

# United Kingdom: Abbey

January to September  
2006

London, 26<sup>th</sup> October 2006

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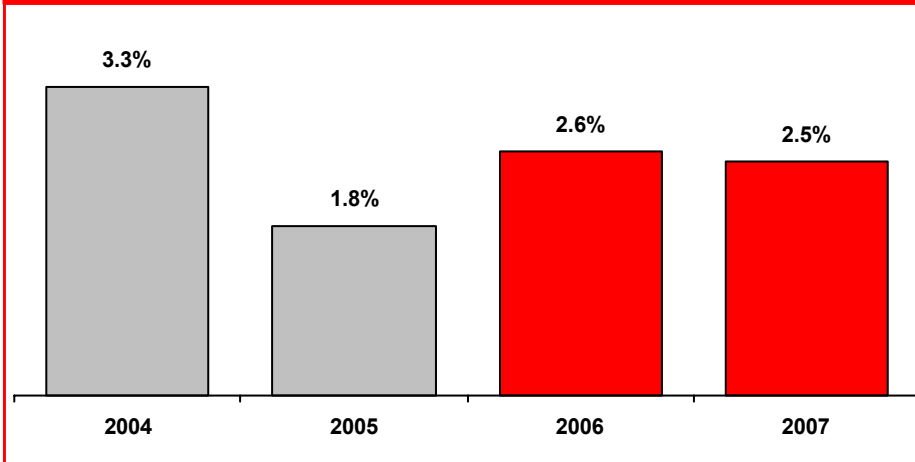
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## ■ Market environment

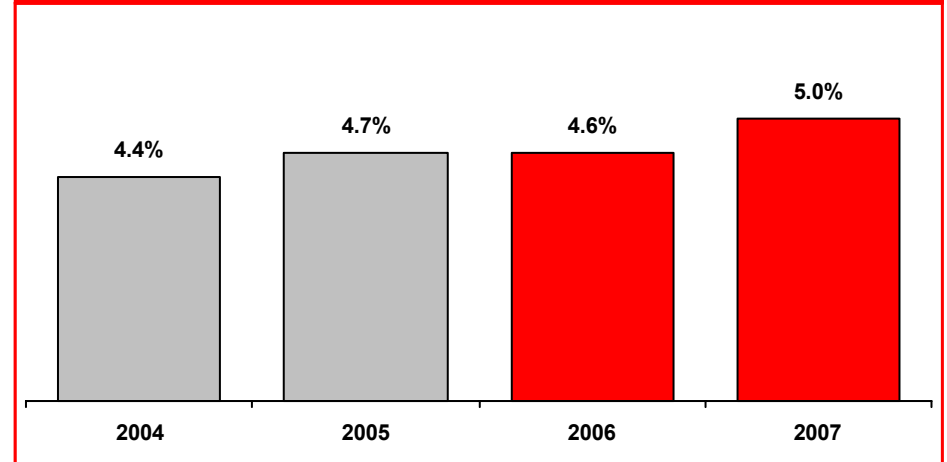
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# UK economic fundamentals remain relatively benign

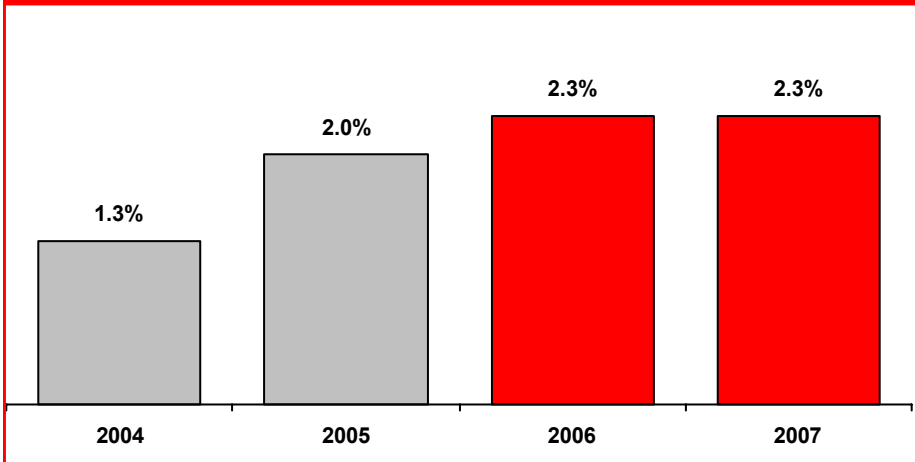
## Annual GDP growth (% , annual average)



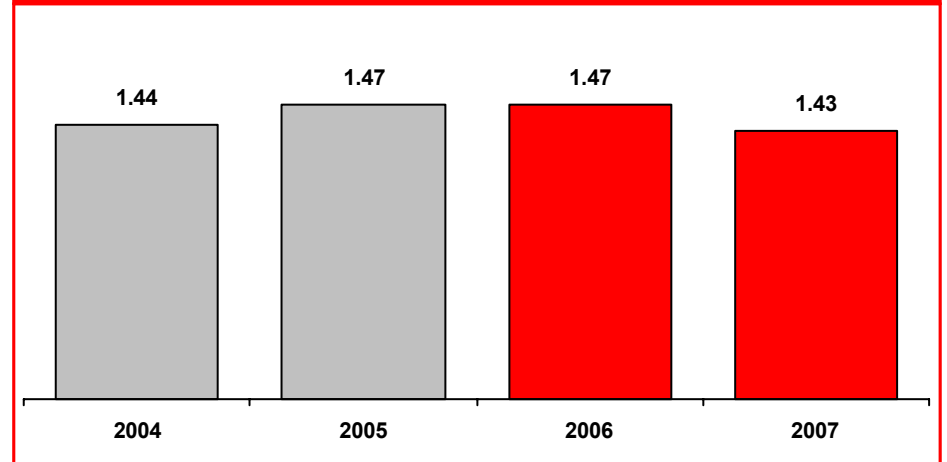
## Interest rates (% , annual average)



## Annual CPI inflation rate (% , annual average)



## GBP : Euro exchange rates (end period)

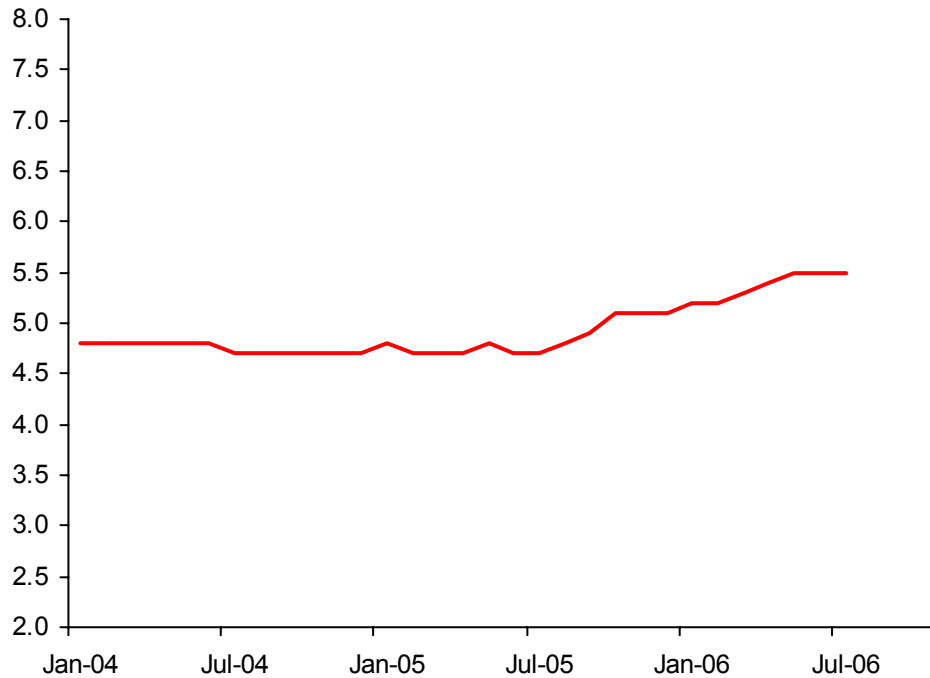


■ - source - Office for National Statistics & Bank of England

■ - estimated by Abbey

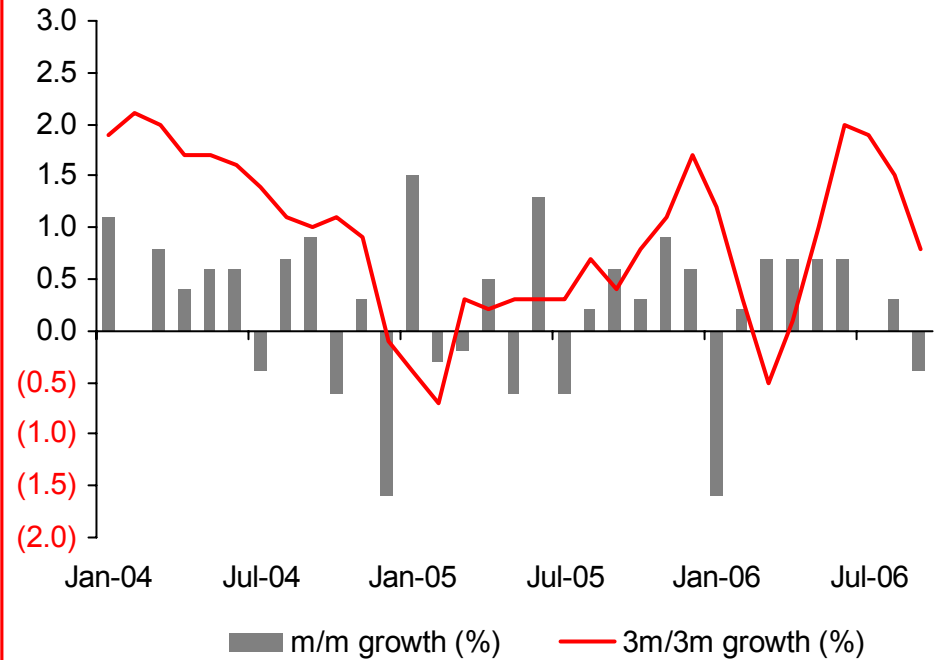
# Unemployment trending up, but from a very low base, and recent retail sales figures have shown some easing

## Unemployment rate (% , ILO)



Source – Office for National Statistics

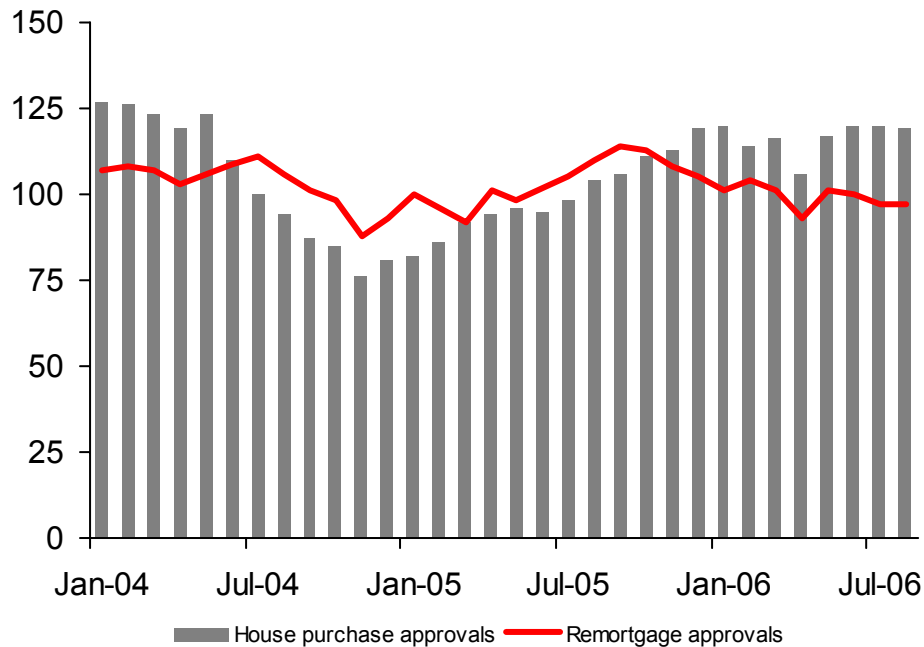
## Retail sales growth (m/m, 3m/3m, %)



Source – Office for National Statistics

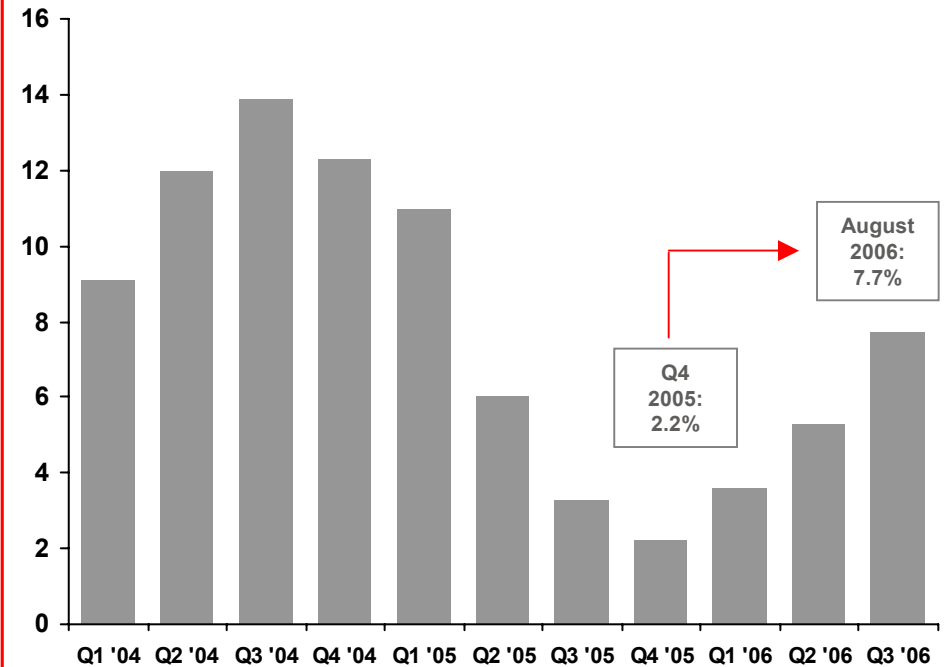
# The mortgage market has remained strong throughout 2006 with annual house price growth increasing since the first quarter

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



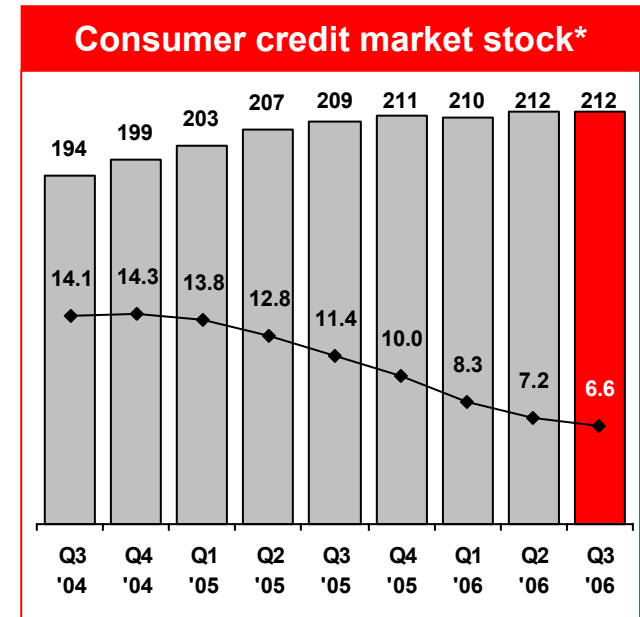
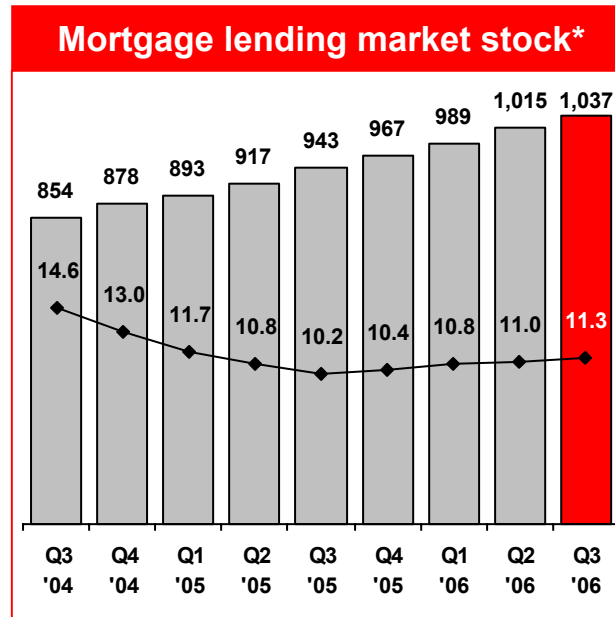
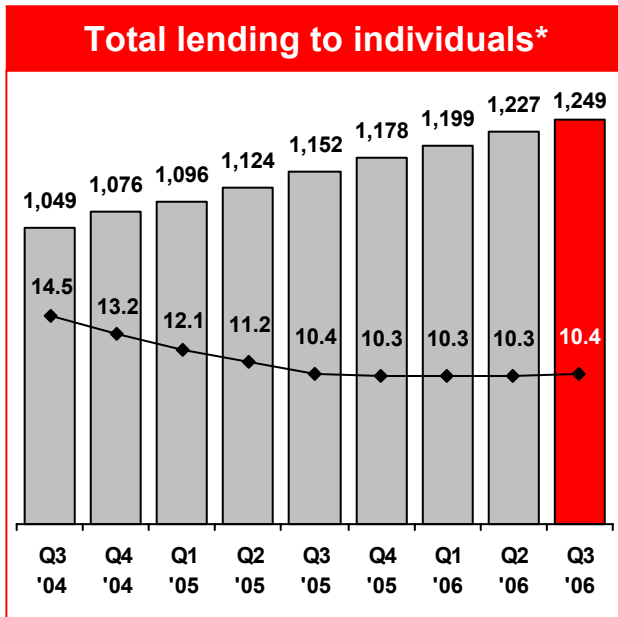
Source – Bank of England

Annual house price growth (%)



Source – Department for Communities and Local Government

# Mortgage lending growth stronger than expected, while consumer credit lending continues to slow



Source – Bank of England.

■ - actual market size (£bn)

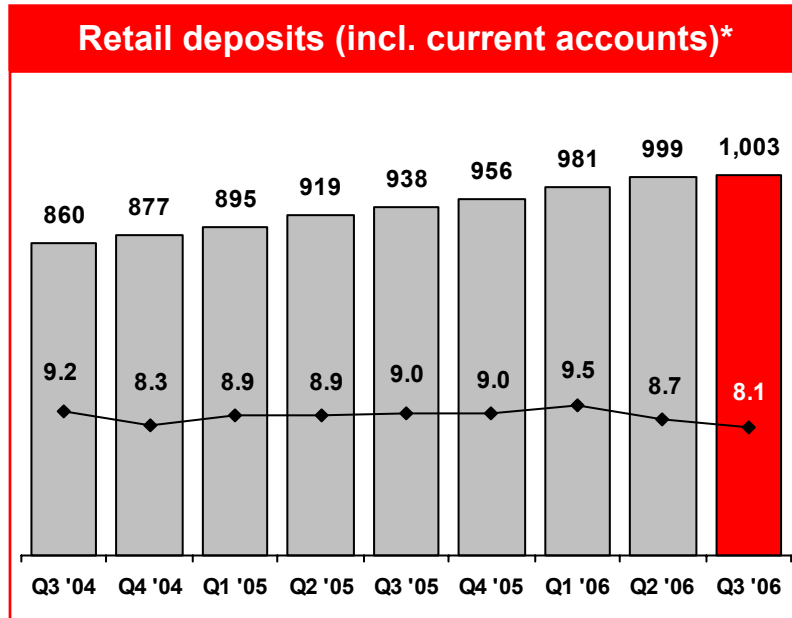
■ - estimated market size (£bn)

◆ - annual growth rates (%)

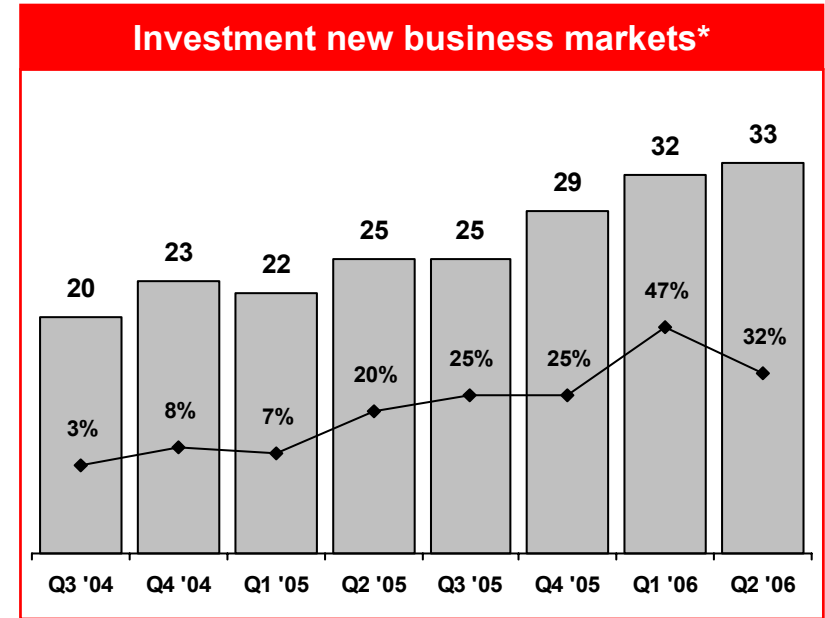
\*Please note:

- Growth rates are calculated using the Bank of England's methodology - this expresses period net lending as a percentage of the prior period stock.
- All Q3 figures are based on August YTD – official data not yet released

# 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.
- Q3 figures are based on August YTD – official data not yet released
- Investment new business data only available on a quarterly basis - quarter 3 2006 data is not currently available.



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

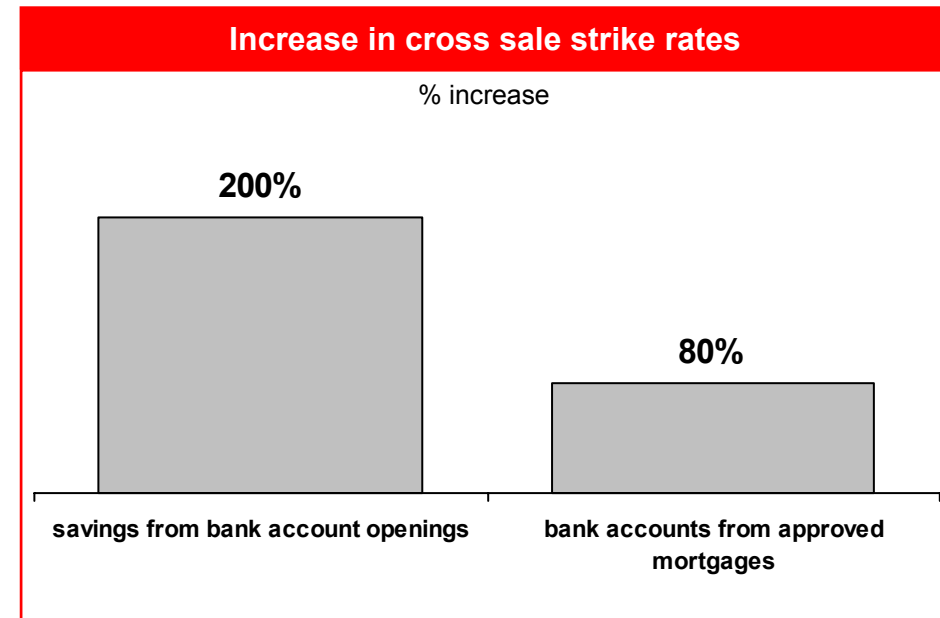
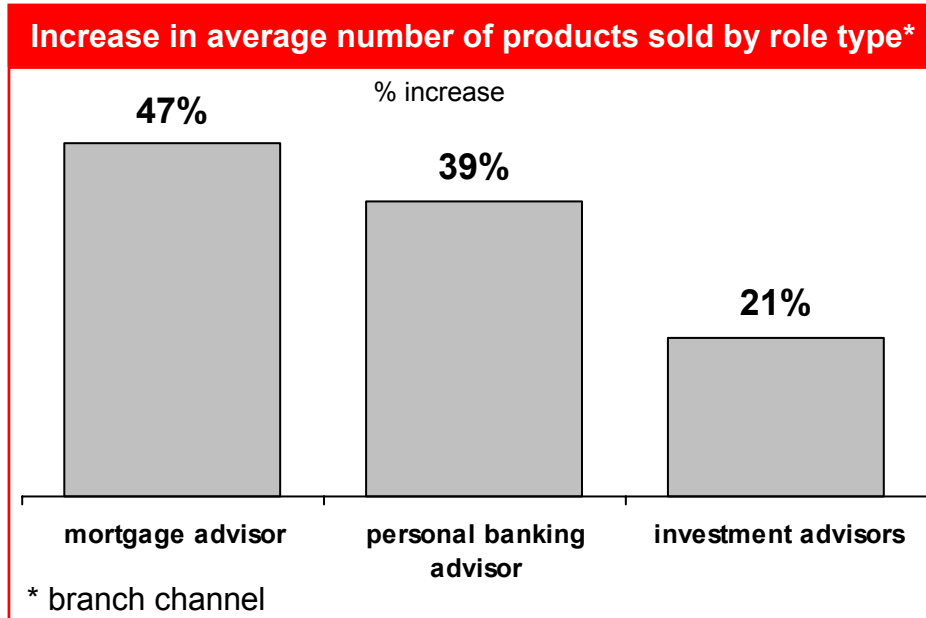
## 2006 Q3 highlights

|                                    |         |
|------------------------------------|---------|
| ■ residential mortgage stock       | £99.9bn |
| ■ residential mortgage stock share | 9.6%    |
| ■ UPL stock                        | £3.7bn  |
| ■ customer deposit stock           | £63.1bn |
| ■ net attributable income          | £509m   |
| ■ branches                         | 712     |
| ■ employees (FTE)                  | 17,439  |

## Abbey franchise

- a well established mortgage business ...
  - third largest mortgage lender in the UK following the merger of Nationwide and Portman
  - strong net lending market share in a competitive environment
- ...and showing potential in other product areas...
  - growth in current accounts and unsecured personal loans
  - increased share of direct investment new business
- ... 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

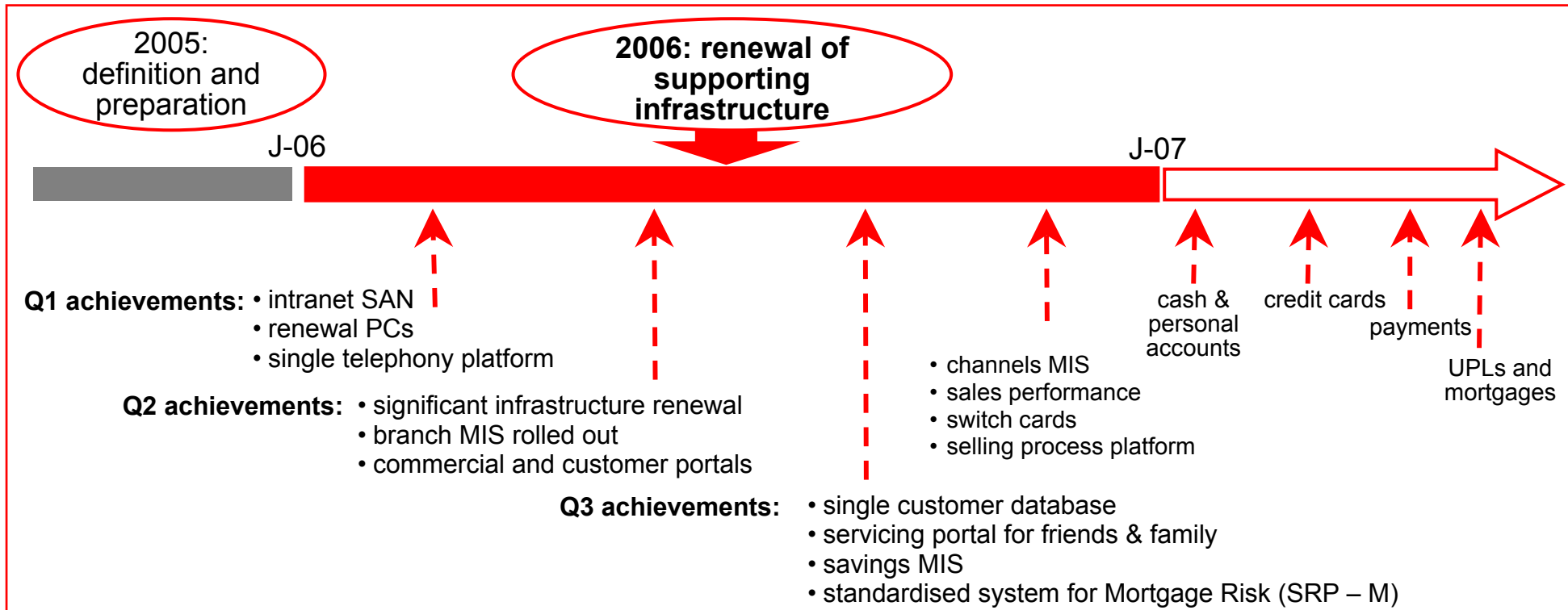
# Positive sales performance in the branch network reflects progress in new operating structure



## improvements in branch sales productivity and capacity

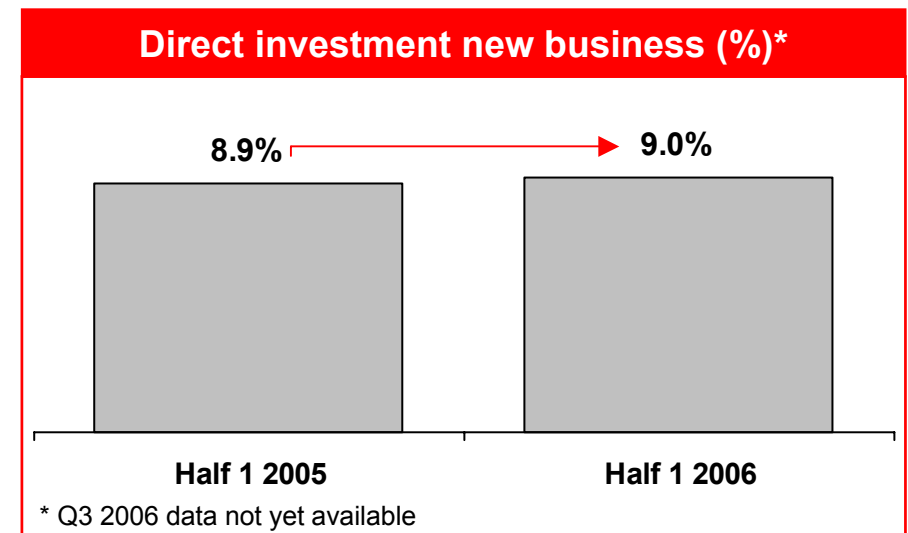
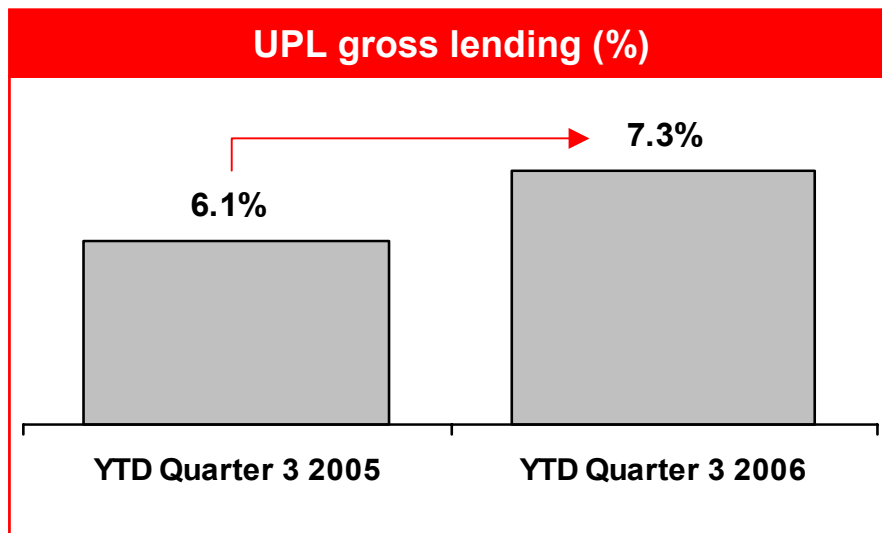
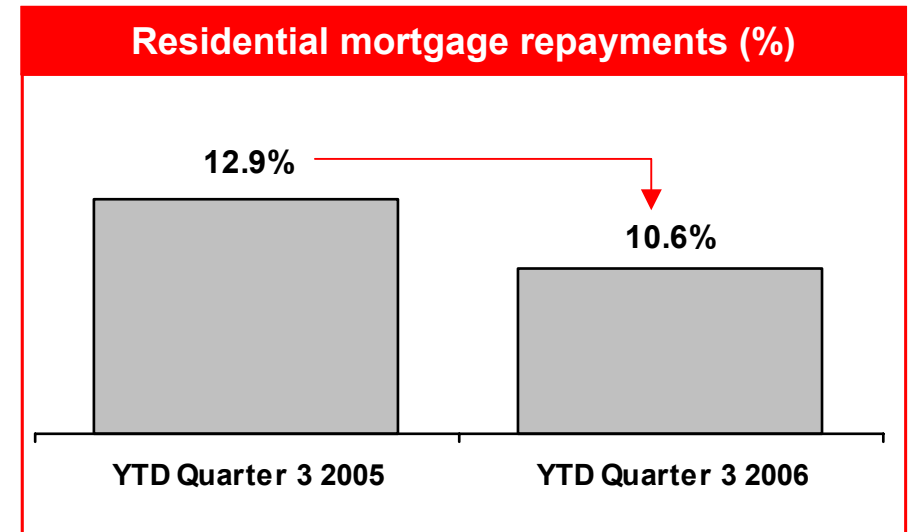
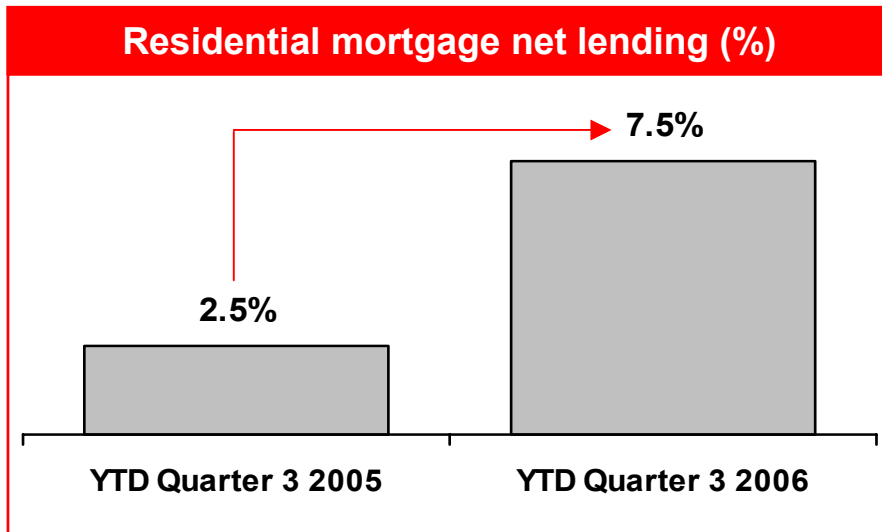
- new branch operating structure which significantly increases Abbey's capacity to sell
- branch managers now able to sell a range of products
- an additional c. 100 FTE employed in 2006 to sell investment products in our branches, with Abbey aiming to have 1 investment advisor per branch by the end of 2008

# Partenon on track to improve sales performance further

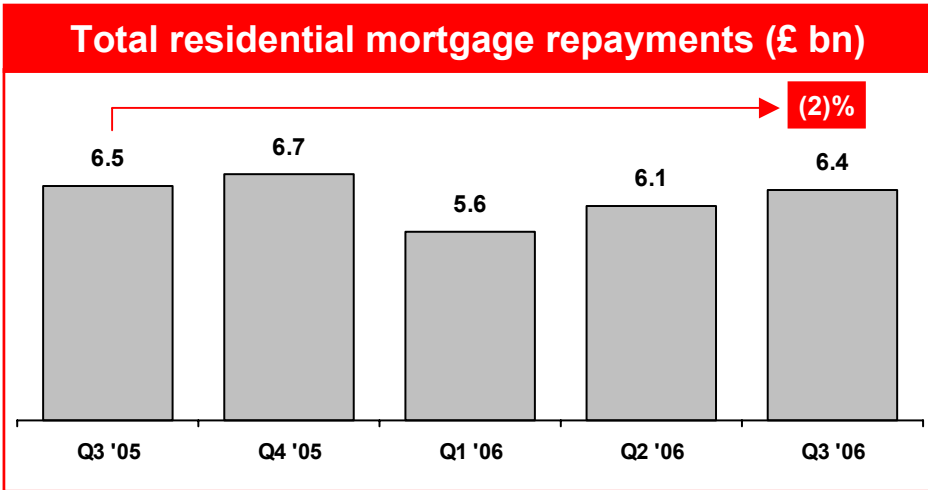
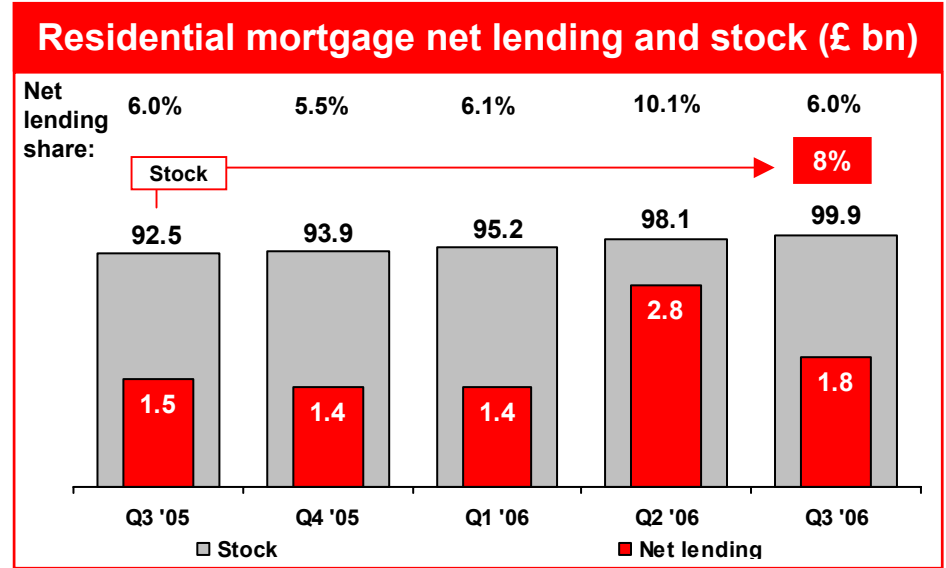
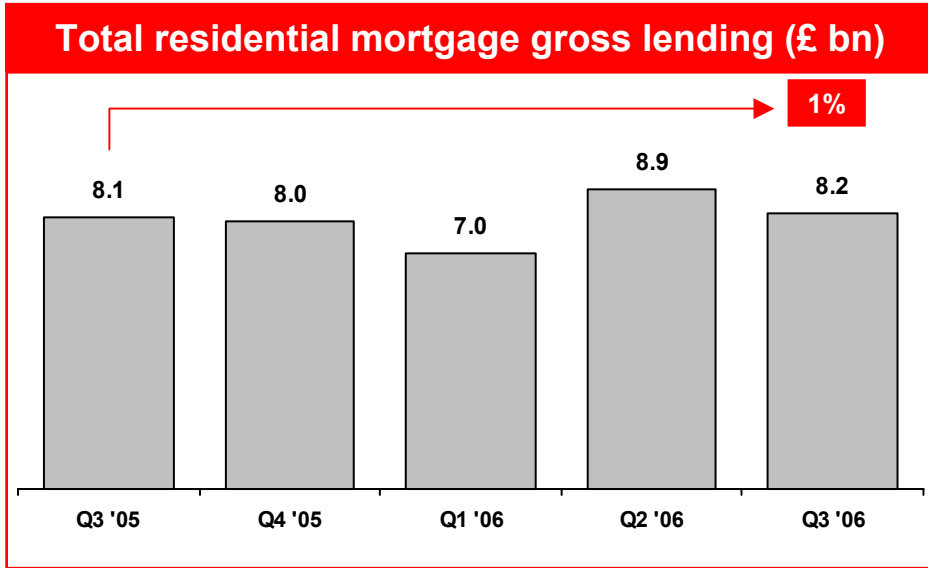


- **new commercial tools for our direct channels – branches and telephony**
  - **Branch MIS:** training continues to be rolled out **Savings MIS:** deployed to all branches allowing detailed portfolio analysis
  - **Other channels MIS:** ready to roll out
  - **Commercial tools:** commercial and customer portals offering an integrated vision of the client (products and relationships) and allow for improvements in sales productivity
- **single customer database (BDP) will improve customer information delivered to the business**
- **next steps: continued replacement of Abbey's front-end applications**
  - selling and servicing portals will simplify and improve sales processes

# Positive market share trends in a highly competitive environment



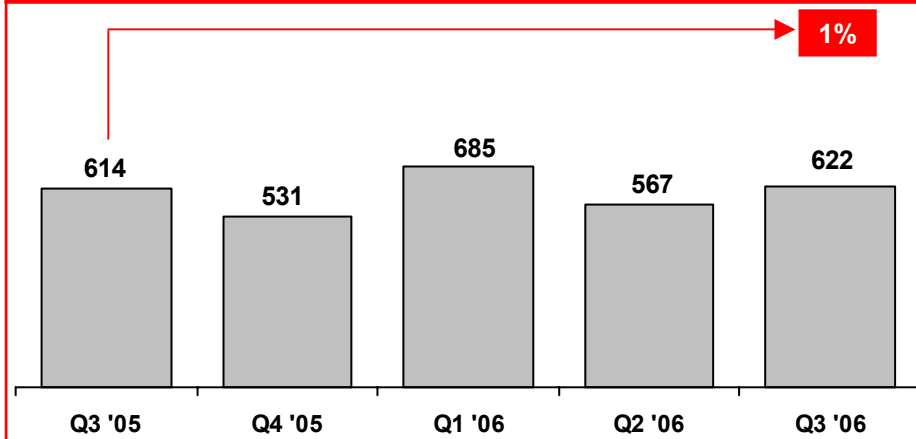
# Mortgage performance robust - balancing growth and market share aspirations with a focus on profitability



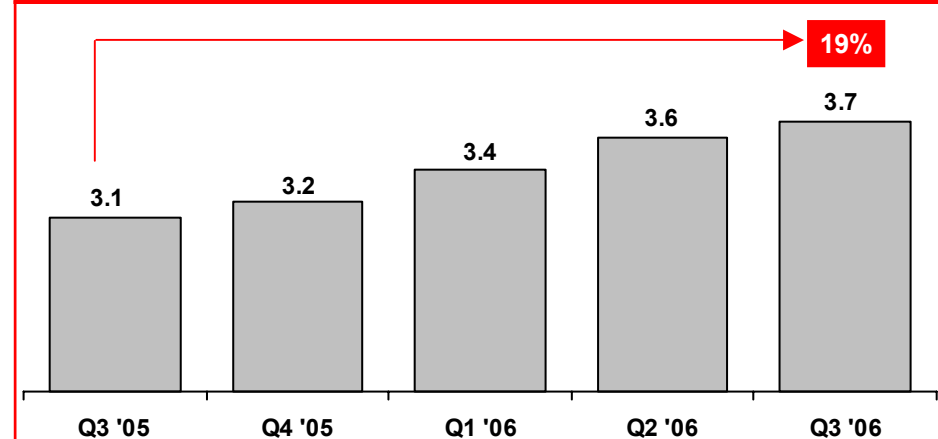
- ### Mortgage spread (%)
- new business pricing remains competitive, leading to some limited downward pressure on spreads
  - lending into more profitable “Flexible” products partly offset the decline in spread
  - relatively stable spreads year on year

# UPL uplift in more profitable Abbey-branded products

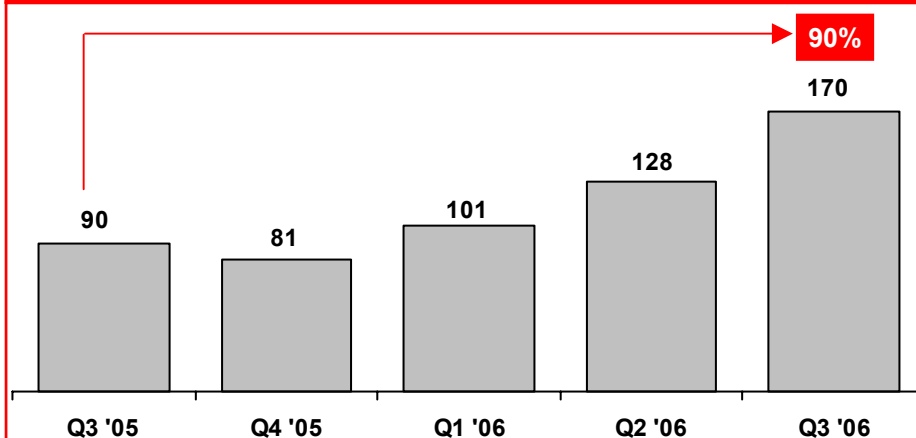
## Total UPL gross lending (£m)



## Total UPL stock (£bn)



## Total Abbey branch gross UPL lending (£m)

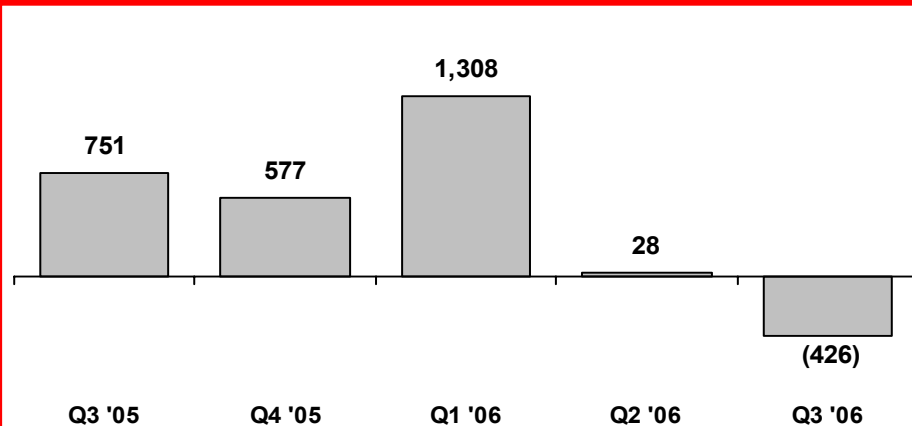


## UPL spread (%)

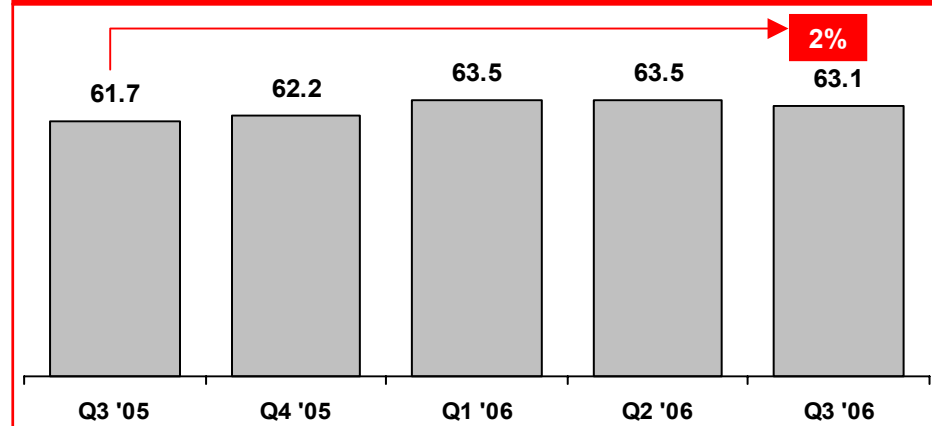
- UPL book is helping to support overall asset spreads
- new business margin through Abbey-branded products has improved in comparison to 2005

# Actively managing for value in the savings portfolio

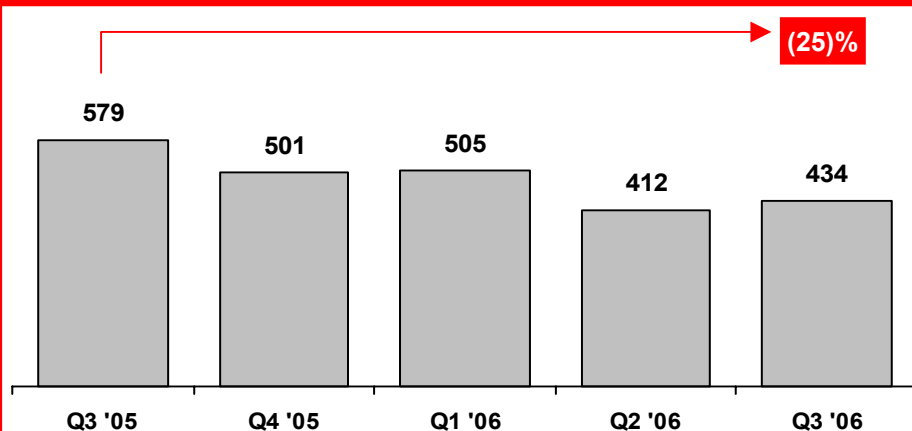
## Total customer deposit flows (£m)



## Total customer deposit stock (£bn)



## Branch acquisition flows (£m)



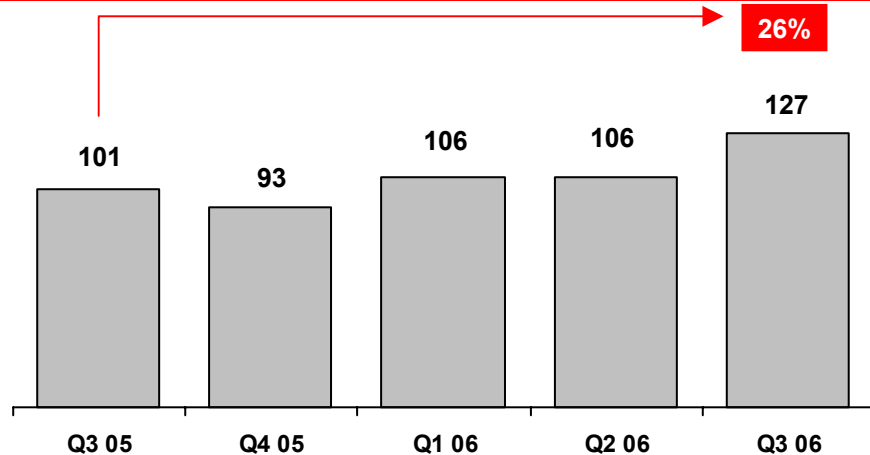
## Liability spread (%)

- overall deposit spreads have improved since Q3 2005
- re-pricing has impacted deposit flows – with outflows in Q3 largely from low / negative margin accounts
- improved average new business margins in branch acquisitions

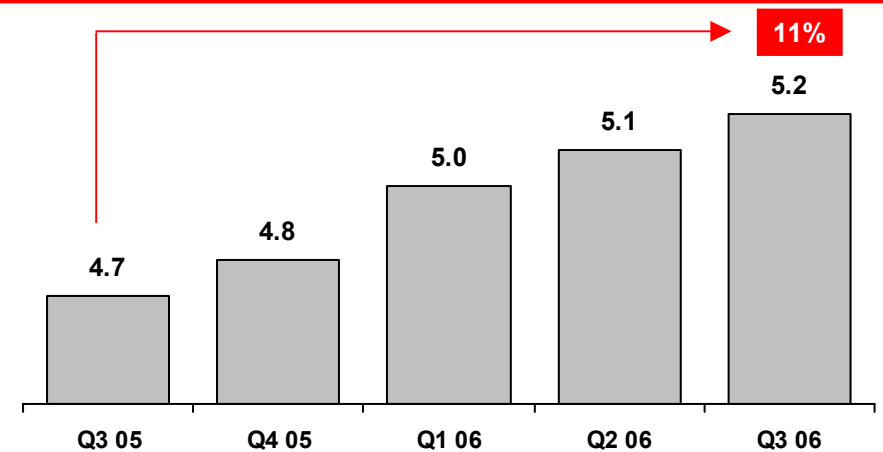


# Increase in high value bank account openings with strong growth in liability

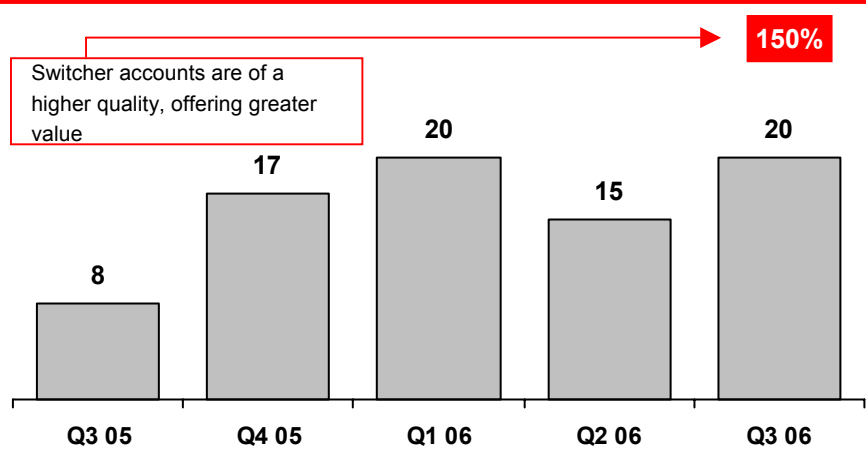
## Bank account openings (000)



## Current account liability (£bn)



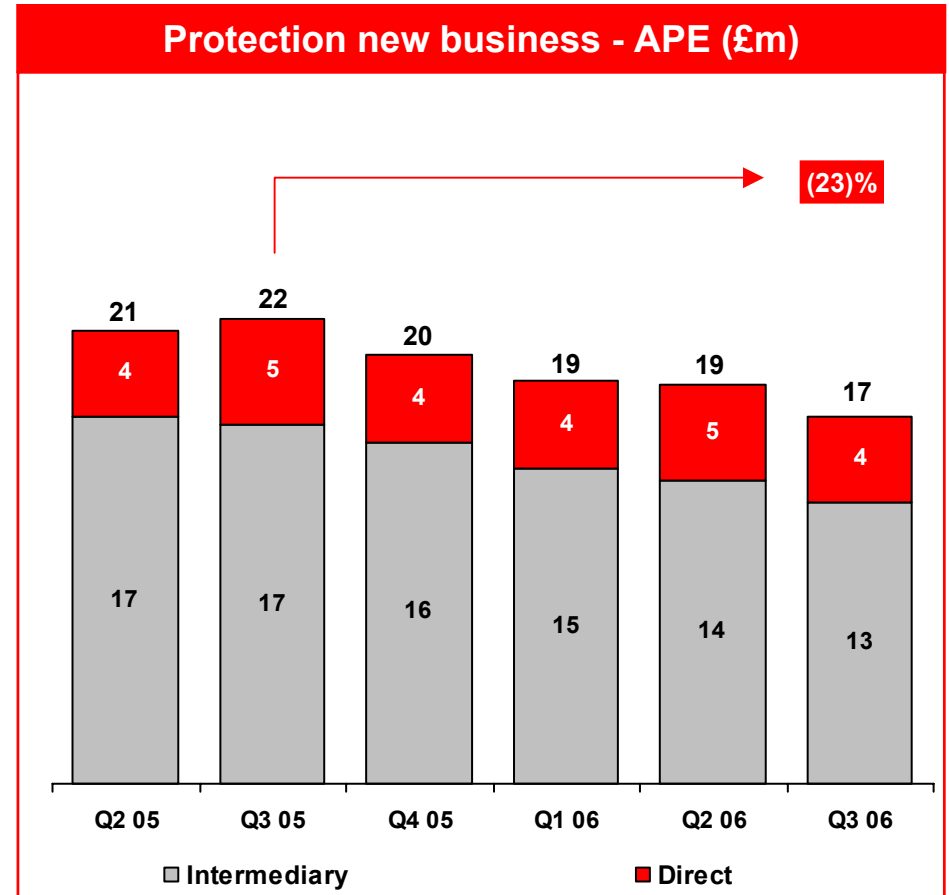
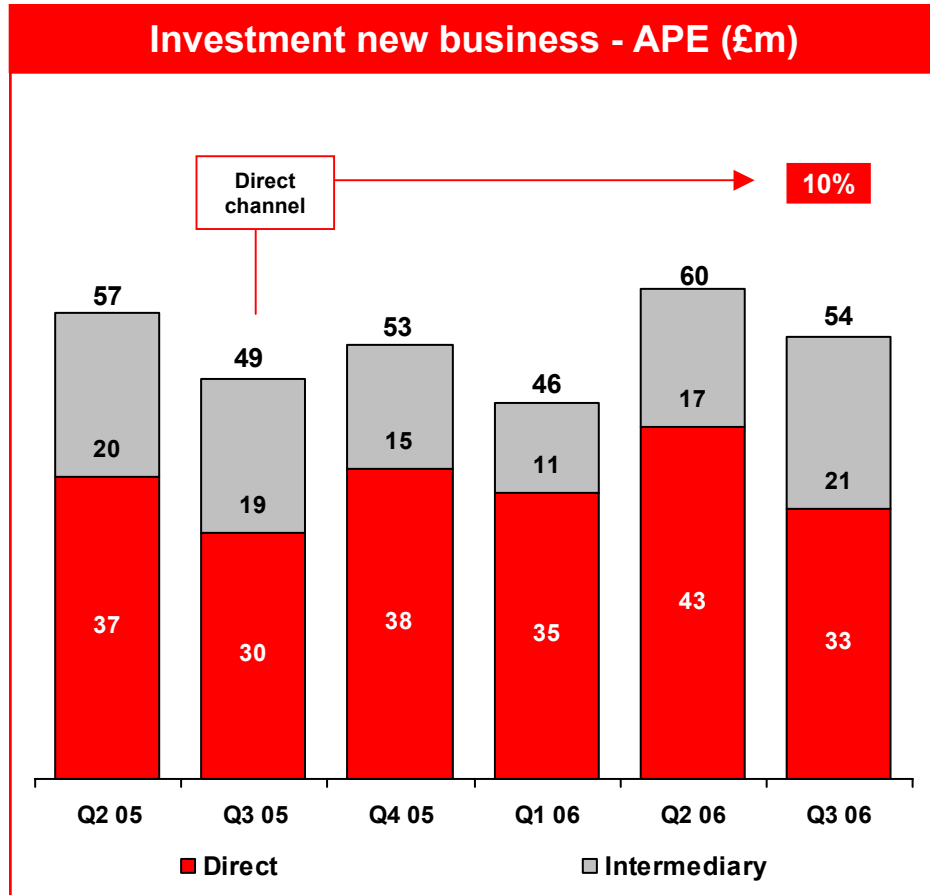
## Switcher account openings (000)



## Comments

- current account flows in part driven by positive trend in switcher account openings
- switcher accounts represent those current accounts that have been transferred from other banks and are typically a customer's primary account

# Rebuilding investment and protection sales capacity – in part impacted by seasonality



# Business update summary

new operating structure starting to drive sales

- positive sales performance in branches with improved sales productivity and capacity
- cross sale strike rates trending upward

Partenon on track to support sales performance

- implementation of key commercial tools complete, including the single customer database
- improvements to selling process platform expected in the final quarter of 2006

balancing market share and value

- net mortgage lending trending to target, but balancing market share aspirations with profitability
- share of mortgage repayments lower than 2005
- managing for value in UPL and savings has helped to offset pressure on Retail spreads

sale of life businesses

- sale of life businesses completed 1<sup>st</sup> September
- in the short-term revenues will be impacted as a result of the sale, partly offset by the new distribution agreement with Resolution
- the expected impact of the sale of the life businesses on 2006 and 2007 earnings is summarised in the sale announcement presentation released in June 2006

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# Quarter 3 2006 results

## Profit and loss

- further improvements in income before taxes, up 25% versus 2005 on a year to date basis
- revenue growth of c. 4%, or c. 6% excluding the results of the life businesses - within targeted range
- cost reduction of c. 12%, or c. 8% excluding the results of the life businesses
- Retail Banking revenues benefited from relatively stable margins and balance sheet growth, supported by a strong contribution from AFM
- an improvement in the cost : income ratio to 55.0%
- provisions higher than the same period in 2005 driven by maturing / growth of UPL book as expected

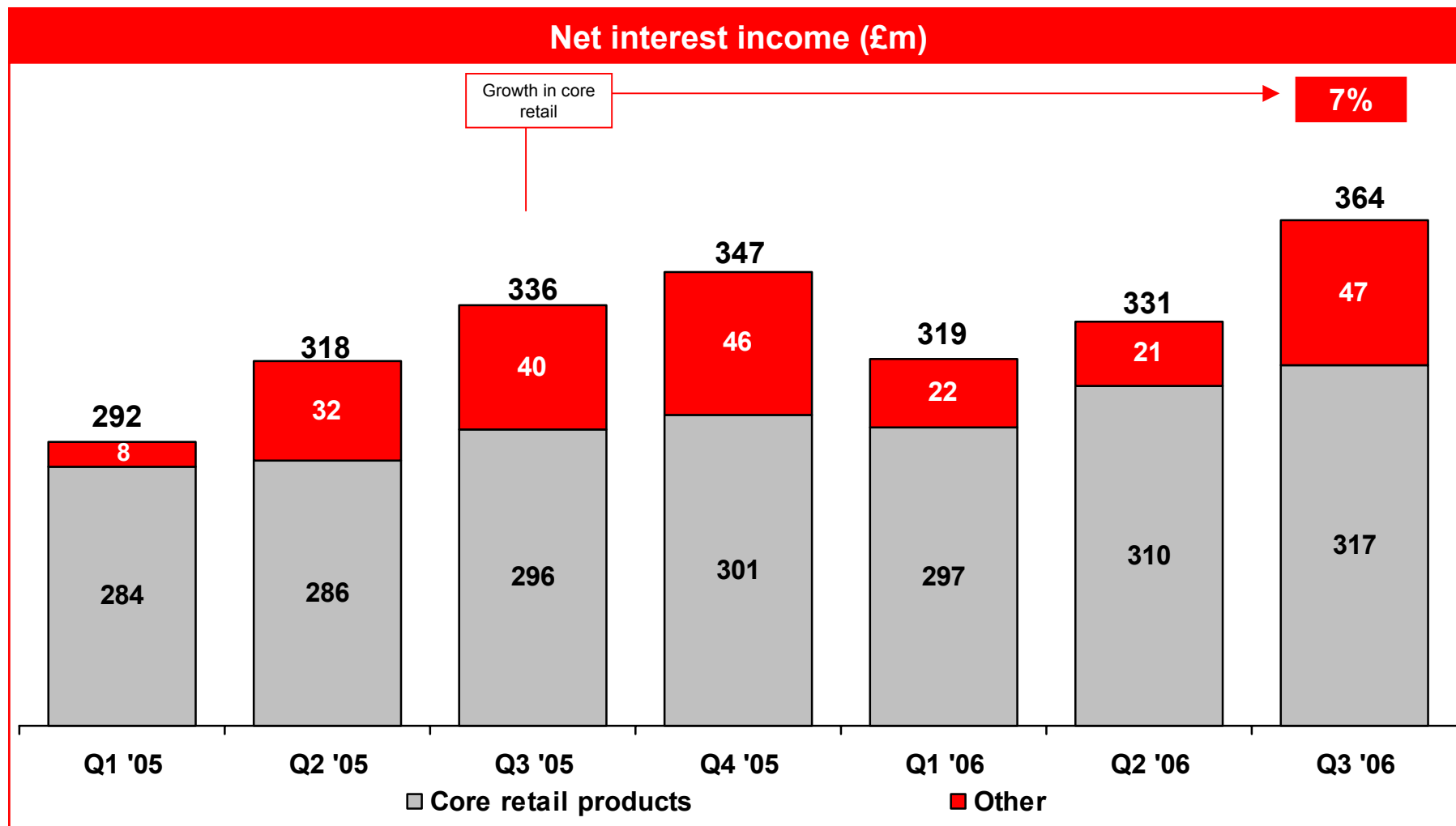
# Profit and loss

## United Kingdom (Abbey)

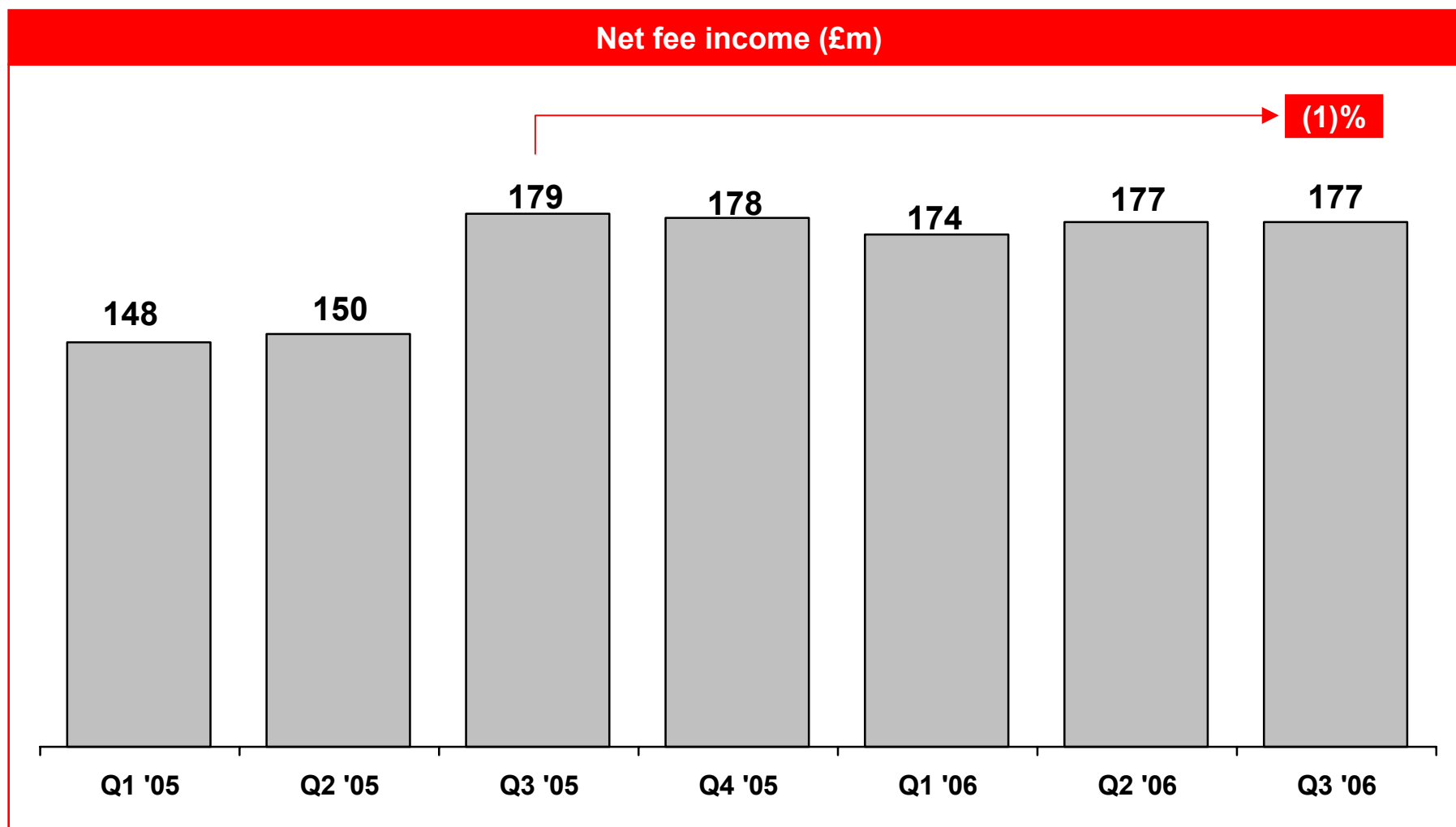
Million pound sterling

|   | Jan.-Sep. 06 | Jan.-Sep. 05 | Variation  |           | Variation excluding life businesses |
|---|--------------|--------------|------------|-----------|-------------------------------------|
|   |              |              | Amount     | %         | %                                   |
| <b>Income statement</b>   |              |              |            |           |                                     |
| <b>Net interest income</b>  | <b>1,013</b> | <b>946</b>   | <b>67</b>  | <b>7</b>  | <b>3</b>                            |
| Income from companies accounted for by the equity method            | 2            | 1            | 0          | 35        | 35                                  |
| Net fees  | 527          | 477          | 50         | 10        | 11                                  |
| Insurance activity  | 227          | 303          | (76)       | (25)      | (83)                                |
| <b>Commercial revenue</b>   | <b>1,770</b> | <b>1,728</b> | <b>42</b>  | <b>2</b>  | <b>5</b>                            |
| Gains (losses) on financial transactions                            | 217          | 185          | 32         | 17        | 12                                  |
| <b>Gross operating income</b>                                       | <b>1,986</b> | <b>1,913</b> | <b>74</b>  | <b>4</b>  | <b>6</b>                            |
| Income from non-financial services (net) and other operating income | 25           | 17           | 9          | 51        | 51                                  |
| General administrative expenses                                     | (1,040)      | (1,184)      | 144        | (12)      | (8)                                 |
| <i>Personnel</i>  | (584)        | (619)        | 35         | (6)       | (3)                                 |
| <i>Other administrative expenses</i>                                | (456)        | (565)        | 109        | (19)      | (14)                                |
| Depreciation and amortisation                                       | (53)         | (58)         | 5          | (8)       | (8)                                 |
| <b>Net operating income</b>   | <b>919</b>   | <b>688</b>   | <b>231</b> | <b>34</b> | <b>31</b>                           |
| Net loan loss provisions  | (210)        | (167)        | (43)       | 26        | 26                                  |
| Other income  | (2)          | 44           | (46)       | —         | (101)                               |
| <b>Income before taxes</b>  | <b>707</b>   | <b>565</b>   | <b>142</b> | <b>25</b> | <b>22</b>                           |
| <b>Income from ordinary activity</b>                                | <b>509</b>   | <b>387</b>   | <b>121</b> | <b>31</b> | <b>29</b>                           |
| <b>Net consolidated income</b>                                      | <b>509</b>   | <b>387</b>   | <b>121</b> | <b>31</b> | <b>31</b>                           |
| <b>Attributable income to the Group</b>                             | <b>509</b>   | <b>387</b>   | <b>121</b> | <b>31</b> | <b>31</b>                           |

# Improving core retail net interest income growth

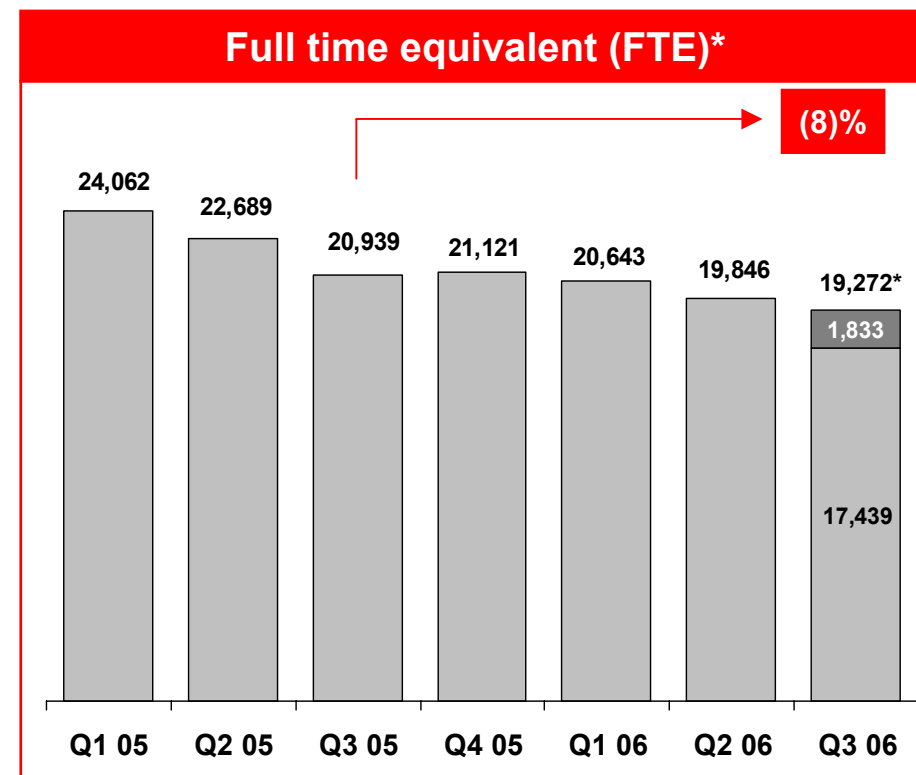
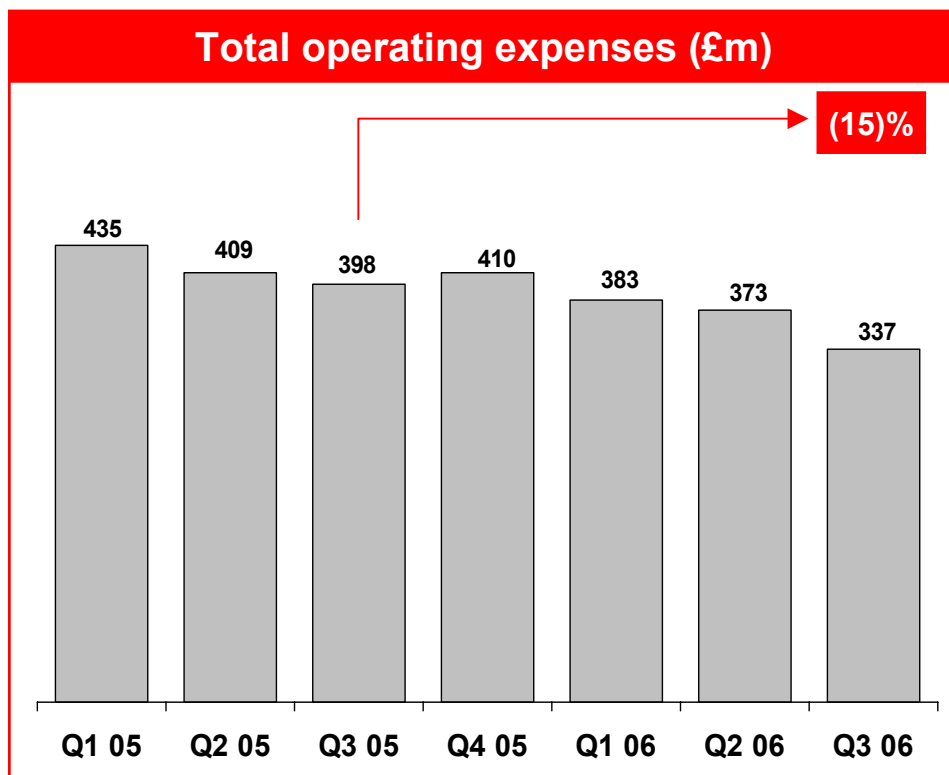


# With a stable performance in net fees





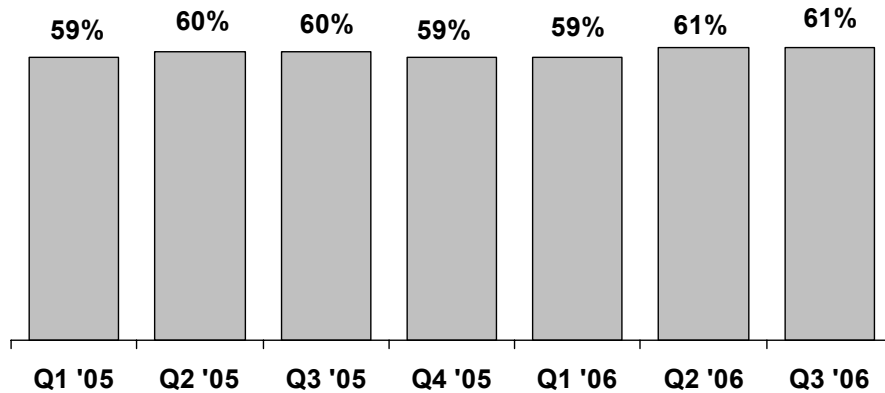
# Further cost savings with over 1,800 FTE reduction to date in 2006, excluding the impact of the sale of life businesses



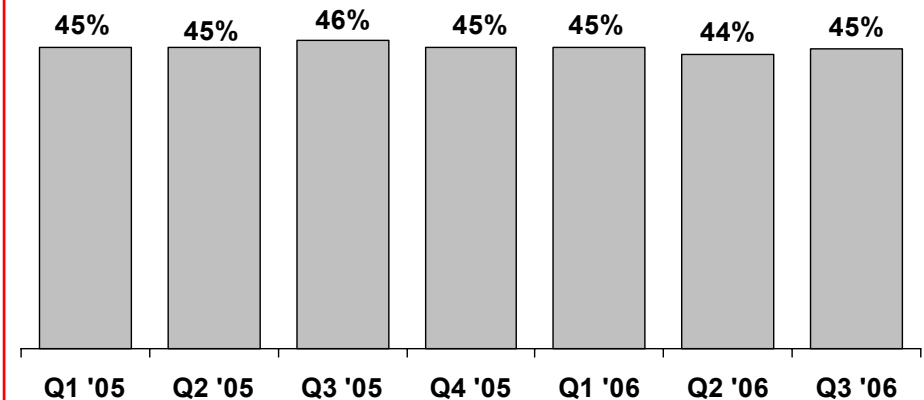
\*further reduction of 1,833 FTE due to sale of life businesses

# Credit quality significantly better than industry

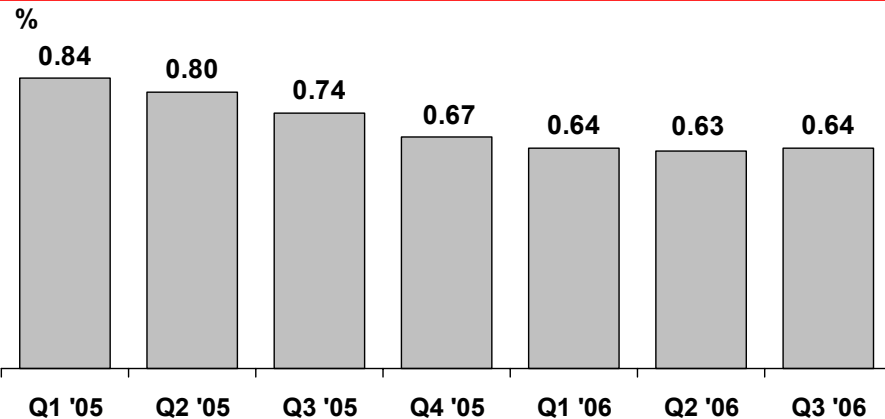
## Average new business mortgage LTV (%)



## 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

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# Financial summary

revenue growth  
positive despite  
sale of life  
businesses



- income benefiting from higher net fees and positive trends in Retail Banking
- Retail Banking growth supported by new Wealth Management division, with strong contribution from Abbey Financial Markets

cost reductions  
continue



- further progress towards achieving £300 million cost savings by end of 2007 with over 1,800 FTE reduction in 2006 to date (excluding impact of sale of life businesses)
- cost reduction continuing ahead of full Partenon implementation
- Partenon – key commercial tools have been delivered, further improvements due in fourth quarter 2006

low risk



- life businesses sale completed 1<sup>st</sup> September
- scope to broaden Retail Banking risk appetite from low base
- capital ratios strong

on track



- ordinary income well ahead of 2005
- further cost reduction from half 1 2006 levels
- performance in Q3 2006 in line with expectations

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# Balance sheet

## United Kingdom (Abbey)

Million pound sterling

|  | 30.09.06       | 30.09.05       | Variation       |             |
|--|----------------|----------------|-----------------|-------------|
|  |                |                | Amount          | %           |
| <b>Balance sheet</b>                                       |                |                |                 |             |
| Loans and credits*   | 124,573        | 119,274        | 5,299           | 4           |
| Trading portfolio (w/o loans)                              | 40,594         | 42,736         | (2,143)         | (5)         |
| Available-for-sale financial assets                        | 15             | 15             | (0)             | (3)         |
| Due from credit institutions*                              | 12,190         | 14,096         | (1,906)         | (14)        |
| Intangible assets and property and equipment               | 3,415          | 2,362          | 1,053           | 45          |
| Other assets   | 6,668          | 28,955         | (22,287)        | (77)        |
| <b>Total assets/liabilities &amp; shareholders' equity</b> | <b>187,455</b> | <b>207,438</b> | <b>(19,984)</b> | <b>(10)</b> |
| Customer deposits*   | 77,900         | 76,540         | 1,360           | 2           |
| Marketable debt securities*                                | 46,880         | 35,453         | 11,427          | 32          |
| Subordinated debt  | 7,087          | 8,201          | (1,114)         | (14)        |
| Insurance liabilities                                      | 48             | 25,208         | (25,159)        | (100)       |
| Due to credit institutions*                                | 30,844         | 35,847         | (5,003)         | (14)        |
| Other liabilities  | 22,499         | 24,660         | (2,161)         | (9)         |
| Shareholders' equity                                       | 2,196          | 1,530          | 666             | 44          |
| <b>Off-balance-sheet funds</b>                             | <b>4,253</b>   | <b>4,349</b>   | <b>(96)</b>     | <b>(2)</b>  |
| Mutual funds**   | 4,253          | 4,349          | (96)            | (2)         |
| Pension funds  | —              | —              | —               | —           |
| Managed portfolios   | —              | —              | —               | —           |
| <b>Customer funds under management</b>                     | <b>136,169</b> | <b>149,751</b> | <b>(13,582)</b> | <b>(9)</b>  |
| <b>Total managed funds</b>                                 | <b>191,708</b> | <b>211,788</b> | <b>(20,079)</b> | <b>(9)</b>  |

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

(\*\*).- Trends in Mutual Funds impacted by the sale of life businesses

# Profit and loss, with results of discontinued businesses separate

## United Kingdom (Abbey)

Million pound sterling

|   | Jan.-Sep. 06 | Jan.-Sep. 05 | Variation  |           |
|---|--------------|--------------|------------|-----------|
|   |              |              | Amount     | %         |
| <b>Income statement</b>   |              |              |            |           |
| <b>Net interest income</b>  | <b>1,070</b> | <b>1,043</b> | <b>27</b>  | <b>3</b>  |
| Income from companies accounted for by the equity method            | 2            | 1            | 0          | 35        |
| Net fees  | 525          | 474          | 52         | 11        |
| Insurance activity  | 0            | 0            | (0)        | (83)      |
| <b>Commercial revenue</b>   | <b>1,598</b> | <b>1,518</b> | <b>79</b>  | <b>5</b>  |
| Gains (losses) on financial transactions                            | 206          | 184          | 22         | 12        |
| <b>Gross operating income</b>                                       | <b>1,804</b> | <b>1,703</b> | <b>101</b> | <b>6</b>  |
| Income from non-financial services (net) and other operating income | 25           | 17           | 9          | 51        |
| General administrative expenses                                     | (959)        | (1,040)      | 81         | (8)       |
| <i>Personnel</i>  | (549)        | (565)        | 16         | (3)       |
| <i>Other administrative expenses</i>                                | (410)        | (475)        | 65         | (14)      |
| Depreciation and amortisation                                       | (53)         | (58)         | 5          | (8)       |
| <b>Net operating income</b>   | <b>818</b>   | <b>622</b>   | <b>196</b> | <b>31</b> |
| Net loan loss provisions  | (210)        | (167)        | (43)       | 26        |
| Other income  | (0)          | 44           | (44)       | (101)     |
| <b>Income before taxes</b>  | <b>607</b>   | <b>499</b>   | <b>108</b> | <b>22</b> |
| <b>Income from ordinary activity</b>                                | <b>437</b>   | <b>338</b>   | <b>98</b>  | <b>29</b> |
| Income from discontinued operations                                 | 73           | 49           | 24         | 49        |
| <b>Net consolidated income</b>                                      | <b>509</b>   | <b>387</b>   | <b>121</b> | <b>31</b> |
| <b>Attributable income to the Group</b>                             | <b>509</b>   | <b>387</b>   | <b>121</b> | <b>31</b> |

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