

# United Kingdom: Abbey

January to June  
2006

London, 27 July 2006

# 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 66 million customers, over 10,000 offices and a presence in over 40 countries. It is the largest financial group in Spain and Latin America, and is a major player 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 nine 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 presentation constitutes or should be construed as constituting a profit forecast.

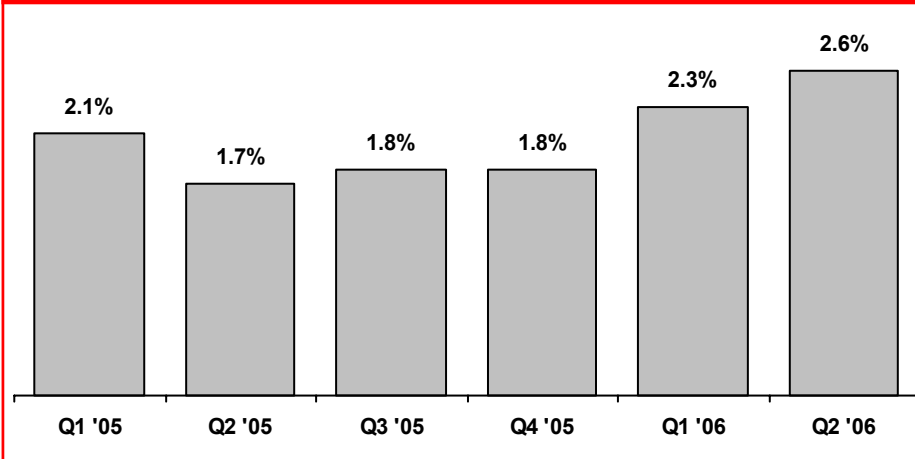
Abbey and Santander both caution that this presentation may contain forward-looking statements. The US Private Securities Litigation Reform Act of 1995 contains a safe harbour for forward-looking statements on which we rely in making such statements in documents filed with the US Securities and Exchange Commission. Such forward looking statements are found in various places throughout this presentation. 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.

## ■ Market environment

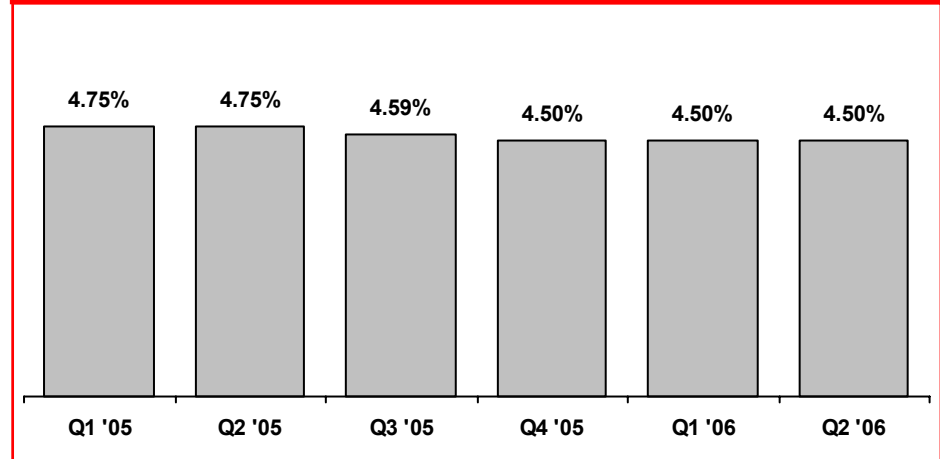
- Business update
- Financials
- Conclusions
- Appendix

# UK economic fundamentals remain relatively benign

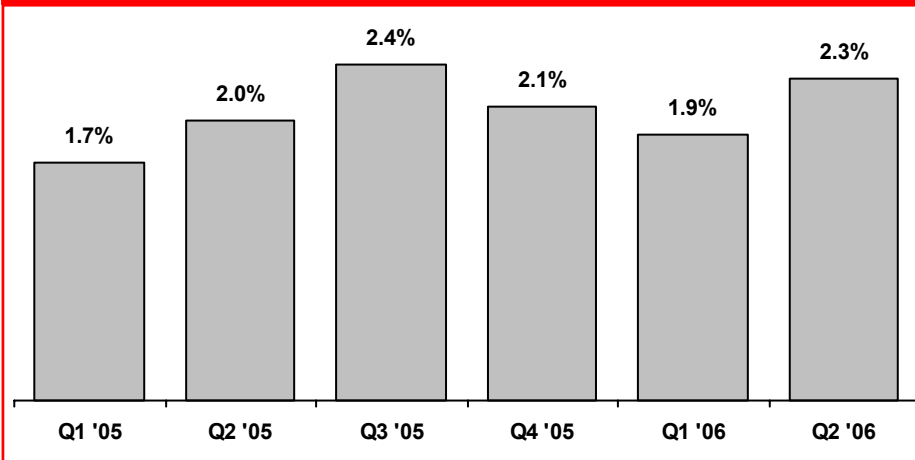
## Annual GDP growth (%)



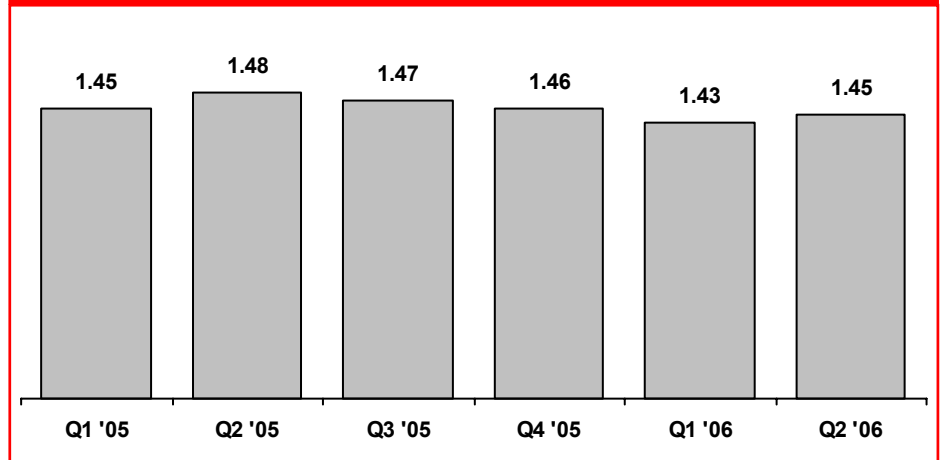
## Interest rates (% , quarterly average)



## Annual CPI inflation rate (%)



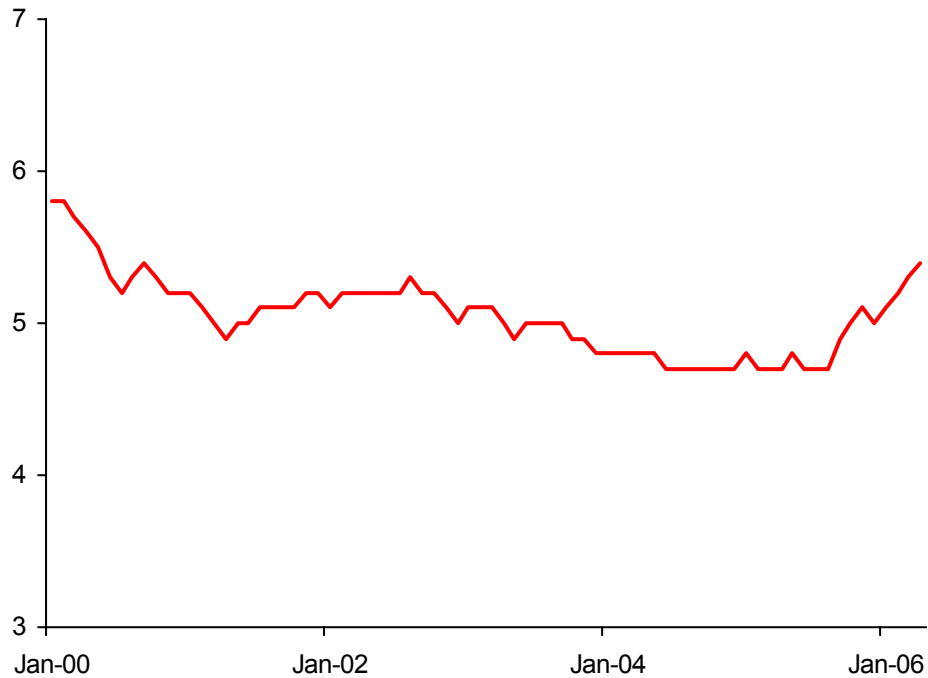
## GBP : Euro exchange rates (end period)



Source – Office for National Statistics, Bank of England

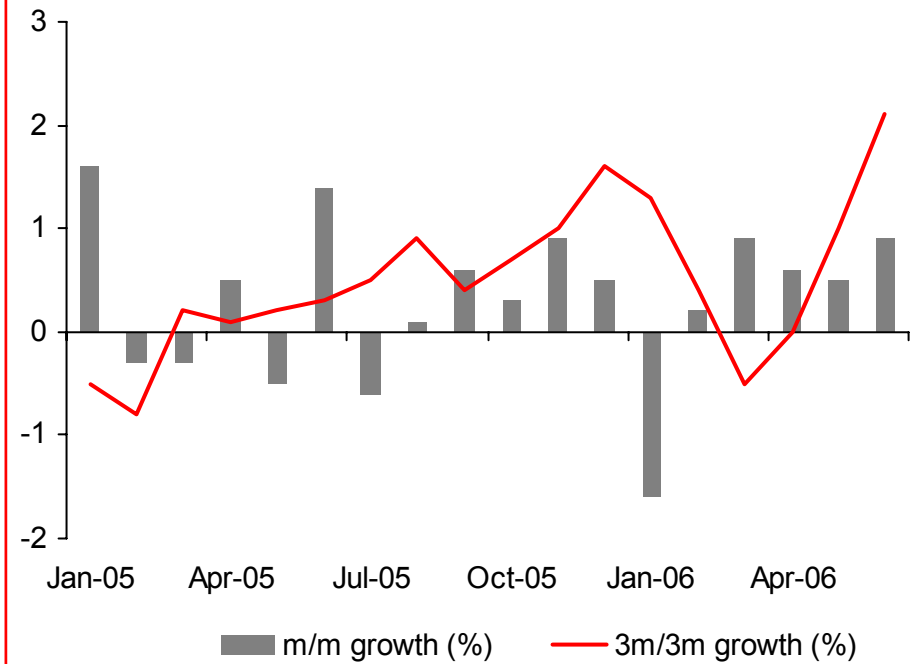
# Unemployment increasing within a narrow range and steadier monthly retail sales growth

## Unemployment rate (% , ILO)



Source – Office for National Statistics

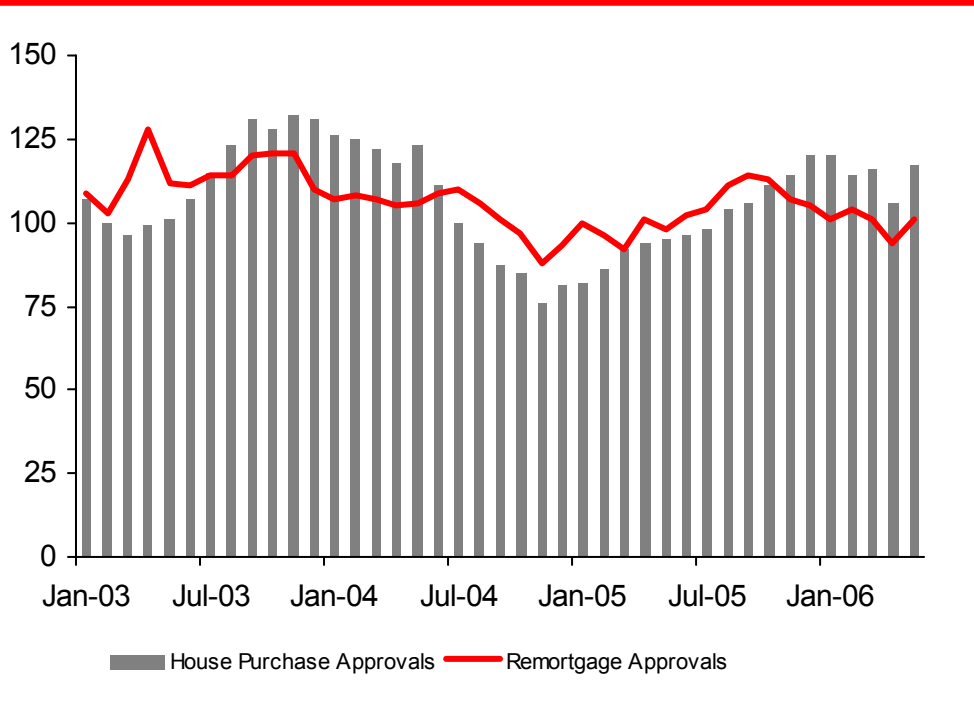
## Retail sales growth (m/m, 3m/3m, %)



Source – Office for National Statistics

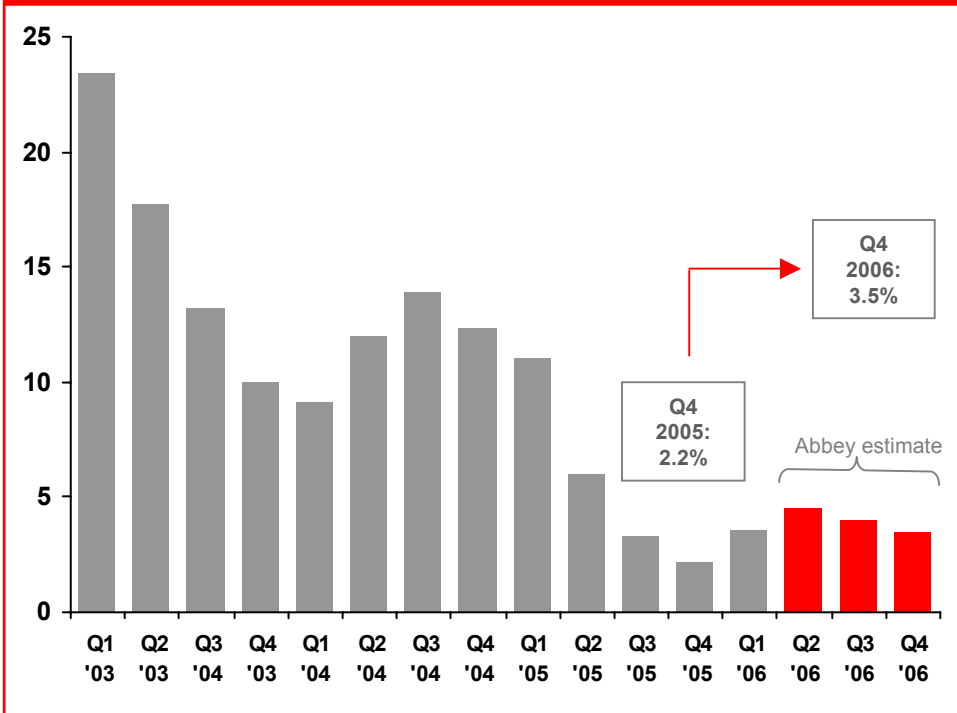
# House purchase activity strengthened in late 2005 but has shown some signs of moderating, with annual house price growth having picked up slightly

House purchase and remortgage approvals  
(number of approvals (s.a., 000s))



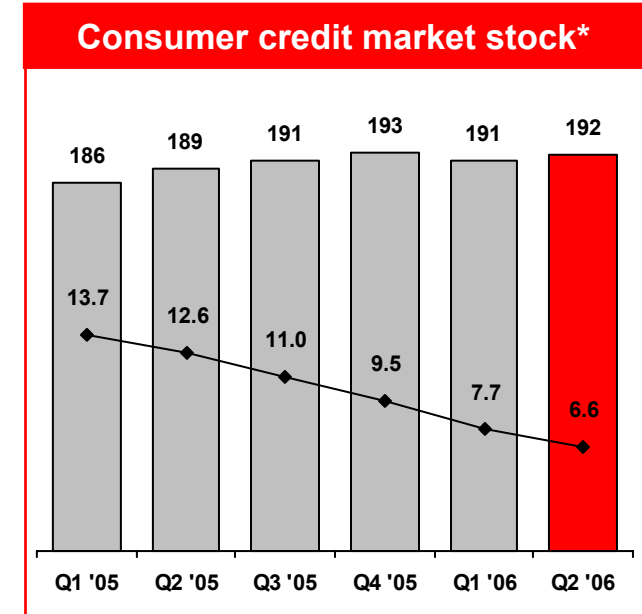
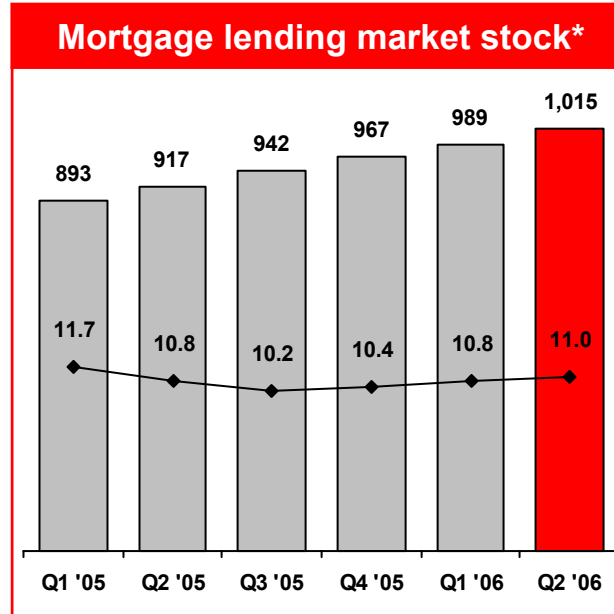
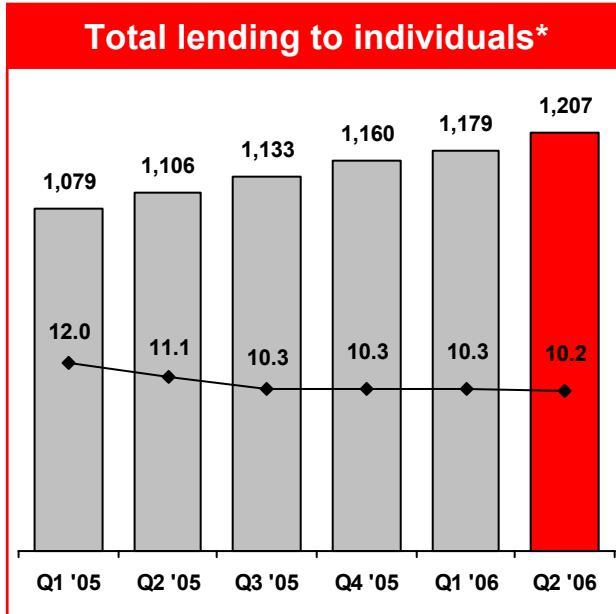
Source – Bank of England

Annual house price growth (%)



Source – Department for Communities and Local Government

# The annual growth in consumer debt has slowed since mid-2004, with a more marked slowing in consumer credit



Source: Bank of England.

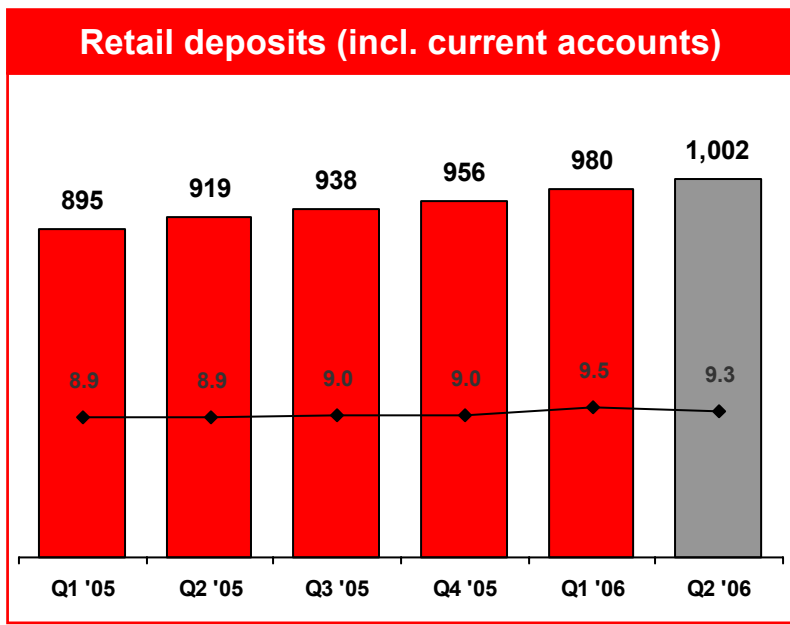
■ - actual market size (£bn)

■ - market size – Abbey estimate (£bn)

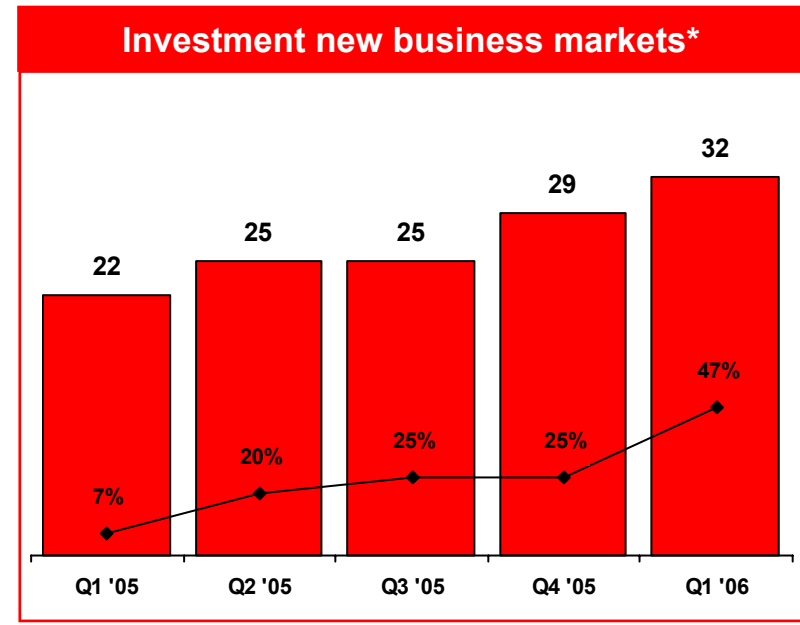
◆ - annual growth rates (%)

\*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 very 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)     
  - market size – Abbey estimate (£bn)     
  - annual growth rates (%)

\* Data only available on a quarterly basis - quarter 2 2006 data is not currently available.



# Contents

- Market environment

## ■ Business update

- Financials
- Conclusions
- Appendix

# Abbey is a key retail participant in the UK banking industry

## 2006 Half 1 highlights

■ residential mortgage stock	£98.1bn
■ residential mortgage stock share	9.7%
■ UPL stock	£3.6bn
■ customer deposit stock	£63.5bn
■ net attributable income	£338m
■ branches	712
■ employees (FTE)	19,846

## Abbey franchise

- ...with a well established mortgage business ...
  - second largest mortgage lender in the UK
  - improving net lending market share
- ...and showing potential in other product areas...
  - 2.9% share of deposit flows in the first half of 2006, with over 6% of total customer deposit stock
  - 8.5% share of direct investment new business<sup>(1)</sup>
- ... to an attractive customer franchise
  - Abbey has large customer franchise with a strong presence in the “greater than £35k” customer salary band
  - 6.4 million customers hold more than 1 product

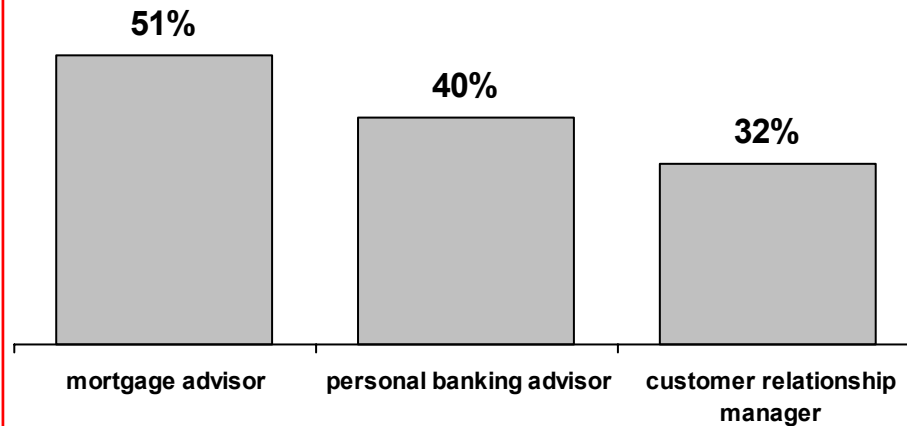
<sup>(1)</sup> Market share in the first quarter 2006

# Progress in developing the new operating model with...

...increased sales productivity and improved cross sale strike rates...

## Increase in average number of products sold by role type\*

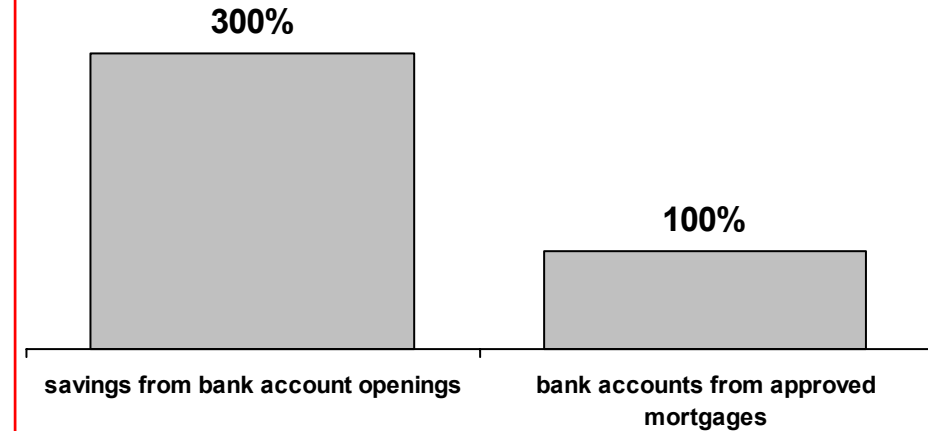
(% increase – Half 1 2006 vs. Half 1 2005)



\* branch channel

## Increase in cross sale strike rates

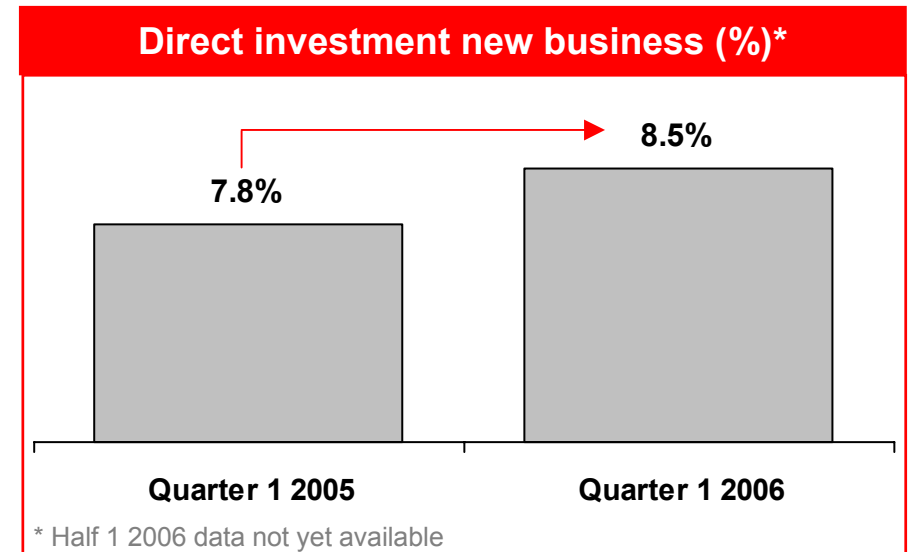
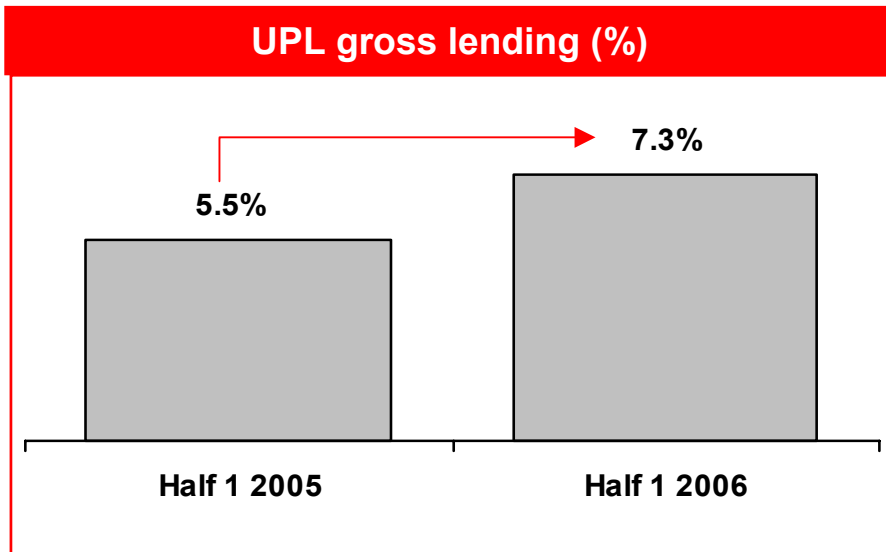
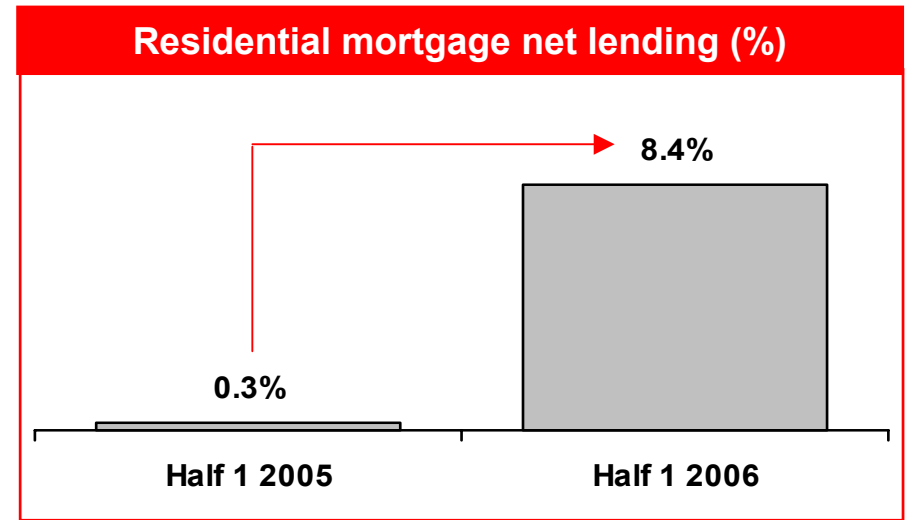
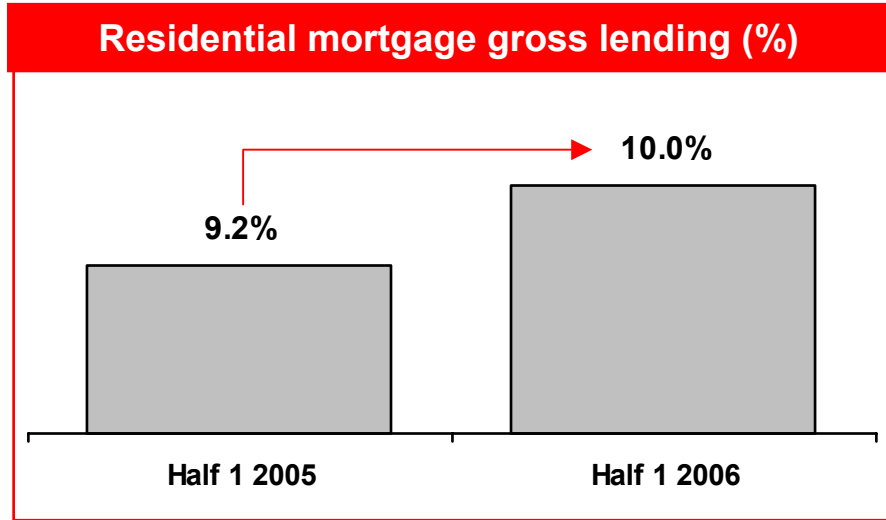
(% increase – May YTD 2006 vs. May YTD 2005)



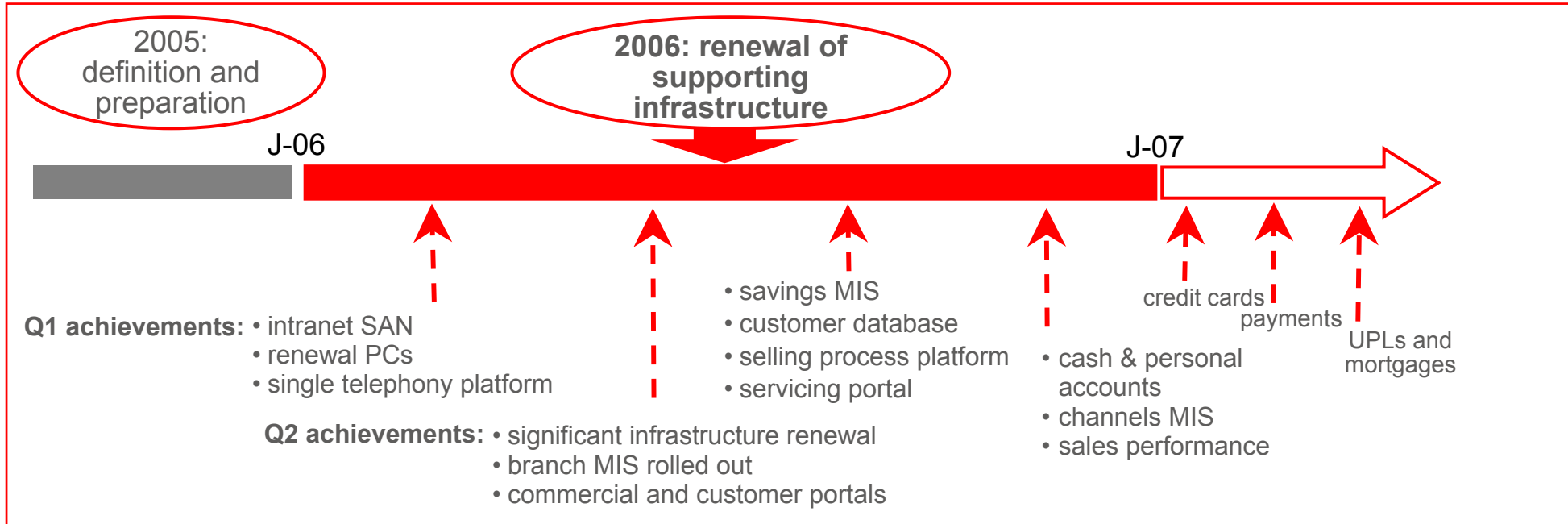
## ...and growing sales capacity

- new branch operating model which significantly increases Abbey's capacity to sell
- all branch managers now able to sell
- an additional c. 100 FTE employed to sell investment products in our branches, with further FTE being recruited

# Resulting in improved market shares



# Partenon implementation on track



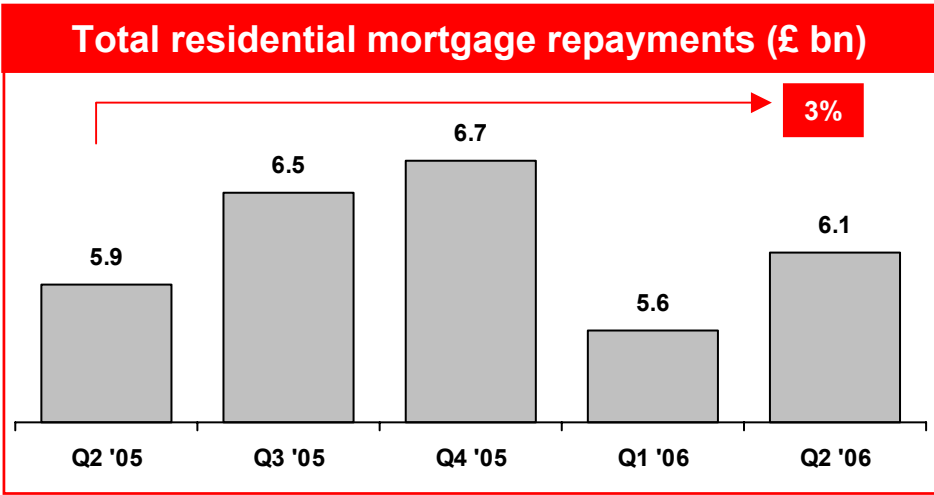
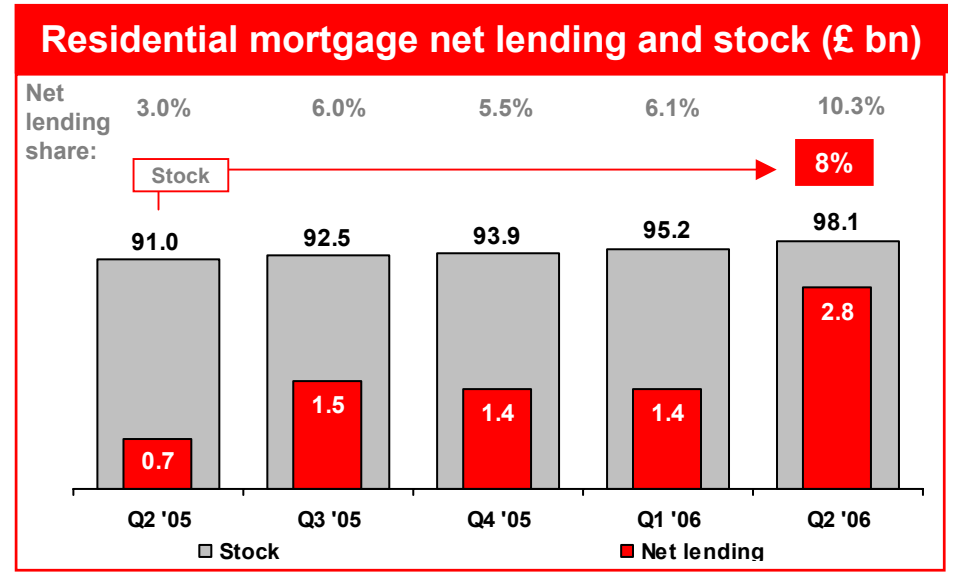
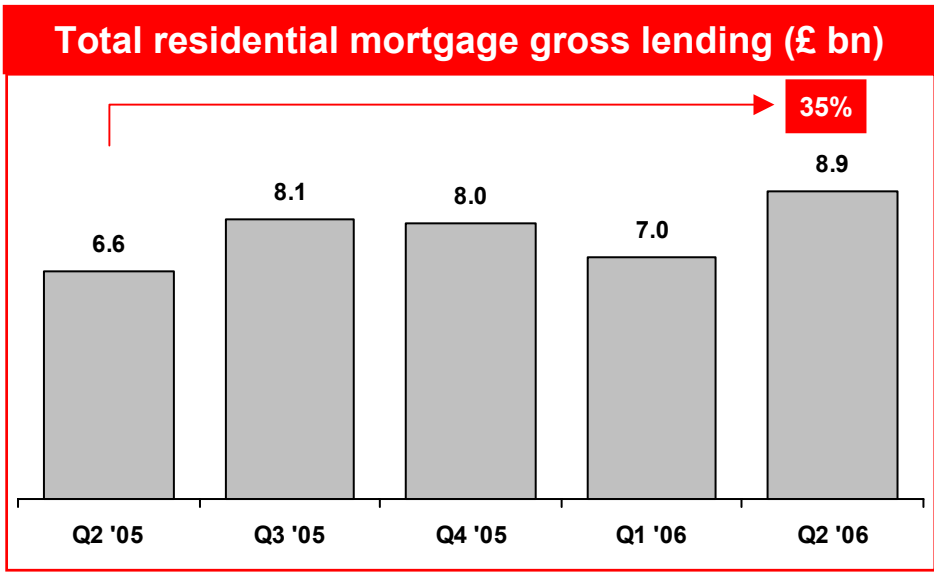
- **new commercial tools for our direct channels – branches and telephony**
  - **Branch MIS:** approximately 1,000 FTE trained. **Other channels MIS:** ready to roll out
  - **Commercial tools:** commercial and customer portals offering an integrated vision of the client (products and relationships) and allow for improvements in sales productivity
- **next steps: the replacement of Abbey's front-end applications and a new customer database**
  - single customer database (BDP) will improve customer information delivered to the business
  - selling and servicing portals will simplify and improve sales processes

# Significant de-risking of the Abbey balance sheet

## Strategic rationale for the disposal of Life businesses:

- 1 De-risk the balance sheet**  
We give up some short term profits for economic capital and lower risk
- 2 Selling a legacy business to focus on our core-activities**  
Expanding in core banking businesses in the UK
- 3 Strategic partnership, while keeping the insurance distribution**  
In the UK, we focus on distribution (vs. manufacturing)... plus we get 5 million potential new clients
- 4 Attractive multiple compared with similar transactions**  
Highest multiple paid for closed funds so far
- 5 Restructure of capital in advance of Basel II**  
Under a post-Basel 2 Tier 1 ratio comparison, Abbey moves from weakest capitalisation of major UK Banks to one of the strongest
- 6 Positive for existing staff**  
Resolution want to take on all staff and maintain a significant presence in Glasgow going forward reducing operational risk

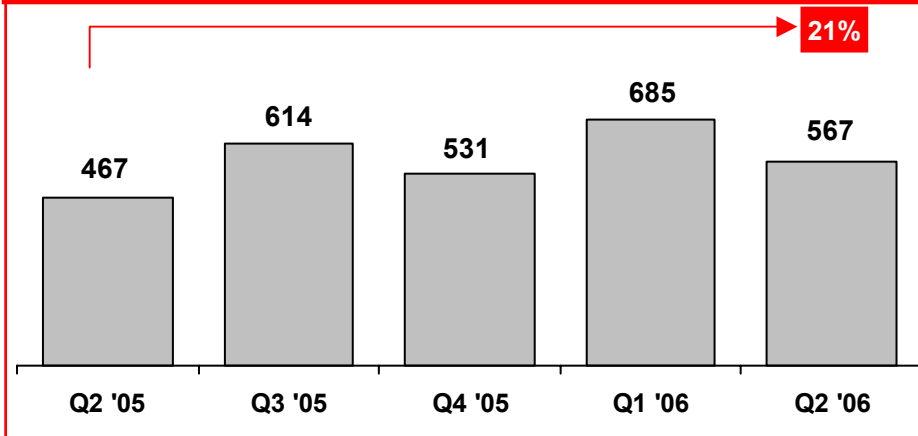
# Mortgage performance improving



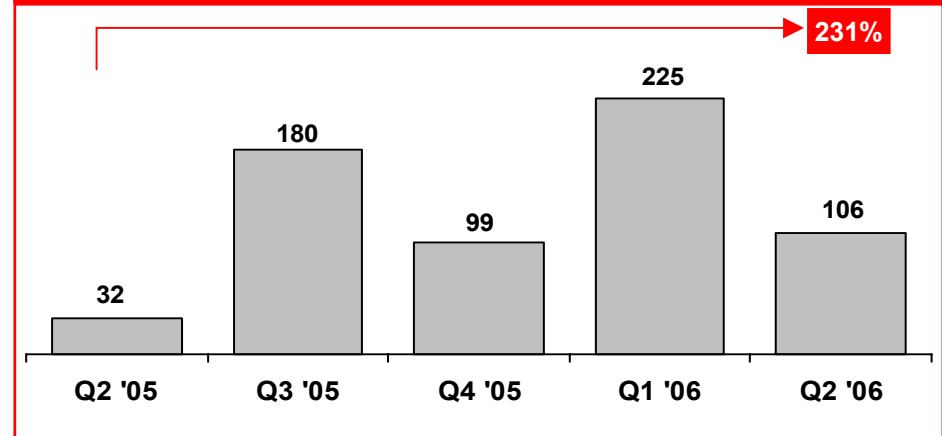
- ### Mortgage spread (%)
- overall mortgage spread is broadly in line with the same period last year
  - new business pricing remains competitive, leading to some limited downward pressure

# UPL growth continues

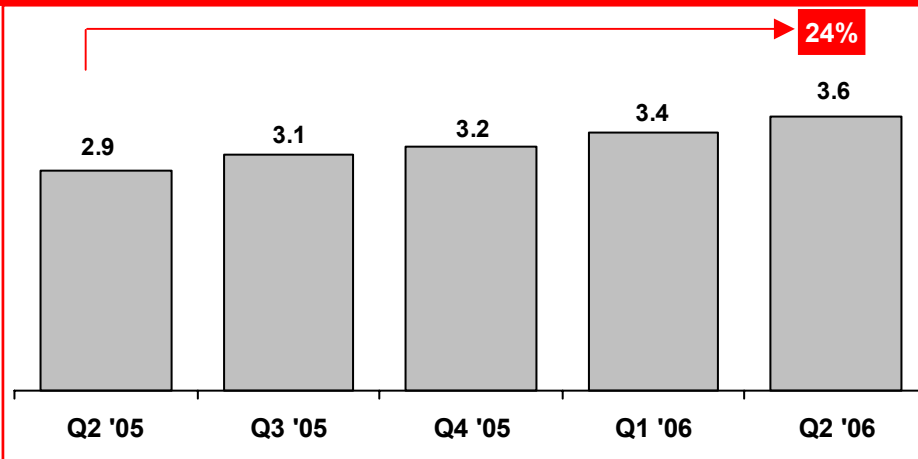
## Total UPL gross lending (£m)



## Total UPL net lending (£m)



## Total UPL stock (£bn)



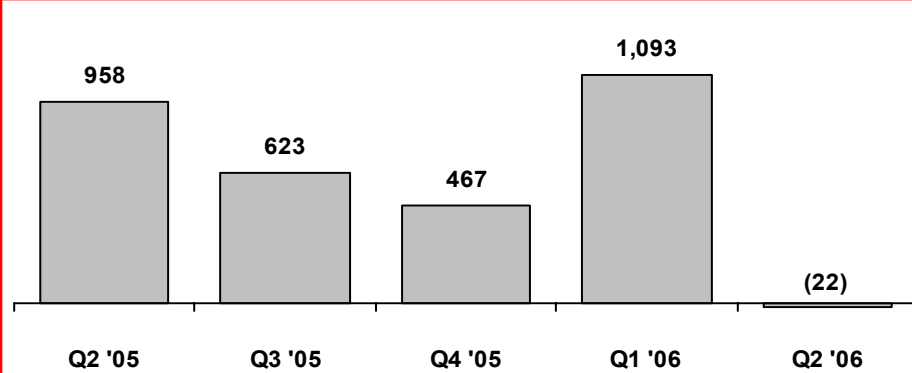
## UPL spread (%)

- growth in the UPL book is helping to support overall asset spreads
- new business margin through direct channels has improved in half 1 2006



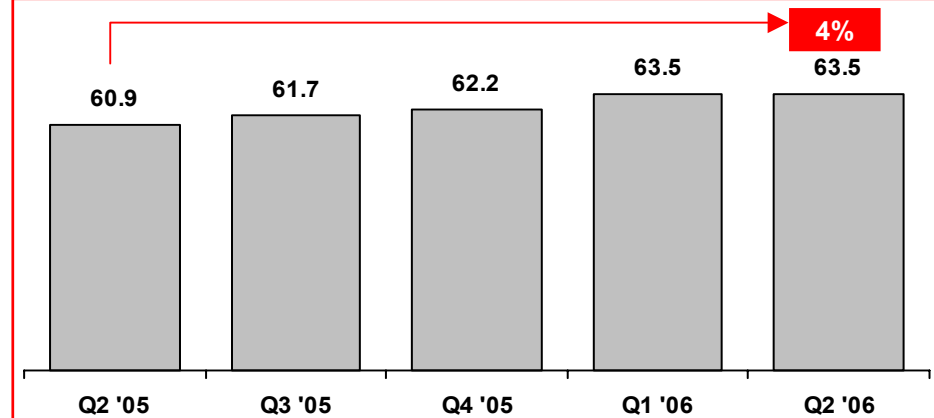
# Strong current account growth, with savings growth benefiting from a buoyant market

## Total savings account liability flow (£m)\*

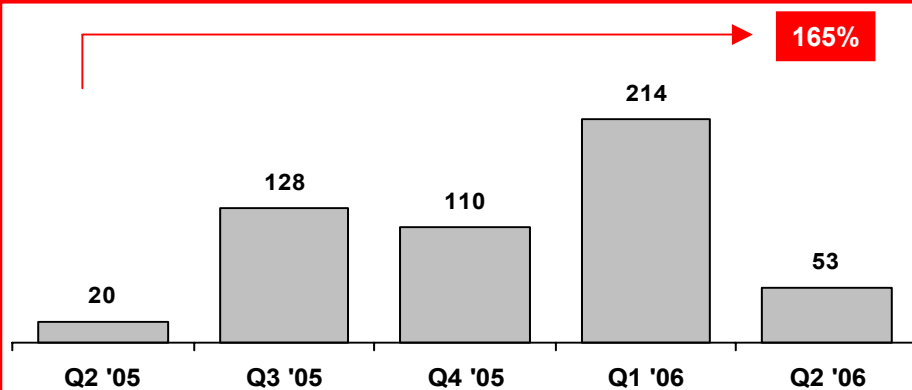


\* excludes current account liability

## Total customer deposit stock (£bn)



## Total current account liability flows (£m)\*

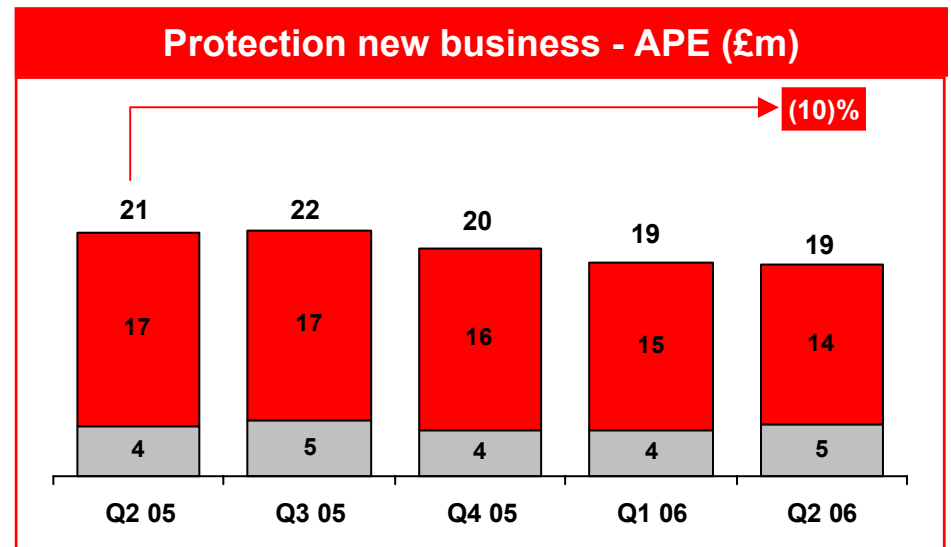
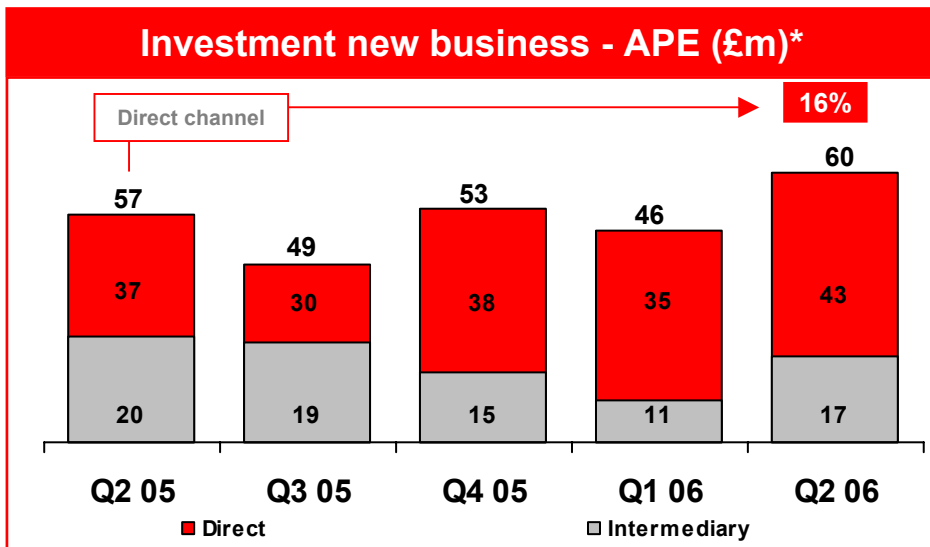
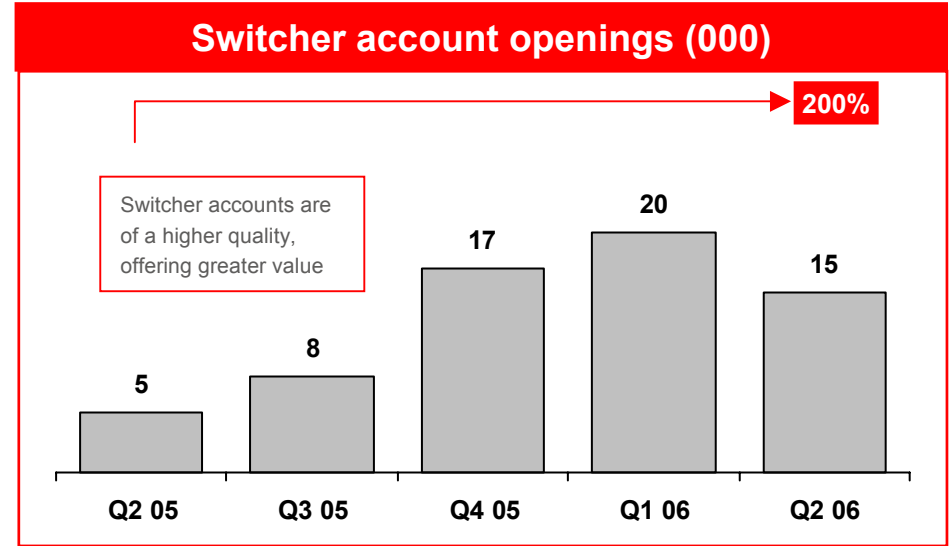
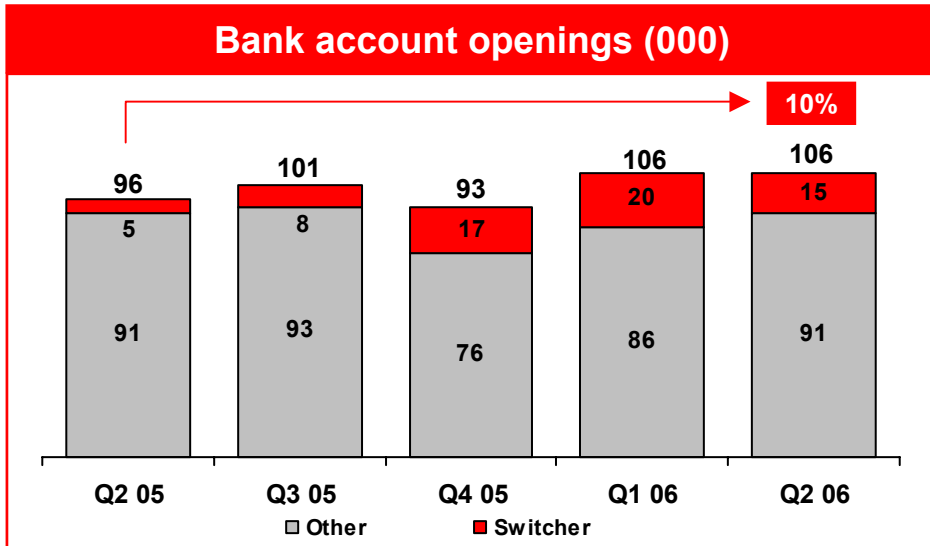


\* Abbey-branded current accounts

## Liability spread (%)

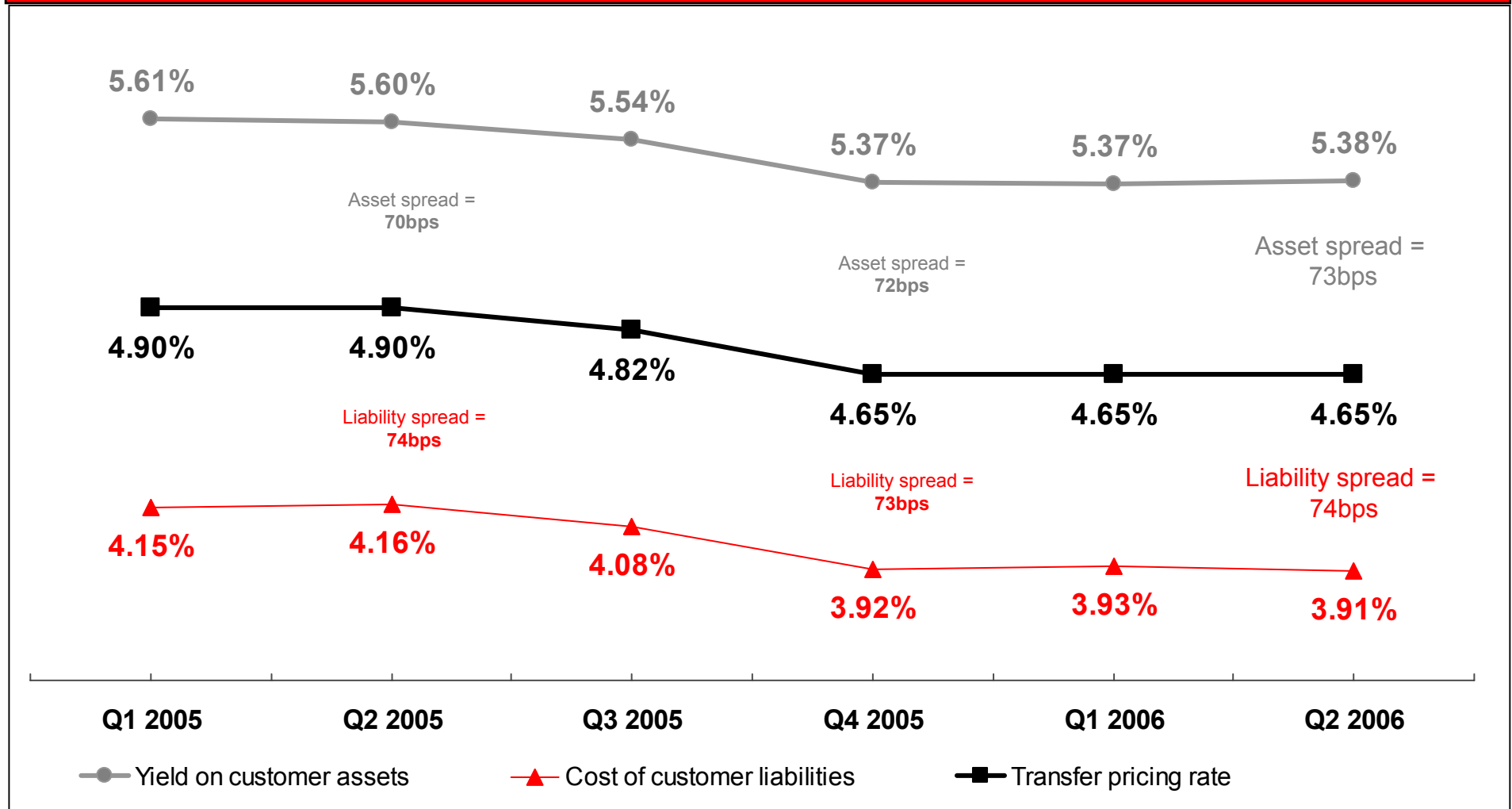
- overall deposit spreads have improved since first half 2005
- re-pricing has impacted savings flows – with outflows in Q2 almost entirely from low / negative margin internet accounts
- current account flows in part driven by seasonality, campaigns, and timing of weekends in each calendar month

# Other new business flows robust



# Retail spreads are stabilising

## Spread analysis (%)



# Business update summary

new operating model starting to drive sales

- sales productivity and capacity improving
- reversing historically low cross sale strike rates

Partenon on track

- roll out of branch and channel MIS represents a key milestone
- Abbey is now in place to deliver single customer database and associated commercial tools in the second half

balancing market share and value

- exceeded share of net mortgage lending of 10% in quarter 2 2006
- share of repayments decreasing
- managing for value in UPL and savings

key achievements in half 1

- sale of life companies...de-risking Abbey and increasing focus
- pilots launched in buy-to-let and premium banking
- new credit card business operations announced

# Contents

- Market environment
- Business update

## ■ Financials

- Conclusions
- Appendix

# Half 1 2006 results themes (versus H1 2005)

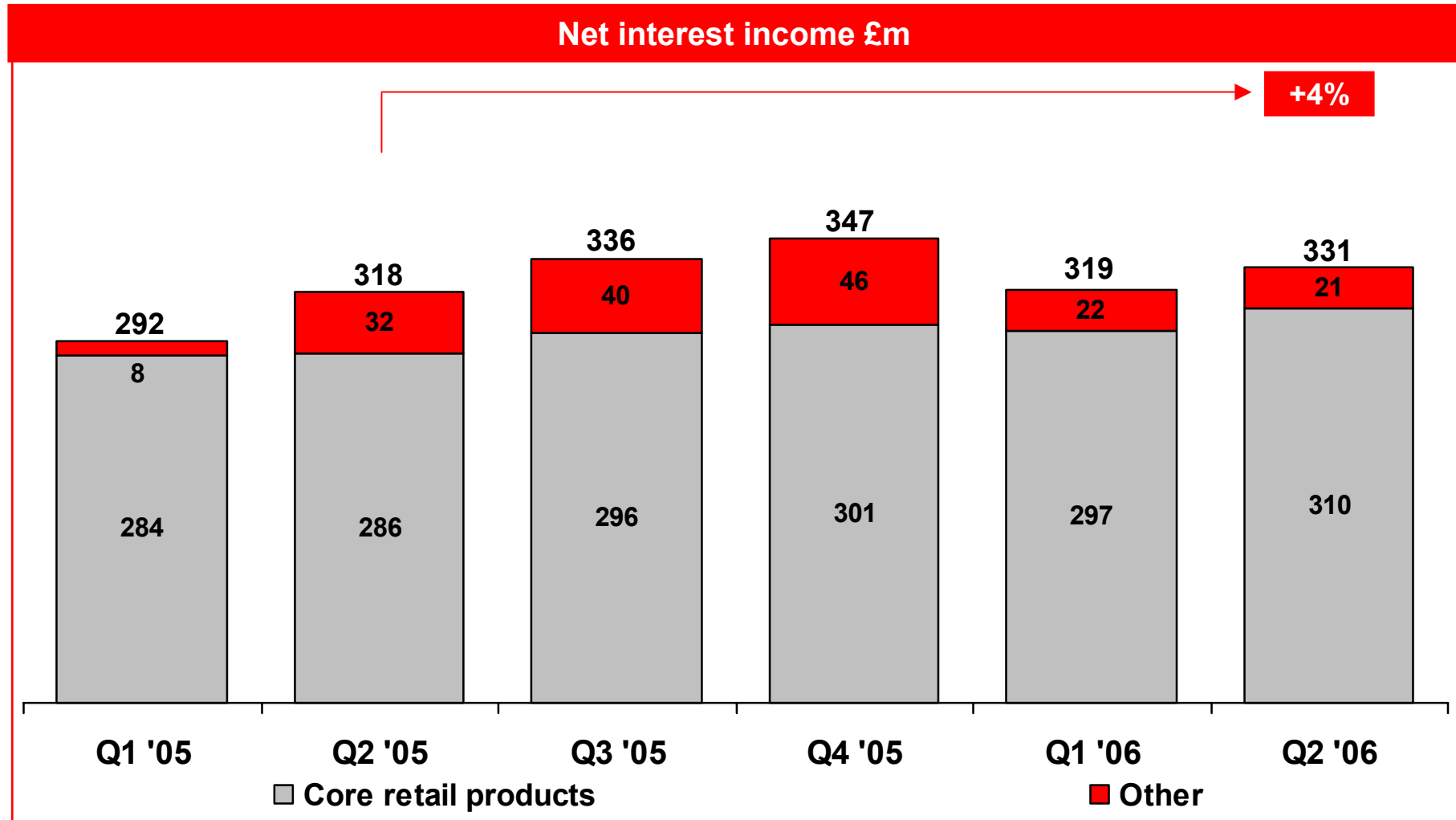
## Profit and loss

- further improvements in net attributable income – up 41% versus half 1 last year
- single digit revenue growth combined with benefit from further cost reduction initiatives
- half 1 results in the Retail Bank benefits from stable margins combined with asset growth and increased fee income
- an improvement in the cost : income ratio
- provisions higher than first half 2005 driven by maturing / growth of UPL book

# Profit and loss

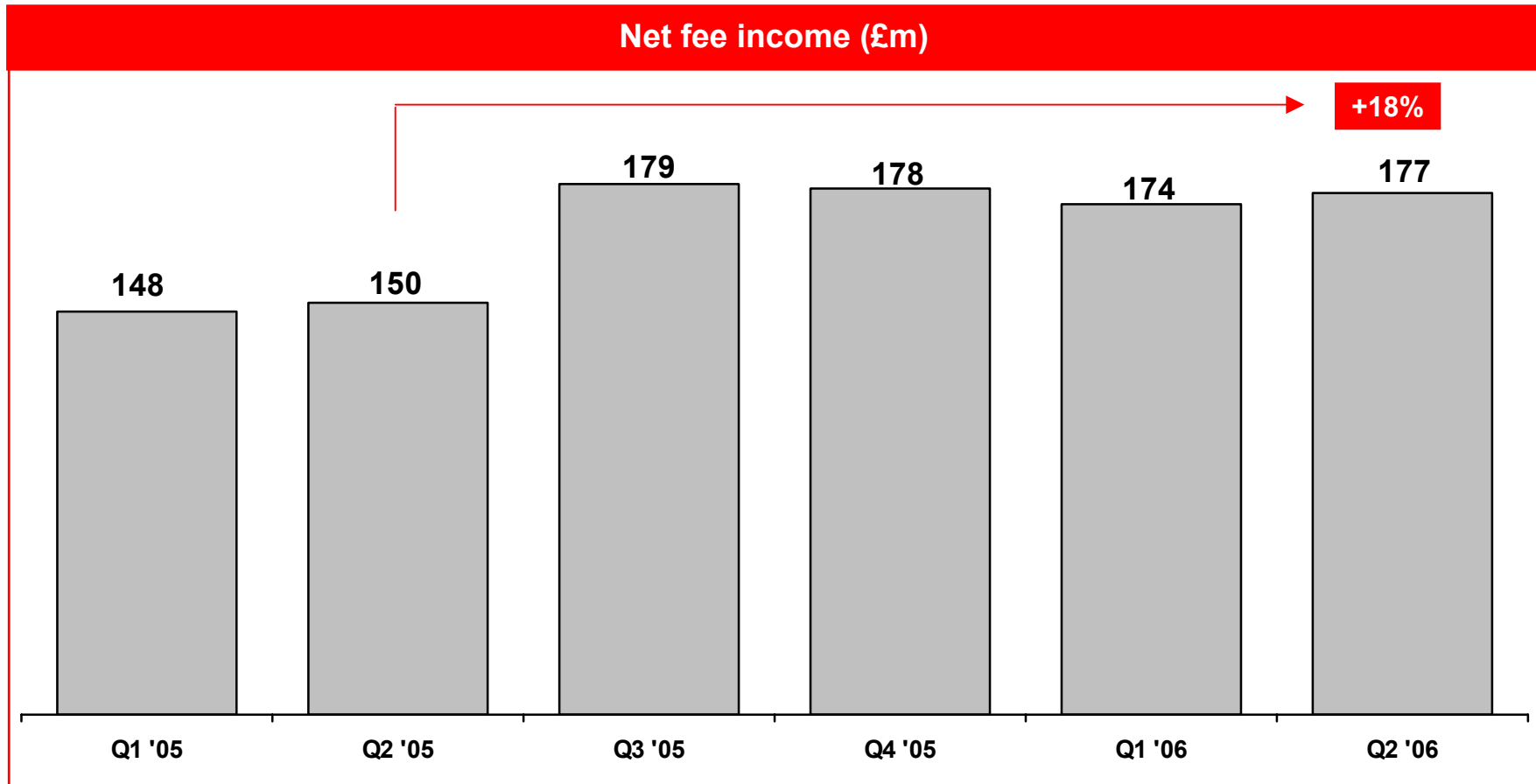
£m	2005			2006	2006 H1 vs. 2005 H1
	H1	H2	FY	H1	
	£m	£m	£m	£m	
Net interest income	610	683	1293	650	7%
Income from associated companies	1	1	2	1	
Net Fees	298	357	655	351	17%
Insurance activities	199	203	403	211	6%
Earnings from financial operations	135	102	237	137	1%
<b>Ordinary income</b>	<b>1,244</b>	<b>1,346</b>	<b>2,590</b>	<b>1,350</b>	<b>9%</b>
Other operating income	12	13	25	18	55%
Total operating expenses	(844)	(808)	(1,652)	(756)	(10%)
<b>Operating income</b>	<b>412</b>	<b>551</b>	<b>963</b>	<b>612</b>	<b>49%</b>
Writeoffs, provisions and decline in value of assets	(109)	(109)	(218)	(140)	28%
Other income	42	10	52	(2)	(106%)
<b>Income before taxes</b>	<b>344</b>	<b>452</b>	<b>797</b>	<b>470</b>	<b>37%</b>
Taxation expense	(104)	(138)	(242)	(132)	27%
<b>Net attributable income</b>	<b>240</b>	<b>314</b>	<b>555</b>	<b>338</b>	<b>41%</b>

# Modest net interest income growth

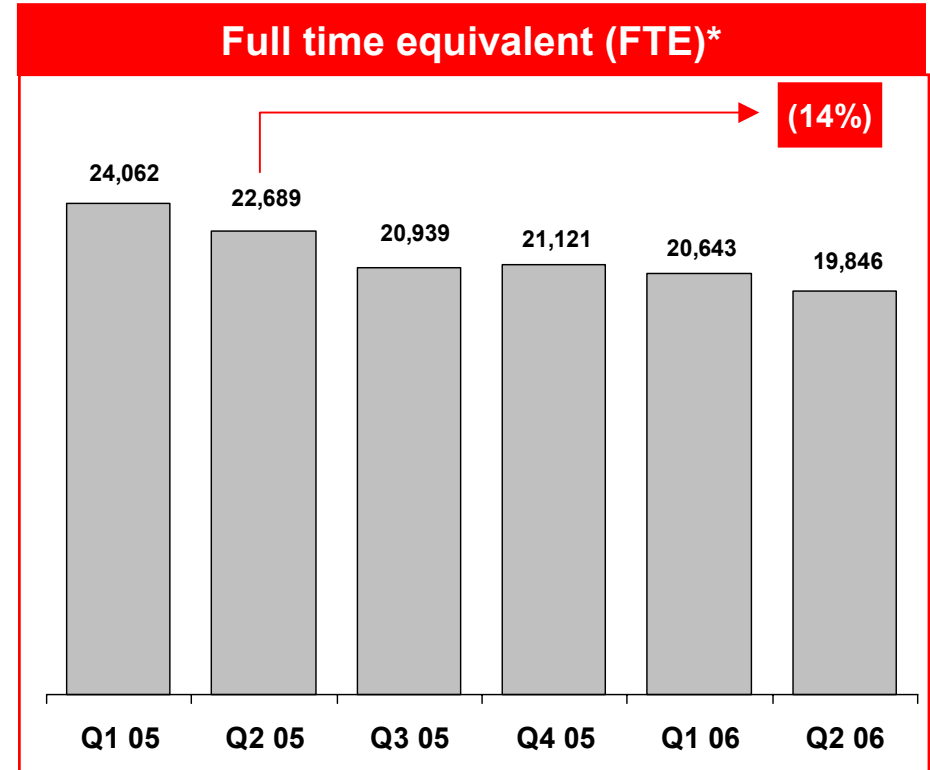
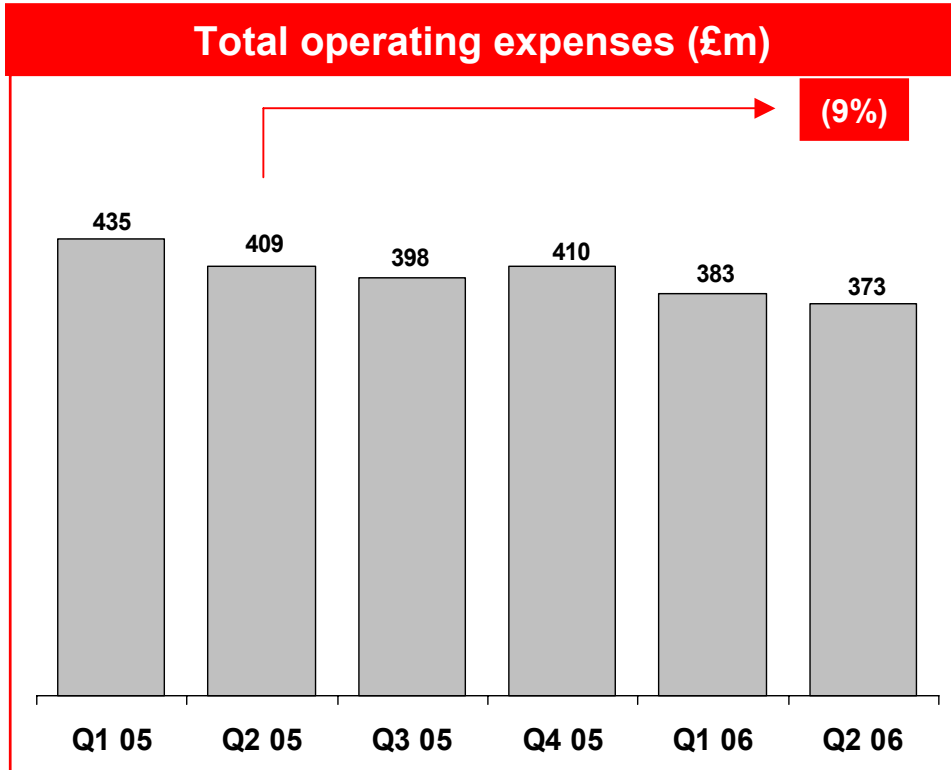




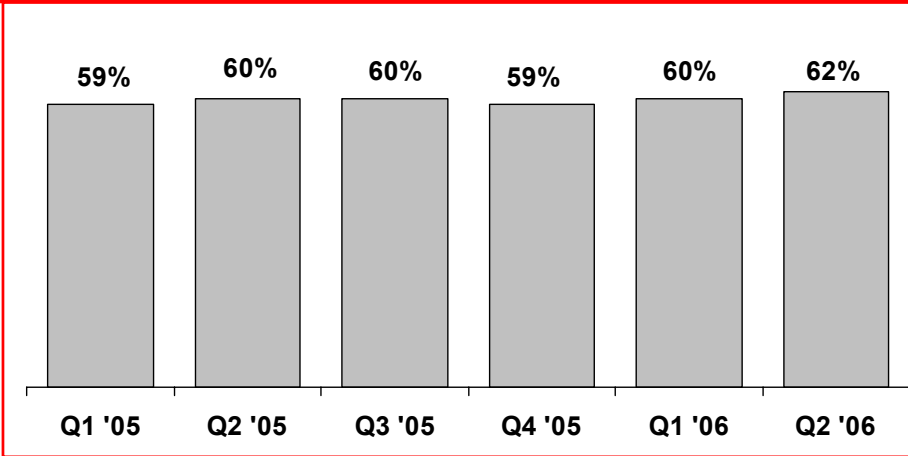
# With a stable performance in net fees



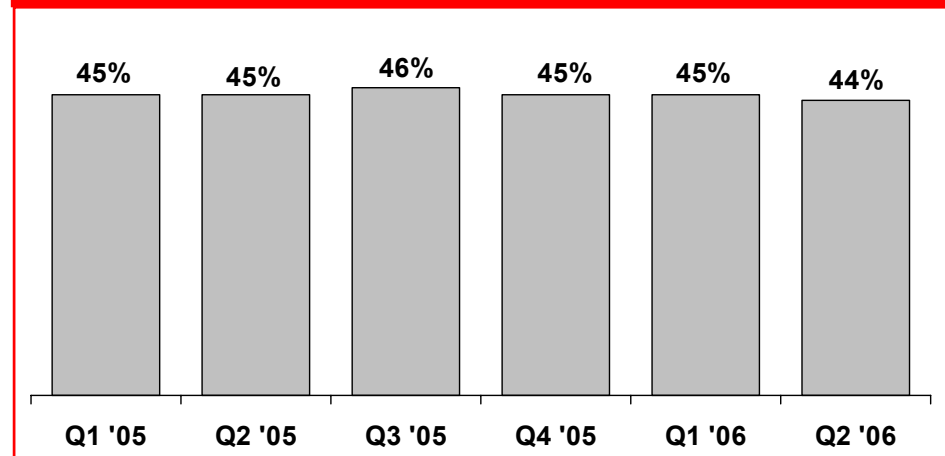
# Further cost savings with c. 1,300 FTE reduction to date in 2006



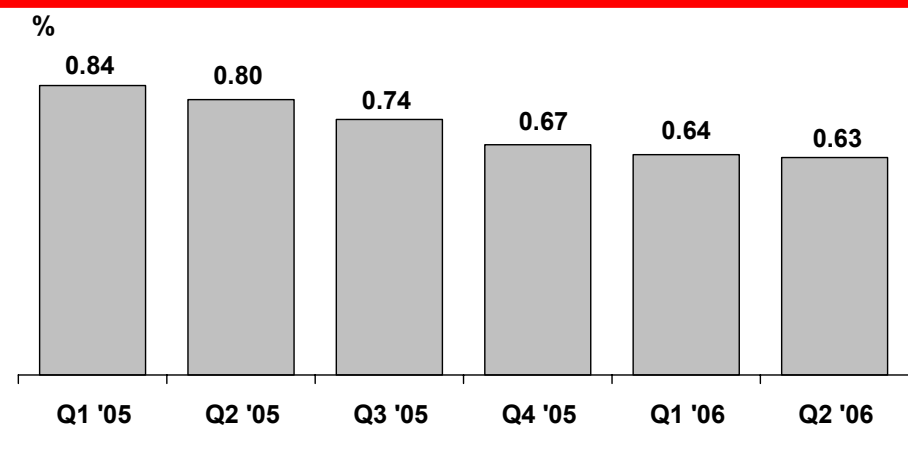
## Average new business mortgage LTV (%)



## Average indexed mortgage LTV on stock (%)



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



## Credit quality

- the volume of mortgage arrears has decreased since December 2005 through proactive management of arrears
- UPL collection policy has been improved and arrear cases are now being worked for a longer period before write-off

# Contents

- Market environment
- Business update
- Financials

## ■ Conclusions

- Appendix

# Financial summary

potential for  
revenue growth



- UK retail banking sector earnings growing
- delivering retail banking growth combined with new wealth management division, with strong contribution from Abbey Financial Markets

cost reductions  
continue



- cost reduction continuing ahead of full Partenon implementation
- Partenon - first milestones delivered and more due in second half 2006
- key to step changes in productivity and efficiency, and product capability
- c. 1,300 FTE reduction in 2006 to date

low risk



- life operations sold...expected to complete in third quarter
- scope to broaden retail banking risk appetite from low base
- capital ratios strong

on track



- ordinary income well ahead of half 1 2005
- further cost reduction from half 1 2005 levels
- performance in half 1 2006 in line with expectations

# Contents

- Market environment
- Business update
- Financials
- Conclusions

## ■ Appendix

# Balance sheet

## United Kingdom (Abbey)

£m

	30.06.06	30.06.05	Variation	
			Amount	%
<b>Balance sheet</b>				
Loans and credits*	126,375	110,738	15,637	14.1
Trading portfolio (w/o loans)	43,515	37,226	6,288	16.9
Available-for-sale financial assets	14	15	(1)	(8.2)
Due from credit institutions*	8,711	10,283	(1,572)	(15.3)
Intangible assets and property and equipment	3,460	3,517	(58)	(1.6)
Other assets	32,046	28,006	4,040	14.4
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>214,121</b>	<b>189,786</b>	<b>24,335</b>	<b>12.8</b>
Customer deposits*	76,287	73,743	2,543	3.4
Marketable debt securities*	44,776	34,435	10,341	30.0
Subordinated debt	7,364	8,290	(925)	(11.2)
Insurance liabilities	23,205	24,994	(1,789)	(7.2)
Due to credit institutions*	38,480	20,598	17,882	86.8
Other liabilities	22,186	26,185	(3,999)	(15.3)
Shareholders' equity	1,823	1,541	281	18.3
<b>Off-balance-sheet funds</b>	<b>4,594</b>	<b>3,807</b>	<b>787</b>	<b>20.7</b>
Mutual funds	4,594	3,807	787	20.7
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
<b>Customer funds under management</b>	<b>156,226</b>	<b>145,268</b>	<b>10,957</b>	<b>7.5</b>
<b>Total managed funds</b>	<b>218,714</b>	<b>193,592</b>	<b>25,122</b>	<b>13.0</b>

Investor Relations

Abbey House

Level 5

2 Triton Square

Regents Place

London NW1 3AN

e-mail: [ir@abbey.com](mailto:ir@abbey.com)

[www.abbey.com](http://www.abbey.com)

Israel Santos

Tel. +44 (0) 20 7756 4181

Bruce Rush

Tel. +44 (0) 20 7756 4275

Investor Relations

Ciudad Grupo Santander

Edificio Pereda, 1st floor

Avda de Cantabria, s/n

28660 Boadilla del Monte, Madrid (Spain)

Tel.: +34 91 259 65 14 - +34 91 259 65 20

Fax: +34 91 257 02 45

e-mail: [investor@gruposantander.com](mailto:investor@gruposantander.com)

[www.gruposantander.com](http://www.gruposantander.com)

