

Santander UK plc

Investor Update Q2 2014 Results

July 2014

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Source: Santander UK Q2 2014 results “Quarterly Management Statement for the six months ended 30 June 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.santander.co.uk/uk/about-santander-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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H1'14 performance highlights

- Helping people and businesses prosper with **Simple, Personal** and **Fair** banking
- Strategic transformation driving a **sustained improvement in profitability** with PBT up 18% to £545m and profitable for the last 12 quarters
- **Deepening customer relationships** through increased loyalty
- **Banking NIM up** 34bps to 1.80% and **RoTE improved** further to 11.7%
- Positive **cost-to-income jaws of 10%**
- **Robust mortgage portfolio** with average LTV of 49% (new lending LTV of 65%)
- Capital strengthened further after £237m interim dividend with a **CET1 of 11.8%**

Delivering on our strategic transformation

1

Loyal and satisfied retail customers

1|2|3 World customers

3 million

Increasing customer loyalty

Current account balances

£35.1bn

Growing c. £1bn per month since end 2012

Guaranteed 7-day switching service¹

c.1 in 4 customers

Switching to Santander UK since scheme started

Customer satisfaction gap to top 3 peers (FRS)²

-2pp

Gap reduced from -9pp at Dec 2011

2

'Bank of Choice' for UK companies

Commercial Banking lending

up 10%

£23.1bn; without compromising risk profile

Corporate bank account openings

up 63%

Leveraging the roll out of new systems

Commercial Banking impairment

0.50%

Prudent risk appetite maintained

Corporate Business Centres

52

Increased from 28 in 2011

3

Consistent profitability and strong balance sheet

RoTE³

11.7%

Up strongly, driven by income growth

Banking NIM

1.80%

Up 34 bps in a year

CET1 Capital ratio

11.8%

Further improved the capital position

NPL ratio

1.96%

Retail and commercial loans performing well

1. Payments Council, Bacs. Full switchers with the guarantee scheme from 24 September 2013 to 30 June 2104

2. Financial Research Survey (FRS) is an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK NOP. Improvement relates to reduced gap in satisfaction scores between Santander UK and average of top three peers

3. H1'14 RoTE of 11.7% is annualised and adjusted to include the effect of the Bank Levy and to exclude significant items. Annualised statutory RoTE was 10.0% for H1'14

Strong momentum in H1'14 results

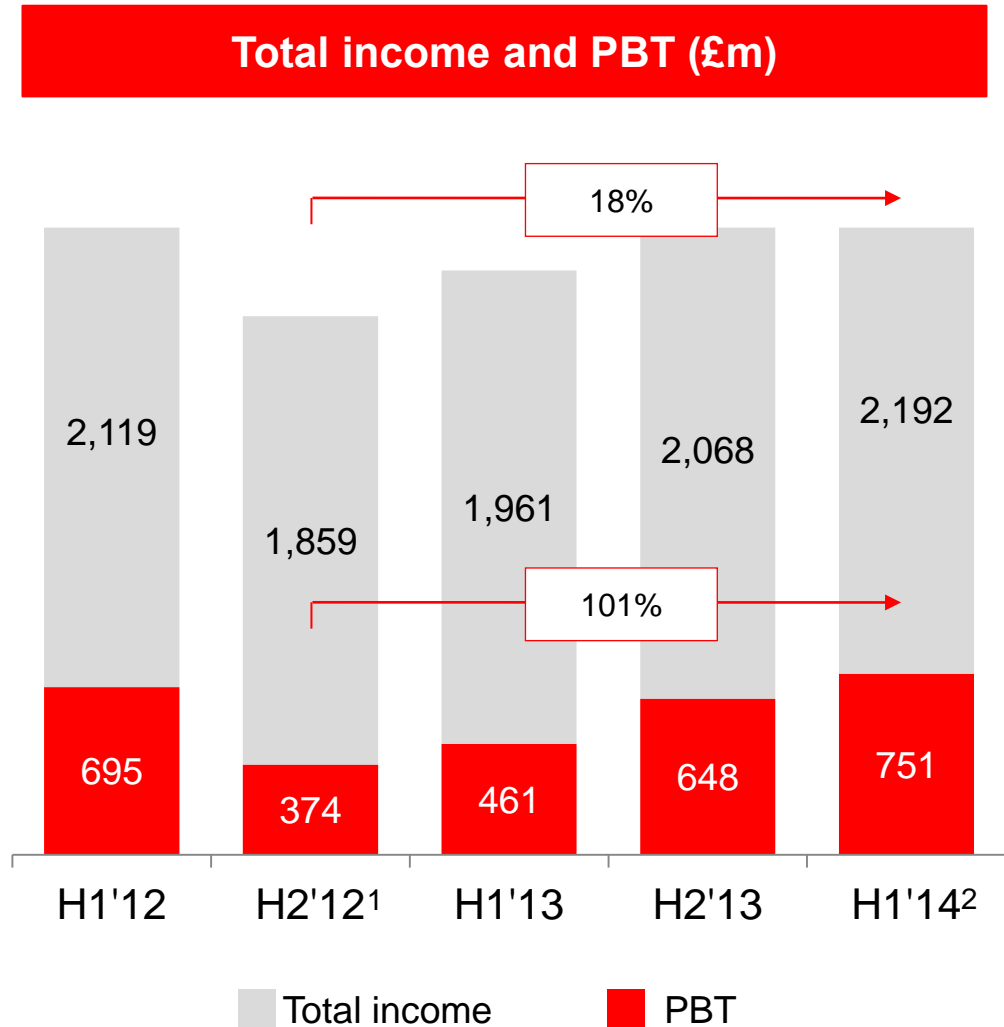
H1'14 financial highlights (% change from H1'13)¹

	£m		%	
Total operating income	2,192	↑	12	▪ Reflecting reduced cost of retail liabilities and increased corporate lending
Operating expenses	(1,137)	↑	2	▪ Costs tightly controlled, as BAU expenses managed to accommodate investment. 10% positive cost to income jaws
Operating provisions and charges	(304)	↓	21	▪ Retail and corporate loans performing in line with our expectations
PBT from continuing operations	751	↑	62	▪ Profit momentum driven by improved revenues ▪ PBT including significant items of £545m, up 18%
Banking NIM	1.80%	↑	34bps	▪ Q2'14 highest for ten quarters, led by an improving customer interest margin
Cost-to-income ratio	52%	↓	(5)pp	▪ Strong net interest income momentum and control of costs

1. The financial results for H1'14 included a number of pre tax significant items, totalling £(206)m which are excluded from the analysis above. These items are detailed in the Quarterly Management Statement for the six months ended 30 June 2014 and include (i) a net gain of £120m in administrative expenses, (ii) write-offs of £(206)m in depreciation, amortisation and impairment, and (iii) charges of £(120)m in provisions for other liabilities and charges

Strategic customer transformation showing in results growth

- 1 Loyal and satisfied retail customers
- 2 'Bank of Choice' for UK companies
- 3 Consistent profitability and strong balance sheet



1. Total income and statutory PBT for Q3'12 were impacted by a number of significant items, totalling £83m, which are excluded from the analysis above. These items were (i) a gain of £705m in non interest income, (ii) a provision of £(335)m in impairment losses on loans and advances and (iii) a net charge of (287)m in provisions for other liabilities and charges
2. H1'14 excludes the impact of Q2'14 significant items of £(206)m

Our strategic priorities

1

Loyal and satisfied retail customers

2

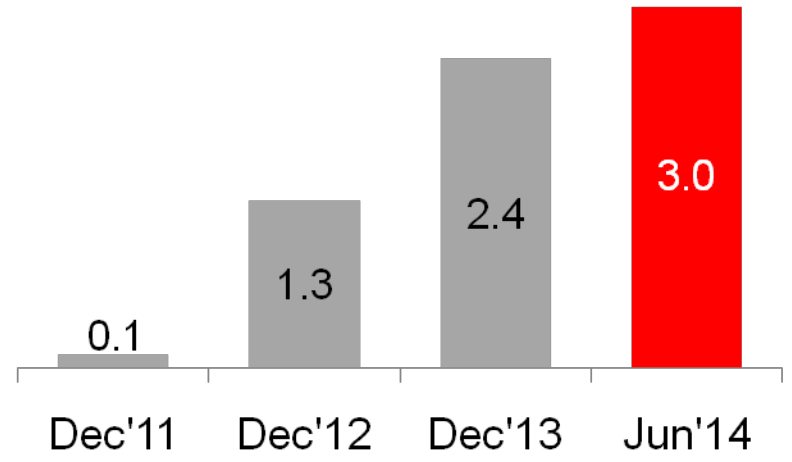
'Bank of Choice' for UK companies

3

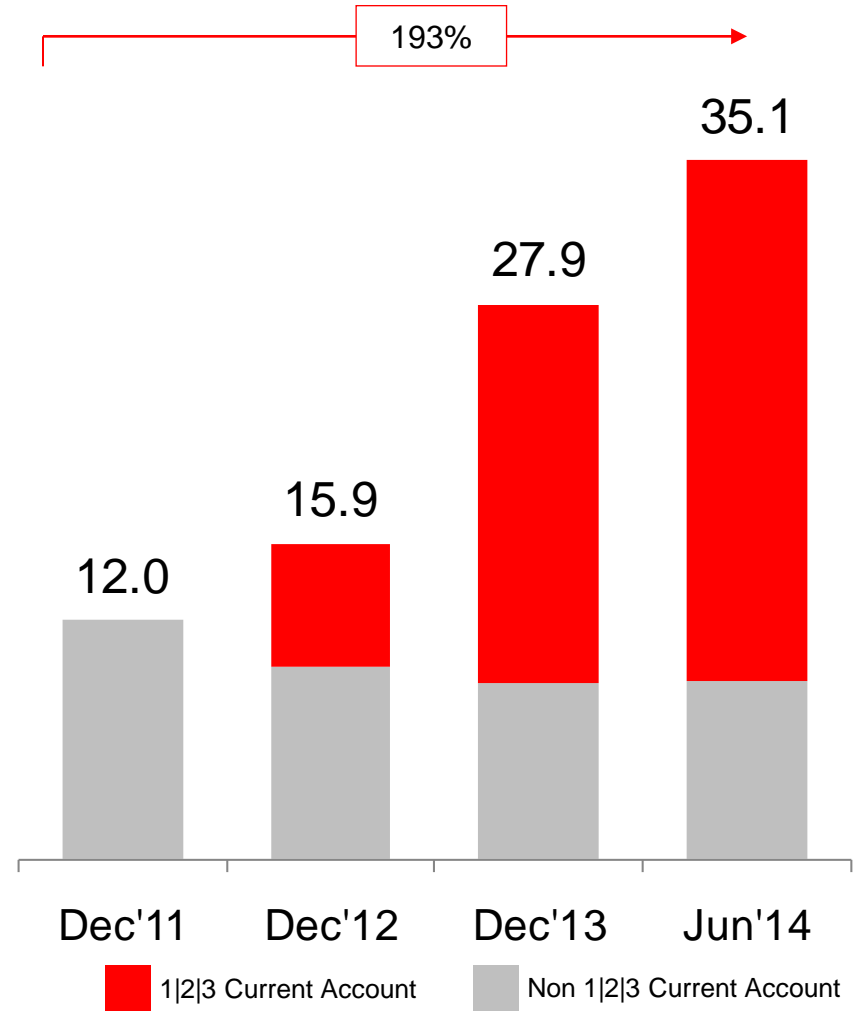
Consistent profitability and strong balance sheet

1 600,000 new 1|2|3 World customers in H1'14

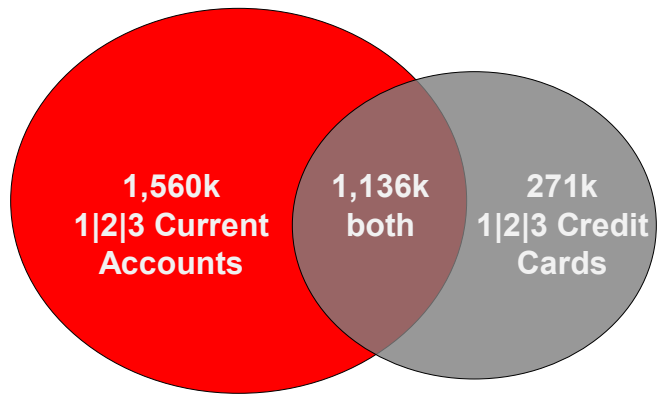
1|2|3 World customers (million)



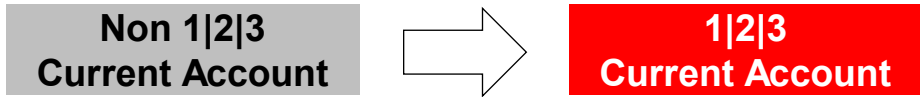
Current account balances (£bn)



1|2|3 World customers (product holdings)

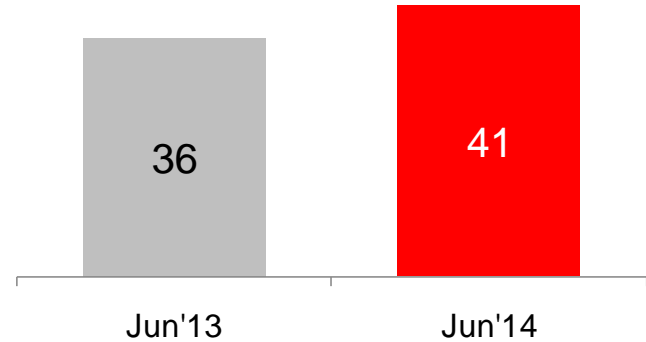


1 |2|3 World is transforming our customer profile and increasing loyalty



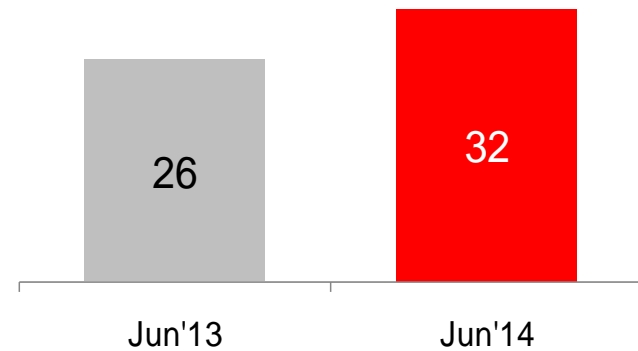
Direct⁴ mortgage customers with a 1|2|3 Current Account (%)

8%	Select and Affluent ¹	34%
42%	primary banking ²	91%
1.5	products per customer	2.3
1.0x	average account balance ³	4.7x
28%	4+ direct debits	76%



1|2|3 World customers with a Santander UK ISA (%)

According to a MoneySavingExpert.com poll of bank customers, the 1|2|3 Current Account was ranked second overall with 96% of customers rating it 'great' and 'ok'

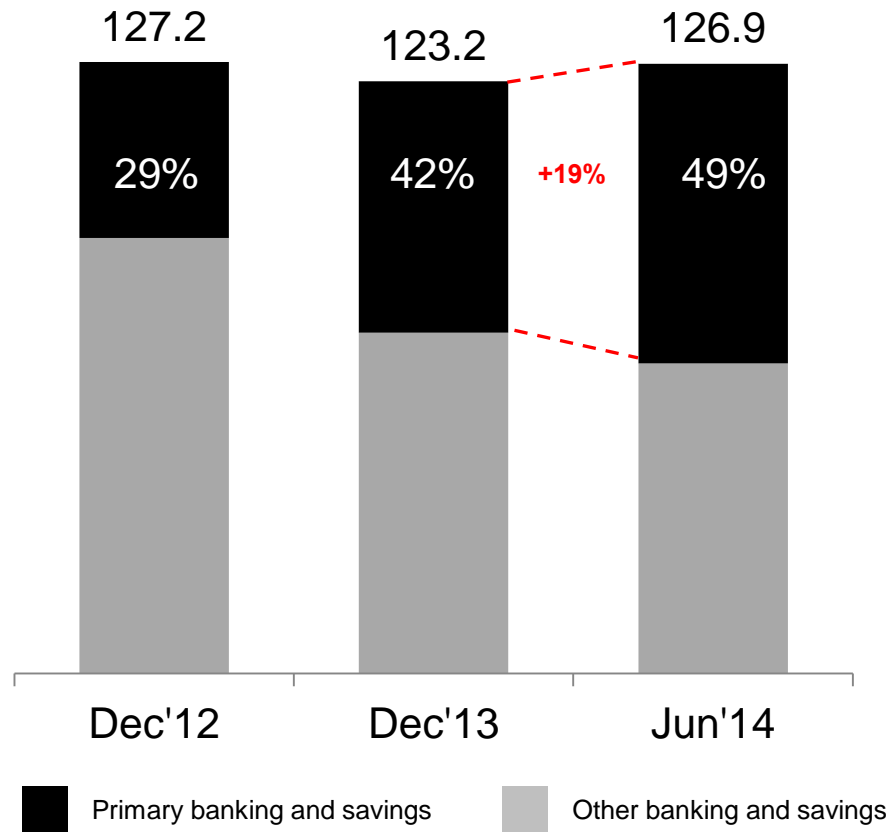


1. Select customers have a monthly credit turnover of £5k, savings, banking and investments worth £75k or properties worth a minimum of £500k. Affluent customers have a monthly credit turnover of £4k-5k, savings, banking and investments worth £25k-75k or properties worth £350k-500k
 2. Primary banking current account customers have a minimum credit turnover of at least £500 p/m and at least 2 direct debits set up on the account
 3. Average account balances are combined savings and banking liability balances
 4. Direct channel excludes intermediary introduced customers

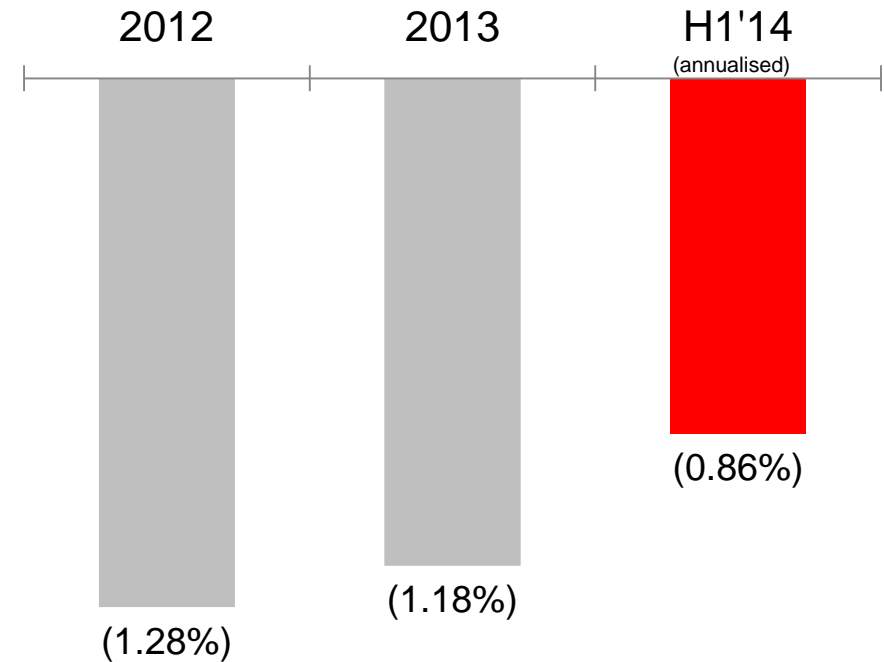
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World is driving current account balances and contributing to lower funding costs

Retail deposits (£bn)



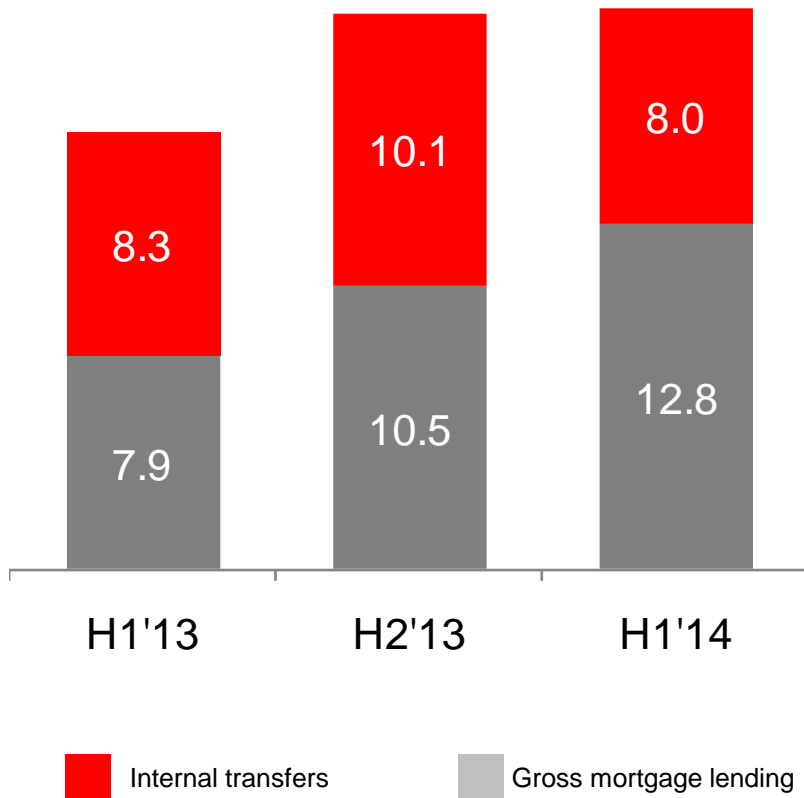
Retail Banking deposits spread (%)¹



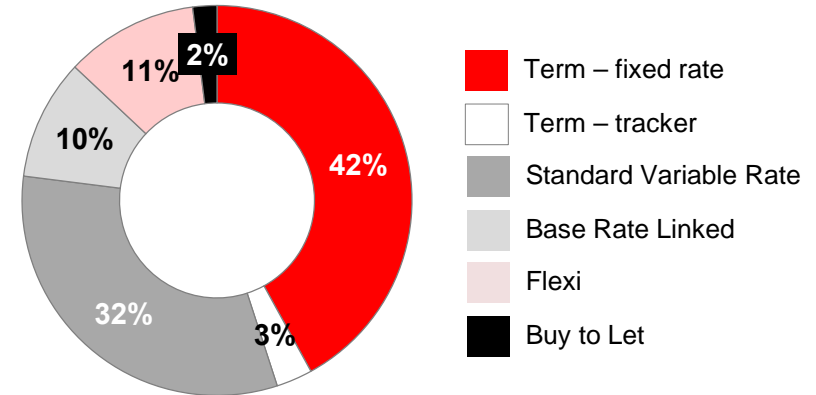
1. Retail Banking customer deposit spreads against the relevant swap rate or LIBOR. Retail Banking customer deposits include savings and bank accounts for personal and business banking customers

1 Growing gross mortgage lending while maintaining low risk profile

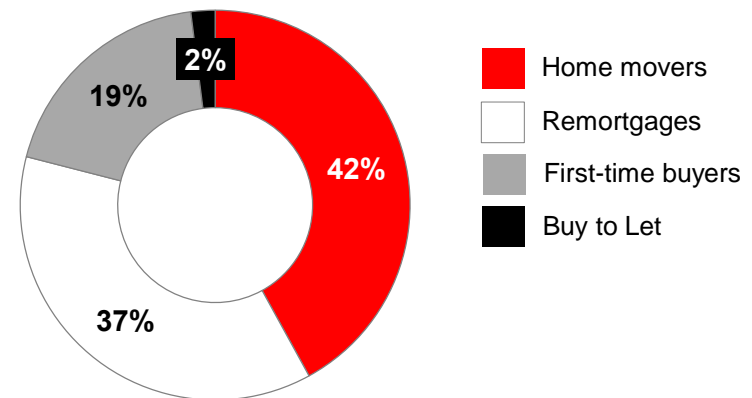
Mortgage lending (£bn)



Mortgage product profile at Jun'14



Mortgage borrower profile at Jun'14



1 Low risk prime mortgage book of £148.7bn

Mortgage loan distribution

2013

H1'14

Loan size distribution (stock)

Less than £0.5m	96.5%	95.8%
£0.5m - £1m	3.2%	3.7%
£1m - £2m	0.3%	0.5%
Over £2m	0.0%	0.1%

Average loan size distribution (new business)

London and South East	£205k	£226k
rest of UK	£118k	£123k
All UK	£155k	£166k

Loan-to-income multiple ¹	3.04	3.07
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Loan to Value ('LTV')

2013

H1'14

New lending % with LTV > 85%	12%	15%
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Simple average LTV ²

new lending	62%	65%
stock	51%	49%

Indexed LTV distribution

> 85% - 100%	10%	9%
> 100%	4%	3%

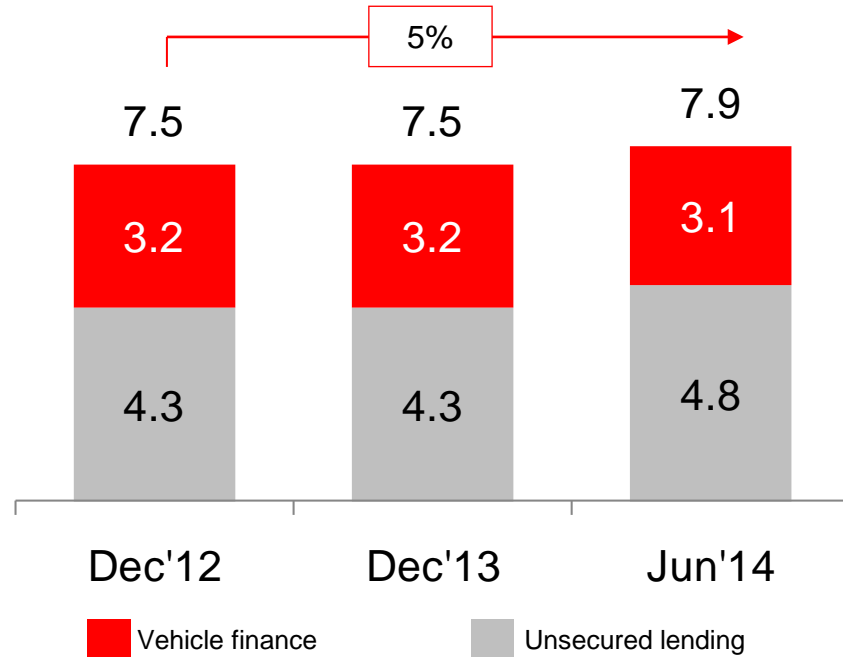
1. Average earnings multiple of new business at inception

2. Unweighted average loan-to-value of all accounts

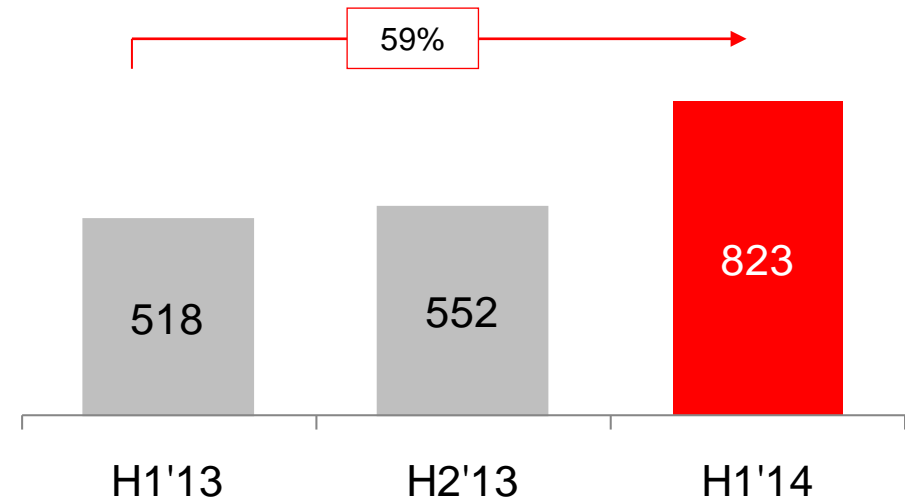
1

Growing unsecured lending and credit card proposition

Retail Banking unsecured customer loans (£bn)¹



UPL gross lending (£m)



Focus on growth while maintaining lending quality

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

Opportunities

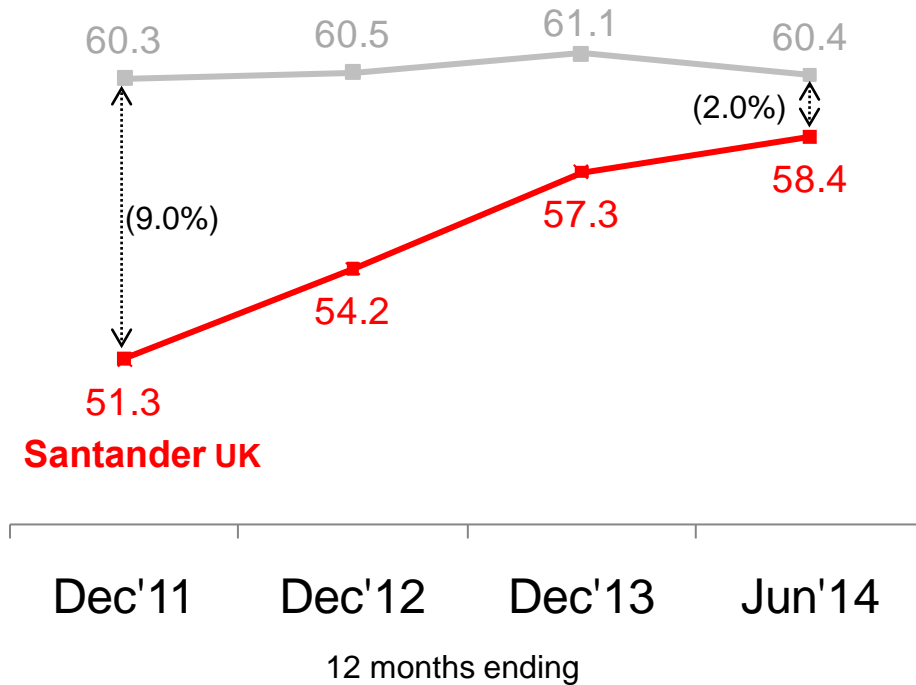
- Growing market for new car sales
- Building deeper customer relationships
- Develop presence in credit card aggregator market

1. Includes vehicle finance, unsecured personal loans ('UPLs'), credit cards and bank overdrafts

1 Significant improvement in customer satisfaction

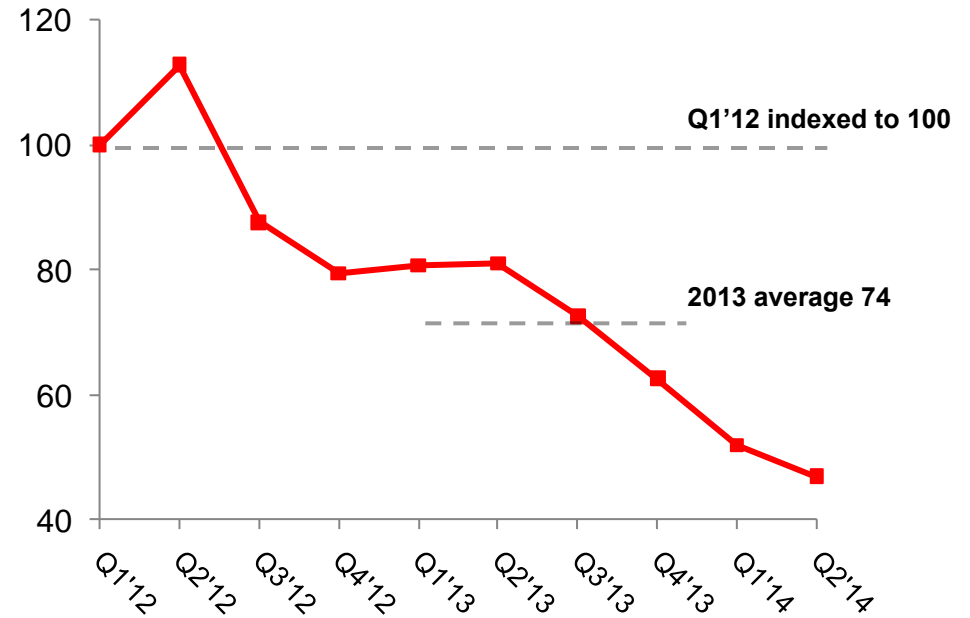
Retail customer satisfaction (%)¹

Average of top 3 competitors



Complaints received (indexed)²

complaints reduced 34pp in the year



1. As measured by FRS. The competitor set included in this analysis is Barclays, Halifax, HSBC, Lloyds Bank (including Lloyds TSB) and NatWest. See Appendix 1 of the Quarterly Management Statement for the six months ended 30 June 2014 for details
 2. Source Santander UK. All unique complaints received from retail and customer banking activities included except those relating to legacy issues like PPI.

1

Omnichannel investment – our customers can reach us

Anywhere, Anytime, Anyhow



Branch transformation

- **Branch refurbishments**
Innovative formats
Digital technologies
- **c.200 empowered new Branch Director roles**

Call centres

- **Improved customer service;**
integrated operations with digital capabilities
- **Select centre** 

Digital plan

- **New public website**
20% reduction in negative rating
Increased conversion
- **PayM**
c.170k registered users (c.20% of industry)
- **New mobile apps**
- **New CRM**
- **Online transfer mortgages**

Anywhere,
Anytime,
Anyhow



Digital ATMs



- **New advanced ATMs piloted**
Multi-check deposits
E-mail
Tactile and customisable

Innovation



- **New digital mobile applications**
- **Santander US\$100m Fintech Fund**

c.25% of sales
through digital
channels

Our strategic priorities

1

Loyal and satisfied retail customers

2

'Bank of Choice' for UK companies

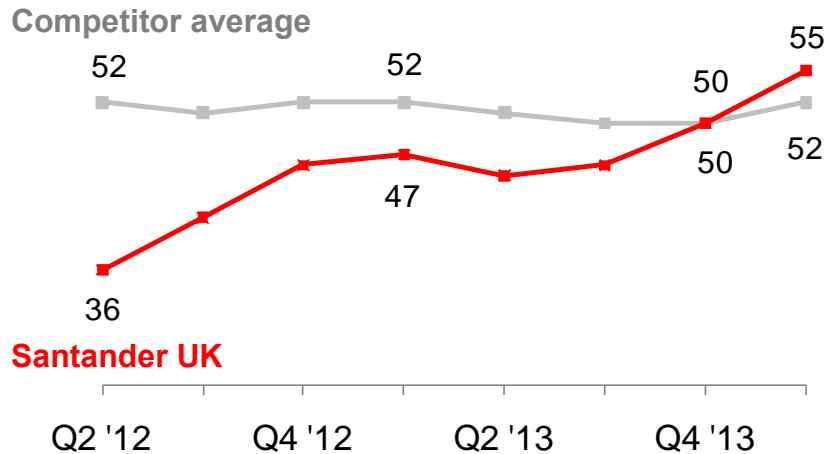
3

Consistent profitability and strong balance sheet

2

Scalable offering with strong improvement in customer satisfaction

Corporate customer satisfaction (%)¹



Customers and loan balances

SME
> £250k - £50m

70,100
customers

£11.9bn

Mid corp.
> £50m - £500m

1,300
customers

£8.1bn

Large corp.
> £500m

250
customers

£3.1bn

Growing our footprint to be closer to our customers

	2011	2012	2013	Jun'14
Relationship Managers	457	503	650	677
Corporate Business Centres	28	34	50	52

2015 target

750

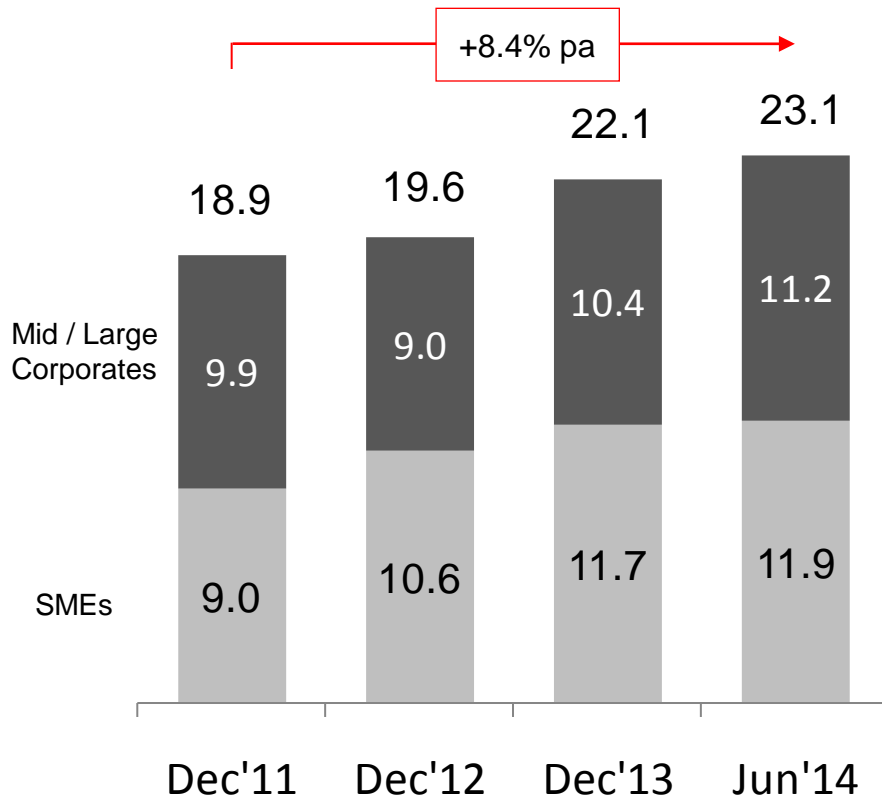
70

1. The Charterhouse UK business banking survey is an on-going telephone based survey designed to monitor usage and attitude of UK businesses towards banks. 17,000 structured telephone interviews are conducted each year among businesses of all sizes from new start-ups to large corporates with annual sales of £1bn. Data based on 5,617 interviews in year ending Q1'14 with businesses turning over £250k to £50m per annum and are weighted by region and turnover to be representative of businesses in Great Britain. Satisfaction based on a five point scale (% Excellent/very good). The competitor set included in this analysis is Barclays, RBS, HSBC, Lloyds TSB and NatWest

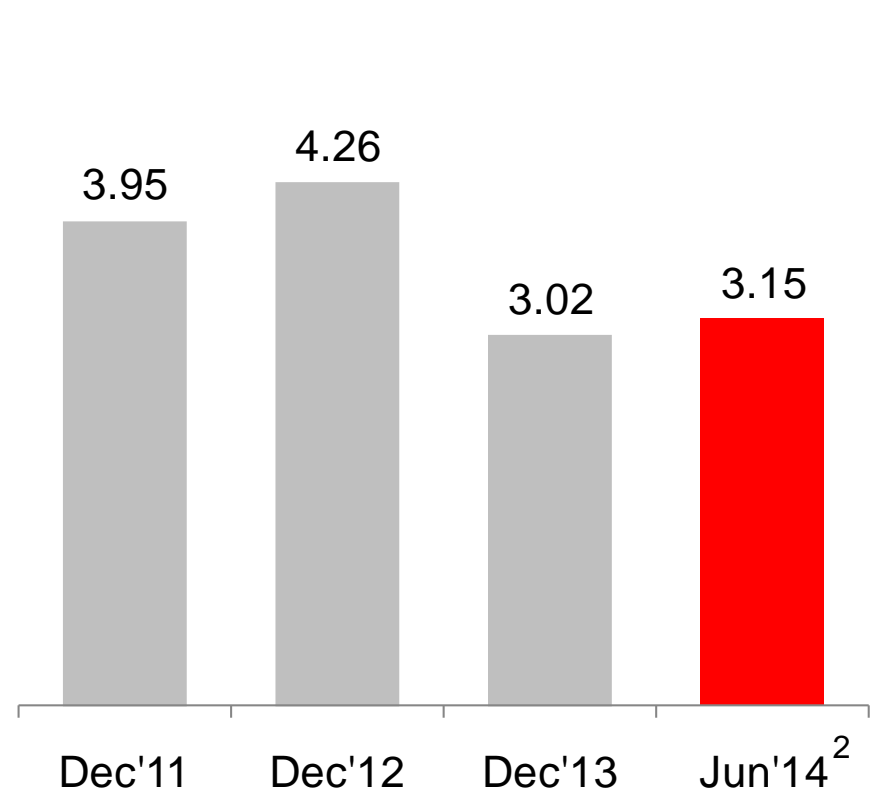
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Sustained strong growth with prudent lending approach

Commercial Banking customer loans (£bn)¹



Commercial Banking NPL ratio (%)

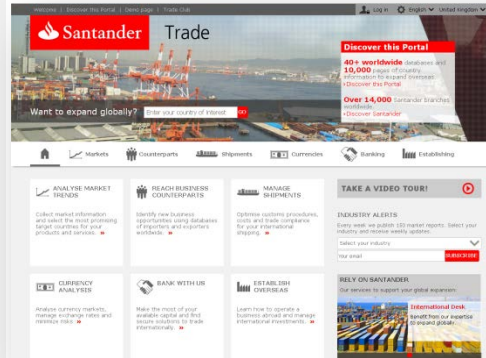


- Following periodic reviews in Q1'13 and Q1'14, a number of customers, with loans of £267m and £327m respectively, were transferred from SME lending to mid corporate lending as the annual turnover of their businesses had increased. Prior periods have not been restated.
- The increase to 3.15% was largely due to a single long-standing loan of £89m which moved to non-performance. A successful restructuring of this loan is anticipated and a conservative provision is held against it.

Customers benefit from shared global expertise and pioneering local innovation

Helping UK businesses operate globally

- **International expertise:** International Directors based in UK financial centres
- **Trade portal and Santander Passport:** helping customers establish and grow internationally and connect with overseas suppliers and clients
- **International products and services:** foreign exchange, international payments, trade finance



Supporting entrepreneurs

- **Funding Circle:** Proactively referring small business customers to P2P lending
- **Connect:** Customised secure and integrated online banking capability
- **FinTech fund:** US\$100m fund to invest over the next 2-3 years launched at the International Festival For Business, in July 2014

BREAK THROUGH

GROWTH ACCELERATION FOR BRITISH BUSINESS

- **£50m** invested in 25 fast growth companies
- Creating more than **1,000** new jobs
- **67** companies on 7 trade missions to the US, Brazil and Mexico
- **150** companies attended **13** Masterclasses including companies such as Google, LoveFilm, Innocent, McLaren
- **2,700** business attended our Live Summits and Roundtable events

Our strategic priorities

1

Loyal and satisfied retail customers

2

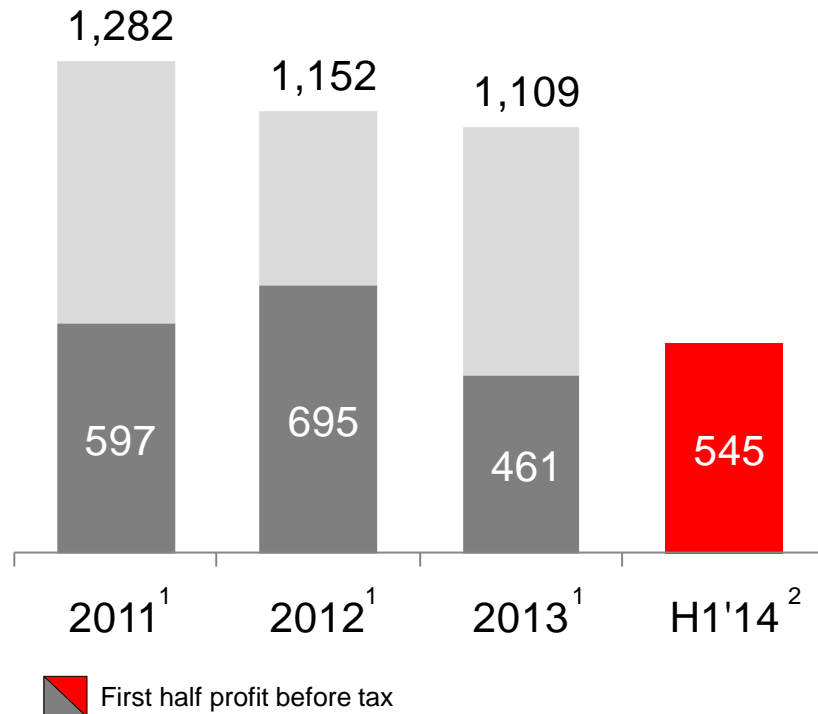
'Bank of Choice' for UK companies

3

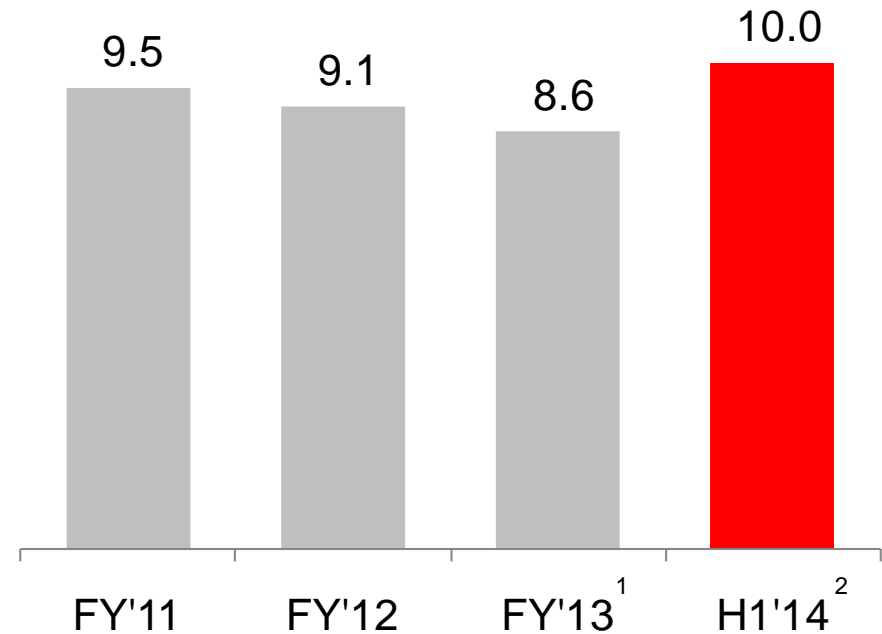
Consistent profitability and strong balance sheet

Consistently profitable and sustainable business

Statutory profit before tax (£m)



Statutory RoTE (%)

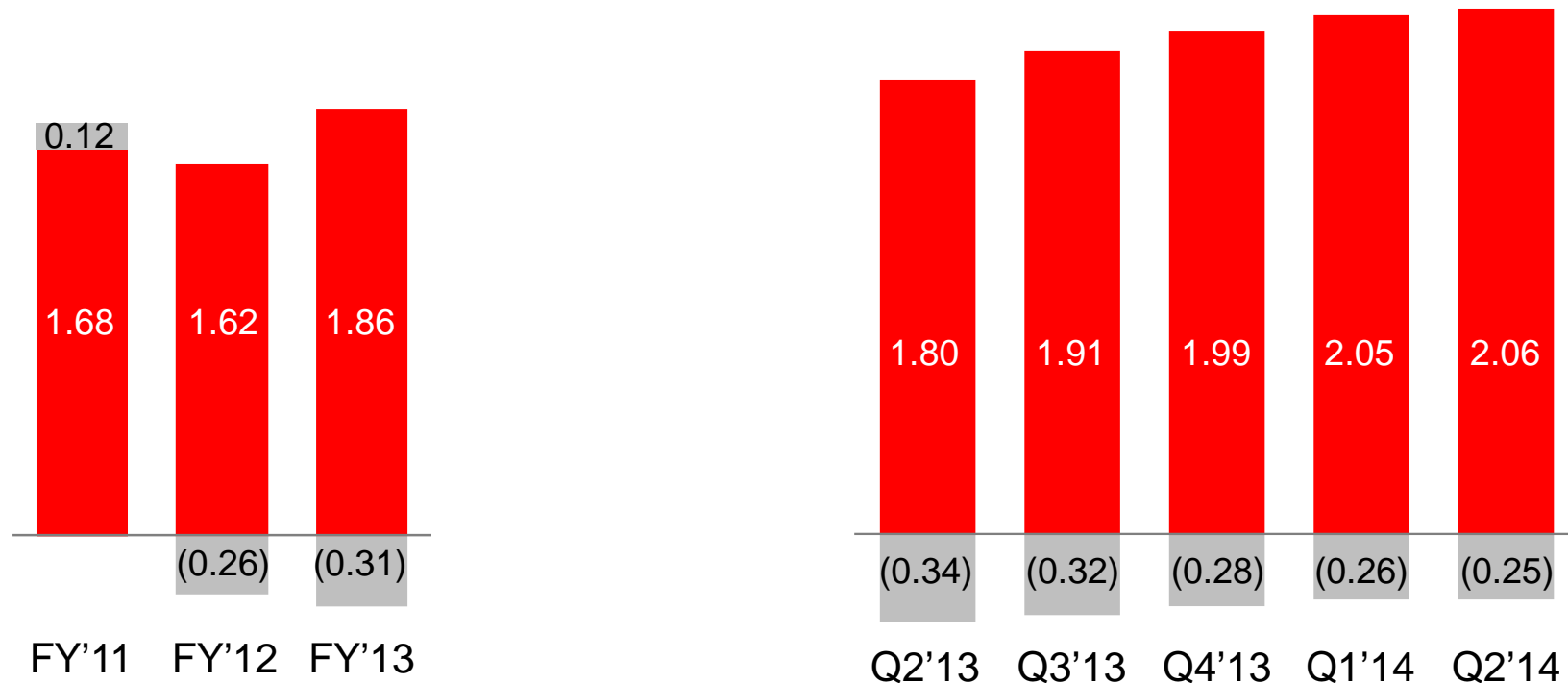


1. Adjusted to reflect the retrospective adoption of IFRIC 21
2. Excluding the impact of Q2'14 significant items H1'14 PBT was £751m and H1'14 RoTE was 11.7%

3

Banking NIM supported by a strong customer interest margin

1.80 1.36 1.55 Banking NIM (%)¹ 1.46 1.59 1.71 1.79 1.81



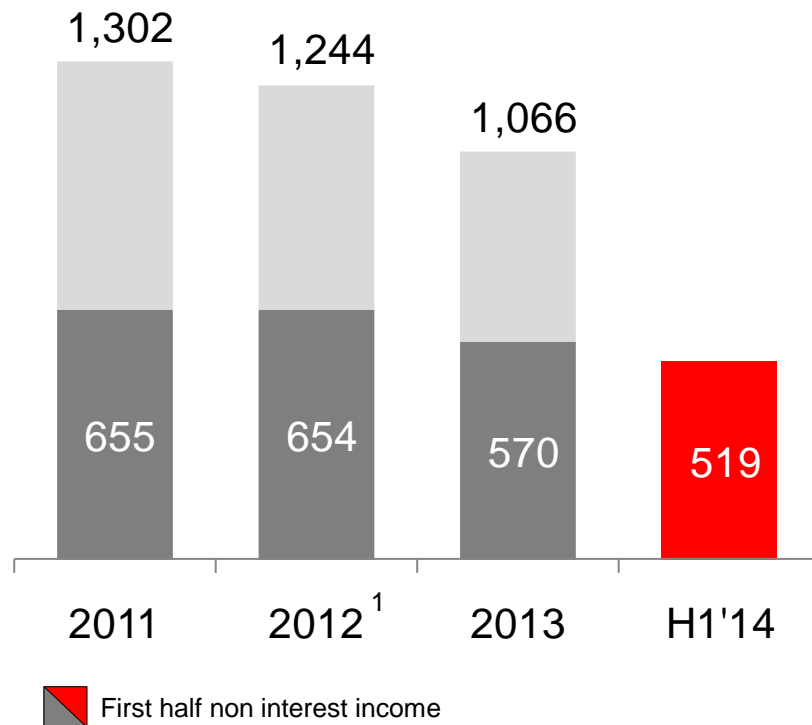
■ Customer interest margin²

■ Structural hedge, Medium Term Funding (MTF) and liquidity balances

1. Banking NIM is calculated as annualised net interest income divided by average customer loans. Banking NIM is a non-IFRS measure
2. Customer interest margin is calculated as annualised net interest income (adjusted for structural hedge, MTF and liquidity balances) divided by average customer loans

Developing our non interest income proposition

Non interest income (£m)



Focused investment in growth opportunities...

Retail Banking

deepening customer relationships

- 1|2|3 Current Account and related transaction fees
- Investment advice service for Select customers
- Insurance offering

Commercial Banking and Markets

new banking platform; broader product capability

- Cash Management Services and comprehensive payments offering
- Trade Services (client portal) and enhanced supply chain finance platform
- Forex and interest rate risk management services

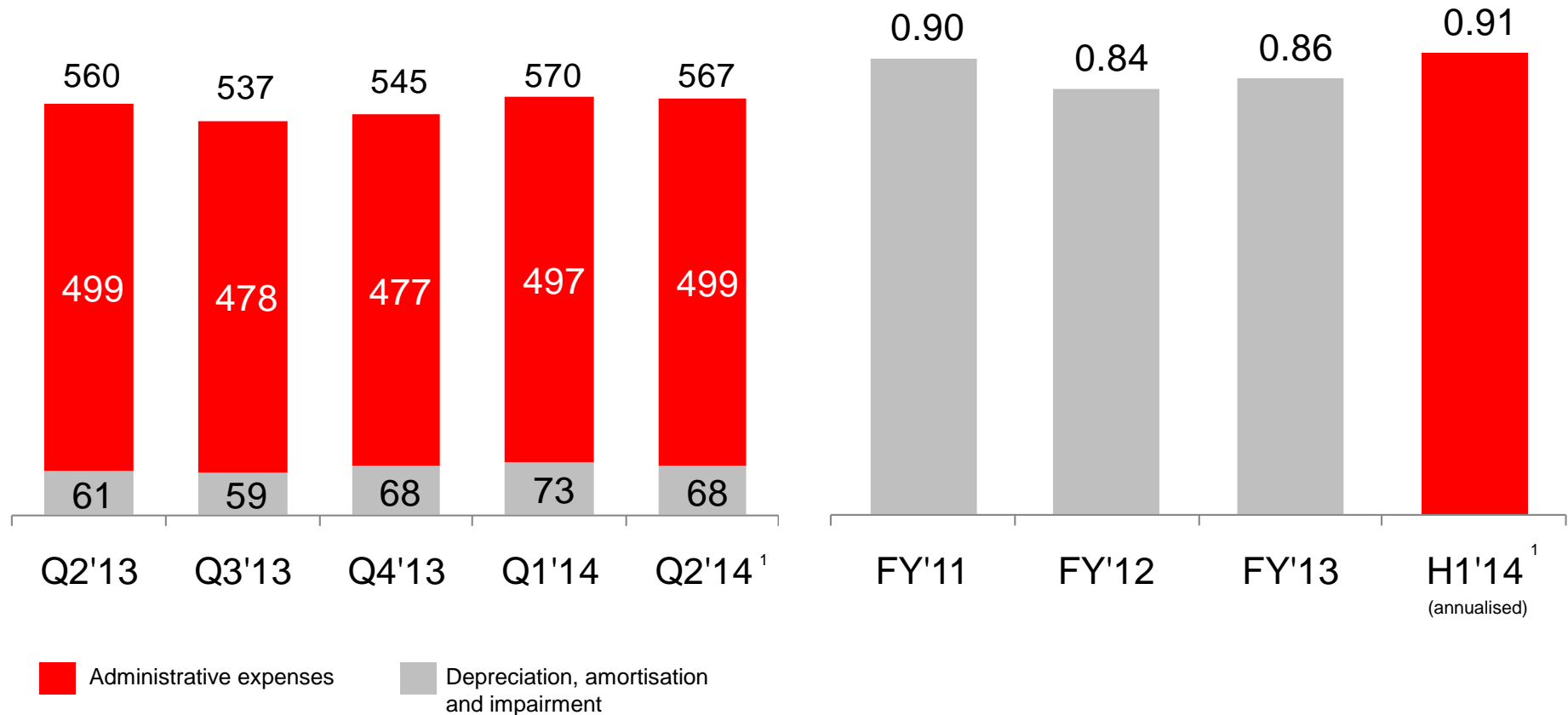
1. Excludes the gain of £705m on a capital management exercise in Q3'12

3

Efficiency management absorbs investment in business transformation

Operating expenses (£m)¹

Operating expenses¹ / Avg. total assets² (%)



1. Operating expenses excludes H1'14 significant items of £(86)m

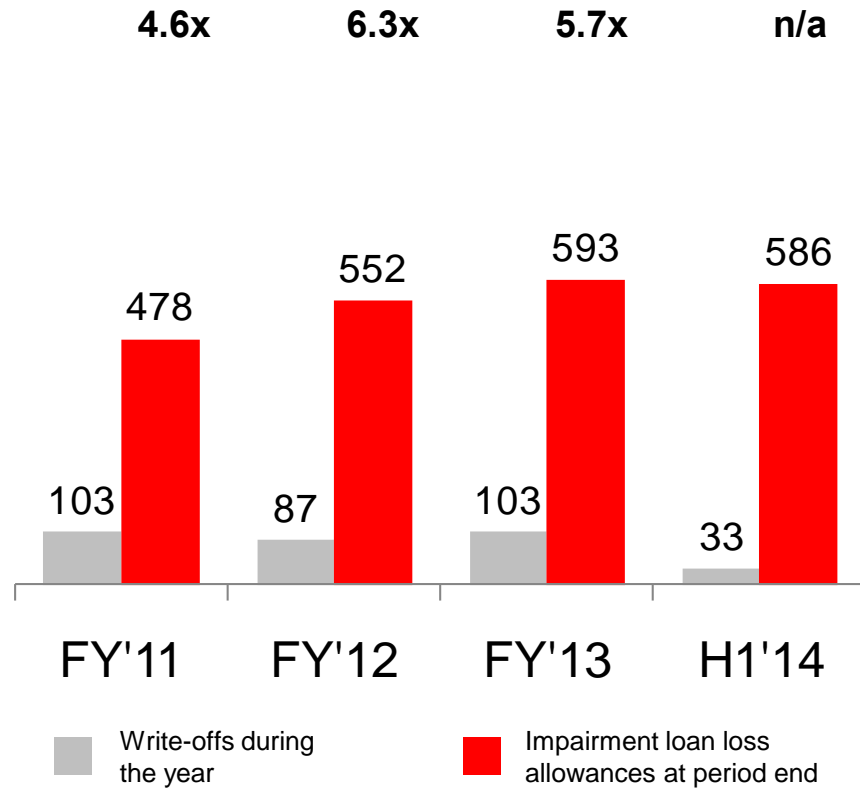
2. Average total assets excludes derivatives

3

Conservative provisioning for a well-performing mortgage portfolio

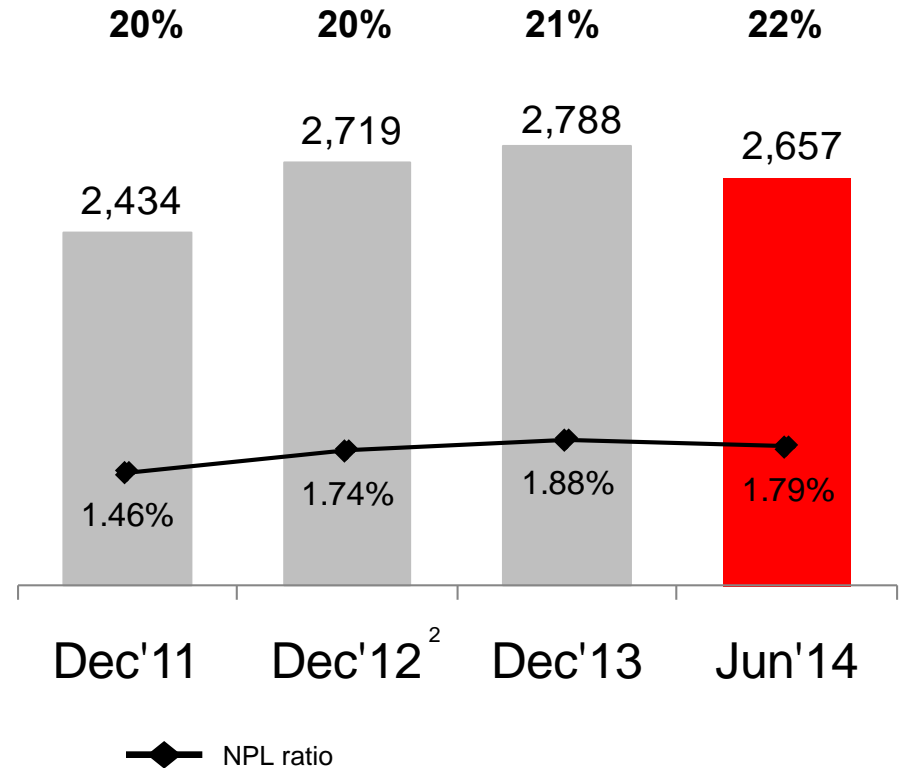
Mortgage impairment loan loss allowances and write-offs (£m)

Write-offs coverage¹



Mortgage NPLs (£m)

NPL coverage

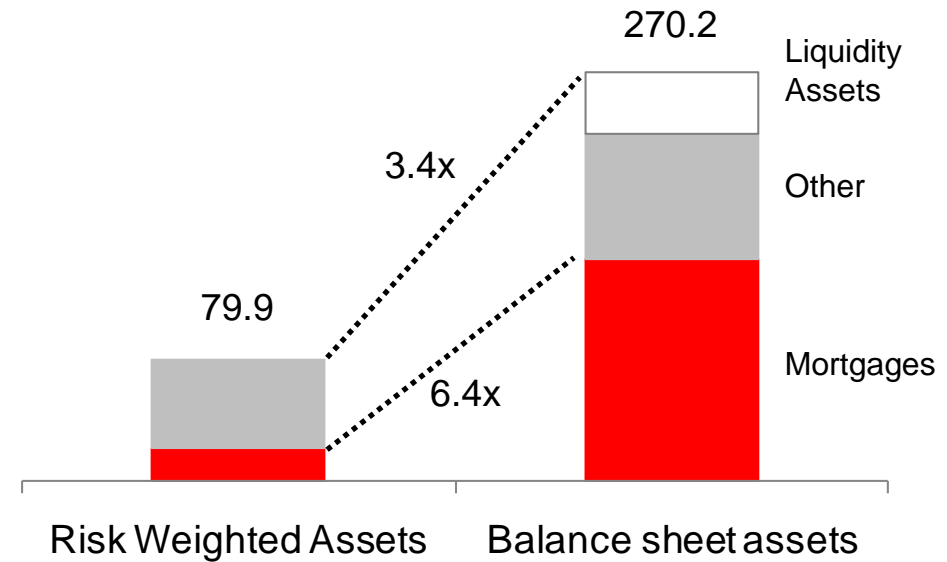
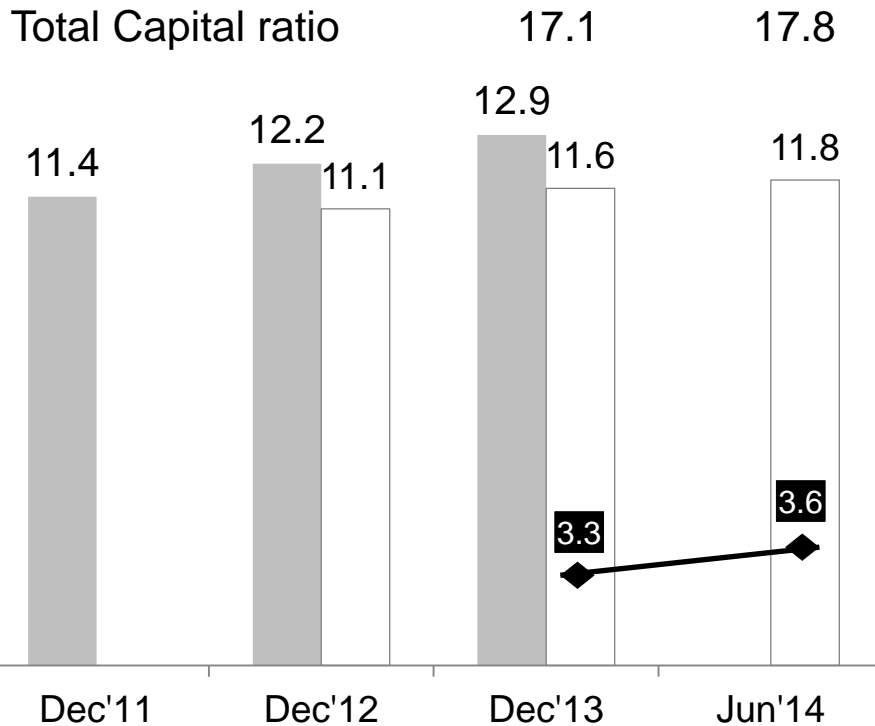


1. Calculated as write-offs during the year divided by impairment loan loss allowance as year end
 2. The increase in the mortgage NPL ratio was largely due to regulatory-driven policy and collections changes introduced in early 2012 and the impact of the managed reduction in the mortgage portfolio

3 Further improved capital and leverage

Capital and leverage ratios – CRD IV end point (%)

Risk weighted assets and balance sheet assets (£bn)

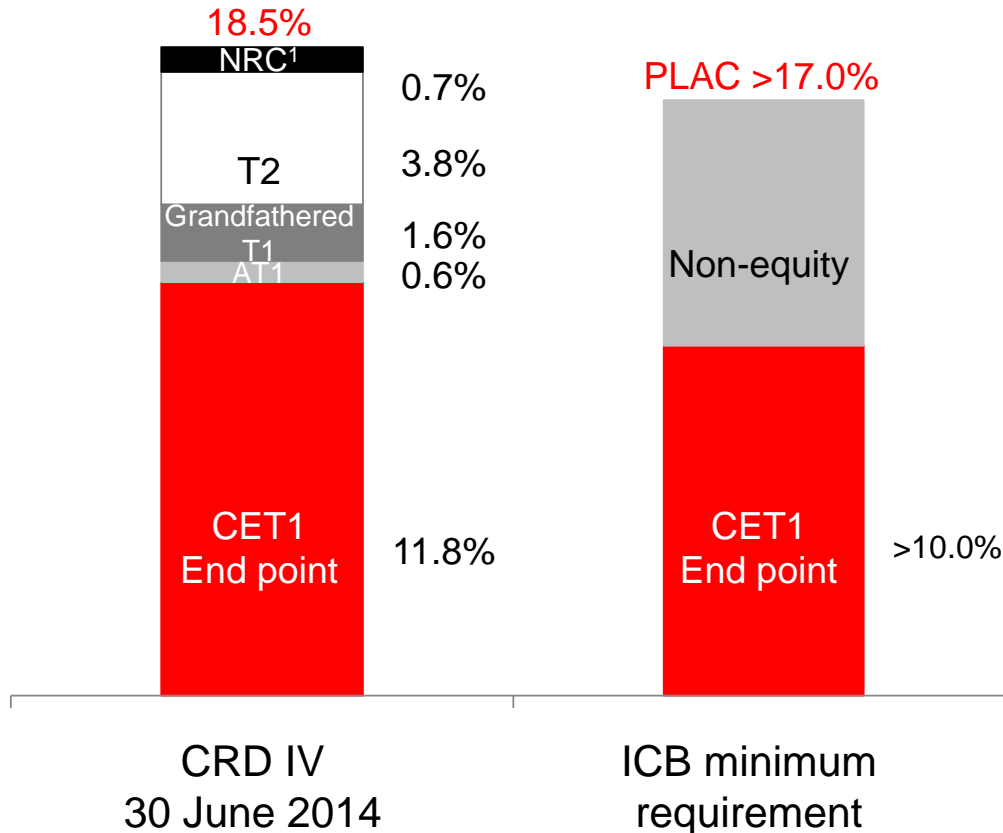


Core Tier 1 Capital ratio, Basel 2/2.5
 CET 1 Capital ratio ¹
 PRA end point T1 leverage ratio ²

1. CRD IV end point Common Equity Tier 1 Capital is calculated in accordance with the PRA CRD IV implementation rules (Policy Statement PS7/13)
 2. PRA end point T1 leverage ratio is the CRD IV end point Tier 1 Capital divided by adjusted exposures as defined by the Basel Committee January 2014 Leverage Ratio Framework

Managing capital from a robust position

Implementing CRD IV and managing to ICB

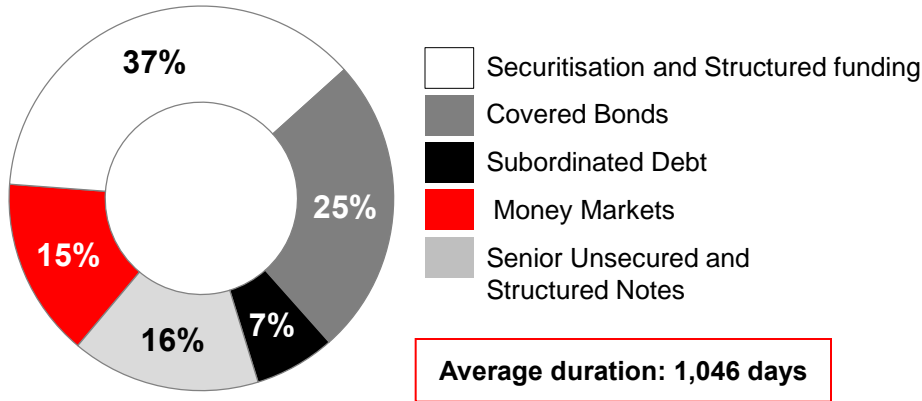


- Strong starting point, with 11.8% CET 1 capital ratio
- ICB target CET1 minimum at 10.0% (large ring-fenced bank). PRA may introduce a higher minimum level under Pillar 2 provisions PS7/13 from 2015. Santander UK's current target is CET1 > 10.5%
- PLAC ('Primary Loss Absorbing Capacity') may also be met by senior debt and wholesale funding subject to bail-in. This is not reflected in the illustration
- Issuance of Additional Tier 1 capital will be considered to replenish Tier 1 capital stock and enhance the PRA end point T1 leverage ratio

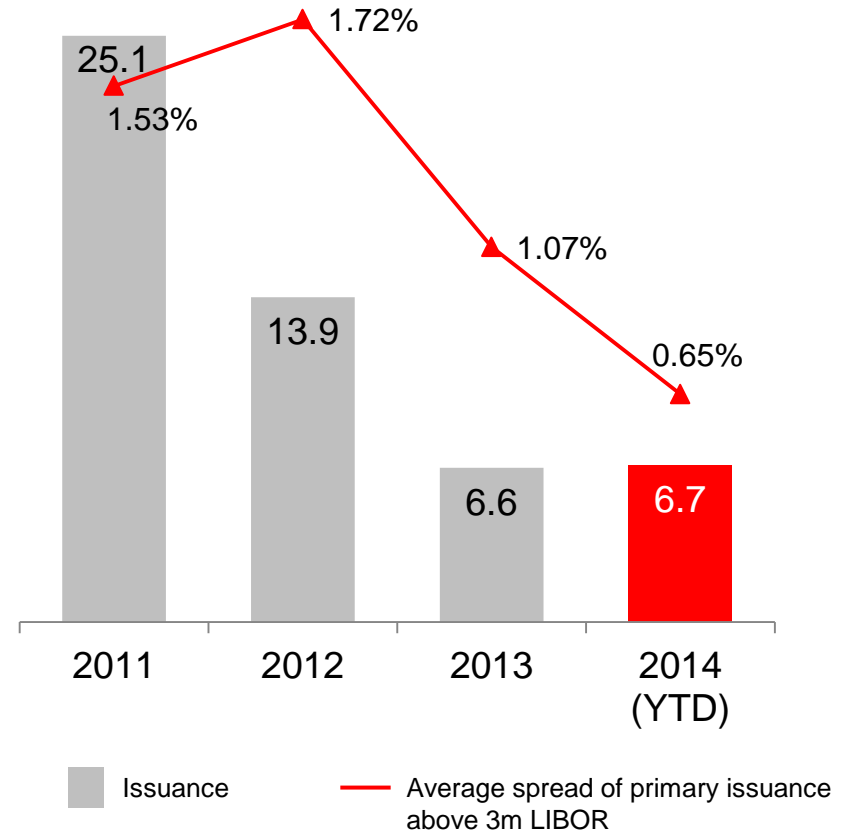
1. NRC: Non-Regulatory capital, which includes Tier 1 and Tier 2 capital instruments which are not recognised under CRD IV grandfathering provisions

3 Improved funding profile at lower cost

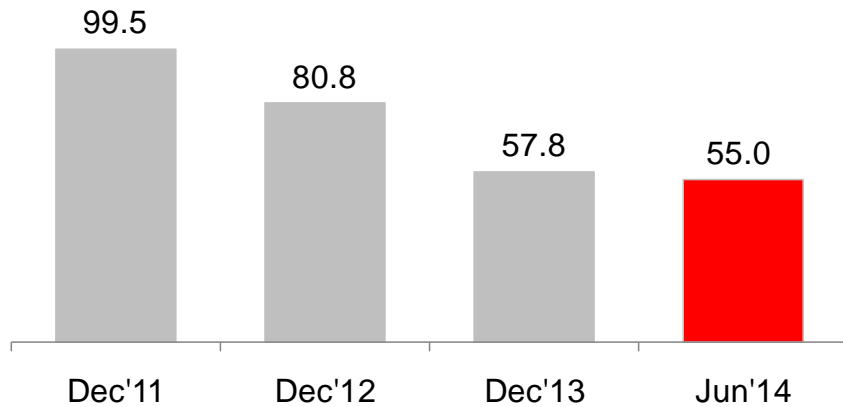
Wholesale funding stock



MTF issuance (£bn) and spread ¹



Medium term funding encumbrance (£bn) ²



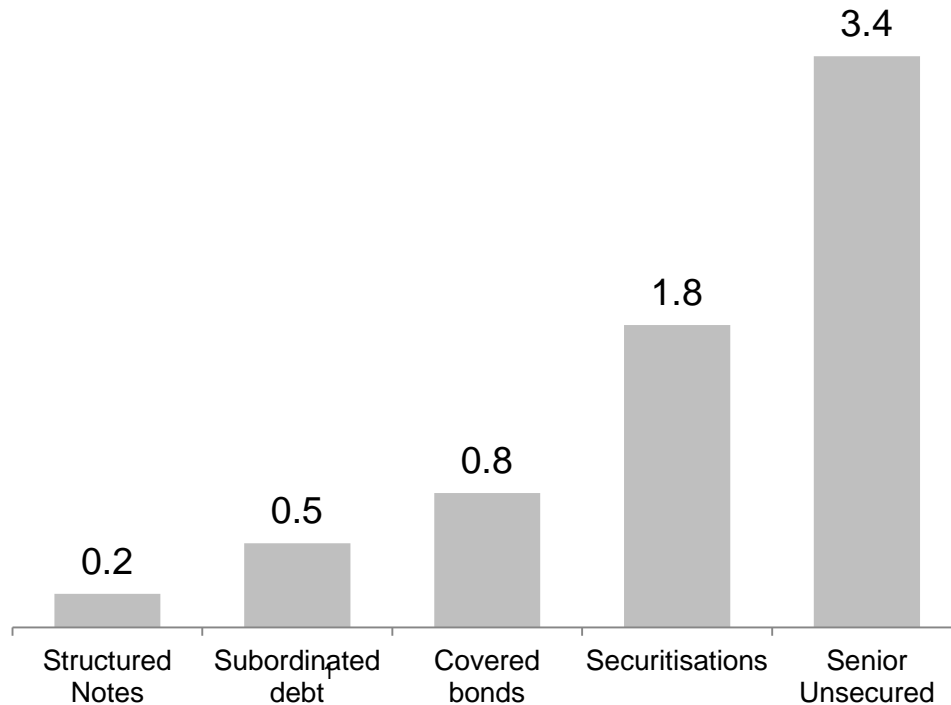
1. Weighted average spread at time of issuance above GBP 3M LIBOR. Average spread excludes June 2014 AT1 issuance (£500m)

2. Mortgage encumbrance includes all maturities assigned to Fosse, Homes, Langton and the ANTS covered bond programme, and excludes Motor

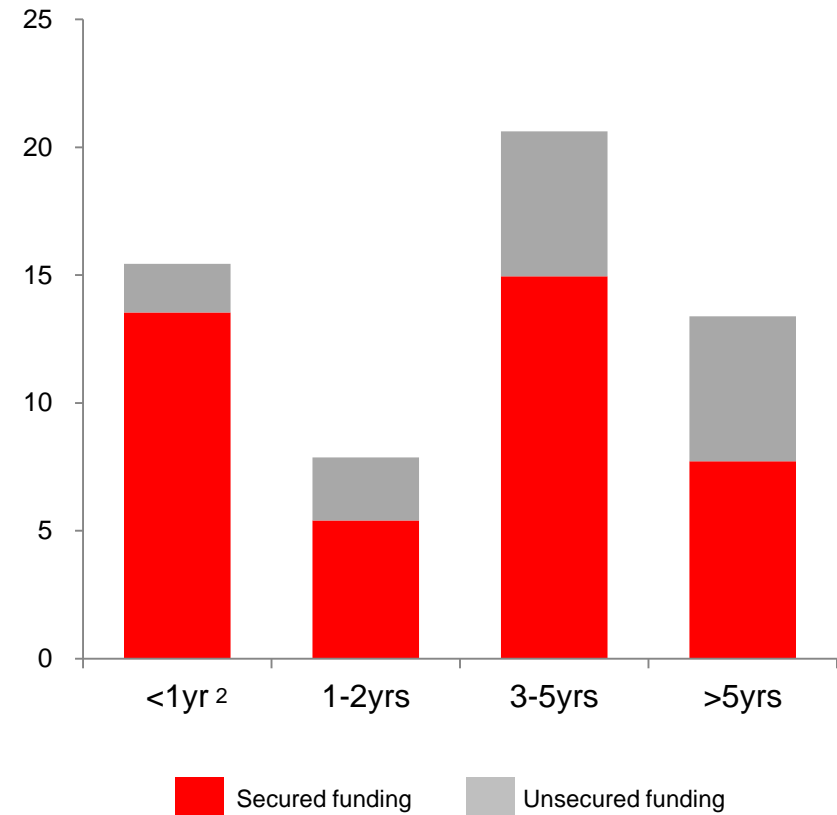
3

£6.7bn of MTF issuance in H1'14, largely senior unsecured

MTF issuance (£bn)



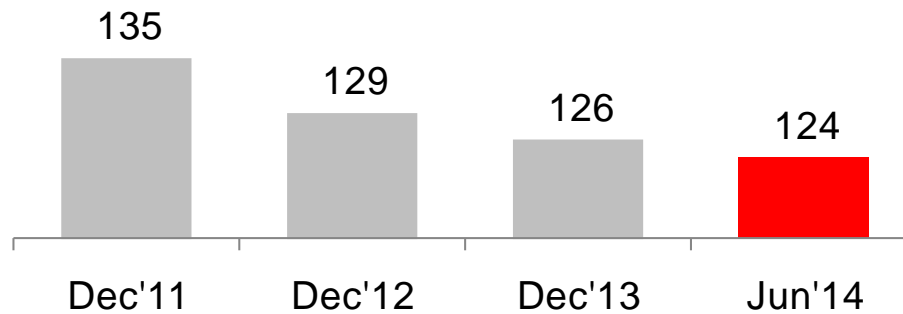
MTF maturities (£bn)



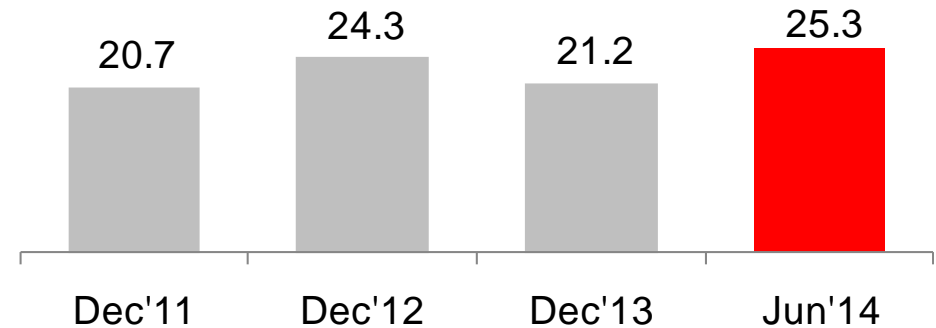
1. Also referred to as perpetual capital securities
2. Excluding deposits by banks (non-customer deposits), CDS and Commercial Paper

3 Optimised liquidity position

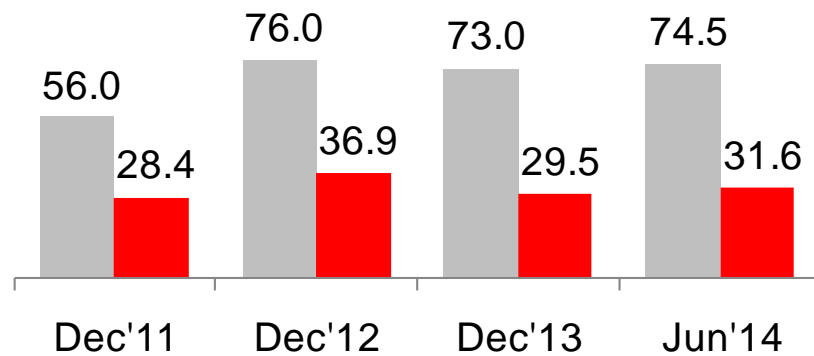
Loan-to-deposit ratio (%)



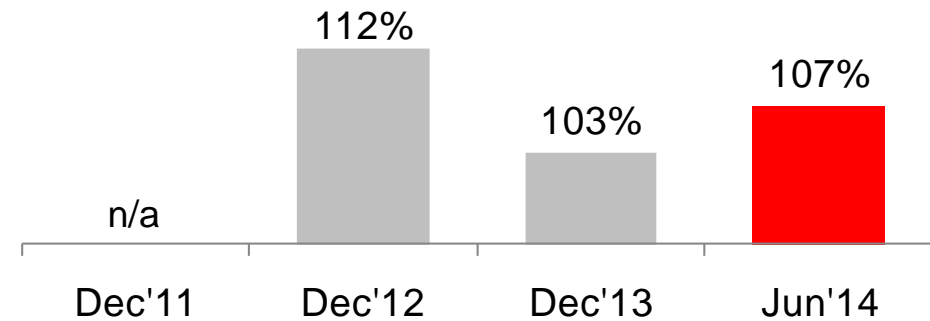
Wholesale funding with a residual maturity of less than 1 year (£bn)



Liquid assets (£bn)



Liquidity coverage ratio ('LCR')



Total liquid assets
 Eligible liquid assets

For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for 6 months ended 30 June 2014

Outlook

- **1|2|3 World has transformed our business**, offering long term value for loyal customers and deepening their relationship with us
- Our enhanced corporate platform is **delivering business growth**, making a real difference to our clients' businesses
- **Banking NIM of 1.80% is expected to be broadly stable** for the year
- **Investment in the business**, largely funded through efficiency management
- **Growth in mortgage lending of c. 1%**, broadly in line with the market
- Sustained double digit **growth in lending to corporates**, leveraging the footprint and capability
- **Prudent lending criteria** with NPL ratio of 1.96%
- **Positive momentum in the UK economy** continues to support our business and we are well positioned for future Base Rate changes

Appendix

Confident in the acceleration of our business transformation

		2015 target	30.06.14	31.12.13
1 Loyal and satisfied retail customers	Loyal customers	4 million	3.0 million	2.7 million
	1 2 3 World Customers	4 million	3.0 million	2.4 million
	Customer satisfaction ('FRS') (average of top 3 UK peers)	Top 3	58.4% (60.4%)	57.3% (61.1%)
2 'Bank of Choice' for UK companies	Commercial Banking percentage of total customer loans	20%	12%	12%
	(Commercial Banking customer loans)		(£23.1bn)	(£22.1bn)
3 Consistent profitability and strong balance sheet	Return on tangible equity	13% - 15%	11.7% ¹	8.6% ²
	Cost-to-income ratio	< 50%	52% ³	54%
	Common Equity Tier 1 capital ratio	> 10.5%	11.8%	11.6%
	Loan-to-deposit ratio	< 125%	124%	126%
	Non performing loan ratio	Ratio maintained	1.96%	2.04%
	Dividend payout ratio	50%	50%	50%

For notes and definitions see the Appendix 1 to the Santander UK plc Quarterly Management Statement for 6 months ended 30 June 2014

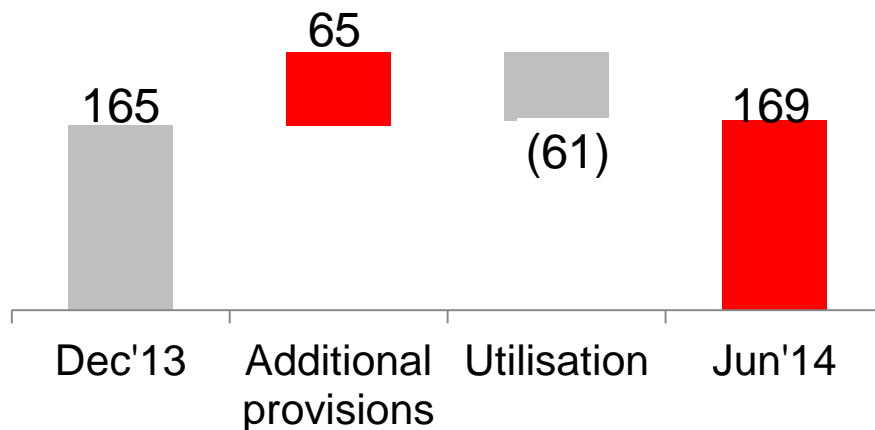
1. H1'14 RoTE of 11.7% is annualised and adjusted to include the effect of the Bank Levy and to exclude significant items.

2. Adjusted to reflect the retrospective adoption of IFRIC 21

3. Adjusted H1'14 cost-to-income ratio of 52% excludes significant items (56% including significant items).

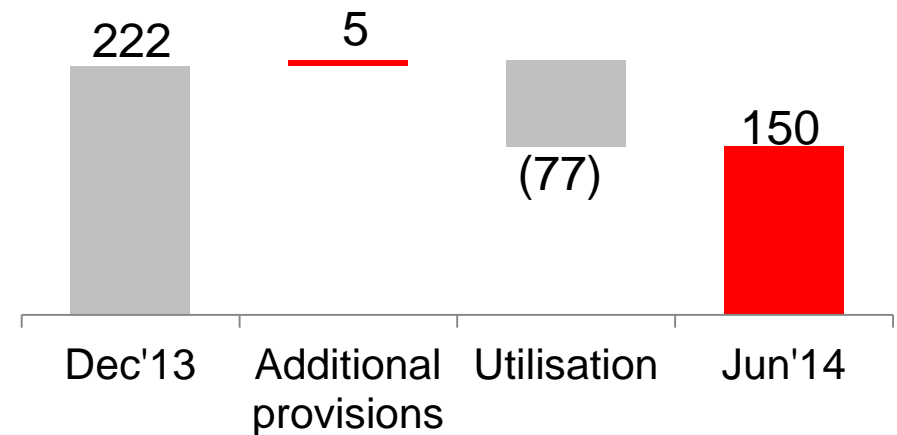
Well provided for PPI and other conduct issues

PPI provision balance (£m)¹



- Additional PPI provisions taken for the first time since H1'11
- £10m per month utilisation of PPI provision in H1'14 (2013: £18m)

Other products provision balance (£m)¹



- Other products include:
 - interest rate hedging products
 - Card Protection Plan ('CPP')
 - certain investment products

1. Provision for redress and associated costs

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

1. 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

S&P

Ratings affirmed Dec'13. Negative outlook shared by UK banking industry

bbb+

A

Negative

A-1

30/04/12

Fitch

Ratings affirmed Jul'14, Stable outlook

a

A

Stable

F1

11/06/12

Moody's

Ratings unchanged since Oct'12. Negative outlook across major UK banks

baa1

A2

Negative

P-1

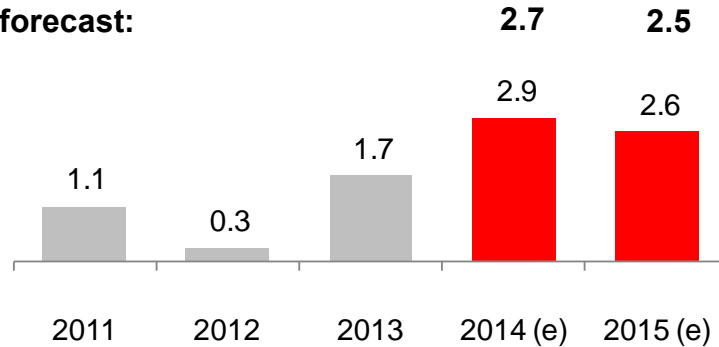
17/05/12

Ratings as at end July 2014

Macro-economic environment

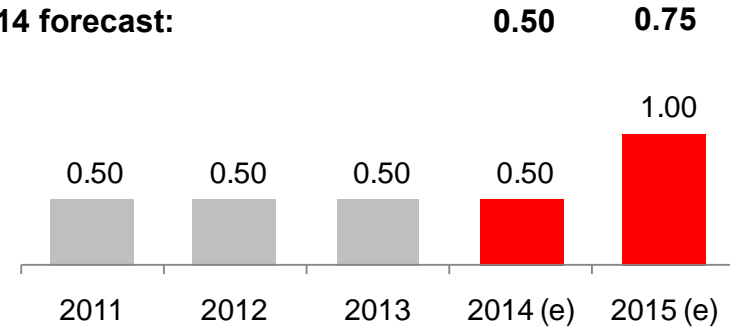
Annual GDP Growth (% , annual average)

Apr'14 forecast:



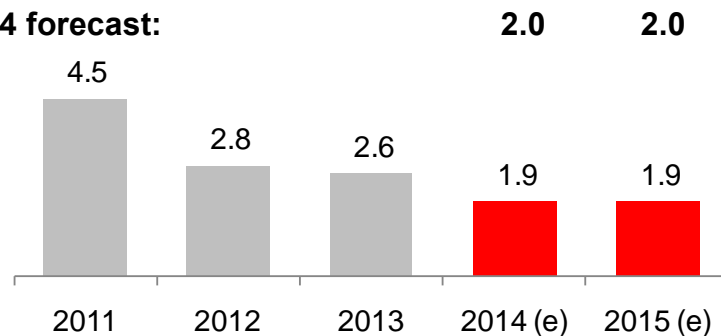
Interest Rates (% , year end)¹

Apr'14 forecast:



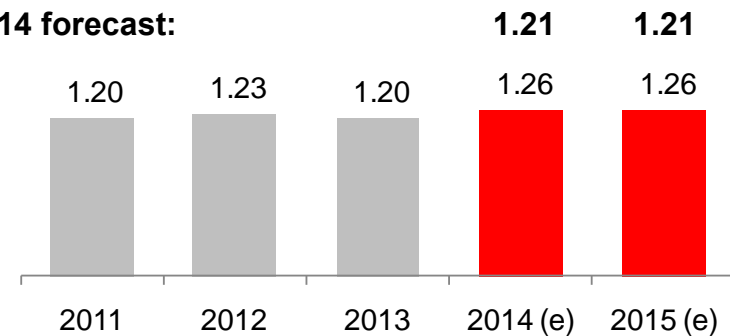
Annual CPI² inflation rate (% , annual average)

Apr'14 forecast:



GBP/Euro exchange rates (year end)

Apr'14 forecast:



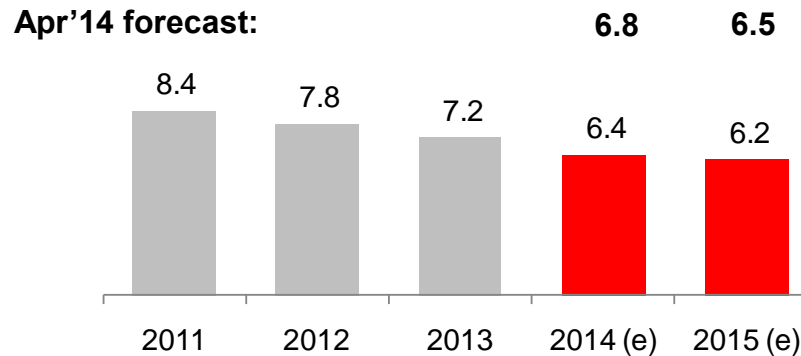
Source: Office for National Statistics and Bank of England. Estimates by Santander UK Economics (July 2014)

¹ Bank of England base rate

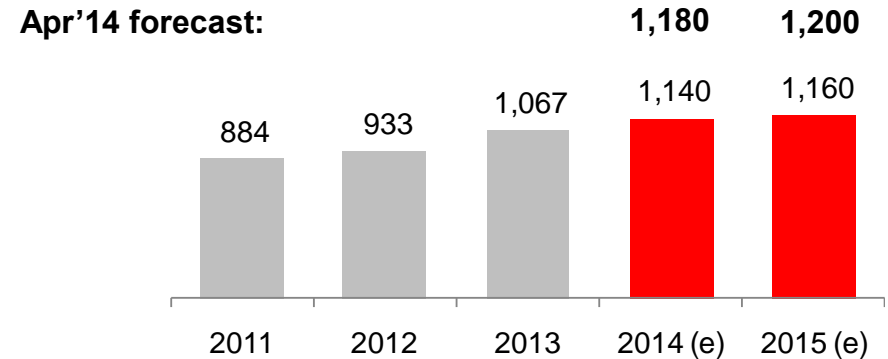
² Consumer Price Index

Macro-economic environment

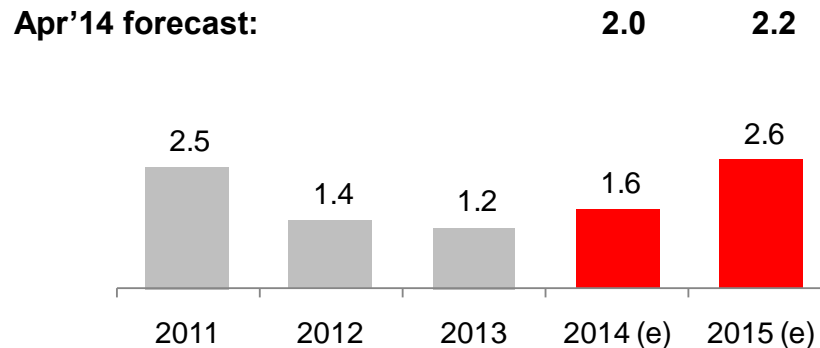
Unemployment rate (ILO¹, year end)



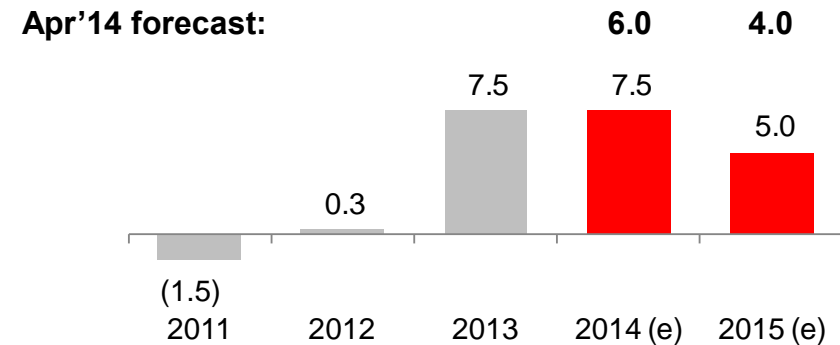
Property transactions (sa, 000s)



Average weekly earnings (annual, % inc. bonuses)



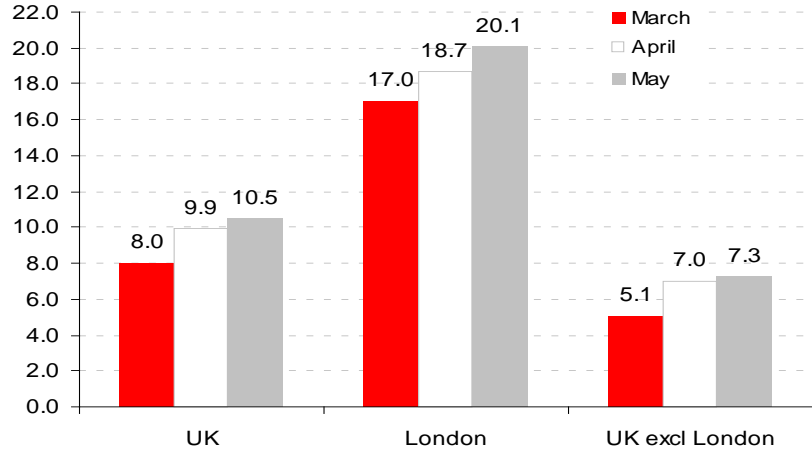
House prices (% , year end)



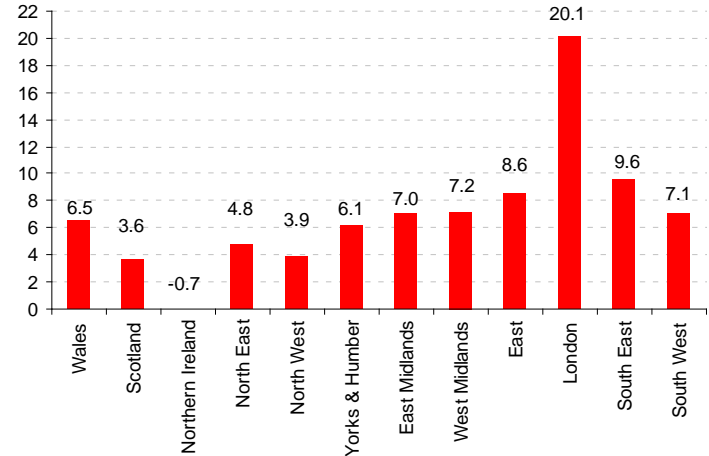
Source - HMRC, Lloyds Banking Group and Office for National Statistics
 (e) – Santander UK July 2014 forecast
 sa – seasonally adjusted
¹ILO: International Labour Organisation

Macro-economic environment

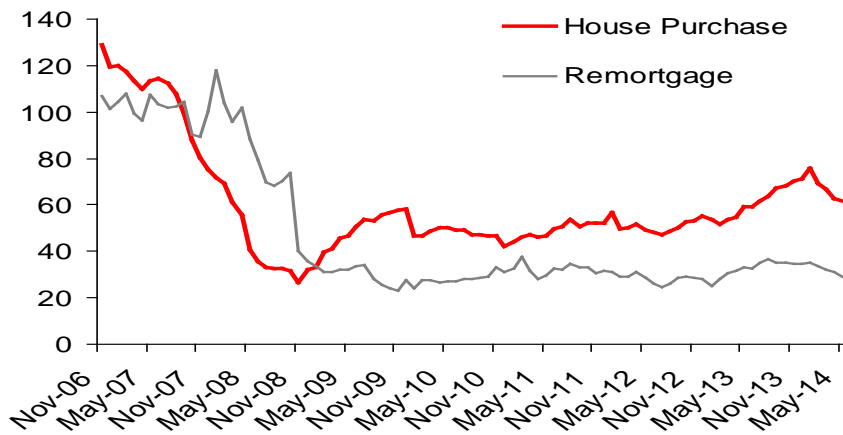
UK house price change (annual %, nsa)²



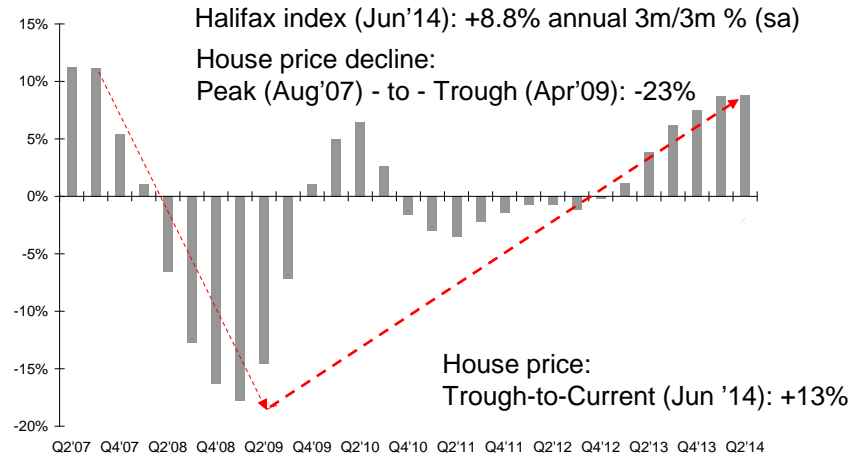
House price change by region - May '14 (annual %, nsa)²



House purchase and remortgage approvals (000s, sa)¹



UK house price inflation (annual %, sa)³



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▪ **Results and Presentations**

Santander UK plc quarterly, half yearly and annual financial results and presentations

▪ **Debt Investors**

Funding information and details of the Santander UK plc covered bond, securitisation and other debt issuance programmes

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