% |
| | | Cost income ratio | 57% | <50% |
| | | Common Equity Tier 1 ratio⁴ | 11.4% | >10.5% |
| | | Loan to deposit ratio | 125% | <130% |
| | | NPL ratio | 2.17% | Ratio maintained |

¹ Loyal customers' are primary current account customers who hold a debit card and an additional product. Primary current account customers have a minimum credit turnover of at least £500 per month and at least two direct debits set up on the account

² Measured as SME balances (customers with annual turnover of more than £250,000 up to £50m) divided by the equivalent of Santander SME market size from BoE lending data

³ 'RoTBV' is calculated as profit attributable to ordinary shareholders divided by average shareholders' equity, less non-controlling interests, preference shares, and intangible assets (including goodwill)

⁴ Fully loaded Basel III / CRD IV. Subject to CRD IV implementation

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