

United Kingdom: Abbey

Year-end 2006

London, 1st February 2007

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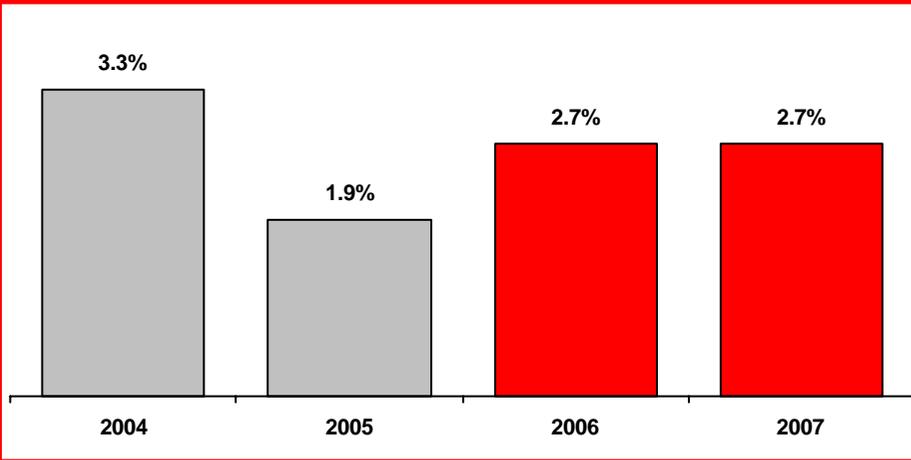
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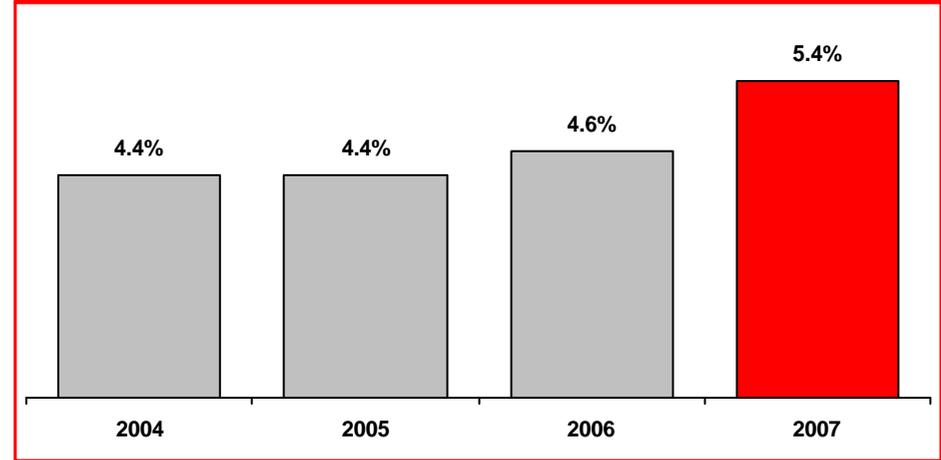
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UK economic environment expected to remain relatively benign ⁴

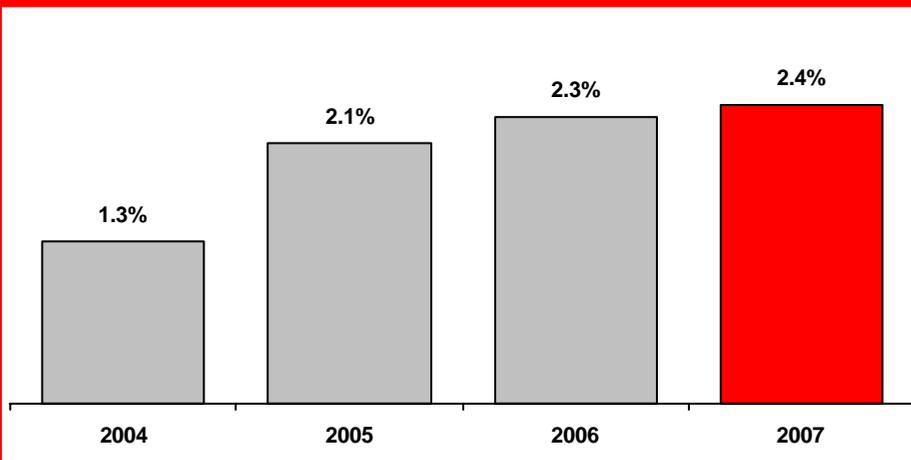
Annual GDP growth (% , annual average)



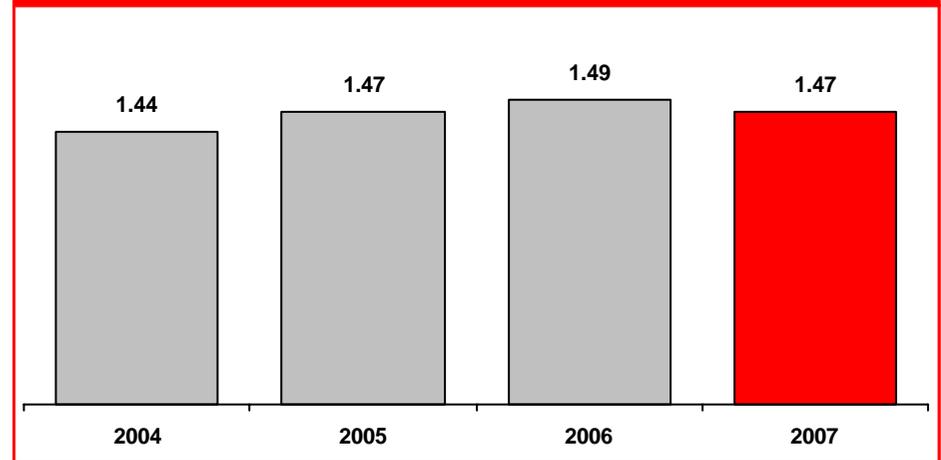
Interest rates (% , annual average)



Annual CPI inflation rate (% , annual average)



GBP : Euro exchange rates (end period)



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

■ - estimated by Abbey

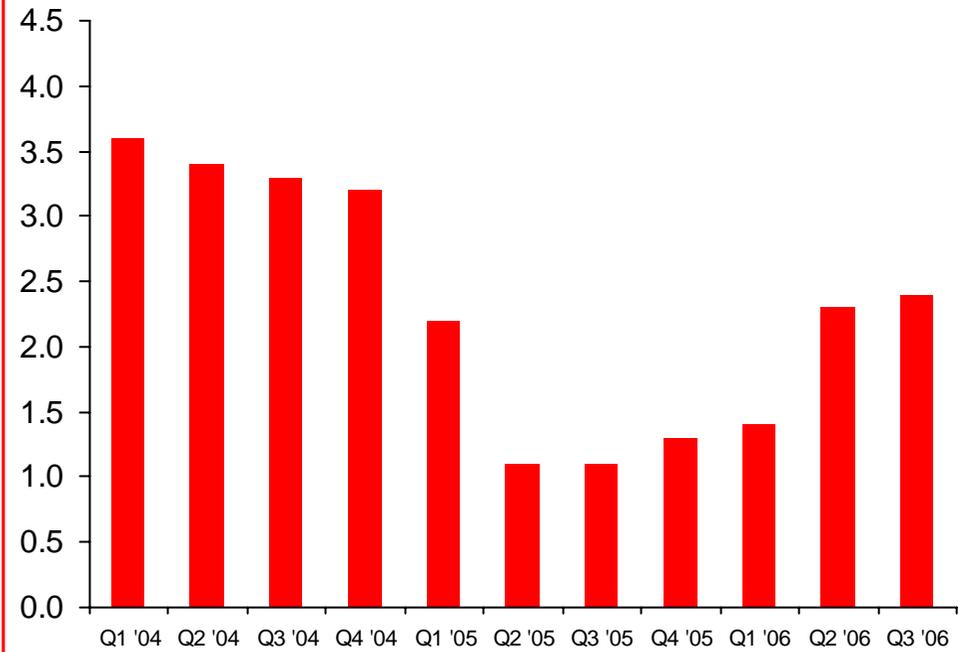
Unemployment has gradually trended up, but from a low level, and consumer spending growth has steadied

Unemployment rate (% , ILO)



Source – Office for National Statistics

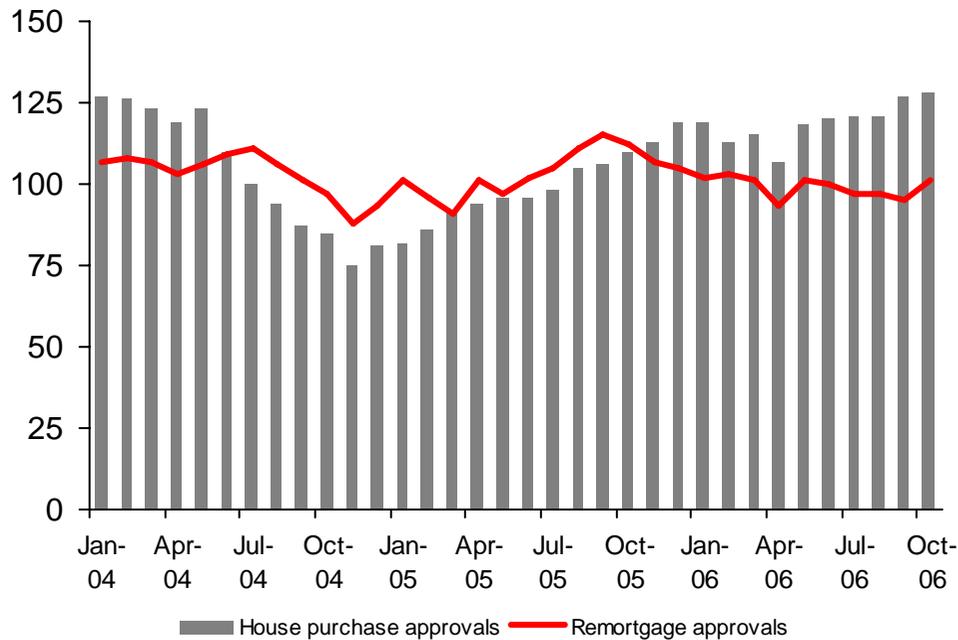
Annual Growth in Consumer Expenditure (%)



Source – Office for National Statistics

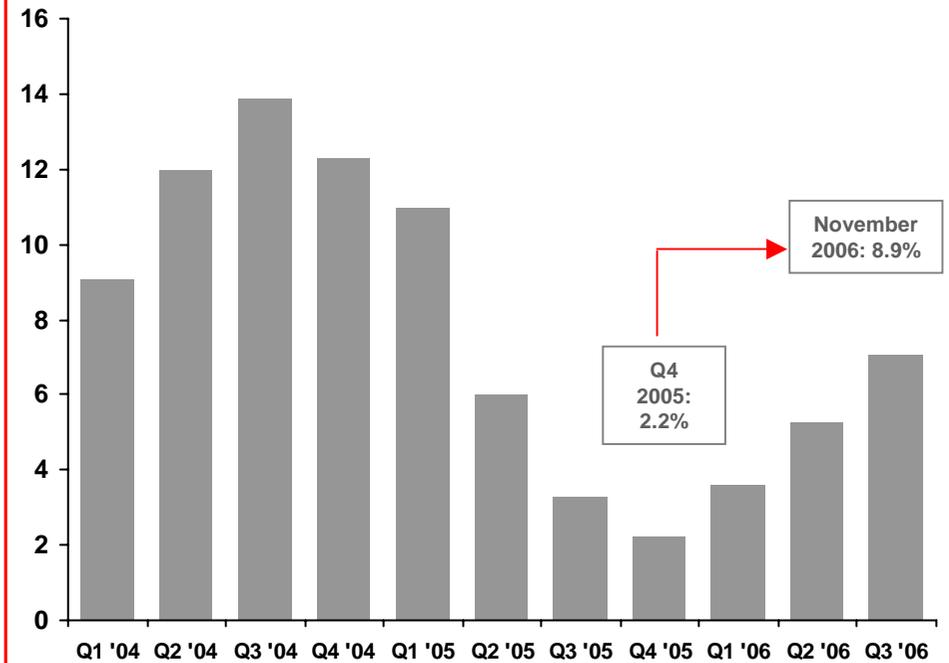
The mortgage market remained strong throughout 2006 and annual house price growth has increased since end 2005

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



Source – Bank of England

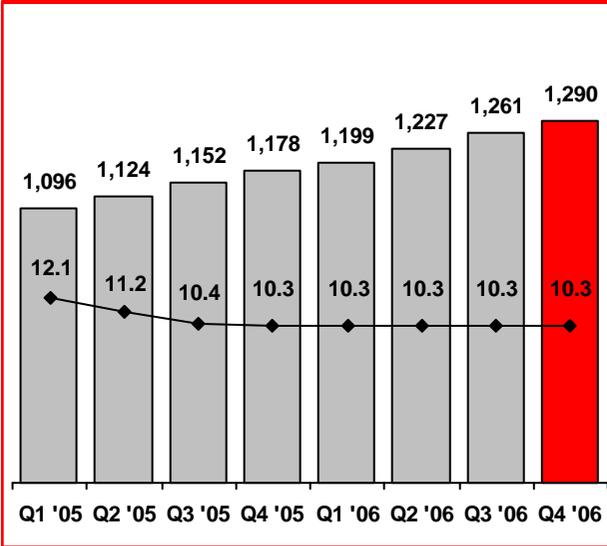
Annual house price growth (%)



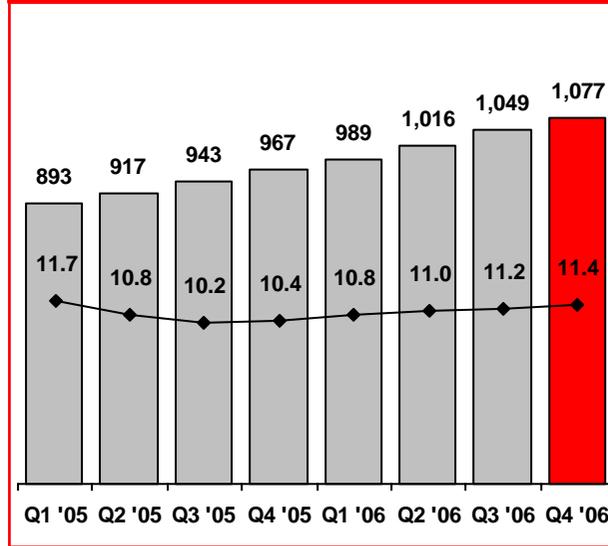
Source – Department for Communities and Local Government

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

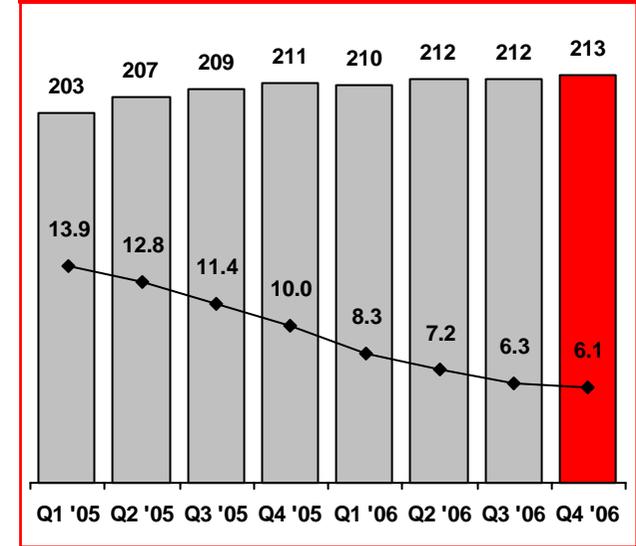
Total lending to individuals*



Mortgage lending market stock*



Consumer credit market stock*



Source – Bank of England.

■ - actual market size (£bn)

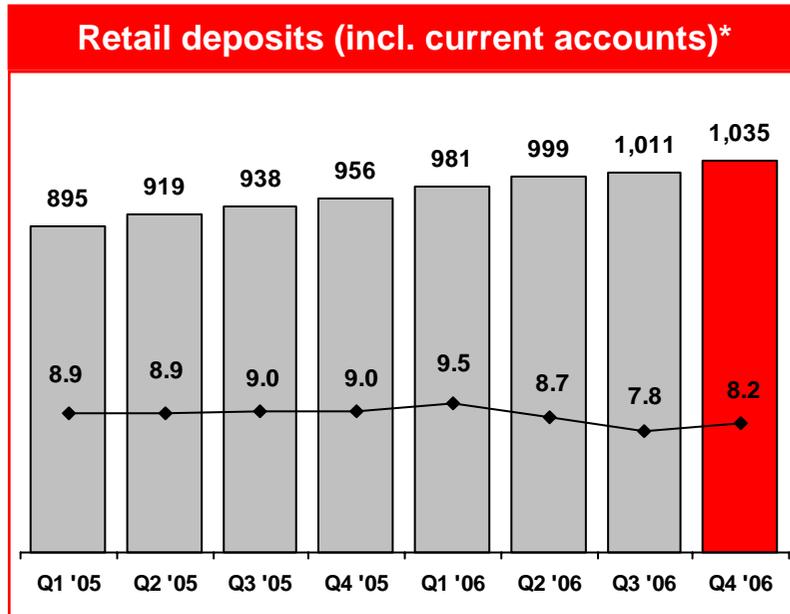
■ - estimated market size (£bn)

◆ - annual growth rates (%)

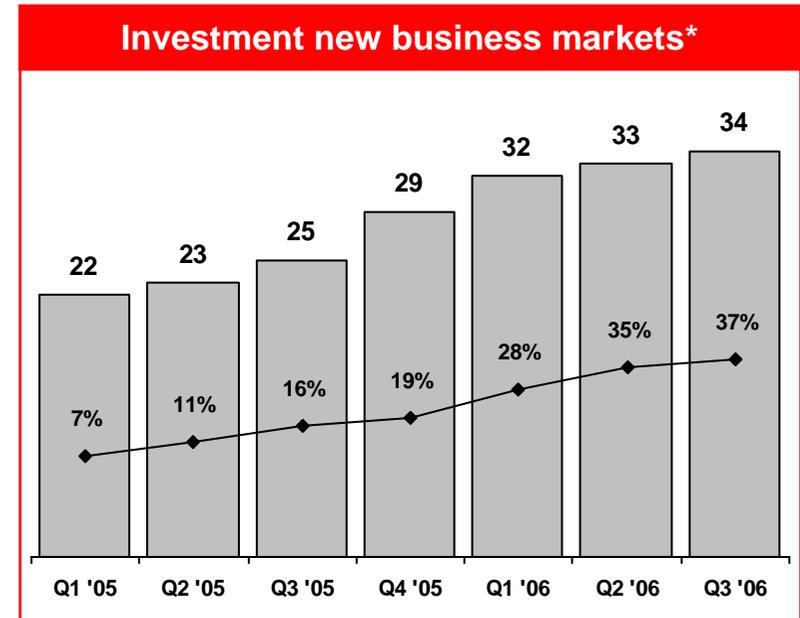
*Please note:

- Growth rates are calculated using the Bank of England's methodology - this expresses period net lending as a percentage of the prior period stock.
- Q4 figures are based on November 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.
- Q4 figures are based on November YTD – official data not yet released
- Investment new business data only available on a quarterly basis - quarter 4 2006 data is not currently available.

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Abbey is a key retail participant in the UK banking industry

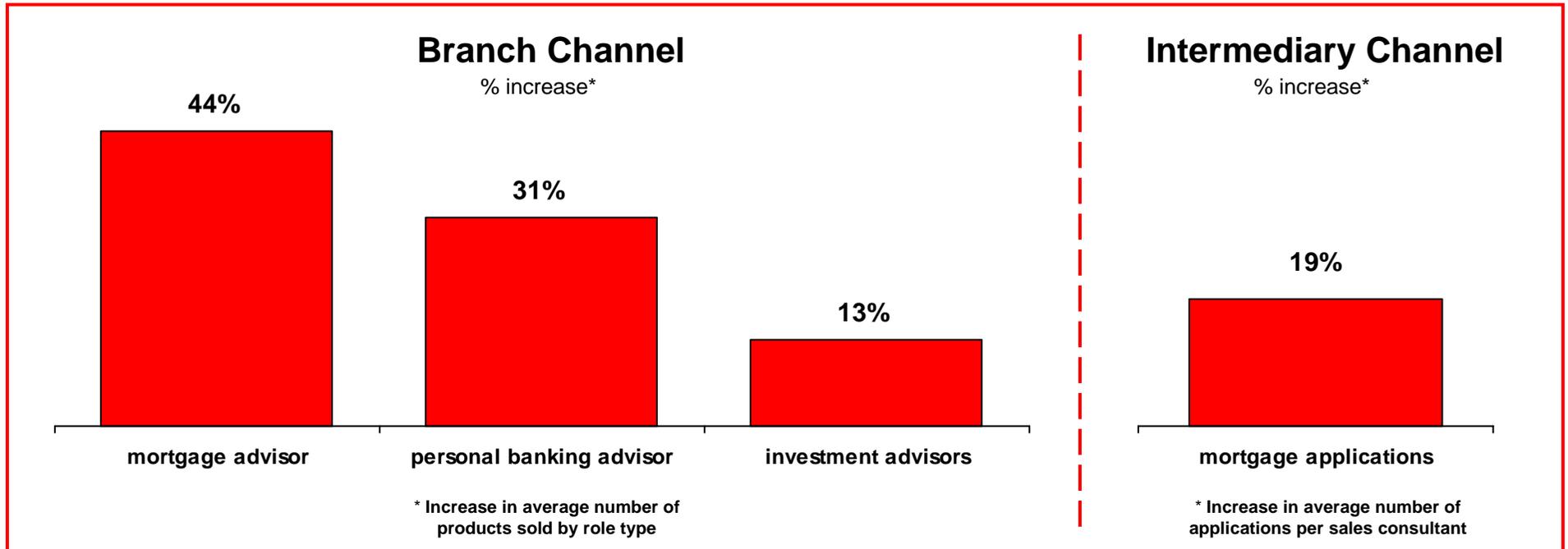
2006 highlights

■ residential mortgage stock	£101.7bn
■ residential mortgage stock share	9.4%
■ UPL stock	£3.6bn
■ customer deposit stock	£63.0bn
■ net attributable income	£684m
■ branches	712
■ employees (FTE)	17,146

Abbey franchise

- a well established mortgage business ...
 - second largest mortgage lender in the UK
 - strong net lending market share in a competitive environment
- ...and showing potential in other product areas...
 - higher volumes of current account openings and unsecured personal loans in 2006
 - 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

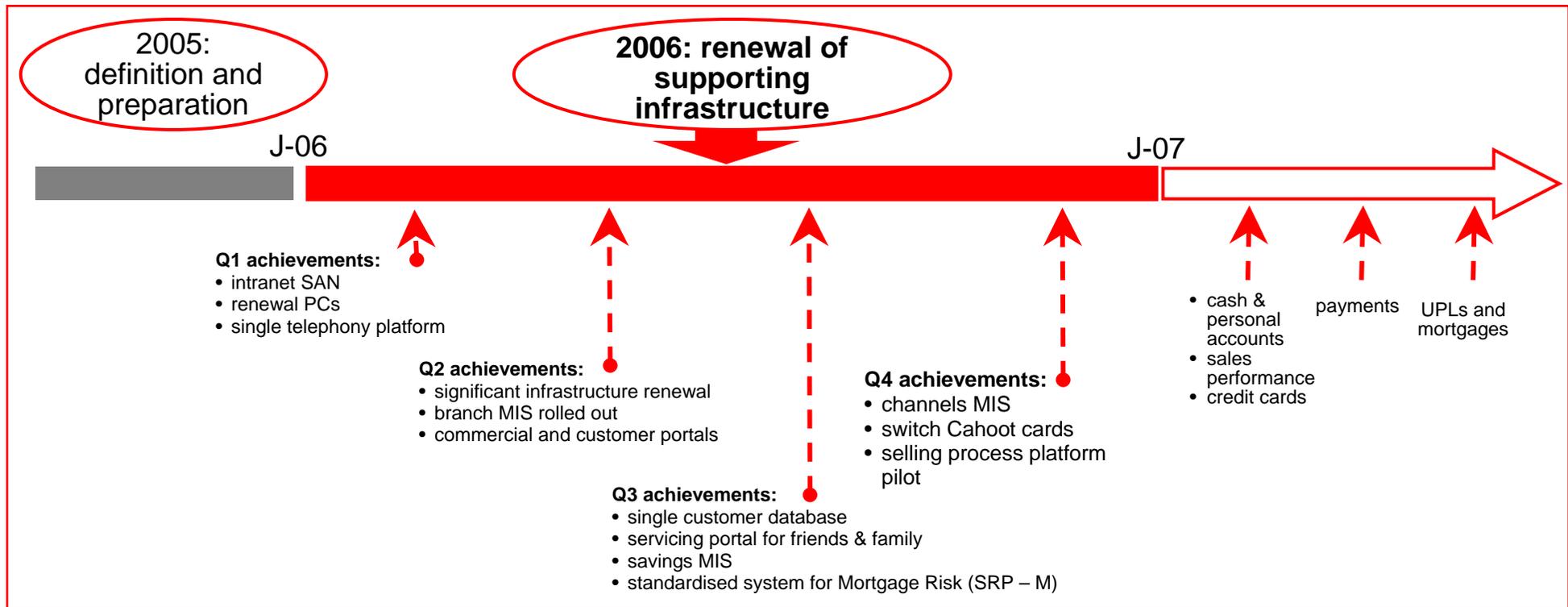
Sales productivity in both the branch network and intermediary channel has improved in 2006



improvements in sales productivity

- Branch network delivered solid sales growth across the product range - mortgage gross lending up 11%, UPL gross lending up 66% and investment sales up 16%
- c. 100 investment advisors recruited in 2006 to sell investment products in our branches, with an additional 100 FTE approved to be recruited

Partenon on track to improve sales performance further



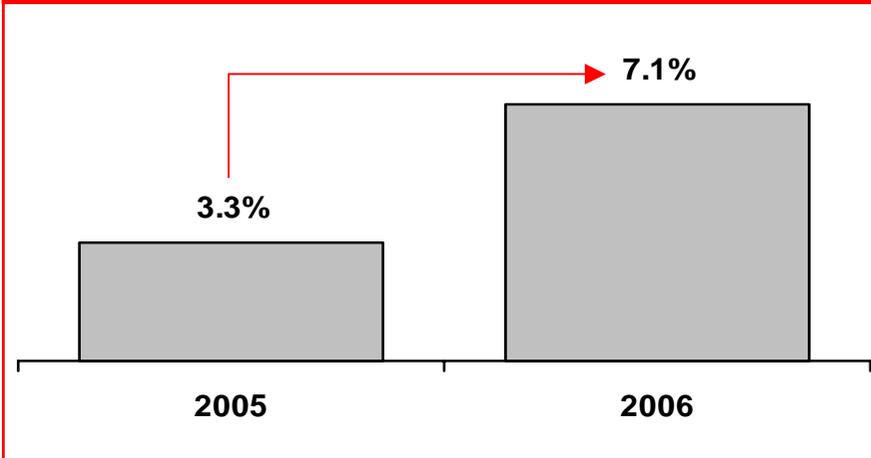
■ Achievements in 2006

- ❑ **branch, savings & channel MIS:** delivers improved information on performance by channel / product
- ❑ **commercial and customer portals:** offering an integrated vision of the customer (products and relationships) and allows for improvements in sales productivity
- ❑ **single customer database (BDP):** single view of the customer - improves customer information delivered to the business
- ❑ **selling and servicing portals pilot:** simplifies and improves sales processes

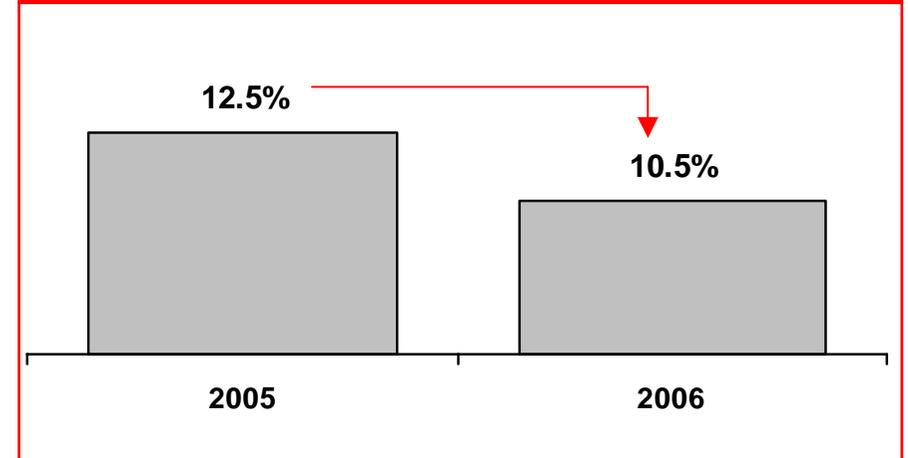
- **next steps:** continued replacement of Abbey's front-end applications

Positive market share trends in a highly competitive environment

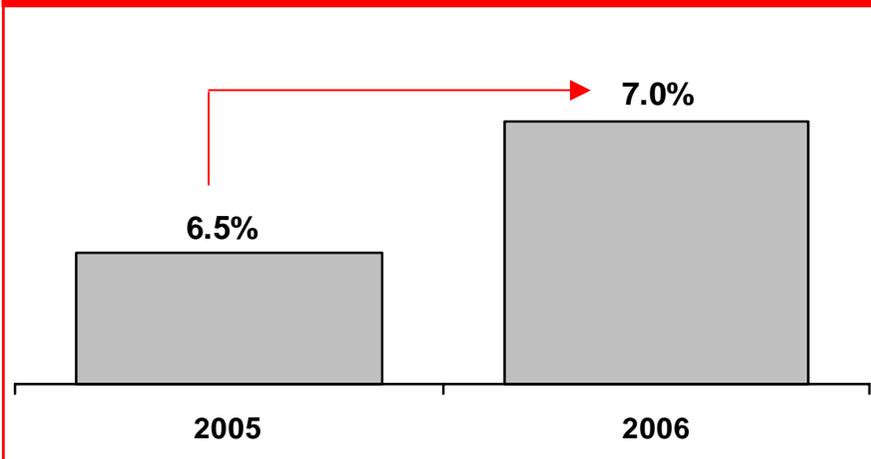
Residential mortgage net lending (%)



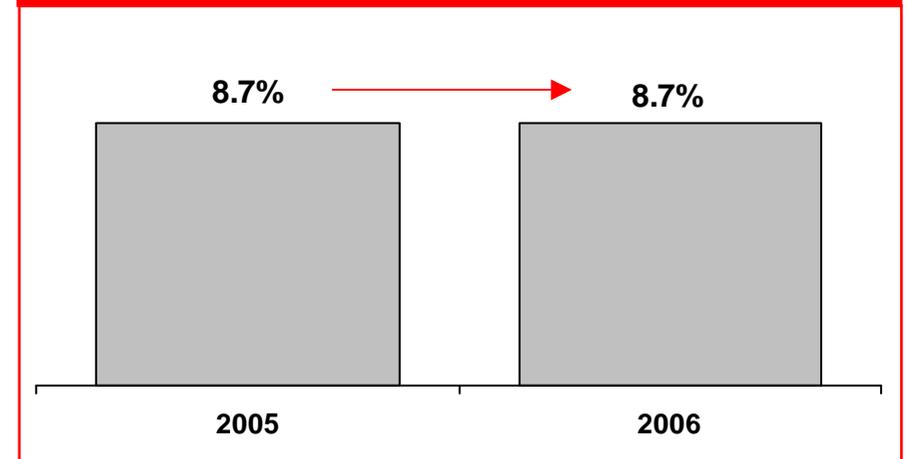
Residential mortgage repayments (%)



Bank account openings (%)

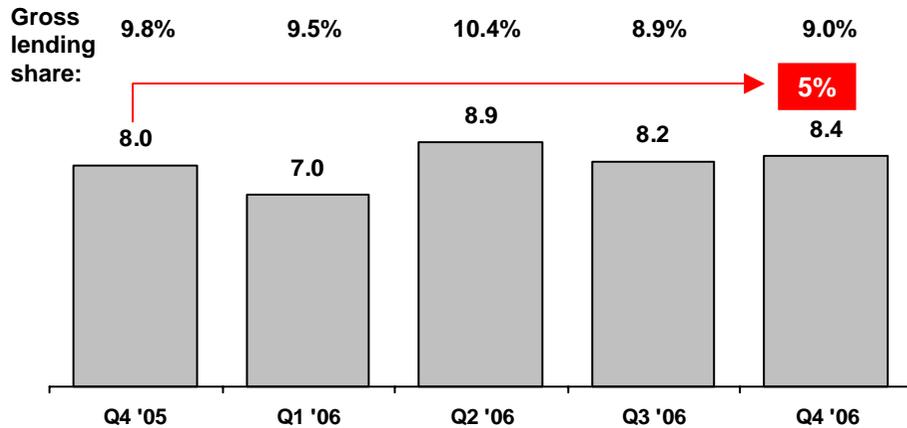


Direct investment new business (%)

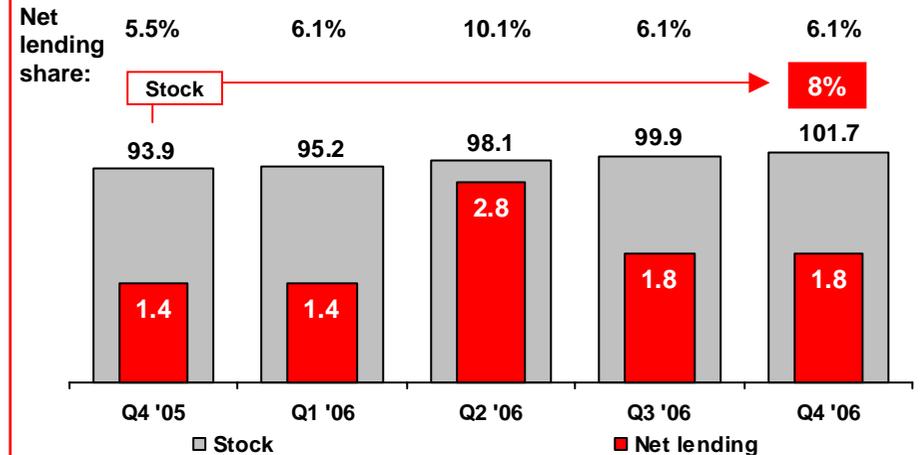


Mortgage performance robust - balancing growth and market share aspirations with a focus on profitability

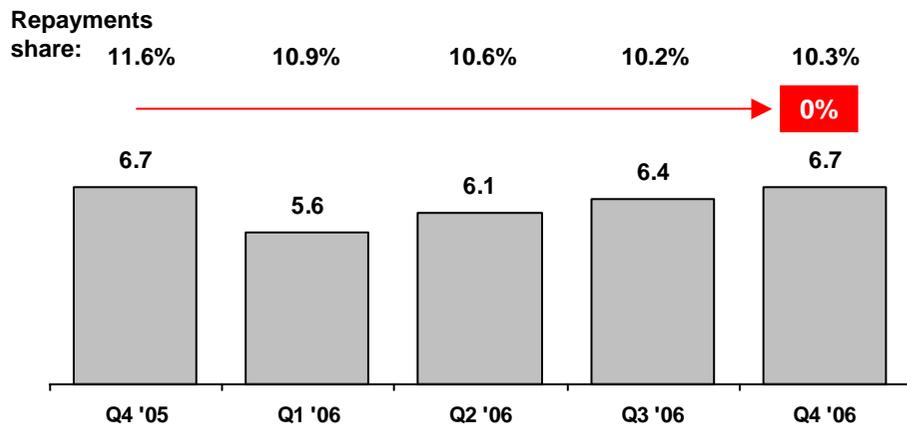
Total residential mortgage gross lending (£ bn)



Residential mortgage net lending and stock (£ bn)



Total residential mortgage repayments (£ bn)

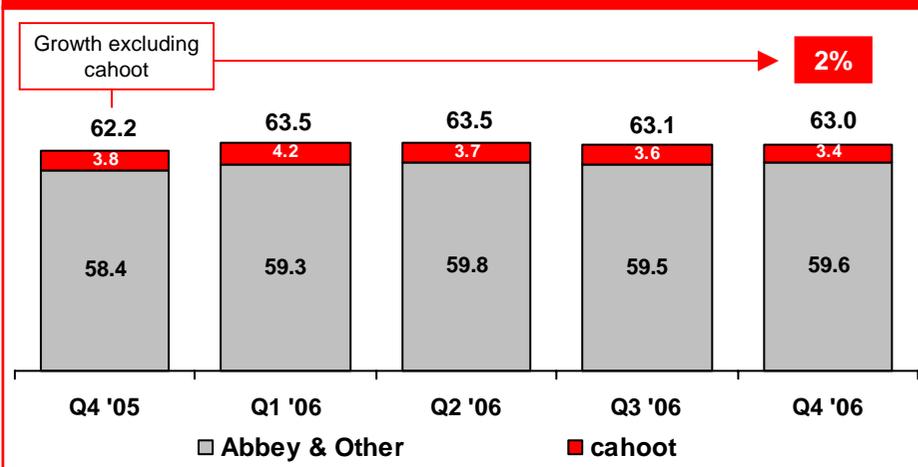


Comment

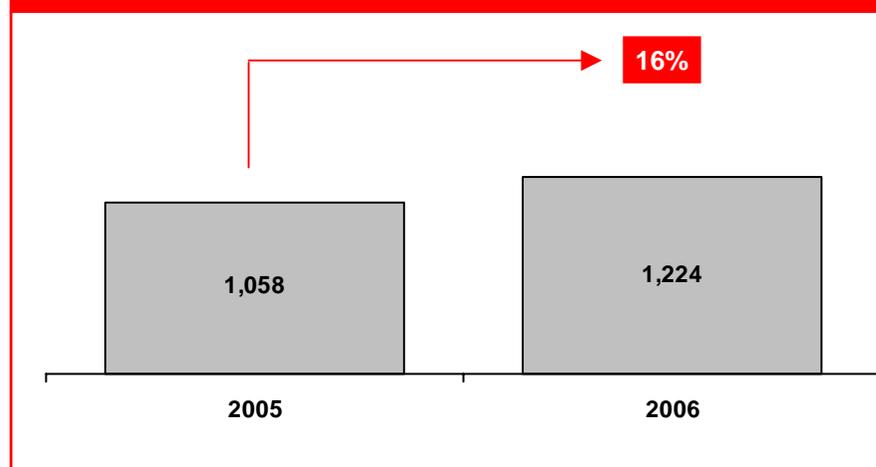
- new business pricing remains competitive, particularly in H2
- moving into growing, higher margin non-standard segments – with improved first-time buyer proposition and launch of new buy-to-let offering in the final quarter
- lower share of repayments (2006: 10.5%, 2005: 12.5%) in part reflecting retention initiatives put in place

Actively managing for value in the savings portfolio and re-building investment capability

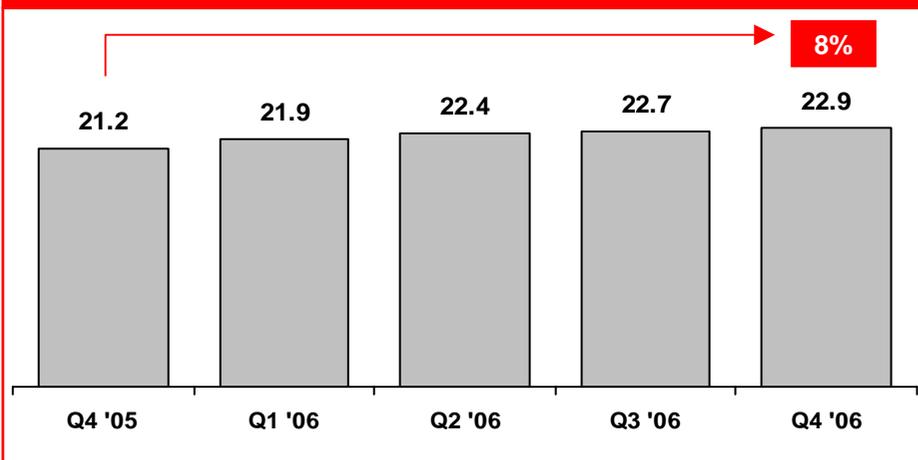
Total customer deposit stock (£bn)



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



Branch acquisition savings stock (£bn)



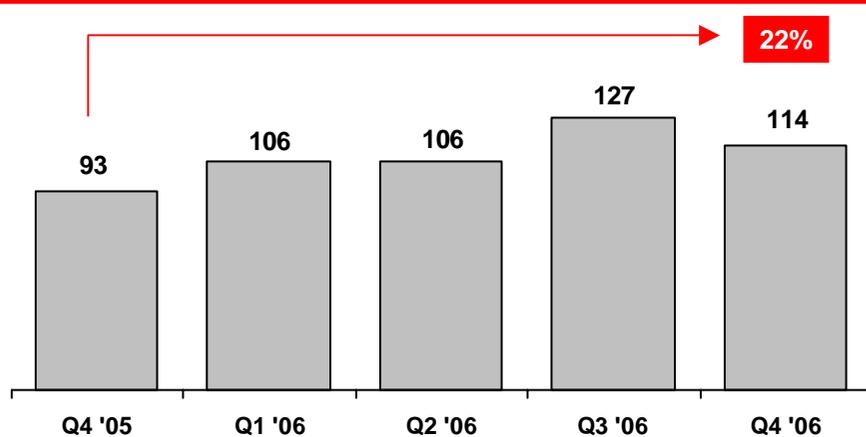
Comment

- re-pricing late in the first half impacted deposit flows from low / negative margin accounts
- average liability spreads have improved by 15 bps since Q4 2005 – with income up over 5%
- sustained presence with attractive branch acquisition offering
- investment sales up 16% - actively recruiting investment advisors from mid 2006

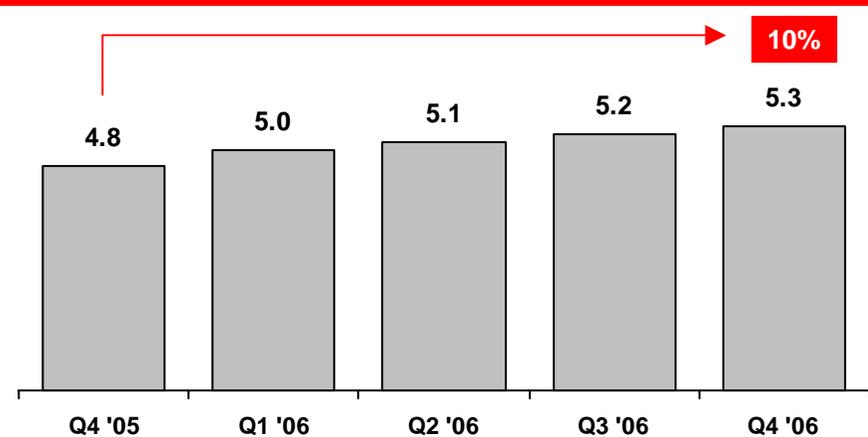
¹ Abbey commission income is generated from new business annual premium income (API) flows

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

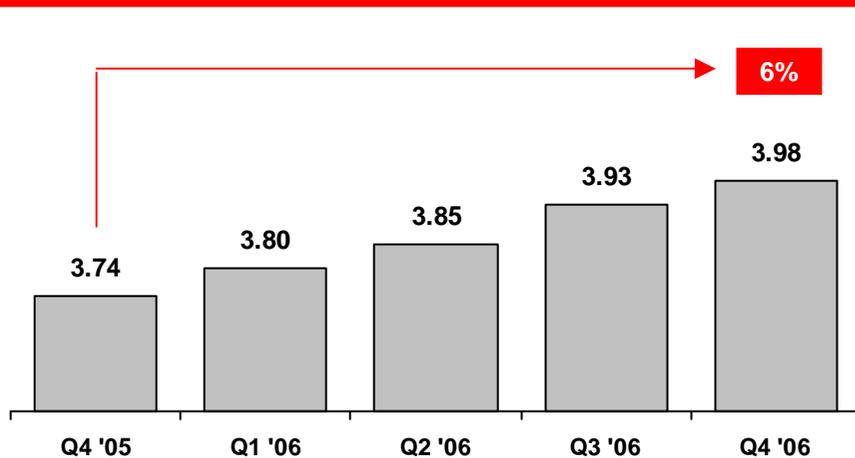
Bank account openings (000)



Abbey branded current account liability (£bn)



Stock of Abbey branded accounts (m)

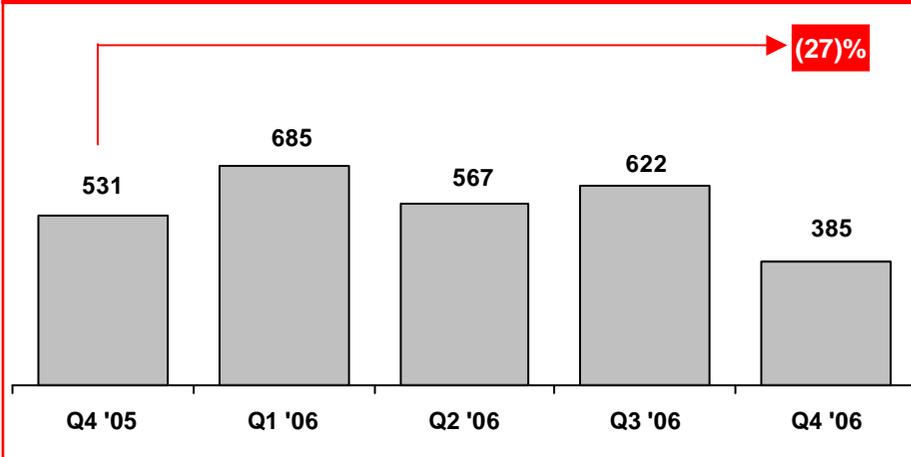


Comments

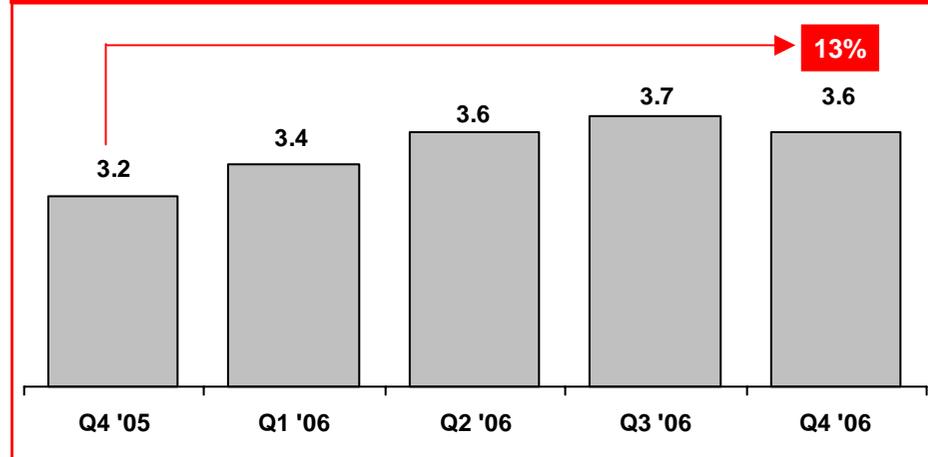
- strong uplift in bank account openings in branch network – with switcher account openings 114% ahead of 2005
- growth of 6% in account base, with liability growth stronger at 10%
- increased current account liability supporting overall liability spreads

Adapting UPL strategy to focus on existing customers

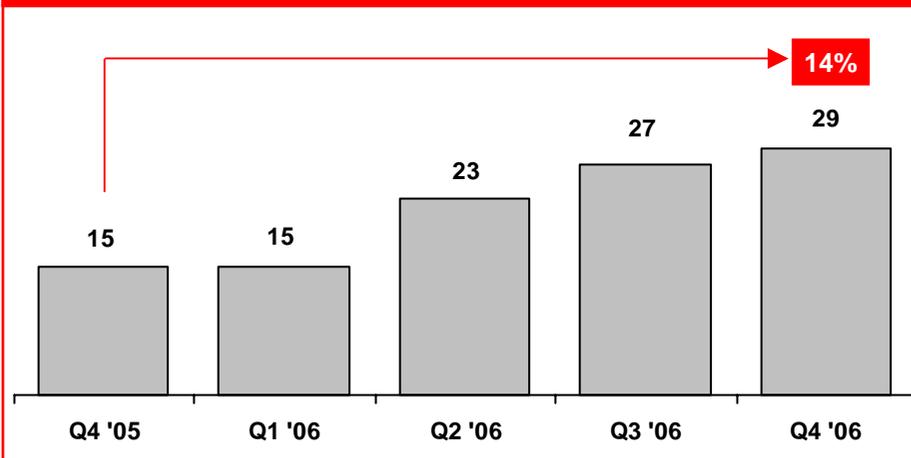
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch lending as % of total



Comment

- total gross lending up c. 7% year on year
- introduced step change in new business margins in the latter part of 2006, combined with an increased focus on existing customers
- UPL spread helping to support overall asset spread
- Abbey branded UPL balances up 18%

Business update summary

increased channel focus



- increased focus on channel differentiation and performance – split between direct and intermediary business
- enhanced channel MI
- targeted improvement in sales capacity – focus on investment advisors
- positive sales performance in branches with improved sales productivity

Partenon on track



- significant infrastructure renewal completed, including single customer database
- roll-out of the selling process platform / front end applications commenced
- successful pilot of servicing portal

balancing market share and value



- improved share of net mortgage lending, balancing market share with profitability
- share of mortgage repayments significantly lower than 2005, in part through retention efforts
- improved performance in bank accounts, with strong liability growth
- managing for value in savings, and improving investment sales
- increased focus on growing UPLs through existing customers

sale of life businesses



- sale of life businesses completed 1st September
- commission income from new distribution agreement with Resolution contributed to increased Retail Banking revenues in the final quarter of 2006

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2006 results

Profit and loss

- revenue growth of over 5% - within targeted range – and improving from flat revenues in 2005
- cost reduction of 7% and further FTE reduction – following reduction in 2005
- operating “jaws” of 12% are significantly ahead of the sector average and are the best amongst the UK banks for the second year running⁽¹⁾
- Retail Banking revenues benefited from stable margins and balance sheet growth, supported by a strong contribution from AFM and Wealth Management
- an improvement in the cost : income ratio to 55.7% (2005: 62.9%)
- provisions higher than 2005 driven by UPL charges and an increase in the mortgage related charge to from a low base. UPL represents only 4% of retail customer loans, and overall coverage has risen from 70% in 2005 to 83% in 2006
- further improvements in attributable income, up 23% versus 2005

(1) Benchmark looks at personal financial services components of UK peers as estimated by Abbey and based on H1 results.

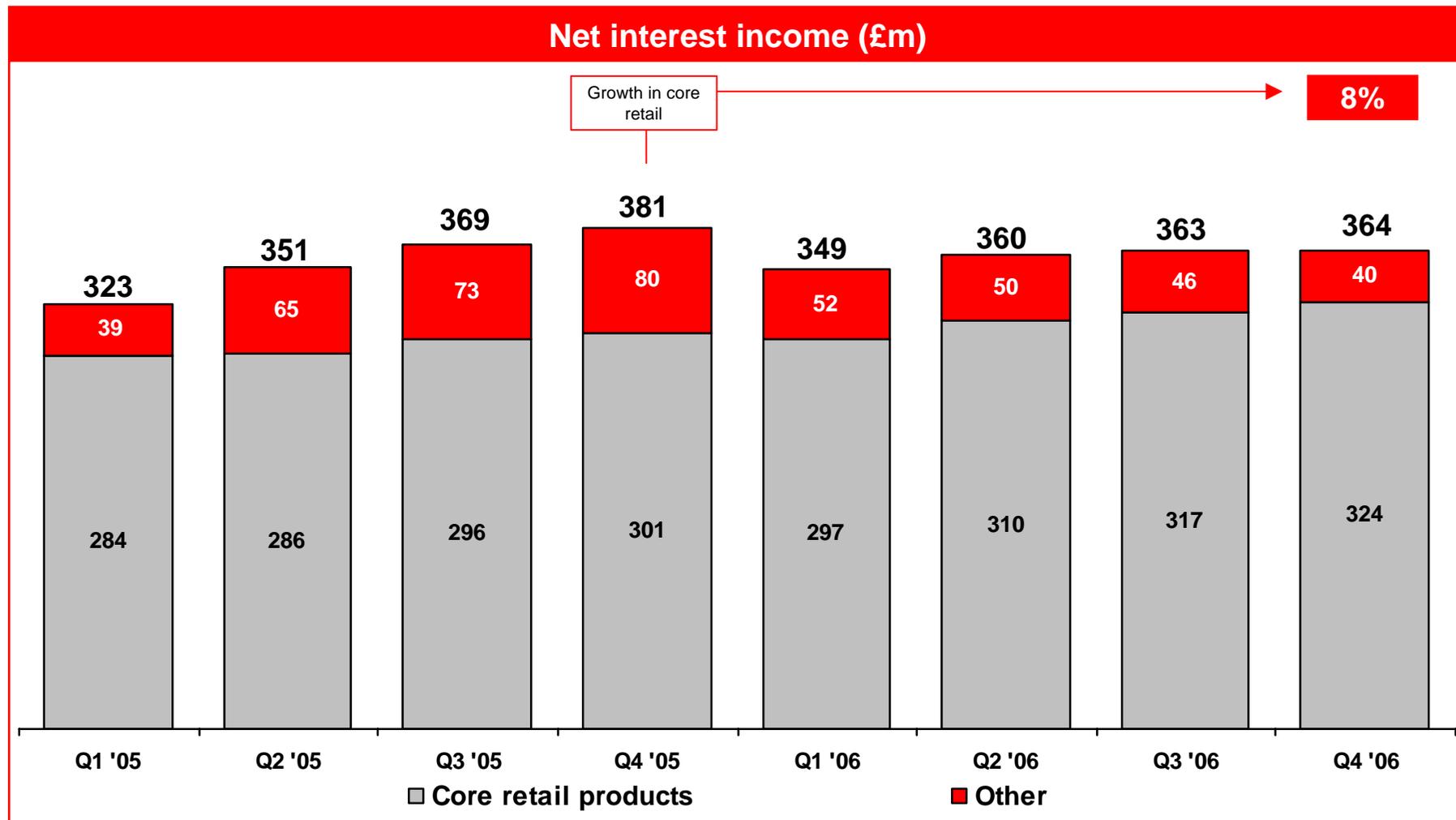
Profit and loss (discontinued life separate)

United Kingdom (Abbey)

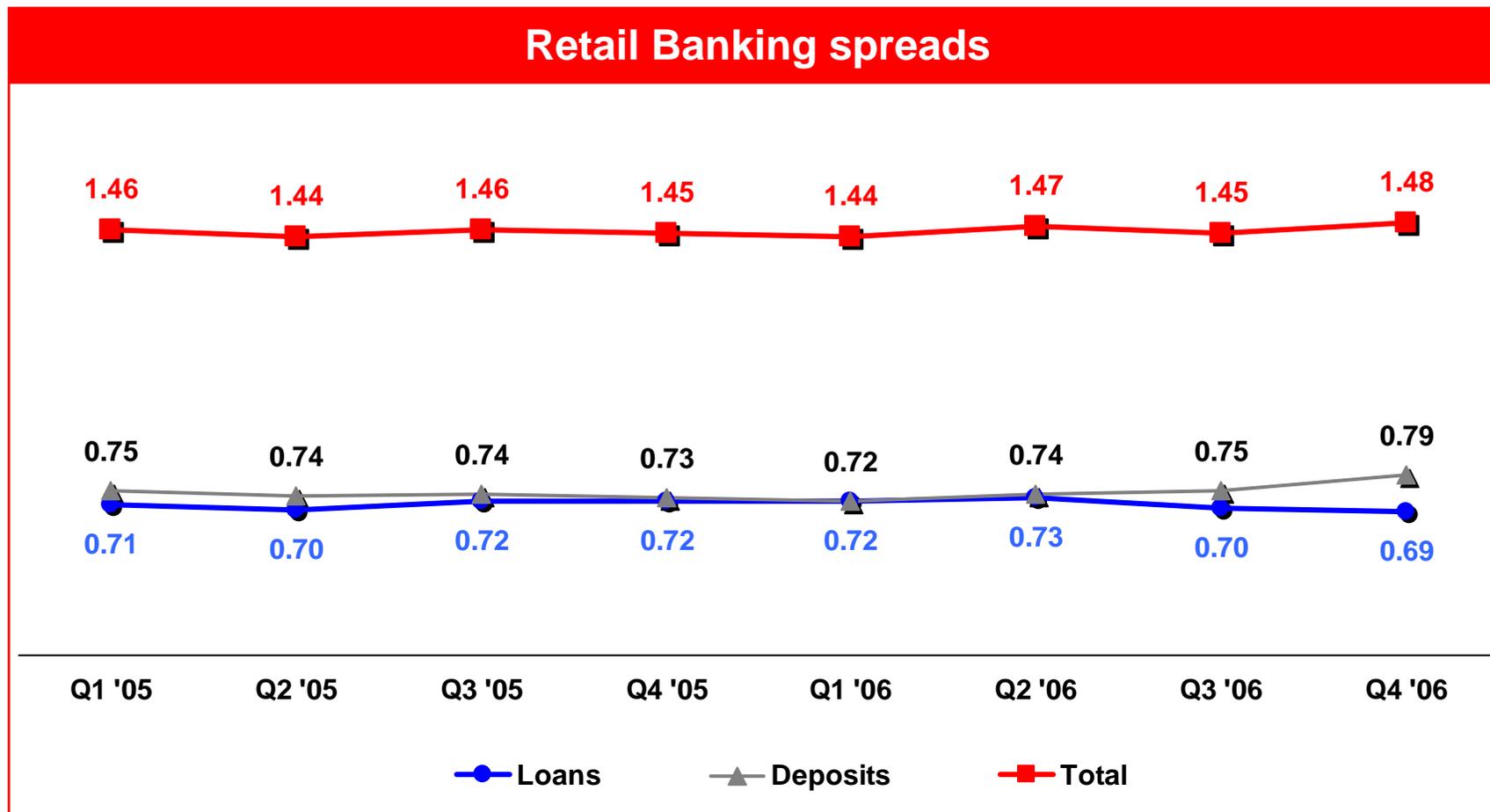
Million pound sterling

	Jan.-Dec. 06	Jan.-Dec. 05	Variation	
			Amount	%
Income statement				
Net interest income	1,437	1,424	13	1
Income from companies accounted for by the equity method	2	2	0	17
Net fees	699	648	51	8
Insurance activity	0	—	0	—
Commercial revenue	2,138	2,074	65	3
Gains (losses) on financial transactions	289	236	52	22
Gross operating income	2,427	2,310	117	5
Income from non-financial services (net) and other operating income	29	25	4	16
General administrative expenses	(1,280)	(1,372)	93	(7)
Depreciation and amortisation	(72)	(80)	8	(10)
Net operating income	1,104	882	222	25
Net loan loss provisions	(264)	(218)	(46)	21
Other income	0	52	(52)	(100)
Income before taxes	840	717	124	17
Income from ordinary activity	606	496	111	22
Income from discontinued operations	77	59	18	31
Net consolidated income	684	555	129	23
Attributable income to the Group	684	555	129	23

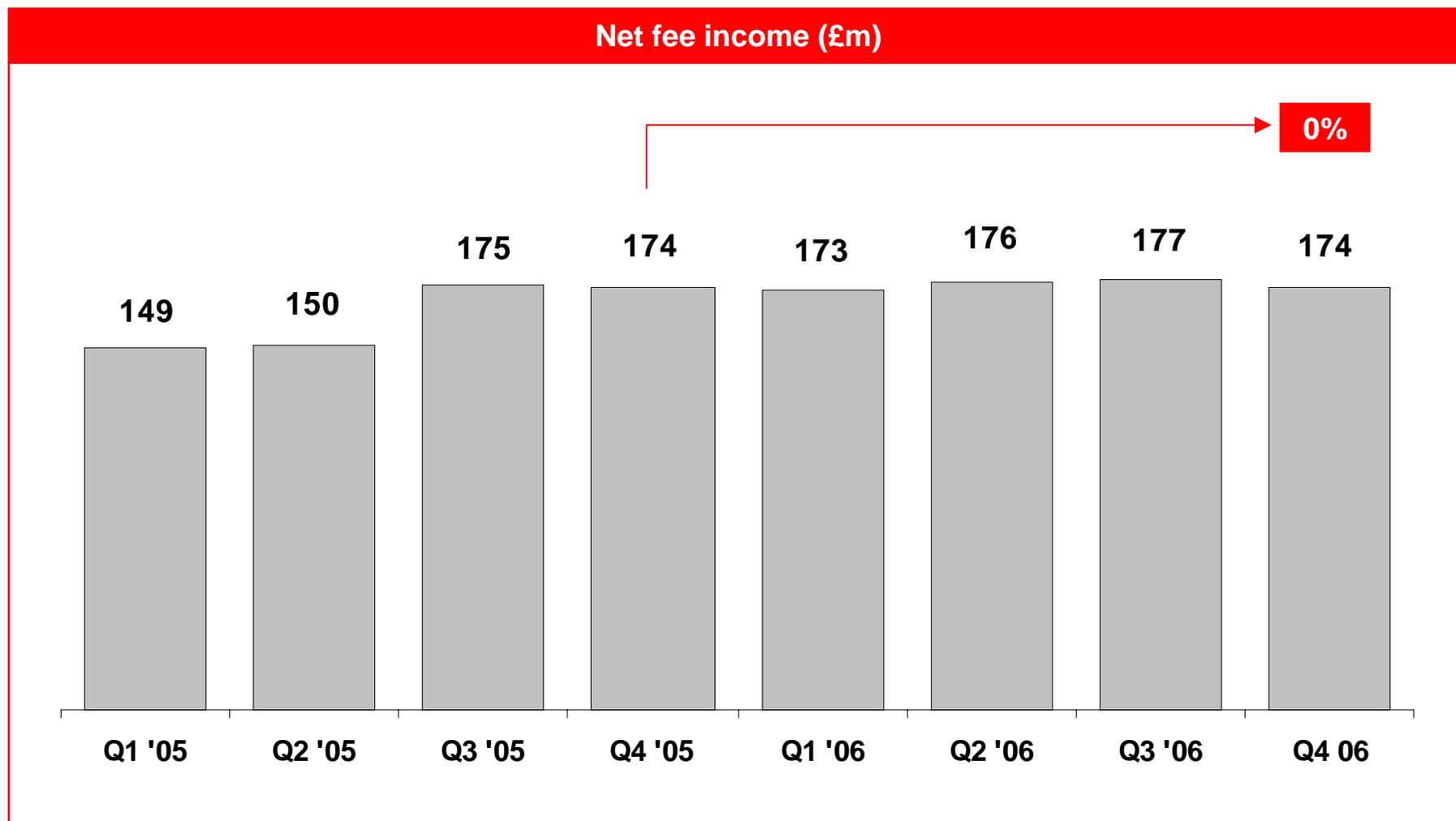
Improving core retail net interest income growth – reduction in “other” NII in part due to run down of PBU*



Competitive pressure has impacted asset spreads, offset by a widening of deposit spreads

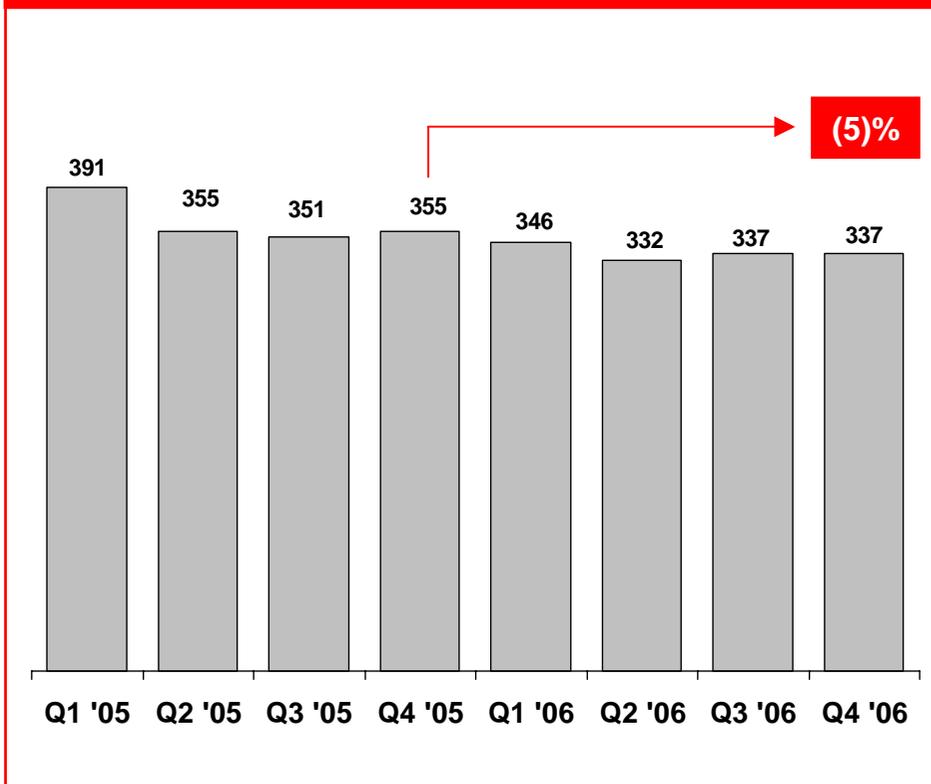


With a stable performance in net fees

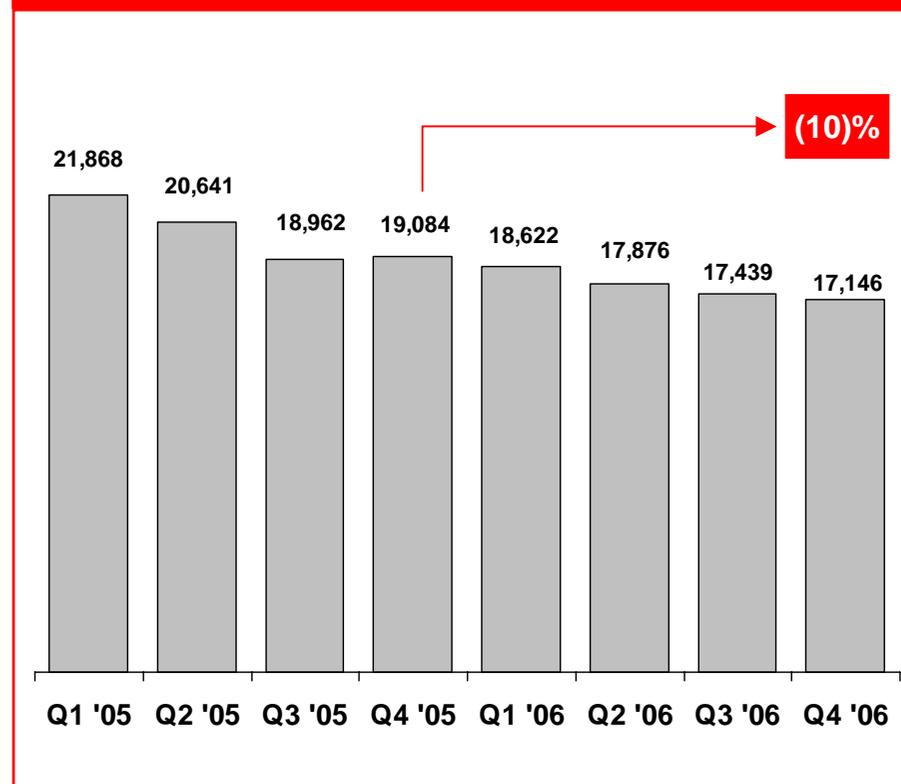


Further cost savings with c. 2,000 FTE reduction to date in 2006, excluding the impact of the sale of life businesses

Total operating expenses (£m)

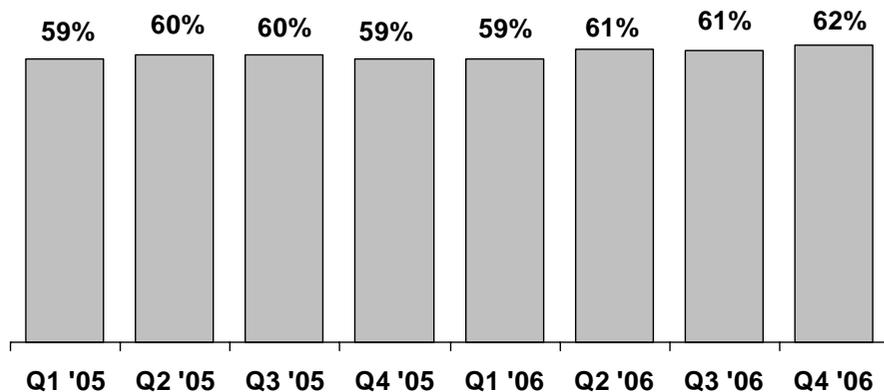


Full time equivalent (FTE)

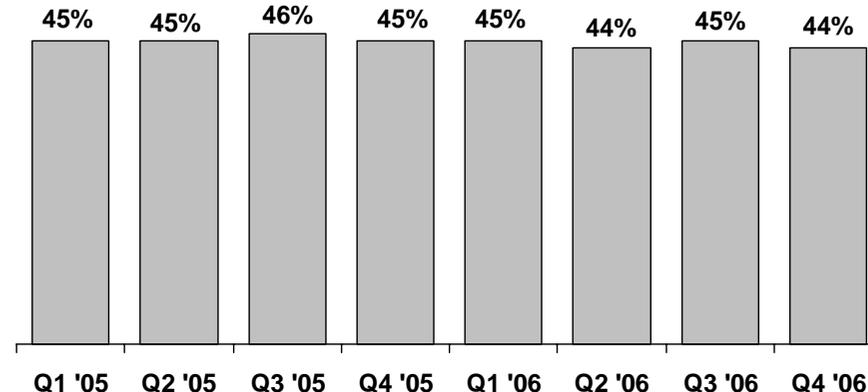


Credit quality significantly better than industry

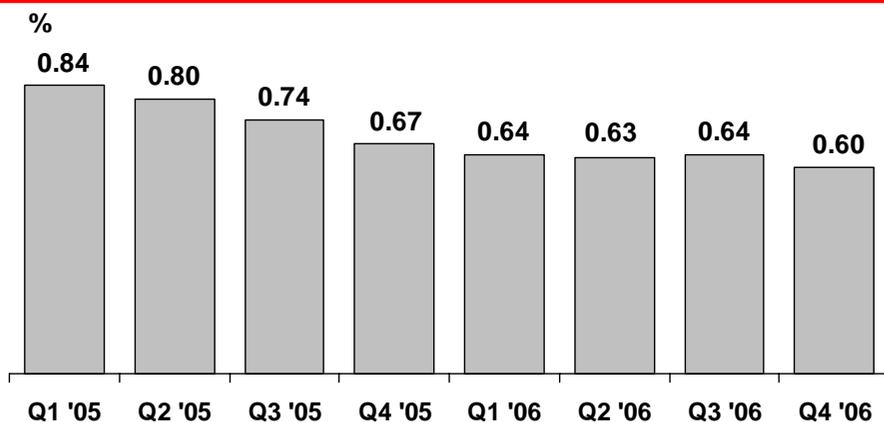
Average new business mortgage LTV (%)



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
- mortgage credit quality remains better than UK sector
- a more cautious approach to unsecured lending in the second half
- overall coverage ratios have improved

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Financial summary

revenue growth on target



- income benefiting from stable margins and balance growth in Retail Banking
- commission income from new distribution agreement with Resolution started to make a positive contribution to revenues in the final quarter of 2006
- Retail Banking growth supported by new Wealth Management division, with strong contribution from Abbey Financial Markets

cost reductions continue



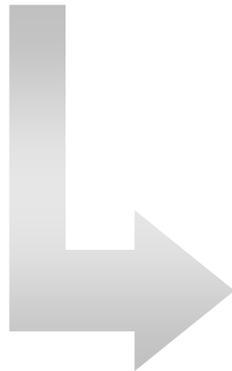
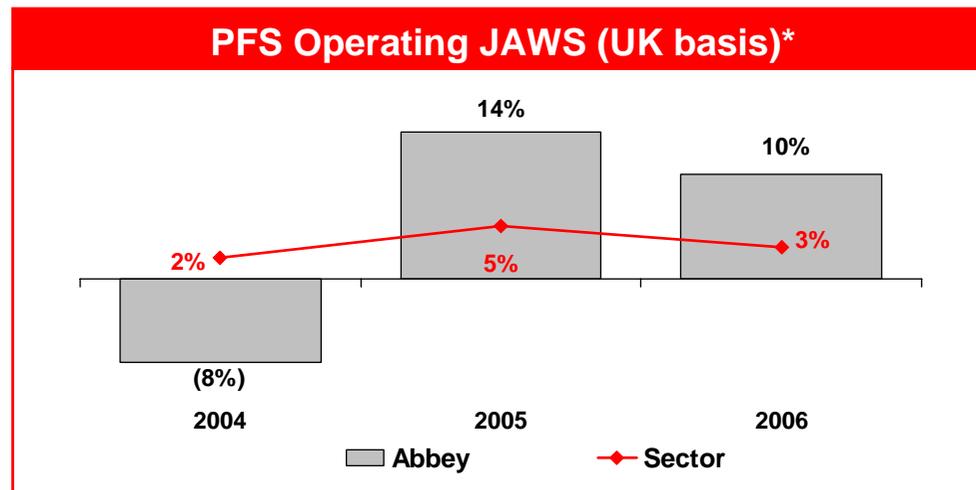
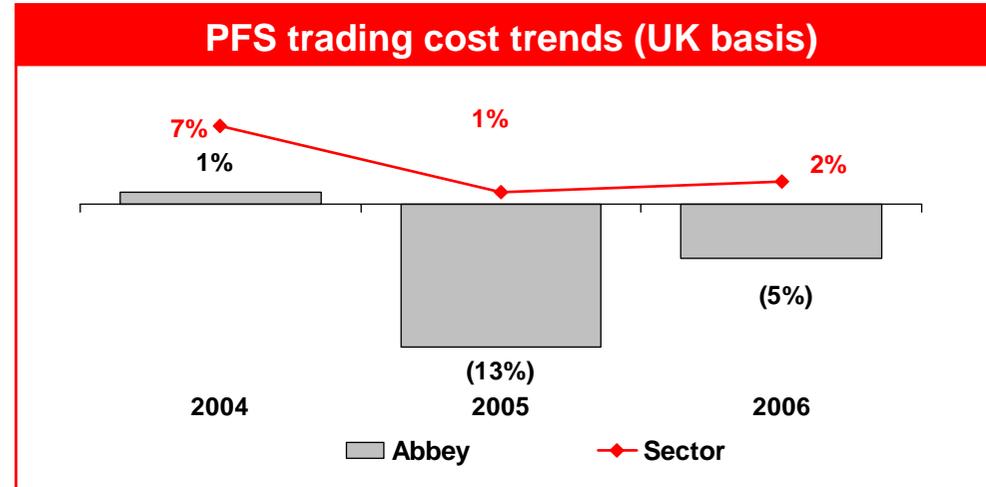
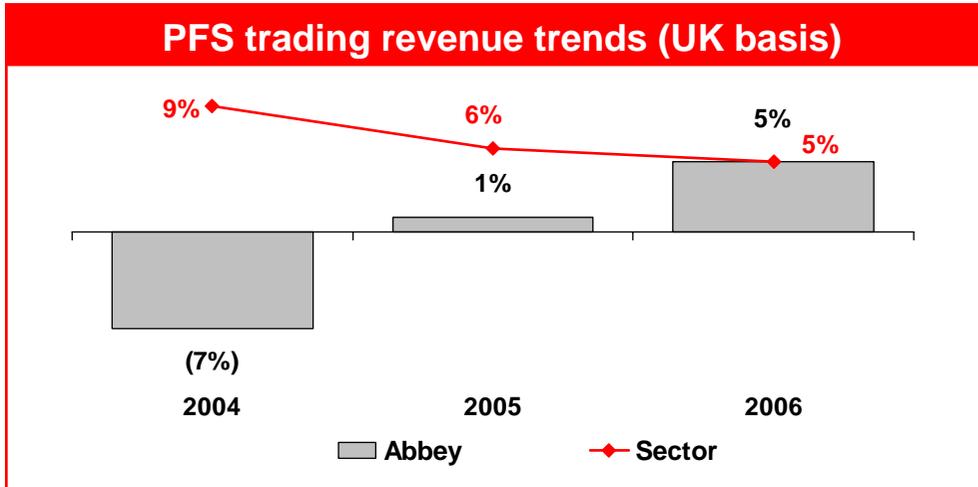
- further progress towards achieving £300 million cost savings by end of 2007, c. £290m to date, c. 2,000 FTE reduction in 2006 (excluding impact of sale of life businesses).
- cost reduction continuing ahead of full Partenon implementation – roll-out of key commercial tools commenced in 2006

low risk



- life businesses sale completed 1st September
- scope to broaden Retail Banking risk appetite from low base
- increased provisions coverage with stable new business loan to value
- capital ratios strong

Overall we have improved our performance relative to the sector and our operating “jaws” are the best amongst the UK banks*



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Balance sheet

Million pound sterling

	31.12.06	31.12.05	Variation	
			Amount	%
Balance sheet				
Loans and credits*	127.929	117.732	10.197	8,7
Trading portfolio (w/o loans)	41.302	43.869	(2.567)	(5,9)
Available-for-sale financial assets	16	12	3	27,6
Due from credit institutions*	12.211	8.957	3.255	36,3
Intangible assets and property and equipment	3.397	3.562	(165)	(4,6)
Other assets	5.836	32.497	(26.661)	(82,0)
Total assets/liabilities & shareholders' equity	190.690	206.628	(15.938)	(7,7)
Customer deposits*	77.353	75.915	1.438	1,9
Marketable debt securities*	48.924	42.806	6.118	14,3
Subordinated debt	6.332	7.831	(1.499)	(19,1)
Insurance liabilities	48	25.028	(24.980)	(99,8)
Due to credit institutions*	34.260	27.934	6.326	22,6
Other liabilities	21.539	25.533	(3.994)	(15,6)
Shareholders' equity	2.235	1.581	654	41,4
Off-balance-sheet funds	5.578	4.111	1.467	35,7
Mutual funds	5.578	4.111	1.467	35,7
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Customer funds under management	138.235	155.692	(17.457)	(11,2)
Total managed funds	196.269	210.739	(14.471)	(6,9)

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

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