

United Kingdom: Abbey

Year-end 2007

London, 7th February 2008

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This presentation is not a form of statutory accounts.

Agenda

- Market Environment

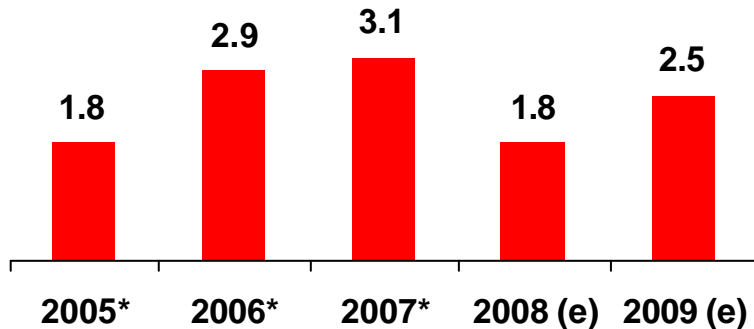
- FY 2007

- Business Update
- Results

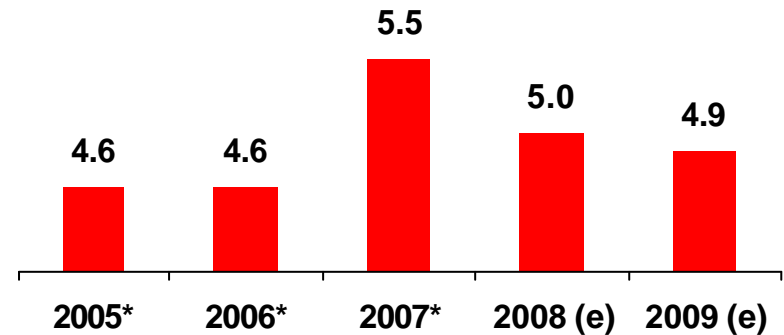
Market Environment

UK economic growth expected to slow sharply, with lower interest rates

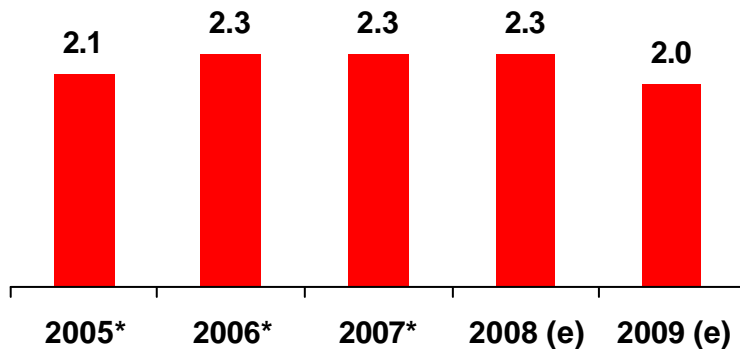
Annual GDP Growth (% , annual average)



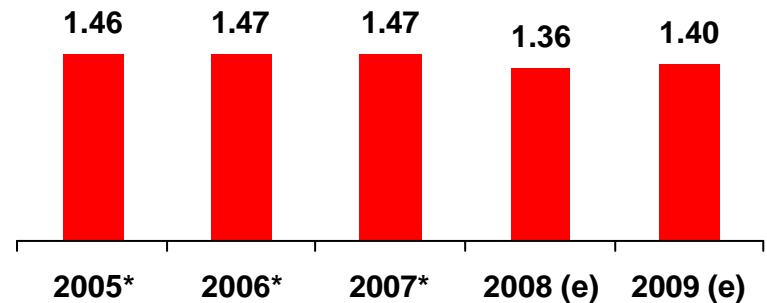
Interest Rates (% , annual average)



Annual CPI inflation rate (% , annual average)



GBP : Euro exchange rates (annual average)



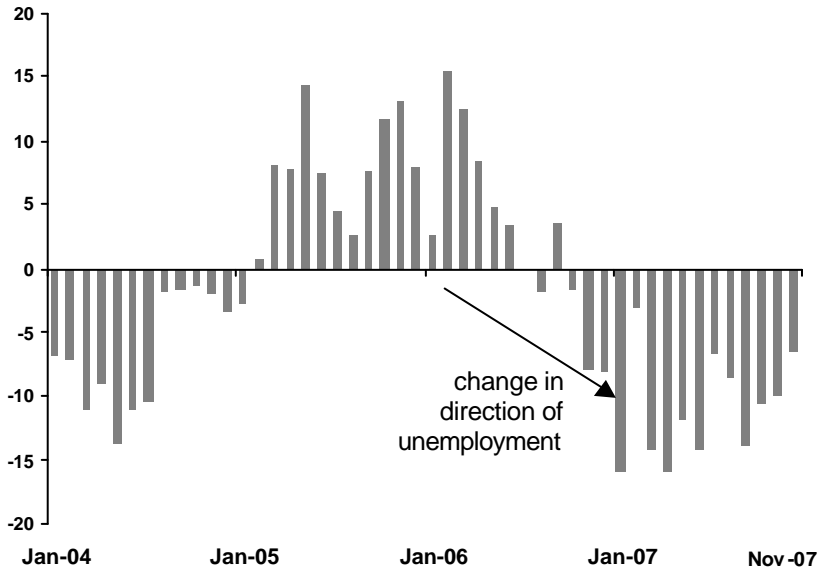
*source - Office for National Statistics & Bank of England

(e) estimated by Abbey

Market Environment

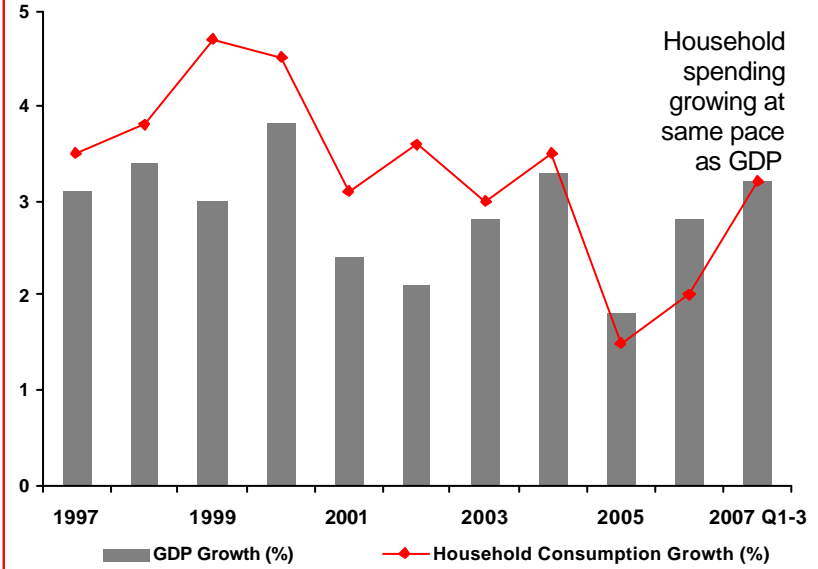
Unemployment fell steadily in 2007 and household spending growth has reflected overall economic growth

Monthly change in claimant count unemployment (000s)



Source – Office for National Statistics

Annual growth in real GDP and household consumption (%)

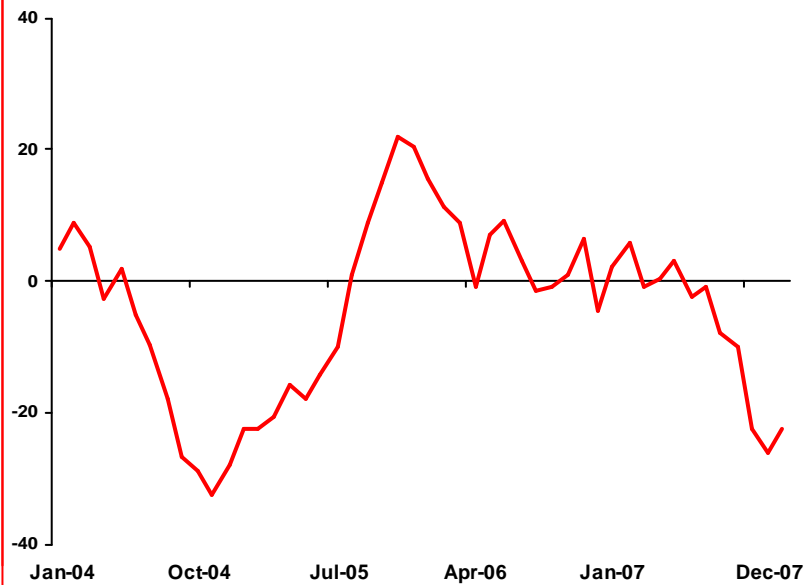


Source – Office for National Statistics

Market Environment

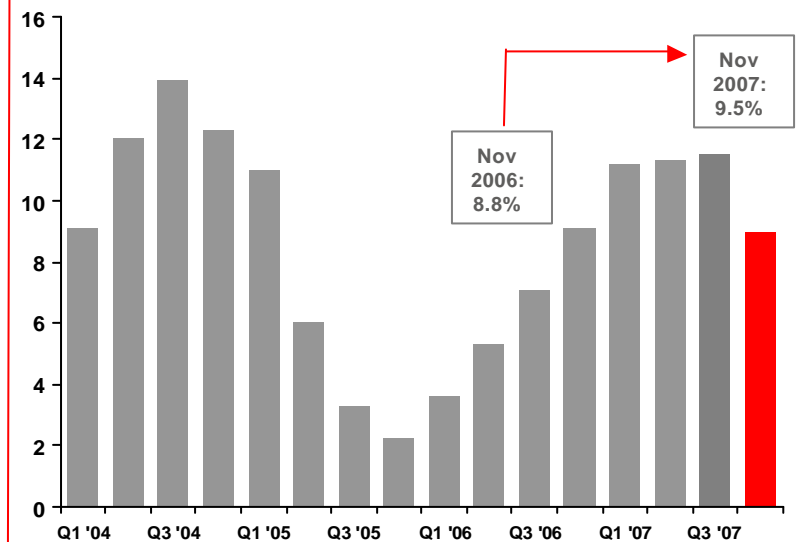
Growth in housing market activity has slowed sharply in Q4 and annual house price growth has started to slow

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



Source – Bank of England

Annual house price growth (%)

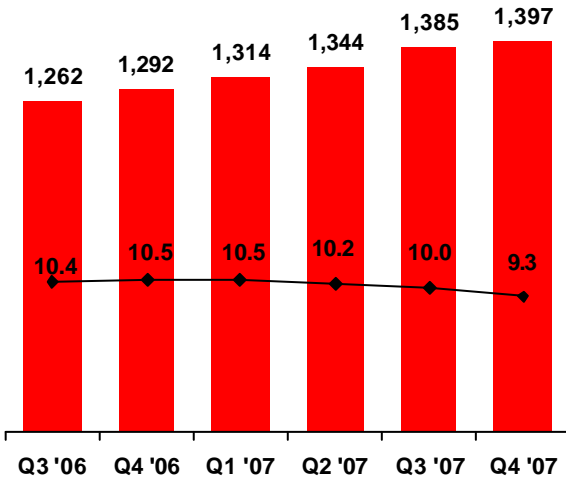


Source – Department for Communities and Local Government

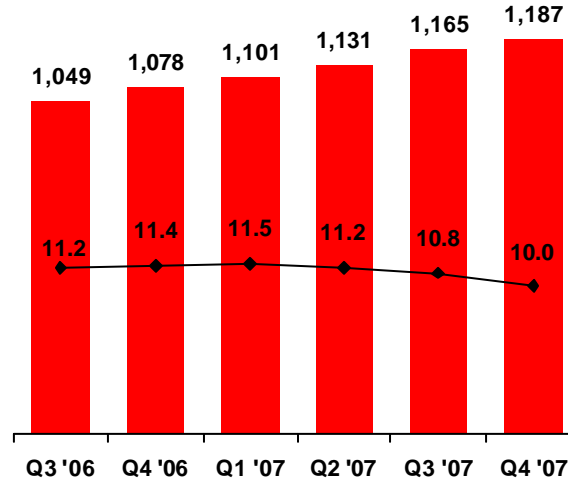
Market Environment

Household borrowing growth has slowed in 2007 to just under 10%

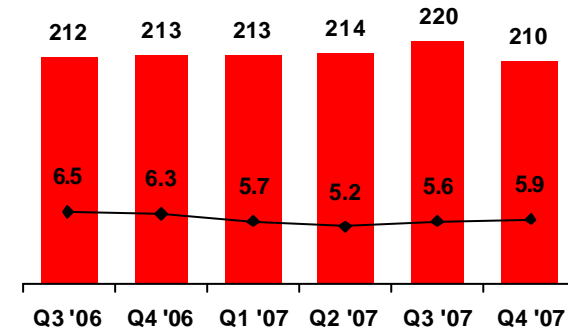
Total lending to individuals*



Mortgage lending market stock*



Consumer credit market stock*



Source – Bank of England.

◆ - annual growth rates (%)

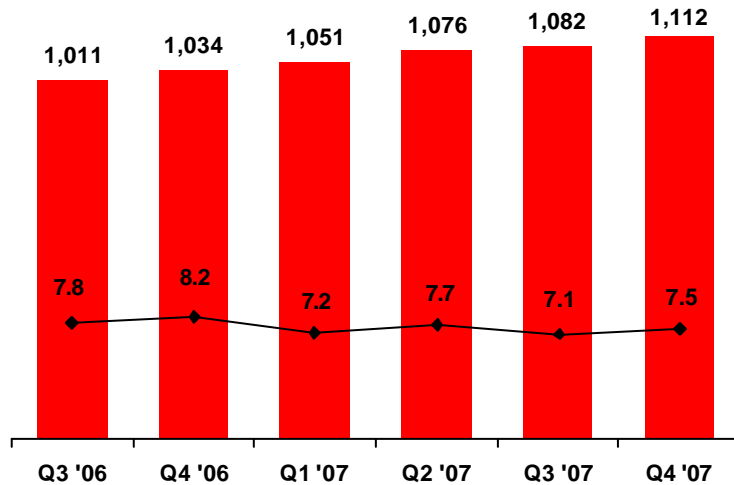
*Please note:

- 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

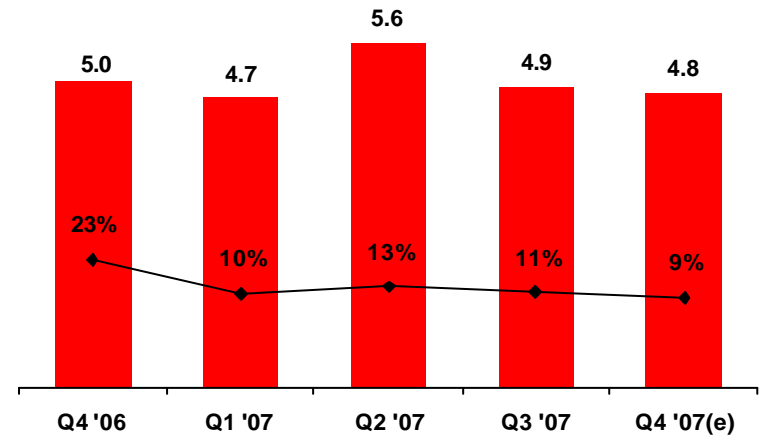
Annual growth in retail deposits has been stable, with long term growth in the Bancassurance Investment new business market

Retail deposits (incl. current accounts)



Source – Bank of England.

Bancassurance Investment new business market



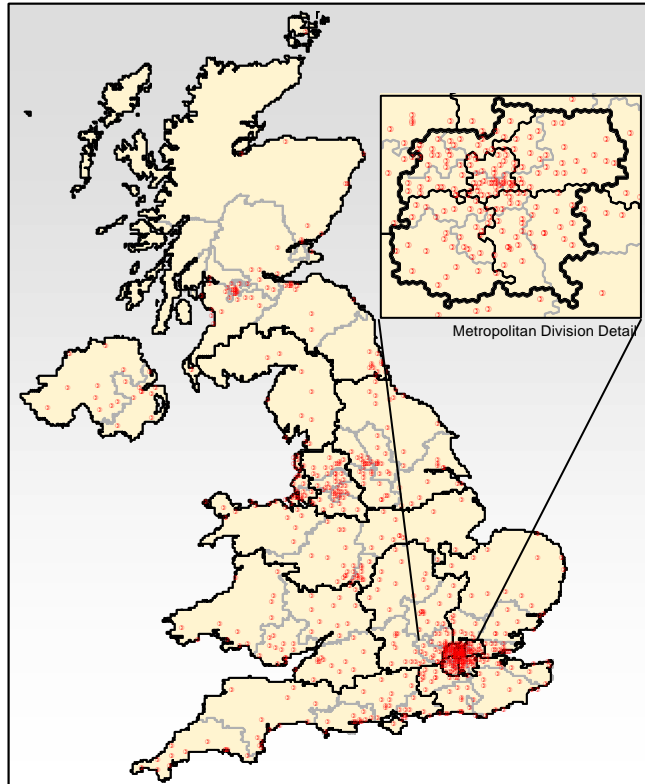
Source – estimated by Abbey based on data from Investment Managers Association / ABI / Structuredretailproducts.com.

(e) estimated market size (£bn)

◆ annual growth rates (%)

Abbey's Franchise

A well established retail bank with an attractive customer franchise



31/12/07

| | |
|---|--------------|
| Customer deposits (£bn) | 65.2 |
| Residential mortgages (£bn) | 110.5 |
| UPLs (£bn) ⁽¹⁾ | 2.7 |
| Total Retail lending (£m) | 116.6 |
| Net attributable income ytd (£m) | 822 |

Market Shares:

| | |
|-------------------------------|-------------|
| Mortgage stock | 9.3% |
| Deposits/Savings stock | 5.9% |
| Abbey UPL's stock | 3.0% |

| | |
|----------------------------|--------------|
| Branches | 705 |
| Branch market share | 5.3% |
| ATMs | 2,231 |

(1) Includes cahoot

Agenda

- Market Environment
- FY 2007

- Business Update

- Results

Moving towards a full service commercial bank

Retail Markets

▪ Robust growth in core markets

- effective margin management for both customer loans and deposits increasing profit before tax by over 20%
- capitalised on improved market conditions in the latter part of the year, delivering net lending share in excess of stock share, together with a significant improvement in new business margins
- excellent growth in savings and investments due to a range of new standalone savings accounts and focus on retention and improved processes within investments
- strong performance in growth businesses including current accounts, SME and credit cards

Customer Focus

▪ Leverage global view of customer

- improving retention performance in mortgages and investments
- Partenon implementation reaching its final stages
- stronger product range, including “8%” bank account, “Super” savings and investment products... improved speed to market

Strategic Projects

▪ Key projects launched during 2007

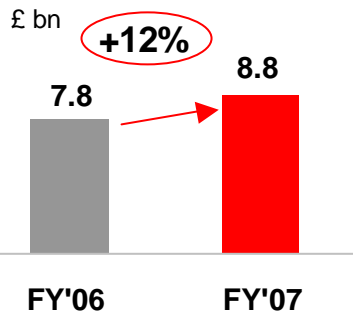
- new credit card business successfully launched within 12 months and early performance positive
- launched project to accelerate growth of SME / mid corporate banking capability
- entered into a joint venture with Santander Private Banking, to leverage global expertise in this area and grow our private banking offering in the UK
- further integration of Abbey Financial Markets (AFM) into the wholesale banking division of Santander – AFM rebranded as Santander Global Banking & Markets

Business Update

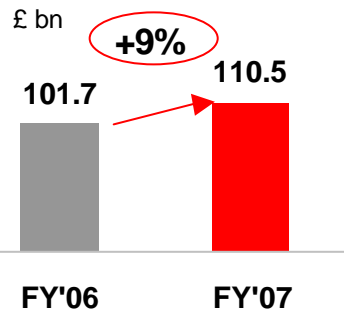
Business performance

Mortgages

Net lending



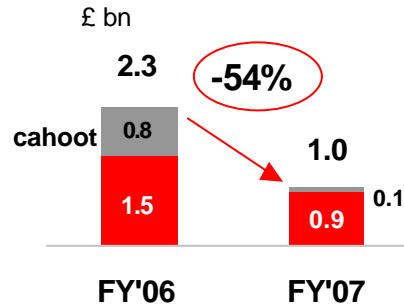
Stock



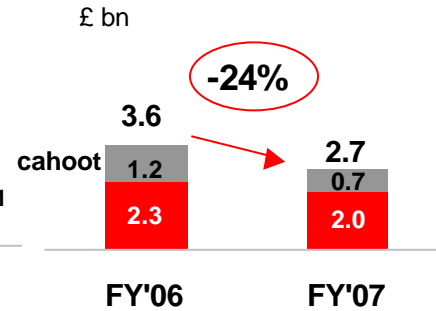
Margin: -8bps

Personal loans

Gross lending



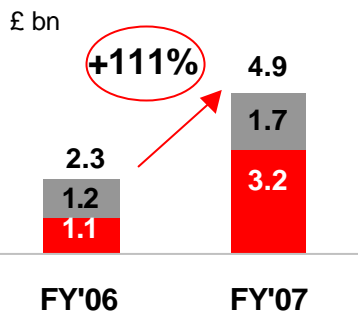
Stock



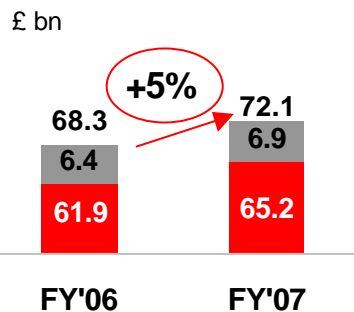
Margin: +94bps

Retail Savings and Investment

Net Flows



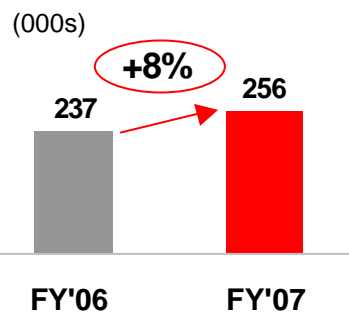
Stock



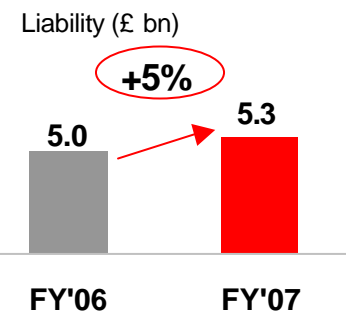
Savings margin: +12bps

Bank accounts

Adult openings



Ave. current a/c



Margin: +83bps

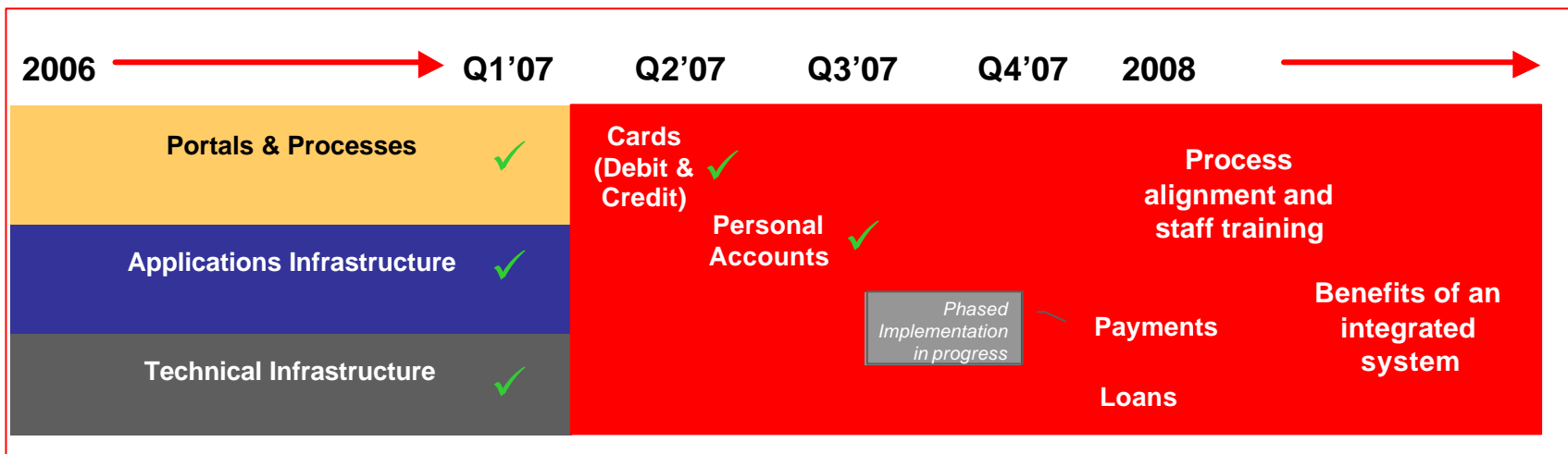
■ Retail deposits ■ API (1)

(1) API: Annual Premium Income measures the flows that impact revenue and commissions

Note: margin variances based on FY'06 average v FY'07 average

Implementation of Partenon reaching final stages

13



■ Q1 – Q3

- Q1 2007: continued roll-out of Sales and Servicing Portals
- Q2 2007: banking and savings movements & balances data migrated to new banking system; launched Abbey Cards and new Cash Management application integrated to banking platform
- Q3 2007: migration of 18.5 million banking and savings contracts to new personal accounts banking platform for all sales and servicing

■ Achievements in Q4 2007

- Payments implementation in progress (a) phased migration towards full CHAPS membership from participant status (b) phased migration of Foreign payments in-house - giving greater control of payment flows and unit cost savings

■ Next steps:

- Leveraging new credit cards and current account capability through sales campaigns
- Finalise implementation of Payments and Loans

■ Throughout 2008:

- Optimise and leverage Partenon to improve service quality, increase customer loyalty and enhance efficiency
- Continue development and training of sales force to maximise benefit from Partenon

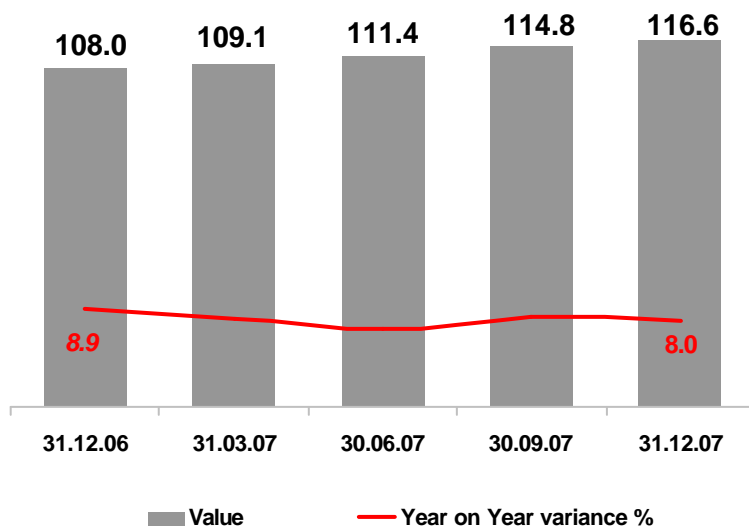
Business: Lending trends / growth

Growth of 8% balanced with effective margin management

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

| | | | | |
|-------|-------|-------|-------|-------|
| 101.7 | 103.1 | 105.3 | 108.7 | 110.5 |
| 9.4% | 9.4% | 9.3% | 9.3% | 9.3% |

£bn



| | FY'07 £bn | FY'07 vs FY'06 |
|----------------------------------|--------------|-------------------|
| Residential mortgages | 110.5 | 8.6% |
| Commercial mortgages | 2.9 | 33.6% |
| UPLs | 2.7 | (23.5%) |
| Overdraft & Other ⁽¹⁾ | 0.5 | (0.5%) |
| Total Retail loans | 116.6 | 8.0% |

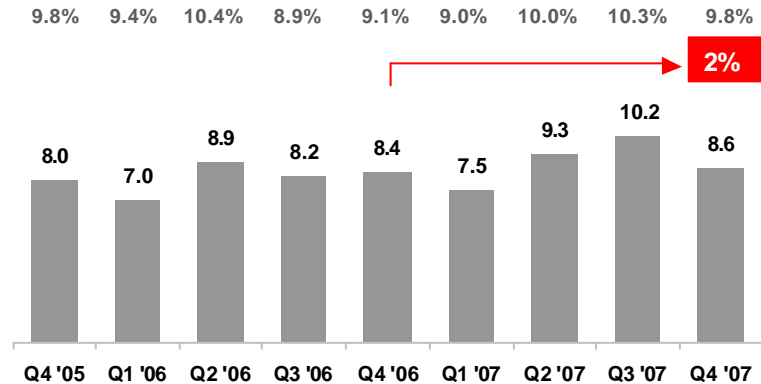
(1) Includes cahoot credit cards

Business Update

Net market share up due to strong campaigns and improved retention

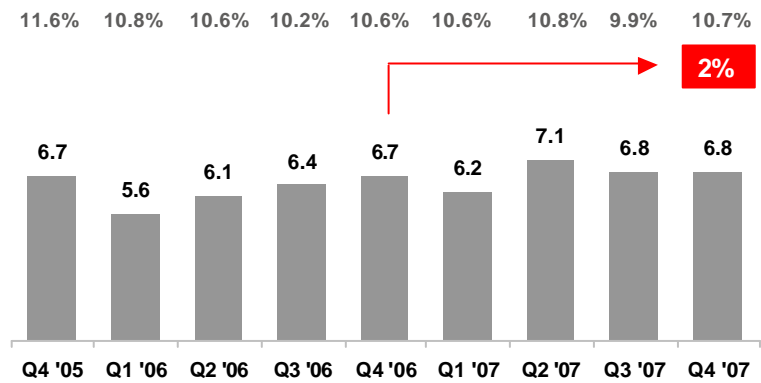
Total residential mortgage gross lending (£bn)

Gross lending share:



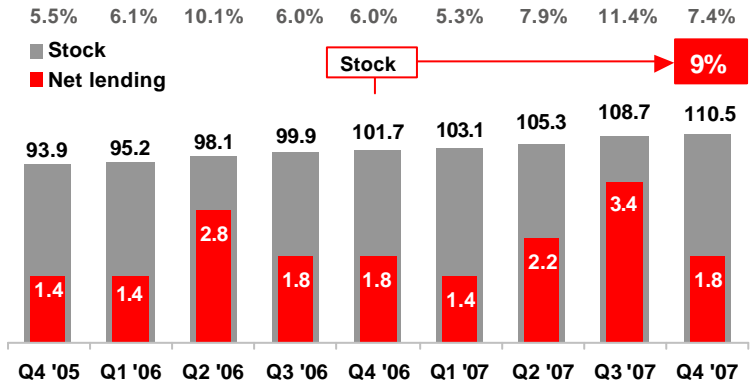
Total residential mortgage repayments (£bn)

Repayments share:



Residential mortgage net lending and stock (£bn)

Net lending share:



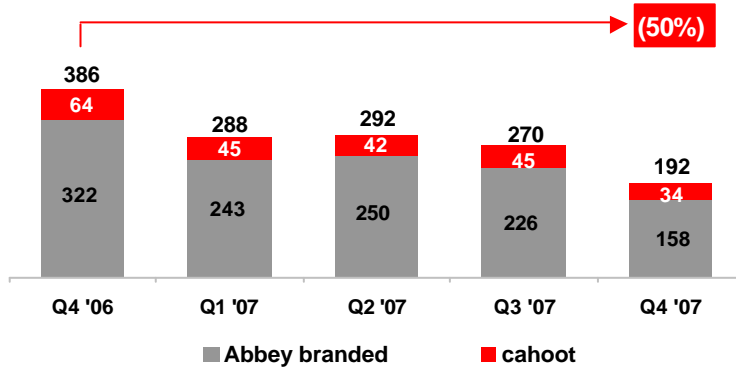
Comment

- spread impacted by competitive pressures in 2006 and early 2007
- gross lending performance has improved, supported by strong pricing and campaigns
- capitalised on improved market conditions in the latter part of the year, delivering net lending share in excess of stock share, together with a significant improvement in new business margin
- year on year the share of repayments was broadly in line despite a significant increase in incentive period maturities during 2007 as a whole

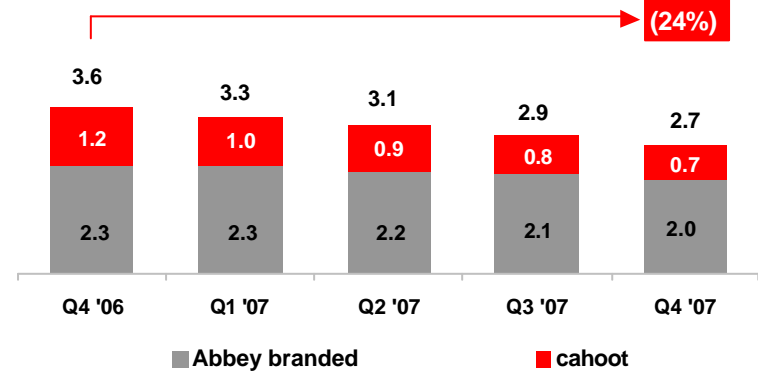
Business Update

Abbey continues to focus on existing customers and margin management

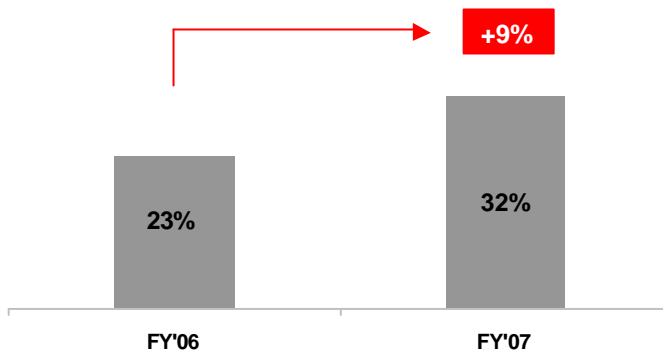
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch lending as % of total



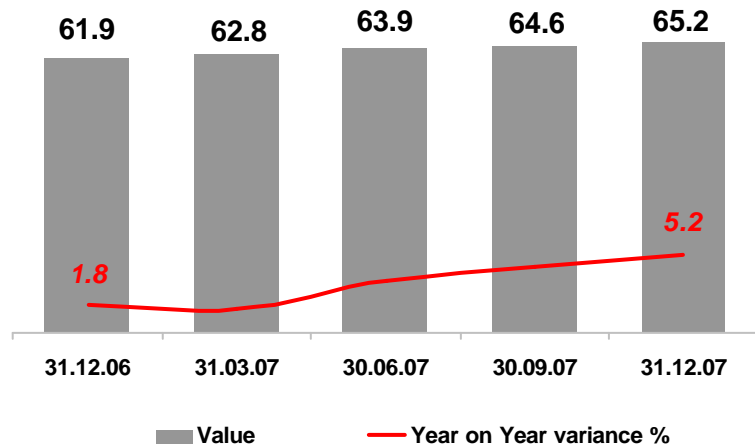
Comment

- Abbey has been taking a cautious approach to lending with the objective to continue generating value whilst minimising risk
- new business margins over 69% ahead of last year
- this strategy has been successful and Abbey has increased the percentage of lending through the branch channel to 32%

Business: Liability trends / growth

Overall growth supported by stronger product range and strong performance in Abbey bank accounts

£bn



| | FY'07 £bn | FY'07 vs FY'06 |
|-------------------------------------|--------------|---------------------|
| Abbey branded savings | 44.5 | 4.9% |
| Abbey bank accounts | 5.5 | 5.0% ⁽¹⁾ |
| Other ⁽²⁾ | 15.2 | 7.0% |
| Total customer deposits | 65.2 | 5.2% |
| Retail FUM ⁽³⁾ | 6.9 | 6.7% |
| Total funds under management | 72.1 | 5.4% |

(1) based on average balances

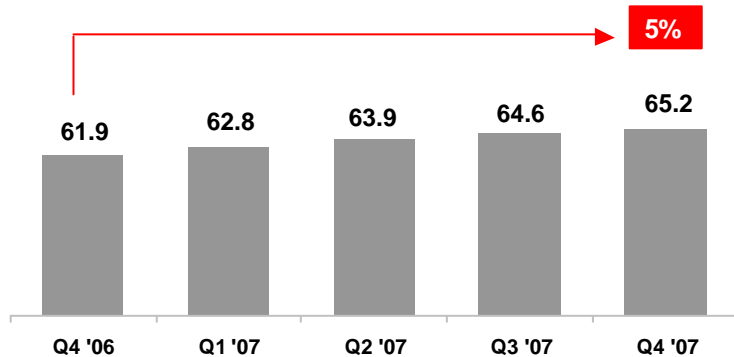
(2) other businesses including Abbey Business, cahoot & Wealth Management

(3) managed through Santander Asset Management

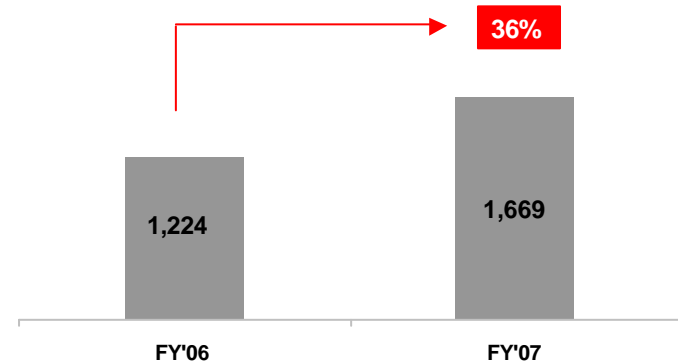
Business Update

Net customer flows in 2007 almost three times higher than 2006

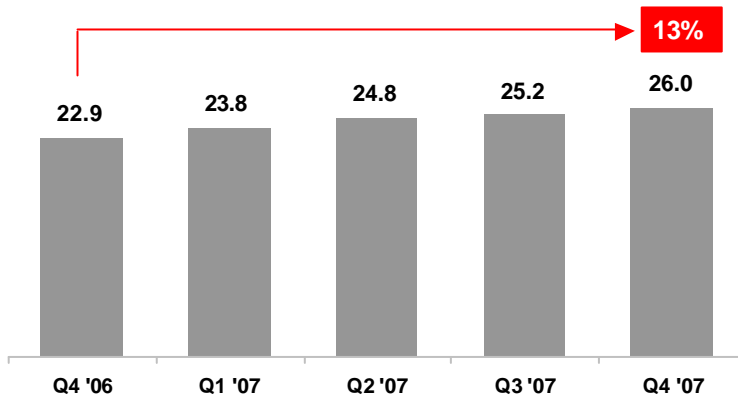
Customer deposit stock (£bn)



Investment new business sales – API ⁽¹⁾ (£m)



Branch acquisition savings stock (£bn)



Comment

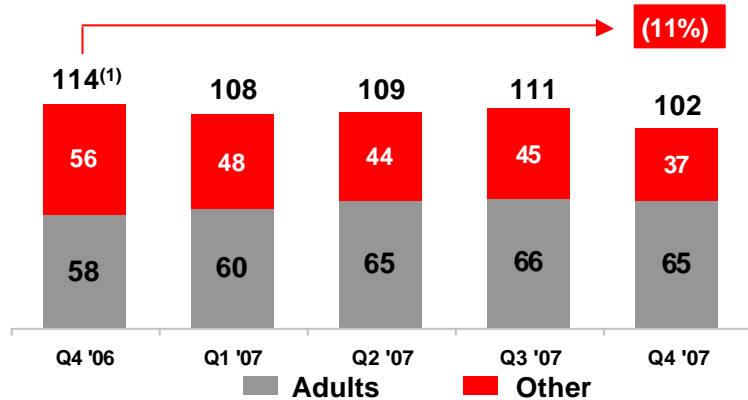
- stronger product range, driven by new standalone savings accounts, resulting in net customer deposit flows of £3.2bn compared to £1.1bn in 2006
- sales of investment products increased over 36% in 2007, driven by linked savings & investment propositions, in addition to a focus on retention and improved sales processes
- effective margin management in line with market movements and competitor products

(1) API: Annual Premium Income measures the flows that impact revenue and commissions

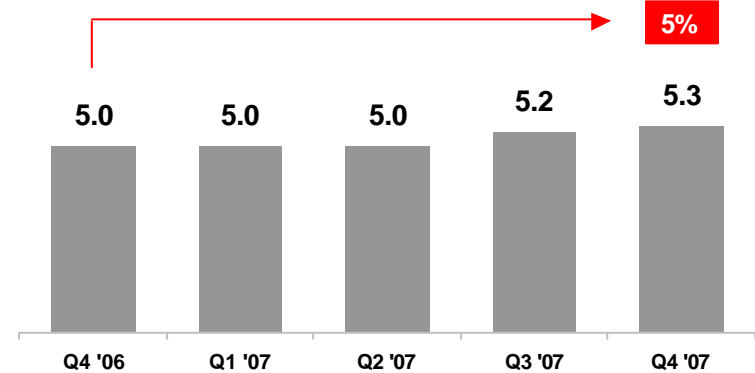
Business Update

Net gainer of accounts against the big 4 banks

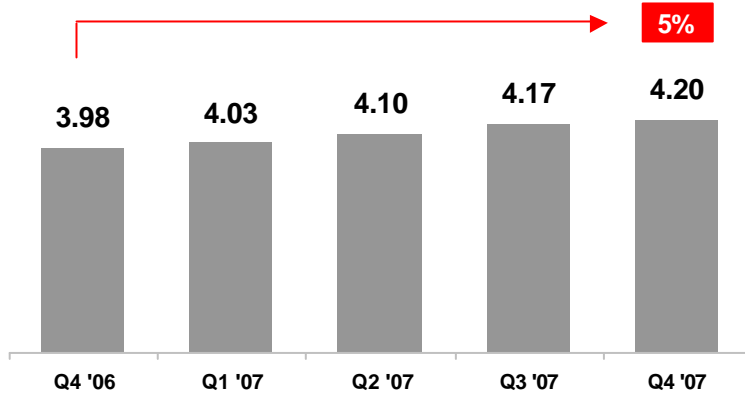
Bank account openings (000)



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



Stock of Abbey branded accounts (m)



Comment

- adult accounts switching to Abbey are ahead of expectations for 2007 and Abbey continues to be a net gainer of accounts against the big 4 banks
- supported by the new Formula 1 campaign which was launched at the end of June and the “8%” Bank Account in November featuring Lewis Hamilton
- sales process improvements have been made to reduce the time it takes for a customer to apply for a bank account

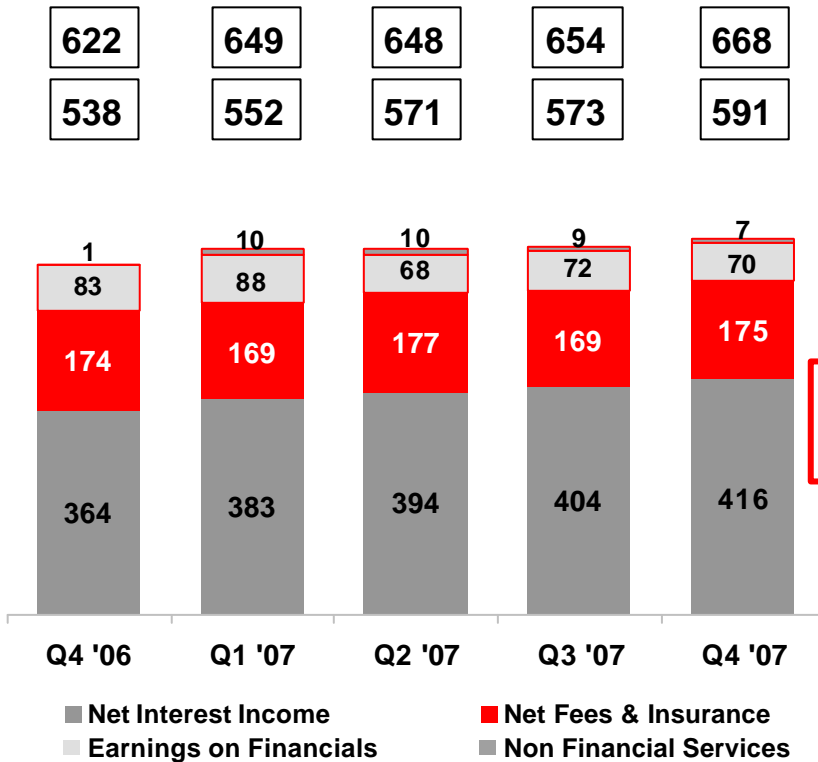
(1) benefited from primary sales campaign

Agenda

- Market Environment
- FY 2007
 - Business Update
 - **Results**

Results: Gross operating income

Higher retail banking balances and robust spreads combined with higher earnings on financials driving growth



Total £m

Total commercial margin £m

£m

FY'07

FY'06

Variance

Net Interest Income

1,597

1,437

11.1%

Net Fees

689

699

(1.5)%

Total Commercial Margin

2,286

2,136

7.0%

Earnings on Financials

298

289

3.2%

Non Financial Services

35

29

21.0%

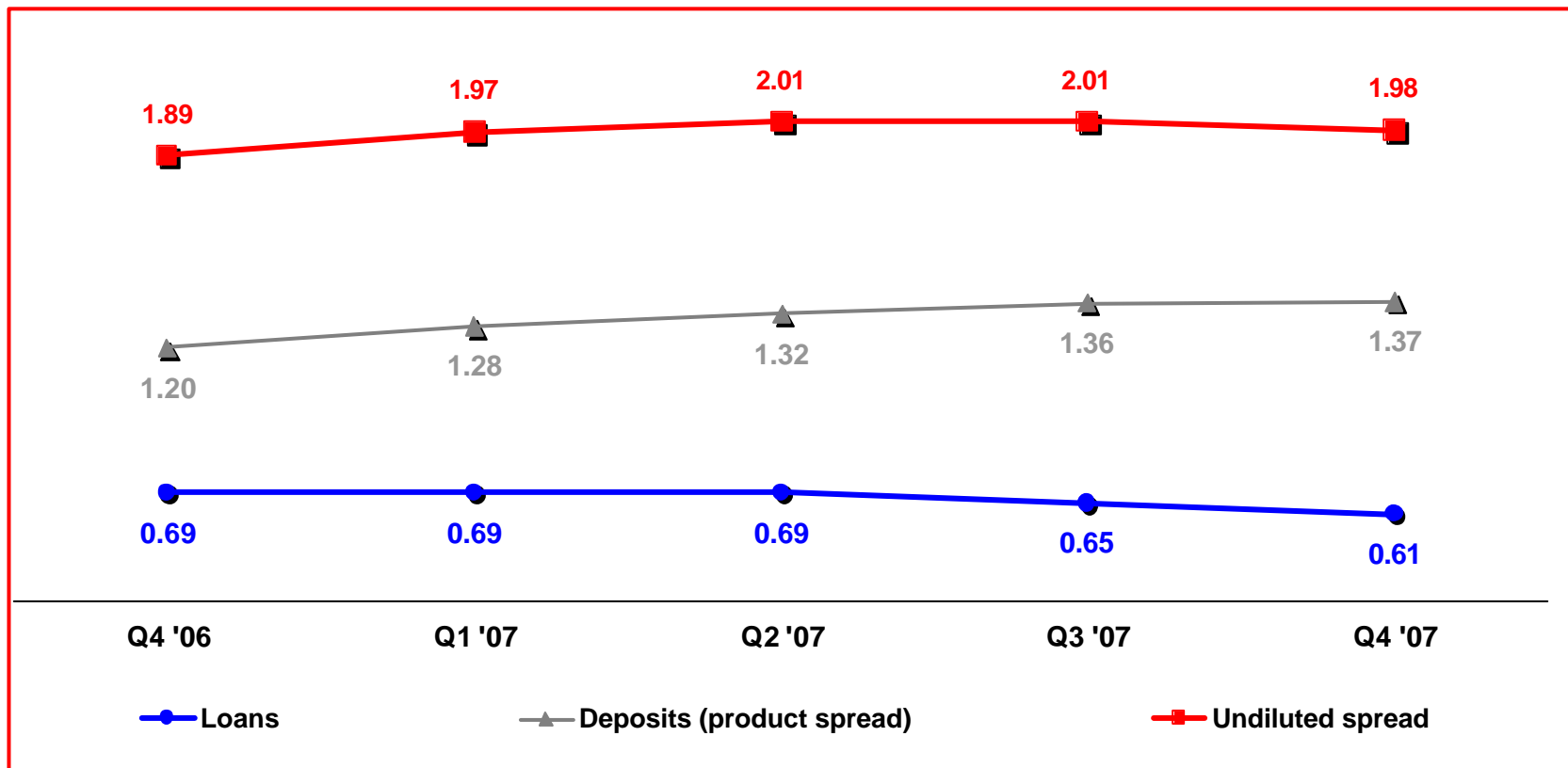
Total Income**2,619****2,454****6.7%**

Commercial revenues:

- robust asset growth of 8% in challenging market conditions
- continued focus on effective margin management for both mortgages and customer deposits
- net fees income benefiting from contribution of the new credit card business and strong growth in investments and protection, offset by lower current account charges and redemption fees, following changes to terms and conditions

Results: Retail banking spreads

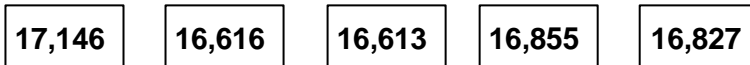
Robust retail spread



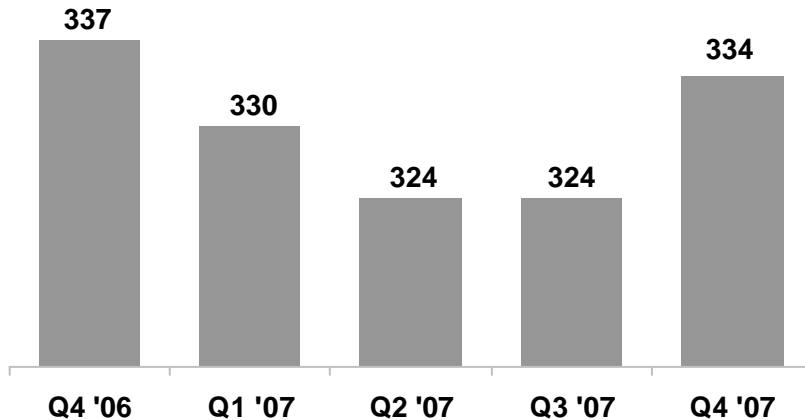
Results: Costs

Cost savings continue, albeit with a targeted increase in customer facing roles

FTE



£m



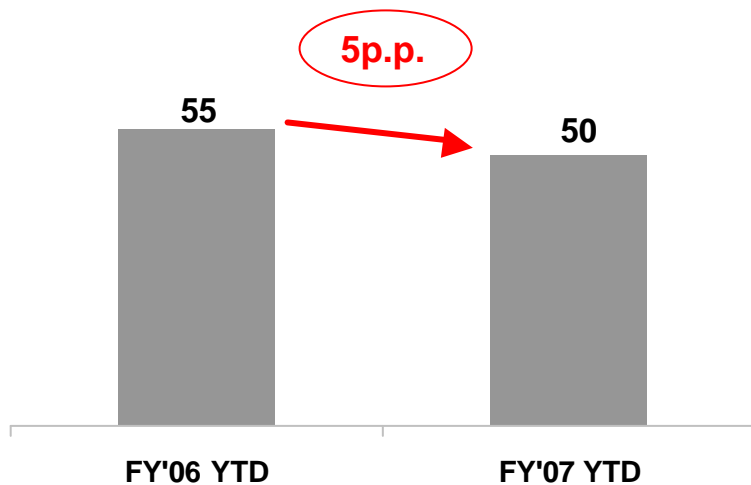
| £m | FY'07 | FY'06 | Variance |
|-------------------------------------|--------------|--------------|---------------|
| General and administrative expenses | 1,242 | 1,280 | (2.9%) |
| Depreciation and amortisation | 70 | 72 | (2.7%) |
| Operating expenses | 1,312 | 1,352 | (2.9%) |

- lower operating expenses with the majority of the savings continuing to be driven by headcount reductions predominantly in 2006
- increase in expenses in Q4 driven by costs associated with growth businesses

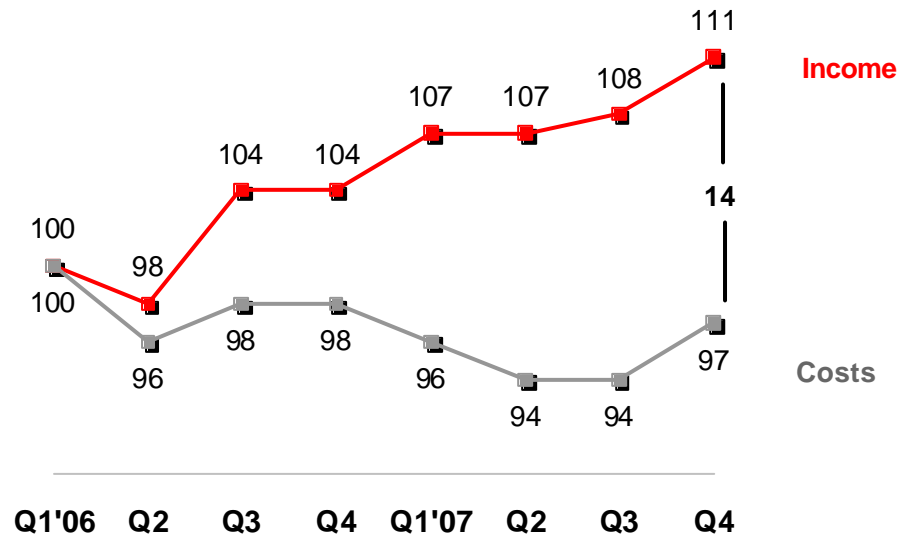
Results: Ratios

Cost:income ratio now broadly in line with the sector and jaws c. 10%

Cost:income ratio*, %



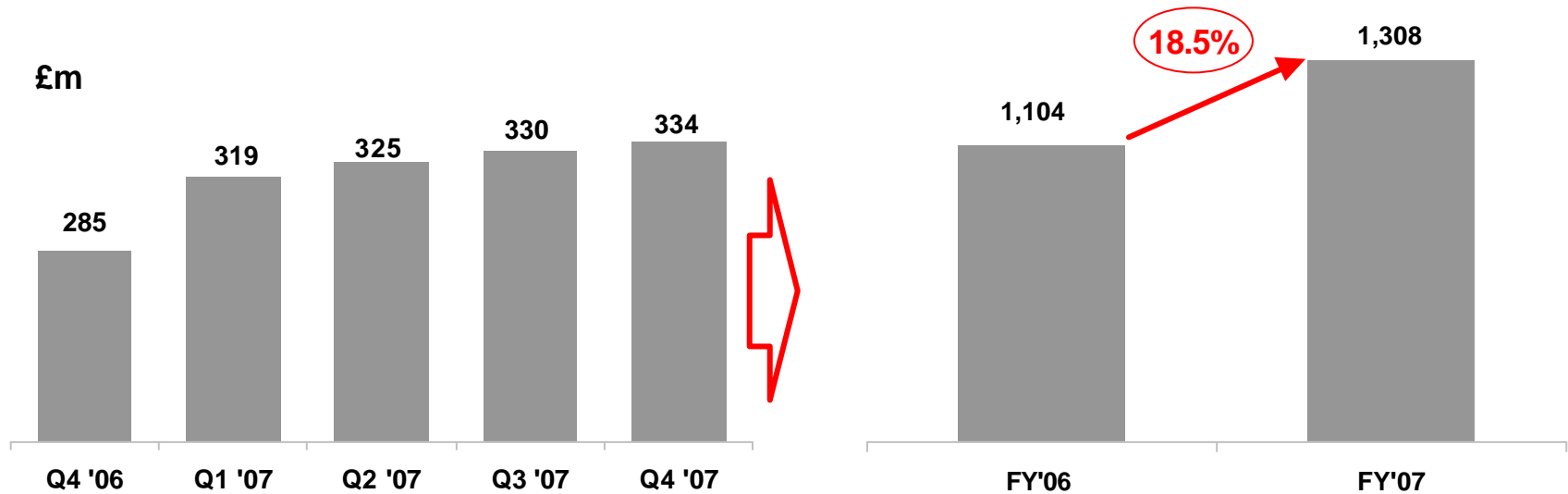
Operating jaws, %



* Includes depreciation & amortisation

Results: Net Operating Income

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

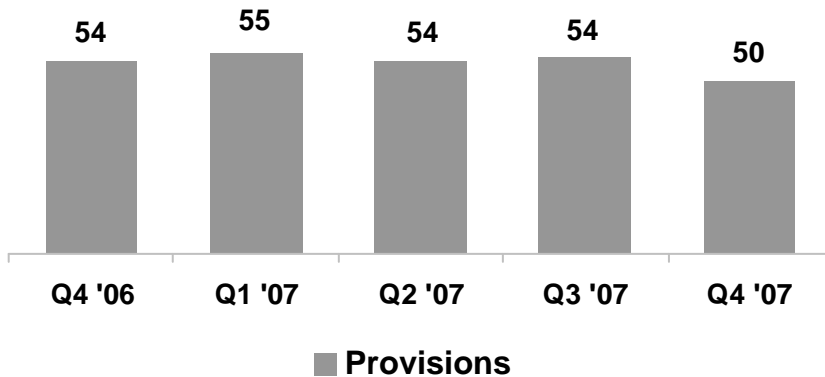


Results: Provisions and credit quality

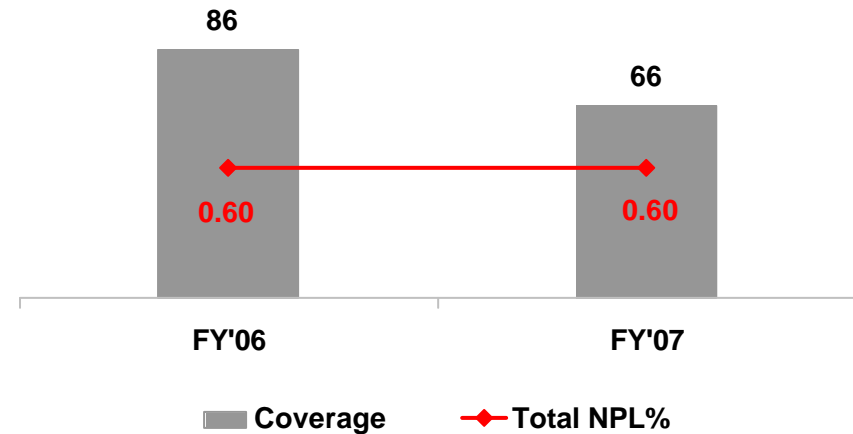
Provisions stable during 2007

£m

Net loan loss provisions



Coverage ratio and NPL, %

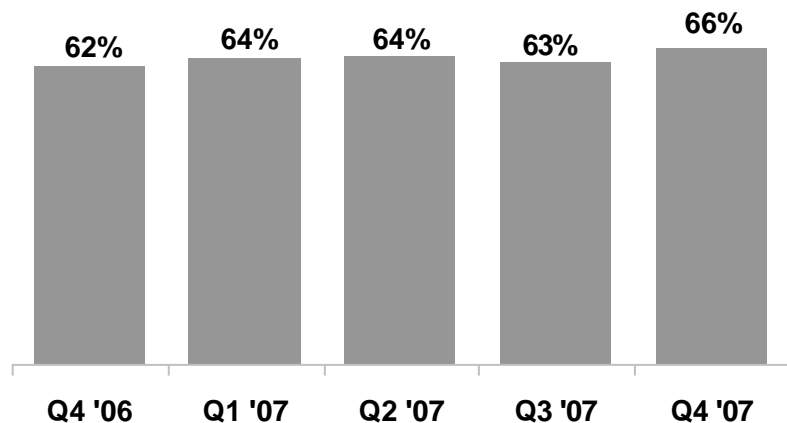


The coverage ratio reduced largely due to the change in mix of arrears, with a reduction in unsecured arrears which has a higher coverage and an increase in secured arrears with lower coverage due to the security held.

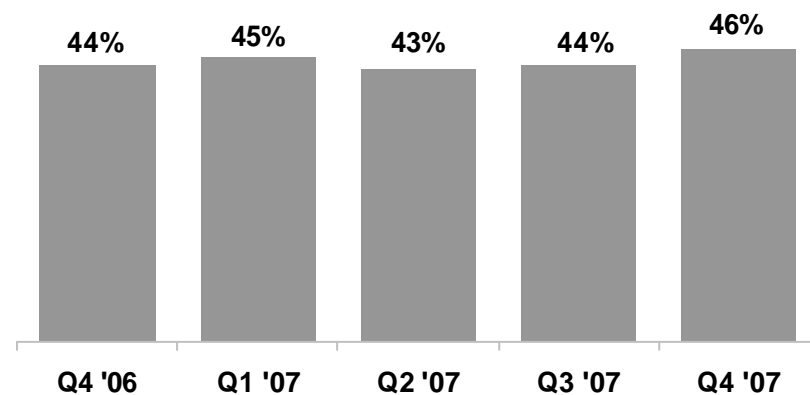
Results: Provisions and credit quality

Underlying credit quality has remained strong

Average new business mortgage LTV (%)

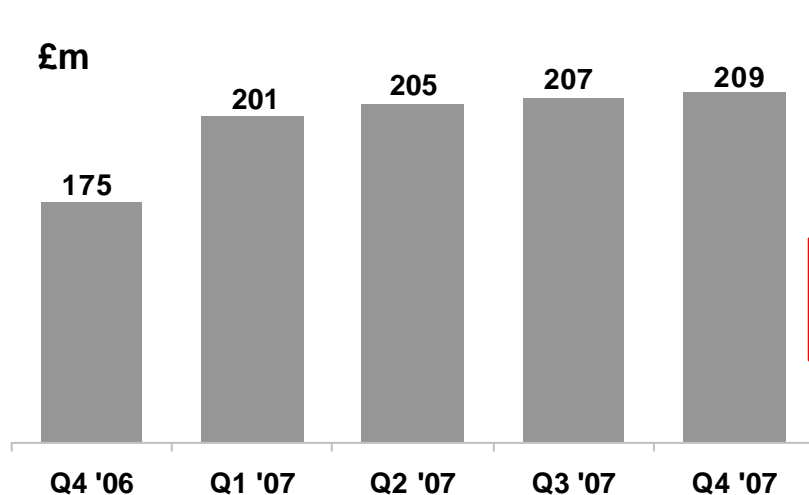


Average indexed mortgage LTV on stock (%)



Results: Net Income

Net Income up 20.2%



| £m | FY'07 | FY'06 | Variance |
|--------------------------------------|------------|------------|--------------|
| PBT | 1,110 | 840 | 32.1% |
| Provision for income tax | (288) | (234) | 23.3% |
| Life companies sold profit after tax | - | 77 | n/a |
| Net Income | 822 | 684 | 20.2% |

Moving towards a full service commercial bank

Achievements 2007

- revenue growth of 6.7% and acquisition revenue target of £150m by end-2007 delivered
- acquisition targeted cost savings of £300m delivered and ahead of the full benefit of Partenon
- double digit jaws for third consecutive year
- resilient retail balance sheet performance reflecting Abbey's strong retail funding mix of c.60% deposit based and c.10% short term funding

Expansion of product range

- success in acquisition of switcher and adult accounts
- launched a range of new standalone savings accounts including 50+ Saver and Direct ISA
- innovative linked Super account range, including the market leading 8.1% Super Bond and Super ISA products
- affordability proposition strengthened with the introduction of "no deposit" mortgage offer
- launch of new "5% cashback" credit card in the third quarter

Leveraging the global platform

- leveraging global expertise in cards, insurance, private banking, asset management and financial markets
- global cards expertise, plus existing IT platform enabled the launch of a credit card business in the UK in June within 12 months – launched in Q3

Partenon on track

- payments implementation in progress in Q4 giving greater control of payment flows and unit cost savings
- throughout 2008: optimise and leverage Partenon to improve service quality, increase customer loyalty and enhance efficiency

APPENDIX

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

Financial results: Profit and loss (discontinued life separate)

31

£ million

| | Variation | | | |
|---|--------------|--------------|------------|-------------|
| | 2007 | 2006 | Amount | % |
| Net interest income* | 1,597 | 1,437 | 160 | 11.1 |
| Income from companies accounted for by the equity method | 1 | 2 | (1) | (32.2) |
| Net fees | 689 | 699 | (10) | (1.5) |
| Insurance activity | 0 | 0 | 0 | — |
| Commercial revenue | 2,288 | 2,139 | 149 | 7.0 |
| Gains (losses) on financial transactions | 298 | 289 | 9 | 3.2 |
| Ordinary income | 2,585 | 2,427 | 158 | 6.5 |
| Income from non-financial services (net) and other operating income | 35 | 29 | 6 | 21.0 |
| Operating expenses | (1,312) | (1,352) | 40 | (2.9) |
| General administrative expenses | (1,242) | (1,280) | 38 | (2.9) |
| <i>Personnel</i> | (709) | (724) | 15 | (2.1) |
| <i>Other administrative expenses</i> | (533) | (556) | 23 | (4.1) |
| Depreciation and amortisation | (70) | (72) | 2 | (2.7) |
| Net operating income | 1,308 | 1,104 | 204 | 18.5 |
| Net loan loss provisions | (214) | (264) | 50 | (19.1) |
| Other income | 15 | (0) | 15 | — |
| Profit before taxes | 1,110 | 840 | 270 | 32.1 |
| Tax on profit | (288) | (234) | (54) | 23.3 |
| Net profit from ordinary activity | 822 | 606 | 215 | 35.5 |
| Net profit from discontinued operations | — | 77 | (77) | (100.0) |
| Net consolidated profit | 822 | 684 | 138 | 20.2 |
| Minority interests | — | — | — | — |
| Attributable profit to the Group | 822 | 684 | 138 | 20.2 |

(*).- Dividends included

Financial results: Profit and loss (discontinued life separate)

32

| | Q1 06 | Q2 06 | Q3 06 | Q4 06 | Q1 07 | Q2 07 | Q3 07 | Q4 07 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Net interest income* | 349 | 360 | 363 | 364 | 383 | 394 | 404 | 416 |
| Income from companies accounted for by the equity method | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Net fees | 173 | 176 | 177 | 174 | 169 | 177 | 169 | 175 |
| Insurance activity | (0) | (0) | 0 | 0 | 0 | 0 | (0) | 0 |
| Commercial revenue | 523 | 537 | 540 | 538 | 552 | 571 | 573 | 592 |
| Gains (losses) on financial transactions | 75 | 51 | 80 | 83 | 88 | 68 | 72 | 70 |
| Ordinary income | 598 | 588 | 620 | 621 | 640 | 639 | 644 | 662 |
| Income from non-financial services (net) and other operating income | 11 | 10 | 7 | 1 | 9 | 10 | 10 | 6 |
| Operating expenses | (345) | (332) | (337) | (337) | (330) | (324) | (324) | (334) |
| General administrative expenses | (327) | (313) | (322) | (318) | (313) | (307) | (307) | (315) |
| <i>Personnel</i> | (187) | (181) | (179) | (177) | (175) | (175) | (179) | (180) |
| <i>Other administrative expenses</i> | (140) | (132) | (142) | (141) | (138) | (131) | (129) | (135) |
| Depreciation and amortisation | (18) | (19) | (16) | (19) | (17) | (17) | (17) | (19) |
| Net operating income | 264 | 265 | 290 | 285 | 319 | 325 | 330 | 334 |
| Net loan loss provisions | (61) | (79) | (70) | (54) | (55) | (54) | (54) | (50) |
| Other income | (0) | (1) | 1 | (0) | 3 | 3 | 3 | 5 |
| Profit before taxes | 203 | 186 | 221 | 231 | 268 | 274 | 278 | 289 |
| Tax on profit | (56) | (55) | (66) | (56) | (67) | (69) | (71) | (80) |
| Net profit from ordinary activity | 146 | 130 | 155 | 175 | 201 | 205 | 207 | 209 |
| Net profit from discontinued operations | 21 | 40 | 16 | 0 | — | — | — | — |
| Net consolidated profit | 167 | 170 | 171 | 175 | 201 | 205 | 207 | 209 |
| Minority interests | — | — | — | — | — | — | — | — |
| Attributable profit to the Group | 167 | 170 | 171 | 175 | 201 | 205 | 207 | 209 |

(*).- Dividends included

Financial Results: Balance Sheet

| £ million | Variation | | | |
|--|----------------|----------------|---------------|-------------|
| | 31.12.07 | 31.12.06 | Amount | % |
| Loans and credits* | 134,999 | 127,929 | 7,071 | 5.5 |
| Trading portfolio (w/o loans) | 39,441 | 41,302 | (1,861) | (4.5) |
| Available-for-sale financial assets | 32 | 16 | 17 | 105.2 |
| Due from credit institutions* | 14,528 | 12,211 | 2,317 | 19.0 |
| Intangible assets and property and equipment | 3,436 | 3,397 | 39 | 1.2 |
| Other assets | 6,936 | 5,836 | 1,100 | 18.8 |
| Total assets/liabilities & shareholders' equity | 199,372 | 190,690 | 8,682 | 4.6 |
| Customer deposits* | 89,846 | 77,353 | 12,493 | 16.2 |
| Marketable debt securities* | 55,775 | 48,924 | 6,852 | 14.0 |
| Subordinated debt | 5,776 | 6,332 | (556) | (8.8) |
| Insurance liabilities | 4 | 48 | (44) | (90.9) |
| Due to credit institutions* | 28,371 | 34,260 | (5,888) | (17.2) |
| Other liabilities | 17,269 | 21,539 | (4,270) | (19.8) |
| Shareholders' equity | 2,330 | 2,235 | 95 | 4.2 |
| Off-balance-sheet funds | 7,499 | 5,578 | 1,920 | 34.4 |
| Mutual funds | 7,499 | 5,578 | 1,920 | 34.4 |
| Pension funds | — | — | — | — |
| Managed portfolios | — | — | — | — |
| Savings-insurance policies | — | — | — | — |
| Customer funds under management | 158,896 | 138,187 | 20,709 | 15.0 |

* Includes all stock of concept classified in the balance sheet

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