IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") WITHIN THE MEANING OF RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR (2) OUTSIDE OF THE UNITED STATES AND PERSONS OTHER THAN U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

IMPORTANT: You must read the following before continuing. The following applies to the Offering Memorandum following this notice (the "**Offering Memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modification to them any time you receive any information from Santander UK plc (the "**Company**") or any of the Joint Lead Managers (each as defined in the Offering Memorandum) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THE TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Within the United Kingdom, the Offering Memorandum is directed only at persons (a) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) who are persons falling within Article 49(2)(a) to (d) of the Order or (c) to whom it may otherwise lawfully be distributed in accordance with the Order (all such persons together being referred to as "**Relevant Persons**"). The Offering Memorandum must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Offering Memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. For a more complete description of restrictions on offers and sales, see "*Subscription and Sale*".

Confirmation of your Representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) located outside of the United States and be persons other than U.S. persons (as defined in Regulation S). The Offering Memorandum is being sent at your request. By accepting the e-mail and accessing the Offering Memorandum, you shall be deemed to have represented to the Company and the Joint Lead Managers that: (1) you consent to delivery of such Offering Memorandum by electronic transmission, (2) you are a person who is permitted under applicable law and regulation to receive the Offering Memorandum, (3)

either: (a) you and any customers you represent are QIBs or (b) (i) you are not a “U.S. person”, (ii) you are transacting in an “offshore transaction” (in accordance with Regulation S) and (iii) the e-mail address that you gave and to which the e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia, (4) if in the United Kingdom, you are (or the person you represent is) a Relevant Person, (5) you will not transmit the Offering Memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Company and the Joint Lead Managers and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities described herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Joint Lead Manager or any affiliate of a Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or affiliate on behalf of the Company in such jurisdiction. Under no circumstances shall the Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Offering Memorandum has been sent to you in an electronic form. You should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature. You are reminded that documents transmitted using this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, the Joint Lead Managers, or any person who controls any of them, nor any of their respective directors, officers, employees, affiliates or agents, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

The distribution of the Offering Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Joint Lead Managers and the Company to inform themselves about, and to observe, any such restrictions.

Santander UK plc

(*Incorporated in England and Wales with limited liability, Registered Number 2294747*)

U.S.$1,500,000,000

5.000 per cent. Fixed Rate Subordinated Notes due 2023

Issue price: 99.681 per cent.

The U.S.$1,500,000,000 5.000 per cent. Fixed Rate Subordinated Notes due 7 November 2023 (the "**Notes**") are issued by Santander UK plc (the "**Issuer**") and constituted by a trust deed to be dated on or about 7 November 2013 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and the Trustee (as defined in "*Terms and Conditions of the Notes*" (the "**Conditions**"), and references herein to a numbered "**Condition**" shall be construed accordingly). References herein to the "**Group**" shall mean the Issuer and its subsidiaries from time to time.

This Offering Memorandum has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Offering Memorandum as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market. The Irish Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). This Offering Memorandum comprises a prospectus for the purpose of the Prospectus Directive.

The Notes will bear interest from (and including) 7 November 2013 (the "**Issue Date**") at the rate of 5.000 per cent. per annum, payable semi-annually in arrear on 7 May and 7 November in each year commencing on 7 May 2014.

Unless previously redeemed or purchased and cancelled, each Note will mature and shall be redeemed on 7 November 2023 (the "**Maturity Date**") at its principal amount together with any interest accrued to (but excluding) the date of redemption in accordance with the Conditions. Subject to that, the Notes may be redeemed at the option of the Issuer upon the occurrence of certain specified events relating to taxation or a Regulatory Capital Event (as defined herein) at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption in accordance with the Conditions.

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the winding-up of the Issuer or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all senior creditors of the Issuer.

The Notes will be issued in the form of global notes in registered form. Regulation S Global Notes will be deposited with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), and registered in the name of the nominee of the common depositary, on the Issue Date. Beneficial interests in Regulation S Global Notes will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Global Notes will be registered in the name of Cede & Co. as nominee for The Depository Trust Company ("**DTC**"), and will be deposited with a custodian for DTC, on the Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Interests in each global note will be exchangeable for the relevant definitive notes only in certain limited circumstances. See "*Overview of the Notes while in Global Form*". The denomination of the Notes shall be U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Offering Memorandum.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the state securities laws of any state of the United States. The Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except to persons that are "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")("**QIBs**"), or in transactions that occur outside the United States to persons other than U.S. persons in accordance with Regulation S, or in other transactions exempt from the registration requirements of the Securities Act and, in each case, in compliance with applicable state securities laws. For a description of certain restrictions on sales of the Notes, see "*Subscription and Sale*".

The Notes are expected, on issue, to be rated Baa2 by Moody's Investors Service Ltd., A-(EXP) by Fitch Ratings Ltd. and BBB by Standard & Poor's Credit Market Services Europe Limited. Each of Moody's Investors Service Ltd., Fitch Ratings Ltd. and Standard & Poor's Credit Market Services Europe Limited is established in the European Union and registered under Regulation 1060/2009/EC on credit ratings agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

The Notes are not savings accounts, deposits or other obligations of a bank and are not insured by the FDIC or any other governmental agency or instrumentality.

Joint Lead Managers

Barclays **BofA Merrill Lynch** **Deutsche Bank Securities** **Morgan Stanley** **Santander**

Offering memorandum dated 6 November 2013

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" below) and shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Memorandum.

No person is or has been authorised to give any information or to make any representation other than those contained in or consistent with this Offering Memorandum in connection with the issue or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, any of the Managers (as defined in "*Subscription and Sale*" below) or the Trustee. Neither the delivery of this Offering Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that any other information supplied in connection with the Notes is correct as of any time after the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Managers and the Trustee have not separately verified the information contained in this Offering Memorandum. Neither the Managers nor the Trustee make any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained or incorporated in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Notes. None of the Managers or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Notes or their distribution. Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer, the Managers or the Trustee that any recipient of this Offering Memorandum or any other information supplied in connection with the offering of the Notes should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Managers or the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Memorandum nor to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, each of the Managers has engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither this Offering Memorandum nor any other information provided by the Issuer in connection with the offering of the Notes constitutes an offer of, or an invitation by or on behalf of, the Issuer or the Managers or the Trustee or any of them to subscribe for, or purchase, any of the Notes (see "*Subscription and Sale*" below). This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of Notes may be restricted by law

in certain jurisdictions. The Issuer, the Trustee and the Managers do not represent that this Offering Memorandum may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee or the Managers or any of them which is intended to permit a public offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in the U.S. and the United Kingdom. Persons in receipt of this Offering Memorandum are required by the Issuer, the Trustee and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Memorandum, see "*Subscription and Sale*" below.

U.S. INFORMATION

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is unlawful.

This Offering Memorandum may be distributed on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered or sold within the United States only to QIBs in transactions exempt from the registration requirements under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Terms and Conditions of the Notes*" and "*Overview of the Notes while in Global Form*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a licence has been filed under Chapter 421-B of the New Hampshire revised statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under Chapter 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Trust Deed to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "**Securities Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer is currently a reporting company under the Exchange Act.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is incorporated in England. All of its directors reside outside the United States and all or a substantial portion of the assets of the Issuer are located outside the United States. As a result, it may not be possible for investors to effect service of process outside England upon the Issuer, or to enforce judgments against it obtained in the United States predicated upon civil liabilities of the Issuer or such directors under laws other than English, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Slaughter and May, its English solicitors, that there is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of United States courts, of liabilities founded in United States Federal or State securities law.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Memorandum, unless otherwise specified, all references to "**dollars**", "**U.S. dollars**", "**U.S.$**", "**¢**" or "**cents**" are to the lawful currency of the United States, and "**pounds**", "**sterling**", "**£**", "**p**" or "**pence**" are to the lawful currency of the United Kingdom.

In this Offering Memorandum references to "**Moody's**" are to Moody's Investors Service Ltd.; references to "**Fitch**" are to Fitch Ratings Ltd.; and references to "**S&P**" are to Standard & Poor's Credit Market Services Europe Limited.

From 1 January 2005, the Issuer maintains its financial books and records and prepares its financial statements in sterling in accordance with International Financial Reporting Standards ("**IFRS**") as approved by the International Accounting Standards Board ("**IASB**"), and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**") of the IASB that, under European Regulations, are effective and available for early adoption on the Group's reporting date. The Group has complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union.

Solely for the convenience of the reader, this Offering Memorandum and the documents incorporated by reference herein contain translations of certain sterling amounts into U.S. dollars at the rate or rates indicated. These translations should not be construed as representations that the pound amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise indicated, sterling amounts as of and for the six months ended 30 June 2013 have been translated at the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on 30 June 2013 of £1.00 = U.S.$1.52. As of 18 October 2013, the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System was £1.00 = U.S.$1.62.

In connection with the offering of the Notes, one or more of the Managers (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Forward-Looking Statements

This Offering Memorandum and the information incorporated by reference in this Offering Memorandum include forward-looking statements. Examples of such forward-looking statements include, but are not limited to:

- projections or expectations of revenues, costs, profit (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
- statements of plans, objectives or goals or those of the Group's management, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Words such as 'believes', 'anticipates', 'expects', 'intends', 'aims', 'plans', 'targets' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Issuer cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Issuer or on the Issuer's behalf. Some of these factors, which could affect the Issuer's business, financial condition and/or results of operations, are considered in detail in "*Risk Factors*" in this Offering Memorandum and in the section entitled "*Risk Management Report*" contained in the Annual Report and Accounts of the Issuer for the financial year ended 31 December 2012 and the half yearly financial report of the Issuer for the six months ended 30 June 2013 and incorporated by reference herein. They include:

- the effects of UK economic conditions;
- the effects of conditions in global financial markets (e.g., increased market volatility and disruption, reduced credit availability and increased commercial and consumer loan delinquencies);
- the extent to which regulatory capital and liquidity requirements and any changes to these requirements may limit the Group's operations;
- the Issuer's ability to access liquidity and funding on financial terms acceptable to the Issuer;
- the Issuer's exposure to UK Government debt and to the risks faced by other financial institutions;
- the effects of the ongoing economic and sovereign debt tensions in the eurozone;

- the effects of any changes to the credit rating assigned to the Issuer, any of its members or any of their respective debt securities;

- the effects of fluctuations in interest rates, foreign exchange rates, basis spreads, bond and equity prices and other market factors;

- the extent to which the Issuer may be required to record negative fair value adjustments for its financial assets due to changes in market conditions;

- the credit quality of borrowers, the Issuer's ability to assess this and control the level of non-performing loans, loan prepayment and the enforceability of collateral, including real estate securing such loans;

- the extent to which the Issuer may be exposed to certain operational losses (e.g., failed internal or external processes, people and systems);

- the risks associated with the Issuer's derivative transactions;

- the effects of competition, or intensification of such competition, in the financial services markets in which the Issuer conducts business and the impact of the Issuer's customer perception of its customer service levels on existing or potential new business;

- the Issuer's exposure to certain sectors or customers, such as small and medium enterprises with an annual turnover of more than £250,000 and up to £50m and individuals;

- the Issuer's ability to manage any future growth effectively (e.g., efficiently managing the operations and employees of expanding businesses and maintaining or growing its existing customer base);

- the Issuer's ability to realise the anticipated benefits of its business combinations and its exposure, if any, to any unknown liabilities or goodwill impairments relating to the acquired businesses;

- the effects of the financial services laws, regulations, governmental oversight, administrative actions and policies and any changes thereto in each location in which the Issuer operates;

- the effects of the proposed reform and reorganisation of the structure of the UK financial regulatory authorities and of the UK regulatory framework that applies to the Issuer's members;

- the effects of any new reforms to the UK mortgage lending market and the personal loans market;

- the power of the UK Prudential Regulation Authority or Financial Conduct Authority (or any overseas regulator) to intervene in response to attempts by customers to seek redress from financial service institutions, including the Issuer, in case of industry-wide issues;

- the extent to which the Issuer's members may be responsible for contributing to compensation schemes in the UK in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers;

- the effects which the UK Banking Act 2009 may have, should HM Treasury, the Bank of England and/or the UK Prudential Regulation Authority exercise their powers under this Act in the future against the Issuer;

- the risk of third parties using the Issuer as a conduit for illegal activities without its knowledge;

- the effects of taxation requirements and other assessments and any changes thereto in each location in which the Issuer operates;

- the effects of any changes in the Issuer's pension liabilities and obligations;

- the Issuer's ability to recruit, retain and develop appropriate senior management and skilled personnel;

- the effects of any changes to the Issuer's reputation or the reputations of any of its members or affiliates operating under its brands;

- the basis of preparation of the Issuer's financial statements and information available about the Issuer;

- the Issuer's dependency on information technology systems and other group companies and third parties for essential services; and

- the Issuer's success at managing the risks to which it is exposed, including the foregoing.

Undue reliance should not be placed on forward-looking statements when making decisions with respect to the Issuer and/or the Notes. Investors and others should take into account the inherent risks and uncertainties of forward-looking statements and should carefully consider the foregoing non-exhaustive list of important factors. Forward-looking statements speak only as of the date on which they are made and are based on the knowledge, information available and views taken on the date on which they are made; such knowledge, information and views may change at any time.

Except as required by the Central Bank, the Irish Stock Exchange, or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertakings to release publicly any updates or revisions to any forward-looking statements contained in this Offering Memorandum or incorporated by reference into this Offering Memorandum to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Documents Incorporated by Reference

The following documents which have been previously published or are published simultaneously with this Offering Memorandum and have been filed with the Central Bank shall be incorporated in, and form part of, this Offering Memorandum:

(1) the Annual Report and Accounts of the Issuer (which include the audited consolidated annual financial statements of the Issuer), excluding the section entitled "Risk Factors" on pages 310 to 325 inclusive thereof, for the financial year ended 31 December 2012 (the "**2012 Annual Report**");

(2) the (i) audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2011, which appear on pages 157 to 274 and the audited information on pages 62 to 135 of the Risk Management Report and the information marked audited in the Balance Sheet Business Review which appears on pages 44 to 48; (ii) audited information titled "FSA Remuneration Disclosures" on pages 152 to 156; (iii) the section entitled "Bank of England Special Liquidity Scheme" on page 58; and (iv) the audited information in the Directors' Report which appears on pages 143 to 145, in each case of the Issuer's Annual Report and Accounts for the year ended 31 December 2011;

(3) the (i) audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2010, which appear on pages 149 to 262 and the audited information on pages 67 to 134 of the Risk Management Report; (ii) the section entitled "Bank of England Special Liquidity Scheme" on page 64; and (iii) the audited information in the Directors' Report which appears on pages 141 to 143, in each case of the Issuer's Annual Report and Accounts for the year ended 31 December 2010;

(4) the half yearly financial report and unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2013 (the "**Half Yearly Financial Report**"); and

(5) the unaudited quarterly management statement of the Issuer for the nine months ended 30 September 2013 (with the exception of the introductory quotation on page 2).

The documents referred to above shall be incorporated in, and form part of this Offering Memorandum, save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Memorandum.

Copies of the documents incorporated by reference in this Offering Memorandum, listed at (1) to (5) above, are available for viewing without charge at:
http://aboutsantander.co.uk/investors/results-and-presentations/santander-uk-plc.aspx.

Certain information in the documents listed at (1) to (5) above has not been incorporated by reference in this Offering Memorandum. Such information is either not considered by the Issuer

to be relevant for prospective investors in the Notes or is covered elsewhere in this Offering Memorandum.

Following the publication of this Offering Memorandum a supplement may be prepared by the Issuer and approved by the Central Bank in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Memorandum or in a document which is incorporated by reference in this Offering Memorandum. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Offering Memorandum.

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to the Prospectus Directive, the Issuer will prepare and make available an appropriate amendment or supplement to this Offering Memorandum which, in respect of any subsequent issue of notes to be admitted to listing on the Official List and admitted to trading on the Irish Stock Exchange's Main Securities Market for the purposes of the Markets in Financial Instruments Directive, shall constitute a supplemental prospectus as required by the Central Bank under Irish Law and EU Law pursuant to the Prospectus Directive.

Copies of documents incorporated by reference in this Offering Memorandum can be obtained from the registered office of the Issuer and from the specified offices of Citibank N.A. as principal paying agent under an agency agreement to be dated on or about 7 November 2013 (as amended or supplemented from time to time, the "**Agency Agreement**") or at the offices of any paying agent appointed under the Agency Agreement (referred to hereafter as the "**Principal Paying Agent**" and the "**Paying Agents**", which expression shall include the Principal Paying Agent and any successor paying agent appointed from time to time in connection with the Notes), for the time being in London. Copies of documents incorporated by reference in this Offering Memorandum are also available for viewing on the website of the Issuer at http://www.aboutsantander.co.uk.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum. Where reference is made to a website in this Offering Memorandum, the contents of that website do not form part of this Offering Memorandum.

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Risk Factors

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes.

Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum or incorporated by reference into this Offering Memorandum and reach their own views prior to making any investment decision.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Memorandum have the same meanings in this section.

Risks Relating to the Business of the Issuer

The Group's operating results, financial condition and prospects may be materially impacted by economic conditions in the UK.

The Group's business activities are concentrated in the UK and on the offering of mortgage, loan and savings-related products and services. As a consequence, the Group's operating results, financial condition and prospects are significantly affected by economic conditions in the UK generally, and by the UK property market in particular.

The outlook for the UK economy has remained challenging over the last year, with the UK economy dipping back into recession in the course of 2012. Though the economy returned to growth in the third quarter of 2012, this was in part due to one-off factors (such as the Olympics) and prospects for the 2013-2014 financial year remain challenging. Uncertainty surrounding the future of the eurozone, although less acute than before, may continue to pose a risk of further slowdown in economic activity in the UK's principal export markets which would have an effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures, and there is a risk of higher levels of unemployment combined with a decline in real disposable incomes.

Adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in UK or global economic conditions could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for the Group's products and services could negatively impact its business and financial condition. UK economic conditions and uncertainties may have an adverse effect on the quality of the Group's loan portfolio and may result in a rise in delinquency and default rates. There can be no assurance that the Group will not have to increase its provisions for loan losses in the future as a result of increases in non-performing loans or for other reasons beyond its control. Material increases in the Group's provisions for loan losses and write-offs/charge-offs could have an adverse effect on its operating results, financial condition and prospects.

As in several other economies, the UK Government has taken measures to address the exceptionally high level of national debt, including tax increases and public spending cuts. These measures have contributed to a slower recovery than other recent recessions. Political involvement in the regulatory process, in the behaviour and governance of the UK banking sector and in the major financial institutions in which the UK Government has a direct financial interest is set to continue. Credit quality could be adversely affected by a further increase in unemployment. This, plus the combination of slow economic recovery and UK Government intervention, together with any related significant reduction in the demand for the Group's products and services, could have a material adverse effect on its operating results, financial condition and prospects.

The Group is vulnerable to the current disruptions and volatility in the global financial markets.

In the past five years, the financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, a general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009 and many countries, including the UK, have been in recession. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by central banks and governments providing liquidity, whilst many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions). The global economic slowdown, and the downturn in the UK in particular, have had a negative impact on the UK economy and adversely affected the Group's business.

The following is an example of the most apparent risk factors related to the economic downturn:

- The Group potentially faces increased regulation of its industry. Compliance with such regulation may increase the Group's costs, may affect the pricing for its products and services, and limit its ability to pursue business opportunities.

- Reduced demand for the Group's products and services.

- Inability of the Group's borrowers to comply fully or in a timely manner with their existing obligations.

- The process the Group uses to estimate losses inherent in its credit exposure requires complex judgements, including forecasts of economic conditions and how these economic conditions might impair the ability of the Group's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, impact the reliability of the process and the quality of its assets.

- The value and liquidity of the portfolio of investment securities that the Group holds may be adversely affected.

- A worsening of the global economic conditions may delay the recovery of the international financial industry and impact the Group's financial condition and results of operations.

Uncertainty remains concerning the future economic environment and there is no assurance when conditions will significantly improve. While certain segments of the global economy are currently experiencing some modest recovery, the Group expects these conditions to continue to have an ongoing negative impact on its business and results of operations. Investors remain cautious and downgrades of the sovereign debt of certain eurozone countries have induced greater volatility in the capital markets. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Group and on others in the financial services industry.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group, including its ability to access capital and liquidity on financial terms acceptable to it, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on the Group's interest margins.

If all or some of the foregoing risks were to materialise, this could have a material adverse effect on the Group.

The Group is subject to regulatory capital requirements that could limit its operations, and changes to these requirements may further limit and adversely affect its operating results, financial condition and prospects.

The Group is subject to capital adequacy requirements applicable to banks and adopted by the Prudential Regulation Authority (the "**PRA**") which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis (the basis used by the PRA solely for the purpose of the calculation of capital resources and capital resources requirements, which measure the capital of the Issuer and certain subsidiaries) and a minimum ratio of Core Tier 1 capital to risk-adjusted assets on a consolidated basis. Any failure by us to maintain the Group's ratios may result in administrative actions or sanctions which may affect the Group's ability to fulfil the Group's obligations.

In response to the recent financial crisis, the Financial Services Authority (the "**FSA**") imposed more stringent capital adequacy requirements. For instance, the FSA previously adopted a supervisory approach in relation to certain UK banks, including the Issuer, under which those banks were expected to maintain Core Tier 1 capital in excess of the minimum levels required by the then existing rules and guidance of the FSA. The PRA is continuing to impose such higher capital requirements, and requires the Issuer to hold Core Tier 1 capital reserves equivalent to at least 7 per cent. of its risk-weighted assets. In future, the PRA may impose higher capital requirements and target capital ratios as part of the implementation of UK macroprudential tools.

In December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") proposed comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of these proposals was issued in June 2011. The reforms to the regulatory

capital framework were proposed to raise the resilience of the banking sector, through increasing both the quality and quantity of the regulatory capital base and enhancing the risk coverage of the capital framework. As part of these reforms, the amount and quality of Tier 1 capital that institutions are required to hold was raised; innovative Tier 1 capital instruments with an incentive to redeem are to be phased out; and the rules for determining Tier 2 capital instruments are to be harmonised. Basel III also requires institutions to build counter-cyclical capital buffers that may be drawn upon in stress periods and to hold a capital conservation buffer above minimum capital ratio levels, which have the effect of raising the minimum level of tangible common equity capital from 2 per cent. to 7 per cent. of risk-weighted assets. In addition a leverage ratio was proposed for institutions as a backstop, which would be applied alongside current risk-based regulatory capital requirements. The changes in Basel III are proposed to be phased in gradually between January 2013 and January 2022. The Basel Committee has also proposed introducing additional capital requirements for systemically important institutions from 2016.

The implementation of Basel III in the European Union is being performed through the Capital Requirements Directive IV and the Capital Requirements Regulation ("**CRDIV / CRR**") legislative package. CRDIV / CRR was published in the Official Journal on 27 June 2013 and will come into effect on 1 January 2014, with particular requirements being phased in over a period of time, to be effective by 2019. CRDIV / CRR substantially reflects the Basel III capital and liquidity standards and the applicable implementation timeframes. However, certain issues remain under discussion and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority. On 2 August 2013, the PRA issued a consultation paper on its proposals to reflect the new Regulation and implement the Directive. The closing date for this consultation was 2 October 2013 and the PRA intends to publish finalised rules in December 2013. The full impact of CRDIV / CRR on the Group will not be known until the PRA's final rules have been published.

In addition to Basel III, regulators in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions or take steps to raise further capital, or could increase the Group's expenses, or otherwise adversely affect the Group's operating results, financial condition and prospects. These include:

- the introduction of recovery and resolution planning requirements (popularly known as "living wills") for banks and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system;

- the introduction of more regular and detailed reporting obligations;

- a move to pre-funding of the deposit protection scheme in the UK; and

- proposed revisions to the approaches for determining trading book capital requirements and banking book risk-weighted assets from the Basel Committee.

These measures could have a material adverse effect on the Group's operating results, financial condition and prospects. There is a risk that changes to the UK's capital adequacy regime (including any introduction of a minimum leverage ratio) may result in increased minimum capital requirements, which could reduce available capital and thereby adversely affect the Group's profitability and ability to pay dividends, continue organic growth (including increased

lending), or pursue acquisitions or other strategic opportunities (alternatively the Group could restructure its balance sheet to reduce the capital charges incurred pursuant to the PRA's rules in relation to the assets held, or raise additional capital but at increased cost and subject to prevailing market conditions). In addition, changes to the eligibility criteria for Tier 1 and Tier 2 capital may affect the Group's ability to raise Tier 1 and Tier 2 capital and impact the recognition of existing Tier 1 and Tier 2 capital resources in the calculation of the Group's capital position.

The Group's business could be affected if its capital is not managed effectively or if these measures limit its ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms. Effective management of the Group's capital position is important to its ability to operate its business, to continue to grow organically and to pursue its business strategy.

The Group is subject to liquidity requirements that could limit its operations, and changes to these requirements may further limit and adversely affect the Group's operating results, financial condition and prospects.

On 5 October 2009, the FSA published liquidity rules which significantly broadened the scope of the existing liquidity regime. These were designed to enhance regulated firms' liquidity risk management practices. As part of these reforms, the FSA implemented requirements for financial institutions to hold prescribed levels of specified liquid assets and have in place other sources of liquidity to address the institution-specific and market-wide liquidity risks that institutions may face in short-term and prolonged stress scenarios. These rules have applied to the Issuer since June 2010 with some subsequent technical revisions.

In addition to the changes to the capital adequacy framework published in December 2010 described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**") metrics, with objectives to (1) promote the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (2) promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The LCR was subsequently revised by the Basel Committee in January 2013. These revisions amended the definition of high-quality liquid assets and agreed a revised timetable for phase-in of the standard from 2015 to 2019, as well as making some technical changes to some of the stress scenario assumptions.

As with the Basel Committee's proposed changes to the capital adequacy framework, the Basel III liquidity standards are being implemented within the European Union through the CRDIV / CRR legislative package. As mentioned above, CRDIV / CRR substantially reflects the Basel III liquidity standards and the applicable implementation timeframes. However, various related issues remain under discussion, particularly on the detail of final liquidity and leverage rules. The CRR does not contain provision on the NSFR. The European Commission aims to introduce provisions on the NSFR to come into effect on 1 January 2018.

There is a risk that implementing and maintaining enhanced liquidity risk management systems may incur significant costs, and more stringent requirements to hold liquid assets may materially affect the Group's lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability.

Exposure to UK Government debt could have a material adverse effect on the Group.

Like many other UK banks, the Group invests in debt securities of the UK Government largely for liquidity purposes. As of 31 December 2012, approximately 2% of the Group's total assets and 51% of its securities portfolio were comprised of debt securities issued by the UK Government. Any failure by the UK Government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on the Group.

The Group may suffer adverse effects as a result of the continued economic and sovereign debt tensions in the eurozone.

Eurozone markets and economies continue to show signs of fragility and volatility, with recession in several economies and only sporadic access to capital markets in others. Interest rate differentials among eurozone countries indicate continued doubts about some governments' ability to fund themselves and affect borrowing rates in those economies.

The European Central Bank and European Council took actions in 2012 to aim to reduce the risk of contagion throughout and beyond the eurozone. These included the creation of the Open Market Transaction facility of the ECB and the decision by eurozone governments to create a banking union. Nonetheless, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under financial pressure. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the ongoing economic crisis.

The continued high cost of capital for some European governments was felt in the wholesale markets in the UK, which has resulted in an increase in the cost of retail funding and greater competition in a savings market that is growing slowly by historical standards. In the absence of a permanent resolution of the eurozone crisis, conditions could deteriorate.

Although the Group conducts the majority of its business in the UK, it has direct and indirect exposure to financial and economic conditions throughout the eurozone economies. In addition, general financial and economic conditions in the UK, which directly affect the Group's operating results, financial condition and prospects, may deteriorate as a result of conditions in the eurozone.

Though the possibility may be more remote following the measures taken in 2012, a wide-scale break-up of the eurozone would most likely be associated with a deterioration in the economic and financial environment in the UK and could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. This could materially and adversely affect the Group's operating results, financial position and prospects.

The Group may suffer adverse effects should eurozone member states exit the euro or the euro be totally abandoned.

The departure or risk of departure from the euro by one or more eurozone countries and/or the abandonment of the euro as a currency could have negative effects on both existing contractual relations and the fulfilment of obligations by the Group, its counterparties and/or the Group's

customers, which would have a significant negative impact on the Group's activity, operating results and capital and financial position.

There is currently no established legal framework within the European treaties to facilitate a member state exiting from the euro; consequently, it is not possible to predict the course of events and legal consequences that would ensue. Uncertainties that heighten the risk of re-denomination include how an exiting member state would deal with its existing euro-denominated assets and liabilities, the valuation of any newly-adopted currency against the euro and the process of exiting the euro. These uncertainties make it impossible to predict what the Group's losses might be as a result of any country's decision to exit the euro. The significant upheaval in the eurozone that might arise from any such member state exit, or from the wholesale abandonment of the euro by the eurozone states, could materially and adversely affect the Group's operating results, financial condition and prospects.

The Group is exposed to risks faced by other financial institutions.

The Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumours or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions that the Group enters into expose it to significant credit risk in the event of default by one of its significant counterparties. The European sovereign debt crisis and the risk it poses to financial institutions throughout Europe have had, and may continue to have, an adverse effect on interbank financial transactions in general. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on the Group.

Liquidity and funding risks are inherent in the Group's business and could have a material adverse effect on the Group.

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to meet its obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While the Group implements liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse and continued constraints in the supply of liquidity, including inter-bank lending, has affected and may again materially and adversely affect the cost of funding the Group's business, and extreme liquidity constraints may affect the Group's current operations as well as limiting the potential for growth.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to it. The Group's cost of obtaining funding is directly related to prevailing market interest rates and to its credit spreads. Increases in interest rates and the Group's credit spreads can significantly increase the cost of its funding. Changes in the Group's credit spreads are market-driven, and may be influenced by market perceptions of its creditworthiness.

Changes to interest rates and the Group's credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on the Group's ability to access liquidity and cost of funding (whether directly or indirectly).

Although central banks around the world have made coordinated efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or swap lines), it is not known how long central bank schemes will continue or on what terms. The Bank of England's Special Liquidity Scheme expired at the end of January 2012, although the Bank of England has implemented the Extended Collateral Term Repo facility ("**ECTR**") which aims to increase liquidity in the market, and the Funding for Lending Scheme (the "**FLS**") which aims to reduce cost of funding for participating financial institutions such as the Group. As at 30 June 2013, the Group had drawn £100m of UK treasury bills under the FLS and it may make further usage of the FLS before the drawdown period ends on 31 January 2014.

The availability of Bank of England facilities for UK financial institutions, to the extent that they provide the Group with access to cheaper and more attractive funding than other sources, reduces the Group's reliance on retail or wholesale markets. To the extent that the Group makes use of Bank of England facilities, any significant reduction or withdrawal of those facilities would increase the Group's funding costs. In addition, other financial institutions who have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding and, in such a scenario, the Group expects to face increased competition for funding, particularly retail funding on which the Group relies. This competition could further increase the Group's funding costs and so adversely impact its results of operations and financial position. The Group's cost of funding could also increase as a result of an increase in interest rates by the Bank of England.

Each of the factors described above – the persistence or worsening of adverse market conditions, and the lack of availability, or withdrawal, of such central bank schemes or an increase in base interest rates – could have a material adverse effect on the Group's ability to access liquidity and cost of funding (whether directly or indirectly).

The Group aims for a funding structure that is consistent with its assets, avoids excessive reliance on short term wholesale funding, attracts enduring commercial deposits and provides diversification in products and tenor. The Group therefore relies, and will continue to rely, on commercial deposits to fund a significant proportion of lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside the Group's control, such as general economic conditions and the confidence of commercial depositors in the economy, in general, and the financial services industry in particular, and the availability and extent of deposit guarantees, as well as competition between banks for deposits. Any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing the Group's ability to access commercial deposit funding on appropriate terms, or at all, in the future.

The Group anticipates that its customers will continue to make short-term deposits (particularly demand deposits and short-term time deposits), and the Group intends to maintain its emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for the Group in the future if deposits are not made in the volumes it expects or are not renewed. If a substantial number of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Group may be materially and adversely affected.

A sudden or unexpected shortage of funds in the banking system could lead to increased funding costs, a reduction in the term of funding instruments or require the Group to liquidate certain assets. If these circumstances were to arise, this could have a material adverse effect on the Group's operating results, financial condition and prospects.

Credit, market and liquidity risk may have an adverse effect on the Group's credit ratings and the Group's cost of funds. A downgrade of the Group's credit rating would likely increase cost of funding, require the Group to post additional collateral or take other actions under some of the Group's derivative contracts and adversely affect the Group's interest margins and results of operations.

Credit ratings can in some instances affect the cost and other terms upon which the Group is able to obtain funding. Credit rating agencies regularly evaluate the Group, and their credit ratings of its debt in issue are based on a number of factors, including the Group's financial strength as well as conditions affecting the financial services industry generally.

Any downgrade in the Group's credit ratings could increase its borrowing costs and could require the Group to post additional collateral or take other actions under some of its derivative contracts, and could limit its access to capital markets and adversely affect its commercial business. For example, a credit rating downgrade could adversely affect the Group's ability to sell or market certain of its products, engage in certain longer-term and derivatives transactions and retain its customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of the Group's derivative contracts, it may be required to maintain a minimum credit rating or otherwise terminate such contracts. Any of these results of a credit rating downgrade could, in turn, reduce the Group's liquidity and have an adverse effect on the Group, including its operating results and financial condition.

For example, the Group estimates that as at 31 December 2012, if all the rating agencies were to downgrade its long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in outflows from the Group's total liquid assets of £2.0bn of cash and £6.6bn in additional collateral that the Group would be required to post under the terms of its secured funding and derivative contracts. A hypothetical two notch downgrade would result in an additional outflow of £0.4bn of cash and £1.4bn of collateral under the Group's secured funding and derivative contracts.

However, while certain potential impacts are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including which credit rating agency

had downgraded the Group's credit rating, any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from loss of unsecured funding (such as from money market funds) or loss of secured funding capacity. Although unsecured and secured funding stresses are included in the Group's stress testing scenarios and a portion of the Group's total liquid assets is held against these risks, it is still the case that a credit rating downgrade could have a material adverse effect on the Group. In addition, if the Group were required to cancel its derivatives contracts with certain counterparties and were unable to replace such contracts, its market risk profile could be altered.

Likewise, a downgrade of the UK sovereign credit rating, or the perception that such a downgrade may occur, may have a material adverse effect on the Group's operating results, financial condition, prospects and the marketability and trading value of the Group's securities. This might also impact on the Group's own credit rating, borrowing costs and its ability to secure funding. A UK sovereign credit rating downgrade or the perception that such a downgrade may occur could also have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment and/or reducing asset prices.

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the credit rating agencies will maintain the Group's current credit ratings or outlooks. The Group's failure to maintain favourable credit ratings and outlooks would likely increase the Group's cost of funding and adversely affect the Group's interest margins, which could have a material negative effect on it.

The Group's financial results are constantly exposed to market risk. The Group is subject to fluctuations in interest rates and other market risks, which may materially and adversely affect it.

Market risk refers to the probability of variations in the Group's net interest income or in the market value of the Group's assets and liabilities due to volatility of interest rate, exchange rate or equity price. Changes in interest rates affect the following areas, among others, of the Group's business:

- net interest income;
- the volume of loans originated;
- the market value of the Group's securities holdings; and
- gains from sales of loans and securities.

Variations in short-term interest rates could affect the Group's net interest income, which comprises the majority of its revenue. When interest rates rise, the Group may be required to pay higher interest on its floating-rate borrowings while interest earned on its fixed-rate assets does not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of the Group's portfolio. Interest rate variations could adversely affect the Group, including the Group's net interest income, reducing its growth rate or even resulting in losses. Interest rates are highly sensitive to many factors beyond the Group's control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors.

Increases in interest rates may reduce the volume of loans the Group originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of the Group's customers to prepay or refinance fixed-rate loans, may reduce the value of the Group's financial assets and reduce gains or require the Group to record losses on sales of loans or securities.

If interest rates decrease, although this is likely to reduce the Group's funding costs, it is likely to adversely impact the income the Group receives arising from the Group's investments in securities as well as loans with similar maturities.

The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on the Group's earnings and financial condition. In addition, the Group may incur costs (which, in turn, will impact the Group's results) as it implements strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of re-pricing terms or an inability to refinance at lower rates.

The Group is also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect the Group's earnings and value of the Group's assets and securities. The Group's capital is stated in pound sterling and the Group does not fully hedge its capital position against changes in currency exchange rates. Although the Group seeks to hedge most of the Group's currency risk through hedging and purchase of cross-currency swaps, these hedges do not eliminate currency risk and the Group can give no assurance that it will not suffer adverse financial consequences as a result of currency fluctuations. Significant exchange rate volatility and the depreciation of the pound sterling in particular could have an adverse impact on the Group's results of operations and its ability to meet its U.S. dollar and euro-denominated obligations, and could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Group is also exposed to equity price risk in connection with the Group's trading investments in equity securities as part of the Group's normal course of business as a commercial bank. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The volatility of world equity markets due to continued economic uncertainty and sovereign debt tensions, has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against the Group's results. To the extent any of these risks materialise, the Group's net interest income or the market value of the Group's assets and liabilities could be adversely affected.

Market conditions have resulted in material changes, and could result in further material changes to the estimated fair values of the Group's financial assets. Negative fair value adjustments could have a material adverse effect on the Group's operating results, financial condition and prospects.

In the past five years, financial markets have been subject to significant stresses resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. The Group has material

exposures to securities and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of the Group's financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by the Group on disposal may be lower than the current fair value. Any of these factors could require the Group to record negative fair value adjustments, which may have a material adverse effect on the Group's operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, the Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. This is a challenging task as reliable assumptions are difficult to make and are inherently uncertain. Moreover valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

Failure to successfully implement and continue to improve the Group's credit risk management system could materially and adversely affect its business.

As a commercial bank, one of the main types of risks inherent in the Group's business is credit risk. For example, an important feature of the Group's credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. This system is primarily generated internally but, in the case of counterparties with a global presence, also builds off the credit assessment assigned by other Group members. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgement, the Group's employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in its exposure to higher credit risks than indicated by the Group's risk rating system.

In addition, the Group has been trying to refine its credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and Group customers. However, the Group may not be able to detect these risks before they occur, or due to limited tools available to it, its employees may not be able to effectively implement them, which may increase the Group's credit risk. Failure to effectively implement, consistently follow or continuously refine the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on it.

The Group is subject to market, operational and other related risks associated with its derivative transactions that could have a material adverse effect on it.

The Group enters into derivative transactions for trading purposes as well as for hedging purposes. The Group is subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of

insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral). Any downgrade in the Group's ratings could increase the Group's borrowing costs and require the Group to post additional collateral or take other actions under some of its derivative contracts, and could limit the Group's access to capital markets and adversely affect the Group's commercial business.

Market practices and documentation for derivative transactions in the UK may differ from those in other countries. In addition, the execution and performance of these transactions depend on the Group's ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, the Group's ability to adequately monitor, analyse and report derivative transactions continues to depend, to a great extent, on the Group's information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on the Group.

Operational risks, including risks relating to data collection, processing and storage systems are inherent in the Group's business.

The Group's businesses depend on the ability to process a large number of transactions efficiently and accurately, and on its ability to rely on its digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's businesses and to its ability to compete effectively. Losses can result from inadequate personnel, human error, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. The Group faces the risk that the design of its controls and procedures prove to be inadequate or are circumvented. Although the Group works with its clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber attacks, it routinely exchanges personal, confidential and proprietary information by electronic means, and it may be the target of attempted cyber attacks. If the Group cannot maintain an effective data collection, management and processing system, it may be materially and adversely affected.

The Group takes protective measures and continuously monitors and develops its systems to protect its technology infrastructure and data from misappropriation or corruption, but its systems, software and networks nevertheless may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. Furthermore, these may require the Group to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures. There can be no assurance that it will not suffer material losses from operational risk in the future, including relating to cyber attacks or other such security breaches. Further, as cyber attacks continue to evolve, the Group may incur significant costs in its attempt to modify or enhance its protective measures or investigate or remediate any vulnerabilities.

The Group manages and holds confidential personal information of customers in the conduct of its banking operations. Although the Group has procedures and controls to safeguard personal information in its possession, unauthorised disclosures could subject it to legal actions and

administrative sanctions as well as damages that could materially and adversely affect its results of operations and financial condition.

In addition, the Group's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of `rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective.

The Group is required to report every event related to information security issues, such as hacking or hacking attempts, events where customer information may be compromised, unauthorised access and other security breaches, to the Information Commissioner. As of the date of this Offering Memorandum, the Group has not experienced information security problems and it has not had to report any such events to the Information Commissioner. Any material disruption or slowdown of the Group's systems could cause information, including data related to customer requests, to be lost or to be delivered to its clients with delays or errors, which could reduce demand for its products and services and could materially and adversely affect it.

Despite the Group's risk management policies, procedures and methods, the Group may nonetheless be exposed to unidentified or unanticipated risks.

The management of risk is an integral part of the Group's activities. The Group seeks to monitor and manage its risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating the Group's risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate. Some of the Group's qualitative tools and metrics for managing risk are based upon its use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of the Group's risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group did not anticipate or correctly evaluate in its statistical models. This would limit the Group's ability to manage its risks. The Group's losses thus could be significantly greater than the historical measures indicate. In addition, the Group's quantified modelling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing it to material unanticipated losses. If existing or potential customers believe the Group's risk management is inadequate, they could take their business elsewhere. This could harm the Group's reputation as well as its revenues and profits.

Competition with other financial institutions could adversely affect the Group.

The Group faces substantial competition in all parts of the Group's business, including in originating loans and in attracting deposits. The competition in originating loans comes principally from other domestic and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other lenders and purchasers of loans. The market for UK financial services is highly competitive and the recent financial crisis has reshaped the banking landscape in the UK, particularly the financial services and mortgage

markets, reinforcing both the importance of a retail deposit funding base and strong capitalisation. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers, judged by credit score and loan to value criteria, and there is strong competition for these customers. The supply of credit is much more limited for those potential customers without a large deposit or good credit history.

The Group expects competition to intensify in response to consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. In particular, the Independent Commission on Banking (the "**ICB**"), chaired by Sir John Vickers, has recommended that steps be taken to increase competition in the personal and small business banking sector (including, for example, strengthening the objectives of the Financial Conduct Authority (the "**FCA**") (as successor to the FSA) for the role of conduct supervision, such that it is obliged to regulate in a manner which promotes competition). On 19 December 2011, HM Treasury published its response to the ICB report, agreeing with the majority of the ICB's recommendations. The Financial Services Act 2012 has amended the Financial Services and Markets Act 2000 ("**FSMA**") with effect from 1 April 2013 to include in the FCA's operational objectives the objective of promoting effective competition in the interests of consumers in the markets for regulated financial services. A strong political and regulatory will to foster consumer choice in retail financial services could lead to even greater competition in the UK personal and small business banking sector.

If financial markets remain unstable, financial institution consolidation may continue (whether as a result of the UK Government taking ownership and control over other financial institutions in the UK or otherwise). Financial institution consolidation could also result from the UK Government disposing of its stake in those financial institutions it currently controls. Such consolidation could adversely affect the Group's operating results, financial condition and prospects. There can be no assurance that this increased competition will not adversely affect the Group's growth prospects, and therefore its operations. The Group also faces competition from non-bank competitors, such as supermarkets and department stores for some credit products, and generally from other loan providers.

Increasing competition could require that the Group increase its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the Group, including its profitability. It may also negatively affect the Group's business results and prospects by, among other things, limiting its ability to increase its customer base and expand the Group's operations and increasing competition for investment opportunities.

In addition, if the Group's customer service levels were perceived by the market to be materially below those of the Group's competitor financial institutions, the Group could lose existing and potential business. If the Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its operating results, financial condition and prospects.

The Group's ability to maintain its competitive position depends, in part, on the success of new products and services that it offers, its customers and its ability to continue offering products and services from third parties, and the Group may not be able to manage various risks it faces as it expands the Group's range of products and services that could have a material adverse effect on it.

The success of the Group's operations and the Group's profitability depends, in part, on the success of new products and services the Group offers its customers. However, the Group cannot guarantee that its new products and services will be responsive to customer demands or successful once they are offered to the Group's customers, or that they will be successful in the future. In addition, the Group's customers' needs or desires may change over time, and such changes may render its products and services obsolete, outdated or unattractive and the Group may not be able to develop new products that meet its customers' changing needs. If the Group cannot respond in a timely fashion to the changing needs of the Group's customers, it may lose customers, which could in turn materially and adversely affect it.

As the Group expands the range of its products and services, some of which may be at an early stage of development in the UK market, the Group will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which its experience and the experience of its partners may not be helpful. The Group's employees and its risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect the Group's results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on it.

If the Group is unable to effectively control the level of non-performing or poor credit quality loans in the future, or if its loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on it.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Non-performing or low credit quality loans can negatively impact the Group's results of operations. The Group cannot be sure that it will be able to effectively control the level of the impaired loans in the Group's total loan portfolio. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in the Group's total loan portfolio, including as a result of loan portfolios that the Group may acquire in the future, or factors beyond the Group's control, such as adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in the UK or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

The Group's current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of the Group's total loan portfolio. The Group's loan loss reserves are based on its current assessment of and expectations concerning various factors affecting the quality of the Group's loan portfolio. These factors include, among other things, the Group's borrowers' financial condition, repayment abilities and repayment intentions, the realisable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond the Group's control. As a result, there is no precise method for predicting loan and credit losses, and the Group cannot provide assurance that its loan loss

reserves will be sufficient to cover actual losses. If the Group's assessment of and expectations concerning the above mentioned factors differ from actual developments, if the quality of the Group's total loan portfolio deteriorates, for any reason, including the increase in lending to individuals and small and medium enterprises, the volume increase in the credit card portfolio and the introduction of new products, or if the future actual losses exceed the Group's estimates of incurred losses, the Group may be required to increase its loan loss reserves, which may adversely affect it. If the Group is unable to control or reduce the level of its non-performing or poor credit quality loans, this could have a material adverse effect on it.

Interest rates payable on a significant portion of the Group's outstanding mortgage loan products fluctuate over time due to, among other factors, changes in the Bank of England base rate. As a result borrowers with variable interest rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward. Similarly, borrowers of mortgage loans with fixed or introductory rates adjusting to variable rates after an initial period are exposed to the risk of increased monthly payments at the end of this period. Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers of new loans and those repaying existing variable rate loans regardless of special or introductory rates. Future increases in borrowers' required monthly payments may result in higher delinquency rates and losses in the future. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Recent declines in housing prices and/or any further declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

The Group's loan portfolio is subject to risk of prepayment, which could have a material adverse effect on it.

The Group's loan portfolio is subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of the Group's earning assets, and could have a material adverse effect on it. The Group would also be required to amortise net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralised mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in the Group's funding obligations and reinvestment at lower yields. Prepayment risk is inherent to the Group's commercial activity and an increase in prepayments could have a material adverse effect on it.

The value of the collateral, including real estate, securing the Group's loans may not be sufficient, and it may be unable to realise the full value of the collateral securing its loan portfolio.

The value of the collateral securing the Group's loan portfolio may significantly fluctuate or decline due to factors beyond the Group's control, including macroeconomic factors affecting the UK's economy. The real estate market is particularly vulnerable in the current economic climate and the residential mortgage loan portfolio is one of the Group's principal assets, comprising 85% of the Group's loan portfolio as of 31 December 2012. As a result, the Group is highly exposed to developments in the residential property market in the UK.

The UK housing market has remained muted throughout 2012, with transaction levels well below historic norms and house prices broadly flat for the past two years. An increase in house prices may be limited by the high level of prices relative to household earnings and the more restricted availability of mortgage credit relative to pre-crisis levels. The depth of the previous house price declines as well as the continuing uncertainty as to the timing and extent of the economic recovery will mean that losses could be incurred on loans should they go into possession. The UK commercial property market conditions remain extremely challenging. After some recovery, commercial property capital values have seen further steady declines since Q4 2011 and the investment market has had lower transaction levels in 2012 as a result of weak demand. These developments mean that the outlook for the UK commercial property market remains uncertain.

The continued effect of margin pressure and exposure to both retail and commercial loan impairment charges resulting from the impact of general economic conditions means that the Group may continue to experience low levels of profitability and growth, and there remains the possibility of further downward pressure on profitability depending on a number of external influences, such as the consequences of a more austere economic environment.

The value of the collateral securing the Group's loan portfolio may also be adversely affected by force majeure events, such as natural disasters like floods or landslides which may cause widespread damage, could have an adverse impact on the economy of the affected region and may impair the asset quality of the Group's loan portfolio in that area.

The Group may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of its loans secured by such collateral. If this were to occur, the Group may need to make additional provisions to cover actual impairment losses of its loans, which may materially and adversely affect its results of operations and financial condition.

The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers, which could have a material adverse effect on the Group.

The Group's credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of its customers, despite its focus on low-risk, medium- and high-income customers.

The credit card industry is characterised by higher consumer default than other credit industries, and defaults are highly correlated with macroeconomic indicators that are beyond the Group's control. Part of the Group's current growth strategy is to increase volume in the credit card portfolio, which may increase the Group's exposure to risk in the Group's loan portfolio. If UK economic growth slows or declines, or if the Group fails to effectively analyse the creditworthiness of its customers (including by targeting certain sectors), it may be faced with unexpected losses that could have a material adverse effect on it.

The Group has a core strategy to grow the Group's operations but if the Group is unable to manage such growth effectively, this could have an adverse impact on its profitability.

The Group allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its

businesses. The Group cannot provide assurance that it will, in all cases, be able to manage its growth effectively or deliver its strategic growth objectives. Challenges that may result from the Group's strategic growth decisions include its ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow its existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates;
- finance strategic opportunities, investments or acquisitions;
- fully integrate strategic investments, or newly-established entities or acquisitions, in line with its strategy;
- align its current information technology systems adequately with those of an enlarged Group;
- apply its risk management policy effectively to an enlarged Group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively, including relating to any or all of the above challenges associated with the Group's growth plans, could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Group's future acquisitions may not be successful and may be disruptive to the Group's business.

The Group has acquired controlling interests in various companies, such as Alliance & Leicester plc, with effect from 2008, and has engaged in other strategic ventures such as the acquisition of certain retail assets of Bradford & Bingley plc in 2008. From time to time, the Group evaluates acquisition and partnership opportunities that it believes offer additional value to its shareholders and are consistent with its business strategy. However, the Group may not be able to identify suitable acquisition or partnership candidates, and the Group may not be able to acquire promising targets or form partnerships on favourable terms or at all. Furthermore, preparations for acquisitions which do not complete can be disruptive. The Group bases its assessment of potential acquisitions and partnerships on limited and potentially inexact information and on assumptions with respect to value, operations, profitability and other matters that may prove to be incorrect. The Group's ability to benefit from any such acquisitions and partnerships will depend in part on its successful integration of those businesses. The Group cannot provide any assurance that its expectations with regards to integration and synergies will materialise. The integration of acquired businesses or partners' businesses entails significant risks, including:

- unforeseen difficulties in integrating operations and systems;
- inability to modify accounting standards rapidly;

- problems assimilating or retaining the employees of acquired businesses or partners' businesses;

- challenges retaining customers of acquired businesses or partners' businesses;

- unexpected liabilities or contingencies relating to the acquired businesses, including legal claims;

- the possibility that management may be distracted from day-to-day business concerns by integration activities and related problem-solving; and

- the possibility of regulatory restrictions that prevent the Group from achieving the expected benefits of the acquisition or partnership.

In addition, an acquisition or a partnership could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies. Moreover, the success of the acquisition or the partnership will at least in part be subject to a number of political, economic and other factors that are beyond the Group's control. Any or all of these factors, individually or collectively, could have a material adverse effect on it.

Goodwill impairments may be required in relation to acquired businesses.

The Group has made business acquisitions in recent years and may make more in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written-down if the Group's valuation assumptions are required to be reassessed as a result of any deterioration in their underlying profitability, asset quality and other relevant matters. Although no impairment of goodwill was recognised in the six months ended 30 June 2013 or the financial year ended 31 December 2012, in 2011 there was a £60m impairment as a result of a reassessment of the value of certain parts of the business in light of market conditions and regulatory developments. Impairment testing in respect of goodwill is performed annually, more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. Goodwill impairment does not however affect the Group's regulatory capital. There can be no assurances that the Group will not have to write down the value attributed to goodwill in the future, which would adversely affect the Group's results and net assets.

The Group is subject to substantial regulation and governmental oversight which could adversely affect the Group's business and operations.

As a financial institution, the Group is subject to extensive financial services laws, regulations, administrative actions and policies in the UK, the European Union and each other location in which it operates (including in the US and, indirectly, in Spain by the Banco de España (the Bank of Spain) as a result of being part of the Banco Santander, S.A. group) which materially affects the Group's businesses. Statutes, regulations and policies to which the Group are subject, in particular those relating to the banking sector and financial institutions, may be changed at any time, and the interpretation and the application of those laws and regulations by regulators is also subject to change. Any legislative or regulatory actions and any required changes to the Group's business operations resulting from such legislation and regulations could result in significant loss of revenue, limit its ability to pursue business opportunities in which it might otherwise consider engaging, affect the value of assets that it holds, require the

Group to increase its prices and therefore reduce demand for the Group's products, impose additional costs on it or otherwise adversely affect the Group's businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

During the recent market turmoil, there have been unprecedented levels of government and regulatory intervention and scrutiny, and changes to the regulations governing financial institutions and the conduct of business. In addition, in light of the financial crisis, regulatory and governmental authorities are considering, or may consider, further enhanced or new legal or regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. It is anticipated that this intensive approach to supervision will be continued by the FCA and the PRA (as successor regulatory authorities to the FSA).

Recent proposals and measures taken by governmental, tax and regulatory authorities and future changes in supervision and regulation, in particular in the UK, which are beyond the Group's control, could materially affect the Group's business, value of assets and operations, and result in significant increases in operational costs. Products and services offered by the Group could also be affected. Changes in UK legislation and regulation to address the stability of the financial sector may also affect the competitive position of the UK banks, including the Issuer, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry, for instance in relation to the UK's regulations on liquidity risk management and the UK Government's introduction of the bank levy. Although the Group works closely with its regulators and continually monitors the situation, future changes in law, regulation, fiscal or other policies can be unpredictable and are beyond the Group's control. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the Group's business.

On 16 June 2010, the Chancellor of the Exchequer announced the creation of the ICB. The ICB was asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the UK Government. The ICB gave its recommendations on 12 September 2011 and proposed: (i) implementation of a retail ring fence; (ii) increased capital requirements; and (iii) improvement of competition, which were broadly endorsed by the Government in its response published on 19 December 2011. A White Paper was published on 14 June 2012 detailing how the Government intends to implement the recommendations of the ICB. A draft of the initial bill to implement the ICB recommendations was published on 12 October 2012, in the format of framework legislation to put in place the architecture to effect the reforms, with detailed policy being provided for through secondary legislation. On 4 February 2013, the Financial Services (Banking Reform) Bill was introduced to Parliament. Draft secondary legislation covering certain aspects of the ICB's recommendations was released for consultation in July 2013. The Government expects the primary and secondary legislation to be in place by 2015 and to take effect by 2019. On 1 October 2013, amendments were made to the Financial Services (Banking Reform) Bill to, *inter alia*, implement the June 2013 recommendations of the Parliamentary Commission on Banking Standards, including the creation of a new banking standards regime covering the conduct of bank staff and a criminal offence for reckless misconduct of banking staff. Implementation of the proposals may require the Group to make changes to its structure and business.

In the United States (US), the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on 21 July 2010 (the "**Dodd-Frank Act**"), has been implemented in part and continues

to be implemented by various US federal regulatory agencies. The Dodd-Frank Act, among other things, imposes a new regulatory framework on swap transactions, including swaps of the sort that the Group enters into, requires regulators to adopt new rules governing the retention of credit risk by securitisers or originators of securitisations, significantly expands the coverage and scope of regulations that limit affiliate transactions within a banking organisation and prohibits certain forms of proprietary trading. Each of these aspects of the Dodd-Frank Act, as well as others, may directly and indirectly impact various aspects of the Group's business. The full spectrum of risks that the Dodd-Frank Act poses to the Group is not yet known, however, such risks could be material and the Group could be materially and adversely affected by them.

In the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. The Competition Commission, the FSA (and, following 1 April 2013, its successor, the FCA) and the Office of Fair Trading ("**OFT**") have recently carried out, or are currently conducting, several enquiries.

The resolution of a number of issues, including regulatory reforms, investigations and reviews and court cases, affecting the United Kingdom financial services industry could have an adverse effect on the Group's operating results, financial condition and prospects, or the Group's relations with the Group's customers and potential customers.

The structure of the financial regulatory authorities in the UK and the UK regulatory framework that applies to the Group is the subject of reform and reorganisation.

Under the Financial Services Act 2012 (the "**Act**"), which received Royal Assent on 19 December 2012, the Government introduced a range of structural reforms to UK financial regulatory bodies that were implemented on 1 April 2013, as follows:

- the FSA has ceased to exist;
- a new Financial Policy Committee has been established within the Bank of England which is responsible for macroprudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the Bank of England, the PRA, has been established to oversee micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the FCA has been established and has the responsibility for conduct of business and markets regulation. The FCA also represents the UK's interests in market regulation at the new European Securities and Markets Authority.

In addition, from 1 April 2014 regulation of consumer credit business (including second and subsequent charge mortgages) will be transferred from the OFT to the FCA pursuant to provisions contained in the Act. This is discussed in further detail in the Risk Factor entitled, "*Various reforms to the mortgage lending and personal loans market have been proposed which could require significant implementation costs or changes to the Group's business strategy*".

This substantial reorganisation of the regulatory framework could cause administrative and operational disruption for the regulatory authorities concerned. This disruption could impact on the resources which the FCA or PRA are able to devote to the supervision of regulated financial

services firms, the nature of their approach to supervision and accordingly, the ability of regulated financial sector firms to deal effectively with their supervisors and to anticipate and respond appropriately to developments in regulatory policy.

It is anticipated that the nature of, or policies for, prudential and conduct of business supervision, as performed by the FCA and PRA, will differ from the approach historically taken by the FSA and that this could lead to a period of some uncertainty for the Group. The implementation of the Act may result both in further increased regulatory oversight of the Group's activities as a financial services firm, resulting in constraints in the Group's business activities and/or increases in regulatory capital requirements, and/or increased amounts of the Group's time and resources required to be committed to compliance with the requirements of two new regulators with separate approaches and objectives, which could result in a material increase in compliance costs.

No assurance can be given that further changes will not be made to the regulatory regime in the UK generally, the Group's particular business sectors in the market or specifically in relation to the Group. Any or all of these factors could have a material adverse effect on the conduct of the Group's business and, therefore, also on the Group's strategy and profitability, and ability to respond to and satisfy the supervisory requirements of the relevant UK regulatory authorities.

Various reforms to the mortgage lending and personal loans market have been proposed which could require significant implementation costs or changes to the Group's business strategy.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging “mortgage market review”, which was launched in October 2009 to consider strengthening rules and guidance on, among other things, affordability assessments, product regulation, arrears charges and responsible lending. The FSA’s aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA published a feedback statement and final rules that will come into force on 26 April 2014. These rules will require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and will ban self-certified loans. These rules will permit interest-only loans where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment.

The impact of the changes is now clear and the reforms have presaged a period of significant change for the Group's mortgage lending business which will mean reforms to its mortgage sales delivery systems, changes to its mortgage documentation and significant reform of the Group's approach to risk assessment of prospective mortgage customers. These could have an adverse effect on the Group's operating results, financial condition and prospects.

The Act contains provisions enabling this transfer of consumer credit regulation (which includes new and existing second charge mortgages) from the OFT to the FCA. HM Treasury has announced that consumer credit regulation will be transferred to the FCA from 1 April 2014. The related secondary consumer credit legislation was enacted in July 2013. Under the new

regime, the FCA may make rules under which, and from dates to be specified: (a) carrying on certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval and (b) the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The Act also provides for formalised cooperation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.

On 3 October 2013, the FCA published a further consultation paper containing detailed proposals for conduct of business and prudential rules for consumer credit firms and containing feedback to the FSA's earlier consultation.

Given the uncertainties still surrounding the transition of the consumer credit regime from the OFT to the FCA, it is not clear what the impact on the Group will be. However, a likely consequence of these pending changes is that the Group will have to review and reform the sales processes and documentation of the Group's consumer credit products including the Group's credit card and unsecured personal loan products before April 2014. This review and the changes the Group may have to make could adversely affect its business.

Further, in March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. Until the final form of the proposed directive and UK implementing legislation are published, it is not certain what effect its adoption and implementation will have on the Group's mortgage business. This directive is expected to be adopted by the European Parliament later this year.

The Group is exposed to risk of loss from legal and regulatory proceedings.

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against the Group or subject it to regulatory enforcement actions, fines and penalties. The current regulatory environment, with its increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs. These risks include that:

- certain aspects of the Group's business may be determined by the Bank of England, the FCA, the PRA, HM Treasury, the OFT, the FOS or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;

- the alleged misselling of financial products, such as PPI, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, resulting in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of

which may require additional provisions to be recorded in the Group's financial statements and could adversely impact future revenues from affected products;

- the Group holds accounts for entities that might be or are subject to interest from various regulators, including the UK's Serious Fraud Office, regulators in the US and elsewhere. The Group is not aware of any current investigation into it as a result of any such enquiries, but cannot exclude the possibility of the Group's conduct being reviewed as part of any such investigation; and

- the Group may be liable for damage to third parties harmed by the conduct of its business.

The Group is from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of its business, including in connection with its lending activities, relationships with its employees and other commercial or tax matters. These can be brought against the Group under UK regulatory processes or in the UK courts, or those in other jurisdictions where the Group operates including other European countries and the US. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, the Group cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be and these pending matters are not disclosed by name because they are under assessment. The Group believes that it has made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. However, the amount of these reserves is substantially less than the total amount of the claims asserted against the Group and in light of the uncertainties involved in such claims and proceedings, there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by it. As a result, the outcome of a particular matter may be material to the Group's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and its level of income for that period.

The FCA carries out regular and frequent reviews of the conduct of business by financial institutions including banks. An adverse finding by a regulator could result in the need for extensive changes in systems and controls, business policies, and practices coupled with customer redress, fines and reputational damage.

Failure to manage these risks adequately could have a material adverse effect on the Group's reputation, operating results, financial condition and prospects.

Potential intervention by the FCA or PRA may occur, particularly in response to customer complaints.

Following the onset of the recent financial crisis, the FSA (and now the PRA and the FCA) have adopted a more intrusive and direct style of regulation which has been termed “intensive supervision”. The PRA and the FCA now have a more outcome-focused regulatory approach, more proactive enforcement and more punitive penalties for infringements which means that PRA and/or FCA-authorised firms, such as the Issuer, are facing increasing supervisory intrusion and scrutiny (resulting in increasing internal compliance costs and supervision fees)

and in the event of a breach of their regulatory obligations are likely to face more stringent penalties.

In particular, the FCA has a strong focus on consumer protection and is taking a more interventionist approach in its increasing scrutiny of product terms and conditions. The FSMA (as amended by the Act) gives the FCA the power to make temporary product intervention rules either to improve a firm's systems and controls in relation to product design, product management and implementation, or to address problems identified with products which may potentially cause significant detriment to consumers because of certain product features or firms' flawed governance and distribution strategies. Such rules may prevent firms from entering into product agreements with consumers until such problems have been rectified.

The regulatory regime requires the Group to be in compliance across all aspects of its business, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to be compliant with relevant regulations, there is a risk of an adverse impact on its business from sanctions, fines or other action imposed by the regulatory authorities. Customers of financial services institutions, including the Group's customers, may seek redress if they consider that they have suffered loss as a result of the misselling of a particular product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and the evolution of judgements by the FOS, it is possible that an adverse outcome in some matters could have a material adverse effect on the Group's operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action.

The Financial Services Act 2010 provided a new power for the FSA (now the FCA) to require authorised firms, including the Issuer, to establish a consumer redress scheme if it considers that consumers have suffered loss or damage as a consequence of a widespread or regular regulatory failing, including misselling.

In recent years there have been several industry-wide issues in which the FSA (now the FCA) has intervened directly. One such issue is the misselling of PPI. In August 2010, the FSA published a policy statement entitled "The assessment and redress of Payment Protection Insurance complaints". This policy statement contained rules from the FSA which altered the basis on which the FSA (now the FCA) regulated firms (including the Issuer and certain members of the Group) must consider and deal with complaints in relation to the sale of PPI and potentially increased the amount of compensation payable to customers whose complaints are upheld. A legal challenge of these rules by the British Bankers' Association was unsuccessful. In light of this and the consequential increase in claims levels the Group performed a detailed review of its provision requirements and as a result, revised its provision for PPI complaint liabilities to reflect the new information. The overall effect of the above was a substantial increase in the provision requirement for 2011.

The ultimate financial impact on the Group of the claims arising from PPI complaints is uncertain and will depend on a number of factors, including the rate at which new complaints arise, the content and quality of the complaints (including the availability of supporting evidence), the role of claims management companies and the average uphold rates and redress costs. The Group can give no assurance that expenses associated with PPI complaints will not exceed the provision it has made relating to these claims. More generally, the Group can give no assurance that its estimates for potential liabilities are correct, and the reserves taken as a result may

prove inadequate. If the Group were to incur additional expenses that exceed provisions for PPI liabilities or other provisions, these expenses could have a material adverse effect on the Group's operating results, financial condition and prospects.

All the above is similarly relevant to any future industry-wide misselling or other issues that could affect the Group, such as the sale of other retail products and interest-rate derivative products sold to Small and Medium Enterprises ("**SMEs**"). This may lead from time to time to: (i) significant direct costs or liabilities (including in relation to misselling); and (ii) changes in the practices of such businesses which benefit customers at a cost to shareholders.

Decisions taken by the FOS (or any overseas equivalent that has jurisdiction) could, if applied to a wider class or grouping of customers, have a material adverse effect on the Group's operating results, financial condition and prospects.

The Banking Act, and similar European legislation, may adversely affect the Group's business.

The Banking Act came into force on 21 February 2009. The special resolution regime set out in the Banking Act provides HM Treasury, the Bank of England, the FCA and the PRA (and their successor bodies) with a variety of powers for dealing with UK deposit taking institutions (and, in certain circumstances, their holding companies) that are failing or likely to fail, including: (i) to take a bank or bank holding company into temporary public ownership; (ii) to transfer all or part of the business of a bank to a private sector purchaser; or (iii) to transfer all or part of the business of a bank to a "bridge bank". The special resolution regime also comprises a separate insolvency procedure and administration procedure each of which is of specific application to banks. These insolvency and administration measures may be invoked prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

If an instrument or order were made under the Banking Act in respect of the Issuer, such instrument or order (as the case may be) may (among other things): (i) result in a compulsory transfer of shares or other securities or property of the Issuer; (ii) impact on the rights of the holders of shares or other securities in the Issuer or result in the nullification or modification of the terms and conditions of such shares or securities; or (iii) result in the de-listing of the Issuer's shares and/or other securities. In addition, such an order may affect matters in respect of the Issuer and/or other aspects of the Issuer's shares or other securities which may negatively affect the ability of the Issuer to meet its obligations in respect of such shares or securities.

At present, no instruments or orders have been made under the Banking Act relating to the Group and there has been no indication that any such order will be made, but there can be no assurance that holders of shares or other securities in the Issuer would not be adversely affected by any such order if made in the future.

In addition, pursuant to recent amendments made to the Banking Act (which amendments have not taken effect), provision has been made for tools to be used in respect of a wider range of UK entities, including investment firms and certain banking group companies provided that certain conditions are met. HM Treasury is currently consulting on secondary legislation that specifies the definition of such companies. This consultation closes on 21 November 2013. The proposed secondary legislation would, if enacted, have the effect of allowing the Banking Act powers to be

applied to investment firms that are required to hold initial capital of €730,000 and to certain UK incorporated non-bank companies in the Group. Until such secondary legislation is made, it is too early to anticipate the full impact of the amendments made to the Banking Act 2009 and it is not possible to determine the impact of any action taken under the relevant provisions on investors, should such provisions apply to Group companies.

In June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**CMD**"). The stated aim of the draft CMD is to provide authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The draft CMD currently contains similar resolution tools and powers to the Banking Act, and also includes a "bail-in" power which, if implemented, would give resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity (subject to certain parameters). The draft CMD currently contemplates that its provisions must be applied by EU Member States from 1 January 2015 except for the bail-in tool (in relation to certain instruments) which is to be applied from 1 January 2018.

The draft CMD envisages that the resolution powers, including the bail-in power, could, if certain trigger conditions are satisfied, be applied to credit institutions and certain large investment firms in the EU. Consequently, if the CMD were implemented in its current form and the relevant trigger conditions satisfied, there is a possibility that these powers could be applied to the Issuer. The implementation of such powers currently set out in the draft CMD would impact how credit institutions and investment firms (including the Issuer) are managed as well as, in certain circumstances, the rights of creditors. However, the proposed directive is not in final form and changes may be made to it in the course of the legislative process. In addition, many of the proposals contained in the draft CMD have already been implemented in the Banking Act and it is currently unclear as to what extent, if any, the provisions of the Banking Act may need to change once the draft CMD is implemented. The European Parliament is due to consider the draft CMD at its February 2014 plenary session. Accordingly, it is not yet possible to assess the full impact of the draft CMD on the Group and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not materially and adversely affect the Group's operating results, financial position and prospects.

In addition, the CMD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. If used in respect of the Issuer, these ex ante powers could have a negative impact on the Issuer's business.

On 1 October 2013, the UK Government published amendments to the Financial Services (Banking Reform) Bill. The amendments introduce (amongst other things) a national UK bail-in power, which would form part of the existing special resolution regime under the Banking Act. This power, if enacted, may come into force in advance of CMD implementation and would give the UK authorities power to cancel, write-down or convert to equity any securities issued by the Issuer. It is not yet possible to assess the full impact of the UK bail-in power on the Group and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated by it would not materially and adversely affect the Group's operating results, financial position and prospects.

The Group is responsible for contributing to compensation schemes in the UK in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

In the UK, the FSCS was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a FCA or PRA authorised firm is unable, or likely to be unable, to pay claims against it (for instance, an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the FCA or the PRA, including the Issuer and other members of the Group.

In the event that the FSCS raises funds from authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated cost to the Group may have a material adverse effect on the Group's operating results, financial condition and prospects. The recent measures taken to protect the depositors of deposit-taking institutions involving the FSCS have resulted in a significant increase in the levies made by the FSCS on the industry and such levies may continue to go up if similar measures are required to protect depositors of other institutions.

In addition, regulatory reform initiatives in the UK and internationally may result in further changes to the FSCS, which could result in additional costs and risks for the Group. For instance, the FSA announced in October 2011 that it was restarting its review of the funding of the FSCS and on 25 July 2012 it announced a consultation on proposed changes to the funding of the FSCS. A second consultation followed dealing with certain proposals relating to intermediaries and investment providers, and this closed on 18 February 2013. In a policy statement published in March 2013, the FCA expressed its intention to proceed as outlined in its July 2012 consultation paper and its final rules came into effect on 1 April 2013. Similarly, In July 2013, the Council of the European Union announced its intention that revisions to the EU Deposit Guarantee Scheme Directive should be adopted by the end of 2013. The proposed revisions include the introduction of a tighter definition of deposits, a requirement that the Deposit Guarantee Scheme pay customers within a week and a requirement that banks must be able to provide information on the aggregated deposits of a depositor. If these revisions are adopted, they are likely to affect the methodology employed by the FSCS for determining levies on institutions. Changes as a result of this may affect the profitability of the Issuer (and other members of the Group required to contribute to the FSCS).

FSCS levies are collected by the FCA as part of a single payment by firms covering PRA, FCA, FOS and FSCS fees. It is possible that future policy of the FSCS and future levies on the firms authorised by the FCA or PRA may differ from those at present and that this could lead to a period of some uncertainty for members of the Group. In addition, it is possible that other jurisdictions where the Group operates could introduce or amend their similar compensation, contributory or reimbursement schemes. As a result of any such developments, the Group may incur additional costs and liabilities which may adversely affect its operating results, financial condition and prospects.

The Group may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and could have a material adverse effect on it.

The Group is required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which it operates. These laws and regulations require the Group, among other things, to adopt and enforce “know-your-customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the personnel the Group employs in supervising these activities may not have experience that is comparable to the level of sophistication of criminal organisations. To the extent the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which the Group reports have the power and authority to impose fines and other penalties on it, including the revocation of licences. In addition, the Group's business and reputation could suffer if customers use the Group's banking network for money laundering or illegal or improper purposes.

In addition, while the Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group's (and its relevant counterparties) as a conduit for money laundering (including illegal cash operations) without the Group's (and its relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or of becoming a party to, money laundering, then its reputation could suffer and/or it could become subject to fines, sanctions and/or legal enforcement (including being added to any “black lists” that would prohibit certain parties from engaging in transactions with members of the Group), any one of which could have a material adverse effect on the Group's operating results, financial condition and prospects.

Changes in taxes and other assessments may adversely affect the Group.

The tax and other assessment regimes to which the Group and its customers are subject are regularly reformed, or subject to proposed reforms. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon the Group's business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in the Group's non-performing credit portfolio.

Changes in the Issuer's pension liabilities and obligations could have a materially adverse effect.

The Issuer provides retirement benefits for many of its former and current employees in the UK through a number of defined benefit pension schemes established under trust. The Issuer has limited control over the rate at which it pays into such schemes. Under the UK statutory funding requirements, employers are usually required to contribute to the schemes at the rate they agree with the scheme trustees, although if they cannot agree, such rate can be set by the Pensions Regulator. The scheme trustees may, in the course of discussions about future valuations, seek higher employer contributions. The scheme trustees' power in relation to the payment of pension contributions depends on the terms of the trust deed and rules governing the pension schemes.

The UK Pensions Regulator has the power to issue a financial support direction to companies within a group in respect of the liability of employers participating in the UK defined benefit pension plans where that employer is a service company, or is otherwise "insufficiently resourced" (as defined for the purposes of the relevant legislation). As some of the employers within the Group are service companies, if they become insufficiently resourced, other companies within the Group which are connected with or an associate of those employers are at risk of a financial support direction in respect of those employers' liabilities to the defined benefit pension schemes in circumstances where the Pensions Regulator properly considers it reasonable to issue one. Such a financial support direction could require the companies to guarantee or provide security for the pension liabilities of those employers, or could require additional amounts to be paid into the relevant pension schemes in respect of them.

The UK courts have decided that liabilities under financial support directions issued by the Pensions Regulator against companies after they have gone into administration were payable as an expense of the administration, and did not rank as provable debts. This means that such liabilities will have to be satisfied before any distributions to unsecured creditors could be made. It is understood that leave to appeal to the Supreme Court has been requested and therefore it is likely that there will be a further decision to come.

The Pensions Regulator can also issue contribution notices if it is of the opinion that an employer has taken actions, or failed to take actions, deliberately designed to avoid meeting its pension promises or which are materially detrimental to the scheme's ability to meet its pension promises. A contribution notice can be moved to any company which is connected with or an associate of such employer in circumstances where the Regulator considers it reasonable to issue. The risk of a contribution notice being imposed may inhibit the Issuer's freedom to restructure or to undertake certain corporate activities.

Any increase in the current size of the deficit in the defined benefit schemes operated by the Issuer, due to a reduction in the value of the pension fund assets (depending on the performance of financial markets) or an increase in the pension fund liabilities due to changes in mortality assumptions, the rate of increase of salaries, discount rate assumptions, inflation, the expected rate of return on plan assets, or other factors, could result in the Issuer having to make increased contributions to reduce or satisfy the deficits which would divert resources from use in other areas of its business and reduce the Issuer's capital resources. While the Issuer can control a number of the above factors, there are some over which it has no or limited control. Although the trustees of the defined benefit pension schemes are obliged to consult with the Issuer before changing the pension schemes' investment strategy, the trustees have the final

say. Increases in the Issuer's pension liabilities and obligations could have a material adverse effect on its operating results, financial condition and prospects.

The ongoing changes in the UK supervision and regulatory regime and particularly the implementation of the ICB's recommendations may require the Issuer to make changes to its structure and business which could have an impact on its pension schemes or liabilities.

The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel.

The Group's continued success depends in part on the continued service of key members of its management team. The ability to continue to attract, train, motivate and retain highly qualified and talented professionals is a key element of its strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management, both at its head office and at each of the Group's business units. If the Group or one of its business units or other functions fails to staff its operations appropriately or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, its business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on the Group's ability to hire or retain the most qualified employees. If the Group fails or is unable to attract and appropriately train, motivate and retain qualified professionals, its business may also be adversely affected.

Damage to the Group's reputation could cause harm to its business prospects.

Maintaining a positive reputation is critical to the Group's attracting and maintaining customers, investors and employees and conducting business transactions with counterparties. Damage to the Group's reputation, the reputation of Banco Santander, S.A. (as the majority shareholder in the Issuer), or the reputation of affiliates operating under the “Santander” brand or any of the Group's other brands, can therefore cause significant harm to the Group's business and prospects. Harm to the Group's reputation can arise from numerous sources, including, among others, employee misconduct, litigation, failure to deliver minimum standards of service and quality, compliance failures, breach of legal or regulatory requirements, unethical behaviour (including giving adopted inappropriate sales and trading practices), and the activities of customers and counterparties. Further, negative publicity regarding the Group, whether or not true, may result in harm to the Group's operating results, financial condition and prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect the Group's reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of the Group and others in the financial services industry to decline.

The Group could suffer significant reputational harm if it fails to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as the Group expands its business activities through more numerous transactions, obligations and interests with and among its customers. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the

willingness of customers to deal with the Group, or give rise to litigation or enforcement actions against it. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Group.

The Group's financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of its operations and financial position.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, include impairment of loans and advances, valuation of financial instruments, goodwill impairment, provision for conduct remediation and pensions.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of the Group's operations and financial position could be materially misstated if the estimates and assumptions used prove to be inaccurate.

If the judgement, estimates and assumptions the Group uses in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material effect on its results of operations and a corresponding effect on its funding requirements and capital ratios.

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the Group's consolidated financial statements. These changes can materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

Different disclosure and accounting principles between the UK and the US may provide you with different or less information about the Group than you expect.

There may be less publicly available information about the Issuer than is regularly published about companies in the United States. Issuers of securities in the UK and Ireland are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in countries with more developed capital markets, including the United States. While the Issuer is subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**"), the Issuer is not subject to the same disclosure requirements in the United States as a domestic US

registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic US registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about the Issuer available to you will not be the same as the information available to holders of securities of a US company and may be reported in a manner that you are not familiar with. In addition, for regulatory purposes, the Issuer currently prepares and will continue to prepare and make available to the Issuer's shareholders statutory financial statements in accordance with UK GAAP, which differs from IFRS in a number of respects.

Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on it.

The Group's ability to remain competitive depends to a significant extent upon the functionality of its information technology systems (including Partenon, the global banking informational technology platform utilised by Banco Santander, S.A. and the Group), and on the Group's ability to upgrade and expand the capacity of the Group's information technology on a timely and cost-effective basis. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and its ability to compete. The Group must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. The Group cannot provide assurances that in the future it will be able to maintain the level of capital expenditures necessary to support the improvement, expansion or upgrading of its information technology infrastructure as effectively as its competitors, which may result in a loss of the competitive advantages that it believes its information technology systems provide. Any failure to effectively improve, expand or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on it.

The Group relies on third parties for important infrastructure support products and services.

Third party vendors provide key components of the Group's business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of their not providing the Group their services for any reason or their performing their services poorly, could adversely affect the Group's ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

The Issuer engages in transactions with its subsidiaries and affiliates that others may not consider to be on an arm's-length basis.

The Issuer and its subsidiaries and affiliates have entered into a number of services agreements pursuant to which the Group renders services, such as administrative, accounting, finance, treasury, legal services and others. The Group relies upon certain outsourced services (including information technology support, maintenance and consultancy services in connection with Partenon) provided by certain other members of the Banco Santander, S.A. group.

English law applicable to public companies and financial groups and institutions, as well as the Issuer's articles of association, provide for several procedures designed to ensure that the transactions entered into with or among the Issuer's financial subsidiaries do not deviate from prevailing market conditions for those types of transactions, including the requirement that the Issuer's board of directors approve such transactions. The Issuer is likely to continue to engage in transactions with its subsidiaries or affiliates (including its controlling shareholder). Future conflicts of interests between the Issuer and any of its subsidiaries or affiliates, or among the Issuer's subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in the Issuer's favour.

Risks concerning enforcement of judgements made in the United States.

The Issuer is a public limited company registered in England and Wales. All of the Issuer's Directors live outside the United States of America. As a result, it may not be possible to serve process on such persons in the United States of America or to enforce judgements obtained in US courts against them or the Issuer based on the civil liability provisions of the US federal securities laws or other laws of the United States of America or any state thereof. Under the UK Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Directors' Report on pages 181 to 192 of the Issuer's 2012 Annual Report. Under this safe harbour, the Directors would be liable to the Issuer (but not to any third party) if the Directors' Report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

The Group has outstanding obligations under UK Government support schemes which could have a material adverse effect on it.

The Bank of England and HM Treasury launched the FLS in July 2012. The FLS is designed to boost lending to UK households and non-financial companies, by providing funding to banks and building societies for an extended period, with both the price and quantity of funding provided linked to the net lending to the UK non-financial sector over the 18-month period. The FLS will allow participants to borrow UK treasury bills in exchange for eligible collateral during a drawdown window spanning the 18-month period from 1 August 2012 to 31 January 2014. Eligible collateral consists of all collateral eligible in the Bank of England's Discount Window Facility. The Issuer had an outstanding FLS drawing of £100m as at 30 June 2013.

The Bank of England's ECTR was announced in June 2012, to provide short-term liquidity to the market. This is provided through monthly auctions and using eligible collateral as security. Eligible collateral consists of all collateral eligible in the Bank of England's Discount Window Facility.

Along with other major UK banks and building societies, the Issuer participated in the Bank of England's Special Liquidity Scheme ("**SLS**") whereby it exchanged self-subscribed for asset-backed security issuances for highly liquid treasury bills. All major UK banks and building societies were required to participate as part of the measures designed to improve the liquidity position of the UK banking system in general. Under the terms of the scheme, the extent of usage was confidential. The Issuer's balances outstanding under the SLS were repaid in January 2012.

Risks Relating to the Notes

Set out below is a brief description of certain risks relating to the Notes generally.

The Notes are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Notes may lose their entire investment in the Notes.

The Issuer's payment obligations under the Notes will be unsecured and will be subordinated (i) on a winding-up of the Issuer, and (ii) in the event that an administrator is appointed to the Issuer and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of unsubordinated creditors of the Issuer and claims in respect of any subordinated indebtedness of the Issuer (other than indebtedness which ranks, or is expressed to rank, *pari passu* with or junior to the Notes). Accordingly, the assets of the Issuer would be applied first in satisfying all senior-ranking claims in full, and payments would be made to holders of the Notes, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. If the Issuer's assets are insufficient to meet all its obligations to senior-ranking and *pari passu* creditors, the holders of the Notes will lose all or some of their investment in the Notes.

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Notes and accordingly, the Issuer may at any time incur, issue further debt or securities which rank senior to, or *pari passu* with, the Notes. Consequently there can be no assurance that the current level of senior or *pari passu* debt of the Issuer will not change. The issue of any such securities may reduce the amount (if any) recoverable by Noteholders on a winding-up of the Issuer.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes, whether or not the Issuer is wound up or enters into administration.

Although the Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Notes will lose all or some of his investment should the Issuer become insolvent.

Early redemption of the Notes is at all times at the discretion of the Issuer, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Notes.

The Notes may, subject as provided in Condition 5, be redeemed before the maturity date at the sole discretion of the Issuer in the event of certain specified events relating to taxation or if the Notes cease to qualify as Tier 2 Capital of the Issuer or of the regulatory group to which the Issuer belongs, in each case at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption.

During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Terms and Conditions of the Notes may be modified and certain decisions regarding the Notes may be made without the knowledge and consent of individual Noteholders.

The Trust Deed constituting the Notes contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed constituting the Notes also provides that, subject to the prior consent of the PRA (as defined herein) being obtained (to the extent that such consent is required), the Trustee may (except as set out in the Trust Deed), without the consent of Noteholders, agree to certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or to the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in Condition 10(d).

The Notes contain limited events of default and the remedies available thereunder are limited.

In accordance with the PRA's requirements for Tier 2 Capital, the only events of default under the Conditions are (i) where there is a failure to pay principal or interest for a period of seven days or more when it otherwise becomes due and payable or (ii) an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up (as defined in the Conditions)) or an administrator of the Issuer gives notice that it intends to declare and distribute a dividend.

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer. Otherwise, the Trustee and the Noteholders may not take any further or other action to enforce, prove or claim any such payment, including, in the case of a failure to pay interest, any action to accelerate a repayment of the principal amount of the Notes.

If an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up (as defined in the Conditions)) or an administrator of the Issuer gives notice that it intends to declare and distribute a dividend, the Trustee may, or if so requested by the holders of at least 25% in the aggregate principal amount of the Notes then outstanding or if directed by an Extraordinary Resolution (as defined in the Trust Deed) shall, declare that the Notes are, and they shall become immediately due and payable at their principal amount outstanding and any accrued and unpaid interest provided that the claims in respect thereof will be subordinated.

The value of the Notes may be materially adversely affected by any UK bail-in power.

As mentioned under "*The Banking Act, and similar European legislation, may adversely affect the Group's business*" above, the UK Government has proposed the introduction of a UK bail-in power, to be provided to UK resolution authorities as part of the special resolution regime contained in the Banking Act 2009. The power, if enacted, would allow the relevant UK resolution authority to cancel, write down or convert any liabilities of UK deposit taking institutions. Accordingly, the exercise of such a power in respect of the Issuer may result in the cancellation of all, or a portion, of the principal amount of, or interest on, the Notes on a permanent basis and/or conversion of all, or a portion, of the principal amount of, or interest on, the Notes into other capital instruments (such as equity securities). Such a write down or conversion may result in the holders of the Notes losing some or all of their investment in the Notes. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the Notes.

The draft CMD also currently contains a bail-in power, which includes a specific power allowing resolution authorities to write down or convert capital instruments (including Tier 2 capital instruments such as the Notes) to ensure that such instruments fully absorb losses at the point of non-viability ("**CMD Non-Viability Loss Absorption**"). The draft CMD contemplates that it will be implemented in EU Member States by 31 December 2014, with the CMD Non-Viability Loss Absorption provisions becoming effective as of 1 January 2015. It is currently unclear whether any changes would be required to the UK bail-in power (if enacted) to implement the CMD. Accordingly, it is not yet possible to assess the full impact of the draft CMD on the Notes and once it is implemented the exercise of any CMD bail-in power could materially and adversely affect the value of the Notes.

The Notes are subject to selling and transfer restrictions that may affect the existence and liquidity of any secondary market in the Notes.

The Notes have not been, and will not be, registered under the Securities Act or any other securities laws. Accordingly, the Notes are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale*". As a result of such restrictions, the Issuer cannot be certain of the existence of a secondary market for the Notes or the liquidity of such market if one develops. Consequently, a Noteholder must be able to bear the economic risk of an investment in such Notes for an indefinite period of time.

The Notes lack a developed trading market.

The Notes may have no established trading market when issued, and one may never develop. If a market does develop it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

A significant portion of the Notes are expected to be purchased by Banco Santander S.A., an affiliate of the Issuer, which may materially affect the liquidity and market price of the Notes.

It is expected that Banco Santander S.A., the ultimate parent of and majority shareholder in the Issuer, will purchase 45 per cent. of the principal amount of the Notes on issuance (being

U.S.$675,000,000 of the principal amount of the Notes). The holding of the Notes by Banco Santander S.A. could also have a material adverse effect on the liquidity of the Notes and such illiquidity could adversely affect the market value of the Notes.

In addition, Banco Santander S.A. may sell the Notes that it purchases at any time. Sales of a significant portion of its Notes by Banco Santander S.A., or the perception that such sales could occur, may adversely affect the market price of the Notes, making it difficult for investors in the Notes to sell their Notes at a time and price that they deem appropriate, or investors may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes.

The EU Savings Directive may affect payments on the Notes.

Under European Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), a member state is required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, certain EU Member States are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a member state which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note or Coupon as a result of the imposition of such withholding tax. The Issuer will be required to maintain a Paying Agent in a member state that will not be obliged to operate a withholding system pursuant to the Savings Directive or any law implementing or complying with or introduced to conform to such directive (so long as there is such a member state).

A change in the governing law of the Notes may adversely affect Noteholders.

The Conditions are based on English law in effect as at the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

The denomination of the Notes is U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the clearing systems in

amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. Should definitive Notes be required to be issued, they will be issued in principal amounts of U.S.$200,000 and higher integral multiples of U.S.$1,000 but will in no circumstances be issued to Noteholders who hold Notes in the relevant clearing system in amounts that are less than U.S.$200,000.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The Issuer will pay principal and interest on Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of the Notes.

Investment in the Notes, which bear a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks relating to the Notes.

The Notes are expected, on issue, to be rated Baa2 by Moody's Investors Service Ltd., BBB by Standard & Poor's Credit Market Services Europe Limited and A-(EXP) by Fitch Ratings Ltd. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Selected Financial Data and Other Statistical Data

Introduction

In the first half of 2013, the Issuer completed deals to sell its co-brand credit cards business. The co-brands credit cards business is accounted for as discontinued operations in the selected financial data and other statistical data set forth below at 30 June 2013 and at 30 September 2013 under *"Recent Developments"*. The selected financial data and other statistical data set forth below as of and for the years ended 31 December 2012, 2011, 2010, 2009 and 2008 include the co-brand credit cards business as part of continuing operations of the Group, and have not been adjusted to include this business as discontinued operations.

This Offering Memorandum includes certain financial measures which are not accounting measures within the scope of IFRS. Such non-IFRS measures are defined as ones that measure historical or future financial performance, financial position or cash flows but which exclude or include amounts that would not be so adjusted in the most comparable IFRS measures. Such measures are defined further in the footnotes that follow under "Selected Statistical Information for the six months ended 30 June 2013" and "Selected Statistical Information for the years ended 31 December 2012, 2011, 2010, 2009 and 2008," which include, where relevant, reconciliations to the closest IFRS measure. These IFRS measures are not a substitute for IFRS measures. Such non-IFRS measures include return on average tangible book value, Banking net interest margin and UK banking profit before tax by segment.

Certain measures included in the selected statistical information presented below are not presented in both the selected statistical information for the six months ended 30 June 2013 and the selected statistical information for the years ended 31 December 2012, 2011, 2010, 2009 and 2008, reflecting changes in measures reviewed by management during these periods.

Selected Financial Data at 30 June 2013

The financial information set forth below for the six months ended 30 June 2013 and 2012 and for the period ended 30 June 2013 and 31 December 2012 has been derived from the unaudited condensed consolidated interim financial statements of the Group prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as issued by the IASB and as adopted in the European Union, included in the Half Yearly Financial Report (the "**Condensed Consolidated Interim Financial Statements**"). The information should be read in connection with, and is qualified in its entirety by reference to the Group's Condensed Consolidated Interim Financial Statements and the notes thereto which appear in the Half Yearly Financial Report.

Balance Sheets

At 30 June 2013 and 31 December 2012.

	30 June 2013[1] U.S.$m	**30 June 2013 £m**	31 December 2012[2] £m
Assets			
Cash and balances at central banks	**52,245**	**34,372**	29,282
Trading assets	**47,368**	**31,163**	22,498
Derivative financial instruments	**39,404**	**25,924**	30,146
Financial assets designated at fair value	**4,288**	**2,821**	3,811
Loans and advances to banks	**3,557**	**2,340**	2,438
Loans and advances to customers	**285,859**	**188,065**	190,782
Available-for-sale securities	**7,871**	**5,178**	5,483
Loans and receivables securities	**1,929**	**1,269**	1,259
Macro hedge of interest rate risk	**1,325**	**872**	1,222
Intangible assets	**3,539**	**2,328**	2,325
Property, plant and equipment	**2,251**	**1,481**	1,541
Current tax assets	**88**	**58**	50
Deferred tax assets	**77**	**51**	60
Retirement benefit assets	**309**	**203**	254
Other assets	**2,654**	**1,746**	1,893
Total assets	**452,764**	**297,871**	293,044
Liabilities			
Deposits by banks	**14,048**	**9,242**	9,935
Deposits by customers	**229,335**	**150,878**	149,037
Derivative financial instruments	**35,916**	**23,629**	28,861
Trading liabilities	**52,881**	**34,790**	21,109
Financial liabilities designated at fair value	**8,021**	**5,277**	4,002
Debt securities in issue	**81,384**	**53,542**	59,621
Subordinated liabilities	**5,639**	**3,710**	3,781
Other liabilities	**4,113**	**2,706**	2,526
Provisions	**1,176**	**774**	914
Current tax liabilities	**5**	**3**	4
Retirement benefit obligations	**699**	**460**	305
Total liabilities	**433,217**	**285,011**	280,095
Equity			
Share capital and other equity instruments	**6,079**	**3,999**	3,999
Share premium	**8,542**	**5,620**	5,620
Retained earnings	**4,999**	**3,289**	3,312
Other reserves	**(73)**	**(48)**	18
Total shareholders' equity	**19,547**	**12,860**	12,949
Total liabilities and equity	**452,764**	**297,871**	293,044

(1) Amounts stated in U.S. dollars have been translated from sterling at the rate of £1.00 – U.S.$1.52, the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on 30 June 2013.

(2) Adjusted to reflect the change in presentation of the balance sheet as at 31 December 2012 to present assets held for sale relating to the sale of the Cards business as part of other assets.

Income Statements

For the six months ended 30 June 2013 and 2012

	Six months ended 30 June 2013[1] U.S.$m	**Six months ended 30 June 2013 £m**	Six months ended 30 June 2012[2] £m
Interest and similar income	**5,508**	**3,624**	3,730
Interest expense and similar charges	**(3,394)**	**(2,233)**	(2,265)
Net interest income	**2,114**	**1,391**	1,465
Fee and commission income	**809**	**532**	519
Fee and commission expense	**(217)**	**(143)**	(102)
Net fee and commission income	**592**	**389**	417
Net trading and other income	**275**	**181**	237
Total operating income	**2,981**	**1,961**	2,119
Administration expenses	**(1,508)**	**(992)**	(959)
Depreciation, amortisation and impairment	**(184)**	**(121)**	(118)
Total operating expenses excluding provisions and charges	**(1,692)**	**(1,113)**	(1,077)
Impairment losses on loans and advances	**(357)**	**(235)**	(350)
Provisions for other liabilities and charges	**(97)**	**(64)**	(2)
Total operating provisions and charges	**(454)**	**(299)**	(352)
Profit on continuing operations before tax	**835**	**549**	690
Tax on profit on continuing operations	**(166)**	**(109)**	(166)
Profit for the period from continuing operations	**669**	**440**	524
(Loss)/profit from discontinued operations before tax	**(24)**	**(16)**	35
Taxation credit/(charge) on discontinued operations	**6**	**4**	(9)
(Loss)/profit from discontinued operations	**(18)**	**(12)**	26
Profit for the period	**651**	**428**	550
Attributable to:			
Equity holders of the parent	**651**	**428**	550

(1) Amounts stated in U.S. dollars have been translated from sterling at the rate of £1.00 – U.S.$1.52, the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on 30 June 2013.

(2) Adjusted to reflect the presentation of discontinued operations.

Selected Statistical Information for the six months ended 30 June 2013

	Six months ended 30 June 2013	Six months ended 30 June 2012
	%	%
Return on ordinary shareholders' funds[(1)]	**6.7**	8.5
Return on average tangible book value[(2)]	**8.3**	10.6
Net interest margin	**1.21**	1.25
Banking net interest margin[(3)]	**1.46**	1.45
UK Banking profit before tax by segment:[(4)]		
- Retail Banking	**84**	80
- Corporate Banking	**16**	20
Profit before tax by segment:		
- Retail Banking	**84**	73
- Corporate Banking	**16**	18
Ratio of earnings to fixed charges:[(5)]		
- Excluding interest on retail deposits	**173**	180
- Including interest on retail deposits	**125**	130

(1) Annualised profit after tax divided by average ordinary shareholders' funds.

(2) Annualised return on average tangible book value ("**RoTBV**") is defined as the annualised profit attributable to equity shareholders divided by average tangible book value (average total equity less non-controlling interests, preference shares, goodwill and intangible assets). Management reviews RoTBV in order to measure the overall profitability of the Group and believes that presentation of this financial measure provides useful information to investors regarding the Group's results of operations. A reconciliation between RoTBV and return on ordinary shareholders' funds is as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
	£m	£m
Annualised profit after tax	**863**	1,107
Preference dividends	**(57)**	(57)
Profit attributable to equity shareholders	**806**	1,050
Average ordinary shareholders' funds	**12,905**	13,013
Average preference shares	**(894)**	(894)
Average goodwill and intangible assets	**(2,326)**	(2,183)
Average tangible book value	**9,685**	9,936
Return on ordinary shareholders' funds	**6.7%**	8.5%
Return on average tangible book value	**8.3%**	10.6%

(3) Banking net interest margin is defined as annualised net interest income divided by average commercial assets (including mortgages, unsecured personal loans, corporate loans and overdrafts). Management reviews Banking net interest margin in order to measure the overall margin of the Group's Retail Banking and Corporate Banking and

believes that presentation of this financial measure provides useful information to investors regarding the Group's results of operations. A reconciliation between net interest margin and Banking net interest margin is as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
	£m	£m
Net interest income	**2,805**	2,954
Average interest earning assets	**231,806**	236,343
Average commercial assets	**192,602**	203,539
Net interest margin	**1.21%**	1.25%
Banking net interest margin	**1.46%**	1.45%

(4) UK Banking profit before tax by segment is defined as Retail Banking profit before tax and Corporate Banking profit before tax each expressed as a percentage of the combined Retail Banking and Corporate Banking profit before tax. Management reviews UK Banking profit before tax by segment in order to measure the overall business mix of the Group's Retail Banking and Corporate Banking segments and believes that presentation of this financial measure provides useful information to investors regarding the Group's business mix. A reconciliation between profit before tax by segment and UK Banking profit before tax by segment is as follows:

Six months ended 30 June 2013	**Retail Banking £m**	**Corporate Banking £m**	**Markets £m**	**Corporate Centre £m**	**Total £m**
Profit before tax	**653**	**129**	**(10)**	**(223)**	**549**
	%	**%**	**%**	**%**	**%**
As a percentage of the consolidated total (excluding loss-making segments)	**84**	**16**	**-**	**-**	**100**
As a percentage of the UK Banking total	**84**	**16**	**-**	**-**	**100**
Six months ended 30 June 2012					
Profit before tax	665	162	79	(216)	690
	%	%	%	%	%
As a percentage of the consolidated total (excluding loss-	73	18	9	-	100
As a percentage of the UK Banking total	80	20	-	-	100

(5) For the purpose of calculating the ratios of earnings to fixed charges, earnings consist of profit before tax from continuing operations plus fixed charges. Fixed charges consist of interest payable, including the amortisation of discounts and premiums on debt securities in issue.

Selected Financial Data at 31 December 2012, 2011, 2010, 2009 and 2008

The financial information set forth below for the years ended 31 December 2012, 2011 and 2010 and at 31 December 2012 and 2011 has been derived from the audited consolidated financial statements of the Group prepared in accordance with IFRS included in the 2012 Annual Report. The information should be read in connection with, and is qualified in its entirety by reference to, the Group's consolidated financial statements and the notes thereto which appear in the 2012 Annual Report. Financial information set forth below for the years ended 31 December 2009 and 2008, and at 31 December 2010, 2009 and 2008, has been derived from the audited consolidated financial statements of the Group for 2010, 2009 and 2008 not included in the 2012 Annual Report. The financial information in this selected consolidated financial and statistical data does not constitute statutory accounts within the meaning of the Companies Act 2006. The auditor's report on the consolidated financial statements for each of the five years ended 31 December 2012 was unmodified and did not include a statement under sections 237(2) and 237(3) of the Companies Act 1985 or sections 498(2) and 498(3) of the Companies Act 2006, as applicable. The Consolidated Financial Statements of the Group for the years ended 31 December 2012, 2011, 2010, 2009 and 2008 were audited by Deloitte LLP.

Balance Sheets

	2012[1]	**2012[2]**	2011	2010	2009	2008
	U.S.$m	**£m**	£m	£m	£m	£m
Assets						
Cash and balances at central banks	**47,618**	**29,282**	25,980	26,502	4,163	4,017
Trading assets	**36,586**	**22,498**	21,891	35,461	33,290	26,264
Derivative financial instruments	**49,023**	**30,146**	30,780	24,377	22,827	35,125
Financial assets designated at fair value	**6,197**	**3,811**	5,005	6,777	12,358	11,377
Loans and advances to banks	**3,965**	**2,438**	4,487	3,852	9,151	16,001
Loans and advances to customers	**312,079**	**191,907**	201,069	195,132	186,804	180,176
Available for sale securities	**8,916**	**5,483**	46	175	797	2,663
Loans and receivables securities	**2,047**	**1,259**	1,771	3,610	9,898	14,107
Macro hedge of interest rate risk	**1,987**	**1,222**	1,221	1,091	1,127	2,188
Intangible assets	**3,781**	**2,325**	2,142	2,178	1,446	1,347
Property, plant and equipment	**2,506**	**1,541**	1,596	1,705	1,250	1,202
Current tax assets	**55**	**34**	-	277	85	212
Deferred tax assets	**124**	**76**	257	566	946	1,274
Retirement benefit assets	**413**	**254**	241	-	-	-
Other assets	**1,249**	**768**	1,088	1,157	1,149	1,357
Total assets	**476,548**	**293,044**	297,574	302,860	285,291	297,310
Liabilities						
Deposits by banks	**16,156**	**9,935**	11,626	7,784	5,811	14,488
Deposits by customers	**242,364**	**149,037**	148,342	152,643	143,893	130,245
Derivative financial instruments	**46,934**	**28,861**	29,180	22,405	18,963	27,810
Trading liabilities	**34,327**	**21,109**	25,745	42,827	46,152	40,738
Financial liabilities designated at fair value	**6,508**	**4,002**	6,837	3,687	4,423	5,673
Debt securities in issue	**96,956**	**59,621**	52,651	51,783	47,758	58,511
Subordinated liabilities	**6,149**	**3,781**	6,499	6,372	6,949	8,863
Other liabilities	**4,108**	**2,526**	2,571	2,026	2,323	2,342
Provisions	**1,486**	**914**	970	185	91	207
Current tax liabilities	**7**	**4**	271	492	300	518
Deferred tax liabilities	**-**	**-**	-	209	336	405
Retirement benefit obligations	**496**	**305**	216	173	1,070	813
Total liabilities	**455,491**	**280,095**	284,908	290,586	278,069	290,613
Share capital	**6,503**	**3,999**	3,999	3,999	2,709	1,148
Share premium account	**9,139**	**5,620**	5,620	5,620	1,857	3,121
Retained earnings	**5,386**	**3,312**	3,021	2,628	1,911	1,678
Other reserves	**29**	**18**	26	27	29	39
Total shareholders' equity	**21,058**	**12,949**	12,666	12,274	6,506	5,986
Non-controlling interest	**-**	**-**	-	-	716	711
Total equity	**21,058**	**12,949**	12,666	12,274	7,222	6,697
Total liabilities and equity	**476,548**	**293,044**	297,574	302,860	285,291	297,310

(1) Amounts stated in U.S. dollars have been translated from sterling at the rate of £1.00 – U.S.$1.63, the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on 31 December 2012.

(2) Assets held for sale related to the co-brand credit cards business are included as part of loans and advances to customers as at 31 December 2012. These amounts were represented in the Half Yearly Financial Report as part of other assets.

Income Statements

	2012[(1)]	**2012**	2011	2010	2009	2008(2)
	U.S.$m	**£m**	£m	£m	£m	£m
Net interest income	**4,751**	**2,915**	3,830	3,814	3,412	1,772
Net fee and commission income	**1,467**	**900**	918	699	824	671
Net trading and other income	**1,769**	**1085**	437	521	460	561
Total operating income	**7,987**	**4,901**	5,185	5,034	4,696	3,004
Administration expenses	**(3,221)**	**(1,976)**	(1,995)	(1,793)	(1,848)	(1,343)
Depreciation, amortisation and impairment	**(401)**	**(246)**	(447)	(275)	(260)	(202)
Total operating expenses, exc provisions and charges	**(3,622)**	**(2,222)**	(2,442)	(2,068)	(2,108)	(1,545)
Impairment losses on loans and advances	**(1,645)**	**(1,009)**	(565)	(712)	(842)	(348)
Provisions for other liabilities and charges	**(716)**	**(439)**	(917)	(129)	(56)	(17)
Total operating provisions and charges	**(2,360)**	**(1,448)**	(1,482)	(841)	(898)	(365)
Profit before tax	**2,007**	**1,231**	1,261	2,125	1,690	1,094
Taxation charge	**(476)**	**(292)**	(358)	(542)	(445)	(275)
Profit for the year	**1,531**	**939**	903	1,583	1,245	819
Attributable to:						
Equity holders of the parent	**1,531**	**939**	903	1,544	1,190	811
Non-controlling interest	**-**	**-**	-	39	55	8

(1) Amounts stated in U.S. dollars have been translated from sterling at the rate of £1.00 – U.S.$1.63, the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on 31 December 2012.

(2) The transfer of Alliance & Leicester plc to Santander UK plc was accounted for with effect from 10 October 2008.

Selected Statistical Information for the years ended 31 December 2012, 2011, 2010, 2009 and 2008

	2012	2011	2010	2009	2008[1]
	%	%	%	%	%
Profitability ratios:					
Return on assets[2]	**0.31**	0.29	0.54	0.43	0.37
Return on ordinary shareholders' funds[3]	**7.3**	7.2	16.9	19.9	20.4
Return on average tangible book value[4]	**9.1**	9.0	21.5	24.9	21.8
Banking net interest margin ("**Banking NIM**")[5]	**1.44**	1.88	1.94	1.78	1.42
Cost-to-income ratio[6]	**45**	47	41	45	51
Dividend payout ratio[7]	**48**	47	49	40	55
Non-performing loans ratio[8]	**2.16**	1.93	1.84	1.90	-
Loan-to-deposit ratio[9]	**130**	136	128	132	-
Capital ratios:					
Equity to assets ratio[10]	**4.33**	4.04	3.13	2.26	1.83
Core Tier 1 capital	**12.2**	11.4	11.5	6.8	6.2
Total capital ratio	**18.2**	20.6	20.6	17.6	14.0
Ratio of earnings to fixed charges:[11]					
- Excluding interest on retail deposits	**169**	217	363	202	137
- Including interest on retail deposits	**126**	133	166	143	118

(1) The transfer of Alliance & Leicester plc to Santander UK plc was accounted for with effect from 10 October 2008.

(2) Profit after tax divided by average total assets.

(3) Profit after tax divided by average ordinary shareholders' funds.

(4) Return on average tangible book value ("**RoTBV**") is defined as the profit attributable to equity shareholders divided by average tangible book value (average total equity less non-controlling interests, preference shares, goodwill and intangible assets). During 2012, the strategic objectives and key performance indicators for the Group for the medium term were updated. RoTBV was introduced as a key performance indicator at that time. Management reviews RoTBV in order to measure the overall profitability of the Group and believes that presentation of this financial measure provides useful information to investors regarding the Group's results of operations. A reconciliation between RoTBV and return on ordinary shareholders' funds is as follows:

	2012	2011	2010
	£m	£m	£m
Profit after tax	**939**	903	1,583
Preference dividends	**(57)**	(57)	(40)
Non-controlling interests	**-**	-	(39)
Profit attributable to equity shareholders	**882**	846	1,504
Average total equity	**12,808**	12,470	9,748
Average non-controlling interests	**-**	-	(358)
Average ordinary shareholders' funds	**12,808**	12,470	9,390
Average preference shares	**(894)**	(894)	(596)
Average goodwill and intangible assets	**(2,234)**	(2,160)	(1,812)
Average tangible book value	**9,680**	9,416	6,982
Return on ordinary shareholders' funds	**7.3**	7.2	16.9
Return on average tangible book value	**9.1**	9.0	21.5

(5) See *"Banking NIM"* below for a reconciliation between Banking NIM and net interest margin.

(6) The cost-to-income ratio is defined as total expenses divided by total income.

(7) Ordinary equity dividends declared divided by profit after tax.

(8) Non-performing loans ratio is defined as non-performing loans as a percentage of customer assets.

(9) The loan-to-deposit ratio is defined as customer assets divided by customer liabilities.

(10) Average ordinary shareholders' funds divided by average total assets.

(11) For the purpose of calculating the ratios of earnings to fixed charges, earnings consist of profit before tax plus fixed charges. Fixed charges consist of interest payable, including the amortisation of discounts and premiums on debt securities in issue.

Exchange Rates

The following tables set forth, for the periods indicated, certain information concerning the exchange rate for pounds sterling based on the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System in New York City for cable transfers in foreign currencies, as certified for customs purposes by the Federal Reserve Bank of New York, expressed in U.S. dollars per £1.00. No representation is made that amounts in pounds sterling have been, could have been or could be converted into U.S. dollars at the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System or at any other rate. The Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System for U.S. dollars on 18 October 2013 was U.S.$1.62.

Calendar period	High U.S.$ Rate	Low U.S.$ Rate	Average [1] U.S.$ Rate	Period end U.S.$ Rate
Years ended 31 December:				
2012	**1.63**	**1.53**	**1.59**	**1.63**
2011	1.67	1.54	1.60	1.55
2010	1.64	1.43	1.55	1.54
2009	1.70	1.37	1.57	1.62
2008	2.03	1.44	1.85	1.46
Months ended:				
October 2013[2]	1.62	1.59	1.61	1.62
September 2013	1.60	1.55	1.58	1.60
August 2013	1.57	1.51	1.55	1.55
July 2013	1.54	1.48	1.52	1.52
June 2013	1.55	1.52	1.55	1.52
May 2013	1.56	1.50	1.53	1.52
April 2013	1.55	1.51	1.53	1.55

(1) The average of the Foreign Exchange Rates (H.10) as published by the Board of Governors of the Federal Reserve System on the last business day of each month during the relevant period.

(2) With respect to October 2013 for the period from 1 October to 18 October.

Effect on the Core Tier 1 capital ratio of the implementation of CRD IV

The Group estimates that, based on its consolidated capital position at 30 June 2013 and the CRD IV rules (which will implement Basel III in the EU), its Common Equity Tier 1 ratio, calculated on the basis of the CRD IV rules due to apply at the end of the transitional period, would have been 11.4%. This is approximately 1 percentage point less than the Core Tier 1 ratio calculated as at that date.

The results are based on our interpretation of CRD IV rules as at 30 June 2013. Securitisation positions have been reflected as 1,250% risk weighted assets, and adjustments have been made to Core Tier 1 capital in accordance with the basis presented in the Group's regulatory filings to reflect the CRD IV Common Equity Tier 1 rules. The adjustments include those for expected loss, deferred tax, securitisation, and defined benefit pension schemes. In addition, adjustments have been made to risk weighted assets in accordance with the basis presented in the Group's regulatory filings to reflect CRD IV rules for counterparty risk.

The actual impact of the implementation of CRD IV could vary as a consequence of rules defined in European Banking Authority technical standards, many of which have not yet been finalised, and other guidance from regulatory authorities, including the PRA. The PRA is currently consulting on its proposals to reflect and implement the new CRD IV rules.

Recent Developments

Financial information in this section is derived from the unaudited quarterly management statement of the Issuer for the nine months ended 30 September 2013.

Financial highlights for the nine months ended 30 September 2013

	Nine months ended 30 September 2013 £m (unaudited)	Nine months ended 30 September 2012 £m
Net interest income	2,151	2,105
Non-interest income	807	1,656
Operating expenses	(1,650)	(1,606)
Total operating provisions and charges	(417)	(1,115)
Profit before tax from continuing operations	891	1,040
Profit after tax from continuing operations	717	785
Banking net interest margin ("**Banking NIM**")[(1)]	1.50%	1.39%

(1) See *"Banking NIM"* below for a reconciliation between Banking NIM and net interest margin.

Balance sheet highlights as at 30 September 2013

	30 September 2013 £bn	30 September 2012 £bn
Customer loans	188.7	194.7
- of which mortgages	149.9	156.6
- of which Corporate Banking	21.5	19.6
Customer deposits	148.5	148.6
Eligible liquid assets (BIPRU 12.7)	33.1	36.9

Income statement analysis for the Group for the nine months ended and as at 30 September 2013 compared to the nine months ended and as at 30 September 2012

Operating income

Net interest income was 2% higher, largely due to an improved mortgage stock interest margin and increased lending in Corporate Banking. In part, this was offset by the continued impact of the low interest rate environment. The pressure from increased customer deposit funding costs, evident earlier in 2013, has noticeably eased during the nine months ended 30 September 2013. Overall the customer interest margin has improved from the level of 2012.

Non-interest income was lower, largely due to the gain of £705m on the capital management exercise in the third quarter of 2012.

Operating expenses

Costs remained tightly controlled with the Group's focus on business-as-usual expenses. Administrative expenses increased 3%, principally due to higher operational, technology and regulatory compliance and control costs.

Depreciation, amortisation and impairment was 1% higher. Investment programmes continued to support the business transformation and underpin future efficiency improvements. Investments in the business included initiatives focused on improving the customer experience, the branch network, the Group's affluent proposition "Select", the Group's Corporate Banking platform and the expansion of the network of regional Corporate Business Centres.

Operating provisions and charges

Impairment losses on loans and advances were lower, largely as a result of a £335m credit provision included for the non-core corporate and legacy portfolios in the third quarter of 2012. Credit quality in the Retail Banking and Corporate Banking loan books continued to be resilient whilst provisions on the non-core corporate and legacy portfolios were lower than during the nine months ended 30 September 2012.

Provisions for other liabilities and charges were lower, largely due to a £232m conduct remediation provision and a £52m provision for termination costs in the third quarter of 2012 relating to the termination of the Group's proposed acquisition of businesses from the Royal Bank of Scotland group.

Taxation charge

The taxation charge was 32% lower, largely attributable to lower profits from continuing operations as well as the impact of the continued reduction in the main corporation tax rate.

Balance sheet analysis for the Group as at 30 September 2013 compared to as at 31 December 2012

Customer balances

Customer loans decreased £6.0bn, reflecting a managed reduction in selected higher risk segments of the mortgage portfolio partially offset by an increase in Corporate Banking loans. Interest-only mortgage loan balances decreased by £4bn.

Customer deposits decreased £0.1bn. In Retail Banking, there was an acceleration in the reduction of retail savings balances as the Group focused on retaining and originating accounts held by more loyal customers; in total balances reduced by £3.5bn. Corporate Centre customer deposits rose in the first nine months, as a consequence of market activity.

The loan-to-deposit ratio of 126% was 3 percentage points lower than as at 31 December 2012.

Other assets consist largely of liquid assets and trading assets including derivatives. The increase in these assets was due to higher repo activity.

Capital

The Group's Core Tier 1 Capital ratio increased to 12.6%, through organic profit generation.

The CET 1 Capital ratio was 11.6% compared to 11.1% as at 31 December 2012 and the PRA leverage ratio was 3.3%.

Risk-weighted assets were broadly flat, with the growth of higher risk-weighted corporate lending largely offset by the reduction in mortgage loans.

In the third quarter of 2013, the Group undertook a capital management exercise, buying back approximately £500m of Tier 1 and Tier 2 capital instruments. This generated a small profit and reduced the Group's Total Capital ratio by approximately 60 basis points.

Funding and liquidity

Eligible liquid assets decreased £3.8bn to £33.1bn. Balances have been managed down in response to regulatory guidance, initially received in the second half of 2012, as well as greater stability in the capital markets and as a consequence of the actions taken to strengthen the balance sheet over the last three years.

Wholesale funding of less than one year was broadly stable at £24.7bn.

Eligible liquid assets significantly exceeded wholesale funding of less than one year, with a coverage ratio of 134%.

Medium-term funding issuances of £4bn (Sterling equivalent) in the nine months ended 30 September 2013 were well received and at significantly lower spreads than for similar issues in 2012.

Credit Quality

Mortgages

	30 September 2013	**31 December 2012**
Mortgage non-performing loans ("**NPLs**")	£2,841m	£2,719m
Mortgage loans and advances to customers	£149.9bn	£156.6bn
Mortgage impairment loan loss allowances	£589m	£552m
Mortgage NPL ratio[(1)]	*1.89%*	*1.74%*
Mortgage NPL coverage[(2)]	*21%*	*20%*

(1) NPL balance as a percentage of the asset balance.

(2) Impairment loss allowances divided by NPLs and advances.

Mortgage NPLs of £2,841m included £497m compared to £356m as at 31 December 2012 arising from regulatory-driven policy and reporting changes implemented in early 2012.

The NPL ratio increased to 1.89% largely due to these changes, as well as the impact of lower mortgage balances. The impact of these effects was more limited in the third quarter of 2013, rising modestly from 1.87% as at 30 June 2013.

The impact of regulatory-driven policy and reporting changes is likely to reduce going forward, with the NPL ratio expected to stabilise in 2014.

Loan-to-value analysis[(1) (2)]

	30 September 2013	30 June 2013	31 December 2012
	%	%	%
New business			
>90% - 100%	**0**	1	1
Simple average[(3)] loan-to-value of new business (at inception)	**63**	62	63
Value weighted average[(4)] loan-to-value of new business (at inception)	**58**	57	59
Stock			
>90% - 100%	**5**	6	7
>100% i.e. negative equity	**4**	5	5
Simple average loan-to-value of stock (indexed)	**51**	52	52

(1) Excludes any fees added to the loan, and only includes the drawn loan amount, not drawdown limits.

(2) Based on Halifax's UK House Price Index ("HPI") indexed values or the results of automated valuation modelling, as appropriate.

(3) Unweighted average of loan-to-value of all accounts.

(4) Sum of all loan values divided by sum of all valuations.

Banking NIM

Banking NIM is defined as annualised net interest income divided by average customer loans (previously known as commercial assets). Until 31 December 2012, an adjustment was made to exclude net interest income arising from the non-core legacy structured assets portfolio (formerly known as the "Treasury Asset Portfolio") to derive net interest income for the calculation of the Banking NIM. Given that the effect of this item on net interest income is now immaterial, the adjustment is no longer made.

Management reviews Banking NIM in order to measure the overall net interest margin of customer loans and believes that presentation of this financial measure provides useful information to investors regarding the Group's results of operations. A reconciliation between net interest margin and Banking NIM is as follows:

	Nine months ended		Three months ended				
	30.09.13	**30.09.12**	**30.09.13**	**30.06.13**	**31.03.13**	**31.12.12**	**30.09.12**
	£m	£m	£m	£m	£m	£m	£m
Net interest income	2,151	2,105	760	699	692	629	640
Average interest earning assets	231,187	235,268	229,951	230,255	233,355	234,734	233,143
Average customer loans	191,675	202,206	189,875	191,716	193,444	196,341	199,724
Net interest margin	1.24%	1.19%	1.31%	1.22%	1.20%	1.07%	1.09%
Banking net interest margin	1.50%	1.39%	1.59%	1.46%	1.45%	1.27%	1.27%

	2012	2011	2010
	£m	£m	£m
Net interest income	**2,915**	3,830	3,814
Net interest income on the Treasury asset portfolio	**(15)**	(23)	(46)
Banking net interest income	**2,900**	3,807	3,768
Average interest earning assets	**235,135**	230,490	220,813
Average commercial assets	**202,028**	202,839	194,154
Net interest margin	**1.24**	1.66	1.73
Banking net interest margin	**1.44**	1.88	1.94

Use of Proceeds

The net proceeds of the issue of U.S.$1,491,090,000 (after expenses) will be used by the Issuer for general corporate purposes.

Capitalisation

The following table sets forth the Issuer's unaudited consolidated capitalisation (including short-term debt) as of 30 June 2013.

	As of 30 June 2013
	£m
Indebtedness:	
Debt securities in issue	53,542
Subordinated liabilities	3,710
Total indebtedness	57,252
Stockholders' equity	
Share capital and other equity instruments	3,999
Share premium account	5,620
Retained earnings	3,289
Other reserves	(48)
Total equity	12,860
Total capitalisation	70,112

Under IFRS, the Issuer's £325m sterling preference shares are classified as debt and are included, together with accrued interest, in subordinated liabilities in the table above.

As of 30 June 2013, the Issuer had total liabilities and equity of £297,871m, including deposits by banks of £24,401m (including £15,159m classified as trading liabilities).

As of 30 June 2013, the Issuer had contingent liabilities including guarantees arising in the normal course of business totalling £29,892m, consisting of guarantees given to third parties of £813m, formal standby facilities, credit lines and other commitments of £29,071m and other contingent liabilities of £8m.

The indebtedness above includes:

(a) £10,521m of medium term notes issued by Holmes Master Issuer plc under its residential mortgage-backed securities programme and £11,688m of medium term notes issued by Fosse Master Issuer plc under its residential mortgage-backed securities programme (the "**Holmes and Fosse notes**"). The Holmes and Fosse notes are ultimately secured, under the respective programme, on a share of residential mortgages originated by Santander UK plc (and, in the case of Fosse, also originated by Alliance & Leicester plc). Under IFRS, indebtedness under the Holmes and Fosse notes is required to be included within the Issuer's indebtedness in the table above, notwithstanding that neither the Issuer nor any of its subsidiaries is required to support such indebtedness.

(b) £1,333m of medium term notes issued by Motor 2012 plc and Motor 2013 plc (together, known as the "**Motor notes**"). The Motor notes are ultimately secured on two

corresponding portfolios of auto loan receivables (for Motor 2012 plc and Motor 2013 plc, respectively) originated by Santander Consumer (UK) plc. Under IFRS, indebtedness under the Motor notes is required to be included within the Issuer's indebtedness in the table above, notwithstanding that neither the Issuer nor any of its subsidiaries is required to support such indebtedness.

(c) £17,963m of covered bonds issued under the Euro 35bn global covered bond programme by Abbey National Treasury Services plc and guaranteed by Santander UK plc and Abbey Covered Bonds LLP. The guarantee of Abbey Covered Bonds LLP is secured on a portfolio of residential mortgages originated by Santander UK plc.

(d) £7,474m of euro medium term notes issued under the $20bn euro medium term note ("**EMTN**") programme by Abbey National Treasury Services plc and Santander UK plc. The senior notes issued under this programme are guaranteed by Santander UK plc.

(e) £166m of euro medium term notes issued under the $40bn EMTN programme. The notes are direct, unsecured and unconditional obligations of Santander UK plc.

(f) £3,346m of commercial paper issued under the $20bn commercial paper programme by Abbey National North America LLC and guaranteed by Santander UK plc.

(g) £1,051m of certificates of deposit issued by Abbey National Treasury Services plc and guaranteed by Santander UK plc.

As of 31 August 2013, the Issuer had debt securities in issue totalling £52,911m. This decrease in debt securities in issue as compared to 30 June 2013 resulted predominantly from new issuances of debt securities being offset by maturities and the effects of changes in foreign exchange rates. There were new issuances of U.S.$ notes of £634m during August. There were maturities of Holmes notes totalling £377m, and new issuances of covered bonds totalling £168m. There were new issuances and maturities of certificates of deposit in issue totalling £1,495m and £1,932m, respectively.

As of 31 August 2013, the Issuer had contingent liabilities of £30,639m. The increase in contingent liabilities as compared to 30 June 2013 was due to an increase in standby facilities and guarantees to third parties of £243m and £504m, respectively.

As of 31 August 2013, the Issuer had subordinated liabilities totalling £3,507m. This decrease in subordinated liabilities as compared to 30 June 2013 was due to interest accrual. On 13 August 2013, the Issuer purchased for cash subordinated liabilities and share capital and other equity instruments totalling £138m and £300m, respectively, in principal amount and accrued interest pursuant to a tender offer and an offer to purchase.

Save as disclosed above, there has been no significant change in the Issuer's contingent liabilities (including guarantees), total capitalisation and indebtedness since 30 June 2013.

Overview of the Principal Features of the Notes

The following overview refers to certain provisions of the terms and conditions of the Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Memorandum. Terms which are defined in "Terms and Conditions of the Notes" below have the same meaning when used in this overview, and references herein to a numbered "Condition" shall refer to the relevant Condition in "Terms and Conditions of the Notes".

Issue	U.S.$1,500,000,000 5.000 per cent. Subordinated Notes due 2023.
Issuer	Santander UK plc.
Trustee	The Law Debenture Trust Corporation p.l.c.
Status and Subordination	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders against the Issuer are subordinated in a winding-up of the Issuer in accordance with Condition 3(a) and the provisions of the Trust Deed.
Interest	The Notes will bear interest from (and including) the Issue Date at the rate of 5.000 per cent. per annum, payable semi-annually in arrear on each Interest Payment Date.
Interest Payment Dates	7 May and 7 November of each year, starting on 7 May 2014.
Redemption at Maturity	The Notes will be redeemed on 7 November 2023.
Early Redemption at the Option of the Issuer	The Issuer may, subject to certain conditions and upon notice to Noteholders, at any time elect to redeem the Notes at their principal amount together with any accrued and unpaid interest to (but excluding) the date of redemption, if a Tax Event or Regulatory Capital Event has occurred and is continuing. A "**Tax Event**" will occur if: (i) as a result of any Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or (ii) as a result of any Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, (x) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or (y) the Issuer would

not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist), and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it.

A "**Regulatory Capital Event**" will occur if, as a result of a change in law or regulation or the interpretation thereof applicable to the Notes occurring after the date of the issue of the Notes (including, without limitation, any amendment to any Capital Rules or Consolidated Capital Rules), the Notes are or would be fully excluded from the Tier 2 Capital of the Issuer or (for so long as the Issuer is wholly owned by Banco Santander S.A.) the consolidated Tier 2 Capital of Banco Santander S.A., provided that such exclusion is not as a result of any applicable limits on the amount of such Tier 2 Capital.

Additional Amounts

Payments on the Notes will be made without deduction or withholding for or on account of United Kingdom tax, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is required by law, the Issuer will pay such additional amounts as shall be necessary in order that the amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction ("**Additional Amounts**"), subject to some exceptions, as described in Condition 7.

Events of Default and Enforcement

If default is made for a period of seven days or more in the payment of any interest or principal due in respect of the Notes or any of them, the Trustee in its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 9(d)), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer for such payment, but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to Condition 9(a), nor will the Trustee accept the same (provided it has notice or actual knowledge of the relevant circumstances), otherwise than during or after a winding-up of the Issuer, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the PRA, which the Issuer shall confirm in writing to

	the Trustee.
Form and Denomination	The Notes will be in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Listing	Application has been made for the Notes to be admitted to the Official List of the Irish Stock Exchange and for the Notes to be admitted to trading on the Irish Stock Exchange's regulated market.
Ratings	The Notes are expected, on issue, to be rated Baa2 by Moody's, A-(EXP) by Fitch and BBB by Standard & Poor's. The long-term obligations of the Issuer are rated A by S&P, A2 by Moody's and A by Fitch, and the short-term obligations of the Issuer are rated A-1 by S&P, P-1 by Moody's and F1 by Fitch. Each of Moody's, Fitch and S&P is established in the European Union and registered under Regulation 1060/2009/EC on credit ratings agencies. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.
Governing Law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by and construed in accordance with English law.
Use of Proceeds	The net proceeds of the issue will be used by the Issuer for general corporate purposes.

Terms and Conditions of the Notes

The U.S.$1,500,000,000 5.000 per cent. Subordinated Notes due 7 November 2023 (the "**Notes**", which expression shall, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 and forming a single series with the Notes) of Santander UK plc (the "**Issuer**") are constituted by a trust deed to be dated on or about 7 November 2013 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Agency Agreement to be dated on or about 7 November 2013 (as amended or supplemented from time to time, the "**Agency Agreement**") will be entered into in relation to the Notes between the Issuer and Citibank N.A. as principal paying agent, Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**") and Global Markets Deutschland AG as transfer agent (the "**Transfer Agent**") (the expressions Registrar and Transfer Agent including any successor registrar or transfer agent appointed from time to time in connection with the Notes). The principal paying agent and any other paying agent(s) appointed under the Agency Agreement are referred to below respectively as the "**Principal Paying Agent**" and the "**Paying Agents**" (which expression shall include the Principal Paying Agent and any successor paying agent appointed from time to time in connection with the Notes). Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the registered office of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of, and be bound by, those provisions applicable to them of the Agency Agreement.

Condition 17 contains certain defined terms used herein.

1. Form, Denomination, Register and Title

(a) Form and Denomination

(i) The Notes will be in registered form in the denomination of U.S.$200,000 (the "**Minimum Denomination**") and integral multiples of U.S.$1,000 in excess thereof.

(ii) The Rule 144A Notes will be initially represented by one or more Rule 144A Global Notes, which, in the aggregate, will represent the principal amount of the Rule 144A Notes for the time being outstanding. The Regulation S Notes will be initially represented by one or more Regulation S Global Notes which, in the aggregate, will represent the principal amount of the Regulation S Notes for the time being outstanding.

(iii) Each Regulation S Global Note will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg.

(iv) Each Rule 144A Global Note will be deposited with a custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC.

(v) Global Notes will be exchanged for Notes in definitive registered form ("**Definitive Notes**") only if:

(i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or

(ii) DTC has notified the Issuer that is unwilling or unable to continue to act as depositary for the Notes or DTC has ceased to constitute a clearing agency registered under the Exchange Act,

and in each case no alternative clearing system satisfactory to the Trustee and the Issuer is available, in which case a Noteholder may give notice to the Registrar and the Transfer Agent to exchange the Global Notes for Definitive Notes.

(vi) Any Definitive Notes issued in exchange for beneficial interests in any Global Note will be issued to and delivered to such persons or registered in such name or names, as the case may be, as the holder of the Global Note shall instruct the Registrar and the Transfer Agent. It is expected that such instructions will be based upon directions received by DTC, Euroclear and Clearstream, Luxembourg from Relevant Account Holders with respect to ownership of beneficial interests in the Global Note. Notice of the issue of Definitive Notes in the circumstances set out in paragraph (v) above will be given promptly by or on behalf of the Issuer to the Noteholders in accordance with Condition 15.

(b) Register

(i) The Registrar will maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement.

(ii) Each Global Note will be numbered serially with an identifying number which will be recorded on the relevant Global Note and in the Register. If Global Notes are exchanged for Definitive Notes, such Definitive Notes will be serially numbered and issued in an aggregate principal amount equal to the principal amount outstanding of the relevant Global Note and in registered form only.

(c) Title

A Noteholder shall (to the fullest extent permitted by applicable law) be treated by the Issuer, the Trustee, the Paying Agent, the Registrar and the Transfer Agent as the absolute owner of such Note for all purposes (including the making of any payment) regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer) and no person shall be liable for so treating such Noteholder.

2. Transfers

(a) Transfers of Interests in Notes Generally

(i) Beneficial interests in any Global Note will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by DTC, Euroclear and Clearstream, Luxembourg in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in any Global Note will be limited to persons who maintain accounts with DTC, Euroclear and Clearstream, Luxembourg or persons who hold interests through such persons. In each case, the request for a transfer must include details of the accounts at DTC, Euroclear or Clearstream, Luxembourg, as the case may be, to be credited and debited, respectively, with the relevant interests in the Global Note.

(ii) Title to the Notes shall pass by and upon registration in the Register. Subject as provided otherwise in this Condition 2 (*Transfers*), a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar and the Transfer Agent, together with such evidence as the Registrar and the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may only be transferred in the Minimum Denomination. Transfers of any Definitive Notes issued in exchange for Regulation S Global Notes and Rule 144A Global Notes shall be subject to the provisions and restrictions on transfer set out in Conditions 2(b) and 2(c), respectively, below.

(iii) Noteholders may not require transfers of the Notes to be registered during the period of 15 days ending on the due date for any payment in respect of the Notes.

(iv) All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Transfer Agent. A copy of the current regulations will be made available for inspection during usual business hours and upon reasonable notice at the principal office of the Trustee and at the Specified Office of each of the Paying Agents.

(b) Transfers of interests in Regulation S Global Notes

(i) Prior to the expiry of the Distribution Compliance Period, transfers by the Noteholder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made: (A) upon receipt by the Registrar and Transfer Agent of a written certification substantially in the form set out on the Agency Agreement, amended as appropriate with the consent of the Issuer (a "**Transfer Certificate**"), copies of which are available from the specified office of each of the Paying Agents, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A or (B) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States, and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

(ii) In the case of paragraph (i)(A) above, such transferee may take delivery through a Note in global or definitive form (if applicable). After expiry of the Distribution Compliance Period such certification requirements will no longer apply to such transfers.

(c) Transfers of interests in Rule 144A Global Notes

(i) Transfers of Rule 144A Global Notes or beneficial interests therein may be made:

(A) to a transferee who takes delivery of such interest through a Regulation S Global Note upon receipt by the Registrar and the Transfer Agent of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S; or

(B) to a transferee who takes delivery of such interest through a Rule 144A Global Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(C) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

(ii) Upon the transfer, exchange or replacement of Rule 144A Global Notes, or upon specific request for removal of any United States securities law legend enfaced on Rule 144A Global Notes, the Registrar and/or Transfer Agent shall deliver only Rule 144A Global Notes or refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither such legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

3. Status

(a) General

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, the payment obligations of the Issuer under or arising from the Notes and the Trust Deed, including any damages awarded for breach of any obligations in respect of the Notes, shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank at least *pari passu* with all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital

(other than Upper Tier 2 Capital) ("**Pari Passu Securities**") and shall rank in priority to the claims of holders of: (i) all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital or Tier 1 Capital; and (ii) all classes of share capital of the Issuer (together, the "**Junior Securities**").

(b) Set-off, etc.

Subject to applicable law, no holder of the Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each holder of the Notes shall, by virtue of being the holder of any Note, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of the Notes by the Issuer is discharged by set-off, such holder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and accordingly any such discharge shall be deemed not to have taken place.

As used in this Condition 2, the expression "**obligations**" includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation.

On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the Noteholders after the claims of the parties ranking senior to the Noteholders (as provided in Condition 3) have been satisfied.

4. Interest

(a) Interest Rate and Interest Payment Dates

Each Note bears interest on its outstanding principal amount from (and including) the Issue Date at the rate of 5.000 per cent. per annum, payable semi-annually in arrear on 7 May and 7 November of each year, with the first payment to be made on 7 May 2014 (each an "**Interest Payment Date**"). The first payment shall be in respect of the period from (and including) the Issue Date to (but excluding) 7 May 2014, and thereafter for each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date.

(b) Interest Accrual

Each Note will cease to bear interest from (and including) its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

(c) Calculation of Interest

Interest in respect of each Note shall be calculated per U.S.$1,000 in principal amount of that Note (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the interest rate in respect of such period, the Calculation Amount and the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed).

5. Redemption and Purchase

(a) Redemption

Unless previously redeemed or purchased and cancelled as provided below each Note shall be redeemed on the Maturity Date at its principal amount together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

(b) Conditions to Tax Redemption and Redemption due to Regulatory Capital Event

The right of the Issuer to redeem the Notes under Condition 5(c) and Condition 5(d) below shall be conditional upon:

(i) the Issuer having complied with any applicable regulatory rules on notification to and/or obtaining consent or non-objection from the PRA; and

(ii) in the event that the redemption occurs prior to the fifth anniversary of the date of the issue of the Notes:

(A) the Issuer demonstrating to the satisfaction of the PRA that the circumstance that entitles the Issuer to exercise its right of redemption was not reasonably foreseeable, judged at the time of the issue of the Notes and are (in the case of a redemption pursuant to Condition 5(c)) material or (in the case of a redemption pursuant to Condition 5(d)) sufficiently certain; and

(B) such redemption not being prohibited by the Capital Rules.

A certificate signed by two Directors confirming that the above conditions are satisfied shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the holders of the Notes and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall rely on such certificate without liability to any person.

(c) Tax Redemption

If immediately prior to the giving of the notice referred to below:

(i) as a result of any Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Notes and the Issuer cannot avoid the payment of such Additional Amounts by taking measures reasonably available to it; or

(ii) as a result of any Tax Law Change in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, (x) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the UK, or such entitlement is materially reduced; or (y) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable UK tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist), and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

then the Issuer may, subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

Prior to the publication of any notice of redemption pursuant to this Condition 5(c), the Issuer shall deliver to the Trustee: (a) a certificate signed by two Directors stating that the relevant requirement or circumstance referred to in paragraph (i) or (ii) above applies; and (b) an opinion from a nationally recognised law firm or other tax adviser in the UK experienced in such matters to the effect that the relevant requirement or circumstance referred to in paragraph (i) or (ii) above applies. Such certificate and opinion shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the holders of the Notes and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall rely on such certificate and opinion without liability to any person.

(d) Redemption due to Regulatory Capital Event

If a Regulatory Capital Event has occurred and is continuing, the Issuer may (subject to Condition 5(b) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable)) redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

(e) Purchases

The Issuer and any of its Subsidiaries or Holding Companies for the time being may, to the extent such purchase is not prohibited by the applicable Capital Rules and subject to compliance with all relevant regulatory rules including (to the extent then required by

the PRA or the Capital Rules) on notification to, or obtaining consent or non-objection from, the PRA, purchase Notes in the open market or otherwise at any price.

(f) Cancellation

All Notes purchased in accordance with Condition 5(e) above by or on behalf of the Issuer or any of its Subsidiaries or Holding Company may, to the extent such cancellation is not prohibited by the applicable Capital Rules and subject to compliance with all relevant regulatory rules including (to the extent then required by the PRA or the Capital Rules) on notification to, or obtaining consent or non-objection from, the PRA, be surrendered for cancellation by surrendering each such Note to the Principal Paying Agent and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(g) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 5 and will not be responsible to Noteholders for any loss arising from any failure by the Trustee to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 5, it shall be entitled to assume that no such event or circumstance exists.

6. Payments

(a) Method of Payment

Payments of principal in respect of each Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar and Transfer Agent or any of the Paying Agents. Payments of interest and principal will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes maintained by the Registrar and the Transfer Agent (the "**Register**") (i) where in global form, at the close of the business day (being for this purpose a day on which DTC, Euroclear and Clearstream, Luxembourg, as applicable, are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth (15^{th}) Business Day before the relevant due date (being, for this purpose, a day on which banks are open for business in the city where the specified office of the Registrar and the Transfer Agent or Paying Agent is located) (in each case, the "**Record Date**"). For these purposes, "**Designated Account**" means the account maintained by a holder with a bank in New York, the details of which are set out in the Register. No commissions or expenses shall be charged to such holders by the Registrar and the Transfer Agent in respect of any payments of principal or interest in respect of the Notes.

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes from the Issuer while such Notes are represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such

Global Note in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

(b) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in any jurisdiction, but without prejudice to the provisions of Condition 7. For the purposes of the preceding sentence, the phrase "fiscal or other laws, regulations and directives" shall include any obligation of the Issuer to withhold or deduct from a payment pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder or official interpretations thereof or any law implementing an intergovernmental approach thereto.

(c) Appointment of Agents

The Principal Paying Agent is initially appointed by the Issuer. Subject as provided in the Agency Agreement, the Principal Paying Agent and the Paying Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent or any other Paying Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain: (i) a Principal Paying Agent; (ii) a Paying Agent having a specified office in a European Union Member State that will not be obliged to withhold or deduct tax whether pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive, any agreement between the European Union and any jurisdiction providing for equivalent measures or otherwise (so long as there is such a Member State); and (iii) a Paying Agent having specified offices in Dublin so long as the Notes are admitted to the Official List of the Irish Stock Exchange and admitted to trading on the Irish Stock Exchange's EEA Regulated Market. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 15.

(d) Non-Business Days

If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any additional interest or other sum in respect of such postponed payment. In these Conditions, "**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business:

(i) in New York and London; and

(ii) where presentation of a Definitive Note is required for payment as required under Condition 6, in the place where such Note is presented for payment.

7. Taxation

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom, or any political subdivision of either of the same or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by the holders after such withholding or deduction shall equal the respective amounts of principal, and interest, if applicable, which would have been receivable in respect of the Notes in the absence of any requirement to make such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment with respect to any Note:

(i) where presentation is required, presented for payment by, or by a third party on behalf of, a holder who (a) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority but fails to do so, or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the United Kingdom other than the mere holding of such Note; or

(ii) where presentation is required, where such Note is presented for payment in the United Kingdom; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive; or

(iv) where presentation is required, presented for payment by, or on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(v) where presentation is required, presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days, assuming that day had been a Payment Day if that day was not in fact a Payment Day.

The "**Relevant Date**" means the date on which the payment in respect of the Note first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "**Relevant Date**" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Noteholders in accordance with Condition 15.

As provided in Condition 6(b), all payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder, official interpretations thereof, or any law implementing a governmental approach thereto, and the Issuer shall not be required to pay any additional amounts under this Condition on account of any such deduction or withholding described in this paragraph.

8. Prescription

The Notes will become void unless claims in respect of principal and/or interest are made within a period of 10 years in the case of principal and five years in the case of interest from the Relevant Date (as defined in Condition 7) relating hereto. The Issuer shall be discharged from its obligation to pay principal on a Note to the extent that the relevant Note certificate has not been surrendered to the Registrar and Transfer Agent by the end of the period of 10 years from the Relevant Date in respect of such payment.

9. Events of Default and Enforcement

(a) Rights to institute and/or prove in a winding-up

Notwithstanding any of the provisions below in this Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due and is not duly paid.

If default is made for a period of seven days or more in the payment of any interest or principal due in respect of the Notes or any of them, the Trustee in its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution, shall (subject in each case to Condition 9(d)) institute proceedings for the winding-up of the Issuer and/or prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer for such payment, but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to Condition 9(a) nor will the Trustee accept the same (provided it has notice or actual knowledge of the relevant circumstances) otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the PRA, which the Issuer shall confirm in writing to the Trustee.

(b) Amount payable on winding-up or administration

If an order is made by the competent court or resolution passed for the winding-up of the Issuer (other than an Approved Winding-up), the Trustee at its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 9(d)), give notice to the Issuer (or, as applicable, the liquidator) that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their principal amount and any accrued and unpaid

interest, and the claim in respect thereof will be subject to the subordination provided for in Condition 3(a).

(c) Enforcement

Without prejudice to Condition 9(a) or Condition 9(b) above, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, these Conditions and the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed including, without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it. Nothing in this Condition 9(c) shall, subject to Condition 9(a), prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for any breach of any obligations).

(d) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 9(a), Condition 9(b) or Condition 9(c) above to enforce the obligations of the Issuer under the Trust Deed or the Notes unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) and provided in each case it has been indemnified and/or secured and/or prefunded to its satisfaction against all costs, charges, liabilities and expenses which may be incurred by it in connection with such action, including the costs of its management's time and/or other internal resources, calculated in accordance with its normal hourly rates in force from time to time.

(e) Right of Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such winding-up, fails to do so within a reasonable period and such failure is then continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 9.

(f) Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the

Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

10. Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons holding or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest on the Notes, (ii) to reduce or cancel the principal amount of the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any interest amount in respect of the Notes, (iv) to vary the currency or currencies of payment or denomination of the Notes, (v) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (vi) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vii) to modify Condition 3. In each such case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed), and whether or not voting on such Extraordinary Resolution.

(b) Modification of the Trust Deed or the Agency Agreement

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

Any such modification, authorisation or waiver shall be binding on the Noteholders and, unless the Trustee otherwise requires, such modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) Notice to the PRA

No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless (to the extent then required by the PRA or the Capital Rules) the Issuer shall have given at least one month's prior written notice to, and received consent or no objection from, the PRA (or such other period of notice as the PRA may from time to time require or accept).

(d) Substitution

The Trustee may from time to time, without the consent of the Noteholders, agree with the Issuer (or any previous Substitute Issuer) to the substitution on a subordinated basis equivalent to that referred to in Condition 3 of a Subsidiary or successor in business of the Issuer, a Holding Company of the Issuer or another Subsidiary of such Holding Company (the "**Substitute Issuer**") in place of the Issuer (or of any previous Substitute Issuer) as a new principal debtor under these presents provided that:

(i) a trust deed is executed or some other form of undertaking is given by the Substitute Issuer in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Issuer had been named in the Trust Deed and on the Notes, as the principal debtor in place of the Issuer (or of any previous Substitute Issuer);

(ii) (unless the successor in business (as defined in the Trust Deed) of the Issuer is the Substitute Issuer) the obligations of the Substitute Issuer under the Trust Deed and the Notes are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 3 and in the Trust Deed and in a form and manner satisfactory to the Trustee, and provided further that such guarantor shall not exercise rights of subrogation or contribution against the Substitute Issuer without the consent of the Trustee and the only event of default applying to such guarantor shall be an event of default equivalent to that set out in Condition 9(a);

(iii) the directors of the Substitute Issuer or other officers acceptable to the Trustee certify that the Substitute Issuer is solvent at the time at which the said substitution is proposed to be effected and will remain solvent immediately after such substitution is effected (and the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Issuer or to compare the same with those of the Issuer);

(iv) (without prejudice to the rights of reliance of the Trustee under sub-paragraph (iii) above) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;

(v) (without prejudice to the generality of sub-paragraph (i) hereof) the Trustee may in the event of such substitution agree, without the consent of the Noteholders, to a change in the law governing the Trust Deed and/or the Notes, provided that

such change is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; and

(vi) if the Substitute Issuer is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory or any such authority to the taxing jurisdiction of which the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Issuer will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 7 with the substitution for the references in that Condition and in Condition 5(c) to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, these Conditions and the Notes will be read accordingly.

Any such trust deed or undertaking shall, if so expressed, operate to release the Issuer or any previous Substitute Issuer (as the case may be) as aforesaid from all of its obligations as principal debtor or as guarantor (as the case may be) under the Trust Deed. Not later than 14 days after the execution of such documents and compliance with such requirements, the Substitute Issuer shall give notice thereof in a form previously approved by the Trustee to the Noteholders in the manner provided in Condition 15. Upon the execution of such documents and compliance with such requirements, the Substitute Issuer shall be deemed to be named in the Trust Deed as the principal debtor in place of the Issuer (or in place of the previous substitute) under the Trust Deed and the Trust Deed shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the Trust Deed to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to any Substitute Issuer.

Any substitution pursuant to this Condition 10 shall be subject (to the extent then required by the PRA or the Capital Rules) to any notifications to, or consent or non-objection from, the PRA.

11. Entitlement of the Trustee

In connection with any exercise of its functions (including but not limited to those referred to in Condition 10), the Trustee shall have regard to the interests of the Noteholders as a class and the Trustee shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise as aforesaid, no Noteholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Noteholders except to the extent already provided in Condition 7 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

12. Indemnification of the Trustee

The Trust Deed contains provisions for the provision of indemnification, security and prefunding to the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified, secured or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

13. Replacement of Notes

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent or such other Paying Agent as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Note) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects save for the issue price and the date of issue thereof, and the amount and date of the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding Notes; provided, however, that if such further securities are not issued as part of the same "issue" or in a "qualified reopening" for U.S. federal income tax purposes, the further securities will have a separate Common Code, ISIN, and CUSIP and CINS (where applicable) from such numbers assigned to the previously issued Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the Notes constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed.

15. Notices

Any notice to Noteholders shall be validly given if such notice is:

(a) published on the Relevant Screen; and

(b) for so long as the Notes are listed on the Official List and traded on the Irish Stock Exchange and the rules of the Irish Stock Exchange so permit, (i) published by delivery to the applicable clearing system, or (ii) filed with the Companies Announcement Office of the Irish Stock Exchange for publication in the Announcements section of the website of the Irish Stock Exchange.

Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Definitions

As used herein:

"**Additional Amounts**" has the meaning given to it in Condition 7;

"**Approved Winding-up**" means a solvent winding-up of the Issuer solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (ii) do not provide that the Notes shall thereby become payable;

"**Business Day**" has the meaning given to it in Condition 6(d);

"**Capital Rules**" means at any time the regulations, requirements, guidelines and policies relating to capital resources requirements or capital adequacy then in effect and applicable to the Issuer (including, without limitation, CRD IV and any such regulations, requirements, guidelines and policies contained in or made to bring into effect CRD IV);

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Code**" means the U.S. Internal Revenue Code of 1986;

"**Consolidated Capital Rules**" means the regulations, requirements, guidelines and policies relating to capital resources requirements or capital adequacy then in effect and applicable to Banco Santander S.A. (including, without limitation, CRD IV and any such regulations, requirements, guidelines and policies contained in or made to bring into effect CRD IV);

"**CRD IV**" means (i) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, (ii) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and (iii) any legislation or regulatory technical standards made under or pursuant to powers conferred by (i) or (ii);

"**Definitive Notes**" has the meaning given to it in Condition 1(a);

"**Designated Account**" has the meaning given to it in Condition 6(a);

"**Designated Bank**" has the meaning given to it in Condition 6(a);

"**Directors**" means the directors of the Issuer;

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of the Notes, as certified by the Joint Lead Managers;

"**DTC**" means The Depository Trust Company;

"**EEA Regulated Market**" means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**Global Notes**" means the Rule 144A Global Notes and the Regulation S Global Notes;

"**Holding Company**" means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;

"**Interest Payment Date**" has the meaning given to it in Condition 4(a);

"**Issue Date**" means 7 November 2013, being the date of the initial issue of the Notes;

"**Junior Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank junior to, the claims of the Noteholders including holders of Junior Securities;

"**Junior Securities**" has the meaning given to it in Condition 3(a);

"**Maturity Date**" means 7 November 2023;

"**Minimum Denomination**" has the meaning given to it in Condition 1(a)(i);

"**Noteholder**" or "**holder**" has the meaning given to it in the Trust Deed;

"**Official List**" means the official list of securities maintained by the Irish Stock Exchange;

"**Pari Passu Securities**" has the meaning given to it in Condition 3(a);

"**QIB**" means a Qualified Institutional Buyer, as defined in Rule 144A;

"**PRA**" means the Prudential Regulation Authority of the UK provided that if the Prudential Regulation Authority ceases to be the governmental authority in the UK having primary bank supervisory authority in prudential matters with respect to the Issuer, the successor governmental authority in the UK having primary bank supervisory authority in prudential matters with respect to the Issuer;

"**Regulation S**" means Regulations S under the United States Securities Act of 1933, as amended;

"**Regulation S Notes**" means the Notes constituted by the Trust Deed that are sold outside the United States to non-U.S. persons in reliance on Regulation S;

"**Regulation S Global Notes**" means the note certificates representing the Regulation S Notes while in global form;

"**Register**" has the meaning given to it in Condition 6(a);

a "**Regulatory Capital Event**" will occur if, as a result of a change in law or regulation or the interpretation thereof applicable to the Notes occurring after the date of the issue of the Notes (including, without limitation, any amendment to any Capital Rules or Consolidated Capital Rules), the Notes are or would be fully excluded from the Tier 2 Capital of the Issuer or (for so long as the Issuer is wholly owned by Banco Santander S.A.) the consolidated Tier 2 Capital of Banco Santander S.A., provided that such exclusion is not as a result of any applicable limits on the amount of such Tier 2 Capital;

"**Relevant Account Holder**" means each person who is for the time being shown in the records of DTC, Euroclear or Clearstream, Luxembourg (other than (i) Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear, and (ii) Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by DTC, Euroclear or Clearstream, Luxembourg shall be conclusive and binding for all purposes);

"**Relevant Date**" has the meaning given to it in Condition 7;

"**Relevant Screen**" means a page of the Reuters or Bloomberg service, or any other medium for electronic display of data as may be previously approved by the Trustee in writing and which has been notified to Noteholders in accordance with Condition 15;

"**Rule 144A**" means Rule 144A under the United States Securities Act of 1933, as amended;

"**Rule 144A Notes**" means the Notes constituted by the Trust Deed which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A;

"**Rule 144A Global Notes**" means the note certificates representing the Rule 144A Notes while in global form;

"**Senior Creditors**" means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer, and (b) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of any such capital constitute, Tier 1 Capital, Tier 2 Capital or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

"**Subsidiary**" has the meaning given to it under Section 1159 of the Companies Act 2006 (as amended from time to time);

"**Substitute Issuer**" has the meaning given to it in Condition 10(d);

"**successor in business**" has the meaning given to it in the Trust Deed;

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of the UK or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the UK is a party, or any change in the application or official interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Notes and which are capable of constituting Tier 2 Capital) or which differs from any specific written confirmation given by a tax authority in respect of the Notes, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the date of the issue of the Notes;

"**Tier 1 Capital**" has the meaning given to it in the Capital Rules;

"**Tier 2 Capital**" has the meaning given to it in the Capital Rules;

"**Transfer Certificate**" has the meaning given to it in Condition 2(b)(i);

"**UK**" means the United Kingdom of Great Britain and Northern Ireland;

"**Upper Tier 2 Capital**" has the meaning given to it in the Capital Rules but, for the avoidance of doubt, shall not include any securities forming Tier 2 Capital which are issued on or after the implementation of CRD IV in the UK; and

"**U.S.$**" and "**U.S. Dollars**" mean the lawful currency of the United States of America.

18. Governing Law

The Trust Deed, these Conditions and the Notes and any non-contractual obligations arising out of or in connection with the Trust Deed, these Conditions or the Notes are governed by, and shall be construed in accordance with, English law.

Overview of the Notes while in Global Form

*Words and expressions defined in the "Terms and Conditions of the Notes" above or elsewhere in this Offering Memorandum have the same meanings in this section. The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.*

The Notes will be in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Regulation S Notes will initially be represented by the Regulation S Global Notes, deposited with, and registered in the name of a nominee for, a common depositary of Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will initially be represented by the Rule 144A Global Notes, deposited with, and registered in the name of, Cede & Co., as nominee of DTC (together with the Regulation S Global Notes, the "**Global Notes**").

Custodial and depositary links are to be established between the Clearing Systems to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading.

Investors may hold their interests in a Global Note directly through the Clearing Systems if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

None of the Clearing Systems is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Ownership of interests in the Rule 144A Global Notes (the "**Rule 144A Book-Entry Interest**") and in the Regulation S Global Notes (the "**Regulation S Book-Entry Interest**", and together with the Rule 144A Book-Entry Interest, the "**Book-Entry Interests**") will be limited to Direct Participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Book-Entry Interests will not be evidenced other than by entry in the records of the relevant Clearing System. The Clearing Systems will credit on their book-entry registration and transfer systems a Direct Participant's account with the interest beneficially owned by such Direct Participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form other than in the circumstances described below.

Issuance of Definitive Notes

Under the terms of the Trust Deed, Global Notes will only be exchanged for definitive Notes in registered form (the "**Definitive Notes**") if:

- Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or

- DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Notes or DTC has ceased to constitute a clearing agency registered under the Exchange Act,

and in each case no alternative clearing system satisfactory to the Trustee and the Issuer is available, in which case a Noteholder may give notice to the Registrar and the Transfer Agent to exchange the Global Notes for Definitive Notes.

In such an event, the registrar will issue Definitive Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of the relevant Clearing System or the Issuer, as applicable (in accordance with its customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Notes will bear the applicable restrictive legend set forth in "*Subscription and Sale*".

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the relevant Clearing System will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by the relevant Clearing System in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that under existing practices of the relevant Clearing System if fewer than all of the Notes are to be redeemed at any time, the relevant Clearing System, will credit their respective Direct Participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of less than U.S.$200,000, as applicable, principal amount at maturity, or less, may be redeemed in part.

Payments on Global Notes

Payments of amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to the relevant Clearing System or their nominee, which will distribute such payments to Direct Participants in accordance with their respective procedures.

Under the terms of the Trust Deed, the Issuer, the Trustee and the Paying Agents will treat the registered holder of the Global Notes as the owner thereof for, the purpose of receiving payments. Consequently, none of the Issuer, the Trustee, the Paying Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of the Clearing Systems or any Participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by the Clearing Systems or any Participant, or for maintaining, supervising or reviewing the

records of the Clearing Systems or any Participant relating to, or payments made on account of, a Book-Entry Interest; or

- payments made by the Clearing Systems or any Participant, or for maintaining, supervising or reviewing the records of the Clearing Systems or any Participant relating to or payments made on account of a Book-Entry Interest; or

- the Clearing Systems or any Participant.

Payments by Indirect Participants to owners of Book-Entry Interests held through Direct Participants are the responsibility of such Participants, as is now the case with securities held for the accounts of subscribers registered in "street name".

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interest in such Notes through DTC in dollars.

Transfers

The Rule 144A Global Note, and any Definitive Notes issued in exchange for Rule 144A Global Notes, is subject to certain restrictions on transfers as set forth therein and in Condition 2 and will bear a legend regarding such restrictions. See "*Subscription and Sale*".

Through and including the Distribution Compliance Period, beneficial interests in Regulation S Global Notes, and any Definitive Notes issued in exchange for Regulation S Global Notes, may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Notes, or any Definitive Notes issued in exchange for Rule 144A Global Notes, only in accordance with the transfer restrictions described under Condition 2 and in accordance with all applicable securities laws of the United States and the states of the United States and other jurisdictions.

After the expiration of the Distribution Compliance Period, beneficial interests in Regulation S Global Notes, or any Definitive Notes issued in exchange for Regulation S Global Notes, may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Notes, or any Definitive Notes issued in exchange for Rule 144A Global Notes, without compliance with the certification requirements described under Condition 2.

Subject to the foregoing, and as set forth in Condition 2, Book-Entry Interests may be transferred and exchanged as described under Condition 2. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note of the same denomination will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

DTC, Euroclear and Clearstream, Luxembourg

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, Luxembourg, as applicable.

The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. The Issuer is not responsible for those operations or procedures. DTC has advised the Issuer that it is:

- a limited purpose trust company organised under the laws of the state of New York;
- a "banking organisation" under the laws of the state of New York;
- a member of the U.S. Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants thereby through electronic computerised book-entry changes in the accounts of securities participants, eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Like DTC, Euroclear and Clearstream, Luxembourg hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream, Luxembourg provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream, Luxembourg participant, either directly or indirectly.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of the Clearing Systems as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Direct Participants' or accountholders' accounts in the relevant clearing system with payments in

amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note, or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Note held within a Clearing System are exchanged for Definitive Notes.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Global Clearance and Settlement under the Book-Entry System

Investors will only be able to make and receive deliveries, payments and other communications involving Notes through the Clearing Systems on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving the Clearing Systems on the same business day as in the United States.

U.S. investors who wish to transfer their interests in the Notes, or to receive or make a payment or delivery of Notes, on a particular day, may find that the transactions will not be performed until the next business day in Brussels or Luxembourg, depending on whether Euroclear or Clearstream, Luxembourg is used.

Although the Clearing Systems currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in the Clearing Systems, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or the Paying Agents will have any responsibility for the performance by the Clearing Systems or their respective Participants, of their respective obligations under the rules and procedures governing their operations.

Secondary Market Trading

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of Book-Entry Interests in Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of a Rule 144A Global Note will instruct the relevant Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the relevant Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will transmit appropriate instructions to the custodian of such Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and instruct the relevant Registrar to: (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although the Clearing Systems have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Note among Participants and accountholders of the Clearing Systems, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. Neither the Issuer nor any Paying Agent will have the responsibility for the performance by the Clearing Systems or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of pre-issue trades

It is expected that delivery of the Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisors.

Business Description

Background

Abbey National Building Society was formed in 1944 and its business was transferred to a public limited liability company, now called Santander UK plc, incorporated and registered in England and Wales under the Companies Act 1985. It was incorporated on 12 September 1988 with registered number 2294747. The Issuer is regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is an authorised person with permission to accept deposits under the Financial Services and Markets Act 2000 ("**FSMA**").

The registered office of the Issuer is at 2 Triton Square, Regent's Place, London NW1 3AN. The telephone number of the Issuer is +44 (0) 870 607 6000.

On 12 November 2004, Banco Santander, S.A. ("**Banco Santander**") completed the acquisition of the entire issued ordinary share capital of the Issuer, implemented by means of a scheme of arrangement under Section 425 of the Companies Act 1985 making the Issuer a subsidiary of Banco Santander.

Business and Support Divisions

The Group, headed by Ana Botín, Chief Executive Officer of the Issuer, operates four business divisions as follows:

- **Retail Banking**

  Retail Banking offers a wide range of products and financial services to customers through a network of branches, agencies and ATMs, as well as through telephony, e-commerce and intermediary channels. It principally serves personal banking customers, but also services small businesses with a turnover of less than £250,000 per annum. Retail Banking products include residential mortgage loans, savings and current accounts, credit cards (excluding the co-brand credit cards business) and personal loans as well as a range of insurance products.

- **Corporate Banking**

  Corporate Banking provides a wide range of products and financial services to customers through a network of regional business centres and through telephony and e-commerce channels. Corporate Banking products and services include loans, bank accounts, deposits, treasury services, invoice discounting, cash transmission and asset finance.

  The SME and mid corporate business principally serves small and medium enterprises with an annual turnover of more than £250,000 up to £50m, and other corporate customers with an annual turnover of up to £500m. This also includes real estate lending.

  The Large Corporates business offers specialist treasury services in fixed income and foreign exchange, lending, transactional banking services, capital markets and money markets to large multinational corporate customers with an annual turnover of more than £500m. Lending includes syndicated loans and structured finance. Transactional banking

includes trade finance and cash management. Money market activities include securities lending/borrowing and repos.

- **Markets**

  Markets offers risk management and other services to financial institutions, as well as other Group divisions. Its main product areas are fixed income and foreign exchange, equity, capital markets and institutional sales.

- **Corporate Centre**

  Corporate Centre includes Financial Management & Investor Relations ("**FMIR**") and the non-core corporate and legacy portfolios, as well as the co-brand credit cards business. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Group. The non-core corporate and legacy portfolios include aviation, shipping, infrastructure, commercial mortgages, social housing loans and structured credit assets, all of which are being run down and/or managed for value. Deals to sell the co-brand credit cards business were completed in the first half of 2013.

The business segments detailed above are supported by various divisions including:

- **Retail Products and Marketing** – responsible for developing the Group's products, marketing and brand communications to serve customers better.

- **Manufacturing** – responsible for all information technology and operations activity, including service centres.

- **Risk** – responsible for ensuring that the Group is provided with an appropriate risk policy and control framework, and to report any material risk issues to the Board Risk Committee and the Board.

- **Internal Audit** – responsible for supervising the compliance, effectiveness and efficiency of the Group's internal control systems to manage its risks.

- **People & Talent** – responsible for delivering the human resources strategy and personnel support.

In addition there are a number of corporate units, including Financial Control, Legal & Secretariat, Strategy, Internal Control and Compliance, Regulatory Affairs and Pensions, Customer Experience, Communications and Santander Universities within the Group.

Credit Ratings

The long-term obligations of the Issuer are rated A by S&P, A2 by Moody's and A by Fitch, and the short-term obligations of the Issuer are rated A-1 by S&P, P-1 by Moody's and F1 by Fitch.

Management

The following table sets forth the directors of the Issuer.

Position	Name	Other principal activities
Chairman	Lord Terence Burns	Non-Executive Director of Banco Santander, S.A.; Chairman of Channel 4 Television Corporation; Member of House of Lords; Chairman of the Royal Academy of Music's Governing Body; Non-Executive Member of the Office of Budget Responsibility; and Member of the Whistleblowing Commission.
Deputy Chairman and Non-Executive Director	Juan Rodriguez Inciarte	Executive Director of Banco Santander, S.A.; Director, Banco Banif, S.A.; Director, Santander Consumer Finance S.A.; Member of Banco Santander International Advisory Board; Chairman of the US-Spain Council; Member of the Spain-Japan Council Foundation; Member of the Board of Trustees of the Carlos V International Centre of the Autonomous University of Madrid; and Fellow of The Chartered Institute of Bankers in Scotland.
Executive Director and Chief Executive Officer	Ana Botín	Executive Director of Banco Santander, S.A.; President of Ingenería de Software Bancario, S.L.; Trustee of Marcelino Botín Foundation; Vice Chairperson of Empresa y Crecimiento Foundation; Member of Trilateral Commission; Member of Conocimiento y Deserrollo Foundation; Member of the International Advisory Board of the NYSE; Member of the International Advisory Board of the Inter-American Development Bank; Trustee of the Mayor's Fund for London; Member of the Empieza por Educar Foundation; Member of Advisory Board, Deusto Business School; Member of Advisory Board, INSEAD; Member of Advisory Board, Said Business School; Member of the EuroAmerica Foundation; and Non-Executive Director of the Coca Cola Company.
Executive Director and Chief Risk	Jose Maria Nus	Member of Banesto Foundation; Member of Spanish Governmental Observatory for

Officer		Multinationals; Member of Catalan Economic Society; and Director of Unitaria Inmobiliaria, S.A.
Executive Director and Head of UK Banking	Stephen Pateman	None.
Executive Director and Chief Financial Officer	Stephen Jones	None.
Non-Executive Directors	Rosemary Thorne	Non-Executive Director of Smurfitt Kappa Group plc.
	Roy Brown	None.
	José María Carballo	Chairman of La Unión Résinera Española; Chairman of Vista Desarrollo S.A.; Director of Vista Capital Expansión S.A. S.G.E.C.R.; Director, Santander Private Real State Advisory, S.A.; Director of Teleférico Pico del Teide, S.A; Member of the Iberoamerican Benevolent Society; Director, Santander Banif Inmobiliario FII; and Director, DOCOUT, S.A..
	José Maria Fuster	Chief Information Officer of Banco Santander, S.A.; Non Executive Director of Banco Español de Crédito, S.A. ("**Banesto**"); Director of Santander Consumer Holdings GmBH; Director of Ingeniería de Software Bancario, S.L; Managing Director, Banco Santander Group technology and Operations; Director of Grupo Santander Holdings USA, Inc.; Member of the Board, Portal Universia S.A.; and Member of the Board, Group Konectanet, S.L.
	Bruce Carnegie-Brown	Chairman of Aon UK Limited; Senior Independent Director of Close Brothers Group plc; Senior Independent Director of Catlin Group Limited; Non-Executive Director of Moneysupermarket.com Group plc; and Trustee of the Shakespeare Globe Trust.
	Antonio Escámez Torres	Chairman of Fundación Banco Santander; Member of Banco Santander International Advisory Board; Chairman of Santander Consumer Finance, S.A.;

		Chairman of Openbank, S.A.; Chairman of Arena Media Communications Espana, S.A.; Vice-Chairman of Grupo Konnectanet S.L.; Chairman of the Spain-India Council Foundation; and Vice-Chairman of Attijariwafa Bank.
	Michael Amato	President and Chief Executive of Cimarron Inc.
	Alain Dromer	Director of Moody's Investors Service Limited; Independent Member of the Beirat of Moody's Deutschland GmbH; Independent Member of the Supervisory Board of Moody's France SAS; and Director of Majid Al Futtaim Trust LLC.
	Scott Wheway	Non-Executive Director of Aviva plc.
	Manuel Soto	Director of Cartera Industrial Rea, S.A.; Member of the Board of Superintendence of Istituto per le Opere di Religione; Member of the Board, Grupo Lar Inversiones Inmobiliarias, S.A.; Member of Advisory Board, Grupo Barceló; Member of Advisory Board, N+1 Mercapital; and Member of Advisory Board, Befesa Medio Ambiente, S.A.

The business address of each of the directors is 2 Triton Square, Regent's Place, London NW1 3AN with telephone number +44 (0) 870 607 6000.

Conflicts of Interest

There are no potential conflicts of interest between the duties to the Issuer of the persons listed in the table above and their private interests and/or other duties.

Taxation

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HM Revenue & Customs practice, describe only the United Kingdom withholding tax treatment of payments in respect of the Notes. They are not exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are admitted to trading on the Main Securities Market of the Irish Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of tax where, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by HM Revenue & Customs that interest may be paid without withholding or deduction for or on account of tax to a specified Noteholder following an application by that Noteholder under an applicable double tax treaty), an amount must generally be withheld on account of income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes.

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount element on any such Notes will not be subject to any withholding or deduction for or on account of income tax.

HM Revenue & Customs have powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), a member state is required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an

individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, certain EU Member States are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

The EU Savings Directive does not preclude EU Member States from levying other types of withholding tax.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a U.S. Holder of a Note (as defined below), and certain considerations (described in "*Foreign Account Tax Compliance Act*" below) relevant to both a U.S. Holder a non-U.S. Holder (each as defined below). This summary deals only with holders that purchase Notes at their issue as part of an initial offering and hold Notes as capital assets for U.S. federal income tax purposes. It does not address tax considerations applicable to investors that may be subject to special tax rules, including banks or other financial institutions, tax-exempt entities, insurance companies, regulated investment companies, common trust funds, entities that are treated for

U.S. federal income tax purposes as partnerships or other pass-through entities, dealers in securities or currencies, traders in securities that elect mark to market, persons that will hold Notes as part of an integrated investment, including a straddle, a synthetic security or hedge or a conversion transaction, comprised of a debt security and one or more other positions, or U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar. In addition, this summary does not address any aspects of the Medicare contribution tax on net investment income.

The summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this Offering Memorandum may affect the tax consequences described herein, possibly with retroactive effect.

Persons considering the purchase of Notes should consult their own tax advisors in determining the tax consequences to them of the purchase, ownership and disposition of Notes, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Pursuant to U.S. Treasury Department Circular 230, holders of Notes or prospective purchasers are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Offering Memorandum or any document referred to herein is not intended or written to be used, and cannot be used by Noteholders for the purpose of avoiding penalties that may be imposed under the Code; (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) Noteholders should seek advice based on their particular circumstances from an independent tax advisor.

As used in this Offering Memorandum, the term "**U.S. Holder**" means:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) that is organised under the laws of the United States or any political subdivision thereof; or
- any person otherwise subject to U.S. federal income taxation on a net income basis in respect of the Note.

As used in this summary, the term "**non-U.S. Holder**" means a holder that is not a U.S. Holder.

Payments of Interest

Payments of interest and Additional Amounts (as defined in Condition 7) on a Note will be taxable to a U.S. Holder as ordinary income at the time that such payments are accrued or are received, in accordance with the U.S. Holder's method of tax accounting. The Notes are not expected to be issued with more than a *de minimis* amount of original issue discount ("**OID**") for U.S. federal income tax purposes. If the Notes are issued with more than a *de minimis* amount of OID, a U.S. Holder generally will be required to include OID in ordinary gross income on a constant-yield basis for U.S. federal income tax purposes as it accrues, although the U.S. Holder may not yet have received cash attributable to that income.

Payments of interest and Additional Amounts on Notes will be treated as foreign source income for the purposes of calculating a U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific classes of income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit under their particular circumstances.

Purchase, Sale and Retirement of Notes

Upon the sale, exchange, retirement or other taxable disposition (collectively, a "**disposition**") of a Note, a U.S. Holder generally will recognise gain or loss equal to the difference between (1) the amount realised on the disposition, less any accrued but unpaid interest, which will be taxable in the manner described above under "*Payments of Interest*", and (2) the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's tax basis in a Note generally will equal the cost of that Note to such holder.

Gain or loss recognised by a U.S. Holder on a disposition of a Note will generally be U.S.-source long term capital gain or loss if the U.S. Holder's holding period for the Note exceeded one year at the time of such disposition. For individual holders, the net amount of long-term capital gain generally will be subject to taxation at reduced rates. A U.S. Holder's ability to offset capital losses against ordinary income is limited.

Substitution of the Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes.

Information Reporting and Backup Withholding

Information returns may be required to be filed with the U.S. Internal Revenue Services ("**IRS**") relating to payments made to particular U.S. Holders of Notes. In addition, U.S. Holders may be subject to backup withholding tax on such payments if they do not provide their taxpayer identification numbers, fail to certify that they are not subject to backup withholding tax, or otherwise fail to comply with applicable backup withholding tax rules. U.S. Holders may also be subject to information reporting and backup withholding tax with respect to the proceeds from a disposition of the Notes. Any amounts withheld under the backup withholding rules will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act

The IRS has issued final regulations implementing U.S. Foreign Account Tax Compliance Act rules ("**FATCA**") and the United Kingdom has entered into an intergovernmental agreement (the "**U.S. – UK IGA**") with the United States relating to FATCA. Pursuant to the U.S. – UK IGA, the Issuer may be required to comply with certain reporting requirements. Investors in the Notes

may therefore be required to provide information and tax documentation regarding their identities as well as that of their direct and indirect owners and this information may be reported to the Commissioners for Her Majesty's Revenue & Customs, and ultimately, the IRS. Assuming the Issuer complies with any applicable reporting requirements pursuant to the U.S. – UK IGA, the Issuer should not be subject to FATCA withholding on payments it receives. Under the final regulations implementing FATCA, assuming the Notes are treated as debt for U.S. federal income tax purposes and are not materially modified on or after the applicable "grandfathering date", payments on the notes will not be subject to FATCA withholding. The applicable "grandfathering date" is the later of 1 July 2014 and the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register.

FATCA is particularly complex and its application to the Issuer is uncertain at this time. Each prospective Noteholder should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how this legislation might affect each holder in its particular circumstance.

Subscription and Sale

Pursuant to a Subscription Agreement dated 31 October 2013 (as amended on or about 6 November 2013, the "**Subscription Agreement**"), Barclays Capital Inc., Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and Santander Investment Securities Inc. (together the "**Joint Lead Managers**" or the "**Managers**" and each, a "**Manager**") have agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the issue price of 99.681 per cent. of their principal amount less a combined management and underwriting commission payable under the Subscription Agreement. The Managers are entitled to terminate and to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

Joint Lead Manager	**Principal Amount of Notes**
Barclays Capital Inc.	U.S.$300,000,000
Deutsche Bank Securities Inc.	U.S.$300,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	U.S.$300,000,000
Morgan Stanley & Co. LLC	U.S.$300,000,000
Santander Investment Securities Inc.	U.S.$300,000,000
Total	U.S.$1,500,000,000

The Joint Lead Managers propose initially to offer and sell the Notes at the offering price set forth on the front of this Offering Memorandum. After the initial offering of the Notes, the offering price at which the Notes are being offered may be changed at any time without notice.

Some of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Conflicts of Interest

Santander Investment Securities Inc. is an affiliate of the Issuer. Client accounts over which Santander Investment Securities Inc. or any affiliate has investment discretion are not permitted to purchase the Notes without specific written approval of the accountholder.

Following the initial distribution of any of these Notes, affiliates of the Issuer may offer and sell these Notes in the course of their businesses as broker-dealers. Such affiliates may act as principals or agents in these transactions and may make any sales at varying prices related to prevailing market prices at the time of sale or otherwise. Such affiliates may also use this Offering Memorandum in connection with these transactions. None of the Issuer's affiliates is obligated to make a market in any of these Notes and may discontinue any market-making activities at any time without notice.

In addition, it is expected that Banco Santander S.A., the ultimate parent of and majority shareholder in the Issuer, will purchase 45 per. cent of the principal amount of the Notes on issuance (being U.S.$675,000,000 of the principal amount of the Notes). Under the terms of the Trust Deed, Banco Santander S.A. would be precluded from counting towards the quorum of or attending any meeting of Noteholders or voting on any resolution in respect of any Notes held by it.

United States

Each Manager has acknowledged that the Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or other relevant jurisdiction within the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S.

Each Manager has agreed that except as permitted by the Subscription Agreement, it has not offered, sold or delivered Notes and it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all Notes, within the United States or to, or for the account or benefit of U.S. persons and only in accordance with Rule 903 of Regulation S or, if applicable, Rule 144A and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it or through it during the Distribution Compliance Period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to or for the account or benefit of U.S. persons.

The Notes are being offered and sold only (a) outside the United States to persons other than U.S. persons ("**foreign purchasers**", which term includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust) in reliance upon Regulation S and (b) to a limited number of QIBs in compliance with Rule 144A.

Terms used in this section of *"Subscription and Sale"* have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each purchaser of Notes will be deemed to have represented and agreed as follows:

(1) It is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is either (A) a QIB and is aware that the sale to it is being made in reliance on Rule 144A, or (B) a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary as referred to above).

(2) It acknowledges that the Notes have not been registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold by the purchaser within the United States or to, or for the account or benefit of, U.S. persons except as set forth in paragraph (4) below.

(3) It agrees that the Issuer has no obligation to register the Notes under the Securities Act.

(4) It will not resell or otherwise transfer any Notes except (A) in accordance with Rule 144A to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB, (B) outside the United States in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (C) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (D) pursuant to an effective registration statement under the Securities Act in each case, in accordance with all applicable U.S. state securities laws.

(5) It will give to each person to whom it transfers Notes notice of any restrictions on transfer of those Notes.

(6) It acknowledges that transfers by the holder of, or of a beneficial interest in, a Rule 144A Global Note to a transferee taking delivery of such interest through a Regulation S Global Notes; or, prior to the expiry of the Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee taking delivery of such interest through a Rule 144A Global Note are conditioned on the requirement that the transferor provide the Registrar and the Transfer Agent with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restrictions referred to above.

(7) It understands that the Notes will bear the legends in the forms set out below.

(8) It acknowledges that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each Rule 144A Global Note will bear a legend to the following effect:

“THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND, MAY BE TRANSFERRED ONLY PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AS SET FORTH BELOW.

THE HOLDER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THE NOTES IN RESPECT OF WHICH THIS GLOBAL NOTE IS ISSUED (OR ANY BENEFICIAL INTEREST OR PARTICIPATION HEREIN) ON ITS OWN BEHALF AND ON BEHALF OF ANY ACCOUNT FOR WHICH IT IS PURCHASING THIS GLOBAL NOTE OR ANY BENEFICIAL INTEREST OR PARTICIPATION HEREIN, (1) REPRESENTS FOR THE BENEFIT OF THE ISSUER AND FOR ANY AGENT OR SELLER WITH RESPECT TO SUCH NOTES THAT IT IS THE SOLE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY OR IS PURCHASING SUCH NOTES FOR ONE OR MORE ACCOUNTS MAINTAINED BY IT OR OVER WHICH IT EXERCISES SOLE INVESTMENT DISCRETION AND THAT EITHER (A) IT AND ANY SUCH ACCOUNT ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT) AND ARE NOT PURCHASING SUCH NOTES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OR (B) IT AND ANY SUCH ACCOUNT ARE (OR ARE HOLDING SUCH NOTES FOR THE BENEFIT OF) QUALIFIED INSTITUTIONAL BUYERS (“QIBS”) AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), (2) ACKNOWLEDGES THAT SUCH NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, RESOLD OR DELIVERED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM THE SECURITIES ACT IN ACCORDANCE WITH THE TERMS HEREOF, (3) AGREES TO NOTIFY ANY SUBSEQUENT TRANSFEREE OF THE TRANSFER RESTRICTIONS SET OUT HEREIN AND THAT IT WILL BE A CONDITION TO SUCH TRANSFER THAT THE TRANSFEREE WILL BE DEEMED TO MAKE THE REPRESENTATIONS SET OUT HEREIN, AND (4) AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY ONLY BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED (A) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE SECURITIES ACT, OR (B) TO A PERSON WHO THE SELLER REASONABLY BELIEVES TO BE A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A OR ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT; PROVIDED THAT, IN THE CASE OF A TRANSFER PURSUANT TO CLAUSE (A), A TRANSFEROR OF THE NOTES WILL BE REQUIRED (1) TO EXECUTE AND DELIVER TO THE ISSUER AND THE REGISTRAR AND THE TRANSFER AGENT A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE AGENCY AGREEMENT AND CAN BE OBTAINED FROM THE REGISTRAR AND THE TRANSFER AGENT), AND (2) TO EXCHANGE THE PORTION OF THIS GLOBAL NOTE TO BE SO TRANSFERRED FOR AN INTEREST IN A REGULATION S GLOBAL NOTE OR A DEFINITIVE NOTE TO BE REGISTERED IN THE NAME OF THE TRANSFEREE.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. EACH HOLDER OF THIS GLOBAL NOTE OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO

WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. FOR THE PURPOSES HEREOF, “OFFSHORE TRANSACTION” AND “U.S. PERSON” SHALL HAVE THE MEANINGS GIVEN TO THEM IN RULE 902 OF REGULATION S UNDER THE SECURITIES ACT.”

Each Regulation S Global Note will bear a legend to the following effect:

“THE NOTES REPRESENTED BY THIS GLOBAL NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR TRANSFER OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. BY PURCHASING OR OTHERWISE ACQUIRING THE NOTES REPRESENTED BY THIS GLOBAL NOTE, THE HOLDER AGREES FOR THE BENEFIT OF THE ISSUER THAT, IF IT SHOULD DECIDE TO DISPOSE OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE NOTES REPRESENTED BY THIS GLOBAL NOTE, THE NOTES REPRESENTED BY THIS GLOBAL NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND ONLY (A) TO PERSONS WHOM THE SELLER REASONABLY BELIEVES TO BE QUALIFIED INSTITUTIONAL BUYERS (“QIBS”), AS DEFINED IN RULE 144A (“RULE 144A”) UNDER THE SECURITIES ACT, OR (B) OTHERWISE TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT; PROVIDED THAT, IN THE CASE OF A TRANSFER PURSUANT TO CLAUSE (A), A TRANSFEROR OF THE NOTES WILL BE REQUIRED (1) TO EXECUTE AND DELIVER TO THE ISSUER AND THE REGISTRAR AND THE TRANSFER AGENT A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE AGENCY AGREEMENT AND CAN BE OBTAINED FROM THE REGISTRAR AND THE TRANSFER AGENT), AND (2) TO EXCHANGE THE PORTION OF THIS GLOBAL NOTE TO BE SO TRANSFERRED FOR AN INTEREST IN A RULE 144A GLOBAL NOTE OR A DEFINITIVE NOTE TO BE REGISTERED IN THE NAME OF THE TRANSFEREE.

EACH HOLDER OF THIS NOTE OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

FOR THE PURPOSES HEREOF, “OFFSHORE TRANSACTION” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT.”

Any Definitive Registered Notes will bear a legend to the following effect:

‘‘THE NOTES REPRESENTED BY THIS DEFINITIVE NOTE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES[, AND MAY BE TRANSFERRED

ONLY PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AS SET FORTH BELOW][1].

THE REGISTERED OWNER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS DEFINITIVE NOTE IS ISSUED, [(1) REPRESENTS FOR THE BENEFIT OF THE ISSUER AND FOR ANY AGENT OR SELLER WITH RESPECT TO THE NOTES THAT IT IS THE SOLE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY OR IS PURCHASING SUCH NOTES FOR ONE OR MORE ACCOUNTS MAINTAINED BY IT OR OVER WHICH IT EXERCISES SOLE INVESTMENT DISCRETION AND THAT EITHER (A) IT AND ANY SUCH ACCOUNT ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT) AND ARE NOT PURCHASING SUCH NOTES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OR (B) IT AND ANY SUCH ACCOUNT ARE (OR ARE HOLDING SUCH NOTES FOR THE BENEFIT OF) QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, (2) ACKNOWLEDGES THAT THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, RESOLD OR DELIVERED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH ACT IN ACCORDANCE WITH THE TERMS HEREOF, AND (3)][2] [IF IT SHOULD DECIDE TO DISPOSE OF THE NOTES REPRESENTED BY THIS DEFINITIVE NOTE PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE NOTES REPRESENTED BY THIS DEFINITIVE NOTE,][3] AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY ONLY BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED (A) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE SECURITIES ACT, OR (B) TO A PERSON WHO THE SELLER REASONABLY BELIEVES TO BE A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A OR ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT; PROVIDED THAT, IN THE CASE OF A TRANSFER PURSUANT TO CLAUSE [(A)][4] [(B)][5], A TRANSFEROR OF THE NOTES WILL BE REQUIRED TO EXECUTE AND DELIVER TO THE ISSUER AND THE REGISTRAR AND THE TRANSFER AGENT A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE AGENCY AGREEMENT AND CAN BE OBTAINED FROM THE REGISTRAR AND THE TRANSFER AGENT).

[PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.][6]

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[1] To be included in the legend on any Definitive Notes issued in exchange for a Rule 144A Global Note.

[2] To be included in the legend on any Definitive Notes issued in exchange for a Rule 144A Global Note.

[3] To be included in the legend on any Definitive Notes issued in exchange for a Regulation S Global Note.

[4] To be included in the legend on any Definitive Notes issued in exchange for a Rule 144A Global Note.

[5] To be included in the legend on any Definitive Notes issued in exchange for a Regulation S Global Note.

[6] To be included in the legend on any Definitive Notes issued in exchange for a Rule 144A Global Note.

EACH HOLDER OF THIS DEFINITIVE NOTE AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEFINITIVE NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND."

United Kingdom

Each Manager has represented warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area (each, a "**Relevant Member State**"), each Manager has represented, warranted and agreed that it has not made and will not make an offer of Notes to the public in that Relevant Member State other than:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any Notes being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Notes acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Notes to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale.

The Issuer, the Managers and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive

from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Issuer nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the initial purchasers to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Hong Kong

Each Manager has represented and agreed that the Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(1) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

General

No action has been or will be taken by the Issuer or any of the Managers that would permit a public offering of the Notes or possession or distribution of this document or other offering material relating to the Notes in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Issuer nor the Managers represent that the Notes may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assumes any responsibility for facilitating such sales.

General Information

(1) The Rule 144A Global Notes have been accepted for clearance through DTC with a CUSIP of 80283L AA1 and an ISIN Code of US80283LAA17, and the Regulation S Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 098935975 and an ISIN Code of XS0989359756.

(2) The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg, and the address of DTC is 55 Water Street, New York, New York 10041, USA.

(3) The yield of the Notes is 5.041 per cent., on a semi-annual basis. The yield is calculated as at the Issue Date on the basis of the issue price and the interest rate of 5.000 per cent. per annum. It is not an indication of future yield.

(4) The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be up to €12,940.

(5) It is expected that the applications for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the Irish Stock Exchange's regulated market will be granted on or about 7 November 2013 and that such admission will become effective, and that dealings in the Notes on the Irish Stock Exchange will commence, on or about 7 November 2013.

(6) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes will be authorised by an approval and authorisation of the Issuer to be dated on or about 6 November 2013, made pursuant to a wholesale funding approval and authorisation dated 3 September 2009 and a resolution of the board of directors of the Issuer passed on 16 September 2003.

(7) The Trust Deed provides that the Trustee may rely on certificates or reports from any auditors or other parties in accordance with the provisions of the Trust Deed whether or not any such certificate or report or engagement letter or other document in connection therewith contains any limit on the liability of such auditors or such other party.

(8) There has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2013 (the date of the Issuer's most recent financial statements), nor has there has been any material adverse change in the prospects of the Issuer since 31 December 2012.

(9) There are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the period of 12 months prior to the date of this document, a significant effect on the financial position or profitability of the Issuer or the Group.

(10) The Offering Memorandum will also be available for inspection on Santander's website, www.aboutsantander.co.uk.

(11) Copies of the annual report and audited consolidated financial statements of the Issuer for the years ended 31 December 2011 and 2012, copies of the half yearly financial report and unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2013 and copies of this Offering Memorandum, the Trust Deed and the Agency Agreement and the constitutional documents of the Issuer will be available in electronic copy for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

(12) Deloitte LLP, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and International Financial Reporting Standards, the consolidated financial statements of the Issuer, for the two years ended 31 December 2011 and 31 December 2012. Deloitte LLP has no interest in the Issuer.

(13) Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

(14) There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

(15) The Issuer does not intend to provide any post-issuance information in relation to any Notes.

(16) Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business.

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