

United Kingdom

1Q14

April 29, 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. 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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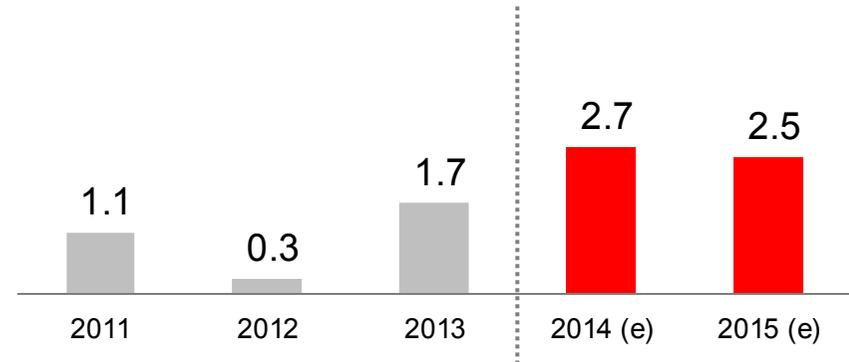
Agenda

- **Macro-economic environment and financial system**
- Strategy and business
- Results
- Appendix

Macro-economic environment

Economic recovery embedded ... with inflation outlook benign

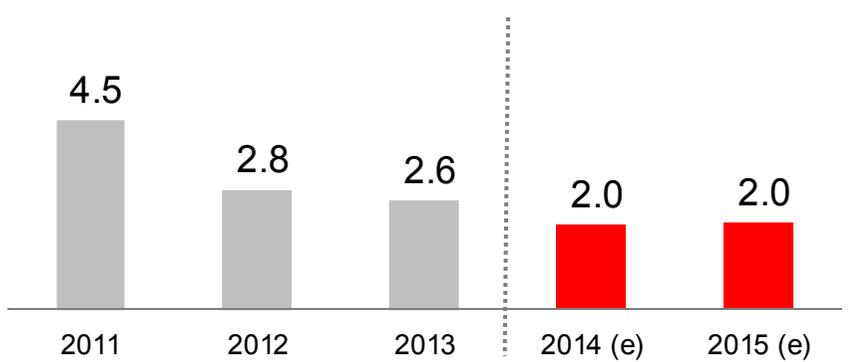
Annual GDP growth (% , real)



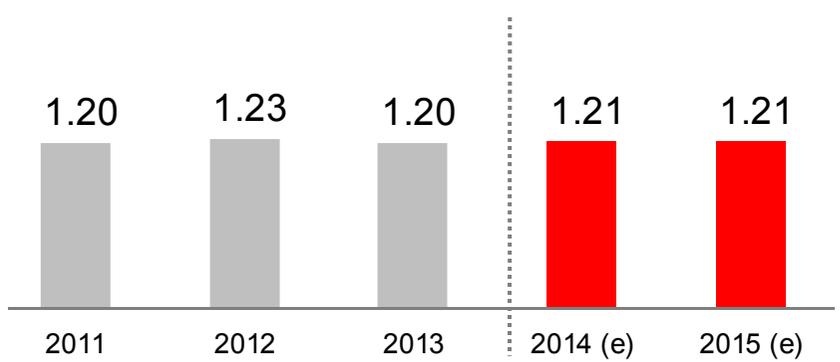
Interest rates (% , year end)¹



Annual CPI² 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)

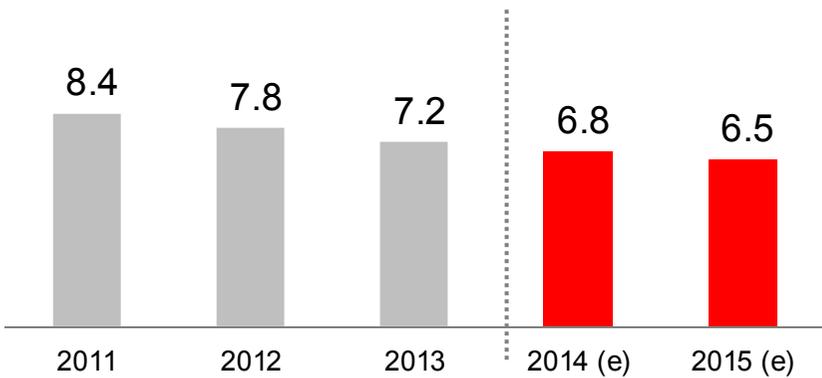
¹ Bank of England base rate

² Consumer Price Index

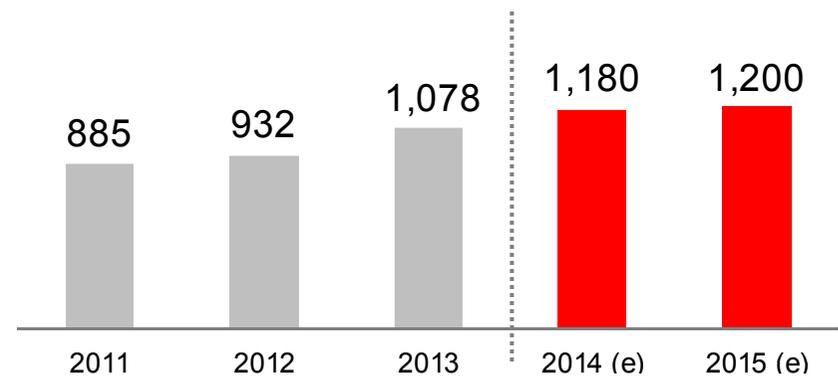


Unemployment declining steadily ... with a strengthening housing market

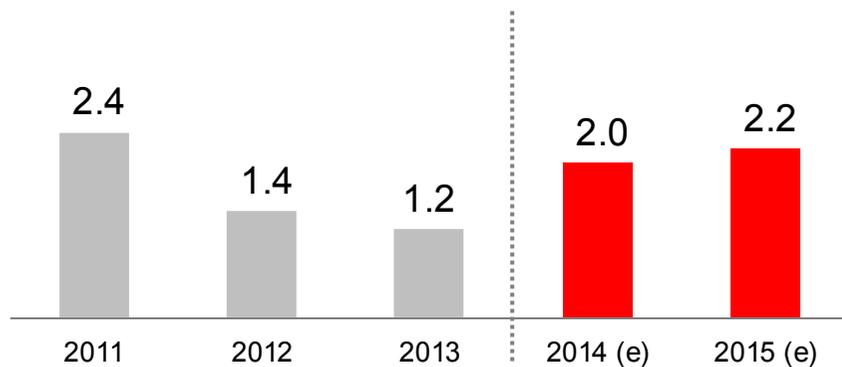
Unemployment rate (ILO¹, year end)



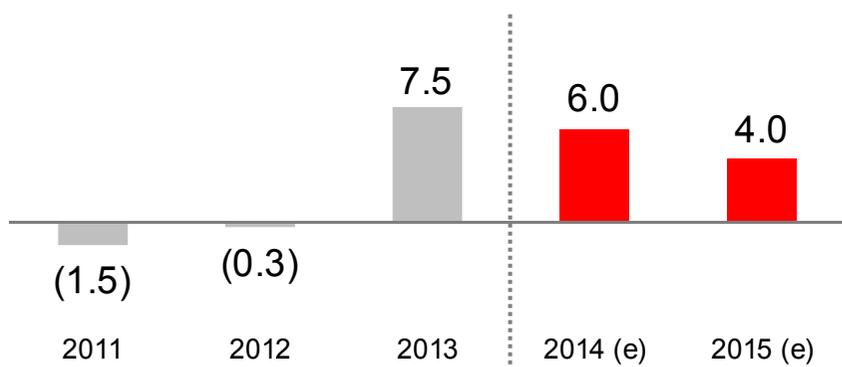
Property transactions (sa, 000s)



Average weekly earnings (annual, % inc. bonuses)



House prices (% , year end)



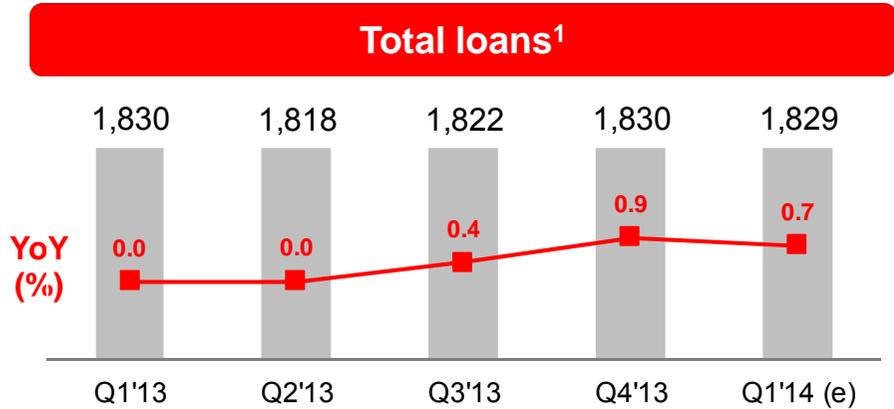
Source: Her Majesty's Revenue & Customs, Office for National Statistics and Lloyds Banking Group. Estimates by Santander UK Economics (April 2014)

¹ International Labour Organisation definition

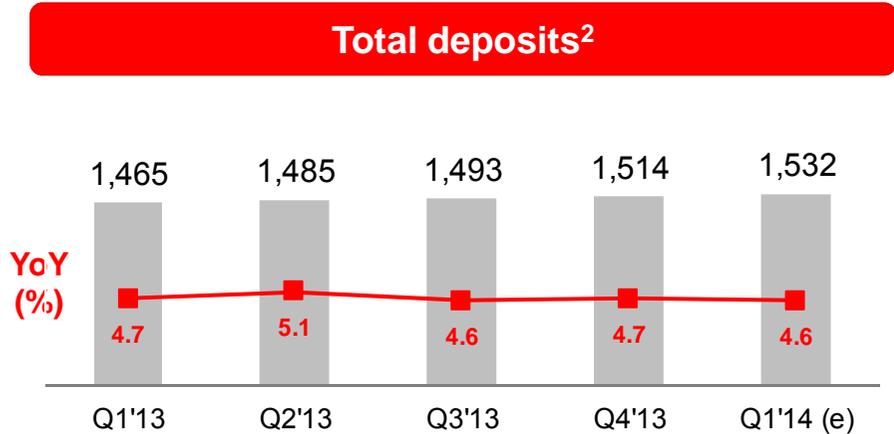


Modest pickup in loan growth ... steady deposit growth

GBPbn.



- Modest pick up in household loan growth – mortgages and other personal lending
- Corporate loan stock continues to decline
- Estimated growth in total loans of 1.4% by end 2014



- Total deposit growth has been steady, reflecting deleveraging of household and commercial balance sheets
- Corporate deposit growth still strong, but with some early evidence of increased investment intentions

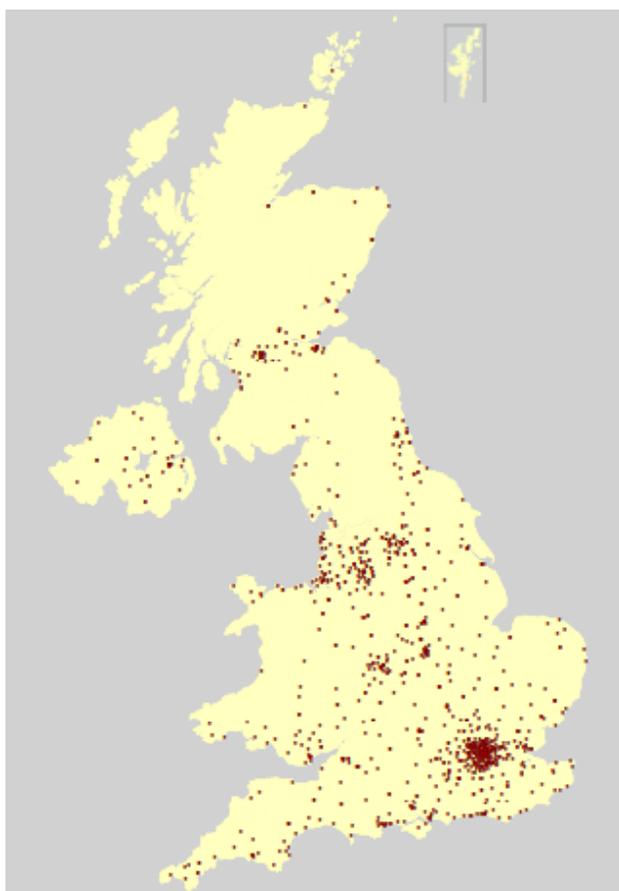
Source: ¹ Total loans stock and annual % change include household lending and PNFC lending
² Total deposits include household deposits (with banks and NS&I) and PNFC deposits, excluding cash holdings
 Santander UK Economics estimated annual growth rate for Q1'14

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Santander UK is an established UK market player

Santander UK's branches



	Mar'14	Var. YoY
Business and Results		
Loans	£187.0 bn.	(3%)
Deposits	£147.6 bn.	(2%)
Total customer funds	£154.9 bn.	(2%)
Attributable profit	£311 mn.	63%
Network and Customers		
Clients - active customers ¹	14 mn.	n.a.
Branches	998	(4%)
ATMs	2,341	(2%)
Other Key Metrics		
Loan-to-Deposit ratio (LDR) ²	120%	(5) p.p.
Return on Risk Weighted Assets (RoRWA)	1.60%	60 bps
Return on Tangible Equity (RoTE) ³	12.0%	4.3 p.p.
CET1 ratio ⁴	11.6%	0.1 p.p.

¹ Active customers hold at least one active product. For current accounts, savings accounts or credit cards an active product must be open and have a balance of more than £50 or a transaction in the last month

² Calculated as Customer Loans and Credits divided by Customer Deposits on the face of the balance sheet

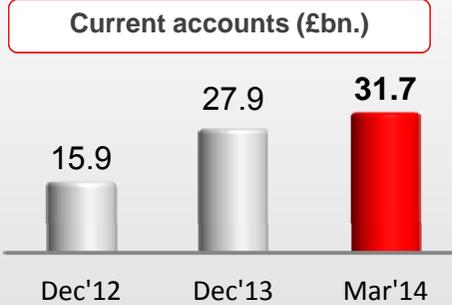
³ RoTE calculated on a statutory basis. Q1'14 annualised RoTE includes estimated costs relating to anticipated preference share dividends payments, the FSCS and the Bank Levy. Excluding these pro-rated costs RoTE would have been 13.1%

⁴ Common Equity Tier 1 capital ratio calculated on the basis of the latest published CRD IV rules and are stated on an equivalent basis as the rules were only effective from 1 January 2014

Commercial focus / strategy (1)

1

Loyal and satisfied retail customers



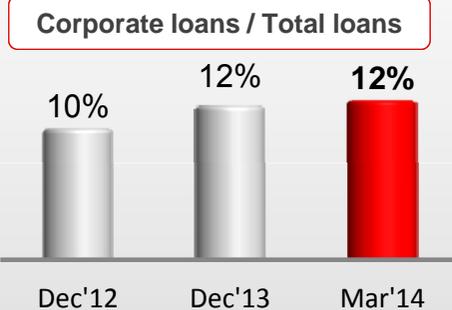
Continued strong growth of relationship balances



1|2|3 World is transforming the customer profile

2

'Bank of Choice' for UK companies

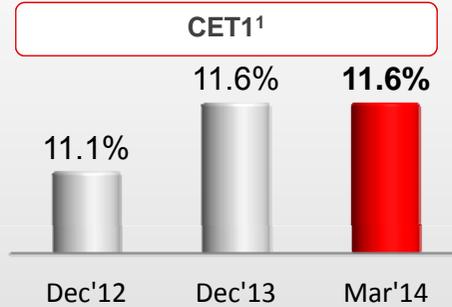


Commercial loan growth across SMEs and large corporates; +12% Q1'14 vs Q1'13

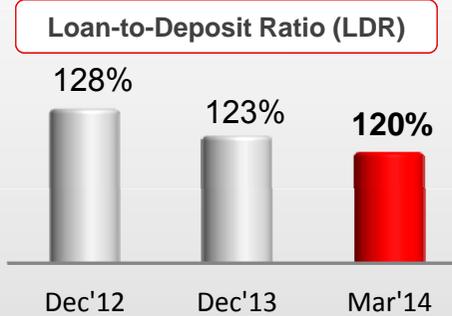
Commercial focus / strategy (2)

3

Consistent profitability and strong balance sheet



Strong capital position maintained

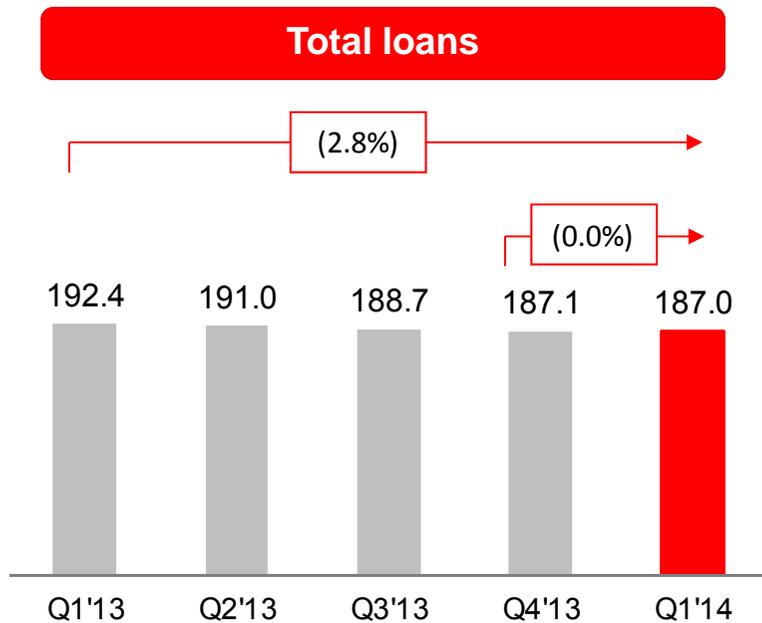


Improved funding position

¹ Source: 2012-13 numbers are stated on a CRD IV equivalent basis; CRD IV was only in force from 1 January 2014

Mortgage origination increasing. Commercial lending growth sustained

GBPbn.



	Mar'14	YoY	QoQ
Individuals	155.2	(4%)	(0%)
Mortgages ¹	147.6	(4%)	(0%)
Consumer credit	7.7	5%	2%
Companies	31.8	2%	1%
SMEs ²	11.6	9%	(1%)
Corporates ²	6.1	18%	10%
Large corporates ²	5.2	15%	5%
Non core	8.9	(17%)	(5%)
Total	187.0	(3%)	(0%)

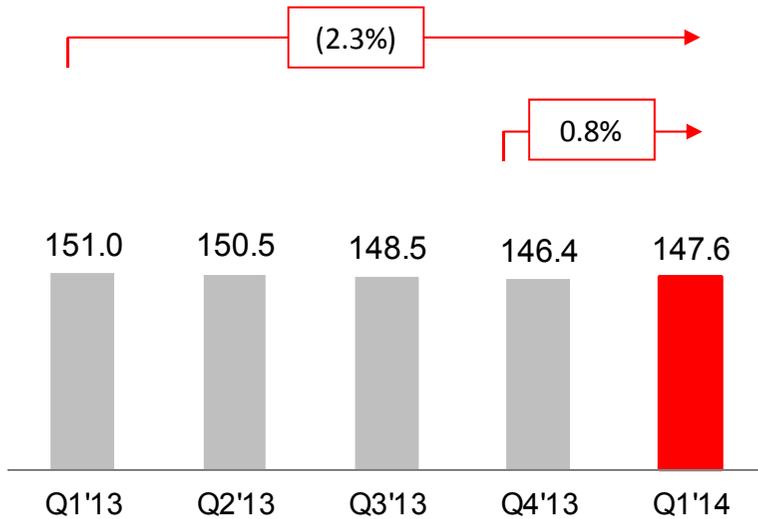
¹ Mortgages refers to residential retail mortgages only and excludes social housing and commercial mortgage assets

² Following a periodic review in Q1'14, a number of customers were transferred from the SME segment to our large corporate segment as the annual turnover of their businesses had increased; prior periods have not been restated. The balance associated with these loans was £327m; excluding this reclassification, SME lending growth would have been 11% over the last 12 months

Promotion of retail relationship based deposits; reduction in rate sensitive balances

GBPbn.

Total deposits



	Mar'14	YoY	QoQ
Demand	51.3	45%	11%
Savings	45.0	(23%)	(5%)
Time	51.3	(11%)	(3%)
Total	147.6	(2%)	1%
Funds distributed ¹	7.3	(6%)	(2%)
Total Customer Funds	154.9	(2%)	1%

¹ Third-party off-balance sheet assets originated by Santander Asset Management in the United Kingdom

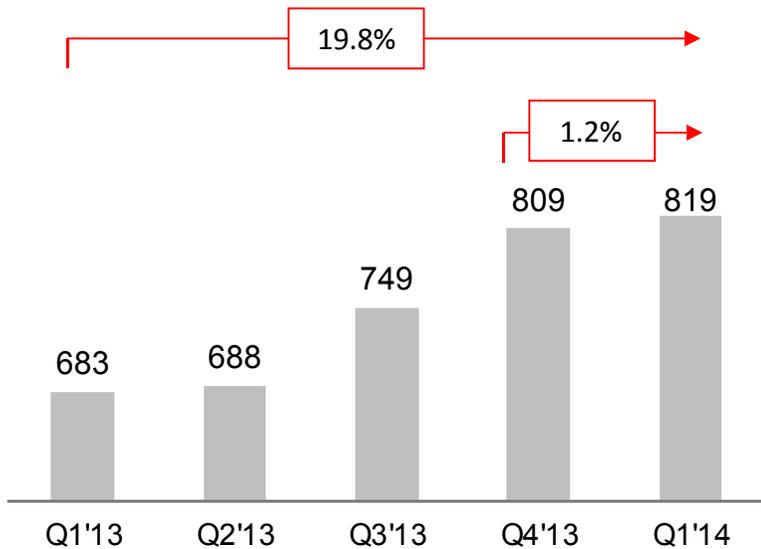
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Banking NIM recovery; now underpinned by improving deposit spreads

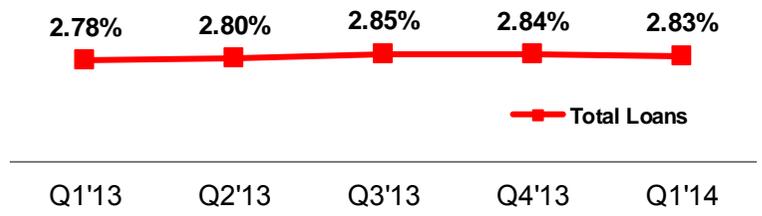
GBPmn.

Net Interest Income

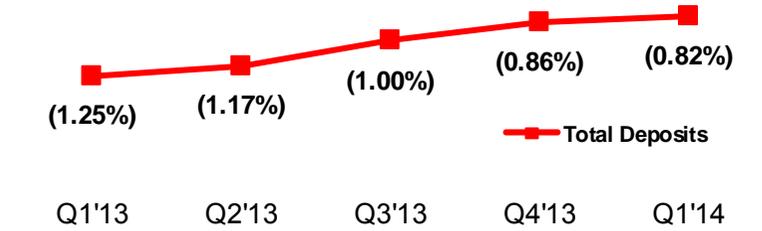


Banking NIM (%) ¹				
1.45%	1.46%	1.59%	1.71%	1.79%

Loan spreads (%)^{2,3}



Deposit spreads (%)³

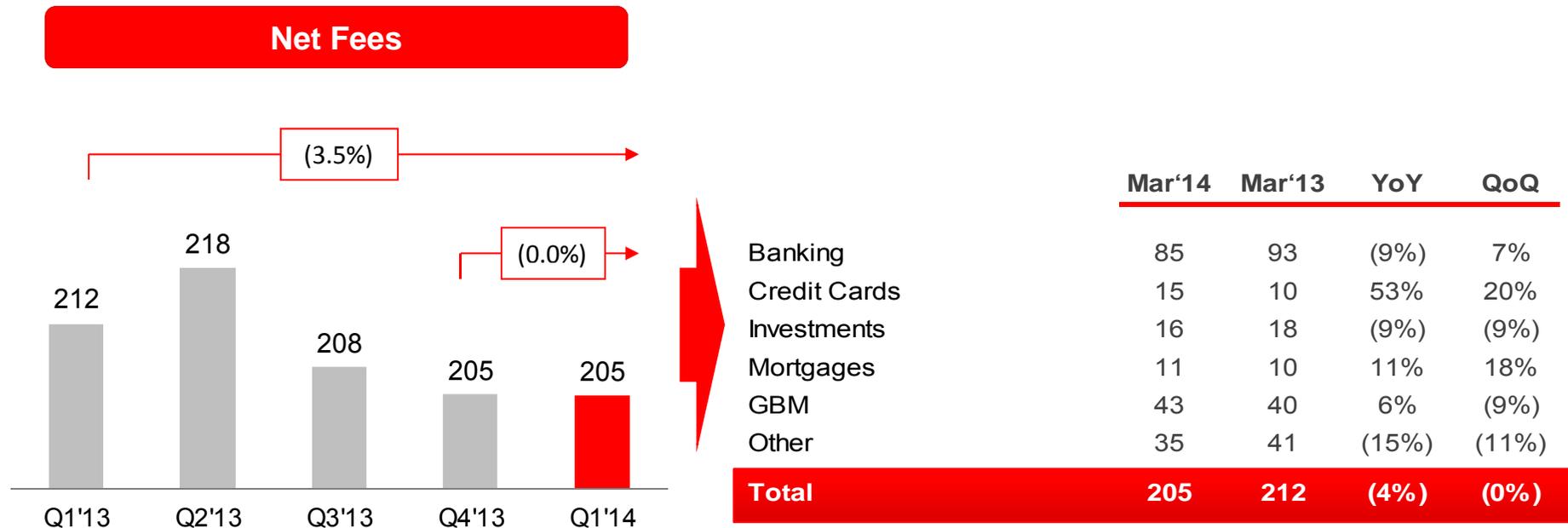


¹ 'Banking NIM' is calculated as annualised net interest income divided by average customer loans
² Loans spread restated for the impact of the co-brands credit cards discontinued operations. Prior period results have been amended to reflect the sale of the co-brand credit cards business. The sale of c. £1bn of customer loans to SAV Credit Limited was completed in May 2013
³ Loan spread calculated as 'Net Interest Income (including benchmark funding) on customer loans divided by average customer loans'
 Deposit spread calculated as 'Net Interest Income (including benchmark funding) on customer deposits divided by average customer deposits'



Retail fees broadly steady; Commercial fees impacted by market conditions

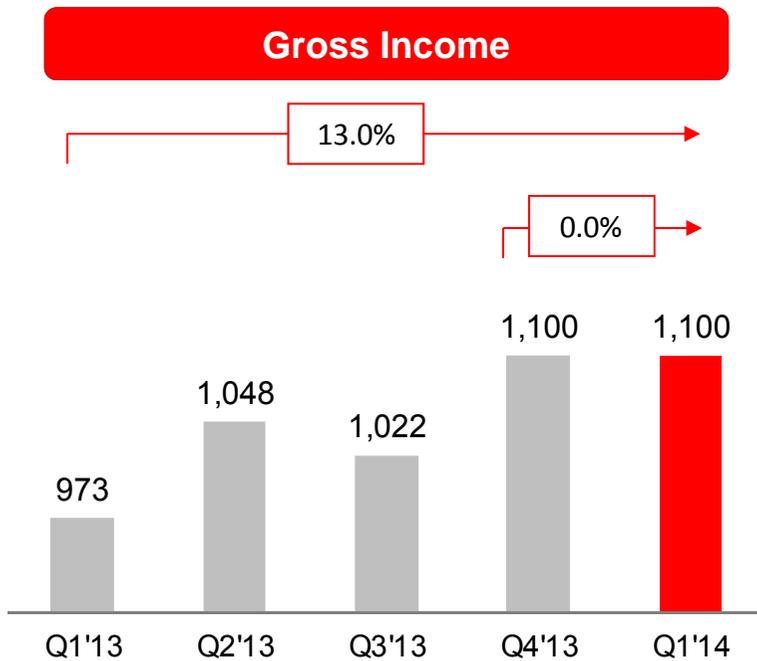
GBPmn.



Prior period results have been amended to reflect the sale of the co-brand credit cards business. The sale of c. £1bn of customer loans to SAV Credit Limited was completed in May 2013

Higher gross income maintained ... momentum in net interest income

GBPmn.



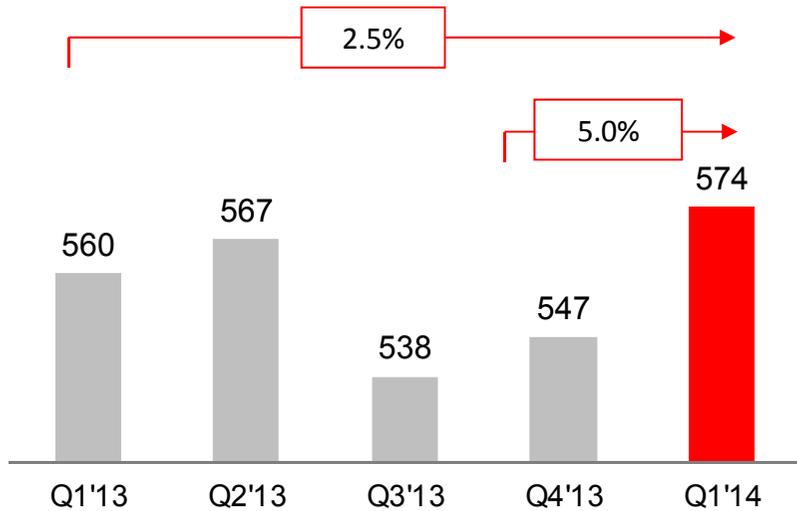
	Mar'14	Mar'13	YoY	QoQ
Net Interest Income	819	683	20%	1%
Net Fees	205	212	(4%)	(0%)
Subtotal	1,023	896	14%	1%
Gains/Losses on Financial Transactions	65	73	(11%)	(9%)
Other Operating Income	12	5	155%	(20%)
Gross income	1,100	973	13%	0%

Prior period results have been amended to reflect the sale of the co-brand credit cards business

Focus on cost management ... to accommodate investment spend

GBPmn.

Operating Expenses



	Mar'14	Mar'13	YoY	QoQ
General and admin. expenses	479	476	1%	10%
Depreciation and amortisation	95	83	13%	(14%)
Operating expenses	574	560	3%	5%

Efficiency ratio (including depreciation)	52%	58%	6 p.p.	2 p.p.
Number of branches	998	1,035	(4%)	(1%)
Number of employees ¹	24,064	23,862	1%	2%

Prior period results have been amended to reflect the sale of the co-brand credit cards business

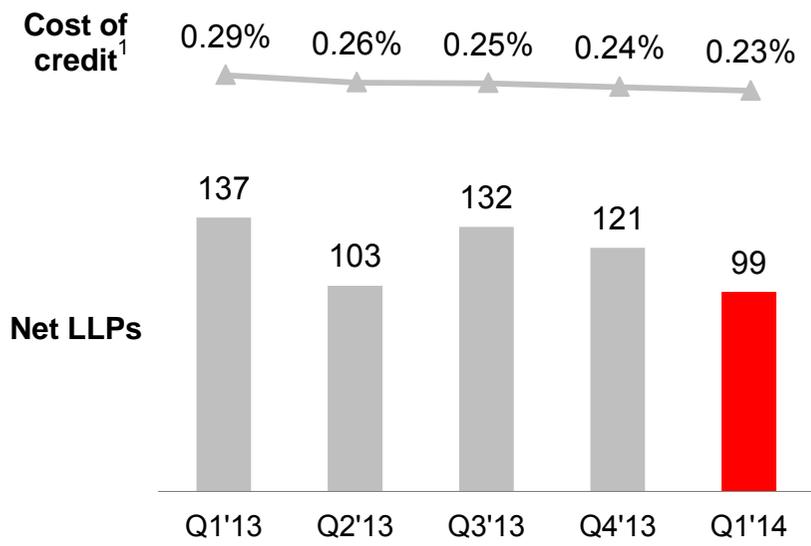
¹ Full time equivalent (FTE) employee numbers

Net operating income after loan-loss provisions(LLPs)

Lower LLPs with improved credit quality

GBPmn.

LLPs and Cost of Credit



	Mar'14	Mar'13	YoY	QoQ
Net operating income	526	413	27%	(5%)
LLPs	(99)	(137)	(27%)	(18%)
Net op. income after LLPs	427	277	54%	(1%)
NPL coverage ratio	43%	42%	1 p.p	1 p.p
NPL ratio	1.88%	2.03%	(15) bps	(10) bps

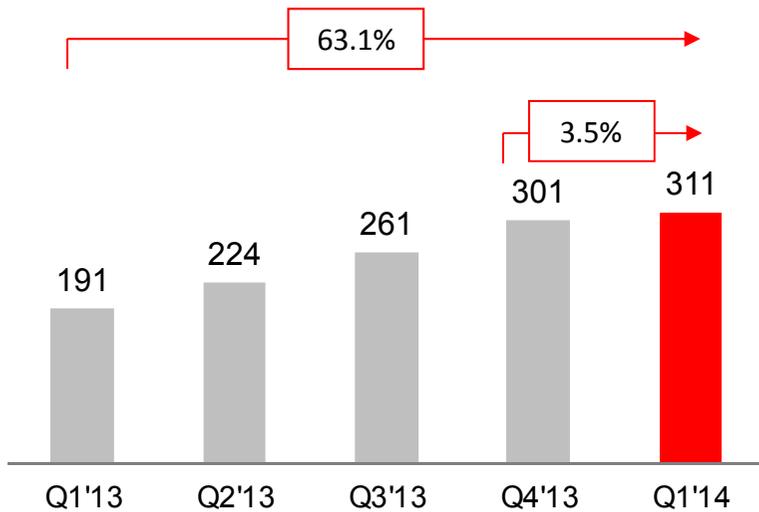
Prior period results have been amended to reflect the sale of the co-brand credit cards business

¹ Cost of credit based on rolling 12-month period

Sustained recovery in profits

GBPmn.

Attributable Profit



	Mar'14	Mar'13	YoY	QoQ
Profit before taxes	388	241	61%	3%
Tax on profit	(77)	(51)	52%	(4%)
Attributable profit	311	191	63%	4%
Effective tax rate	20%	21%	1 p.p.	1 p.p.

Market Environment and Financial System

- Clear signs of increasingly solid UK economic recovery. 2014 GDP growth forecast, +2.7%
- Inflation outlook benign and unemployment set to fall further. First base rate rise expected in late 2015
- UK housing market continues to strengthen - volumes and house prices rising - but activity still below peak levels
- Market loan growth driven by mortgages and unsecured personal lending

Strategy and Business

- 1|2|3 World with 2.7m customers; transforming the relationship quality of our customer base while reducing funding costs
- Customer satisfaction continues to improve; the most successful bank in attracting switchers
- Sustained growth in Commercial Banking; loans rising 12% in a year
- Roll out of the new Commercial Banking platform now largely complete

Results

- Profit after tax rose 63% in a year. Banking NIM of 1.79% in Q1'14, the highest for nine quarters; expected to stabilise at this level for 2014
- Costs remain tightly controlled, with positive 'jaws' (+10%); credit quality improved further
- Balance sheet strength sustained¹: CET 1 ratio of 11.6%; Leverage ratio 3.3%; LCR 102%
- Confident of our prospects for 2014 and in the delivery of our 2015 key targets

¹ CRD IV basis

Agenda

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Balance sheet

GBPbn.

	31.03.14	31.03.13	Variance	
			Amount	%
Loans and credits*	193.7	205.0	(11.2)	(5.5)
Trading portfolio (w/o loans)	26.1	31.9	(5.8)	(18.1)
Available-for-sale financial assets	6.9	5.4	1.5	27.9
Due from credit institutions*	14.7	17.8	(3.0)	(17.1)
Intangible assets and property and equipment	2.1	2.1	0.0	0.5
Other assets	36.7	37.9	(1.2)	(3.2)
Total assets/liabilities & shareholders' equity	280.3	300.0	(19.7)	(6.6)
Customer deposits*	161.4	164.4	(2.9)	(1.8)
Marketable debt securities*	55.0	58.9	(3.9)	(6.6)
Subordinated debt	4.8	4.5	0.3	6.1
Insurance liabilities	0.0	0.0	0.0	0.0
Due to credit institutions*	24.0	24.2	(0.1)	(0.6)
Other liabilities	23.3	36.9	(13.5)	(36.7)
Shareholders' equity**	11.7	11.2	0.5	4.5
Off-balance-sheet funds	8.0	10.7	(2.7)	(25.4)
Mutual funds	7.9	10.7	(2.8)	(26.5)
Pension funds	0.0	0.0	0.0	0.0
Managed portfolios	0.1	0.0	0.1	0.0
Customer funds under management	229.2	238.5	(9.3)	(3.9)
Commercial loans included above	187.0	187.1	(0.1)	(0.0)
Commercial deposits included above	147.6	146.4	1.2	0.8

* Includes all stock of concept classified in the balance sheet

** Not including profit of the year

Income statement

GBPmn.

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	Q1'13	Q1'14	Variance	
			Amount	%
Net interest income	683	819	135	20
Net Fees	212	205	(8)	(4)
Gains (losses) on financial transactions	73	65	(8)	(11)
Other operating income *	5	12	7	155
Gross income	973	1,100	127	13
Operating Expenses	(560)	(574)	(14)	3
General administrative expenses	(476)	(479)	(3)	1
Personnel	(301)	(314)	(13)	4
Other general administrative expenses	(175)	(165)	10	(6)
Depreciation and amortisation	(83)	(95)	(11)	13
Net Operating Income	413	526	113	27
Net loan-loss provisions	(137)	(99)	37	(27)
Other income	(35)	(38)	(3)	8
Profit before taxes	241	388	147	61
Tax on profit	(51)	(77)	(26)	52
Profit from continuing operations	191	311	120	63
Net profit from discontinued operations	0	0	0	0
Consolidated profit	191	311	120	63
Minority interests	0	0	0	0
Attributable profit to the Group	191	311	120	63

* Including dividends, income from equity-accounted method and other operating income/expenses

Quarterly statements of income

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GBPmn.

	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14
Net interest income	683	688	749	809	819
Net Fees	212	218	208	205	205
Gains (losses) on financial transactions	73	137	61	71	65
Other operating income *	5	6	5	15	12
Gross income	973	1,048	1,022	1,100	1,100
Operating Expenses	(560)	(567)	(538)	(547)	(574)
General administrative expenses	(476)	(486)	(452)	(437)	(479)
Personnel	(301)	(300)	(279)	(309)	(314)
Other general administrative expenses	(175)	(186)	(173)	(128)	(165)
Depreciation and amortisation	(83)	(81)	(86)	(110)	(95)
Net Operating Income	413	481	484	553	526
Net loan-loss provisions	(137)	(103)	(132)	(121)	(99)
Other income	(35)	(87)	(22)	(55)	(38)
Profit before taxes	241	291	330	377	388
Tax on profit	(51)	(56)	(69)	(80)	(77)
Profit from continuing operations	191	235	261	296	311
Net profit from discontinued operations	0	(12)	(0)	4	0
Consolidated profit	191	224	261	301	311
Minority interests	0	0	0	0	0
Attributable profit to the Group	191	224	261	301	311

* Including dividends, income from equity-accounted method and other operating income/expenses

