

United Kingdom: Abbey

First Half 2008

London, 29th July 2008

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Agenda

- Market Environment

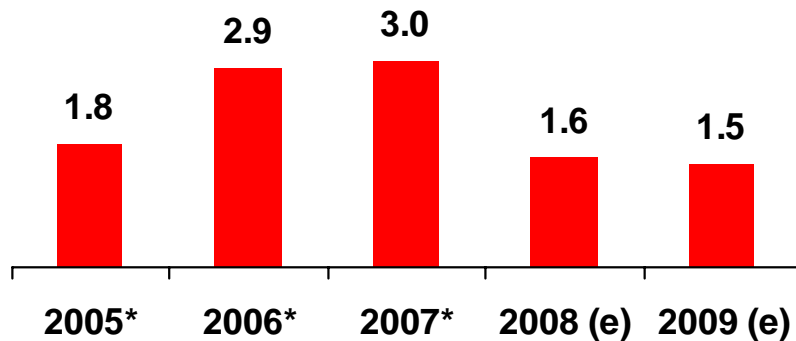
- H1 2008

- Business Update
- Results

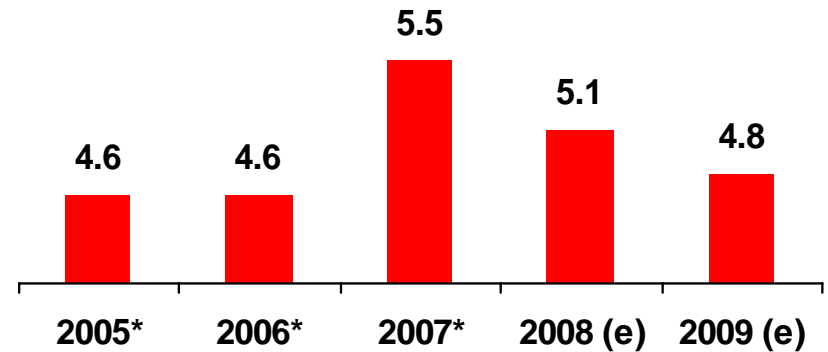
Market Environment

UK economic growth expected to slow sharply, with higher inflation

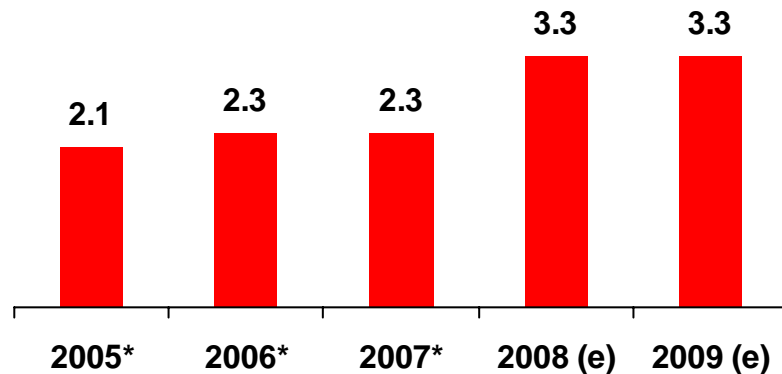
Annual GDP Growth (% , annual average)



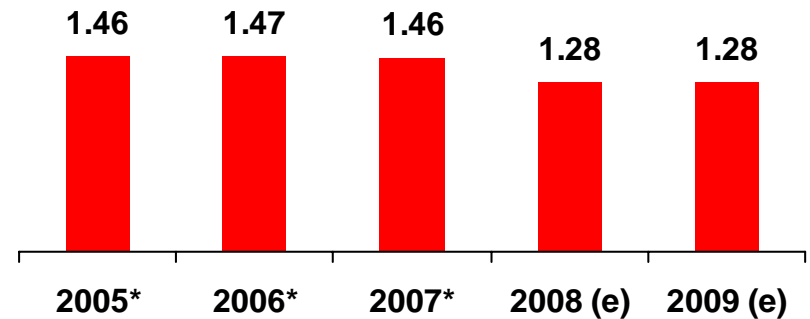
Interest Rates (% , annual average)



Annual CPI inflation rate (% , annual average)



GBP : Euro exchange rates (annual average)



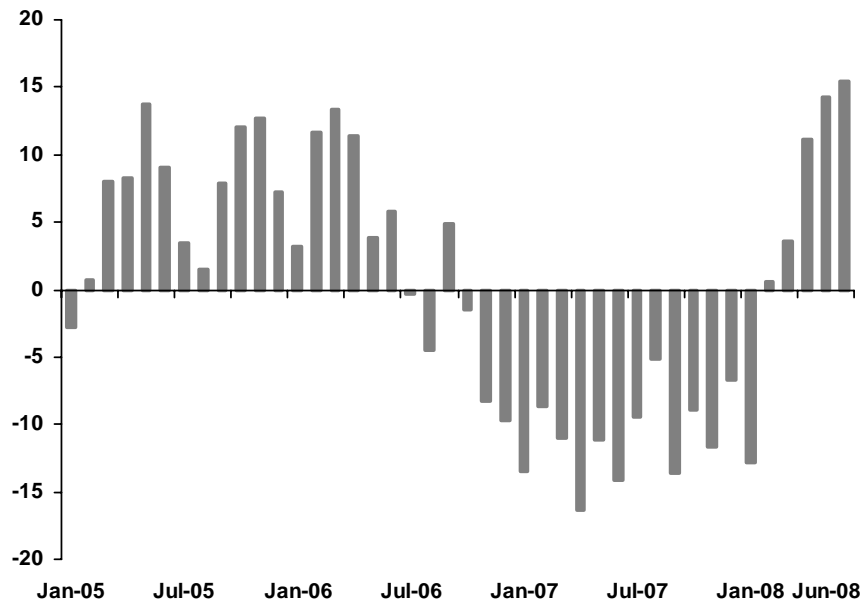
*source - Office for National Statistics & Bank of England

(e) estimated by Abbey

Market Environment

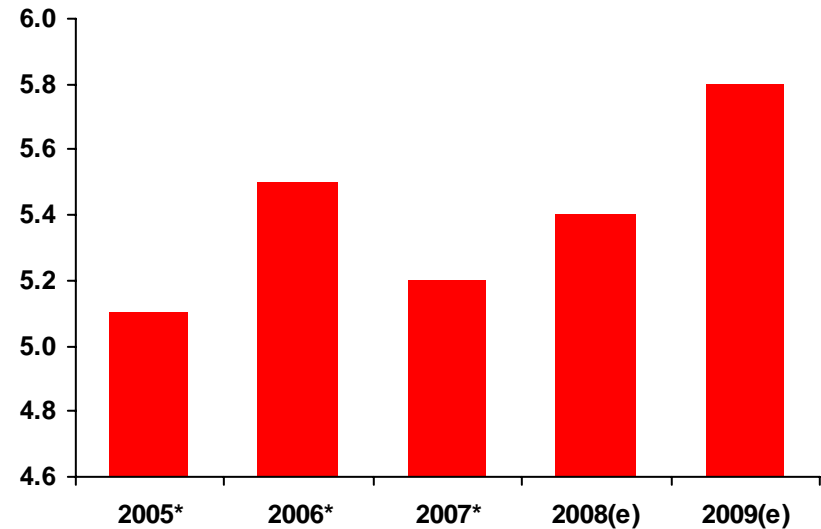
Unemployment is rising but employment growth is still positive

Monthly change in claimant count unemployment (000)



Source – Office for National Statistics

Unemployment rate (end year, %)



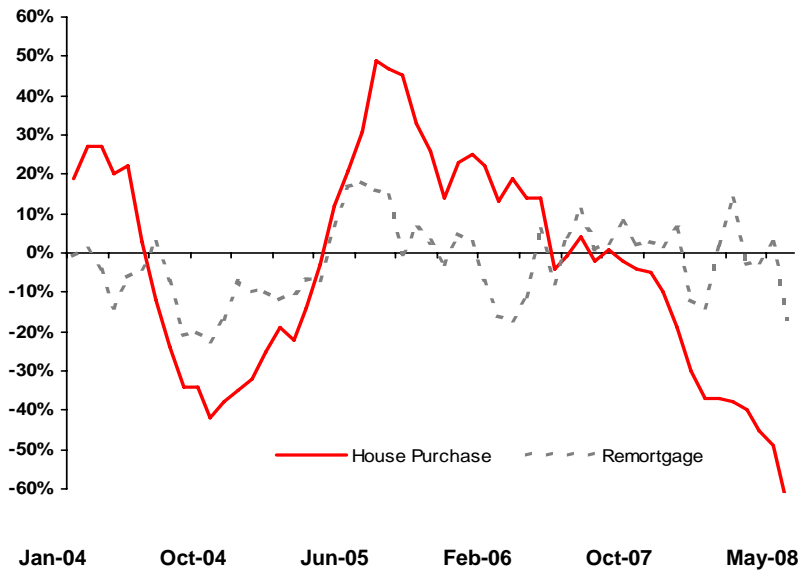
*end year, ILO definition

(e) estimated by Abbey

Market Environment

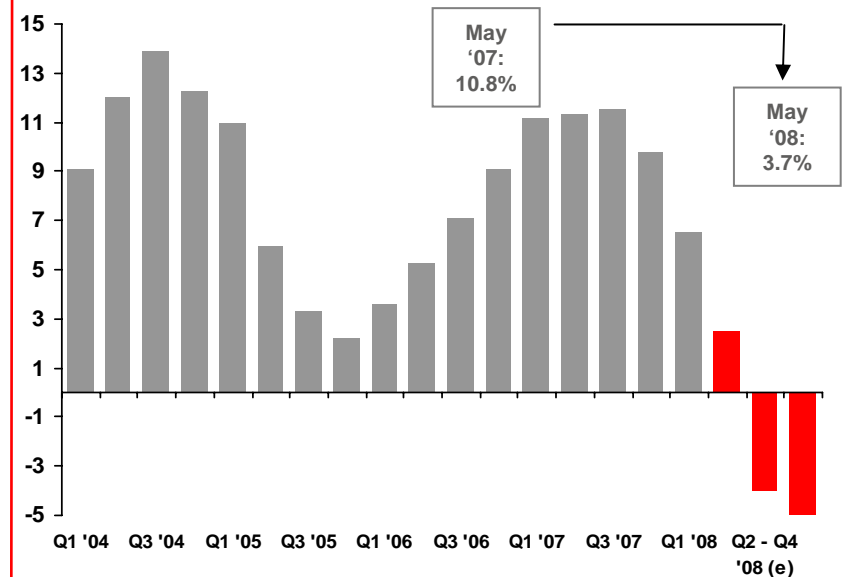
Growth in housing market activity slowed sharply in 2007 H2 and falls in house prices are now being reported

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



Source – Bank of England

Annual house price growth (%)

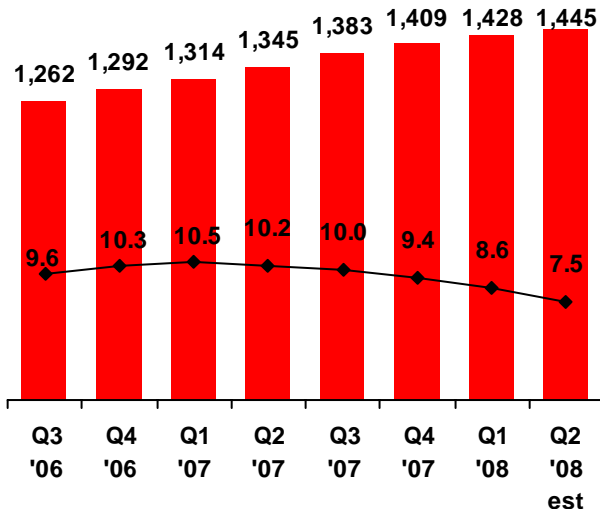


Source – Department for Communities and Local Government.

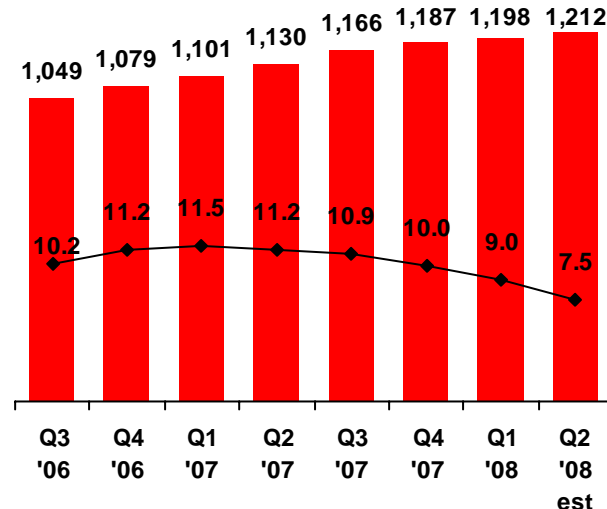
Market Environment

The slowing in household borrowing growth has continued since mid 2007 and by end year growth could be around 6%

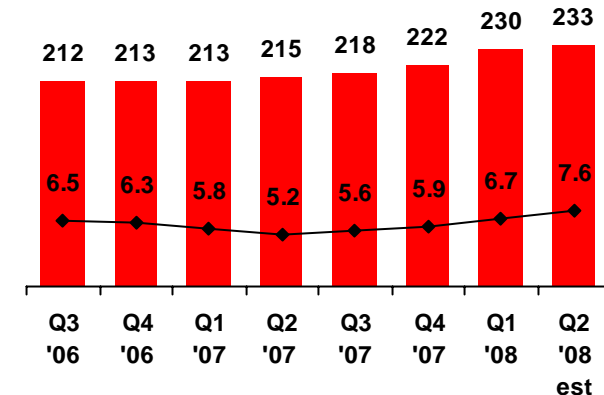
Total lending to individuals*



Mortgage lending market stock*



Consumer credit market stock*



Source – Bank of England.

◆ - annual growth rates (%)

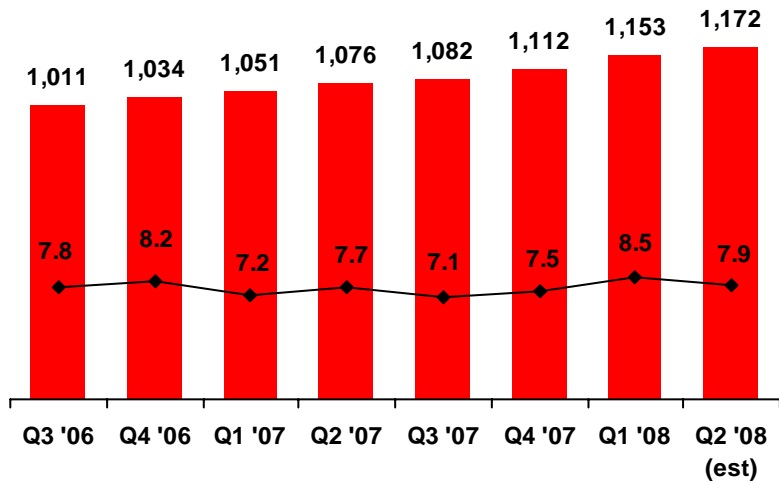
*Please note:

- 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 steady, with long term growth in the Bancassurance Investment new business market

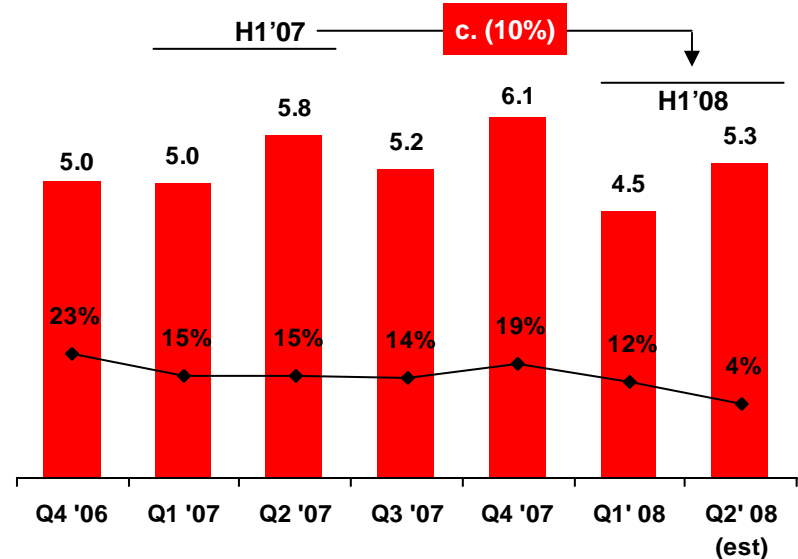
Retail deposits (incl. current accounts)



Source – Bank of England.

(e) estimated market size (£bn)

Bancassurance Investment new business market*

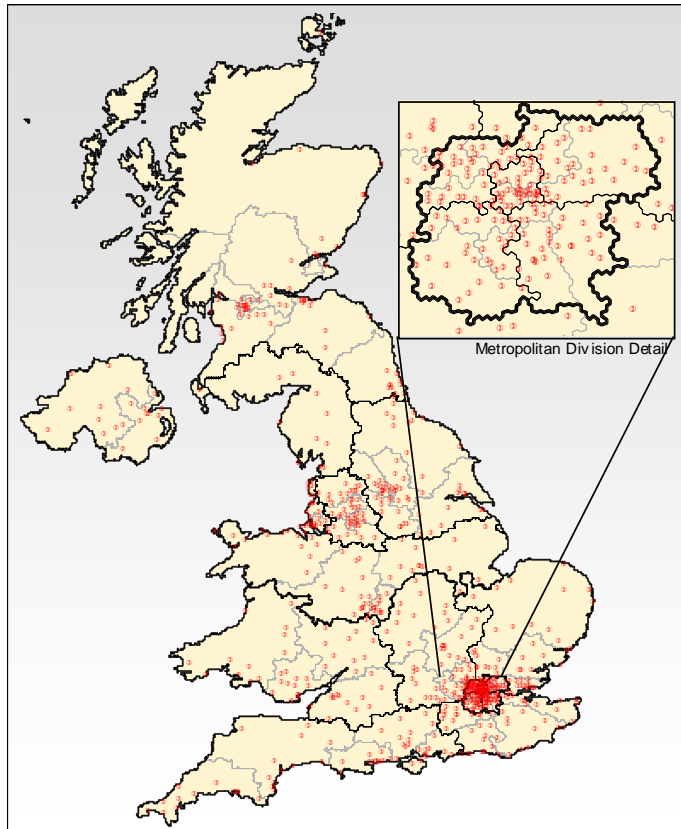


Source – estimated by Abbey based on data from Investment Managers Association / ABI / Structuredretailproducts.com.

◆ annual growth rates (%)

Abbey's Franchise

A well established retail bank with an attractive customer franchise



	30/06/08
Customer deposits (£bn)	68.0
Residential Mortgages ⁽¹⁾ (£bn)	113.0
UPLs ⁽²⁾ (£bn)	2.5
Total retail Lending (£m)	119.4
Net attributable profit ytd (£m)	485

Market shares:	
Mortgage stock	9.7%
Deposits / Savings stock	5.8%
Abbey UPL's stock	2.9%

Branches	704
Branch market share	5.3%
ATMs	2,198
ATM market share	3.0%

(1) excludes Social Housing – this portfolio now included into Corporate Banking

(2) includes cahoot

Agenda

- Market Environment
- H1 2008

- Business Update

- Results

Moving towards a fully fledged commercial bank

Abbey shows strength in volatile market

- excellent business & financial results
- revenue growth of 11% – well ahead of last year and outperforming our peers
- strong operating jaws and improvement in cost:income ratio
- increased coverage of secured lending portfolio

Excellent H1 performance in mortgages

- improved margins, maintaining credit quality
- gross lending £19.5bn up 16%: market share 12.9% vs. 9.5% (Q2 08 +15% vs Q2 07)
- repayments of £11.2bn 16% lower: market share 9.5% vs. 10.7% (Q2 08 -26% vs Q2 07)
- net lending growth driven by strong performance in both retention activities and gross lending

Prudent lending / portfolio

- c.63% of remortgages versus c.48% last year
- consumer loans via further advances rather than UPLs – lower risk
- unsecured represents only 2% of portfolio following continued active reduction in the portfolio
- BTL 1% of total mortgage book
- prime lending only and average LTV of stock below CML average
- arrears / PIPs better than CML average
- strong coverage of both secured (over 27%) and unsecured portfolios (over 100%)

Moving towards a fully fledged commercial bank

Deposit flows well ahead of last year

- H1 deposit flows of £2.9bn up over 50% compared to H1 07, Q2 08 flows double Q1 08
- investment sales up 19% despite market decline c.10%
- retail assets funded 60% by deposits
- short-term funding requirement held constant in H1 08

Strategic projects

- Private Banking – management team in place. Strong liability growth in both Cater Allen and Abbey International and the transformation of the James Hay business is progressing.
- Corporate Banking - continued to build a presence in selected segments of the UK corporate banking market. This has proved successful and assets in this area have risen to £10.1bn, up 29% vs H1 07. In parallel, have launched a project to build out full-service banking capability for UK SMEs.
- Santander Global Banking & Markets – steady growth despite a difficult market environment

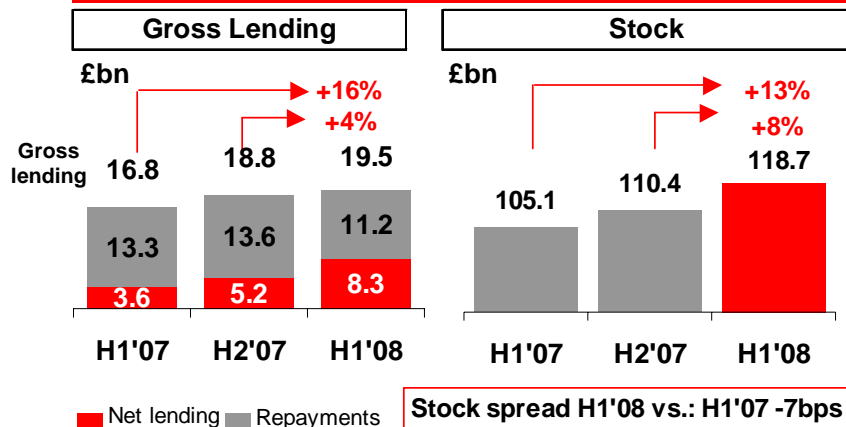
Moving towards a fully fledged commercial bank

- increasing net adult account openings by more than 70%, and doubling credit cards opening from our customer base with an acceptance rate of less than 50%
- increased cross selling from growing current account base
- expanding into areas of Santander expertise and taking advantage of synergies with the global group

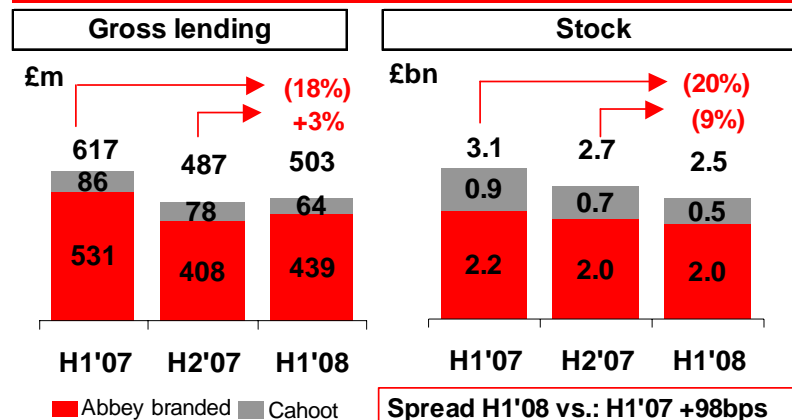
Phase 2 of Abbey's transformation is on track despite tough markets

Business performance

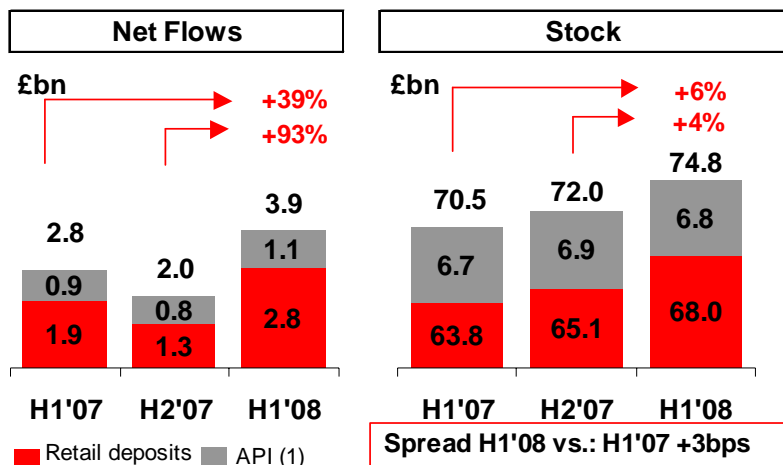
Mortgages



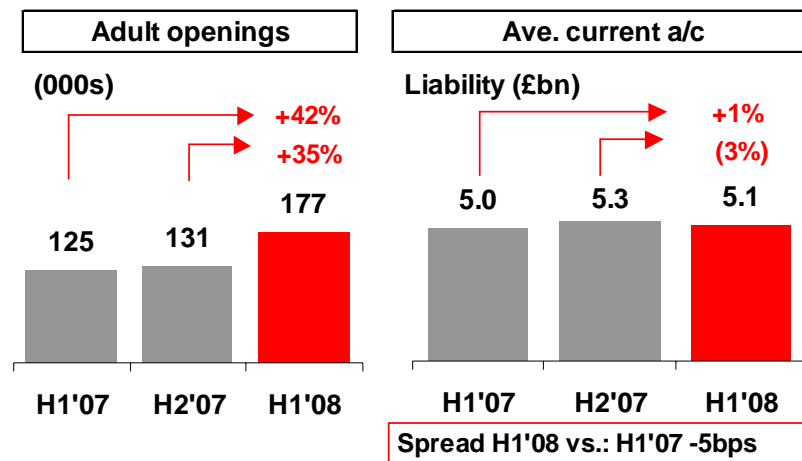
Personal Loans



Retail Savings and Investments



Bank accounts



(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
 Note: spread variances based on quarterly averages

Business: Lending trends / growth

Strong growth whilst maintaining prudent lending criteria

100.0 103.2 104.9 107.8 113.0

Residential retail mortgage stock (£bn)

5.2 5.2 5.5 5.5 5.7

Social Housing stock (£bn)

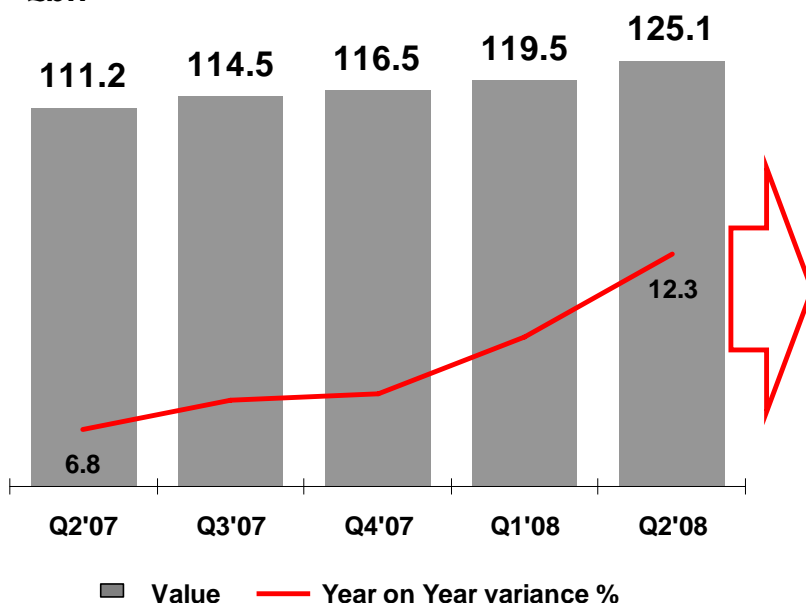
105.1 108.4 110.4 113.3 118.7

Total Residential mortgages

9.3% 9.3% 9.3% 9.4% 9.7%

Market share (%)

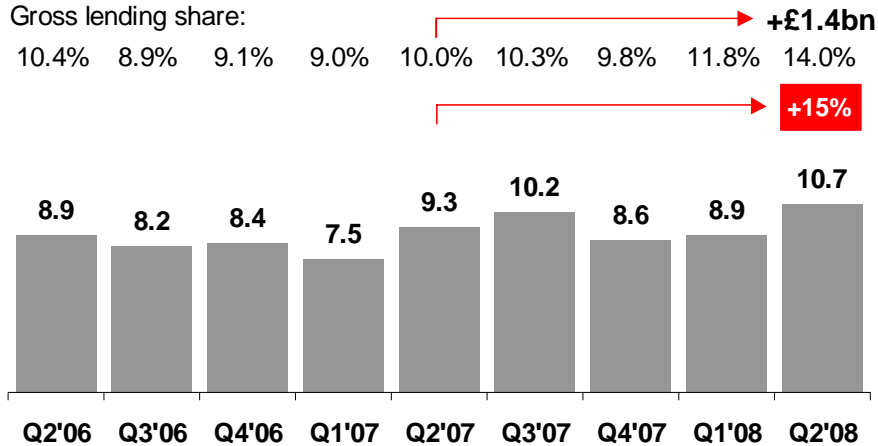
£bn



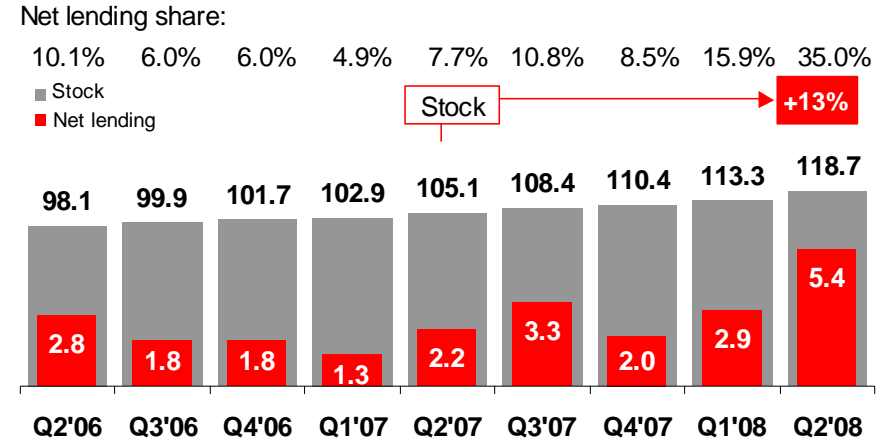
£m	H1'08	Var.% 08/07
Residential Retail mortgage	113.0	13.0%
Commercial mortgage	3.4	34.7%
UPLs	2.5	(19.9)%
Overdraft & Other ⁽¹⁾	0.5	4.6%
Total retail loans	119.4	12.6%
Social Housing ⁽²⁾	5.7	10.0%
Total retail loans and Social Housing	125.1	12.3%

Strong gross lending performance with improved new business margins whilst maintaining prudent lending criteria

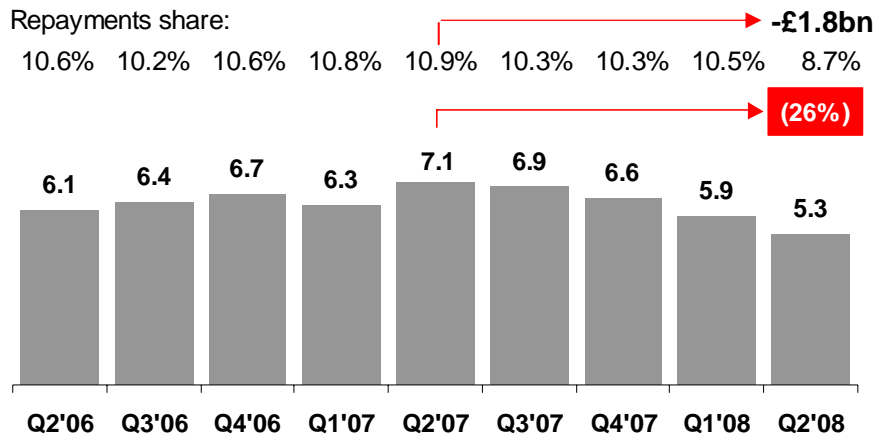
Total residential mortgage gross lending (£bn)



Residential mortgage net lending and stock (£bn)



Total residential mortgage repayments (£bn)

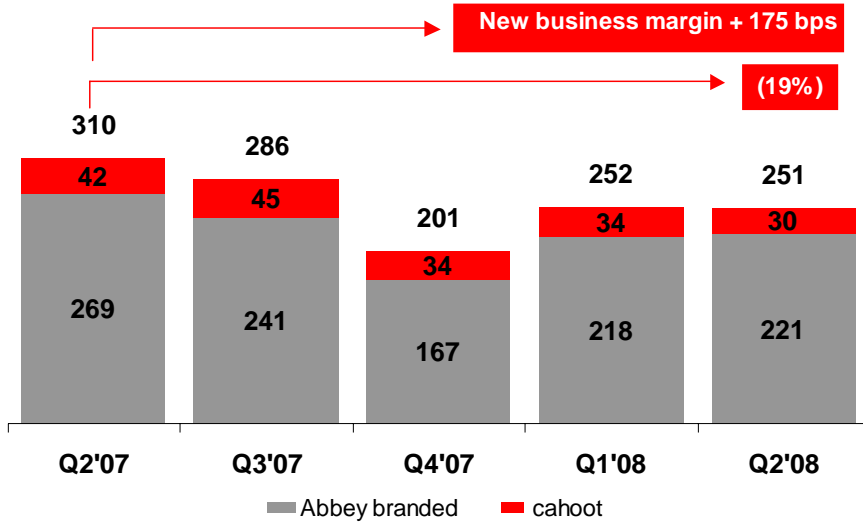


Comment

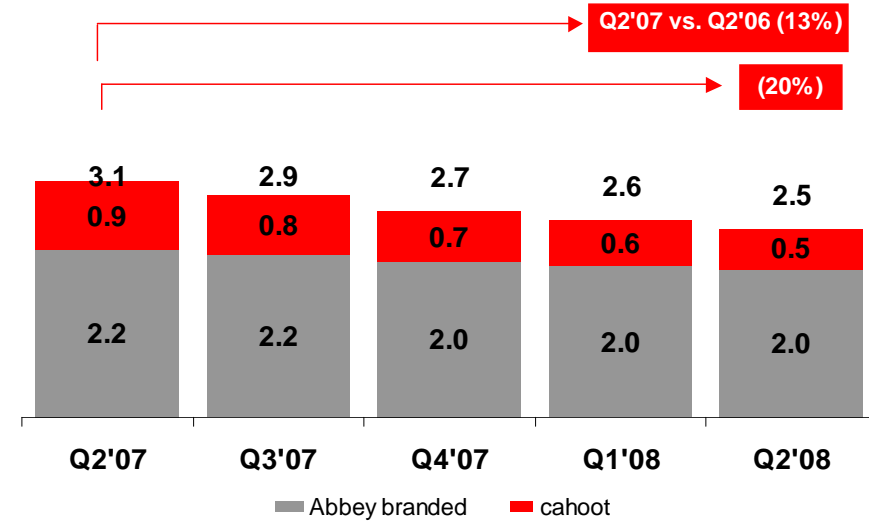
- in the first half, mortgage balances were up 13%, driven by a strong performance in both retention activities and gross lending
- improved margins, maintaining credit quality
- Abbey's estimated net lending market share was c.26% in the first half, in part due to the withdrawal of other providers
- increased mix of longer term (3yr+) business through pricing and targeted channel and customer communications and offers

Abbey continues to focus on existing customers and margin management

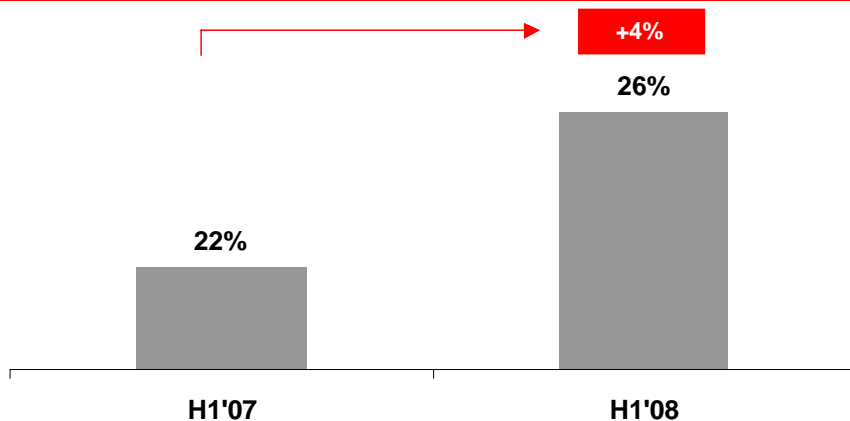
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch stock as % of total

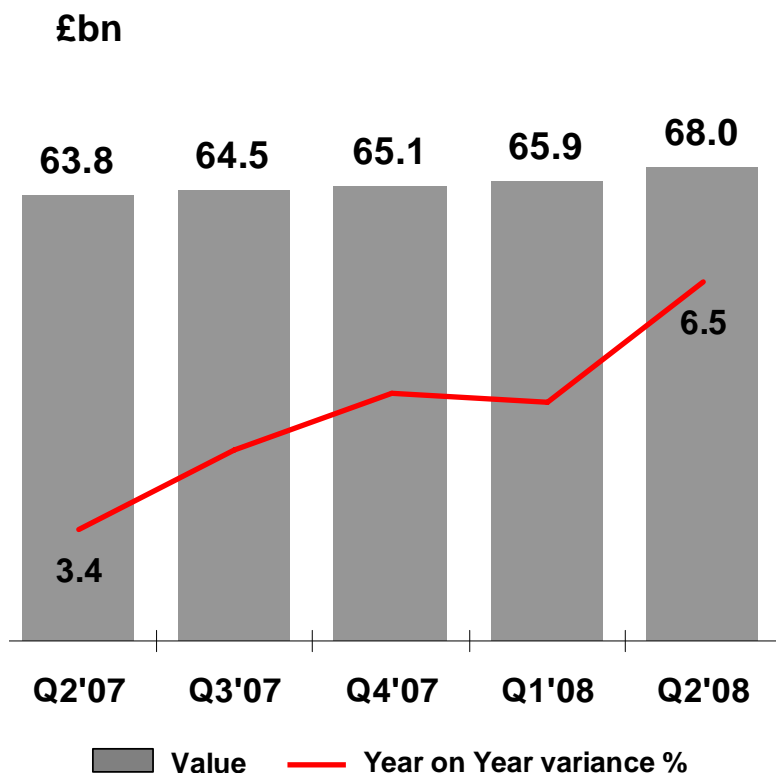


Comment

- Abbey continues with a value strategy on existing customers
- reduction of UPL exposure continues. Total unsecured asset reduced 20% from Q2'07
- tightening criteria in Abbey.com and Telephone UPL's.
- higher margin due to continued selling of high new business margin products
- product development is focused on funding specific customer needs rather than using price as the sole differentiating factor

Business: Liability trends / growth

Overall growth supported by stronger product range

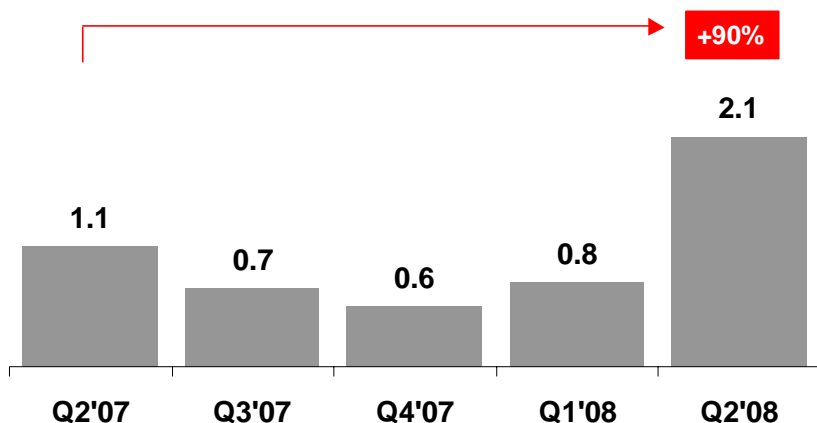


£bn	H1'08	Var.% 08/07
Abbey branded savings	46.7	6.9%
Abbey bank accounts	5.5	0.5% ⁽¹⁾
Private Banking	9.9	13.5%
Other ⁽²⁾	5.9	(1.0)%
Total customer deposits	68.0	6.5%
Retail FUM ⁽³⁾	6.8	1.4% ⁽⁴⁾
Total funds under management	74.8	6.0%

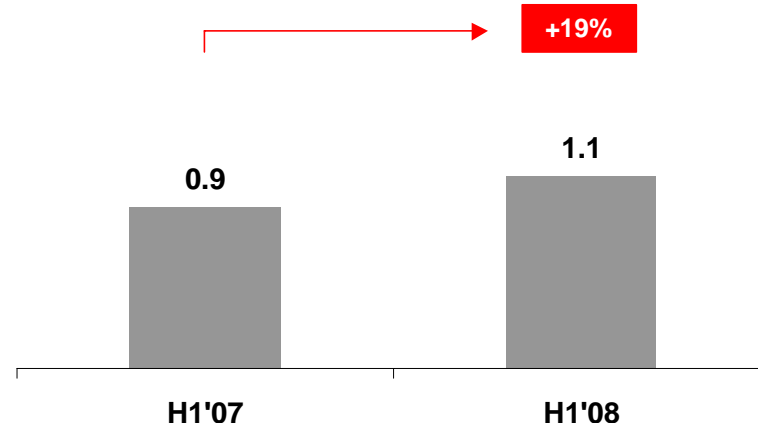
- (1) growth based on monthly average balance rather than closing which is subject to volatility
- (2) other businesses including Abbey Business and cahoot
- (3) managed through Santander Asset Management
- (4) growth excluding market movement was 11%

Excellent growth in retail deposits supported by innovative product range

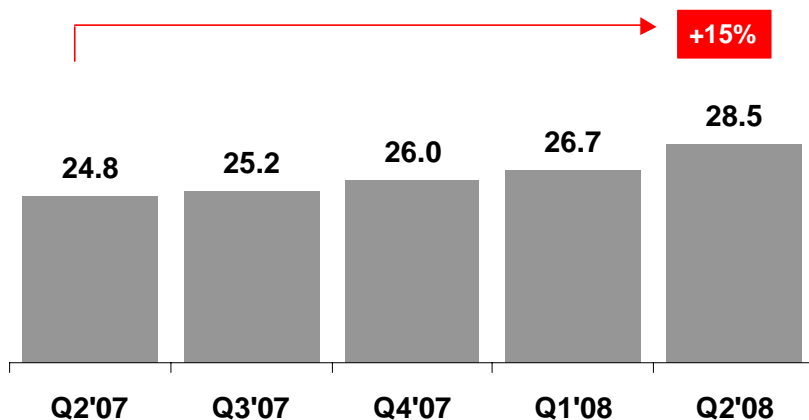
Retail savings flows (£bn)



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



Abbey branch stock as % of total



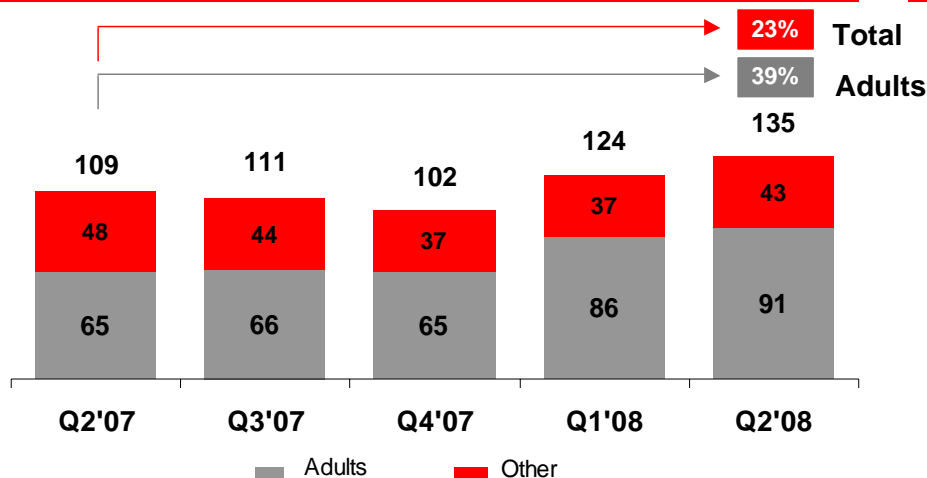
Comment

- focus on retention cross sell with innovative 'Super' products
- channel development – telephone and 'e' becoming more important
- increased advisor capacity, skill sets and productivity
- despite the market being down c.10%, investment sales up 19% compared to last year, as customers move to low risk structured products, such as Abbey's excellent capital guaranteed fixed-term investment range, reflecting risk appetite of customers given market volatility

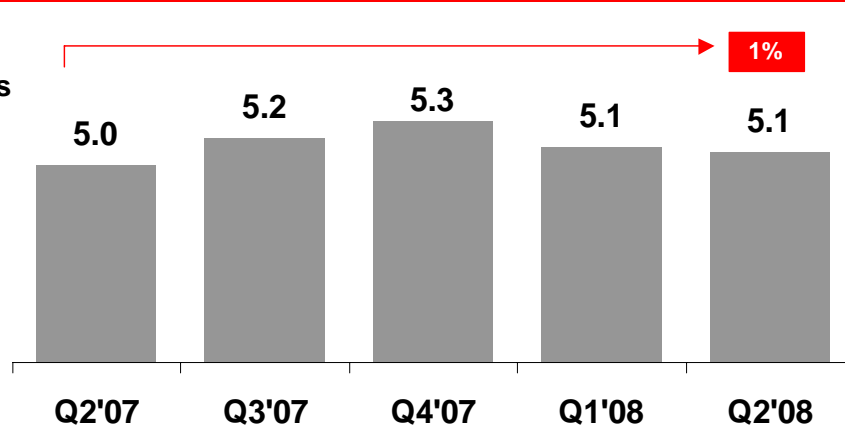
(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements

Successful in achieving targeted uplift in the level of openings

Bank account openings (000)

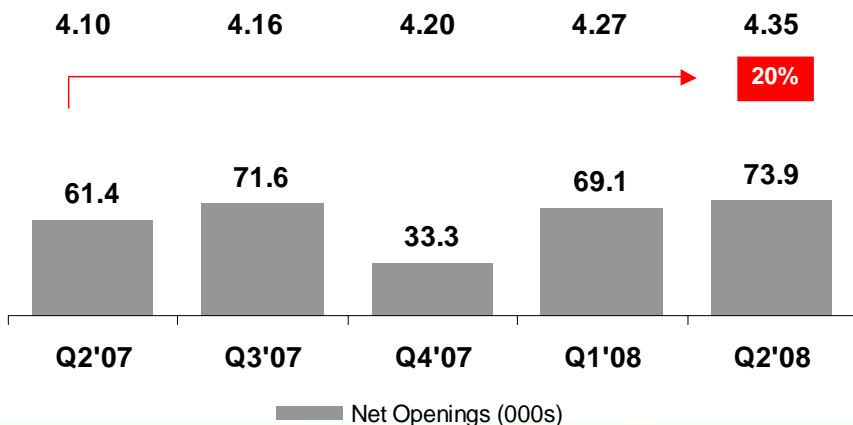


Abbey branded average current a/c liability (£bn)



Abbey branded accounts

Stock (m):



Comment

- continue to build on success in adult account openings and switcher customers, both up over 40% in H1 08 compared to H1 07
- Abbey sees the current account relationship as a key driver of a customers overall experience with the bank and has increased focus to develop the business value
- channel development – telephone and 'e' becoming more important
- the continuation of new products focused on switcher and adult : 6% youth account, 8% in credit rate, 0% overdraft has supported the growth in these segments

Agenda

- Market Environment
- H1 2008
 - Business Update

- Results

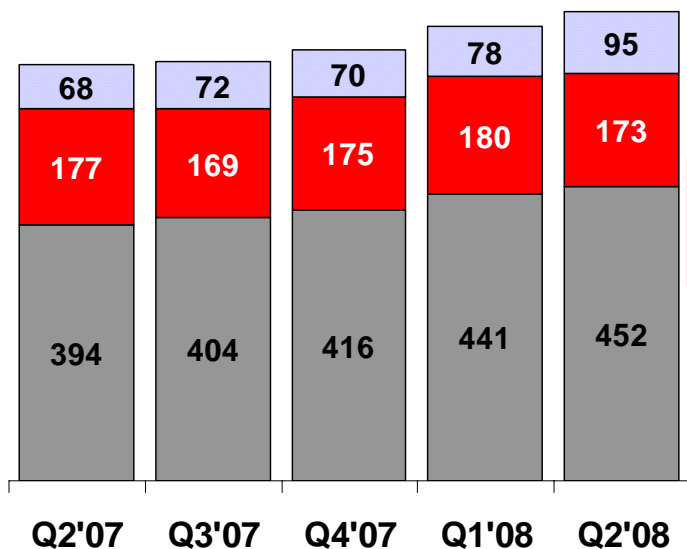
Results: Gross operating income

Improved income growth driven by higher retail banking balances and robust spreads

639	644	661	698	720
571	573	591	621	625

Total £m

Total Commercial margin £m



Gains on Financial Transactions
 Net Fees
 Net Interest Income

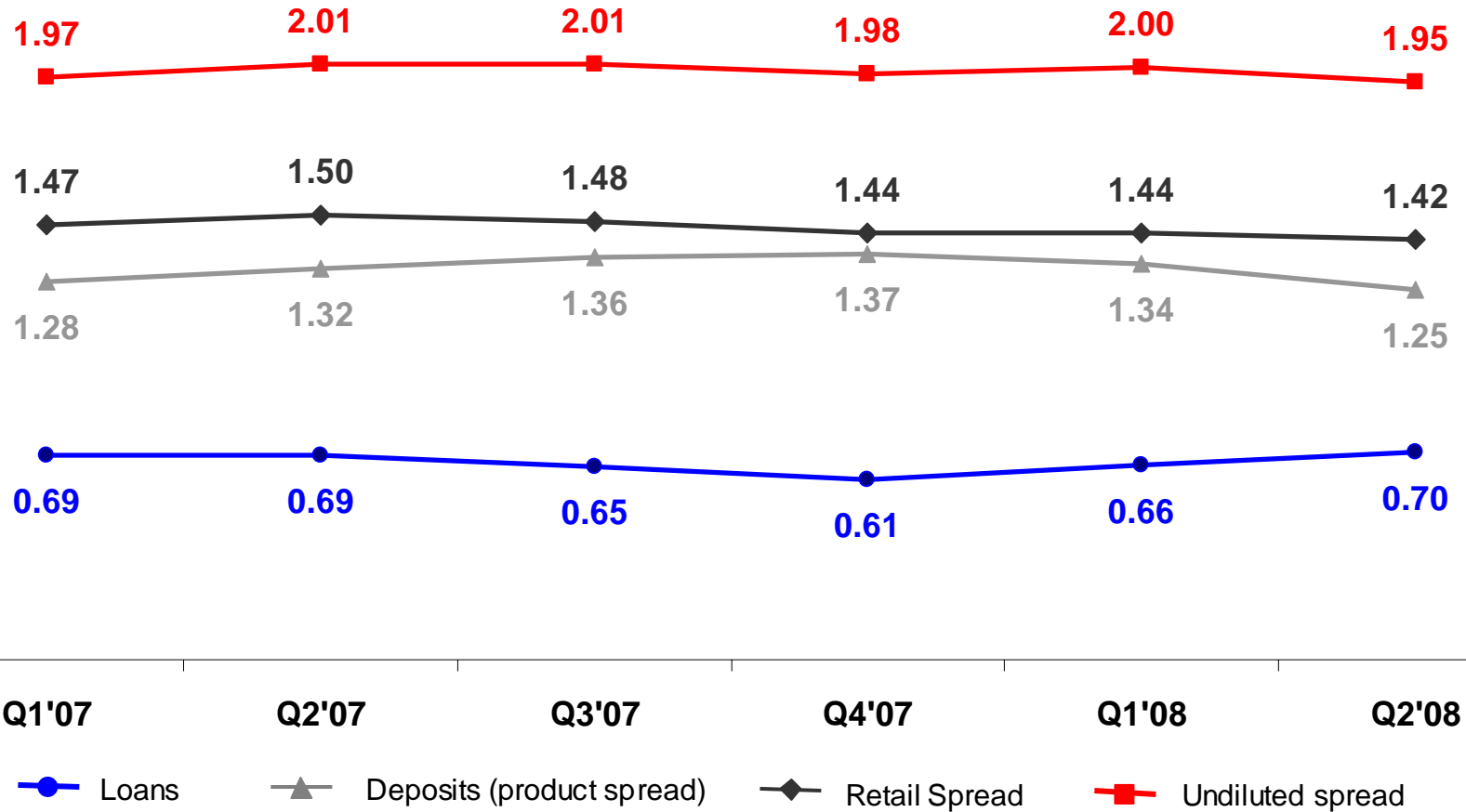
£m	H1'08	H1'07	Var.% 08/07
Net Interest Income	893	777	15.0%
Net Fees	352	345	2.0%
Total Commercial Margin	1,246	1,123	10.9%
Gains on Financial Transactions	173	156	11.1%
Gross Operating Income	1,419	1,279	10.9%

Commercial revenues:

- robust asset growth of 12% in challenging market conditions
- continued focus on effective margin management for both mortgages and customer deposits contributed to an increase of 15.0% in net interest income

Results: Retail banking spreads

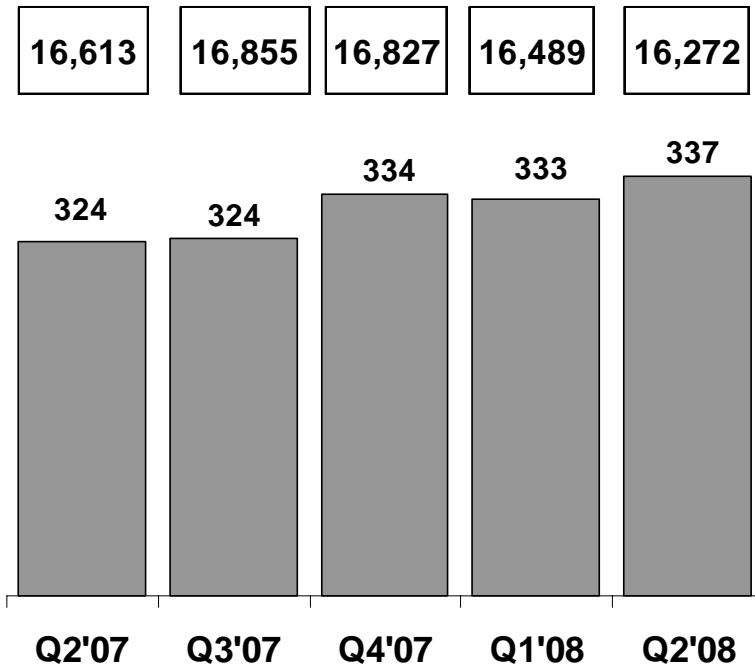
Asset spread benefiting from improvement in mortgage new business margins



Results: Costs

Costs impacted by investment in growth businesses

FTE



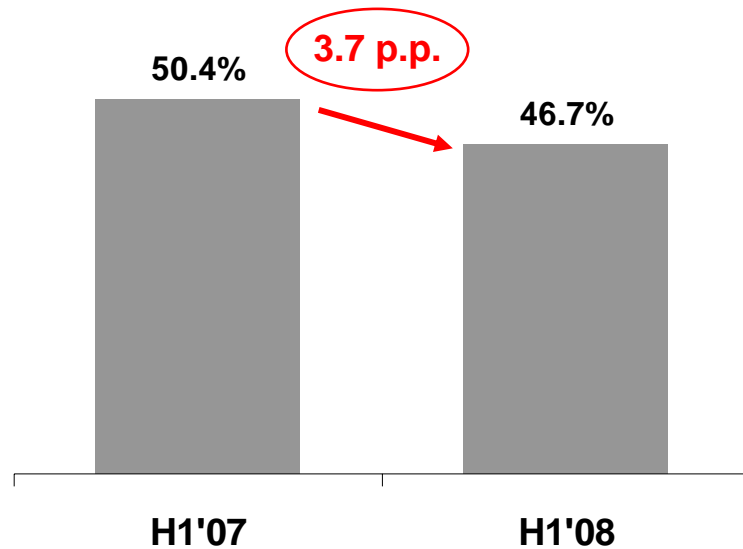
£m	H1'08	H1'07	Var.% 08/07
General and administrative expenses	614	620	(1.0%)
Depreciation and amortisation	56	34	65.7%
Operating expenses	670	654	2.5%

- operating expenses were slightly ahead, impacted by investment in growth businesses such as Corporate Banking and Private Banking which are contributing to good income growth.
- operating jaws at the half year were c.8%

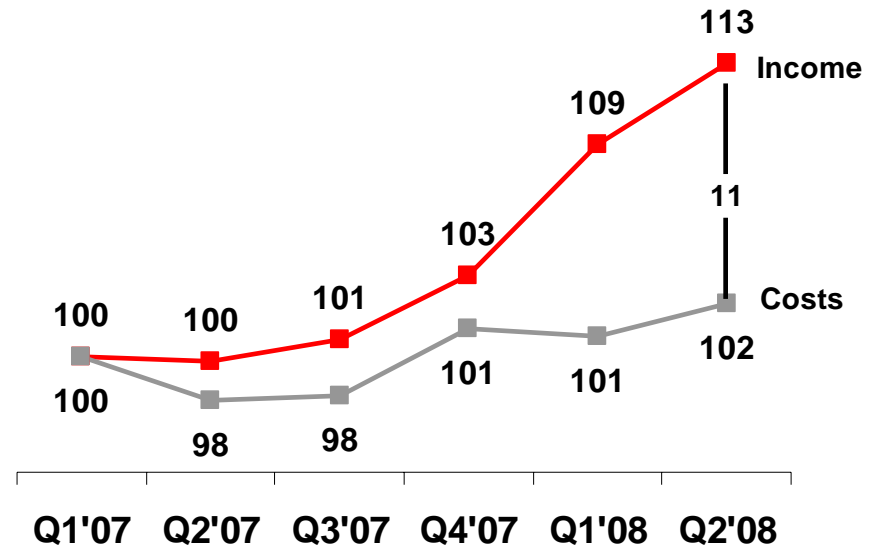
Results: Ratios

Cost:income ratio moving Abbey closer to the best in class in the sector

Cost:Income ratio ⁽¹⁾, %



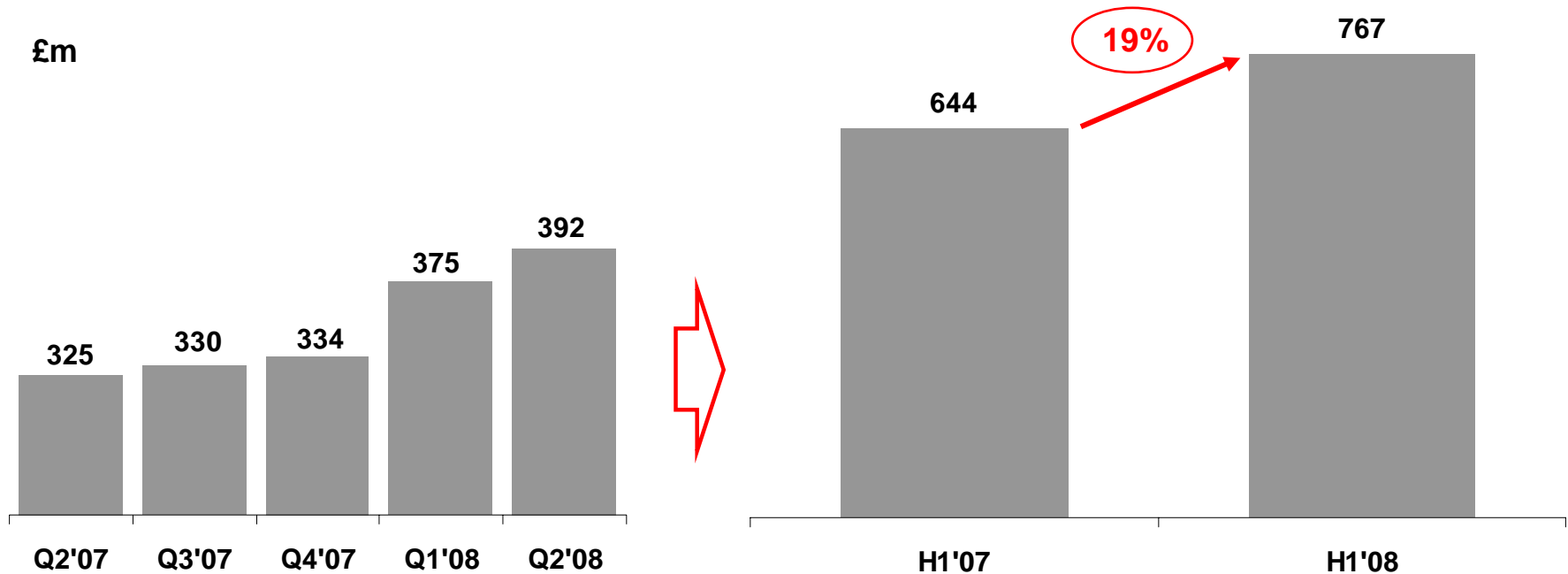
Operating Jaws, %



(1) Includes depreciation & amortisation

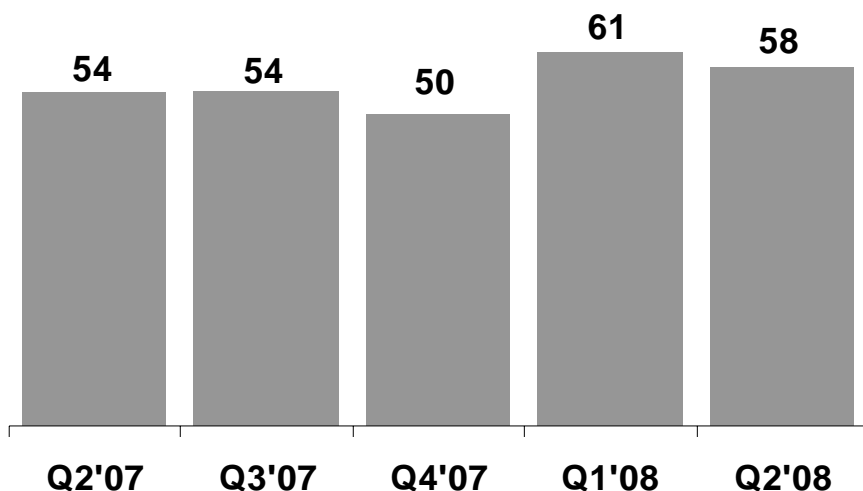
Results: Net Operating Income

Improvement in net operating income reflecting stronger revenue growth and stable cost base

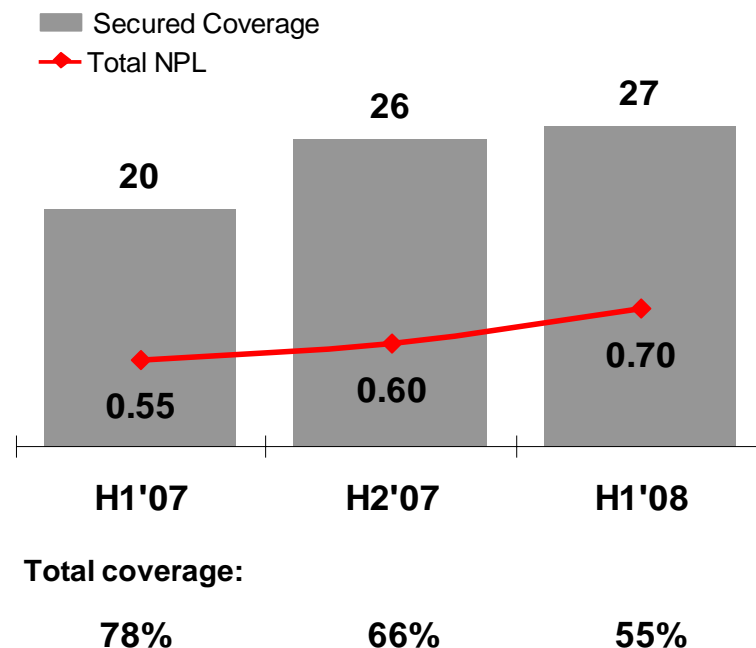


Provisions rising from historically low levels

Net loan loss provisions £m



Coverage ratio and NPL, %

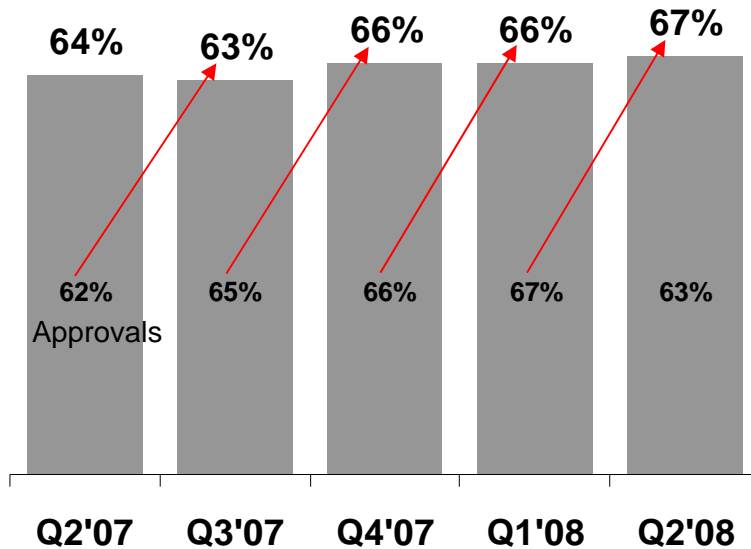


The total coverage ratio has reduced largely due to the change in mix of arrears, with increase in secured arrears with lower coverage due to security held. The NPL ratio has increased in part due to reduction in unsecured asset and in part due to modest increase in secured arrears. Secured coverage is more than double the industry benchmark and unsecured coverage, of over 100%, is also well above peer group.

Results: Provisions and credit quality

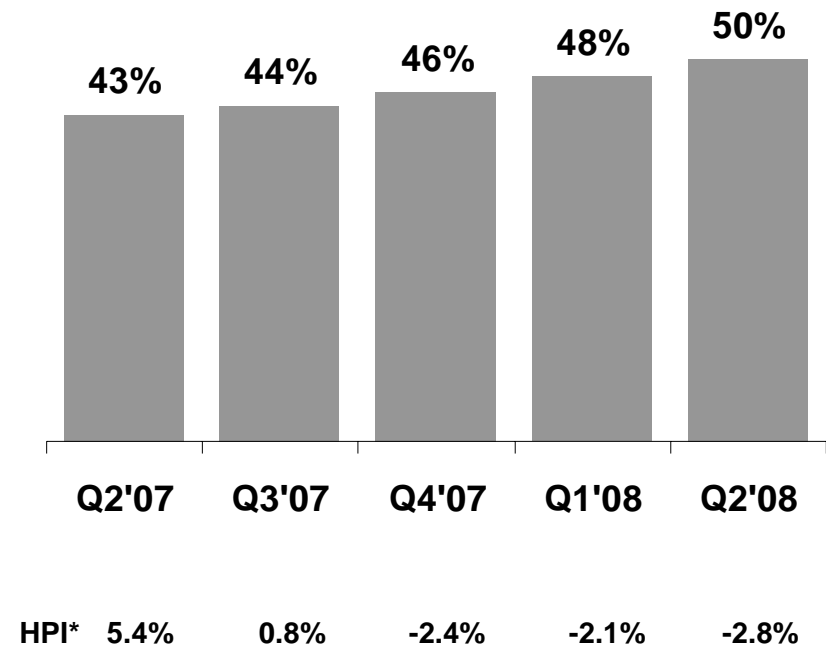
Underlying credit quality has remained strong, only 1% of new business at LTV greater than 90%

Average new business mortgage LTV (%)



New business application and approval LTV has reduced in the 2nd quarter and will follow through to completions in the 3rd quarter.

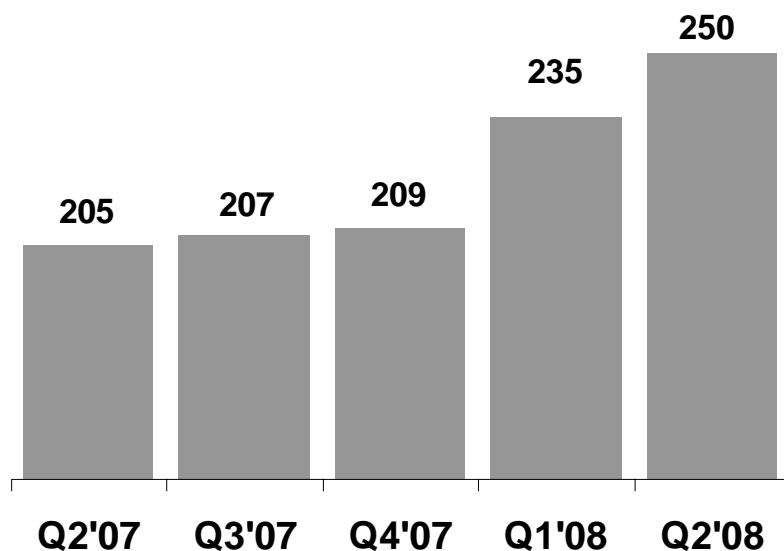
Average indexed mortgage LTV on stock (%)



Results: Net Income

Net Income up 19.6%

£m



£m	H1'08	H1'07	Var.% 08/07
PBT	648	542	19.6%
Provisions for income tax	(163)	(136)	19.6%
Net Income	485	406	19.6%

Moving towards a fully fledged commercial bank

Balance sheet strength

- resilient retail balance sheet performance reflecting Abbey's strong retail funding mix (c. 60% customer deposit based, c. 10% of retail and corporate assets are funded by wholesale short term funding). During the first half, Abbey's requirement for short term funding was stable, with growth in retail and commercial lending funded by deposit growth and a reduction in assets in global banking and markets operations in the first quarter
- retail risk portfolio comprises largely of standard, prime residential mortgages - a strong position in slowing economic conditions

Well positioned in current market

- Abbey awarded by Euromoney as "Best Bank in the UK" over the last year. This recognition shows Abbey is well-progressed in its goal of becoming the best commercial bank in the UK
- as other lenders have withdrawn, Abbey has taken the opportunity to take wider margin, lower LTV new business and focused retention
- profitable funding to support asset growth
- performance maintained in core markets – strong performance in both retention activities and gross lending
- innovative savings and investment products in fiercely competitive market – significantly increasing sales capacity

Moving towards a fully fledged commercial bank

- differentiated product range at low LTV enabling low risk customers to benefit from better rates.
- new market leading Instant Access Saver account launched
- capital guaranteed investment products with options on the length of the fixed term
- increasing net adult account openings by more than 70%, and doubling credit cards opening from our customer base with an acceptance rate of less than 50%
- increased cross selling from growing current account base
- expanding into areas of Santander expertise and taking advantage of synergies with the global group

APPENDIX

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

Financial results: Profit and loss

£ million	Variation			
	H1 08	H1 07	Amount	%
Net interest income*	893	777	116	15.0
Income from companies accounted for by the equity method	0	0	(0)	(72.5)
Net fees	352	345	7	2.0
Insurance activity	—	0	(0)	(100.0)
Commercial revenue	1,246	1,123	123	10.9
Gains (losses) on financial transactions	173	156	17	11.1
Gross operating income	1,419	1,279	140	10.9
Income from non-financial services (net) and other operating income	18	19	(1)	(6.3)
Operating expenses	(670)	(654)	(16)	2.5
General administrative expenses	(614)	(620)	6	(1.0)
<i>Personnel</i>	(367)	(351)	(17)	4.7
<i>Other administrative expenses</i>	(247)	(269)	23	(8.4)
Depreciation and amortisation	(56)	(34)	(22)	65.7
Net operating income	767	644	123	19.0
Net loan loss provisions	(119)	(109)	(10)	9.3
Other income	1	7	(6)	(91.6)
Profit before taxes	648	542	106	19.6
Tax on profit	(163)	(136)	(27)	19.6
Net profit from ordinary activity	485	406	80	19.6
Net profit from discontinued operations	—	—	—	—
Net consolidated profit	485	406	80	19.6
Minority interests	—	—	—	—
Attributable profit to the Group	485	406	80	19.6

(*).- Dividends included

Financial results: Profit and loss

32

£ million

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Net interest income*	383	394	404	416	441	452
Income from companies accounted for by the equity method	0	0	0	1	0	0
Net fees	169	177	169	175	180	173
Insurance activity	0	0	(0)	0	—	—
Commercial revenue	552	571	573	592	621	625
Gains (losses) on financial transactions	88	68	72	70	78	95
Gross operating income	640	639	644	662	698	720
Income from non-financial services (net) and other operations	9	10	10	6	9	9
Operating expenses	(330)	(324)	(324)	(334)	(333)	(337)
General administrative expenses	(313)	(307)	(307)	(315)	(314)	(300)
<i>Personnel</i>	(175)	(175)	(179)	(180)	(180)	(187)
<i>Other administrative expenses</i>	(138)	(131)	(129)	(135)	(134)	(113)
Depreciation and amortisation	(17)	(17)	(17)	(19)	(19)	(37)
Net operating income	319	325	330	334	374	392
Net loan loss provisions	(55)	(54)	(54)	(50)	(61)	(58)
Other income	3	3	3	5	2	(1)
Profit before taxes	268	274	278	289	316	333
Tax on profit	(67)	(69)	(71)	(80)	(80)	(83)
Net profit from ordinary activity	201	205	207	209	235	250
Net profit from discontinued operations	—	—	—	—	—	—
Net consolidated profit	201	205	207	209	235	250
Minority interests	—	—	—	—	—	—
Attributable profit to the Group	201	205	207	209	235	250

(*).- Dividends included

Financial Results: Balance Sheet

£ million	Variation			
	30.06.08	30.06.07	Amount	%
Loans and credits*	135,431	133,097	2,334	1.8
Trading portfolio (w/o loans)	28,020	42,532	(14,512)	(34.1)
Available-for-sale financial assets	31	16	15	89.7
Due from credit institutions*	17,683	17,489	193	1.1
Intangible assets and property and equipment	3,386	3,352	34	1.0
Other assets	8,826	5,839	2,987	51.2
Total assets/liabilities & shareholders' equity	193,377	202,326	(8,949)	(4.4)
Customer deposits*	83,623	78,051	5,572	7.1
Marketable debt securities*	49,979	57,784	(7,805)	(13.5)
Subordinated debt	5,550	5,685	(136)	(2.4)
Insurance liabilities	4	7	(3)	(40.9)
Due to credit institutions*	32,307	34,637	(2,329)	(6.7)
Other liabilities	18,602	23,711	(5,109)	(21.5)
Shareholders' equity	3,312	2,451	861	35.1
Off-balance-sheet funds	6,925	8,749	(1,824)	(20.8)
Mutual funds	6,925	8,749	(1,824)	(20.8)
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	146,077	150,269	(4,193)	(2.8)

* Includes all stock of concept classified in the balance sheet

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