

Santander UK

Investor Update

March 2013

United Kingdom



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Source: Santander UK Q4 results "Quarterly Management Statement for the year ended 31 December 2012" or Santander UK Management Information ('MI')

Strengths of Santander UK

Key UK retail and corporate banking market participant

Consistent profitability

Diversified retail and corporate banking business with prudent risk management

Strong liquidity, funding and capital positions

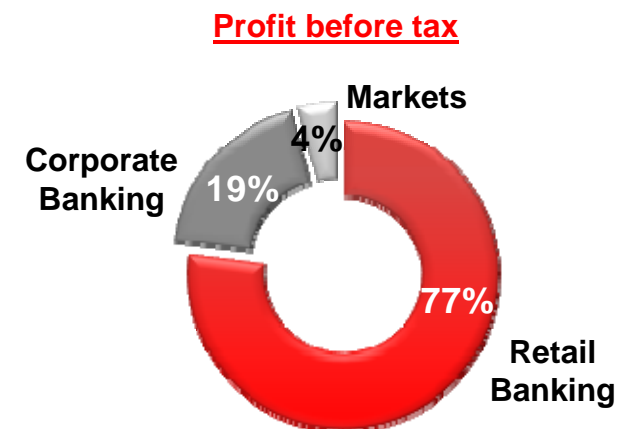
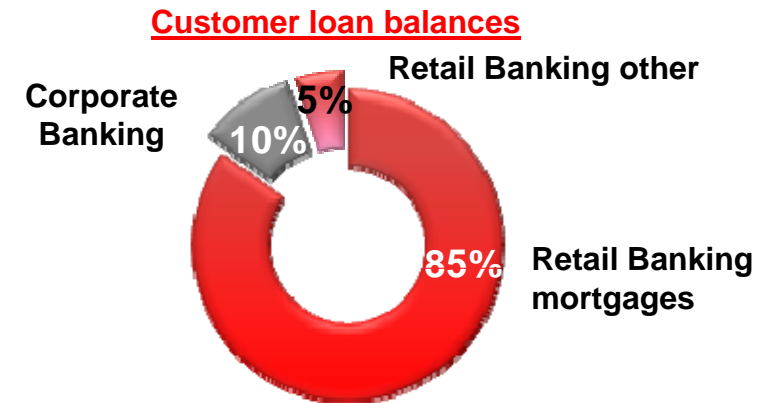
Strengthening our commercial franchise

Key UK market player

Key Metrics

	Dec'12	Dec'11
Employees	23,981	25,198
Branches (inc. agencies)	1,186	1,378
Corporate Business Centres	35	28
Relationship Managers	713	600
	£bn	£bn
Residential Mortgages	164.1	173.7
Corporate Banking Assets	19.6	18.9
Inc. SME	10.6	9.0
Retail Banking Liability	127.2	121.4
Corporate Banking Liability	11.8	11.4
Market Share of Stock (%) ²	Dec'12	Dec'11
Residential Mortgages	13.1	13.9
SME lending ³	5.2	4.3
Deposits	9.4	9.6
Bank Accounts	9.3	9.1

Business Mix¹



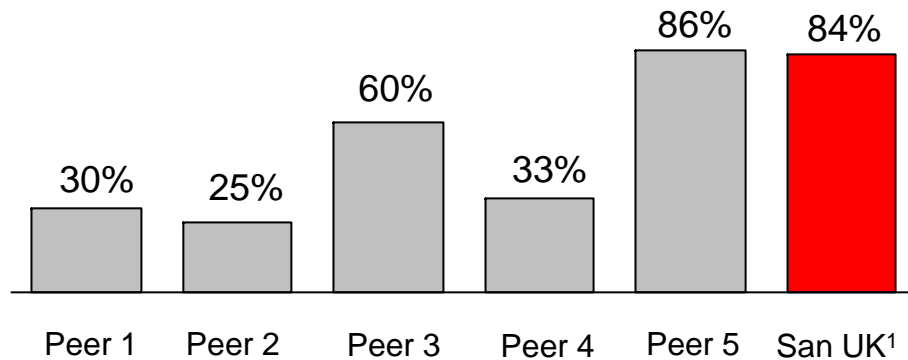
¹ Business mix excludes the impact of the Corporate Centre

² Market share sources: Residential Mortgages, SME lending and Deposits (BOE); Bank Accounts (CACI)

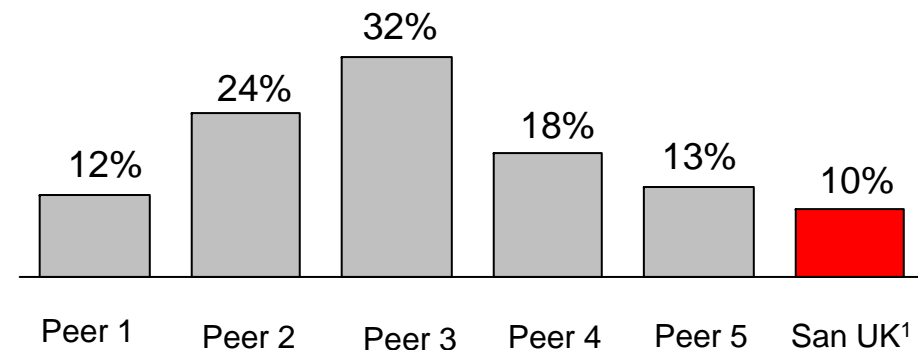
³ SME lending market share includes assets held in Corporate Banking and Corporate Centre. SME assets totaled £12.0bn in Dec'12, £11.5bn in Sep'12, £10.7bn in Dec'11

Customer asset base strongly underpinned by retail...more than most UK peers

UK Retail, % of customer loans mix



UK Corporate (core), % of customer loans mix



United Kingdom

¹ Mortgages make up c. 95% of the Retail Banking customer loans mix of Santander UK. Retail Banking customer loans of £165.3bn; Corporate Banking (excluding non-core corporate) customer loans of £30.6bn
 Source: Company accounts
 Peer data includes Barclays plc, HSBC Bank plc, Lloyds Banking Group, Nationwide and RBS plc. Latest peer data available: 30 September 2012 (Nationwide) or 31 December 2012 for the rest.



Strengths of Santander UK

Key UK retail and corporate banking market participant

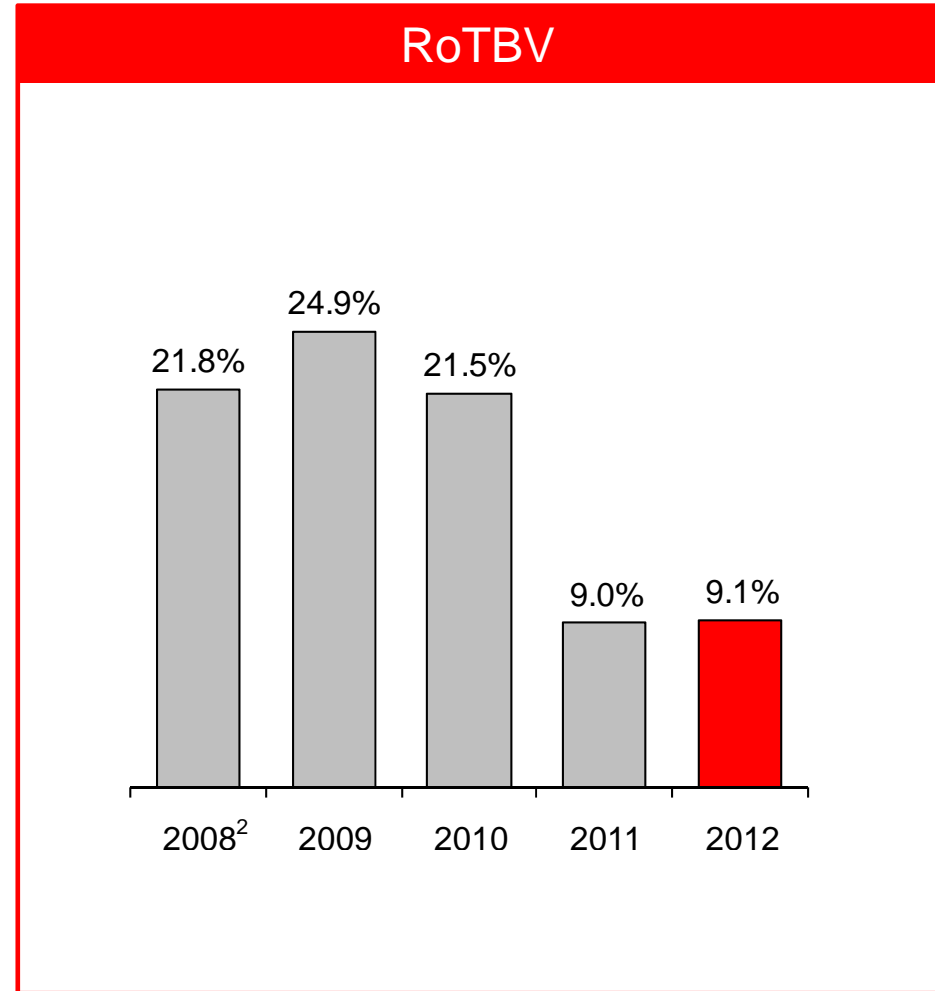
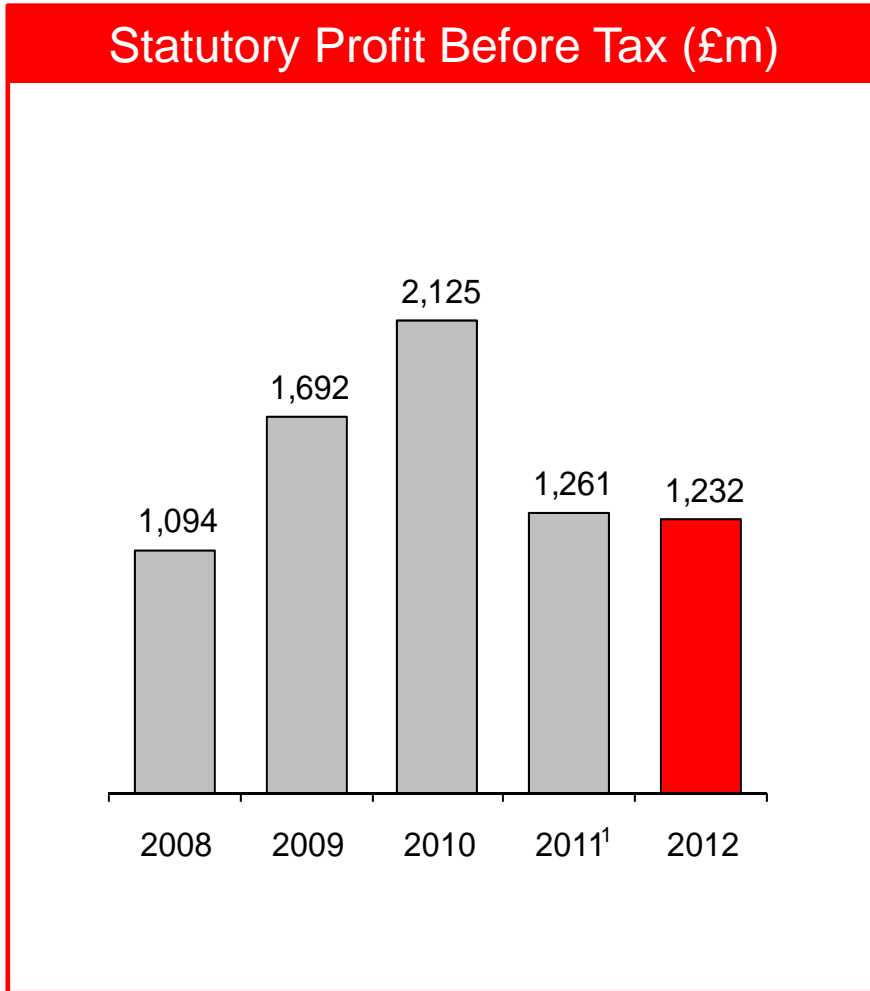
Consistent profitability

Diversified retail and corporate banking business with prudent risk management

Strong liquidity, funding and capital positions

Strengthening our commercial franchise

Lower cyclicalilty of profits than the industry...built on business mix



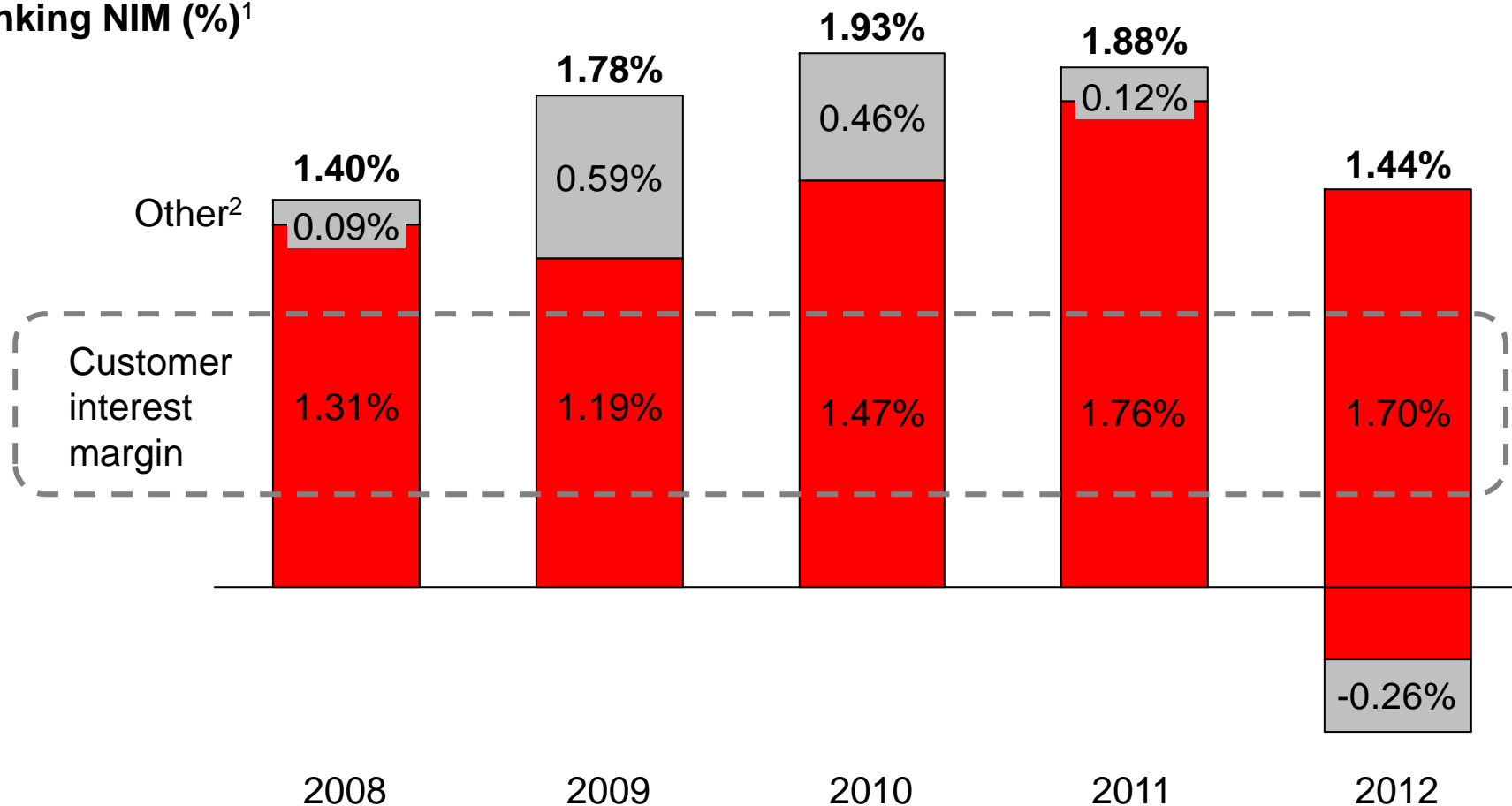
In 2012, we delivered £939m PAT (+4% vs. 2011)

Key financial highlights	Year ended	
	31-Dec-12	31-Dec-11
	£m	£m
Net interest income	2,915	3,830
Non interest income	1,986	1,355
Total operating income	4,901	5,185
of which significant items ^a	705	—
Operating expenses ^b	(2,222)	(2,442)
Total operating provisions and charges	(1,448)	(1,482)
of which significant items ^a	(621)	(751)
Profit before tax	1,231	1,261
Profit after tax	939	903
Cost to income ratio ^c	45%	47%
Return on tangible book value ('RoTBV')	9.1%	9.0%
Return on risk weighted assets ('RoRWA')	1.22%	1.21%

- Structural impacts on NII driving income reductions
- Costs well controlled
- Strong risk performance

Customer interest margin close to peak of last five years

Banking NIM (%)¹



United Kingdom

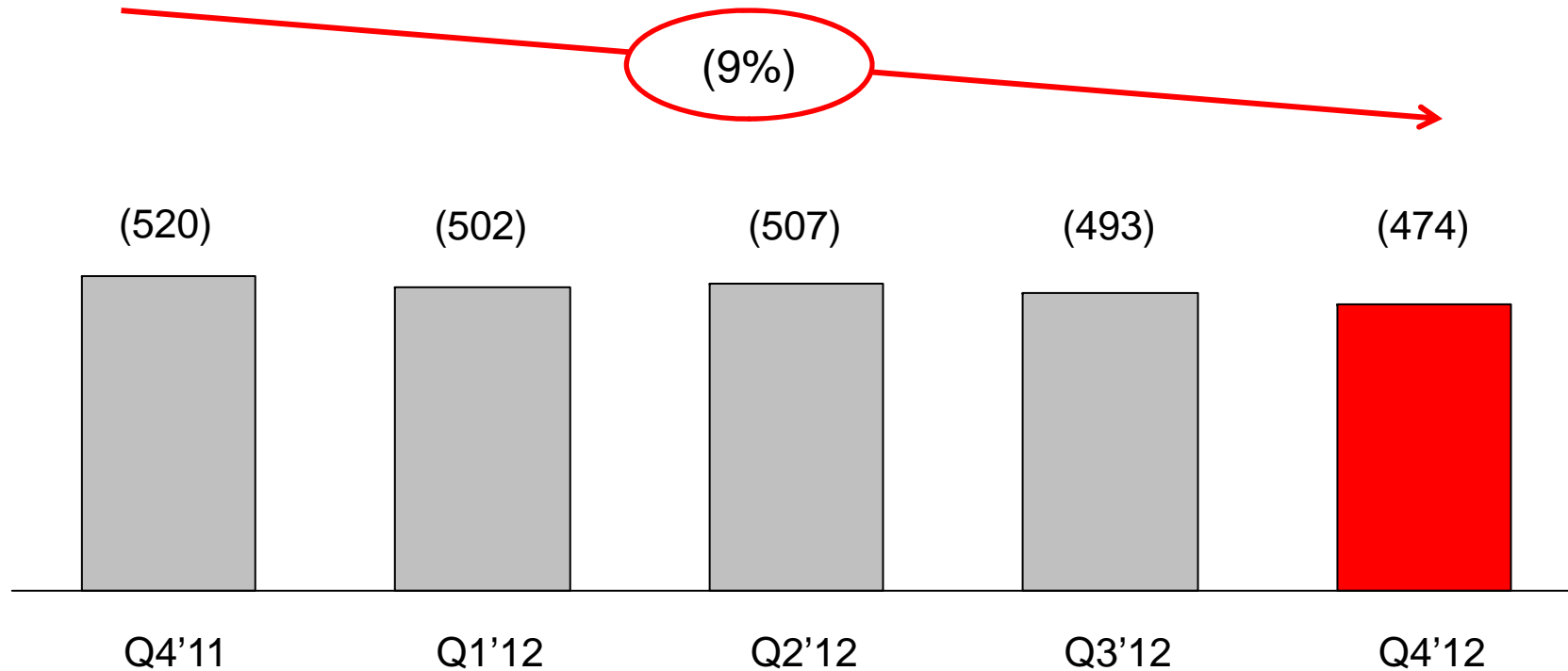
¹ Banking NIM (%) calculated as 'total net interest income over average total customer assets, formerly described as Commercial Banking Margin

² Other includes impacts of structural hedge, Medium Term Funding (MTF) and liquidity items



Good cost control, despite inflation and investment

Administrative expenses (£m)



Depreciation,
amortisation and
impairment (£m)

(240)	(59)	(61)	(62)	(64)
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Strengths of Santander UK

Key UK retail and corporate banking market participant

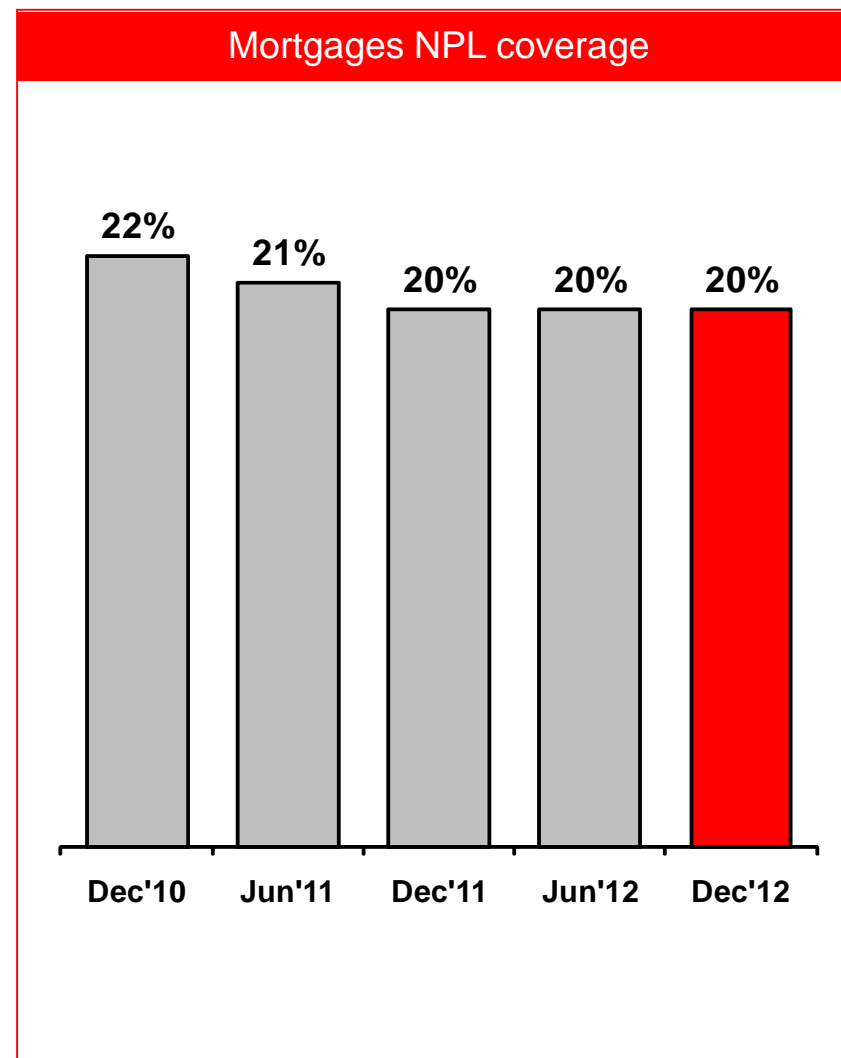
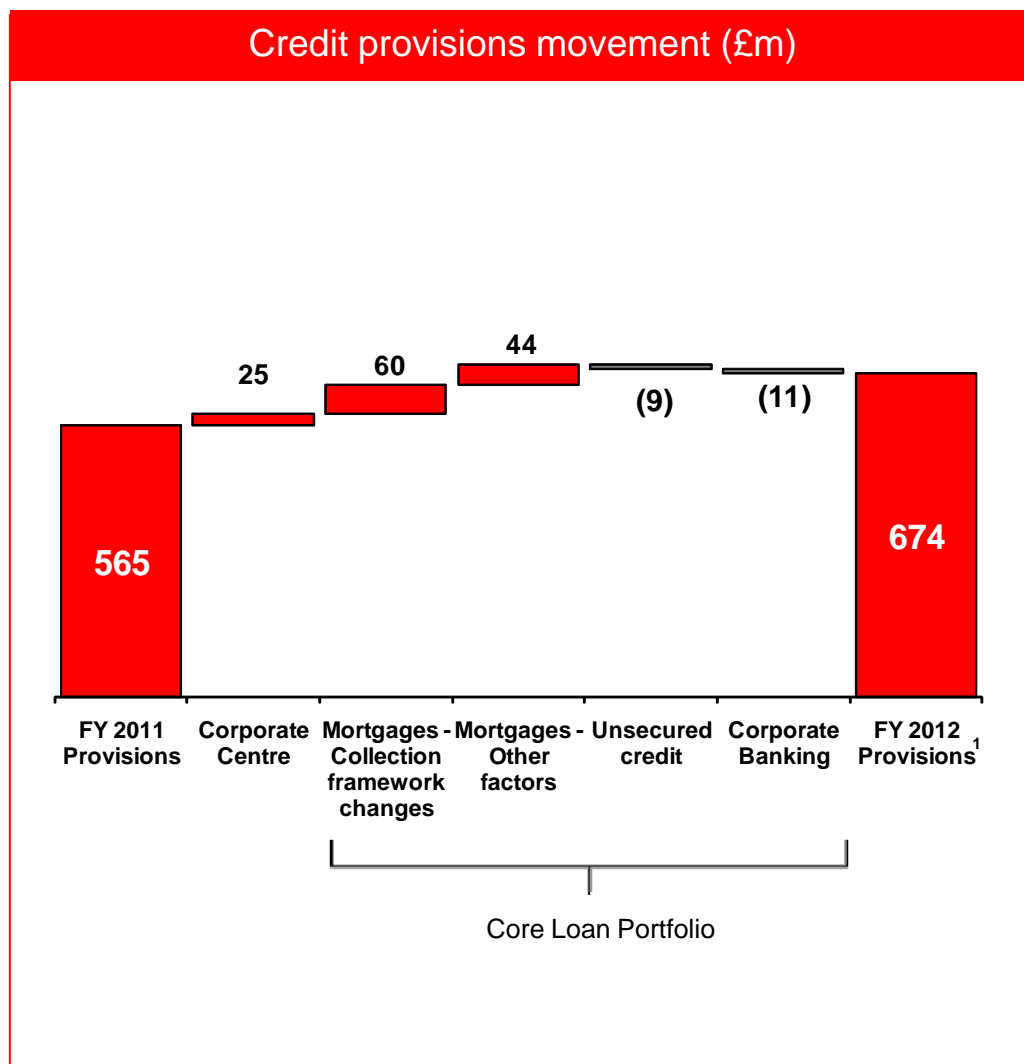
Consistent profitability

Diversified retail and corporate banking business with prudent risk management

Strong liquidity, funding and capital positions

Strengthening our commercial franchise

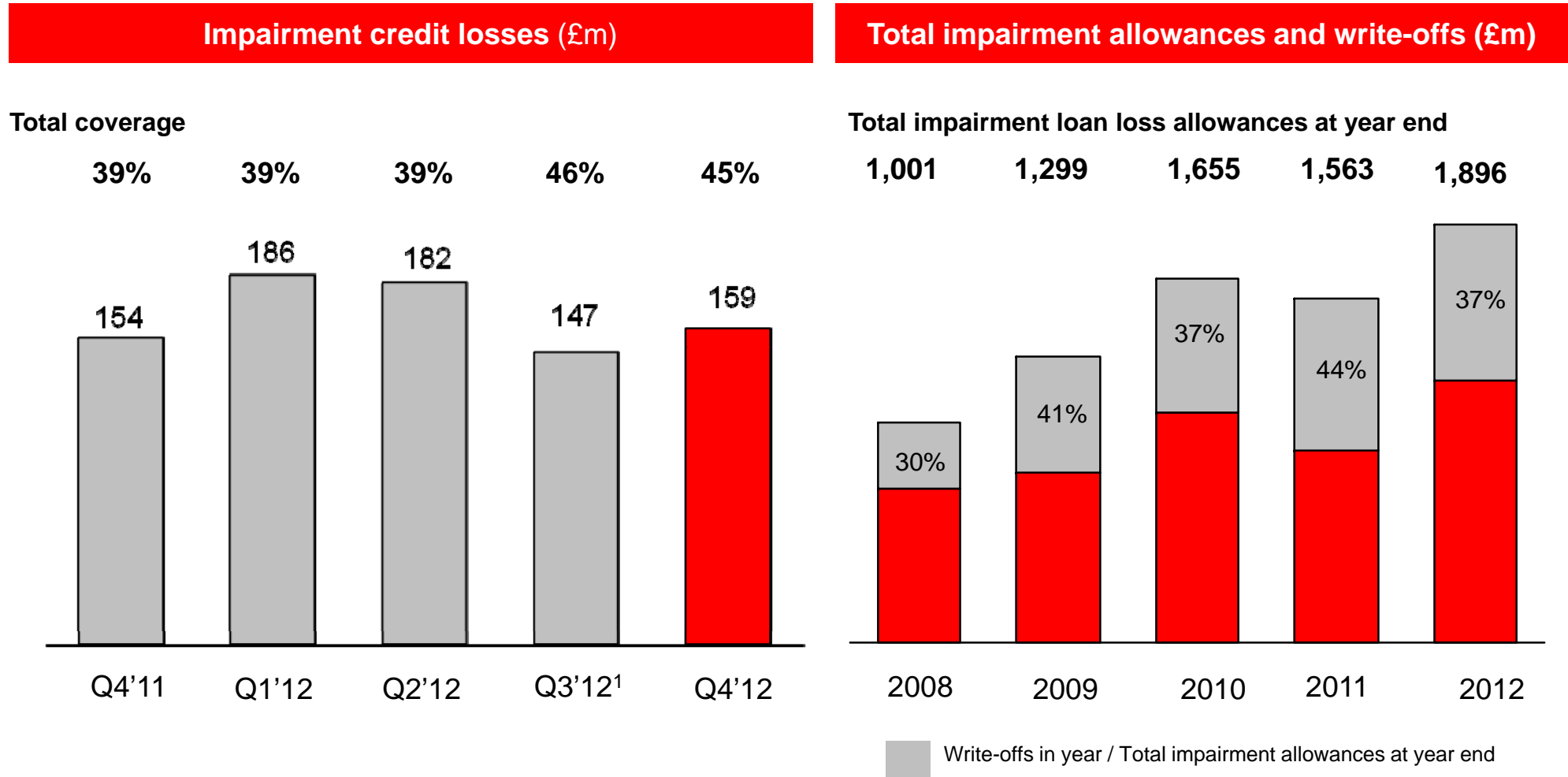
Credit provisions steady on quality core portfolio



Source: Santander UK Finance

¹ Excludes significant item of £335m for the non-core corporate and legacy portfolios made in the third quarter

Credit losses broadly flat...prudent write-off coverage

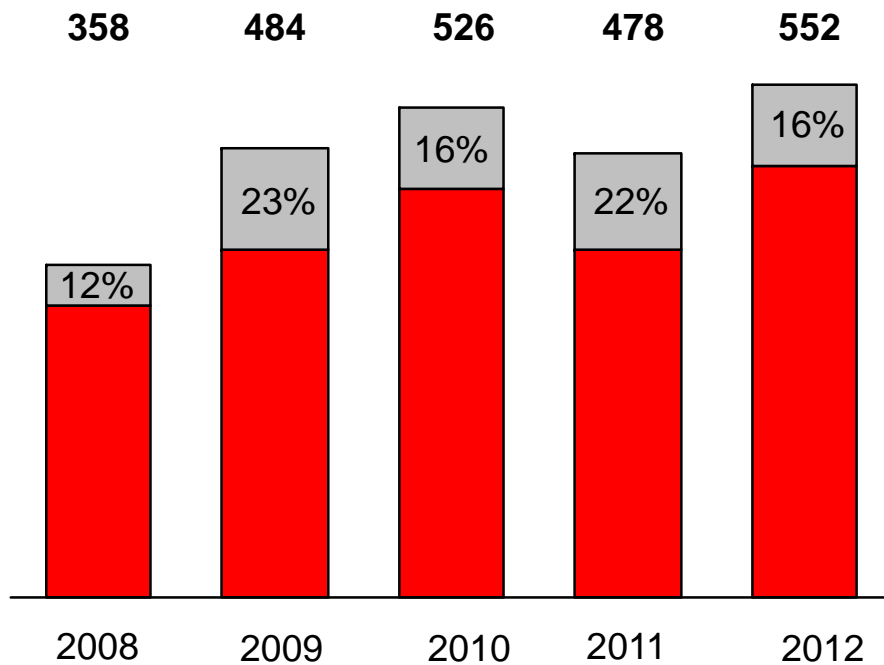


¹ Excludes significant item of £335m for the impairment of the non-core corporate and legacy portfolios

Mortgage write-offs down in 2012...underlying mortgage NPL steady

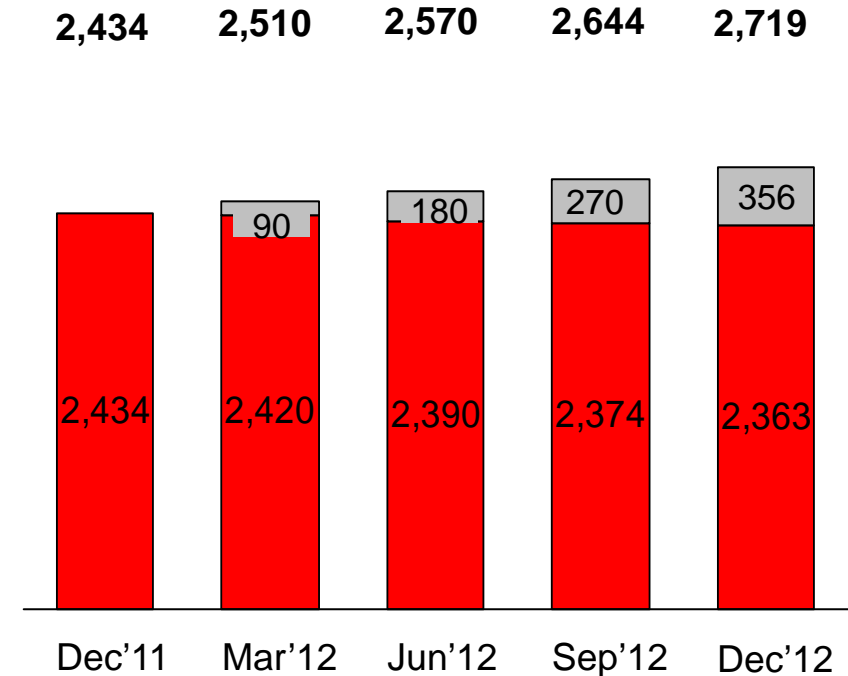
Mortgage impairment allowances and write-offs (£m)

Total impairment loan loss allowances at year end



Mortgage NPL by component (£m)

Total Mortgage NPL

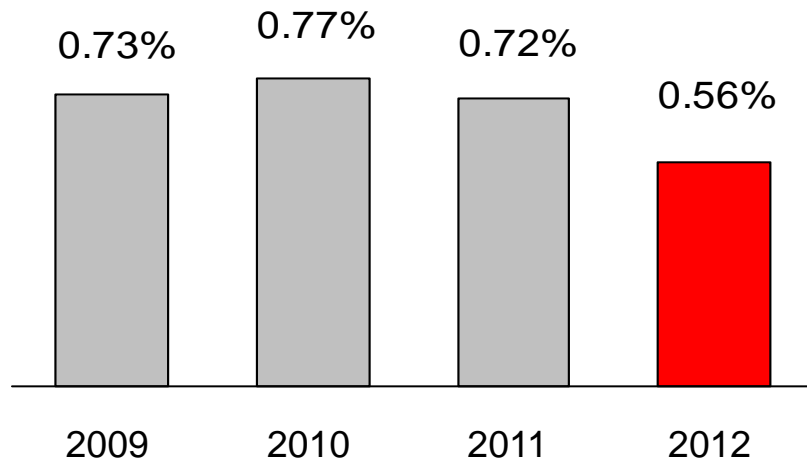


Mortgage write-offs in year / Total mortgage impairment allowances at year end

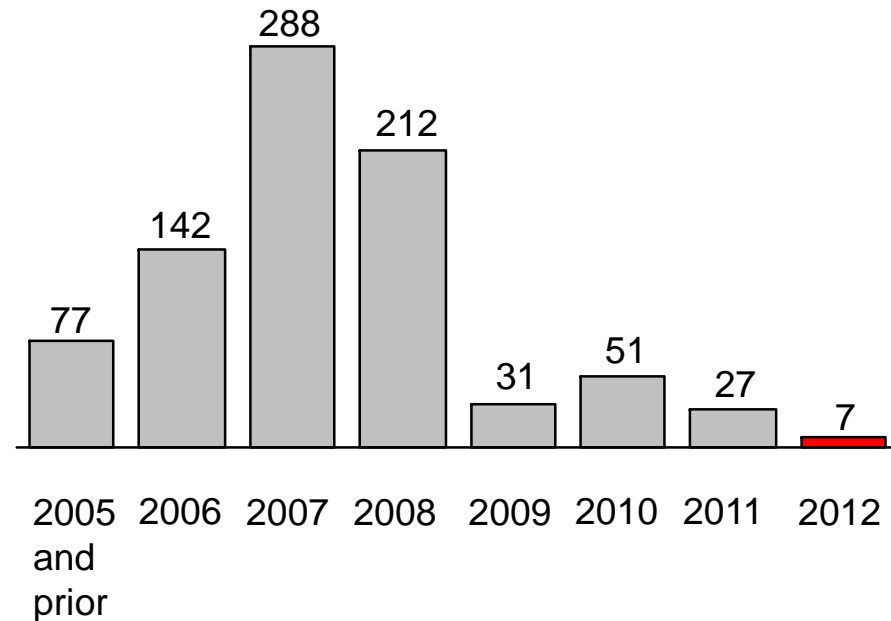
Regulatory collections changes
 Underlying NPL and classification changes

Despite growth, quality of the Corporate Banking portfolio improved in 2012

Impairment charge (%)¹



NPL stock by deal vintage (£m)



¹ Calculated as Corporate Banking impairment divided by the average Corporate Banking lending balance for the year

Strengths of Santander UK

Key UK retail and corporate banking market participant

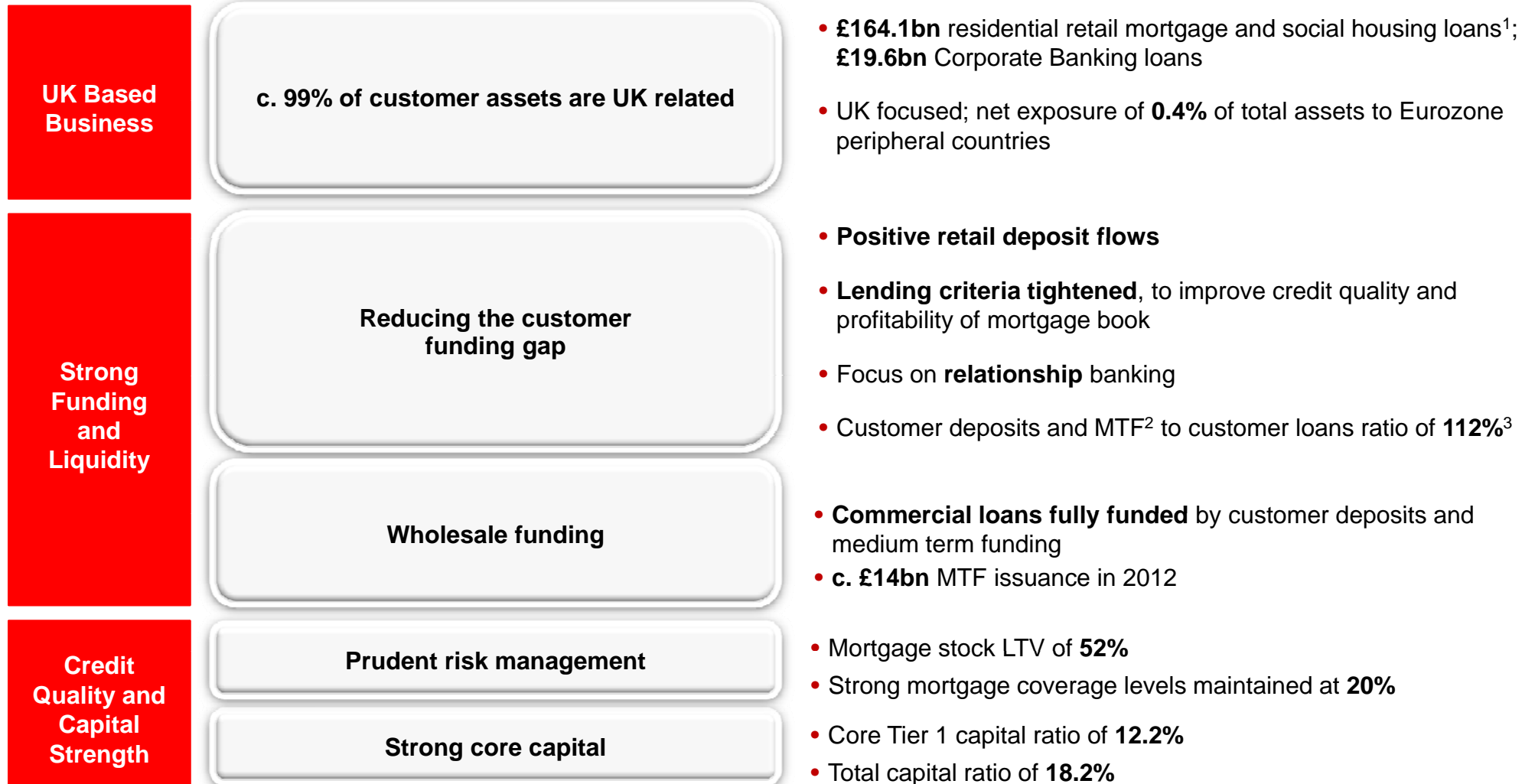
Consistent profitability

Diversified retail and corporate banking business with prudent risk management

Strong liquidity, funding and capital positions

Strengthening our commercial franchise

UK focus, strong capital and funding, prudent risk management



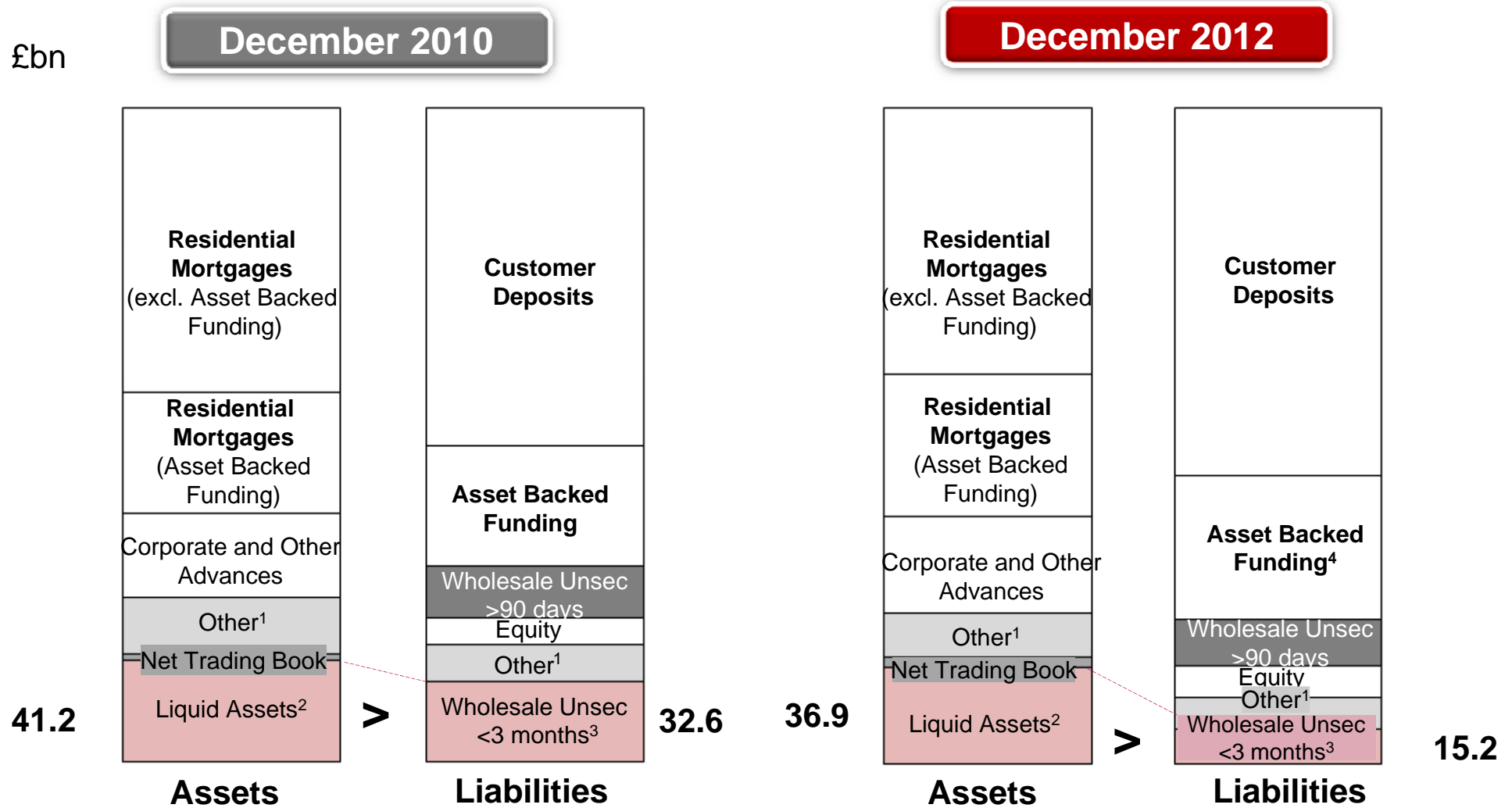
United Kingdom

¹ Social Housing loans excludes Social Housing bonds

² MTF is term funding at nominal value with an original maturity of greater than one year. MTF excludes any unencumbered collateral received as part of FLS

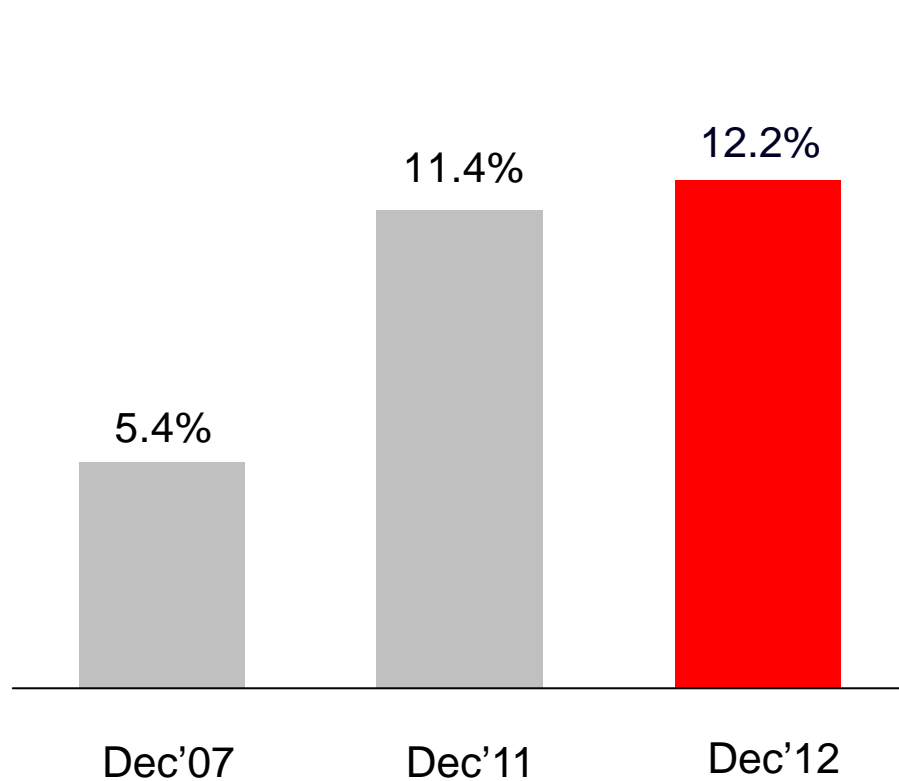
³ Calculated as the sum of deposits by customers (excl. repos) and MTF divided by loans and advances to customers (excl. reverse repos)

Liquidity well in excess of short term unsecured wholesale maturing liabilities

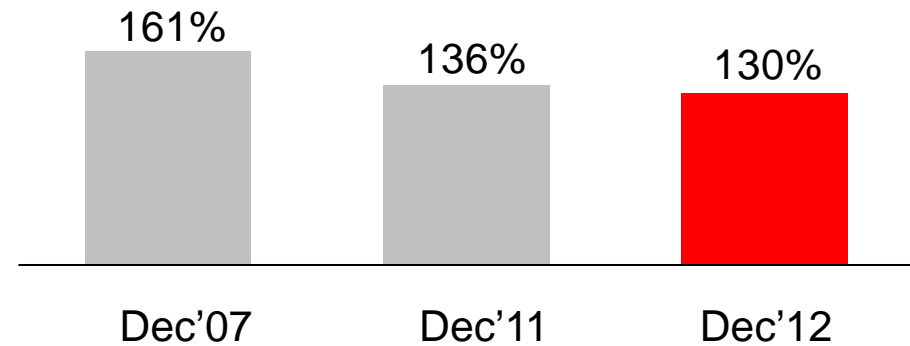


Strong capital and liquidity positions

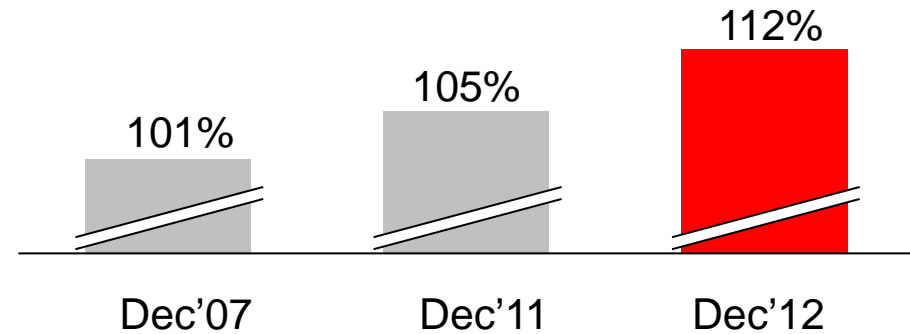
Evolution of Core Tier 1 Capital Ratio¹²³



Loan-to-Deposit Ratio⁴



Customer deposits and MTF to customer loans⁵



United Kingdom

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

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



Strengths of Santander UK

Key UK retail and corporate banking market participant

Consistent profitability

Diversified retail and corporate banking business with prudent risk management

Strong liquidity, funding and capital positions

Strengthening our commercial franchise

We delivered strong transformation in our strategic commercial priorities

A commercial transformation based on:

1

Delivering value to our primary banking customers

2

Building a more balanced business mix and becoming the UK's SME bank of choice

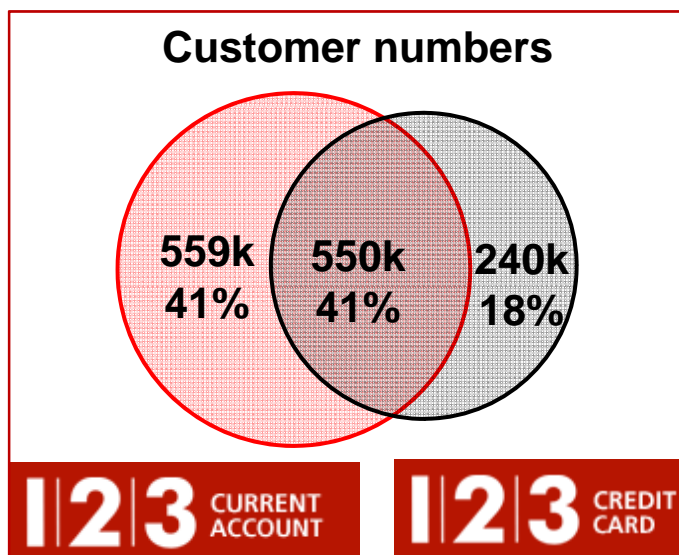
3

Developing leading efficiency and customer experience underpinned by IT

4

Balance sheet strength

1 1|2|3 World has over 1.3m customers, more transactional and more satisfied ...



More transactional and with better risk

- **75% with 4+ Direct Debits** vs. 42% of active customer base
- **+22% Debit Card transactions** vs. non 1|2|3
- **1.3% probability of default** vs. 2.7% before 1|2|3

Better quality and more satisfied

- **x3 in banking and savings liabilities**
- **25% affluent** vs. 8% of total customer base
- **82% would recommend the product**

Opportunity

- **Average all retail customer product holdings c. 1.6** vs top clearing banks at c. 2
- **Some 13m non-1|2|3 customers**

Source: Santander UK Marketing MI

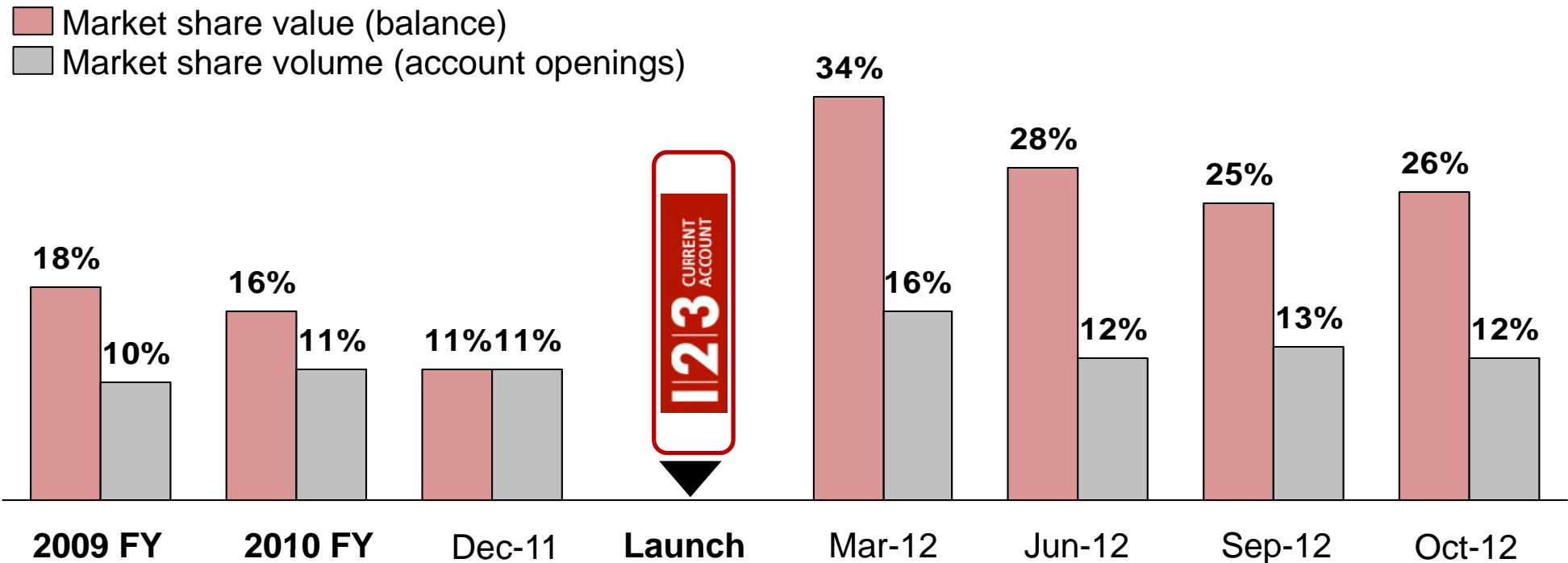
1 |2|3 World customers... more attractive profile, deeper relationships and growing faster



	1 2 3 <small>CURRENT ACCOUNT</small>	All active customers
Active customers	1.35m	14.60m
✓ of which Select & Mass Affluent	25%	8%
Products	3.0	1.6
Balance increase (vs. Dec'11)	32%	15%

1 We are attracting higher quality customers

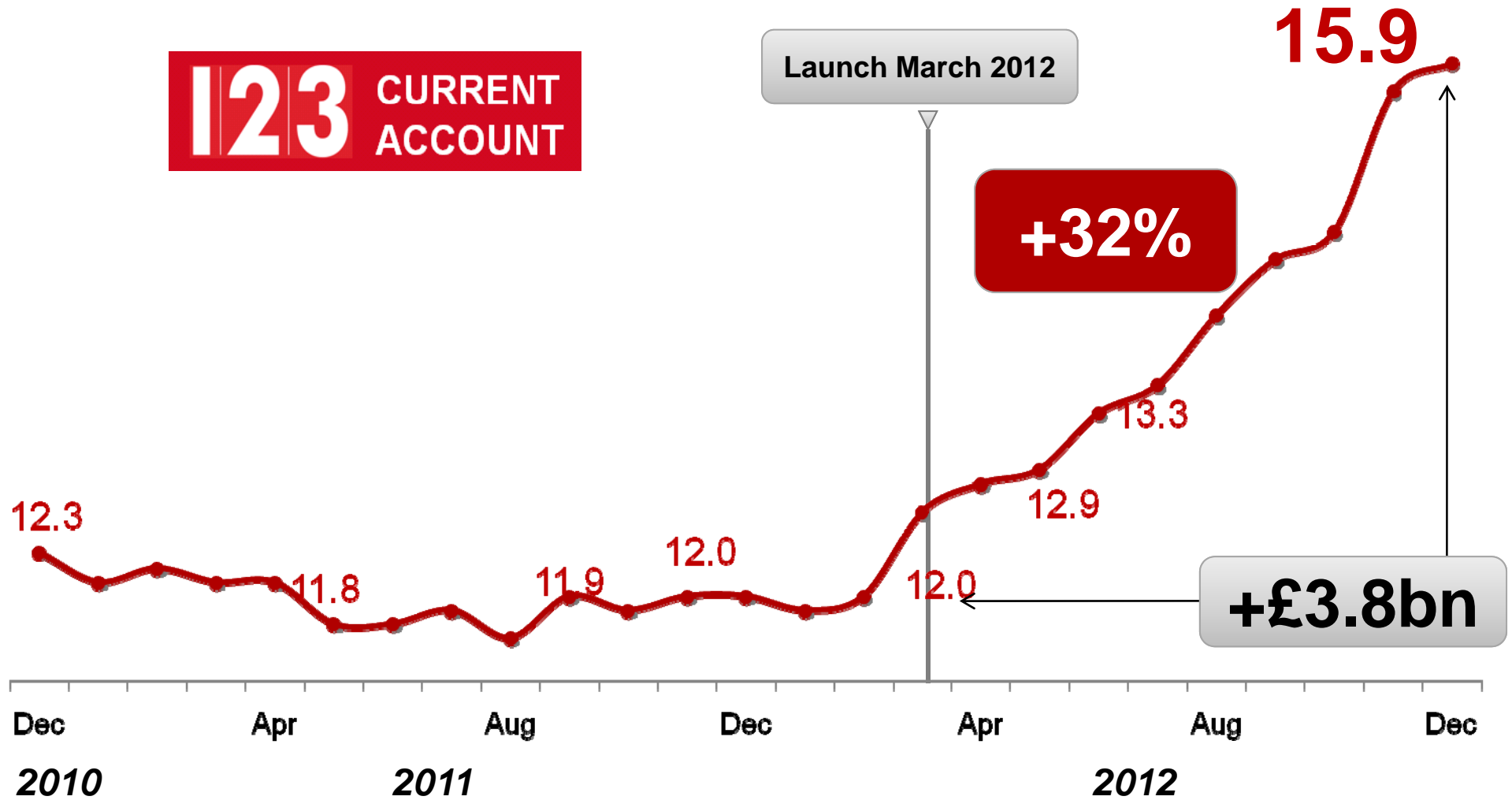
Santander UK new business market share of current accounts



- CACI report includes 95% of current account market
- Used in Santander UK as the Main internal current account report since 2003

1 ... More transactional customers, increased banking balances by 32%

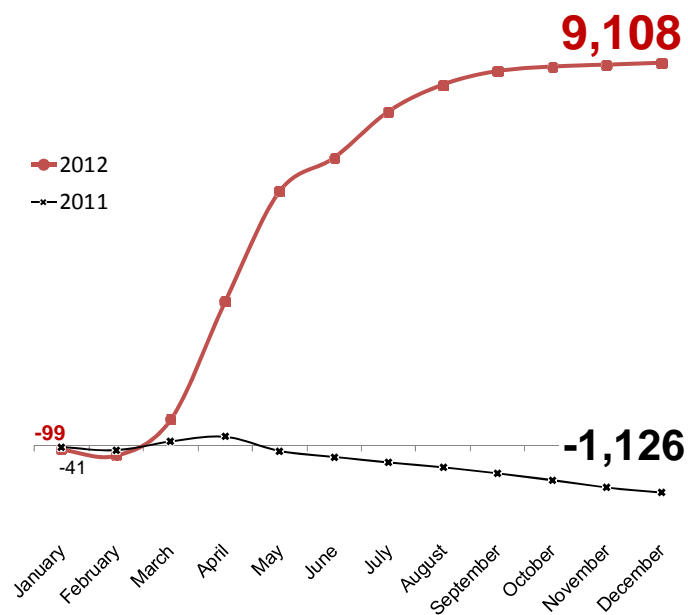
123 CURRENT ACCOUNT



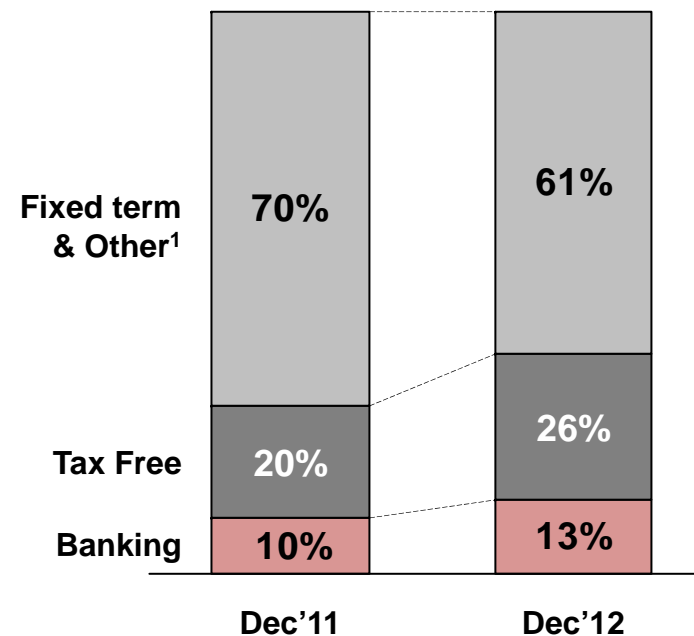
Source: Santander UK Marketing MI

1 A priority is to improve the quality of our customer accounts

Tax Free Accumulated Net Flows (£m)



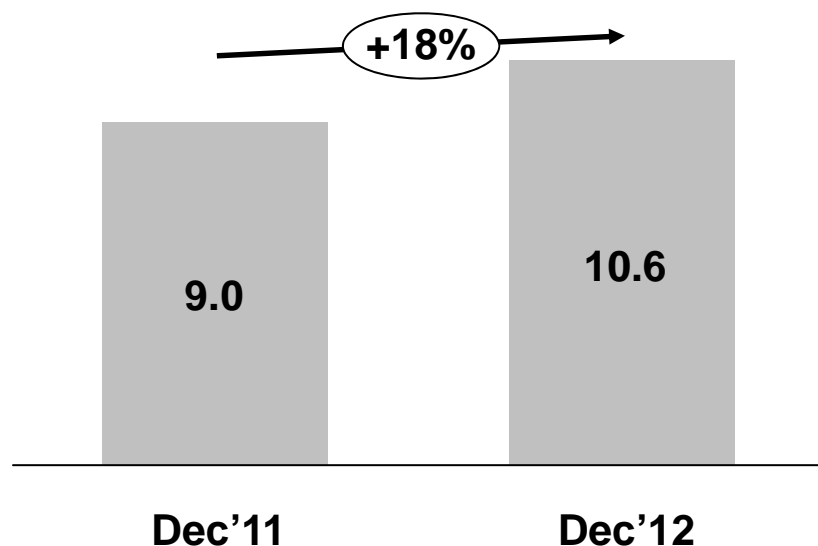
Mix of retail deposits (£bn)



- Strong performance in cross tax year ISA campaign reduced reliance on less sticky deposits

2 We are growing our SME lending for the fourth consecutive year

Corporate SME customer assets (£bn)¹



Continuing the Breakthrough initiative

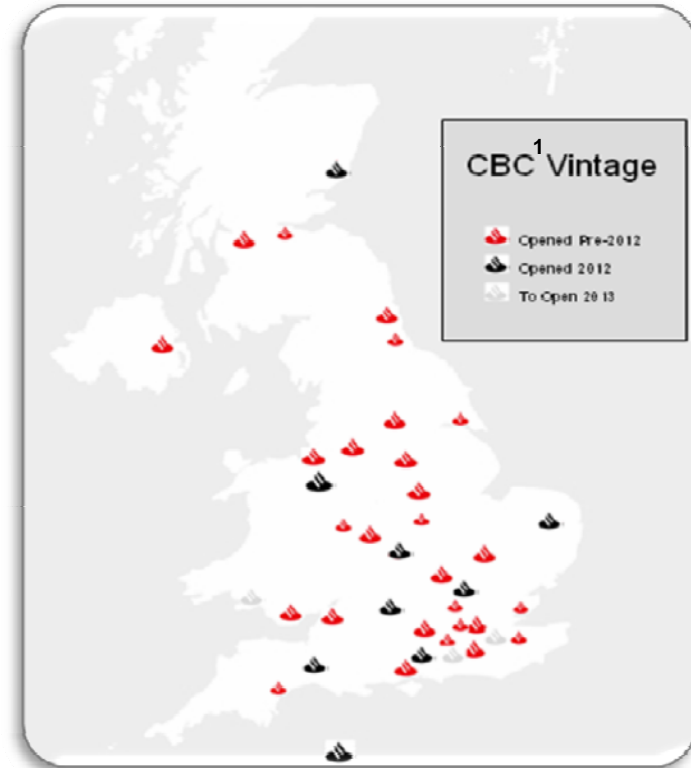
- 10 events held in 9 cities across the UK
- 1,100 fast-growth SMEs reached
- 210 investment referrals
- £5m invested; 230 jobs created
- 3 trade missions (Brazil and USA Boston/NYC)
- 4 Growth Capital deals completed

¹ Corporate SME excludes non-core corporate portfolio and legacy assets in run-off managed in the Corporate Centre



2 Increased number of CBCs to 35 end 2012 from 28

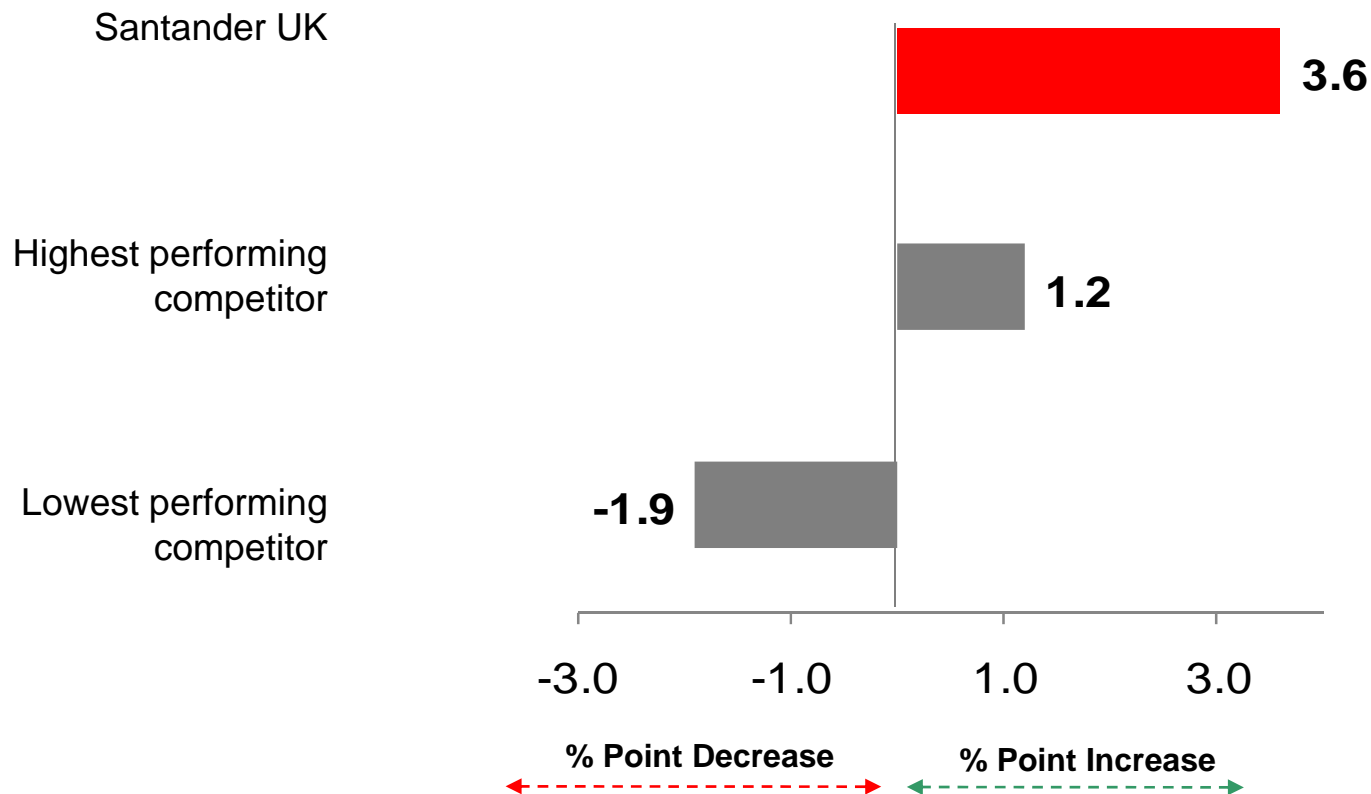
Relationship Managers:	2011	2012	var.
Commercial Banking	548	643	+95
Corporate Banking	52	70	+18
Total new Relationship Managers			+113



- Accelerated product and channel development
- Balance sheet growth whilst maintaining credit quality
- Enhanced customer service centres

3 We are investing in the customer experience and delivering results

FRS¹: Change in Overall Satisfaction² (Dec'11-Dec'12)



We are a key contributor to the UK economy

EDUCATION



- 66 University partners – 49% coverage
- £6.5m paid in grants and project awards
- 1,554 scholarships and grants
- 750 project awards

ENTERPRISE



EMPLOYMENT



- 100 SMEs signed up for internships
- 230 apprentice jobs created
- Employing over 25,000 staff

2013 Outlook

- **Macro and regulatory downside risks** remain
- Medium term **target RoTBV of 13-15%**, with **rising interest rates**
- **Positive trends on the margin will start in the second half of 2013**; growth focus on **profitability vs volumes**
- **Improvement in customer experience** whilst **reducing BAU costs** and **investing in new products and services**
- Continued focus on **business diversification** towards **SME/corporates**
- **Deposit growth built on relationship enhancing /sticky products**
- **Comfortable with statutory LDR of 130%**, underpinned by **prime mortgages**

Retail: Delivering value to our customers

- **Building profitable primary banking relationships** through **1|2|3 World** and **grow fee income**
- **Non-1|2|3 Santander UK customer opportunity of c. 13 million**
- In 2013 introducing **customer segmentation**; target **c. 400,000 Select customers**

Corporate: SME bank of choice

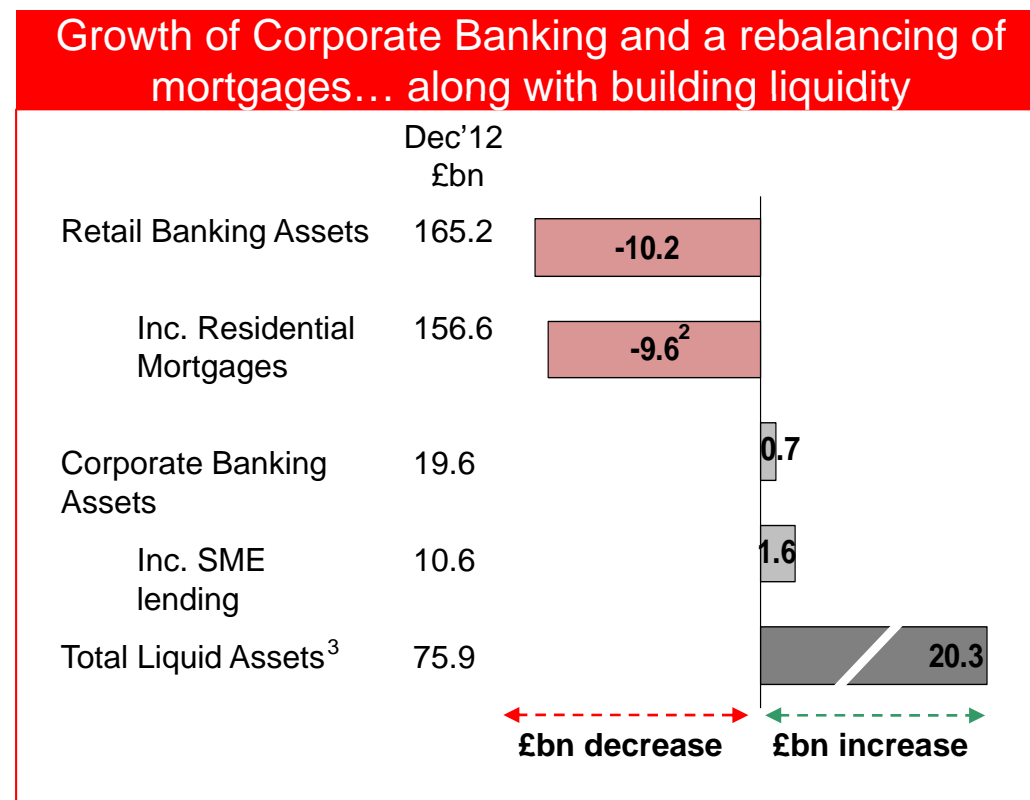
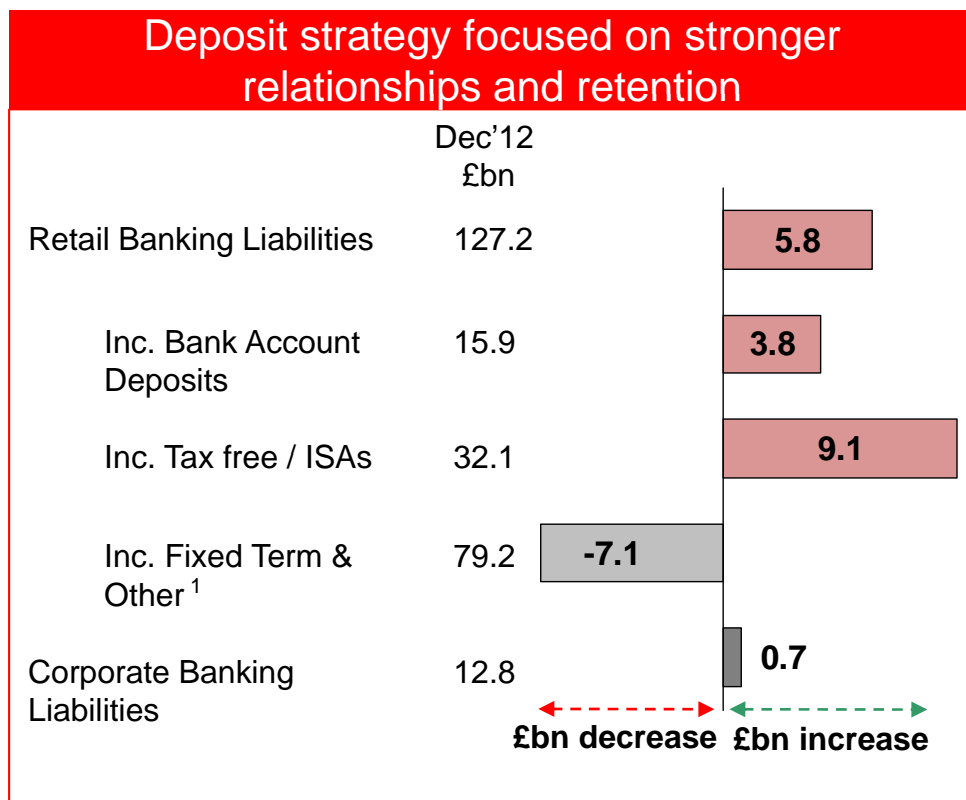
- **Continue organic growth**, moving towards a **8% market share in the medium term**
- Increase revenues from **ancillary services/fee based products**
- **Manage risk and RoE**

Customer Experience

- Develop our **internet /multi-channel capabilities** and **optimise the network**
- **Invest in processes**, supported by our world-class technology
- Priority as to further **enhancement of the customer experience**

Appendix

Targeted deleveraging of loans ... improving quality of deposits base



United Kingdom

¹ Other includes: Fixed term, saver, Reward, Structured products & Deposits, Cahoot & Private Banking, Cater Allen and offshore balances
£bn decrease / increase compared to Dec'11

² Of the deleveraging of residential mortgages £6.2bn was interest only

³ Total liquid assets consists of: FSA 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 (December 2012 £35.7bn, December 2011 £24.4bn)



PAT reconciliation between Group and Statutory view

(£m)	2012	2011	Var %
PAT Group United Kingdom view	953	1,061	(10%)
Intangible assets write-off	-	(140)	
Differences in perimeter and other adjustments	(15)	(18)	
PAT Statutory Santander UK plc view	938	903	4%

Other reporting differences arise between Group United Kingdom and Santander UK plc in relation to: intragroup charges; accounting treatments; and currency factors.

Results: Income Statement – significant items

Significant items impacted the financial results

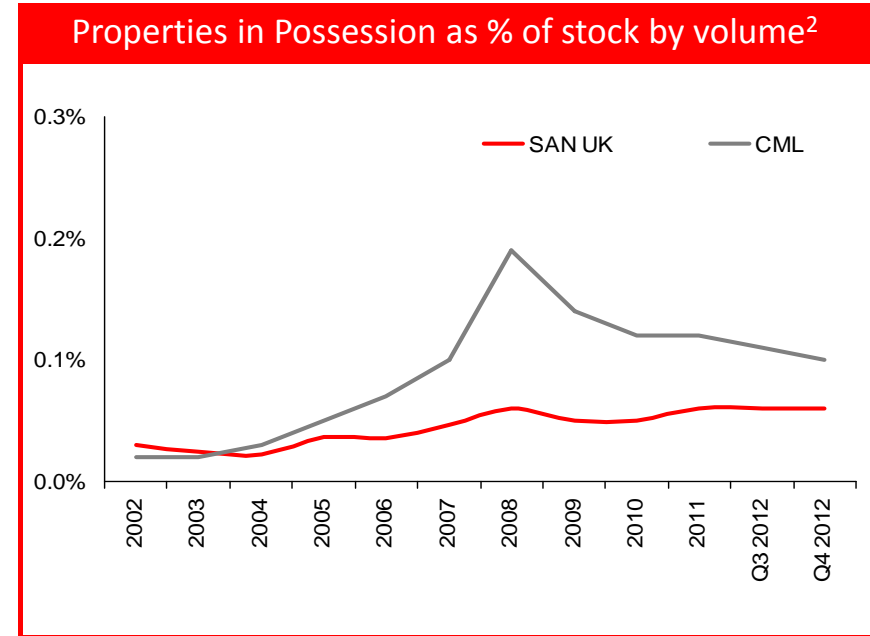
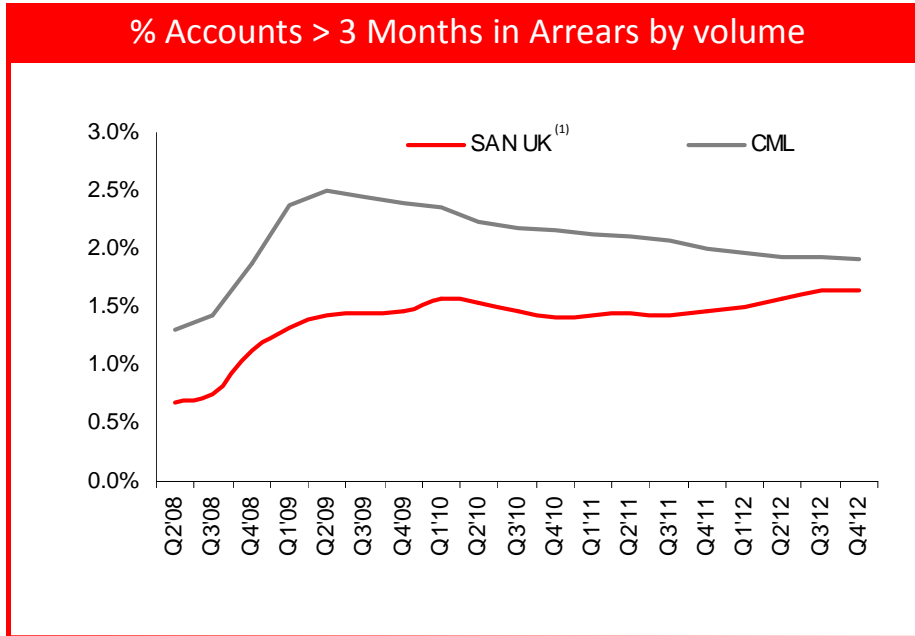
<p>Capital Management Exercise ('CME')</p>	<ul style="list-style-type: none"> In July 2012 Santander UK launched an offer to buy back certain debt capital instruments. Under current regulations these securities qualify as Total Capital but are excluded from Core Tier 1 Capital. Under the full Basel III basis they would be excluded from regulatory capital. The exercise completed on 16 July 2012 The net impact of the purchase and crystallisation of mark to market positions on associated derivatives resulted in a pre-tax gain of £705m which was recognised in non-interest income
<p>Non-core and legacy portfolio</p>	<ul style="list-style-type: none"> In September 2012 a credit provision of £335m was made in the face of deteriorating market conditions and following a review and full re-assessment of the assets held in the non-core corporate and legacy portfolios This provision related to assets acquired from Alliance & Leicester (in particular loans held within the shipping portfolio) as well as certain assets taken on as part of the old Abbey Commercial Mortgages book. The amount of provision raised reflected increasing losses experienced in these portfolios
<p>Conduct remediation</p>	<ul style="list-style-type: none"> In September 2012 a net provision of £232m was made in relation to conduct remediation relating to retail products as well as interest rate derivatives sold to corporates. As previously announced, the results for 2011 were impacted by a customer remediation provision of £751m, principally related to payment protection insurance ('PPI'). No additional provision relating to PPI was required or made in 2012 In common with the rest of the market, however, Santander UK saw an increase in claims activity in 2012 and will continue to monitor the provision required
<p>Termination of acquisition of the RBS businesses</p>	<ul style="list-style-type: none"> In early October 2012 the agreement to acquire certain businesses and branches of The Royal Bank of Scotland Group was terminated. As a result, a provision of £55m was made to reflect costs arising from the transaction

Key risk indicators - strong sustained performance

35

	2008	2009	2010	2011	2012
Average LTV new lending	65%	61%	62%	65%	63%
Indexed LTV on book	50%	52%	51%	52%	52%
% new business LTV > 90%	2%	0%	0%	0%	0%
LTV 90%-100%	7%	10%	7%	7%	7%
LTV > 100%	4%	7%	4%	5%	5%

Three month plus arrears and repossessions and UK average¹



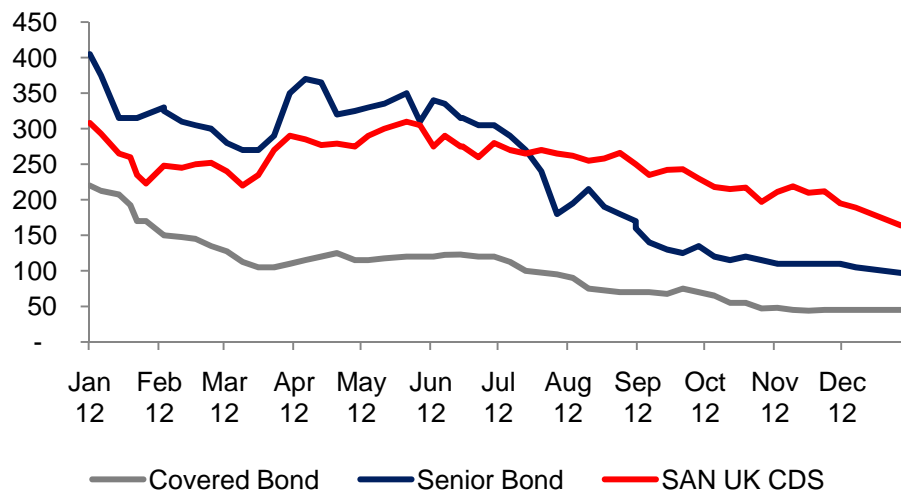
- Throughout the recent economic downturn Santander UK's mortgages have continued to perform better than the rest of the industry

- This trend is also apparent in repossessions data, where Santander UK's mortgages have outperformed the rest of the industry

No sub-prime or self-certified mortgages. Geographically spread portfolio

Funding costs fell progressively during 2012

5yr new issue indicative bond spreads evolution¹ (bps over MS)



Volume of CDS traded YTD² (up to Dec'12)

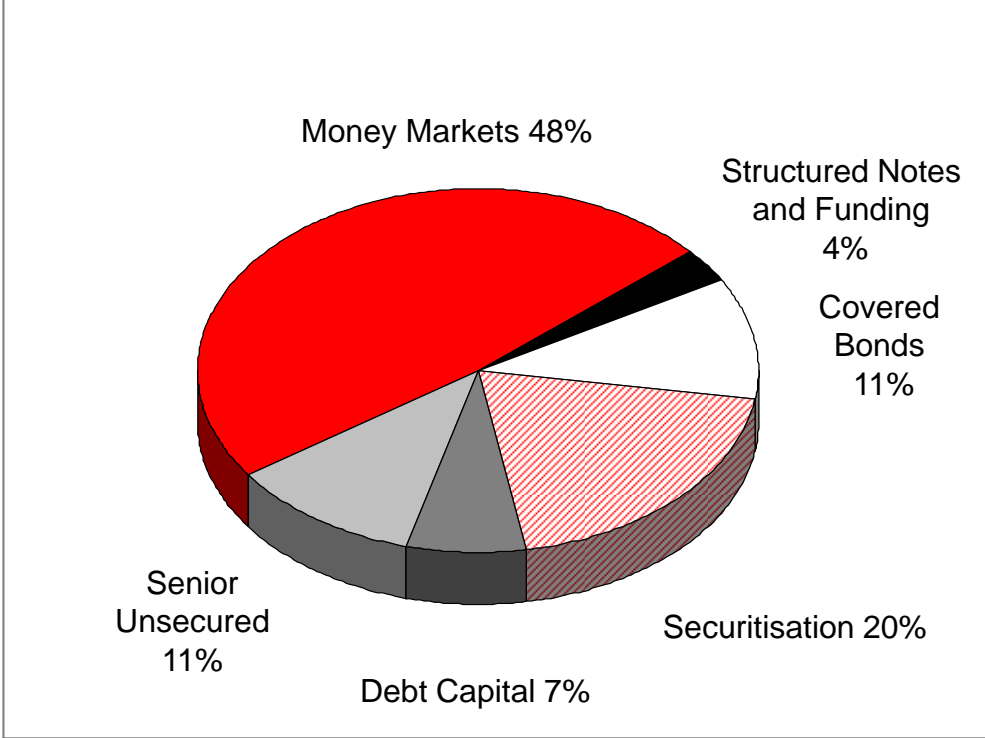
Institution	Volume traded (US\$bn)	Rank out of top 1000
Santander UK	0.678	863
Barclays	24.074	34
Lloyds	14.963	68
RBS	20.342	47

- Improved investor sentiment has resulted in key issuance market spreads tightening to their lowest levels since 2007
- US/Europe central bank critical drivers of the rally
- Substantially lower refinancing costs from tightening of MTF spreads
- Relative illiquidity of trading in Santander UK CDS is resulting in the CDS trading at a dislocated premium to our secondary spreads
- For example, 7 January 2013, Santander UK priced a 5 year €1bn senior unsecured transaction at Mid Swap +97bps. This was significantly inside Santander UK's last senior unsecured trade in February 2012, a €750mm 18-month transaction that priced at 3m € +190bps

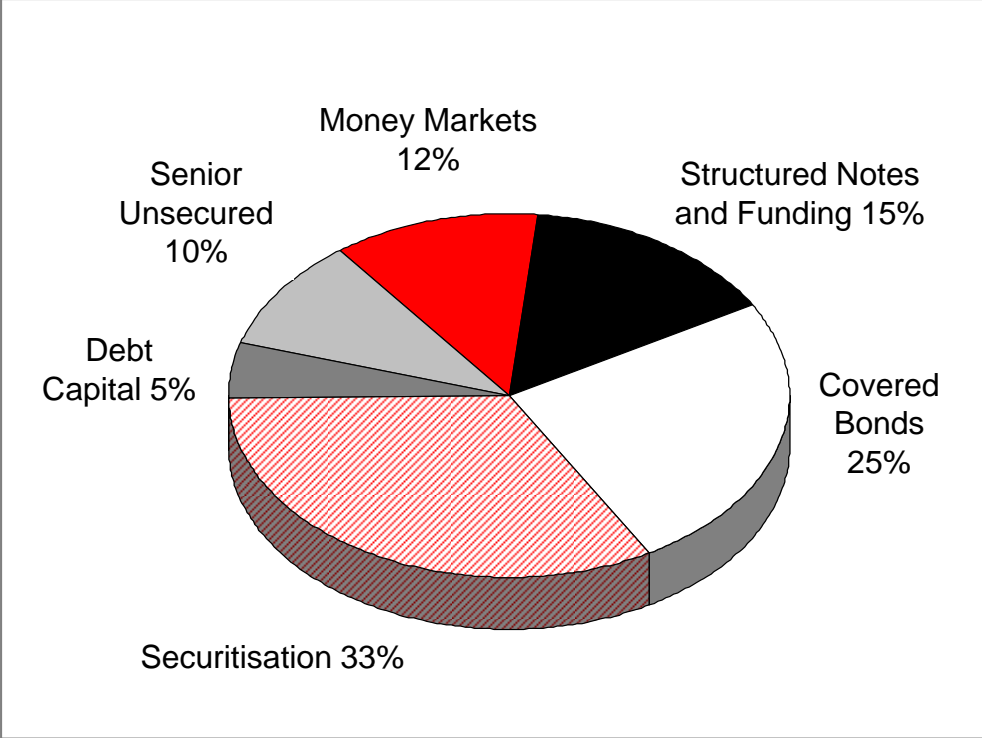
Diverse funding sources and prudent funding profile

c. £14bn of MTF issuance in 2012

Wholesale funding stock composition at December 2010

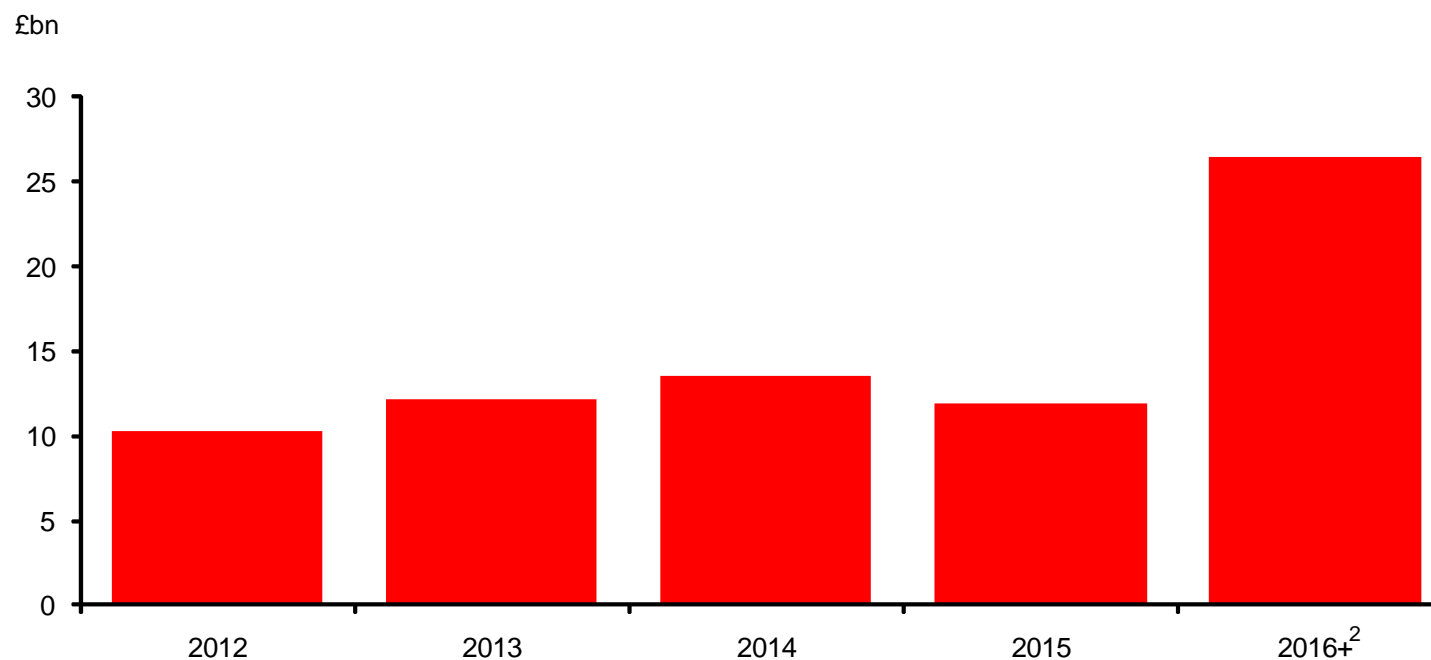


Wholesale funding stock composition at December 2012¹

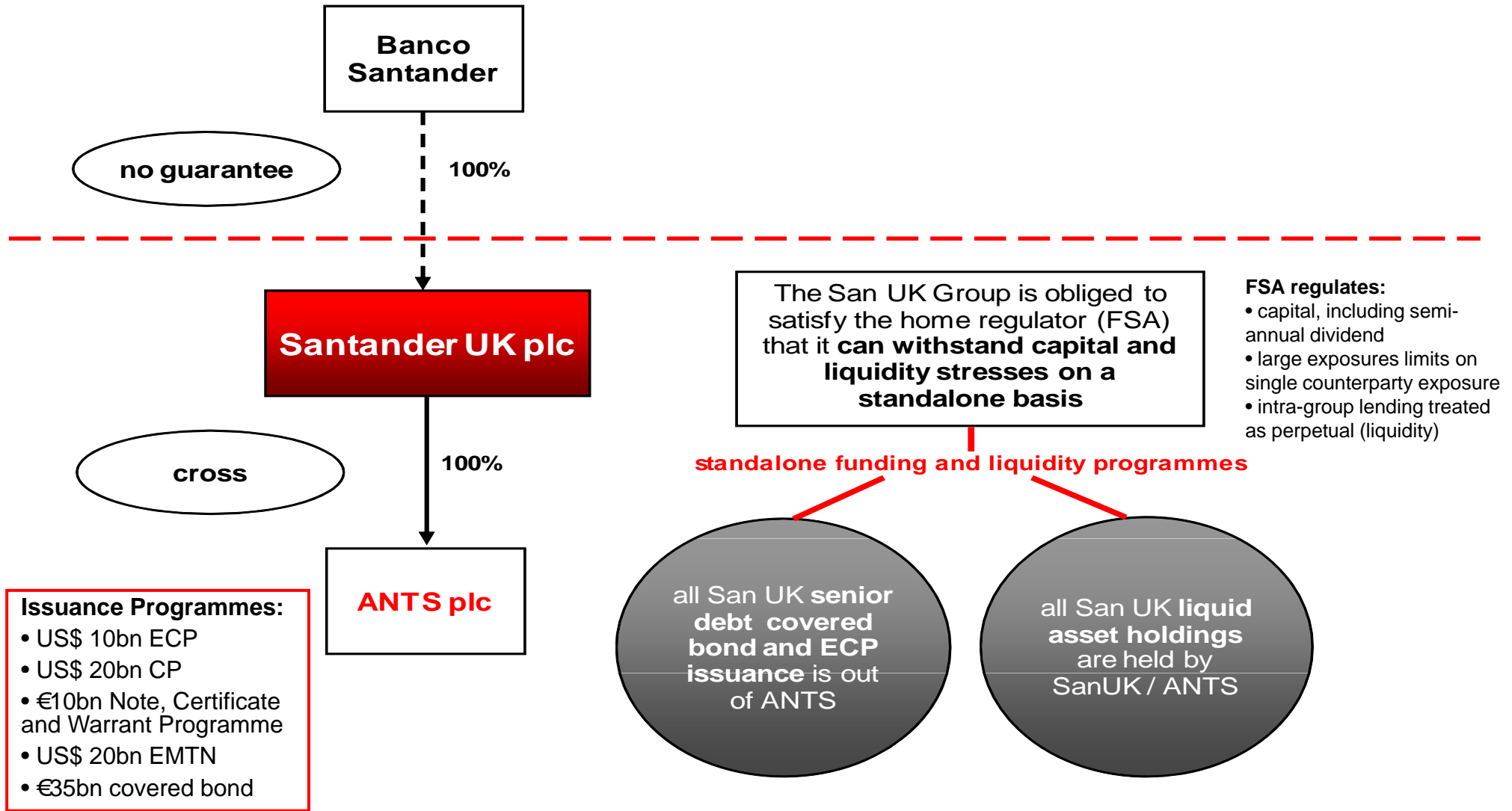


Medium term funding maturities profile

c. £14bn of MTF issuance in 2012;
Exceeded full year maturities of c. £10bn¹



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



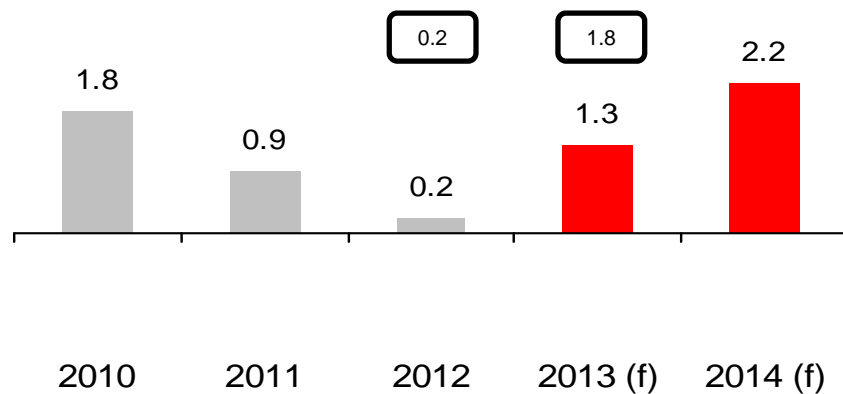
Santander UK credit ratings

	S&P	Moody's	Fitch
Long Term	A	A2	A
Short Term	A-1	P-1	F1
Outlook	Negative	Negative	Stable

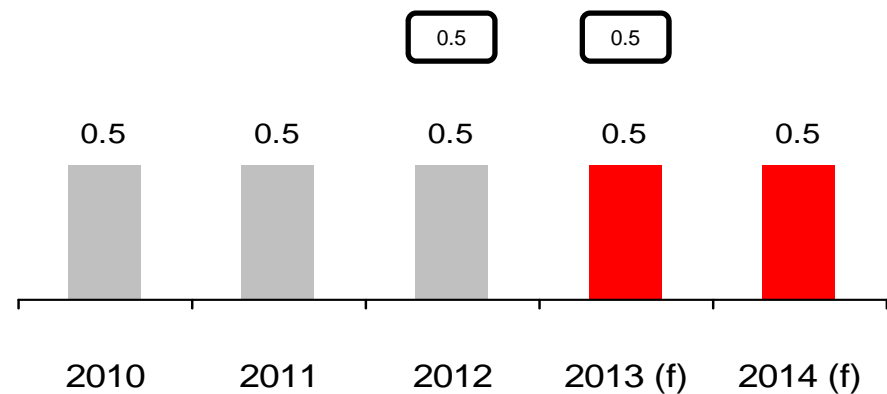
Market environment

GDP expectations weaker after softer survey data and Eurozone events

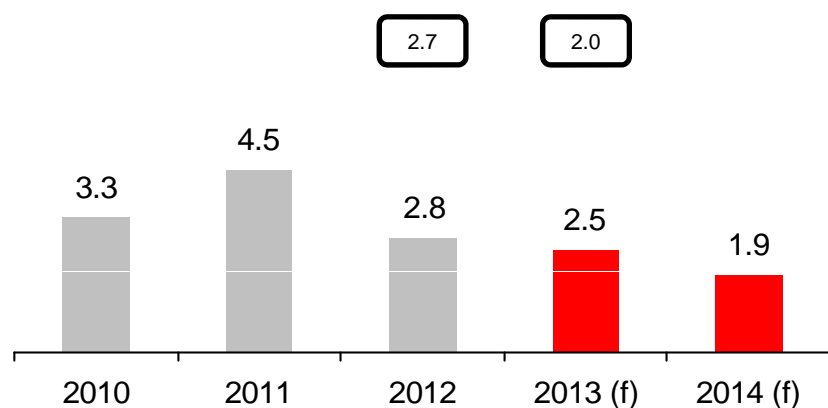
Annual GDP Growth (% , annual average)



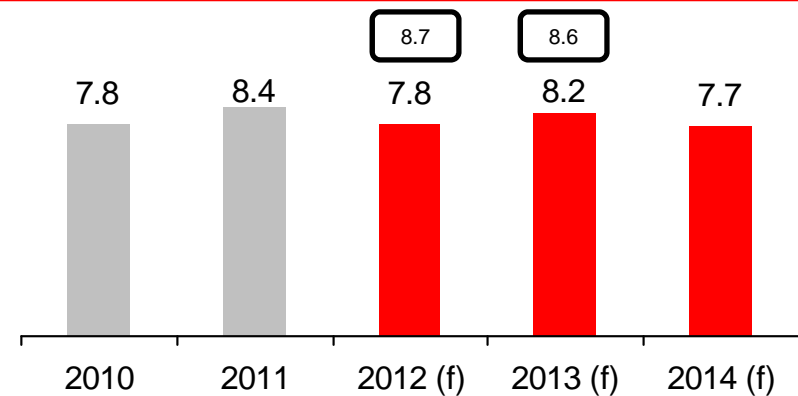
Interest Rates (% , annual average)



Annual CPI inflation rate (% , annual average)



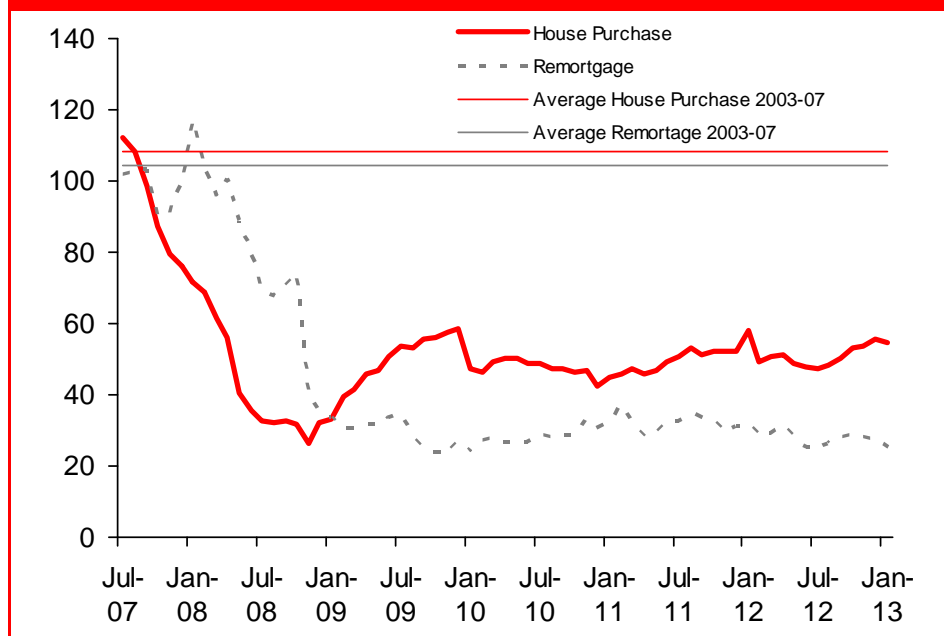
Unemployment rate (ILO definition, end year, %)



Market environment – housing market activity

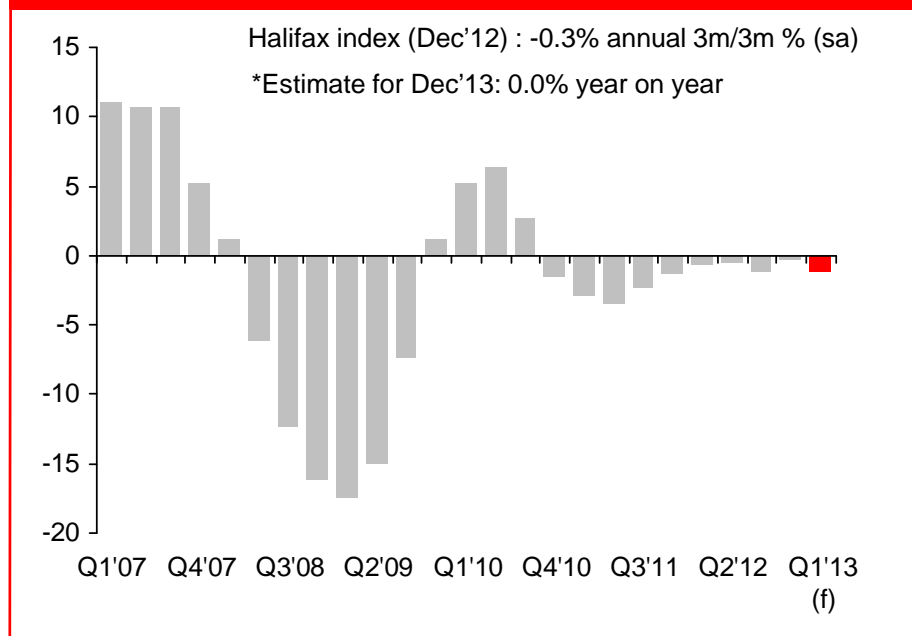
Housing market volumes remain flat;
house prices continue gradual fall

House purchase and remortgage approvals
(000s, sa)



Source – Bank of England

UK house price inflation (annual %, sa)



Source – Lloyds Banking Group/ Halifax

(*) Estimated by Santander UK, September 2012, end period data

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