

# United Kingdom: Abbey

**First Half 2007**

**26th July 2007**

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This presentation is not a form of statutory accounts.

# Agenda

- Market Environment

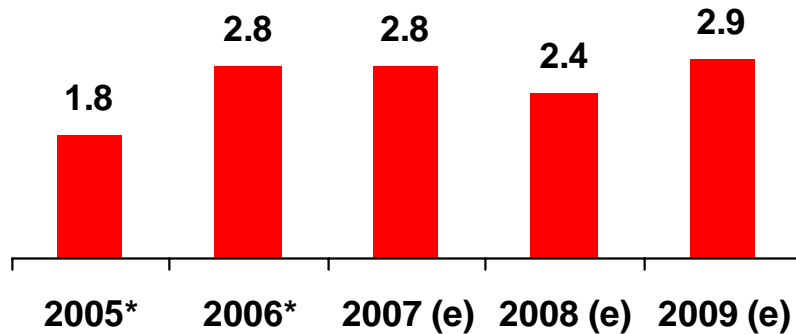
- H1 2007

- Business Update
- Results

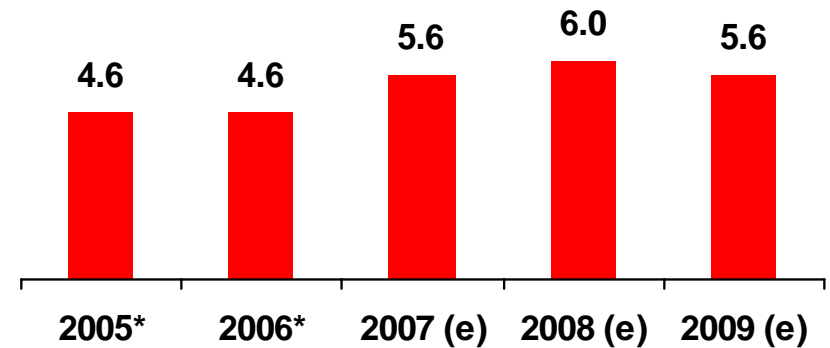
# Market Environment

**UK economic environment expected to remain relatively benign**

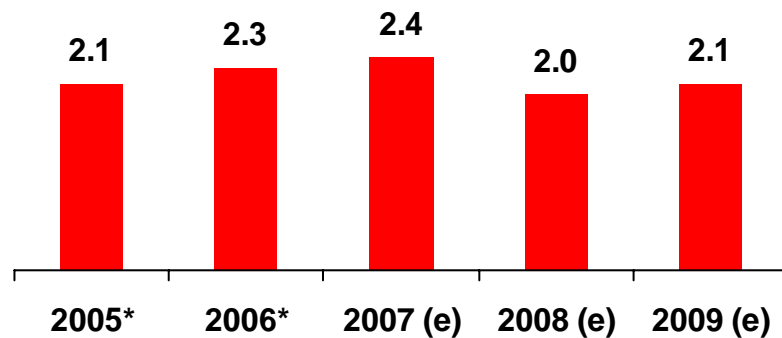
**Annual GDP Growth (% , annual average )**



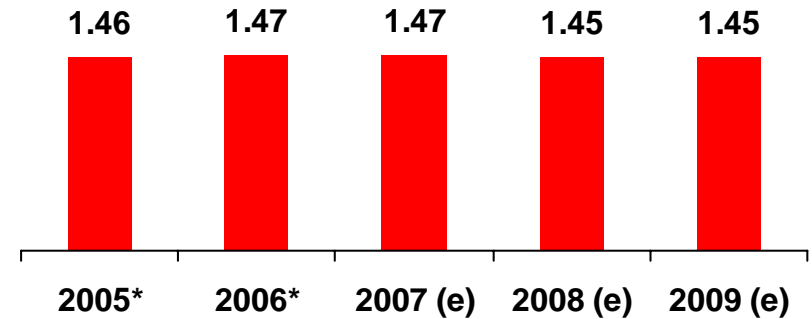
**Interest Rates (% , annual average)**



**Annual CPI inflation rate (% , annual average)**



**GBP : Euro exchange rates (annual average)**

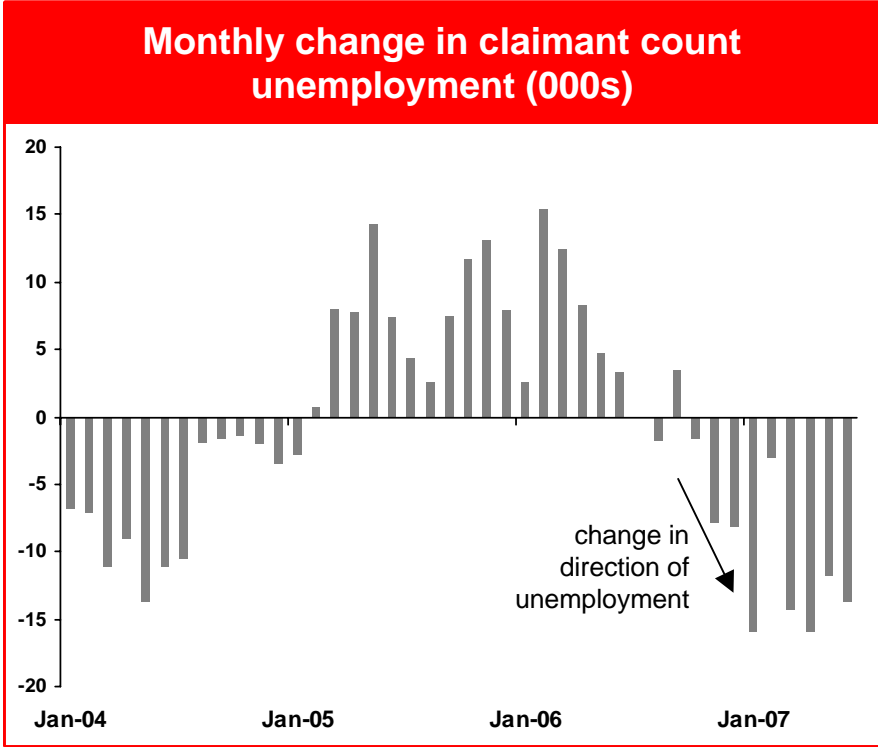


\*source - Office for National Statistics & Bank of England

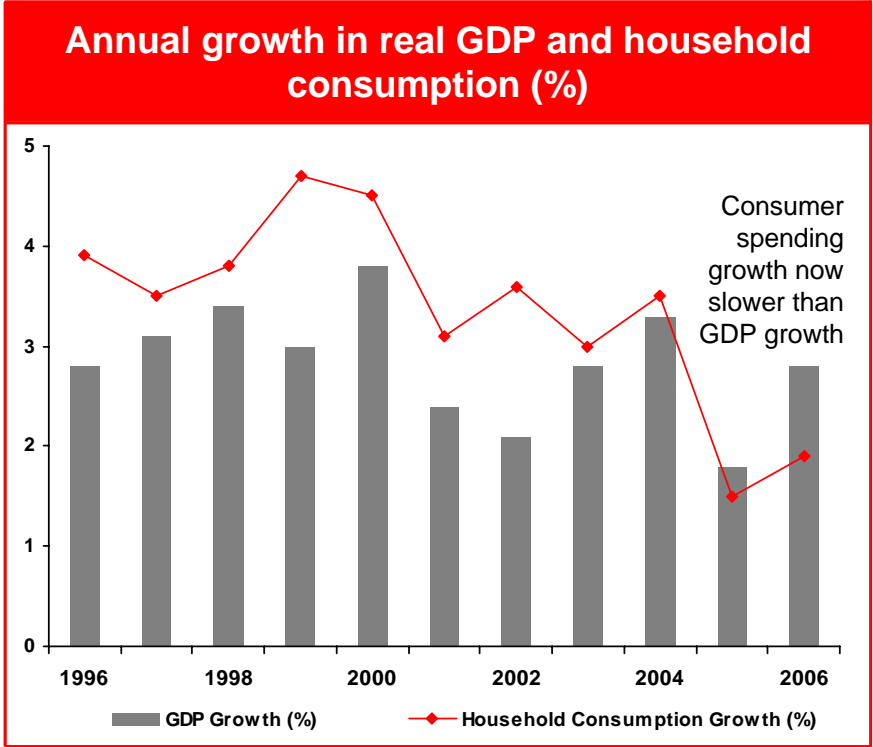
(e) estimated by Abbey

# Market Environment

**Consumer spending growth has been slower than overall economic growth and unemployment has fallen again**



Source – Office for National Statistics

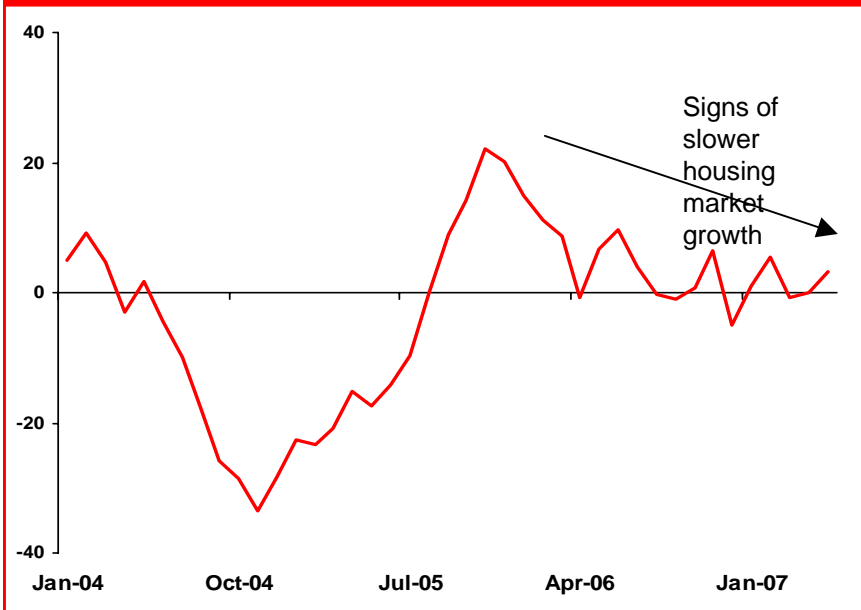


Source – Office for National Statistics

# Market Environment

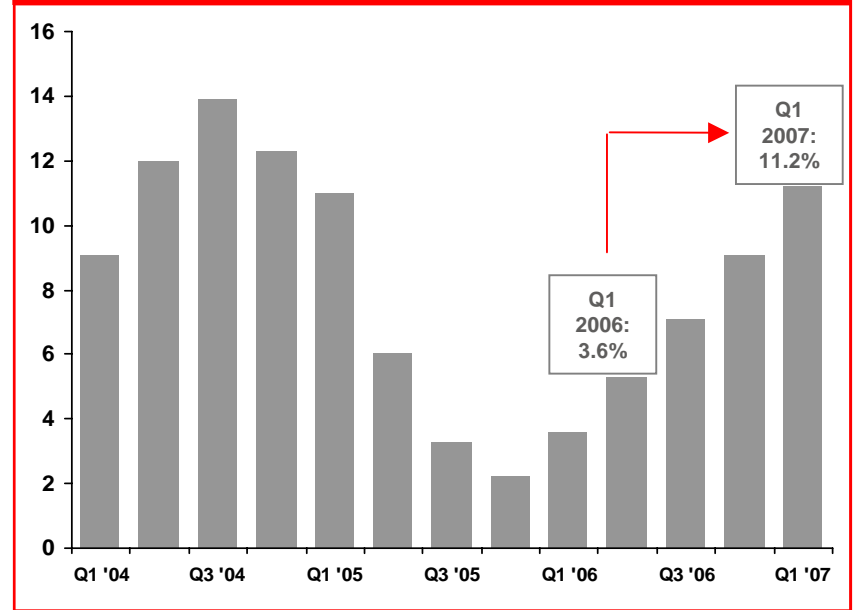
Growth in housing market activity has shown some slowing but annual house price growth continues to be strong

Annual growth in the number of approvals  
(%, sa)



Source – Bank of England

Annual house price growth (%)

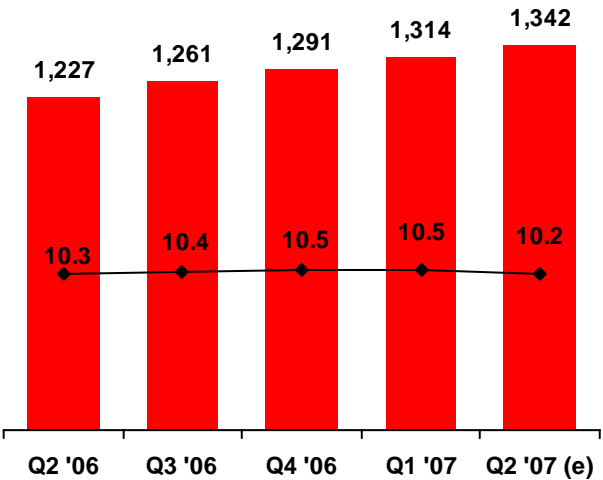


Source – Department for Communities and Local Government

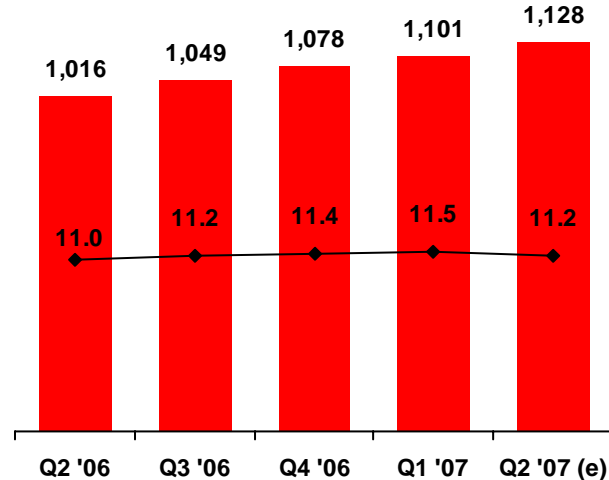
# Market Environment

**Mortgage lending remained strong in 2007 while consumer credit lending has continued to slow**

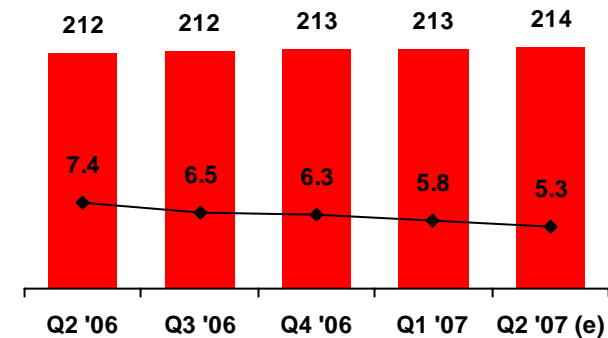
**Total lending to individuals\***



**Mortgage lending market stock\***



**Consumer credit market stock\***



Source – Bank of England.

(e) estimated market size (£bn)

◆ - annual growth rates (%)

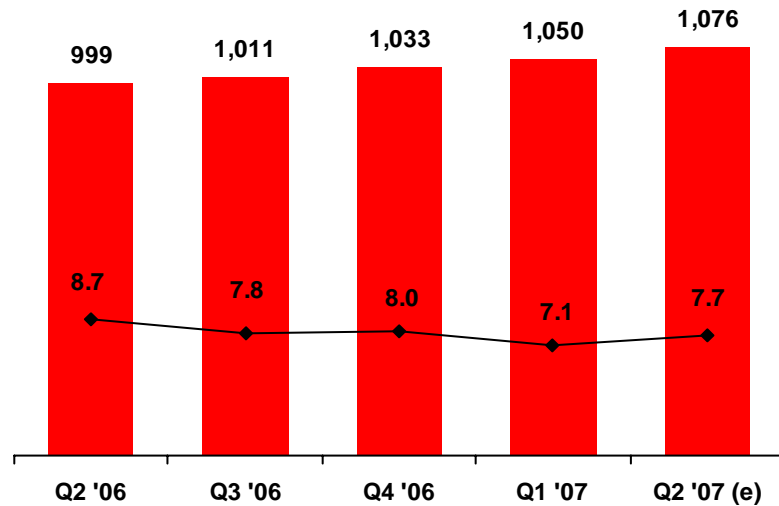
\*Please note:

- Growth rates are calculated using the Bank of England's methodology - this expresses period net lending as a percentage of the prior period stock.

# Market Environment

Annual growth in retail deposits has been stable, with strong long term growth in the Bancassurance Investment new business market

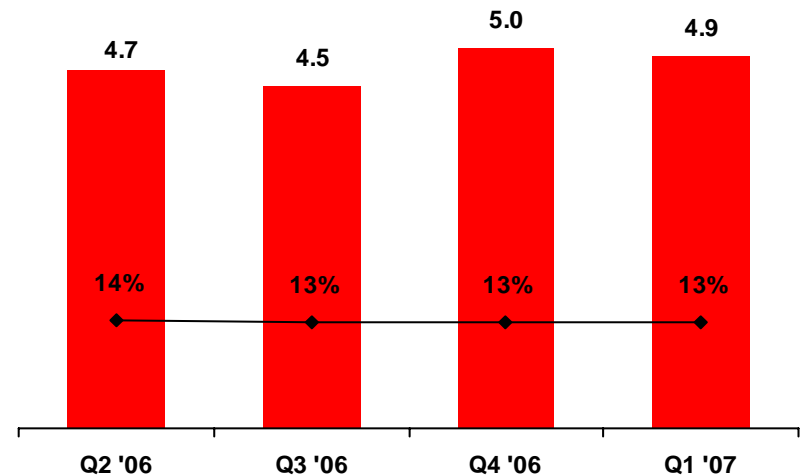
### Retail deposits (incl. current accounts)



Source – Bank of England.

(e) estimated market size (£bn)

### Bancassurance Investment new business market



Source – estimated by Abbey based on data from Investment Managers Association / ABI / Structuredretailproducts.com.

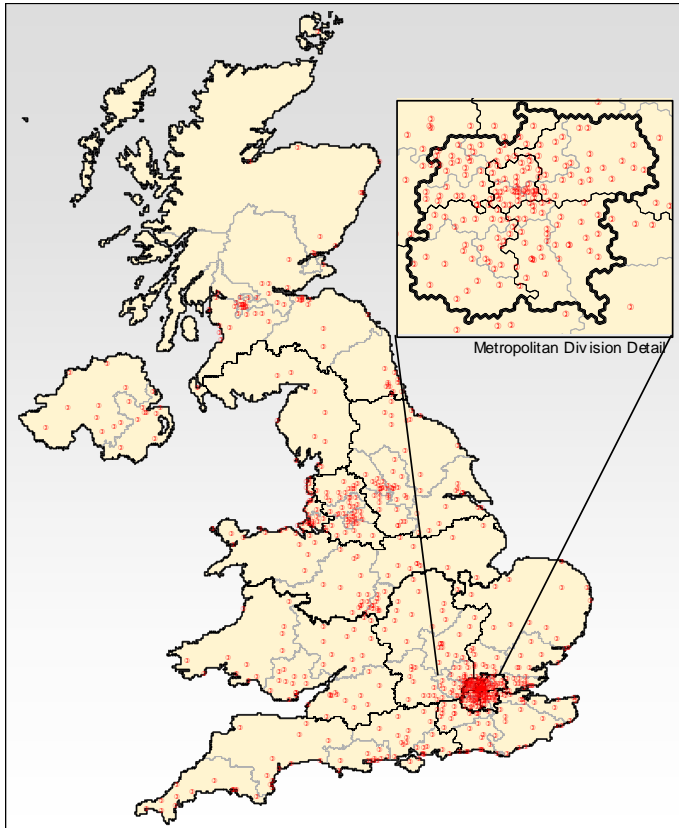
◆ annual growth rates (%)



# Our Franchise

**A well established mortgage business, showing potential in other product areas to an attractive customer franchise**

**30/6/07**



<b>Customer deposits (£bn)</b>	<b>63.9</b>
<b>Residential mortgages (£bn)</b>	<b>105.3</b>
<b>UPLs (£bn)</b>	<b>3.1</b>
<b>Total Retail lending (£m)</b>	<b>111.4</b>
<b>Net attributable income ytd (£m)</b>	<b>405.9</b>

## **Market Shares:**

<b>Mortgage stock</b>	<b>9.3%</b>
<b>Deposits/Savings stock</b>	<b>5.9%</b>
<b>Abbey UPL's stock</b>	<b>3.3%</b>

<b>Branches</b>	<b>705</b>
<b>Branch market share</b>	<b>5.3%</b>
<b>ATMs</b>	<b>2,471</b>

# Agenda

- Market Environment
- H1 2007

**- Business Update**

- Results

# Business Update

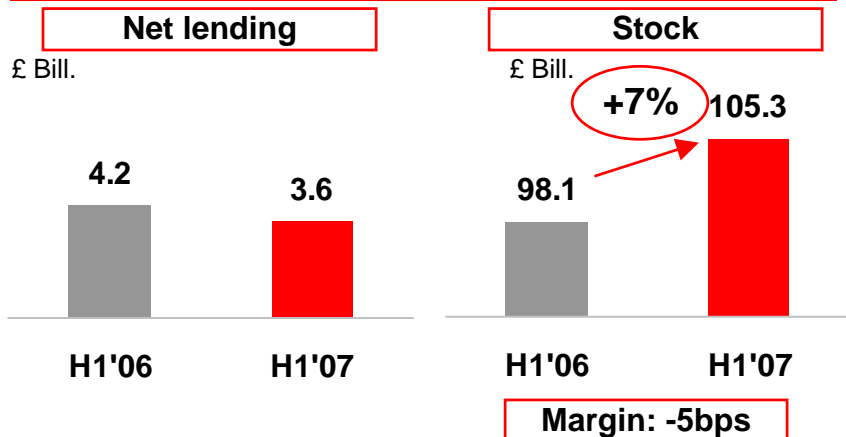
## Moving towards a full service bank ...

- ... through **strengthening the product range...**
  - savings and investments: 50+ Saver account, Direct ISA and the 8.1% Super ISA (bundled account linked to investment product)
  - mortgages: buy-to-let growth and strong affordability proposition, growth in commercial mortgages
  - banking: including strong growth in business banking
- ... leveraging the **global platform...**
  - Santander Asset Management supporting the overall investment strategy
  - launch of credit card business in June
- ... with a value creation strategy based on **knowledge of our customers...**
  - Partenon on track: **integrated system**
  - strong improvement in brand awareness

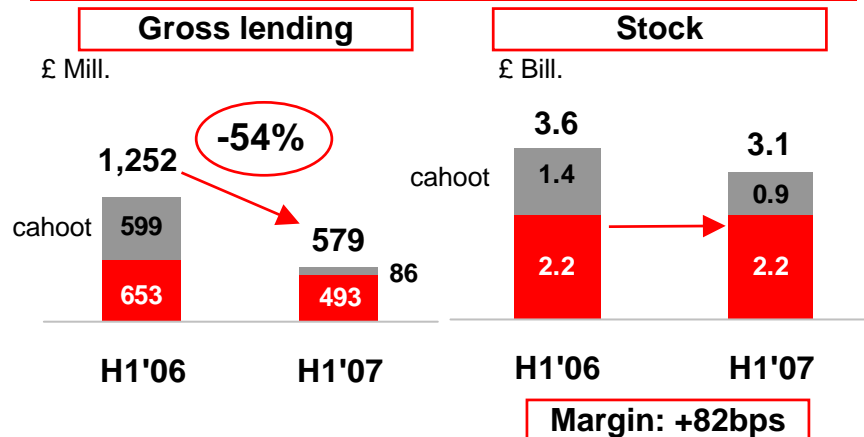
# Business Update

## Business performance

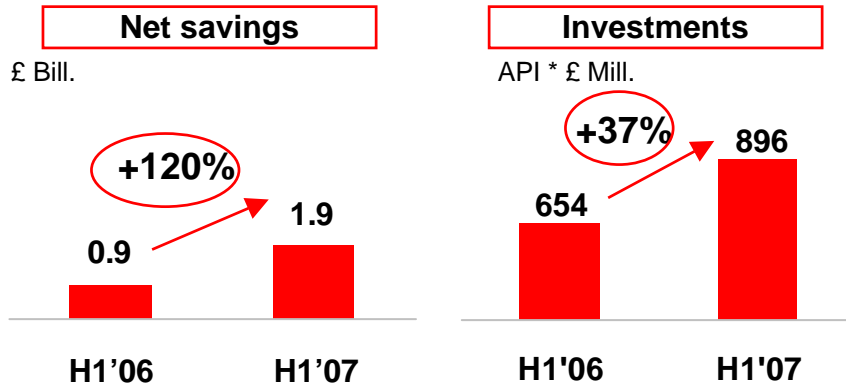
### Mortgages



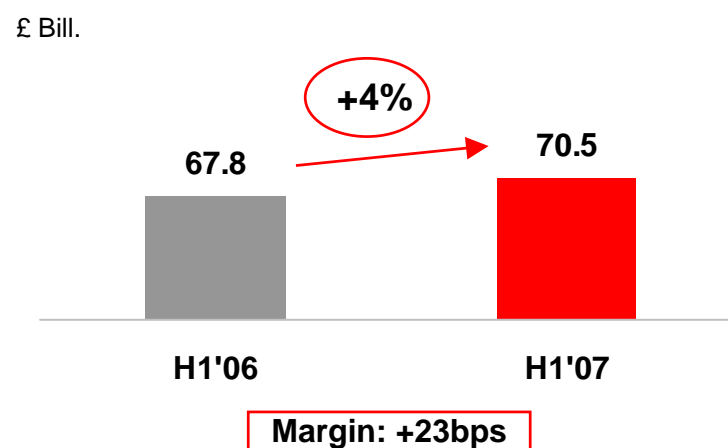
### Personal loans



### Savings and Investment flows

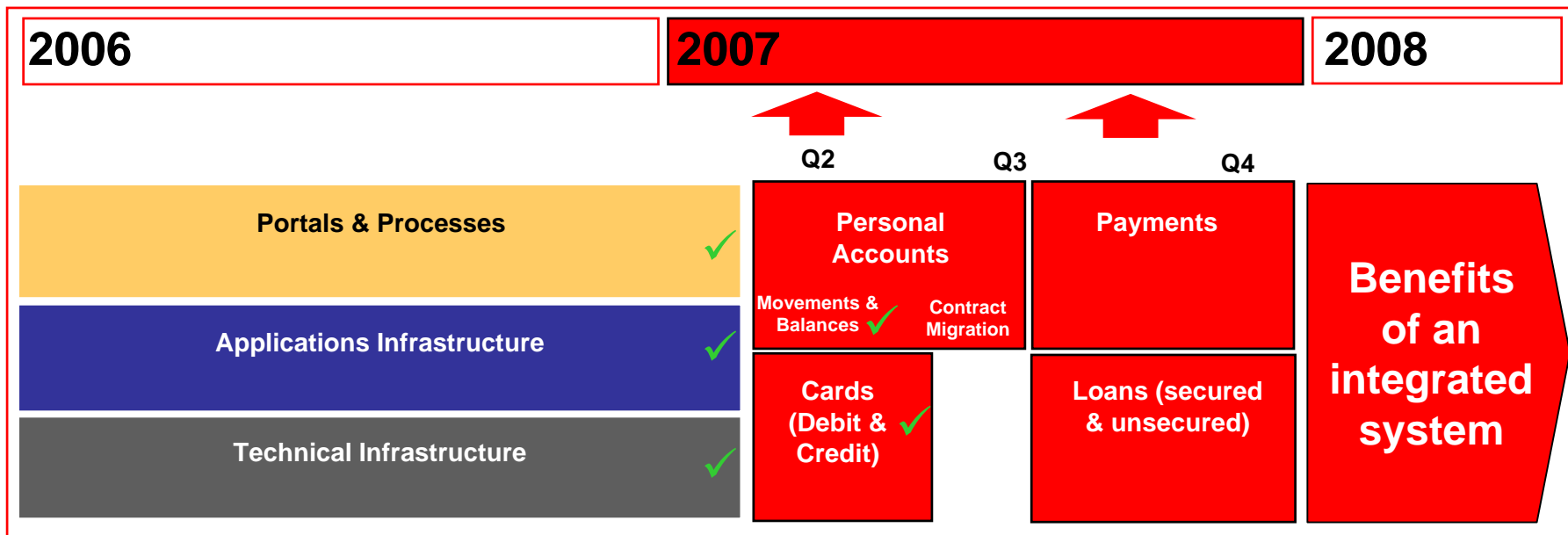


### Savings and Investment Stock



# Implementation of Partenon on track

13



## ■ Achievements in Q2 2007

- Banking and savings movements & balances data migrated to new banking system
- Launched Abbey Cards – new sales and servicing operations leveraging Global capabilities for Account & Credit Card
- New Cash Management application integrated to banking platform improving branch cash flow management / control

## ■ Next steps:

- Migration of all banking and savings contracts to new personal accounts banking platform for all sales and servicing
- Remaining core applications to be replaced in Q3 /Q4 for Payments and Loans leveraging Group infrastructure
- Optimise and leverage Partenon to improve service quality, increase customer loyalty and enhance efficiency

***Partenon implementation is progressing on track and during 2008 we will start to see the benefits of an integrated system***

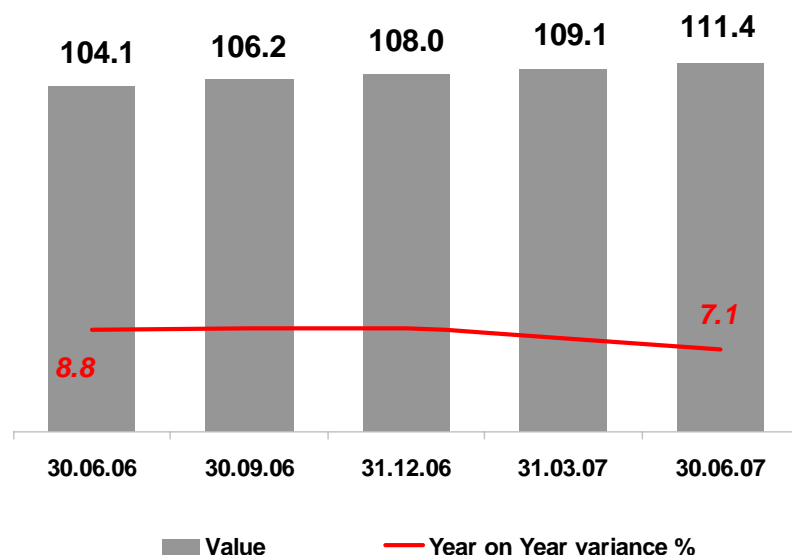
# Business: Lending trends / growth

## Volume growth balanced with on-going margin management

Residential mortgage stock (£bn) and market share (%)

98.1	99.9	101.7	103.1	105.3
9.7%	9.5%	9.4%	9.4%	9.3%

£bn

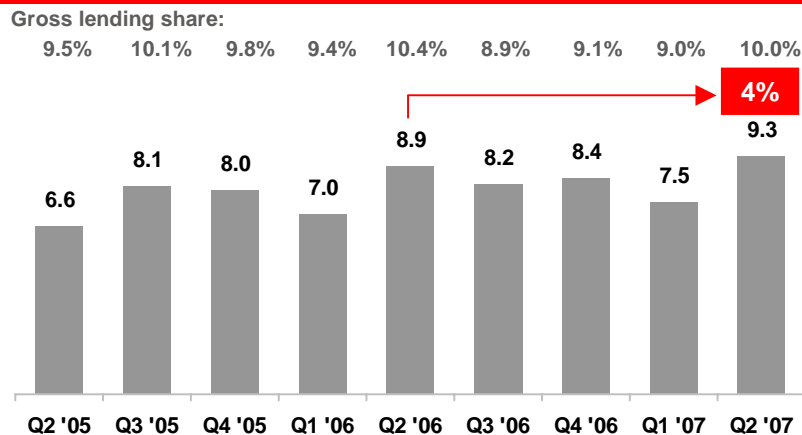


	H1 2007 £bn	Variance vs H106,%
Residential mortgages	105.3	7.3%
Commercial mortgages	2.5	35.2%
UPLs	3.1	(12.6%)
Credit Card & overdraft	0.5	(5.6%)
<b>Total Retail loans</b>	<b>111.4</b>	<b>7.1%</b>

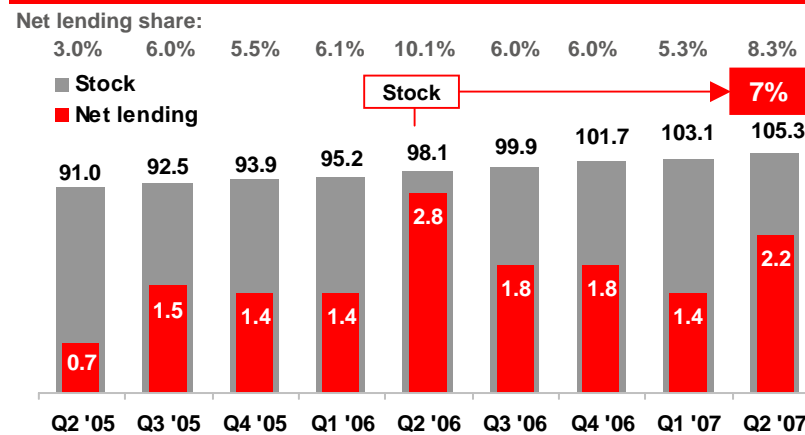
# Business Update

## Mortgage market share balanced with on-going margin management

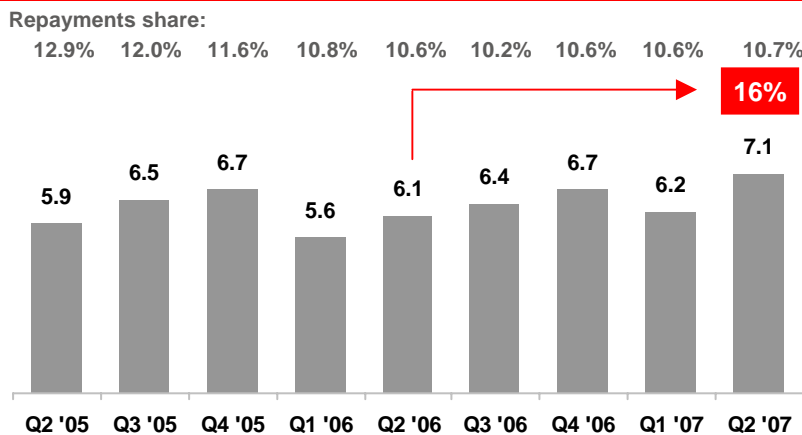
### Total residential mortgage gross lending (£bn)



### Residential mortgage net lending and stock (£bn)



### Total residential mortgage repayments (£bn)



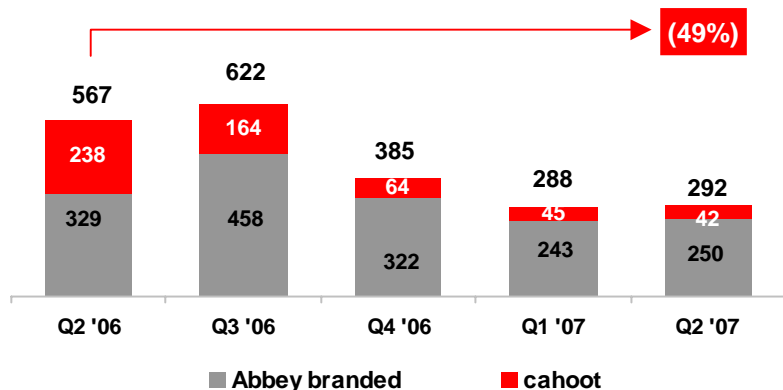
### Comment

- gross lending supported by solid performance in Abbey for Intermediaries, combined with strong affordability proposition
- stronger net lending market share performance in the second quarter
- capital repayments impacted by high level of incentive period maturities coinciding with base rate rises
- pricing pressure on fixed rate mortgage products

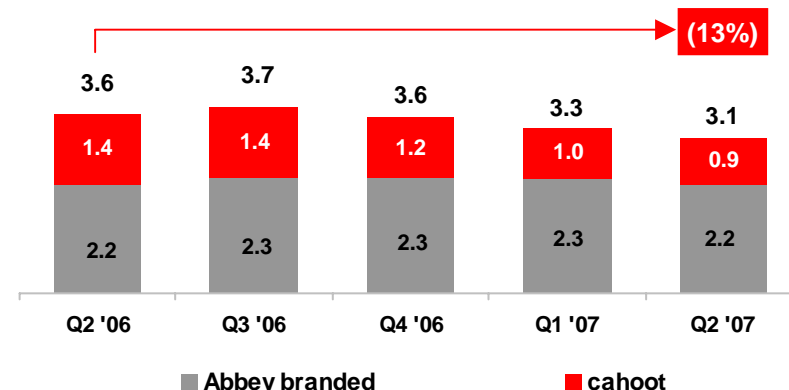
# Business Update

## UPL related income higher despite reduction in asset stock

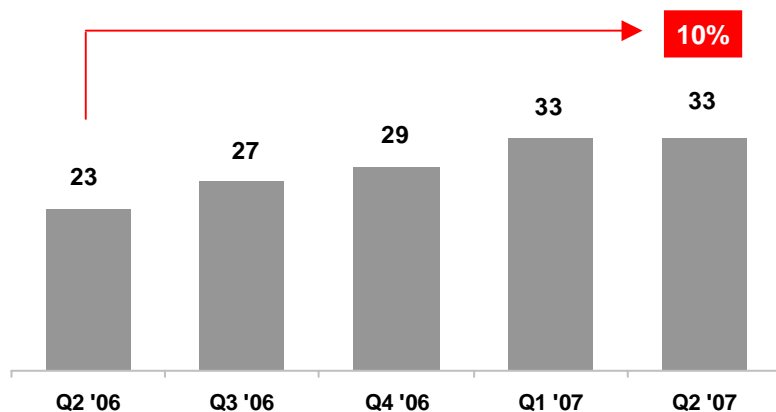
### Total UPL gross lending (£m)



### Total UPL stock (£bn)



### Abbey branch lending as % of total



### Comment

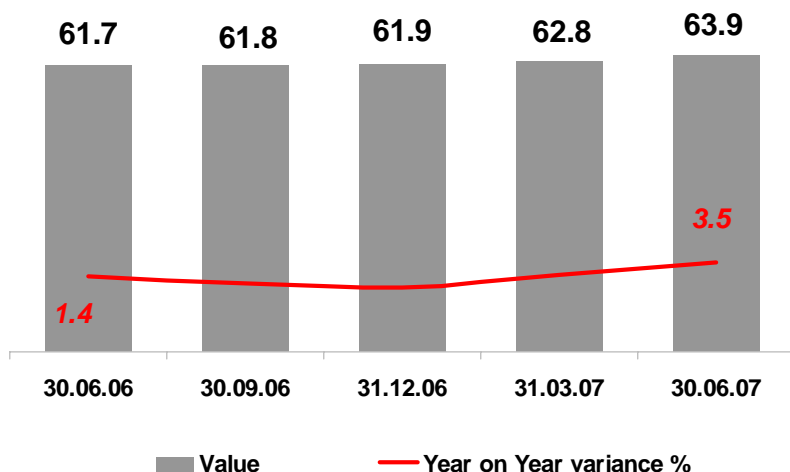
- Abbey new business margins over 30% ahead of last year, following revised pricing
- focus on more profitable lending to existing customers – largely through branch network
- cahoot balances continue to reduce



# Business: Liability trends / growth

Overall growth supported by new savings and investment products combined with strong performance in Abbey bank accounts

£bn

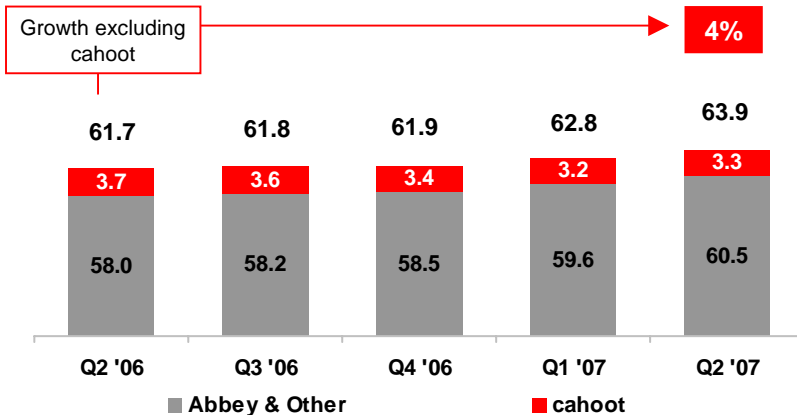


	H1 2007 £bn	Variance vs H106,%
Abbey branded savings	43.7	2.8%
Abbey bank accounts	5.5	7.6%
Other <sup>1</sup>	14.7	3.9%
<b>Total customer deposits</b>	<b>63.9</b>	<b>3.5%</b>
Retail FUM <sup>2</sup>	6.6	9.9%
<b>Total funds under management</b>	<b>70.5</b>	<b>4.0%</b>

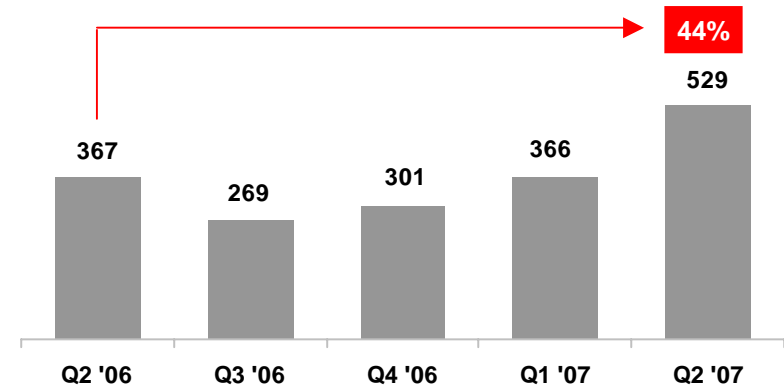
# Business Update

## Mix of deposit stock continues to trend to higher margin portfolio

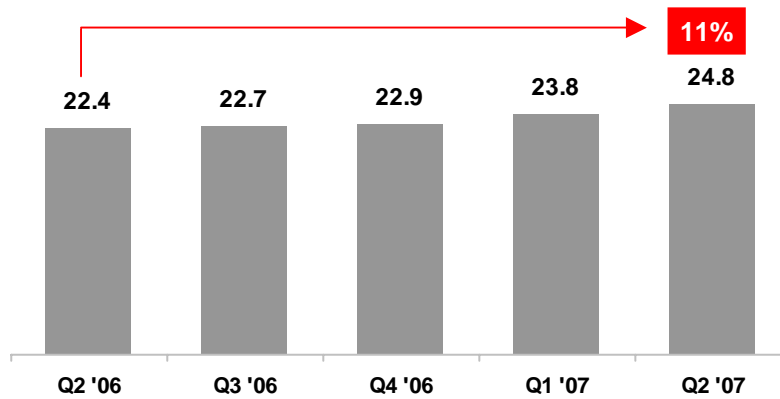
### Total customer deposit stock (£bn)



### Investment new business sales – API (\*) (£m)



### Branch acquisition savings stock (£bn)



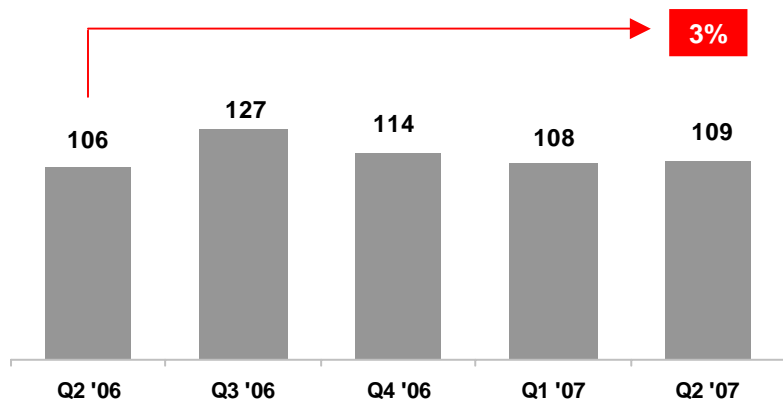
### Comment

- positive trends in new savings and investment product flows
- investment new business supported by an increase in number of authorised investment advisors
- balanced margin management as base rates have risen

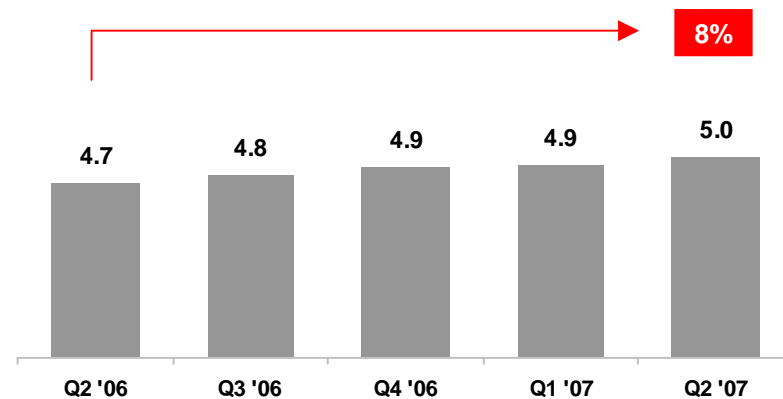
# Business Update

## Continuing to win business from clearing banks

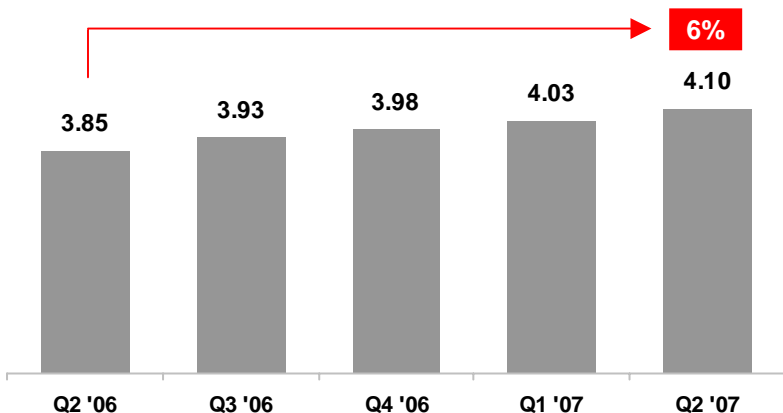
### Bank account openings (000)



### Abbey branded average current a/c liability (£bn)



### Stock of Abbey branded accounts (m)



### Comment

- continuing to attract switcher customers to Abbey, winning business from big 4 clearing banks
- higher net interest income resulting from liability increases since H1 06, offset by pressure on fees

# Agenda

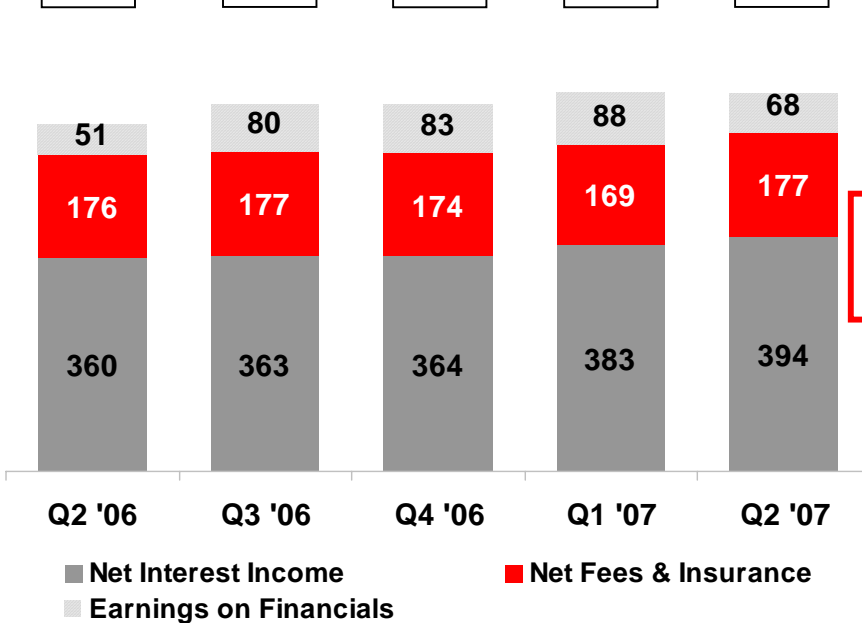
- Market Environment
- H1 2007
  - Business Update

**- Results**

# Results: Gross operating income

Higher retail banking balances and improved margins combined with higher earnings on financials driving growth

588	620	621	640	639	Total £m
536	540	538	552	571	Total commercial margin £m



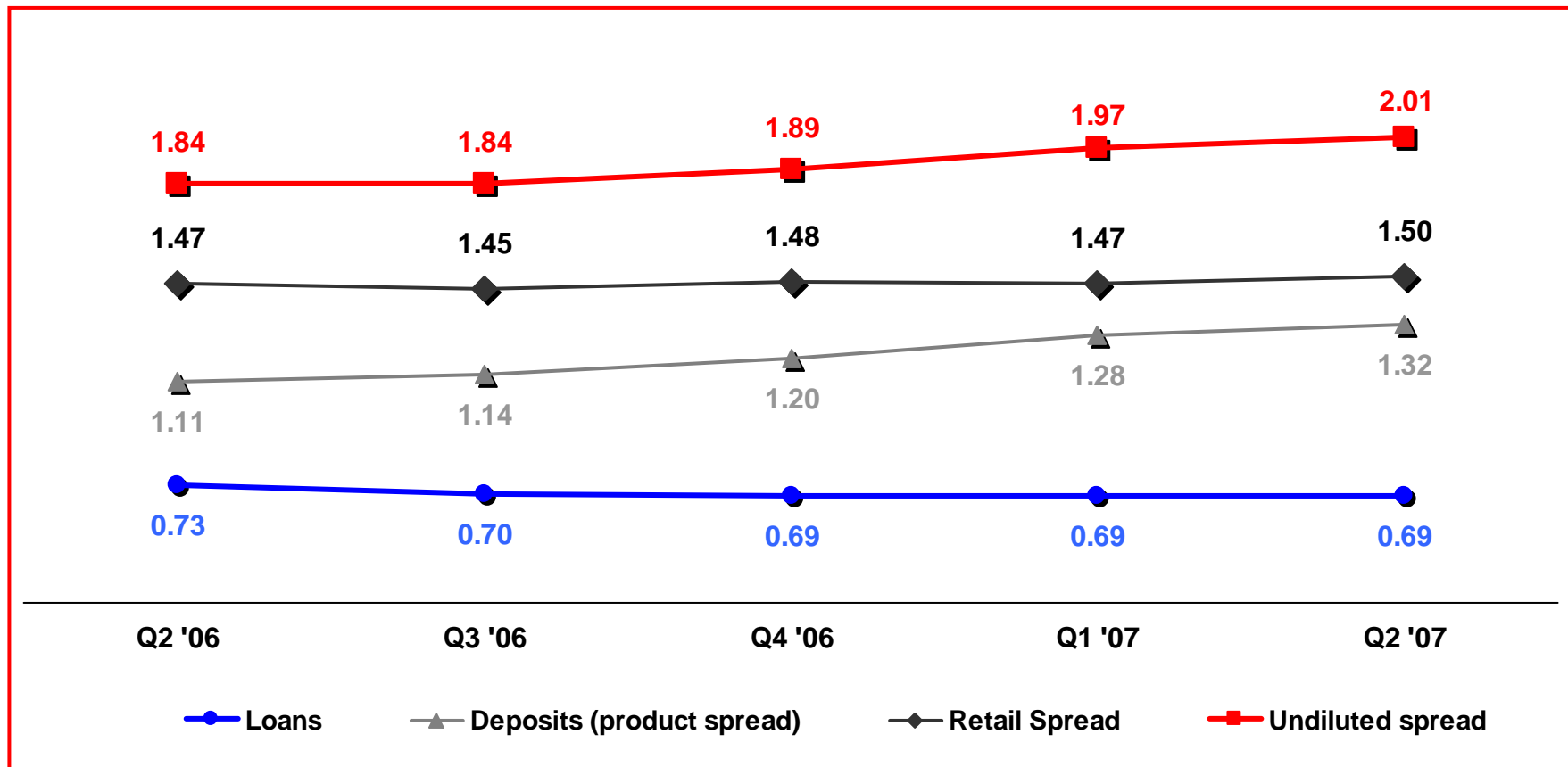
£m	H1 07	H1 06	Var. % 07/06
Net Interest Income	777	710	9.5%
Net Fees & Insurance	345	349	(1.0%)
Earnings on Financials	156	126	23.9%
<b>Total Ordinary Income</b>	<b>1,279</b>	<b>1,186</b>	<b>7.8%</b>

## Commercial revenues:

- balance sheet growth and improving liability spreads supporting net interest income
- broader product range and cross sales into investments, banking and other non-traditional products offset other pressures on fees

# Results: Retail banking spreads

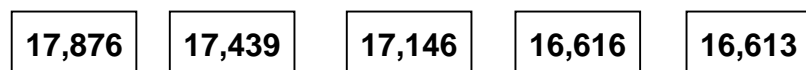
Competitive pressure continues to impact asset spreads, offset by a widening of deposit spreads



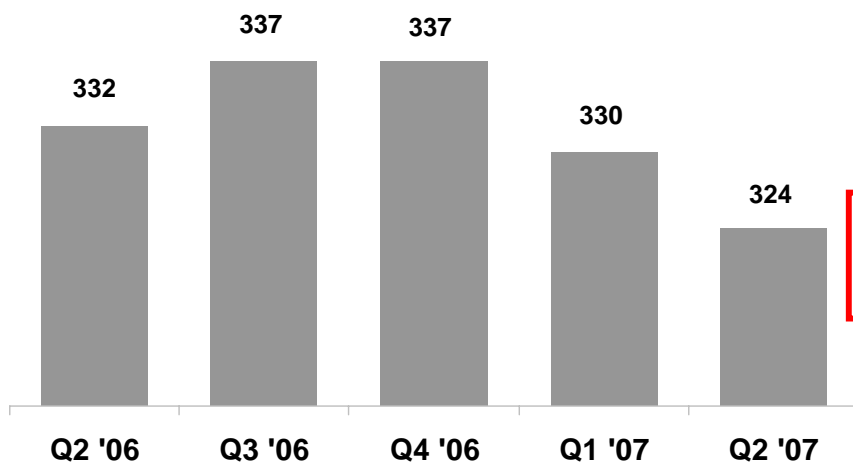
# Results: Costs

**Cost savings continue, driven by FTE headcount reduction predominantly in 2006**

FTE



£m

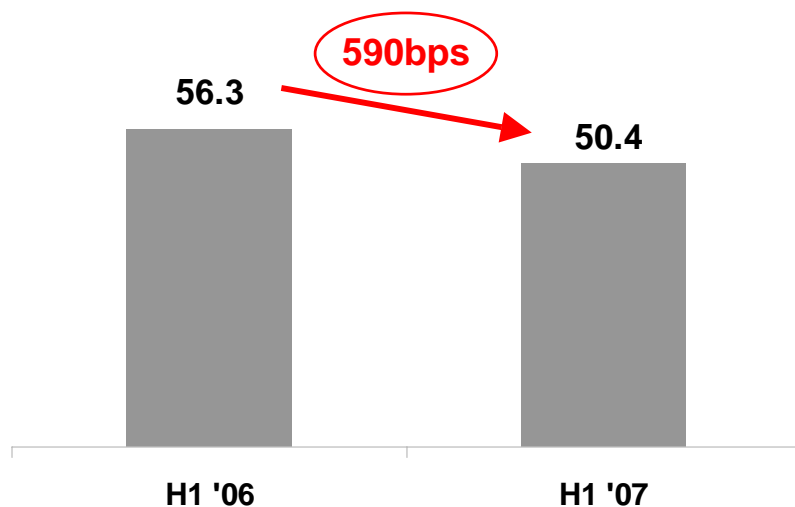


£m	H1 07	H1 06	Var. % 07/06
General and administrative expenses	620	640	(3.2%)
Depreciation and amortisation	34	37	(8.8%)
<b>Operating expenses</b>	<b>654</b>	<b>677</b>	<b>(3.5%)</b>

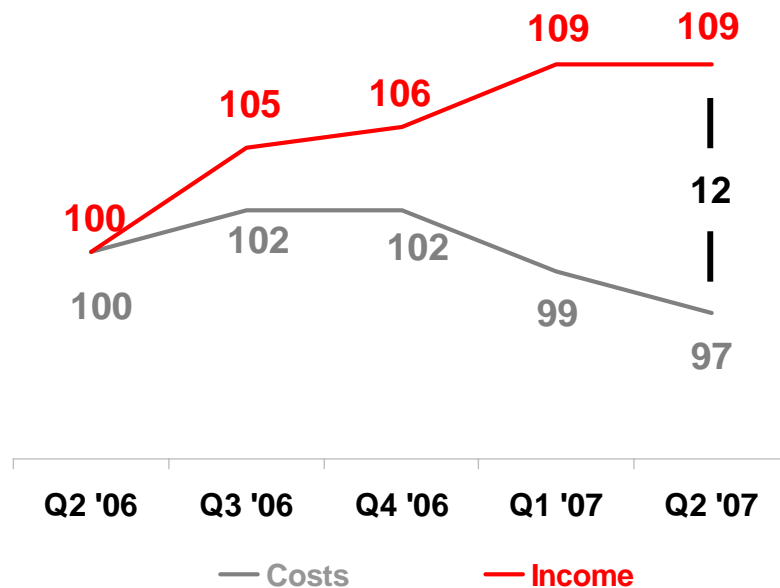
# Results: Ratios

Cost:income ratio continues to trend to UK average and on track for a third year of double digit jaws

Cost:income ratio\*, %



Operating jaws, %

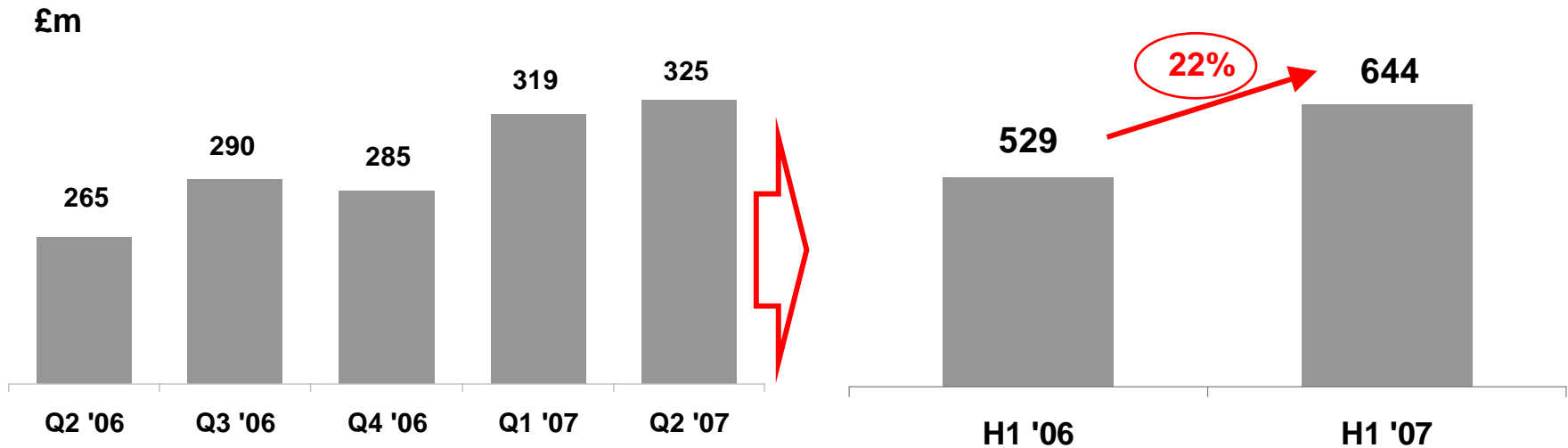


\* Includes depreciation & amortisation



# Results: Net Operating Income

Improvement in net operating income reflecting accelerating revenue growth and declining cost base



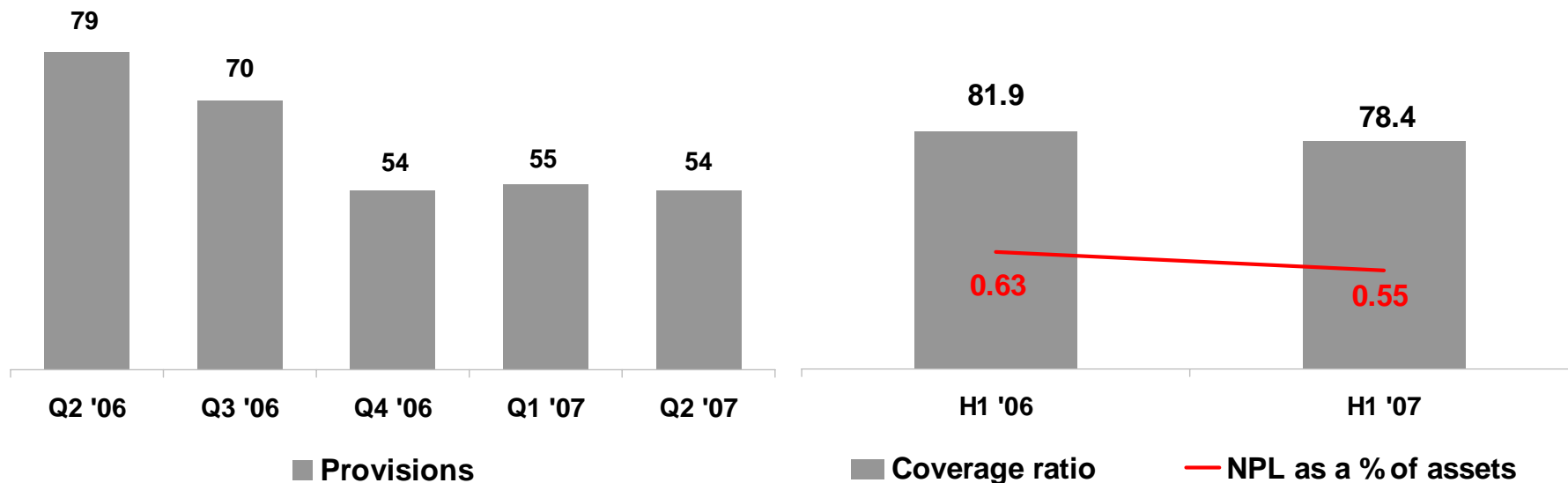
# Results: Provisions and credit quality

Provisions stable during 2007, credit quality remains strong

£m

Net loan loss provisions

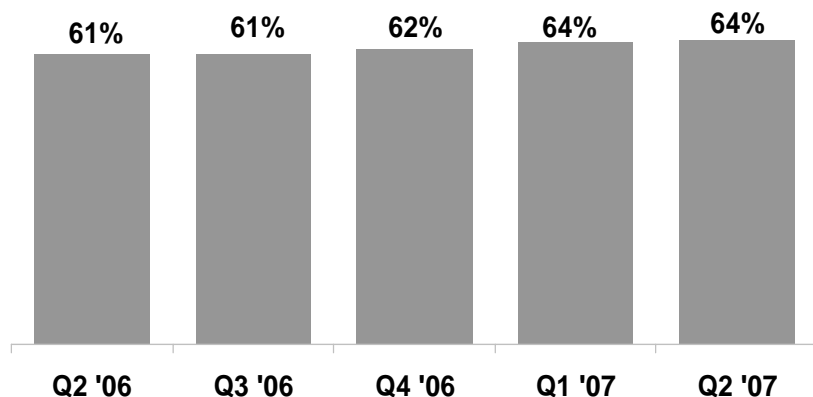
Coverage ratio and NPL, %



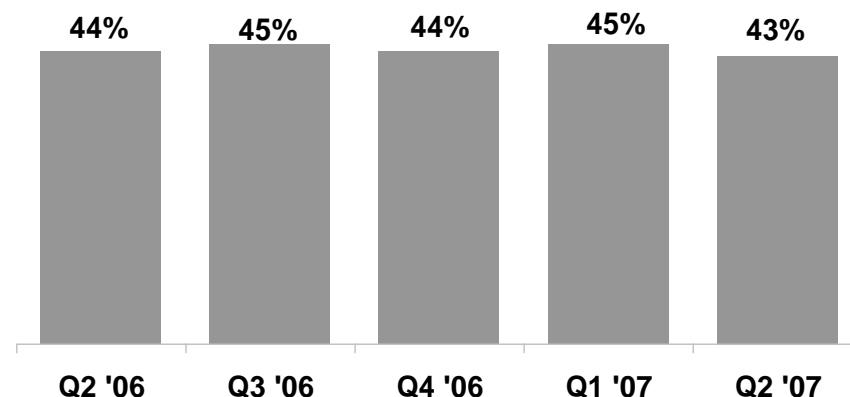
# Results: Provisions and credit quality

Underlying credit quality is strong

Average new business mortgage LTV (%)

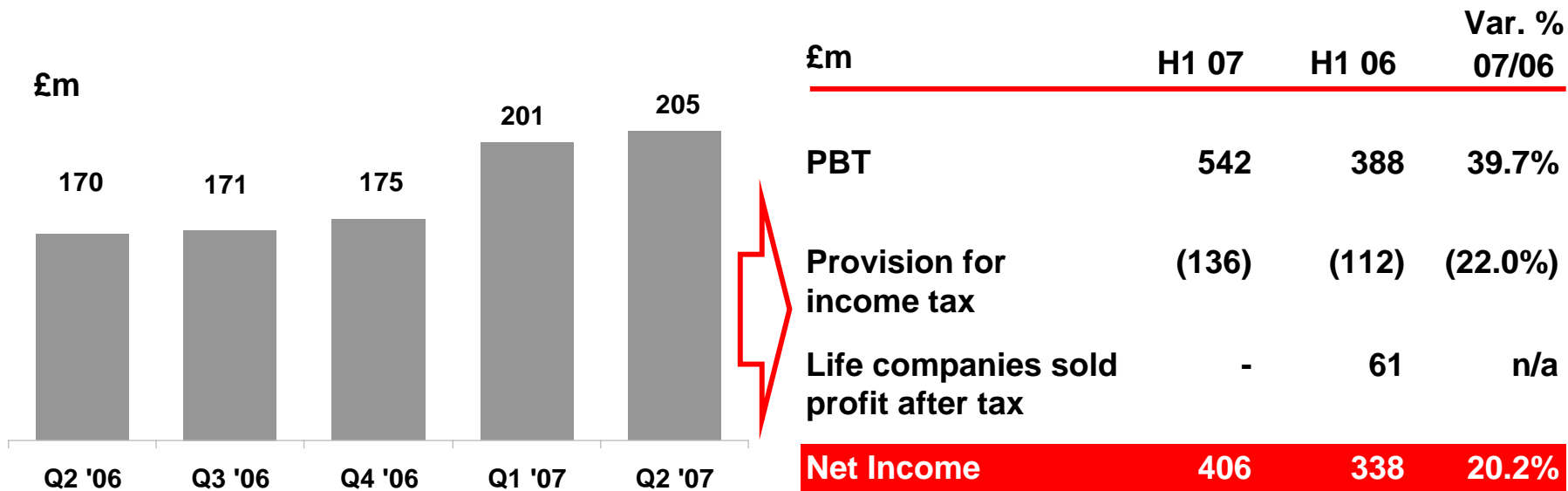


Average indexed mortgage LTV on stock (%)



# Results: Net Income

**Net Income up 20%**



# Business summary

## achievements since year end 2006

- revenue growth strengthening
- on track for a 3<sup>rd</sup> year of double digit jaws
- ranked 1<sup>st</sup> for best overall mortgage lender and best online mortgage provider in the financial adviser awards April 07
- strongest improvement in brand awareness in customers amongst UK peers (Marketing Week - Best Brand Performers 2007)
- acquisition targeted cost savings of £300m achieved ahead of the full benefit of Partenon

## expansion of product range

- continued focus on balancing growth and value
- new savings products, bundled savings and investment propositions
- gross lending volumes supported by Buy-to-let and first time buyer affordability propositions
- UPL focus on existing customers through branch network

## leveraging the global platform

- assets under management were successfully transferred to Santander Asset Management (SAM) at the start of the year with SAM supporting the overall investment strategy
- global cards expertise, plus existing IT platform enabled the launch of a credit card business in the UK in June within 12 months
- leveraging new global general insurance operations

## Partenon on track

- infrastructure and portals & processes successfully implemented
- personal accounts and cards core applications on track
- the second half of 2007 will see the replacement of the remaining core applications of payments and loans

# APPENDIX

- **Financial results**
- **Balance sheet**

# Financial results: Profit and loss (discontinued life separate)

£ million	Variation			
	H1 07	H1 06	Amount	%
<b>Net interest income*</b>	<b>777</b>	<b>710</b>	<b>67</b>	<b>9.5</b>
Income from companies accounted for by the equity method	0	1	(1)	(82.3)
Net fees	345	349	(3)	(1.0)
Insurance activity	0	(0)	0	—
<b>Commercial revenue</b>	<b>1,123</b>	<b>1,060</b>	<b>63</b>	<b>5.9</b>
Gains (losses) on financial transactions	156	126	30	23.9
<b>Gross operating income</b>	<b>1,279</b>	<b>1,186</b>	<b>93</b>	<b>7.8</b>
Income from non-financial services (net) and other operations	19	21	(1)	(6.9)
Operating expenses	(654)	(677)	23	(3.5)
General administrative expenses	(620)	(640)	20	(3.2)
<i>Personnel</i>	(351)	(368)	17	(4.7)
<i>Other administrative expenses</i>	(269)	(272)	3	(1.1)
Depreciation and amortisation	(34)	(37)	3	(8.8)
<b>Net operating income</b>	<b>644</b>	<b>529</b>	<b>115</b>	<b>21.7</b>
Net loan loss provisions	(109)	(140)	31	(22.3)
Other income	7	(1)	8	—
<b>Profit before taxes</b>	<b>542</b>	<b>388</b>	<b>154</b>	<b>39.7</b>
Tax on profit	(136)	(112)	(25)	22.0
<b>Net profit from ordinary activity</b>	<b>406</b>	<b>276</b>	<b>130</b>	<b>46.9</b>
Net profit from discontinued operations	—	61	(61)	(100.0)
<b>Net consolidated profit</b>	<b>406</b>	<b>338</b>	<b>68</b>	<b>20.2</b>
Minority interests	—	—	—	—
<b>Attributable profit to the Group</b>	<b>406</b>	<b>338</b>	<b>68</b>	<b>20.2</b>

(\*).- Dividends included

# Financial results: Profit and loss (discontinued life separate)

£ million

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07
<b>Net interest income*</b>	<b>349</b>	<b>360</b>	<b>363</b>	<b>364</b>	<b>383</b>	<b>394</b>
Income from companies accounted for by the equity method	1	1	0	0	0	0
Net fees	173	176	177	174	169	177
Insurance activity	(0)	(0)	0	0	0	0
<b>Commercial revenue</b>	<b>523</b>	<b>537</b>	<b>540</b>	<b>538</b>	<b>552</b>	<b>571</b>
Gains (losses) on financial transactions	75	51	80	83	88	68
<b>Gross operating income</b>	<b>598</b>	<b>588</b>	<b>620</b>	<b>621</b>	<b>640</b>	<b>639</b>
Income from non-financial services (net) and other operations	11	10	7	1	9	10
Operating expenses	(345)	(332)	(337)	(337)	(330)	(324)
General administrative expenses	(327)	(313)	(322)	(318)	(313)	(307)
<i>Personnel</i>	(187)	(181)	(179)	(177)	(175)	(175)
<i>Other administrative expenses</i>	(140)	(132)	(142)	(141)	(138)	(131)
Depreciation and amortisation	(18)	(19)	(16)	(19)	(17)	(17)
<b>Net operating income</b>	<b>264</b>	<b>265</b>	<b>290</b>	<b>285</b>	<b>319</b>	<b>325</b>
Net loan loss provisions	(61)	(79)	(70)	(54)	(55)	(54)
Other income	(0)	(1)	1	(0)	3	3
<b>Profit before taxes</b>	<b>203</b>	<b>186</b>	<b>221</b>	<b>231</b>	<b>268</b>	<b>274</b>
Tax on profit	(56)	(55)	(66)	(56)	(67)	(69)
<b>Net profit from ordinary activity</b>	<b>146</b>	<b>130</b>	<b>155</b>	<b>175</b>	<b>201</b>	<b>205</b>
Net profit from discontinued operations	21	40	16	0	—	—
<b>Net consolidated profit</b>	<b>167</b>	<b>170</b>	<b>171</b>	<b>175</b>	<b>201</b>	<b>205</b>
Minority interests	—	—	—	—	—	—
<b>Attributable profit to the Group</b>	<b>167</b>	<b>170</b>	<b>171</b>	<b>175</b>	<b>201</b>	<b>205</b>

(\*) - Dividends included



# Financial Results: Balance Sheet

£ million			Variation	
	30.06.07	30.06.06	Amount	%
Loans and credits*	133,097	126,375	6,722	5.3
Trading portfolio (w/o loans)	42,532	43,515	(983)	(2.3)
Available-for-sale financial assets	16	14	2	17.6
Due from credit institutions*	17,490	8,711	8,779	100.8
Intangible assets and property and equipment	3,352	3,460	(107)	(3.1)
Other assets	5,839	32,046	(26,207)	(81.8)
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>202,327</b>	<b>214,121</b>	<b>(11,794)</b>	<b>(5.5)</b>
Customer deposits*	78,051	76,287	1,764	2.3
Marketable debt securities*	57,784	44,776	13,008	29.0
Subordinated debt	5,685	7,364	(1,679)	(22.8)
Insurance liabilities	7	23,205	(23,197)	(100.0)
Due to credit institutions*	34,637	38,480	(3,843)	(10.0)
Other liabilities	23,711	22,186	1,524	6.9
Shareholders' equity	2,451	1,823	629	34.5
<b>Off-balance-sheet funds</b>	<b>8,749</b>	<b>11,866</b>	<b>(3,118)</b>	<b>(26.3)</b>
Mutual funds (1)	8,749	4,594	4,155	90.4
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	7,273	(7,273)	(100.0)
<b>Customer funds under management</b>	<b>150,269</b>	<b>140,294</b>	<b>9,976</b>	<b>7.1</b>

(1) Mutual funds includes non-retail funds under management  
\* Includes all stock of concept classified in the balance sheet

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