

# Santander UK plc

## Investor Update Q1 2014 Results

April 2014

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Source: Santander UK Q1 2014 results “Quarterly Management Statement for the three months ended 31 March 2014” or Santander UK Management (“MI”), unless otherwise stated. Santander has a standard listing of its ordinary shares on the London Stock Exchange and Santander UK continues to have its preference shares listed on the London Stock Exchange. Further information in relation to Santander UK can be found at: [www.aboutsantander.co.uk](http://www.aboutsantander.co.uk). Neither the content of Santander UK’s website nor any website accessible by hyperlinks on Santander UK’s website is incorporated in, or forms part of, this presentation.

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# Q1 2014 Santander UK plc – key messages

1

## Loyal and satisfied retail customers

Over **250,000** new 1|2|3 World customers in Q1'14; transforming our customer profile

Current account balances of **£31.7bn**; up c. **£1bn per month** since the start of 2013

**10% net gain** of all current accounts switched from other providers<sup>1</sup>

Continued **improvement in customer satisfaction** (3.1pp gap at Mar'14 vs. 5.2pp in Mar'13)<sup>2</sup>

2

## 'Bank of Choice' for UK companies

Lending to UK corporates increased to **£22.9bn**; up **12% from a year ago**

**Strong risk discipline** maintained; loan loss ratio of **0.52%**

Maintained the roll out of **core banking systems, products and functionalities**

3

## Consistent profitability and strong balance sheet

Profit before tax of **£416m**, up **48%** versus Q1'13

Q1'14 Banking NIM of **1.79%**, up **8bps** in Q1'14; the **highest for the last nine quarters**

**Annualised RoTE of 12.0%**<sup>3</sup>, driven by a continued improvement in net interest income

**Costs remained tightly controlled**, despite ongoing investment in business transformation

**Balance sheet strength maintained**; fully loaded CET 1 capital ratio of **11.6%**

Loan-to-deposit ratio **improved 1p.p.** to **125%**

**Improved NPL ratio of 1.95%**; retail and commercial loan vintages performing well

# Confident in the acceleration of our business transformation

		2015 target	31.03.14	31.12.13
<b>1</b> <b>Loyal and satisfied retail customers</b>	<b>Loyal customers</b>	4 million	2.8 million	2.7 million
	<b>1 2 3 World Customers</b>	4 million	2.7 million	2.4 million
	<b>Customer satisfaction ('FRS') (average of top 3 UK peers)</b>	Top 3	57.8% (60.9%)	57.3% (61.1%)
<b>2</b> <b>'Bank of Choice' for UK companies</b>	<b>Commercial Banking percentage of total customer loans (Commercial Banking customer loans)</b>	20%	12%	12%
			(£22.9bn)	(£22.1bn)
<b>3</b> <b>Consistent profitability and strong balance sheet</b>	<b>Return on tangible equity</b>	13% - 15%	12.0% <sup>1</sup>	8.9%
	<b>Cost-to-income ratio</b>	< 50%	52%	54%
	<b>Common Equity Tier 1 capital ratio<sup>2</sup></b>	> 10.5%	11.6%	11.6%
	<b>Loan-to-deposit-ratio</b>	< 125%	125%	126%
	<b>Non performing loan ratio</b>	ratio maintained	1.95%	2.04%
	<b>Dividend payout ratio</b>	50%	n/a	50%

For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for 3 months ended 31 March 2014

<sup>1</sup> Q1'14 annualised RoTE includes estimated costs relating to anticipated preference share dividends payments, the FSCS and the Bank Levy. Excluding these pro-rated costs RoTE would have been 13.1%

<sup>2</sup> CRD IV end point Common Equity Tier 1 capital is calculated on the basis of the rules due to apply at the end of the transitional period

# Another strong quarter; Q1'14 PBT of £416m, up 48% in a year

## Financial highlights (% change v Q1'13)

Total operating income	£1,094m	↑	13%	<ul style="list-style-type: none"> <li>Reflecting reduced cost of retail liabilities and sustained lending to UK corporates</li> </ul>
Operating expenses	(£570m)	↑	3%	<ul style="list-style-type: none"> <li>Focus on tightly managing BAU expenses to accommodate investment</li> </ul>
Operating provisions and charges	(£108m)	↓	(21%)	<ul style="list-style-type: none"> <li>Retail and corporate loans performing well</li> </ul>
PBT from continuing operations	£416m	↑	48%	<ul style="list-style-type: none"> <li>Profit momentum driven by improved revenues</li> </ul>
Banking NIM	1.79%	↑	34bps	<ul style="list-style-type: none"> <li>Highest for nine quarters, led by an improving customer interest margin</li> </ul>
Cost-to-income ratio	52%	↓	5pp	<ul style="list-style-type: none"> <li>Reflecting net interest income momentum</li> </ul>

# Our strategic priorities

1

Loyal and satisfied retail customers

2

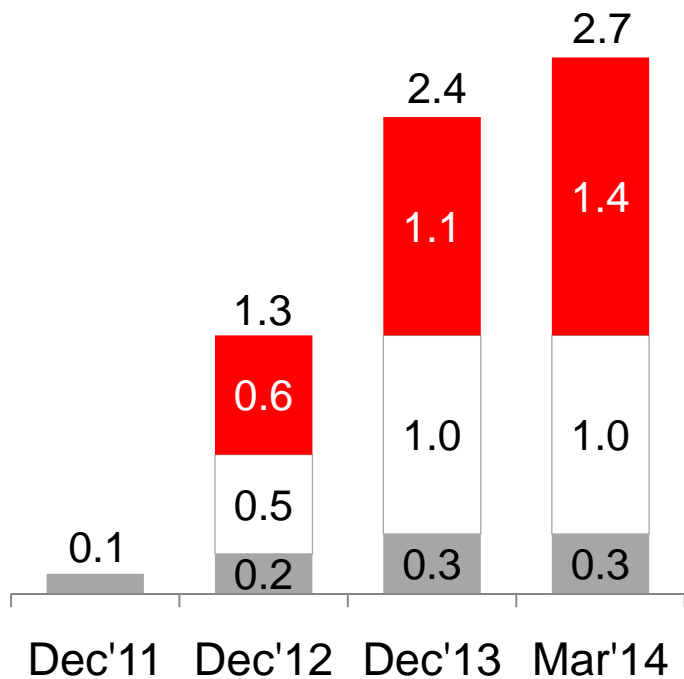
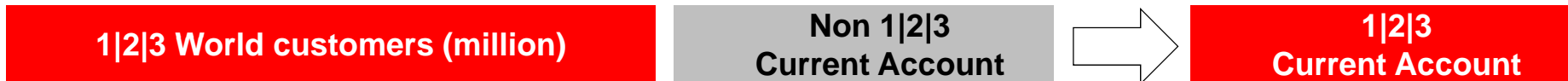
'Bank of Choice' for UK companies

3

Consistent profitability and strong balance sheet

# 1 Over 250,000 customers joined 1|2|3 World in Q1'14

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



8%	Select and Affluent <sup>1</sup>	36%
43%	primary banking <sup>2</sup>	89%
1.6	products per customer	2.3
1x	average account balance <sup>3</sup>	4.4x
28%	4+ direct debits	76%

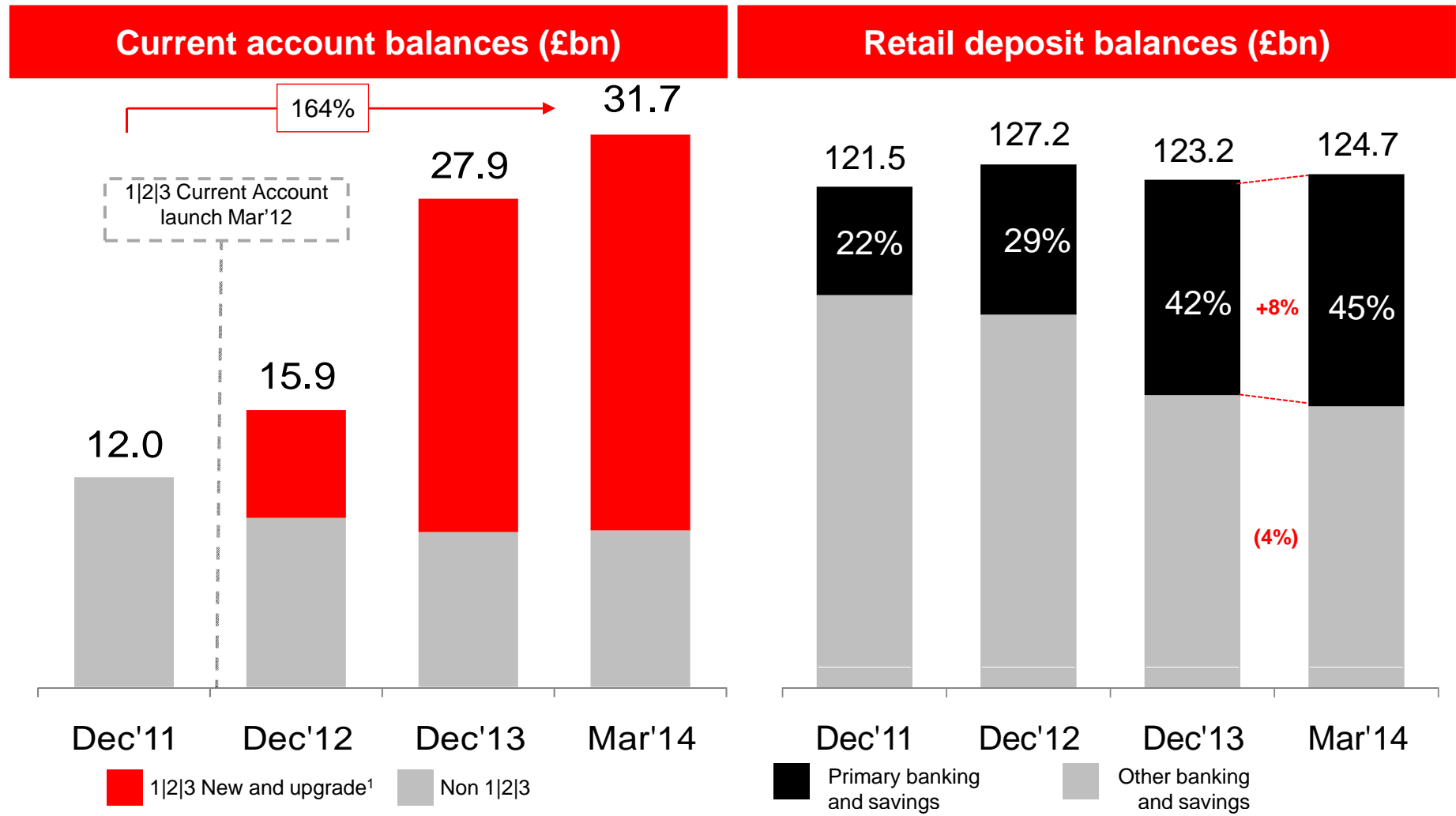
## ... whilst attracting new customers and improving customer satisfaction

**+10% net gain in current accounts; most successful bank in attracting switchers<sup>4</sup>**

**96% satisfied with 1|2|3 Current Account<sup>5</sup>**

■ 1|2|3 Current Accounts only
 □ Holding both
■ 1|2|3 Credit Cards only

# 1 1|2|3 World is improving the customer profile and primary banking volumes

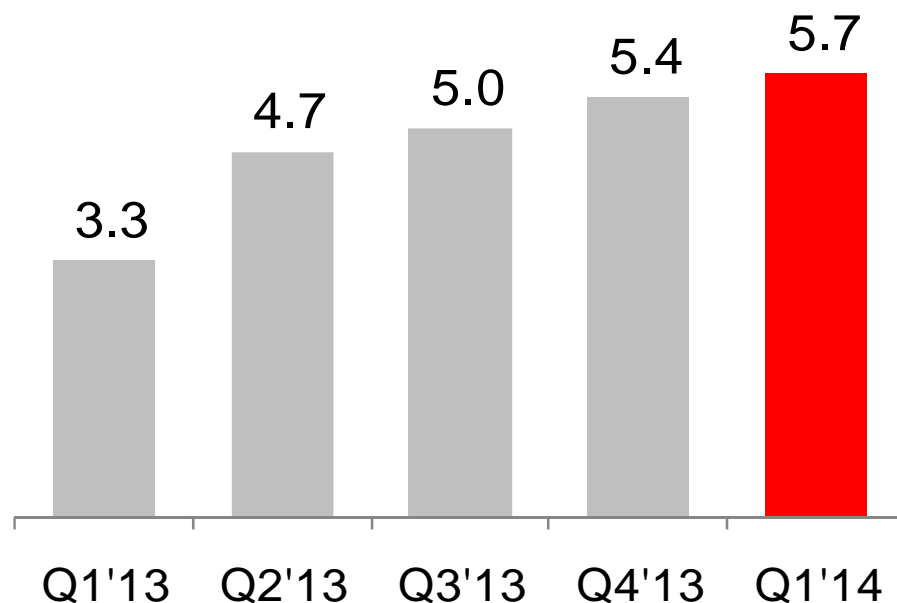


Source: Santander UK plc Marketing MI  
<sup>1</sup> Incremental and existing balance upgrades

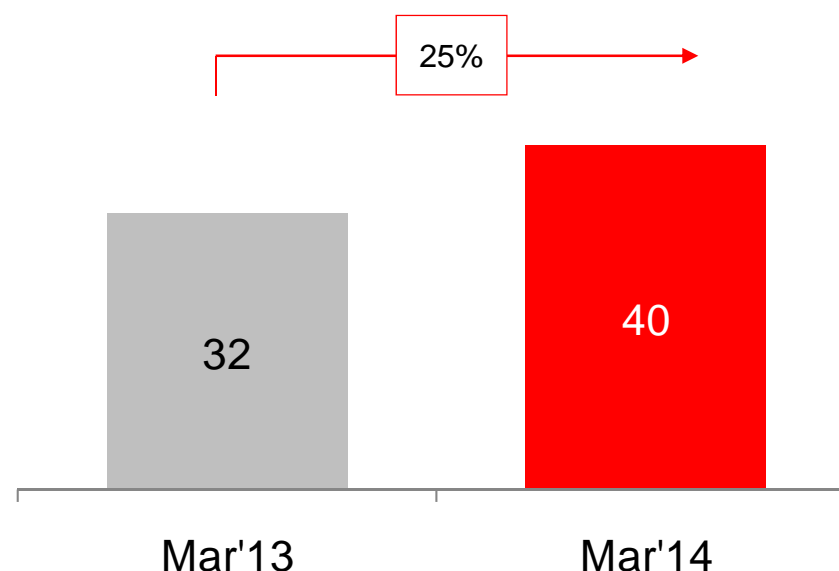


# 1 Mortgage lending growth ... with greater lending to existing customers

Mortgage gross lending (£bn)<sup>1</sup>



New direct mortgages to 1|2|3 World Current Account customers (%)<sup>2</sup>



## 2014 outlook

- Mortgage lending balances decreased £0.5bn, but at a slower pace than during 2013, as we refocused on increasing mortgage lending in line with the market.
- Proactive campaign to retain a significant proportion of SVR customers with new mortgage offers
- Growing Buy To Let ('BTL') lending, while maintaining prudent risk criteria
- Participation in 'Help to Buy' guarantee scheme

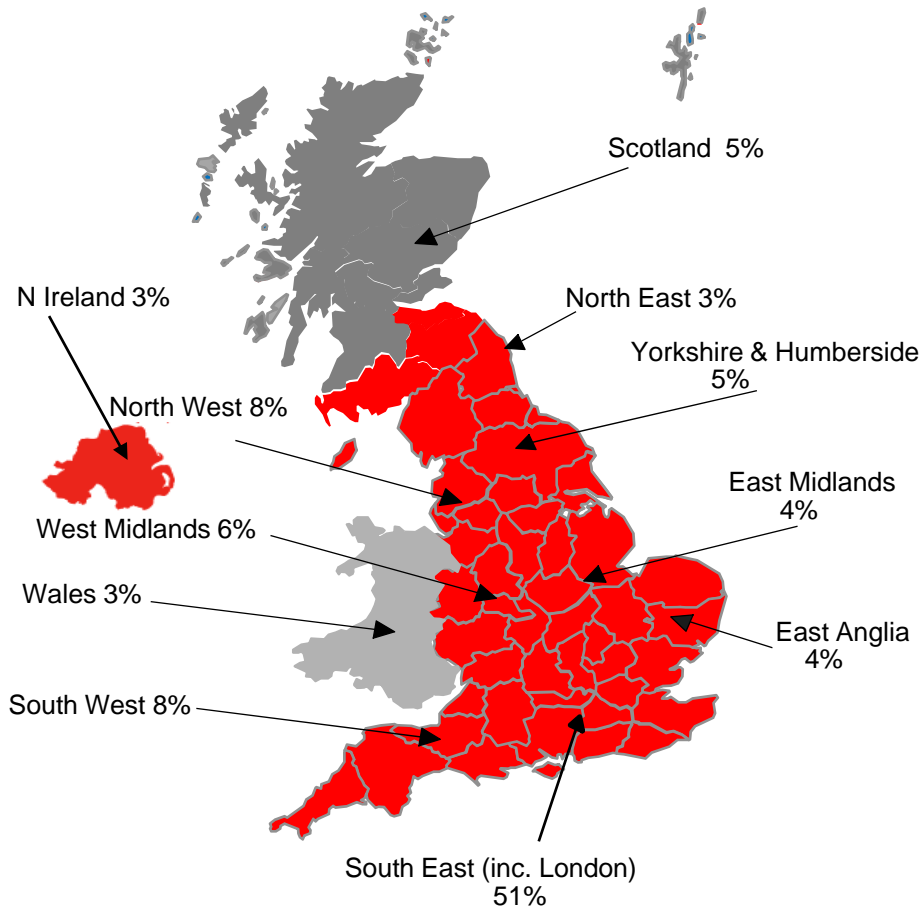
Source: Santander UK plc Marketing MI

<sup>1</sup> Excludes social housing

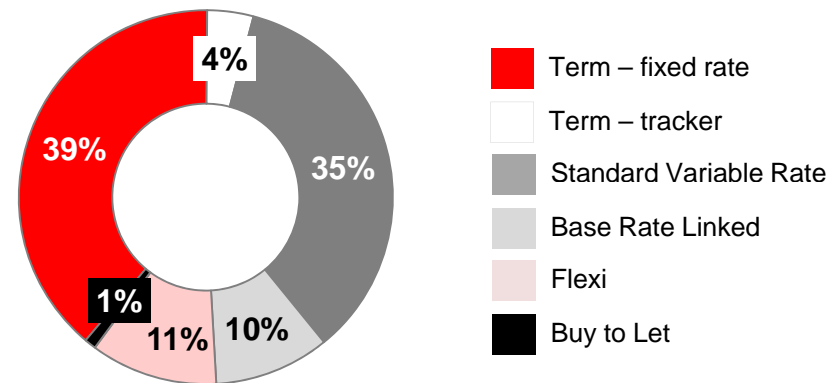
<sup>2</sup> Direct mortgages sold in branch or by telephone, excluding introduced mortgage sales

# 1 Well diversified prime mortgage book of £147.6bn

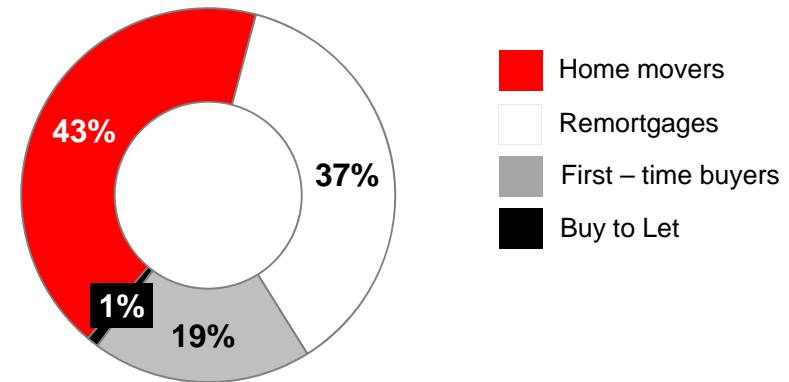
## Geographic distribution (stock, value)<sup>1</sup>



## Product and interest rate profile<sup>1</sup>



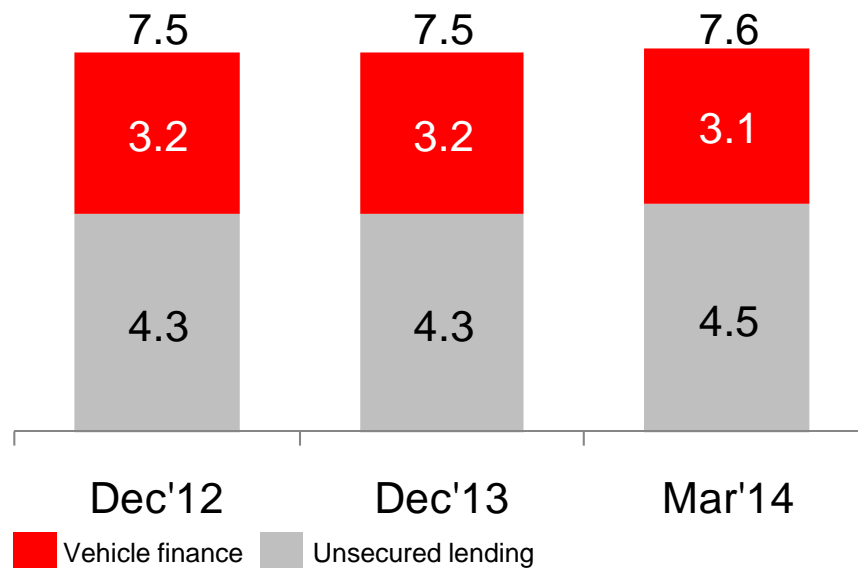
## Borrower profile<sup>1</sup>



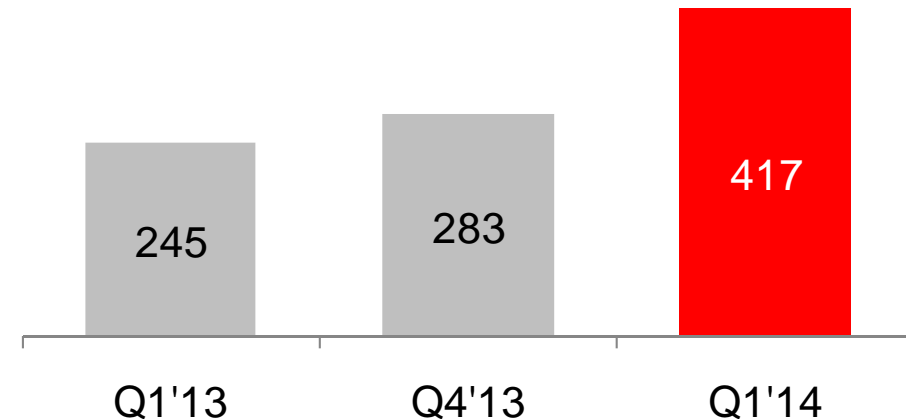
<sup>1</sup> Data as of December 2013, published in the Santander UK plc 2013 Annual Report

# 1 Unsecured consumer and vehicle finance ... challenger opportunity

Retail customer loans (£bn)<sup>1</sup>



UPL gross lending (£m)



## Focus on growth while maintaining lending quality

- Leverage the Santander UK brand and multi-channel offering to support margins
- Differential pricing for loyal customers

## Opportunity

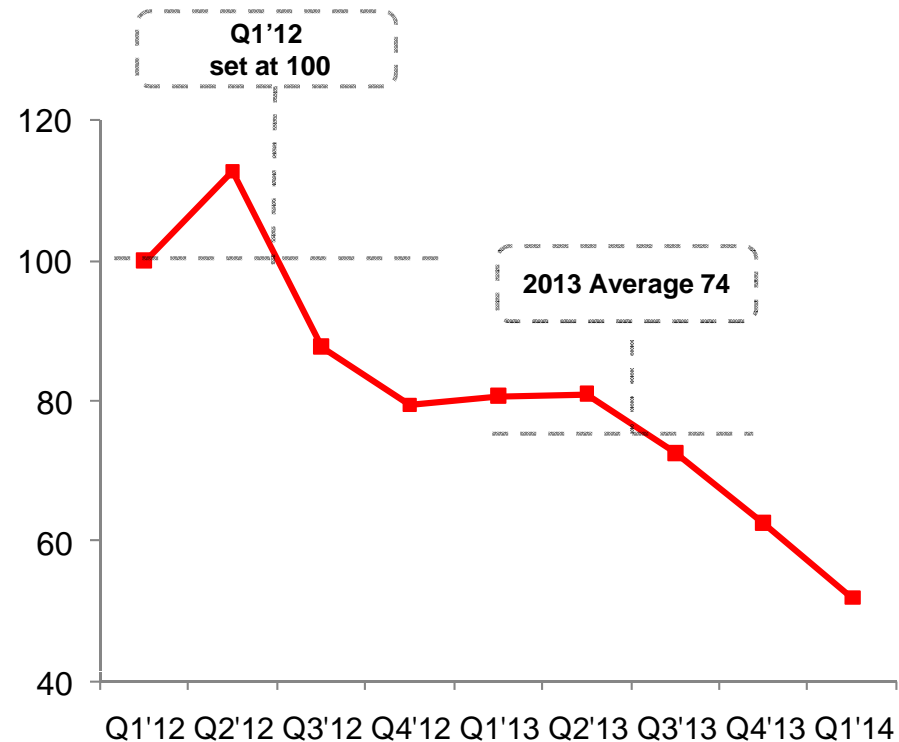
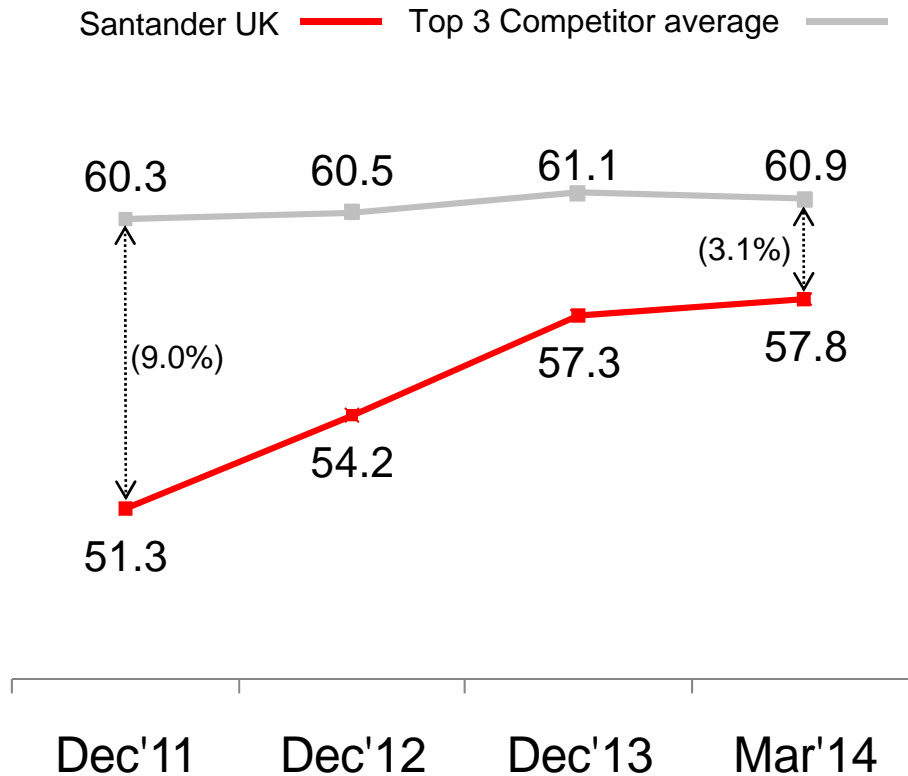
- Increased vehicle finance lending in a growing market for new car sales
- Higher UPL gross lending, as we build deeper customer relationships and enter the aggregators market

<sup>1</sup> Includes vehicle finance and UPLs, credit cards and bank overdrafts

# 1 Significant improvement in customer satisfaction in last year ... complaints reduced 29p.p. in a year

Customer satisfaction as measured by FRS<sup>1</sup>

Complaints evolution (indexed)<sup>2</sup>



# Our strategic priorities

1

Loyal and satisfied retail customers

2

'Bank of Choice' for UK companies

3

Consistent profitability and strong balance sheet

## 2 Combining local presence and international expertise in Commercial Banking

### Customers at the heart of strategy



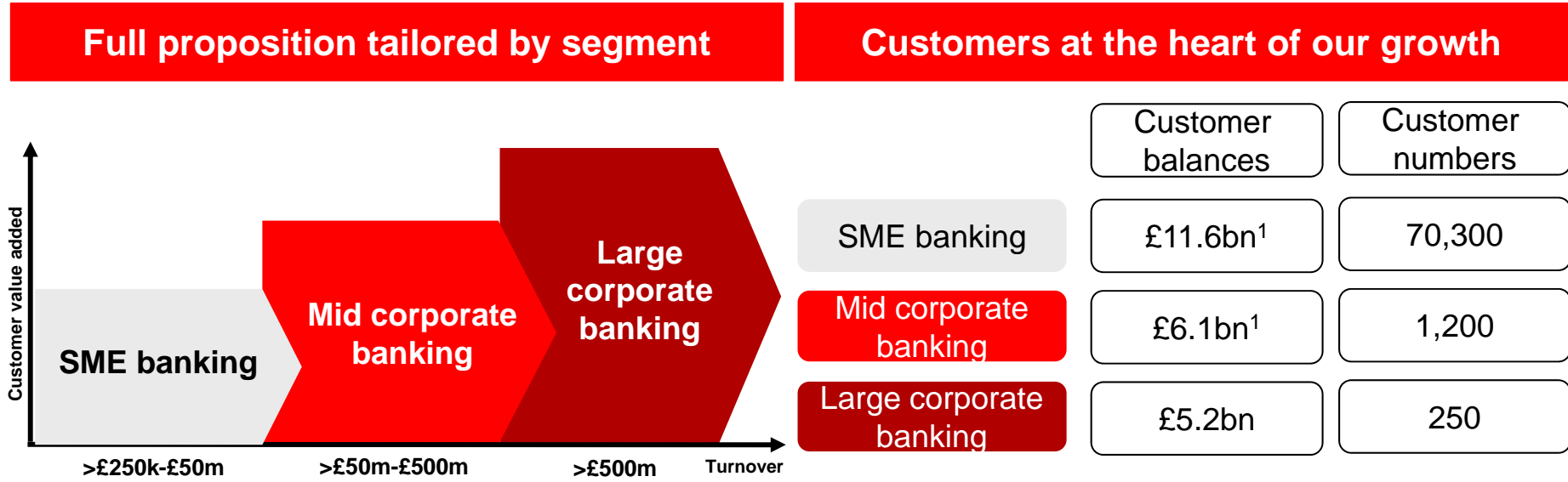
### Unique offering

- **Credit partner model**, working alongside relationship directors to tailor the best suitable solution for customer
- **Breakthrough**, flagship programme for the fastest growing SMEs
- **International expertise**, utilising the presence of Banco Santander in 14 markets
- **Trade Portal**, helping customers find exporting opportunities and contacts for their products

### Investment in enhanced capabilities

- **Expertise/Sectors**: agriculture, renewable energy, manufacturing and educational institutions
- **Products/Services**: foreign currency, transactional Forex, credit cards, trade services
- **Channels / Processes**: Internet migration, mobile banking, contact centres, business centres / branches
- **Management Systems**: Customer Relationship Management, Fraud and Anti Money Laundering

# 2 Customer approach and growing presence in Commercial Banking



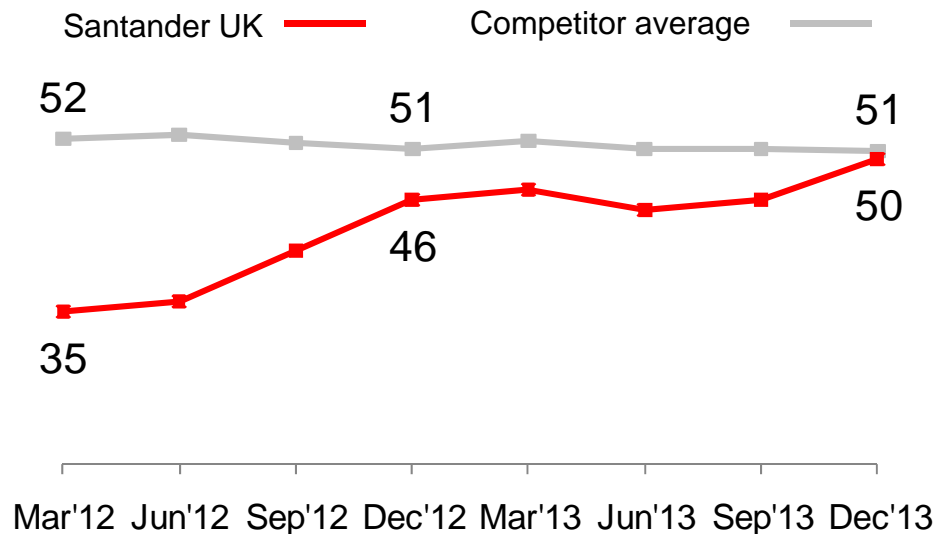
**Being closer to customers by growing our presence on the ground**

	2011	2012	2013	Mar'14	2015 target
Relationship Managers	457	503	650	661	750
Corporate Business Centres	28	34	50	50	70

<sup>1</sup> Following a periodic review in Q1'13 and Q1'14, a number of customers, with loans of £267m and £327m respectively, were transferred from SME lending to mid corporate lending as the annual turnover of their businesses had increased. Prior periods have not been restated.

## 2 New tailored SME offering improving customer satisfaction

### Customer satisfaction as measured by Charterhouse Research (%)<sup>1</sup>



- SME Banking has made good progress in terms of overall satisfaction since Q1'12, and closed the gap to competitors significantly
- As of Q1'14 the score difference between us and our Top 3 competitors is now within the margin for error

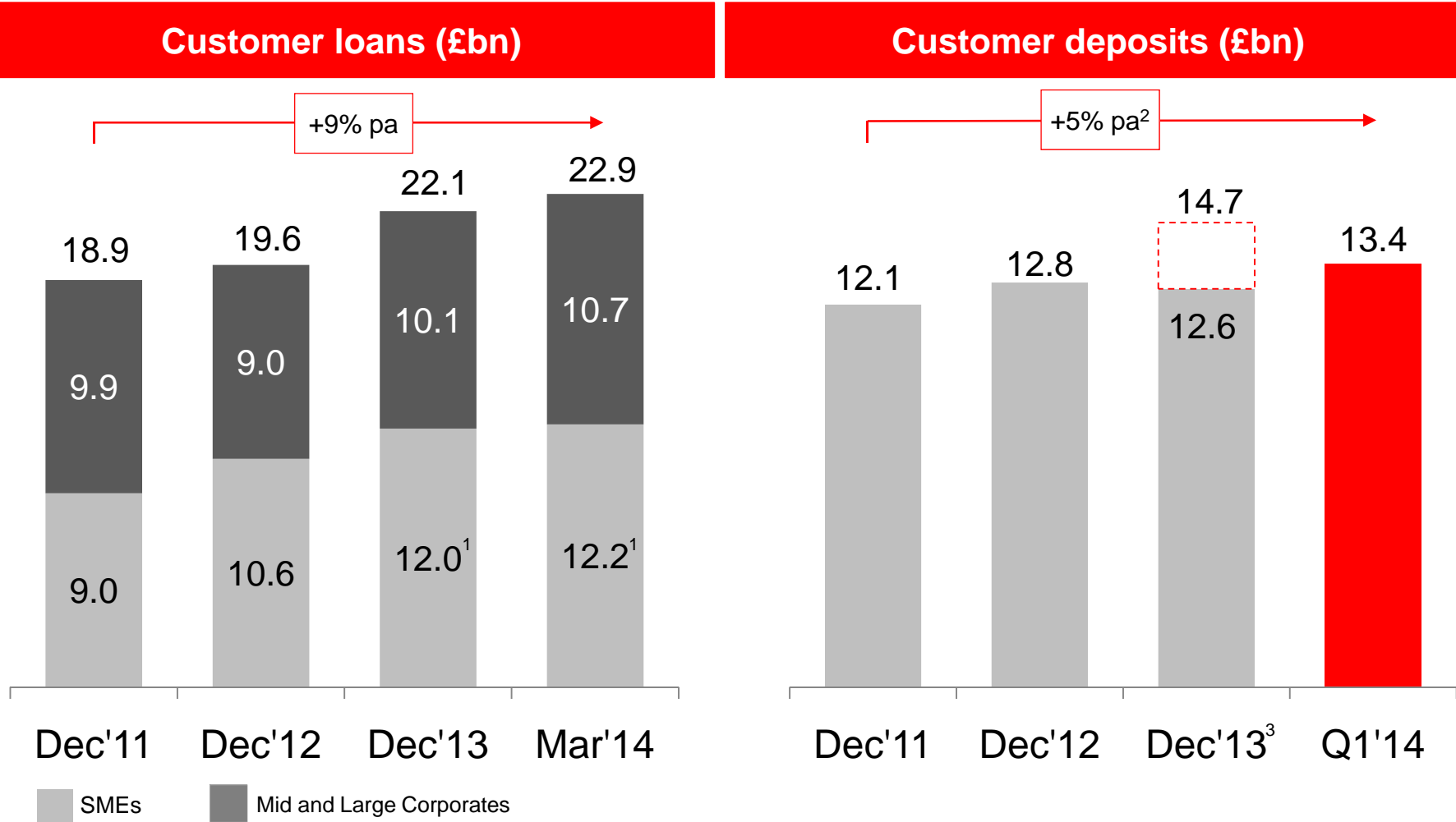
### Extended product range and service offering

- **New electronic banking platform** (enhanced functionality)
- **Cash Management Services** (sweeping between Banking & Savings products, pooling)
- **Multi-currency accounts and overdrafts**
- **Scalable Trade Service offering** (including Trade Service online client portal)
- **Business Credit Card**
- **Cash Collection** (same day value)
- **Payments** (comprehensive payments offering)





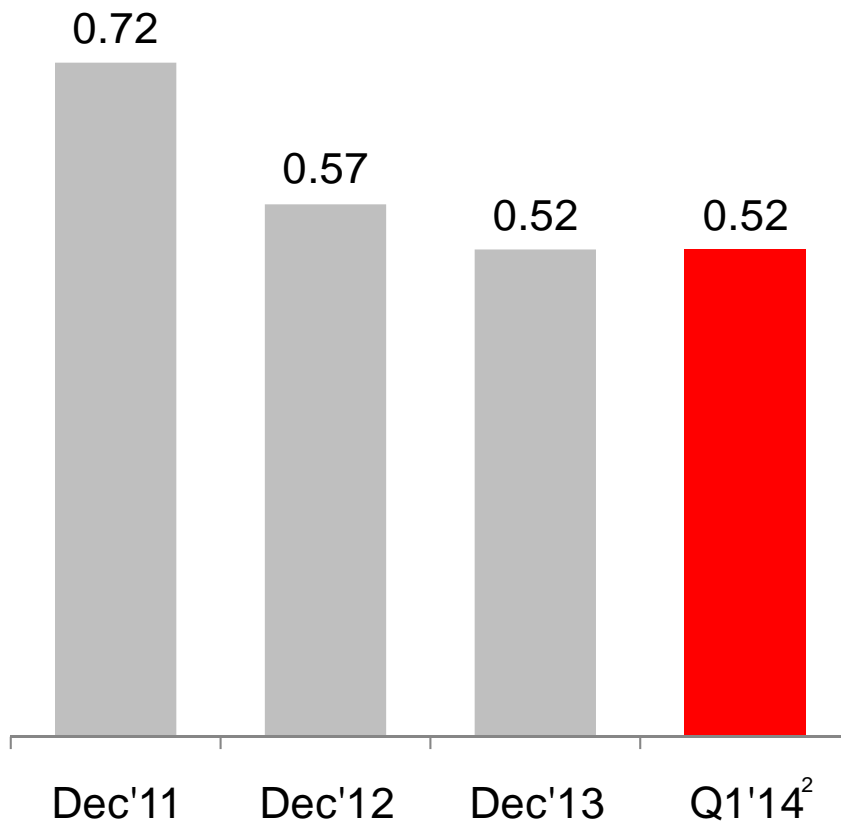
# 2 Sustained strong growth in Commercial Banking ... in a contracting market



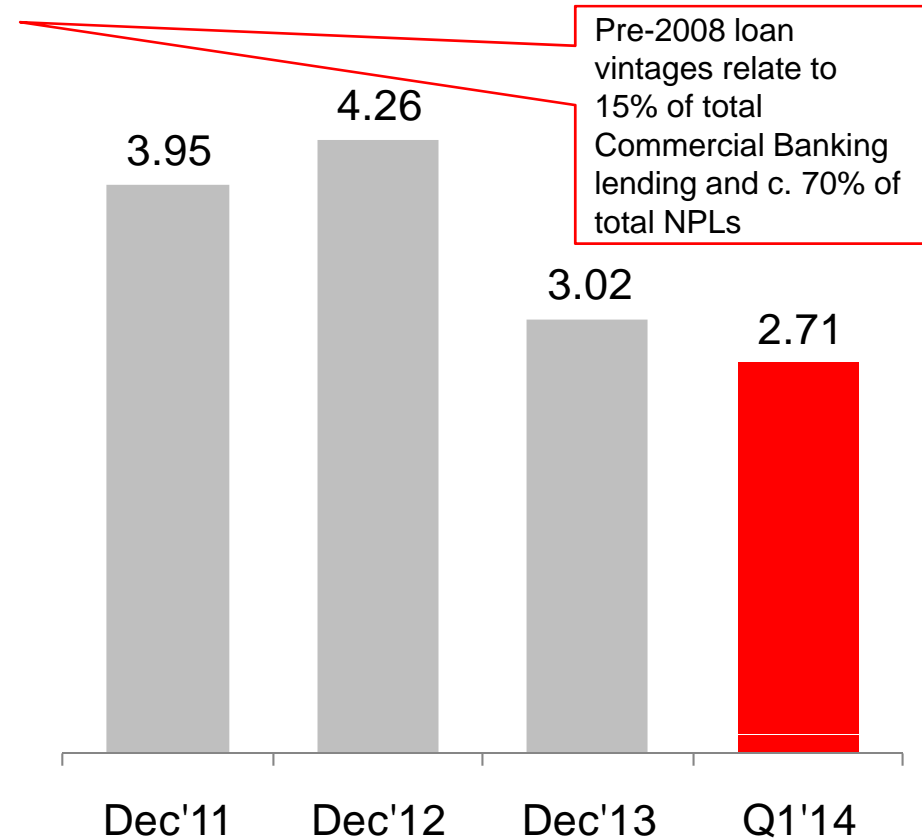
<sup>1</sup> Following a periodic review in Q1'13 and Q1'14, a number of customers, with loans of £267m and £327m respectively, were transferred from SME lending to mid corporate lending as the annual turnover of their businesses had increased. Prior periods have not been restated. Excluding this reclassification, SME lending growth would be 13% in 2013 and 11% over the last year. Including the reclassification, SME balances for Dec'13 and Mar'14 are £11.7bn and 11.6bn respectively  
<sup>2</sup> Excluding the reclassification 12% pa growth  
<sup>3</sup> A number of larger corporate customers whose liability relationship is managed centrally were transferred to the Corporate Centre during Q4'13. The deposits transferred totalled £2.1bn. Prior periods have not been restated

## 2 Continued prudent risk management in the growing commercial bank

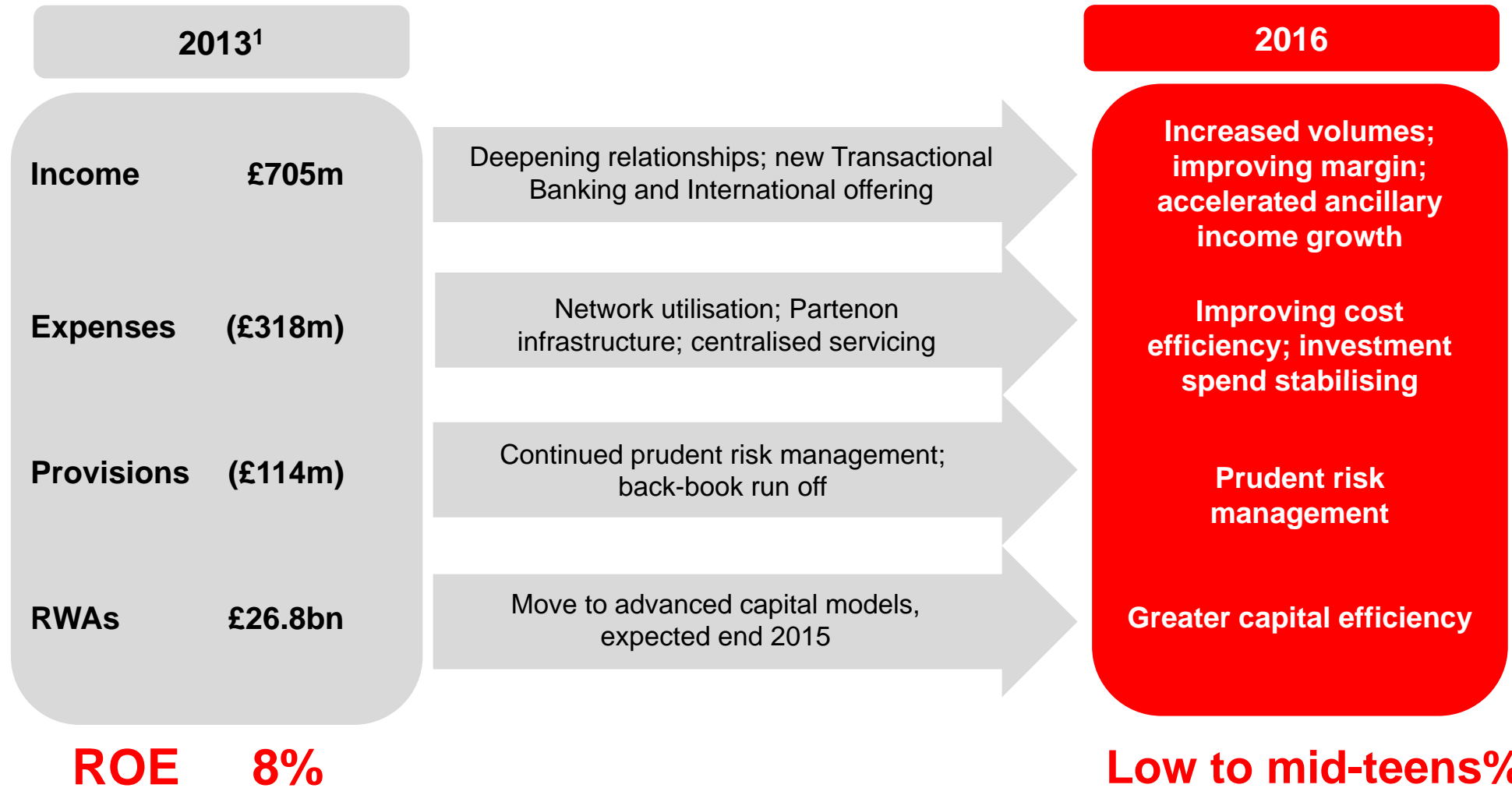
Commercial Banking loan loss rate (%)<sup>1</sup>



Commercial Banking NPL ratio (%)



# 2 Path to double digit returns in Commercial Banking



<sup>1</sup> Commercial Banking only, excludes Markets

# Our strategic priorities

1

Loyal and satisfied retail customers

2

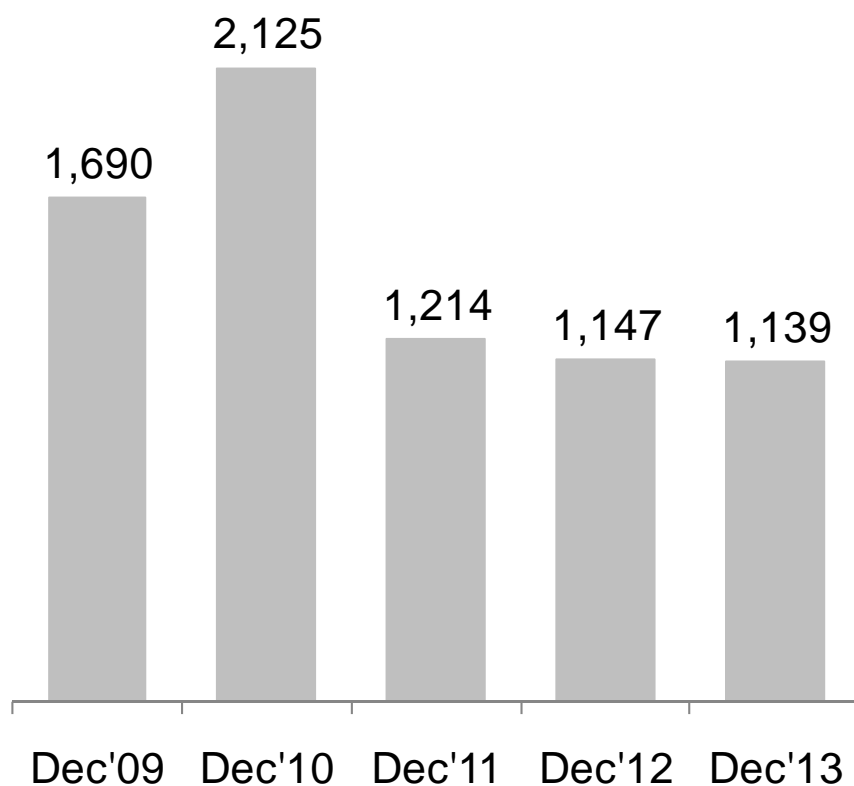
'Bank of Choice' for UK companies

3

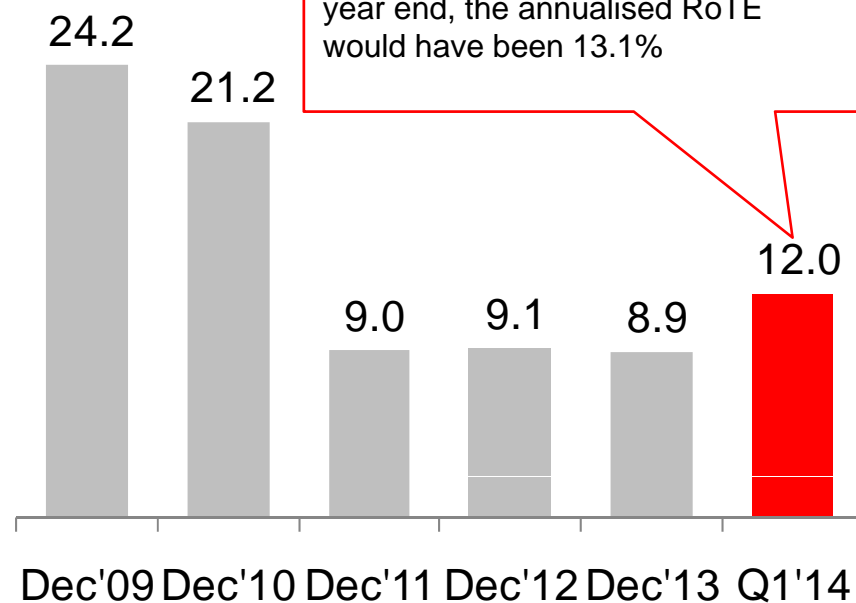
Consistent profitability and strong balance sheet

### 3 Consistently profitable, long-term, low risk profile... PBT of £416m, up 48% on Q1'13

Statutory profit before tax (£m)



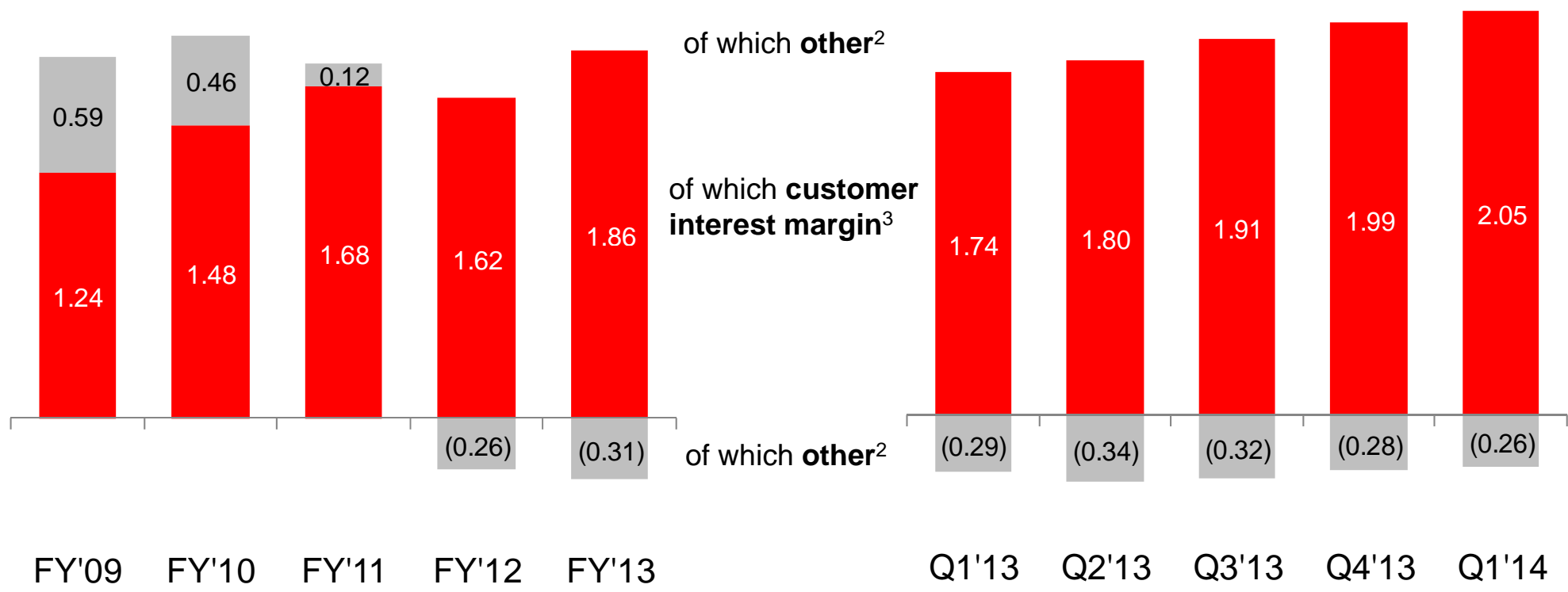
Return on tangible equity (%)<sup>1</sup>



<sup>1</sup> 'RoTE' is calculated as profit attributable to ordinary shareholders divided by average shareholders' equity, less non-controlling interests, preference shares, and intangible assets (including goodwill)

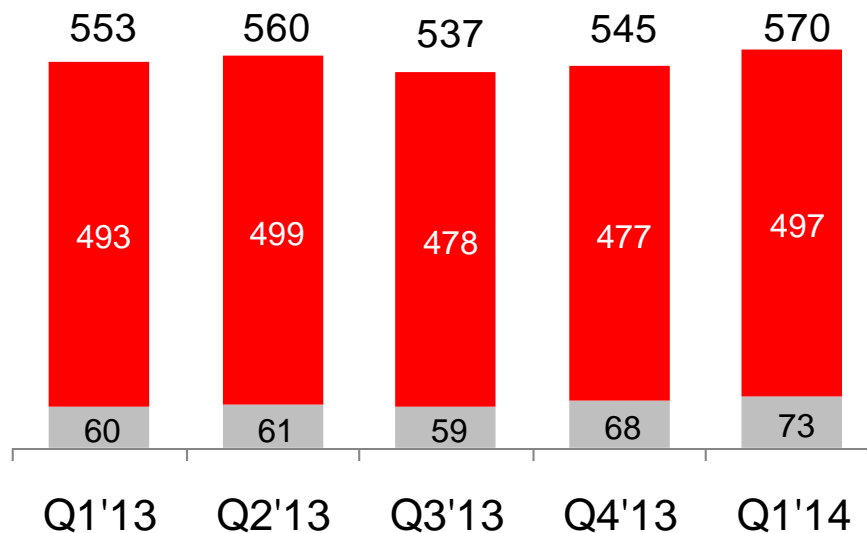
# 3 Recovery in Banking NIM ... underpinned by a strengthening customer interest margin

1.83	1.94	1.80	1.36	1.55	Banking NIM (%) <sup>1</sup>	1.45	1.46	1.59	1.71	1.79
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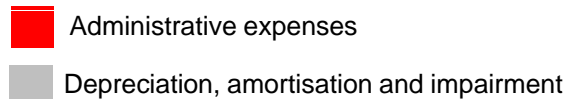
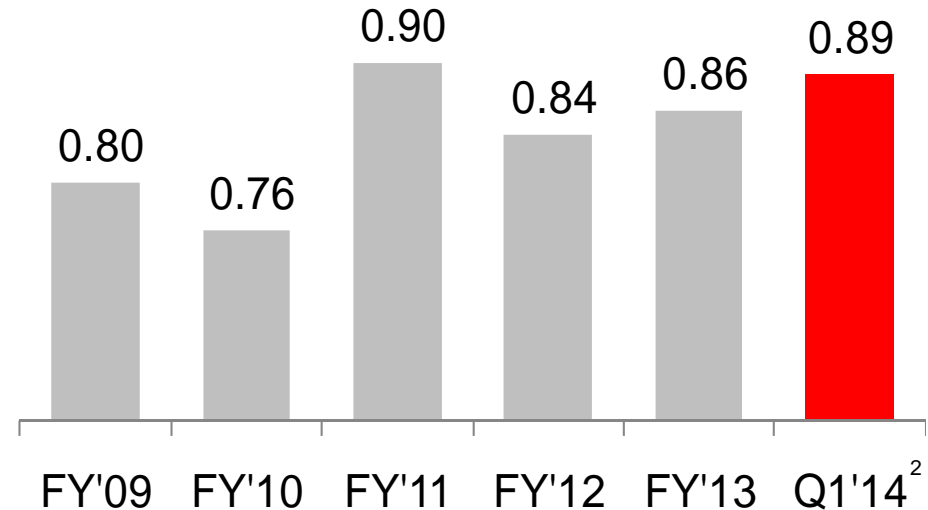


### 3 Costs remained tightly controlled reflecting current business mix and management focus

Operating expenses (£m)



Operating expenses/ Avg. total assets (%)<sup>1</sup>



<sup>1</sup> Average total assets excluding derivatives

<sup>2</sup> Annualised rate

# 3 Executing on our strategic investment plan to 2016

## Investment in technology, digital, product and customer service improvements

### Retail Banking

- Roll out of enhanced infrastructure and product capability for **Select** customers
- Expand **unsecured lending, credit card** offerings, **home/life insurance**
- Optimise the **branch network**, with enhancing facilities and new branch directors

### Commercial Banking and Markets

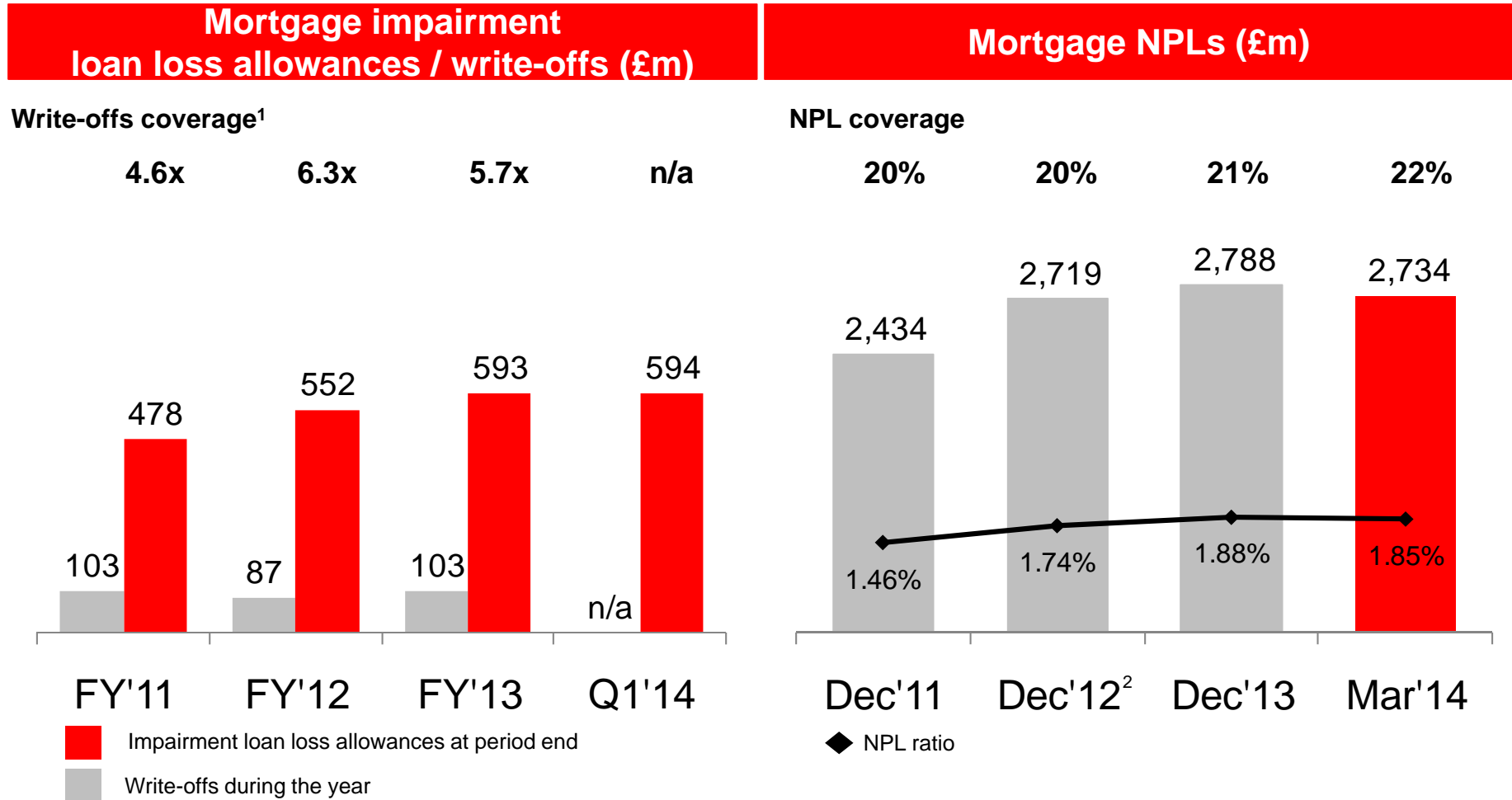
- Expand the **CBCs network** to c. 70 and recruit c.100 more **relationship managers**
- Build platform capability further, including **FX, Commercial Cards** and **Factoring**
- Expand **coverage** and **capability** in larger corporates
- Build out of Global Transactions Services (cash management, supply chain finance, trade finance)

### Operational, Digital and Efficiency

- Optimise **operating models** and enhance **central services**
- Build further on **internet and mobile sites** and **sales capabilities**
- Enhance **data centre capacity** and new data process and control capabilities



# 3 Mortgage write-offs coverage prudent ... resilient underlying NPLs

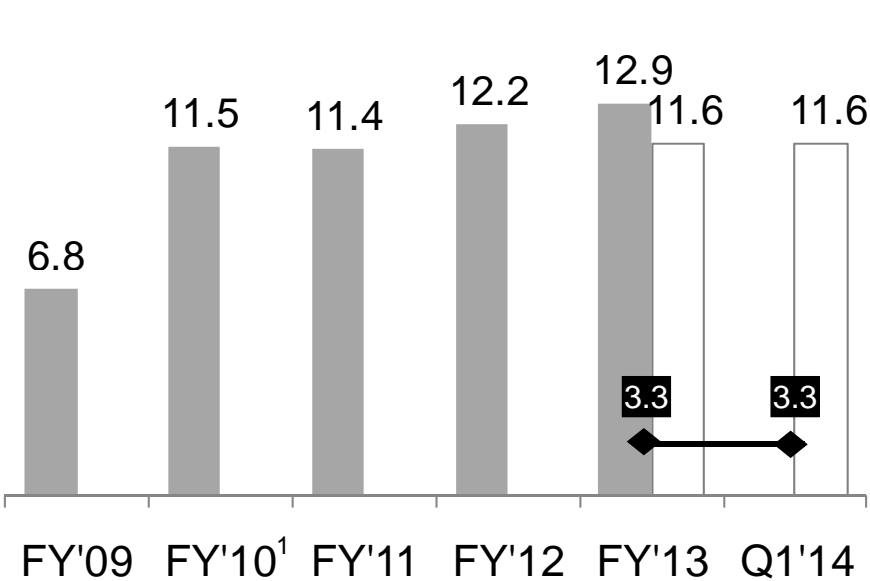


<sup>1</sup> Illustrates how many times the current value of write-offs would be covered by the current stock of mortgage impairment loan loss allowances, crystallised during the year  
<sup>2</sup> The rise in the mortgage NPL ratio was largely due to regulatory-driven policy and collections changes introduced in early 2012 as well as the impact from the managed reduction in the mortgage portfolio

# 3 Strong capital ratios and leverage maintained

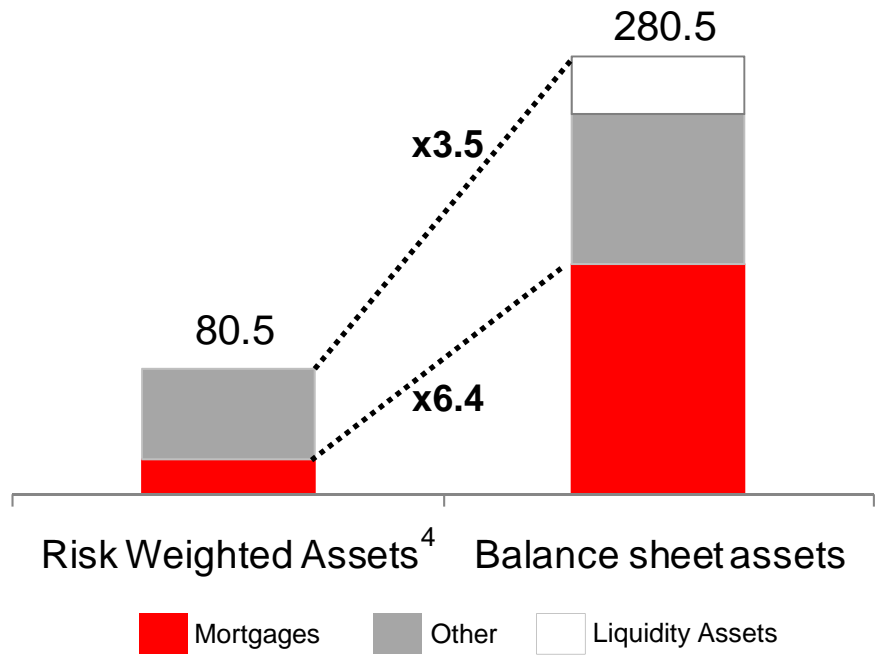
**Capital and leverage ratios – CRD IV end point (%)<sup>1</sup>**

Total capital ratio 17.1    17.1



- Core Tier 1 capital ratio, Basel 2/2.5
- CET 1 capital ratio<sup>2</sup>
- ◆ Leverage ratio<sup>3</sup>

**Risk weighted vs balance sheet assets (£bn)**

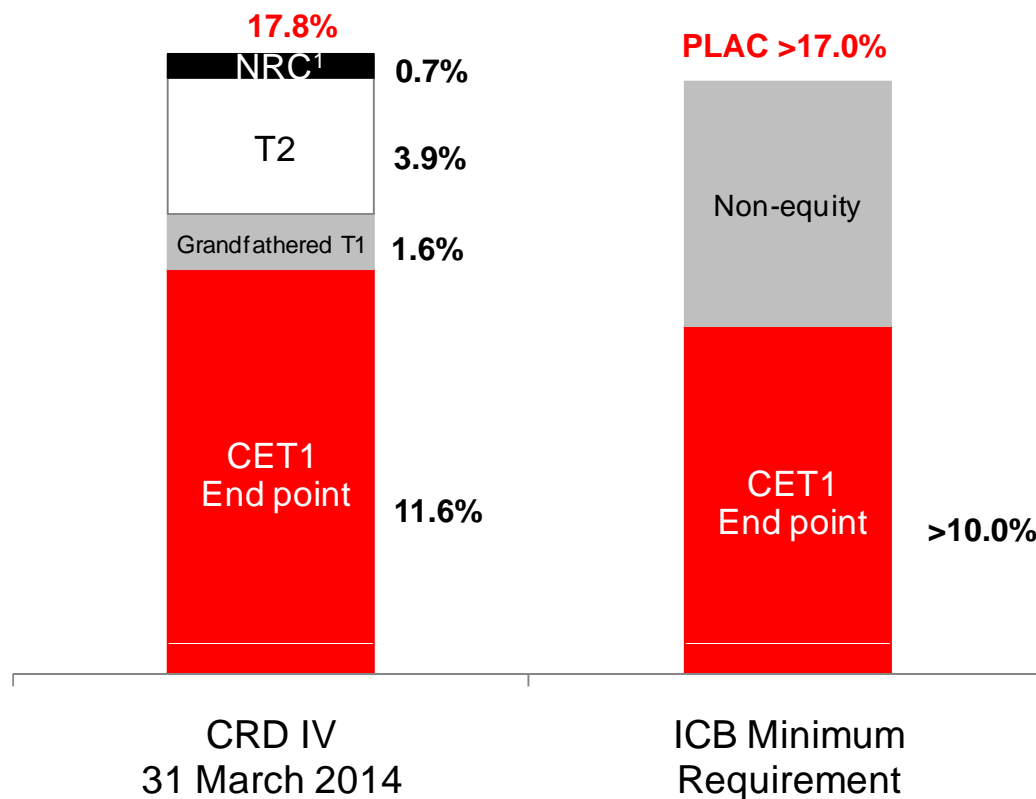


Risk Weighted Assets<sup>4</sup>    Balance sheet assets

- Mortgages
- Other
- Liquidity Assets

### 3 Managing capital from a robust position

#### Implementing CRD IV and managing to ICB

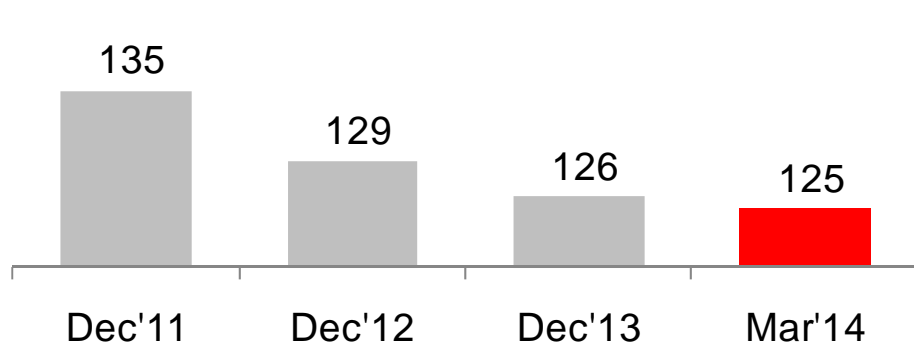


- Strong starting point, with 11.6% CET 1 capital ratio
- ICB target CET1 minimum at 10% (large ring-fenced bank). PRA may introduce a higher minimum level under Pillar 2 provisions PS7/13 from 2015. Santander UK's current target is CET1 > 10.5%
- PLAC ('Primary Loss Absorbing Capacity') may also be met by senior debt and wholesale funding subject to bail-in. This is not reflected in the illustration
- Issuance of Additional Tier 1 capital planned for 2014, replenishing Tier 1 capital stock and enhancing the PRA leverage ratio

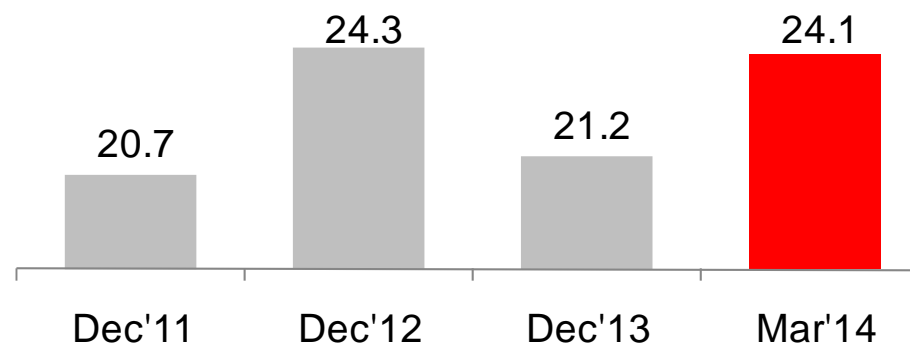
<sup>1</sup> NRC: Non-Regulatory capital, which includes Tier 1 and Tier 2 capital instruments which are not recognised under CRD IV grandfathering provisions

## 3 Optimised liquidity position

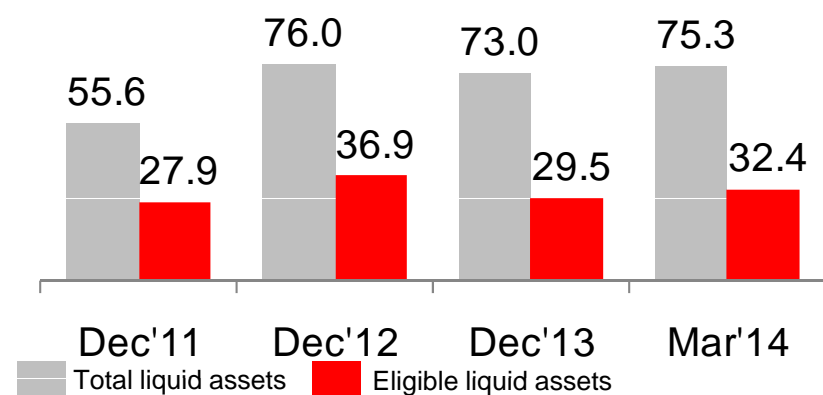
### Loan-to-deposit ratio (%)



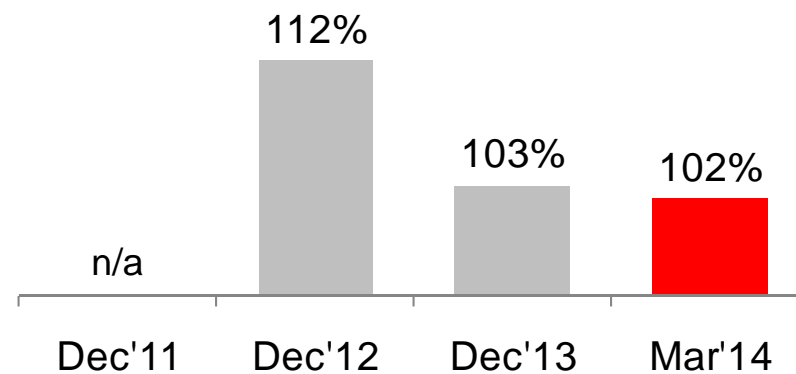
### Wholesale funding with a residual maturity of less than 1 year (£bn)



### Liquid assets (£bn)



### Liquidity coverage ratio ('LCR')



For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for 3 months ended 31 March 2014

# Q1 2014 Summary

1

## Loyal and satisfied retail customers

- Transforming the relationship quality of customer base, with 45% primary retail deposits
- Continued focus on capturing the revenue growth opportunity of c. 14m active customers
- Improving customer satisfaction and first choice bank for 'switchers'

2

## 'Bank of Choice' for UK companies

- Sustained growth in Commercial Banking; lending up 12% in a year
- Not compromising prudent risk management and returns objectives
- Roll out of core banking functionality now complete; further investment planned

3

## Consistent profitability and strong balance sheet

- Profit before tax up 48% to £416m; net interest income the highest for nine quarters
- Banking NIM of 1.79%, up 34bps since Q1'13; expected to remain at this level in 2014
- Significant income growth and costs tightly controlled (+10% 'jaws')
- Credit quality continues to be good
- Balance sheet strength sustained<sup>1</sup>: CET 1 ratio 11.6%; Leverage ratio 3.3%; LCR 102%
- Confident in our 2014 prospects and in the delivery of our 2015 key targets

<sup>1</sup> CRD IV basis

# Appendix

# Established UK market player

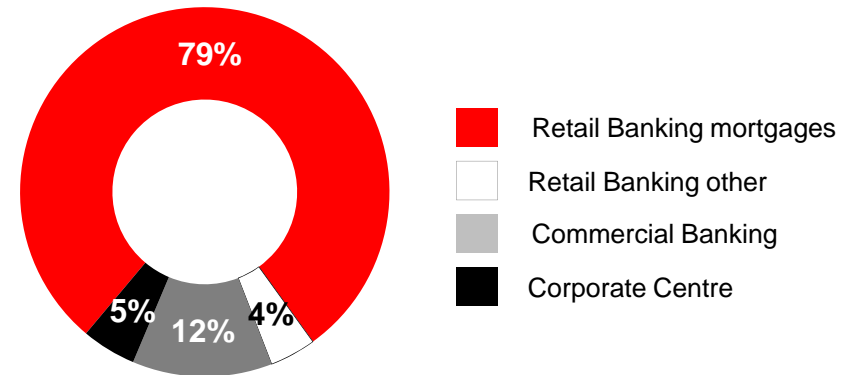
## Key metrics

	<u>Mar'14</u>	<u>2013</u>	<u>2012</u>
Employees <sup>1</sup>	20,111	19,643	20,346
Branches	998	1,010	1,034
Corporate Business Centres	50	50	34
Commercial Banking Relationship Managers	661	650	503
Active Customers	14m	14m	15m

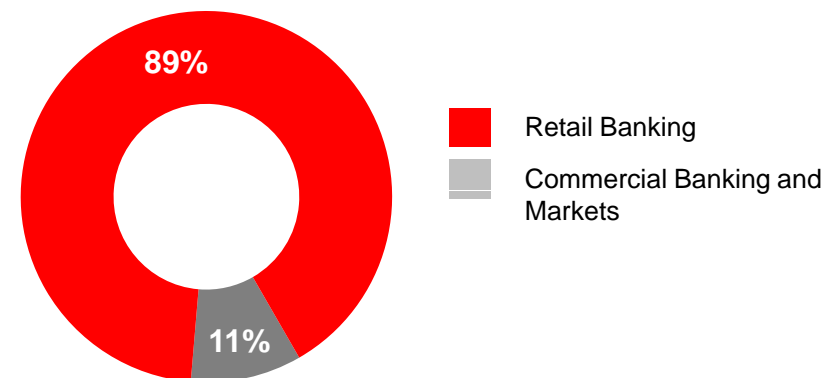
	<u>Mar'14</u>	<u>2013</u>	<u>2012</u>
	<u>£bn</u>	<u>£bn</u>	<u>£bn</u>
Retail Banking residential mortgages	147.6	148.1	156.6
Retail Banking customer deposits	124.7	123.2	127.2
of which current accounts	31.7	27.9	15.9
Commercial Banking customer loans	22.9	22.1	19.6
of which SMEs <sup>3</sup>	11.6	11.7	10.6
Commercial Banking customer deposits <sup>4</sup>	13.4	12.6	12.8

## Business mix

### Customer loan balances

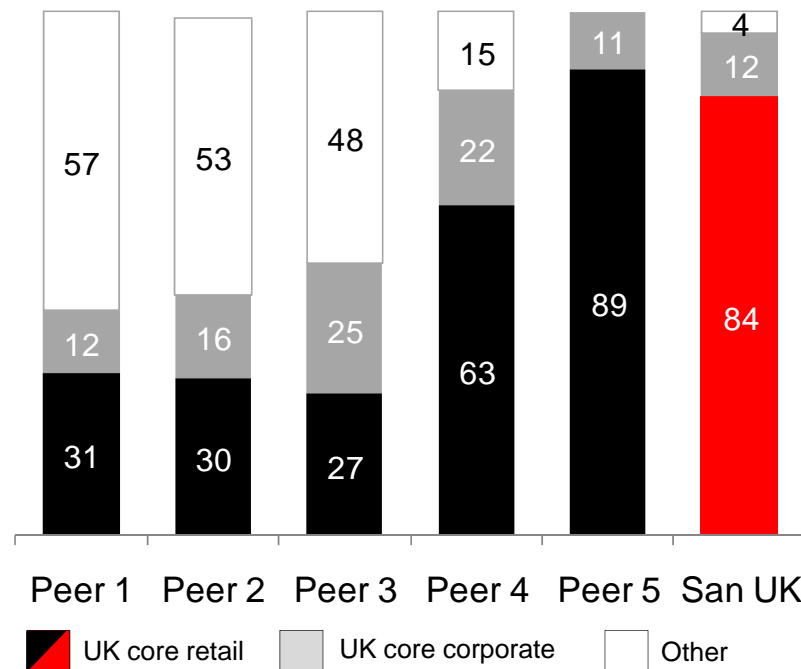


### Profit before tax<sup>2</sup>

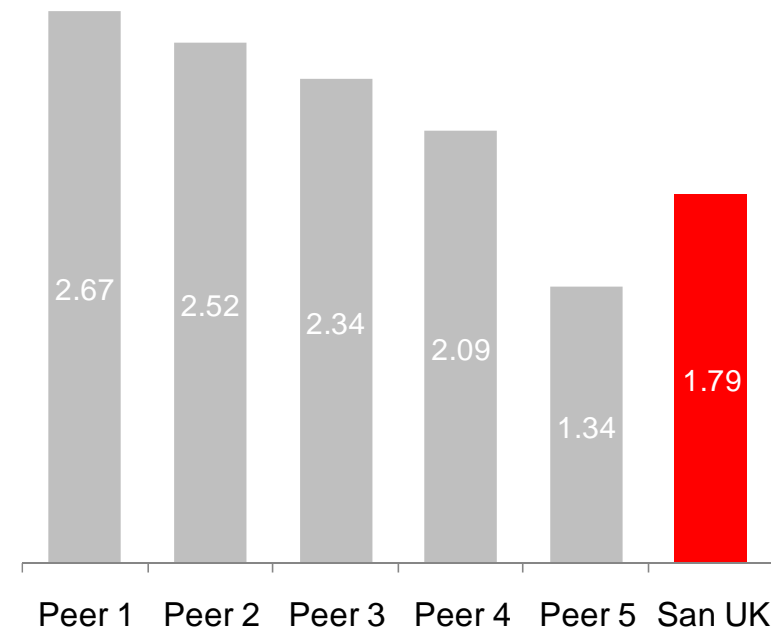


# Current retail focus ... challenger opportunities

## Group customer loans mix (%)



## Net interest margin comparison (%)<sup>1</sup>



← Full service clearing banks

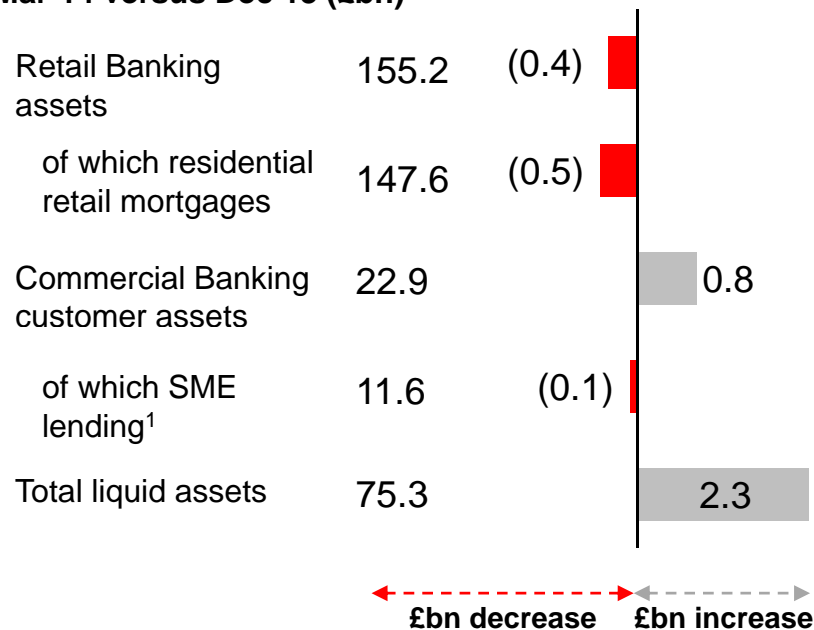
- Current business mix in **core UK retail mortgages and savings**
- Lower NII and NIM than peers **due to the different business mix**
- Commercial transformation, from 'product focused' bank into a **broader retail and commercial bank**



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

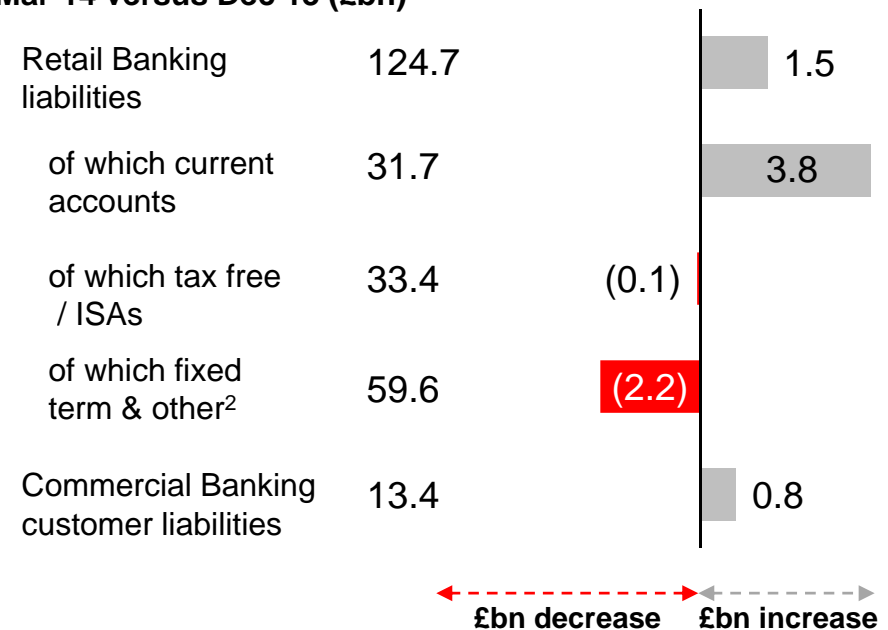
## Rebalancing of the asset mix

Mar'14 versus Dec'13 (£bn)



## Qualitative improvement of customer deposits

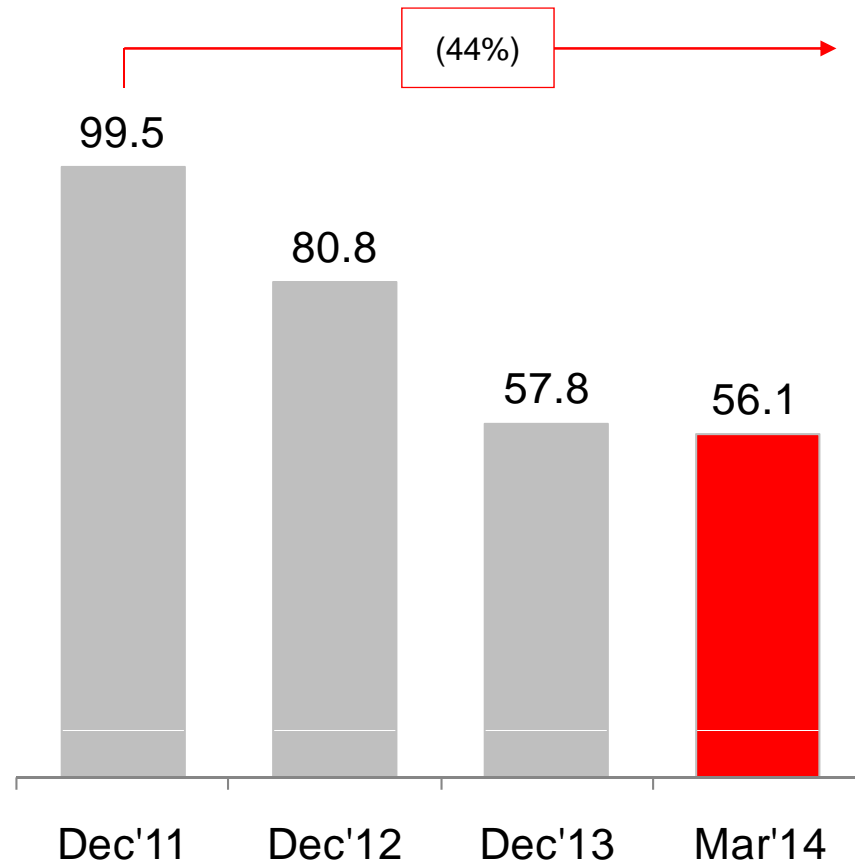
Mar'14 versus Dec'13 (£bn)



- Continued shift in qualitative mix of retail deposits base. Maintained successful rollout of 1|2|3 Current Accounts
- Growth in Commercial Banking loans and in the underlying liabilities franchise
- Mortgage deleveraging slowing; continued growth opportunities in corporate lending

# Gross mortgage encumbrance reduced significantly in recent years

## Medium term funding encumbrance (£bn)<sup>1</sup>



- The reduction in encumbrance associated with medium term funding and central bank liquidity schemes has been primarily due to:
  - Reduced secured medium term funding
  - Efficiencies created by reducing the levels of collateralisation in special purpose vehicles

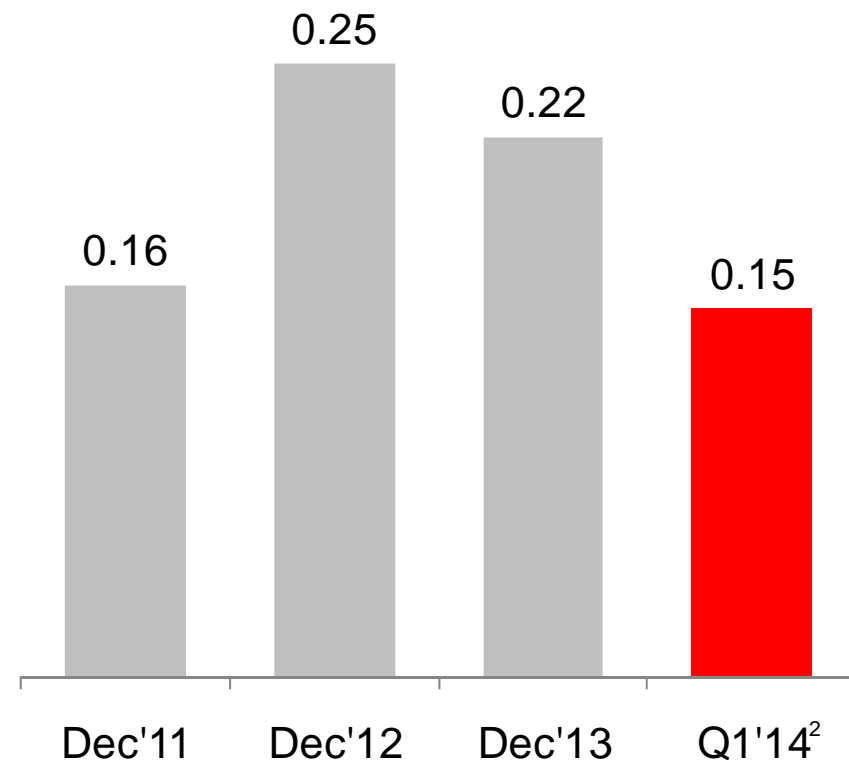
<sup>1</sup> Includes all maturities assigned to Fosse, Homes, Langton and the ANTS covered bond programme

# Maintaining a prudent risk profile ... retail credit conditions remain benign

## High quality mortgage base

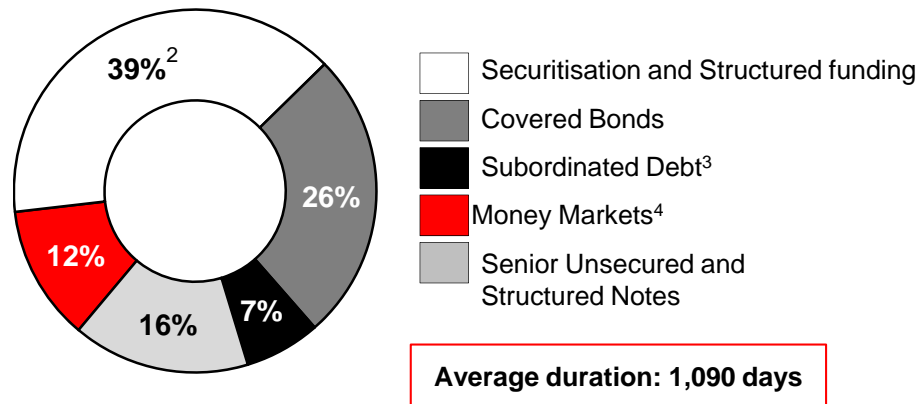
	2011	2012	2013
Weighted average LTV new lending	N/A	59%	58%
Indexed LTV on book	52%	52%	51%
Stock LTV 90%-100%	7%	7%	5%
Stock LTV > 100%	5%	5%	4%

## Retail Banking loan loss rate (%)<sup>1</sup>

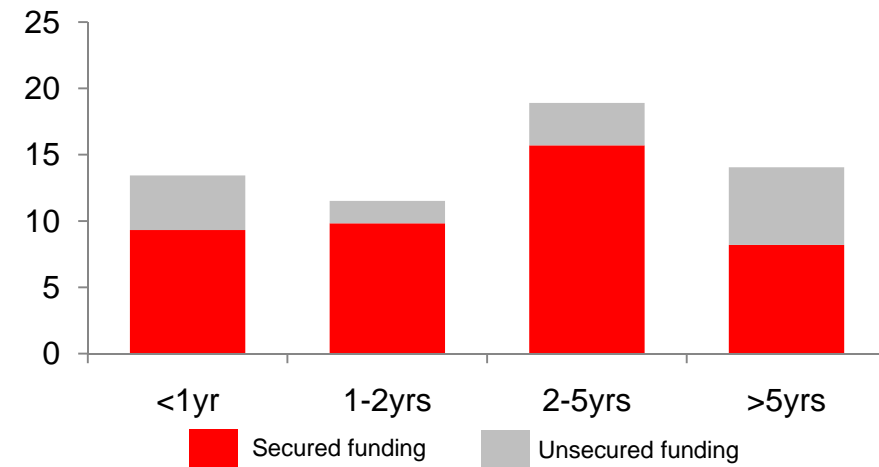


# Broad base of funding opportunities

## Wholesale funding stock composition<sup>1</sup>



## Medium term funding maturities profile (£bn)<sup>5</sup>

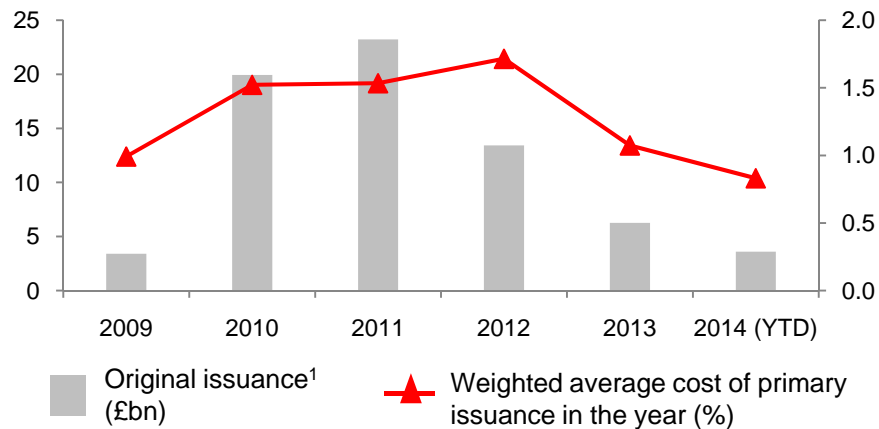


## Standalone funding and liquidity programmes

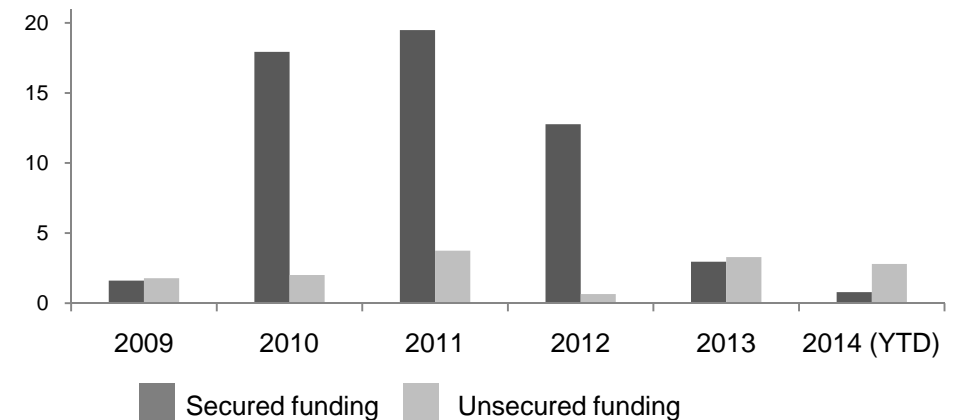
- US\$10bn ECP (STEP<sup>6</sup> Label)
- US\$20bn USCP
- €5bn French CD (STEP<sup>6</sup> Label)
- €10bn Note, Certificate and Warrant Programme
- US\$20bn EMTN
- €35bn covered bond

# Increased senior unsecured issuance versus secured since 2013

## Wholesale funding cost



## MTF issuance (to end Apr'14)

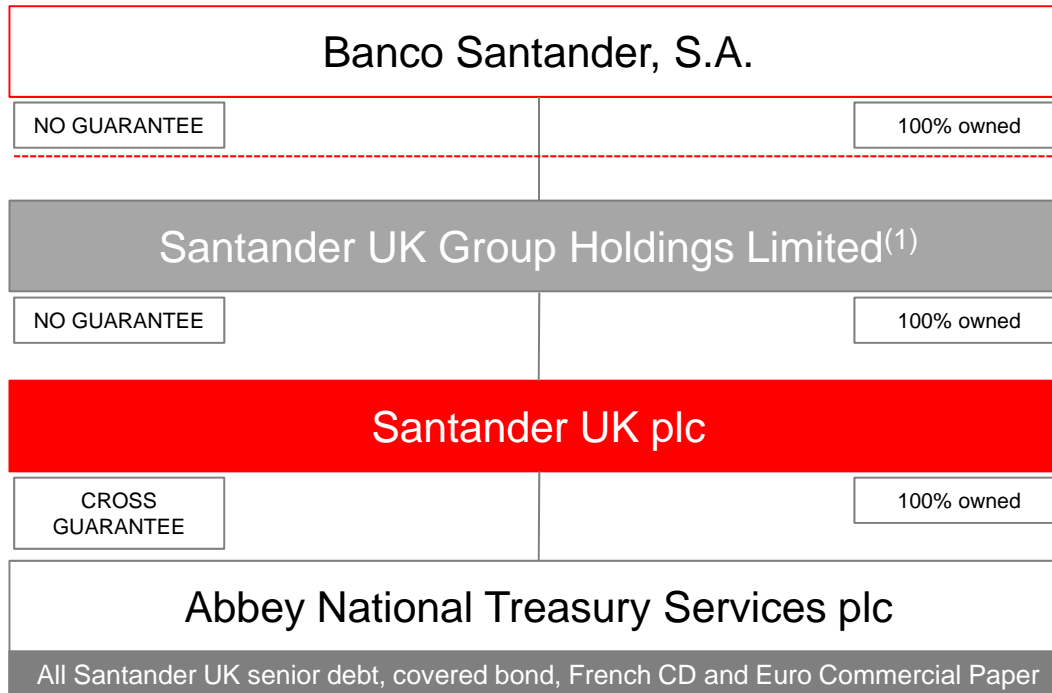


Transaction	Month	Maturity (years)	Notional (bn)	GBP Equivalent (bn)	Issuance Spread
Senior Unsecured	Jan'14	5	EUR 1.00	0.8	MS + 83bps
Covered Bond	Jan'14	3	GBP 0.75	0.8	3M GBP + 35bps
Senior Unsecured	Mar'14	3	USD 1.10	0.7	T + 130bps
Senior Unsecured	Mar'14	3	USD 0.40	0.2	T + 65bps
Senior Unsecured	Mar'14	10	USD 1.00	0.6	3M USD + 51bps
Motor ABS	Apr'14	1.1	USD 0.75	0.4	1M USD +48bps
Motor ABS	Apr'14	1.7	GBP 0.8	0.4	1M GBP +50bps

Source: Santander UK plc MI

<sup>1</sup> Primary issuance excludes Structured Notes and Omnibus programmes and any retained issuance

# Operating under the independent subsidiaries policy of Banco Santander



- Santander UK plc is obliged to satisfy its home regulator (the PRA) that it can withstand capital and liquidity stresses on a standalone basis
- The PRA regulates:
  - capital, including the semi-annual dividend
  - large exposures limits on single counterparty exposure
  - intra-group lending treated as perpetual (liquidity)
- All San UK senior debt, covered bond and ECP issuance is out of ANTS
- Any debt obligation issued by Abbey National Treasury Services plc (ANTS) is fully guaranteed by Santander UK plc up to the contractual maturity date of the debt

<sup>1</sup> Santander UK Group Holdings Limited became the holding company of Santander UK plc on 10 January 2014

# Santander UK credit ratings

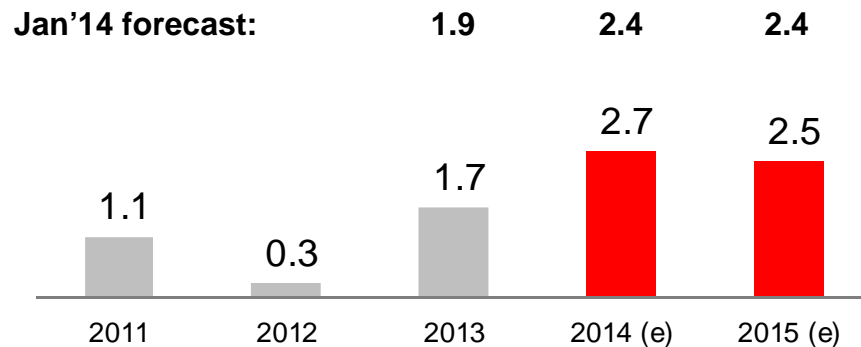
	Standalone	Long Term	Outlook	Short Term	Last rating change
<b>S&amp;P</b>	Ratings affirmed Dec'13. Negative outlook shared by UK banking industry				
	<b>bbb+</b>	<b>A</b>	<b>Negative</b>	<b>A-1</b>	<b>30/04/12</b>
<b>Fitch</b>	Ratings affirmed Oct'13. Stable outlook				
	<b>a</b>	<b>A</b>	<b>Stable</b>	<b>F1</b>	<b>11/06/12</b>
<b>Moody's</b>	Ratings unchanged since Oct'12. Negative outlook across major UK banks				
	<b>bba1</b>	<b>A2</b>	<b>Negative</b>	<b>P-1</b>	<b>17/05/12</b>

Ratings as at end April 2014

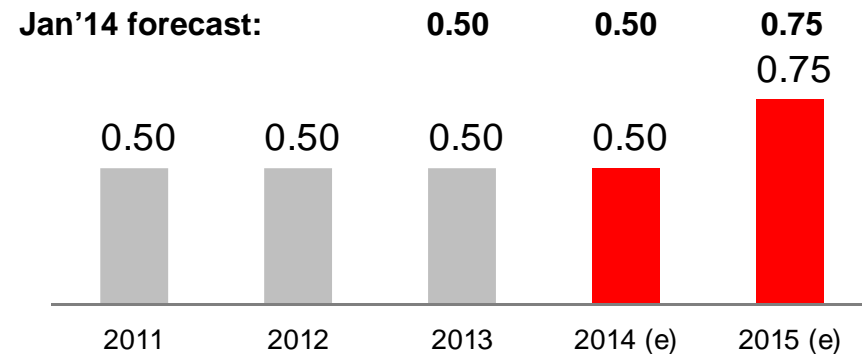
# Macro-economic environment

## Economic recovery embedded ... with inflation outlook benign

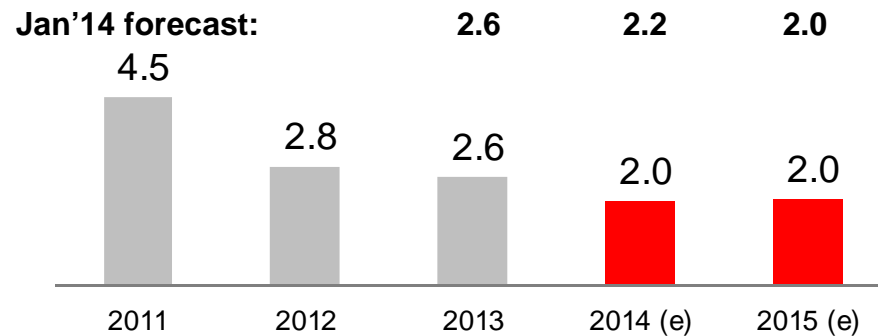
### Annual GDP growth (% , annual average)



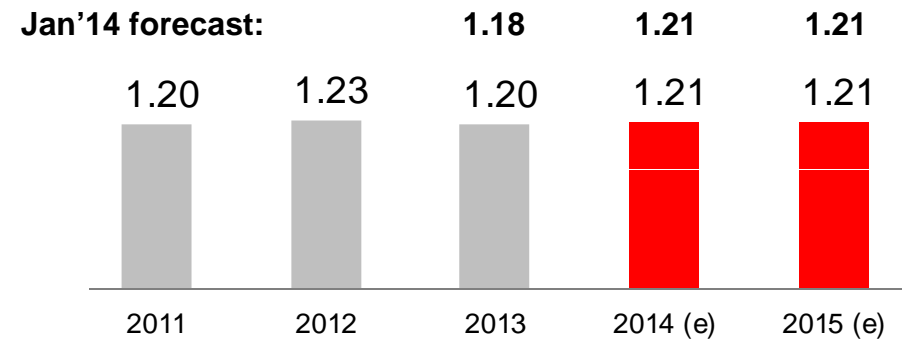
### Interest rates (% , year end)<sup>1</sup>



### Annual CPI<sup>2</sup> inflation rate (% , annual average)



### GBP/Euro exchange rates (year end)



Source: Office for National Statistics and Bank of England. Estimates by Santander UK Economics (April 2014)

(e) – Santander UK April 2014 forecast

<sup>1</sup> Bank of England base rate

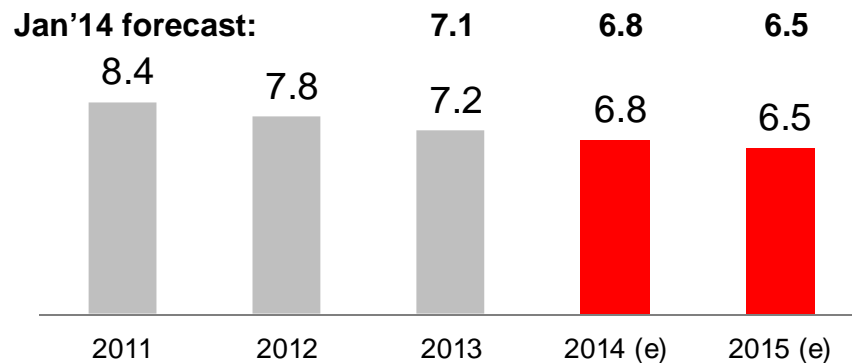
<sup>2</sup> Consumer Price Index



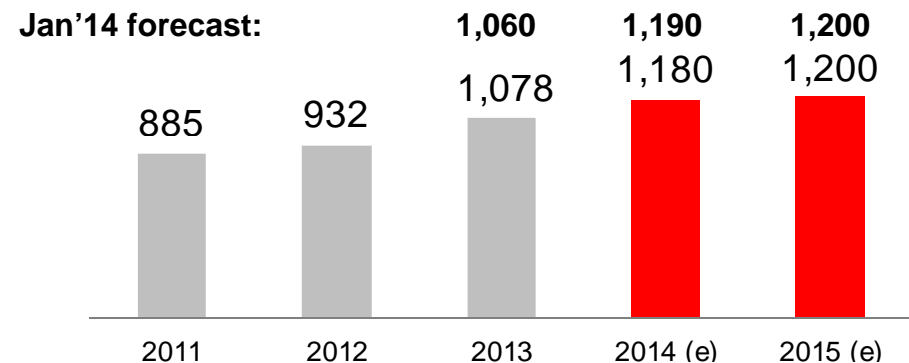
# Macro-economic environment

Unemployment declining steadily ... with a strengthening housing market

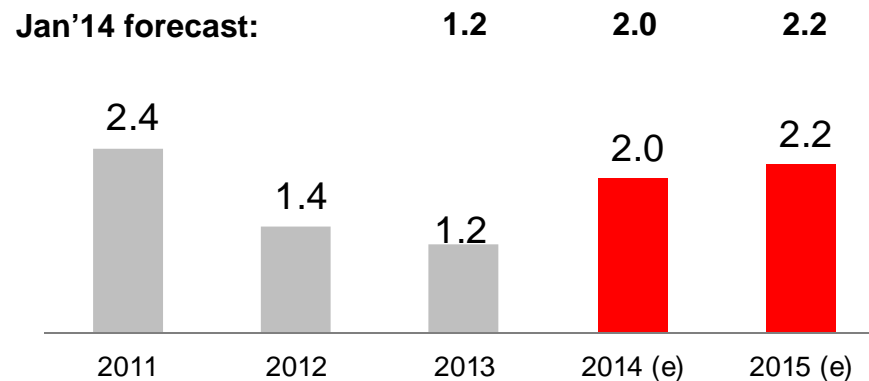
Unemployment rate (ILO<sup>1</sup>, year end)



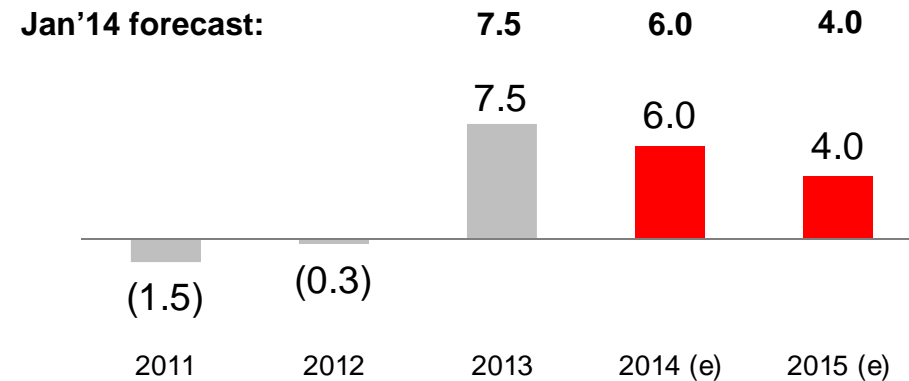
Property transactions (sa, 000s)



Average weekly earnings  
(annual, % inc. bonuses)



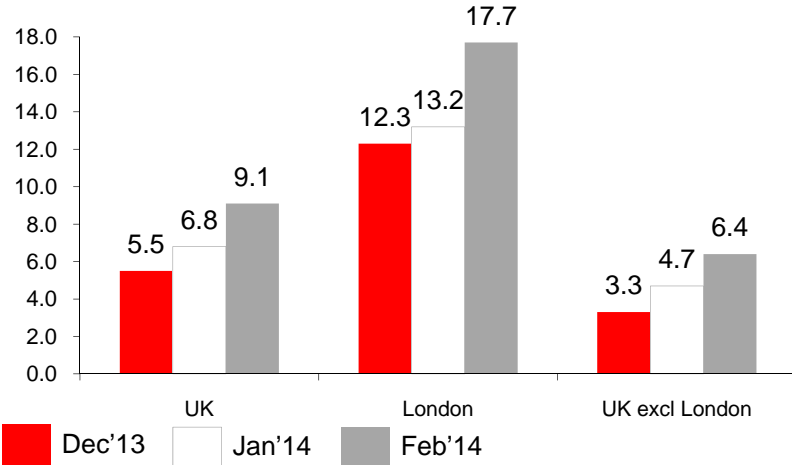
House prices (% year end)



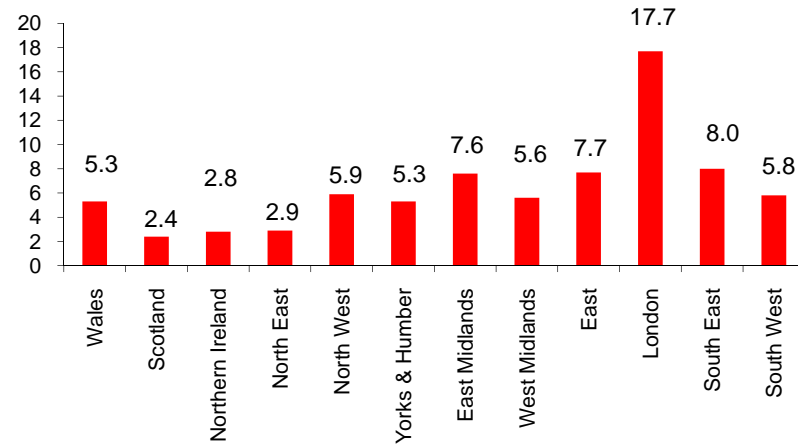
Source - Office for National Statistics and Bank of England  
(e) - Santander UK April 2014 forecast  
<sup>1</sup>ILO: International Labour Organisation

# Macro-economic environment

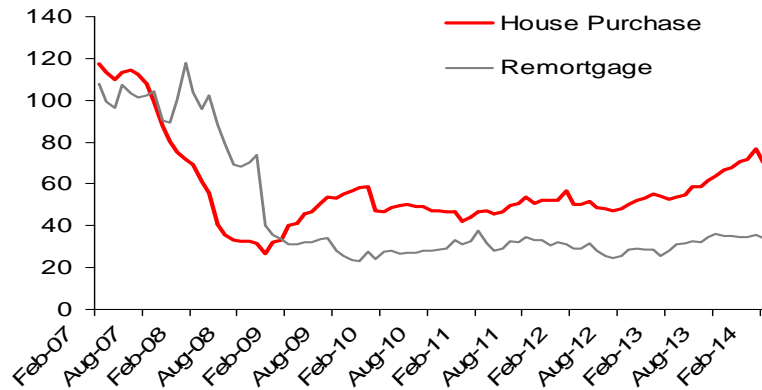
**UK house price change (annual %, nsa)**



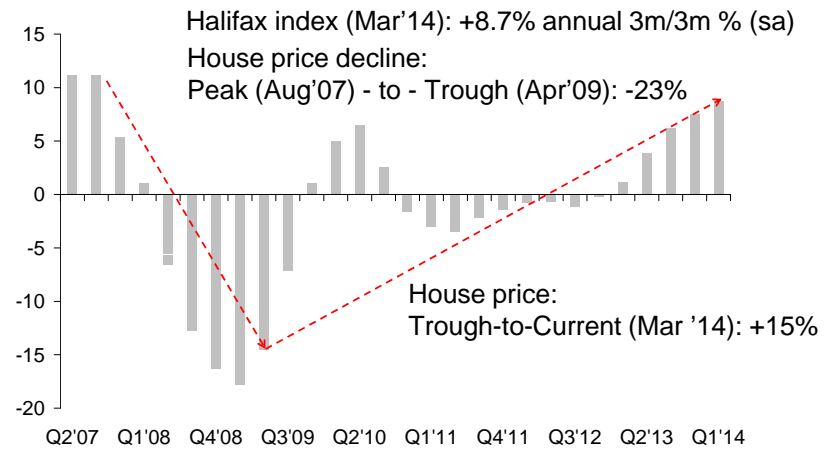
**House price change by region - January '14 (annual %, nsa)**



**House purchase and remortgage approvals (000s, sa)<sup>1</sup>**



**UK house price inflation (annual %, sa)<sup>2</sup>**



Source – Bank of England, DCLG (ONS) and Lloyds Banking Group

## [www.aboutsantander.co.uk](http://www.aboutsantander.co.uk)

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

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