# United Kingdom

## Quarter 4 2012

***London, 31 January 2013***

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# Overview



**Financial highlights**

- Attributable profit of £952m, 10% lower than 2011[1]
- Income 18% lower, as a result of the higher costs of medium term and customer deposit funding and the low interest rate environment
- Strong cost management discipline with costs down 1%, despite inflation and continued investment in our business
- Mortgage NPL of 1.74%, compared to an industry average of 1.93%[2]
- Core Tier 1 capital ratio increased to 12.1%[3], after a £450m dividend declared in November 2012
- Loan to deposit ratio improved to 129%, 3 p.p. down compared to December 2011

**Acceleration in the transformation of the UK business**

- Retail Banking: more than 1.3 million 1|2|3 World customers, with a focus on building primary banking relationships
- Targeted growth in retail deposits; current account balances up 32%, £3.8bn; successful cross tax year ISA campaign, net inflows of £9.1bn
- Gross mortgage lending of £14.6bn; £3.0bn of loans extended to first time buyers
- SME lending up 18%, in a muted market; trending at c. 25% growth of the last four years
- Continued investment in Corporate Banking with 7 new regional Corporate Business Centres opened and 113 additional Relationship Managers
- Biggest improvement in customer satisfaction compared to our peers, as measured by the independent Financial Research Survey ('FRS')

[1] Includes net post-tax gain of £65m from a number of significant items relating to the capital management exercise, offset by increased provisions in relation to the non-core portfolio and conduct remediation and write-offs relating to the termination of the RBS asset acquisition. 2011 also included a customer remediation provision
[2] CML data at Sep'12 as Dec'12 data not available
[3] Core Tier 1 capital ratio calculated on a UK statutory basis

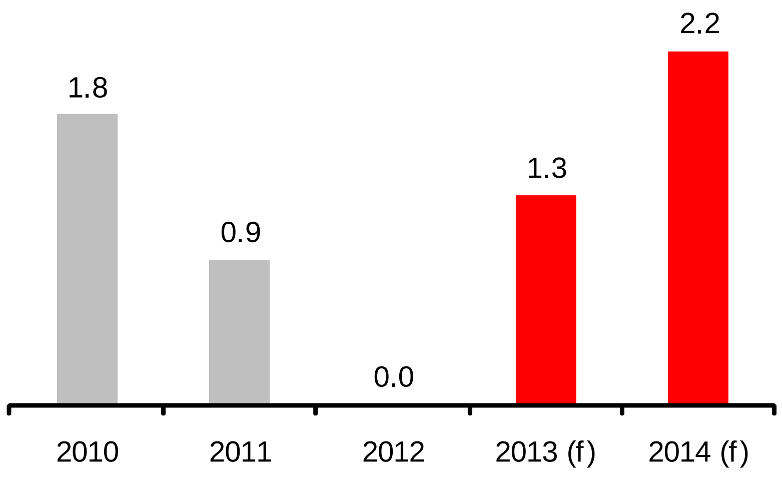
# Agenda

- **Market Environment**
- **Full Year 2012**
  - **- Strategic and Business Update**
  - **- Results**

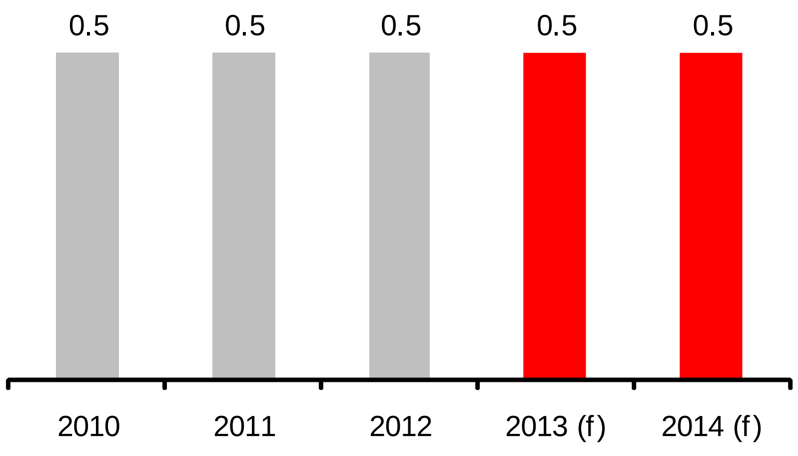
# Market Environment – GDP and Interest Rates

## Underlying growth remains weak in an uncertain environment

### Annual GDP growth (%, annual average)




### Interest rates (%, annual average)

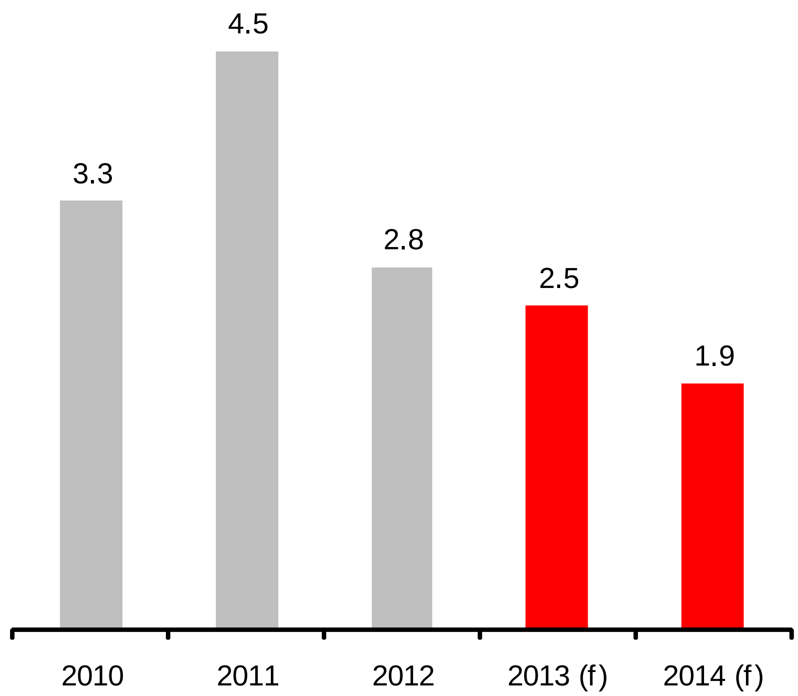



Source - Office for National Statistics & Bank of England
(f) – Santander UK December 2012 forecast

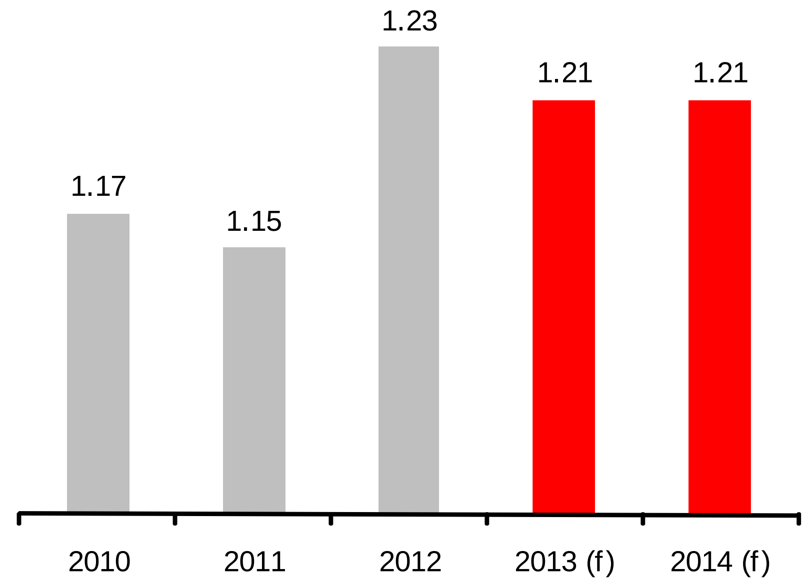
# Market Environment – Inflation and Exchange Rate

## Inflation has fallen and the exchange rate appreciated

### Annual CPI inflation (%, annual average)




### GBP : EUR exchange rates (annual average)




Source - Office for National Statistics & Bank of England
(f) – Santander UK January 2013 forecast

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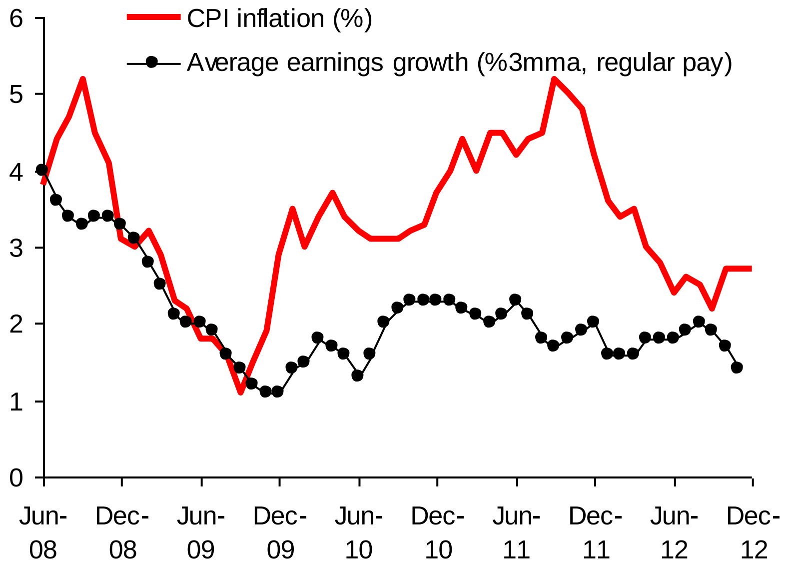
# Market Environment – Earnings Growth and Unemployment

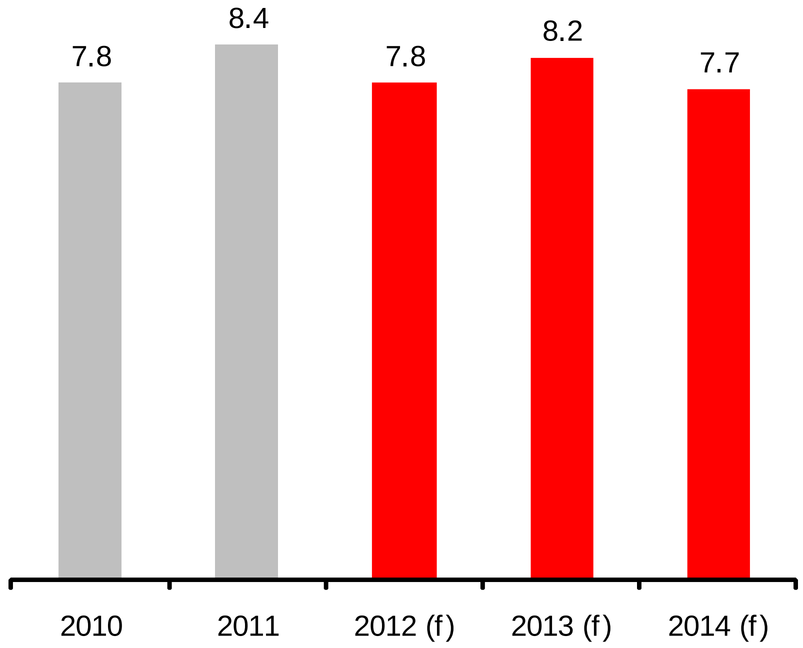


## Unemployment rate has stabilised over the past year

### Inflation and average earnings growth (annual %)




### Unemployment rate (ILO[1], end year, %)

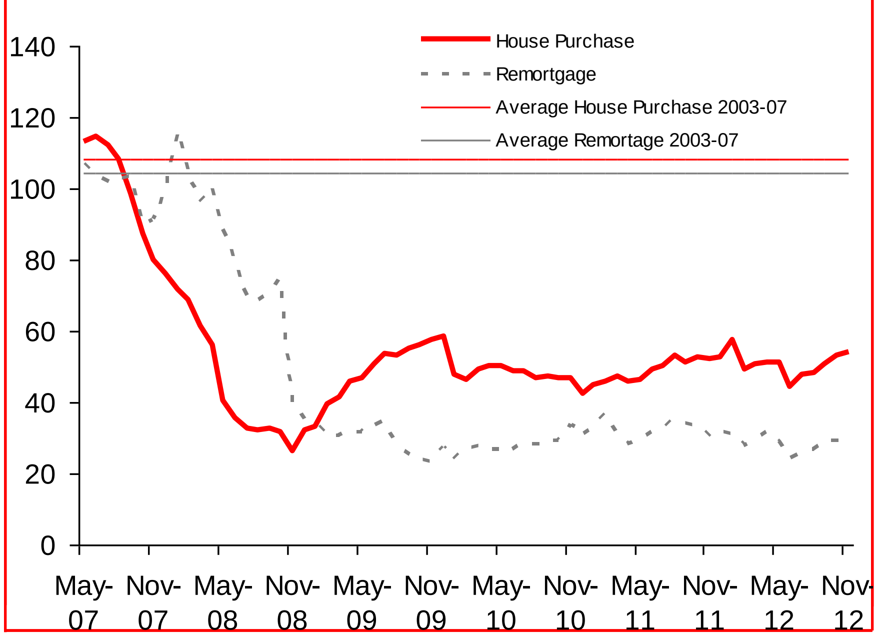



Source – Office for National Statistics
(f) Santander UK January 2013 forecast
[1]ILO: International Labour Organisation

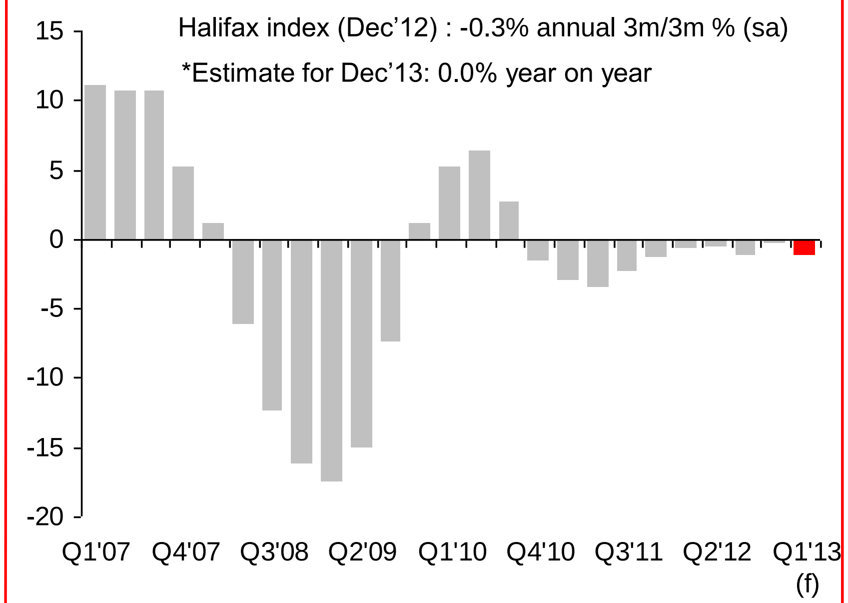
# Market Environment – Housing Market Activity

## Housing market volumes have remained flat; house prices stalling

### House purchase and remortgage approvals (000s, sa)[1]




### UK house price inflation (annual %, sa)[2]




[1] Source – Bank of England
[2] Source – Lloyds Banking Group/Halifax
(*) Estimated by Santander UK, January 2013, end period data

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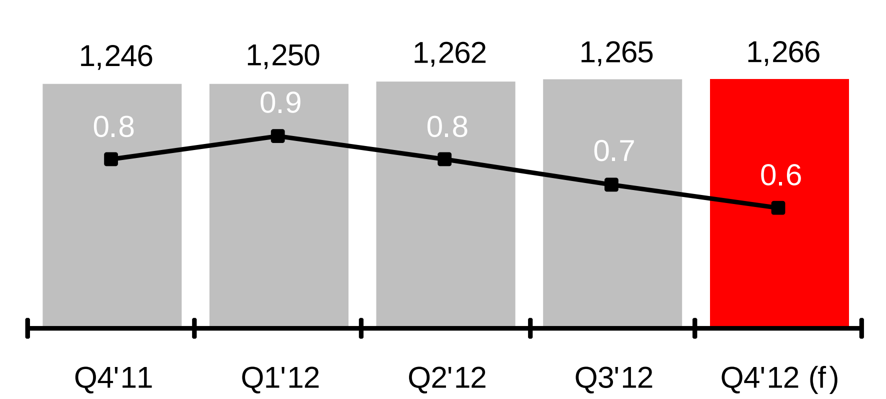
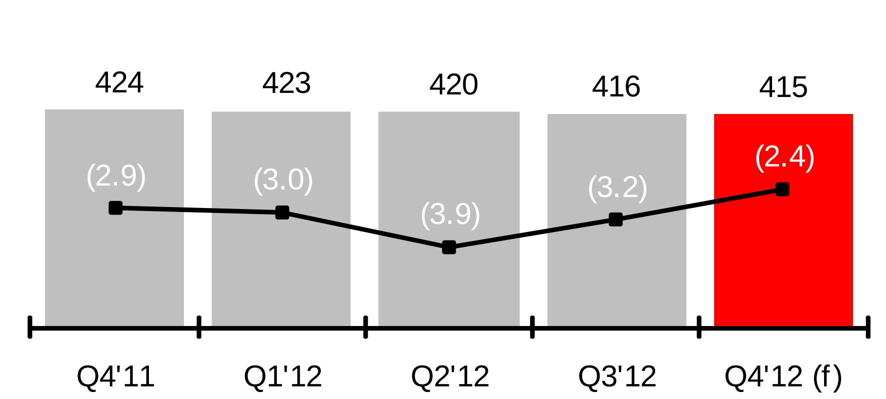
# Market Environment – Credit and Deposit Growth

## Retail and corporate lending broadly flat

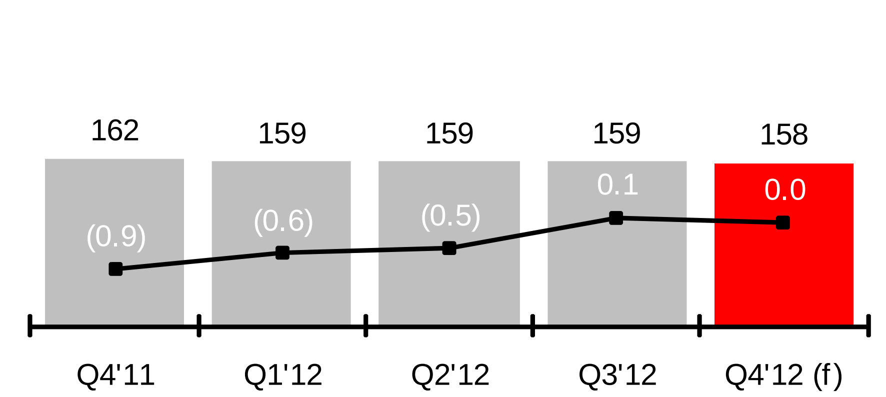
### Mortgage lending market stock (£bn)



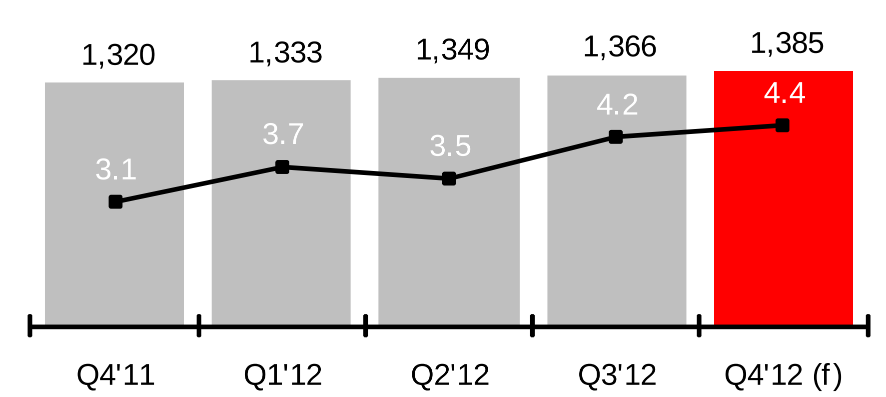

### Corporate lending market stock (£bn)




### Consumer credit market stock[1] (£bn)




### Retail deposits (incl. current accounts) (£bn)




## Retail deposits growth slightly better

Source – Bank of England
(f) Estimated by Santander UK, January 2013
[1] The Bank of England now excludes student loans from consumer credit (Aug' 2012)

Annual growth rates (%)

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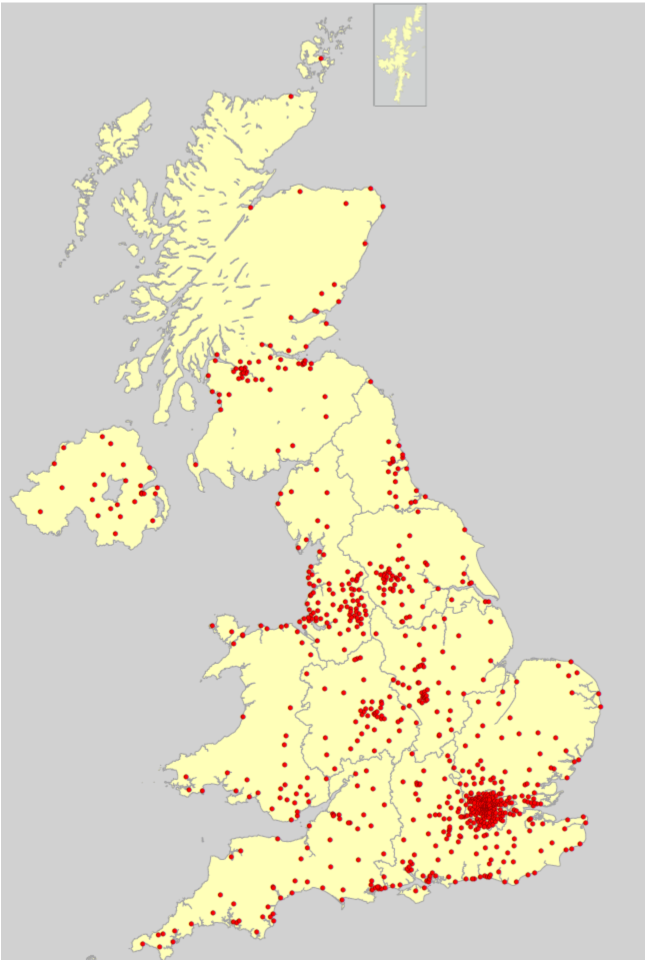
# Agenda

- Market Environment
- **Full Year 2012**
  - **- Strategic and Business Update**
  - - Results

# Snapshot – United Kingdom, as at 31 December 2012

## Santander UK's Branches



## Balance Sheet (£bn) and Key Metrics

| | £bn | Change from Dec'11 | Change from Sep'12 |
|---|---|---|---|
| Residential Mortgages[1] | 164.1 | (5%) | (2%) |
| Corporate Banking Assets[2] | 19.6 | 4% | 2% |
| of which SME loans | 10.6 | 18% | 5% |
| UK Banking Assets[3] | 184.9 | (5%) | (2%) |
| Customer Assets | 195.9 | (5%) | (2%) |
| Customer Liabilities | 148.6 | 0% | (3%) |
| UK Banking Liabilities[3] | 140.0 | 5% | 1% |
| Medium Term Funding | 65.5 | 4% | (9%) |
| | % | | |
| Total NPLs | 2.05 | 0.21 p.p. | 0.11 p.p. |
| Secured Coverage Ratio | 20 | 0 p.p. | 0 p.p. |
| Total Coverage Ratio | 45 | 5 p.p. | (1) p.p. |
| Loan to Deposit Ratio | 129 | (3) p.p. | 2 p.p. |

## Key Market Shares - Stock

| | % | Change from Dec'11 | Change from Sep'12 |
|---|---|---|---|
| Residential Mortgages | 13.1 | (0.8) p.p. | (0.3) p.p. |
| SME lending[4] | 5.2 | 0.9 p.p. | 0.2 p.p. |
| Deposits | 9.4 | (0.2) p.p. | 0.2 p.p. |
| Bank Accounts | 9.3 | 0.2 p.p. | 0.0 p.p. |

[1] Residential mortgages includes residential retail mortgages and Social Housing loans, to align with mortgage industry reporting
[2] Corporate Banking excludes non-core corporate portfolio and legacy assets in run-off managed in the Corporate Centre
[3] UK Banking consists of Retail Banking and Corporate Banking segments
[4] SME lending market share includes assets held in Corporate Banking and Corporate Centre. SME assets totaled £12.0bn in Dec'12, £11.5bn in Sep'12, £10.7bn in Dec'11

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# Our Commercial Strategy is to Achieve…

A "commercial transformation" towards a full-service, diversified, customer–centred franchise based on…

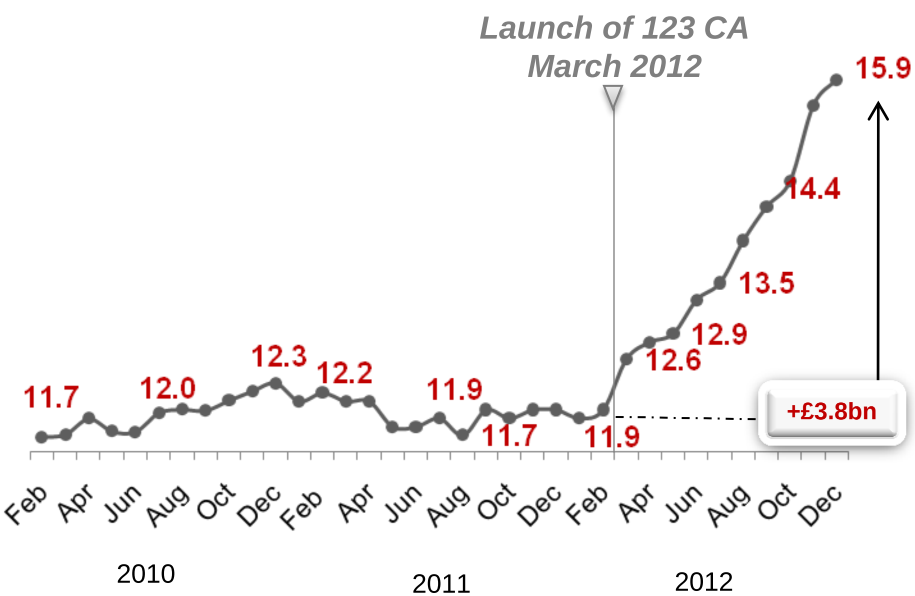
1. Delivering value to our primary banking customers
2. More balanced business mix and SME bank of choice
3. Leading efficiency and customer service and satisfaction underpinned by IT systems

4. Building further on balance sheet strength and stability

# Delivering Value to Primary Banking Customers

**Over 240,000 current account switchers to Santander UK**

## Retail current account balances (£bn)



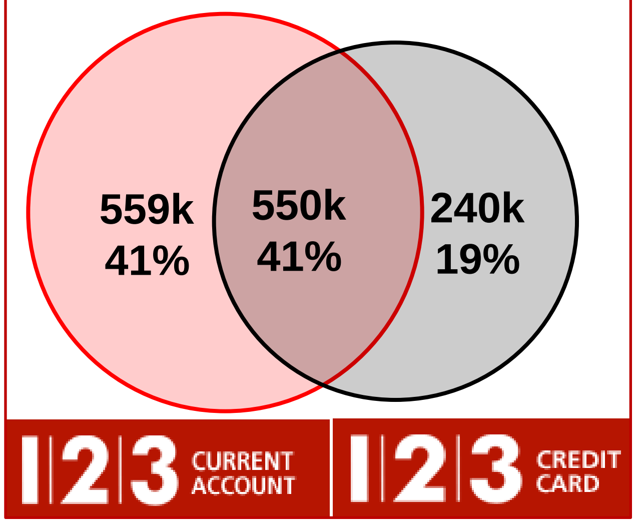

## 1|2|3 CURRENT ACCOUNT

- Current account balances increased by £3.8bn (+32%), evidence of the profound transformation of our business
- 1|2|3 Current Account forms the basis of our customer driven model and is the build for deeper customer relationships
- Over one million customers with 1|2|3 Current Accounts, 790,000 with 1|2|3 Credit Card and 550,000 customers hold both products
- 1|2|3 World extended with links to Santander UK mortgages, insurance, UPLs and deposits

# 1I2I3 World has more than 1.3m customers

## More transactional and more satisfied

**Customer numbers**

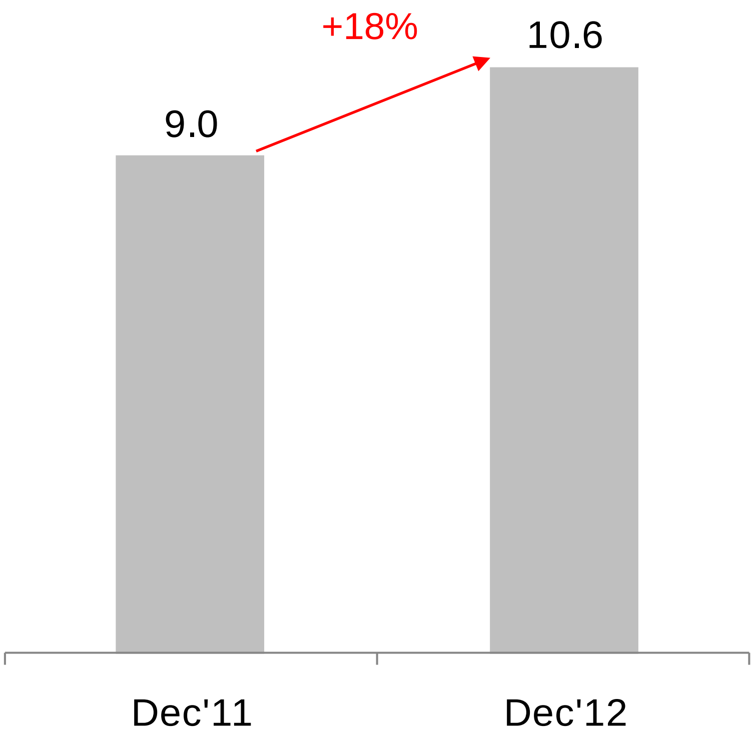



| | |
|---|---|
| **More transactional and with better risk** | • **75% with 4+ Direct Debits** vs. 42% of active customer base<br>• **+22% Debit Card transactions** vs. non 1\|2\|3<br>• **1.3% probability of default** vs. 2.7% before 1\|2\|3 |
| **Better quality and more satisfied** | • **x3** in banking and savings **liabilities**<br>• **25% affluent** vs. 8% of customer base<br>• **82% would recommend** the product |
| **Opportunity** | • **Average retail customer product holdings c. 1.6** vs top clearing banks at c. 2<br>• **Some 13m** non-1\|2\|3 customers |

# Building a More Balanced Business Mix

## 25% average SME lending growth over four years

### Corporate SME customer asset[1] (£bn)




### Actively supporting SME lending

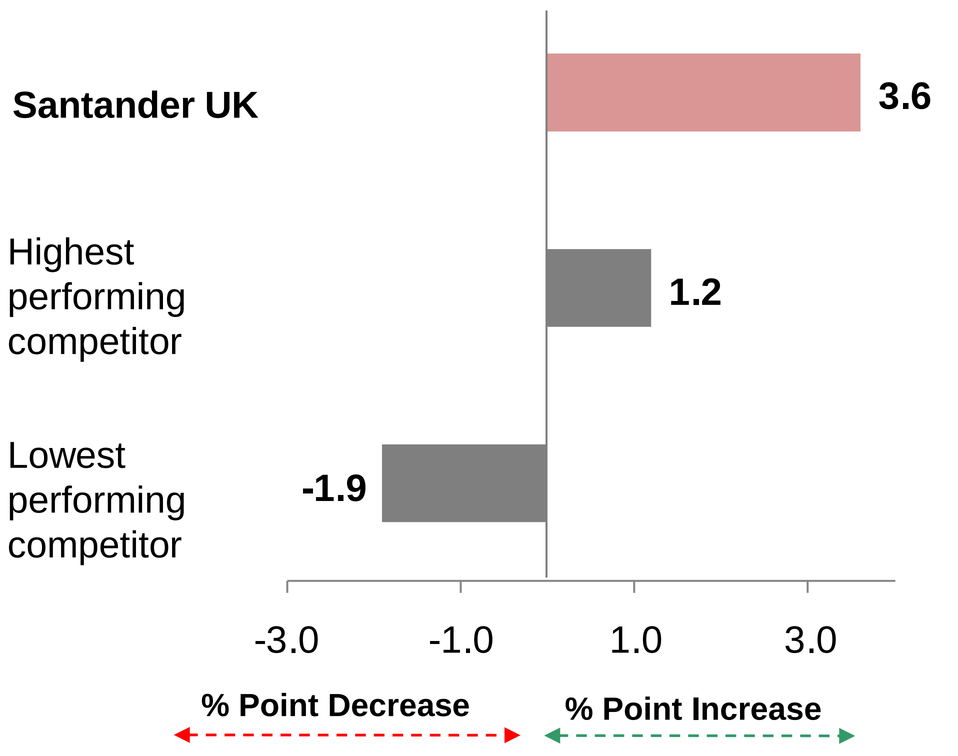
- Now in our fourth year of significant organic growth in lending to UK SMEs, with balances rising an average of 25% each year
- The first growth capital loans have been made under our Breakthrough programme
- Network coverage of regional Corporate Business Centres increased to 35, increasing by 7 in 2012, and 113 additional Relationship Managers

[1] Corporate SME excludes non-core corporate portfolio and legacy assets in run-off managed in the Corporate Centre

# High Quality Service at the Core of Our Business Model

## Investing in service and delivering results

**FRS[1]: Change in Overall Satisfaction[2] (Dec'11-Dec'12)**




- Santander UK made the largest improvement in overall customer satisfaction versus competitors in 2012
- Satisfaction with telephone banking[3] amongst current account holders increased 7.5 percentage points
- Extensive behavioural change programme completed and efficiency measures implemented across the branch network

[1] Financial Research Survey (FRS) is an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK

[2] Overall Satisfaction: Satisfaction score refers to proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance and UPLs. 3 months ending data December 2011 and December 2012. Competitor set includes Barclays, Halifax, HSBC, Lloyds TSB, Nationwide and NatWest.

[3] Telephone Banking Satisfaction: Satisfaction score refers to proportion of extremely and very satisfied customers with the telephone banking service of their current account provider. 6 months ending data December 2011 and December 2012.

# Strategic and Business Update – Robust Balance Sheet



**Better quality customer balances**

- Customer lending £10.4bn lower; managed reductions across the retail and non-core corporate portfolios partially offset by increases in SME
- Customer deposits broadly flat; improved deposits base quality from a strong inflow of retail deposits with customer relationships and away from short-term and rate-sensitive money
- Targeted retail deposits growth; current account balances up £3.8bn from a good take-up of the 1|2|3 Current Account and £9.1bn ISA net inflows from a successful cross tax year campaign

**Improved capital, funding and liquidity position**

- Total liquid assets of £75.9bn[1]; core liquid assets of £36.9bn, up from £28.0bn at December 2011
- £14.0bn medium term funding ('MTF') issuance; funding in excess of 2012 maturities
- Customer deposits and MTF to customer loans ratio of 110%[2]

[1] Total liquid assets consists of: FSA eligible assets; other highly liquid debt securities and bonds; equities; and debt securities and asset-backed securities issued by subsidiaries and retained by Santander UK and loans which are eligible at central bank operations (December 2012 £35.7bn, December 2011 £24.4bn)
[2] Calculated as the sum of customer deposits (excl. repos) and MTF divided by loans and credits to customers (excl. reverse repos)

# UK focus, strong capital and funding, risk management



| | | |
|---|---|---|
| **UK Based Business** | **c. 99% of customer assets are UK related** | • **£164.1bn** residential retail mortgage and social housing loans[1]; **£19.6bn** Corporate Banking loans<br>• UK focused; net exposure[2] of **0.4%** of total assets to Eurozone peripheral countries |
| **Strong Funding and Liquidity** | **Reducing the customer funding gap** | • **Positive retail deposit flows**<br>• **Lending criteria tightened**, to improve credit quality and profitability of mortgage book<br>• Focus on **relationship** banking<br>• Customer deposits and MTF[3] to customer loans ratio of **110%**[4] |
| | **Wholesale funding** | • **Commercial loans fully funded** by customer deposits and medium term funding<br>• **c. £14bn** MTF issuance in 2012 |
| **Credit Quality and Capital Strength** | **Prudent risk management** | • Mortgage stock LTV of **52%**<br>• Strong mortgage coverage levels maintained at **20%** |
| | **Strong core capital** | • Core Tier 1 capital ratio of **12.1%**[5]<br>• Total capital ratio of **18.2%** |

[1] Social Housing loans excludes Social Housing bonds
[2] Net of collateralised repos and reverse repos and derivatives subject to Master Agreements
[3] MTF is term funding at nominal value with an original maturity of greater than one year. MTF excludes any unencumbered collateral received as part of FLS
[4] Calculated as the sum of customer deposits (excl. repos) and MTF divided by loans and credits to customers (excl. reverse repos)
[5] Core Tier 1 capital ratio calculated on a UK statutory basis

# Targeted deleveraging of loans … improving quality of deposits base

## Growth of Corporate Banking and a rebalancing of mortgages… along with building liquidity

| | Dec'12 £bn | £bn decrease / £bn increase |
|---|---|---|
| Retail Banking Assets | 165.2 | -10.2 |
| Inc. Residential Mortgages | 156.6 | -9.6[1] |
| Corporate Banking Assets | 19.6 | 0.7 |
| Inc. SME lending | 10.6 | 1.6 |
| Total Liquid Assets[2] | 75.9 | 20.3 |

## Deposit strategy focused on stronger relationships and retention

| | Dec'12 £bn | £bn decrease / £bn increase |
|---|---|---|
| Retail Banking Liabilities | 127.2 | 5.8 |
| Inc. Bank Account Deposits | 15.9 | 3.8 |
| Inc. Tax free / ISAs | 32.1 | 9.1 |
| Inc. Fixed Term & Other[3] | 79.2 | -7.1 |
| Corporate Banking Liabilities | 12.8 | 0.7 |

[1] Of the deleveraging of residential mortgages £6.2bn was interest only

[2] Total liquid assets consists of: FSA eligible assets; other highly liquid debt securities and bonds; equities; and debt securities and asset-backed securities issued by subsidiaries and retained by Santander UK and loans which are eligible at central bank operations (December 2012 £35.7bn, December 2011 £24.4bn)

[3] Other includes: Fixed term, esaver, Reward, Structured products & Deposits, Cahoot & Private Banking, Cater Allen and offshore balances

£bn decrease / increase compared to Dec'11

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# Strategic and Business Update – Risk Management



**Prime mortgage book**

- Mortgage NPL ratio increased to 1.74%, largely due to policy and reporting changes and the reduction in the mortgage portfolio. Excluding these changes, NPL remained broadly stable over the year
- Credit quality is built on core mortgage, retail unsecured and the corporate loans portfolios
- Strong coverage levels maintained: secured 20%, unsecured Retail portfolio above 100%, total 45%
- Arrears and PIPs continued to be better than CML average. The stock of PIPs at Dec'12 remained broadly stable at 924 cases and at only 0.06% of the book remained below the CML average
- Lending secured on UK prime residential property is c. 85% of customer assets

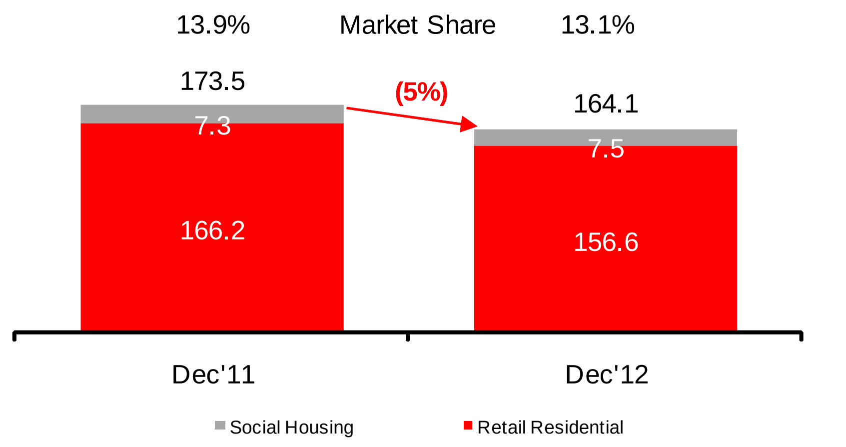
**Targeted asset reduction**

- Action taken to manage the risks associated with higher loan to value and interest only mortgages
- UPL balances reduced 19% to £2.3bn; good quality new gross lending at favourable risk adjusted returns was written through the branch network
- Reduction in non-core corporate portfolio to £11.0bn from £11.9bn

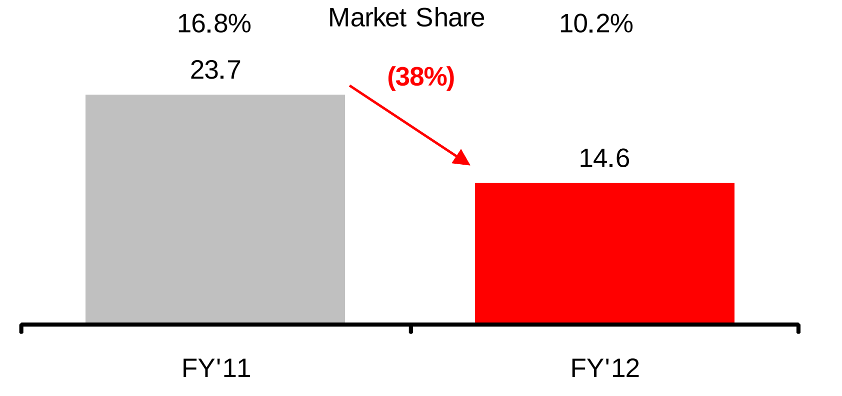
# Business Update – Customer Lending

## Mortgage lending focused on preferred segments; Corporate Banking growth rebalancing portfolio

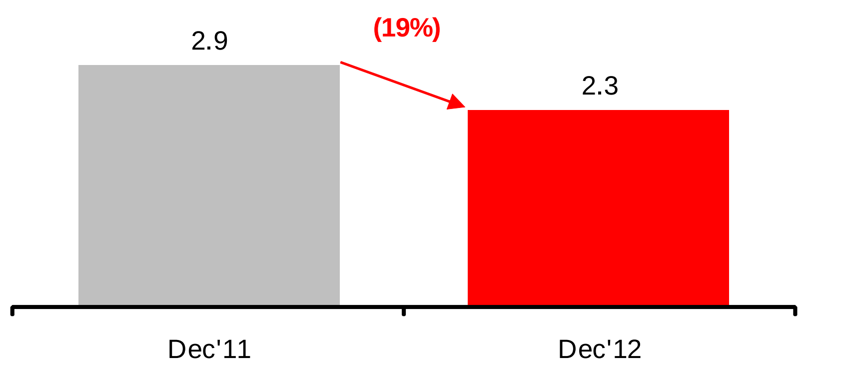
### Residential mortgage stock (£bn)



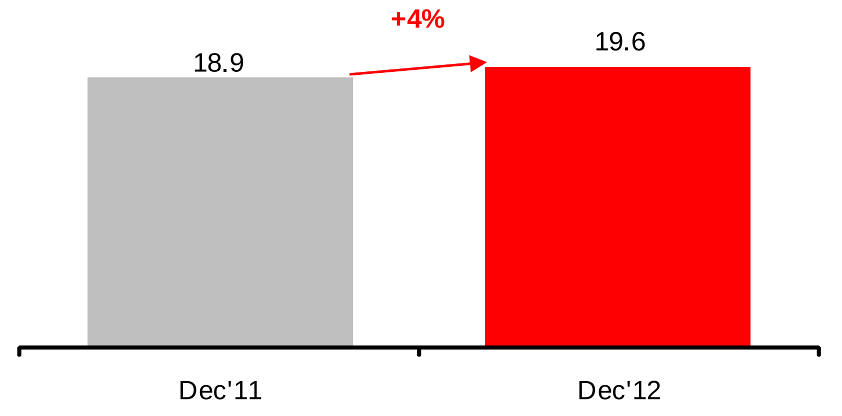

### Residential mortgage gross flows (£bn)




### Unsecured personal loan stock (£bn)




### Corporate Banking (£bn)[1]



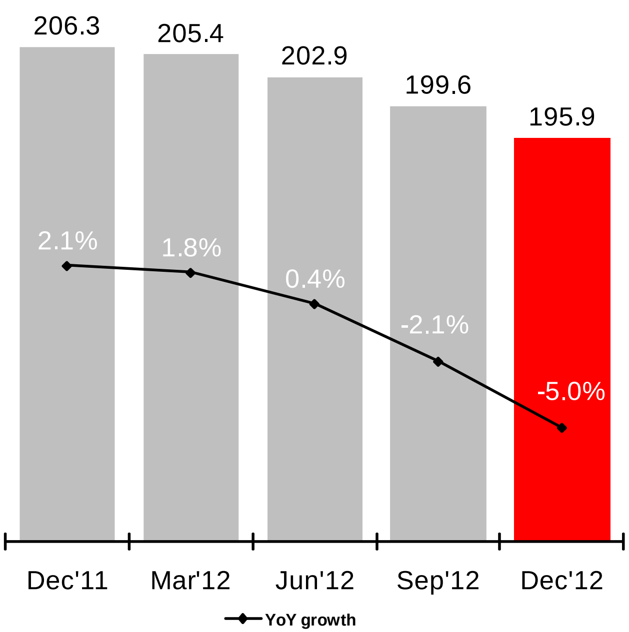

[1] Corporate Banking excludes non-core corporate portfolio and legacy assets in run-off managed in the Corporate Centre

# Business Update – Customer Lending

## Lending performance in line with management expectations whilst building on relationship opportunities

| Total Residential Mortgages (£bn) | | | | | |
|---|---|---|---|---|---|
| Dec'11 | Mar'12 | Jun'12 | Sep'12 | Dec'12 | |
| 166.2 | 166.2 | 163.2 | 159.8 | 156.6 | Residential Retail Mortgage Stock |
| 7.3 | 7.4 | 7.5 | 7.6 | 7.5 | Social Housing Stock |
| **173.5** | **173.7** | **170.7** | **167.4** | **164.1** | **Residential Mortgage Stock** |
| **13.9%** | **13.9%** | **13.6%** | **13.3%** | **13.1%** | **Mortgage market stock share (%)** |

**Total Commercial Loans**




| £bn | Dec'12 | Dec'12 v Dec'11 |
|---|---|---|
| Residential Retail Mortgages | 156.6 | (6%) |
| Consumer Lending[1] | 8.6 | (6%) |
| Retail Banking | 165.3 | (6%) |
| Corporate Banking | 19.6 | 4% |
| **UK Banking** | **184.9** | **(5%)** |
| Non-core corporate | 11.0 | (8%) |
| **Total Commercial Loans** | **195.9** | **(5%)** |

[1] Consumer Lending includes UPLs, retail overdrafts, Cahoot, Santander Cards, and Santander Consumer Finance

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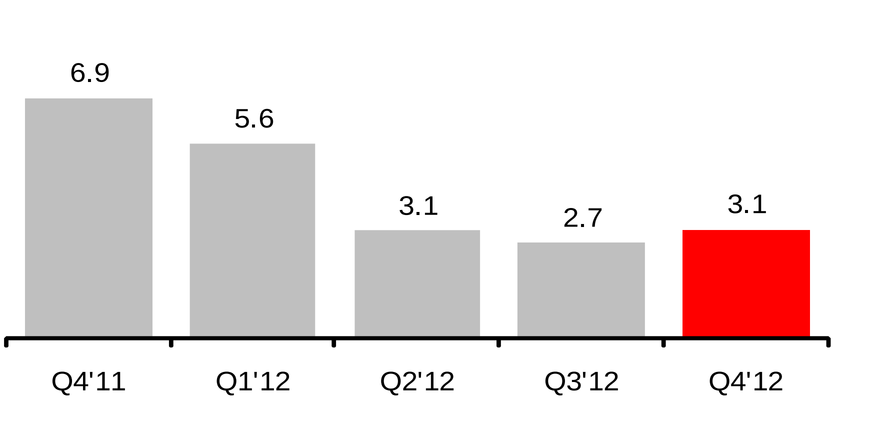
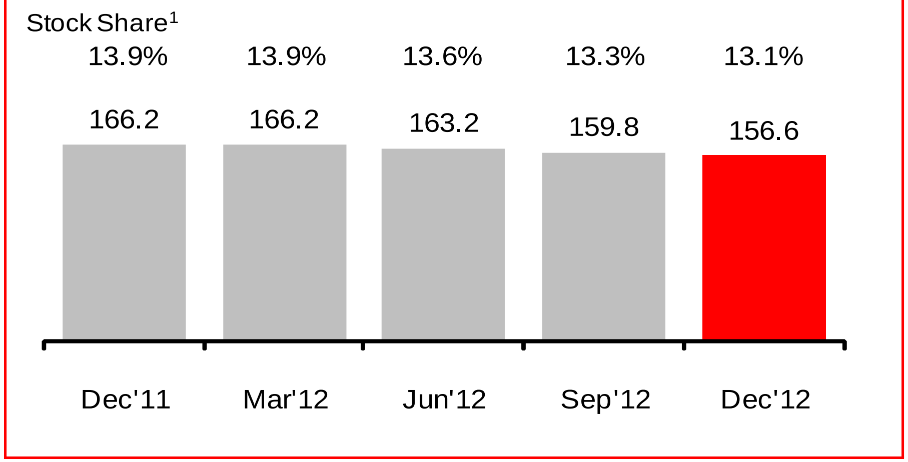
# Business Update – Mortgage Lending

## Mortgage flows in targeted lower risk segments – in a subdued market

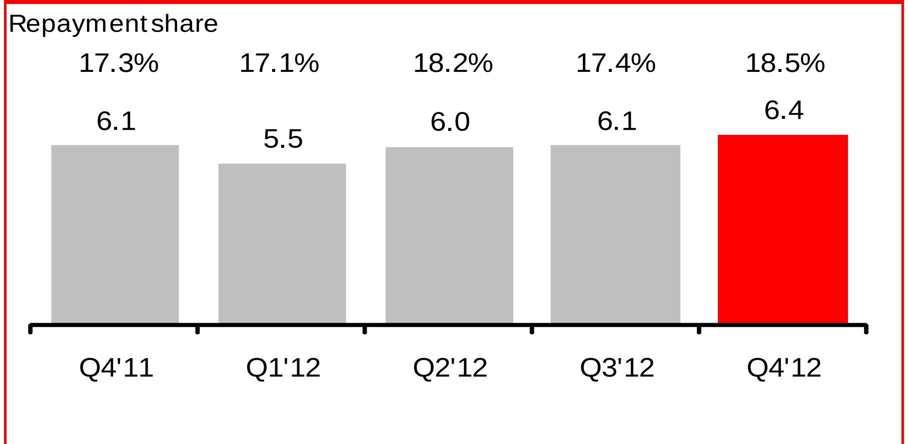
### Residential mortgage gross lending[1] (£bn)




### Residential retail mortgage stock[2] (£bn)




### Residential mortgage repayments[1] (£bn)




### Comments

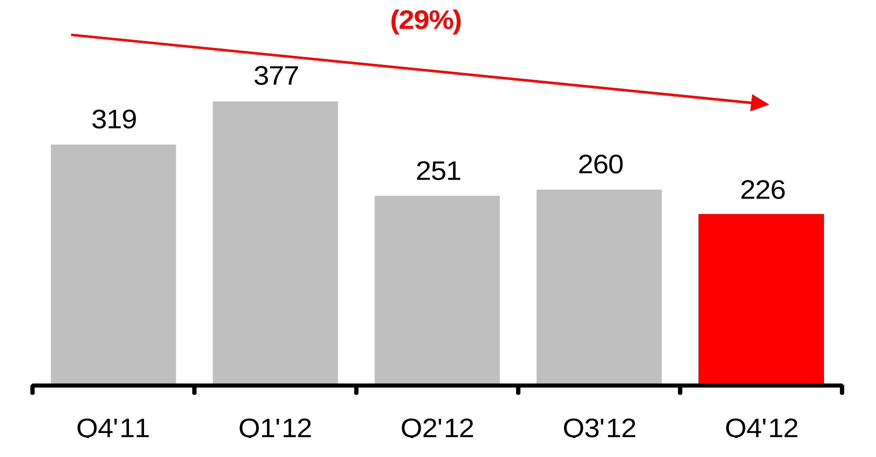
- Mortgage gross lending for the full year was £14.6bn, equivalent to a market share of 10.2%
- Residential retail mortgage loans decreased by £9.6bn following the tightening of lending criteria on higher LTV and interest only mortgages
- Interest only mortgage balances fell £6.2bn in the year
- SVR balances continued to grow, and represent at 33% of the mortgage book

[1] Includes Social Housing loans as per CML market data
[2] Excludes Social Housing

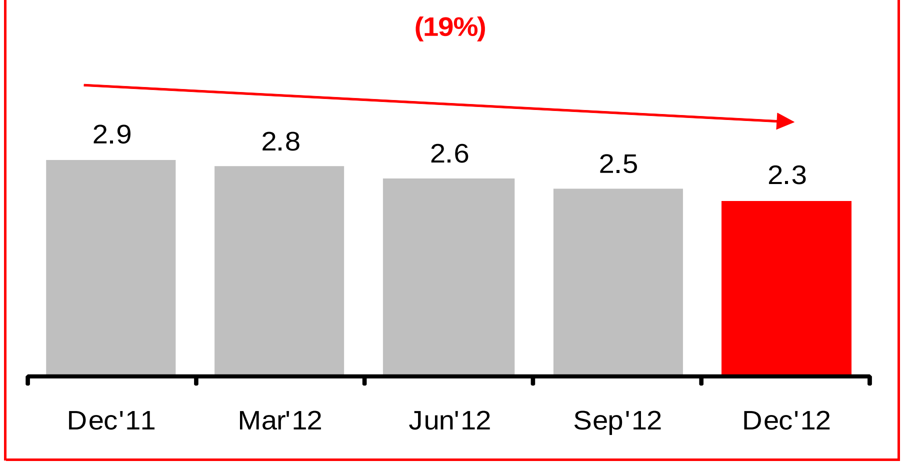
# Business Update – Unsecured Personal Loans

## Selective lending in higher quality UPL segments

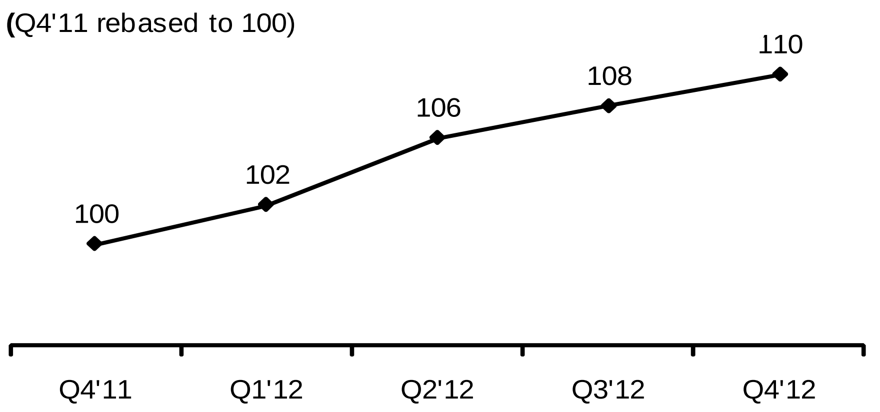
### Total UPL gross lending (£m)




### Total UPL stock (£bn)




### Total quarterly spread



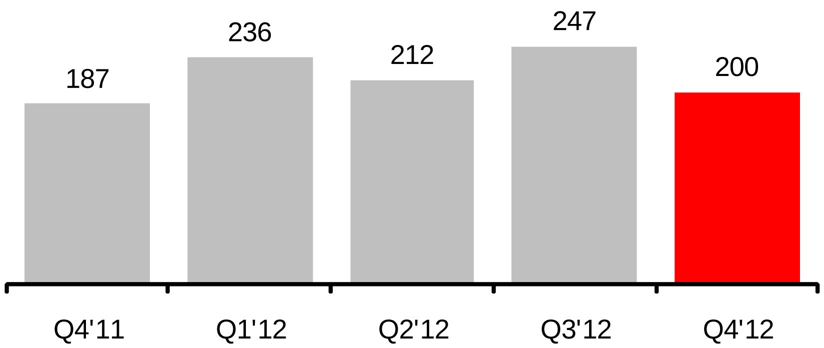

### Comments

- Continued to drive value, focusing on unsecured lending only to higher quality personal customer segments, particularly those with an existing relationship with the bank
- Gross UPL lending for the full year decreased 24% compared to the same period last year, but with new lending written with a more attractive risk profile

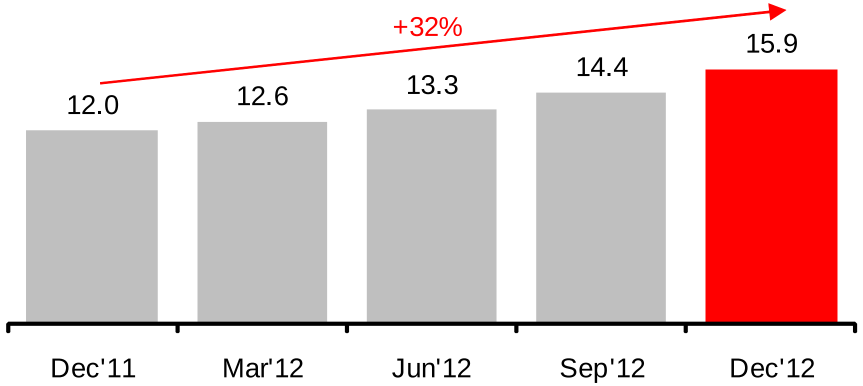
# Business Update – Current Accounts and Credit Cards

## Successful growth in quality primary account relationships

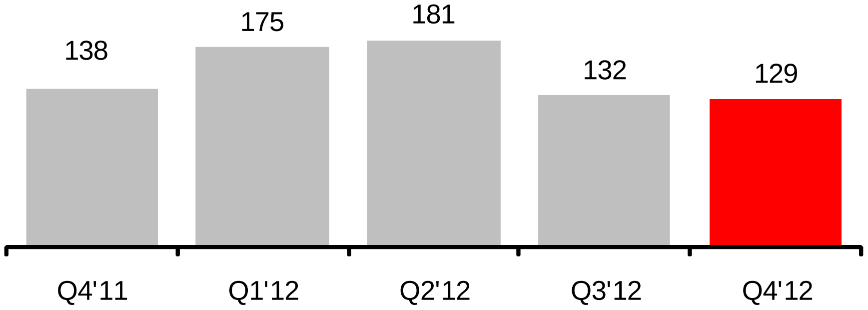
### Bank account openings[1] ('000s)




### Current account liabilities (£bn)




### Credit card openings ('000s)




### Comments

- Bank current account openings were up 7% to 895,000 in 2012, primarily due to the new 1|2|3 Current Account (launched March 2012)
- 1|2|3 Credit Card (launched September 2011) offers valuable rewards for customers using the card regularly in return for a monthly fee
- The combined marketing of 1|2|3 World products has been highly effective, with many 1|2|3 World customers benefiting from multiple products

[1] Includes Retail Banking and Corporate Banking segments

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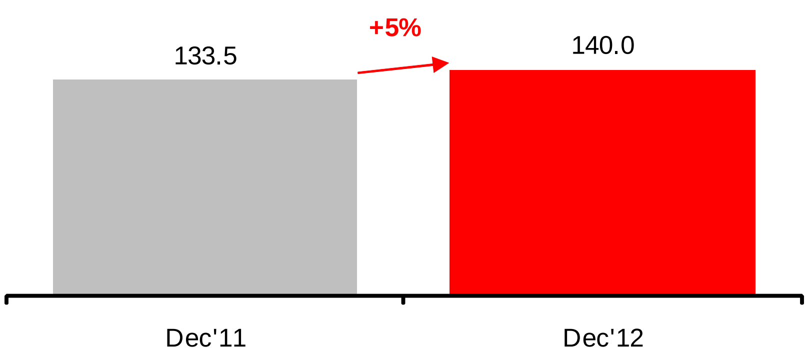
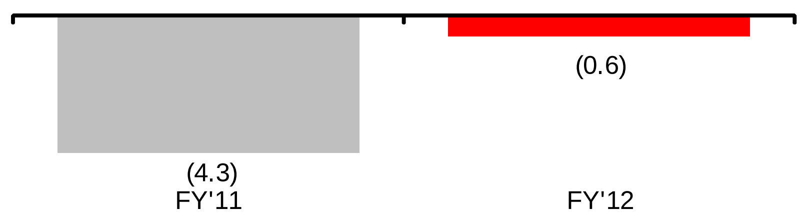
# Business Update – Customer Deposits

## Deposit performance managed to improve the mix…strong retail deposit inflows

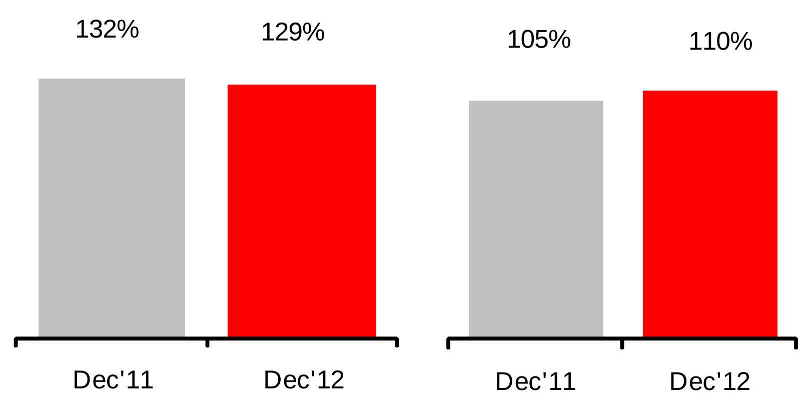
### UK Banking deposit stock (£bn)



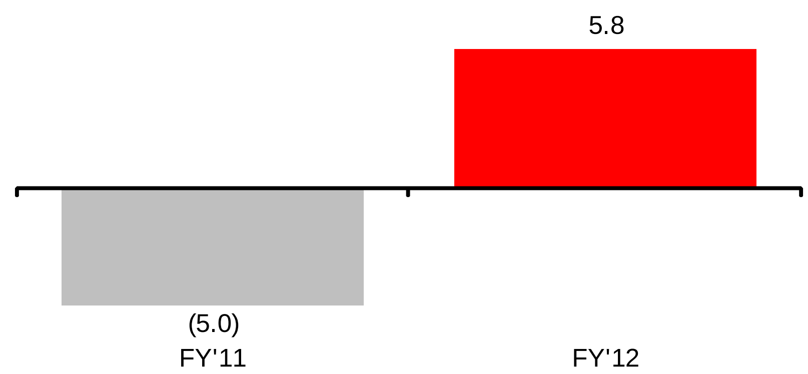

### Customer deposit flows (£bn)




### Loan:deposit ratio[1] | Customer deposits and MTF to customer loans[2]




### Retail deposit flows (£bn)

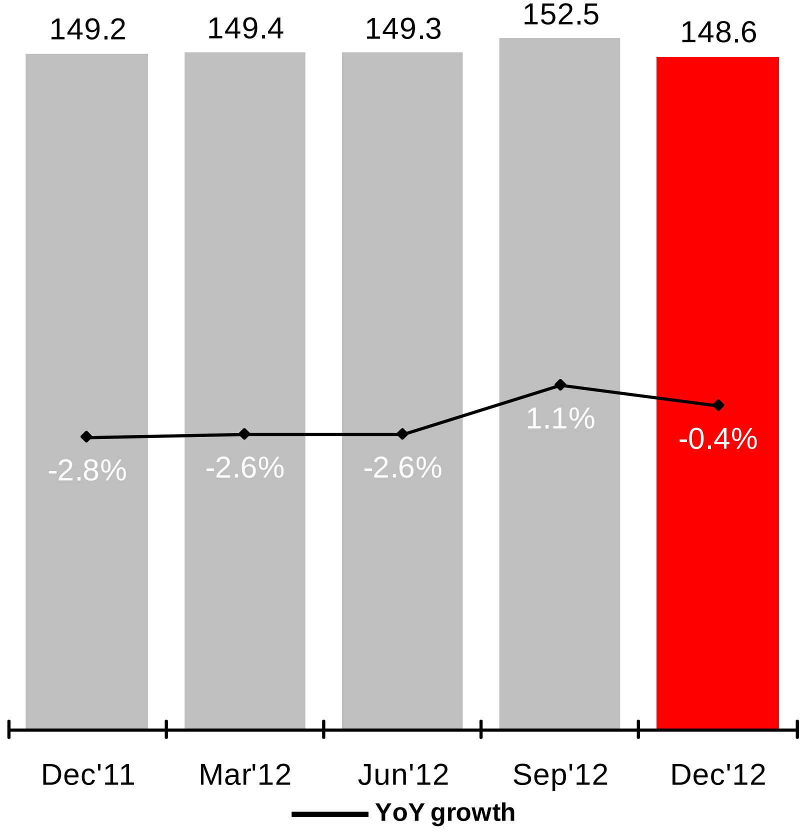



1 Calculated as loans and credits to customers (excl. reverse repos) divided by customer deposits (excl. repos)

2 Calculated as the sum of customer deposits (excl. repos) and MTF divided by loans and credits to customers (excl. reverse repos)

# Business Update – Customer Deposits and Funds Under Management

## Focus on relationship based core UK Banking deposits




| £bn | Dec'12 | Dec'12 v Dec'11 |
|---|---|---|
| Retail Banking | 127.2 | 5% |
| Corporate Banking | 12.8 | 6% |
| **UK Banking** | **140.0** | **5%** |
| Non-core corporate | 8.6 | (45%) |
| **Total customer deposits** | **148.6** | **(0%)** |
| **FUM[1]** | **7.5** | **14%** |
| **Total funds under management** | **156.0** | **0%** |

[1] Managed through Santander Asset Management

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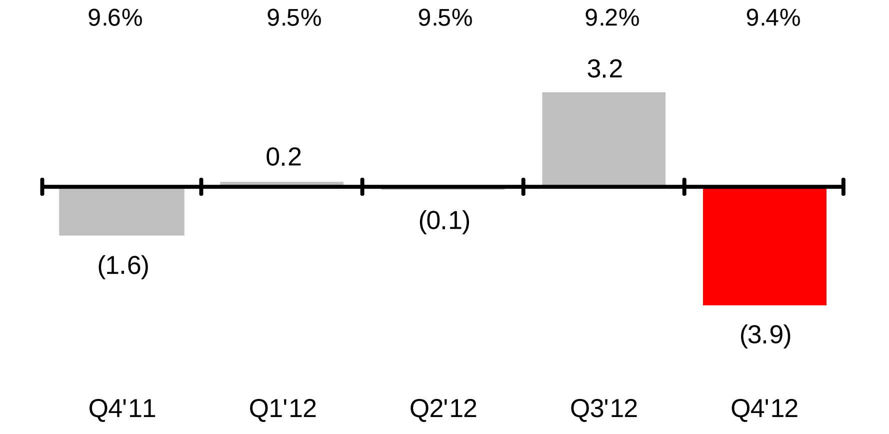
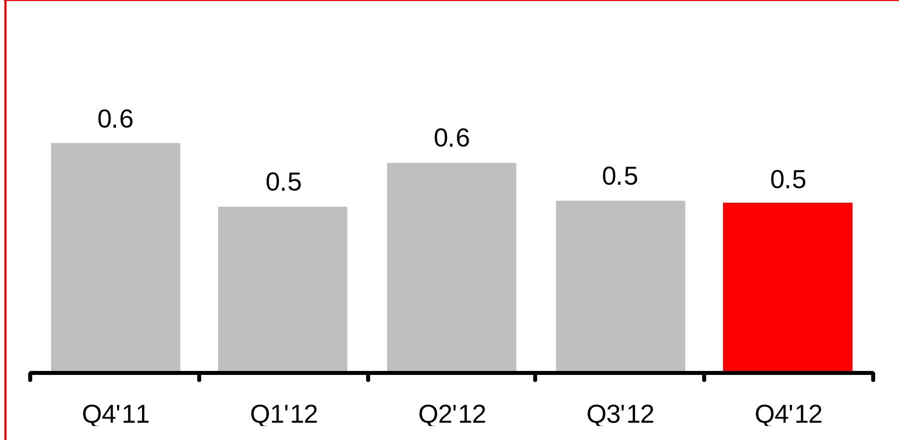
# Business Update – Deposits and Investment Sales

## Focus on improving the deposits mix in a competitive environment

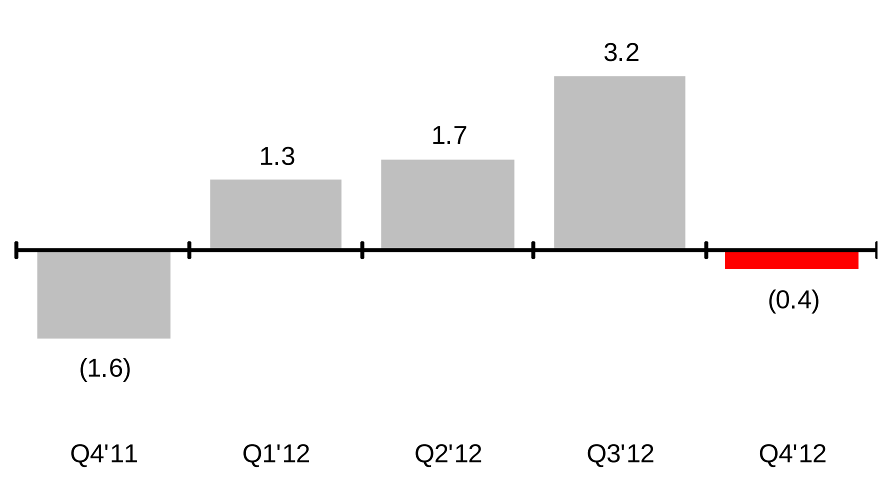
### Customer deposit flows (£bn) and stock market share (%)




### Investment new business sales - API[1] (£bn)




### Retail deposit flows (£bn)




### Comments

- Retail deposit inflows included a very strong cross tax year ISA campaign, amounting to £9.1bn of net inflows in 2012
- Flows were also supported by current account growth, where total balances rose by 32% in 2012
- Offsetting these, we reduced short term and rate sensitive deposits that offered limited long term relationship opportunities

[1] API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements

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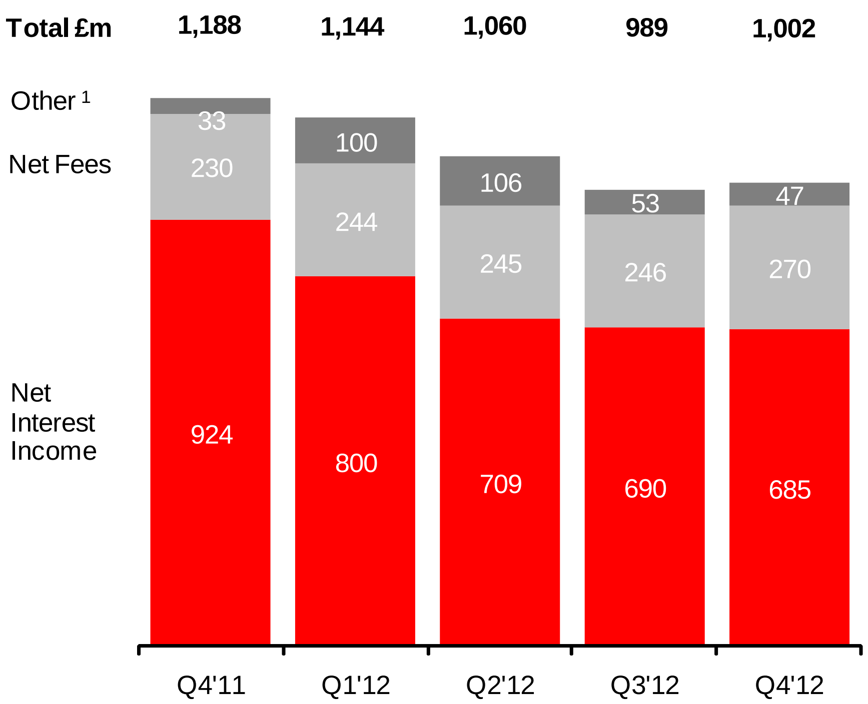
# Agenda

- Market Environment
- **Full Year 2012**
  - Strategic and Business Update
  - **Results**

# Results – Gross Income

## Income impacted by cost of funding and persistent low interest rates




| £m | FY'12 | FY'12 v FY'11 | FY'12 v Q3'12 |
|---|---|---|---|
| Net Interest Income | 2,885 | (24%) | 19% |
| Net Fees | 1,004 | 7% | 40% |
| **Subtotal** | **3,889** | **(18%)** | **23%** |
| Other[1] | 306 | (18%) | 28% |
| **Gross Income** | **4,196** | **(18%)** | **24%** |

- The commercial margin narrowed, with increased new lending margins on mortgages and SME loans more than offset by the structural market conditions
- Net fees were higher than in Q4 2011, supported by an uplift in fees and ancillary income from increased SME and Large Corporates lending

[1] Other includes gains on financial transactions and other operating income. Refer to slide 40 and 41 for a breakdown

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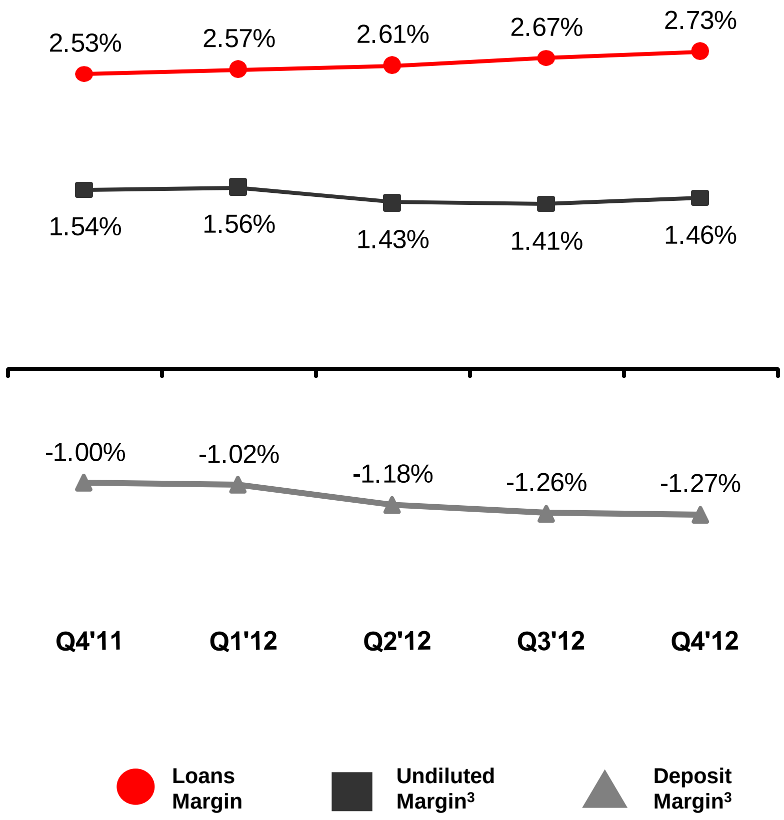
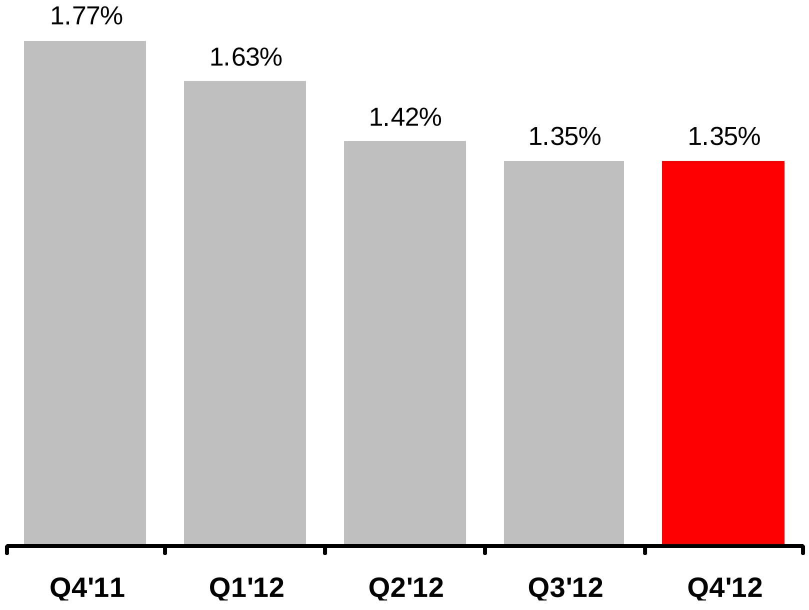
# Results – Banking NIM

**Loans margins continue to widen…deposit margins reflect intensifying competition…structural effects impact Banking NIM**

## Loan and Deposit Margins[1]




## Banking NIM[2]




[1] Undiluted Spread: Sum of Loan Margin and Deposit Margin
Loan margin calculated as 'Net Interest Income (including benchmark funding) on customer loans divided by average customer loans'
Deposit margin calculated as 'Net Interest Income (including benchmark funding) on customer deposits divided by average customer deposits'
[2] Banking NIM calculated as 'total net interest income divided by average total customer assets' formerly described as Commercial Banking Margin
[3] Deposit margin and undiluted margin restated for all periods to account for change to segmental reporting of structural hedge

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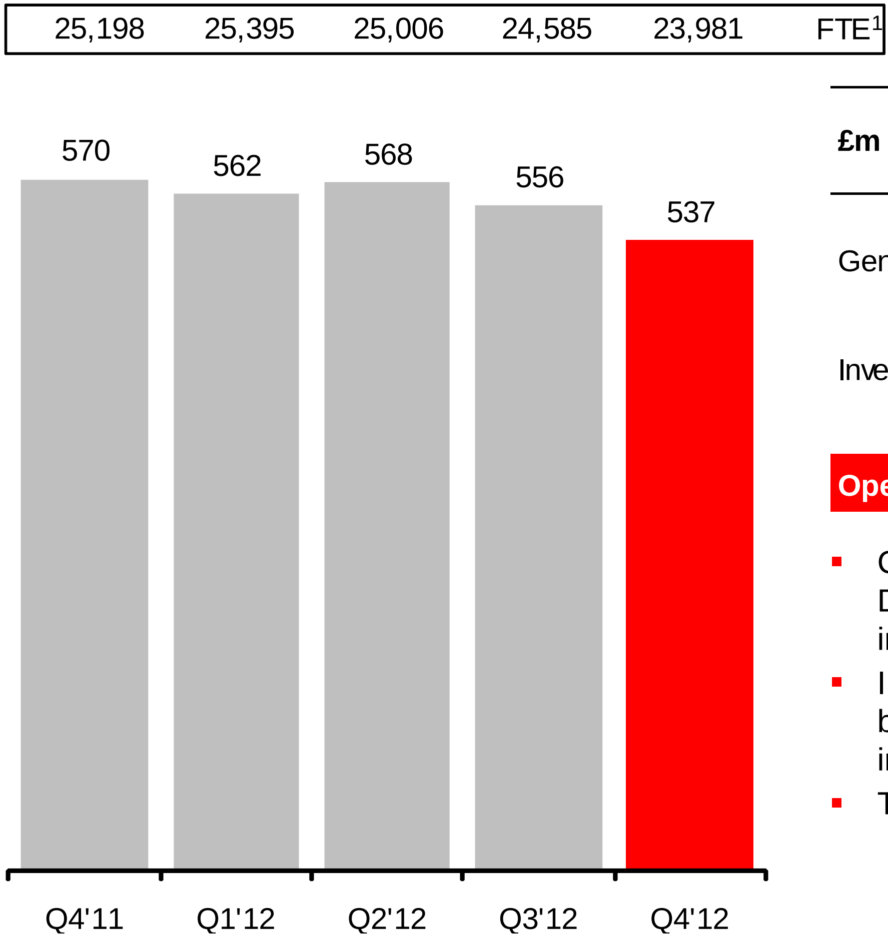
# Results – Operating Expenses

## Continuing to fund investments primarily through efficiencies




| £m | FY'12 | FY'12 v FY'11 |
|---|---|---|
| General & administrative expenses | 1,910 | (2%) |
| Investment (depreciation) | 312 | 2% |
| **Operating Expenses** | **2,222** | **(1%)** |

- Costs were well controlled with expenses down 1% from December 2011, despite inflation and continued investment in the business
- Investment programmes continued to support the business transformation, underpinning future efficiency improvements
- The cost to income ratio increased to 53%

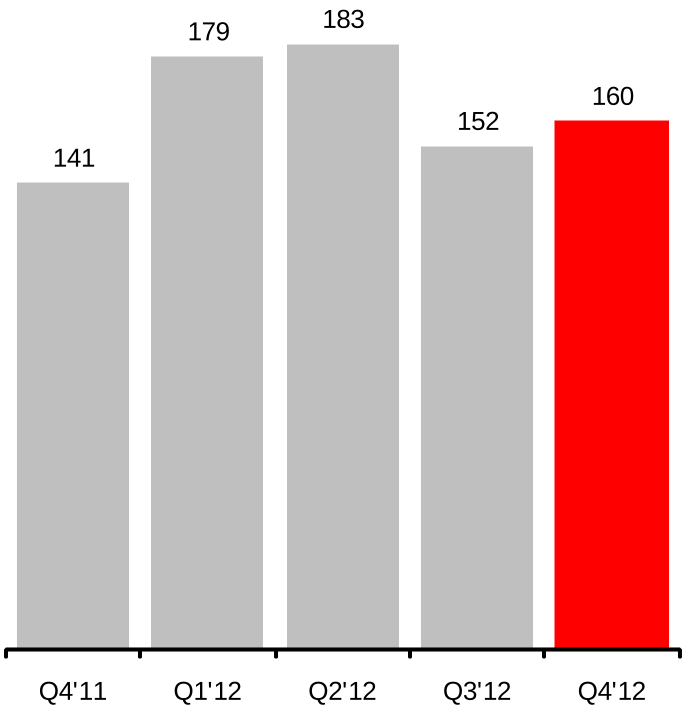
[1] FTE – Full-time employee

# Results – Net Loan Loss Provisions

## Credit provisions in Q4 2012 remain broadly steady

| | | | | | |
|---|---|---|---|---|---|
| 40% | 40% | 40% | 47% | 45% | Total Coverage (Reserves / NPL)[1] |

| | | | | | |
|---|---|---|---|---|---|
| 1.84% | 1.82% | 1.83% | 1.94% | 2.05% | Total NPL (NPL / Customer Loans) |




**Loan Loss Provision £m**

### Comments

- Credit quality is built on core mortgage, retail unsecured and the corporate loans portfolios
- Continued pressures in the legacy corporate loan portfolio and older commercial real estate exposures written before 2008
- Mortgage coverage remained flat at 20% in 2012, consistent with the same period in 2011
- Tightened lending criteria on higher loan to value and interest only mortgages in early 2012
- Underlying mortgage NPL stable; headline NPL rose on regulatory collection changes

[1] Total coverage includes provision for non-core corporate portfolio and legacy assets which is excluded from the loan loss provisions

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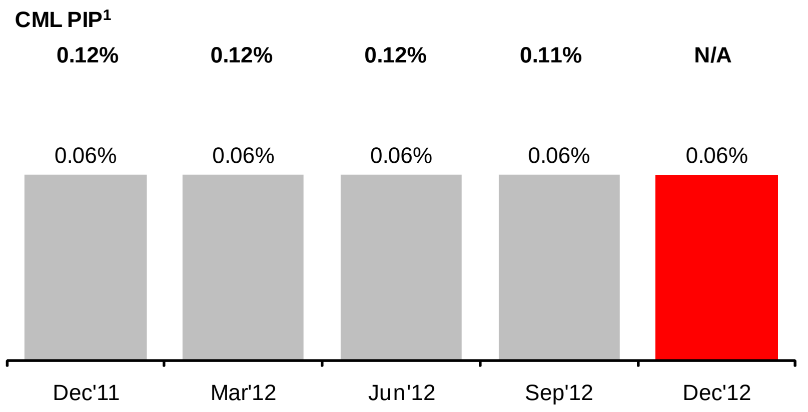
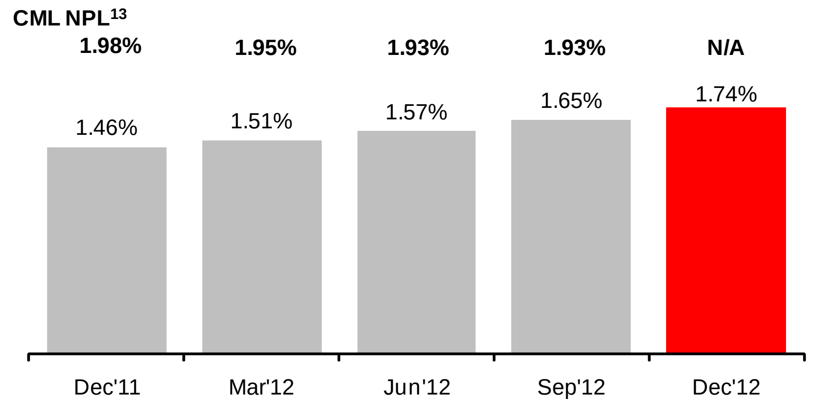
# Results – Mortgage Credit Quality

## With strong mortgage coverage levels maintained

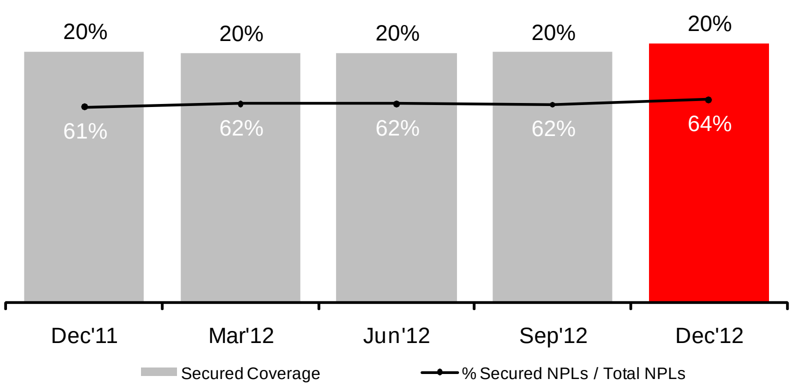
### Properties in posession (PIPs)



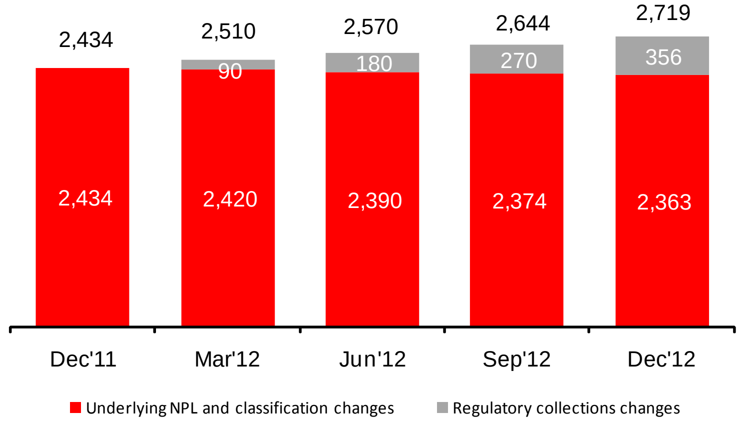

### Mortgage NPL[2]




### Secured coverage ratio




### Mortgage NPL by component (£m)




[1] CML data for December 2012 not available at time of reporting
[2] Santander UK Mortgage NPL on a value basis
[3] CML NPL relates to the UK banking sector's residential mortgages on a volume basis

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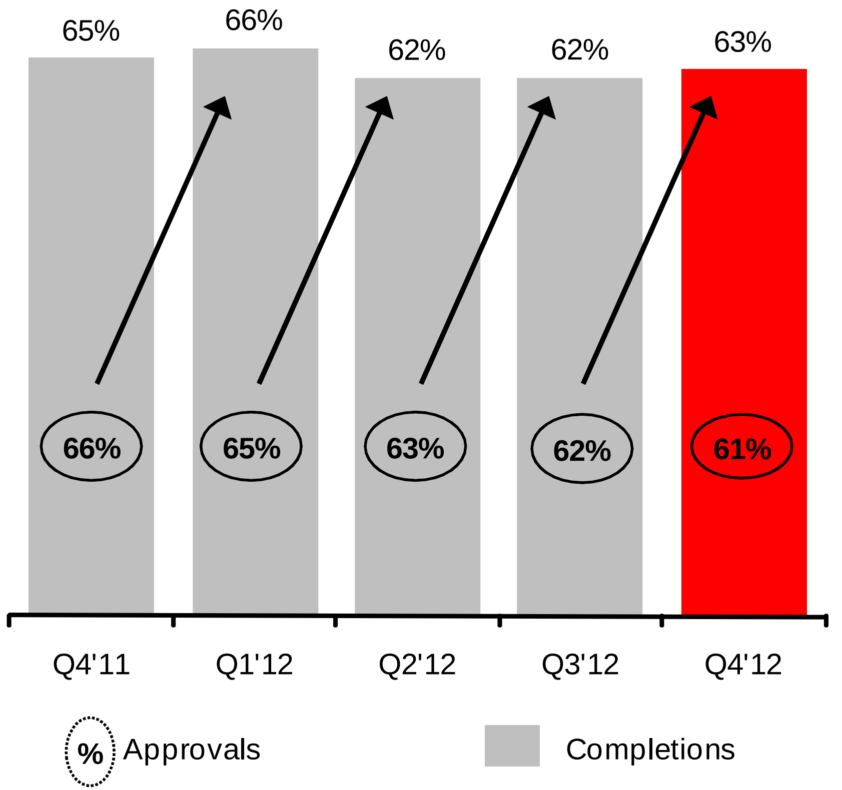
# Results – Mortgage Credit Quality

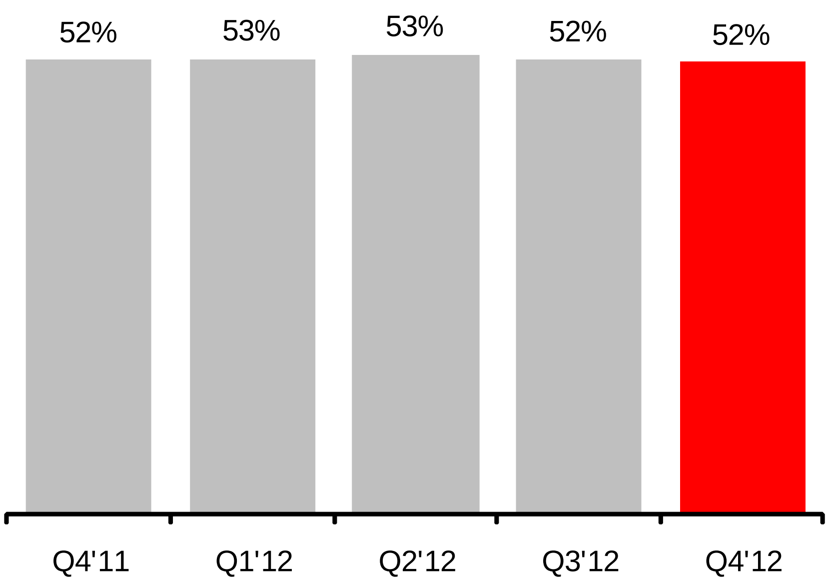
## New business and stock LTVs confirmed our mortgage credit quality

### Average new business mortgage LTV[1]

Introduced a 50% LTV cap for interest only mortgage lending in Q1 2012



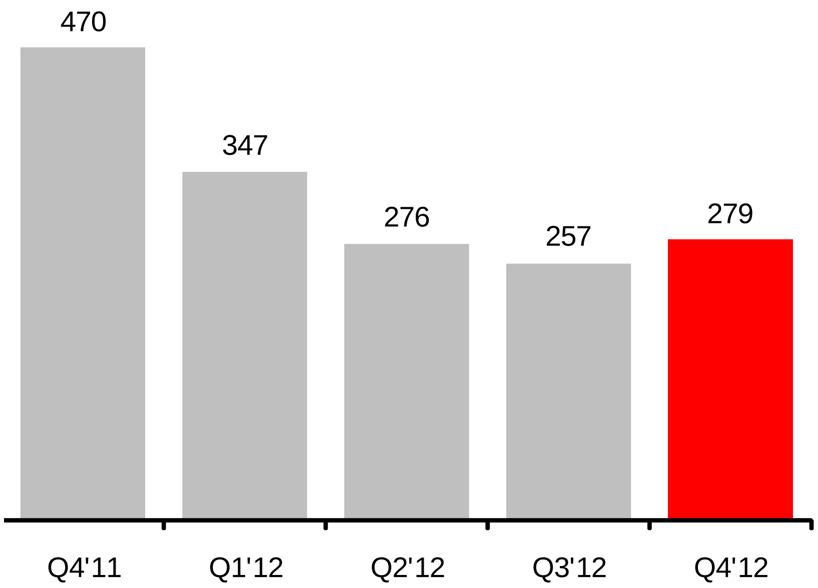

### Average indexed mortgage LTV on stock




[1] Based on mortgage completions

# Results – Profit Before Tax

**Profit before tax impacted by high funding costs and low interest rates**




| £m | FY'12 | FY'12 v FY'11 |
|---|---|---|
| PBT | 1,159 | (20%) |
| Provision for income tax | (272) | (30%) |
| Significant items | 65 | n/a |
| **Profit after tax** | **952** | **(10%)** |

# 2013 Outlook

- **Macro and regulatory downside risks** remain
- Medium term **target RoTBV of 13-15%,** with **rising interest rates**
- **Positive trends on the margin will start in the second half of 2013**; growth focus on profitability vs volumes
- **Improvement in customer experience** whilst **reducing BAU costs** and **investing in new products and services**
- Continued focus on **business diversification** towards **SME/corporates**
- **Deposit growth built on relationship enhancing** /sticky products
- **Comfortable with Group LDR of 129%,** underpinned by **prime mortgages**

**Retail: Delivering value to our customers**

- **Building profitable primary banking relationships through 1|2|3 World** and grow fee income
- **Non-1|2|3 Santander UK customer opportunity of c. 13 million**
- In 2013 introducing **customer segmentation; target c. 400,000 Select customers**

**Corporate: SME bank of choice**

- **Continue organic growth,** moving towards a **8% market share in the medium term**
- Increase revenues from **ancillary services/fee based products**
- Manage **risk and RoE**

**Customer Experience**

- Develop our **internet /multi-channel capabilities** and **optimise the network**
- **Invest in processes**, supported by our world-class technology
- Priority as to further **enhancement of the customer experience**

# APPENDIX

- Financial Results
- Balance Sheet

# Financial Results

# Financial Results – United Kingdom Profit and Loss

| £ million | 31.12.12 | 31.12.11 | Variation Amount | Variation % |
|---|---|---|---|---|
| Net interest income | 2,885 | 3,778 | (893) | (23.6) |
| Net fees | 1,004 | 936 | 68 | 7.2 |
| Gains (losses) on financial transactions | 292 | 351 | (59) | (16.8) |
| Other operating income* | 14 | 23 | (8) | (37.3) |
| Gross income | 4,196 | 5,088 | (893) | (17.5) |
| Operating expenses | (2,222) | (2,252) | 30 | (1.3) |
| General administrative expenses | (1,910) | (1,946) | 35 | (1.8) |
| *Personnel* | *(1,196)* | *(1,227)* | *31* | *(2.5)* |
| *Other administrative expenses* | *(714)* | *(719)* | *4* | *(0.6)* |
| Depreciation and amortisation | (312) | (306) | (6) | 1.9 |
| Net income | 1,973 | 2,837 | (863) | (30.4) |
| Net loan loss provisions | (674) | (549) | (125) | 22.8 |
| Other income | (140) | (838) | 698 | (83.3) |
| Profit before taxes (w/o capital gains) | 1,159 | 1,449 | (290) | (20.0) |
| Tax on profit | (272) | (388) | 117 | (30.1) |
| Profit from continuing operations (w/o capital gains) | 887 | 1,061 | (174) | (16.4) |
| Net profit from discontinued operations | — | — | — | 0.0 |
| Consolidated profit (w/o capital gains) | 887 | 1,061 | (174) | (16.4) |
| Minority interests | — | — | — | 0.0 |
| Attributable profit to the Group (w/o capital gains) | 887 | 1,061 | (174) | (16.4) |
| Significant items | 65 | — | 65 | n/a |
| Attributable profit to the Group after significant items | 952 | 1,061 | (108) | (10.2) |

* Including dividends, income from equity-accounted method and other operating income/expenses

# Financial Results – United Kingdom Profit and Loss

£ million

| | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 | Q2'12 | Q3'12 | Q4'12 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 984 | 942 | 929 | 924 | 800 | 709 | 690 | 685 |
| Net fees | 199 | 260 | 246 | 230 | 244 | 245 | 246 | 270 |
| Gains (losses) on financial transactions | 134 | 115 | 77 | 26 | 93 | 102 | 54 | 44 |
| Other operating income* | 5 | 6 | 4 | 8 | 7 | 4 | (0) | 3 |
| Gross income | 1,322 | 1,322 | 1,256 | 1,188 | 1,144 | 1,060 | 989 | 1,002 |
| Operating expenses | (564) | (561) | (557) | (570) | (562) | (568) | (556) | (537) |
| General administrative expenses | (486) | (483) | (478) | (498) | (483) | (494) | (464) | (468) |
| *Personnel* | *(297)* | *(293)* | *(314)* | *(324)* | *(300)* | *(301)* | *(307)* | *(288)* |
| *Other administrative expenses* | *(190)* | *(190)* | *(164)* | *(174)* | *(183)* | *(193)* | *(157)* | *(180)* |
| Depreciation and amortisation | (78) | (78) | (79) | (72) | (78) | (73) | (91) | (69) |
| Net income | 758 | 761 | 700 | 618 | 582 | 492 | 434 | 465 |
| Net loan loss provisions | (129) | (127) | (152) | (141) | (179) | (183) | (152) | (160) |
| Other income | (39) | (764) | (29) | (7) | (56) | (34) | (25) | (26) |
| Profit before taxes (w/o capital gains) | 590 | (129) | 519 | 470 | 347 | 276 | 257 | 279 |
| Tax on profit | (158) | 28 | (144) | (115) | (92) | (65) | (54) | (60) |
| Profit from continuing operations (w/o capital gains) | 431 | (101) | 375 | 355 | 255 | 210 | 202 | 219 |
| Net profit from discontinued operations | — | — | — | — | — | — | — | — |
| Consolidated profit (w/o capital gains) | 431 | (101) | 375 | 355 | 255 | 210 | 202 | 219 |
| Minority interests | — | — | — | — | — | — | — | — |
| Attributable profit to the Group (w/o capital gains) | 431 | (101) | 375 | 355 | 255 | 210 | 202 | 219 |
| Significant items | — | — | — | — | — | — | 65 | — |
| Attributable profit to the Group after significant items | 431 | (101) | 375 | 355 | 255 | 210 | 268 | 219 |

* Including dividends, income from equity-accounted method and other operating income/expenses

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# Balance Sheet

# Financial Results – United Kingdom Balance Sheet

| £ million | | | Variation | |
|---|---|---|---|---|
| | 31.12.12 | 31.12.11 | Amount | % |
| Loans and credits | 204,455 | 213,586 | (9,132) | (4.3) |
| Trading portfolio (w/o loans) | 31,156 | 34,615 | (3,458) | (10.0) |
| Available-for-sale financial assets | 5,483 | 46 | 5,437 | — |
| Due from credit institutions | 14,791 | 14,040 | 750 | 5.3 |
| Intangible assets and property and equipment | 2,090 | 1,913 | 178 | 9.3 |
| Other assets | 35,597 | 33,291 | 2,306 | 6.9 |
| Total assets | 293,572 | 297,490 | (3,917) | (1.3) |
| Customer deposits | 158,692 | 162,314 | (3,622) | (2.2) |
| Marketable debt securities | 60,325 | 59,159 | 1,167 | 2.0 |
| Subordinated debt | 4,516 | 6,899 | (2,383) | (34.5) |
| Insurance liabilities | — | — | — | — |
| Due to credit institutions | 23,873 | 26,064 | (2,190) | (8.4) |
| Other liabilities | 35,432 | 32,169 | 3,263 | 10.1 |
| Shareholders' equity* | 10,733 | 10,886 | (152) | (1.4) |
| Total liabilities & shareholders' equity | 293,572 | 297,490 | (3,917) | (1.3) |
| Mutual funds | 11,359 | 13,151 | (1,793) | (13.6) |
| Pension funds | — | — | — | — |
| Managed portfolios | — | — | — | — |
| Savings-insurance policies | — | — | — | — |
| Customer funds under management | 234,892 | 241,523 | (6,630) | (2.7) |
| Commercial Loans included above** | 195,950 | 206,311 | (10,361) | (5.0) |
| Commercial deposits included above | 148,572 | 149,192 | (620) | (0.4) |

* Not including profit of the year
** Excludes London Branch

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# Results – Income Statement – Significant Items

## Significant items impacted the financial results

| | |
|---|---|
| Capital Management Exercise ('CME') | ▪ In July 2012 Santander UK launched an offer to buy back certain debt capital instruments. Under current regulations these securities qualify as Total Capital but are excluded from Core Tier 1 Capital. Under the full Basel III basis they would be excluded from regulatory capital. The exercise completed on 16 July 2012<br>▪ The net impact of the purchase and crystallisation of mark to market positions on associated derivatives resulted in a pre-tax gain of £705m which was recognised in non-interest income |
| Non-core and legacy portfolio | ▪ In September 2012 a credit provision of £335m was made in the face of deteriorating market conditions and following a review and full re-assessment of the assets held in the non-core corporate and legacy portfolios<br>▪ This provision related to assets acquired from Alliance & Leicester (in particular loans held within the shipping portfolio) as well as certain assets taken on as part of the old Abbey Commercial Mortgages book. The amount of provision raised reflected increasing losses experienced in these portfolios |
| Conduct remediation | ▪ In September 2012 a net provision of £232m was made in relation to conduct remediation relating to retail products as well as interest rate derivatives sold to corporates. As previously announced, the results for 2011 were impacted by a customer remediation provision of £751m, principally related to payment protection insurance ('PPI'). No additional provision relating to PPI was required or made in 2012<br>▪ In common with the rest of the market, however, Santander UK saw an increase in claims activity in 2012 and will continue to monitor the provision required |
| Termination of acquisition of the RBS businesses | ▪ In early October 2012 the agreement to acquire certain businesses and branches of The Royal Bank of Scotland Group was terminated. As a result, a provision of £55m was made to reflect costs arising from the transaction |

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