

Santander UK plc

Investor Update Q3 2013 Results

October 2013

United Kingdom



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Source: Santander UK Q3 2013 results “Quarterly Management Statement for the nine months ended 30 September 2013” or Santander UK Management (“MI”)
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Delivering on our commitments

		2015 target	9M'13	2012
1 Loyal and satisfied customers	Loyal customers	4 million	2.6 million	2.2 million
	Number of 1 2 3 World customers	4 million	2.2 million	1.3 million
	Customer satisfaction (FRS)¹	Top 3	57%	55%
2 'Bank of Choice' for UK companies	SME market share	8.0%	5.7%	5.3%
	Business mix: Corporate Banking loans percentage	20%	11%	10%
3 Consistent profitability and strong balance sheet	Return on tangible book value²	13% - 15%	9.0%	9.1%
	Cost-to-income ratio³	< 50%	56%	53%
	Common Equity Tier 1 Capital ratio	> 10.5%	11.6%	11.1%
	Loan-to-deposit ratio	< 130%	126%	129%
	Non Performing Loan ratio	Ratio maintained	2.11%	2.16%

United Kingdom

See Appendix 2 supplementary information on page 18 of the Q3'13 QMS for notes and definitions, including key base economic assumptions which underpin our future targets

¹ Three months ending data 30 September 2013 and 31 December 2012. Average satisfaction for top 3 competitors at 30 September 2013 was 61% (31 December 2012: 60%)

² Assuming short term and long term interest rates increase by at least 150 bps over the period

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%. See Appendix 2 for details.

 **Santander**

Our strategic priorities

1

Loyal and satisfied customers

2

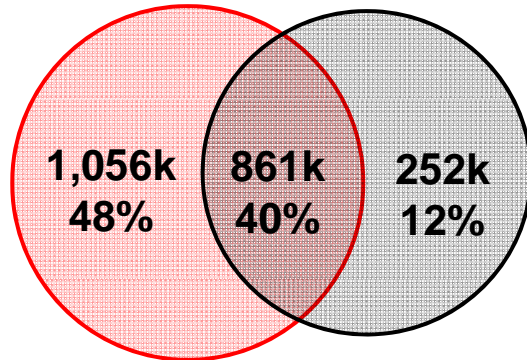
'Bank of Choice' for UK companies

3

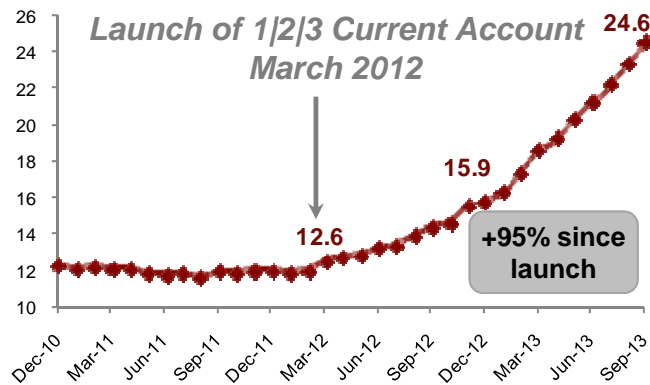
Consistent profitability and strong balance sheet

1 2.2 million 1|2|3 World customers and still growing

Customer numbers



Total current account balances (£bn)



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

Non 1 2 3 Current Account		1 2 3 Current Account
9%	affluent ¹	25%
17%	primary banking ²	86%
1.5	products per customer	2.8
1x	average account balance	3x
42%	4+ direct debits	71%
<4,000	staff with a current account	19,000

... and improving customer satisfaction³

95% satisfied with 1|2|3 Current Account

91% satisfied with 1|2|3 Credit Card

United Kingdom

Source: Santander UK plc Marketing MI

¹ Customers with significantly higher current account and savings balances

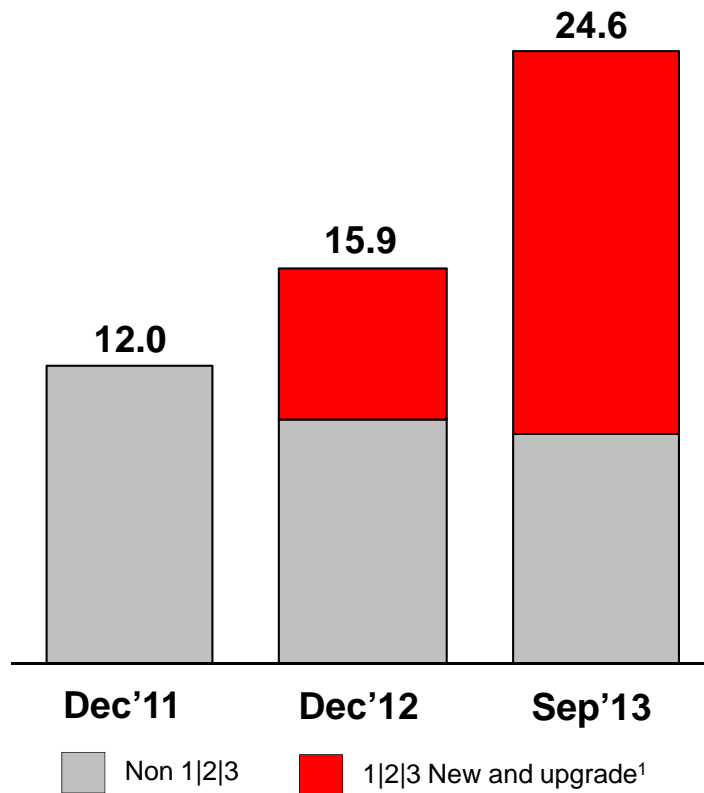
² Primary banking current account customers have a minimum credit turnover of at least £500 per month and at least two direct debits set up on the account.

³ 1|2|3 Current Account result as published by Moneysavingexpert.com in August 2013, based on customer rating of "great" and "ok". 1|2|3 Credit Card result as published by Moneysavingexpert.com in February 2013

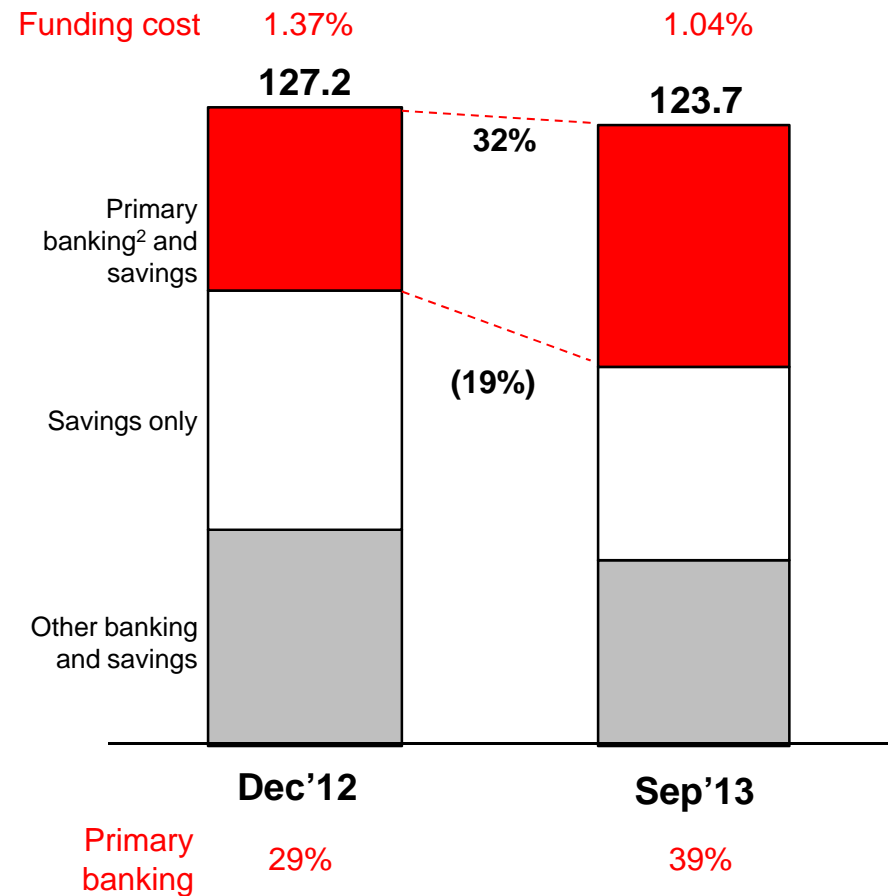


1 1|2|3 World is improving the customer profile and loyalty whilst reducing our overall funding cost

Current account balances (£bn)

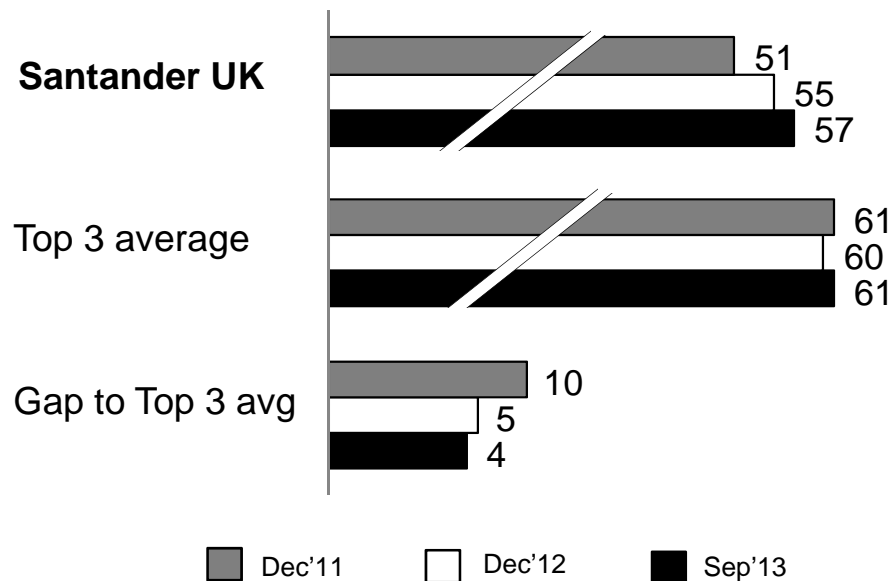


Retail deposit balances (£bn)



1 High quality service at the core of our business model

FRS: Overall Satisfaction (%)¹



Investing in service and delivering results

- Santander UK made a significant improvement in customer satisfaction since December 2011, with our score rising to 57%
- An ongoing programme to transform the branch network continued with optimisation of the geographic footprint, branch refurbishment and further investment in channels and self-service terminals
- We continue to work on customer segmentation, underpinning the roll out of our affluent proposition 'Select', and our ability to offer more targeted financial services to our customers

TARGET: To become a top 3 bank by 2015

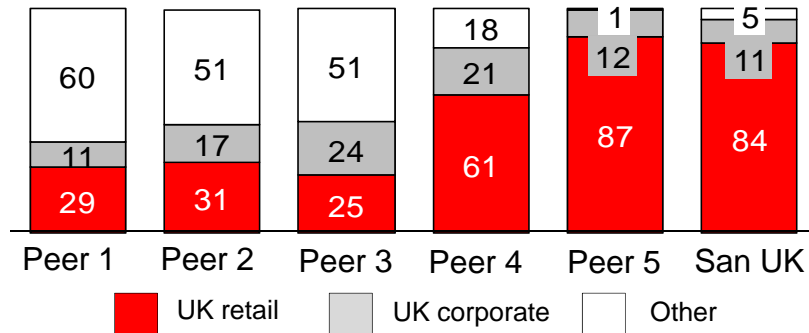
United Kingdom

¹ Financial Research Survey (FRS) is an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK NOP. Overall 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 plc and competitor brands. Competitor set includes Barclays, Halifax, HSBC Bank plc, Lloyds TSB and NatWest. Data shown is for the three months ending 31 December 2011, 31 December 2012 and 30 September 2013

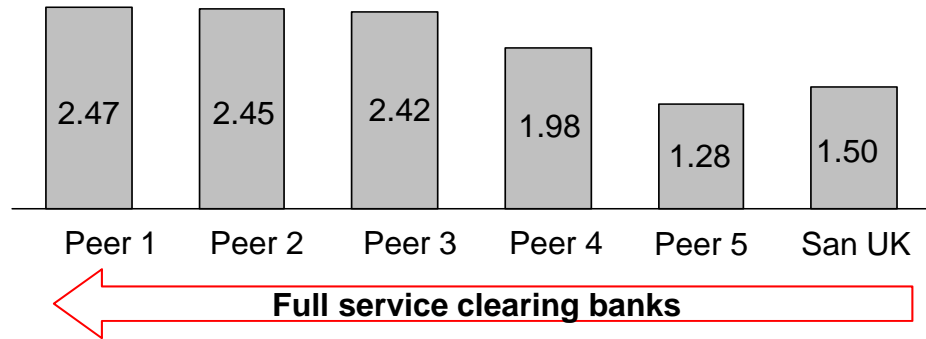


1 Current retail focus ... challenger opportunities

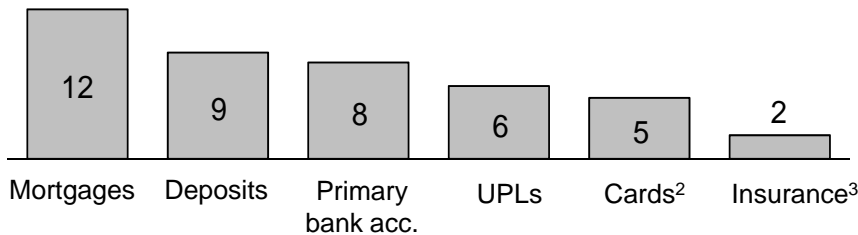
Group customer loans mix (%)



Net Interest Margin comparison (%)⁴



Santander UK market shares (stock, %)¹



- Current Santander UK business mix; concentrated in UK retail mortgages and savings
- 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

Our strategic priorities

1

Loyal and satisfied customers

2

'Bank of Choice' for UK companies

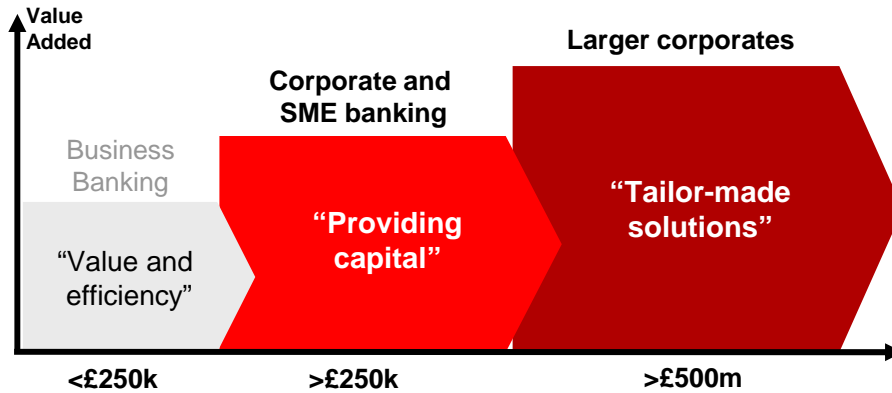
3

Consistent profitability and strong balance sheet

2 Corporate Banking differentiation ... through customer approach and innovation

Helping customers find the right solutions

Customers at the heart of our growth



	2011	2012	9M'13
Relationship Managers	457	503	582
Corporate Business Centres	28	35	37

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

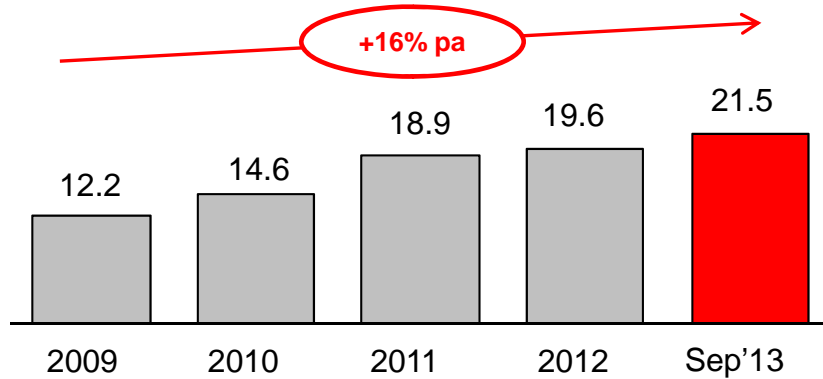
Management Systems:

- Customer Relationship Management
- Fraud and Anti-Money Laundering

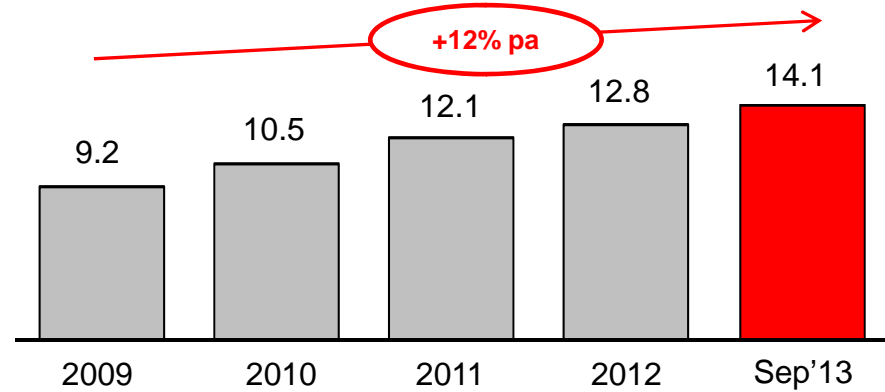
¹ Business Banking services small business customers and is reported within the Retail Banking segment. Large Corporates and Corporate and SME Banking are reported within the Corporate Banking segment

2 Corporate Banking has seen strong growth since 2009 ... towards our 2015 targets

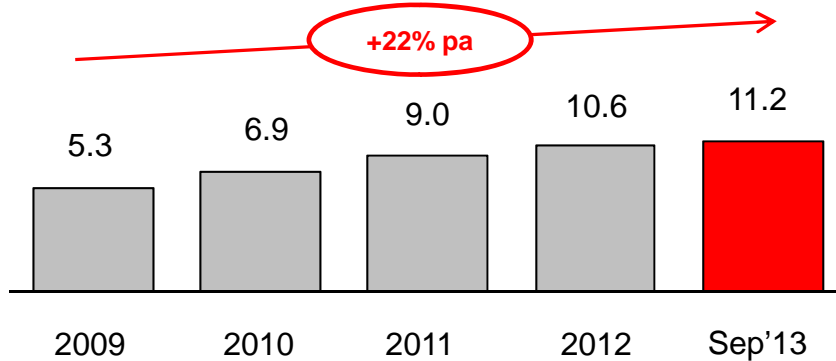
Customer assets evolution (£bn)



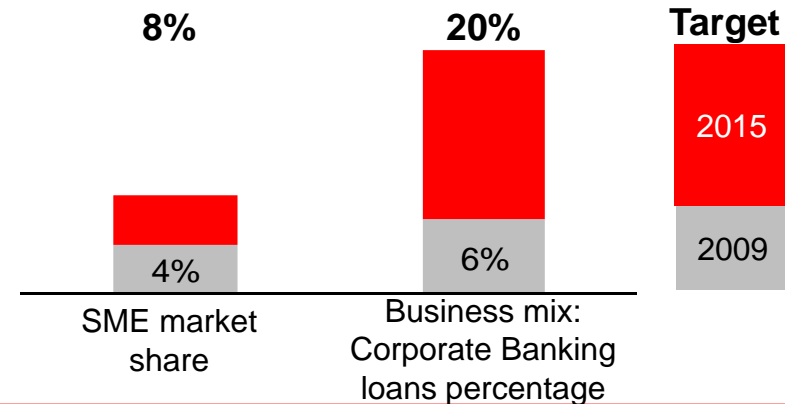
Customer liabilities evolution (£bn)



SME lending growth (£bn)¹



'Bank of Choice' targets

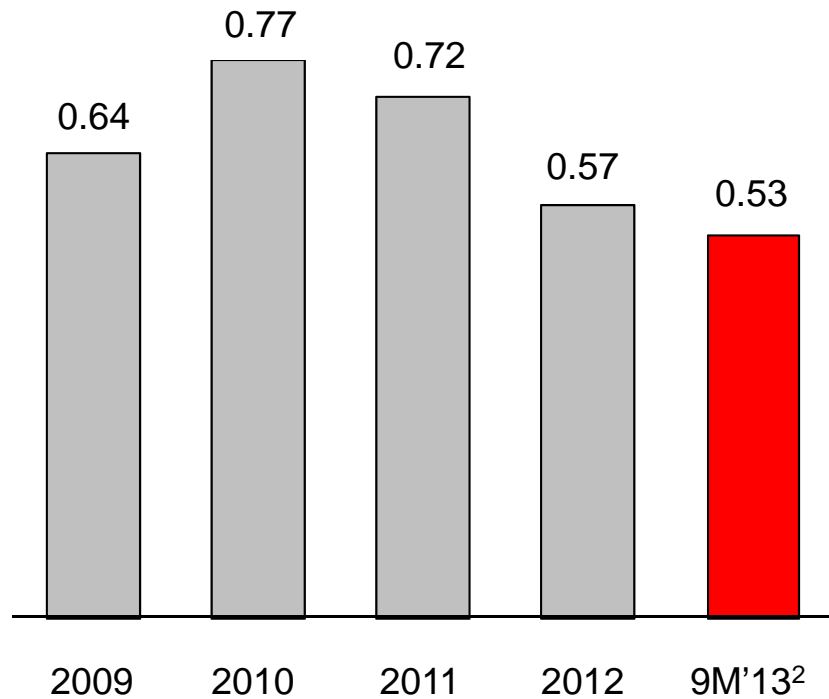


¹ Corporate Banking SME is commercial lending excluding Business Banking (under £250,000 pa turnover managed in Retail Banking) and non-core portfolio and legacy assets in run-off managed in the Corporate Centre

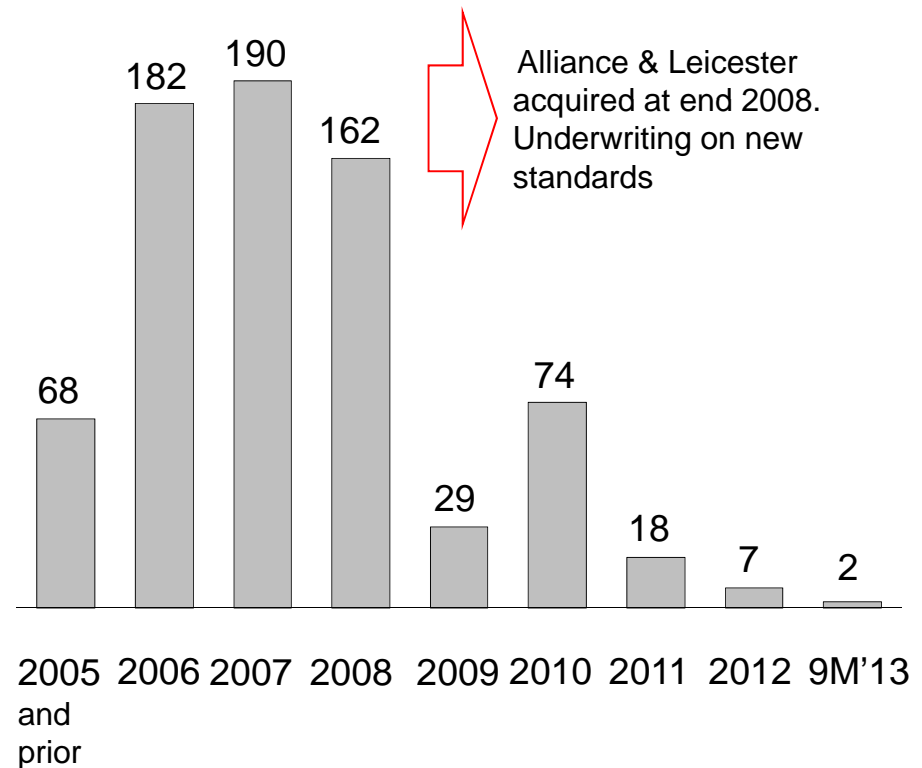
² Source for peer data: Santander UK plc analysis. Peer data includes Barclays plc, HSBC Bank plc, RBS plc and Lloyds Banking Group core only.

2 Maintaining asset quality in the expanding Corporate Banking business

Loan loss rate (%)¹



NPLs stock by deal vintage (£m)



¹ Calculated as Corporate Banking impairment charges on loans and advances divided by average loans and advances
² Annualised year to date

Our strategic priorities

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Loyal and satisfied customers

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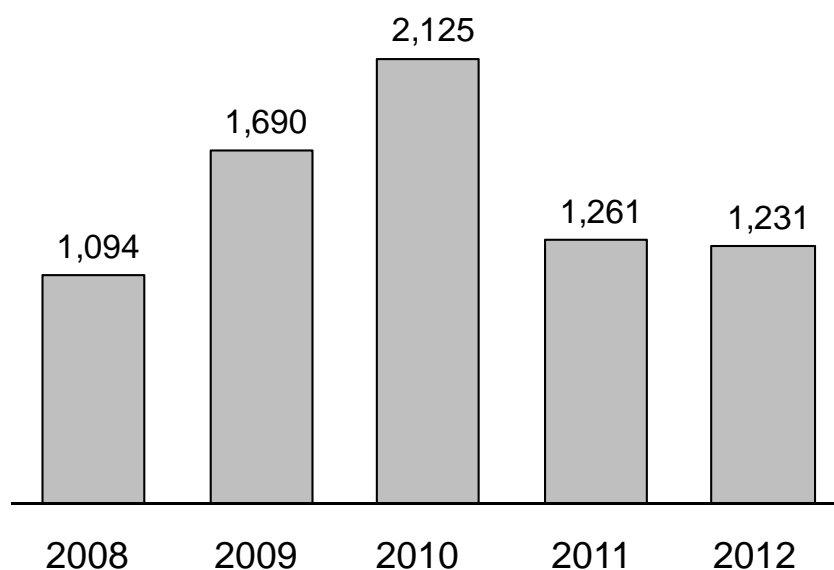
'Bank of Choice' for UK companies

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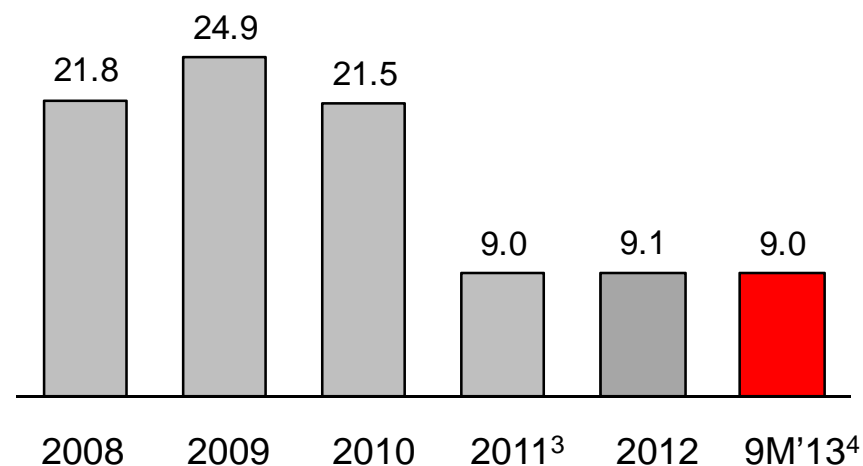
Consistent profitability and strong balance sheet

3 Consistently profitable, with long-term, low risk profile

Profit before tax (£m)¹



Return on tangible book value (%)^{1,2}



United Kingdom

¹ Prior period results have not at this stage been amended to reflect discontinued operations, the effect of which is not material

² Return on average tangible book value (RoTBV) is a non-IFRS measure. See p339 of our Annual Report on Form 20-F, as filed with the SEC on 20 March 2013

³ Banco Santander S.A. injected £4.5bn of capital into Santander UK plc in August 2010. See p499 of our Annual Report on Form 20-F for a RoTBV reconciliation from 2010 to 2011

⁴ Annualised year to date

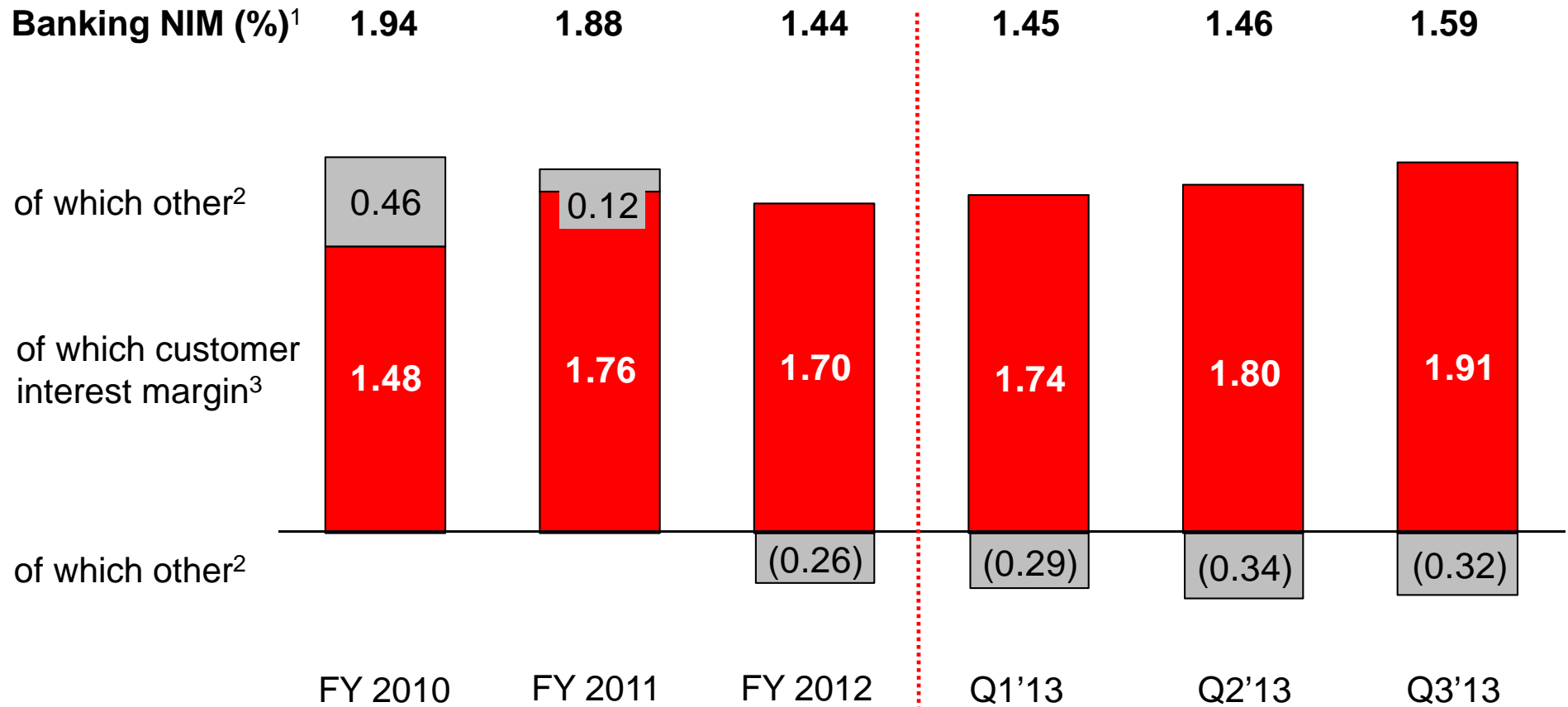


3 PAT was broadly stable on prior period, without the impact of significant items

Financial highlights ¹	Nine months ended		Change %
	30.09.13 £m	30.09.12 £m	
Net interest income	2,151	2,105	2
Non interest income	807	1,656	(51)
- of which significant items ²	-	705	n.m.
Operating expenses	(1,650)	(1,606)	3
Total operating provisions and charges	(417)	(1,115)	(63)
- of which significant items ²	-	(619)	n.m.
Profit before tax from continuing operations	891	1,040	(14)
Profit after tax from continuing operations	717	785	(9)
- of which significant items ²	-	65	n.m.
Banking net interest margin ('Banking NIM')	1.50%	1.39%	0.11%

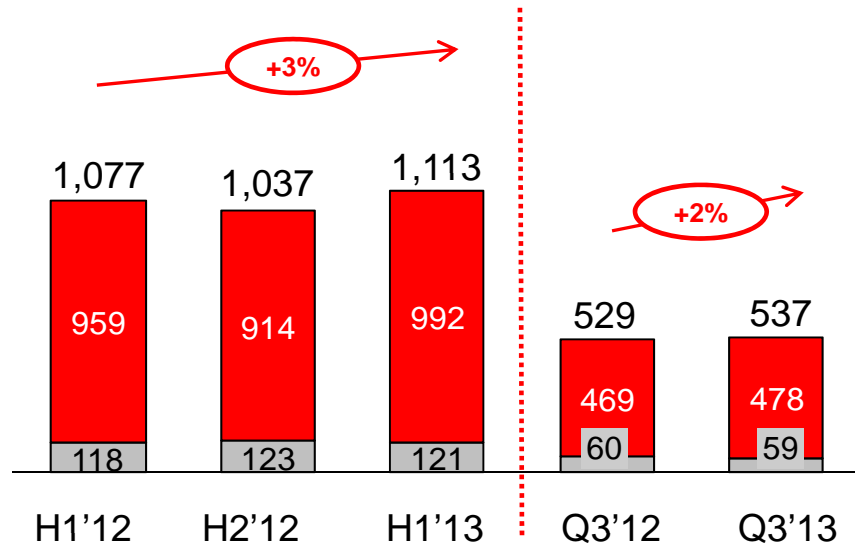
- Higher net interest income, reflecting improved asset margins and increased lending in Corporate Banking
- Business as usual costs remained tightly controlled. Administrative expenses were slightly higher, principally due to higher operational, technology and regulatory compliance and control costs
- Credit quality in the Retail Banking and Corporate Banking loan books continued to be resilient

3 Recovery in Banking NIM ... underpinned by strengthening customer interest margin

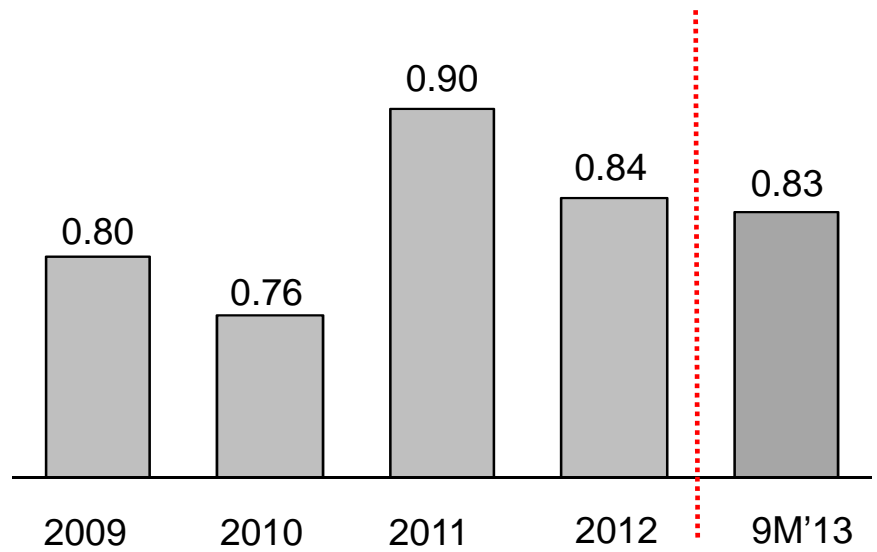


3 Costs remain well controlled ... efficiency reflects current business mix and management focus

Operating expenses (£m)



Operating expenses/ Avg. total assets (%)¹



■ Administrative expenses ■ Depreciation, amortisation and impairment

- Cost management initiatives:**
- Branch/agency de-duplication
 - Headcount optimisation
 - Decommissioning of legacy systems

- Investment programmes:**
- Corporate Partenon platform
 - Branch refurbishment and improvements
 - Corporate Business Centre expansion

¹Average total assets excluding derivatives; including discontinued operations

3 Maintaining a prudent risk profile

	2008	2009	2010	2011	2012	Q3'13
Average LTV new lending	65%	61%	62%	64%	63%	63%
Weighted Average LTV new lending	N/A	N/A	N/A	N/A	59%	58%
Indexed LTV on book	51%	52%	51%	52%	52%	51%
% new business LTV > 90%	2%	0%	0%	0%	1%	0% ¹
LTV 90%-100%	7%	10%	7%	7%	7%	5%
LTV > 100%	4%	7%	4%	5%	5%	4%
Mortgage NPL ²	0.97%	1.52%	1.41%	1.46%	1.74%	1.89%

United Kingdom

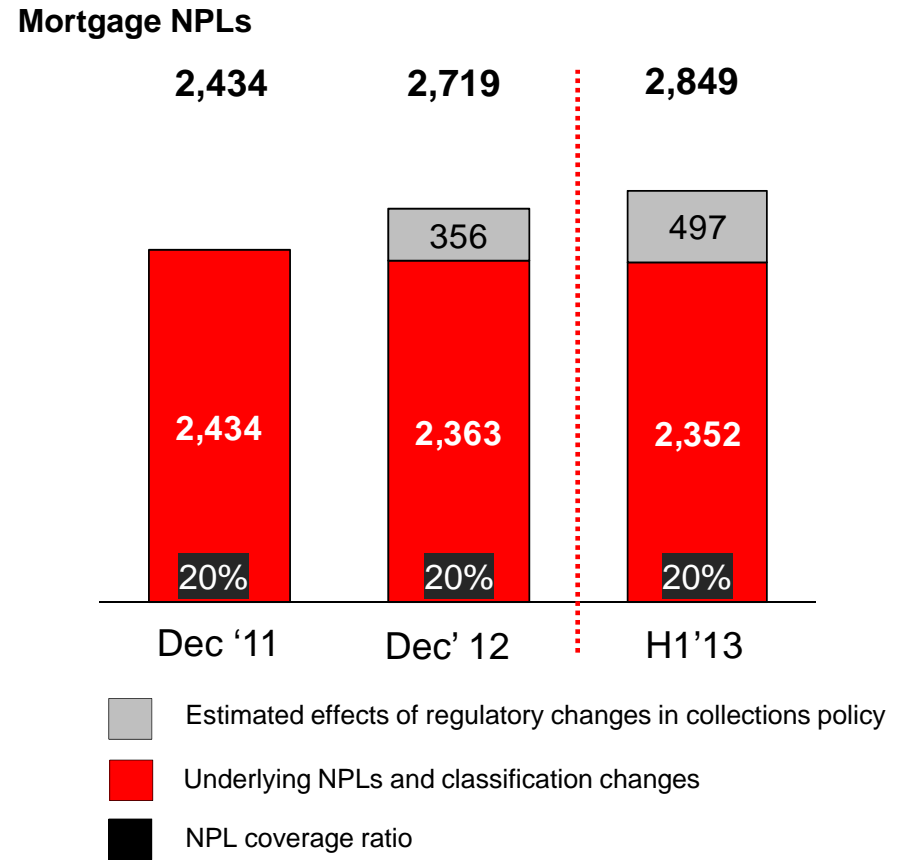
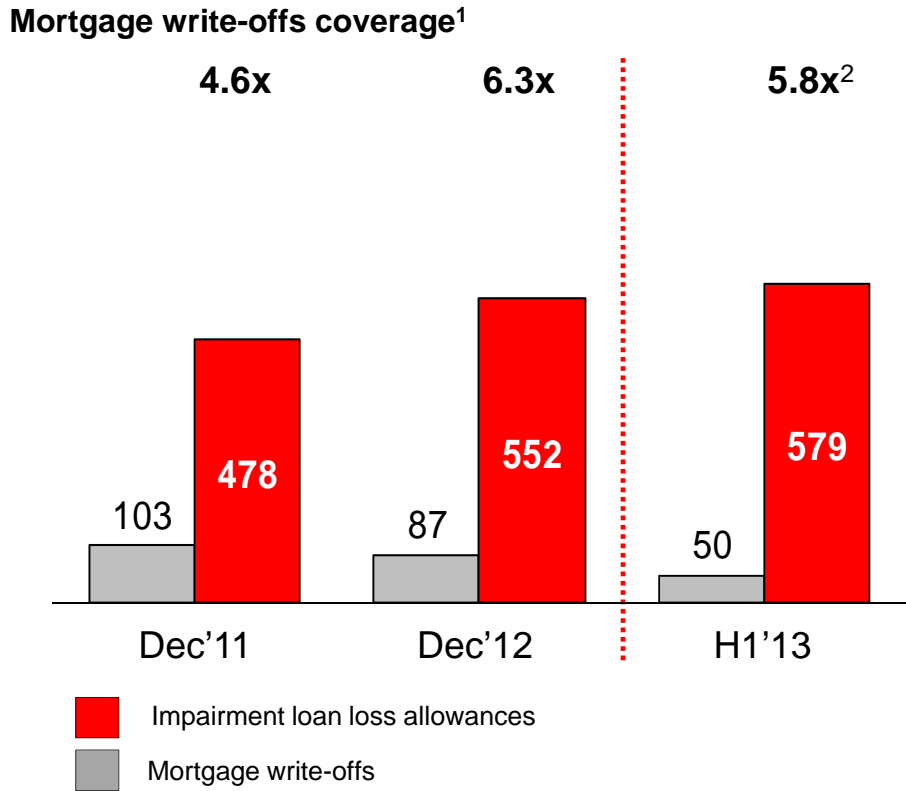
¹New mortgages above 90% LTV are only available as part of the 2012 UK Government Scheme 'NewBuy'. This enabled Santander UK plc to provide 95% LTV mortgages on new-build properties with the Government providing an indemnity guarantee
²The rise in mortgage NPL was largely due to regulatory-driven policy and reporting changes introduced at the beginning of 2012 as well the impact from the managed reduction of the mortgage portfolio



3 Mortgage write-offs coverage stable ... resilient underlying NPLs

Mortgage impairment loan loss allowances (£m)

Mortgage NPLs by component (£m)

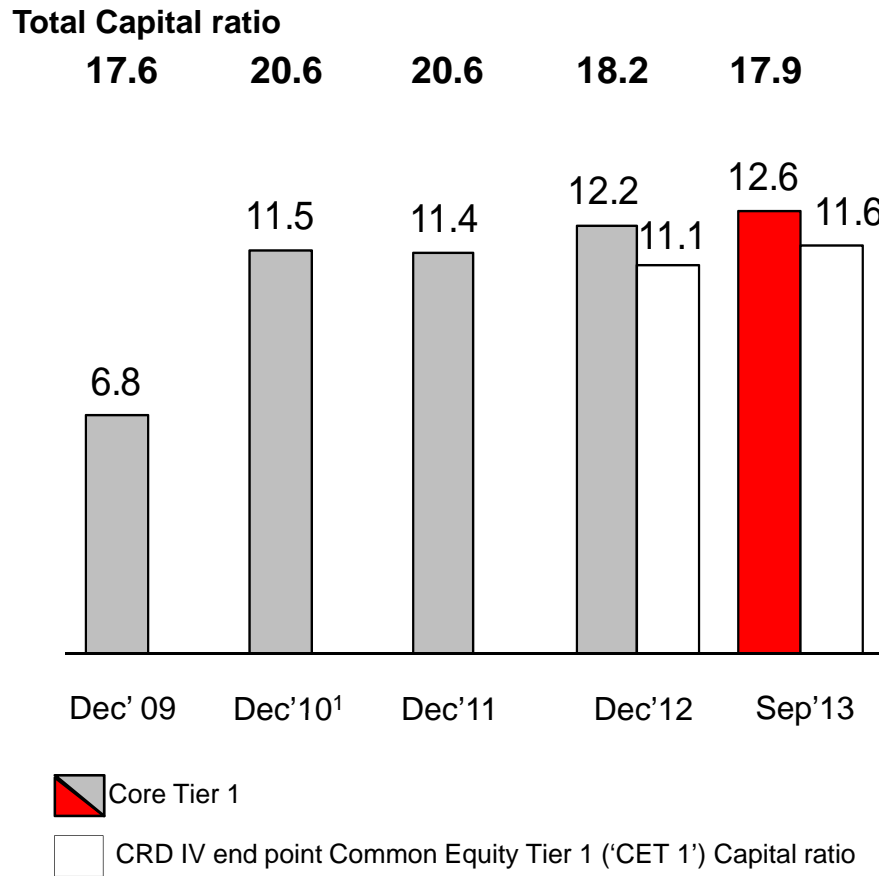


3 Strong balance sheet

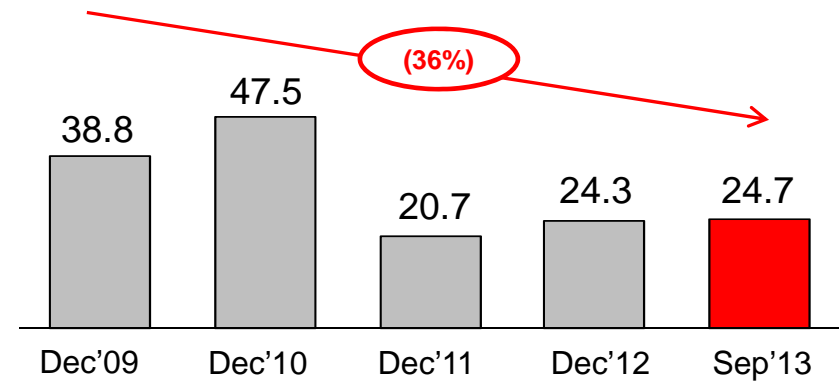
UK based business	97% of customer assets are UK based	<ul style="list-style-type: none"> • £149.9bn residential retail mortgages; £21.5bn Corporate Banking loans • UK focused; net exposure of c. 0.6% of total assets to eurozone peripheral countries
Strong funding and liquidity	Targeted improvement to the quality of the deposits mix	<ul style="list-style-type: none"> • Customer deposits increasing, with a focus on better customer relationships • Customer deposits and MTF to customer loans ratio of 112%; LDR¹ of 126%, improved three percentage points from Dec'12
	Diverse funding sources	<ul style="list-style-type: none"> • Wholesale funding of less than one year broadly stable at £24.7bn • Lower wholesale issuance required; MTF issuance of £4bn year to date
Good credit quality and capital strength	Prudent risk management	<ul style="list-style-type: none"> • Mortgage stock LTV of 51%; strong mortgage coverage levels maintained • Lending criteria tightened in 2012, to improve credit quality and profitability of mortgage book; Corporate Banking NPL vintage remains benign
	Strong capital and prudent liquidity	<ul style="list-style-type: none"> • Core Tier 1 capital ratio of 12.6%; Total Capital ratio of 17.9%; CET 1 Capital ratio of 11.6% • Eligible liquid assets of £33.1bn, 134% of wholesale funding of less than one year, as we actively manage our requirements. Total liquid assets of £79.6bn²

3 Strong capital and funding position maintained

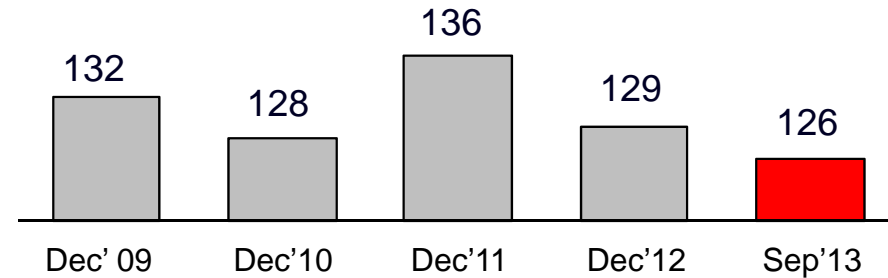
Core Tier 1 Capital ratio (%)



Wholesale funding, under one year (£bn)



Loan-to-deposit ratio (%)²



¹ Banco Santander S.A. injected £4.5bn of capital into Santander UK plc in August 2010
² 2009-2010 results have not at this stage been amended to reflect discontinued operations, the effect of which is not material

Outlook

Loyal and satisfied customers

- Continued focus on **transforming the business** towards a relationship-centred retail and commercial bank, **enhancing the quality of the balance sheet and earnings**
- Building **profitable primary banking relationships** through 1|2|3 World
- Non-1|2|3 Santander UK **revenue growth opportunity of c. 13 million active customers**
- Further **enhancement of the customer experience**, and **development of the omni-channel model** (all channels - available everywhere - to all customers)

'Bank of Choice' for UK companies

- Continued **corporate loan growth**, diversifying the business mix towards a **8% SME market share** and a **20% core corporate loan share**
- **Increasing revenues from ancillary services/fee based products**, with the roll-out of our new online Corporate Banking capability
- Improving overall **segment profitability**

Consistent profitability and strong balance sheet

- **Modest trends evident in the Banking NIM**; focus on profitability over volumes
- Management of BAU costs whilst **continuing to invest in products and services**
- Credit conditions to **gradually improve**
- **Mortgage book** to stabilise in 2014; qualitative shift towards deposits offering **better relationships**
- **Further strengthening** of capital position
- Medium term **target RoTBV of 13% - 15%**, with rising interest rates¹

¹ Assuming short-term and long-term interest rates increase by at least 150 bps by 2015

Appendix

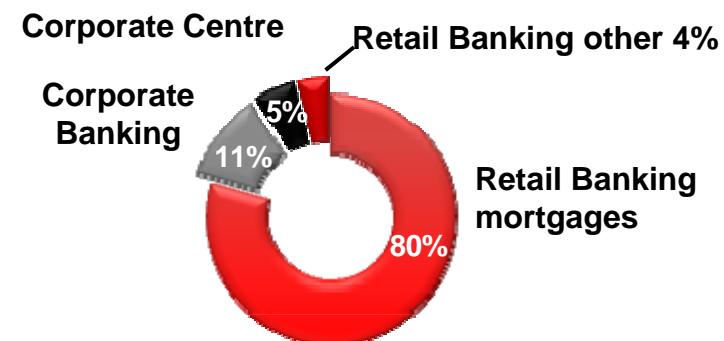
Key UK market player

Key Metrics

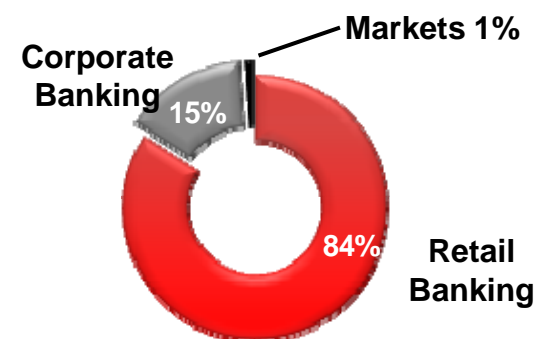
	9M'13	2012
Employees ¹	19,983	20,346
Branches (inc. agencies)	1,190	1,186
Corporate Business Centres	37	35
Corporate Banking Relationship Managers	582	503
	£bn	£bn
Retail Banking residential mortgages	149.9	156.6
Retail Banking customer deposits	123.7	127.2
of which current accounts	24.6	15.9
Corporate Banking customer loans	21.5	19.6
of which SMEs	11.2	10.6
Corporate Banking customer deposits	14.1	12.8
	9M'13	2012
Market share of stock % ³		
Mortgages	12.4	13.0
Deposits	8.8	9.4
Bank accounts	9.4	9.3
SME lending ⁴	5.7	5.3

Business Mix²

Customer loan balances



Profit before tax



United Kingdom

¹ Santander UK plc employees only, FTE basis Does not include employees of other Banco Santander S.A. companies supporting the operations of Santander UK plc

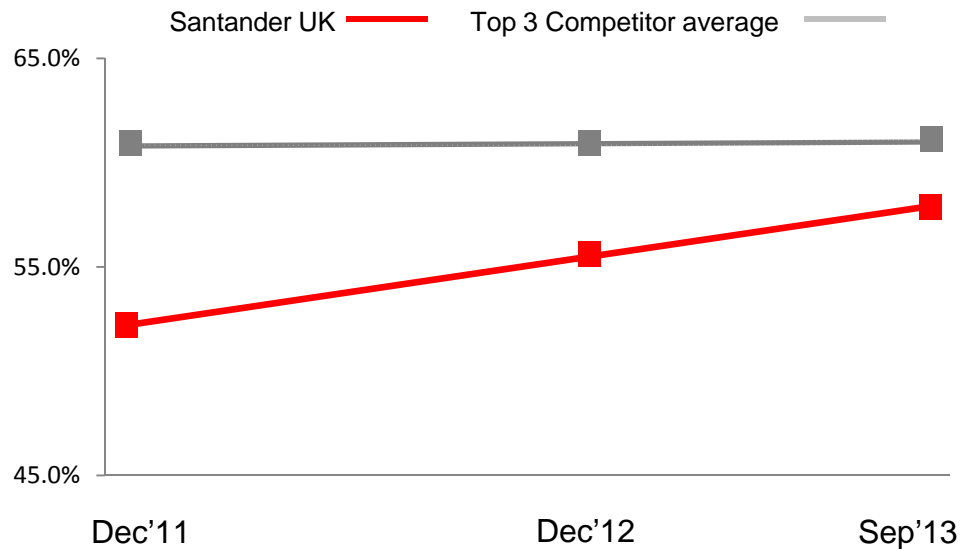
² Customer loan balances at 30 September 2013. PBT for the nine months ended 30 September 2013 excludes Corporate Centre

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

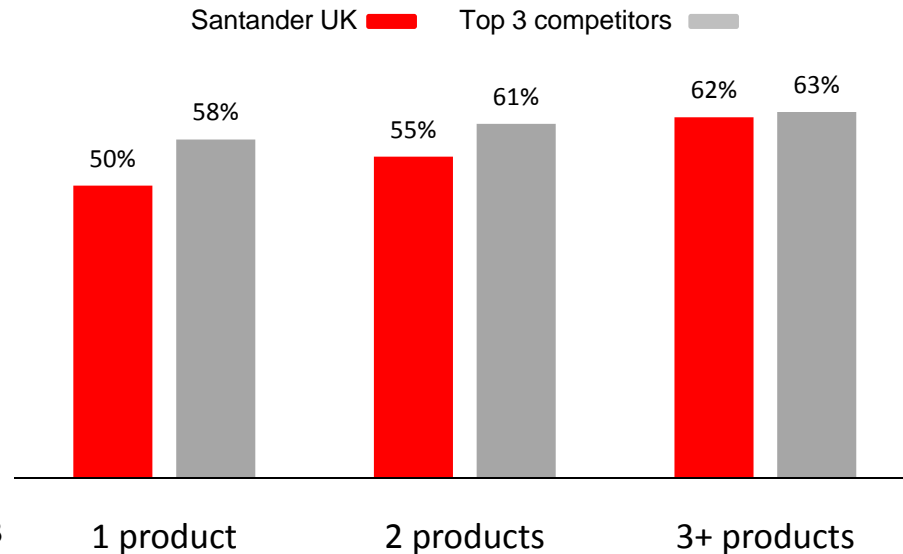
⁴ Measured as SME balances (customers with annual turnover of more than £250,000 up to £50m) divided by Santander UK plc SME market size from BoE lending data estimate

Santander UK is the bank with the most positive customer satisfaction trend

FRS customer satisfaction trends¹



Customer satisfaction² vs. number of products



- Santander UK made a significant improvement in customer satisfaction since December 2011
- Santander UK customers that hold more than one of our products have higher levels of satisfaction; those with three or more have a similar level of satisfaction to that of 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 plc and competitor brands. Competitor set includes Barclays, Halifax, HSBC Bank plc, Lloyds TSB and NatWest. Data shown is for three months ending 31 December 2011, 31 December 2012 and 30 September 2013.

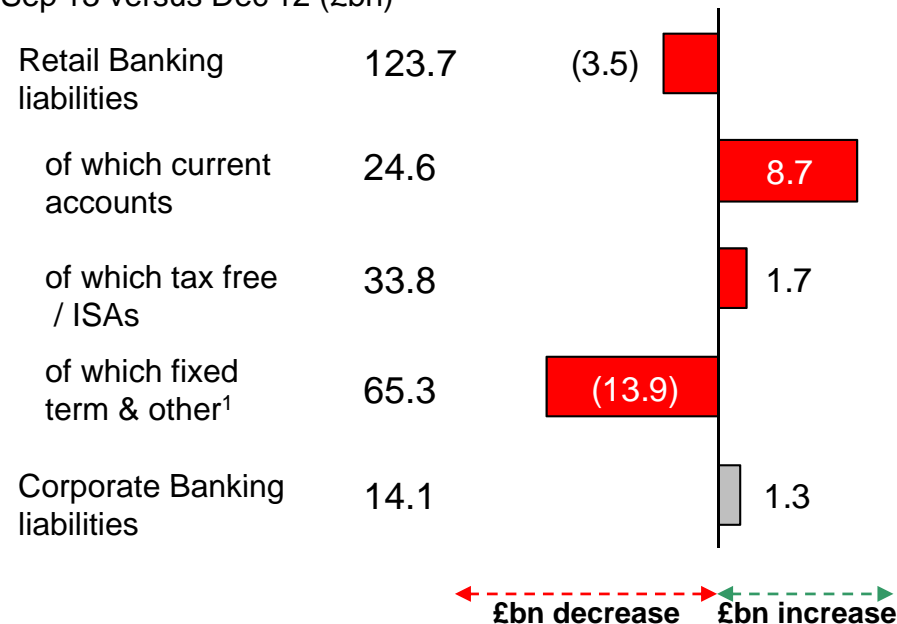
² Source GfK NOP Financial Research Survey (FRS). Satisfaction data for the 13 months ending May 2013



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

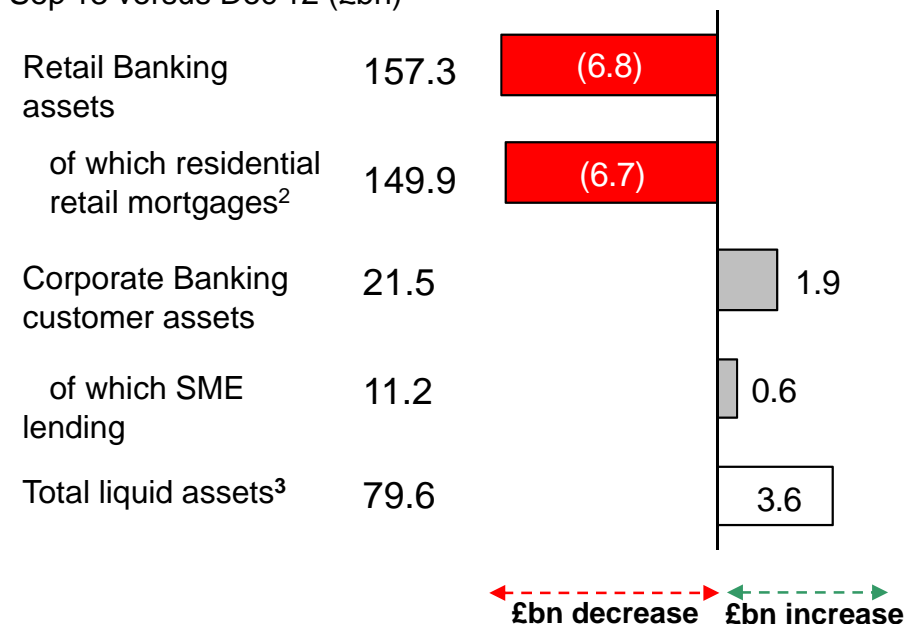
Qualitative improvement of customer deposits

Sep'13 versus Dec'12 (£bn)



Rebalancing of the business mix

Sep'13 versus Dec'12 (£bn)



- 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 franchises
- Rebalancing away from higher risk mortgage segments to growth opportunities in corporate lending

United Kingdom

¹ Other includes: Fixed term, saver, reward, structured products and deposits, Cahoot and private banking, Cater Allen and offshore balances

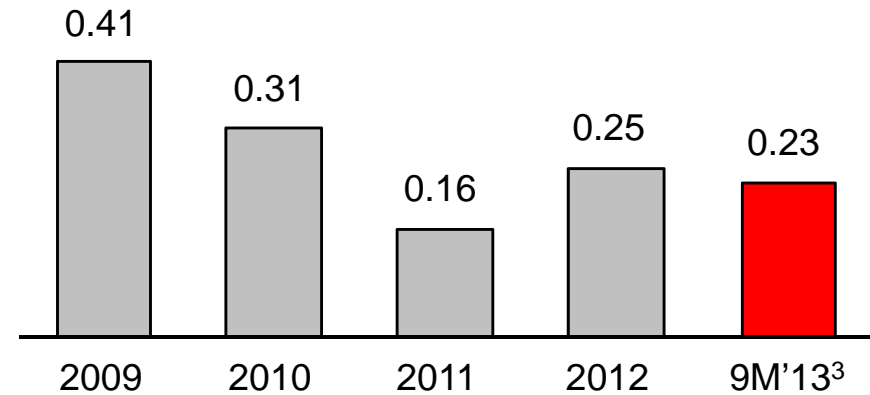
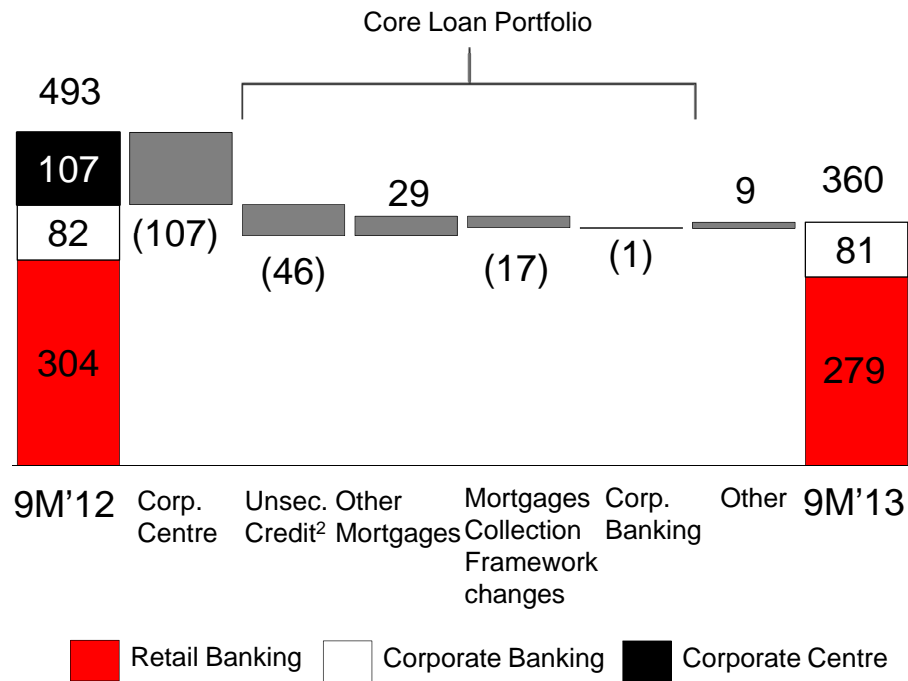
² Of the £6.7bn retail mortgage deleveraging in the period £4bn was interest only mortgages

³ 'Total liquid assets' consist of: eligible liquid 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.

Retail Banking credit conditions remain benign

Impairment losses on loans and advances (£m)

Loan loss rate (%)¹



¹ Calculated as Retail Banking impairment charges on loans and advances divided by average loans and advances

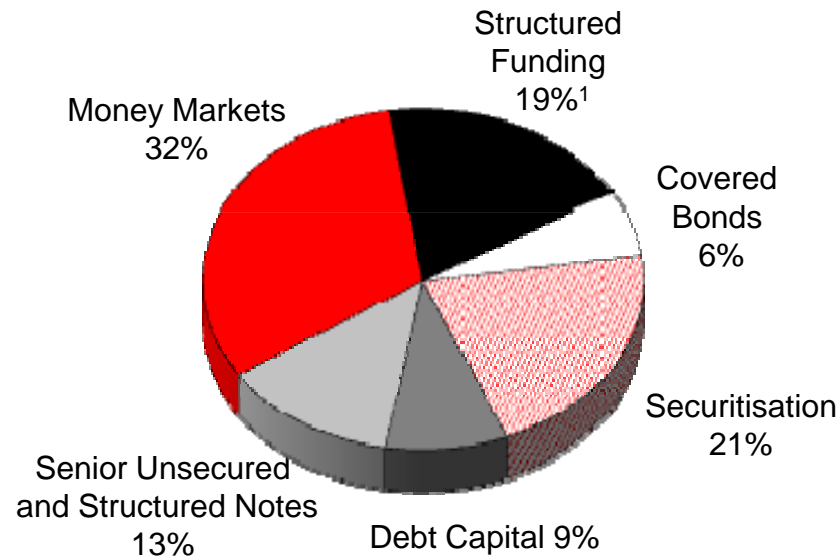
² Includes UPLs, overdrafts and credit cards reported in Retail Banking

³ Annualised year to date

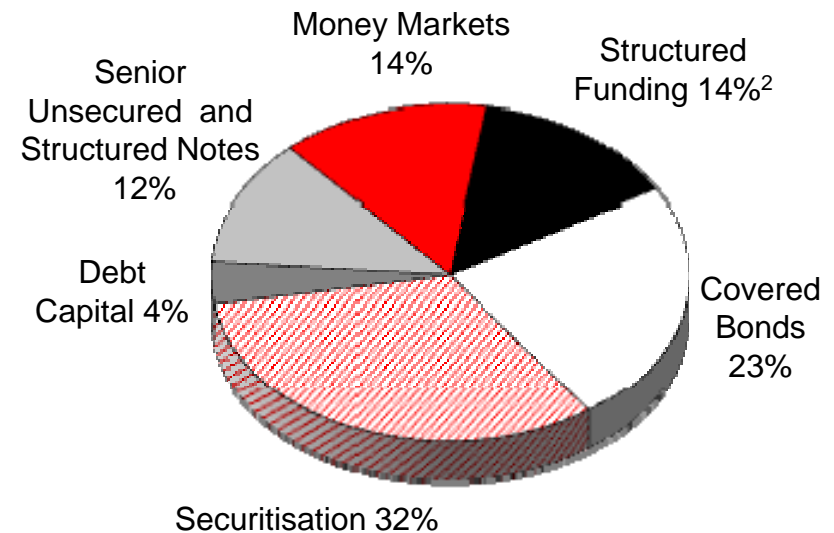
Diverse funding sources and prudent funding profile

£4bn of MTF in the period 9M'13

Wholesale funding stock composition at December 2009



Wholesale funding stock composition at September 2013



Duration: 806 days³

Duration: 1,156 days³

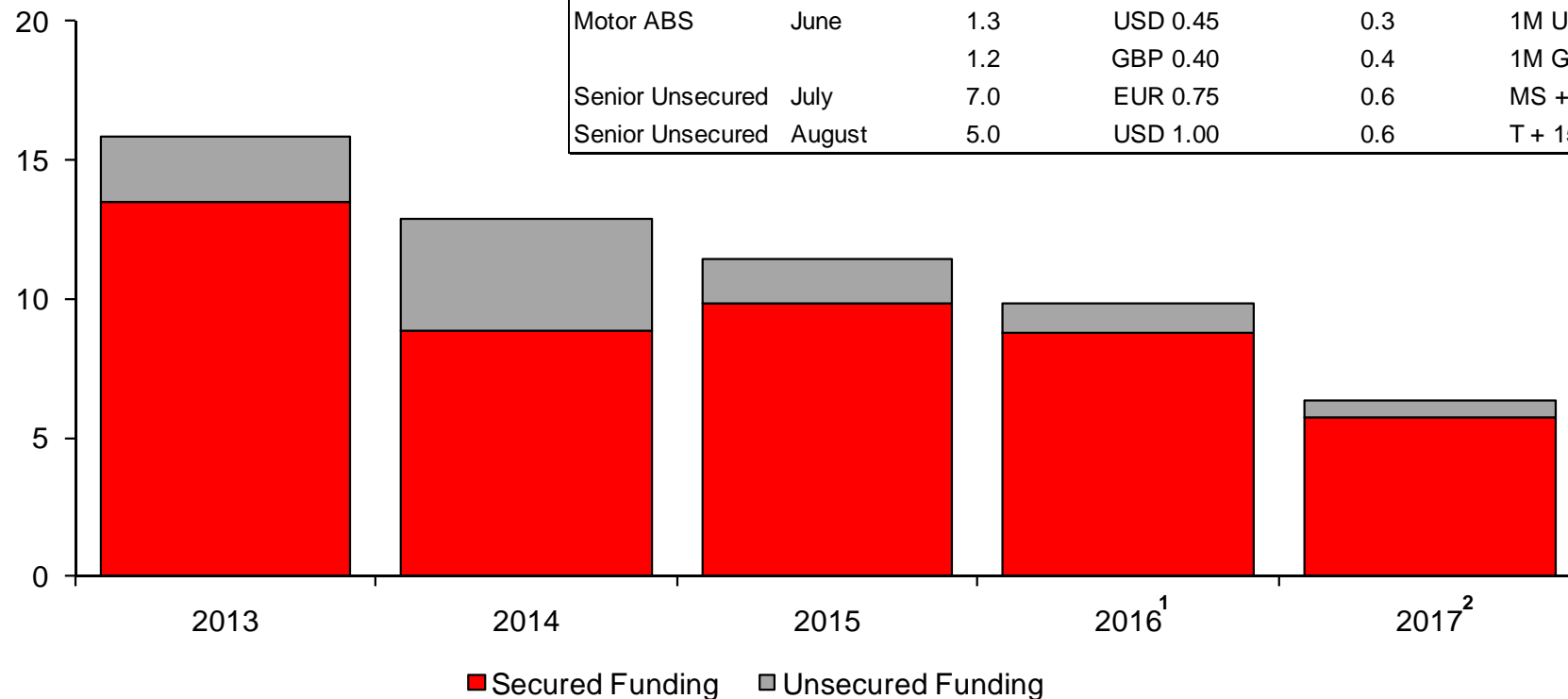
Medium term funding maturities profile

Funding requirement much reduced; tighter spreads achieved

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

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
Senior Unsecured	August	5.0	USD 1.00	0.6	T + 155bps

Maturities profile (£bn)



Source: Santander UK plc MI

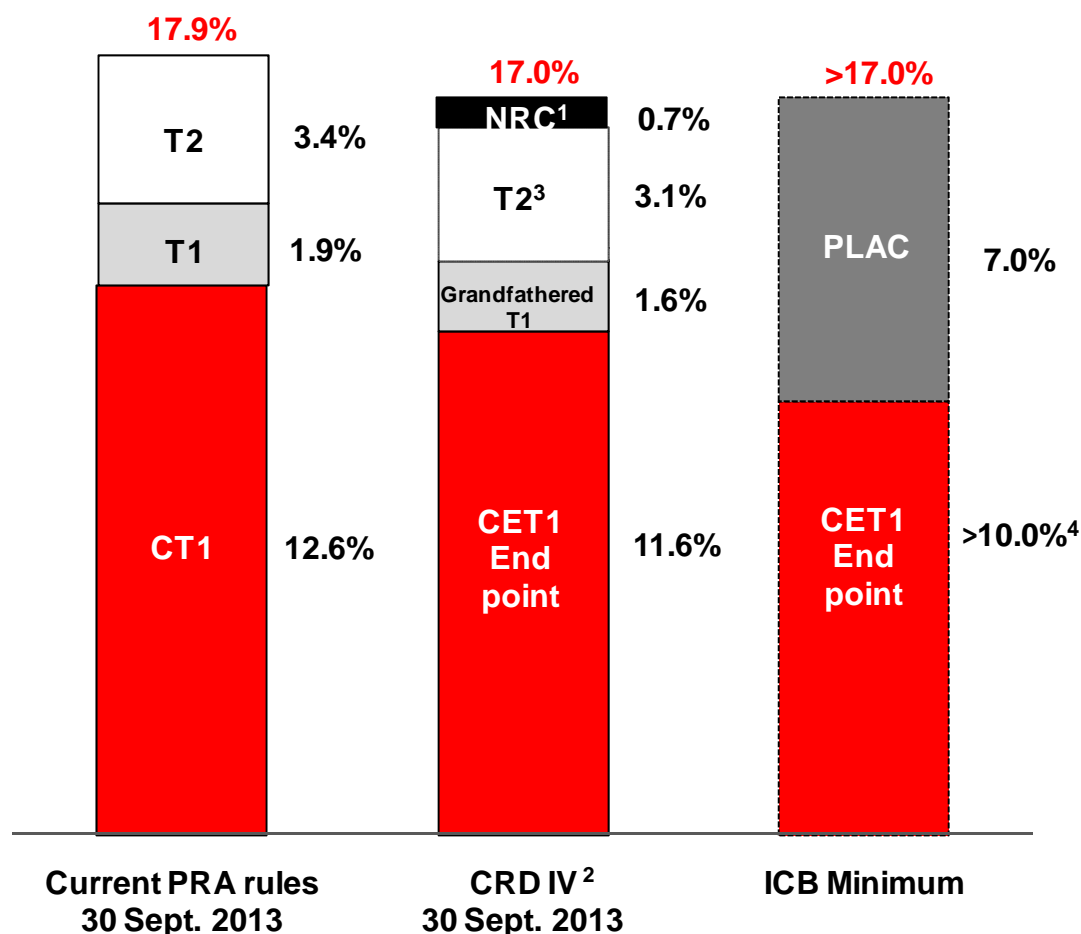
¹ Includes FLS

² Post 2017 maturities not shown

United Kingdom

Our position and ICB minimum capital levels

Managing capital through CRD IV towards ICB and EU Banking RRP

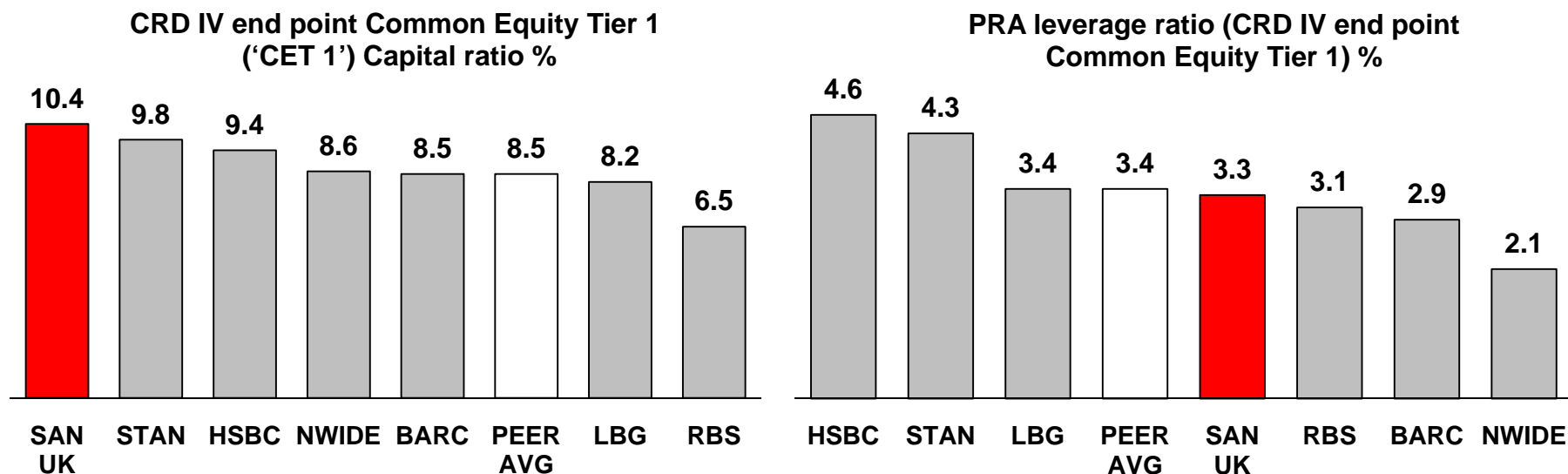


- As at 30 September 2013, Santander UK reported a 17.9% Total Capital ratio and a 12.6% Core Tier 1 ratio under current PRA rules (Basel 2.5)
- As at 30 September 2013, estimated CRD IV² end point Common Equity Tier 1 ('CET 1') Capital ratio was 11.6%⁴
- Santander UK currently meets the minimum 17% Primary Loss Absorbing Capacity (PLAC)⁵ ratio proposed by the ICB for UK banks
- Santander UK will manage capital levels as we move through the CRD IV transitional period and towards the implementation of ICB recommendations and the EU Bank Recovery and Resolution Directive. This may include the issuance of additional capital



PRA capital shortfall exercise published June 2013

Comparison of UK Banks before any FPC adjustments

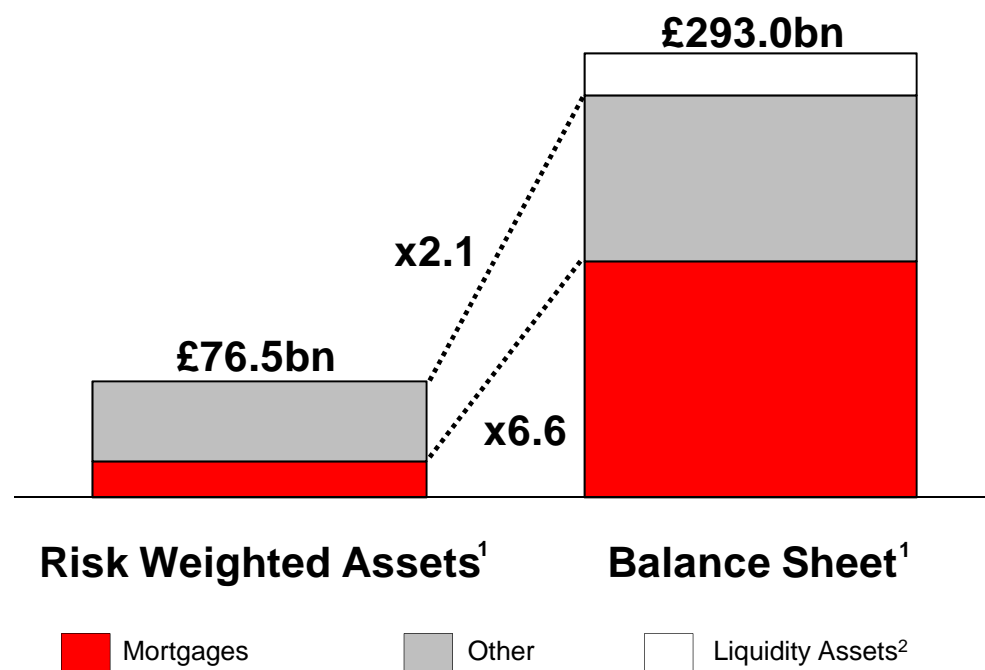


- PRA exercise based on UK banks' positions as at 31 December 2012. Results shown reflect those prior to the application of any FPC adjustments¹
- CET1 ratio for Santander UK was the strongest of the UK Banks included in the exercise (8 major UK Banks and Building Societies)
- PRA leverage ratio for Santander UK was close to peer UK bank average; this was largely a consequence of business mix, due to the treatment of low risk assets (mortgages and liquid assets)
- This exercise **did not** identify a capital shortfall for Santander UK

Source: PRA capital recommendations including firm specific shortfalls, as published by the PRA on 20 June 2013
¹Santander UK plc results do not include unverified second half profits as at 31 December 2012

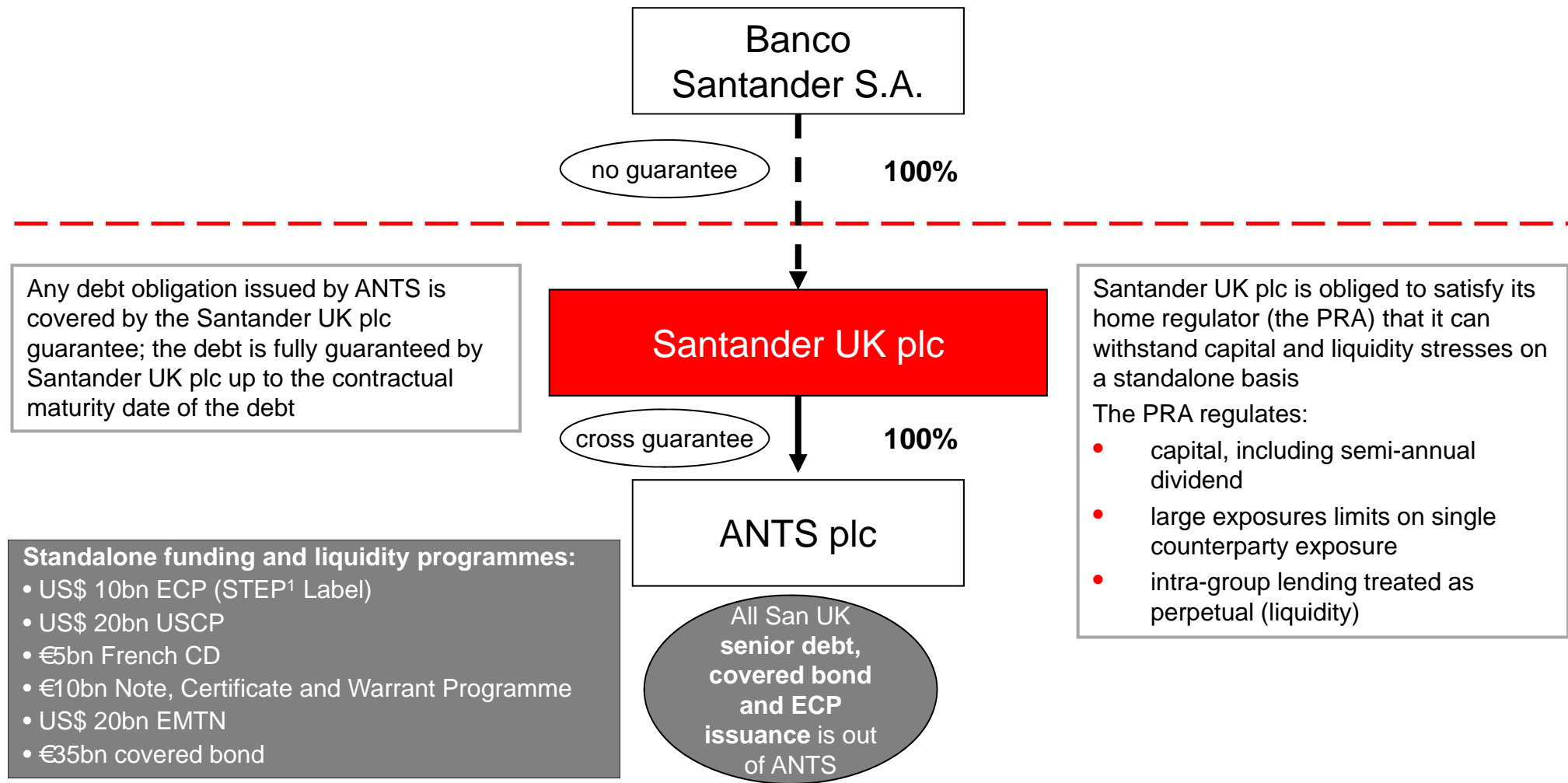
Risk weighted assets vs balance sheet assets

Leverage ratio exposures - based on balance sheet assets and not risk weighted



- Mortgages and liquid assets represent the majority of Santander UK's balance sheet, a higher proportion than for many of our peers
- For mortgages and liquid assets the leverage ratio exposure (based on balance sheet assets) is significantly higher than RWA
- The leverage exposure does not reflect the low risk nature of these assets

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



¹ Short Term Euro Paper in compliance with the STEP Market Convention 2010

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

Consumer and business confidence improving but recovery in early stages

Annual GDP growth (% , annual average)

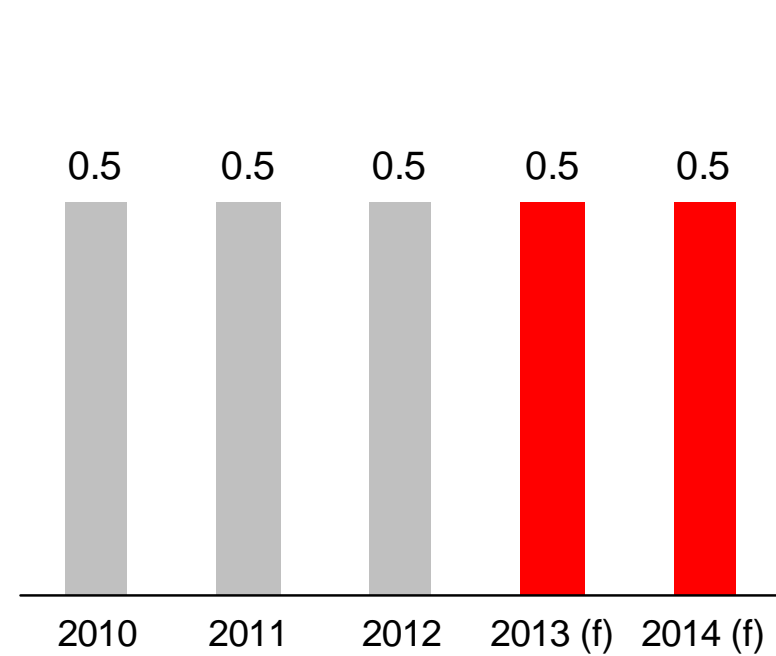
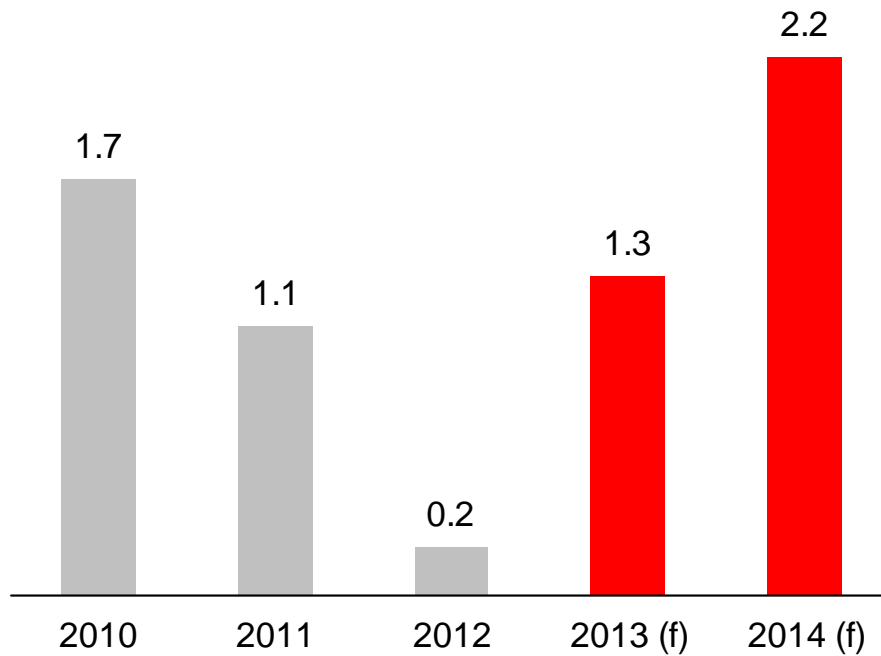
Interest rates (% , annual average)

July 2013 forecast

1.0 2.0

July 2013 forecast

0.5 0.5



Market environment – inflation and exchange rates

Inflation still elevated relative to 2% target

**Annual CPI¹ inflation rate
(%, annual average)**

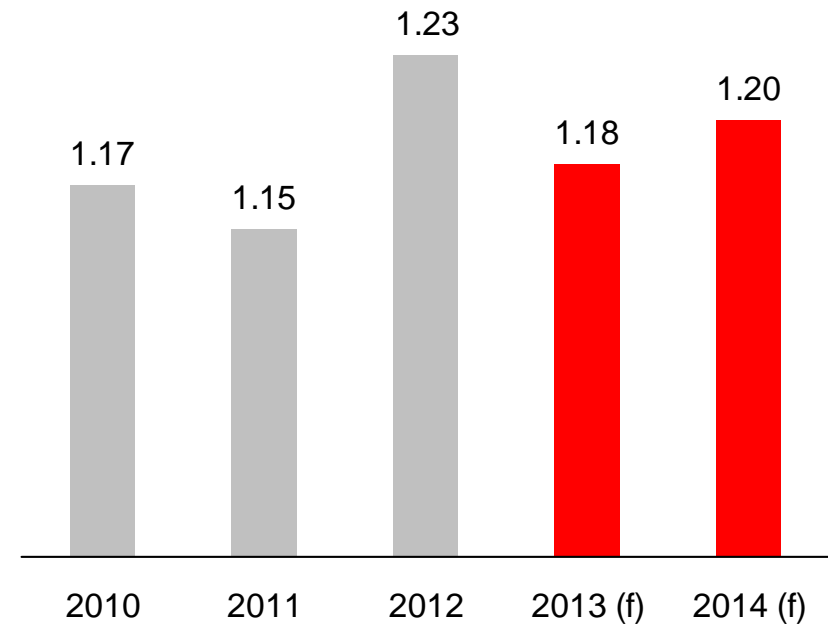
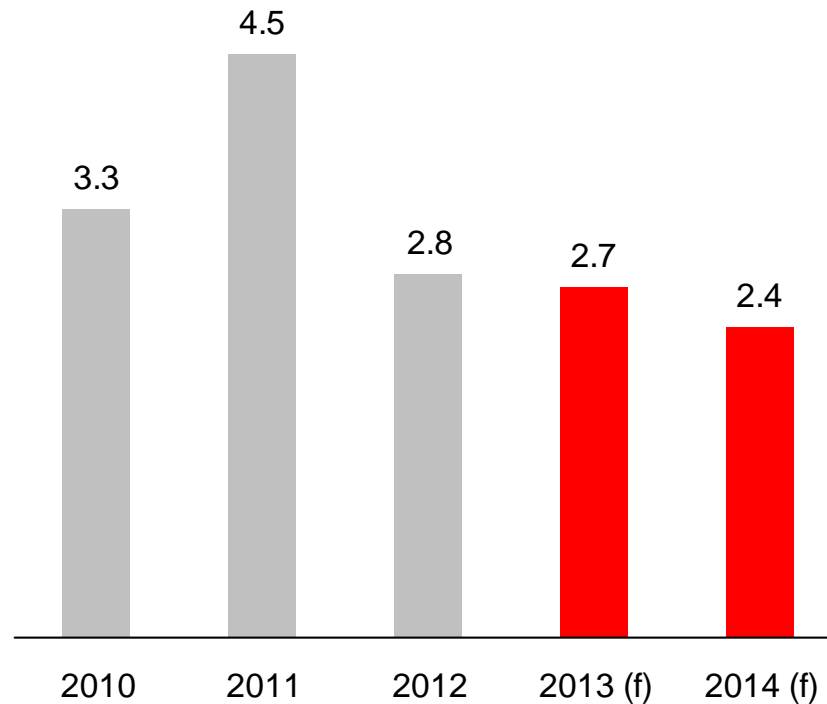
**GBP : EUR exchange rates
(annual average)**

July 2013 forecast

2.7 2.4

July 2013 forecast

1.18 1.20



United Kingdom

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

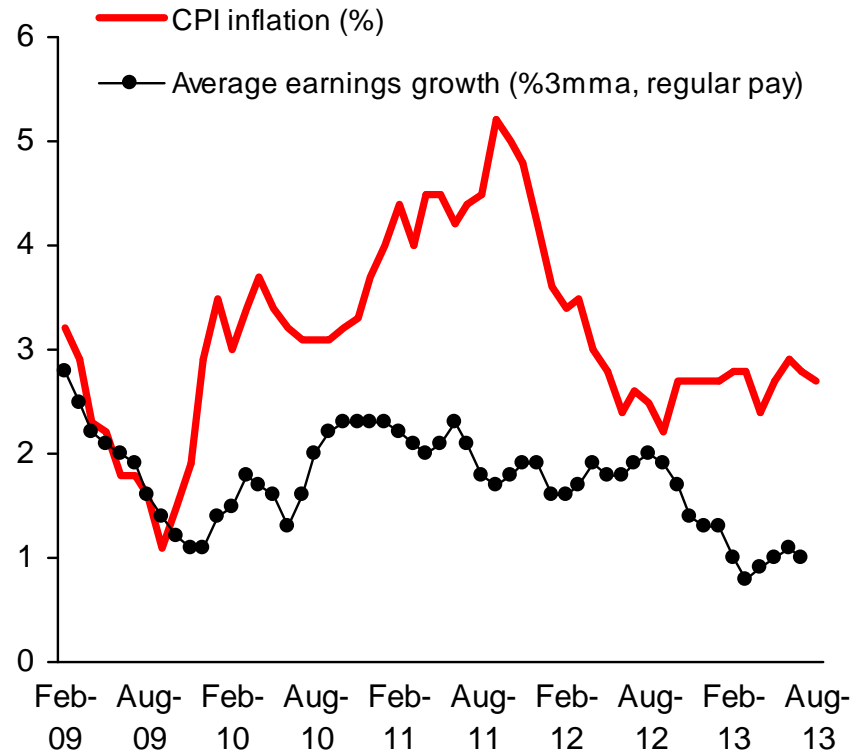
 **Santander**

Market environment – earnings growth and unemployment

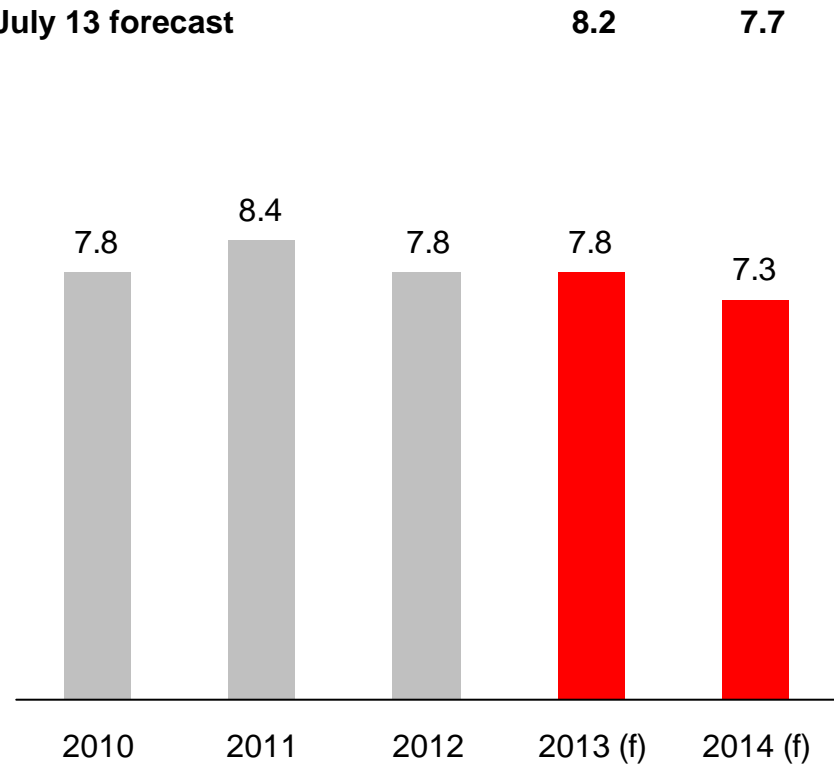
Real earnings still falling ... unemployment broadly steady in 2013

Inflation and average earnings growth

Unemployment rate (ILO¹ definition, end year, %)



July 13 forecast



- **Investors page:**
 - includes results and presentations pages
- **Debt Investors page:**
 - includes links to covered bond and securitisation programme sites
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United Kingdom

