

Agreed offer for RBS branded branches, SME, mid-corporate and retail customers

4 August 2010

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Description of the deal

Strategic rationale

Financial impact

Summary

Transaction summary

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Offer

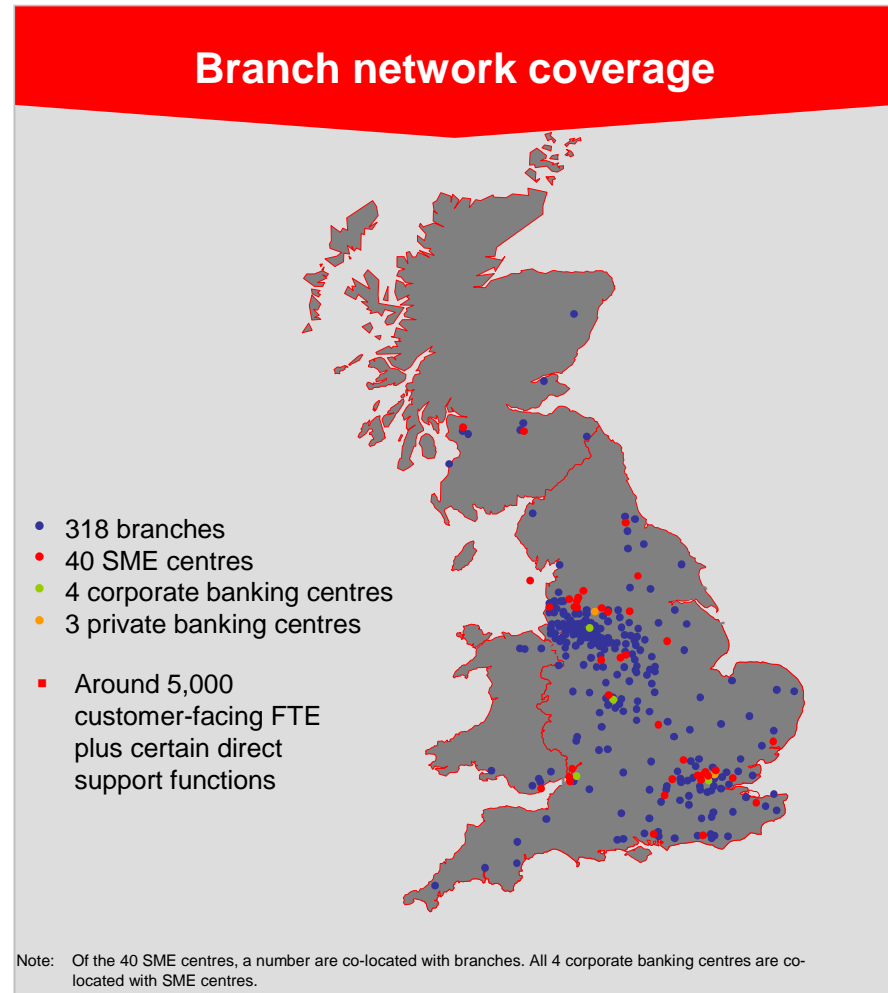
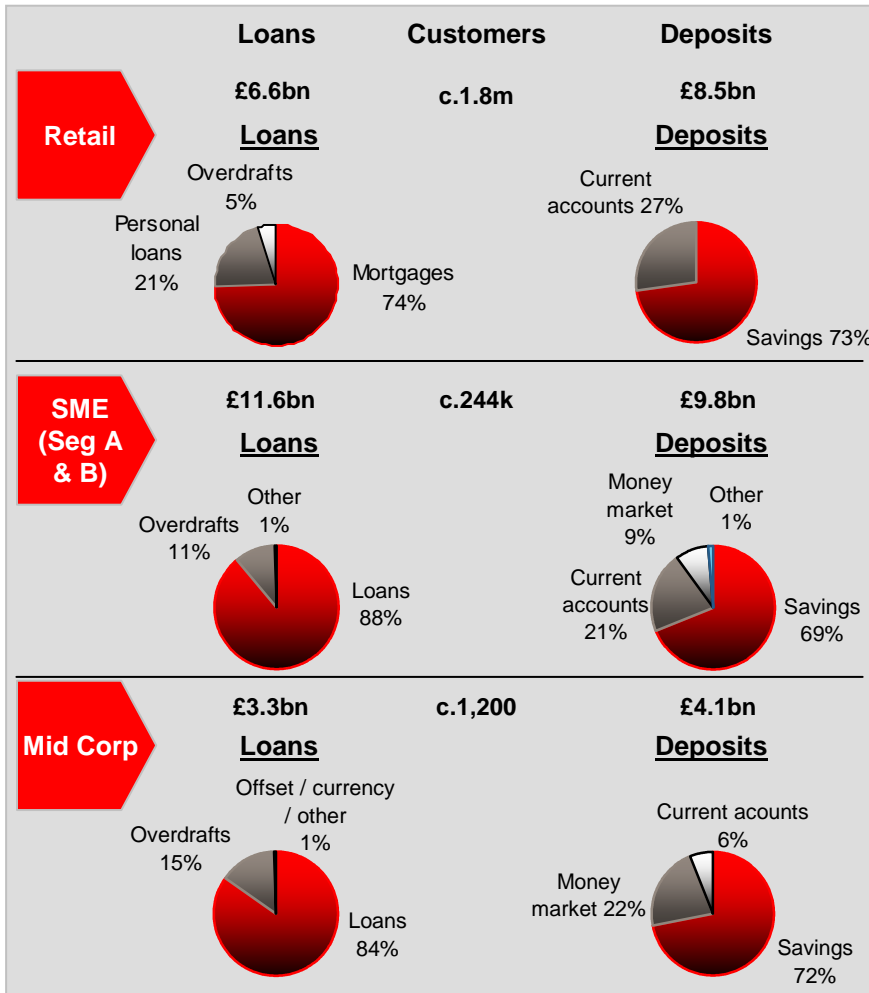
- Acquisition of RBS's commercial and retail business in England and Wales, and Natwest's business in Scotland
- Consideration comprises (subject to adjustments):
 - £350m of goodwill
 - A notional equity value of c.£1.3bn as at December 2009 ⁽¹⁾

Execution

- Systems preparation required to allow transfer of carve-out business
- Expected completion late 2011
- Transitional arrangements post 2011 to support certain SME and mid corporate operations

⁽¹⁾ Estimated notional equity based upon 8.5% of RBS's estimated risk weighted assets as at December 2009

Overview of the business



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Strong strategic rationale

1

Significant acceleration of SME growth plans, building on A&L acquisition and organic SME growth

2

Increases core retail scale and distribution

3

Attractive funding and robust credit position

4

Further leverage Santander UK operating platforms to drive cost synergies

Consistent with our “vertical strategy”

1 Significant acceleration of SME growth plans, building on A&L acquisition and organic SME growth

SME + Mid-Corp business

- Strategically attractive SME asset; good strategic fit
- 244k business banking and SME customers and c.1,200 Mid-corporate customers with core product holdings and complimentary geographic and sector exposures
- SME market share increases from c.3% to over 8% ⁽¹⁾
- Accelerates existing organic growth, providing a larger platform from which to drive future growth
- Significant additional distribution capability in terms of number of commercial centres and Relationship Managers to continue SME expansion
- Opportunity to capture ancillary income streams, and grow faster than organic Santander UK plans for the business

SME + Mid-Corp Financials

As at Dec 2009 (£bn)	Santander UK	RBS' Business	Enlarged Santander	% Increase
Customer assets	12.4	14.9	27.3	120%
Customer deposits	18.8	13.9	32.7	74%

⁽¹⁾ Market shares are on an asset basis of SME businesses with turnover up to £25m based on Bank of England returns

Retail

- 1.8m customers, including 100k premium customers, and 2% PCA share
- Primary current account driven customer relationships
- 318 branches providing additional distribution capacity in the UK
- Three private banking centres, accelerating private banking strategy in UK
- Opportunities to cross sell Santander UK products in investments, cards, protection and insurance
- Strong customer service culture in line with Santander approach

Retail
Financials

As at Dec 2009 (£bn)	Santander UK	RBS' Business	Enlarged Santander	% Increase
Customer assets	165.5	6.6	172.1	4%
Customer deposits	125.6	8.5	134.1	7%

Funding

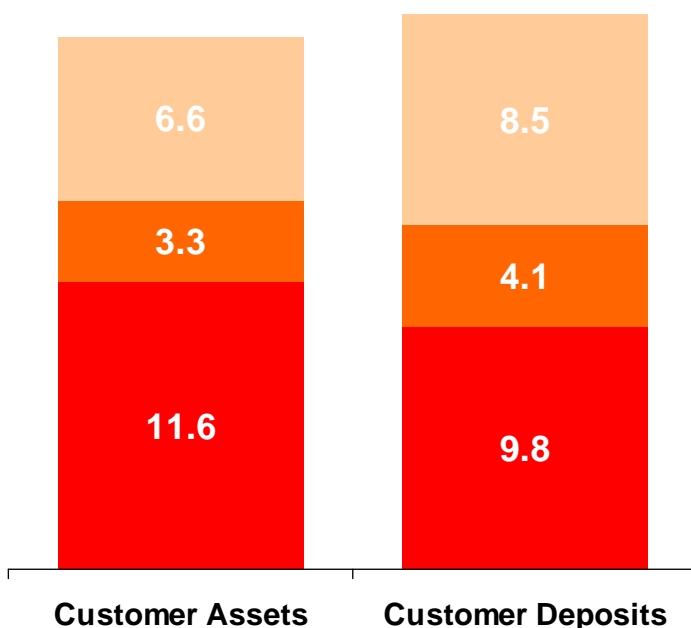
Credit

Loan to deposit: 96%

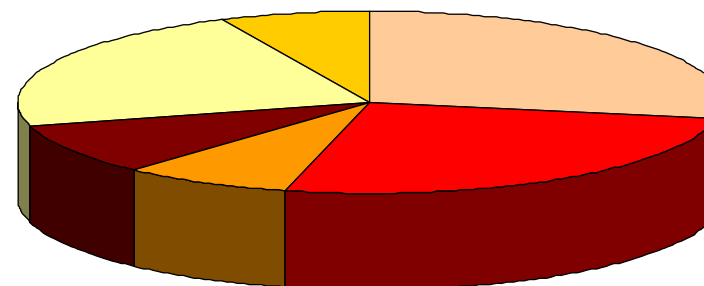
£bn

£21.5bn

£22.4bn



■ SME ■ Mid-corp ■ Retail



■ SME real estate ■ SME non-real estate
 ■ Mid-Corp real estate ■ Mid-Corp non-real estate
 ■ Retail secured ■ Retail unsecured

▪ Detailed due diligence conducted on portfolio

Customer assets are broadly matched with customer liabilities (at Dec 09)

Adequate provisions factored into the business plan

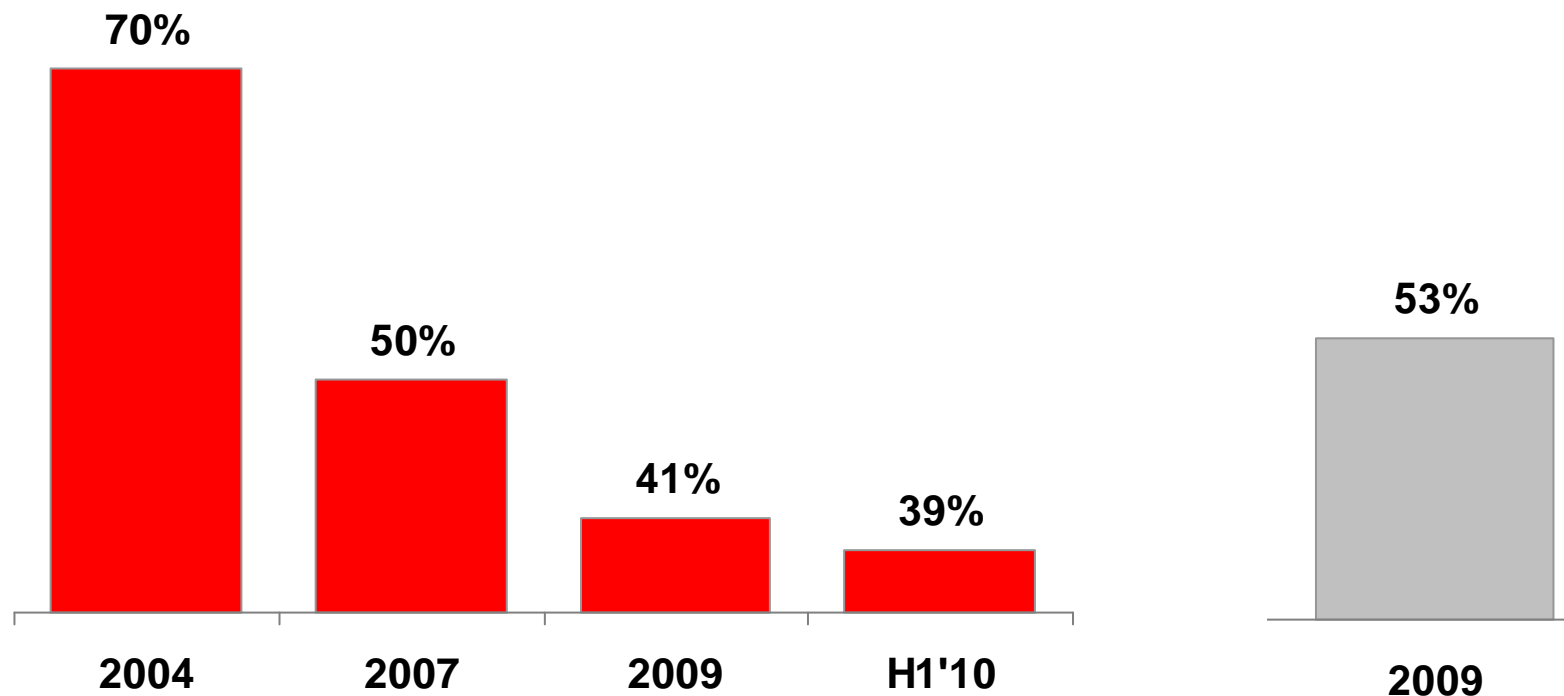
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Further leverage Santander UK operating platforms

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Santander UK cost-to-income ratio

Acquired operations



Execution risks: identified and under control

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Data migration

- Migration of customer data onto Santander Partenon platform
- Transitional service agreement for the SME and Mid-Corp book for 2012
- Track record of integration, transferring Abbey and B&B onto Partenon within 12 months, with A&L on track

Customer / staff attrition

- Franchise protection in place between signing and completion
- Both parties working together to ensure consistent service and smooth transition for customers
- Successfully managed transfer and re-branding of Abbey and B&B, with A&L on track

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Summary Financials

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**EPS
impact**

EPS accretive from year 1, exceeding c.2% by year 3



**Return on
investment**

Mid-double digit return on investment by year 3



**Impact on
Group capital
ratios**

c.40bps impact at completion

**Impact on
liquidity**

Well matched customer balances

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Strong strategic rationale

- ✓ Accelerates growth into SME building on A&L acquisition and organic growth
- ✓ Increases core retail scale and distribution
- ✓ Attractive funding and robust credit position
- ✓ Further leverage Santander UK operating platforms to drive cost synergies

Consistent with our “vertical strategy”



Strong financial rationale

- ✓ Positive EPS impact
- ✓ Mid-double digit ROI by year 3

