

Santander UK plc

Investor Update First Half 2013 Results

July 2013

United Kingdom



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Source: Santander UK Q2 2013 results “Quarterly Management Statement for the year ended 30 June 2013” or Santander UK Management (‘MI’)

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Delivering on our commitments

		2015	H1'13	2012
1 Loyal and satisfied customers	<ul style="list-style-type: none"> Loyal customers¹ 	4.0 million	2.5 million	2.2 million
	<ul style="list-style-type: none"> No. of 1 2 3 World customers 	4.0 million	1.9 million	1.3 million
	<ul style="list-style-type: none"> Customer satisfaction (FRS)² 	Top 3	57%	55%
2 'Bank of Choice' for UK companies	<ul style="list-style-type: none"> SME market share 	8.0%	5.5%	5.3%
	<ul style="list-style-type: none"> Business mix (Corporate Banking loans percentage) 	20%	11%	10%
3 Consistent profitability and strong balance sheet	<ul style="list-style-type: none"> Return on tangible book value 	13% - 15%	8.3%	9.1%
	<ul style="list-style-type: none"> Cost to income ratio 	<50%	57%	53% ³
	<ul style="list-style-type: none"> Core Tier 1 Capital ratio 	CET 1 >10.5%	12.4%	12.2%
	<ul style="list-style-type: none"> Loan to deposit ratio 	<130%	125%	129%

¹ 'Loyal customers' are primary current account customers who hold a debit card and an additional product. Primary current account customers have a minimum credit turnover of at least £500 per month and two direct debits paid from their account.

² Independent consumer surveys show improved satisfaction, with our FRS score rising to 57%. Santander UK saw a significant reduction in the gap to the top 3 performers over the last year at 90% confidence interval

³ Income for 2012 included a gain from the capital management exercise. The cost to income ratio for the year ended 31 December 2012 of 53% excludes this gain. Including this gain the cost to income ratio was 45%

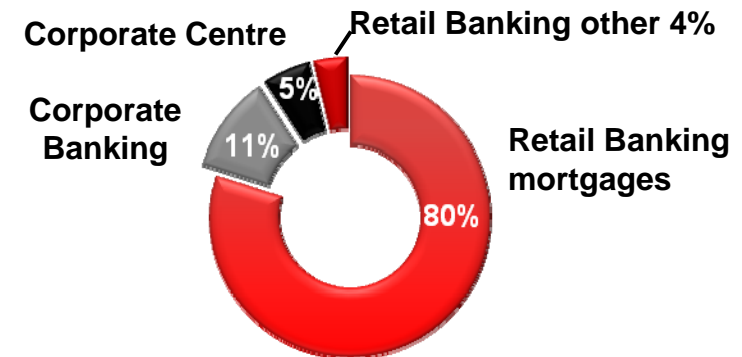
Key UK market player

Key Metrics

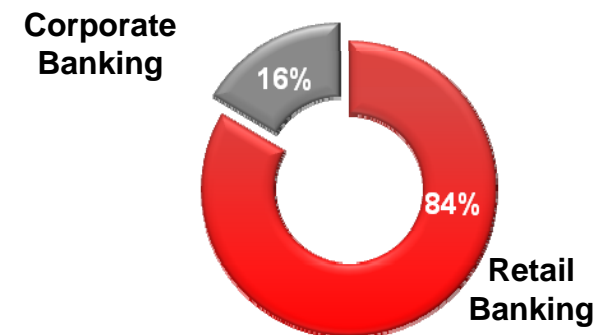
	H1'13	H2'12	H1'12
Employees ¹	23,801	23,981	25,006
Branches (inc. agencies)	1,187	1,186	1,312
Corporate Business Centres	37	35	33
Relationship Managers	778	713	648
	£bn	£bn	£bn
Residential Retail Mortgages	152.3	156.6	163.2
Corporate Banking Assets	21.0	19.6	19.0
of which SME	10.9	10.6	9.7
Retail Banking Liabilities	126.7	127.2	124.3
Corporate Banking Liabilities	13.8	12.8	11.3
Market Share of Stock % ³	H1'13	H2'12	H1'12
Residential Mortgages	12.6	13.0	13.6
Deposits	9.1	9.4	9.5
Bank Accounts	9.4	9.3	9.2
SME lending ⁴	5.5	5.3	4.9

Business Mix²

Customer loan balances



UK Banking profit before tax²



United Kingdom

¹ On a Santander Group reporting basis

² Customer loan balances at 30 June 2013. Profit before tax for the six months ended 30 June 2013 excludes Markets and Corporate Centre

³ Market share sources: Residential Mortgages, SME lending and Deposits (BOE); Bank Accounts (CACI)

⁴ SME lending market share includes assets held in Corporate Banking and Corporate Centre. SME assets totaled £12.3bn in Jun'13, £12.1bn in Dec'12, £11.3bn in Jun'12

Our strategic priorities

1

Loyal and satisfied customers

2

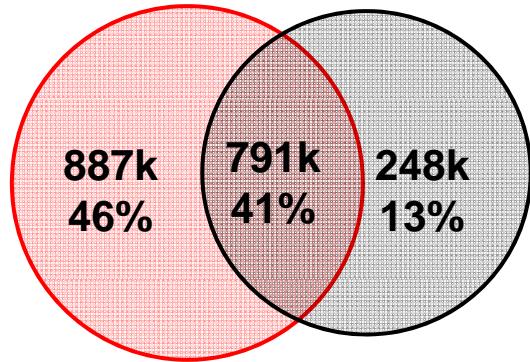
'Bank of Choice' for UK companies

3

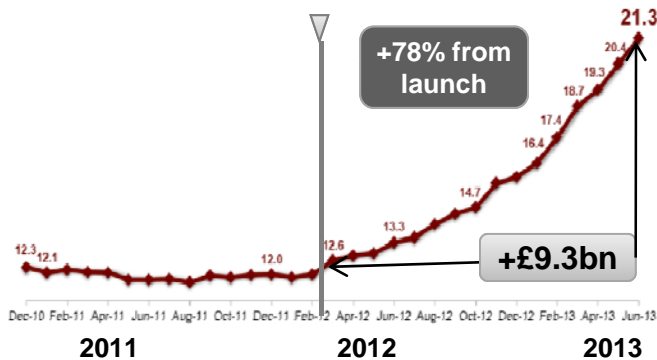
Consistent profitability and strong balance sheet

1|2|3 World has 1.9m customers

Customer numbers



Launch of 123 Current Account
March 2012



1|2|3 World is transforming the customer profile ...

Non 1 2 3	→	1 2 3 World
8%	affluent	28%
39%	primary banking	83%
1.6	products per customer	2.9

Before 1|2|3 → 1|2|3 World

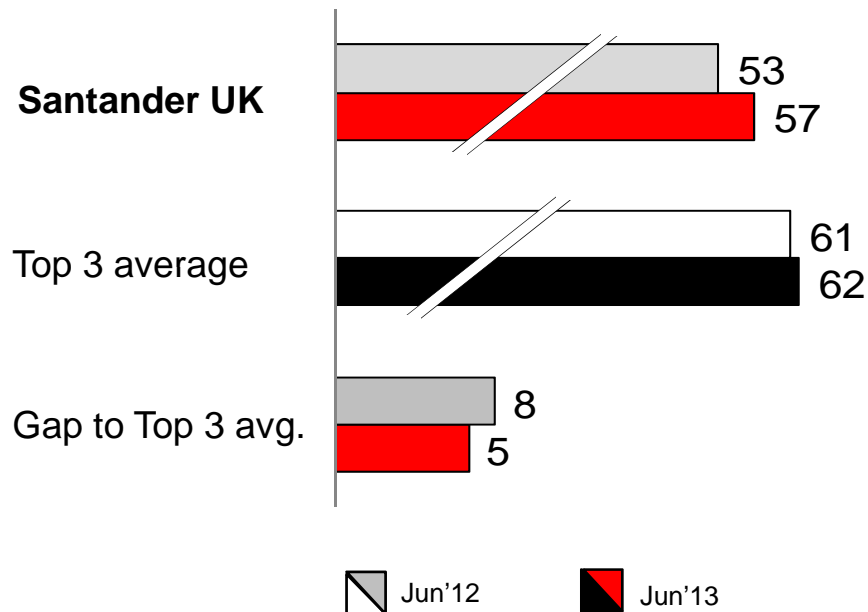
8%	fee paying Current Account	59%
<4k	staff Current Account	19k

... and boosting customer perceptions¹

96% satisfied with 1|2|3 Current Account
91% satisfied with 1|2|3 Credit Card

1 High quality service at the core of our business model

FRS¹: Overall Satisfaction (%)²



Investing in service and delivering results

- Independent consumer surveys show improved satisfaction, with our FRS score rising to 57%. Santander UK saw a significant reduction in the gap to the top 3 performers over the last year³
- We are delivering on our 'Simple, Personal and Fair' commitments by simplifying product portfolios across the bank, making it easier for customers to bank with us
- We are investing in our infrastructure to address the footprint and provide a better customer experience

TARGET: To become a top 3 bank by 2015

United Kingdom

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

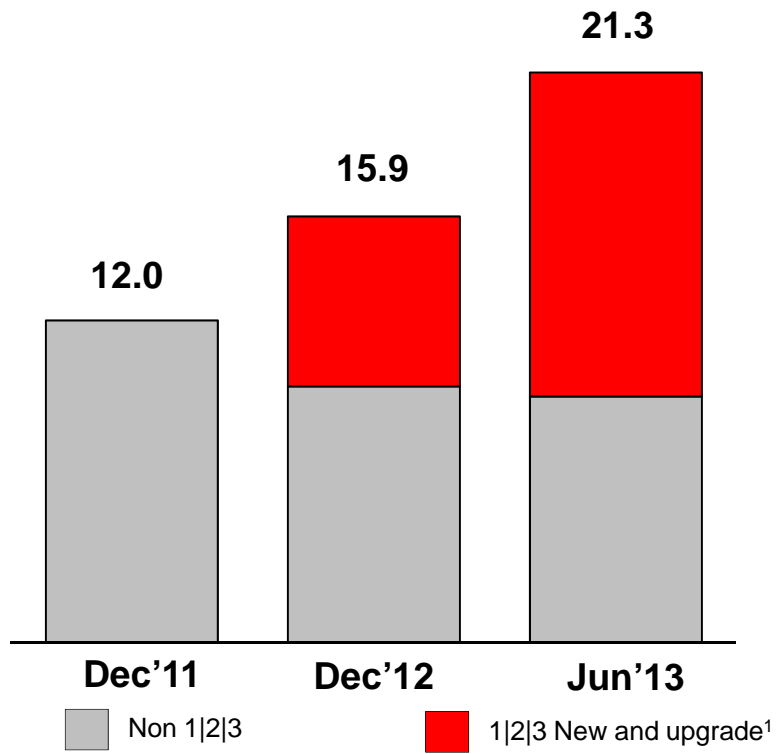
² Overall Satisfaction: Satisfaction score refers to proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands. Data for the 3 months ending June 2012 and June 2013. Competitor set includes Barclays, Halifax, HSBC, Lloyds TSB and NatWest

³ At 90% confidence interval

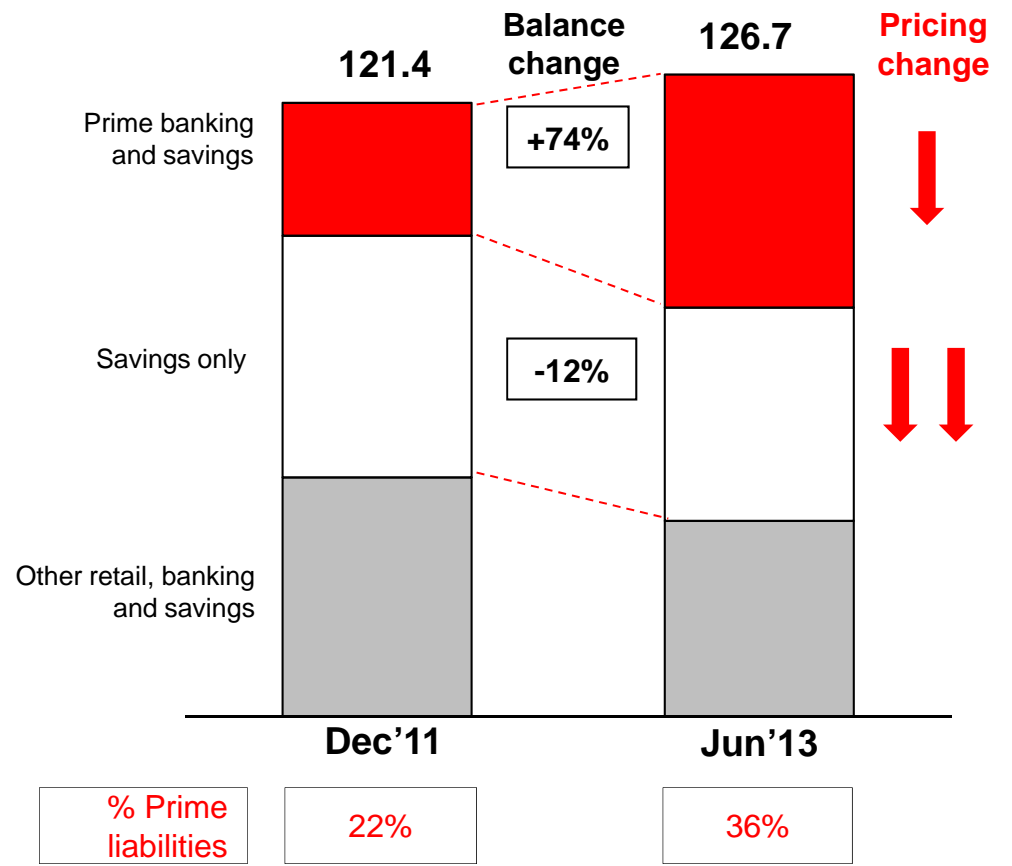


1 Increased liabilities associated with primary current accounts

Current account deposits (£bn)

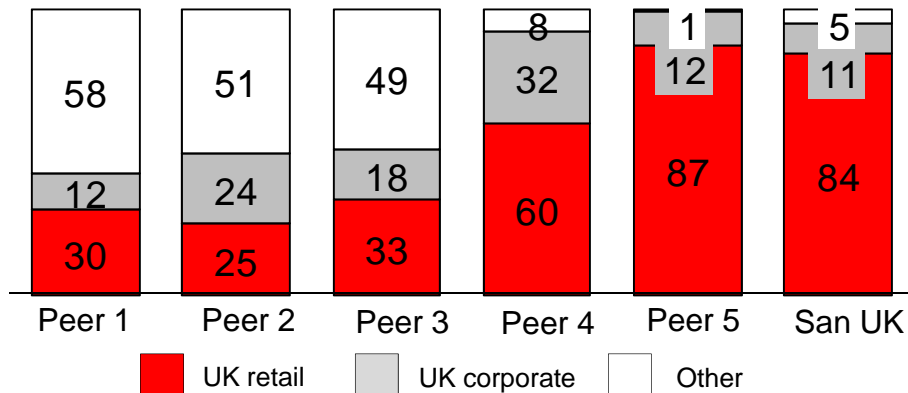


Retail deposits evolution (£bn)

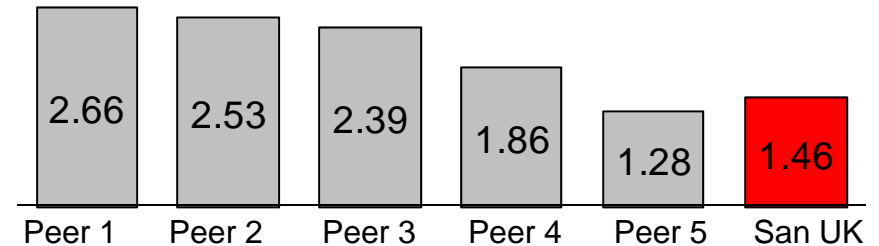


Current retail focus and further opportunities

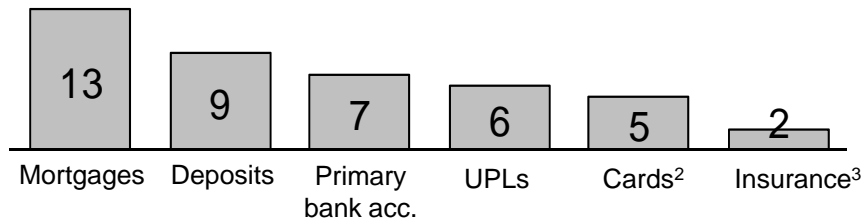
Group customer loans mix (%)



Net Interest Margin comparison (%)⁴



Santander UK market shares (stock, %)¹



- Current business mix; concentrated in UK retail mortgages
- Lower NII and NIM than peers; due to the different business mix
- Commercial transformation, from 'product focused' bank into a broader retail and commercial bank

INCUMBENT

CHALLENGER

United Kingdom

Source for peer data: Santander UK plc analysis. Peer data includes Barclays plc, HSBC Bank plc, Lloyds Banking Group, Nationwide and RBS plc. Lloyds Banking Group and RBS core only. Santander UK plc as at H1'13, peers as at FY'12 (Nationwide as 4 April 2013)

¹ Market share sources: Mortgages and Deposits (BoE); Primary bank accounts (Santander UK plc estimate); UPLs and Cards (BBA);

² Cards data as at May'13

³ Source GfK NOP Financial Research Survey (FRS) 6 months ending June 2013, 15,940 adults interviewed, Household Insurance

⁴ Net Interest Margin comprises net interest income divided by average gross commercial assets. Santander UK is 'Banking NIM'



Our strategic priorities

1

Loyal and satisfied customers

2

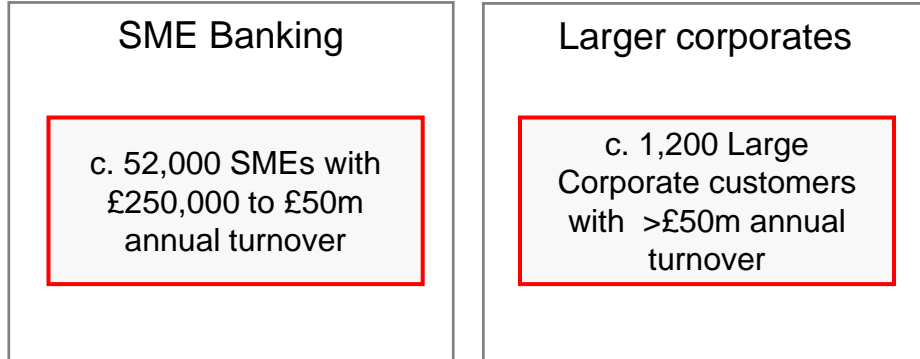
'Bank of Choice' for UK companies

3

Consistent profitability and strong balance sheet

2 Corporate Banking: differentiating ourselves through customer approach and innovation ...

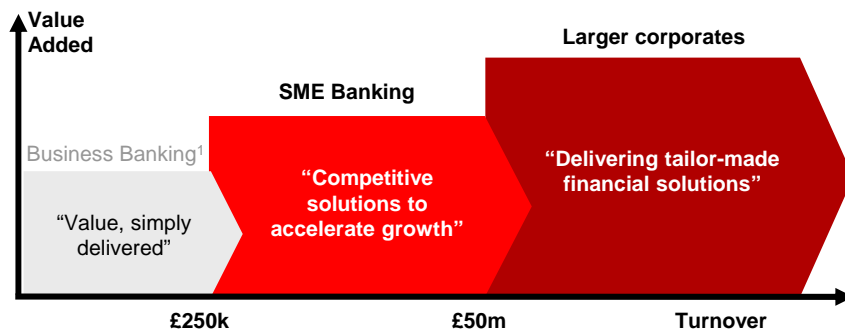
Proposition for different customer needs



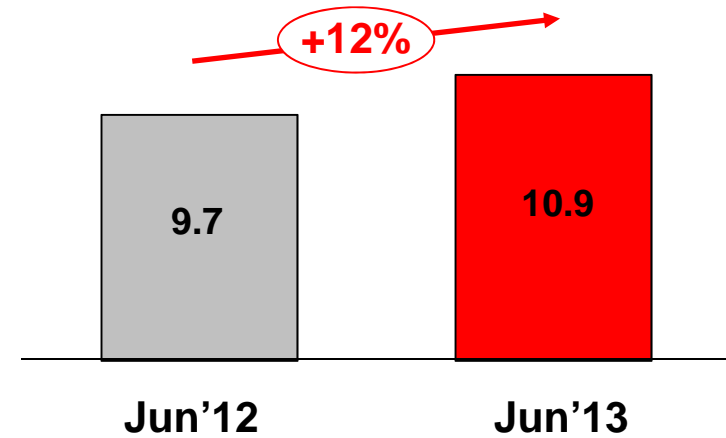
Putting our customers at the heart of our growth

Relationship Managers:	2011	2012	H1'13
Commercial Banking	405	433	461
Larger corporates	52	70	77
Total	457	503	538
Corporate Business Centres	28	35	37

Helping our customers to find the right solutions



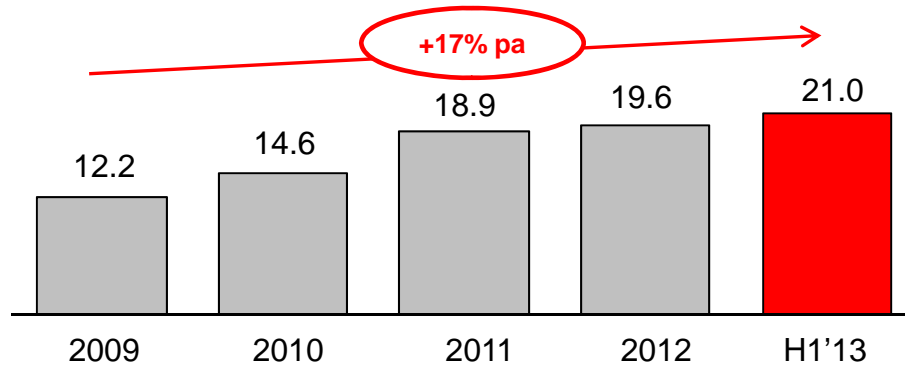
Strong SME lending growth (£bn)¹



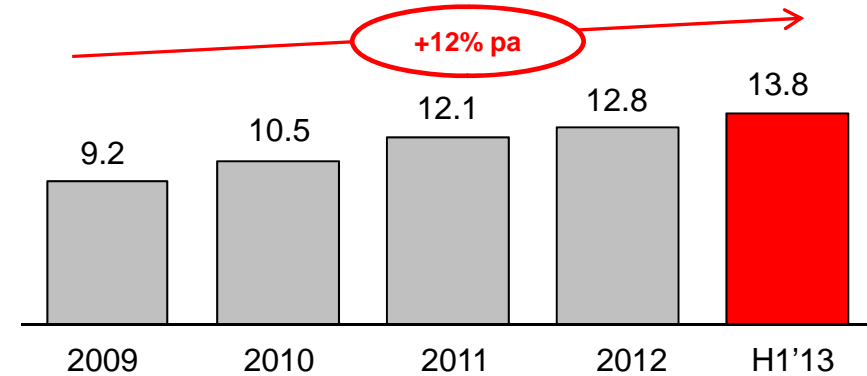
2

Corporate Banking has seen strong growth since 2009 ... with room to catch up with peers

Customer assets evolution (£bn)



Customer liabilities evolution (£bn)



Investment in enhanced capabilities

Products / Services:

- Foreign Currency
- Transactional Services
- Trade Services
- Transactional Forex
- Credit cards

Channels / Processes:

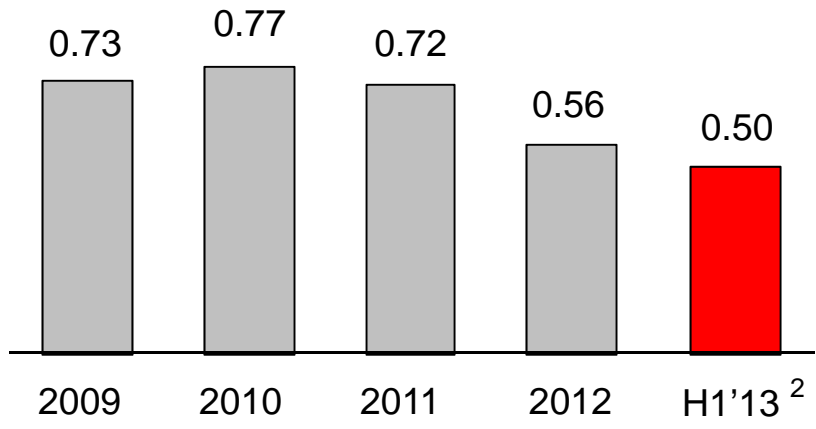
- Internet migration
- Mobile Banking
- Contact Centres
- Business Centres / Branches

Management Systems:

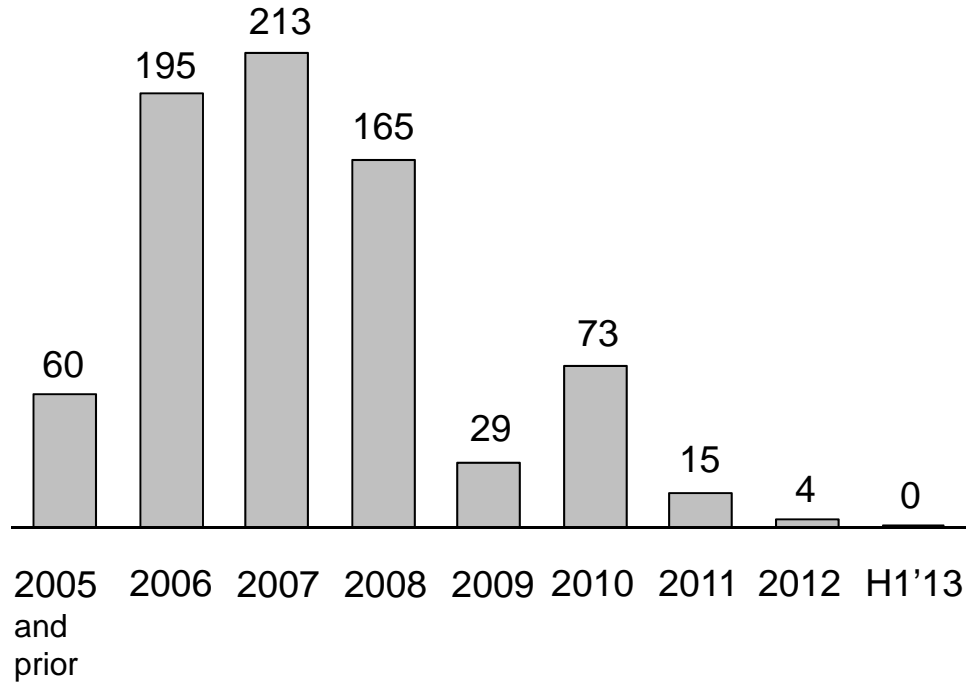
- Customer Relationship Management
- Fraud and Anti-Money Laundering

2 Maintaining asset quality in the expanding Corporate Banking business ¹²

Impairment charge (%)¹



NPLs stock by deal vintage (£m)



Our strategic priorities

1

Loyal and satisfied customers

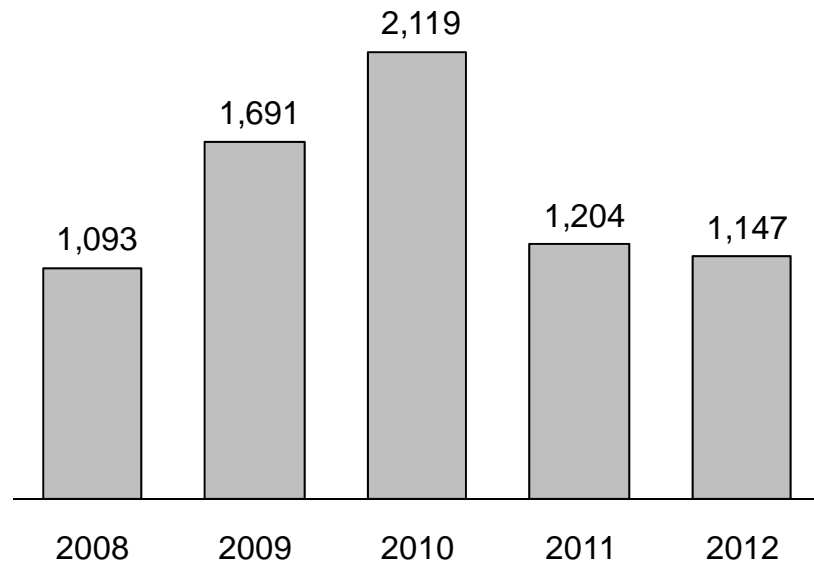
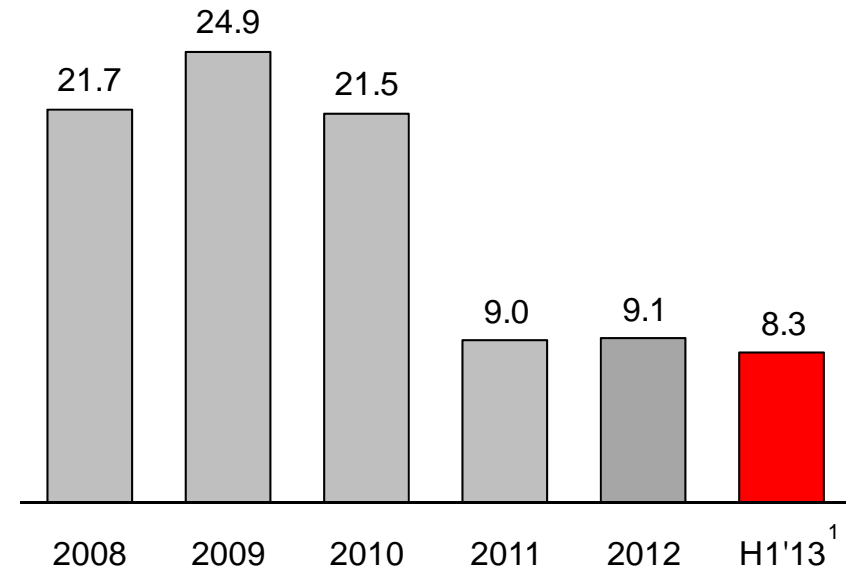
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'Bank of Choice' for UK companies

3

Consistent profitability and strong balance sheet

Despite market volatility, Santander UK has delivered robust and sustained profitability

Statutory PBT (£bn)**RoTBV (%)**

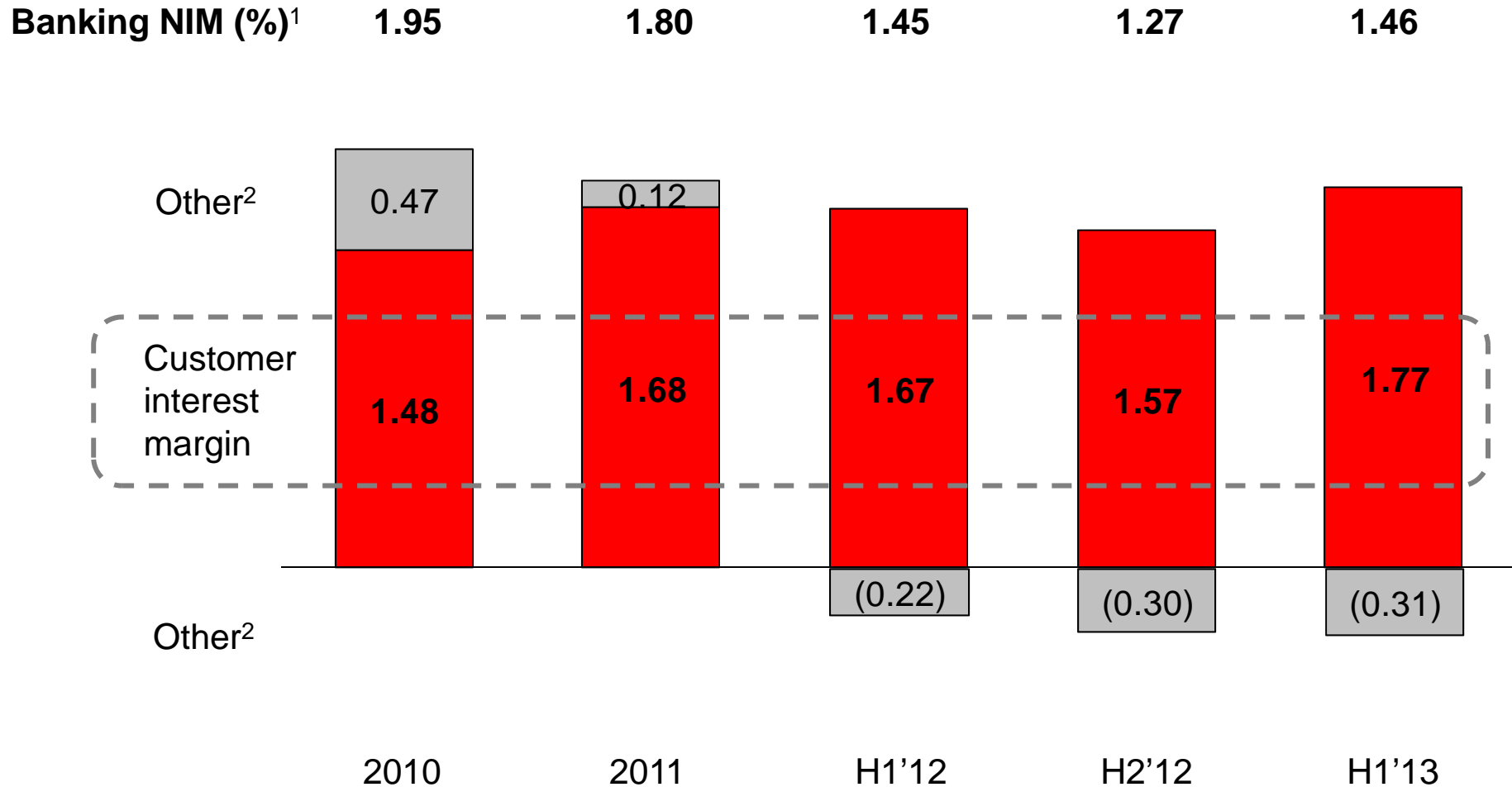
Profit after tax of £440m, up 25% versus H2'12

Key financial highlights (continuing operations) ¹	Six months ended		
	30.06.13 £m	31.12.12 £m	30.06.12 £m
Net interest income	1,391	1,269	1,465
Non interest income	570	1,295	654
- of which significant items ²	-	705	-
Operating expenses	(1,113)	(1,037)	(1,077)
Total operating provisions and charges	(299)	(1,070)	(352)
- of which significant items ²	-	(621)	-
Profit before tax	549	457	690
Profit after tax	440	353	524
<i>Banking net interest margin ('Banking NIM')</i>	1.46%	1.27%	1.45%

- Income pressures eased in the first half of 2013, reflecting improved asset margins and lower customer deposits and wholesale funding costs, resulting in an improved Banking NIM
- Costs slightly higher than in H1'12, principally due to increased regulatory compliance and control costs
- Good credit quality maintained across the Retail Banking and Corporate Banking portfolios

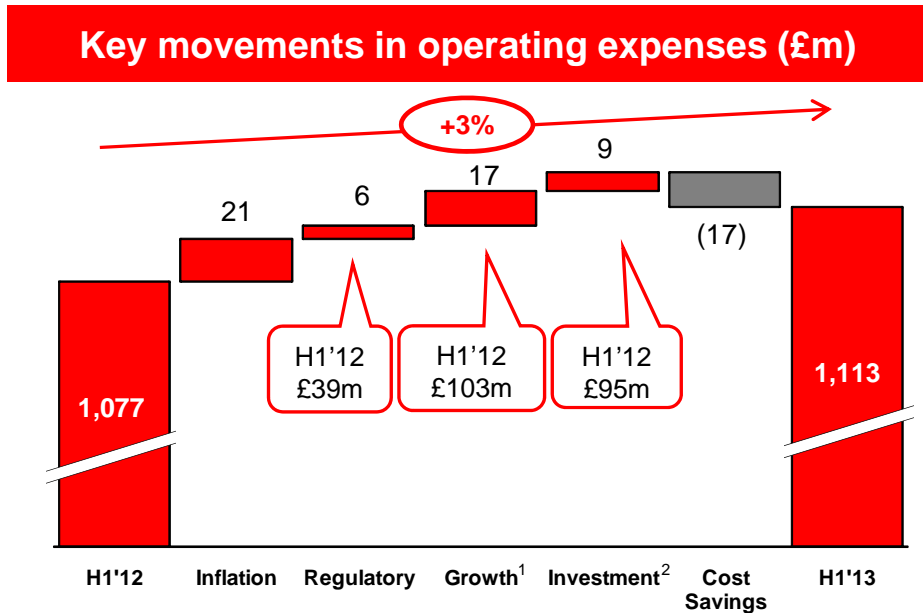
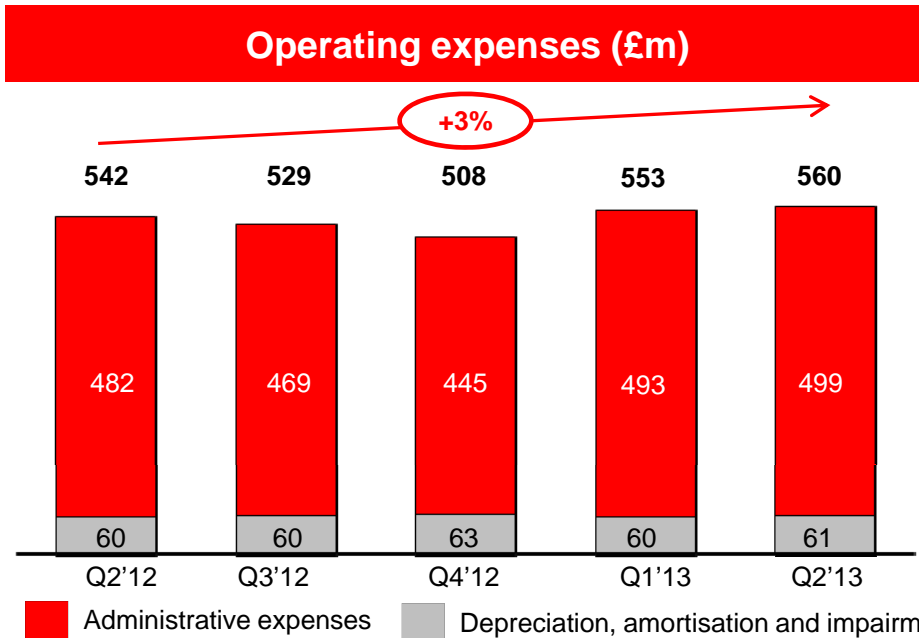
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Recovery in Banking NIM underpinned by strengthening of customer interest margin



¹ Banking NIM (% annualised) calculated as 'total net interest income over average total customer assets' previously described as Commercial Banking Margin
² Other includes the impacts of the structural hedge, Medium Term Funding (MTF) and liquidity items

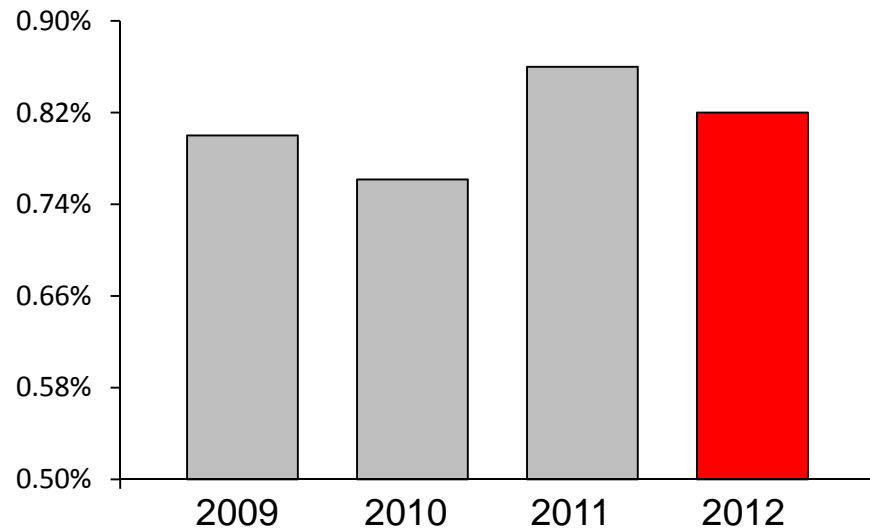
3 Costs remain well controlled, despite investment, regulatory compliance and control costs



- Administrative expenses were 3% higher, principally due to increased regulatory compliance and control costs
- Investment expenses reflect continued investment in the growth of SME and corporate banking business
- Depreciation, amortisation and impairment 3% higher. Investment programmes continued to support the business transformation and underpin future efficiency improvements

Strong cost management remains a key element of our strategy whilst transforming the business

Operating Expenses/ Avg.Total Assets (%)¹



- Cost efficiency versus peers reflects business mix
- Focus on cost management whilst investing in the business

Cost management initiatives

- Branch/agency de-duplication – c. 200 reduction since end 2011
- Headcount optimisation
- Decommissioning of legacy systems – A&L loans, banking and mortgage systems

Investment programmes

- Corporate Partenon platform, internet platforms, trade services, loans IQ and notional pooling
- Branch refurbishment and improvements – c.150 planned in H2 2013
- Corporate Business Centre expansion – further c. 30 by 2015
- New Leicester data centre

	2008	2009	2010	2011	2012	H1'13
Average LTV new lending	65%	61%	62%	65%	63%	62%
Weighted Average LTV new lending	N/A	N/A	60%	61%	60%	58%
Indexed LTV on book	50%	52%	51%	52%	52%	52%
% new business LTV > 90%	2%	0%	0%	0%	0%	1% ¹
LTV 90%-100%	7%	10%	7%	7%	7%	6%
LTV > 100%	4%	7%	4%	5%	5%	5%
Mortgage NPL	0.97%	1.52%	1.41%	1.46%	1.74%	1.87%

Source: Santander UK MI

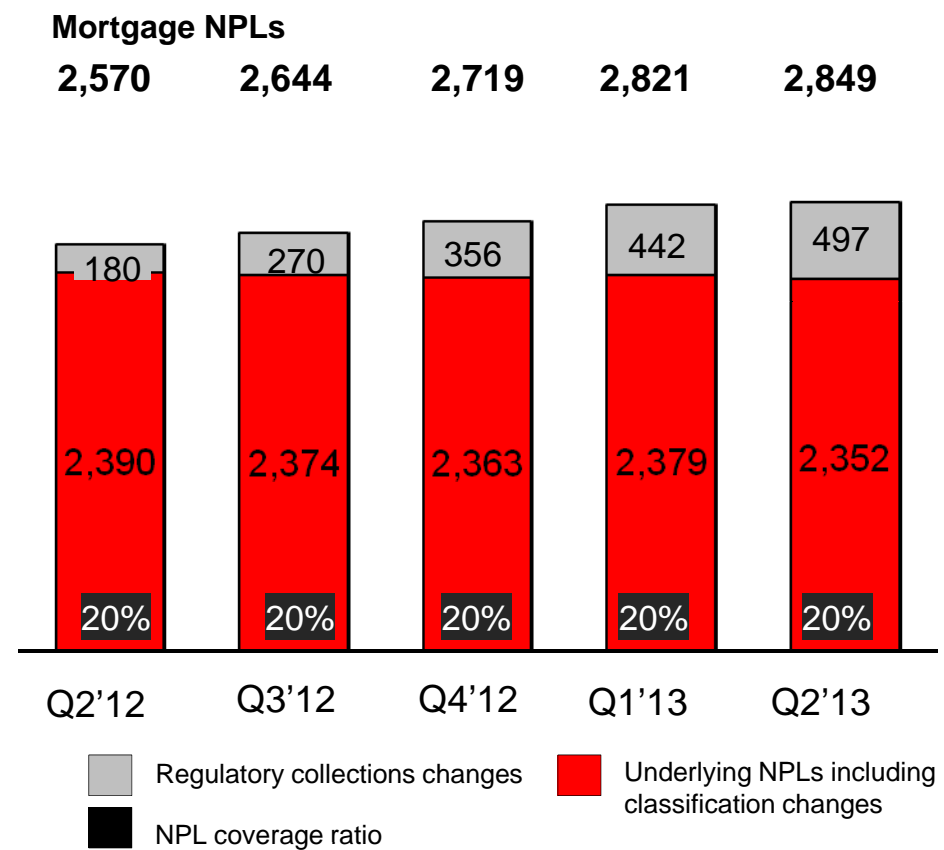
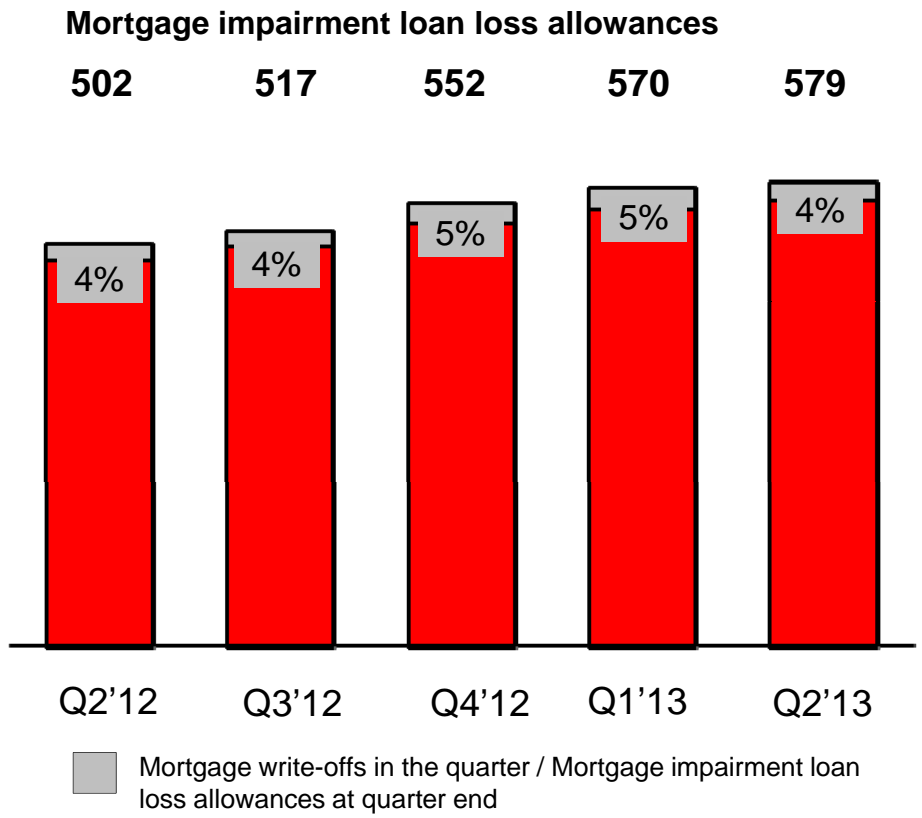
United Kingdom

¹ New mortgages above 90% LTV are only available as part of 2012 UK Government Scheme 'NewBuy', which enabled Santander UK to provide 95% LTV mortgages on new-build properties as the Government provides an indemnity guarantee

3 Mortgage write-offs and underlying NPLs remain resilient

Mortgage impairment allowances and write-offs (£m)

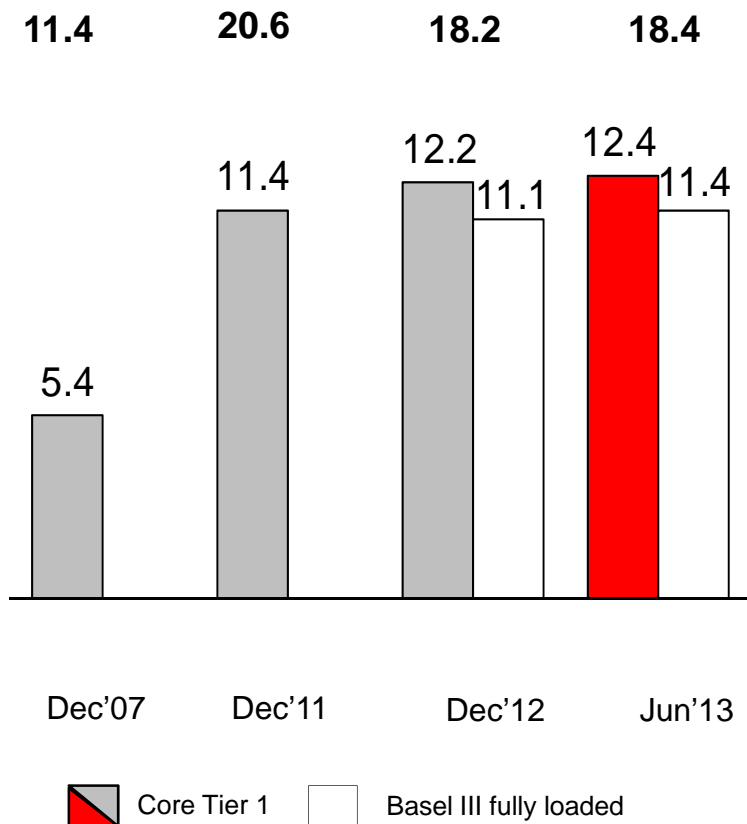
Mortgage NPLs by component (£m)



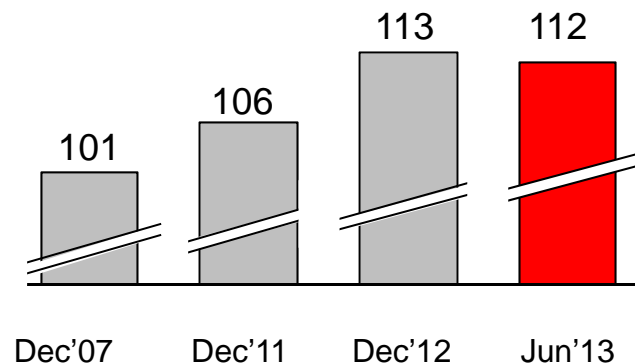
UK based business	98% of customer assets are UK related	<ul style="list-style-type: none"> • £152.3bn residential retail mortgages; £21.0bn Corporate Banking loans • UK focused; net exposure of c. 0.6% of total assets to eurozone peripheral countries¹
Strong funding and liquidity	Targeted improvement to the quality of the deposits mix	<ul style="list-style-type: none"> • Customer deposits increasing, with a focus on better customer relationships • LDR of 125%, improved four percentage points from Dec'12²
Good credit quality and capital strength	Wholesale funding	<ul style="list-style-type: none"> • Wholesale funding of less than one year decreased 13% during H1'13 and was 23% lower than a year ago, enhancing the capacity of the balance sheet • Lower wholesale issuance required; MTF issuance of £2.5bn
Good credit quality and capital strength	Prudent risk management	<ul style="list-style-type: none"> • Mortgage stock LTV of 52% • Strong mortgage coverage levels maintained at 20% • Lending criteria tightened, to improve credit quality and profitability of mortgage book
Good credit quality and capital strength	Strong capital base	<ul style="list-style-type: none"> • Core Tier 1 capital ratio of 12.4%; Basel III fully loaded 11.4%³ • Total capital ratio of 18.4% • Declared an interim dividend of £215m, continuing our dividend policy of paying 50% of recurring earnings

Evolution of Core Tier 1 Capital Ratio (%)^{1,2,3}

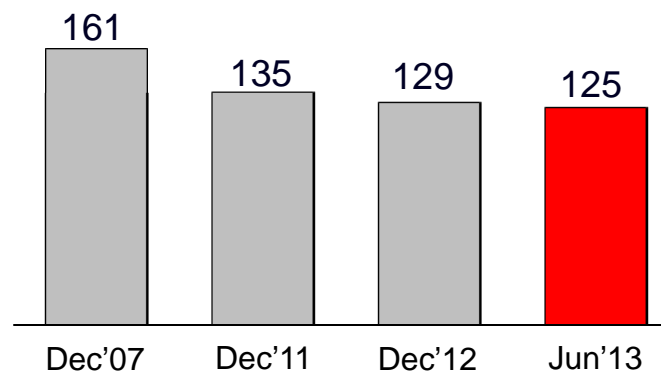
Total capital ratio



Customer deposits and MTF to customer loans (%)⁴



Loan to deposit Ratio (%)⁵



¹ Santander SA injected £4.5bn of capital into Santander UK in August 2010

² UK regulatory reporting

³ Dec'11 and Dec'12 are reported on a Basel 2 basis. Dec'07 is reported on Basel 1 basis

⁴ Calculated as the sum of deposits by customers (excl. repos) and MTF divided by loans and advances to customers (excl. reverse repos)

⁵ Calculated as loans and advances to customers (excl. reverse repos) divided by deposits by customers (excl. repos)

Outlook

Loyal and satisfied customers

- Continued focus on **transforming the business** towards a relationship-centred retail and commercial bank
- Building profitable **primary banking relationships** through 1|2|3 World
- Non-1|2|3 Santander UK **customer opportunity of c. 13 million**
- Further **enhancement of the customer experience** and the **development of the channel capability**

'Bank of Choice' for UK companies

- Continued **corporate loan growth**, diversifying the business mix towards a **8% SME market share** and **20% core corporate loan share**
- Increase revenues from **ancillary services/fee based products**
- Improve overall **segment profitability**

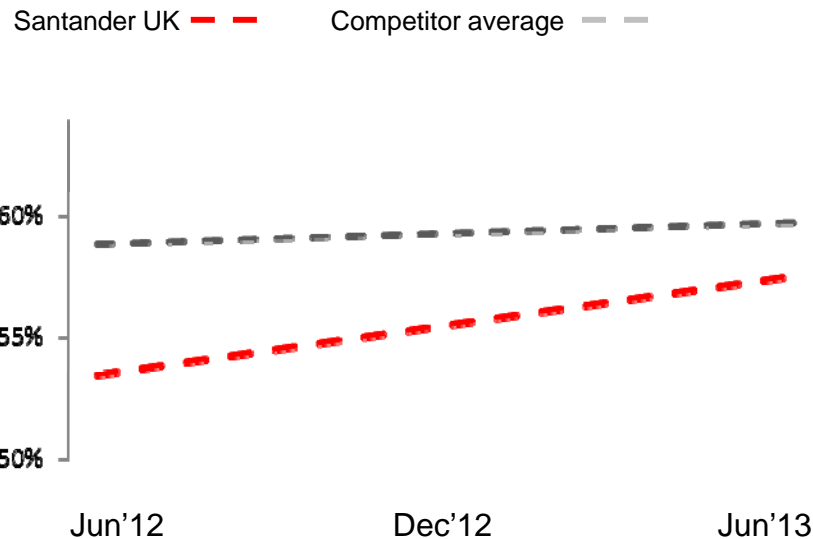
Consistent profitability and strong balance sheet

- **Positive trends evident in the Banking NIM**; focus on profitability versus volumes
- Management of BAU costs whilst **continuing to invest in products and services**
- Credit conditions to **gradually improve**
- **Mortgage book** to stabilise; qualitative shift towards deposits offering **better relationships**
- Maintaining **strong capital ratios**
- Medium term **target RoTBV of 13% - 15%**, with rising interest rates

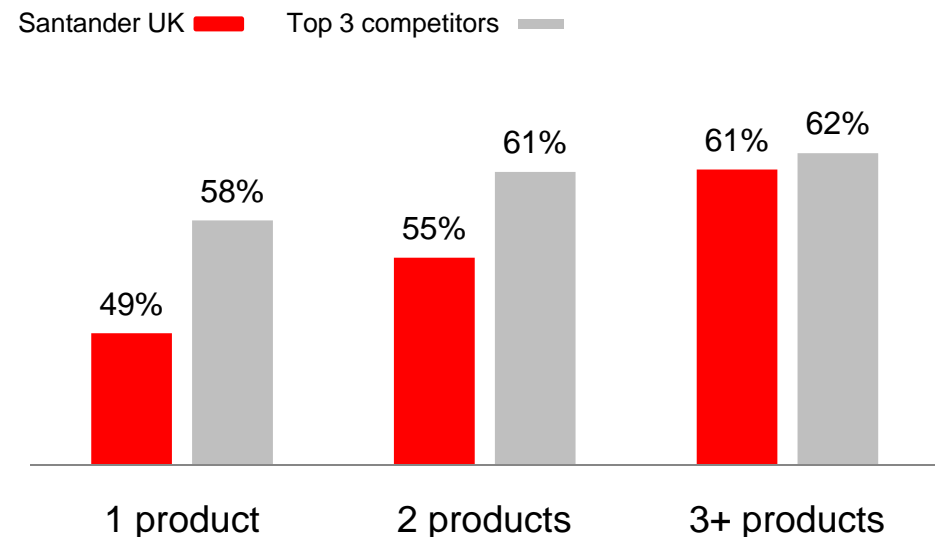
Appendix

Santander UK is the bank with the most positive satisfaction trend

FRS customer satisfaction trends¹



Customer satisfaction² vs. number of products



- Santander UK improved satisfaction at a faster rate than competitors over the last 12 months
- Santander UK customers with more of our brand products have higher levels of satisfaction; customers holding three or more products had a similar level of satisfaction to that with competitors

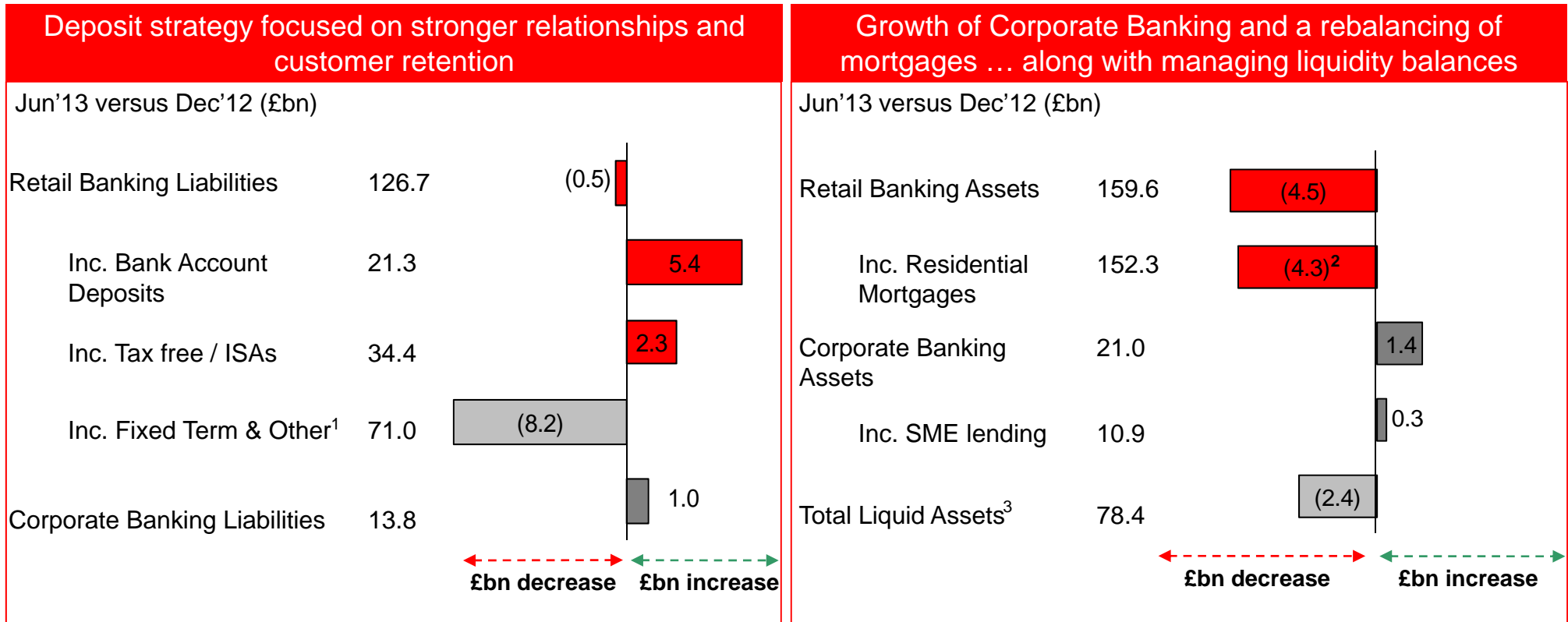
United Kingdom

¹ As measured by Financial Research Survey (FRS), an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK NOP. Overall Satisfaction: Satisfaction score refers to proportion of extremely and very satisfied customers across mortgages, savings, main current accounts, home insurance, UPLs and credit cards, based on a weighting of those products calculated to reflect the average product distribution across Santander UK and competitor brands. Competitor set includes Barclays, Halifax, HSBC, Lloyds TSB and NatWest

² Source GfK NOP Financial Research Survey (FRS). Satisfaction data for the 13 months ending May 2013



Continued targeted deleveraging of loans ... improving quality of deposits base



- Continued shift in qualitative mix of deposits base towards relationship and term deposits. Maintained the successful rollout of 1|2|3 Current Accounts
- Growth in Corporate Banking liabilities and asset franchise
- Rebalancing away from higher risk mortgage segments to growth opportunities in corporate lending

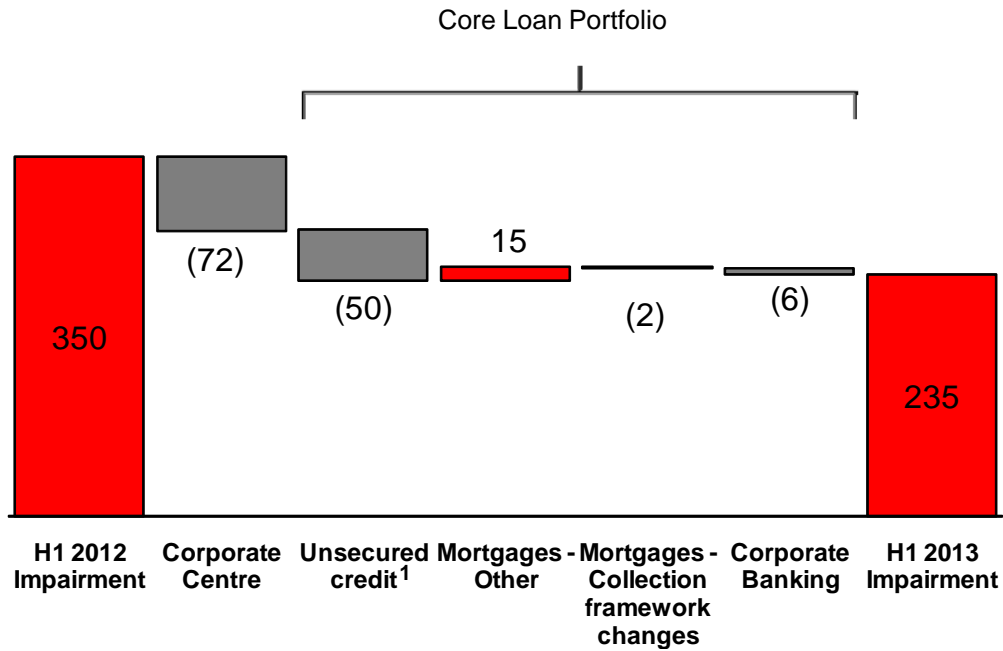
¹ Other includes: Fixed term, esaver, Reward, Structured products and Deposits, Cahoot and Private Banking, Cater Allen and offshore balances

² Of the deleveraging of residential mortgages £3bn was interest only mortgages

³ Total liquid assets consists of: PRA 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

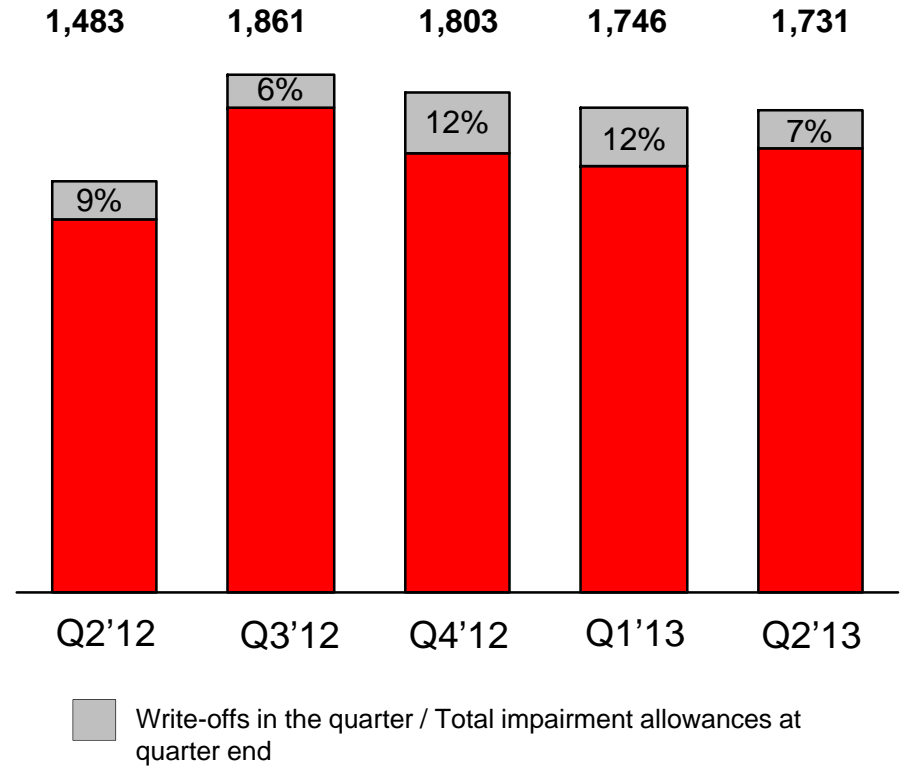
Credit conditions gradually improving

Impairment losses and loans and advances (£m)



Impairment allowances and write-offs (%)

Total impairment loan loss allowances (£m)



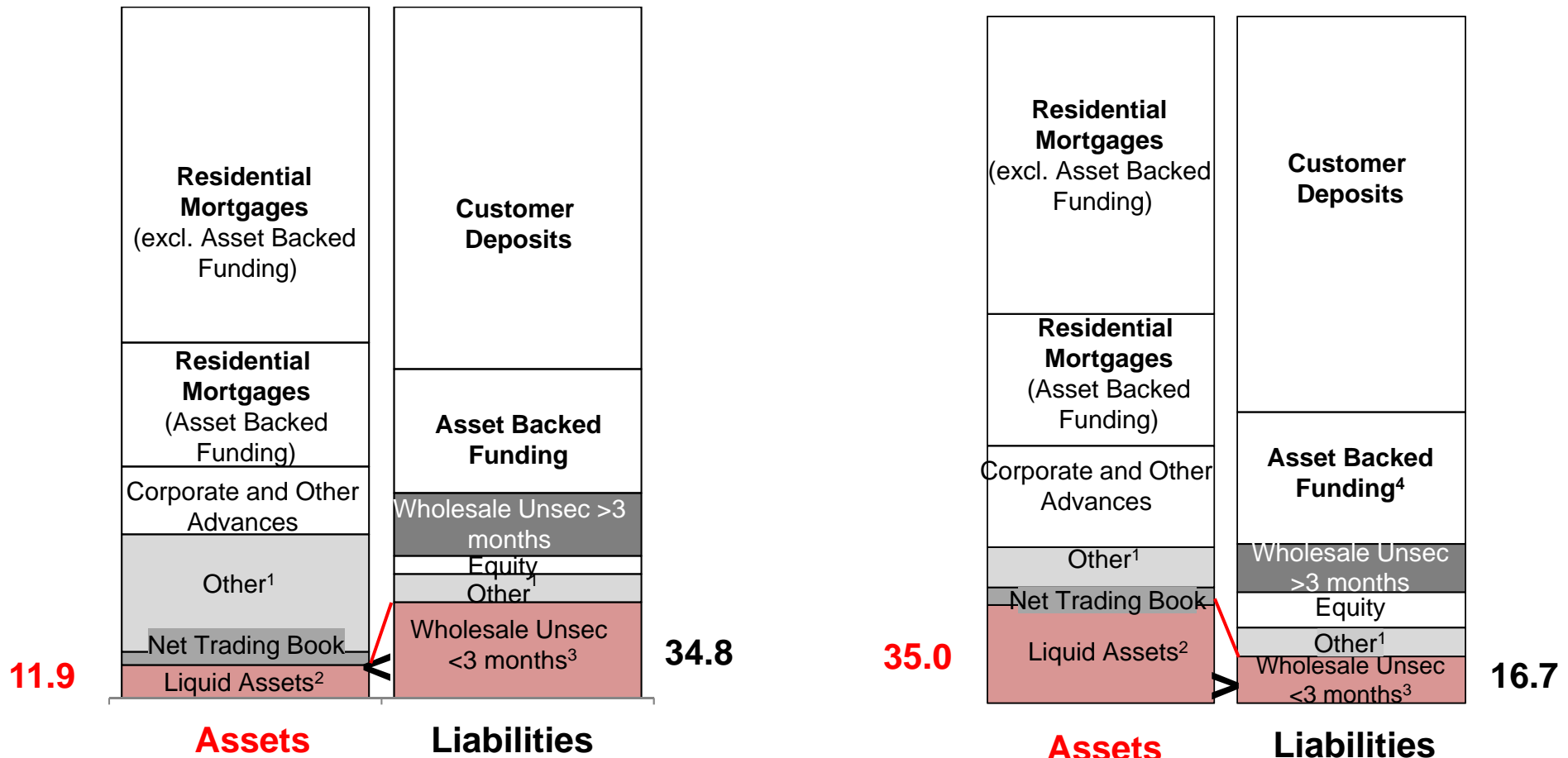
¹ Includes UPLs, overdrafts and credit cards reported in Retail Banking

Liquidity well in excess of short term unsecured wholesale maturing liabilities

£bn

December 2009

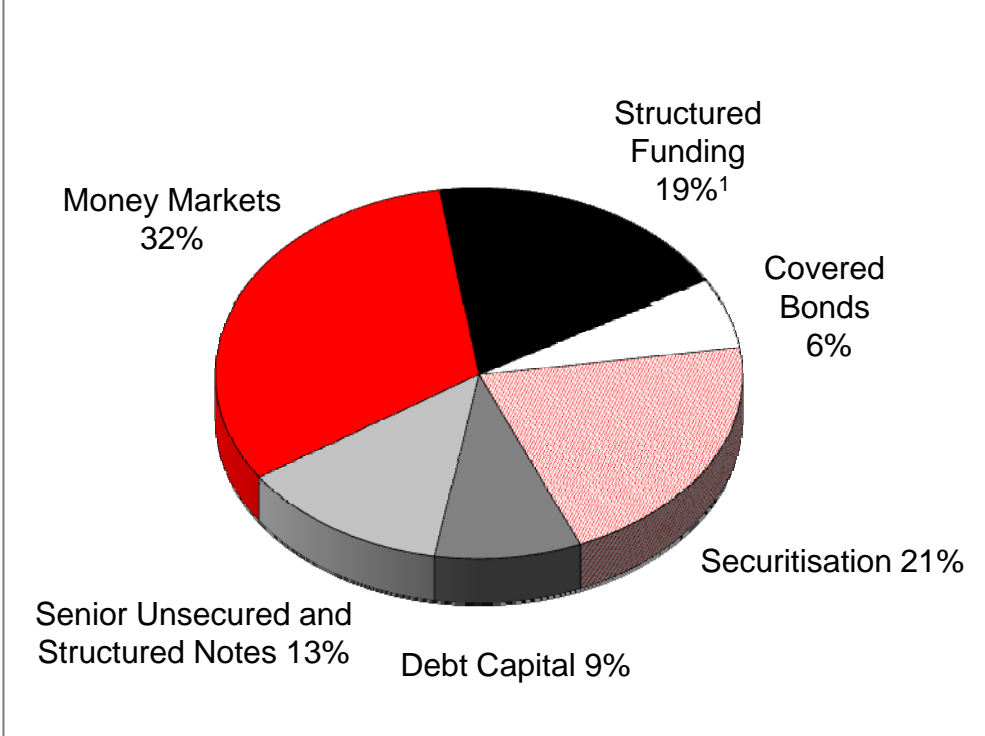
June 2013



Diverse funding sources and prudent funding profile

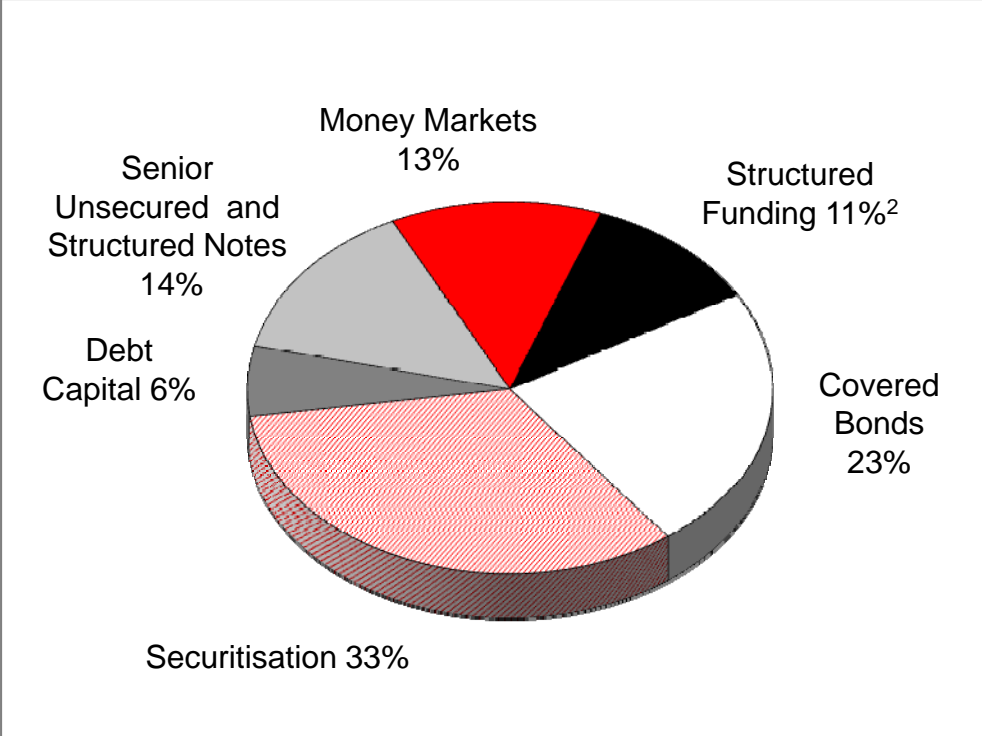
£2.5bn of MTF issuance since year end (to end June)

Wholesale funding stock composition at December 2009



Duration: 806 days³

Wholesale funding stock composition at June 2013



Duration: 1,157 days³

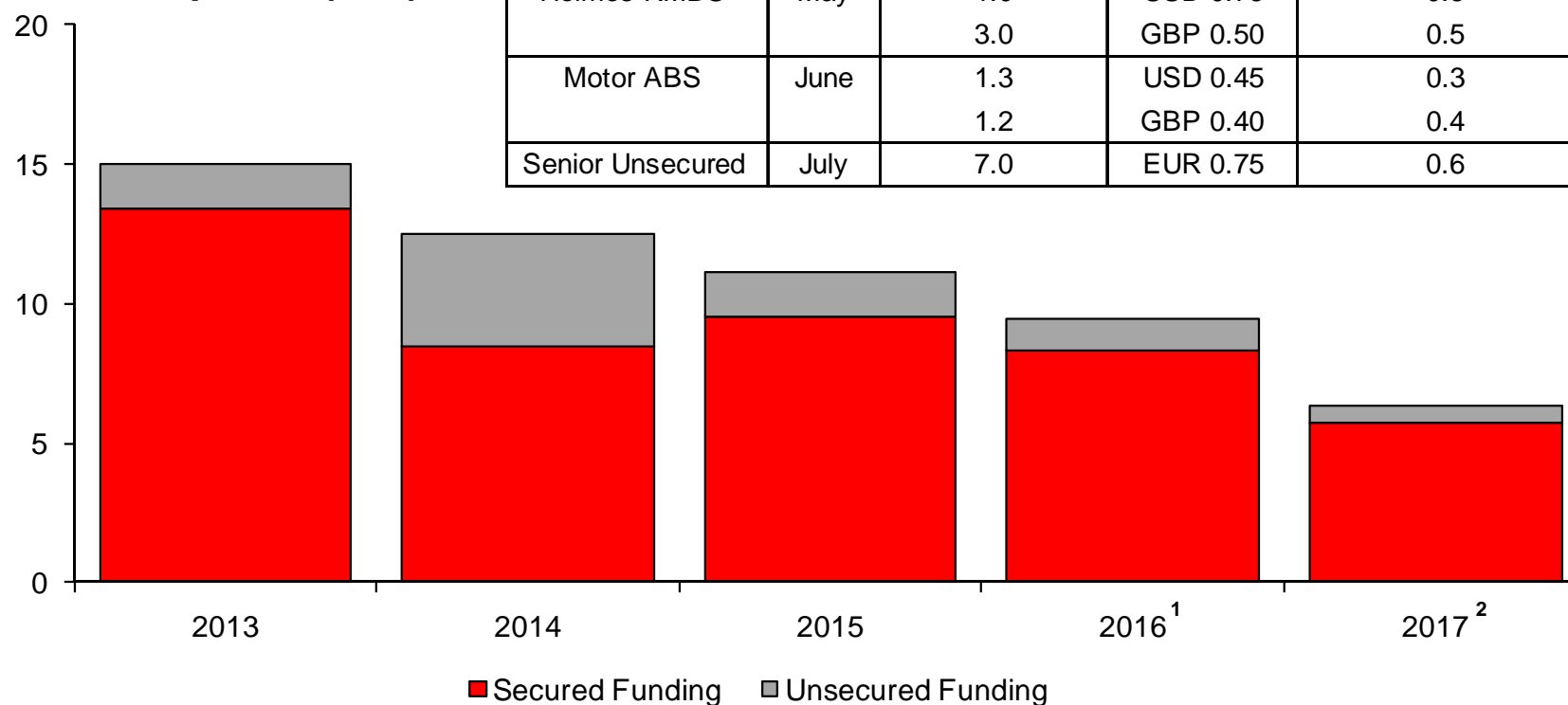
Medium term funding maturities profile

Less funding required

Santander UK plc - Public issuance in 2013, to end July

Transaction	Month	Maturity (years)	Notional (bn)	GBP equivalent (bn)	Issuance Spread
Senior Unsecured	January	5.0	EUR 1.00	0.8	MS + 97bps
Holmes RMBS	May	1.0	USD 0.75	0.5	1M USD + 8bps
		3.0	GBP 0.50	0.5	3M GBP + 40bps
Motor ABS	June	1.3	USD 0.45	0.3	1M USD + 50bps
		1.2	GBP 0.40	0.4	1m GBP + 60bps
Senior Unsecured	July	7.0	EUR 0.75	0.6	MS + 115bps

Maturities profile (£bn)



United Kingdom

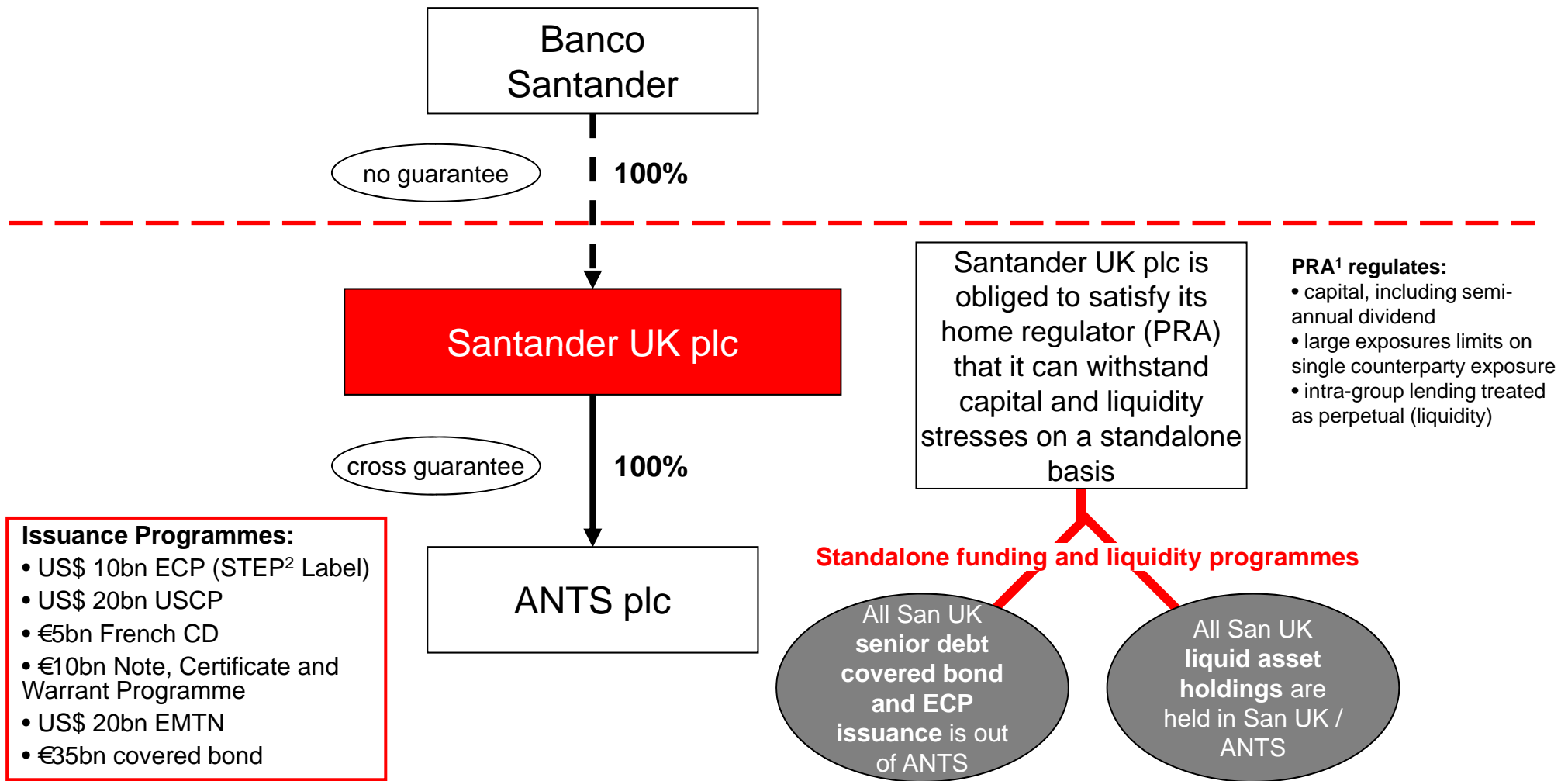
Source: Santander UK MI

¹ Includes Funding for Lending drawdown

² Post 2017 maturities not shown



Santander UK operates on a standalone basis, following Banco Santander independent subsidiaries policy



Santander UK credit ratings

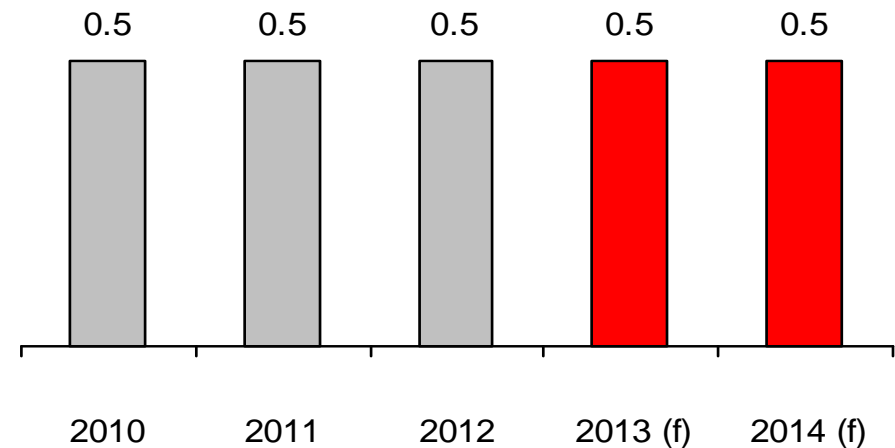
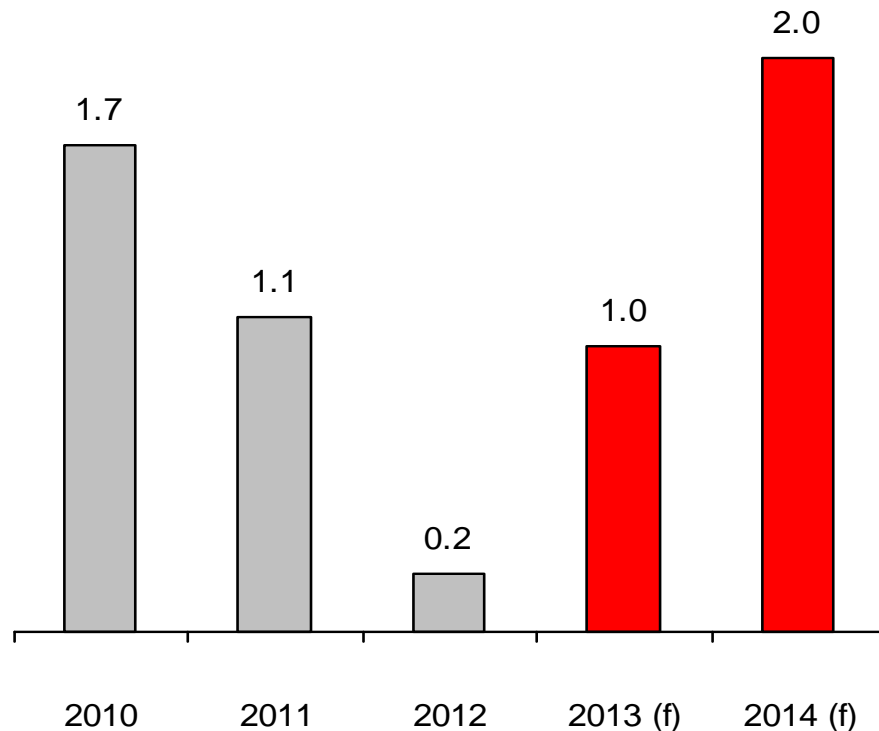
	S&P	Moody's	Fitch
Long Term	A	A2	A
Short Term	A-1	P-1	F1
Outlook	Negative	Negative	Stable
Last rating change	30/04/2012	17/05/2012	11/06/2012

Market environment – GDP and interest rates

Economic activity improving, but with significant macro and regulatory challenges

Annual GDP growth (% , annual average)

Interest rates (% , annual average)

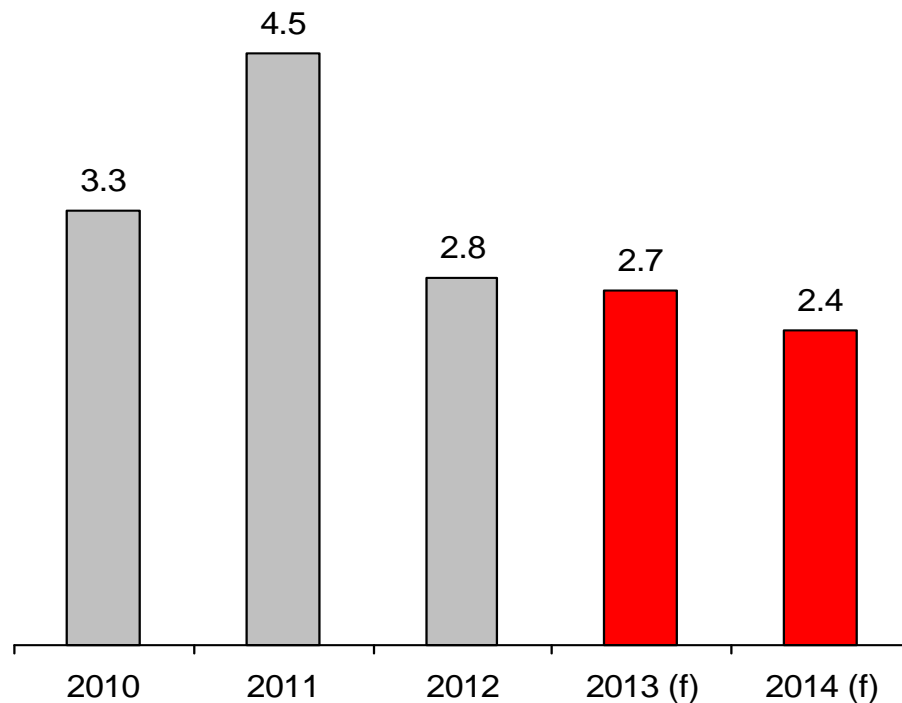


Market environment – inflation and exchange rates

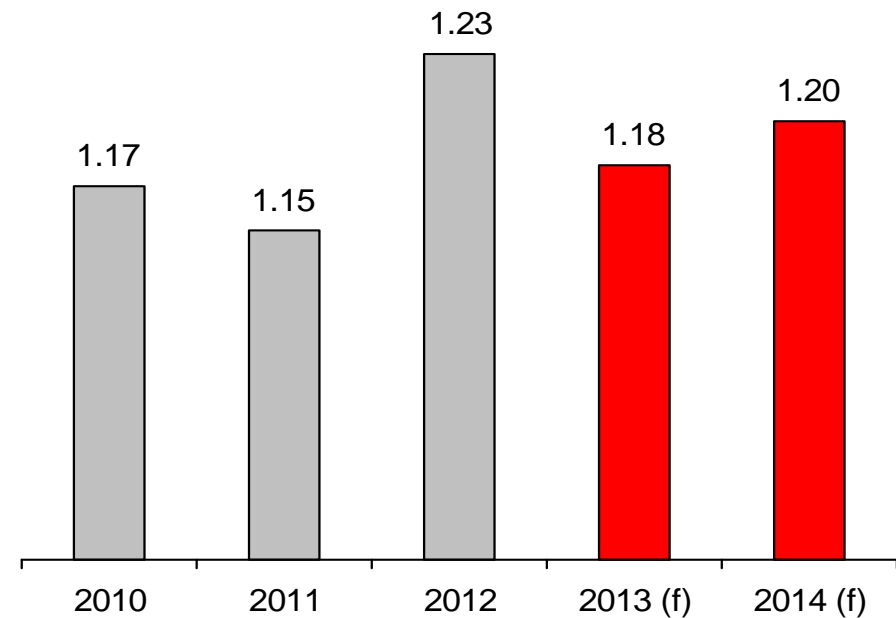
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Inflation persists ... with exchange rates impacted by Eurozone uncertainty

Annual CPI¹ inflation rate (% , annual average)



GBP : Euro exchange rates (annual average)



United Kingdom

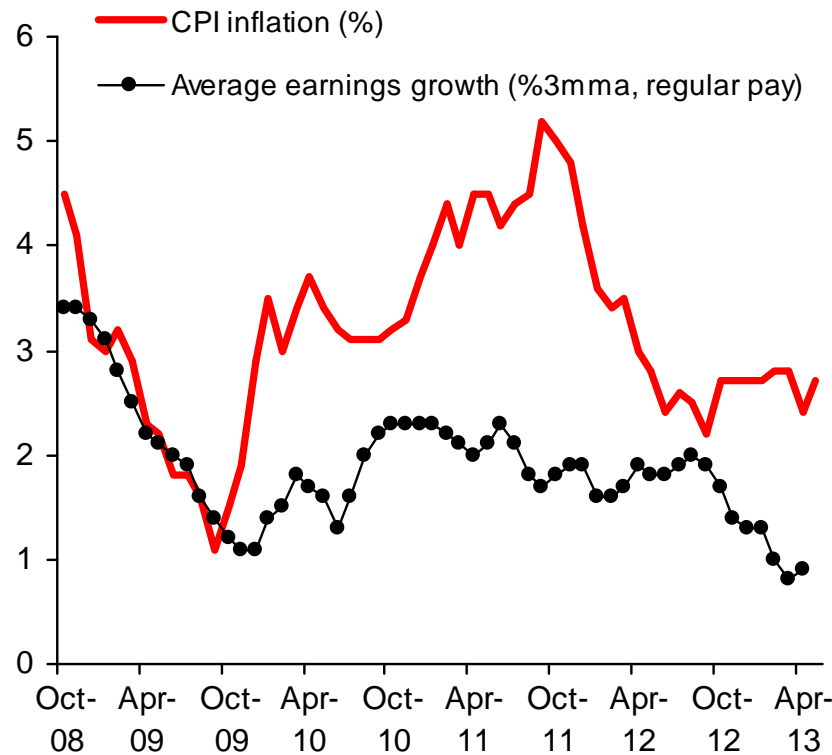
Source - Office for National Statistics & Bank of England
(f) – Santander UK July 2013 forecast
¹CPI: Consumer price index



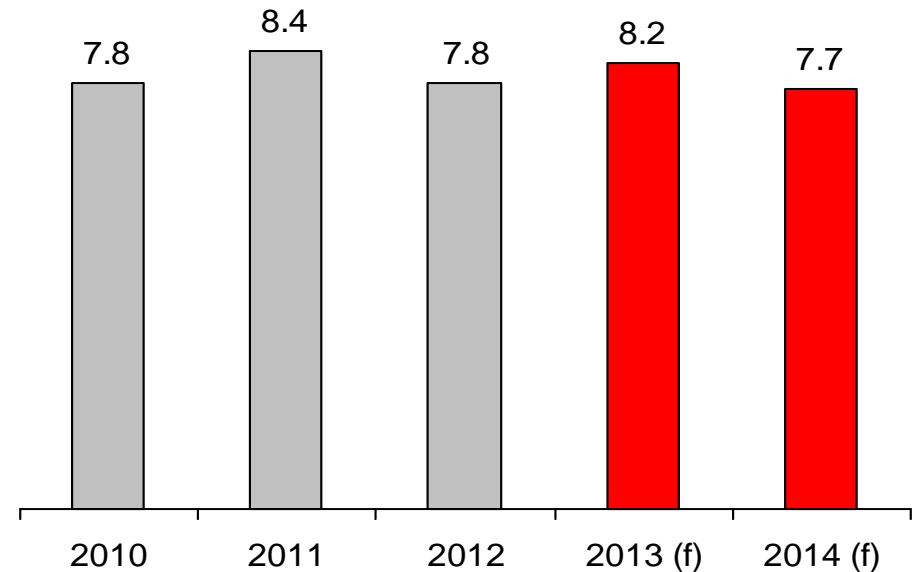
Market environment – earnings growth and unemployment

Real earnings falling ... unemployment broadly steady

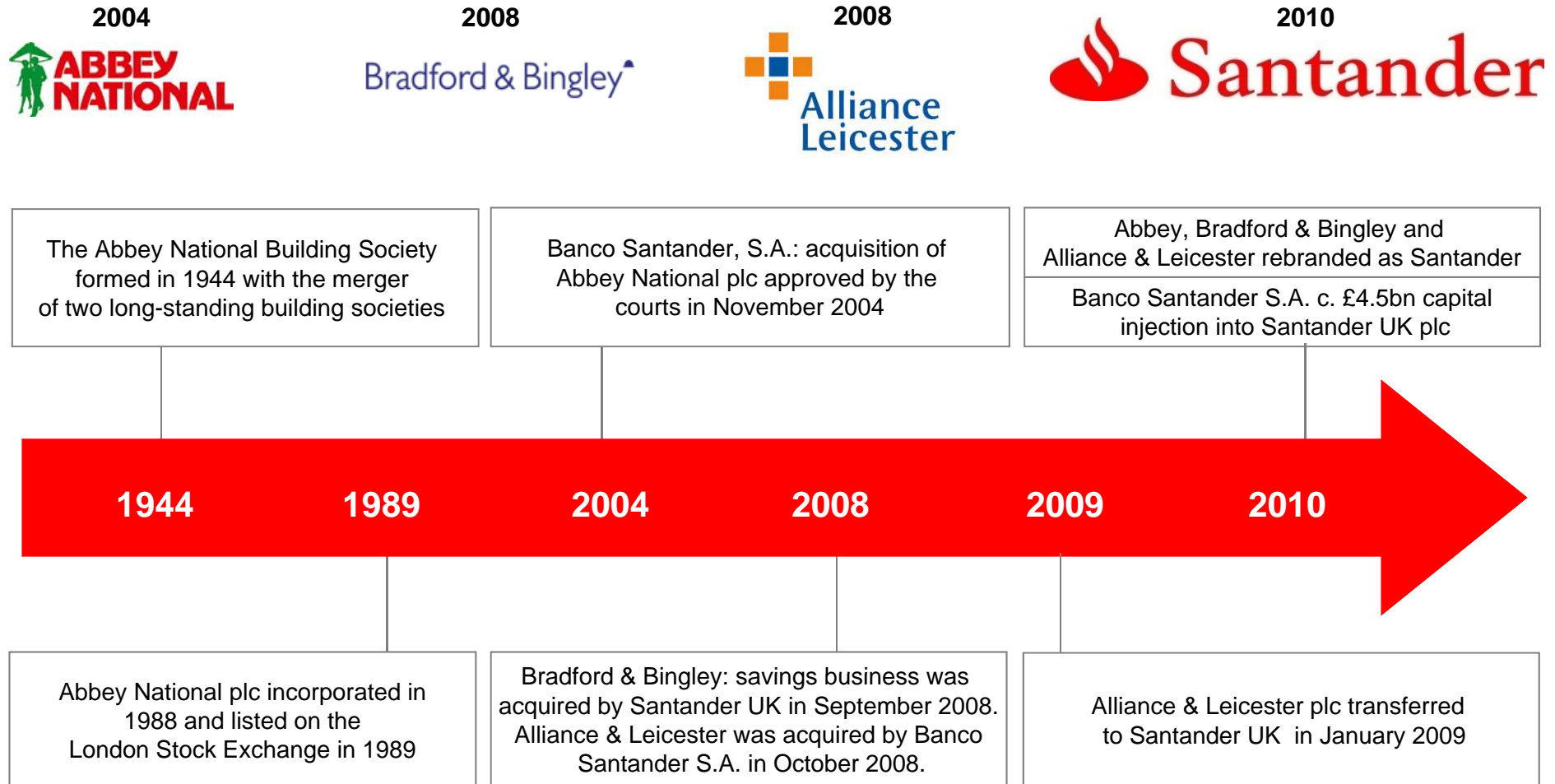
Inflation and average earnings growth



Unemployment rate (ILO¹ definition, end year, %)



Santander UK plc: our history



- **Investors page:**

- includes results and presentations pages

- **Debt Investors page:**

- includes links to covered bond and securitisation programme sites

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