

Santander UK plc

Investor Update Q3 2014 Results

November 2014

Simple
Personal
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What a bank should be



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Source: Santander UK Q3 2014 results “Quarterly Management Statement for the nine months ended 30 September 2014” or Santander UK Management (‘MI’), unless otherwise stated.

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Sustained improvement in profitability and customer franchise

- Profit before tax up 26% to £1,011m for 9M'14
- Banking NIM up 31bps to 1.81% and RoTE improved to 11.8%
- Positive cost-to-income jaws of 8pp
- Capital position improved, with CET1 at 11.9% and leverage ratio at 3.7%
- 1|2|3 World customers increased by 900,000 to 3.3 million
- Customer satisfaction improved further, with gap to peers reduced to 1pp
- Robust mortgage portfolio, with average LTV of 48% (new lending LTV of 65%)
- Commercial Banking lending up 9%, in a contracting market

Delivering on our strategic transformation

1 Loyal and satisfied retail customers	1 2 3 World customers 3.3 million Increasing customer loyalty	Current account balances £37.9bn Average £1bn growth per month since end 2012	Guaranteed 7-day switching service¹ c.1 in 4 customers Switching to Santander UK since scheme started	Customer satisfaction gap to top 3 peers (FRS)² (1)pp Gap reduced from (9)pp at Dec 2011
2 'Bank of Choice' for UK companies	Commercial Banking lending £23.5bn Up 9% without compromising risk profile	Corporate bank account openings up 39% Leveraging the roll out of new systems	Commercial Banking impairment 0.37% Prudent risk appetite maintained	Corporate Business Centres 58 Increased from 28 in 2011
3 Consistent profitability and a strong balance sheet	RoTE³ 11.8% Up strongly, driven by income growth	Banking NIM 1.81% Up 31 bps in a year	CET1 Capital ratio 11.9% Strong capital position maintained	NPL ratio 1.83% Improved retail and commercial credit quality

1. Source: Santander UK management information and Payments Council monthly data (on a Banking Group basis). Based on 265,600 full switchers to Santander UK in the first year of the guaranteed 7-day switching service. During the same period, there were 1,093,000 full current account switchers in the UK.
2. Financial Research Survey (FRS) is an independent monthly survey of circa 5,000 consumers covering the personal finance sector, run by GfK NOP. Improvement relates to reduced gap in satisfaction scores between Santander UK and average of top three peers
3. Annualised and adjusted to include the effect of the Bank Levy and FSCS and to exclude significant items.

Strong momentum in results

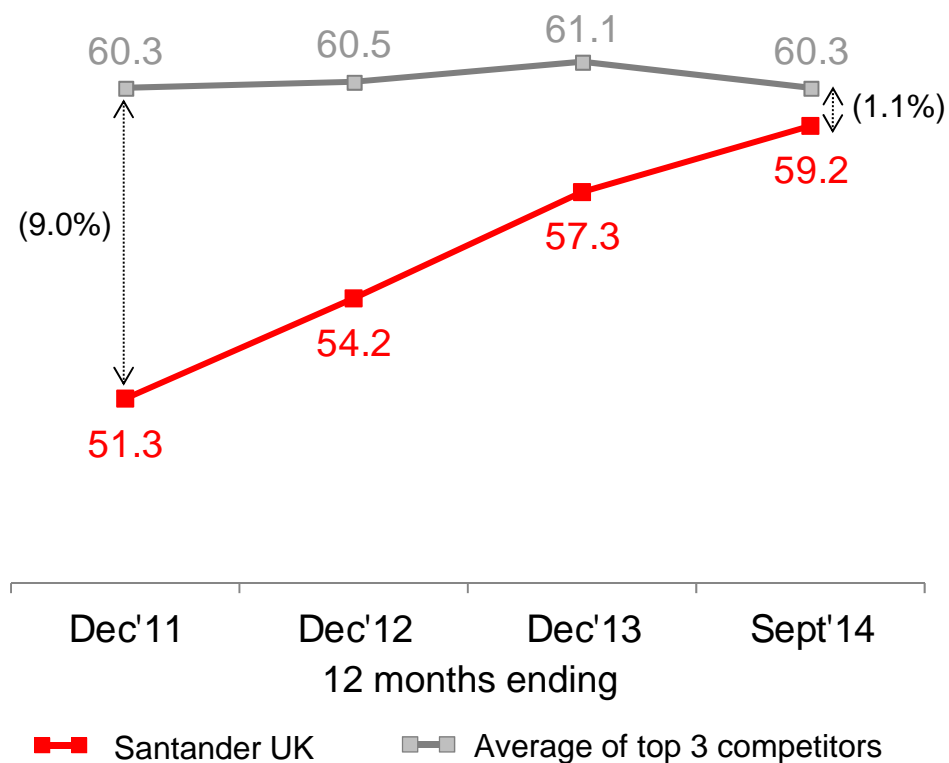
9M'14 financial highlights (% change from 9M'13)¹

	£m		%	
Total operating income	3,320	↑	12	▪ Reflecting reduced cost of retail liabilities and increased corporate lending
Operating expenses	(1,711)	↑	4	▪ Expenses managed to accommodate investment in growth of the business. Positive cost-to-income jaws of 8pp
Operating provisions and charges	(392)	↓	(22)	▪ Retail and corporate loans performing well in a benign credit environment
PBT from continuing operations	1,217	↑	52	▪ Profit momentum driven by improved revenues, with statutory PBT of £1,011m, up 26%
<i>Banking NIM</i>	1.81%	↑	31bps	▪ Q3'14 highest for eleven quarters, led by an improving customer interest margin
<i>Cost-to-income ratio</i>	52%	↓	(4)pp	▪ Strong momentum in net interest income and tight cost management

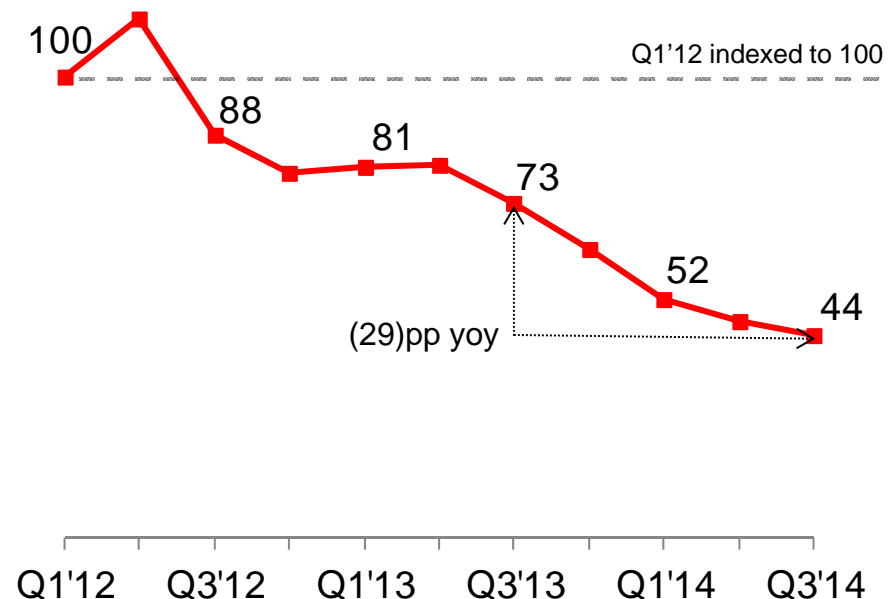
1. The financial results for 9M'14 included a number of pre tax significant items, totalling £(206)m, which are excluded from the analysis above. These items are detailed in the Quarterly Management Statement for the nine months ended 30 September 2014 and include (i) a net gain of £120m in administrative expenses, (ii) write-offs of £(206)m in depreciation, amortisation and impairment, and (iii) charges of £(120)m in provisions for other liabilities and charges

Significant improvement in customer satisfaction

Retail customer satisfaction (%)¹



Complaints received (indexed)²



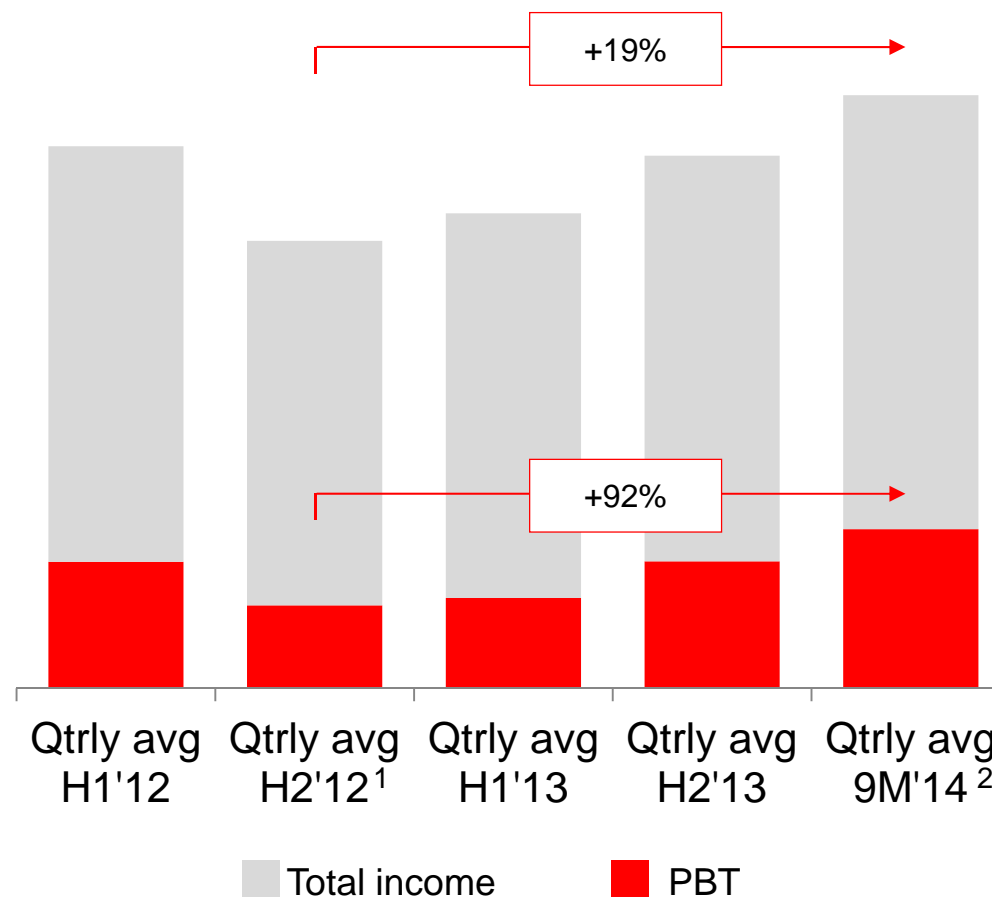
1. As measured by FRS. The competitor set included in this analysis is Barclays, Halifax, HSBC, Lloyds Bank (including Lloyds TSB) and NatWest. See Appendix 1 of the Quarterly Management Statement for the nine months ended 30 September 2014 for details

2. Source Santander UK. All unique complaints received from retail and customer banking activities included except those relating to legacy issues like PPI

Strategic transformation, progress from 2012 low

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

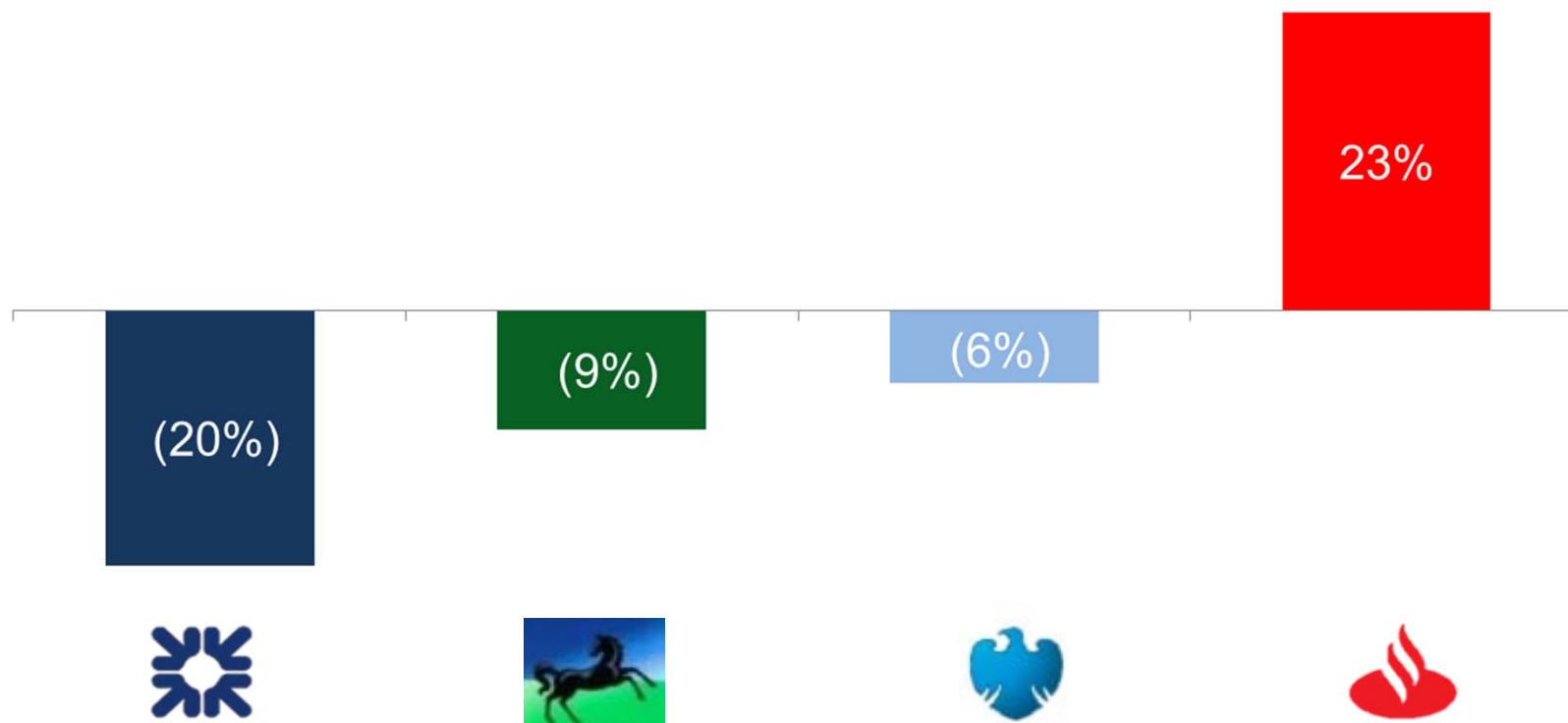
Average quarterly total income and PBT ¹



1. H2'12 quarterly average total income and statutory PBT excludes the impact of number of Q3'12 significant items. These items were (i) a gain of £705m in non interest income, (ii) a provision of £(335)m in impairment losses on loans and advances and (iii) a net charge of (287)m in provisions for other liabilities and charges
2. 9M'14 quarterly average statutory PBT excludes the impact of Q2'14 significant items of £(206)m

TNAV growth and a 50% dividend payout maintained

Tangible Net Asset Value plus dividends distributed ¹
(change Dec'11 to Sept'14)



1. Tangible common equity plus cumulative common dividends paid in 2012, 2013, 9M'14. Tangible common equity excludes Additional Tier 1 capital and for Barclays also excludes the non organic impact of £5.8bn rights issue (net of expenses). Source: Santander UK analysis

Our strategic priorities

1

Loyal and satisfied retail customers

2

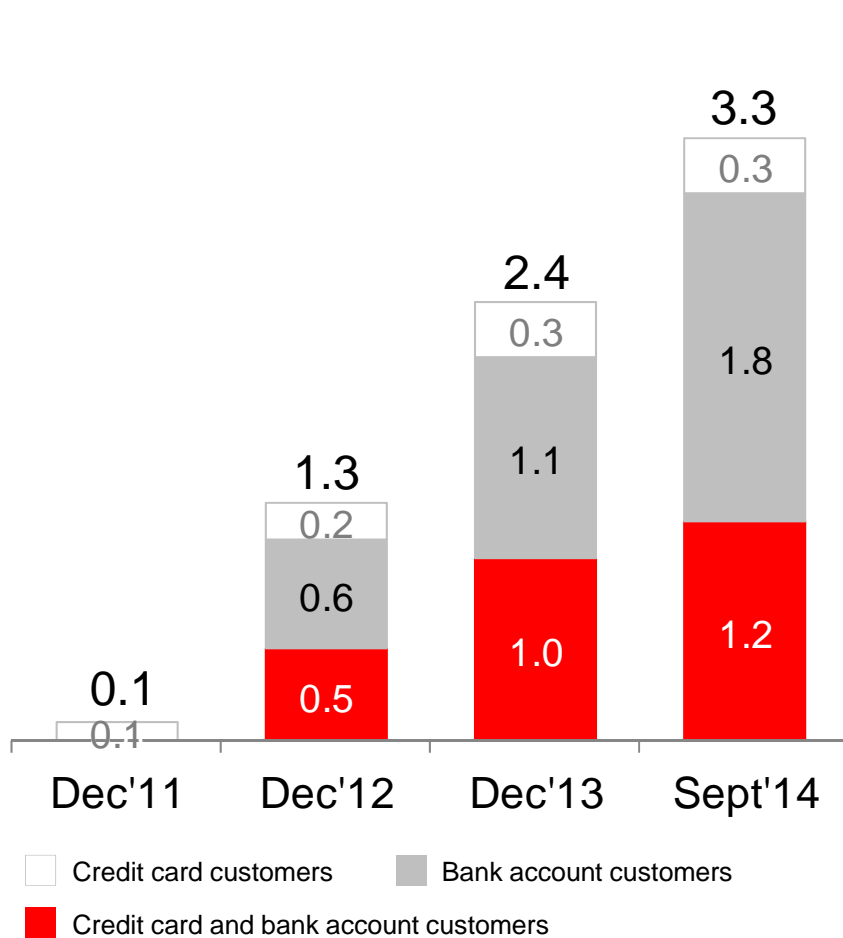
'Bank of Choice' for UK companies

3

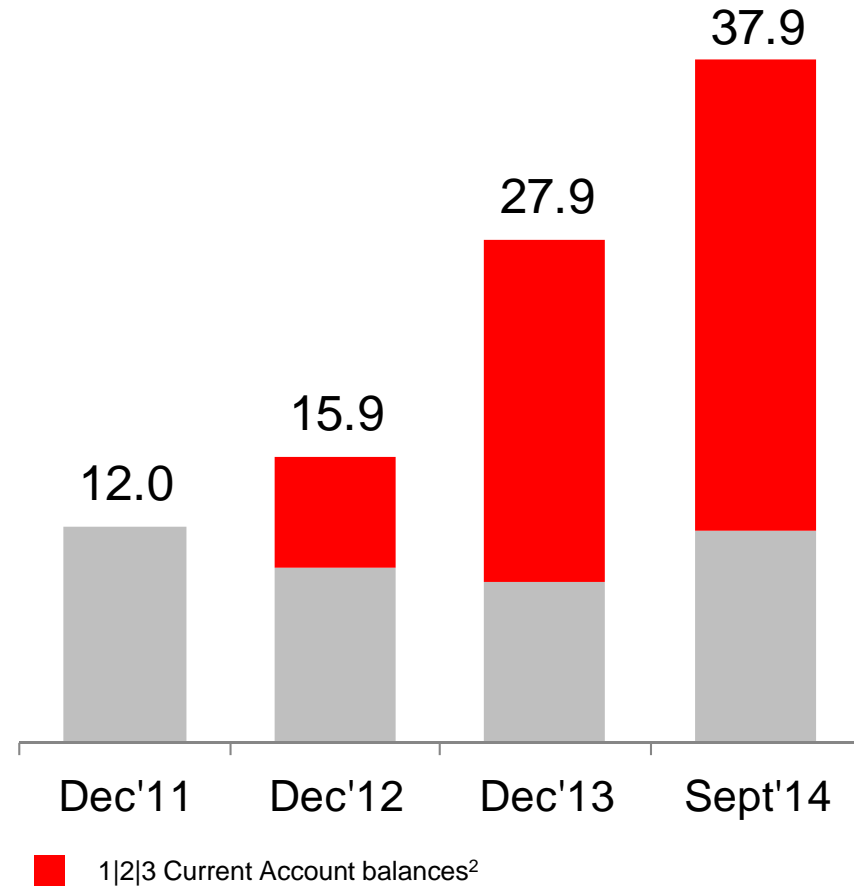
Consistent profitability and a strong balance sheet

900,000 new 1|2|3 World customers this year

1|2|3 World customers ¹ (million)



Retail Banking current account balances (£bn)



1. 1|2|3 World customer holds one or more of the following products: 1|2|3 Credit Card, 1|2|3 Current Account, 1|2|3 Graduate Current Account, 1|2|3 Student Current Account, 1|2|3 Postgraduate Current Account, 1|2|3 Mini Current Account and 1|2|3 Mini Account (in Trust). Trustees are not classed as 1|2|3 World customers. Also excludes automatic upgrade of accounts as part of product simplification

2. 1|2|3 Current Account only includes adult accounts

Loyal and satisfied retail customers

1|2|3 World is transforming our customer profile

	Non 1 2 3 Current Account	1 2 3 Current Account
Select and Affluent ¹	10%	33%
Primary banking ²	34%	90%
Products per customer	1.6	2.3
Ave. account balance ³	1.0x	4.4x
4+ direct debits	32%	78%

Other benefits of 1|2|3 Current Account

- Fee paying current account and credit card
- Permanent offer to new and existing customers
- Reduced acquisition costs
- Lower rate of account churn
- Increased account transactions
- Improved customer insight
- Much better risk profile and performance
- Improving liability spreads

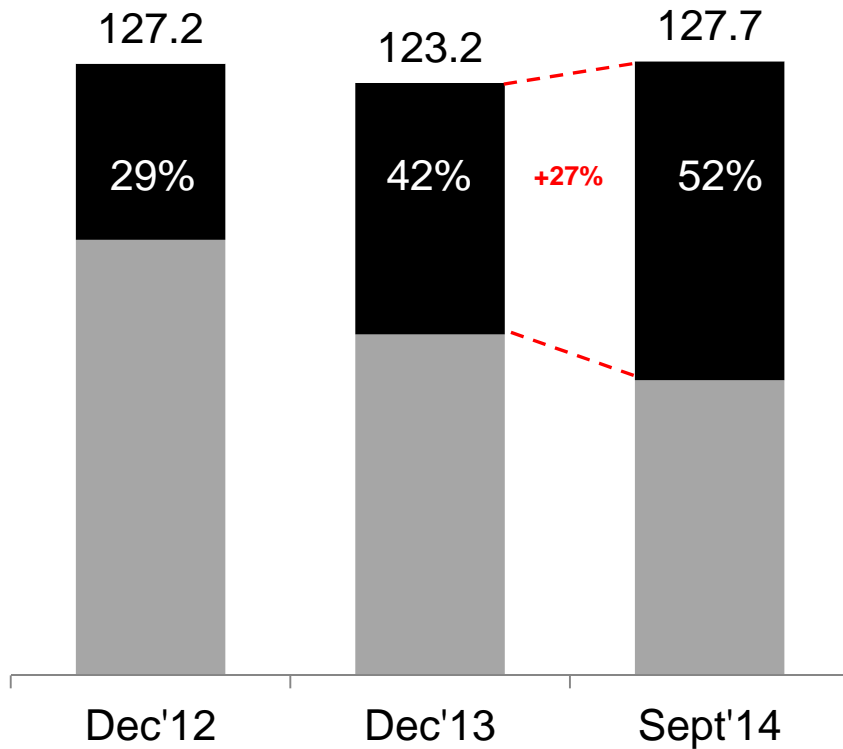
MoneySavingExpert.com ranked Santander UK customer service **2nd** out of 16 current account providers in August 2014



1. Select customers have a monthly credit turnover of £5k, savings, banking and investments worth £75k or properties worth a minimum of £500k. Affluent customers have a monthly credit turnover of £4k-5k, savings, banking and investments worth £25k-75k or properties worth £350k-500k
 2. Primary banking current account customers have a minimum credit turnover of at least £500 per month and at least 2 direct debits on the account
 3. Average account balances are combined savings and banking liability balances

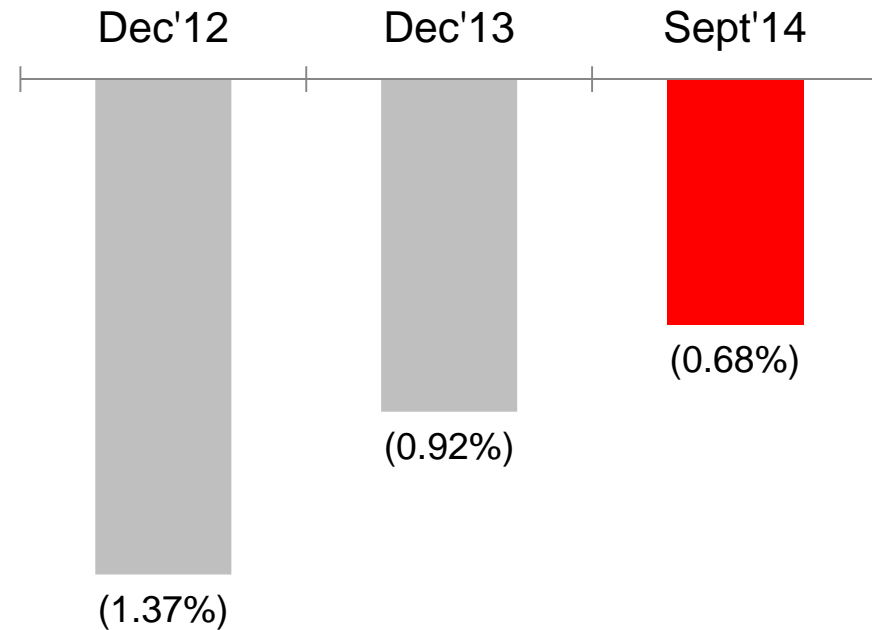
Improving customer loyalty and liability spreads

Retail Banking deposits (£bn)



■ Banking and savings balances of customers with a 1|2|3 Current Account or other primary current account

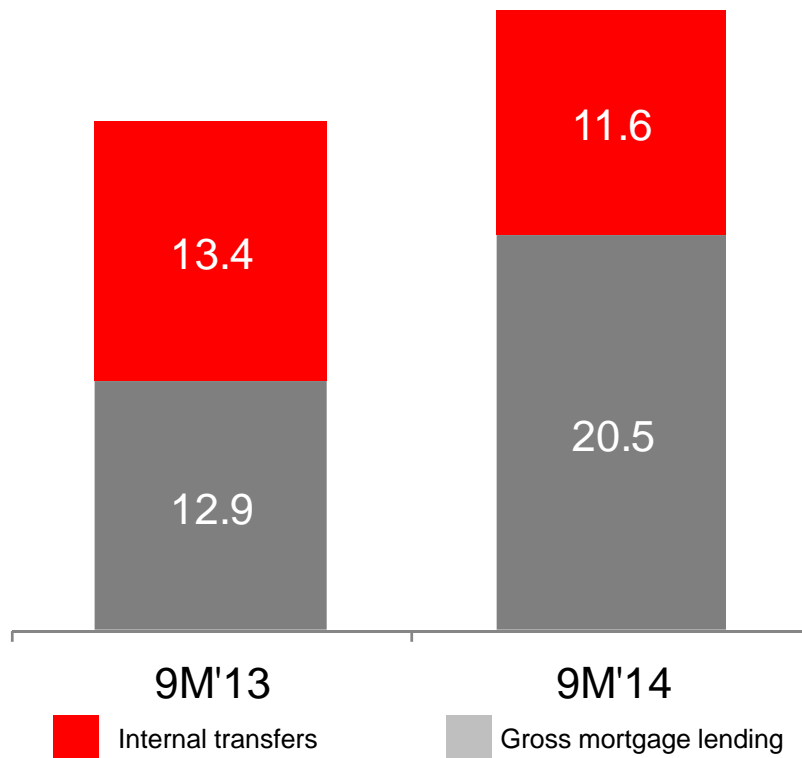
Retail Banking deposits spread (%)¹



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

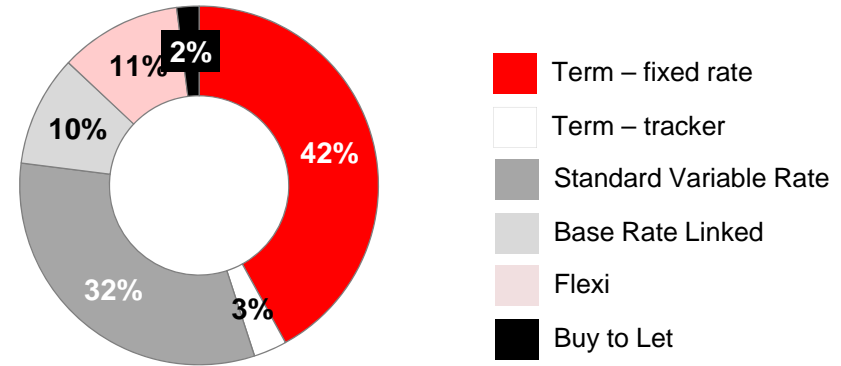
Growing mortgage lending and improving retention

Mortgage lending (£bn)

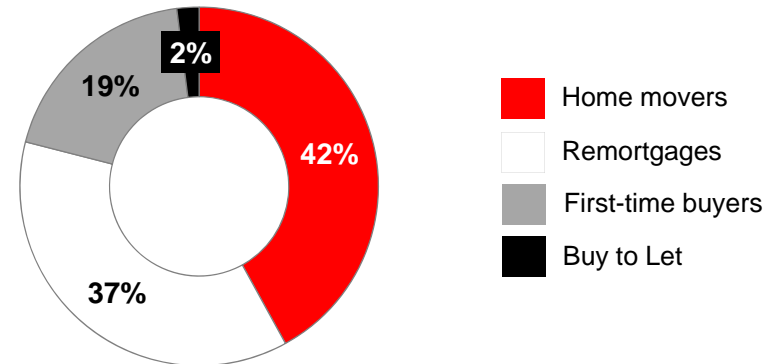


Retaining c. 80%¹ of customers with maturing loans on new Santander UK mortgages

Mortgage product profile at Jun'14



Mortgage borrower profile at Jun'14



39% of mortgage balances are interest-only loans²

1. Average Jan'14 to May'14, 4 months post maturity
 2. Includes both full and part interest-only loans

Prime mortgage book of £150bn with low risk profile

Mortgage loan distribution

Dec'13

Jun'14

Loan size distribution (stock)

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

Average loan size distribution (new business)

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

Loan-to-income multiple¹ 3.04 3.07

Loan to Value ('LTV')

FY'13

9M'14

Simple average LTV ²

new lending	62%	65%
stock	51%	48%

Indexed LTV distribution

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

New lending % with LTV > 85% 12% 15%

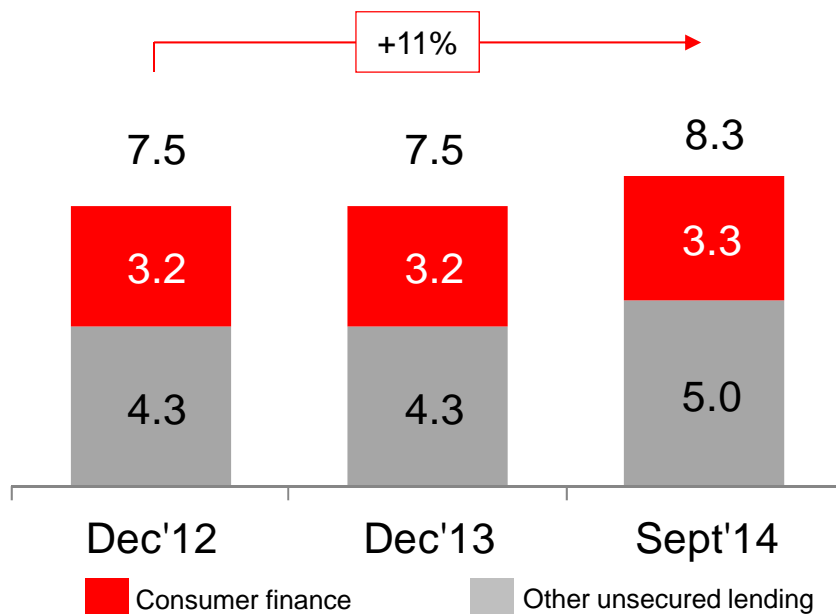
Help to Buy lending of £900m to 6,000 customers in 9M'14 and accounting for all new loans with LTV > 90%

1. Average earnings multiple of new business at inception in the periods ending 31 December 2013 and 30 June 2014

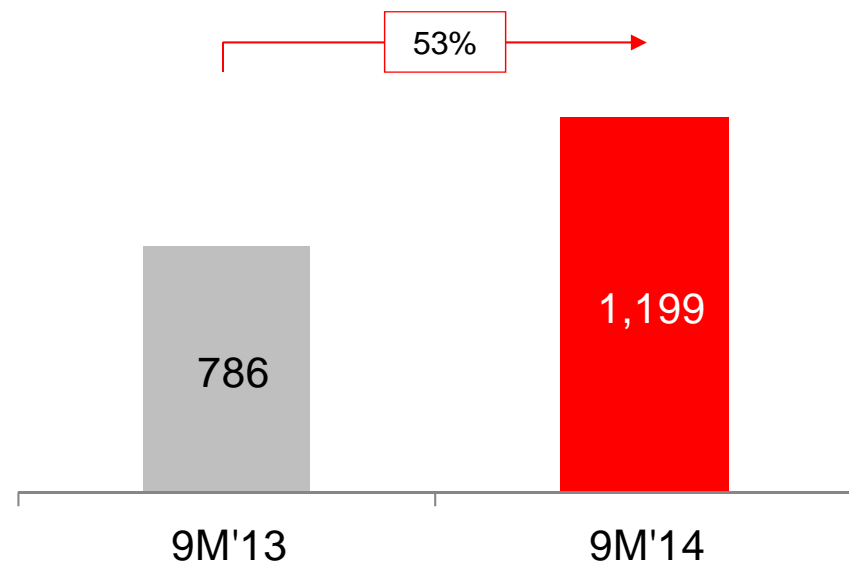
2. Unweighted average loan-to-value of all accounts

Growing unsecured lending and credit card proposition

Retail Banking unsecured customer loans (£bn)¹



UPL gross lending (£m)



85% of new loans are made to existing customers²

Focus on growth while maintaining lending quality

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

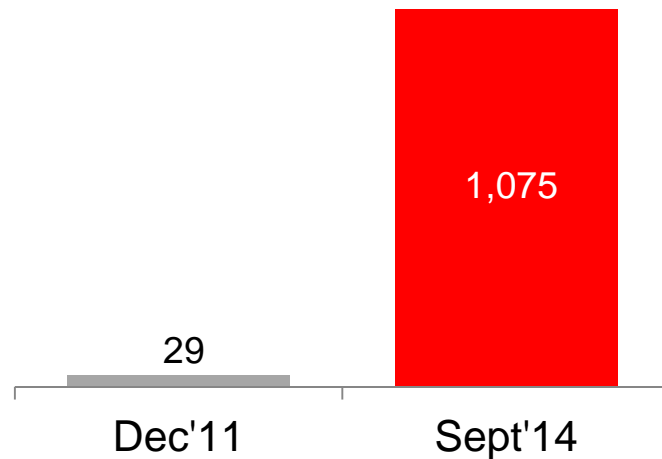
Opportunities

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

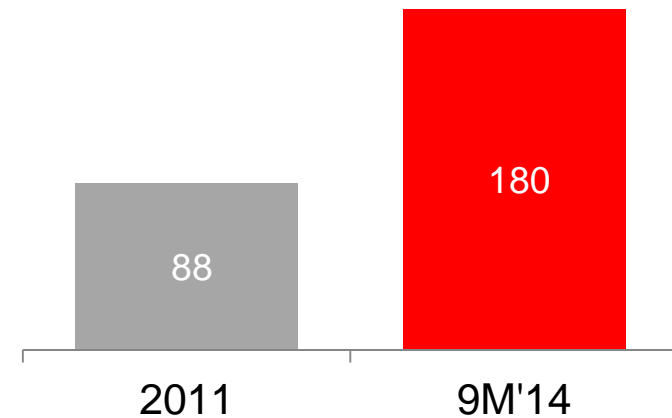
1. Includes vehicle finance, unsecured personal loans ('UPLs'), credit cards and bank overdrafts
 2. Based on volume of UPL openings to existing Santander UK customers in 9M'14

Investing in branches and digital technology

Active mobile customers (000's)



Current account online sales¹ (000's)



Improvements delivered in 2014

- Branch refurbishments, including digital technologies
- Digital ATMs
- New public website
- PayM



- New online banking interface and mobile apps
- Simplified sign-on for mobile
- Online mortgage retention
- Secure site sales
- Improvements to alerts



1. Excludes Business Banking accounts

Our strategic priorities

1

Loyal and satisfied retail customers

2

'Bank of Choice' for UK companies

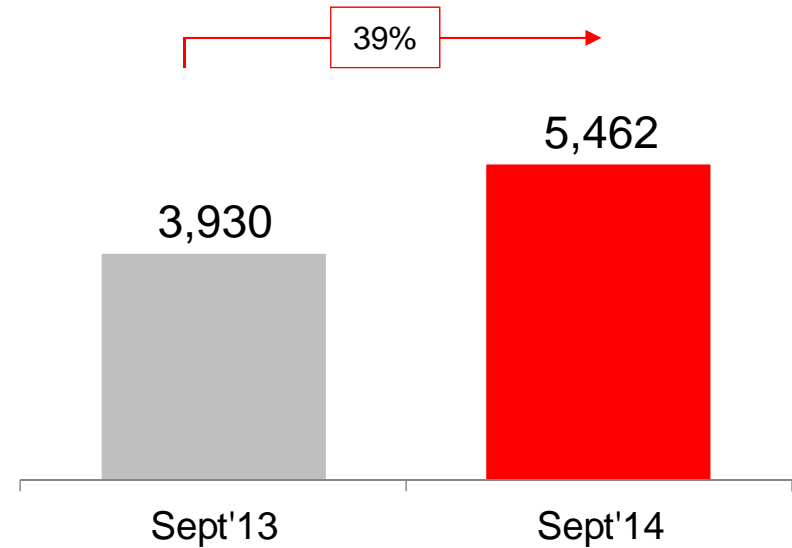
3

Consistent profitability and a strong balance sheet

Key focus on growth of corporate banking

Customers **Customer loans** **Bank account openings**

SME > £250k - £50m	70,700	£12.4bn
Mid corp. > £50m - £500m	1,300	£6.3bn
Large corp. > £500m	290	£4.8bn

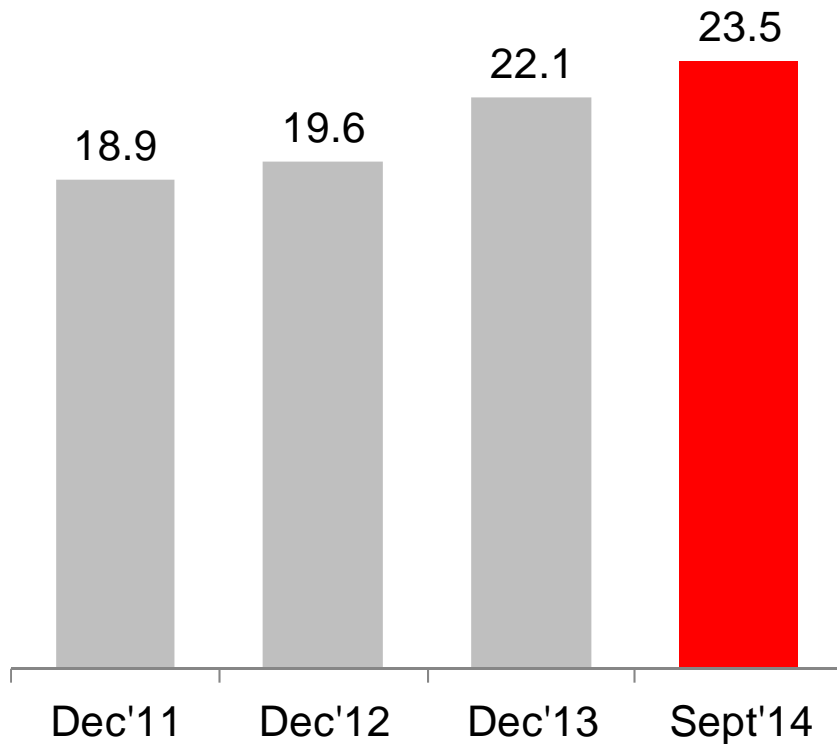


Growing our footprint to be closer to our customers

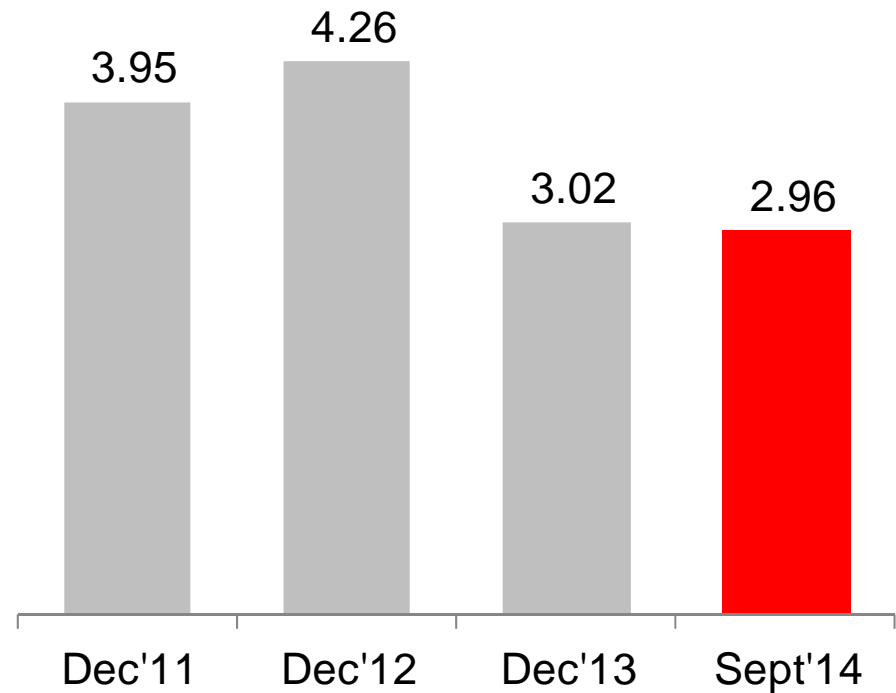
	2011	2012	2013	Sept'14	2015 target
Relationship Managers	457	503	650	709	750
Corporate Business Centres	28	34	50	58	70

Sustained growth with prudent lending approach

Commercial Banking customer loans (£bn)



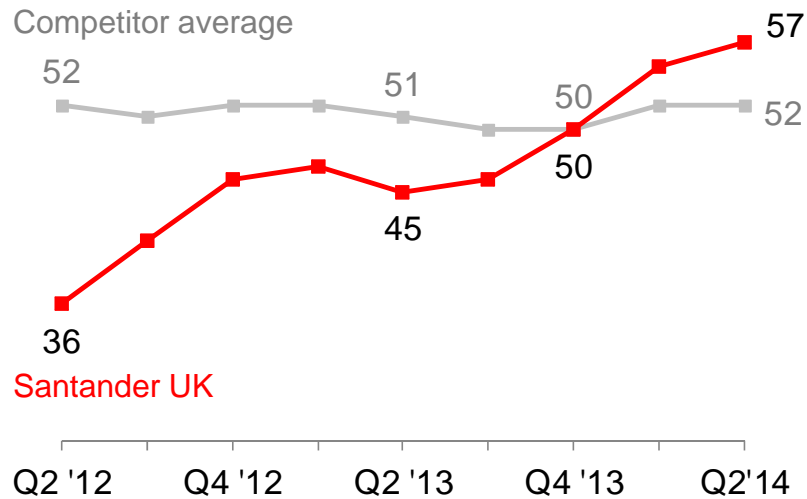
Commercial Banking NPL ratio (%)



‘Bank of Choice’ for UK companies

Winning customers with our strong proposition

Corporate customer satisfaction (%)¹



Supporting entrepreneurs

- Breakthrough - £200m Growth Capital fund
- Funding Circle – P2P lending
- Connect – improved online platform
- US\$100m FinTech fund

Helping UK businesses operate globally

Santander Trade Portal



Santander Trade Club



Santander Passport



Global alliances



1. The Charterhouse UK business banking survey is an on-going telephone based survey designed to monitor usage and attitude of UK businesses towards banks. 17,000 structured telephone interviews are conducted each year among businesses of all sizes from new start-ups to large corporates with annual sales of £1bn. Data based on 5,692 interviews in year ending Q2'14 with businesses turning over £250k to £50m per annum and are weighted by region and turnover to be representative of businesses in Great Britain. Satisfaction based on a five point scale (% Excellent / Very good). The competitor set included in this analysis is Barclays, RBS, HSBC, Lloyds TSB and NatWest

Our strategic priorities

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Loyal and satisfied retail customers

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'Bank of Choice' for UK companies

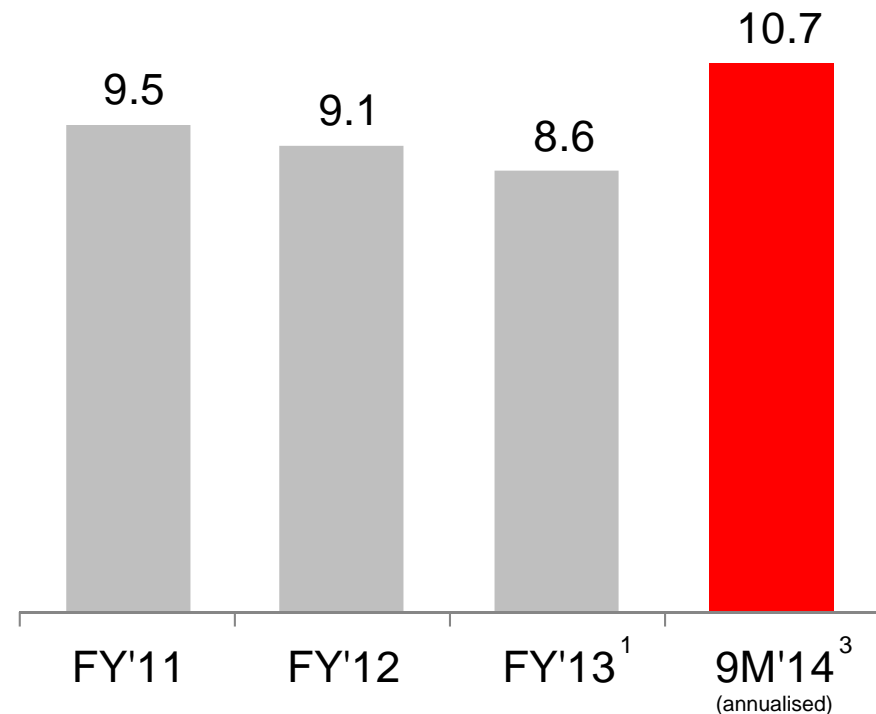
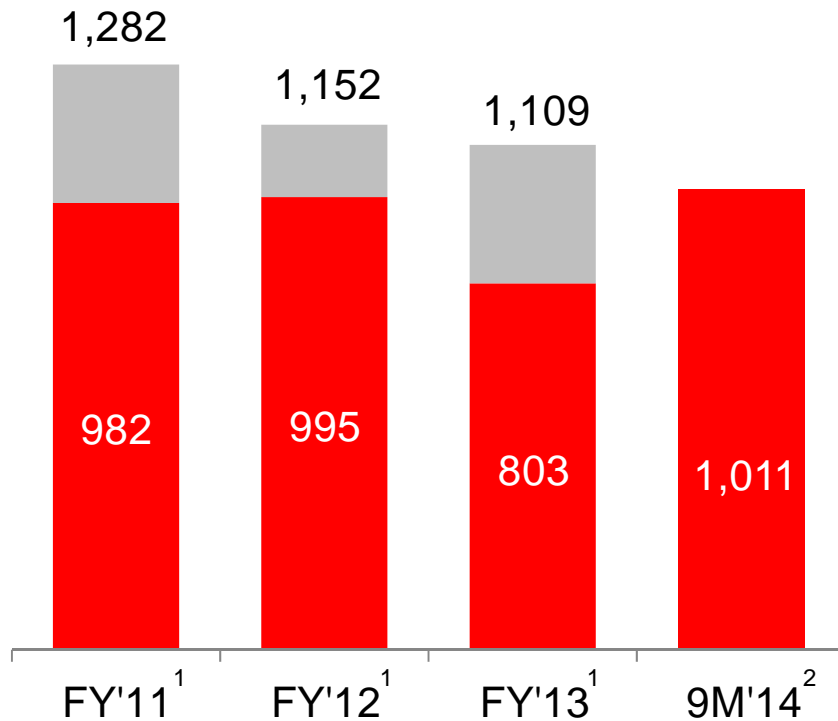
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Consistent profitability and a strong balance sheet

Consistently profitable, sustainable business

Statutory profit before tax (£m)

Statutory RoTE (%)

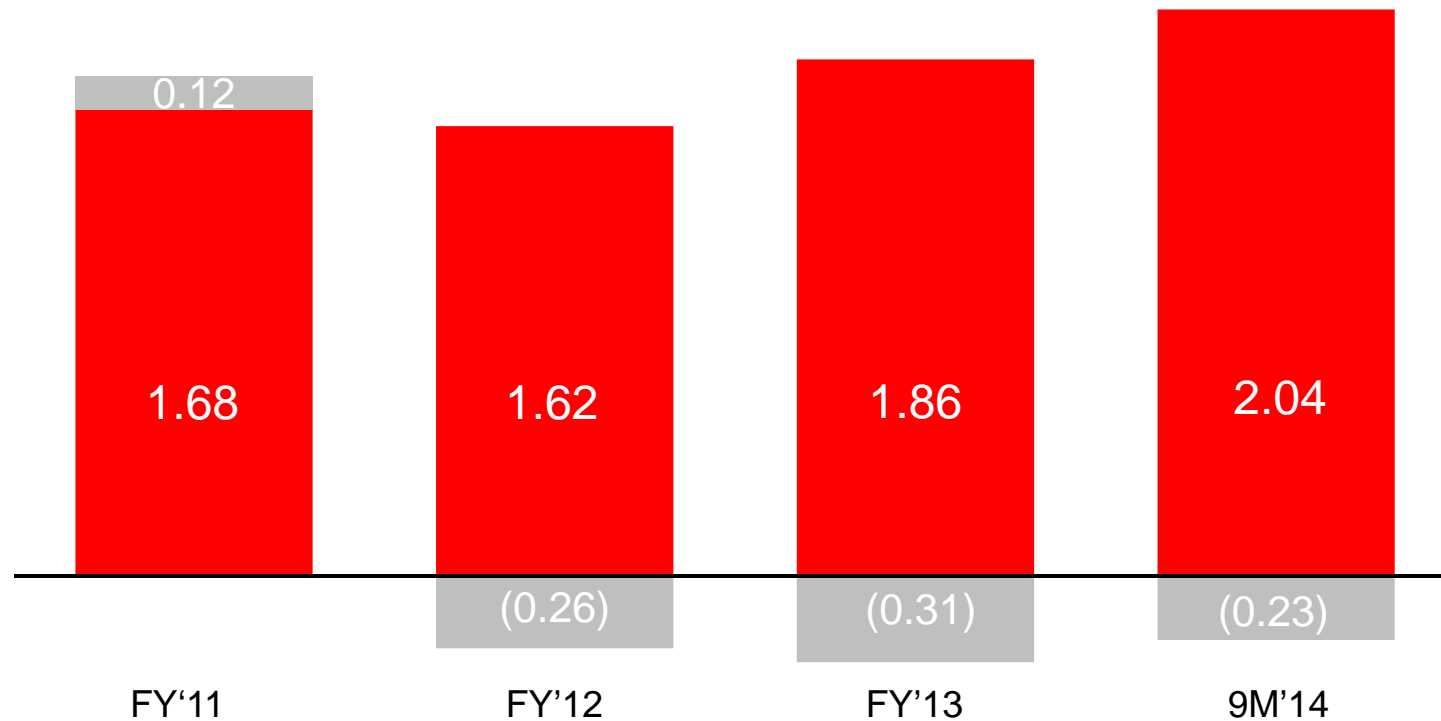


 Nine months ending 30 September

1. Adjusted to reflect the retrospective adoption of IFRIC 21
 2. Excluding the impact of Q2'14 significant items 9M'14 PBT was £1,217m
 3. Including the effect of the Bank Levy and the Financial Services Compensation Scheme (FSCS) and excluding significant items, 9M'14 RoTE was 11.8%

Strategic transformation improving customer margin

Banking NIM ¹	1.80	1.36	1.55	1.81
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■ Customer interest margin

■ Structural hedge, wholesale funding and liquidity balances

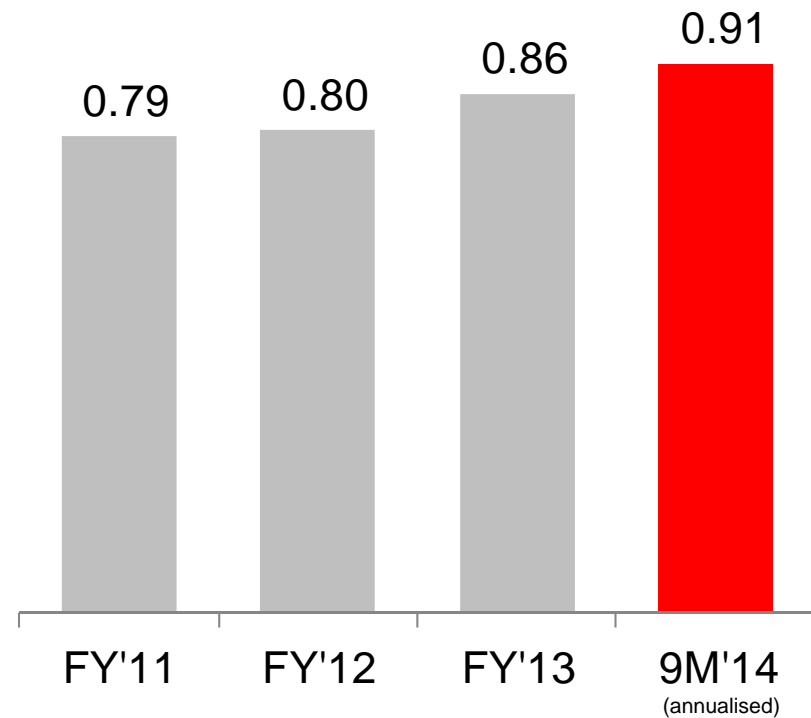
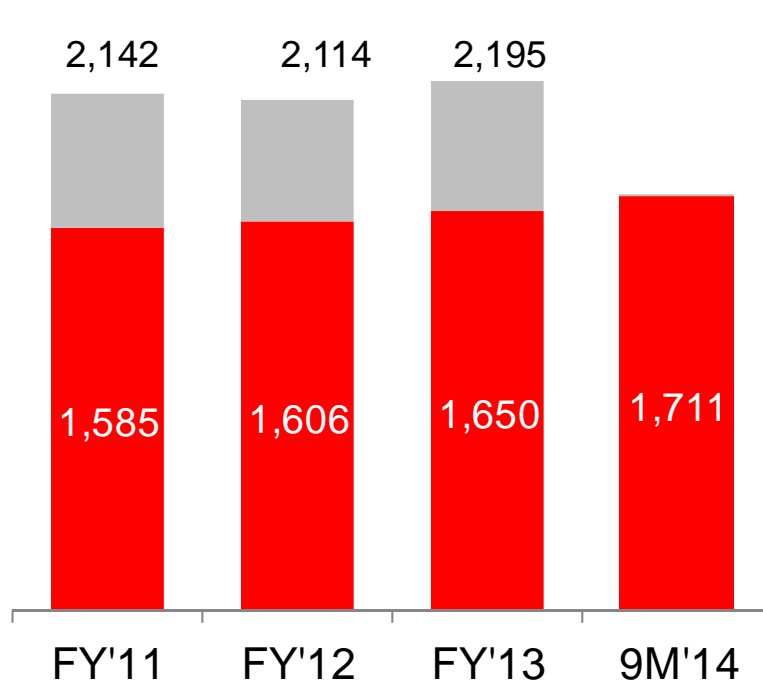


1. Banking NIM is calculated as annualised net interest income divided by average customer loans. Banking NIM is a non-IFRS measure

Costs tightly controlled, largely absorbing investment

Operating expenses¹ (£m)

Operating expenses¹ / Avg. total assets² (%)

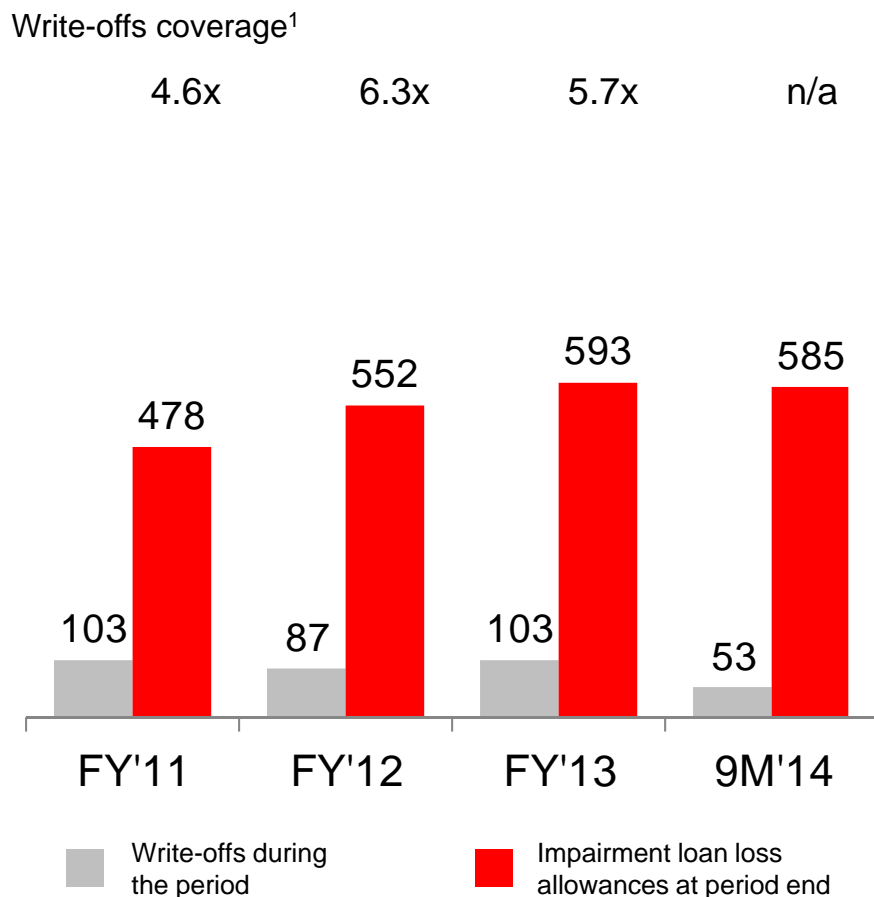


■ Nine months ending 30 September

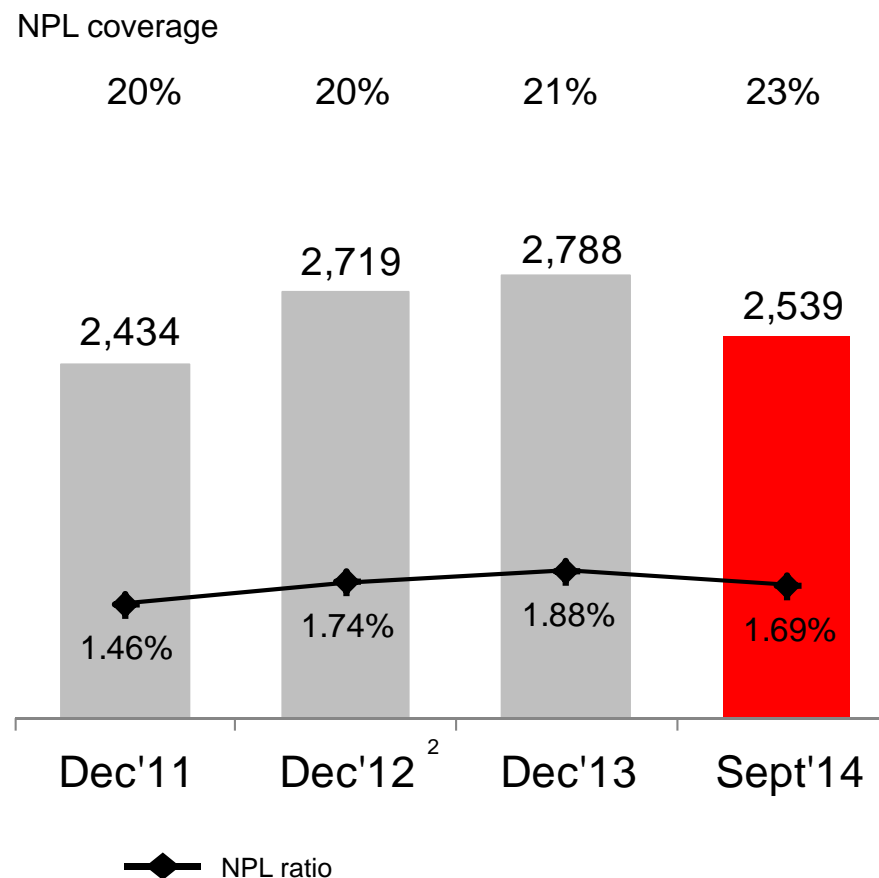
1. Operating expenses on a continuing basis and exclude significant items (FY'11: £172m, 9M'14: £86m)
 2. Average total assets excludes derivatives

Well-performing mortgage portfolio

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



Mortgage NPLs (£m)

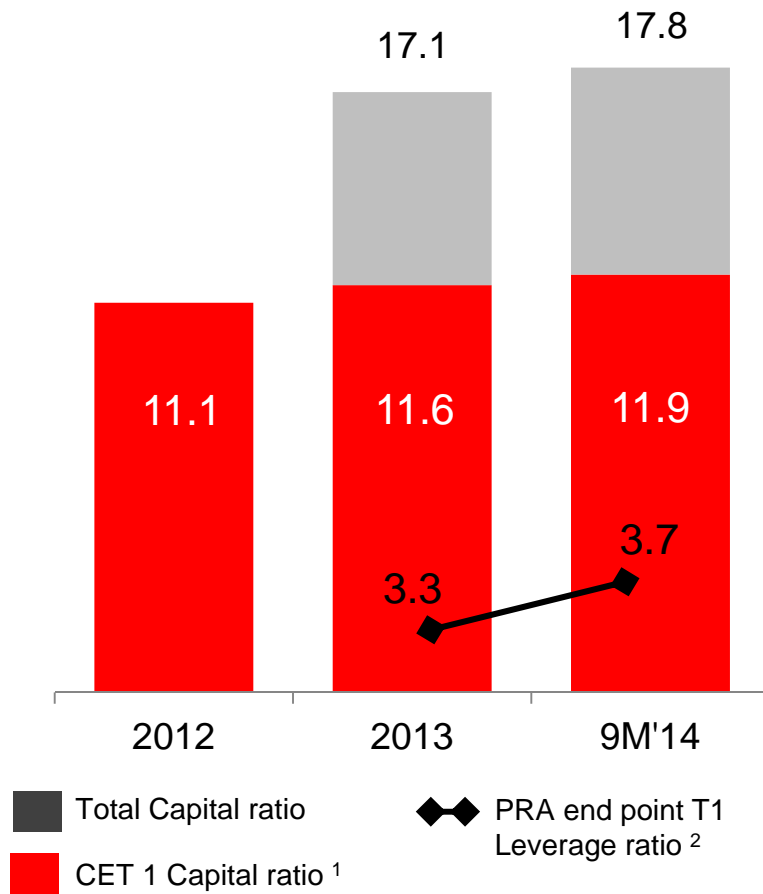


1. Calculated as impairment loan loss allowance at year end divided by write-offs during the year

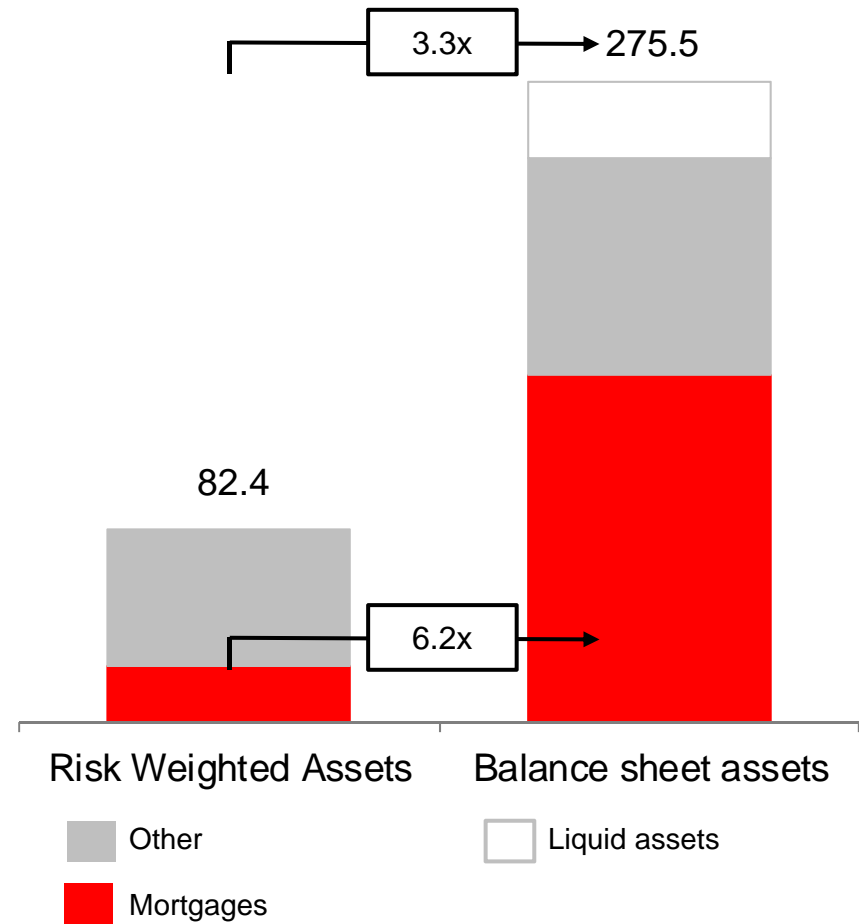
2. The increase in the mortgage NPL ratio during 2012 and 2013 was largely due to regulatory-driven policy and collections changes introduced in early 2012 and the impact of the managed reduction in the mortgage portfolio

Capital and leverage further improved

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



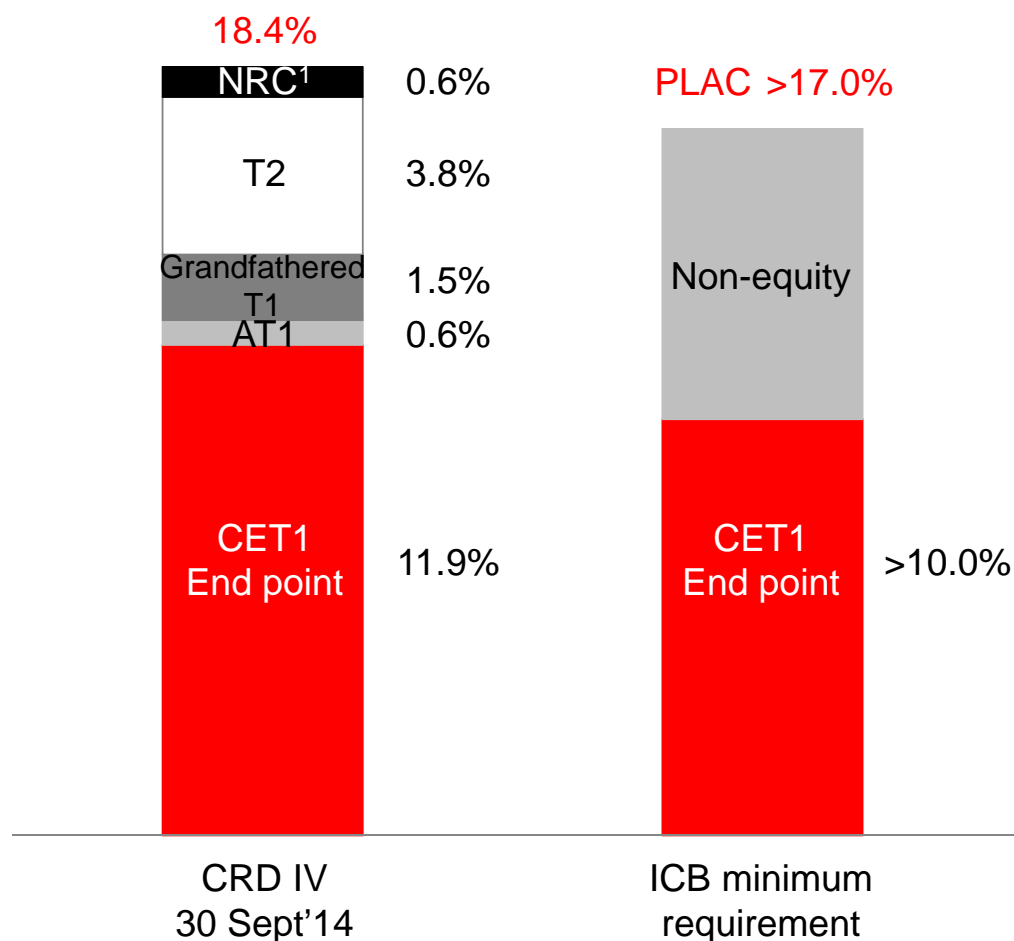
Risk weighted assets and balance sheet assets (£bn)



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

Managing capital from a robust position

Implementing CRD IV and managing to ICB



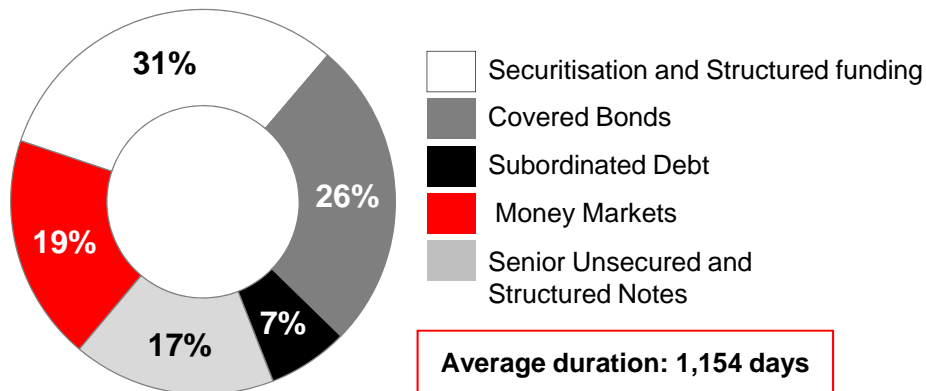
- Strong starting point, with 11.9% CET 1 capital ratio
- ICB target CET1 minimum at 10.0% (large ring-fenced bank). PRA may introduce a higher minimum level under Pillar 2 provisions PS7/13 from 2015. Our current target is CET1 > 10.5%
- PLAC may also be met by senior debt and wholesale funding subject to bail-in. This is not reflected in the illustration
- Issuance of Additional Tier 1 capital will be considered to replenish Tier 1 capital stock and enhance the PRA end point T1 leverage ratio
- Santander UK senior unsecured debt with an outstanding maturity > 1 year at 30 Sept'14 was £9.9bn, 12% of RWAs



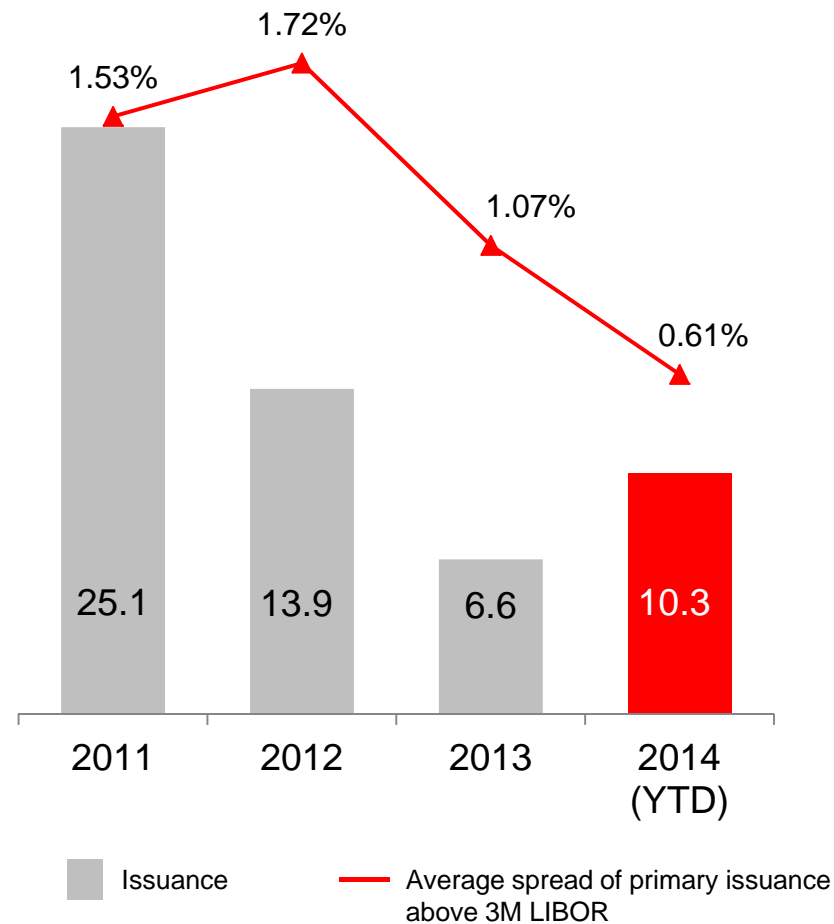
1. NRC: Non-Regulatory capital, which includes Tier 1 and Tier 2 capital instruments which are not recognised under CRD IV grandfathering provisions

Improved funding profile with lower spread

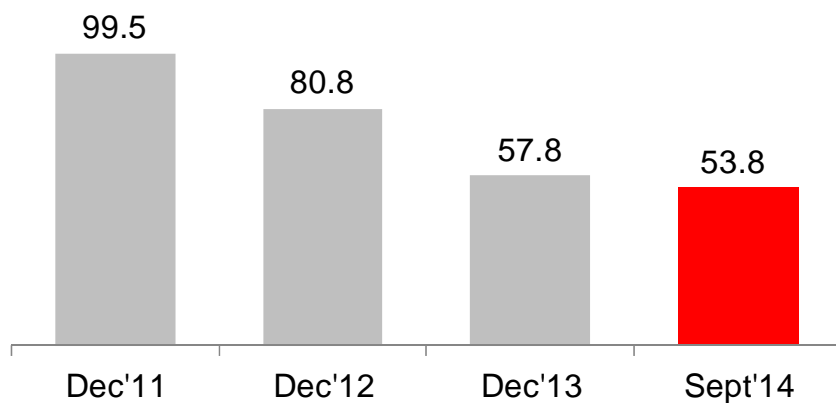
Wholesale funding stock



MTF issuance (£bn) and spread ¹



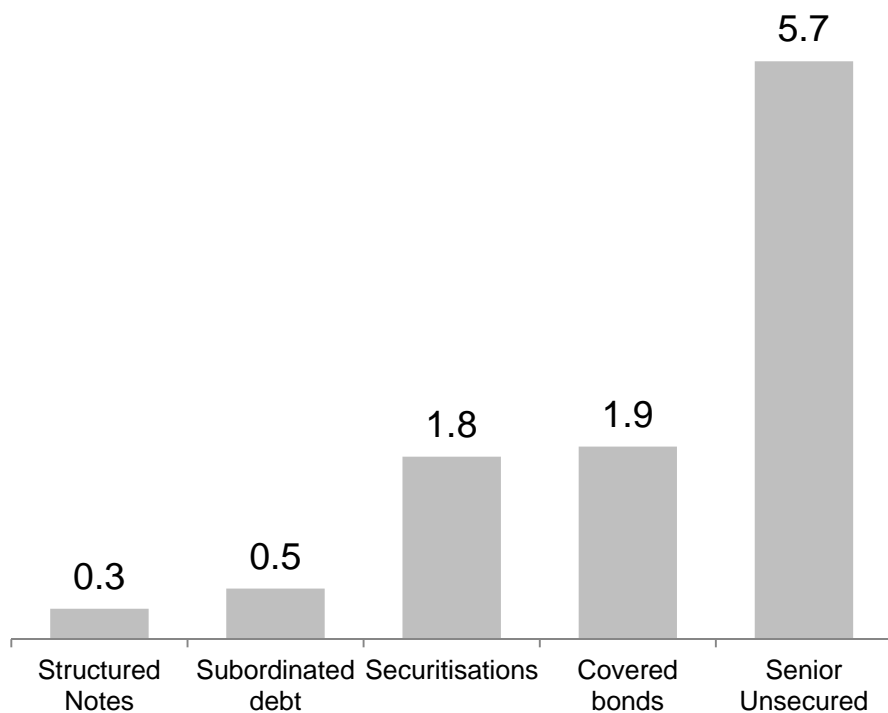
Medium term funding encumbrance (£bn) ²



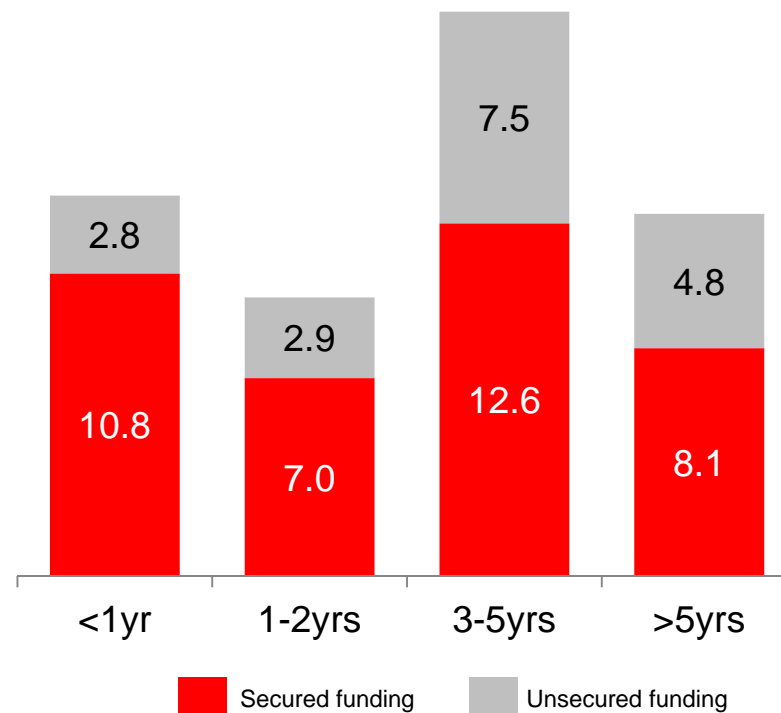
1. Weighted average spread at time of issuance above GBP 3M LIBOR. Average spread excludes June 2014 AT1 issuance (£500m)
 2. Mortgage encumbrance includes all mortgages assigned to Fosse, Holmes, Langton, ANTS covered bond programme

£10.3bn of MTF issuance in 9M'14

MTF issuance (£bn)

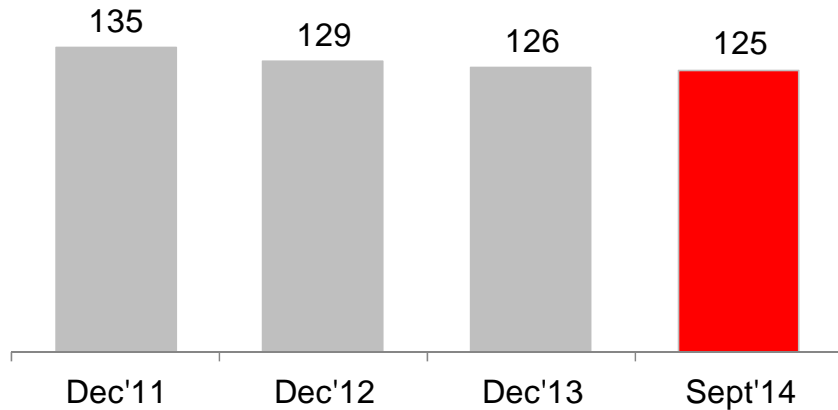


MTF maturities (£bn)

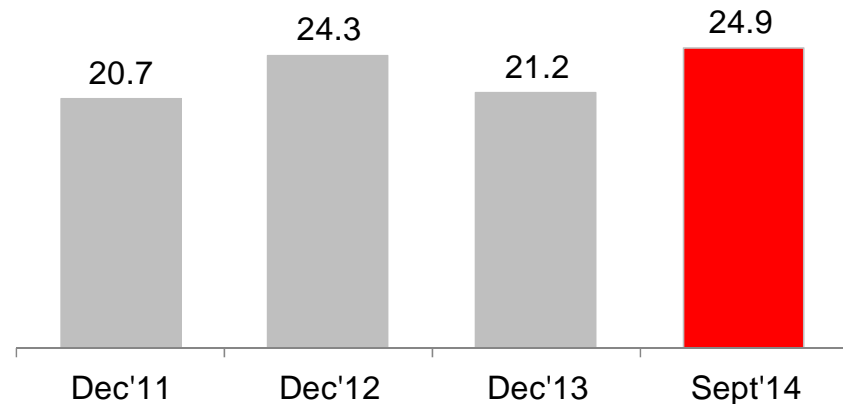


Optimised liquidity position

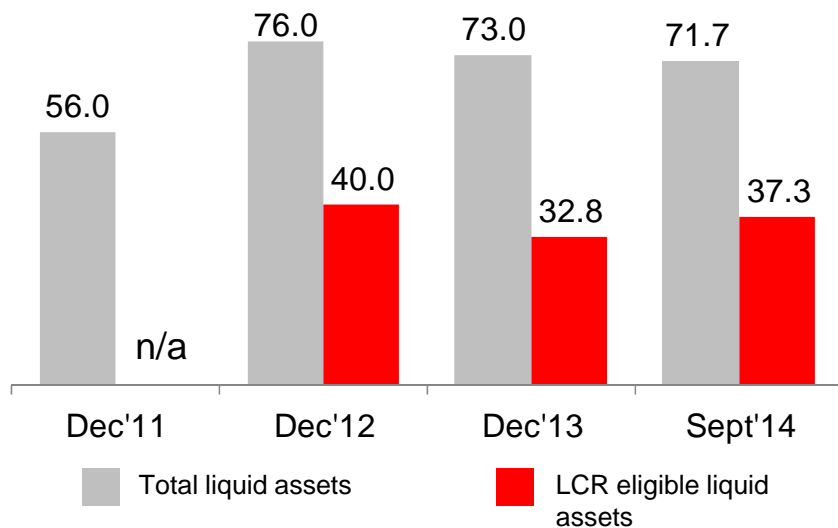
Loan-to-deposit ratio (%)



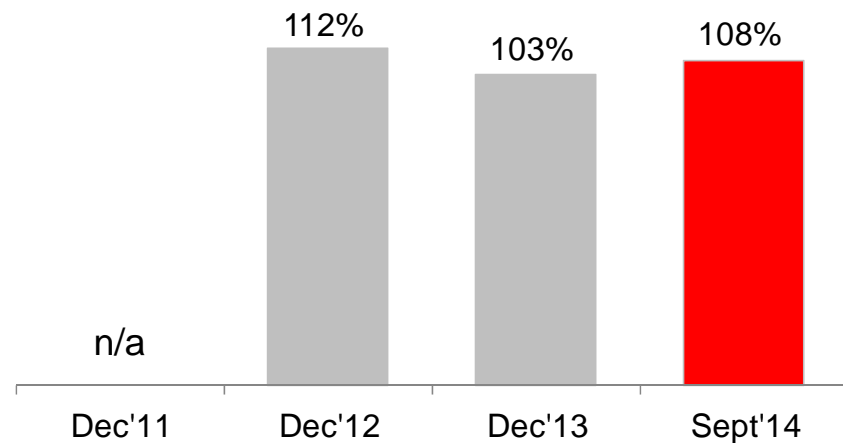
Wholesale funding with a residual maturity of less than 1 year (£bn)



Liquid assets (£bn)



Liquidity coverage ratio ('LCR')



Outlook

- Improving economy continues to support our business and we remain well positioned for future base rate increases
- Banking NIM of 1.81% is expected to be stable for the year
- Growth in mortgage lending of around 1-2%, broadly in line with the market
- Investment in the business, largely funded through efficiency management
- Sustained growth in Commercial Banking, leveraging the footprint and improved capability
- Prudent lending criteria to be maintained, with NPL ratio of 1.83% in a benign credit environment

Appendix

Delivering on our commitments

	31.12.13	30.09.14	2015 target	
1 Loyal and satisfied retail customers	Loyal customers	2.7 million	3.0 million	4 million
	1 2 3 World Customers	2.4 million	3.3 million	4 million
	Customer satisfaction ('FRS')	57.3%	59.2%	Top 3
	(average of top 3 UK peers)	(61.1%)	(60.3%)	
2 'Bank of Choice' for UK companies	Commercial Banking percentage of total customer loans	12%	12%	20%
	(Commercial Banking customer loans)	(£22.1bn)	(£23.5bn)	
3 Consistent profitability and a strong balance sheet	Return on tangible equity	8.6% ¹	11.8% ²	13% - 15%
	Cost-to-income ratio	54%	52% ³	< 50%
	CET 1 capital ratio	11.6%	11.9%	> 10.5%
	LDR ratio	126%	125%	< 125%
	Non performing loan ratio	2.04%	1.83%	Ratio maintained
	Dividend payout ratio	50%	50%	50%

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

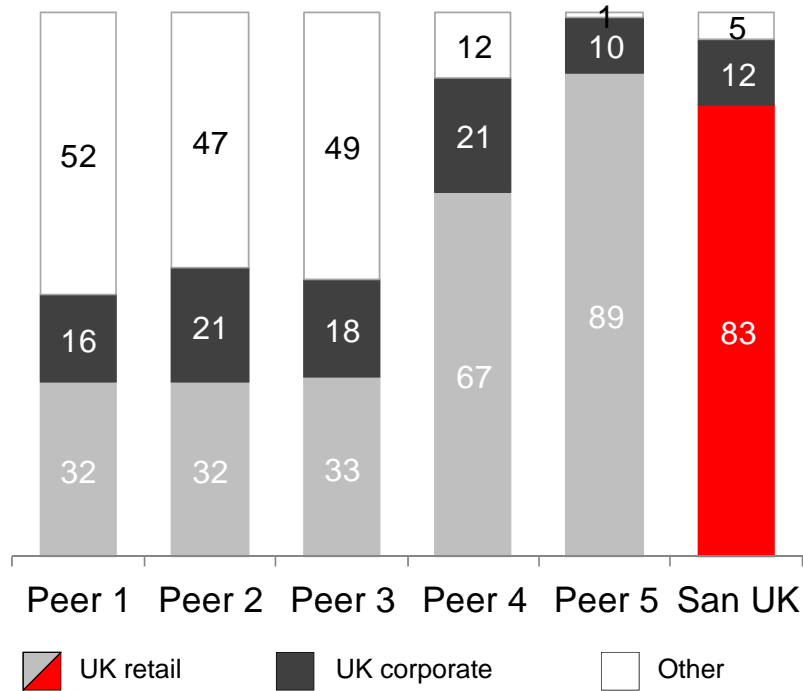
1. Annualised and adjusted to include the effect of the Bank Levy and the FSCS and to exclude significant items.

2. Adjusted to reflect the retrospective adoption of IFRIC 21

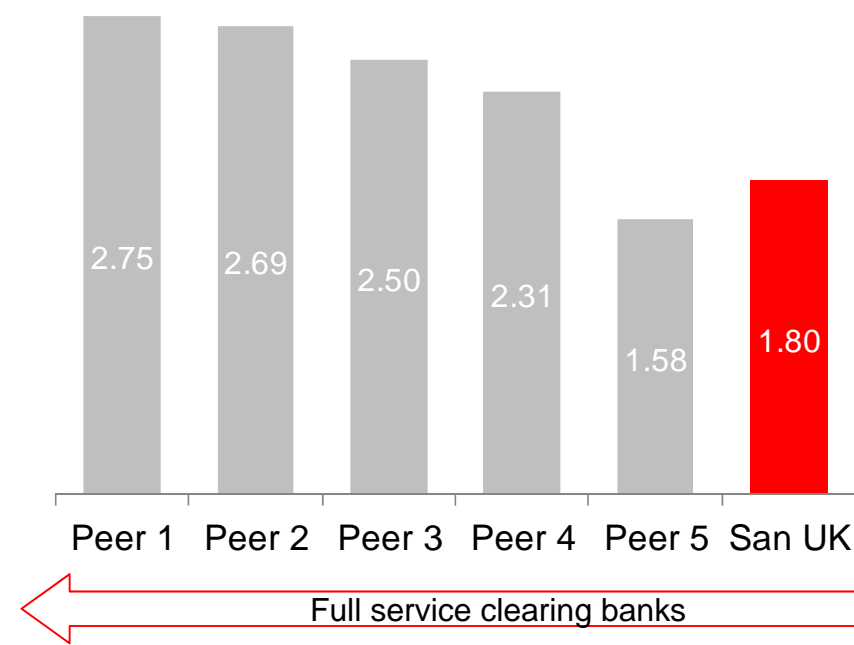
3. Adjusted to exclude significant items (54% including significant items)

Current retail focus with challenger opportunities

Customer loans mix (%) ¹



Net interest margin (%) ^{1, 2}



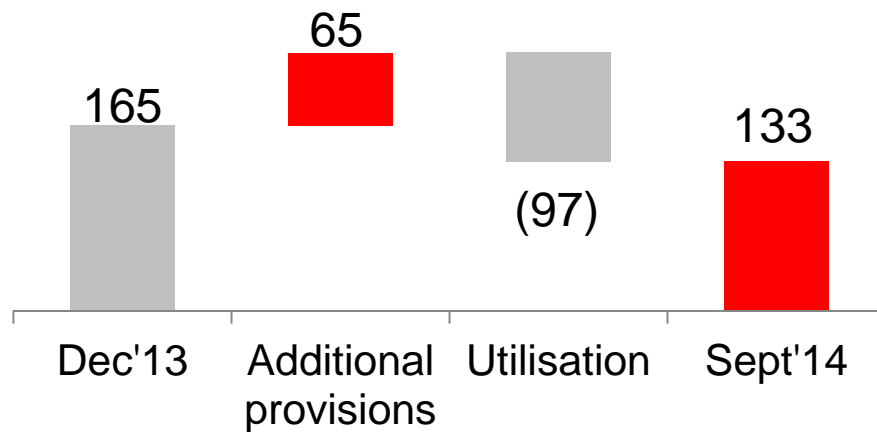
Our current business mix is concentrated on retail mortgages and savings and as a result we have a lower NIM than peers. We are undergoing a strategic transformation into a leading customer focused, retail and commercial bank in the UK

1. Source: Santander UK analysis of peer results. Peers are Barclays plc, HSBC Bank plc, Nationwide, RBS plc and Lloyds Banking Group. Santander UK and peer data at June14 except Nationwide which is at April 2014. Barclays loan split based on published Credit Risk data and excludes assumed bank loans from Wholesale. Lloyds UK retail includes Consumer Finance
 2. Net interest margin is annualised net interest income divided by average gross customer loans. Santander UK plc is Banking NIM



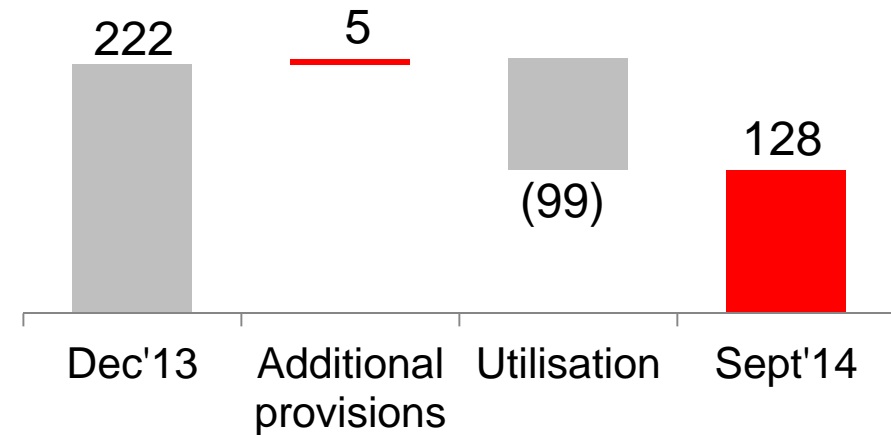
Well provided for PPI and other conduct issues

PPI provision balance (£m)¹



- Including pro-active customer contact, £11m per month utilisation of PPI provision in 9M'14 (2013: £18m per month)
- Additional PPI provisions taken in H1'14, for the first time since H1'11

Other products provision balance (£m)¹



- Other products include:
 - Interest rate hedging products
 - Card Protection Plan ('CPP')
 - Retail investment products

Operating under the independent subsidiaries policy of Banco Santander



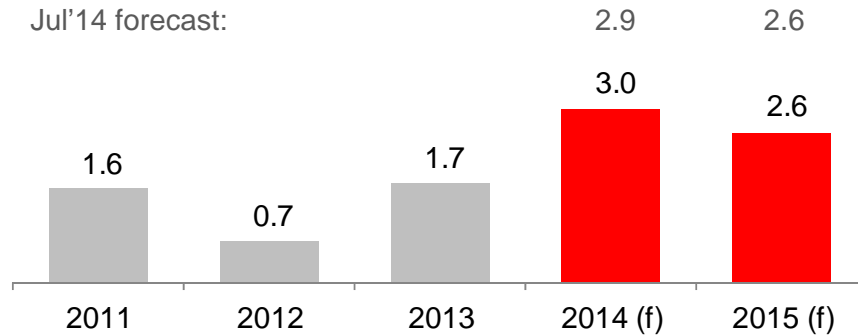
- Santander UK plc is obliged to satisfy its home regulator (the PRA) that it can withstand capital and liquidity stresses on a standalone basis
- The PRA regulates:
 - capital, including the semi-annual dividend
 - large exposures limits on single counterparty exposure
- intra-group lending treated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

Santander UK credit ratings - October 2014

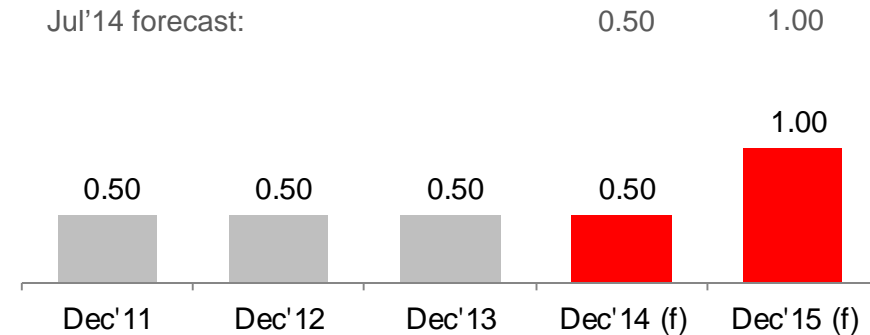
	Standalone	Long Term	Outlook	Short Term	Last rating change
S&P	bbb+	A	negative across all major UK banks	A-1	30 April 2012 affirmed Dec'13
Fitch	a	A	stable	F-1	11 Feb 2012 affirmed Jul'14
Moody's	baa1	A2	negative across all major UK banks	P-1	17 May 2012 affirmed Oct'14

Macro-economic environment

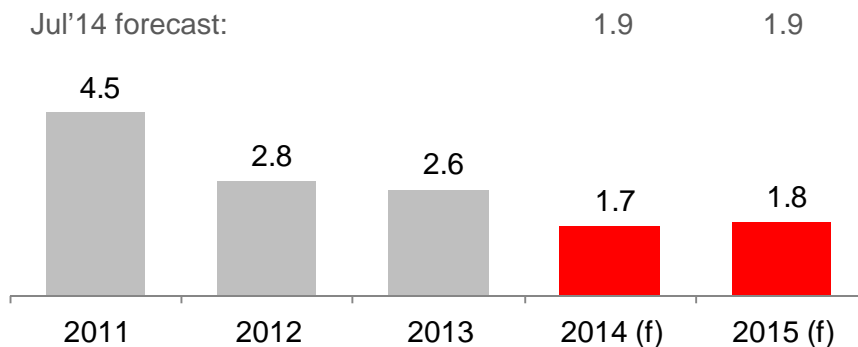
Annual GDP¹ growth (% , annual average)



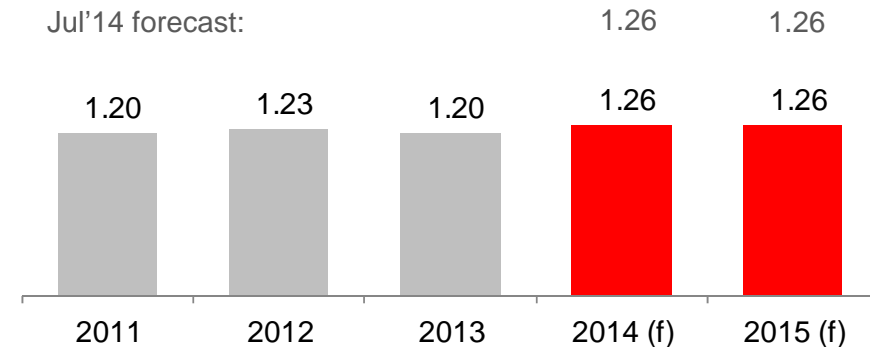
Bank of England base rate (%)



Annual CPI² inflation rate (% , annual average)



GBP/Euro exchange rates (year end)



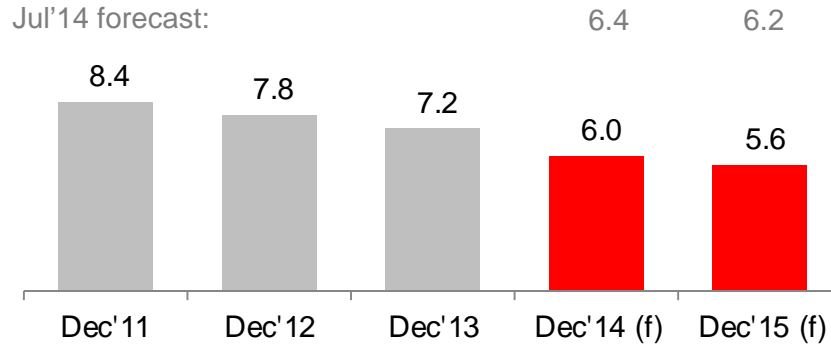
Source: Office for National Statistics and Bank of England. 2014 (f) and 2015 (f) forecast by Santander UK (October 2014)

1. 2011 and 2012 revised as a result of the ESA10 methodology changes in the 2014 ONS Blue Book, published 30 September 2014

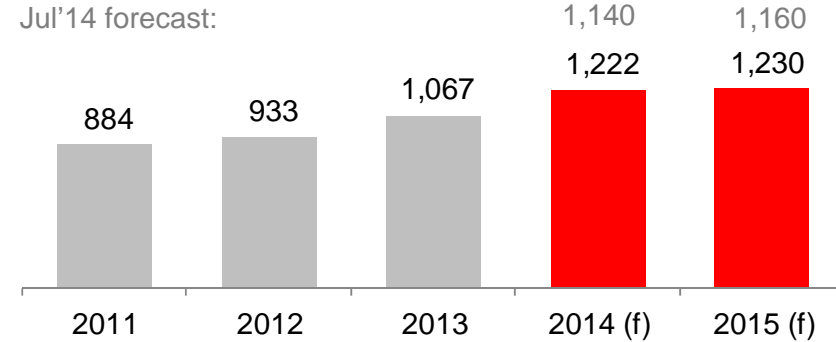
2. Consumer Price Index

Macro-economic environment

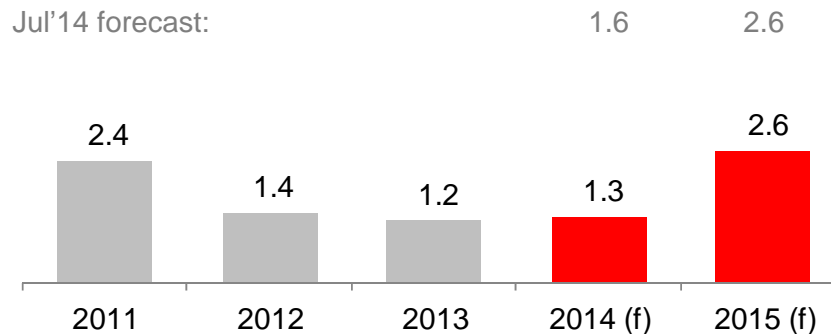
Unemployment rate (ILO¹)



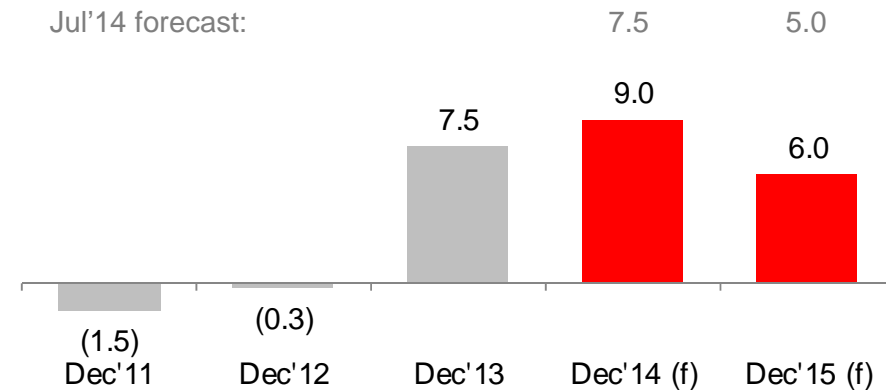
Property transactions (sa², 000s)



Average weekly earnings (annual, % inc. bonuses)



House prices (%)

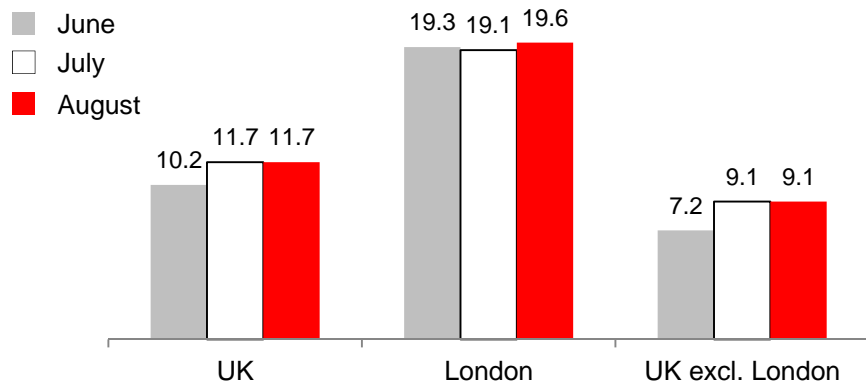


Source: HMRC, Lloyds Banking Group and Office for National Statistics. 2014 (f) and 2015 (f) forecast by Santander UK (October 2014)

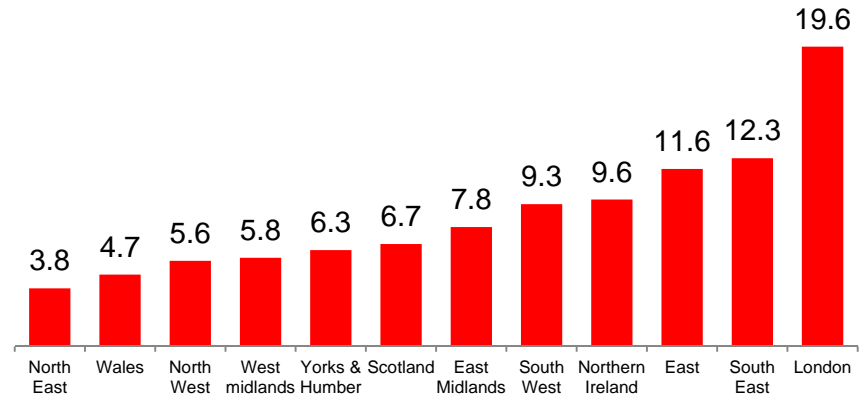
1. International Labour Organisation
2. Seasonally adjusted

Macro-economic environment¹

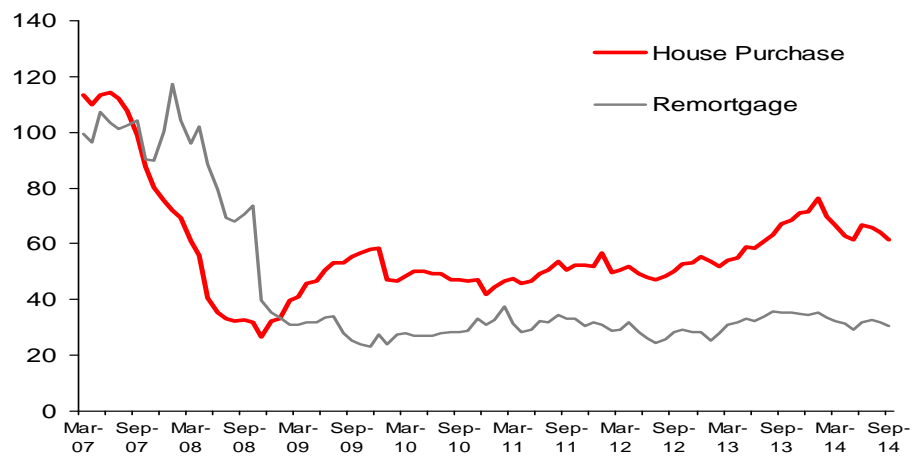
House price change (annual %, nsa¹)



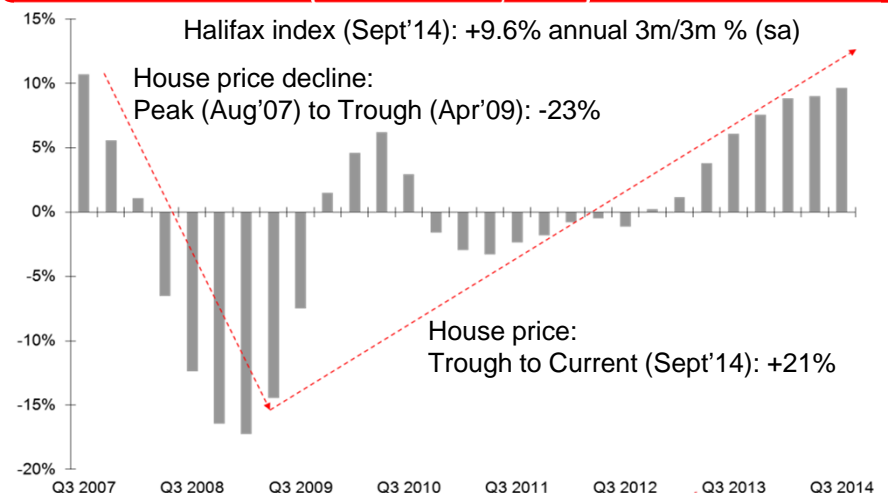
House price change by region Aug'14 (annual %, nsa¹)



House purchase and remortgage approvals (000s, sa¹)



House price inflation (annual %, sa¹)



Sources: House price change: Office for National Statistics. House purchase and remortgage approvals: Bank of England. House price approvals: Lloyds Banking Group

1. nsa: not seasonally adjusted, sa: seasonally adjusted



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▪ **Results and Presentations**

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

▪ **Debt Investors**

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

Investor Relations

▪ **James S Johnson**

Head of Investor Relations

+44 20 7756 5014

ir@santander.co.uk

▪ **Bojana Flint**

Deputy Head of Investor Relations

+44 20 7756 6474

ir@santander.co.uk

Funding Team

▪ **Tom Ranger**

Director of Funding and

Collateral Management

+44 20 7756 6303

▪ **Will Perkins**

Head of Medium Term Funding

+44 20 7756 4797

mtf@santander.co.uk

▪ **Vincenzo Albano**

Head of Short Term Funding

+44 20 7756 7050

shorttermfunding@santander.co.uk



Santander UK plc