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Country Head UK

**GROUP  
STRATEGY  
UPDATE**

LONDON, 30 SEPTEMBER

Simple | Personal | Fair



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# Content

**1** Market and financial system

**2** Delivering our 2015-18 strategy

**3** Positioned to capture growth opportunities

**4** Looking forward and key takeaways

# 1

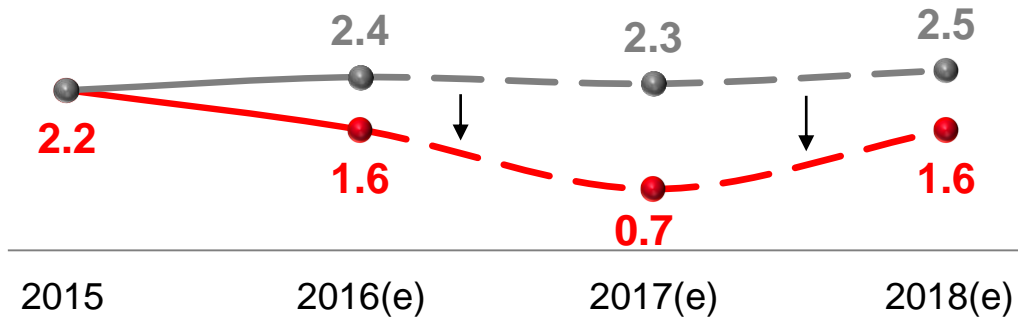
## Market and financial system

# The macroeconomic environment has deteriorated in the last 12 months...

■ Old Scenario  
■ New Scenario

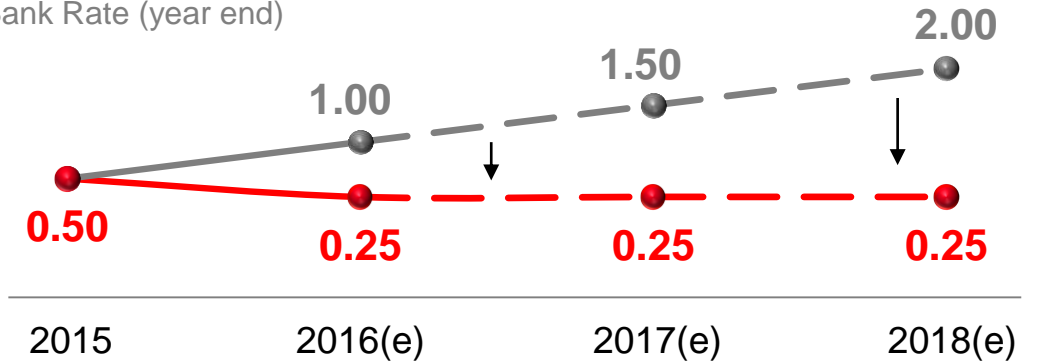
## Slower GDP growth

GDP (annual average)



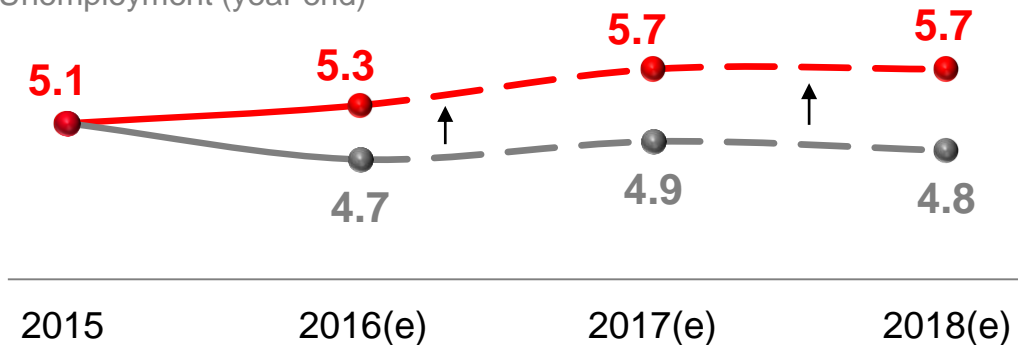
## Lower for longer interest rates

Bank Rate (year end)



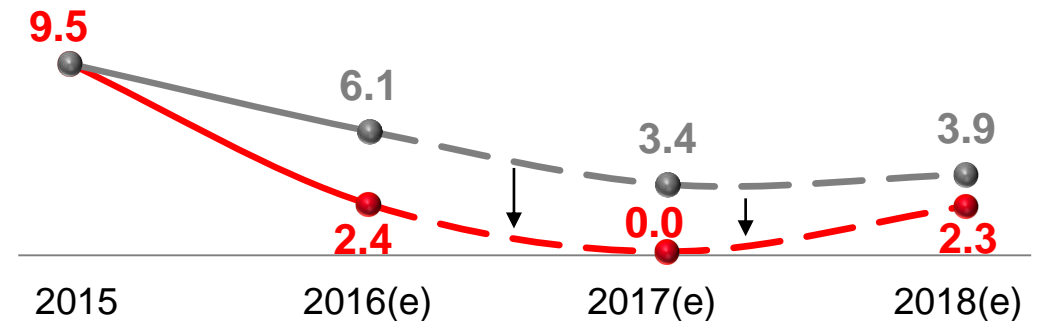
## Labour market uncertainty

Unemployment (year end)



## House prices reducing in the short term

House Price Inflation (year end)



Source: HM Treasury Comparison of External Economic Forecasts Aug'16 (unemployment, GDP, HPI)  
Santander Economic Forecast (Bank Rate)

# ...under a demanding regulatory agenda



## BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY

- Ring-fencing
- Stress testing
- Residential mortgage risk weights
- Basel proposals (operational risk, credit risk, internal models)
- IFRS 9 (interaction with capital, stress tests)
- FPC powers (e.g. BTL)
- Capital position for challengers
- Reduction in countercyclical capital buffer
- Term Funding Scheme



HM Treasury

- Bank corporation tax surcharge



- PPI timebar and redress
- Competition (e.g. savings, cards)
- Performance management



FINANCIAL CONDUCT AUTHORITY  
**PAYMENT SYSTEMS  
REGULATOR™**

- Retail Banking Market Investigation
- Payments access and infrastructure provision

# 2

## Delivering our 2015-18 strategy

# Santander UK is uniquely positioned to succeed

A full service retail and commercial bank with meaningful scale and opportunity...

...successfully challenging the big banks

**14MM** active customers

**10MM** current accounts **4<sup>th</sup>** largest

**£167 bn** customer liabilities

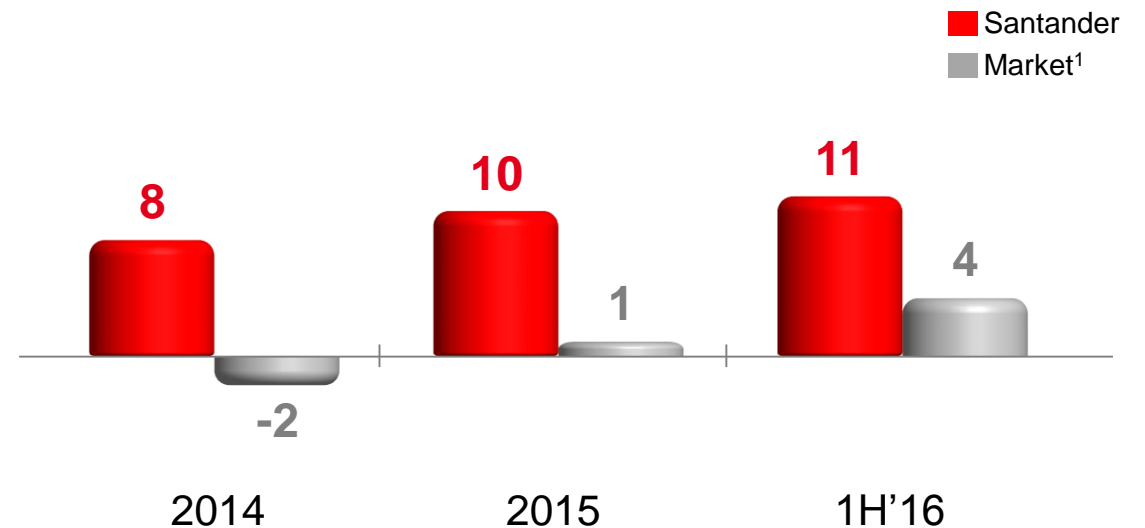
**£153 bn** mortgages **3<sup>rd</sup>** largest

**>£200 bn** customer assets

**Omni-channel** distribution with **leading digital** services and complementary **optimised footprint**

**1 – in – 4** switchers  
are to Santander

**Corporate and SMEs lending** (% YoY growth)



Data as of Jun'16

(1) Source: Bank of England Bankstats (Aug'16)



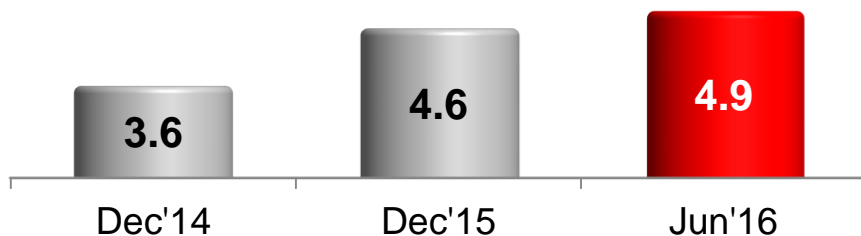
# Our strategy is clear and unchanged from 12 months ago



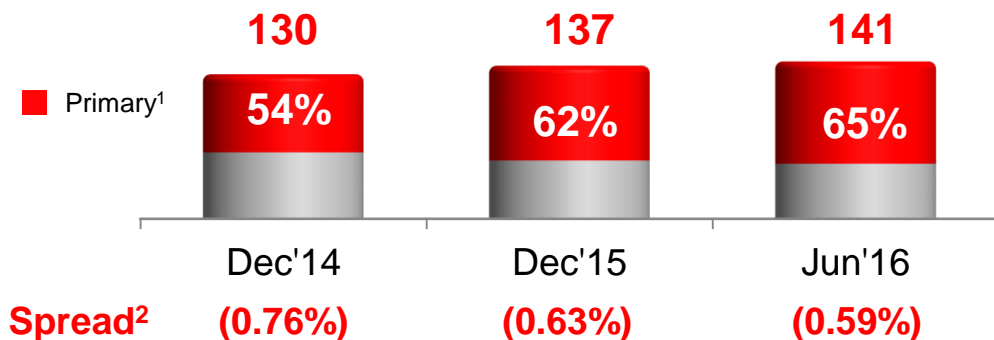
# Our strategy is delivering for our customers...

## Retail

### 1|2|3 World customers (MM)



### Retail banking deposits (£ bn)

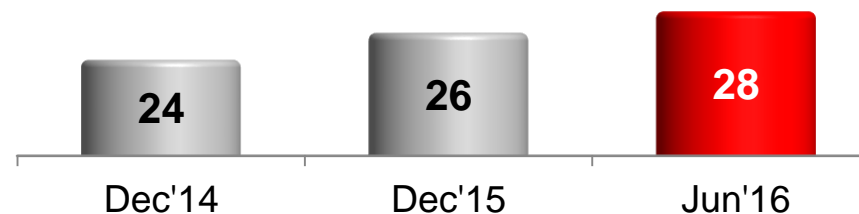


## Corporate and SMEs

### Loyal customers (k)



### Total assets (£ bn)



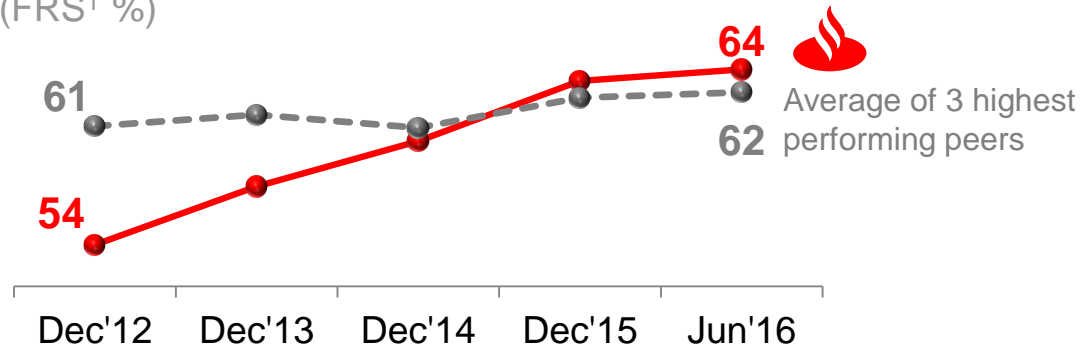
(1) Banking and savings balances of customers with a primary 1|2|3 Current Account or other primary current account (2) Spreads against the relevant swap rate or LIBOR. Retail banking customer deposits include savings and bank accounts for personal and business banking customers, Jersey and Cater Allen. YTD

# ...increasing customer experience and operational efficiency

## More satisfied customers

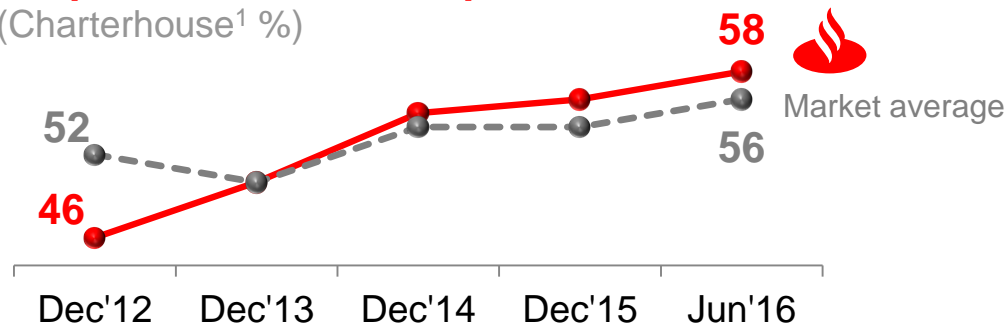
### Retail customer experience

(FRS<sup>1</sup> %)



### Corporate customer experience

(Charterhouse<sup>1</sup> %)



## More efficient operations

### Increasing digital relationships (1H'16 vs 1H'15)



- **+41%** mobile customers
- **+29%** digital transactions<sup>2</sup>

### More efficient distribution



- **c.50%** credit cards opened online
- **>30%** bank accounts opened online
- **>40%** mortgages retained online

(1) Refer to Appendix 1 in the 2Q'16 Quarterly Management Statement for a full definition (2) Digital transactions includes instant transfers and payments made via online, mobile and PayM

# People and communities continue to be key to our success

## People



**72%** Colleague engagement<sup>1</sup>

**+5pp**  
vs. prior year

**+4pp**  
vs. GFS norm<sup>2</sup>



## Communities

The **Discovery Project**

**48k**  
people supported  
1H'16

 **Santander**  
UNIVERSITIES

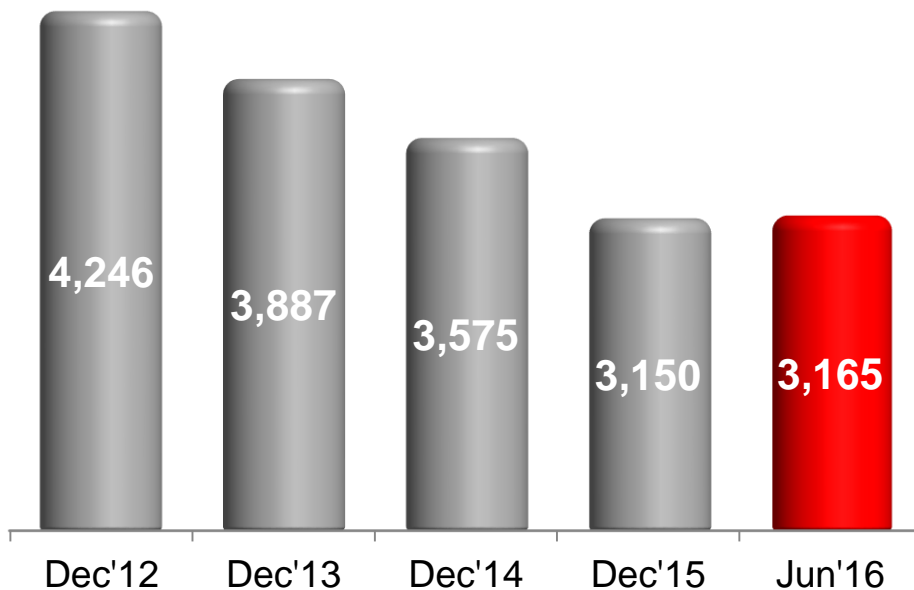
**2k**  
Students supported  
1H'16

(1) Survey conducted by Hay Group (Oct'15). % favourable responses

(2) Global Financial Services norm

# Risk management supports our balance sheet strength and asset quality

## Non performing loans (£MM)



**NPL ratio<sup>1</sup>** 2.05% 1.98% 1.79% 1.52% 1.47%

(1H'16)

**Mortgage stock LTV<sup>2</sup>**

44%

**BTL mortgages<sup>3</sup>**

4%

**CRE exposure<sup>4</sup>**

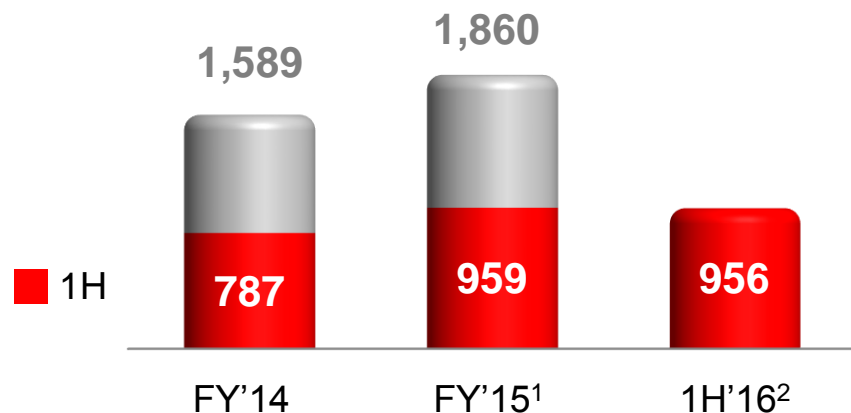
5%



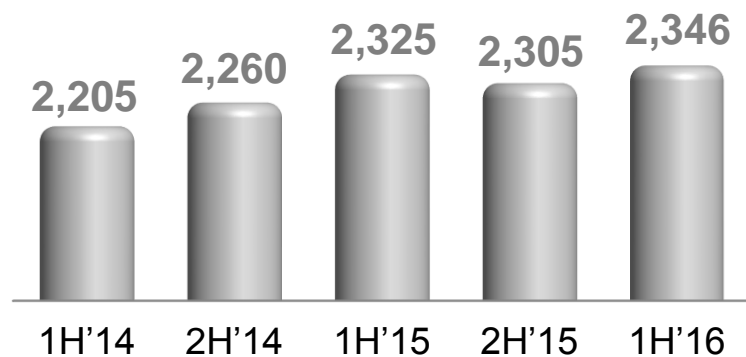
(1) Non-performing loans as a percentage of loans and advances to customers (2) Unweighted average LTV (3) Residential BTL stock as % of total residential mortgage stock (4) CRE as % of total customers loans

# As a result of this strategy and the strength of our balance sheet we deliver predictable and sustainable results

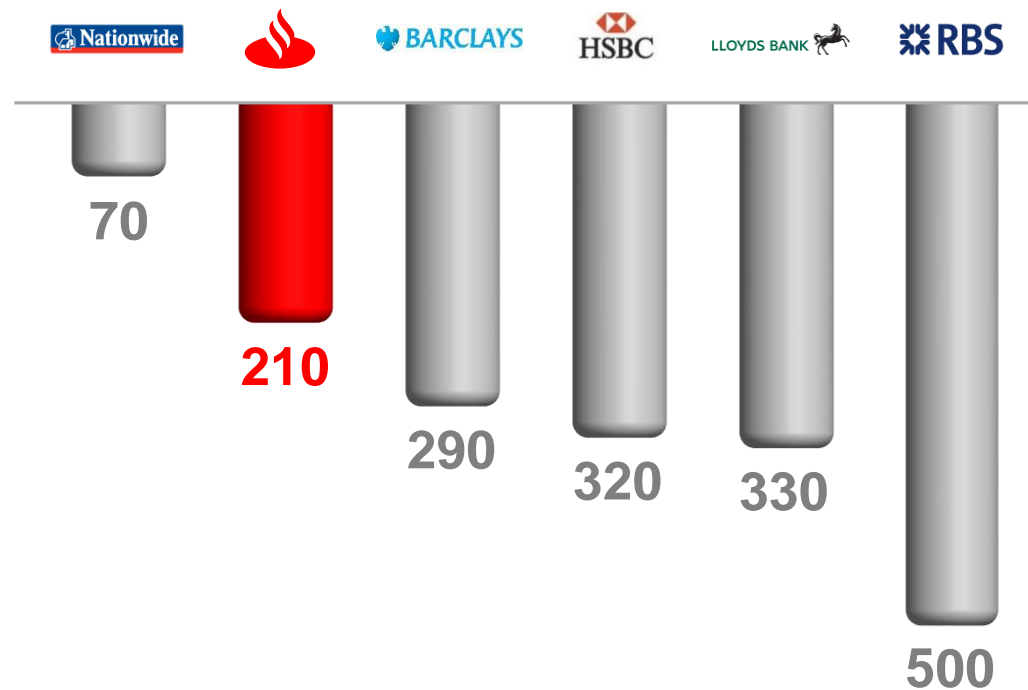
## Profit before tax (£MM)



## Total revenues (£MM)



## BoE 2015 stress test (CET1 drawdown, bps<sup>3</sup>)



(1) Excludes £450MM charge for PPI recorded in the corporate centre under Group criteria (2) Excludes £119MM gain on sale of VISA Europe Ltd (3) Difference between actual CET1 ratio (Dec'14) and the minimum ratio (period 2015-2019) after applying stress scenario and assuming strategic management actions (but before AT1 conversion). Peak stress scenario = GDP -3.2% (near-term peak to trough), unemployment 9.2%, inflation -0.9%, HPI -20% (near-term peak to trough), bank rate 0%

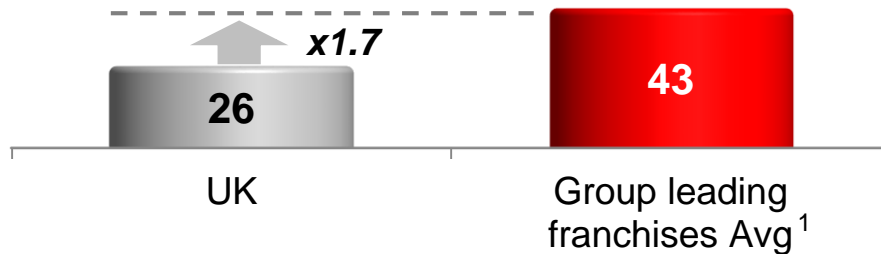
# 3

**Positioned to capture growth opportunities**

# Our main opportunity is to continue increasing customer loyalty

## Retail

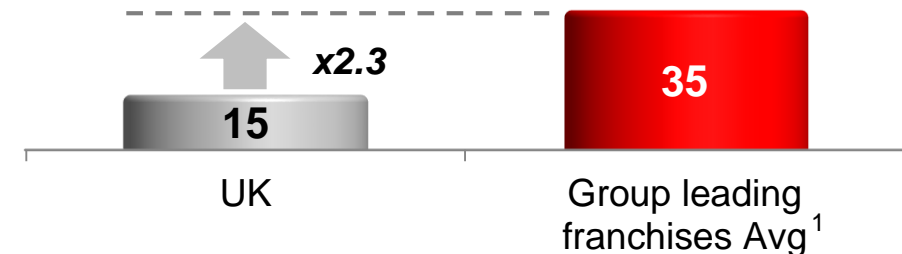
Loyal customers (% of active)



- **Deeper and more personal relationships** by meeting and anticipating more of our customer's needs
- **Differentiated proposition** adapted to each customer

## Corporate

Loyal customers (% of active)



- **Leading service proposition** enabling deeper relationships and driving primacy
  - **69** Corporate centres (+**35** since 2012)
  - Simple and efficient credit process
- **Comprehensive product range** and **international reach** helping UK customers to expand globally

(1) Argentina, Chile, Poland and Portugal



# In retail, 1|2|3 World will continue to transform our franchise

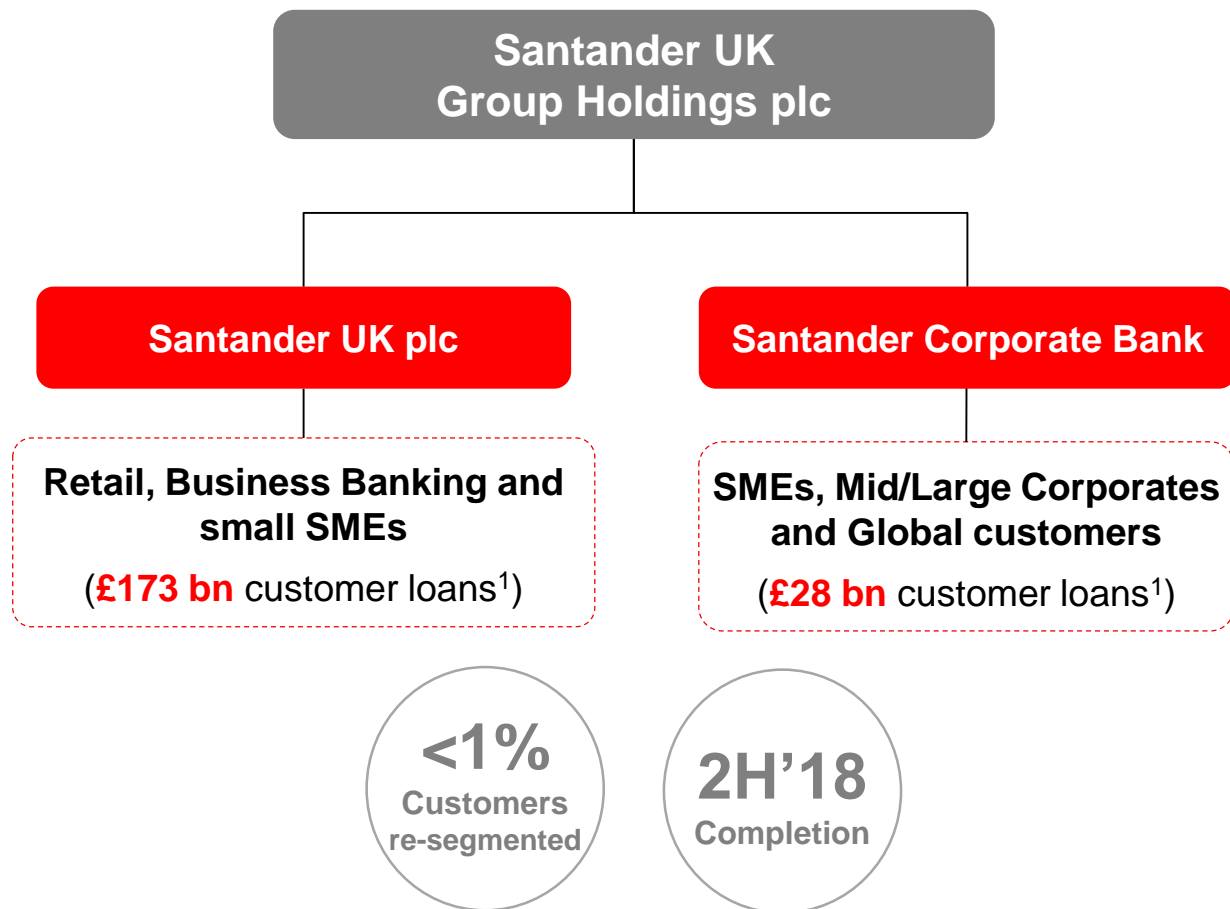


	Non 1 2 3 CA		1 2 3 CA
<b>Deeper relationships</b>	<b>23%</b>	loyal <sup>1</sup>	<b>68%</b>
<b>Improved customer profiles</b>	<b>6%</b>	select / affluent	<b>34%</b>
<b>More valuable relationships</b>	<b>1.5</b>	products	<b>2.1</b>
<b>Improved liquidity stability</b>	<b>x1.0</b>	average balance	<b>x5.5</b>
<b>More satisfied customers<sup>2</sup></b>	<b>64.9%</b>		<b>76.7%</b>

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

(2) Source: Current Account, GfK FRS 12 months ending Jun'16. Refer to Appendix 1 in the 2Q'16 QMS for a full definition

# In corporate, our ring-fencing plans will support business growth and enhance loyalty



## Differentiated “challenger” positioning

Specialist, dedicated and customer-centric corporate bank:

- Seamless service covering **all customer needs**
- **International:** global reach and expertise of the Santander Group



Note: Illustration of Santander UK group's target ring-fencing model outlined in ring-fencing plans submitted to the PRA and FCA. Plans are subject to, among other things, regulatory and court approvals and may change. Figures are indicative based on current information, are not a forecast and may differ materially upon implementation of the final ring-fencing model. Santander Corporate Bank is expected to be Abbey National Treasury Services plc (1) 1H'16

# Creating digital solutions to meet all of our customer's financial needs

## Examples

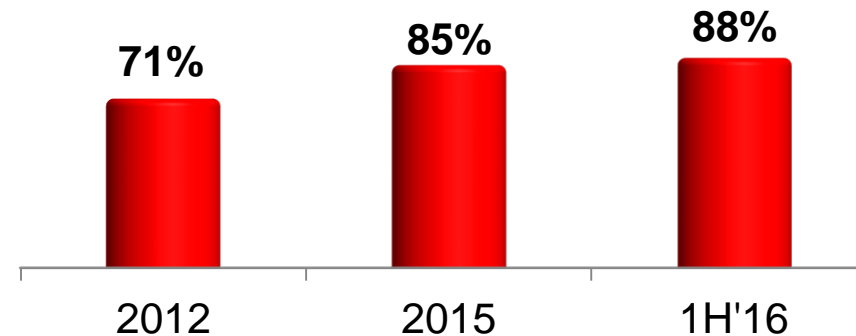
### New end-to-end online Mortgage

- **>40%** of mortgages retained online
- **75%** reduction in time to complete application (from up to 3 hours to **<40 min**)
- **>70%** reduction in time from application to offer (from 11 days to **3 days**)<sup>1</sup>

### New online Investment Hub

- Integrated within the Santander online **banking experience**
- Full range of **online transactions**
- Santander investments plus further **c.2k funds**

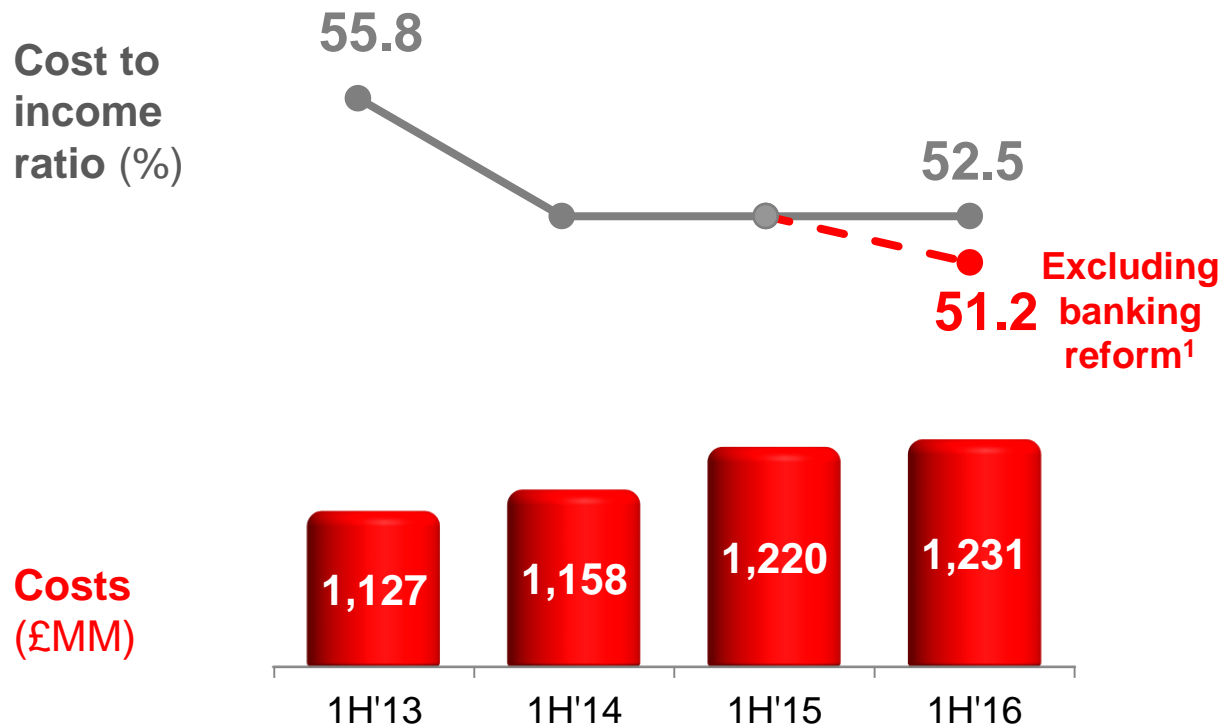
### Digital touch points<sup>2</sup>



(1) Expected by 2016 year end

(2) Digital touch points = (Digital: online and mobile logons) / (Branch: financial transactions + Telephony: service calls + Digital: online and mobile logons)

# Efficiency improvements to continue



Simplifying our organisation and processes, and **digitalising** across our **businesses**

**Omni-channel platform** with optimised physical distribution, leading **digital** tools and remote service / advice

**Leveraging Group scale** through shared capabilities across **countries**

**> £100MM reduction in our cost base by 2018 while continuing to grow the business**

(1) £30MM

# 4

## Looking forward and key takeaways

# We are on plan to deliver our 2016 commitments

	1H'15	1H'16	2016 commitments	
Fee income CAGR	+4%	+6% <sup>1</sup>	+5-10%	✓
Digital customers (MM)	3.6	4.3	4.3	✓
Corporate customer loans <sup>2</sup> growth vs. market	>5pp	+7pp	>5pp	✓

(1) Annualised YTD rate  
 (2) Commercial Banking and GCB

# 2018 Santander UK targets

		1H'16	2018
<b>People</b>	Colleague engagement		Top 3 UK Bank
<b>Customers</b>	Retail loyal customers (MM)	3.7	4.7
	SME and Corporate loyal customers (k)	279	308
	Digital customers (MM)	4.3	6.5
	Retail customer experience ('FRS') <sup>1</sup>	63.5%	Top 3
	Fee income CAGR	6% <sup>2</sup>	5-10%
<b>Shareholders</b>	Return on Tangible Equity (RoTE)	10%	8-10%
	Cost to income ratio	53%	50-52%
	CET1 capital ratio	11.2%	c.12%
	Non performing loan ratio	1.5%	<2%
	Dividend pay-out ratio (yearly)	50%	50%
<b>Communities</b>	Number of scholarships 2016-2018 (vol)	1,900	24,100
	People supported 2016-2018 (vol)	47,600	600,000

Note: after incorporating new macroeconomic scenario, the following 2018 targets have been revised: RoTE (previously 12-14%), cost to income ratio (previously <50%), non performing loan ratio (previously <1.5%). Group criteria except CET1 (1) Source GfK FRS 12 months rolling data. Refer to appendix 1 in the 2Q'16 QMS Santander UK for a full definition (2) Annualised YTD rate



We have a clear **strategy** of building deeper relationships that allow us to capture **growth opportunities**



Our commercial and digital transformation **delivers value** to our customers and shareholders



The quality of our **balance sheet** and **best-in-class risk management** drives **predictability** despite challenges in the market







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