

Santander United Kingdom Quarter 3 2011

London, 27th October 2011

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Note: The results information contained in this presentation has been prepared according to Spanish accounting criteria and regulation in a manner applicable to all subsidiaries of the Santander Group and as a result it may differ from the one disclosed locally by Santander UK.

- **Market Environment**

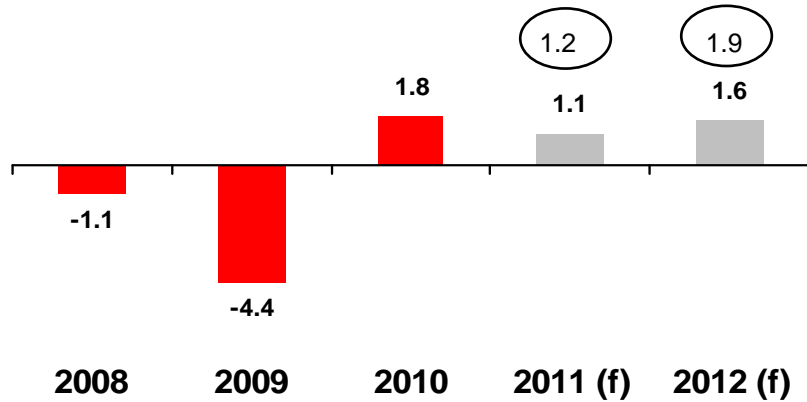
- **Quarter 3 2011**

- **Business Update**
- **Results**

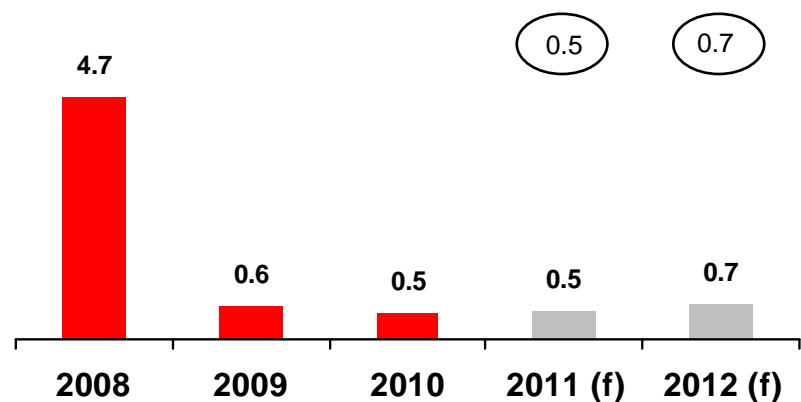
Market Environment

GDP expectations have weakened after softer recent survey data

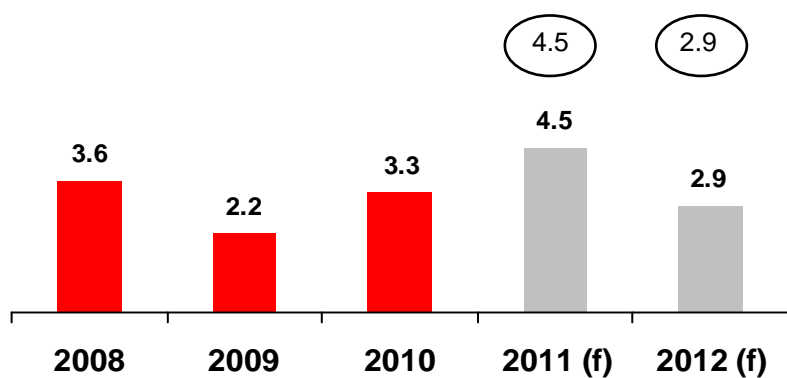
Annual GDP Growth (% , annual average)



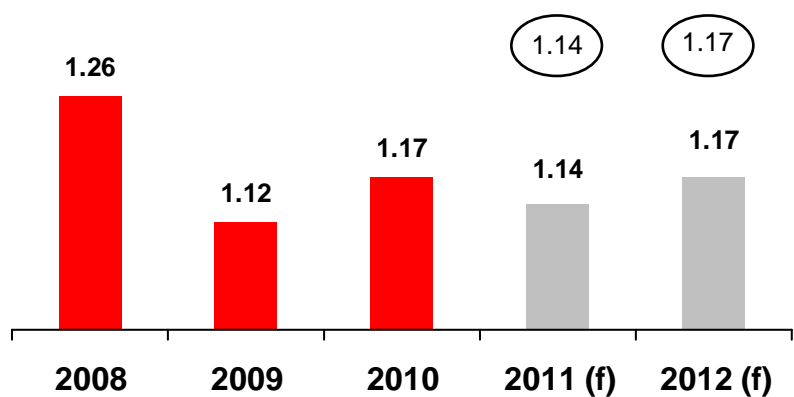
Interest Rates (% , annual average)



Annual CPI inflation rate (% , annual average)

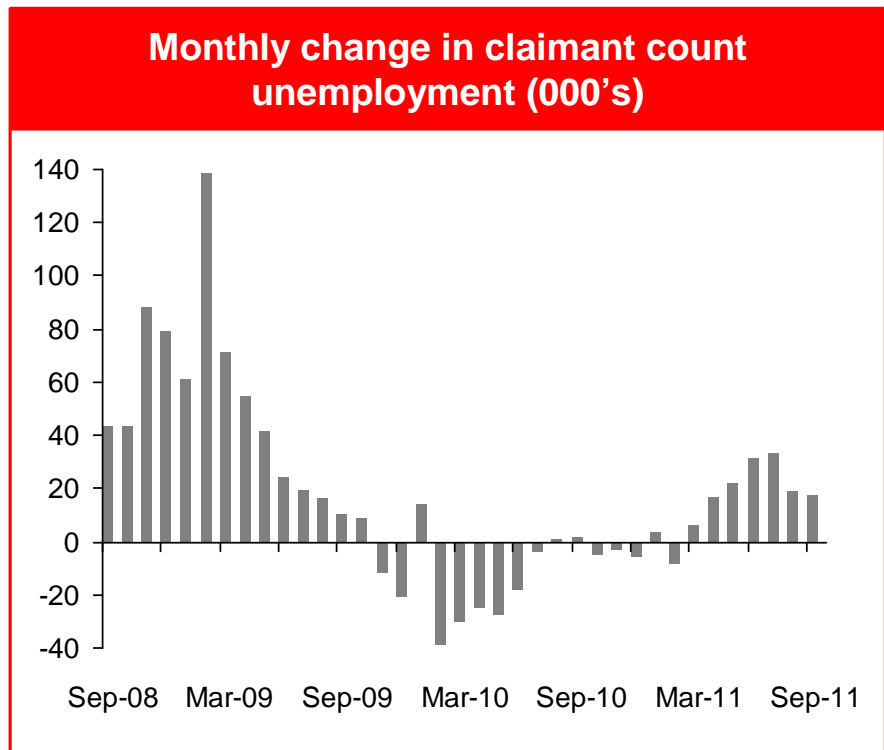


GBP : Euro exchange rates (annual average)

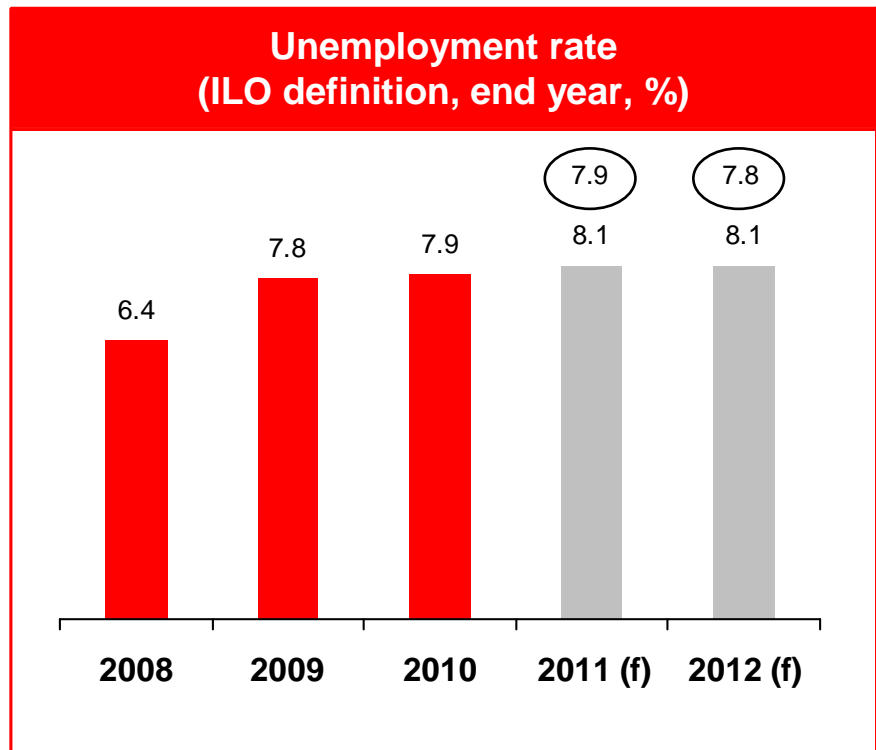


*Source - Office for National Statistics & Bank of England (f) – Santander September '11 forecast ○ - Santander July '11 forecast

Unemployment outlook has softened

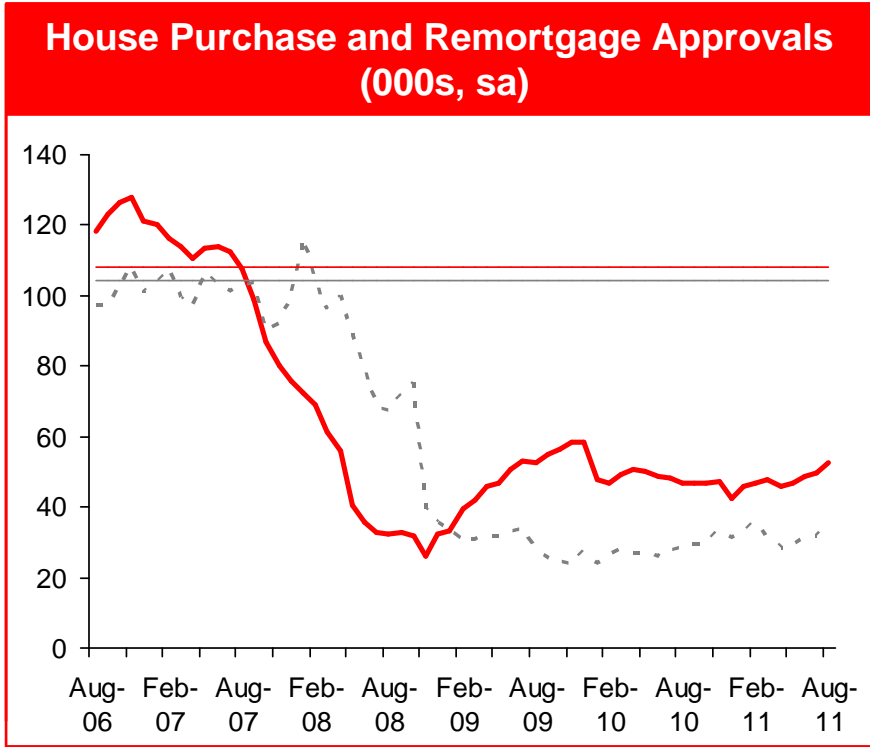


Source – Office for National Statistics



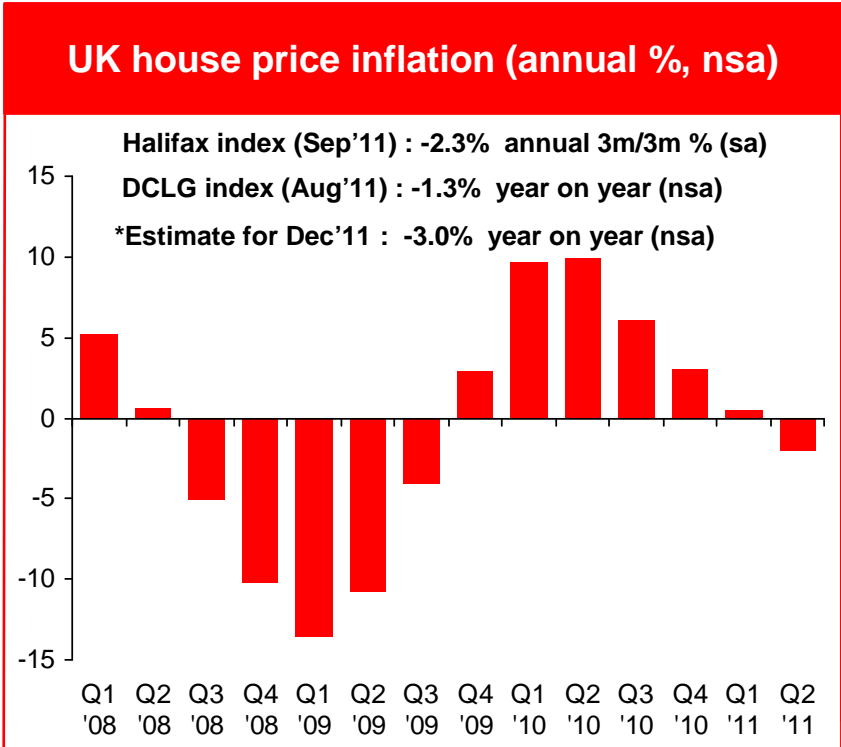
(f) – Santander September '11 forecast ○ - Santander July '11 forecast

Housing market volumes have remained flat, with house prices falling slightly



Source – Bank of England

- House Purchase
- Remortgage
- Average House Purchase 2003-07
- Average Remortgage 2003-07

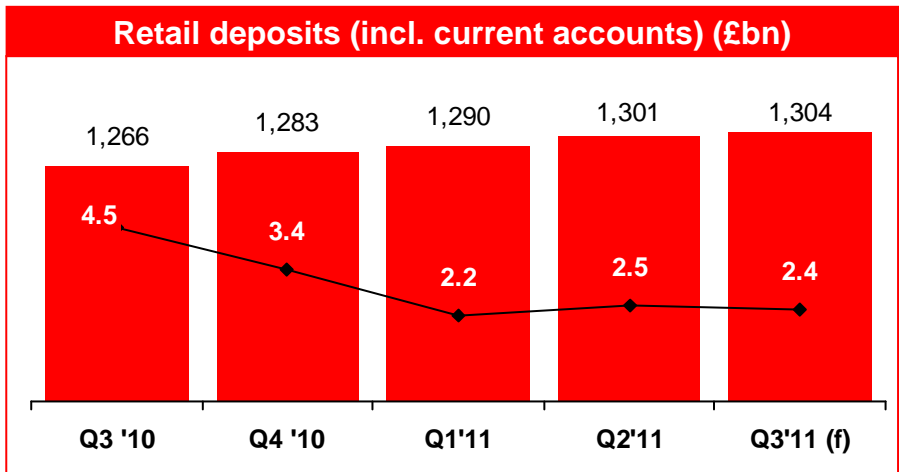
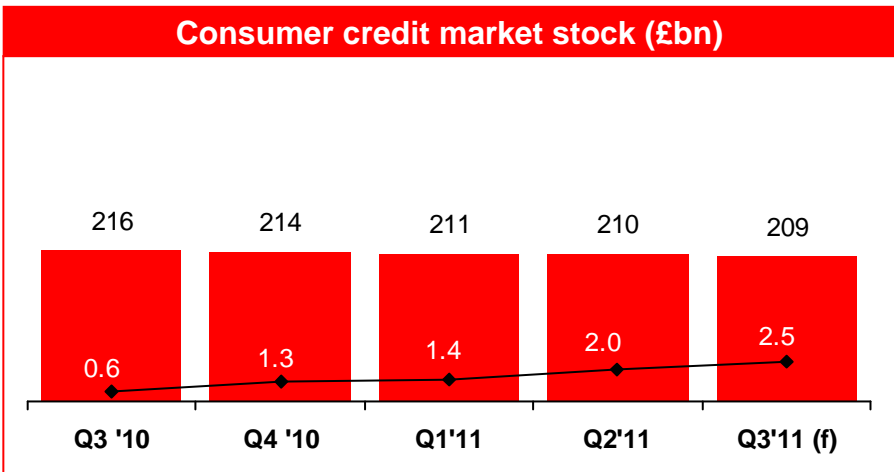
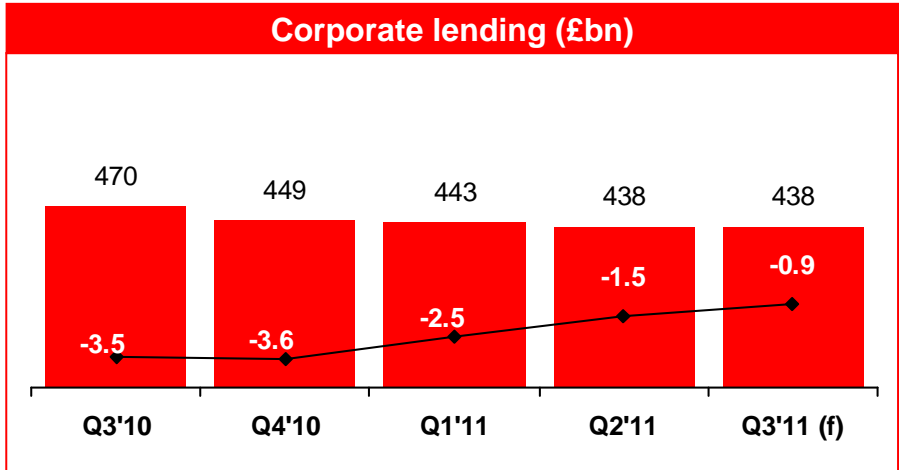
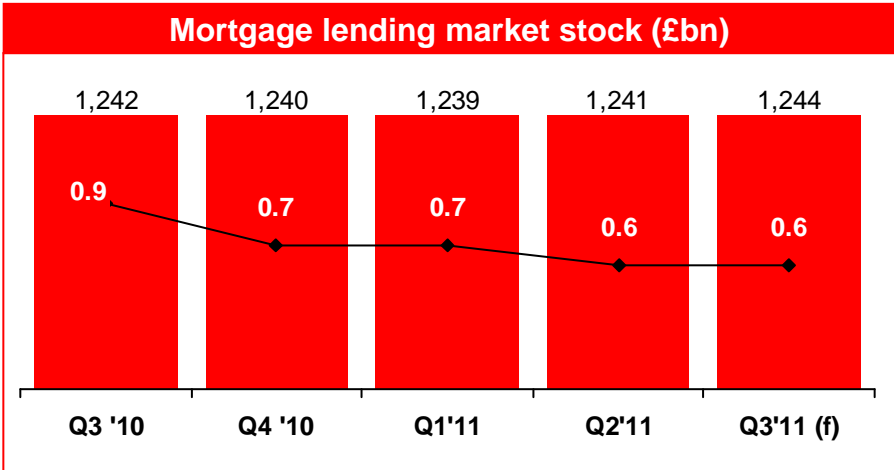


Source – Department for Communities and Local Government.

(*) Estimated by Santander UK Plc, September '11, end period data

Market Environment

Retail lending growth stagnant while corporate lending continued to decline



Retail deposits growth broadly flat

Agenda

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- Market Environment

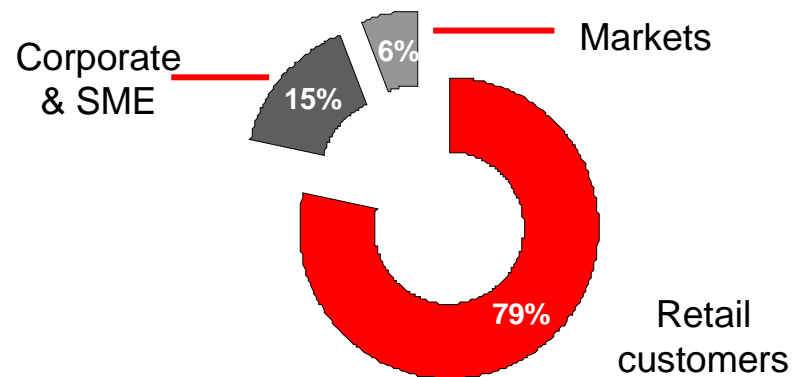
- **Quarter 3 2011**

- **Business Update**

- Results

Snapshot – Santander UK as at 30 September 2011

Profit before tax £916m ⁽¹⁾



Split excludes PPI provision raised in June

Balance Sheet

Mortgages	165.6bn
Corporate	29.1bn
- SME	10.2bn
Secured as % of Comm. Asset	82%
Loan to deposit ratio	126%

Key Market Shares

	<u>%</u>	<u>Growth</u>
▪ Residential Mortgages	13.9%	(0.0) p.p.
▪ UPLs	7.1%	(0.4) p.p.
▪ SME lending	4.3%	0.9 p.p.
▪ Deposits	9.9%	(0.3) p.p.
▪ Bank accounts	9.0%	(0.2) p.p.

Key Facts

		<u>Growth</u>
▪ Branches ⁽²⁾	1,385	4%
▪ Corp. Bus. Centres	26	4%
▪ Staff	24,291	8%

(1) Excluding PPI provision raised in June '11 profit before tax was £1,646m
 (2) Includes agencies

Business Update – Profitability and Funding

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Profitability headlines

- robust performance from all businesses units given market conditions
- profit before tax (excluding the PPI provision raised in June) in the nine months to September 2011 was 9% lower than in 2010 due to the regulatory requirements to hold increased levels of liquidity, and increasingly higher costs of term funding and lower interest rates
- excluding the impact of increased regulatory costs alone, profit before tax grew by 8% compared to 2010
- arrears performance better than expected, both in terms of secured and unsecured loans
- cost-to-income ratio of c.44%. Excluding the higher costs of liquidity the cost-to-income ratio would have been around 40% and unchanged from nine months to September 2010
- on course to achieve target RoE⁽¹⁾ of c.15% by the end of the year

Improving funding position

- customer lending was 1% higher than the same period last year in a subdued mortgage market. Mortgage gross lending of £16.8bn written in the nine months to September 2011 represented a 16.5% market share, well ahead of stock share. SME lending increased by 27%
- funding deposit balances were slightly higher despite an outflow in the nine months to September 2011. In terms of our funding mix, we have made a conscious decision to move away from short-term wholesale and retail funds where we feel margins are unsustainable, towards medium-term funding. To date we have raised c. £24bn⁽²⁾ (compared to £17bn in 2010) across a range of products and geographies at attractive rates

(1) UK trading basis

(2) Includes Santander Consumer Finance

Maintain a strong and healthy balance sheet...

High quality, low risk portfolio

Robust core balance sheet

- more than 80% of commercial assets are secured retail lending
- no self-certified or sub-prime mortgages
- ratio of loans to MTF and deposits improved by 6 p.p., to 90%

Good quality book continues to perform well

- improvement in arrears performance in the mortgage and unsecured portfolios benefitting in part from the low interest rate environment
- strong coverage levels maintained; secured 20%, unsecured Retail portfolio above 100%
- arrears and PIPs continued to be significantly better than CML average

Deleveraging of non-core assets in progress

- UPL balances reduced by 15% to £3.0bn, albeit good quality new gross lending is 12% higher than the first three quarters of 2010
- corporate run-down assets reduced to £3.5bn from to £4.7bn at the same time last year
- treasury asset portfolio now stands at £2.9bn, compared to £4.6bn one year ago

... and continue to strengthen the commercial franchise

Customer Satisfaction

Additional customer facing staff

- 600 more staff in branches, 500 more staff in call-centres
- all retail call-centre operations repatriated to UK
- new regulation team in place to accelerate initiative to treat customers fairly

Complaints treatment processes reviewed

- customer satisfaction levels improved by c. 7 p.p. over the last twelve months to Aug 2011 (from 8 to 9 customers out of 10 satisfied)
- over 80% of complaints now resolved within 48 hours
- complaints reported to the FSA down 31% in H1'11 vs. H1'10
- lower share of FOS cases than peers

Balanced business growth

Value-for-money products

- c. 650,000 bank accounts and over 400,000 credit cards opened
- primary current account and new credit card campaign launched in September

Actively supporting SME lending

- running in parallel with Merlin, over £5.7bn gross lending to business YTD, ahead of target
- Santander SME Investment & Enterprise project plans to invest £200m in funding and support for fast growth SMEs

Global Businesses support

- structured products for retail customers and treasury solutions for Corporate & SME customers

Developing a full-service, diversified, customer-centred franchise

Commercial Turnaround

Customer Driven

- focus on primary transactional relationship
- opportunity: segmentation of 25 million customers
- simple products that add value and reward existing customers

Balanced Business Mix

- organic growth in SMEs, through additional distribution & product capability
- acquisition of RBS branches due to complete in the fourth quarter of 2012

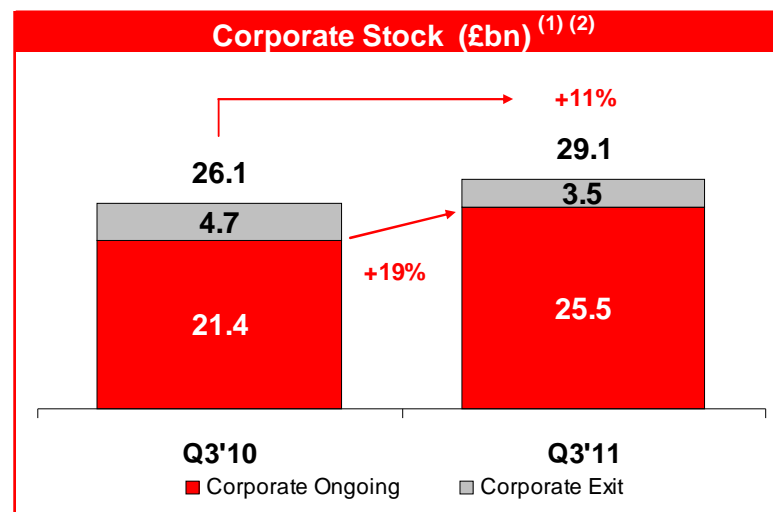
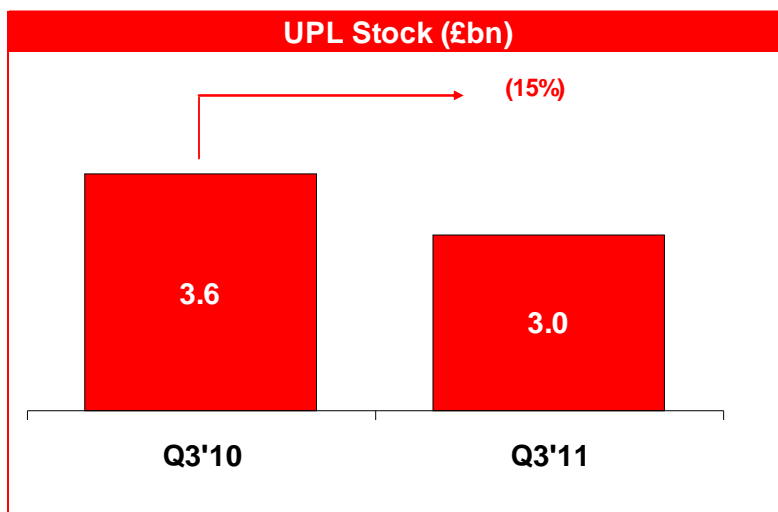
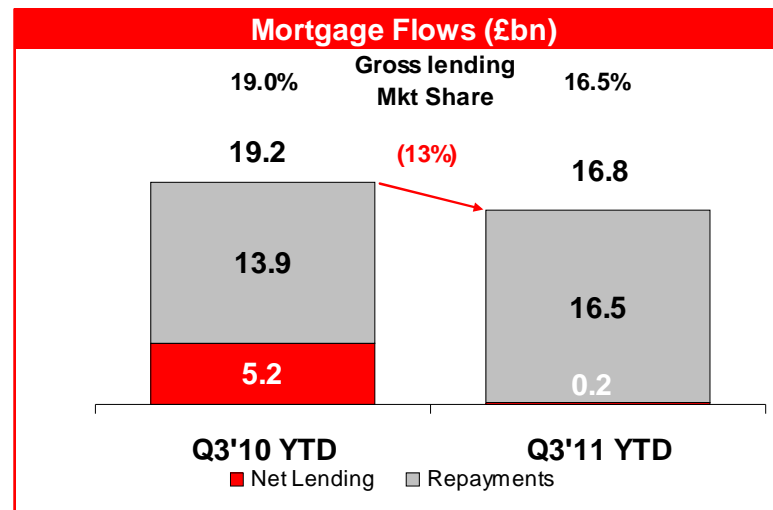
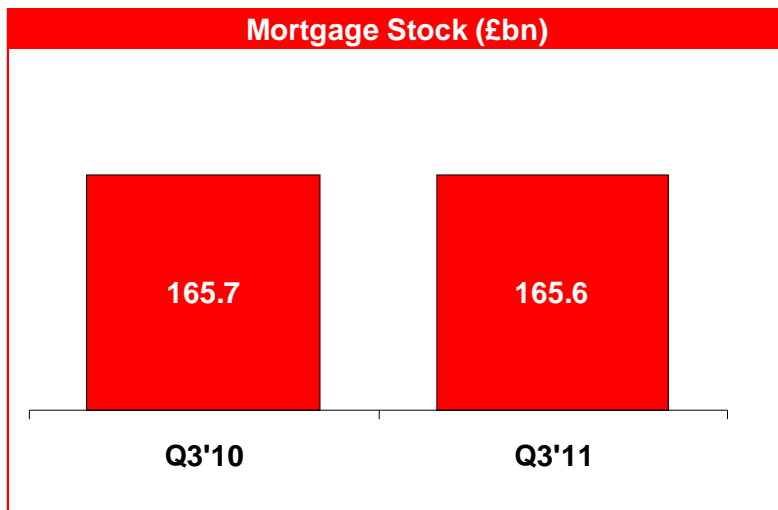
Leading Efficiency & Service underpinned by IT systems

- £490m investment across retail and SME operations in part linked to RBS branch acquisition
- our goal is to achieve a step change in customer satisfaction

...focusing on profitability ahead of market share

Business Update – Customer Lending

Commercial lending performance



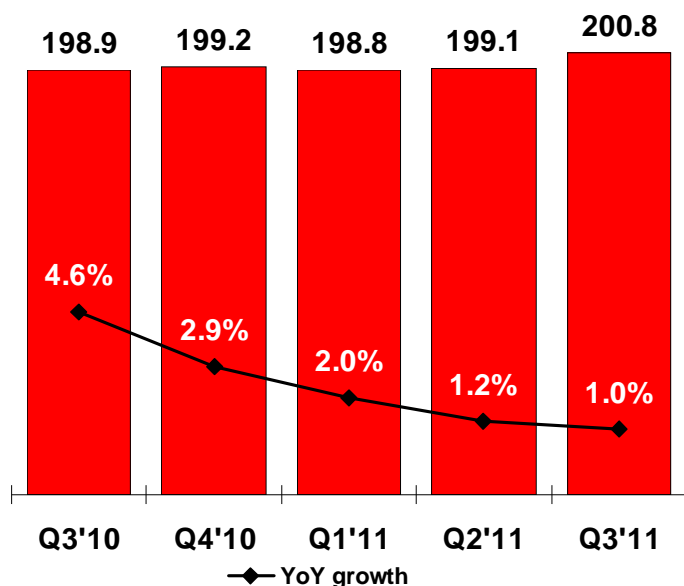
(1) Includes Social Housing and Commercial Mortgages

(2) Within Corporate ongoing, SME lending was up 27%

Business Update – Customer Lending

Strong SME lending growth, with mortgages flat

Total Residential mortgages (£bn)				
Q3'10	Q4'10	Q1'11	Q2'11	Q3'11
165.7	165.8	165.1	165.2	165.6
6.4	6.6	6.8	6.9	7.1
172.1	172.4	171.8	172.1	172.6
13.9%	13.9%	13.9%	13.9%	13.9%



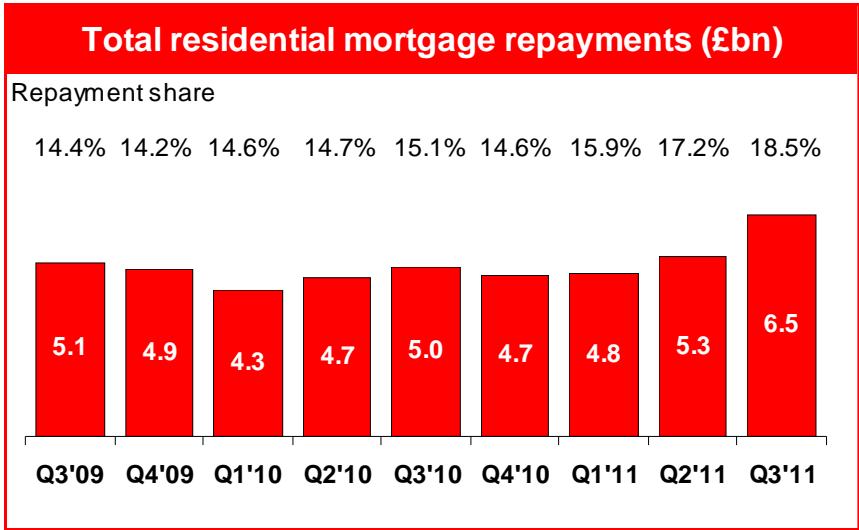
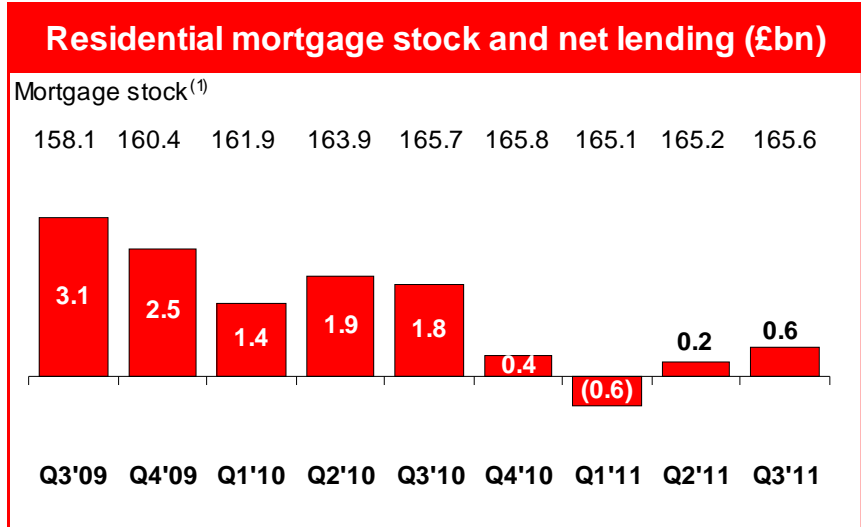
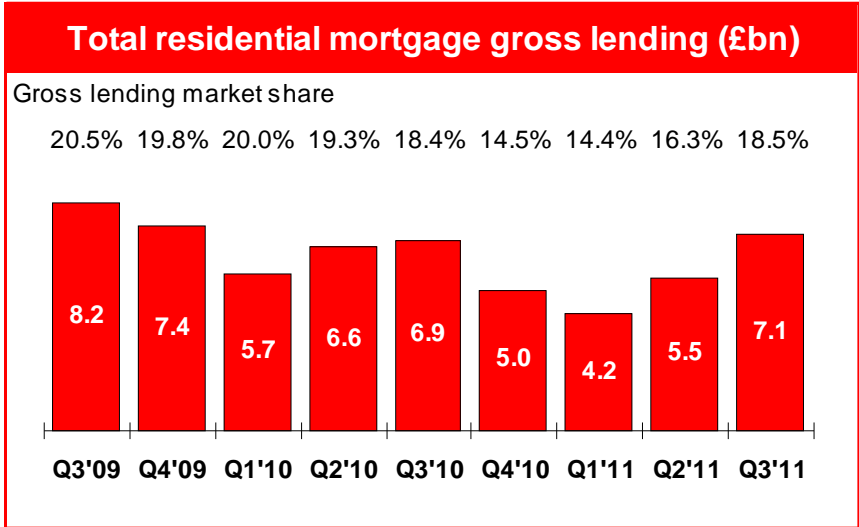
Residential retail mortgage stock
 Social Housing stock
Total Residential mortgages
Santander UK market share (%)

	Q3'11	Q3'11 v Q3'10	Q3'11 v Q2'11
Residential Retail Mortgages	165.6	(0.1%)	0.2%
UPLs	3.0	(15.0%)	(2.1%)
Overdraft & Other	0.6	(10.0%)	(4.0%)
Corporate Banking ⁽¹⁾	29.1	11.2%	5.7%
Santander Cards	2.6	(6.9%)	(2.8%)
Total commercial loans ⁽²⁾	200.8	1.0%	0.9%

(1) Corporate Banking includes Social Housing and Commercial Mortgages

(2) Excludes London Branch and Santander Consumer Finance

Mortgage stock broadly stable in subdued market

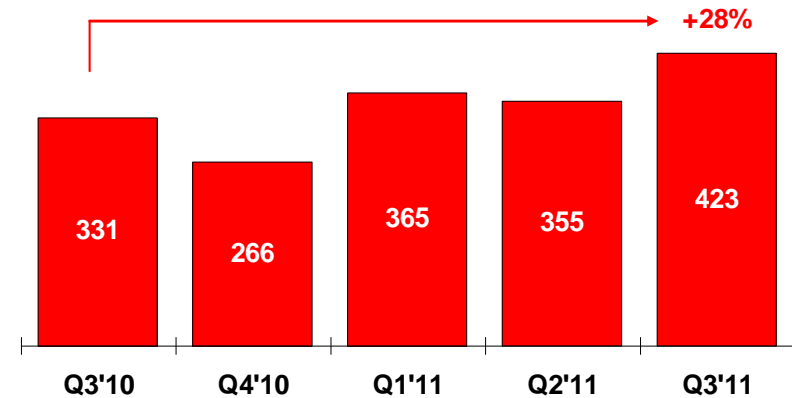


- ### Comments
- mortgage net lending was positive in the second and third quarters after a weak start to 2011 impacted by a weaker pipeline from Q4'10
 - gross mortgage lending was £16.8bn, an estimated market share of 16.5% (over 18% in Q3), well above our natural stock share
 - new business margins are resilient but slightly lower than 2010
 - SVR balances have increased modestly in the quarter, and now represent slightly more than a quarter of the mortgage book

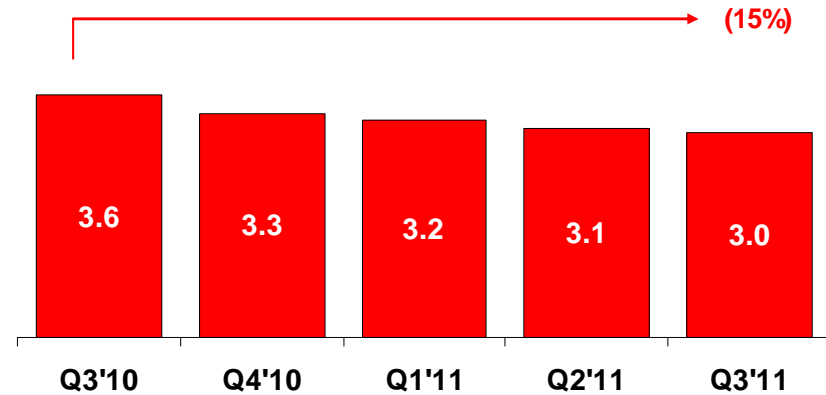
(1) Excludes Social Housing

Continue to grow in new higher quality UPL segments

Total UPL gross lending (£m)

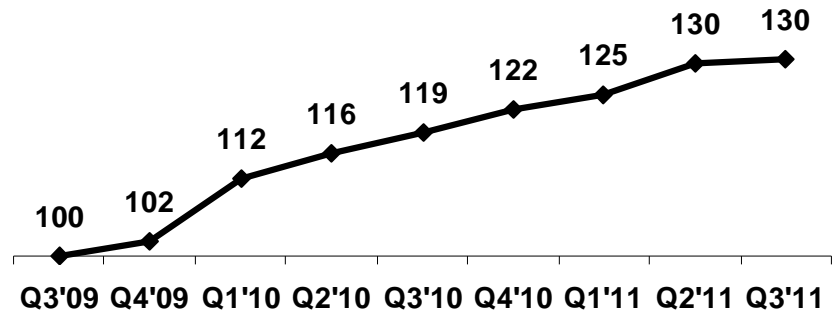


Total UPL stock (£bn)



Total quarterly margin growth

(Q3'09 rebase to 100)

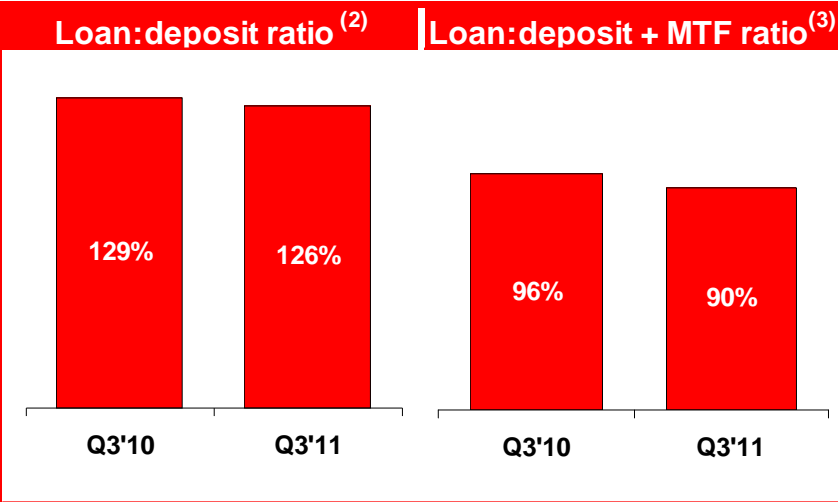
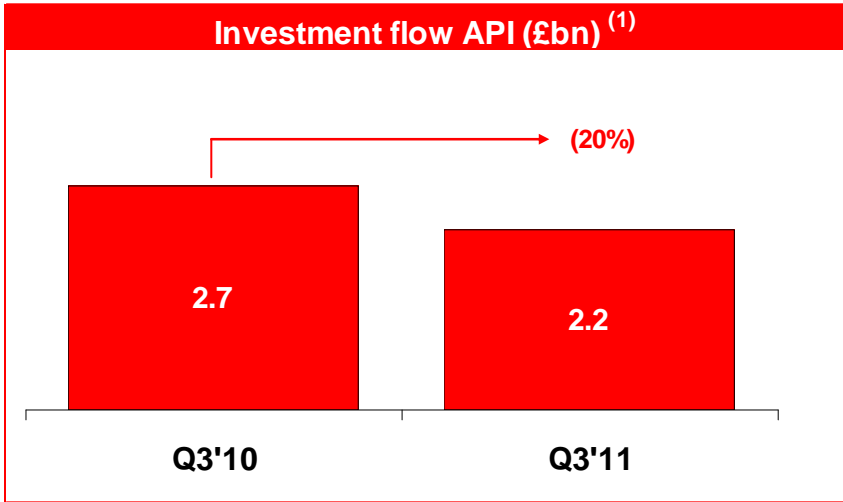
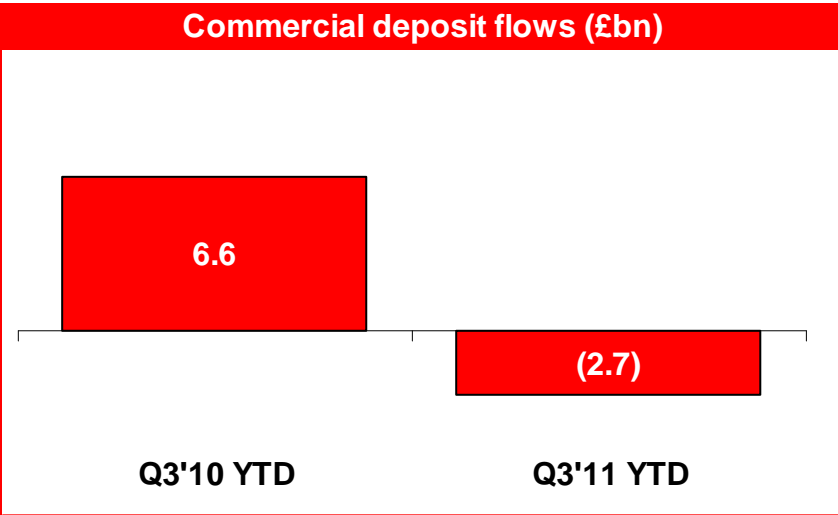
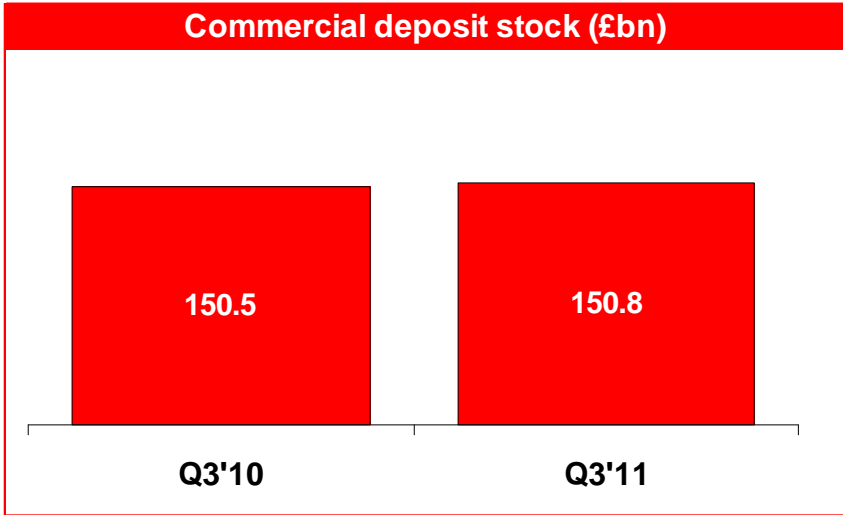


Comments

- continue to drive value by focusing on unsecured lending only to high quality customer segments, in particular those with an existing relationship with the bank and an established credit history
- gross UPL lending YTD increased by 12% compared to 2010 with new lending written at very attractive margins
- reduction in the book driven by higher levels of repayment from business written pre-2009

Business Update – Customer Deposits

Commercial deposit performance impacted by increased price competition

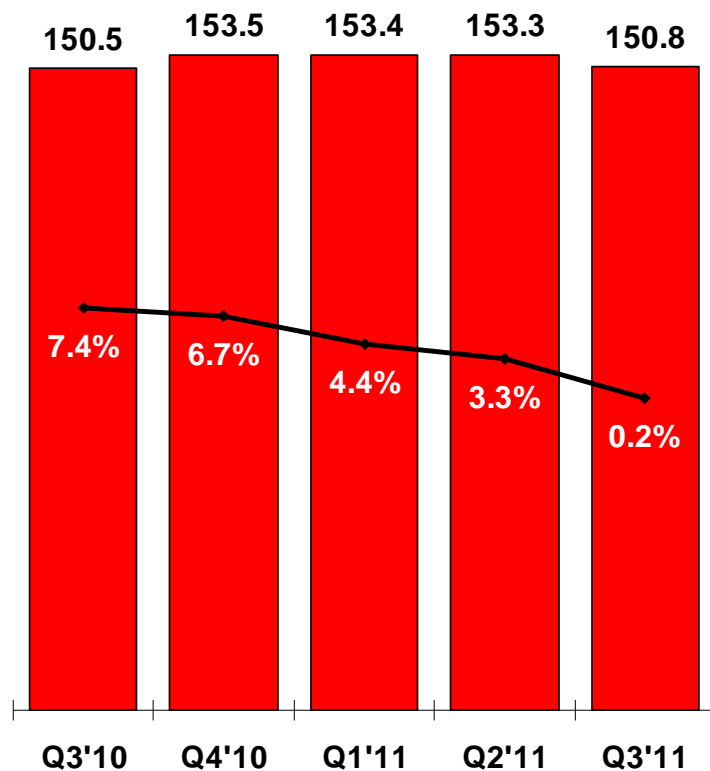


(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
 (2) Loans and credits / customer deposits. Excludes Santander Consumer Finance, includes London Branch
 (3) Loans and credits / customer deposits + Medium Term Funding. Excludes Santander Consumer Finance, includes London Branch



Business Update – Customer Deposits

Deposits stabilising in the face of significant competitive pressure

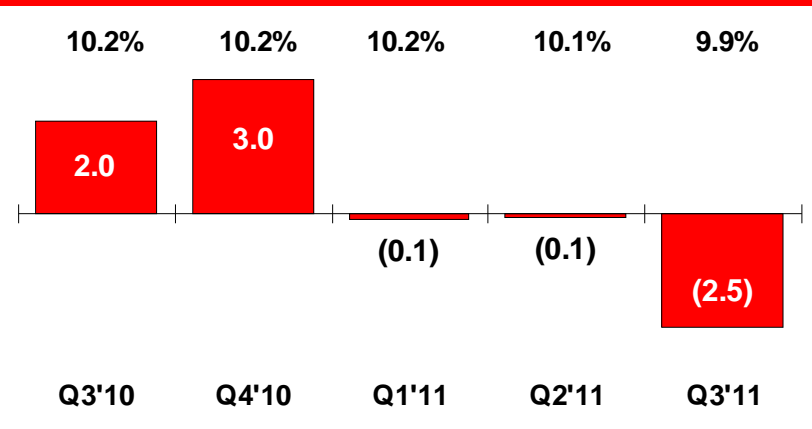


	Q3'11	Q3'11 v Q3'10	Q3'11 v Q2'11
Retail Banking	122.0	(1.4%)	(1.6%)
Corporate Banking	28.8	7.6%	(1.8%)
Total commercial deposits	150.8	0.2%	(1.6%)
FUM ⁽¹⁾	6.0	22.9%	(5.8%)
Total funds under management	156.8	0.9%	(1.8%)

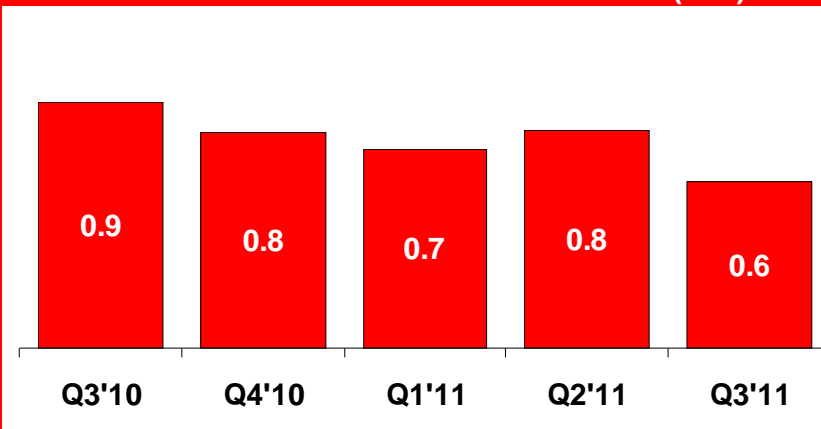
(1) Managed through Santander Asset Management

Strategy to change funding mix away from unprofitable sources

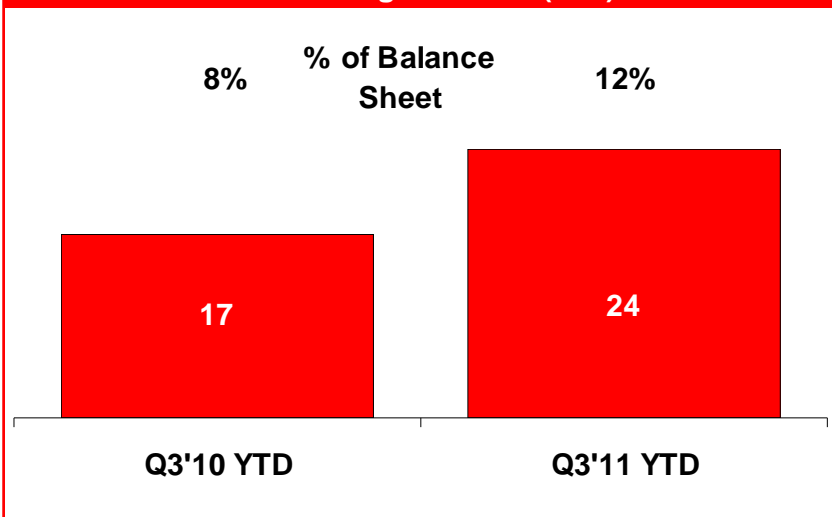
Commercial deposit flows (£bn) and stock market share



Investment new business sales - API ⁽¹⁾ (£bn)



Term funding issuance (£bn) ⁽²⁾



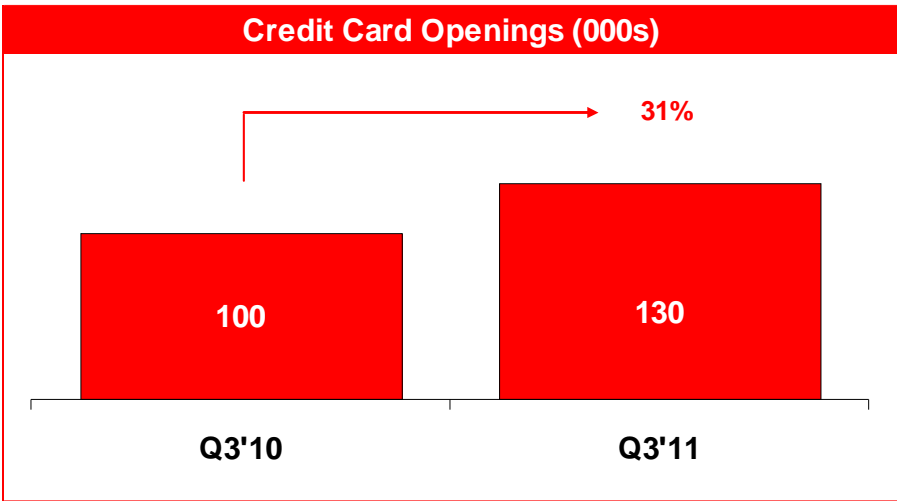
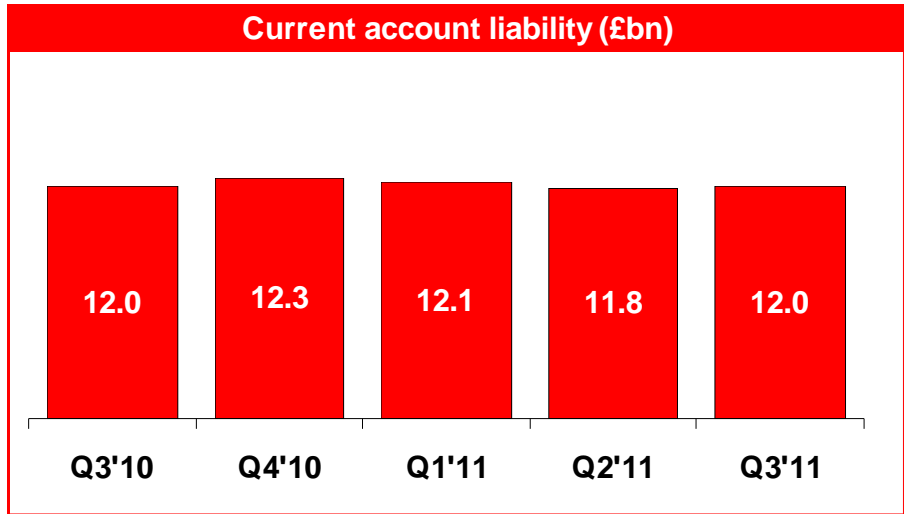
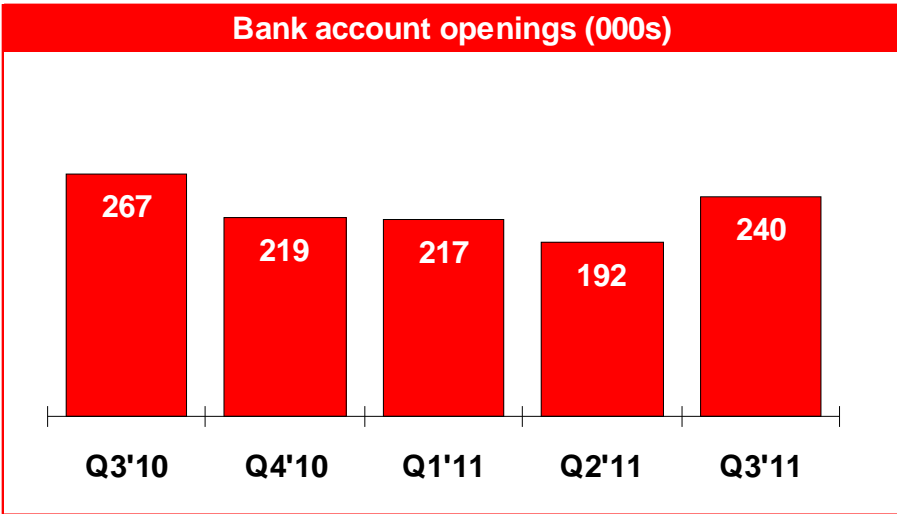
Comments

- strategic focus on profitability and funding mix given market pricing of volatile deposits with less short-term wholesale and retail funds and more medium-term funding
- term funding issuance with good term and cost has resulted in a net improvement in the funding position
- investments & Pensions' performance is down on the same point in 2010

(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
 (2) YTD Q3'11 includes £0.8bn relating to Santander Consumer Finance

Business Update – Current Accounts & Credit Cards

Focus on core primary relationship



- ### Comments
- c. 650,000 bank accounts opened so far this year
 - bank account balances were slightly higher than the prior quarter, reflecting the larger stock of accounts and a focus on increasing the quality and primacy of openings. This was offset by lower disposable earnings in the UK as a result of high inflation and tighter economic decisions
 - new 1-2-3 fee paying credit card launched & new loyalty reward for current accounts launched in September

Agenda

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- Market Environment

- **Quarter 3 2011**

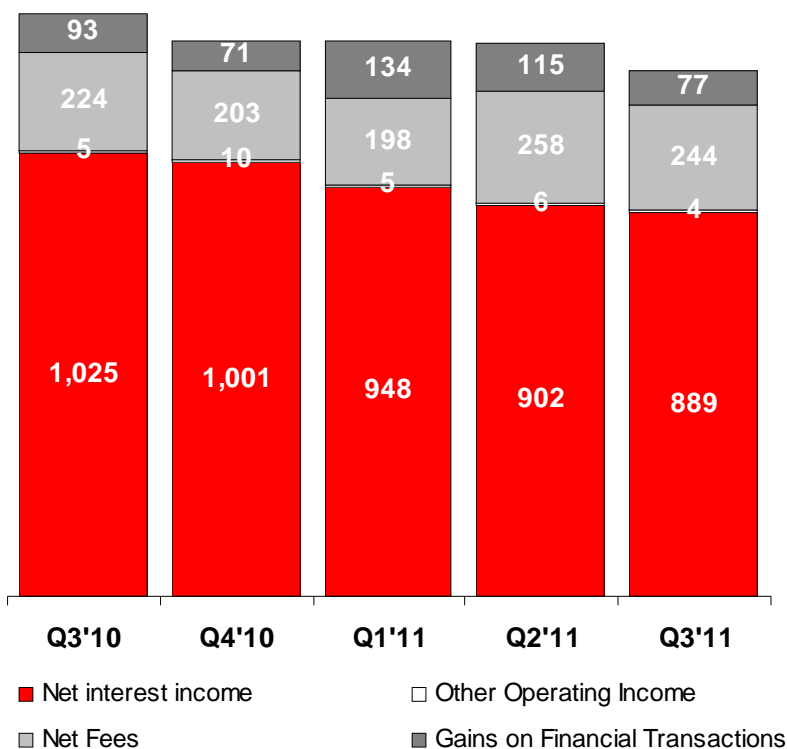
- Business Update

- **Results**

Results: Gross Income

Income impacted by regulatory liquidity and costs of funding

1,348	1,284	1,285	1,280	1,215
1,249	1,204	1,146	1,160	1,133



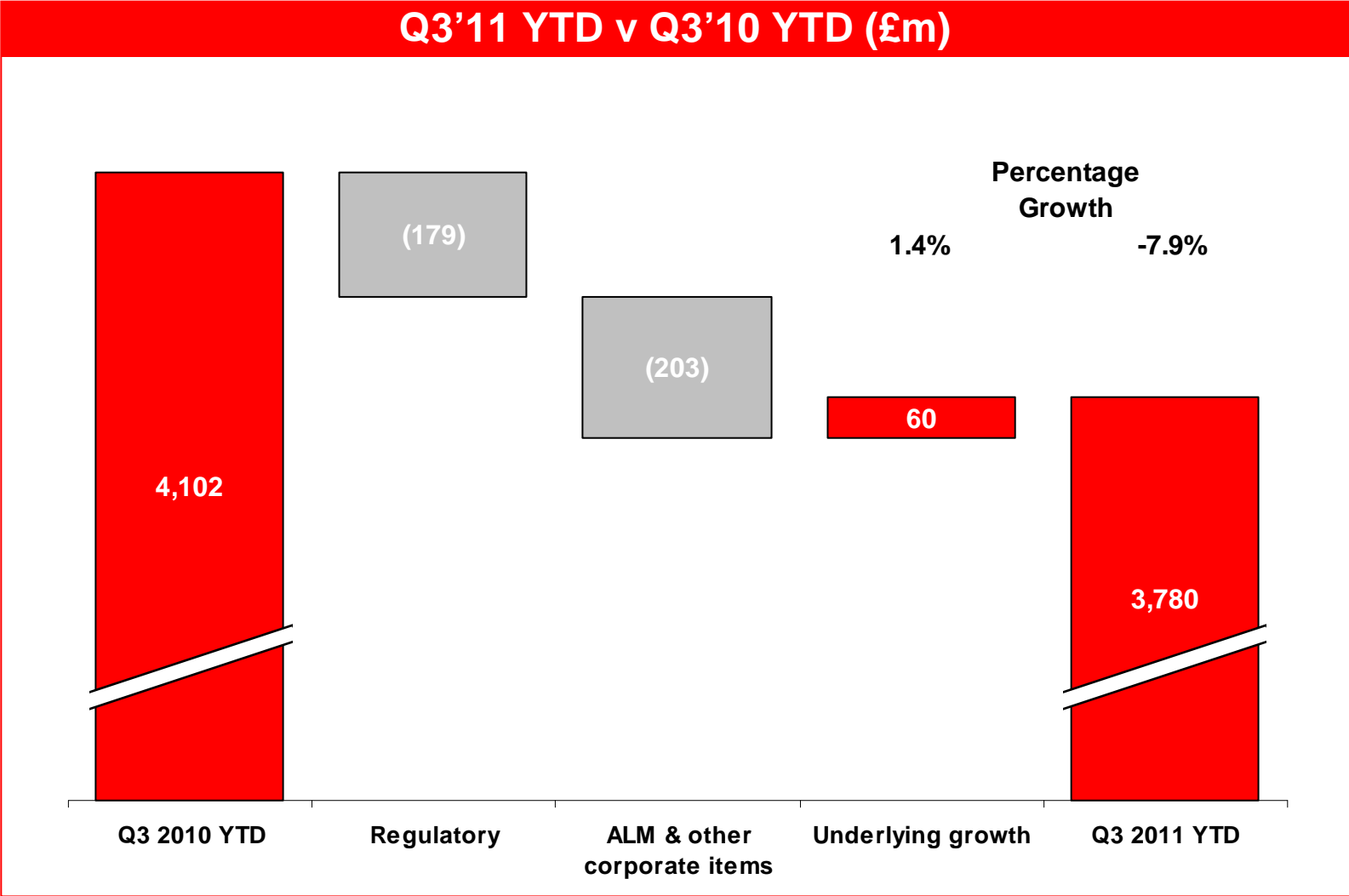
Total Gross Income £m

Total Commercial Margin £m

£m	Q3'11 YTD	Q3'11 YTD v Q3'10 YTD
Net interest income	2,739	(11%)
Net Fees	700	3%
Total Commercial Margin	3,439	(9%)
Gains on Financial Transactions	326	0%
Other Operating Income	15	(5%)
Gross Income	3,780	(8%)

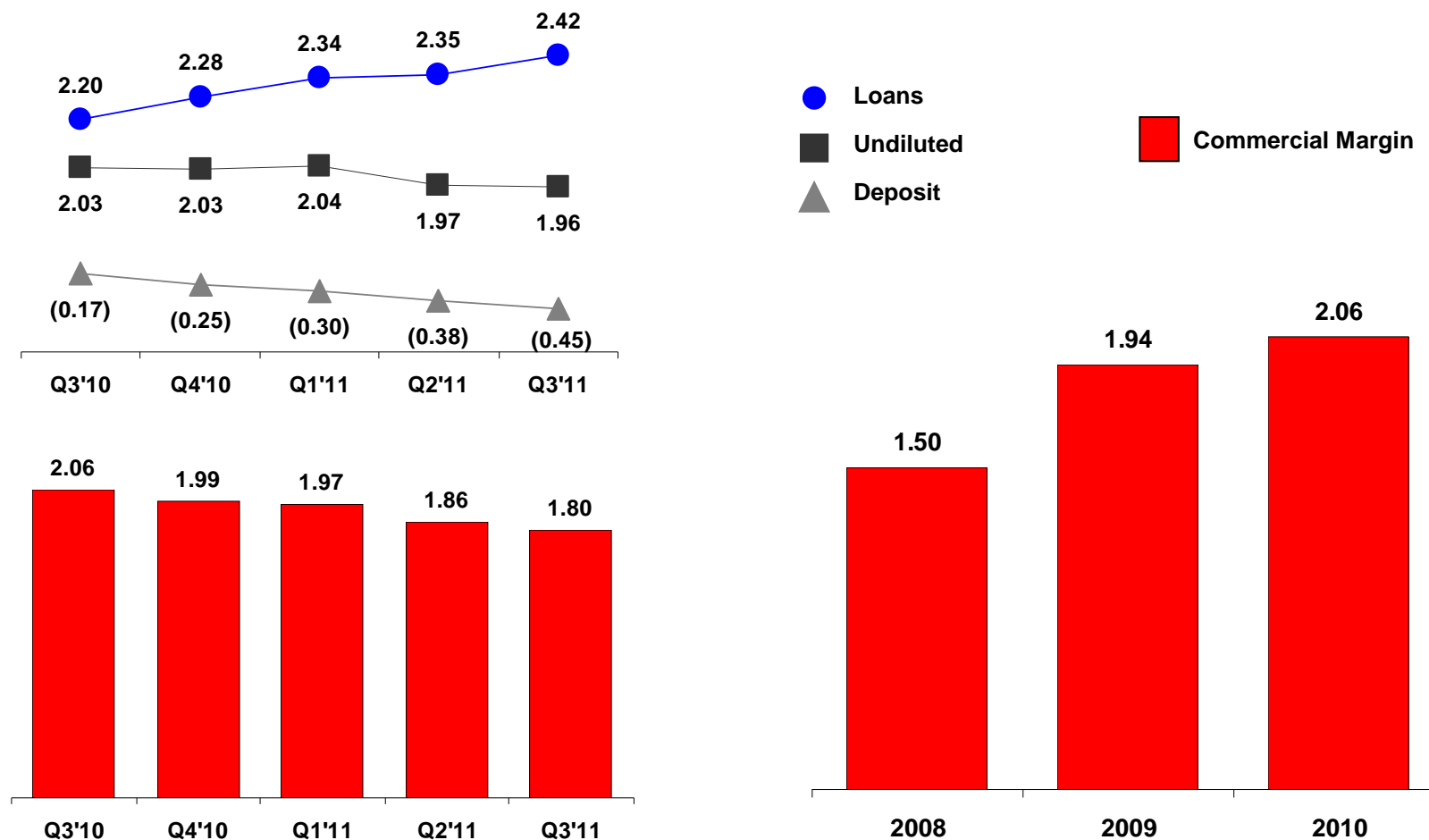
- higher lending margins and higher net interest income in Corporate Banking have been offset by increased funding acquisition margins and the impact of regulatory liquidity costs
- continued lower interest rates start to have a more material impact from qtr.3
- fee income has increased as a result of a change in the pricing structure of current accounts as flat fees have replaced overdraft interest charges
- gains on financial transactions flat with losses reported in 2010 relating to the Treasury Asset Portfolio (neutral PBT) not repeated in 2011 offset by weaker performance in GB&M due to market conditions

Results: Revenue Trends Explained



Results: Commercial Banking Margin

Wider loan spreads being offset by higher regulatory liquidity costs and increased funding costs

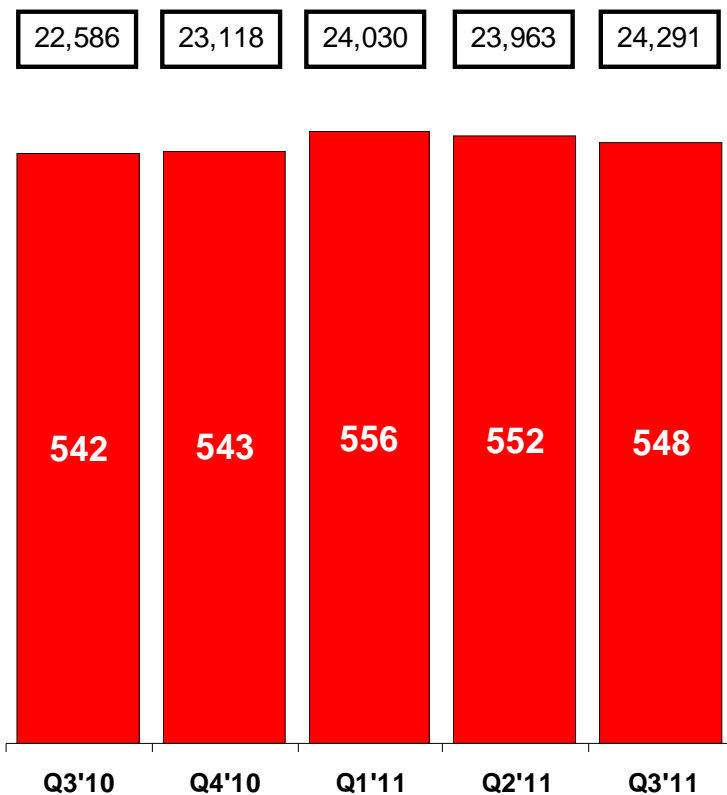


Commercial Banking Margin: Calculated as 'total net interest income over total customer assets' and therefore includes the cost of Wholesale and Medium Term Funding.
 Undiluted Margin is the sum of Asset Margin and Deposit Margin.
 The impact of perimeter changes are included on a proforma basis



Results: Operating Expenses

Continuing to fund investments through efficiencies...



FTE

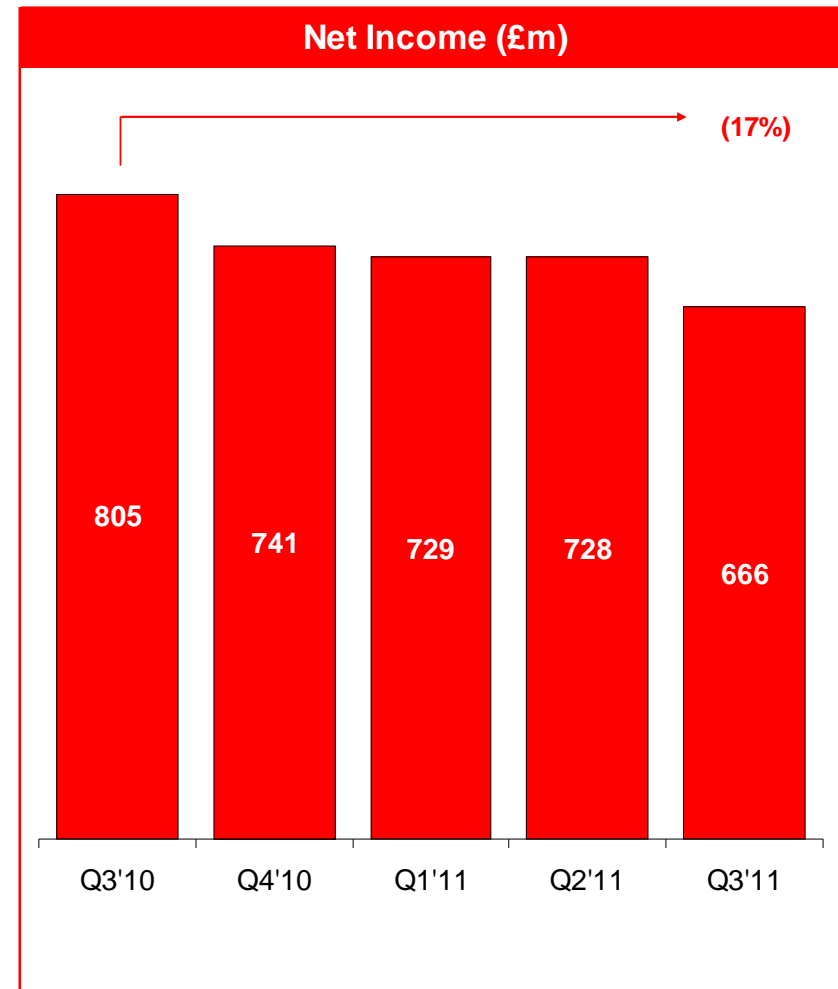
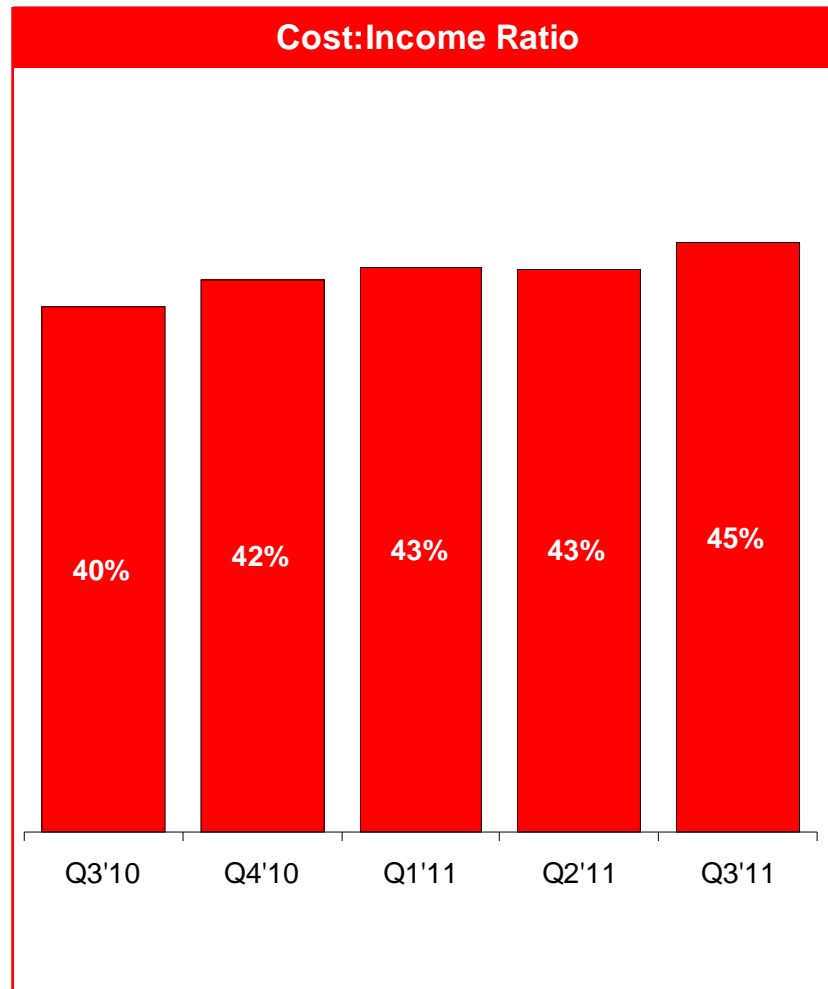
£m

	Q3'11 YTD	Q3'11 YTD v Q3'10 YTD	Q3'11 v Q2'11
General & administrative expenses	1,423	(2%)	(1%)
Depreciation & amortisation	233	18%	2%
Operating Expenses	1,656	1%	(1%)

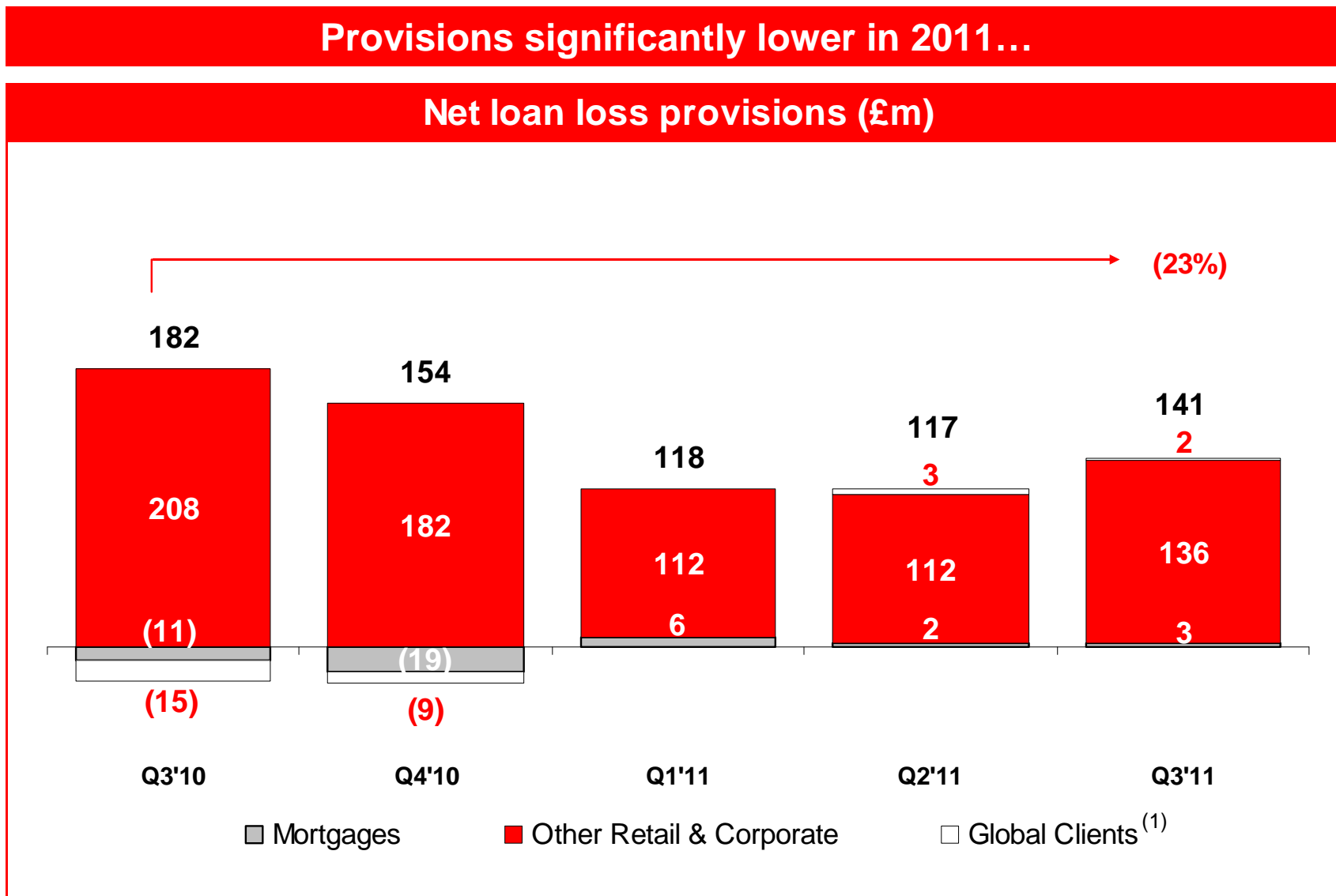
- operating expenses were 1% higher than 2010 due to the recruitment of additional customer-facing staff and investment in growth initiatives in Corporate Banking and GB&M
- cost-to-income ratio of c.44%. Excluding the higher costs of liquidity the cost-to-income ratio would have been around 40% and unchanged from nine months to September 2010

Results: Net Income

...although regulatory pressures have driven a decrease in net income



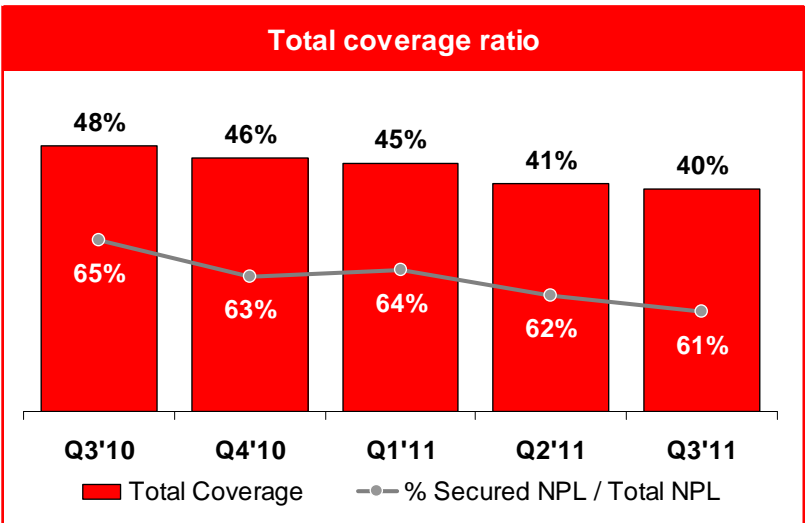
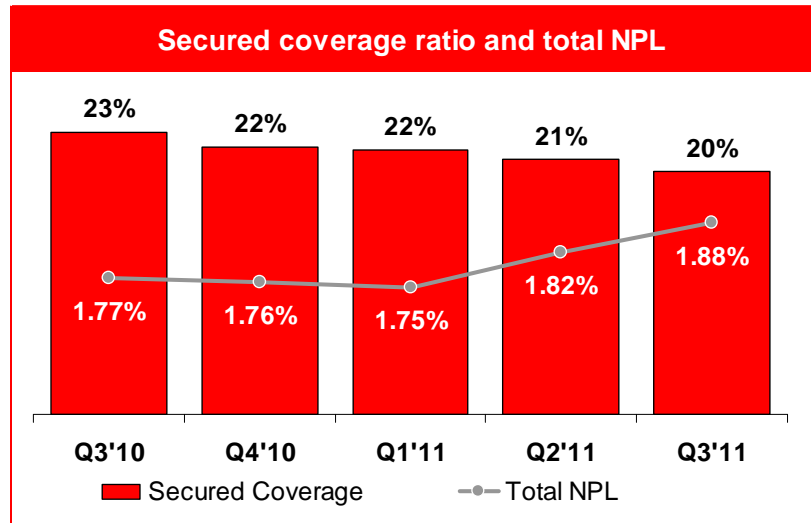
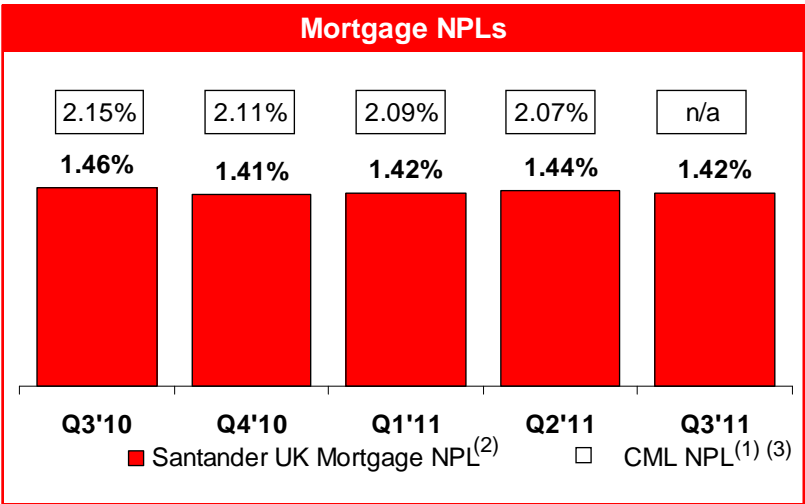
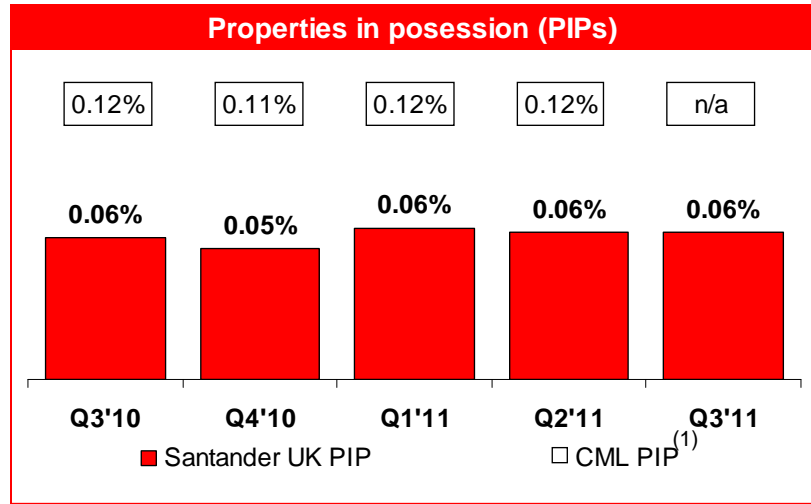
Results: Credit Provisions



(1) Generic provisions under Bank of Spain regulations, relating to global client corporate portfolios

Results: Credit Quality

...with strong coverage levels maintained

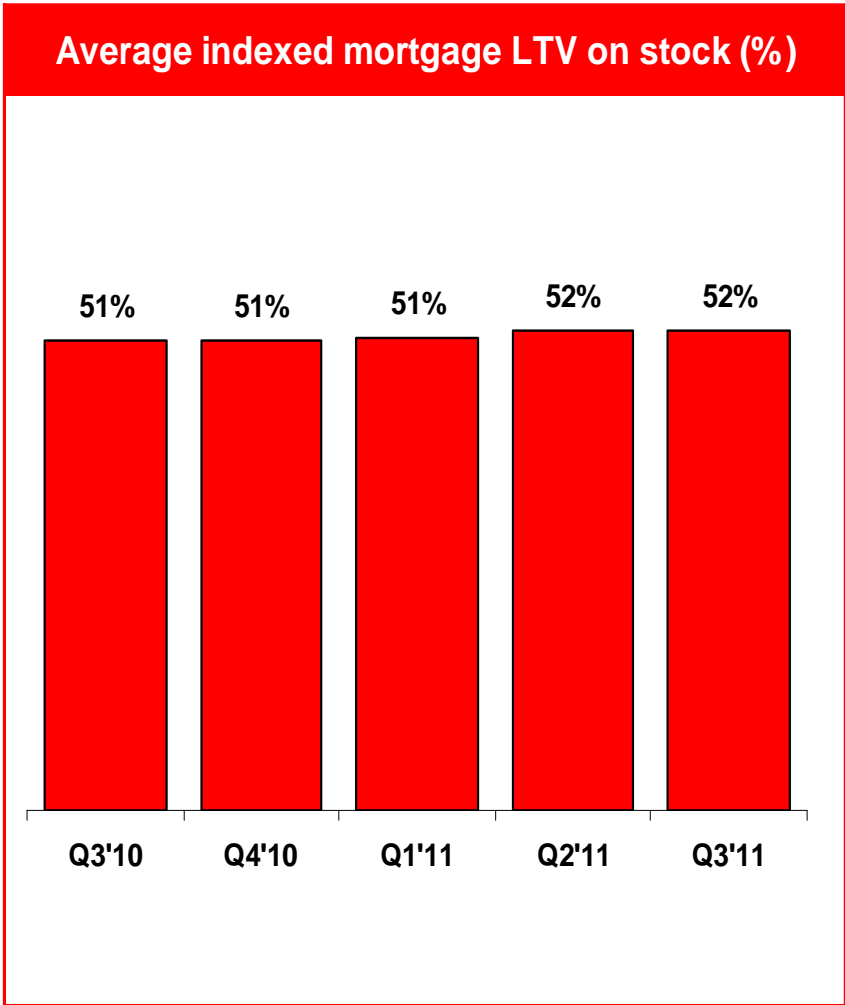
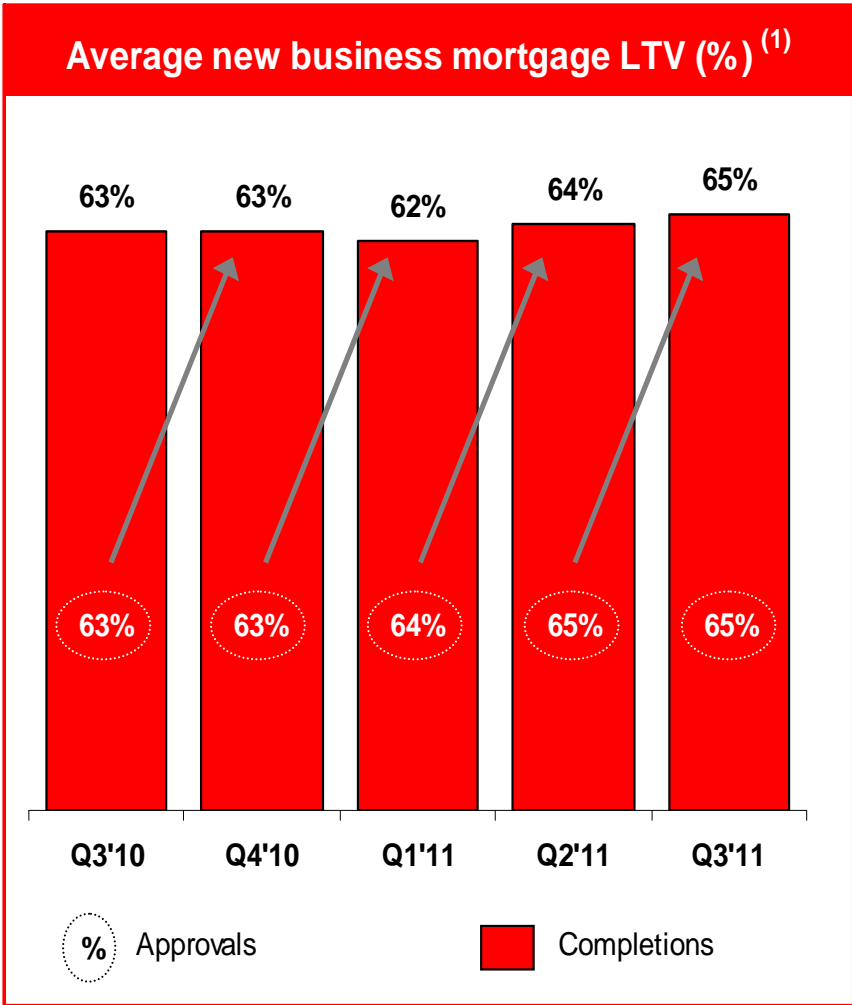


(1) CML data for September 2011 not available at time of reporting
 (2) Santander UK Mortgage NPL on a value basis
 (3) CML NPL relates to the UK banking sector's residential mortgages on a volume basis



Results: Credit Quality

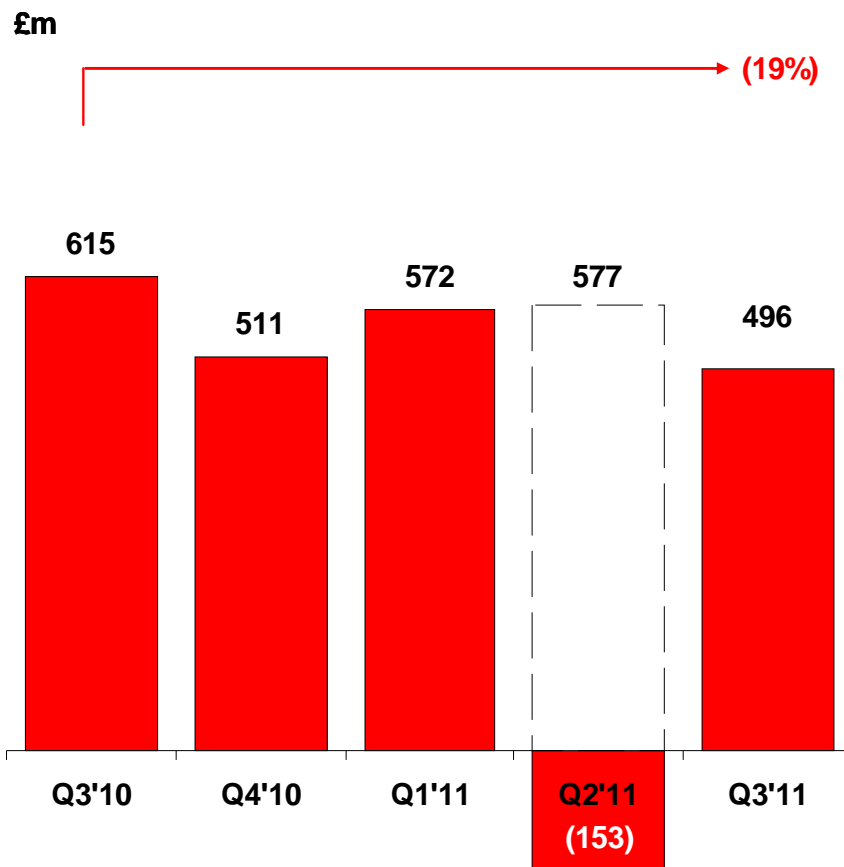
New business and stock LTV confirms our strong credit quality



(1) Based on completions

Results: Profit Before Taxes

Profit before taxes, excluding PPI and regulatory factors up 8%

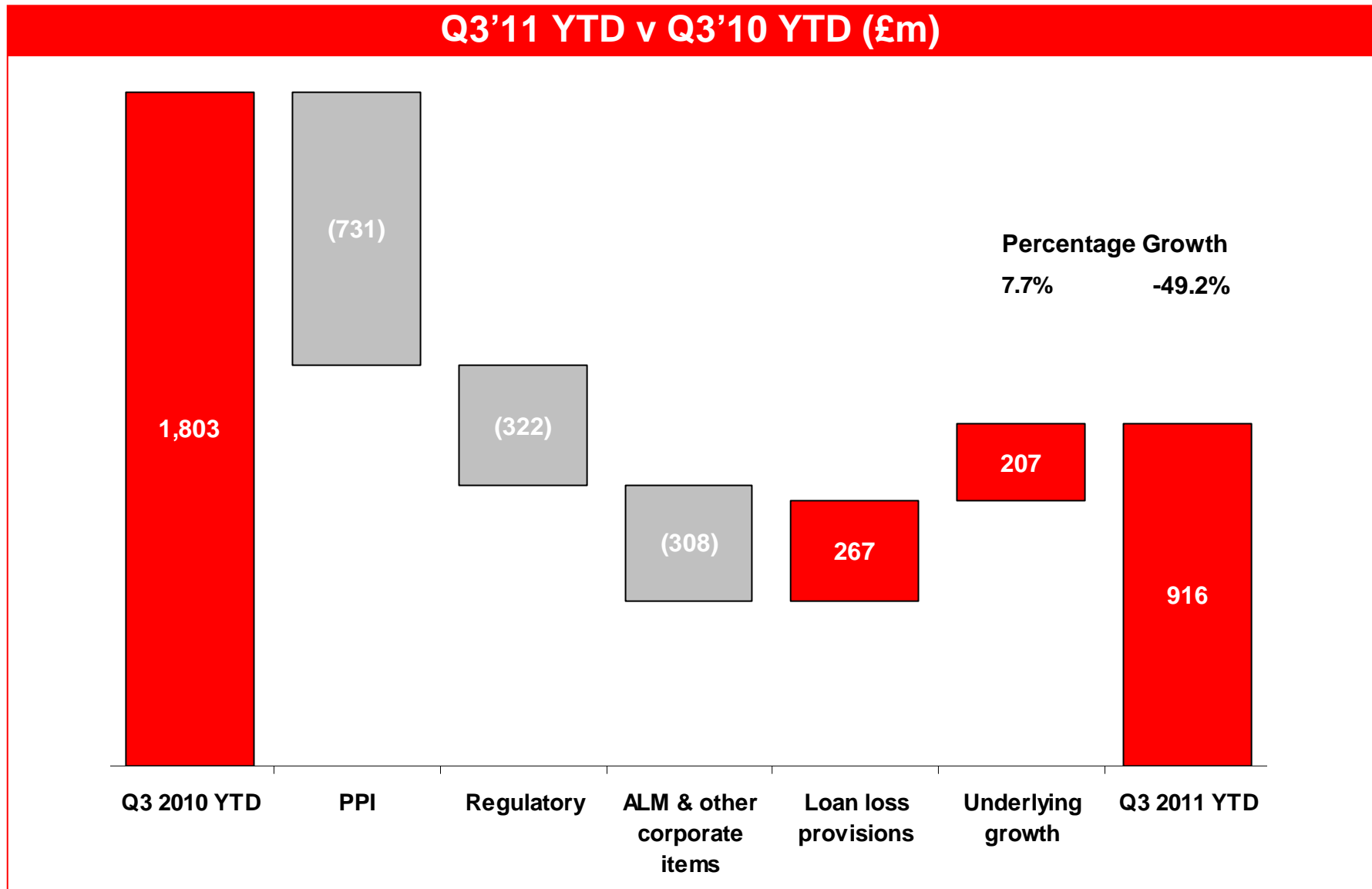


£m	Q3'11 YTD	Q3'11 YTD v Q3'10 YTD
PBT	916	(49%)
Provisions for income tax	(256)	(48%)
Profit after tax ⁽¹⁾	659	(50%)

(1) Includes £538m of PPI provision raised in June 2011

Excluding PPI provision

Results: PBT Trends Explained



APPENDIX

- **Financial Results**
- **Balance Sheet**

Financial Results

Financial Results: Profit and Loss

35

£ million			Variation	
	Q3'11 YTD	Q3'10 YTD	Amount	%
Net interest income	2,739	3,083	(345)	(11.2%)
Net fees	700	677	23	3.4%
Gains (losses) on financial transactions	326	326	0	0.1%
Other operating income*	15	16	(1)	(5.2%)
Gross income	3,780	4,102	(322)	(7.9%)
Operating expenses	(1,656)	(1,642)	(14)	0.9%
General administrative expenses	(1,423)	(1,444)	22	(1.5%)
<i>Personnel</i>	(889)	(837)	(52)	6.2%
<i>Other administrative expenses</i>	(533)	(607)	74	(12.2%)
Depreciation and amortisation	(233)	(197)	(36)	18.4%
Net income	2,123	2,460	(337)	(13.7%)
Net loan loss provisions	(376)	(643)	267	(41.5%)
Other income	(832)	(14)	(817)	n/a
Profit before taxes (w/o capital gains)	916	1,803	(887)	(49.2%)
Tax on profit	(256)	(493)	237	(48.1%)
Profit from continuing operations (w/o capital gains)	659	1,310	(650)	(49.7%)
Net profit from discontinued operations	—	—	—	0.0%
Consolidated profit (w/o capital gains)	659	1,310	(650)	(49.7%)
Minority interests	—	—	—	0.0%
Attributable profit to the Group (w/o capital gains)	659	1,310	(650)	(49.7%)

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

Financial Results: UK Profit and Loss

36

£ million

	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Q2'11	Q3'11
Net interest income	1,030	1,028	1,025	1,001	948	902	889
Net fees	221	232	224	203	198	258	244
Gains (losses) on financial transactions	118	114	93	71	134	115	77
Other operating income*	5	6	5	10	5	6	4
Gross income	1,375	1,380	1,348	1,284	1,285	1,280	1,215
Operating expenses	(544)	(555)	(542)	(543)	(556)	(552)	(548)
General administrative expenses	(477)	(487)	(481)	(476)	(478)	(475)	(470)
<i>Personnel</i>	(272)	(286)	(279)	(273)	(292)	(288)	(309)
<i>Other administrative expenses</i>	(205)	(201)	(202)	(203)	(186)	(187)	(160)
Depreciation and amortisation	(67)	(68)	(61)	(67)	(77)	(77)	(79)
Net income	830	825	805	741	729	728	666
Net loan loss provisions	(237)	(223)	(182)	(154)	(118)	(117)	(141)
Other income	(5)	(1)	(8)	(76)	(39)	(764)	(29)
Profit before taxes (w/o capital gains)	588	600	615	511	572	(153)	496
Tax on profit	(160)	(153)	(180)	(136)	(154)	35	(137)
Profit from continuing operations (w/o capital gains)	428	447	435	375	419	(118)	359
Net profit from discontinued operations	—	—	—	—	—	—	—
Consolidated profit (w/o capital gains)	428	447	435	375	419	(118)	359
Minority interests	—	—	—	—	—	—	—
Attributable profit to the Group (w/o capital gains)	428	447	435	375	419	(118)	359

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

Balance Sheet

Financial Results: Balance Sheet

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£ million			Variation	
	30.09.11	30.09.10	Amount	%
Loans and credits*	203,784	200,965	2,818	1.4
Trading portfolio (w/o loans)	43,066	44,691	(1,625)	(3.6)
Available-for-sale financial assets	960	810	150	18.6
Due from credit institutions*	31,872	32,602	(730)	(2.2)
Intangible assets and property and equipment	1,938	1,253	685	54.6
Other assets	37,741	36,359	1,382	3.8
Total assets	319,362	316,681	2,681	0.8
Customer deposits*	162,186	155,212	6,974	4.5
Marketable debt securities*	60,701	60,761	(60)	(0.1)
Subordinated debt	6,881	7,193	(312)	(4.3)
Insurance liabilities	-	1	(1)	(100.0)
Due to credit institutions*	44,019	46,783	(2,763)	(5.9)
Other liabilities	34,620	35,647	(1,027)	(2.9)
Shareholders' equity**	10,954	11,084	(130)	(1.2)
Total liabilities & shareholders' equity	319,362	316,681	2,681	0.8
Mutual funds	12,728	11,785	943	8.0
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	242,495	234,950	7,545	3.2
Commercial Loans included above***	200,847	198,872	1,975	1.0
Commercial deposits included above	150,791	150,535	256	0.2

* Includes all stock of concept classified in the balance sheet

** Not including profit of the year

*** Excludes London Branch and Santander Consumer Finance



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