Santander United Kingdom

Fourth Quarter 2011

London, 31st January 2012

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Disclaimer

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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.

Overview

Underlying UK banking businesses performed solidly in a difficult environment

- Profit after tax 41% lower, largely due to the impact of the provision for PPI remediation and increased regulatory liquidity costs
- Track record: leading sector efficiency; credit quality better than UK peers
- Retail Banking: growth in primary current accounts and credit cards; improved customer satisfaction
- Corporate banking: 25% SME loan growth; expansion of product capabilities
- Increased funding efficiency: £25bn inflow of medium-term funding

Implementation of new strategic plan for the transformation of the business

- Key principle: build on the strength and stability of the balance sheet
- Continue to transform the UK businesses – to develop a full-service, diversified and customer-centred commercial bank with a more balanced business mix
- Q4 results show progress against these aims
- IT led investment – build on the commercial opportunities of the platform capability

Outlook

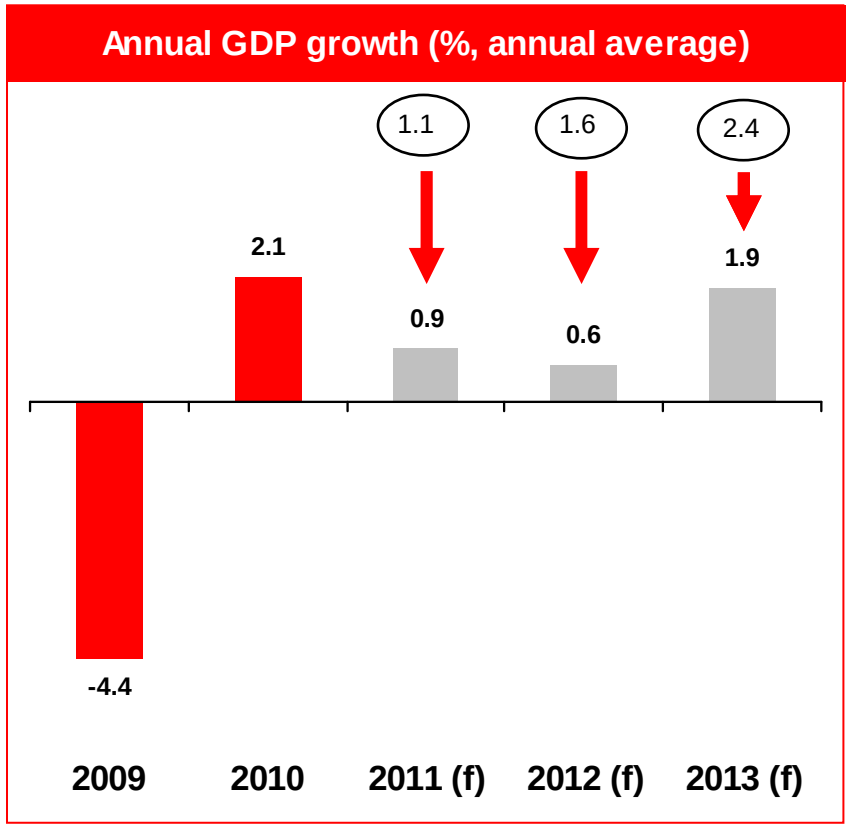
- Deterioration in the economic outlook
- A priority is to strengthen the capital, funding and liquidity positions
- Gains from the acquisition of the RBS retail and business banking franchise expected to impact in 2013

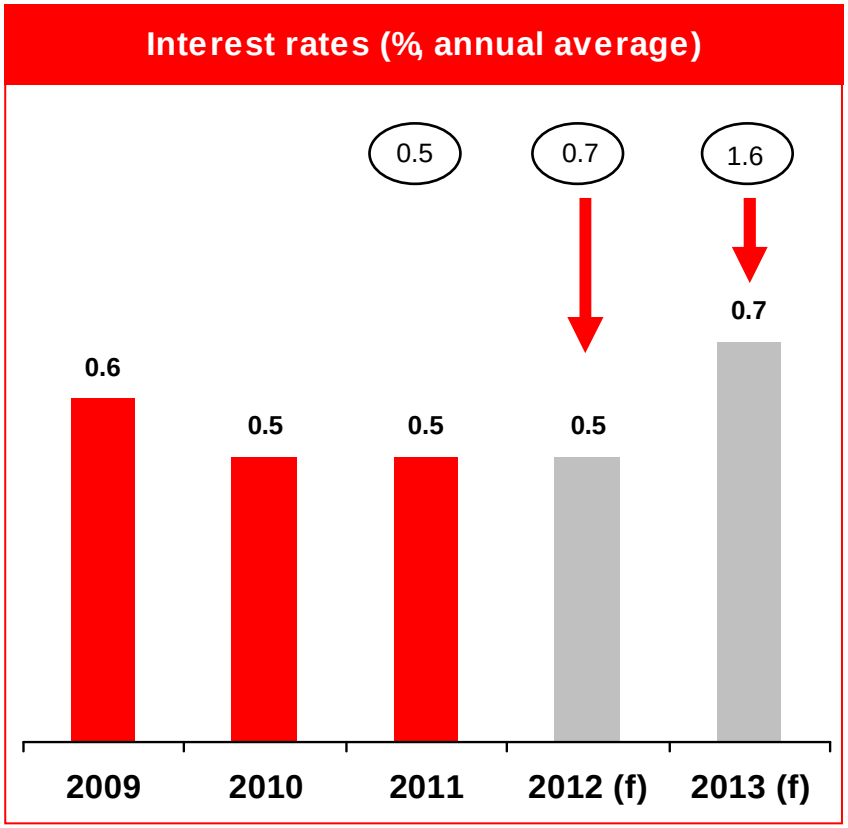
Agenda

- **Market Environment**
- **Full Year 2011**
  - **Strategic and Business Update**
  - **Results**

Market Environment

GDP expectations weaker after softer survey data and Eurozone events



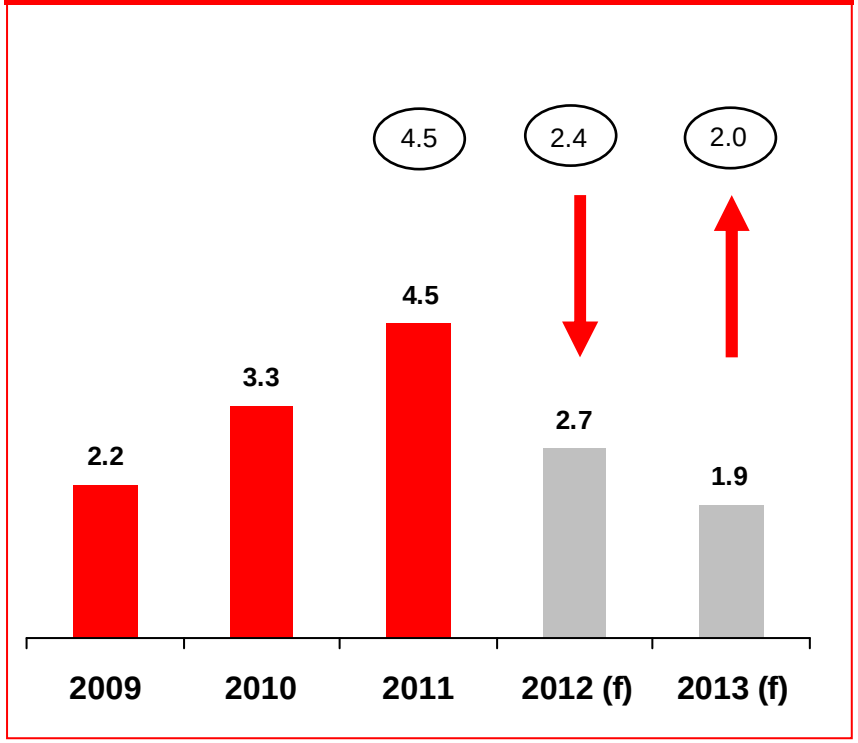


*Source - Office for National Statistics & Bank of England (f) – Santander current forecast ⬭ - Santander September '11 forecast Investor Day

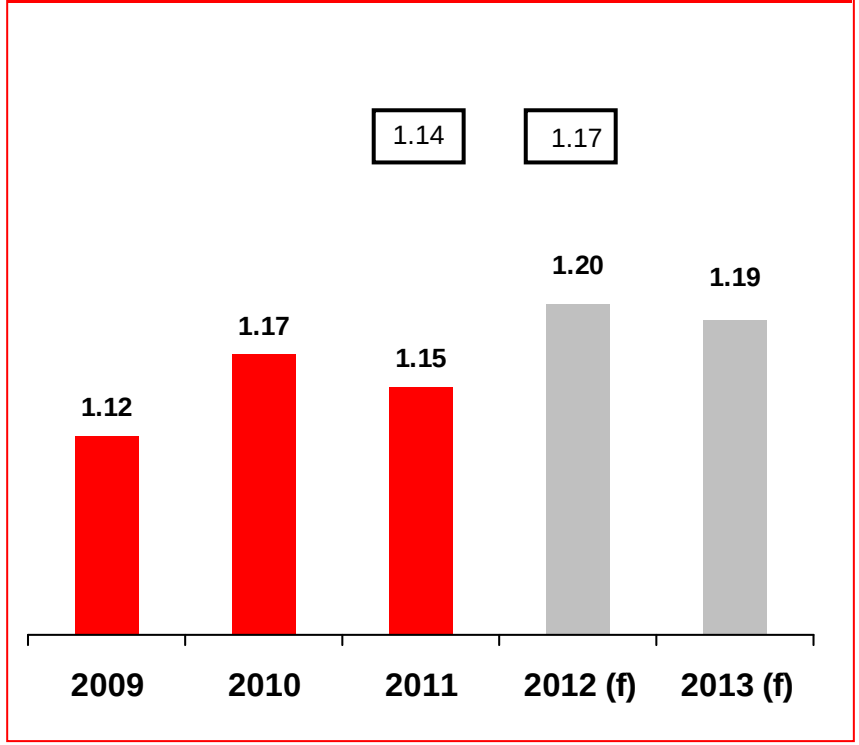
Market Environment

Inflation continues to be above target, impacting real incomes

Annual CPI inflation rate (%, annual average)



GBP : Euro exchange rates (annual average)



*Source - Office for National Statistics & Bank of England (f) – Santander current forecast

- Santander September '11 forecast Investor Day

- Santander September '11 forecast

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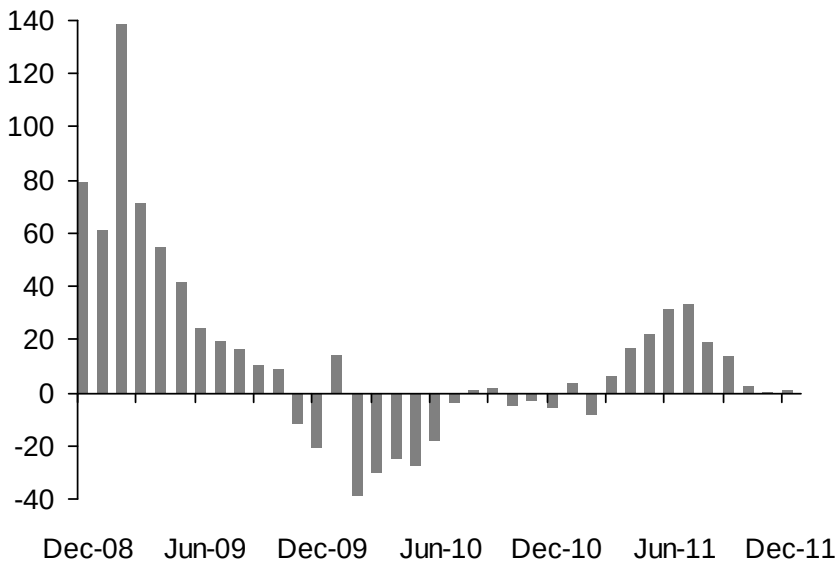
Market Environment

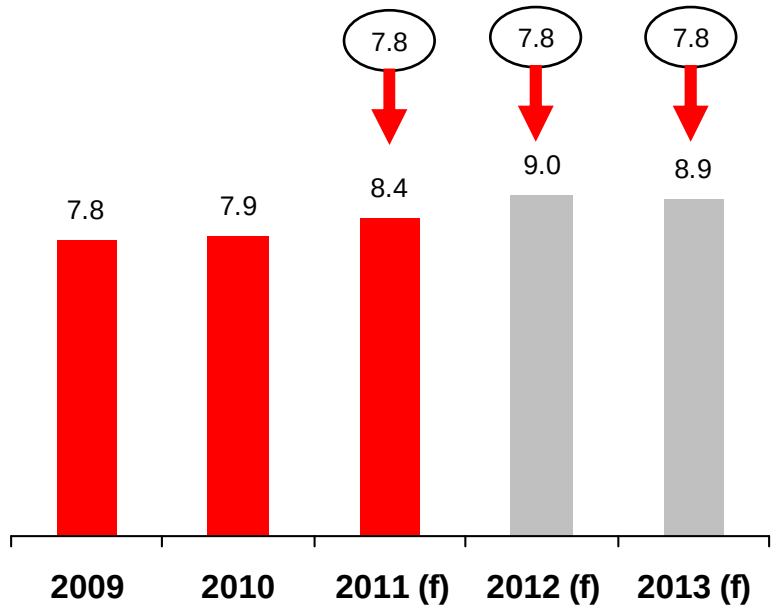
Unemployment outlook has deteriorated significantly

Monthly change in claimant count unemployment (000's)



Source – Office for National Statistics

Unemployment rate (ILO definition, end year, %)



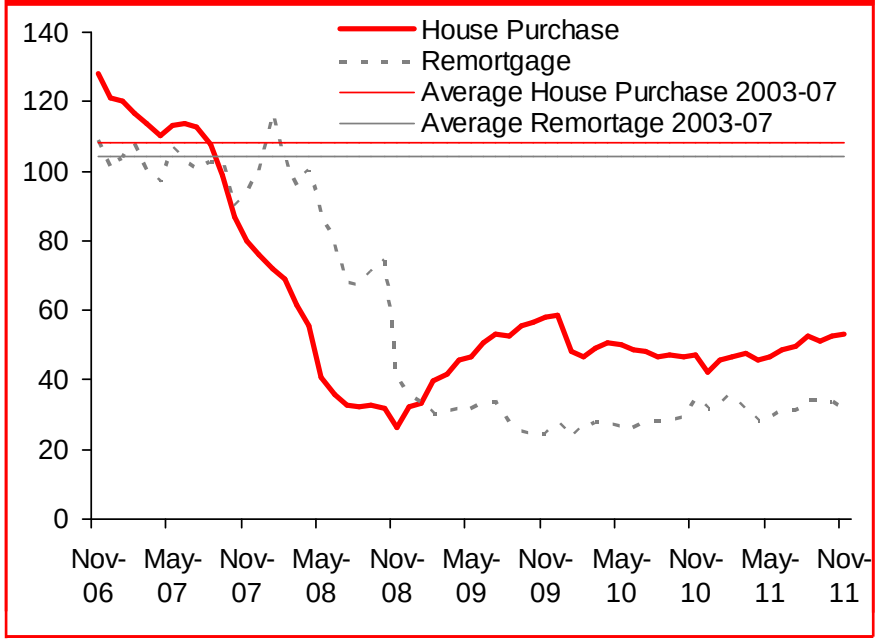
(f) – Santander current forecast

- Santander September '11 forecast Investor Day

Market Environment

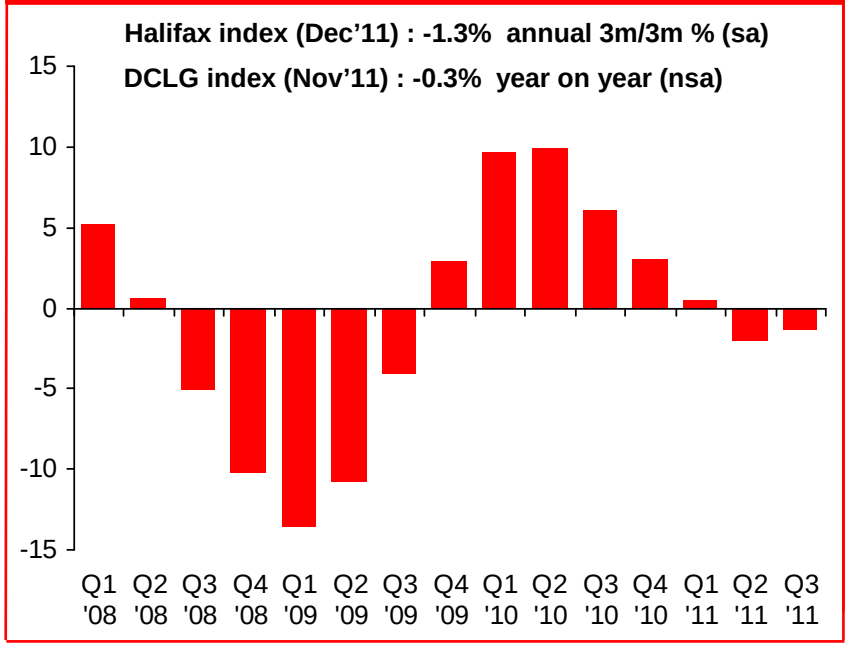
Housing market volumes have remained flat, with house prices falling slightly

House purchase and remortgage approvals (000s, sa)



Source – Bank of England

UK house price inflation (annual %, nsa)



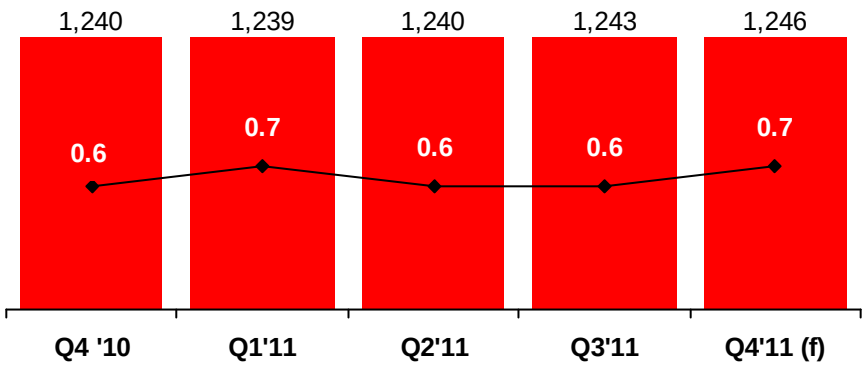
Source – Department for Communities and Local Government.

sa – seasonally adjusted
nsa – not seasonally adjusted

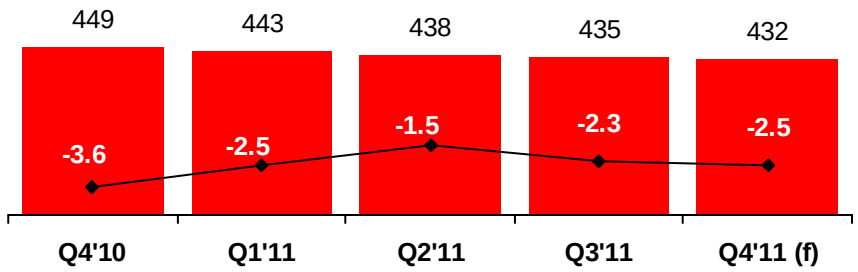
Market Environment

Retail and corporate lending flat; limited retail deposits growth

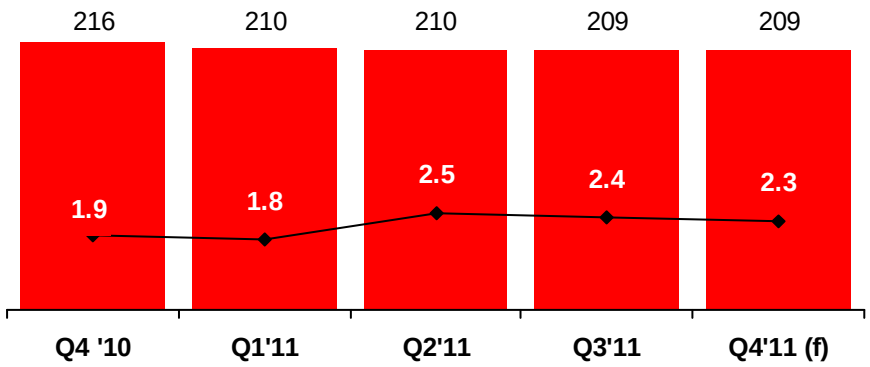
Mortgage lending market stock (£bn)



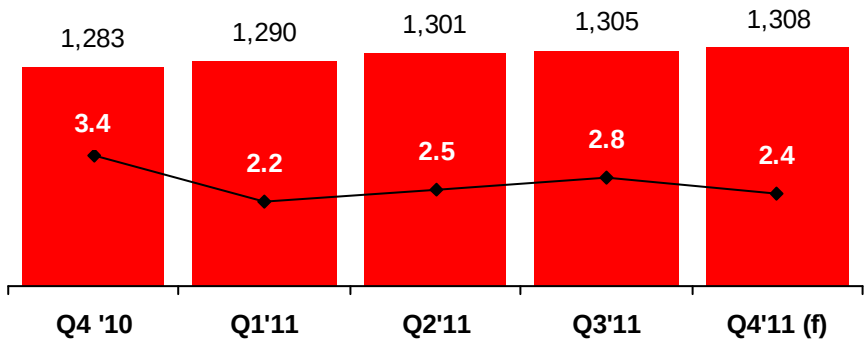
Corporate lending (£bn)



Consumer credit market stock (£bn)



Retail deposits (incl. current accounts) (£bn)



Lending and deposits expected to be broadly flat in 2012

Source – Bank of England

(f) Santander current forecast

annual growth rates (%)

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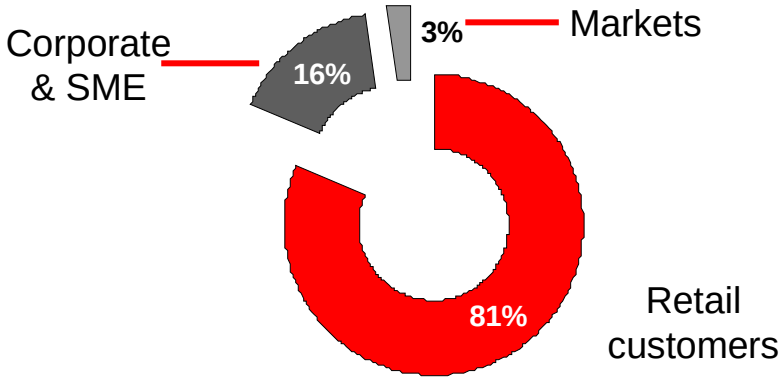
Agenda

- Market Environment
- **Full Year 2011**
  - **Strategic and Business Update**
  - Results

Snapshot – Santander UK as at 31 December 2011

Profit before tax £1,359m [1]



Balance Sheet (£bn)

		Change
Residential Mortgages [2]	173.5bn	1%
Corporate [3]	30.9bn	16%
- Small and Medium Enterprises	10.7bn	25%
Customer Assets	203.3bn	2%
Customer Deposits	149.2bn	(3%)
Medium Term Funding	59.7bn	0%
Short Term Funding	11.1bn	(45%)

Key Market Shares

	%	Change
Residential Mortgages [2]	13.9%	0.0 p.p.
UPLs	6.9%	(0.4) p.p.
SME lending	4.3%	0.7 p.p.
Deposits	9.7%	(0.5) p.p.
Bank accounts	9.1%	(0.1) p.p.

Key Metrics

		Change
Total NPLs	1.86%	0.10 p.p
PIPs as % of Stock	0.06%	0.01 p.p.
Total Coverage Ratio	38%	(8 p.p.)
Secured as % of Comm. Asset [2]	85%	(1 p.p.)
Loan to Deposit Ratio	130%	3 p.p.

1) Segmental analysis on a UK trading basis
2) Residential mortgages includes residential retail mortgages and social housing lending, to align with mortgage industry reporting. Secured as %of Comm. Asset is residential mortgages as a percentage of customer assets
3) The Corporate Banking division loans includes social housing loans of £7.3bn also shown here in residential mortgages

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The Key Principles of the "Commercial Turnaround" of Santander UK

- "Commercial transformation" towards a full-service, diversified, customer–centred franchise based on…

1. Customer Driven Model (vs. Product Driven)
2. More balanced business mix and SME bank of choice
3. Leading efficiency and service underpinned by IT systems

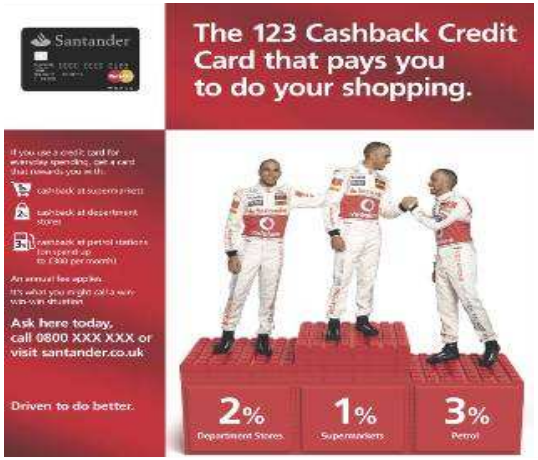
- Build further on the Balance Sheet's strength and stability

A top bank to work for, and a step change in customer satisfaction

Customer Driven Model

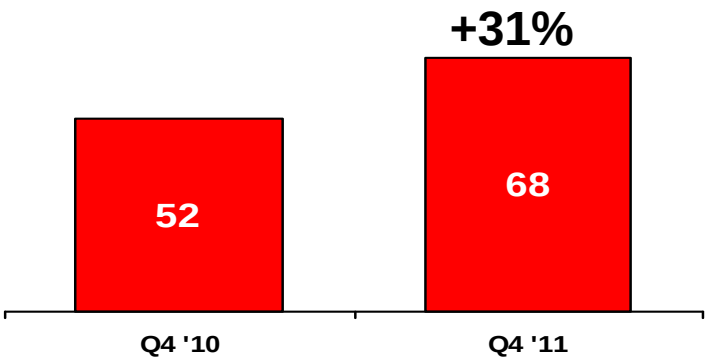
Reward primacy relationships with simple products that add value. New products launched September with excellent results

Target 2011-13 3m new current acc.



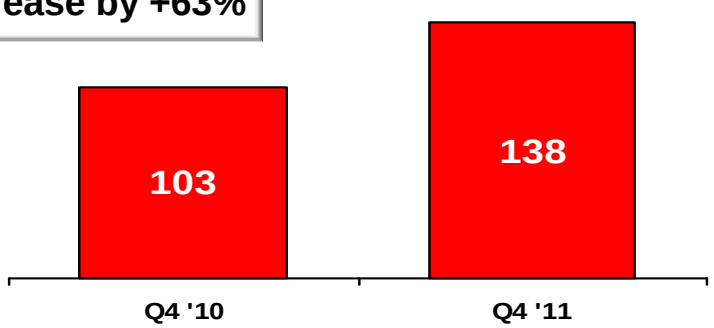
Target 2011-13 from 1.4 m to 3m

Switchers (000's)



New Credit Cards Acc. (000's)

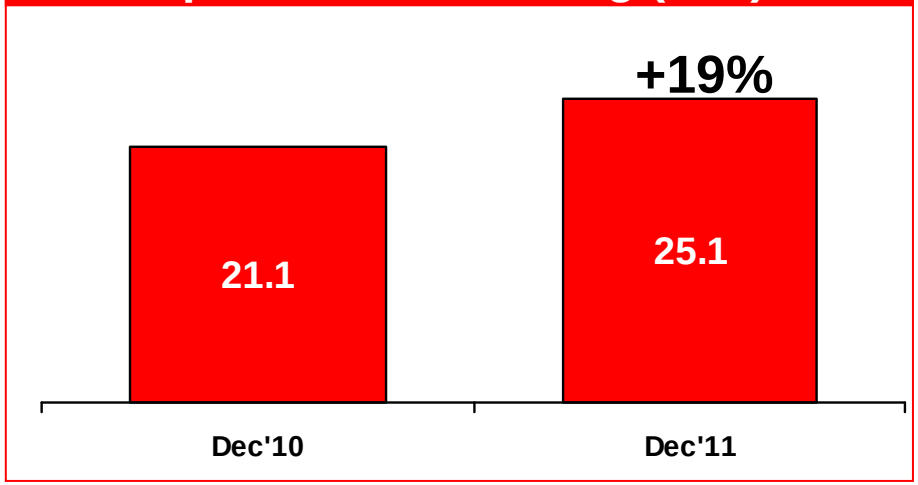
Retail spend increase by +63%



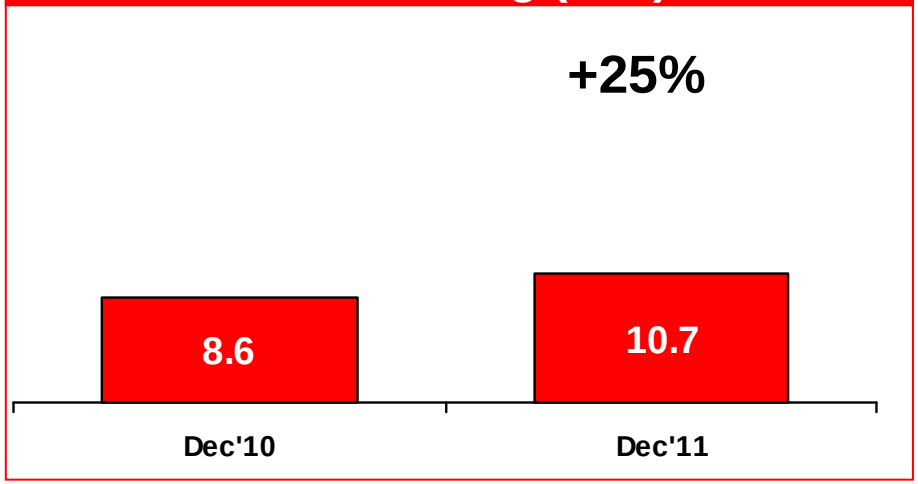
More Balanced Business Mix

2011 progress towards the SME Bank of Choice

Corporate Core lending (£bn) (1)



SME lending (£bn)



Actively supporting SME lending

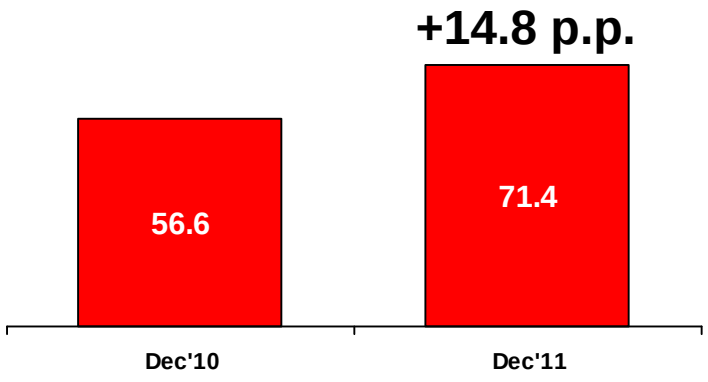
- **Ahead of our Merlin target with over £4.3bn new SME lending in 2011vs. £4bn target**
- **Breakthrough programme launched in Q4. Santander UK will invest £200m for Britain's best fast growth SMEs turning over £500k - £10m**
- **Business Banking successfully integrated into SCCBB(2), with new customer segmentation completed and new business banking product proposition launched in Q4**

(1) Excludes financial institutions

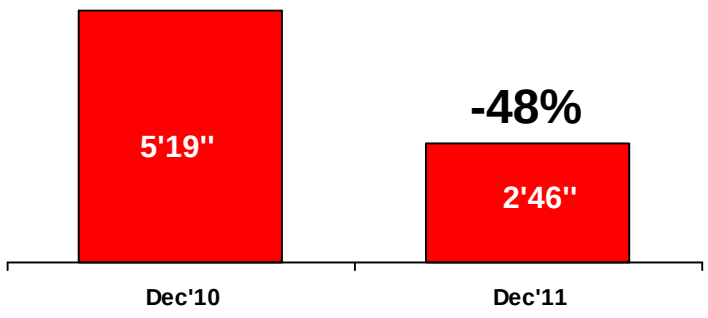
(2) Santander Corporate, Commercial and Business Banking

High Quality Service at the Core of our Business Model

Customer FIRST Net Customer Satisfaction (1)



Perceived Queue Time (1)



Improvement in Service Quality - Actions taken in 2011

- 600 more staff in branches, 500 more staff in call-centres. All retail call-centre operations repatriated to UK
- 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
- service leader in Intermediary business and SCB satisfaction at 77% (target 75%)

(1) Based on internal sampling methodology

Strategic and Business Update – Profitability and Funding

Profitability headlines

- profit after tax was 41% lower than 2010 impacted by the provision for PPI remediation, more onerous regulatory requirements, higher cost of term funding and the persistent low interest rate environment
- solid underlying performance from all businesses units given market conditions
- arrears performance better than management expected, in both secured and unsecured loans
- cost-to-income ratio of 45%
- RoTE(1) above 15%

Improving funding position

- customer lending was 2% higher than in 2010 in a subdued mortgage market. Residential mortgage gross lending of £23.7bn written in 2011 represented a 17.3% market share, well ahead of stock share. SME lending increased by 25%
- customer deposit balances were 3% lower than 2010 reflecting a conscious decision to reduce reliance on short-term wholesale, and move away from retail funds where margins are unsustainable relative to medium-term funding
- in 2011, raised £25bn(2) (compared to £21bn in 2010) of medium-term funding across a range of products and geographies at attractive rates

(1) UK trading basis
(2) Includes Santander Consumer Finance

Strategic and Business Update – Risk Management

Maintain a strong and healthy balance sheet

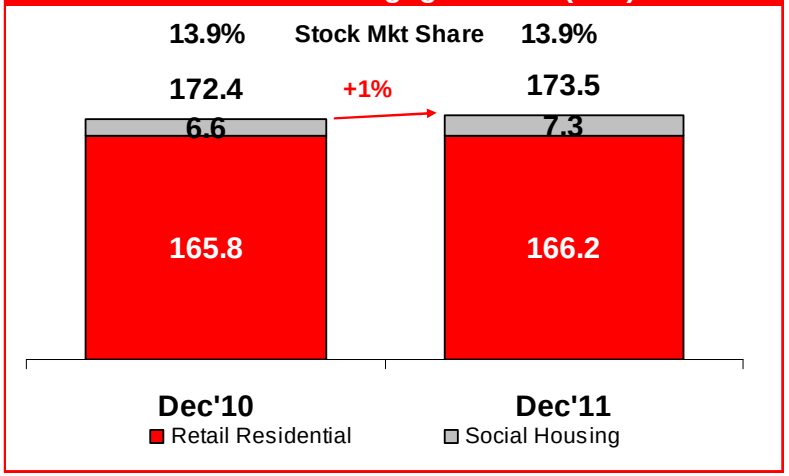
High quality, low risk portfolio

Robust core balance sheet	▪ retail lending secured on residential property is more than 85% of commercial assets ▪ no self-certified or sub-prime mortgages ▪ ratio of loans to MTF and deposits of 95%
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%, total 38% ▪ arrears and PIPs continued to be significantly better than CML average
Deleveraging of non-core assets in progress	▪ UPL balances reduced by 13% to £2.9bn; albeit good quality new gross lending at favourable risk adjusted returns was 14% higher than 2010 ▪ corporate run-down assets reduced to £3.2bn, from £4.3bn at Dec'10 ▪ treasury asset portfolio now stands at £2.6bn, compared to £5.2bn one year ago

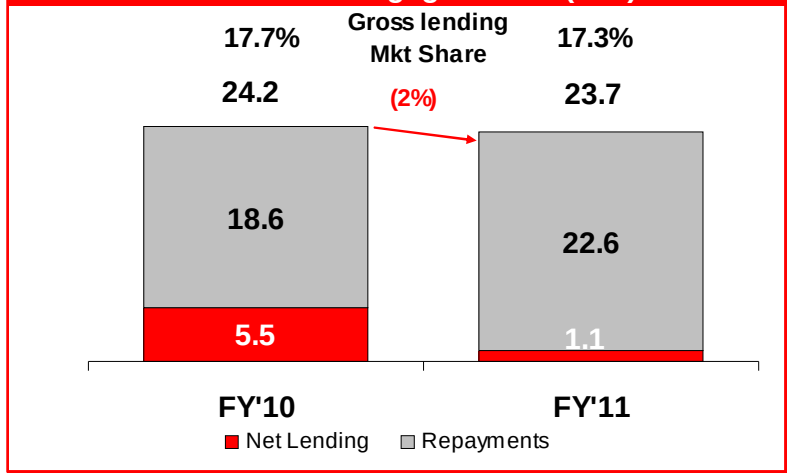
Business Update – Customer Lending

Commercial lending performance

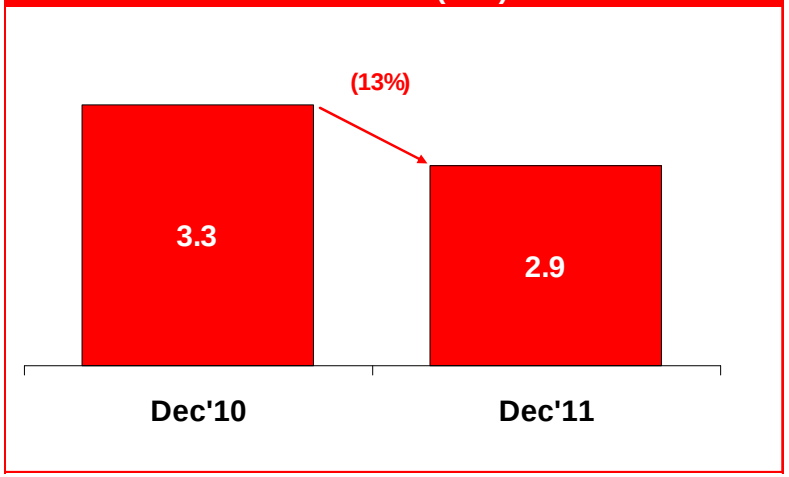
Residential mortgages stock (£bn)



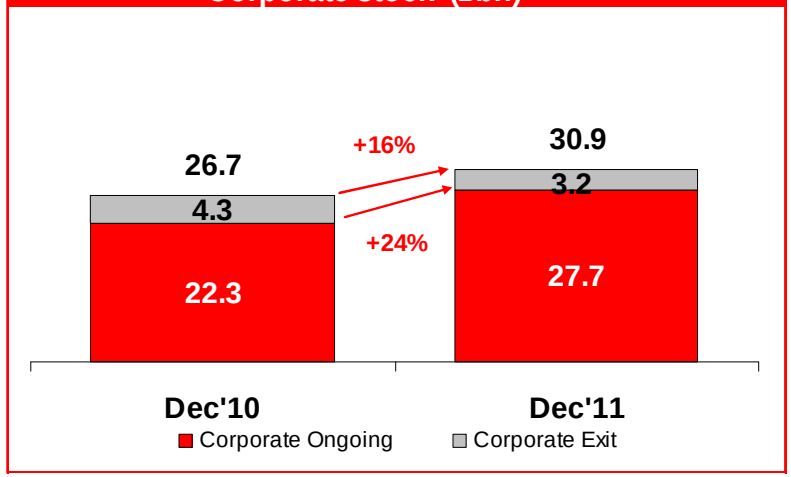
Residential mortgages flows (£bn)



UPL stock (£bn)



Corporate stock (£bn) (1) (2)



(1) Includes Social Housing and Commercial Mortgages

(2) Within Corporate Ongoing SME lending was up 25%. Corporate Ongoing includes lending to financial institutions

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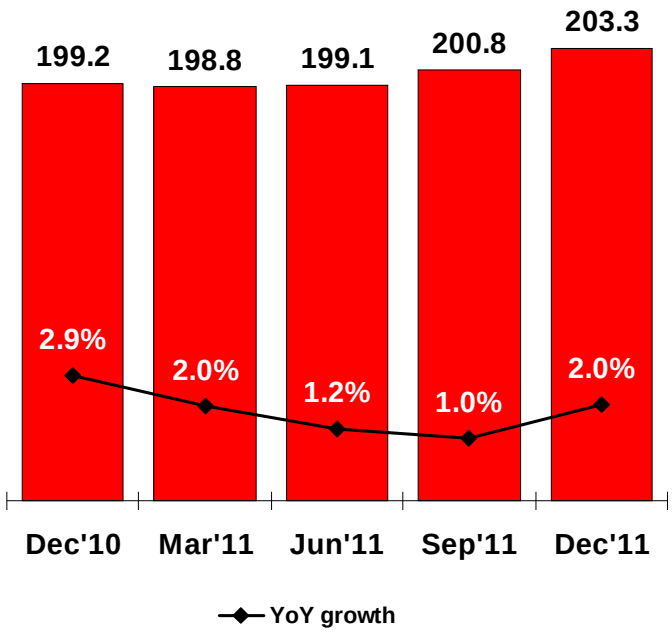
Business Update – Customer Lending

Strong SME loan growth

Total Residential Mortgages (£bn)					
Dec'10	Mar'11	Jun'11	Sep'11	Dec'11	
165.8	165.1	165.2	165.6	166.2	Residential Retail Mortgage Stock
6.6	6.8	6.9	7.1	7.3	Social Housing Stock
172.4	**171.8**	**172.1**	**172.6**	**173.5**	**Residential Mortgages**
13.9%	**13.9%**	**13.9%**	**13.9%**	**13.9%**	**Santander UK market share (%)**



£bn	Dec'11	Dec'11 v Dec'10
Residential Retail Mortgages	166.2	0.3%
UPLs	2.9	(12.7%)
Overdraft & Other	0.6	(1.9%)
Corporate Banking [1]	30.9	15.9%
Santander Cards	2.7	(6.2%)
Total Commercial Loans [2]	**203.3**	**2.0%**

(1) Corporate Banking includes Social Housing and Commercial Mortgages

(2) Excludes London Branch and Santander Consumer Finance

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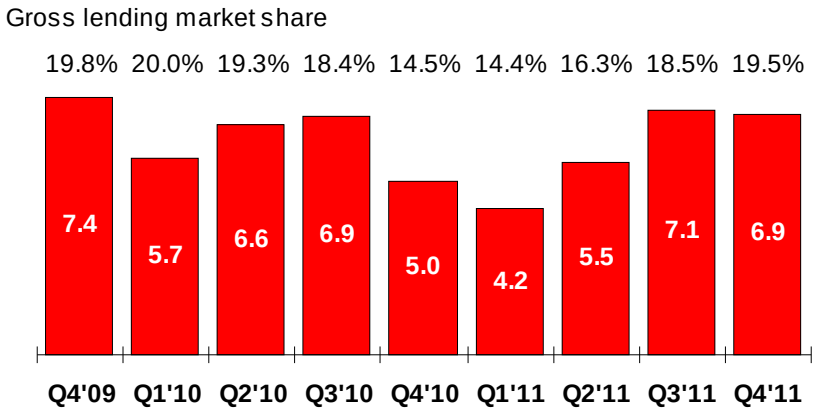
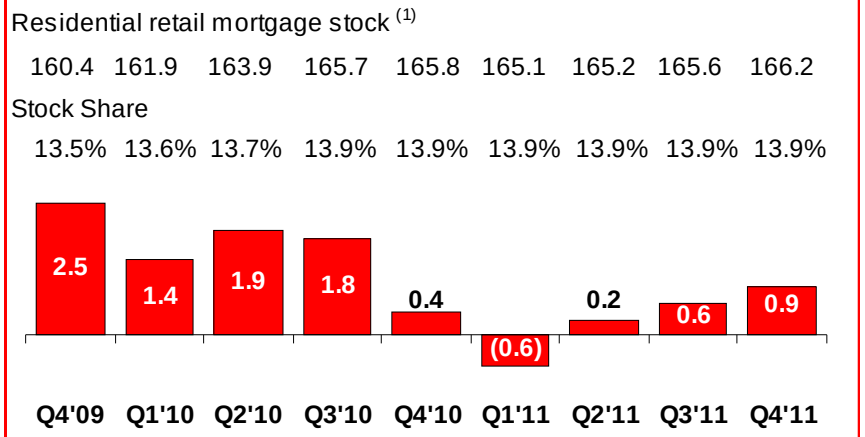
Business Update – Mortgage Lending

Mortgage performance robust in a subdued market

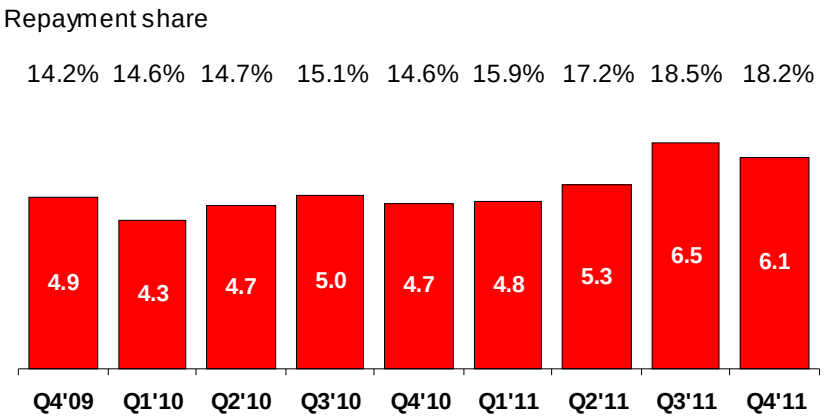
Residential mortgage gross lending (£bn)



Residential mortgage stock and net lending (£bn)



Total residential mortgage repayments (£bn)



Comments

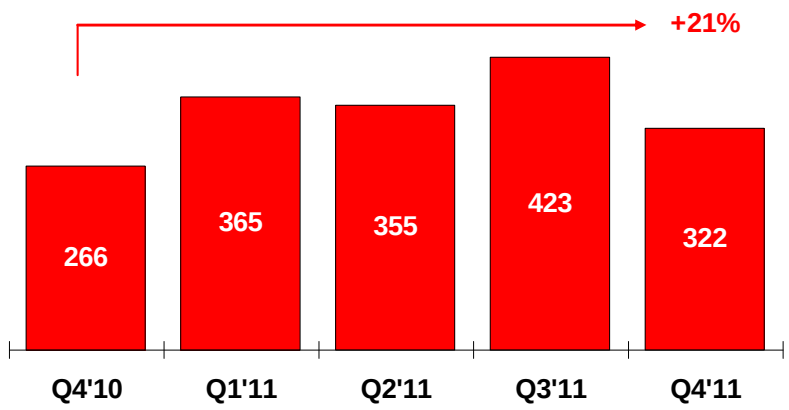
- mortgage net lending in Q4 2011 was positive for the third consecutive quarter, after a weak start to the year impacted by a reduced pipeline from Q4'10
- gross mortgage lending was £23.7bn for the year, an estimated market share of 17.3%, well above our natural stock share
- new business margins were resilient but slightly lower than 2010
- SVR balances continue to grow, and now represent over a quarter of the mortgage book

(1) Excludes Social Housing

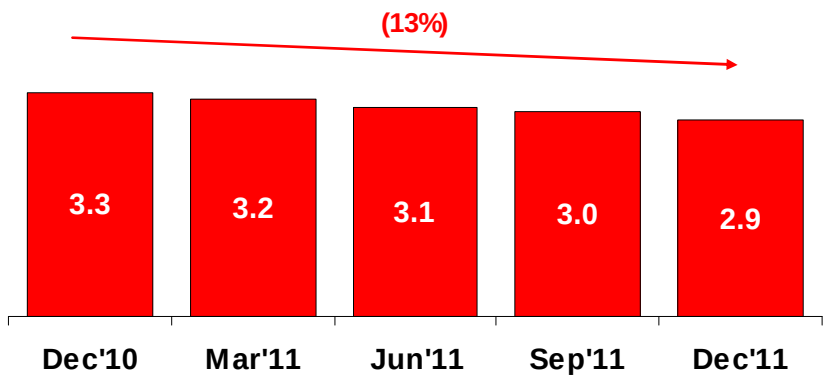
Business Update – Unsecured Lending

Selective lending in higher quality UPL segments

Total UPL gross lending (£m)

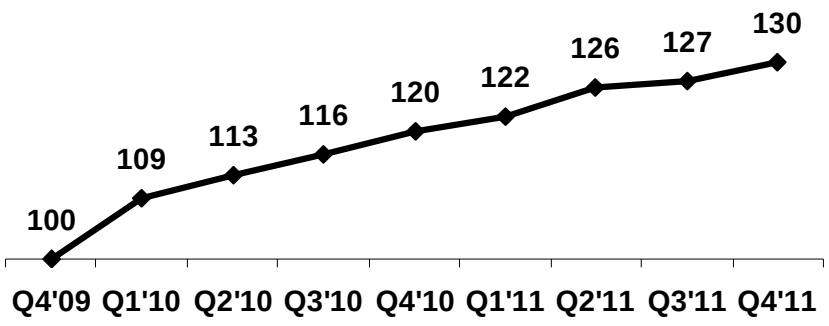


Total UPL stock (£bn)



Total quarterly spread growth

(Q4'09 rebase to 100)



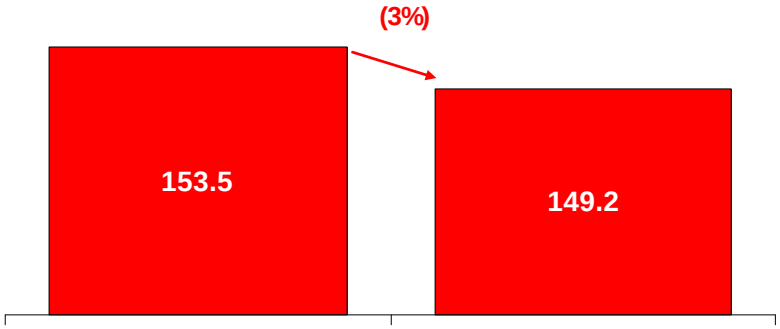
Comments

- 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 14% compared to 2010, with new lending written at very attractive risk-adjusted returns
- reduction in the book driven by repayments from business written pre-2009

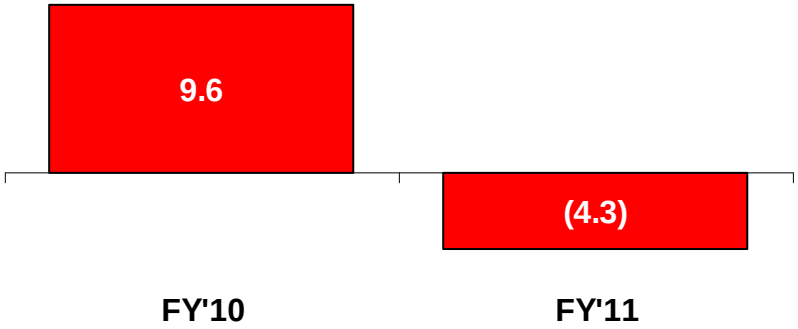
Business Update – Customer Deposits

Commercial deposit performance adversely impacted by increased competition, particularly around price sensitive deposits

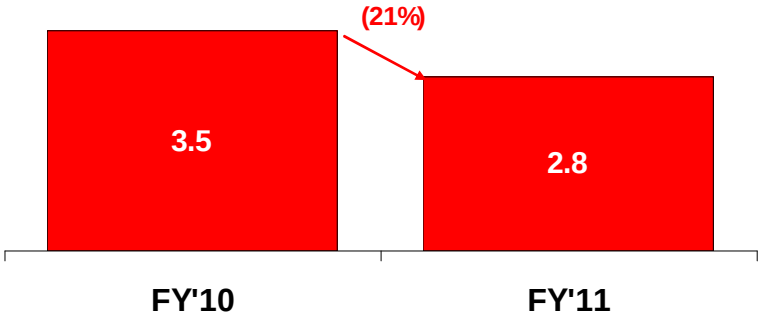
Commercial deposit stock (£bn)



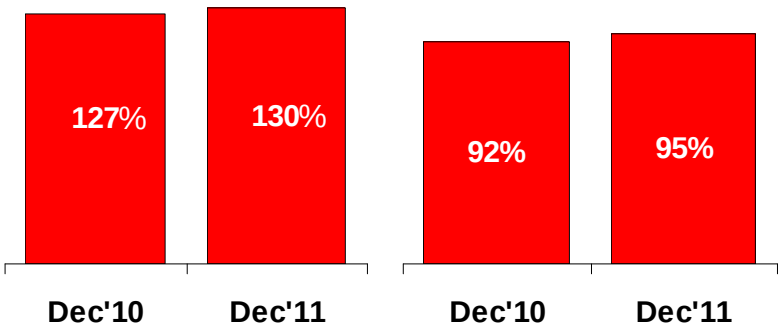
Commercial deposit flows (£bn)



Investment flow API (£bn) [1]



Loan:deposit ratio [2] | Loan:deposit + MTF ratio [3]

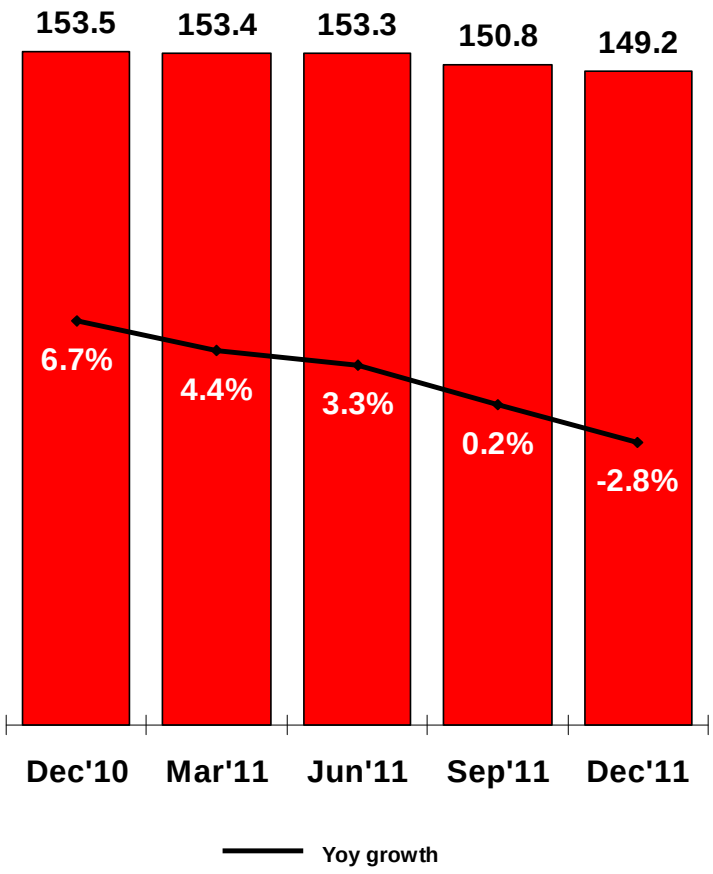


(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
(2) Loans and credits / customer deposits. Excludes Santander Consumer Finance, includes London Branch
(3) Loans and credits / customer deposits + Medium Term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

Santander

Business Update – Customer Deposits

Deposits managed down in the face of significant competitive pressure



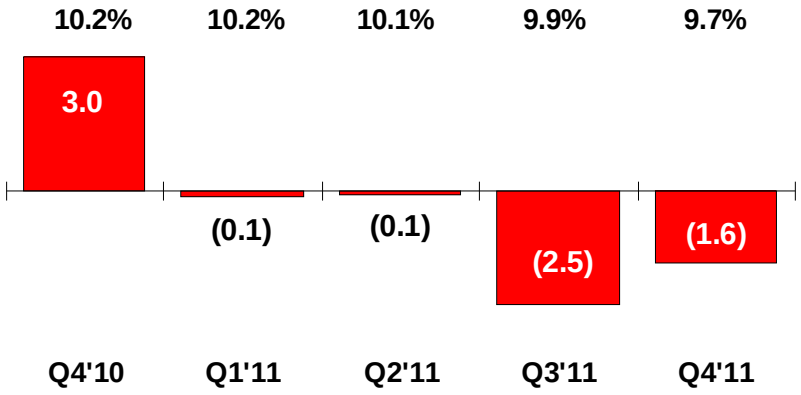
£bn	Dec'11	Dec'11 v Dec'10
Retail Banking	120.1	(4.5%)
Corporate Banking	29.1	4.9%
Total commercial deposits	149.2	(2.8%)
FUM [1]	6.4	14.8%
Total funds under management	155.6	(2.2%)

(1) Managed through Santander Asset Management

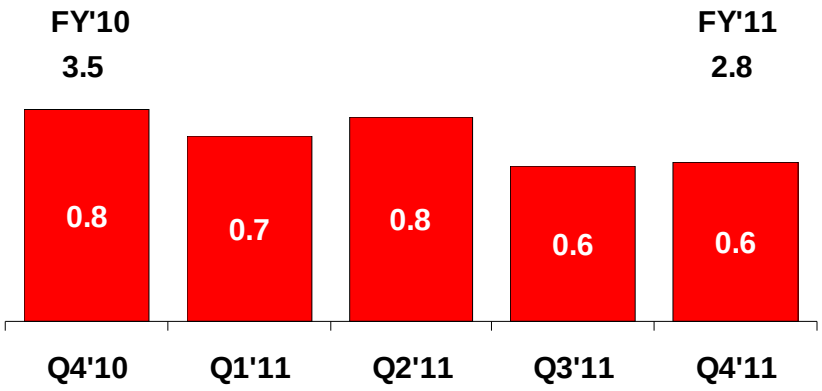
Business Update – Customer Deposits

Strategy to change funding mix away from unprofitable sources

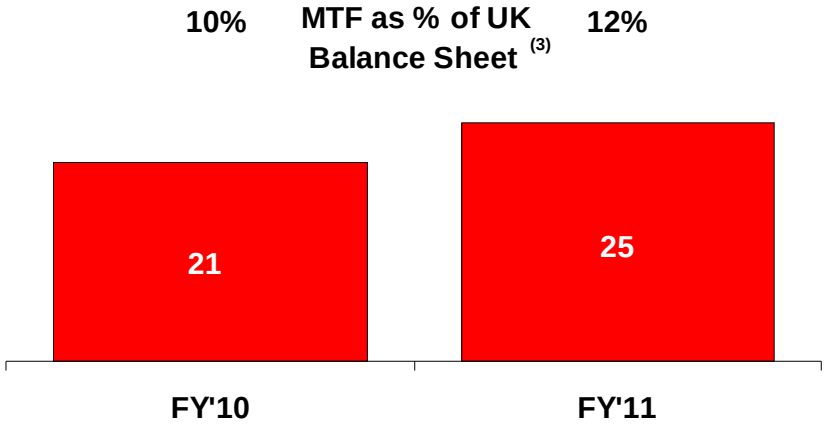
Commercial deposit flows (£bn) and stock market share



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



Term funding issuance (£bn) [2]



Comments

- business focus on 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 tenor and price has resulted in a net improvement in the funding position
- investments and pensions' performance is down compared to 2010 reflecting lower volumes and increased competition in the market

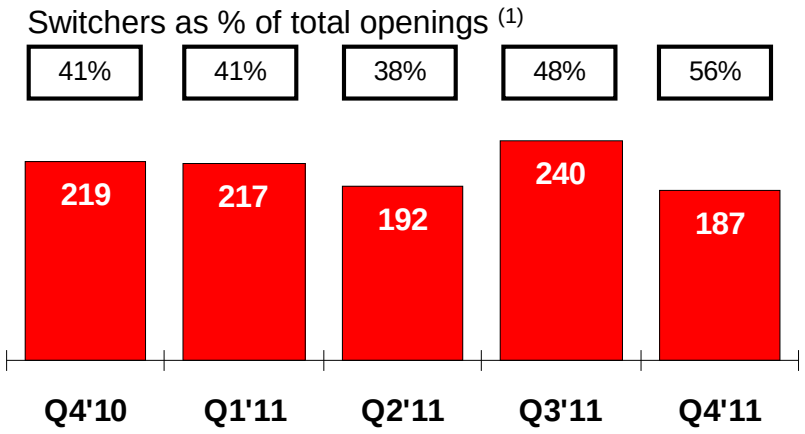
(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
(2) FY'11 includes £1.0bn relating to Santander Consumer Finance
(3) Commercial balance sheet

Santander

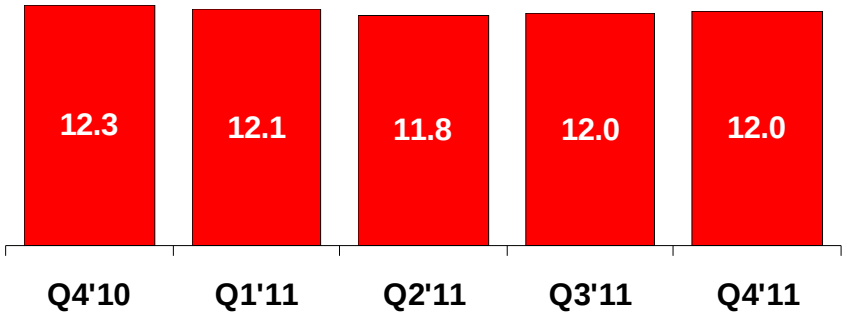
Business Update – Current Accounts and Credit Cards

Focus on core primary relationships

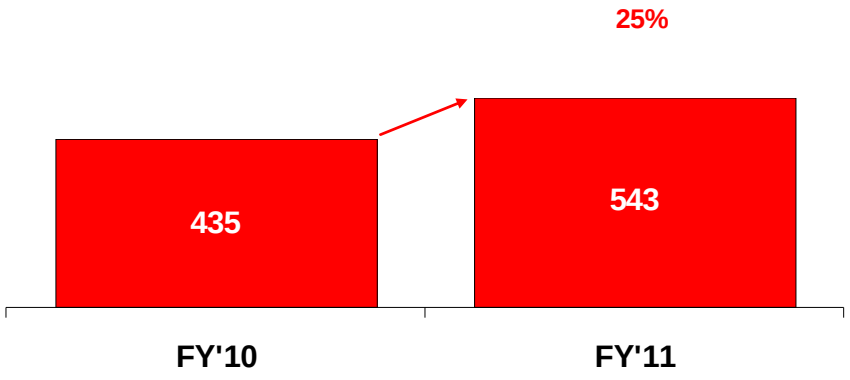
Bank account openings ('000s)



Current account liabilities (£bn)



Credit card openings ('000s)



Comments

- 836,000 bank accounts opened this year
- bank account balances down slightly versus Dec'10 due to lower disposable earnings in the UK as a result of high inflation and tighter economic conditions
- new 123 fee paying credit card launched and an enhanced switcher campaign for primary current accounts launched in September. Card sales of 543,000 in 2011, 25% higher than 2010

(1) Customers using the dedicated switcher service as a percentage of adult retail openings

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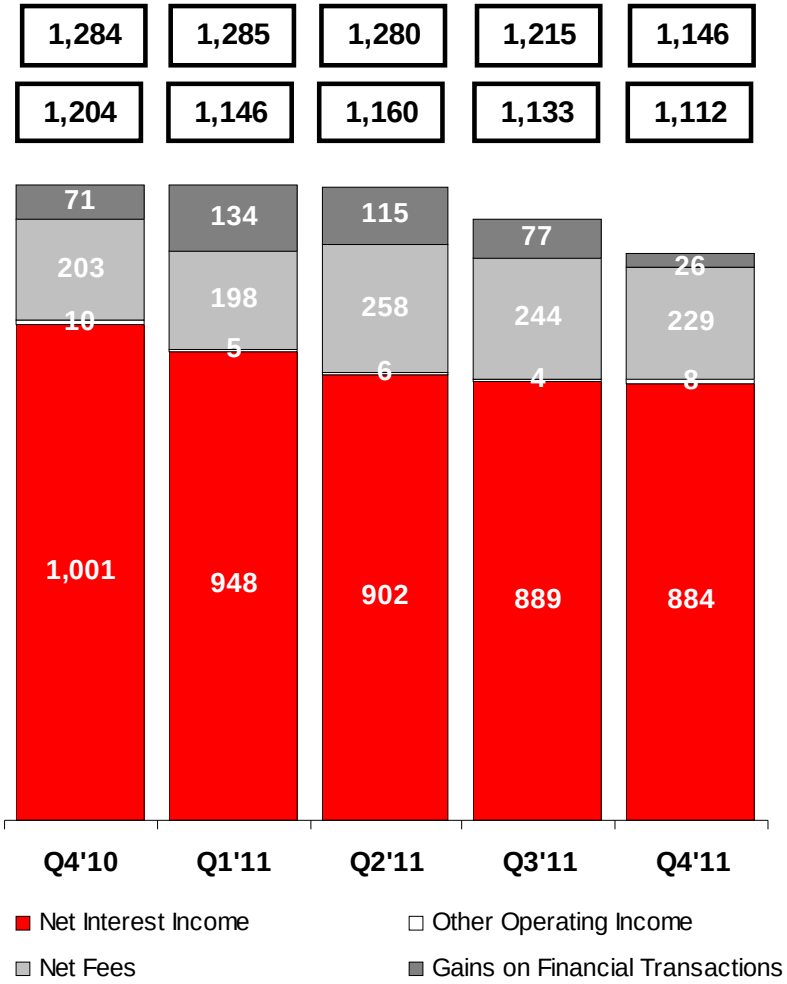
Agenda

- Market Environment
- **Full Year 2011**
  - Strategic and Business Update
  - **Results**

Results: Gross Income

Income impacted by regulatory liquidity requirements and costs of funding



Total Gross Income £m

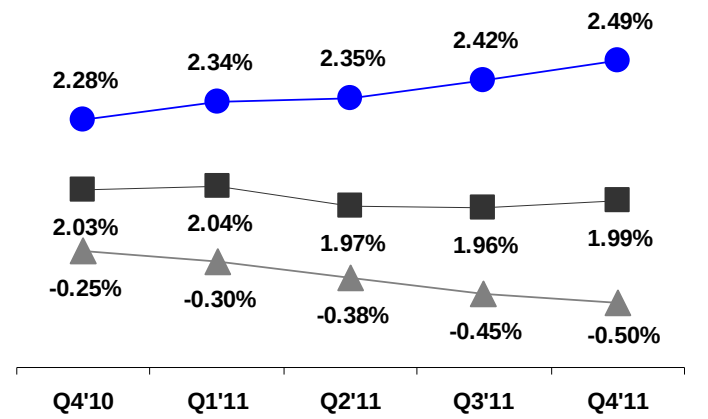
Total Commercial Margin £m

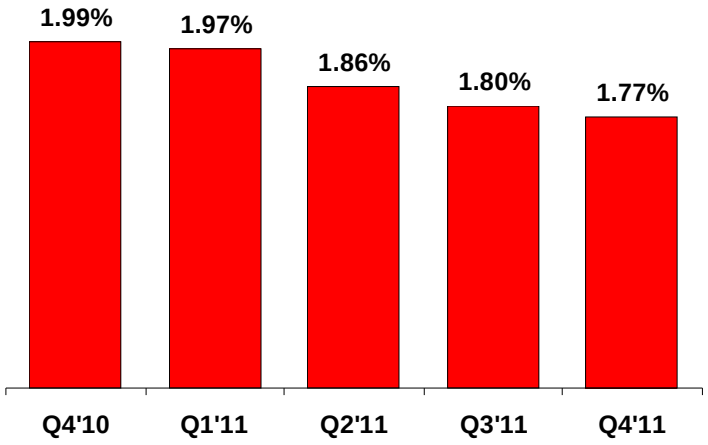
£m	FY'11	FY'11 v FY'10
Net Interest Income	3,622	(11%)
Net Fees	929	6%
Total Commercial Margin	**4,551**	**(8%)**
Gains on Financial Transactions	352	(11%)
Other Operating Income	23	(12%)
Gross Income	**4,925**	**(9%)**

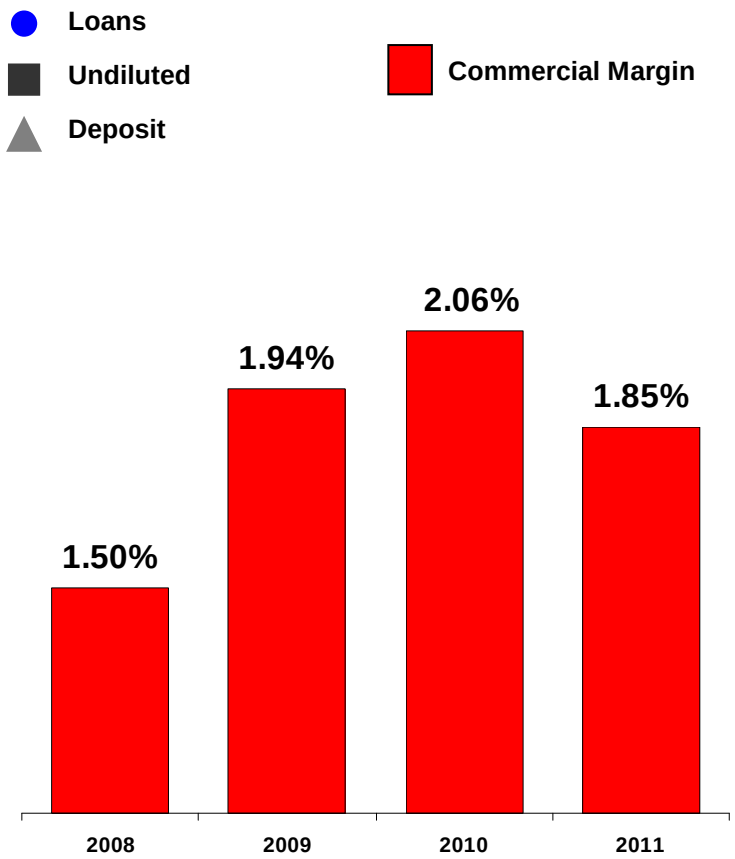
- higher lending margins and greater net interest income in Corporate Banking have been offset by the increased cost of funding and deposit acquisition as well as the cost of regulatory liquidity requirements
- continued lower interest rates have begun to have a more material impact on net interest income
- fee income has increased as a result of a change in the pricing structure of current accounts; flat fees have replaced overdraft interest charges
- gains on financial transactions down 11% compared to 2010, driven by a weaker performance in GB&M due to market conditions

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

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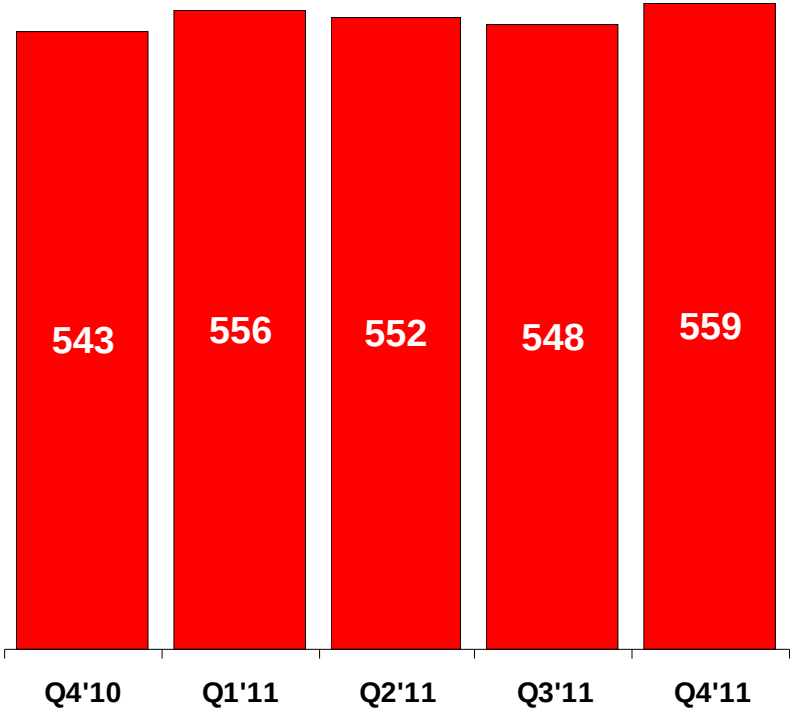
Results: Operating Expenses

Continuing to fund investments primarily through efficiencies

22,700	23,661	23,615	23,975	24,246

FTE

Operating expenses £m



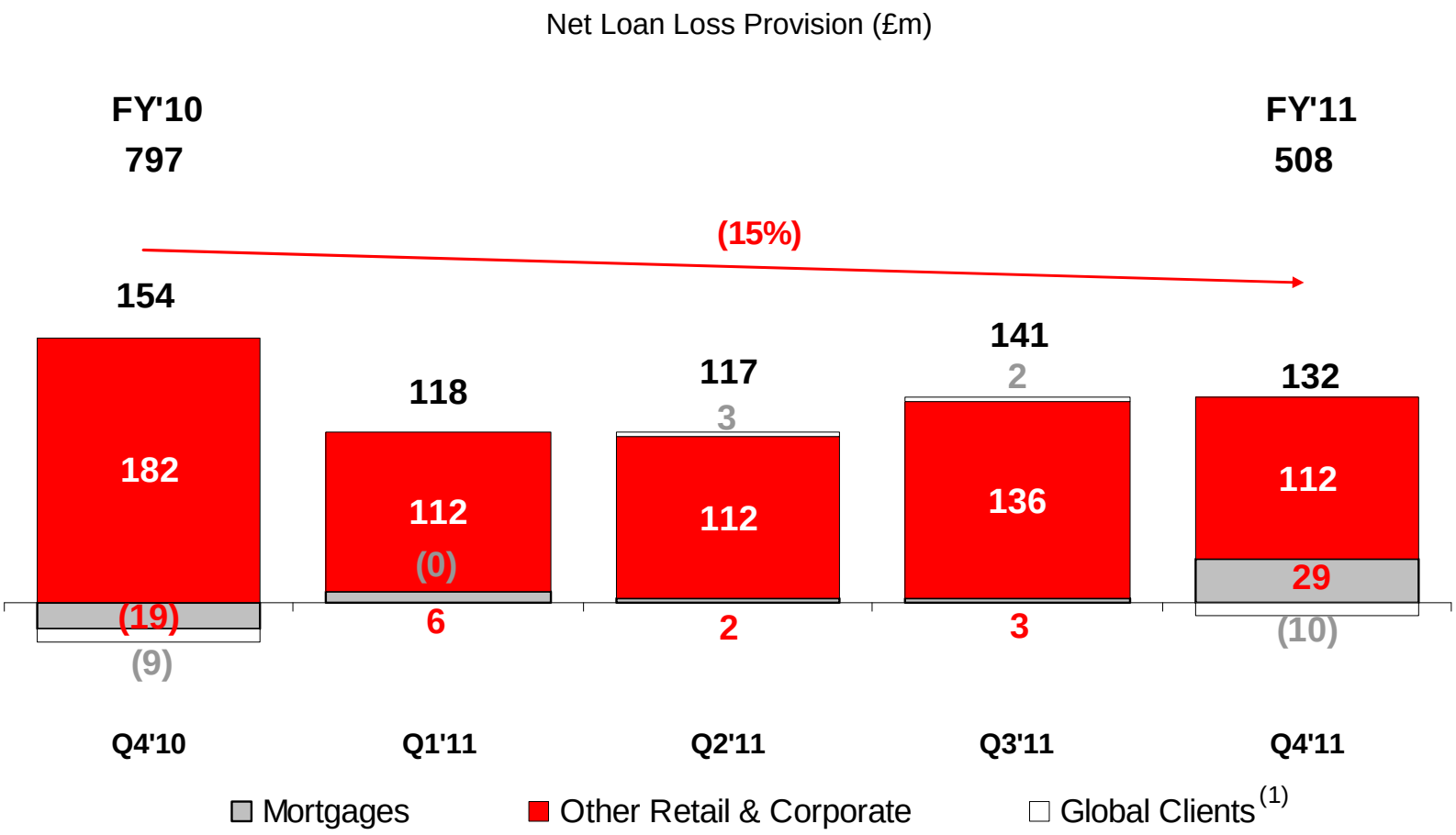
£m	FY'11	FY'11 v FY'10
General & administrative expenses	1,911	(0%)
Depreciation & amortisation	304	15%
Operating Expenses	**2,216**	**1%**

- 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 45%.

FTE restated on Group basis

Results: Credit Provisions

Credit provisions were significantly lower in 2011…



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

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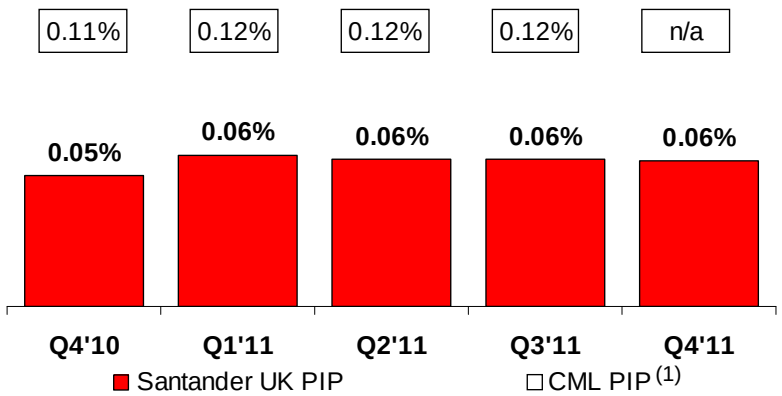
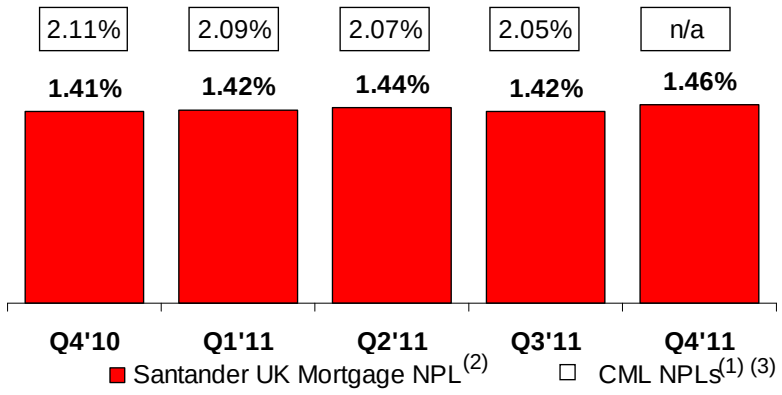
Results: Credit Quality

…with strong coverage levels maintained

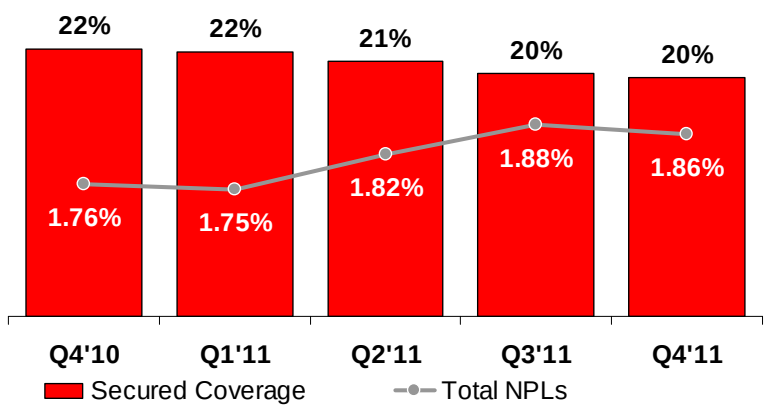
Properties in posession (PIPs)



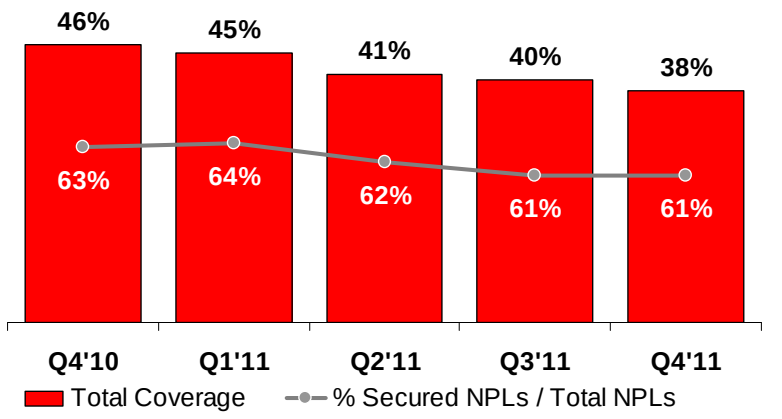
Mortgage NPLs



Secured coverage ratio and total NPLs



Total coverage ratio



(1) CML data for December 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

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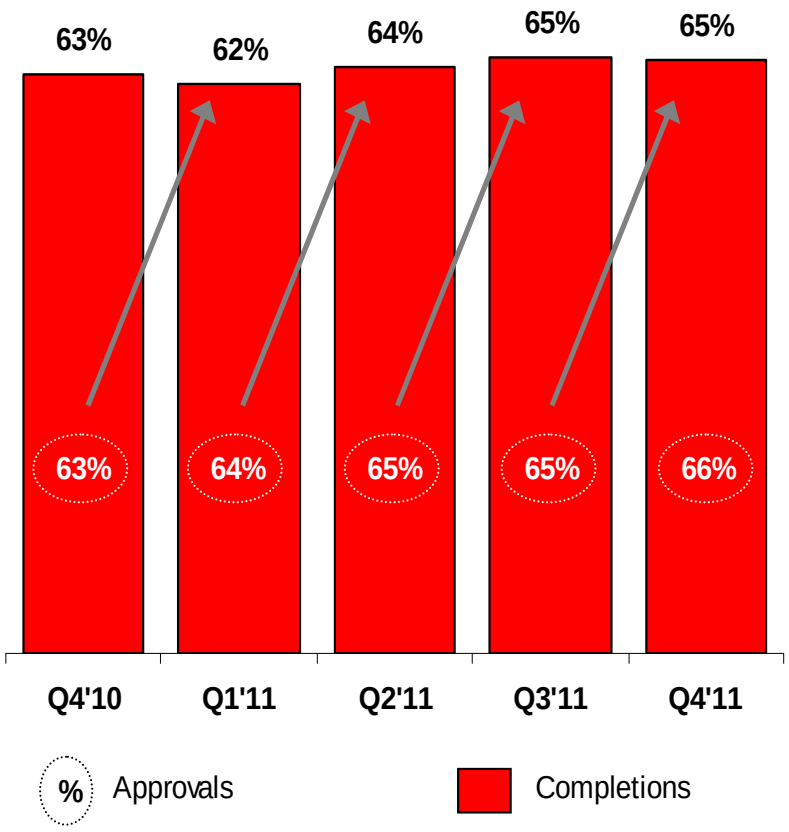
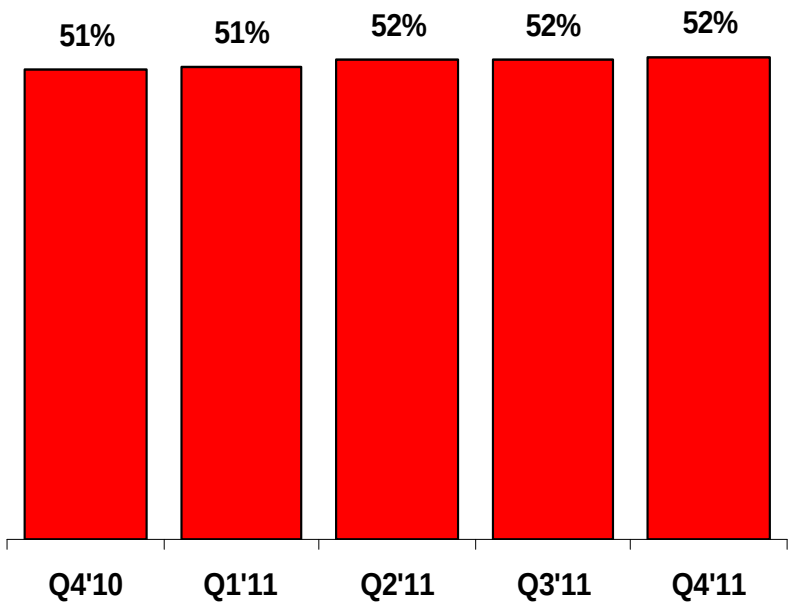
Results: Credit Quality

New business and stock LTV confirms our strong credit quality

Average new business mortgage LTV (%) [1]



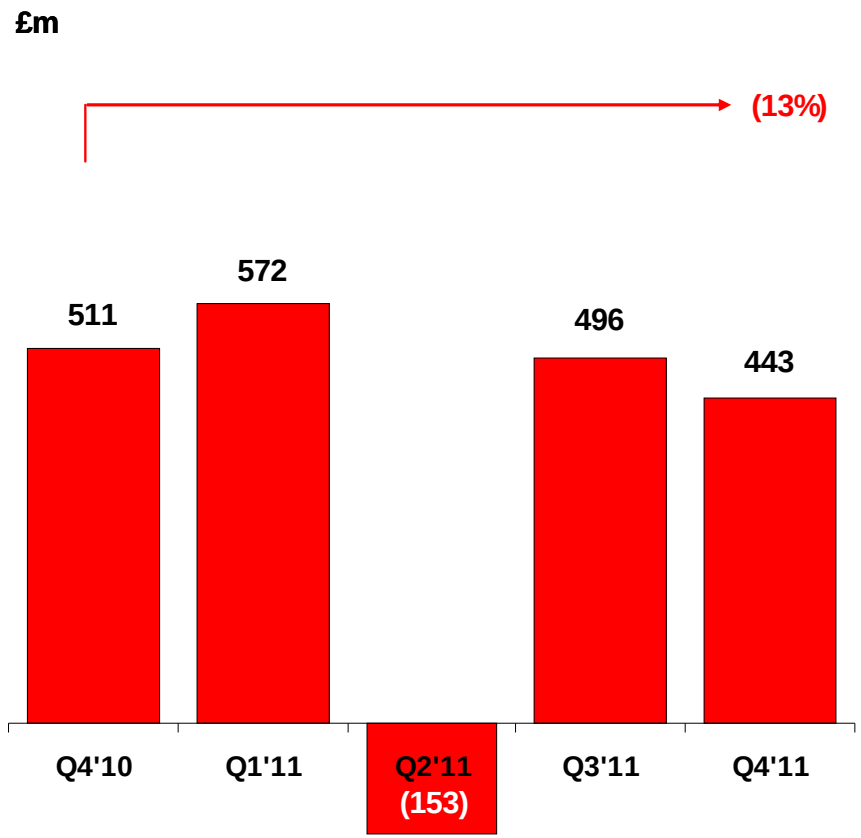
Average indexed mortgage LTV on stock (%)



(1) Based on completions

Results: Profit Before Tax

Profit before tax, impacted by PPI and regulatory factors



£m	FY'11	FY'11 v FY'10
PBT	1,359	(41%)
Provisions for income tax	(366)	(42%)
Profit after tax [1]	993	(41%)

(1) Includes post-tax £538m PPI remediation provision, raised in June 2011

APPENDIX

- Financial Results
- Balance Sheet

Financial Results

Financial Results: UK Profit and Loss

£ million	FY'11	FY'10	Variation Amount	Variation %
Net interest income	**3,622**	**4,084**	**(462)**	**(11.3%)**
Net fees	929	880	49	5.5%
Gains (losses) on financial transactions	352	396	(45)	(11.3%)
Other operating income*	23	26	(3)	(11.7%)
Gross income	**4,925**	**5,386**	**(461)**	**(8.6%)**
Operating expenses	(2,216)	(2,185)	(31)	1.4%
General administrative expenses	(1,911)	(1,920)	9	(0.5%)
Personnel	*(1,207)*	*(1,110)*	*(97)*	*8.7%*
Other administrative expenses	*(704)*	*(810)*	*106*	*(13.1%)*
Depreciation and amortisation	(304)	(265)	(40)	15.0%
Net income	**2,710**	**3,201**	**(492)**	**(15.4%)**
Net loan loss provisions	(508)	(797)	289	(36.3%)
Other income	(843)	(90)	(753)	n/a
Profit before taxes (w/o capital gains)	**1,359**	**2,314**	**(955)**	**(41.3%)**
Tax on profit	(366)	(629)	264	(41.9%)
Profit from continuing operations (w/o capital gains)	**993**	**1,684**	**(691)**	**(41.0%)**
Net profit from discontinued operations	—	—	—	0.0%
Consolidated profit (w/o capital gains)	**993**	**1,684**	**(691)**	**(41.0%)**
Minority interests	—	—	—	0.0%
Attributable profit to the Group (w/o capital gains)	**993**	**1,684**	**(691)**	**(41.0%)**

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

Financial Results: UK Profit and Loss

£ million

	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11
Net interest income	**1,030**	**1,028**	**1,025**	**1,001**	**948**	**902**	**889**	**884**
Net fees	221	232	224	203	198	258	244	229
Gains (losses) on financial transactions	118	114	93	71	134	115	77	26
Other operating income*	5	6	5	10	5	6	4	8
Gross income	**1,375**	**1,380**	**1,348**	**1,284**	**1,285**	**1,280**	**1,215**	**1,146**
Operating expenses	(544)	(555)	(542)	(543)	(556)	(552)	(548)	(559)
General administrative expenses	(477)	(487)	(481)	(476)	(478)	(475)	(470)	(489)
Personnel	*(272)*	*(286)*	*(279)*	*(273)*	*(292)*	*(288)*	*(309)*	*(318)*
Other administrative expenses	*(205)*	*(201)*	*(202)*	*(203)*	*(186)*	*(187)*	*(160)*	*(171)*
Depreciation and amortisation	(67)	(68)	(61)	(67)	(77)	(77)	(79)	(71)
Net income	**830**	**825**	**805**	**741**	**729**	**728**	**666**	**586**
Net loan loss provisions	(237)	(223)	(182)	(154)	(118)	(117)	(141)	(132)
Other income	(5)	(1)	(8)	(76)	(39)	(764)	(29)	(11)
Profit before taxes (w/o capital gains)	**588**	**600**	**615**	**511**	**572**	**(153)**	**496**	**443**
Tax on profit	(160)	(153)	(180)	(136)	(154)	35	(137)	(110)
Profit from continuing operations (w/o capital gains)	**428**	**447**	**435**	**375**	**419**	**(118)**	**359**	**334**
Net profit from discontinued operations	—	—	—	—	—	—	—	—
Consolidated profit (w/o capital gains)	**428**	**447**	**435**	**375**	**419**	**(118)**	**359**	**334**
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* Including dividends, income from equity- accounted method and other operating income/expenses

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Balance Sheet

Financial Results: Balance Sheet

£ million	31.12.11	31.12.10	Variation Amount	Variation %
Loans and credits*	210,625	201,292	9,333	4.6
Trading portfolio (w/o loans)	34,615	38,894	(4,280)	(11.0)
Available-for-sale financial assets	46	175	(130)	(73.8)
Due from credit institutions*	16,432	25,080	(8,647)	(34.5)
Intangible assets and property and equipment	1,911	2,000	(88)	(4.4)
Other assets	33,272	36,205	(2,933)	(8.1)
Total assets	**296,901**	**303,646**	**(6,745)**	**(2.2)**
Customer deposits*	162,314	158,850	3,464	2.2
Marketable debt securities*	58,892	55,368	3,524	6.4
Subordinated debt	6,899	7,009	(110)	(1.6)
Insurance liabilities	—	1	(1)	(100.0)
Due to credit institutions*	26,043	46,634	(20,591)	(44.2)
Other liabilities	32,017	25,660	6,357	24.8
Shareholders' equity**	10,735	10,124	612	6.0
Total liabilities & shareholders' equity	**296,901**	**303,646**	**(6,745)**	**(2.2)**
Mutual funds	13,151	12,368	783	6.3
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**241,256**	**233,596**	**7,661**	**3.3**
Commercial Loans included above* **	**203,261**	**199,204**	**4,057**	**2.0**
Commercial deposits included above	**149,192**	**153,498**	**(4,306)**	**(2.8)**

* 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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