



London 29<sup>th</sup> & 30<sup>th</sup> September 2011

# INVESTOR DAY

DELIVERING PROFITABLE GROWTH



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Santander UK

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**1**

**Santander UK's strengths and recent performance**

**2**

**Market environment**

**3**

**Commercial turnaround of Santander UK**

**4**

**Three year outlook**

**1**

**Santander UK's strengths and recent performance**

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**Market environment**

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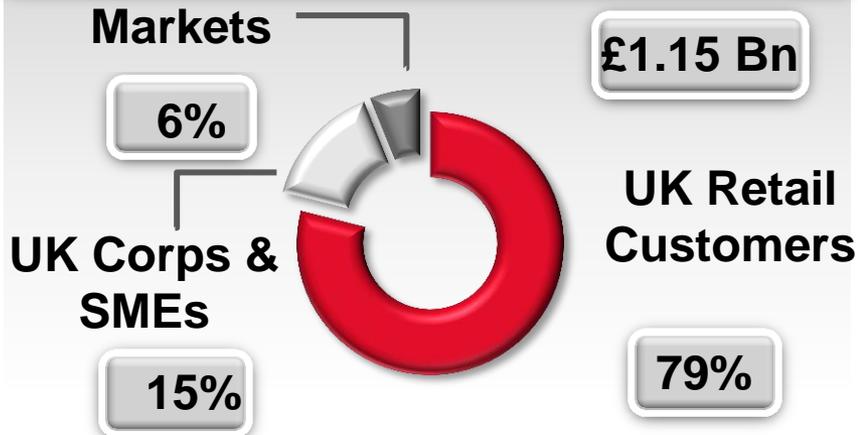
**Commercial turnaround of Santander UK**

**4**

**Three year outlook**

# We have a unique position in the UK

## H1 2011 PBT



## H1 2011 Customer assets



**Santander UK has one of the largest customer bases and distribution networks in the UK and is a market leader in mortgages & savings**



- **25** million customers
- **1,404** branches
- **23,963** employees
- **c.10%** core market shares in UK
- **2<sup>nd</sup>** in retail mortgages
- **2<sup>nd</sup>** in retail deposits

# Our business model includes **some** of Santander Group's **core strengths...**

## Our core IT Banking system

- Single customer view
- Scalable and efficient
- Tailor-made solutions

**Cost synergies of c. £580m in 2005-2011**

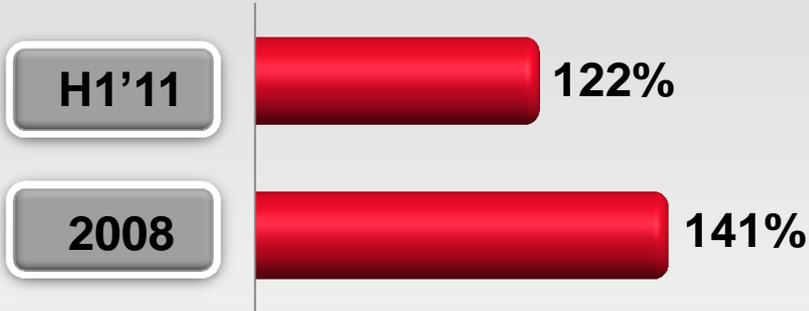
## Prudent risk management

- **Mortgages** H1'11 NPL ratio **1.4%** vs. **2.1%** industry
- Since 2008:
  - Corporate non-core **-46%**
  - Treasury run-down portfolio **-80%**

...and financial strength: Overall, Santander UK is one of the strongest financial institutions in the UK

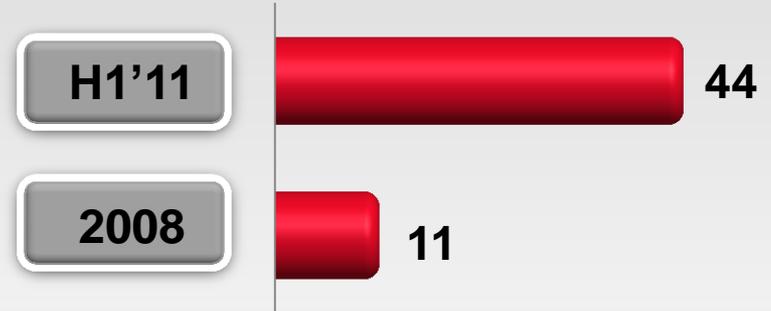
### A strengthened balance sheet...

Loan-to-Deposit ratio (%)



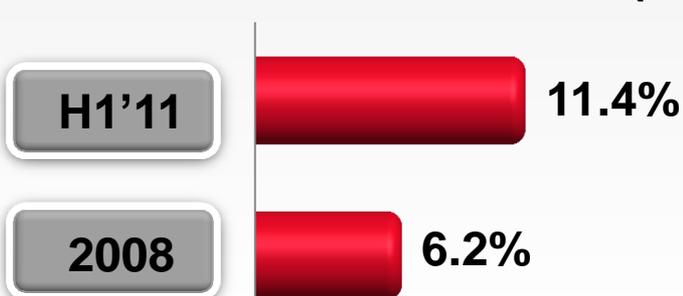
### ... with improved liquidity...

Liquid assets –Core FSA eligible- (£bn)



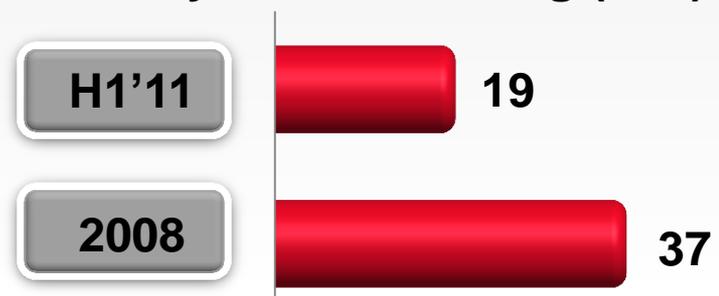
### ... capital position...

UK GAAP Core Tier 1 (%)



### ... and enhanced funding mix

Money market funding (£bn)



However, despite progress, there is huge unlocked potential

- **We are still the combination of 3 building societies**
- **Product driven vs. customer driven**
- **Close gap in service and customer satisfaction**
- **Develop product and systems capability for SMEs / Corporate**

**... the next 3 years focus will be on the integration of the business acquired from RBS, which will be at the core of our investment to achieve our commercial turnaround**

1

Santander UK's strengths and recent performance

2

**Market environment**

3

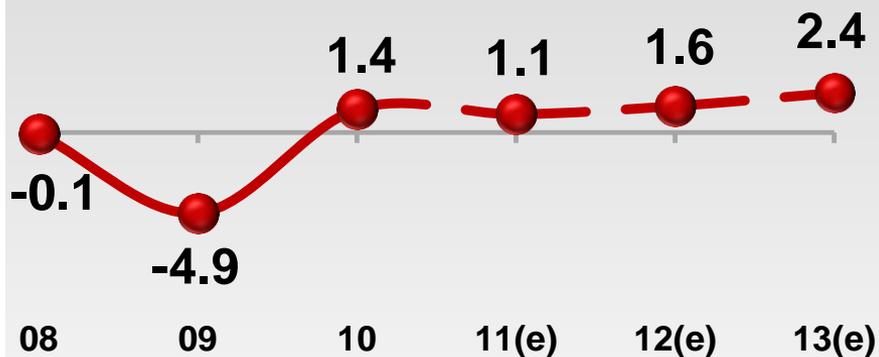
Commercial turnaround of Santander UK

4

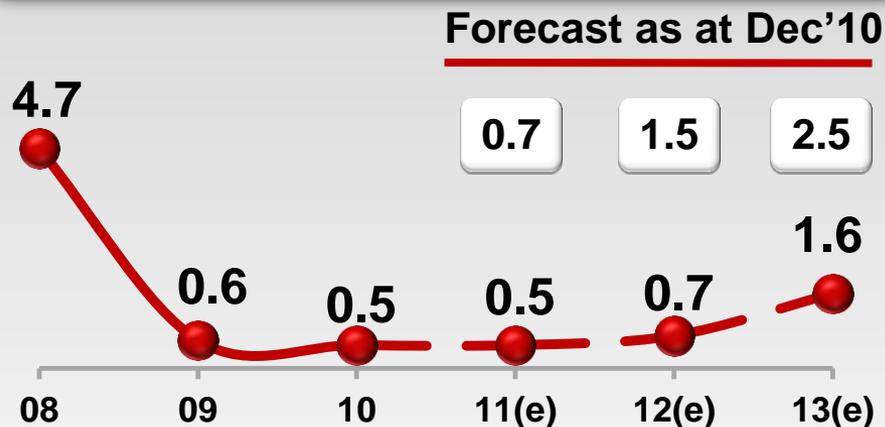
Three year outlook

# Modest GDP growth ahead and lower interest rates will remain for longer than expected

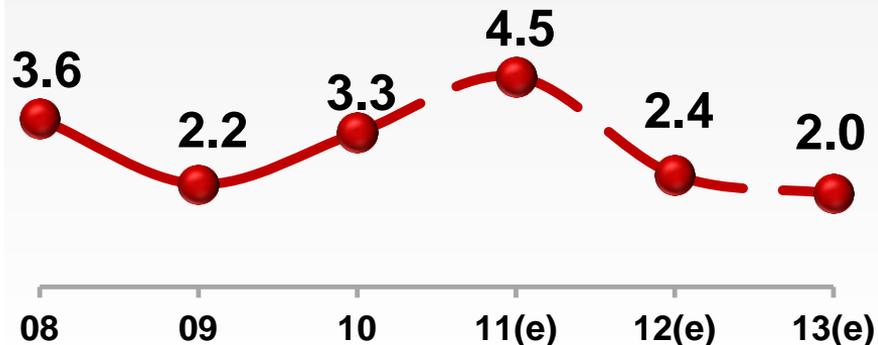
## Annual GDP Growth (%)



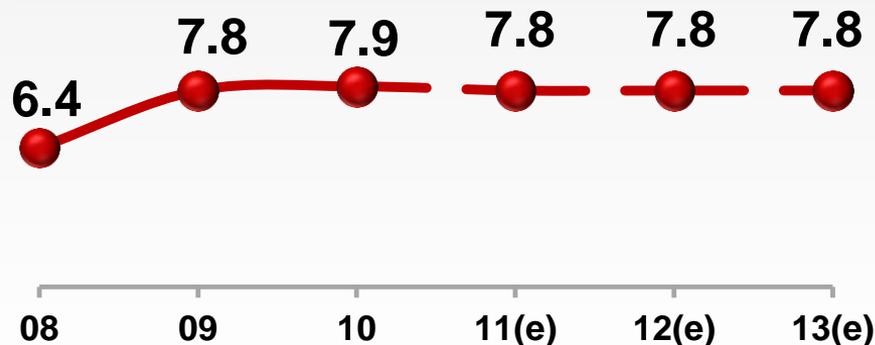
## Interest rate (%)



## Annual CPI Inflation(%)



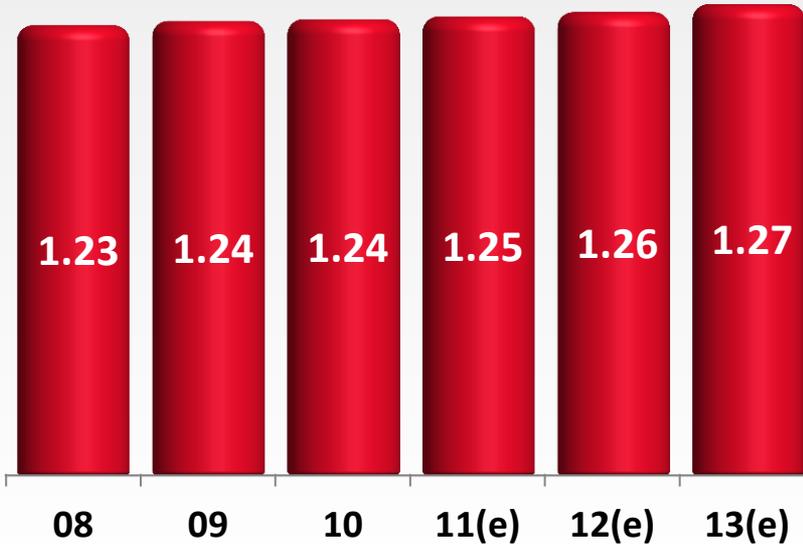
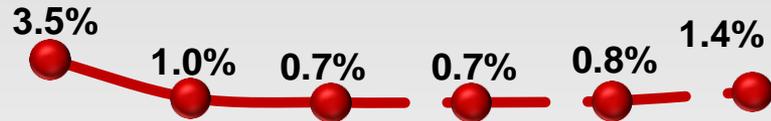
## Unemployment rate (%)



# Retail deposits growth expected to exceed mortgage growth

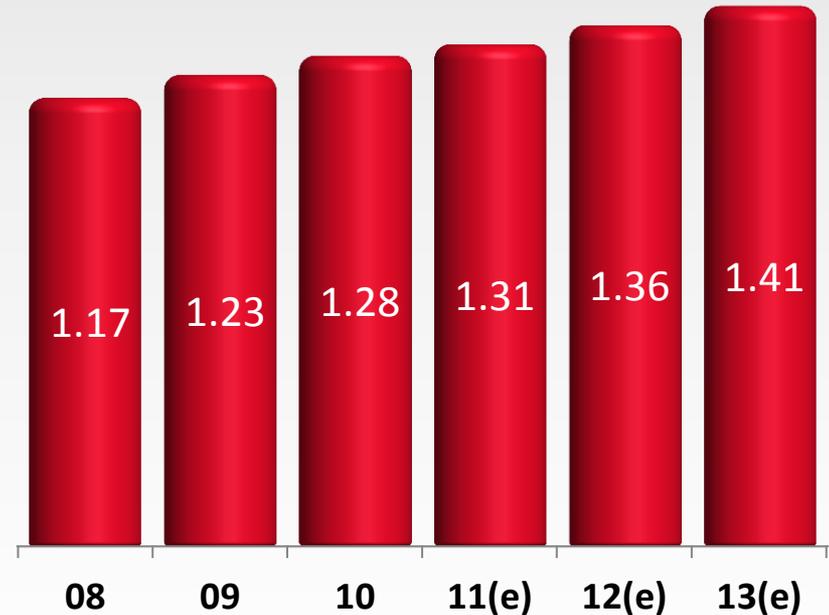
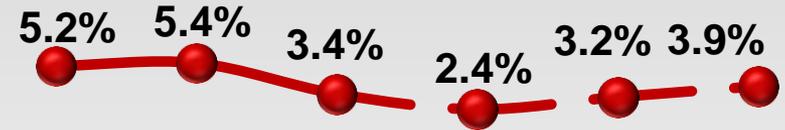
## Mortgage lending market stock (£trn)

% Growth



## Retail deposits market stock (£trn)

% Growth



# The market environment is adversely impacting UK bank earnings, including Santander UK

**1**

**An increasingly onerous and uncertain regulatory environment**

**2**

**Weaker than expected macro scenario**

**a)**

**Lower for longer interest rates**

**b)**

**Higher wholesale and retail funding costs**

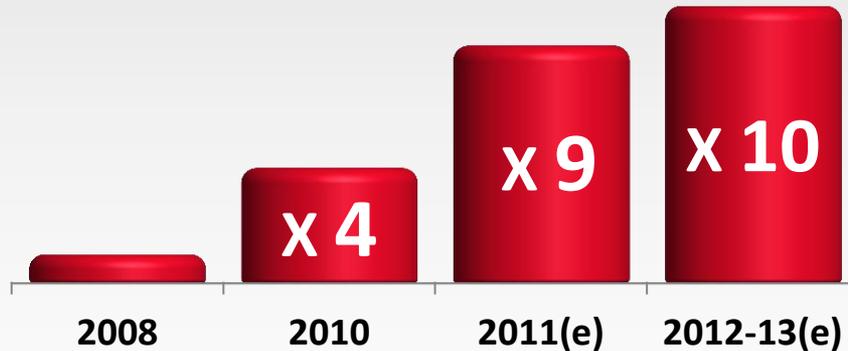
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An increasingly onerous and uncertain regulatory environment

UK regulatory requirements will continue to impact on Santander UK

- 1 An increasingly onerous and uncertain regulatory environment
- 2 Weaker than expected macro scenario
  - a) Lower for longer interest rates
  - b) Higher wholesale and retail funding costs

PAT Impact



- Liquidity buffer
- FSCS
- Bank Levy

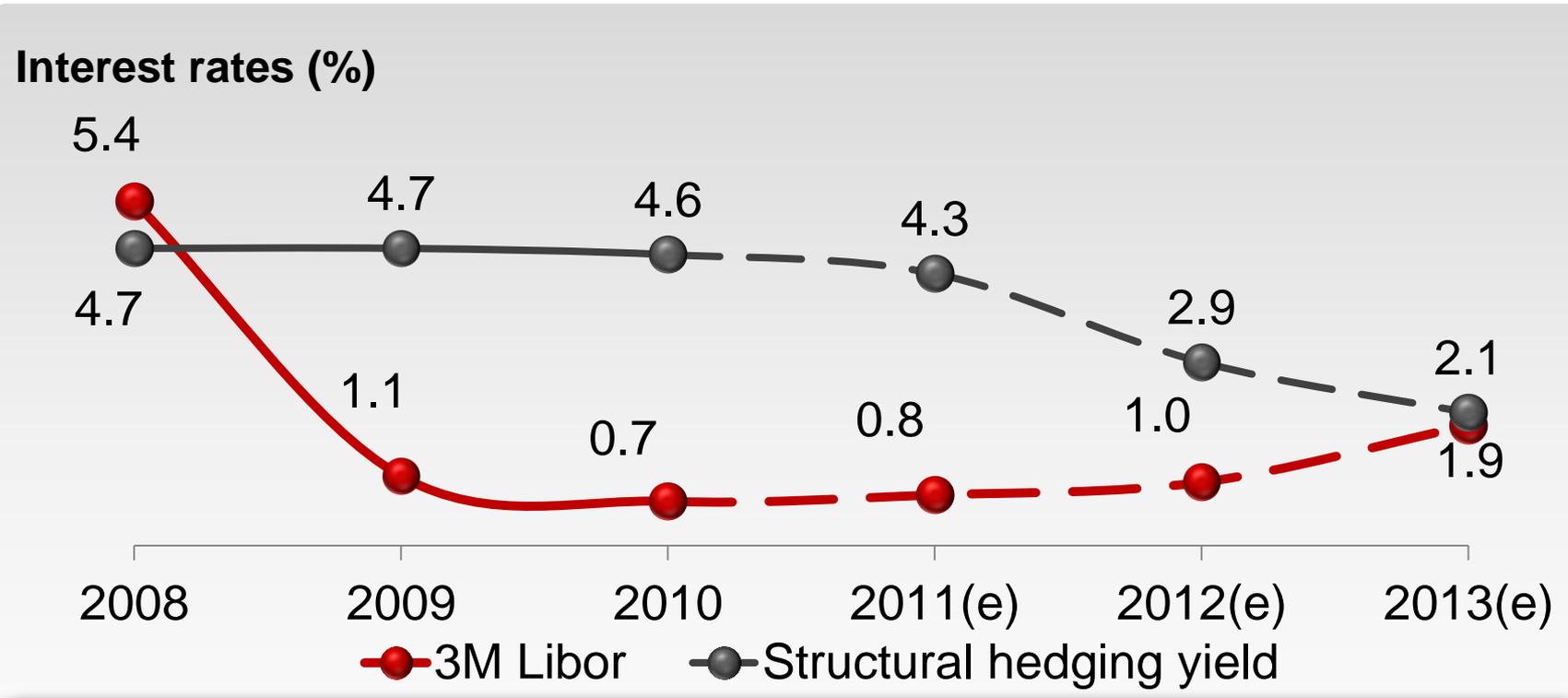
...with further significant resourcing costs due to broader regulatory demands

# 2.a

Interest rates expected to remain low

Hedging strategy protected financial margins, but from 2012 sustained lower interest rates will impact earnings further...

- 1 An increasingly onerous and uncertain regulatory environment
- 2 Weaker than expected macro scenario
  - a) Lower for longer interest rates
  - b) Higher wholesale and retail funding costs



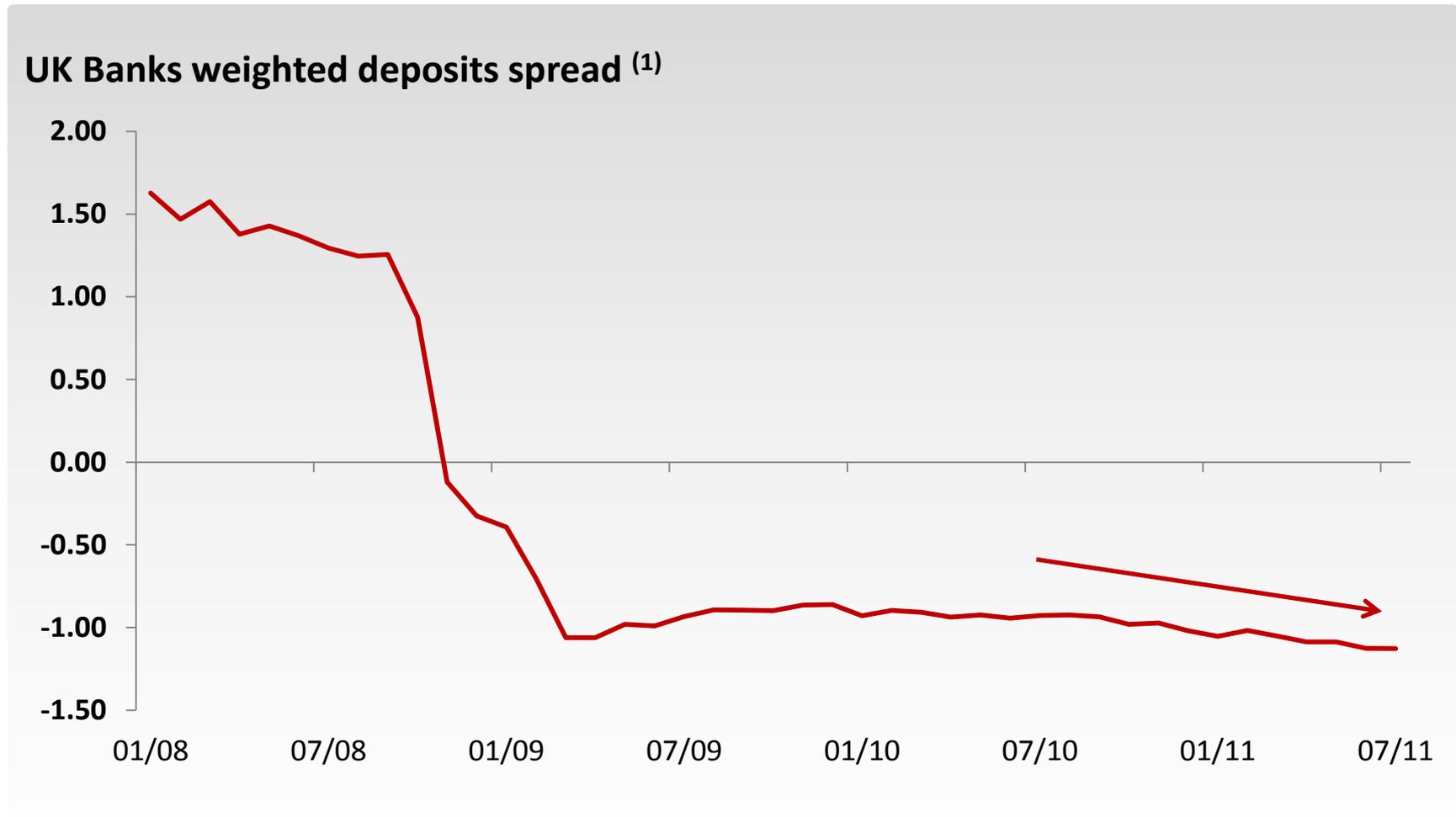
...however, a 100 bp increase in interest rates would improve run-rate income by c. £200m

2.b

# Higher retail and wholesale funding costs

## Negative spread has widened in recent months in retail deposits

- 1 An increasingly onerous and uncertain regulatory environment
- 2 Weaker than expected macro scenario
  - a) Lower for longer interest rates
  - b) Higher wholesale and retail funding costs



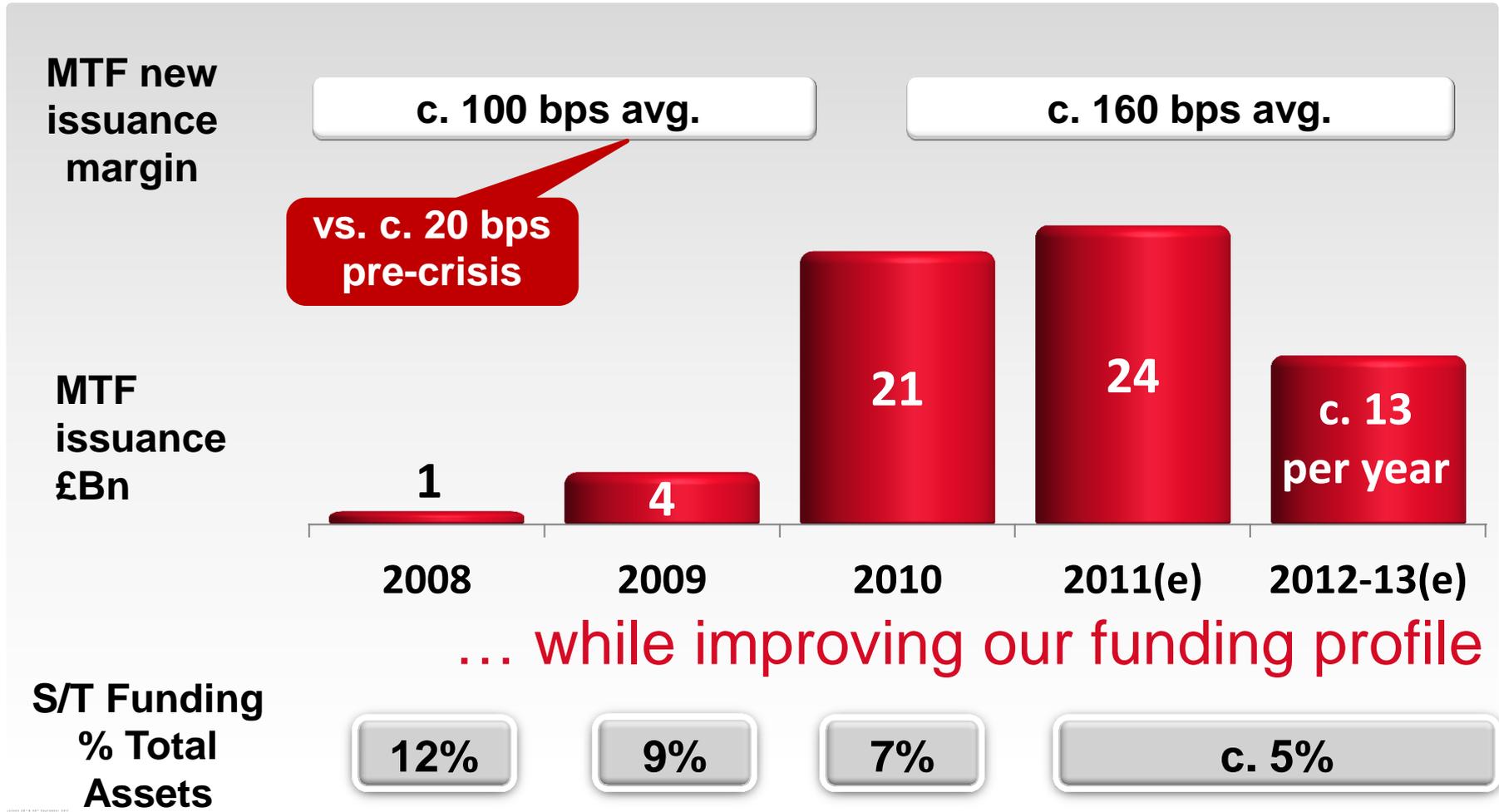
(1) Internal calculations based on Bank of England statistics

2.b

Higher retail and wholesale funding costs

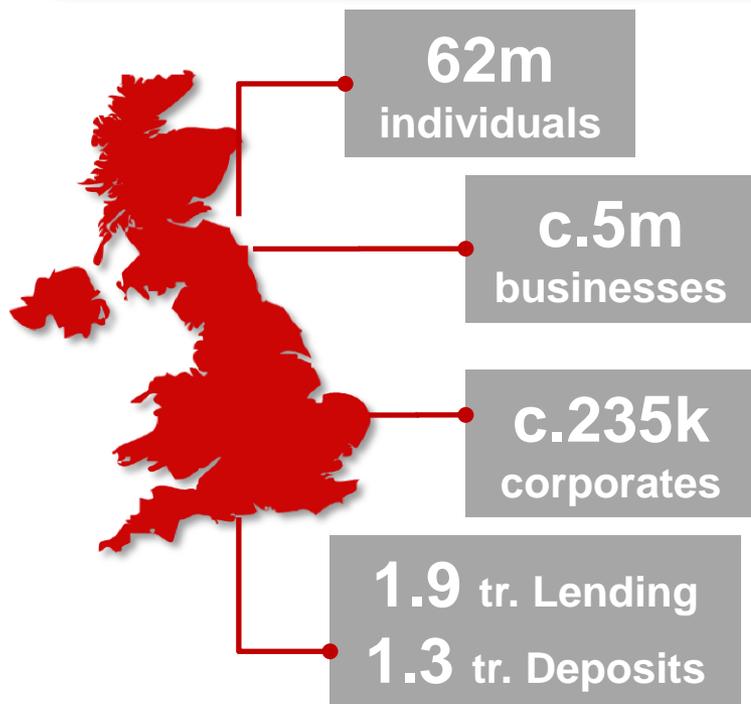
# Impact of increase on medium-term funding costs in 2012/13

- 1 An increasingly onerous and uncertain regulatory environment
- 2 Weaker than expected macro scenario
  - a) Lower for longer interest rates
  - b) Higher wholesale and retail funding costs



# In spite of the strong headwinds, the UK market continues to be a unique opportunity for Santander UK

## Largest financial market in Europe



- 2<sup>nd</sup> player in the profitable mortgage business
- High value savings franchise (£85bn) in a “normalised” interest rate scenario
- Becoming an incumbent player in the SME & Corporate market with business acquired from RBS
- And better positioned than peers:
  - No legacy issues
  - Best in class efficiency

**Our challenge is the internal transformation to the Santander Group model**

1

Santander UK's strengths and recent performance

2

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3

**Commercial turnaround of Santander UK**

4

Three year outlook

# Priorities and achievements in 2011

## Progress

- |   |   |   |
|---|---|---|
| ● <b>Balance Sheet Management</b>   | 100% of FY funding plan completed by June |    |
| ● <b>Strengthen management team</b>                                       | Completed                                 |    |
| ● <b>Regulatory reform and implications</b>                               | In progress                               |    |
| ● <b>Assure flawless integration of new acquired RBS business</b>         | Full set of measures undertaken           |    |
| ● <b>Achieve challenging targets in service and customer satisfaction</b> | In progress                               |    |
| ● <b>Strategic review</b>   | Completed                                 |  |

# With our strong balance sheet, now is the time for the “commercial turnaround” of Santander UK

## Core principles Commercial turnaround

- Profitable growth vs. market share approach
- Full-service, diversified, customer-centered franchise

**1** Customer driven model (vs. product driven)

**2** More balanced business mix and SME bank of choice

**3**

Leading efficiency and service underpinned by IT systems



**A top bank to work for and a step change in customer satisfaction**

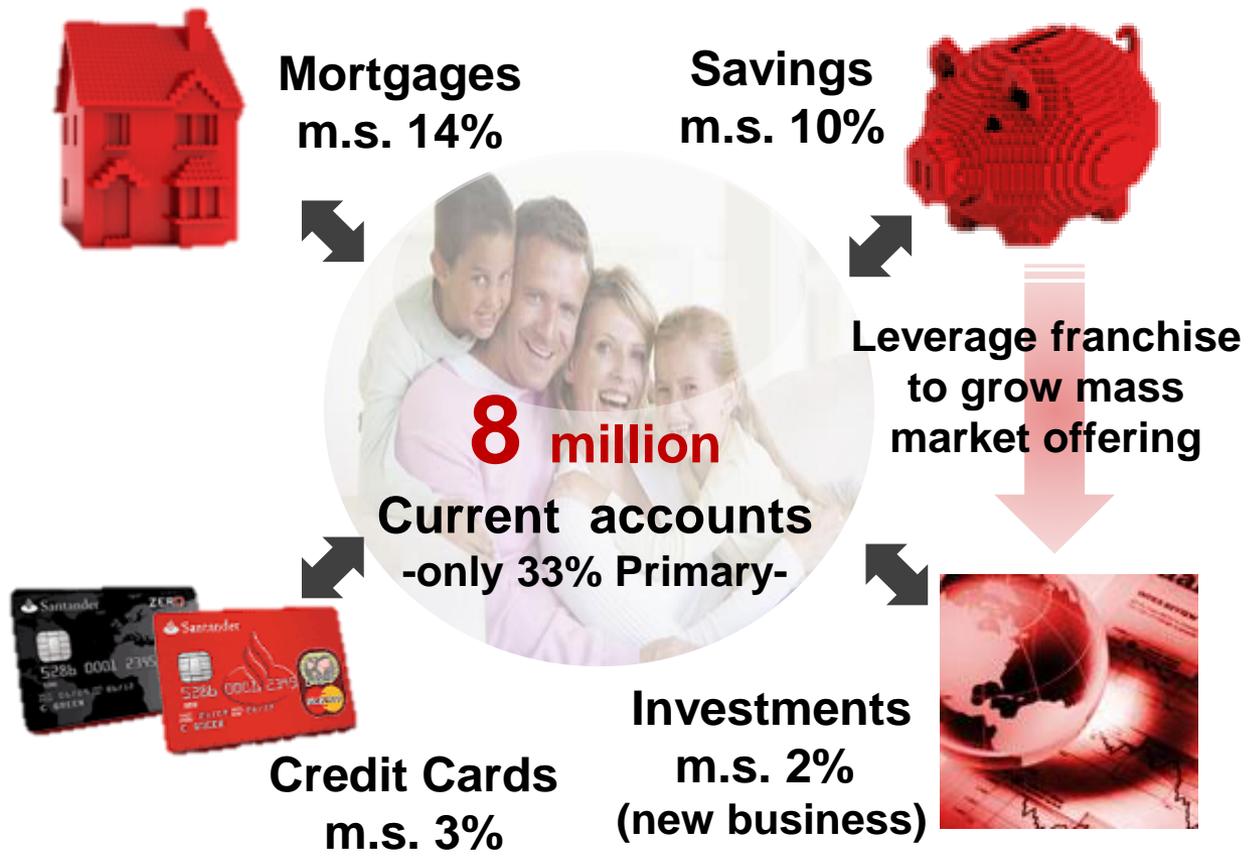
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Customer driven retail model

Customer Satisfaction: Put the customer at the center

**Core franchise**

**Growth drivers**



**Opportunity: Segmentation of 25 M customers**

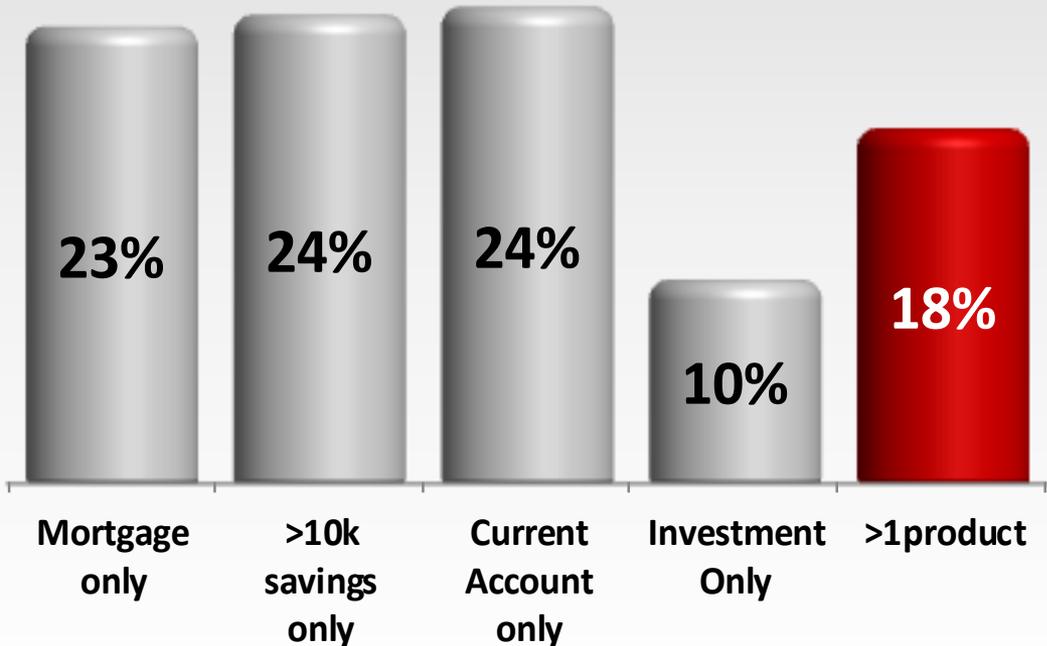
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# Customer driven retail model

## Opportunity to grow primary relationship with 25 million customers

1 Customer driven model (vs. product driven)  
2 More balanced business mix and SME bank of choice  
3 Leading efficiency and service underpinned by IT systems

82% of highest potential customers have “mono” category holdings



### Customer holdings

Peers	1.7
SAN UK	1.5

+10bps

=

+c. £100m revenues

1

Customer driven retail model

Simple products that add value. Reward existing customers → primary relationship

Up to £300 when you switch your current account.



The 123 Cashback Credit Card that pays you to do your shopping.

If you use a credit card for everyday spending, get a card that rewards you with:

- cashback at supermarkets
- cashback at department stores
- cashback at petrol stations (depend up to £300 per month)

An annual fee applies. It's what you might call a win-win-win situation.

Ask here today, call 0800 XXX XXXX or visit [santander.co.uk](http://santander.co.uk)

Driven to do better.



3 million new current accounts in 3 years

From 1.4m to 3m credit cards in 2013

1

## Customer driven retail model

Focus on primary relationships (current acc., cards...), will drive revenue growth...



### Outlook for 2011-14

#### Mortgages & Savings

- Balance sheet growth broadly flat
- Mortgages and savings revenue **pressured** by new business margins and limited scope for back-book repricing

#### Other retail products

- CAGR of c. 9%

...otherwise heavily impacted by regulatory + market environment

2

More balanced business mix

Attractive opportunity in the SME and Corporate segments

1 Customer driven model (vs. product driven)

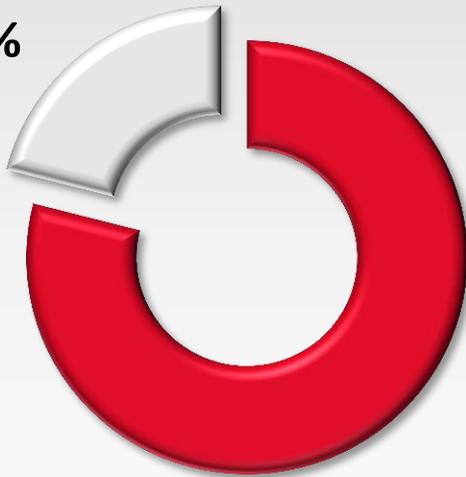
2 More balanced business mix and SME bank of choice

3 Leading efficiency and service underpinned by IT systems

## Revenue split by segment (H1'11)

### Santander UK

21%



79%

### Peers

36%



64%

 Retail

 Corporates

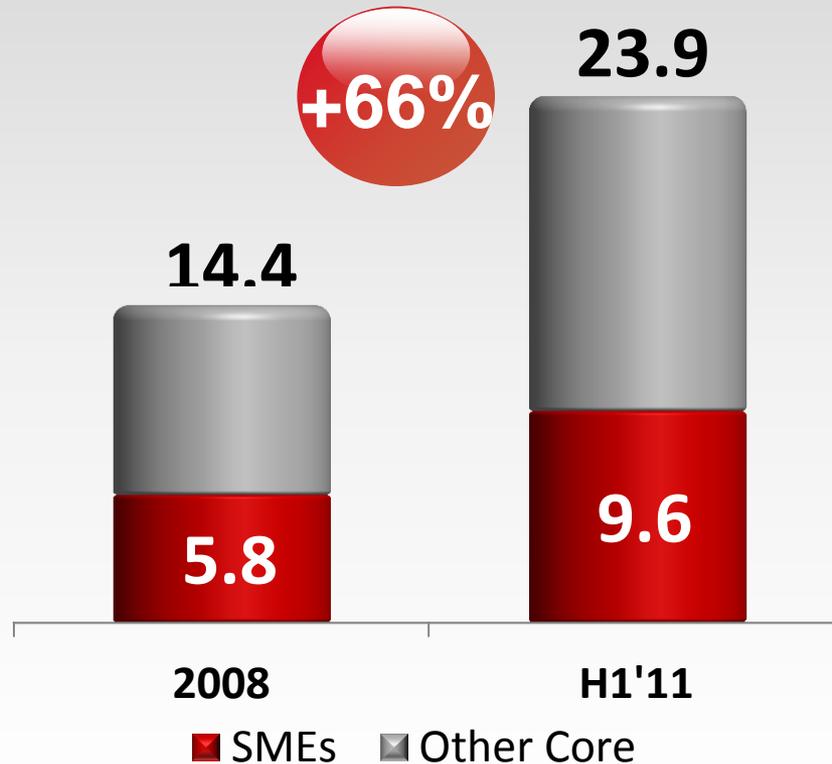
2

More balanced business mix

# Successful growth in SMEs/Corporates thanks to relationship banking



## Corporate core assets (£bn)



## The Santander model

### Case Study **B&W** Bowers & Wilkins

“We needed a bank that understood we aren’t just a standard consumer electronics firm and that we care about high-quality products. When we met Santander, they showed a real ability to think outside the box. The service we have received has been impressive, combining a “can do” attitude with invaluable commercial acumen”

Geoff Edwards, Executive Vice President Operations, B&W Group Ltd.

2

More balanced business mix

# Continuing to grow organically in SMEs/Corporates

1 Customer driven model (vs. product driven)

2 More balanced business mix and SME bank of choice

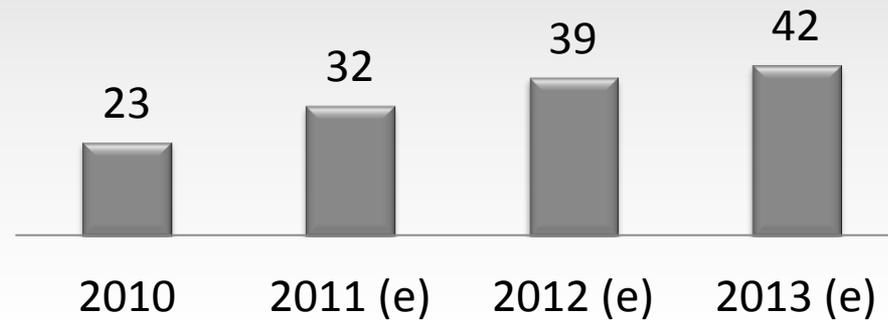
3 Leading efficiency and service underpinned by IT systems

Growing regional coverage for SMEs



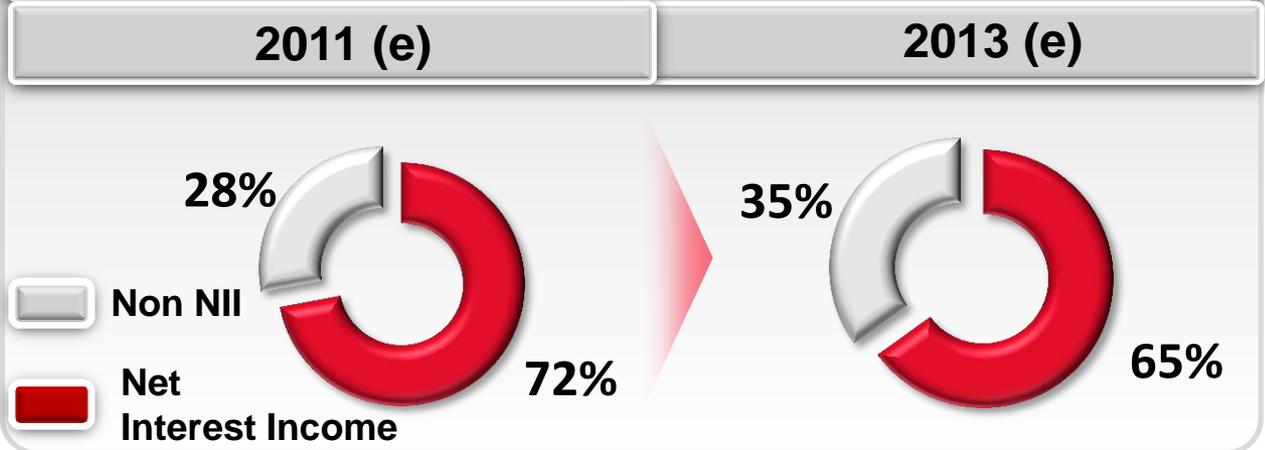
Completing product capability

## Regional business centers



+82%

## Contribution of fee income (1)



2

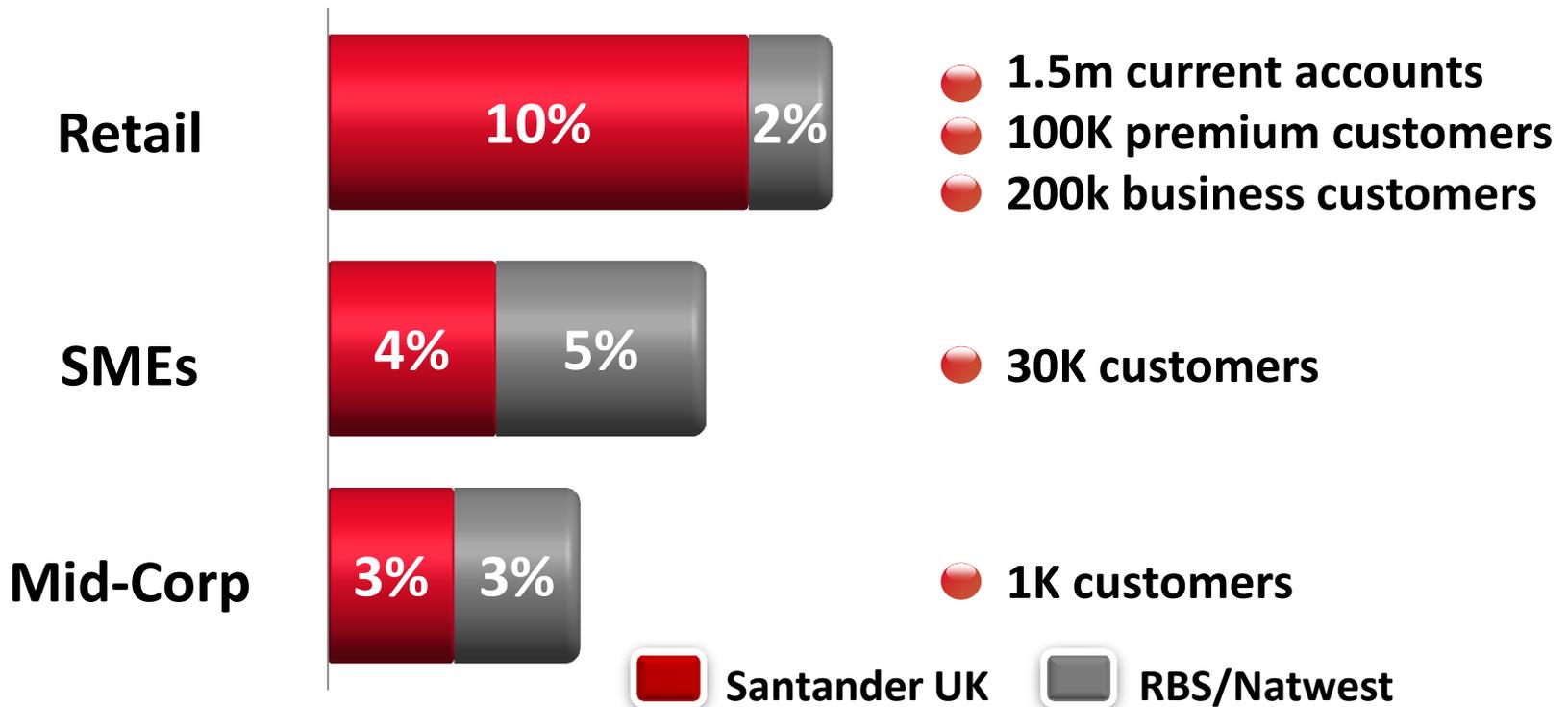
More balanced business mix

# The acquisition of RBS businesses is transformational

1 Customer driven model (vs. product driven)

2 More balanced business mix and SME bank of choice

3 Leading efficiency and service underpinned by IT systems



**The RBS transaction\* is expected to be completed in Q4 2012**

2

More balanced business mix

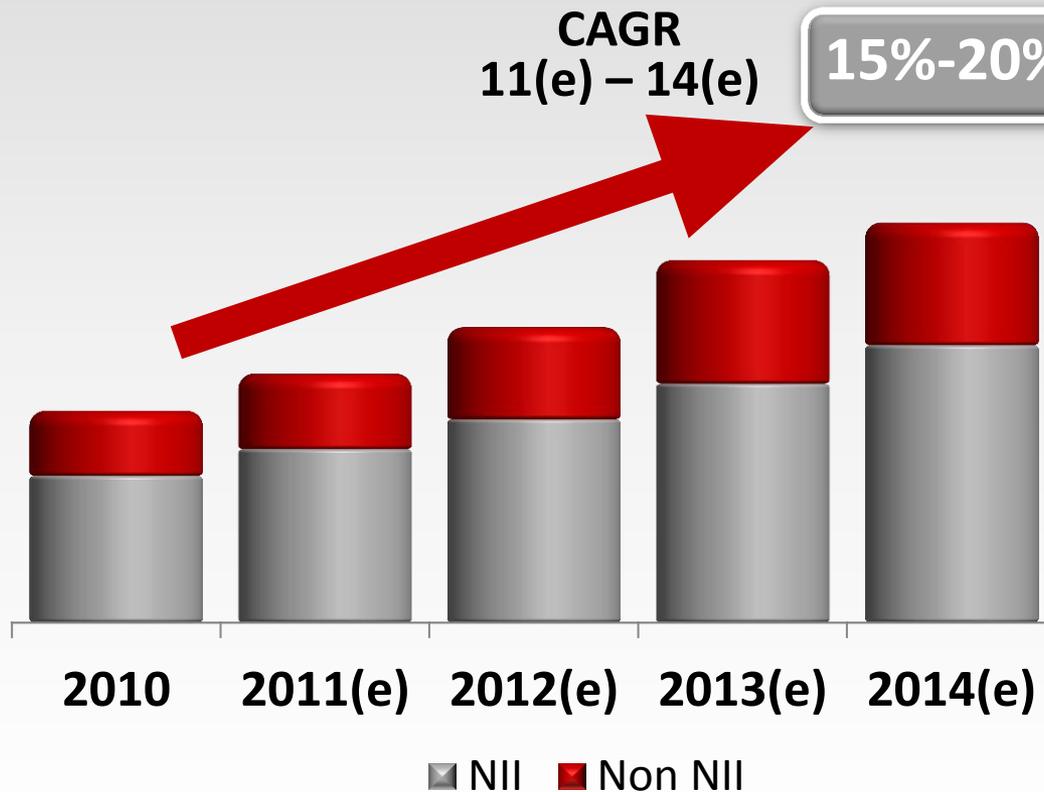
Successful growth driven by more extensive footprint and better product capabilities/fees

1 Customer driven model (vs. product driven)

2 More balanced business mix and SME bank of choice

3 Leading efficiency and service underpinned by IT systems

## Corporate Banking organic revenue growth



- **Asset quality is a priority**
- **RBS branches will start to materially contribute additional revenue in 2013**

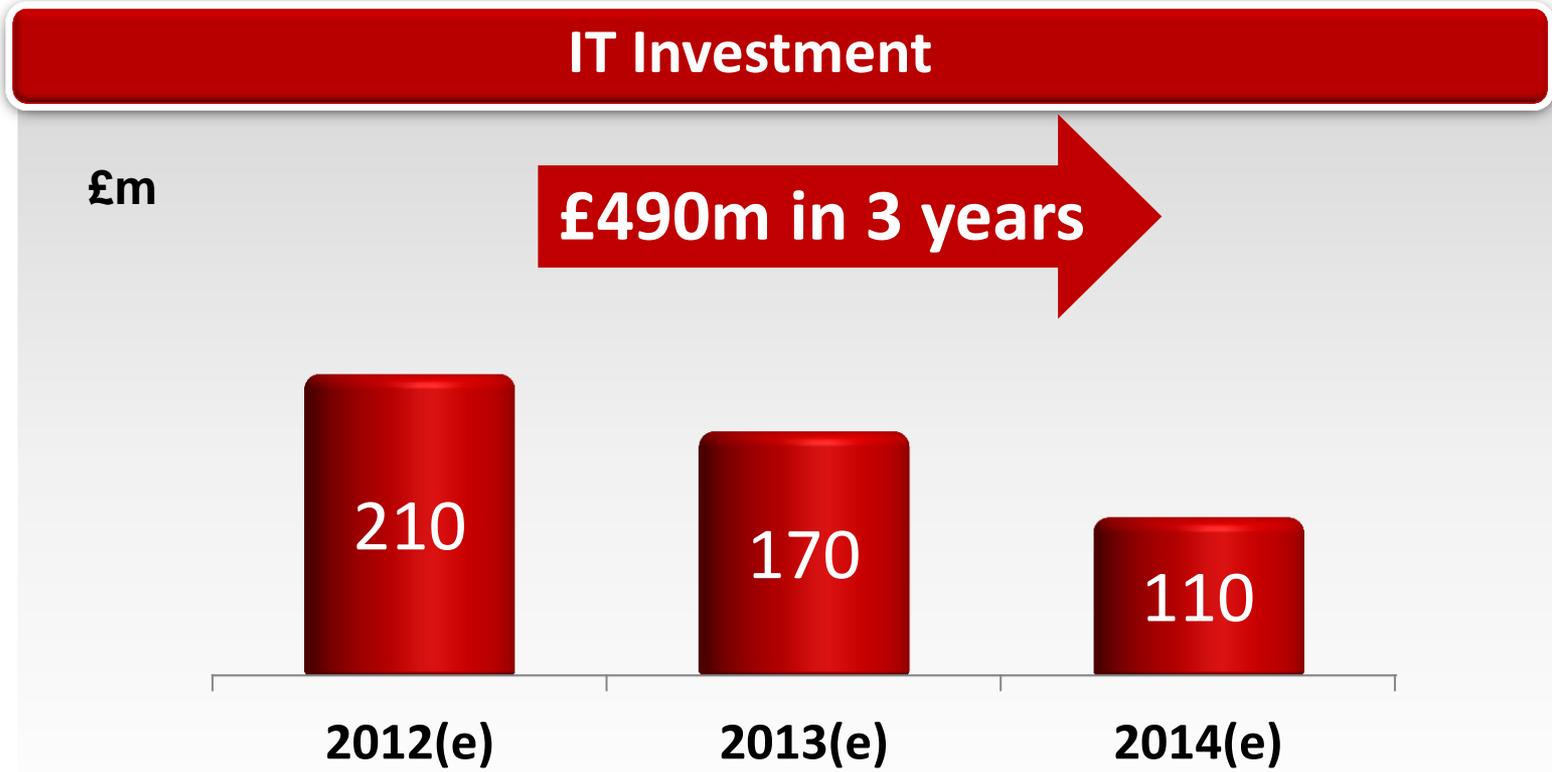
3

Systems driven efficiency and service quality

- 1 Customer driven model (vs. product driven)
- 2 More balanced business mix and SME bank of choice

3 Leading efficiency and service underpinned by IT systems

Our commercial turnaround leverages Santander Group IT systems and proven commercial models



Partenon still not fully exploited: **364** business applications used in UK **vs. 520** available

Our IT allows for low costs and high quality service at the core of our business model..



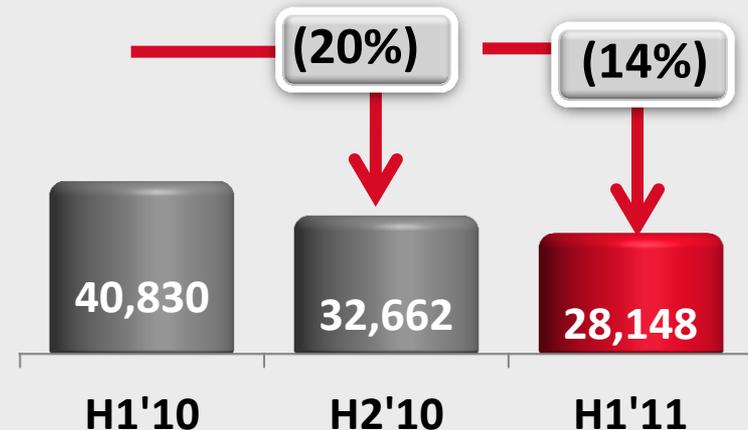
## Cost efficiency...

- **Business as usual cost growth will be below inflation in 2012-13**
- **Outlook is further +c.£100 m costs in 2012 and +c.£60 m in 2013 related to our commercial turnaround/ business mix improvement**

## ... and service quality

- **All call centers brought back to the UK**

FSA reportable complaints  
(monthly avg.)



1

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2

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3

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# Financial outlook



Financial Objectives	2011(e)	2012 / 2013	MT target >2014	2013 peer consensus <sup>(1)</sup>
<b>Cost-to-Income</b>	<b>c. 45%</b>	<b>48% - 50%</b>	<b>&lt;44%</b>	<b>54%</b>
<b>RoTE<sup>(2)</sup></b>	<b>c. 15% (Ex-PPI)</b>	<b>&gt;11%</b>	<b>&gt;16%</b>	<b>11%</b>
<b>NPLs</b>	<b>c. 2%</b>	<b>Best in class</b>		<b>c. 4%</b>

Group view, objectives based on outlined macro scenario and do not include potential Independent Commission on Banking (ICB) impacts

(1) UK Banks include RBS, LBG and Barclays. Consensus based on broker research pre-interim results

(2) UK view (trading)

## Concluding remarks

- **Our Plan to 2014 implies an investment period in 2012-2013, with payback and higher profitability starting in 2014**
- **Within the outlined macro scenario, in the period to 2013 efficiency and profitability will still be better than or in line with peers**
- **By 2014, after absorbing systemic and structural impacts, SAN UK will be as efficient and profitable as it is today**
- **However, this profitability will be based on new/more satisfied, more loyal customers, and thus as more sustainable business model...**
- **...and with a stronger balance sheet in terms of capital, liquidity and funding mix**

**By 2014, Santander UK will be the leading UK bank in efficiency and profitability**

