

STRUCTURE, STRENGTH AND SECURITY



Structure

Cater Allen Private Bank is a wholly owned subsidiary of Santander UK plc, which unconditionally guarantees deposits held by Cater Allen. Santander UK is part of Banco Santander (the Santander Group), a global retail and commercial bank.

Banco Santander

In a difficult and uncertain economic environment, Banco Santander stands out as a strong, profitable and solvent entity thanks to its geographic diversification, its subsidiary model, its solid capitalisation and its focus on retail banking.

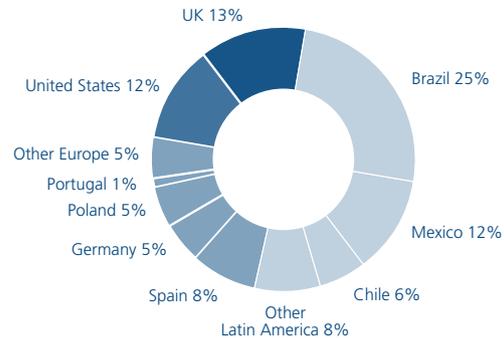
Banco Santander posted an attributable profit of €2,255 million¹ in the first half of 2013, 28.9% higher than for the same period last year, and improved BIS II core capital² at 11.11%, up 1.01% year on year¹).

Banco Santander is one of the few European banks not to have needed state aid in any of the markets in which it operates during the international financial crisis.

Banco Santander's geographical diversification is balanced between mature and emerging markets. Its presence is concentrated in Brazil, Spain, the UK, Mexico, the US, Chile, Poland, Germany and Portugal¹.

Banco Santander's subsidiaries are local banks. They are governed by local regulations and legislation. They are supervised by national authorities in the countries in which they operate and their deposits are guaranteed by local deposit guarantee funds.

Distribution of recurring attributable profit by operating geographic segments in H1 2013¹:



Santander UK plc and Cater Allen Private Bank

Santander UK plc, which unconditionally guarantees deposits held by Cater Allen Private Bank, operates under Santander Group's 'subsidiary' model. The subsidiary model works to ensure that all subsidiaries in the Group operate on an autonomous basis, retaining responsibility for funding, capital and liquidity management at the local level.

Santander UK primarily generates funding and liquidity through UK retail and corporate deposits, as well as in the financial markets through its own debt programmes and facilities. Wholesale funding is raised by Santander UK plc for Santander UK plc. The Prudential Regulation Authority (PRA) capital and liquidity requirements and stress tests are required to be satisfied on a standalone basis assuming no parental support.

¹ Source – Banco Santander Financial Report, January - June 2013

² The criteria determining core capital requirements as set out by the Bank for International Settlement

Santander UK plc is managed by its own Board and is subject to the supervision of the PRA and the Financial Conduct Authority (FCA) in the UK.

For bank accounts and deposit-based products, Cater Allen is covered by the Financial Services Compensation Scheme (FSCS), with each eligible depositor covered up to £85,000 as a combined amount across their Cater Allen accounts, including their share of any joint accounts. Any money held in one of Cater Allen's Structured Deposit Products would also be counted in the £85,000 limit.

Because Cater Allen holds its own banking licence, a client's deposits with Cater Allen are regarded for the purposes of FSCS cover as being distinct from the client's deposits with Santander UK plc. A client is therefore afforded up to £85,000 cover as a combined amount across their Cater Allen accounts, and up to £85,000 as a combined amount across their Santander UK plc accounts.

Cater Allen's account-specific Fact Sheets and plan-specific Product Guides contain details relating to FSCS cover and for more information you can also refer to the FSCS website at www.FSCS.org.uk

Strength

Santander UK plc posted an attributable profit after tax of £440 million³ in the first half of 2013, 24.6% more than in the second half of last year³.

The bank is underpinned by strong capital ratios and prudent liquidity levels with PRA eligible liquid assets of £35 billion, more than one and a half times wholesale funding of less than one year³.

Santander UK plc has maintained a record of profitability through the economic cycle. It has a robust Core Tier 1 capital ratio of 12.4%³ (improved from 12.2% in 2012). The results of the UK bank capital requirements exercise conducted by the PRA, published in June 2013, confirmed Santander UK's strong capital position. Santander UK was not required to undertake any additional capital raising and was then the strongest and best capitalised bank in the UK¹. The bank has a loan to deposit ratio of 125%³, eight percentage points better than H2 2012.

³ Source – Santander UK plc Quarterly Management Statement for the six months ended 30 June 2013

⁴ Source – Santander UK plc Annual Report 2012

Security

Santander UK plc is responsible for its own funding and liquidity.

Both capital and liquidity are maintained in the UK. Santander UK plc is a UK regulated bank and is subject to PRA limits on exposures to, and liquidity generated from, other members of the Santander group.

The UK business has a strong, prudent balance sheet of predominantly secured retail mortgage assets largely funded by retail and commercial deposits³.

Santander UK plc has no direct sovereign debt exposure to Greece, Italy, Ireland, Portugal or Spain⁴.

Credit Ratings

Santander UK plc

Credit Rating Agency	Rating	Outlook	Last Changed
S&P	A	Negative	30 Apr 2012
Fitch	A	Stable	11 Jun 2012
Moody's	A2	Negative	25 Oct 2012

27 August 2013

Banco Santander

Credit Rating Agency	Rating	Outlook	Last Changed
S&P	BBB	Negative	15 Oct 2012
Fitch	BBB+	Negative	11 Jun 2012
Moody's	Baa2	Negative	25 Jun 2012

27 August 2013

According to the methodology of the ratings agencies, the ratings of a country's financial institutions cannot exceed that country's sovereign debt rating except in very exceptional situations. Santander is the only Spanish bank that maintains a rating above that of Spain's sovereign debt according to the three major agencies.

The methodology of the ratings agencies also establishes the relationship between the ratings of the parent company and its subsidiaries. However, Banco Santander's subsidiary model is such that the ratings of some of the Group's subsidiaries are higher than that of Banco Santander itself.

- **Standard & Poor's:** "In our view, its financial prospects are primarily linked to the U.K. environment in which it operates, rather than the fortunes of the wider group. We note that SanUK has no structural reliance on group funding and is self-supporting from a liquidity standpoint. Furthermore, we believe that SanUK's status as a regulated entity, supervised intensively by the U.K. Financial Services Authority, would likely limit it from providing support to the parent that would impair its own financial strength.

Our revised assessment of SanUK's risk position reflects our view that the bank's capital and earnings position adequately captures its ability to deal with the risks it undertakes. We also note SanUK's announced step up in provisioning on its legacy corporate portfolio and our view of the risk to asset quality from the difficult economic environment prevailing in the U.K. Within our assessment of the bank's risk position, we acknowledge SanUK's minimal exposure to the rest of the group, which we expect to continue, and SanUK's return to a strategy of cautious organic growth, now that the RBS deal has been discontinued."

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'Research Update: Santander UK 'A/A-1' Ratings Affirmed; Off Watch Neg, Outlook Negative'. Jorge Cobos and Giles Edwards, 21 December 2012

- **Fitch:** "As the second-largest player in the UK residential mortgages and retail savings markets, San UK is a systemically important bank in the UK. San UK is regulated, funded and run separately from Santander, and Fitch believes that it is sufficiently ring-fenced to ensure that its liquidity and capital would not be weakened to provide extraordinary support to its parent in times of stress.

Fitch 'Santander UK plc Full Rating Report', 23 November 2012

- **Moody's:** "Santander UK is lead-regulated by the UK Financial Services Authority (FSA), and is managed on an autonomous basis with limited financial and direct operational connections to Banco Santander. As a result, Santander UK generally funds on an independent basis from Banco Santander and it has no direct exposure to the Spanish Government (or regional governments)."

Reproduced with the permission of Moody's 'Global Credit Research',
8 November 2012



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