

Abbey reports continued growth

London, 26 October 2006

This statement provides a summary of the business and financial trends for the three months to 30 September 2006. Unless otherwise stated, the trading¹ results of Abbey are compared to the average of the first two quarters of 2006 (i.e. the first half 2006 run-rate) – both periods exclude the results, and results on sale, of the disposed life businesses.

The 2006 third quarter results of Santander on a Spanish IFRS basis are also released today and can be found on www.santander.com. Abbey's third quarter results, also on a Spanish IFRS basis, are included within Santander's financial statements.

Highlights

Third quarter highlights include:

- statutory profit before tax from continuing operations, excluding the results of the disposed life businesses, was both ahead of the first half run-rate and significantly ahead of the same nine month period last year;
- trading profit before tax up versus the first half run-rate and over 20% higher than the same nine month period last year;
- trading income marginally ahead of the first half run-rate, but over 5% higher than the same nine month period last year. The underlying trend is consistent with revenue growth at the lower end of the targeted 5 – 10% range for the 3-year plan. The retail business continued to benefit from relatively stable margins and strong asset growth. Abbey Financial Markets continued to perform well, with year to date performance well ahead of the same period last year;
- solid new business performance, with increased focus on profitability in both mortgages and savings. Strong performances in terms of bank account openings and UPL gross lending through the Abbey brand, up 22% and 40% respectively;
- a further reduction in trading expenses. Current headcount levels are over 1,800 full time equivalents (FTE) lower than 31 December 2005 (before the impact of the sale of the life businesses);
- a reduction in the trading cost: income ratio from 61.7% for the nine months to 30 September 2005 to 55.3% currently; and
- retail lending provision charges similar to the first half run-rate.

¹ Trading profit before tax is management's preferred profit measure when assessing the performance of the business. It is calculated by adding back reorganisation expenses and other charges from profit before tax. In prior periods the results from the Portfolio Business Unit (PBU) were also excluded.



Comment

"Abbey has made good progress in the third quarter building on the strong performance of the first half of the year.

Revenue growth is being sustained through increased sales capacity and sales productivity and we are on track to meet our £300m cost reduction target by the end of 2007. This is before the full efficiency benefits of Partenon are realised.

We have completed the sale of our life businesses and created a new division, Wealth Management, to push forward our ambitious plans in the UK investment market. In addition, within the Retail Banking division, responsibility for driving forward the next phase of our 3-year plan has been split into Retail Direct and Intermediaries, in order to increase focus and specialisation.

We are continuing to benefit from Santander's expertise and best practices throughout the Group, and this will accelerate in 2007 as we approach the third year of our 3-year Partenon implementation plan."

António Horta-Osório, Chief Executive

Business Update

Abbey's revenue growth is being driven by significant and sustainable improvements in our sales productivity and by increased cross-sales. Better analysis of the profitability of our business by product and channel has also enabled us to focus on improving performance across the bank and to implement a more rigorous approach to employee incentives and reward.

Most business flows have improved over the same period last year - albeit across all of our product range we are balancing growth and market share aspirations with profitability.

During the third quarter we successfully rolled out another key element of Partenon, Santander's core banking platform, with the introduction of a single customer database for the business. This will be followed in the next few weeks by new sales and service tools.

The full impact of Partenon on Abbey's service quality will come in 2007 and 2008 as the bank's product range is moved onto the platform. This will enable front-line employees to meet customers' needs and maximise sales opportunities much better. In the meantime, Abbey will continue to make steady improvements and focus on getting the basics right every time.

Our new credit card operation is well progressed and on track to launch next year. We are also investing in our premium banking and business banking propositions, as well as buy-to-let mortgages following a successful implementation phase.



Financial results

Net attributable profit in the nine months to 30 September 2006 was impacted by the sale of the life businesses, which were sold for £3.6 billion (approximately 97% of their embedded value at the end of 2005). Before the result on sale of the life businesses, attributable profit was ahead of the same period last year.

Trading income:

Net interest income was ahead of the first half run-rate in part due to a solid performance in Retail Banking. Retail lending balances were up 9% compared to the same period last year, in line with the overall market run-rate. Growth has been driven by a combination of mortgages and unsecured personal lending. Asset and liability spreads have remained relatively stable, benefiting from margin management.

Non-interest income has continued to benefit from increased business volumes in the Retail Bank and in subsequent periods is expected to report the benefits from the new distribution agreement with Resolution. Abbey Financial Markets continues to make a strong contribution for the nine months to 30 September 2006.

Expenses:

Trading expenses were slightly lower than the first half run-rate and over 4% lower than the nine months to 30 September 2005.

Of the cost reductions, the majority relate to employment costs driven by a headcount reduction of over 500 FTE in the third quarter and over 1,800 FTE so far in 2006.

Provisions:

Retail provisions were similar to the first half run-rate. For the nine months to 30 September 2006, approximately 40% of the Retail increase, compared to the same period in 2005, relates to mortgages increasing modestly from a very low base and relative to the overall book. The remainder of the growth is largely driven by the seasoning of the unsecured personal loan portfolio, with some deterioration in quality in line with industry experience.

Mortgage credit quality remains very strong, with stable stock of properties in possession of 460 (December: 447) and lower 3 month plus arrears cases of 7,323 (December: 8,240). The average loan to value (LTV) on new business and stock remained low at 60.9% and 44.7% respectively, and Abbey's exposure to specialist lending segments is negligible. On all measures, the quality of the book remains better than industry averages and broadly in line with expectations.

Reorganisation expenses and other charges:

Excluding the impact of the sale of the life businesses, reorganisation expenses and other charges were broadly in line with the first half run-rate.

Business flows

	Qtr 1 2005	Qtr 2 2005	Qtr 3 2005	Qtr 4 2005	Qtr 1 2006	Qtr 2 2006	Qtr 3 2006
Gross mortgage lending (£ bn)	4.9	6.6	8.1	8.0	7.0	8.9	8.2
Capital repayments (£ bn)	5.5	5.9	6.5	6.7	5.6	6.1	6.4
Net mortgage lending (£ bn)	-0.6	0.7	1.5	1.4	1.4	2.8	1.8
Stock (£ bn)	90.3	91.0	92.5	93.9	95.2	98.1	99.9
Market share – gross lending	8.7%	9.5%	10.1%	9.8%	9.5%	10.4%	8.8%
Market share – capital repayments	14.1%	12.9%	12.0%	11.6%	10.9%	10.6%	10.2%
Market share – net lending	-3.6%	3.0%	6.0%	5.5%	6.1%	10.1%	6.0%
Market share – stock	10.1%	9.9%	9.8%	9.7%	9.6%	9.7%	9.6%
Total net deposit flows (£ bn)	0.3	1.0	0.8	0.6	1.3	0.0	-0.4
Bank account openings (000s)	96	96	101	93	106	106	127
Total gross UPL lending (£ m)	504	467	614	531	685	567	622
Investment sales (incl. Inscape) – APE (£ m)	32	57	49	53	46	60	54
Protection sales – APE (£ m)	19	21	22	20	19	19	17

Main highlights for the third quarter (compared to Q3 2005 unless stated) include:

- gross mortgage lending of £8.2 billion, around 2% higher, with an estimated market share of 8.8%;
- capital repayments of £6.4 billion were broadly in-line, whilst the estimated market share fell to 10.2% compared to 12% a year earlier;
- net mortgage lending of £1.8 billion, up 20%, and an estimated net lending market share of 6.0%. The third quarter result was in line with the best quarter in 2005, and is moving toward Abbey's targeted market share. Abbey will continue to balance growth and market share aspirations with a focus on profitability;
- net customer deposit flows of -£0.4 billion in the third quarter with outflows again driven by re-pricing of low / negative margin accounts put in place in Q2;
- bank account openings of 127,000, up c. 26%, an improvement on the uplift of 10% reported at half year. Adult account openings increased by over 21% and the more valuable switcher account openings were up c. 150%. As a result, bank account liability balances increased by 11%;
- total gross UPL lending was 1% higher, with Abbey branded gross UPL lending over 31% higher and branch lending up by over 90% from a low base;
- investment APE sales up 10%, as investments & pensions sales continue to grow on the back of a buoyant market and strong sales productivity improvements; and
- protection sales slightly below the first half run-rate.



Disclaimer

Abbey National plc (“Abbey”) is a wholly owned subsidiary of Banco Santander Central Hispano, S.A. (“Santander”) (SAN.MC, STD.N). Santander is one of largest banks in the world by market capitalisation. Founded in 1857, Santander has more than 60 million customers, over 10,000 offices and a presence in over 40 countries. It is the largest financial group in Spain and is a major player in Latin America and elsewhere in Europe, including in the United Kingdom (through Abbey) and in Portugal. Through Santander Consumer it also operates a leading consumer finance franchise in Germany, Italy, Spain and ten other European countries.

Santander has a secondary listing of its ordinary shares on the London Stock Exchange and Abbey continues to have its preference shares listed on the London Stock Exchange. Nothing in this press release constitutes or should be construed as constituting a profit forecast.

Abbey and Santander both caution that this press release may contain forward-looking statements. The US Private Securities Litigation Reform Act of 1995 contains a safe harbour for forward-looking statements on which we rely in making such statements in documents filed with the US Securities and Exchange Commission. Such forward looking statements are found in various places throughout this press release. Words such as “believes”, “anticipates”, “expects”, “intends”, “aims” and “plans” and similar expressions are intended to identify forward looking statements, but they are not the exclusive means of identifying such statements. Forward-looking statements include, without limitation, statements concerning our future business development and economic performance. These forward looking statements are based on management’s current expectations, estimates and projections and both Abbey and Santander caution that these statements are not guarantees of future performance. We also caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, (1) inflation, interest rate, exchange rate, market and monetary fluctuations; (2) the effect of, and changes to, regulation and government policy; (3) the effects of competition in the geographic and business areas in which we conduct operations; (4) technological changes; and (5) our success at managing the risks of the foregoing. The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to Abbey or Santander, investors and others should carefully consider the foregoing factors and other uncertainties and events. Such forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. Statements as to historical performance, historical share price or financial accretion are not intended to mean that future performance, future share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year.

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