

United Kingdom: Abbey

First Quarter 2007

London, 27th April 2007

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This presentation is not a form of statutory accounts.

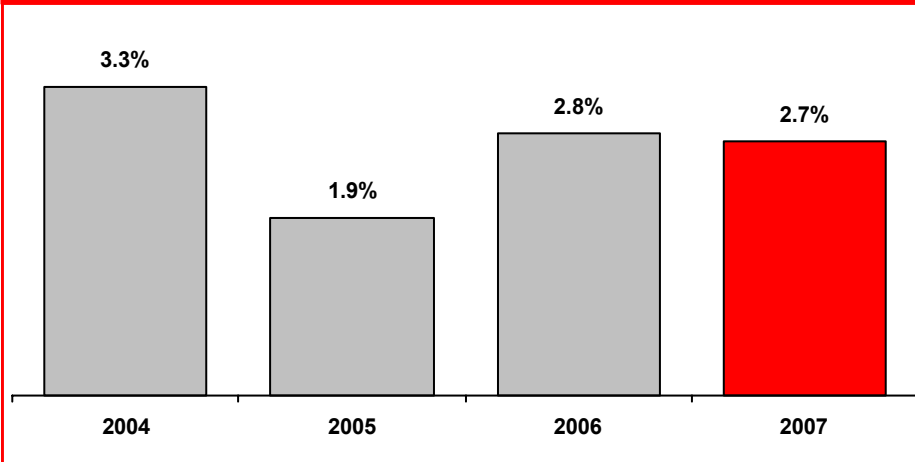
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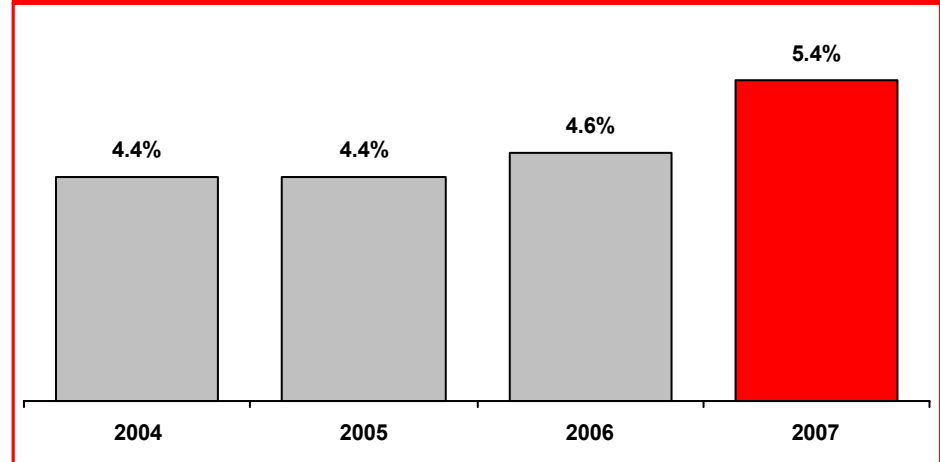
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UK economic environment expected to remain relatively benign ⁴

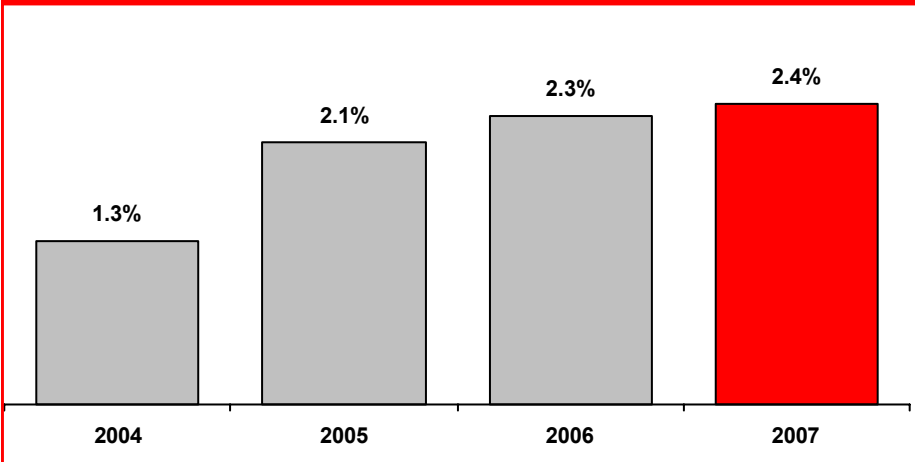
Annual GDP growth (% , annual average)



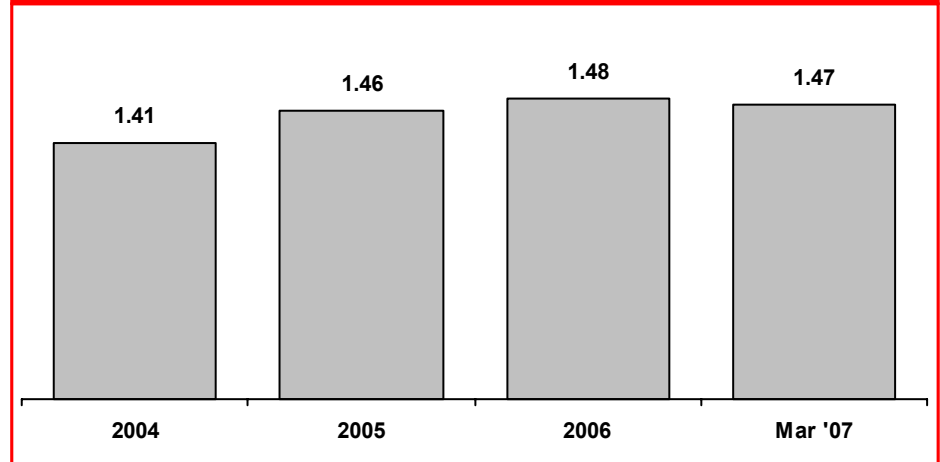
Interest rates (% , annual average)



Annual CPI inflation rate (% , annual average)



GBP : Euro exchange rates (end period)

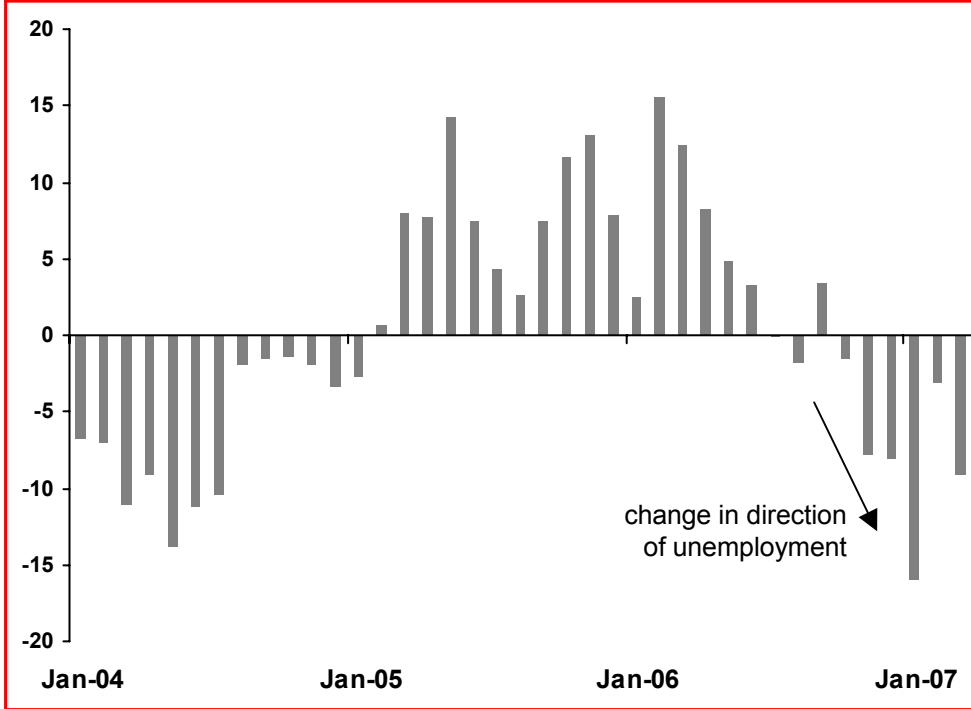


■ - source - Office for National Statistics & Bank of England

■ - estimated by Abbey

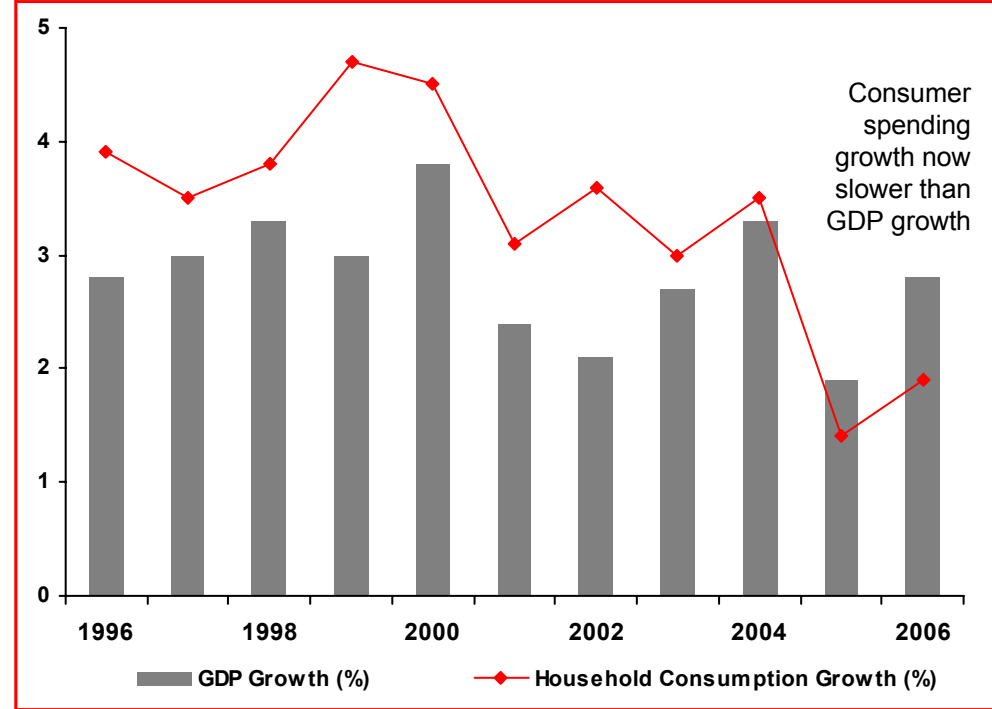
Consumer spending growth has been slower than overall economic growth and unemployment has fallen again

Monthly change in claimant count unemployment (000s)



Source – Office for National Statistics

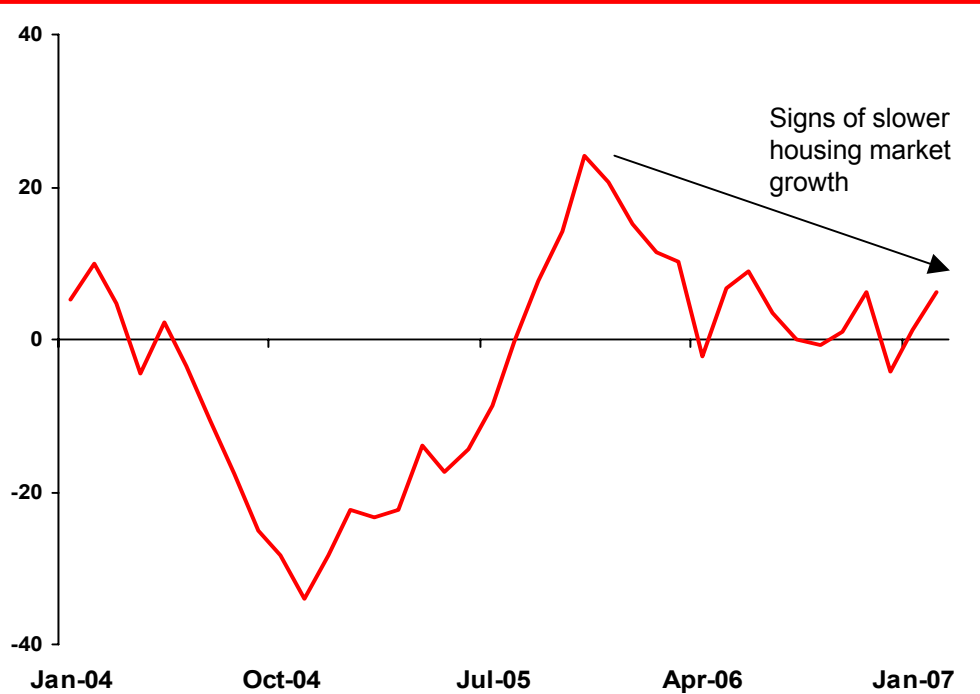
Annual growth in real GDP and household consumption (%)



Source – Office for National Statistics

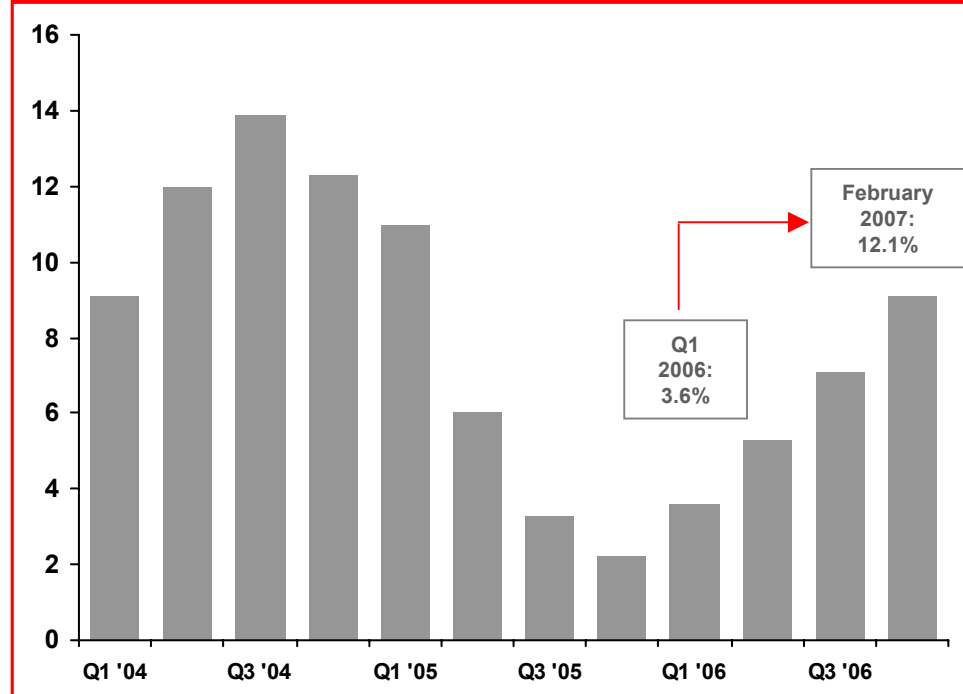
Growth in housing market activity has shown some slowing but annual house price growth continues to be strong

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



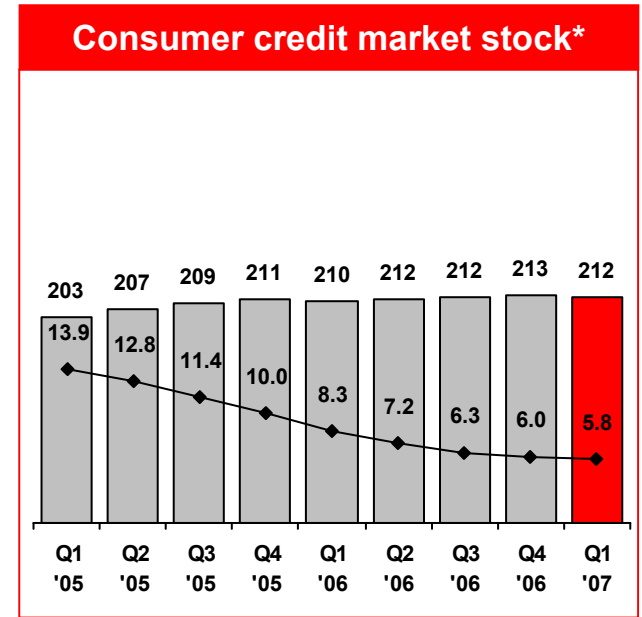
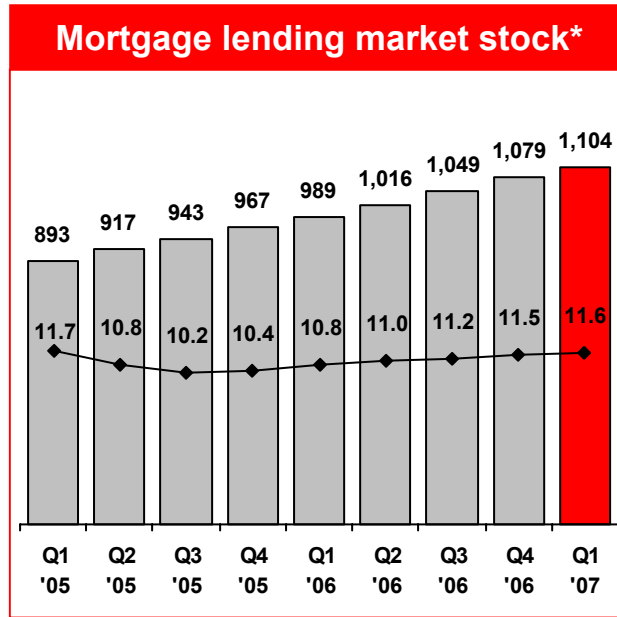
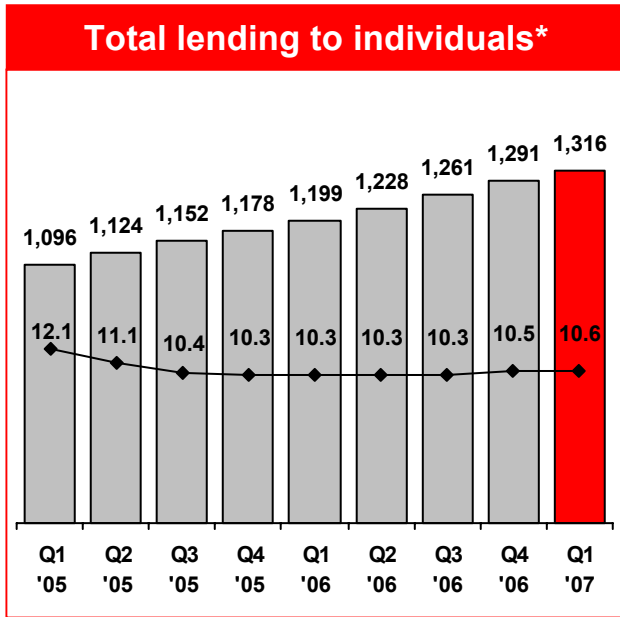
Source – Bank of England

Annual house price growth (%)



Source – Department for Communities and Local Government

Mortgage lending growth strengthened in 2006, while consumer credit lending growth slowed steadily



Source – Bank of England.

■ - actual market size (£bn)

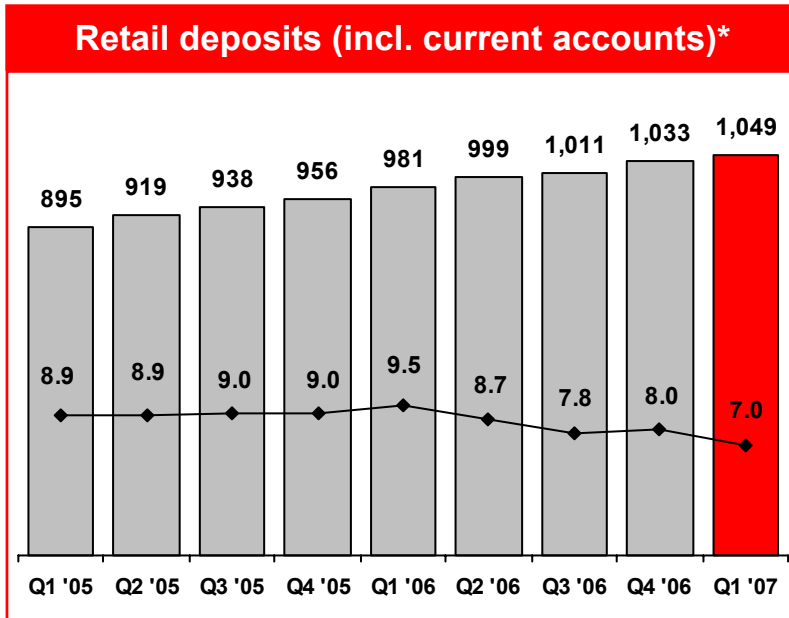
■ - estimated market size (£bn)

◆ - annual growth rates (%)

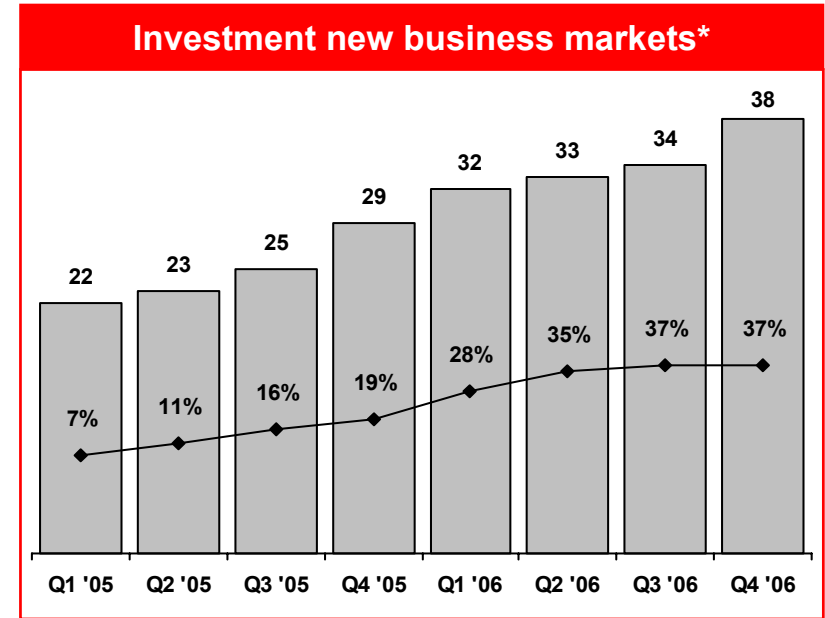
*Please note:

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

Annual growth in retail deposits has been stable, with strong growth in the investment new business market



Source – Bank of England.



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

■ - actual market size (£bn)

■ - 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.
- Investment new business current quarter data only available after this report is released

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Abbey is a key retail participant in the UK banking industry

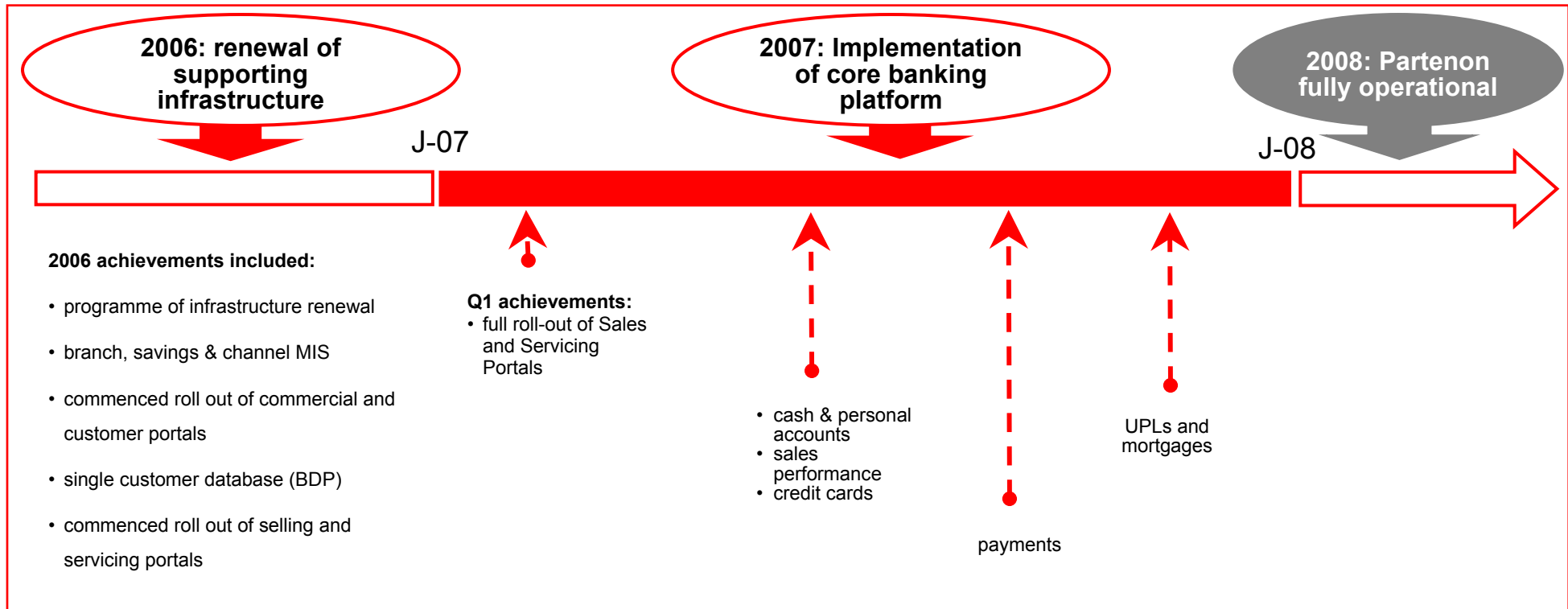
2007 Q1 Highlights

■ residential mortgage stock	£103.1bn
■ residential mortgage stock share	9.3%
■ UPL stock	£3.3bn
■ customer deposit stock	£62.8bn
■ net attributable income	£201m
■ branches	712
■ employees (FTE)	16,616

Abbey franchise

- a well established mortgage business ...
 - one of the largest mortgage lenders in the UK
 - robust market share in a competitive environment
- ...and showing potential in other product areas...
 - strong growth in current account balances
 - positive branch based new business performance in both savings and UPLs
 - established distributor of protection and investment products
- ...to an attractive customer franchise
 - Abbey has large customer franchise with a strong presence in the “greater than £35k” customer salary band and a strong mix of customers aged 25-44

Implementation of Partenon on track



■ Achievements in Q1 2007

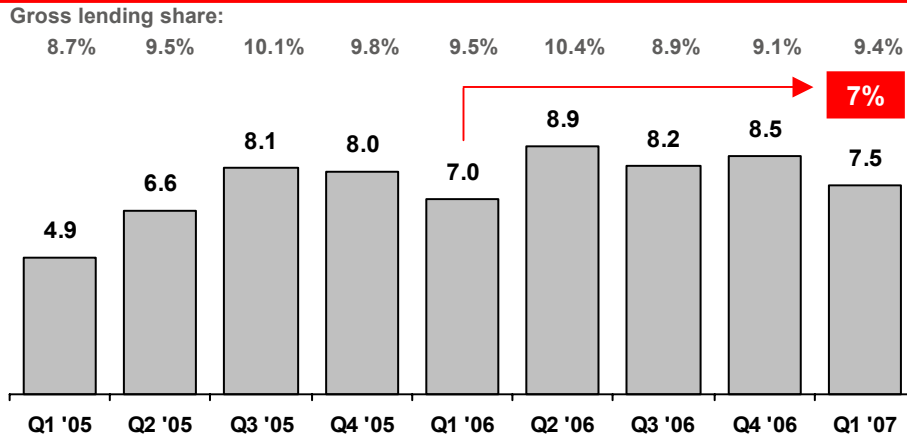
- **selling and servicing portals implementation:** simplifies and improves sales processes

■ next steps:

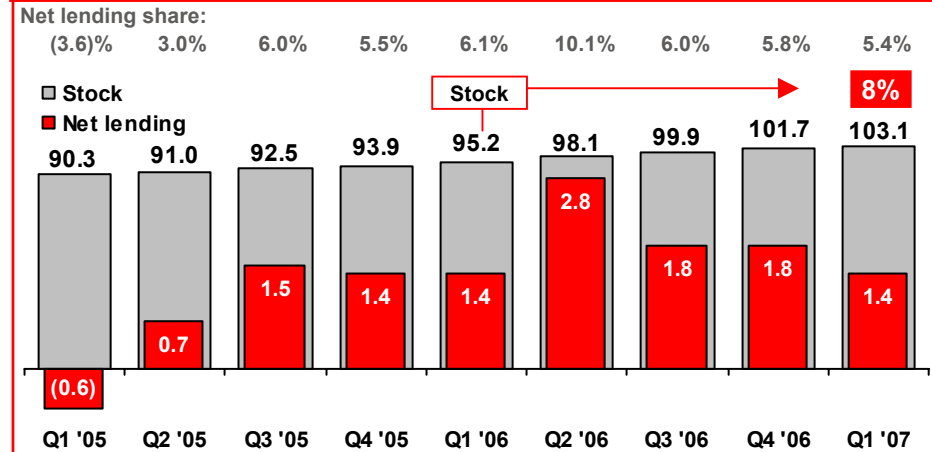
- migration of all banking and savings contracts to new personal accounts platform – all movements & balances on new system
- launch Abbey Cards – new sales and servicing operations leveraging Global capabilities
- replacement of core Payments and Loans platforms leveraging Group infrastructure

Mortgage market share balanced with on-going margin management

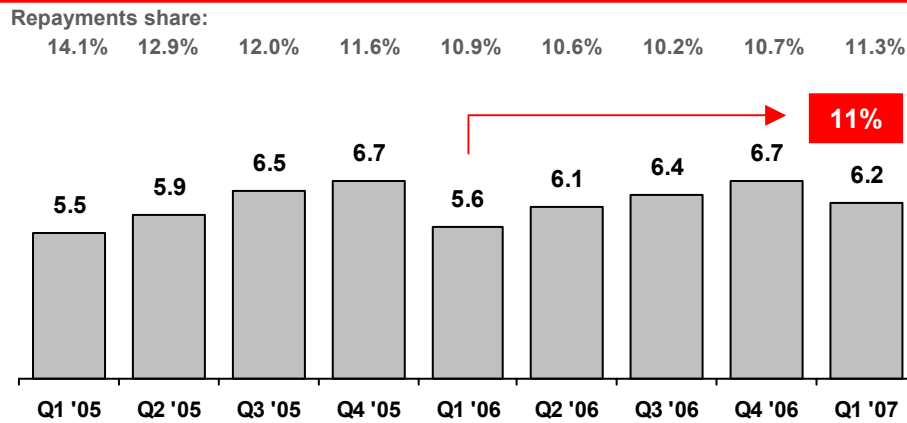
Total residential mortgage gross lending (£ bn)



Residential mortgage net lending and stock (£ bn)



Total residential mortgage repayments (£ bn)

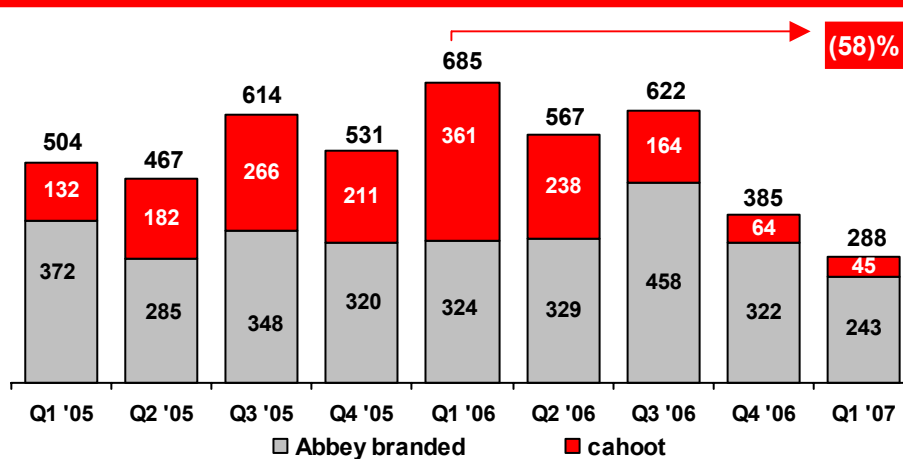


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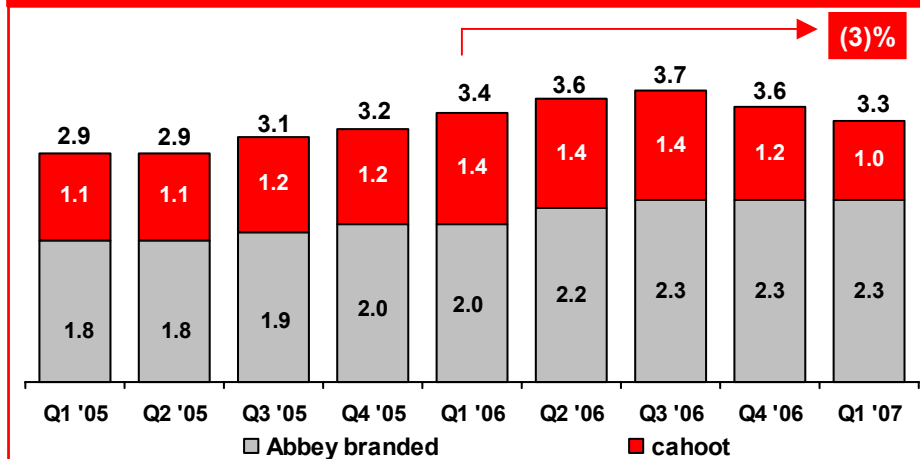
- gross lending increase in the first quarter supported by:
 - national affordability campaigns
 - the Buy to Let business continuing to grow, post launch in November
- competitive pressures continue to weigh on new business pricing

UPL strategy to focus on existing customers continues with upward trend in the more profitable Abbey branch lending

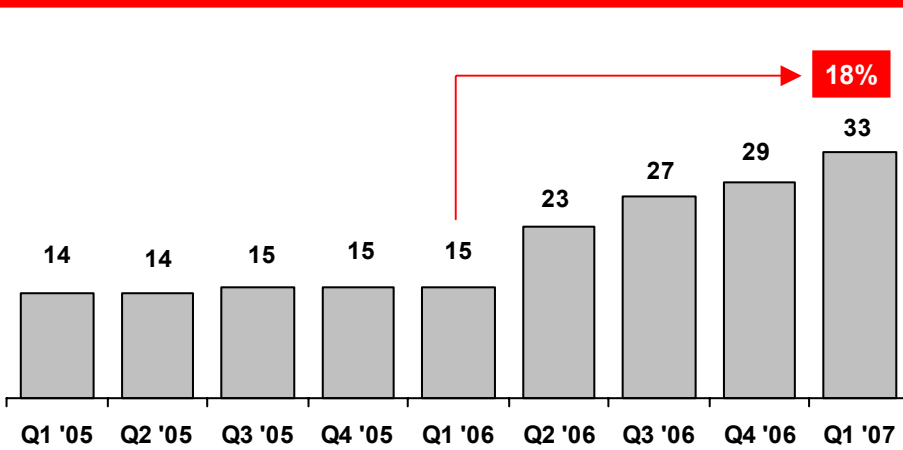
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch lending as % of total

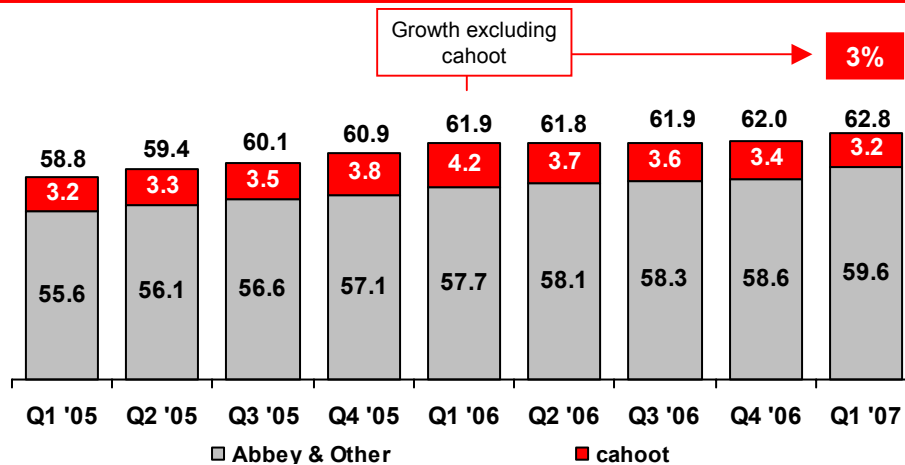


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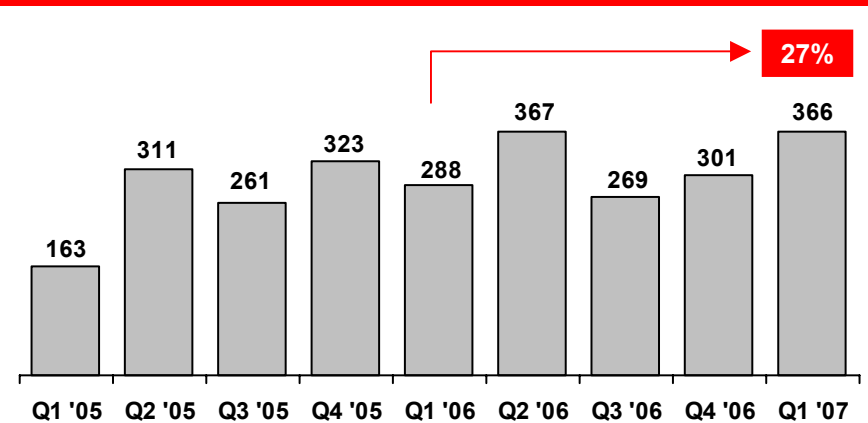
- gross UPLs decreased year on year, driven by a decline in lending of lower margin cahoot and internet products
- a significant increase in the proportion of lending to existing customers through the branch network
- new business margins over 40% higher than in the first quarter of 2006 following revised pricing

Mix of deposit stock trending to a higher margin portfolio and robust growth in investment new business sales

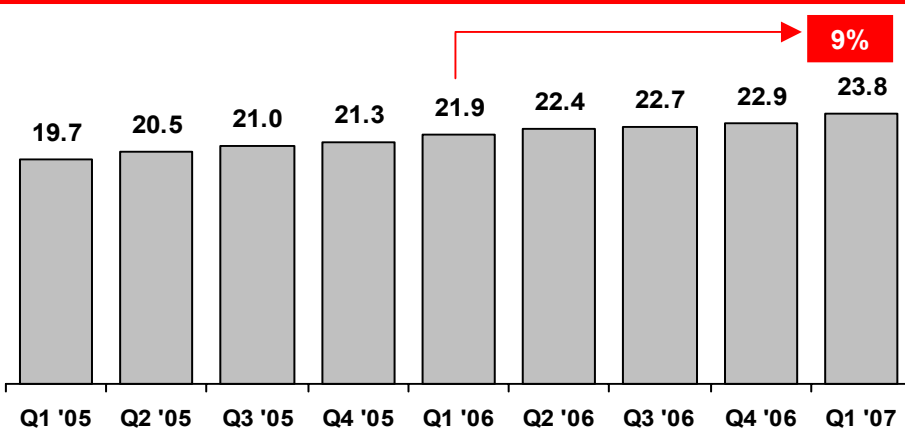
Total customer deposit stock (£bn)



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



Branch acquisition savings stock (£bn)



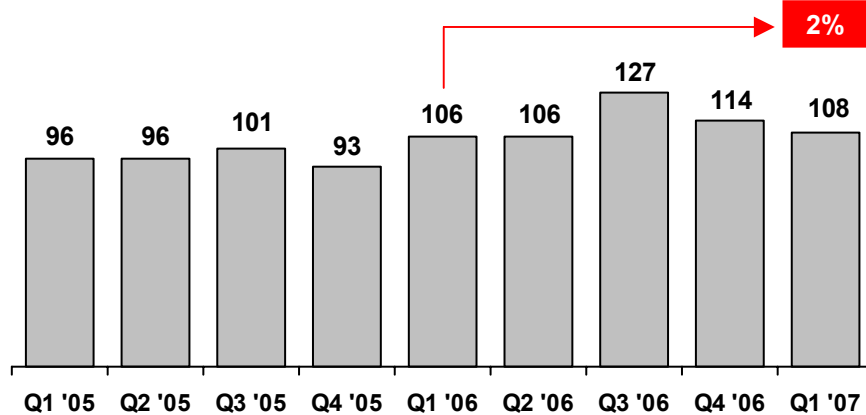
Comment

- overall flows impacted by outflows from lower margin products, such as cahoot. Robust growth of higher margin branch acquisition savings
- Abbey launched several new savings products, including the 8.1% Super ISA, Direct ISA and 50+ Saver – ISA sales drove the uplift relative to the first quarter 2006

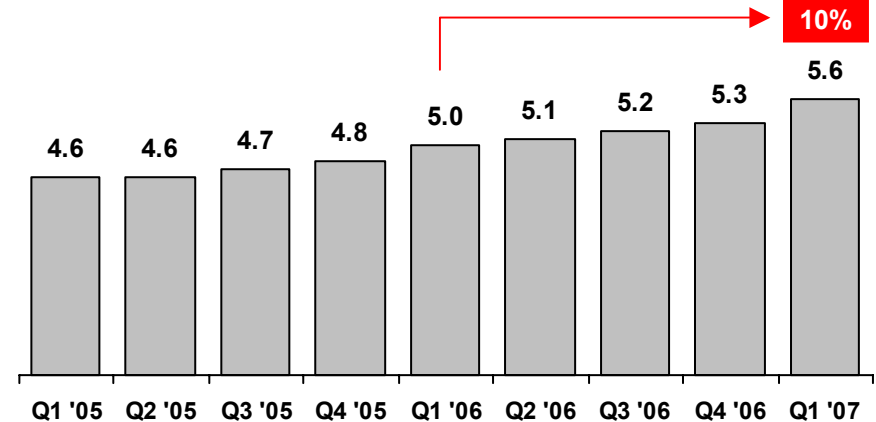
¹ Abbey commission income is generated from new business annual premium income (API) flows

Continued strong growth in bank account liability with high value bank account openings ahead of same period in 2006

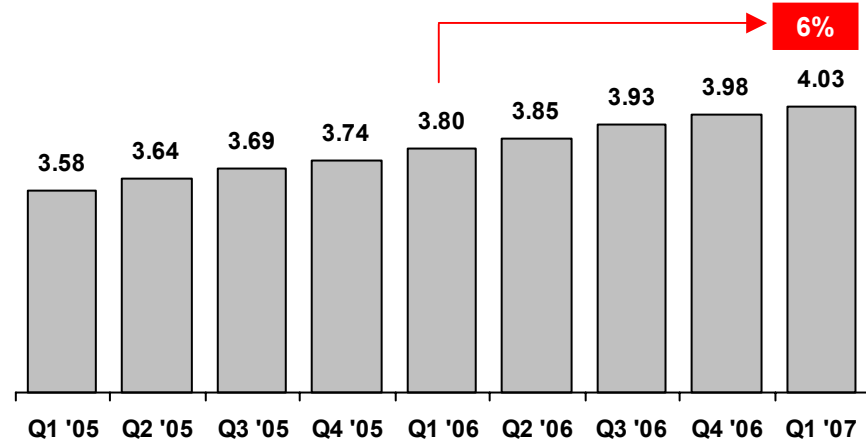
Bank account openings (000)



Abbey branded current account liability (£bn)



Stock of Abbey branded accounts (m)



Comments

- bank account openings ahead of 2006, partly due to growth in branch account openings
- strong growth of higher margin Abbey branded accounts with overall bank account liability up by 10%
- margin widening and growth in current account liability supporting uplift in overall liability spreads

Business update summary

continued
focus on value



- balancing growth and market share in mortgage market
- robust growth of higher margin branch acquisition savings
- margin widening and growth in current account liability supporting uplift in overall liability spreads
- a significant increase in the proportion of UPL gross lending sourced from branches – contributing to higher new business margins

Partenon on
track



- the implementation of Partenon proceeded well in 2006 with the completion of a programme of infrastructure renewal and the commencement of the roll out of several commercial tools
- continued roll-out of Sales and Servicing Portals in the first quarter of 2007

new products
supporting
growth



- Buy to Let mortgage business continues to grow after launch in November 2006
- mortgage performance has been supported by a compelling affordability proposition following changes made in 2006
- launch of several new savings products in the first quarter, including the 8.1% Super ISA, Direct ISA and 50+ Saver

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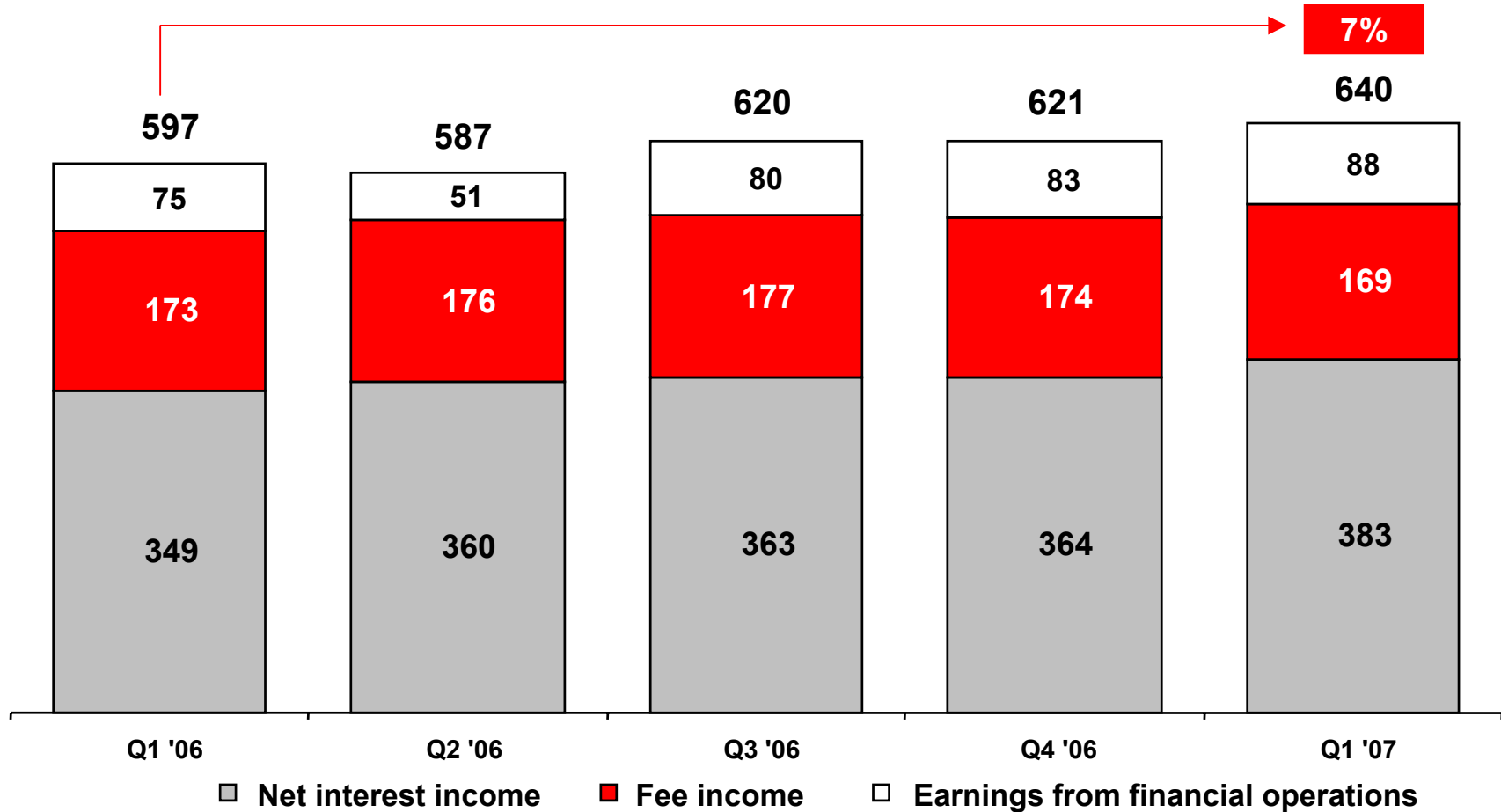
2007 results

Profit and loss

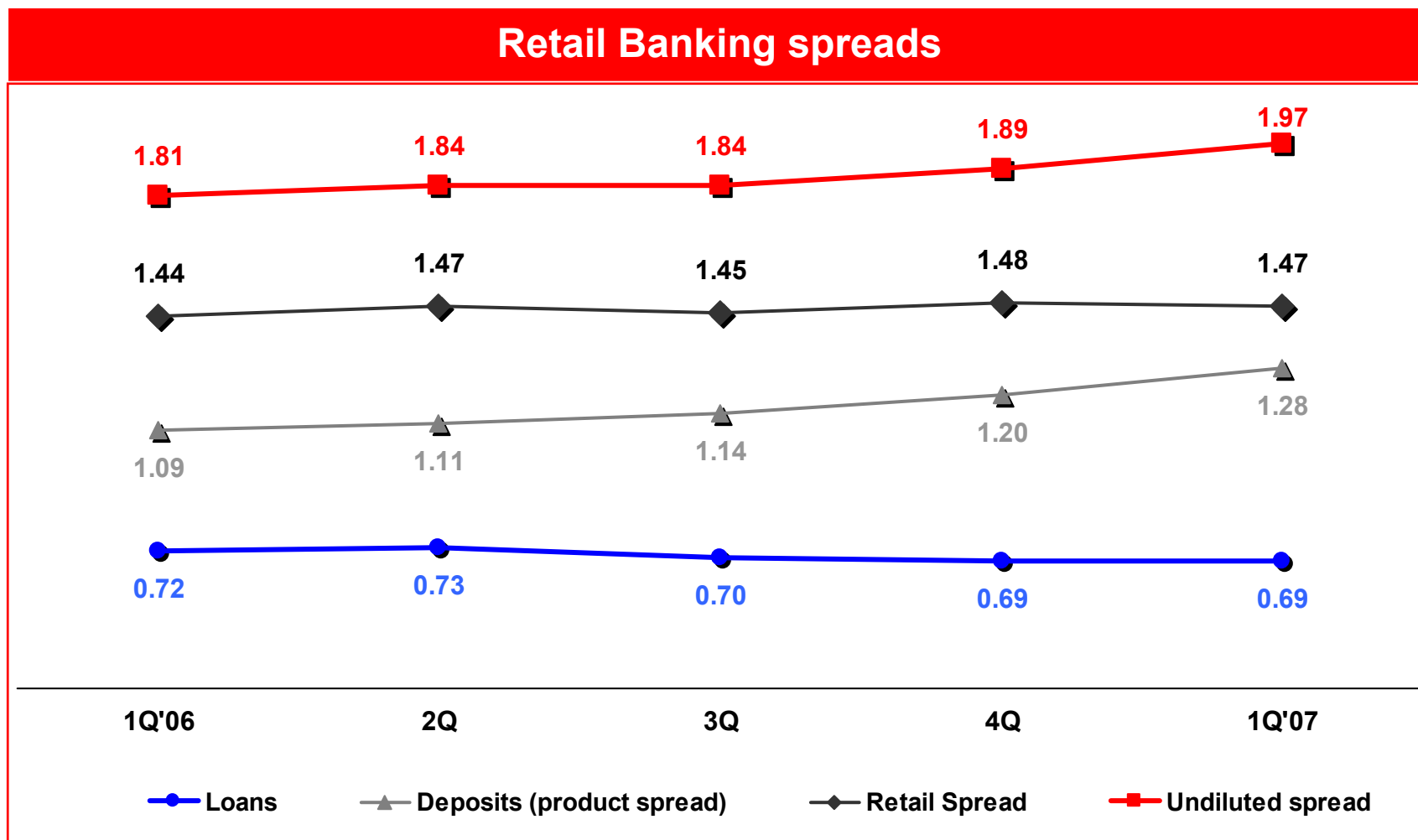
- revenue growth of 7% - comfortably within targeted range and an improvement on 2006
- cost reduction of 4% and further FTE reduction
- operating “jaws” of 11% are significantly ahead of the sector average and are the best amongst the UK banks
- Retail Banking revenues benefited from higher margins and balance sheet growth, supported by a strong contribution from AFM and Wealth Management
- an improvement in the cost : income ratio to 50.8% (2006 Full year: 55.1%)
- provisions broadly in line with 2006, credit quality remains strong
- further improvements in attributable income, up over 20% versus the first quarter in 2006

Improving net interest income partially offset by pressure on fee income

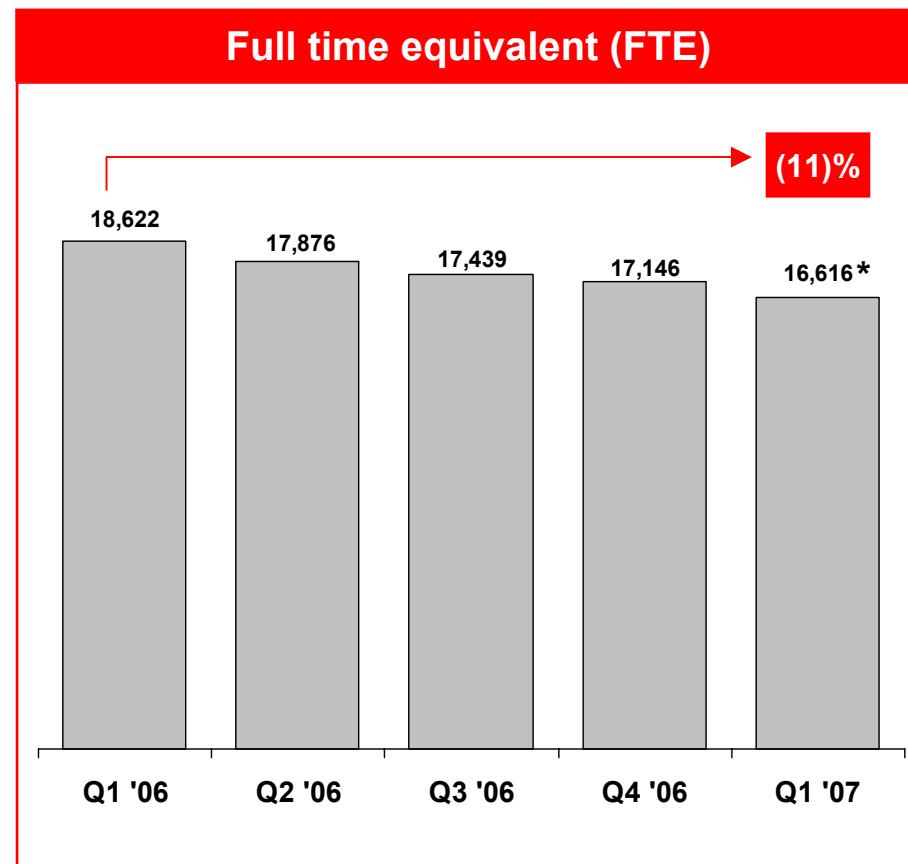
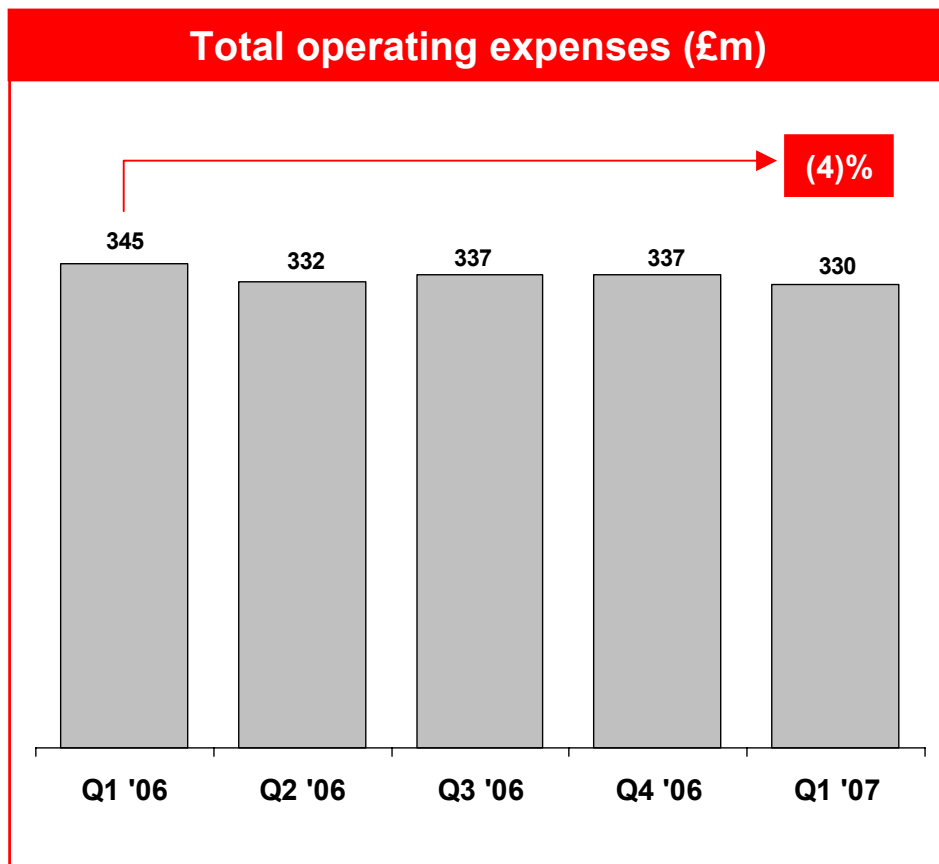
Income (£m)



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



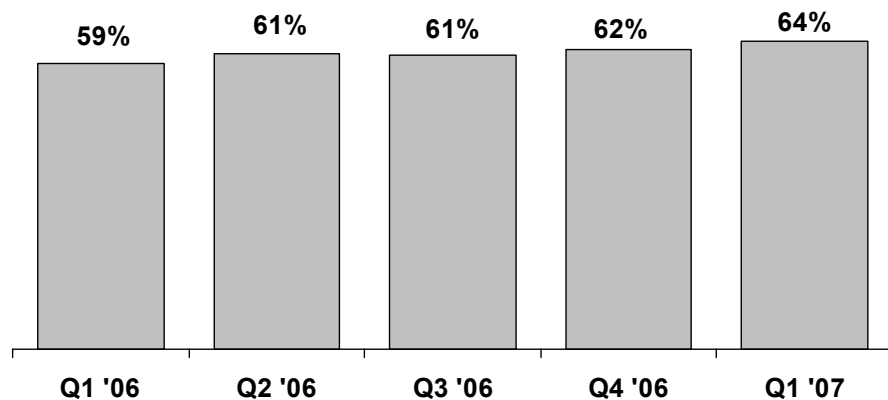
Further cost savings with additional FTE reduction since the 2006 year end



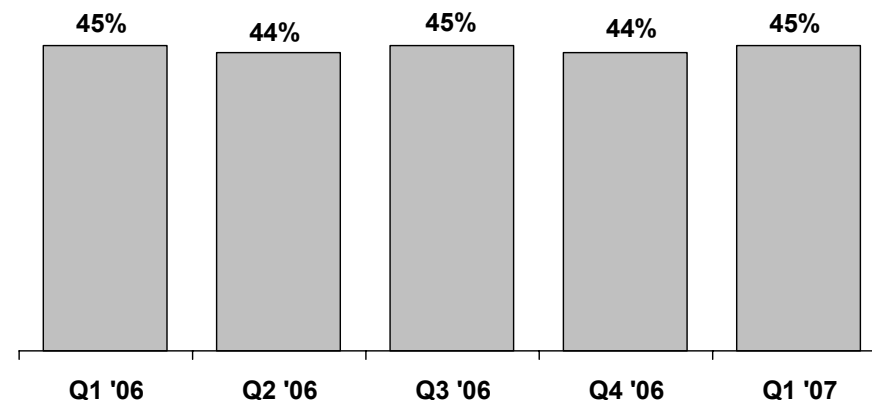
* Q1 2007 excludes approximately 200 FTE that were transferred to Santander Asset Management UK Holdings Ltd during the quarter.

Underlying credit quality is strong

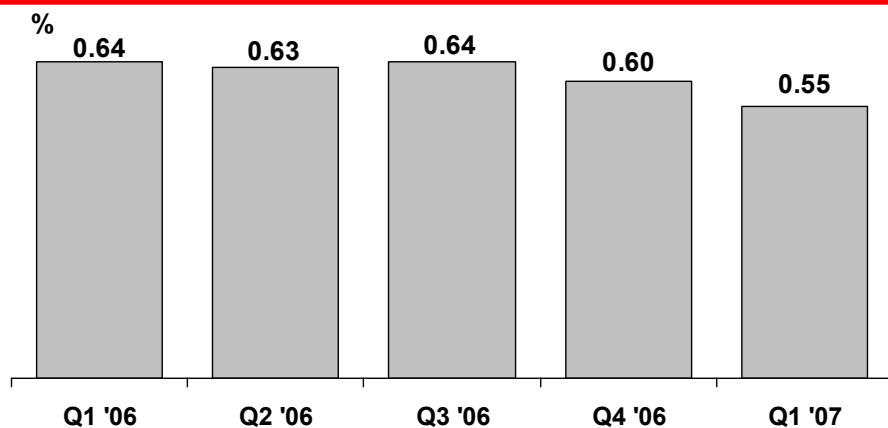
Average new business mortgage LTV (%)



Average indexed mortgage LTV on stock (%)



Abbey NPL's as % of asset (3 months +)



Credit quality

- the volume of mortgage arrears has decreased since March 2006 through proactive management of arrears
- mortgage credit quality remains better than UK sector
- overall coverage ratios have improved

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Financial summary

revenue growth on target



- Retail asset growth of over 8% and strong margin management driving net interest income growth of 10%
- pressure on fee income, albeit offset by growth of 10% in current account balances
- AFM continues to make important contribution to overall revenue growth

cost reductions continue



- further progress towards achieving £300 million cost savings
- cost reduction continuing ahead of full Partenon implementation

low risk



- scope to broaden Retail Banking risk appetite in secured lending, from low base
- increased provisions coverage with stable new business loan to value
- capital ratios strong

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Financial results: Profit and loss (discontinued life separate)

£ million

	Variation			
	Q1 07	Q1 06	Amount	%
Net interest income*	383	349	34	9.7
Income from companies accounted for by the equity method	0	1	(0)	(88.1)
Net fees	169	173	(5)	(2.7)
Insurance activity	0	(0)	0	—
Commercial revenue	552	523	29	5.5
Gains (losses) on financial transactions	88	75	13	17.7
Gross operating income	640	598	42	7.0
Income from non-financial services (net) and other operating income	9	11	(1)	(12.1)
Operating expenses	(330)	(345)	15	(4.4)
General administrative expenses	(313)	(327)	14	(4.2)
<i>Personnel</i>	(175)	(187)	11	(6.0)
<i>Other administrative expenses</i>	(138)	(140)	2	(1.7)
Depreciation and amortisation	(17)	(18)	2	(8.3)
Net operating income	319	264	56	21.2
Net loan loss provisions	(55)	(61)	6	(10.0)
Other income	3	(0)	4	—
Profit before taxes	268	203	66	32.5
Tax on profit	(67)	(56)	(11)	19.3
Net profit from ordinary activity	201	146	55	37.7
Net profit from discontinued operations	—	21	(21)	(100.0)
Net consolidated profit	201	167	34	20.1
Minority interests	—	—	—	—
Attributable profit to the Group	201	167	34	20.1

(*).- Dividends included

Financial results: Balance sheet

£ million	Variation			
	31.03.07	31.03.06	Amount	%
Loans and credits*	130,975	121,063	9,912	8.2
Trading portfolio (w/o loans)	40,294	42,992	(2,698)	(6.3)
Available-for-sale financial assets	16	14	2	14.5
Due from credit institutions*	15,121	11,543	3,578	31.0
Intangible assets and property and equipment	3,362	3,513	(151)	(4.3)
Other assets	5,133	29,617	(24,484)	(82.7)
Total assets/liabilities & shareholders' equity	194,900	208,742	(13,841)	(6.6)
Customer deposits*	76,336	75,935	401	0.5
Marketable debt securities*	56,103	42,514	13,588	32.0
Subordinated debt	6,265	7,691	(1,427)	(18.5)
Insurance liabilities	7	25,009	(25,002)	(100.0)
Due to credit institutions*	30,503	30,203	299	1.0
Other liabilities	23,004	25,238	(2,234)	(8.9)
Shareholders' equity	2,682	2,151	532	24.7
Off-balance-sheet funds	9,272	11,221	(1,949)	(17.4)
Mutual funds	9,272	4,111	5,161	125.5
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	7,109	(7,109)	(100.0)
Customer funds under management	147,976	137,361	10,614	7.7

(*) Includes all stock of concept classified in the balance sheet

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