

29 January 2020

 **United Kingdom**

2019 Earnings Presentation



# Important Information

## Non-IFRS and alternative performance measures

In addition to the financial information prepared in accordance with International Financial Reporting Standards (“IFRS”) and derived from our financial statements, this presentation contains certain financial measures that constitute alternative performance measures (“APMs”) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures (“Non-IFRS Measures”). The financial measures contained in this presentation that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures. For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see the 2018 Annual Financial Report, filed with the Comisión Nacional del Mercado de Valores of Spain (CNMV) on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) 2019 4Q Financial Report, published as Relevant Fact on 29 January 2020. These documents are available on Santander’s website ([www.santander.com](http://www.santander.com)).

The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries

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# Important Information

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- 1. Macroeconomic environment and financial system**
- 2. Strategy and business**
- 3. Results**
- 4. Appendix**

# Macroeconomic environment and financial system

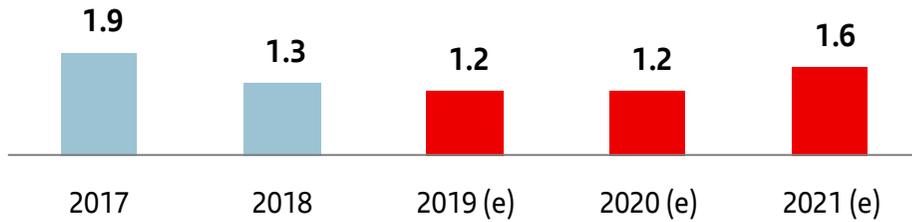


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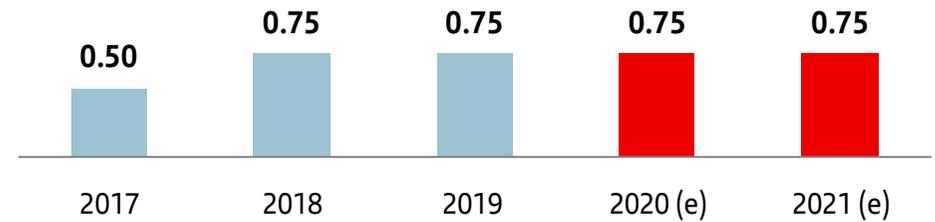


# More uncertain political backdrop; however uncertainty remains

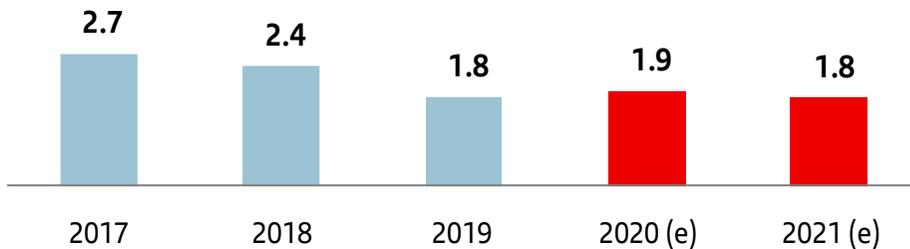
**Annual GDP Growth (real, %)**



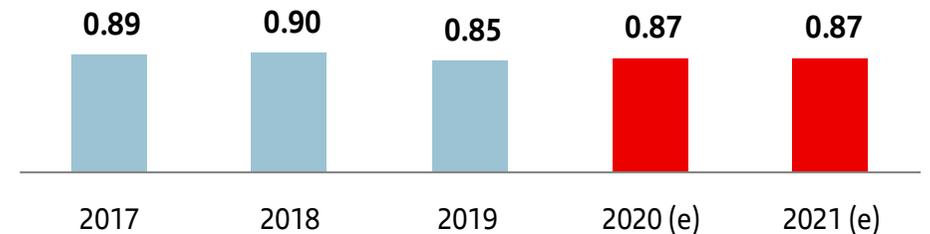
**Bank of England base rate (year end, %)**



**Annual CPI inflation rate (annual average, %)<sup>1</sup>**



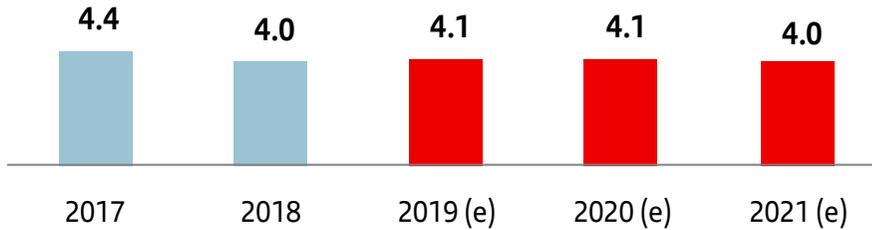
**Average exchange rate (GBP / EUR)**



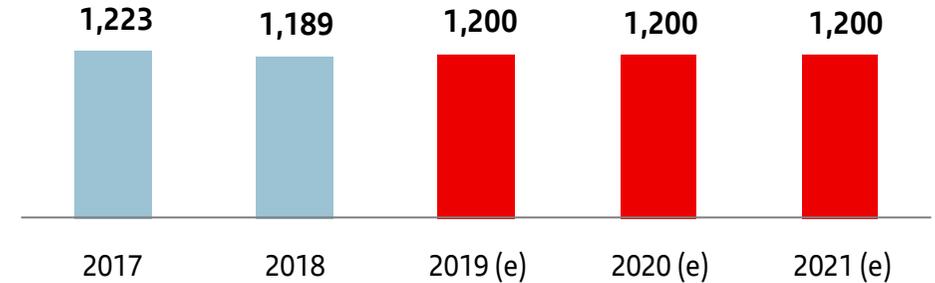


# More uncertain political backdrop; however uncertainty remains

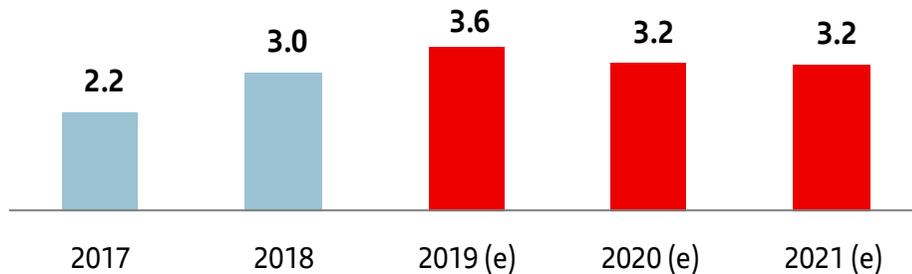
**Unemployment rate (ILO, year end)<sup>1</sup>**



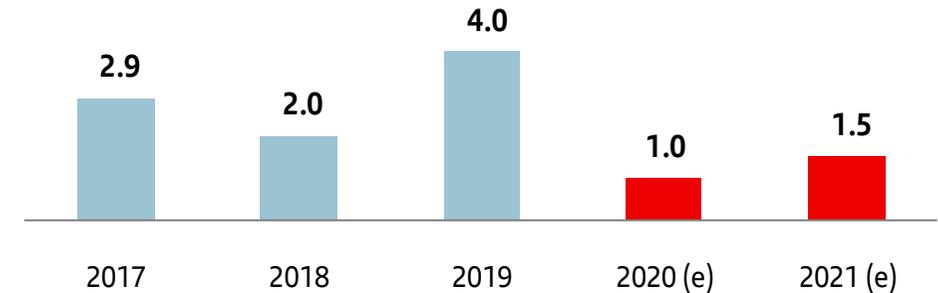
**Property transactions (sa, 000s)<sup>2</sup>**



**Average weekly earnings (annual average, % exc bonuses)**

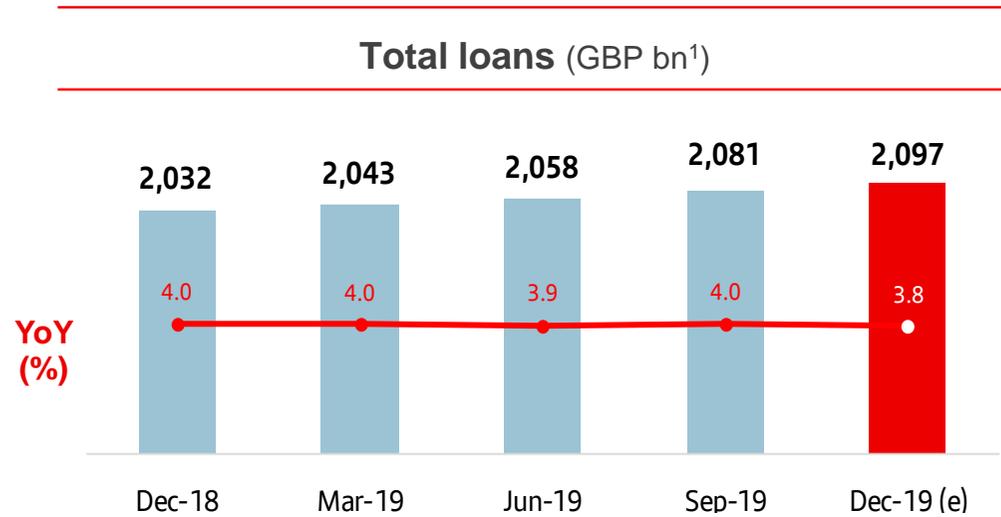


**House prices (% year end)<sup>3</sup>**

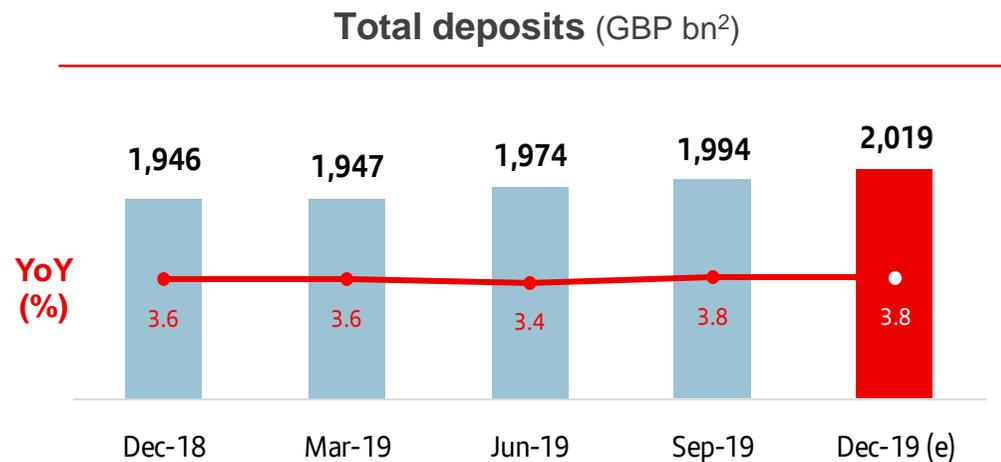




## Steady loan growth expected to continue



- ▶ Mortgage lending growth in 2020 expected to grow at a similar pace to 2019 at c.3%, reinforced by a continuation of weaker buyer demand and subdued house price growth.
- ▶ Consumer credit growth has continued to slow from highs of c.11% in 2016 to c.6% in 2019. Similar growth expected in 2020.
- ▶ Corporate borrowing market remains unpredictable and despite downside risks, it is expected to grow by c.4% in 2020.



- ▶ Retail deposit growth is expected to be c.4% in 2020.
- ▶ Corporate deposit growth is expected accelerate to c.5% in 2020.

# Strategy and business



02

# Uniquely placed as the leading UK scale challenger bank



## STRATEGIC PRIORITIES

- ▶ Grow customer loyalty by providing an outstanding customer experience

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- ▶ Simplify and digitalise the business for improved efficiency and returns

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- ▶ Invest in our people and ensure they have the skills and knowledge to thrive

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- ▶ Further embed sustainability across our business

KEY DATA*		2019	YoY Var.
	Gross loans <sup>1</sup>	GBP 212.0 bn	+3.7%
	Customer funds <sup>1</sup>	GBP 186.3 bn	+1.9%
	Underlying att. profit	GBP 945 mn	-16.0%
	Underlying RoTE	7.3%	-205 bps
	Efficiency ratio	60.0%	+470 bps
	Loans market share <sup>2</sup>	9.5%	-7 bps
	Deposits market share <sup>2</sup>	8.6%	-1 bps
	Loyal customers	4.6 mn	+4.0%
	Digital customers	5.8 mn	+5.9%
	Branches	616	-18.4%
	Employees	24,490	-4.1%

\*Note: Group criteria. Following the new organisational structure of the Group as published in the Relevant Fact on 4 July 2019, better aligning the UK to the segregated model according to the requirements of the Banking Reform Act (ring-fenced business), i.e. excluding UK Hub (including London Branch), 2018 and Q1 2019 data have been restated for better QoQ and YoY comparability

(1) Excludes repos and reverse repos

(2) As at Sep-19. Includes London Branch

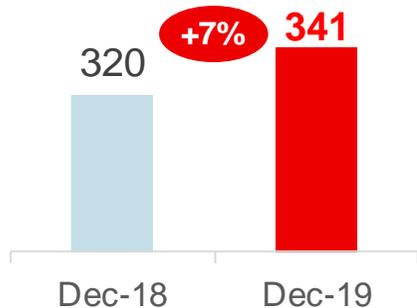
## Loyalty continues to increase supported by our enhanced digital offering

### Loyal individuals (mn)



- ▶ Our loyal individuals customer base continues to grow, increasing 4% year-on-year driven by our focus on delivering great products and service.
- ▶ We continued to support first-time buyers, helping 37,300 buy a home in 2019, up 37% year-on-year.

### Loyal corporates (k)



- ▶ Loyal SME and corporate customers grew 7%, as we continued to deploy our customer-centric infrastructure and international proposition.
- ▶ Digital openings of Business Current Accounts were up 3 pp year-on-year.

### Digital customers (mn)



- ▶ Enhanced digital capability attracted a further 320,000 customers, growth of 6% year-on-year.
- ▶ 60% of our refinanced mortgages were retained online (+5 pp YoY), 52% of current account openings (+8 pp YoY) and 62% of credit card openings were made through digital channels (-3 pp YoY).

# Business transformation is supported by deeper customer relationships

## Digitising for improved customer experience



**1.7k**  
New mobile users per day

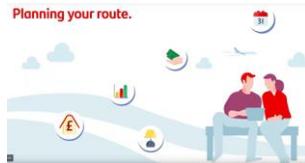


**291m**  
Total digital transactions<sup>1</sup>  
in FY'19  
**19% YoY**

## First UK Work Café launched



## First time buyer events



We launched free events in our branches across the country in H2 2019, offering practical guidance and information about home buying and mortgages for first time buyers

## Well established UK market position

**3<sup>rd</sup>**

largest mortgage lender<sup>2</sup>



**14m**  
Active customers

**5<sup>th</sup>**

largest commercial lender<sup>2</sup>



**c. 80% coverage**  
of UK financial centres



(1) Total retail customer with financial transactions made online or on mobile. These transactions include internal transfers, third party payments, Paym and set up payment  
(2) Santander UK analysis, as at Q3'19. Commercial lending refers to loans to SME and mid corporate clients by UK retail and commercial banks and building societies

# Strongest growth in mortgages in a decade, partially offset by managed reduction in CRE



**Total customer loans**<sup>1</sup> (GBP bn)

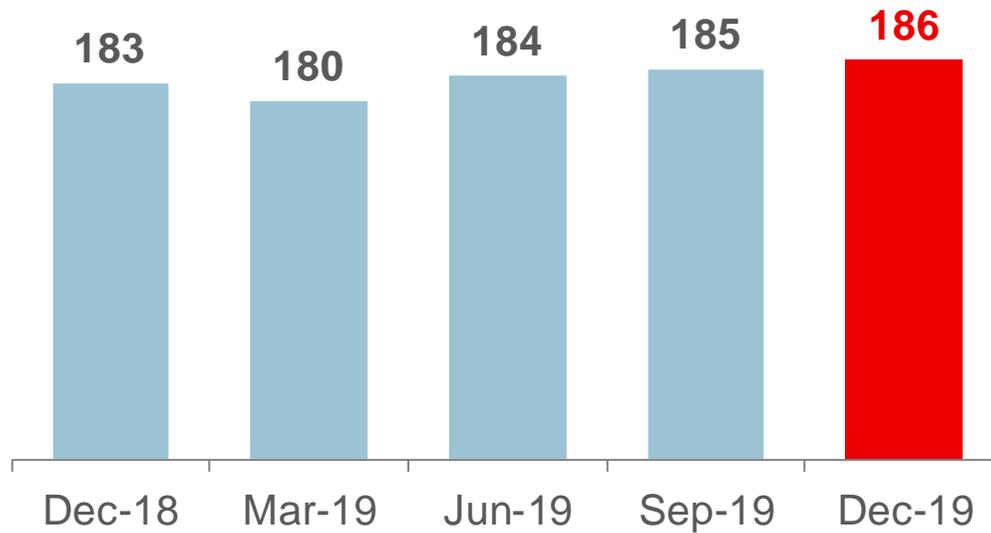


	Dec-19	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>180.8</b>	<b>4.4</b>	<b>2.1</b>
Mortgages <sup>2</sup>	163.6	4.9	2.4
Consumer credit	17.1	0.4	-0.7
<b>Companies</b>	<b>18.2</b>	<b>-6.7</b>	<b>-3.3</b>
SMEs	1.8	2.4	0.4
CRE	5.1	-17.5	-5.6
Other corporates	11.3	-2.5	-2.8
<b>CIB</b>	<b>6.0</b>	<b>20.1</b>	<b>18.9</b>
<b>Non-core and other<sup>3</sup></b>	<b>7.1</b>	<b>3.6</b>	<b>-11.0</b>
<b>Total customer loans</b>	<b>212.0</b>	<b>3.7</b>	<b>1.5</b>



# Customer funds increased with growth across all business areas

**Total customer funds** (GBP bn)



	Dec-19	YoY (%)	QoQ (%)
Demand	89.6	2.6	0.8
Savings	70.1	1.5	1.1
Time <sup>1</sup>	19.6	-0.4	-0.6
<b>Total deposits</b>	<b>179.3</b>	<b>1.8</b>	<b>0.8</b>
Funds distributed <sup>2</sup>	7.0	3.2	-1.2
<b>Total customer funds</b>	<b>186.3</b>	<b>1.9</b>	<b>0.7</b>

Results

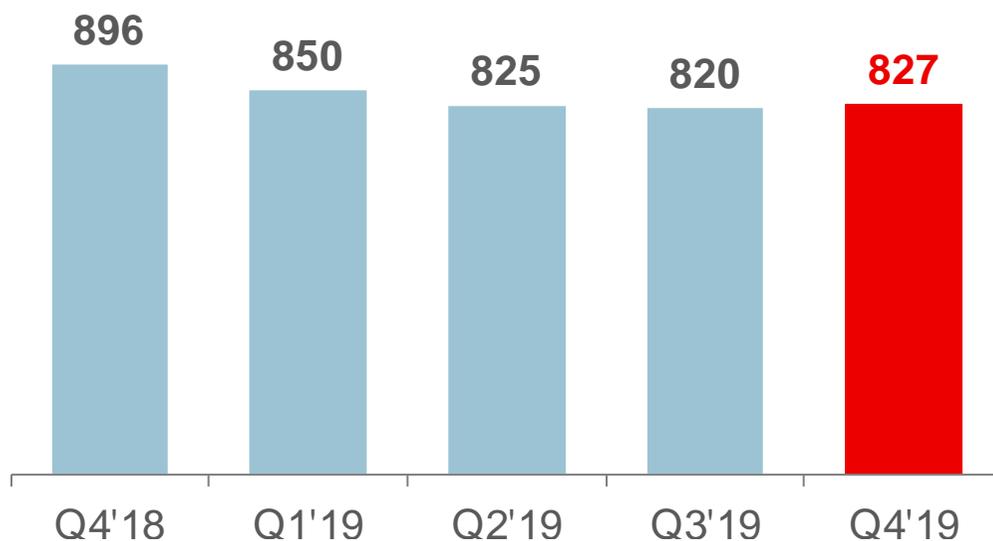


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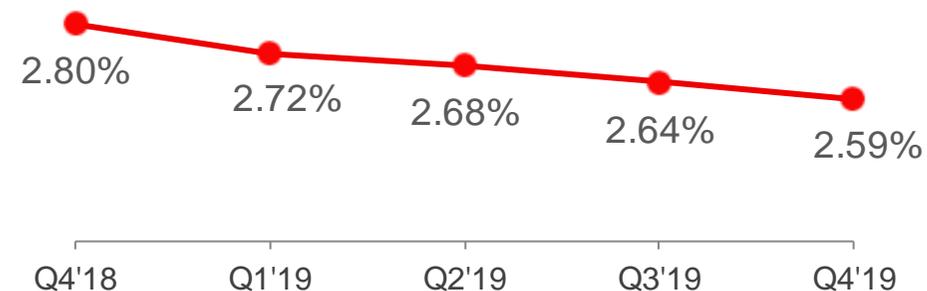
# NII improved in the quarter, though continued under pressure from back book margins



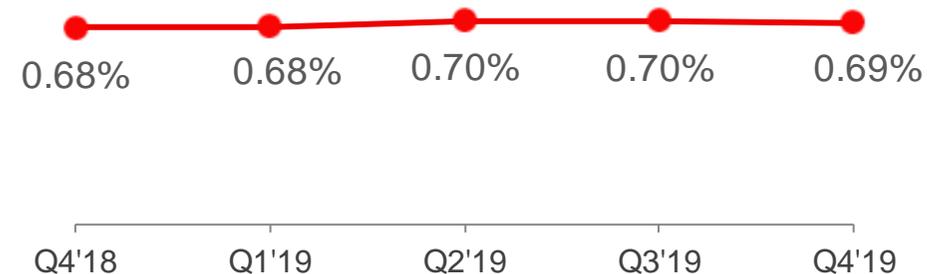
**Net interest income (GBP mn)**



**Yield on loans (%)**



**Cost of deposits (%)**



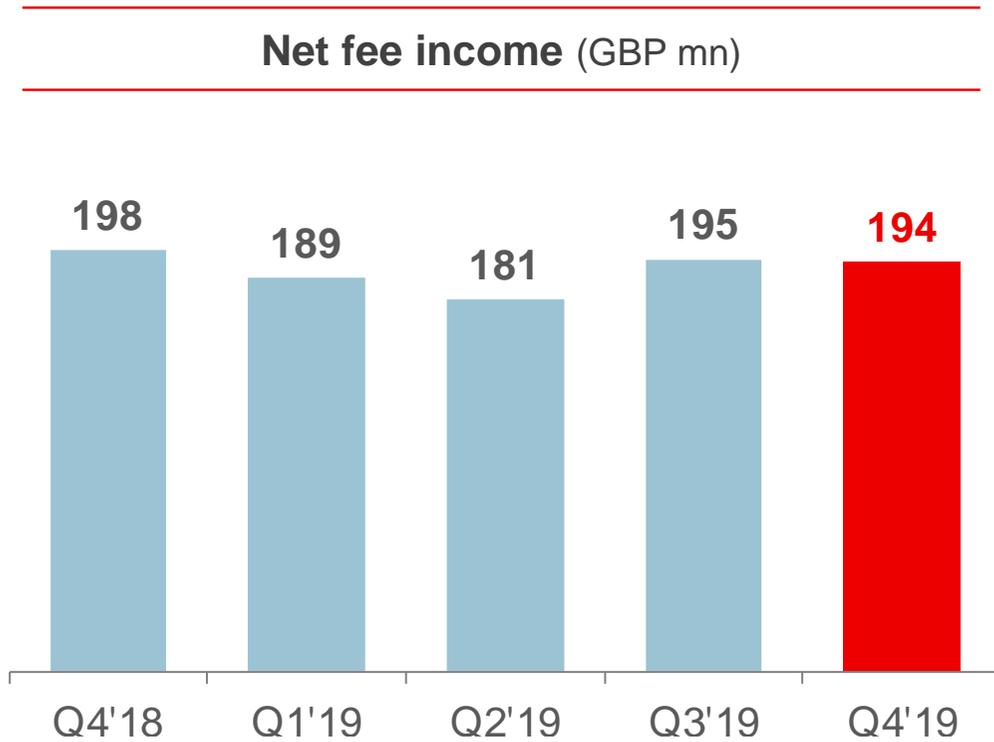
**NIM<sup>1</sup>**

Quarter	NIM <sup>1</sup>
Q4'18	1.23%
Q1'19	1.17%
Q2'19	1.14%
Q3'19	1.12%
Q4'19	1.13%

**Central Bank interest rate**

Quarter	Central Bank interest rate
Q4'18	0.75%
Q1'19	0.75%
Q2'19	0.75%
Q3'19	0.75%
Q4'19	0.75%

# Net fee income impacted in part by lower activity Commercial Banking and SAM, and non-repeat of revenue in insurance

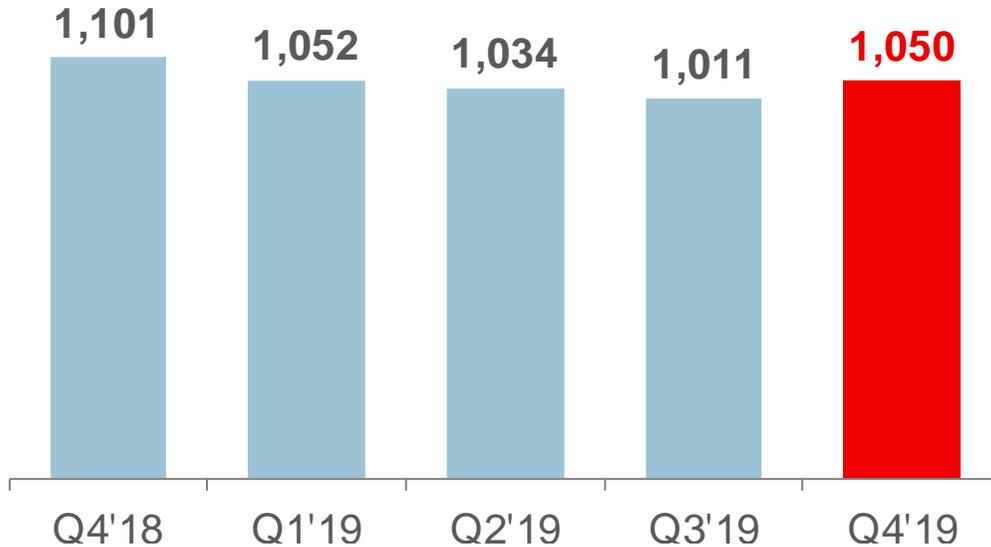


	2019	2018	YoY (%)	QoQ (%)
Banking	368	374	-1.7	-7.5
Investments	76	88	-13.4	-2.4
Credit Cards	45	44	4.2	1.5
Insurance	52	70	-26.2	-7.4
Business Banking	66	64	2.0	0.7
Commercial Banking	60	70	-14.0	14.1
CIB	90	80	13.0	6.1
Other	3	17	-85.4	-
<b>Total fee income</b>	<b>759</b>	<b>807</b>	<b>-5.9</b>	<b>-0.5</b>

# Gross income improved in the quarter but remains under pressure from asset margins and SVR attrition



**Gross income** (GBP mn)



	2019	2018	YoY (%)	QoQ (%)
Net interest income	3,322	3,608	-7.9	0.8
Net fee income	759	807	-5.9	-0.5
<b>Subtotal</b>	<b>4,082</b>	<b>4,415</b>	<b>-7.5</b>	<b>0.5</b>
Other <sup>1</sup>	65	125	-48.4	-
<b>Gross income</b>	<b>4,146</b>	<b>4,540</b>	<b>-8.7</b>	<b>3.8</b>

Operating expenses reflect efficiency savings from our multi-year transformation programme, partially offset by higher asset depreciation



Operating expenses (GBP mn)



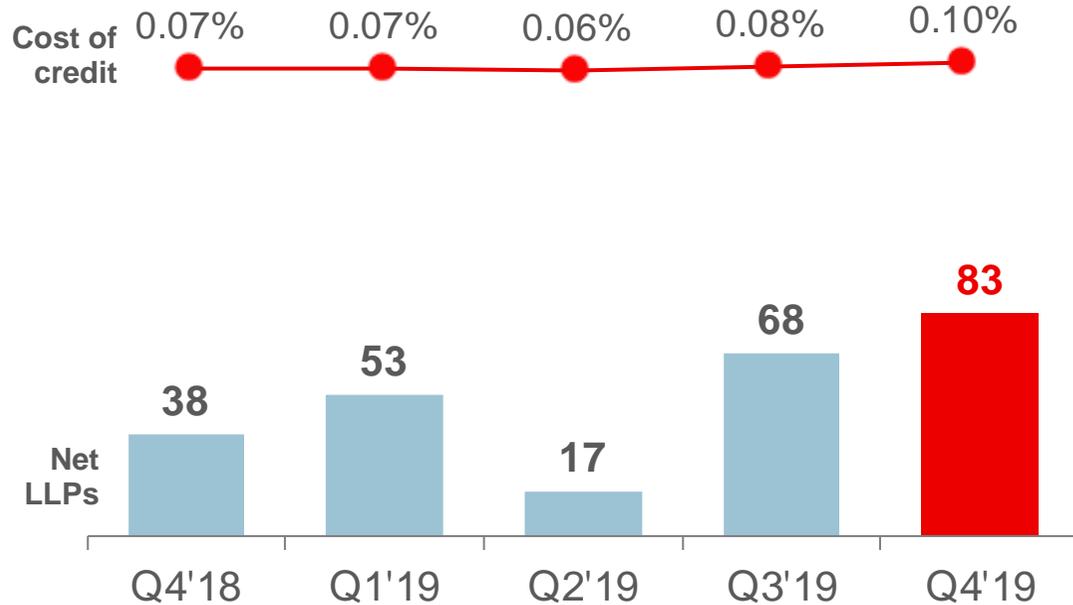
	2019	2018	YoY (%)	QoQ (%)
<b>Operating Expenses</b>	<b>2,487</b>	<b>2,510</b>	<b>-0.9</b>	<b>-0.5</b>

Efficiency ratio (inc. depreciation)	60.0%	55.3%
Branches (#)	616	755
Employees (#)	24,490	25,534

# Cost of credit remains low, at just 10 bps, and NPL ratio improvement supported by our prudent approach to risk



**LLPs and cost of credit<sup>1</sup>** (GBP mn, %)

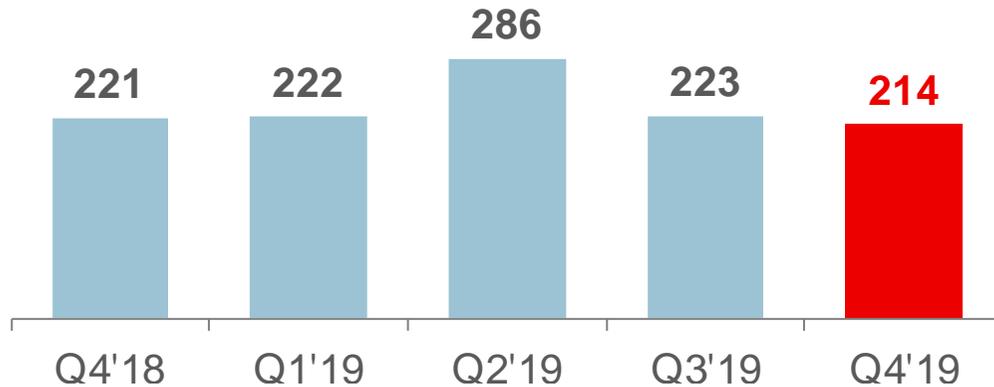


	2019	2018	YoY (%)	QoQ (%)
<b>Net operating income</b>	<b>1,659</b>	<b>2,030</b>	<b>-18.3</b>	<b>10.5</b>
Loan-loss provisions	(222)	(152)	46.2	21.7
<b>Net operating income after provisions</b>	<b>1,438</b>	<b>1,879</b>	<b>-23.5</b>	<b>8.2</b>
NPL ratio	1.01%	1.08%		
NPL Coverage ratio	37%	33%		

# Underlying attributable profit down in the year predominantly due to the continued income pressure from mortgages



## Underlying Attributable Profit (GBP mn)



	2019	2018	YoY (%)	QoQ (%)
PBT	1,276	1,595	-20.0	2.8
Tax on profit	(312)	(448)	-30.4	27.3
<b>Consolidated profit</b>	<b>965</b>	<b>1,147</b>	<b>-15.9</b>	<b>-3.8</b>
<b>Underlying attributable profit</b>	<b>945</b>	<b>1,125</b>	<b>-16.0</b>	<b>-4.0</b>
<b>Effective tax rate</b>	<b>24.4%</b>	<b>28.1%</b>		

## Delivering for customers in a competitive and uncertain environment

### Market Environment & Financial System

- ▶ Despite a more certain political backdrop, we expect economic growth in the UK to remain relatively subdued with continued uncertainty regarding the UK's future trade relationship with the EU. In addition, with a highly competitive banking market and demanding regulatory change agenda, we remain somewhat cautious in our 2020 outlook.
- ▶ In our core markets, we anticipate mortgage lending growth of c.3%, with borrower demand and house price growth likely to continue lower than long-term levels. The corporate borrowing market remains unpredictable and, despite downside risk, is expected to grow by c.4%.

### Strategy & Business

- ▶ In volume terms, continued growth mortgages (+5% YoY), though partially offset by managed reductions in CRE balances (-17% YoY). 2% increase in deposit volumes, supported by growth in all business areas.
- ▶ Focus on digital continues with digital customers increasing 6%. We retained 60% of refinanced mortgage loans online, an increase of 4 pp year-on-year. We also opened 52% of current accounts and 62% of credit cards through digital channels.

### Results

- ▶ Gross income lower, mainly due to back book margin pressure on mortgages.
- ▶ Costs beginning to reflect the efficiency savings from our multi-year transformational investment programme, down 1% (-3% in real terms). Increase in provisions but from a very low base, with cost of credit at just 10 bps.
- ▶ As a result, underlying attributable profit decreased 16% year-on-year.
- ▶ Better fundamentals in Q4, net operating income after provisions +8%, though bottom line impacted by fiscal pressures

# Appendix



04



# Balance sheet

GBP million			Variation	
	31-Dec-19	31-Dec-18	Amount	%
Loans and advances to customers	232,717	223,625	9,093	4.1
Cash, central banks and credit institutions	33,449	33,318	131	0.4
Debt securities	17,175	23,720	(6,545)	(27.6)
<i>o/w: designated at fair value through equity</i>	9,691	13,229	(3,538)	(26.7)
Other financial assets	802	531	271	51.1
Other assets	7,230	8,436	(1,206)	(14.3)
<b>Total assets</b>	<b>291,374</b>	<b>289,630</b>	<b>1,744</b>	<b>0.6</b>
Customer deposits	195,140	186,222	8,918	4.8
Central banks and credit institutions	21,334	23,098	(1,764)	(7.6)
Other financial liabilities	2,273	1,875	397	21.2
Other liabilities	3,751	3,691	60	1.6
<b>Total liabilities</b>	<b>277,238</b>	<b>275,317</b>	<b>1,921</b>	<b>0.7</b>
<b>Total equity</b>	<b>14,135</b>	<b>14,313</b>	<b>(177)</b>	<b>(1.2)</b>
<b>Other managed and marketed customer funds</b>	<b>7,081</b>	<b>6,863</b>	<b>219</b>	<b>3.2</b>
Mutual funds	6,992	6,777	215	3.2
Pension funds	—	—	—	—
Managed portfolios	90	86	4	4.6



# Income statement

GBP million

	2019	2018	Variation	
			Amount	%
Net interest income	3,322	3,608	(285)	(7.9)
Net fees	759	807	(47)	(5.9)
Gains (losses) on financial transactions	10	78	(68)	(87.0)
Other operating income	54	47	7	15.1
<b>Gross income</b>	<b>4,146</b>	<b>4,540</b>	<b>(393)</b>	<b>(8.7)</b>
Operating expenses	(2,487)	(2,510)	22	(0.9)
<b>Net operating income</b>	<b>1,659</b>	<b>2,030</b>	<b>(371)</b>	<b>(18.3)</b>
Net loan-loss provisions	(222)	(152)	(70)	46.2
Other income	(161)	(284)	123	(43.1)
<b>Underlying profit before taxes</b>	<b>1,276</b>	<b>1,595</b>	<b>(319)</b>	<b>(20.0)</b>
Tax on profit	(312)	(448)	136	(30.4)
<b>Underlying profit from continuing operations</b>	<b>965</b>	<b>1,147</b>	<b>(182)</b>	<b>(15.9)</b>
Net profit from discontinued operations	—	—	—	-
<b>Underlying consolidated profit</b>	<b>965</b>	<b>1,147</b>	<b>(182)</b>	<b>(15.9)</b>
Minority interests	(20)	(22)	2	(10.5)
<b>Underlying attributable profit to the Group</b>	<b>945</b>	<b>1,125</b>	<b>(180)</b>	<b>(16.0)</b>



# Quarterly income statements

GBP million

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Net interest income	904	901	907	896	850	825	820	827
Net fees	193	210	205	198	189	181	195	194
Gains (losses) on financial transactions	14	39	38	(13)	0	17	(13)	6
Other operating income	12	5	11	19	12	10	9	23
<b>Gross income</b>	<b>1,122</b>	<b>1,156</b>	<b>1,160</b>	<b>1,101</b>	<b>1,052</b>	<b>1,034</b>	<b>1,011</b>	<b>1,050</b>
Operating expenses	(641)	(626)	(622)	(620)	(644)	(615)	(615)	(612)
<b>Net operating income</b>	<b>481</b>	<b>530</b>	<b>538</b>	<b>481</b>	<b>407</b>	<b>419</b>	<b>396</b>	<b>437</b>
Net loan-loss provisions	(58)	(32)	(24)	(38)	(53)	(17)	(68)	(83)
Other income	(52)	(39)	(56)	(137)	(43)	(22)	(39)	(58)
<b>Underlying profit before taxes</b>	<b>371</b>	<b>460</b>	<b>458</b>	<b>306</b>	<b>311</b>	<b>380</b>	<b>288</b>	<b>296</b>
Tax on profit	(109)	(125)	(134)	(80)	(85)	(89)	(61)	(77)
<b>Underlying profit from continuing operations</b>	<b>262</b>	<b>335</b>	<b>325</b>	<b>225</b>	<b>227</b>	<b>291</b>	<b>228</b>	<b>219</b>
Net profit from discontinued operations	—	—	—	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>262</b>	<b>335</b>	<b>325</b>	<b>225</b>	<b>227</b>	<b>291</b>	<b>228</b>	<b>219</b>
Minority interests	(5)	(6)	(5)	(5)	(5)	(5)	(5)	(5)
<b>Underlying attributable profit to the Group</b>	<b>257</b>	<b>328</b>	<b>319</b>	<b>221</b>	<b>222</b>	<b>286</b>	<b>223</b>	<b>214</b>

# Thank you.

Our purpose is to help people  
and business prosper.

Our culture is based on believing  
that everything we do should be:

## Simple Personal Fair



MEMBER OF  
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