

# United Kingdom: Abbey

Third Quarter 2007

25th October 2007

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This presentation is not a form of statutory accounts.

# Agenda

- Market Environment

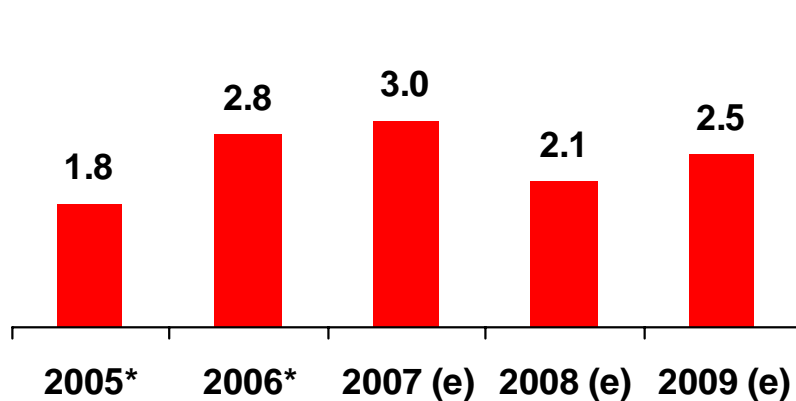
- Q3 2007

- Business Update
- Results

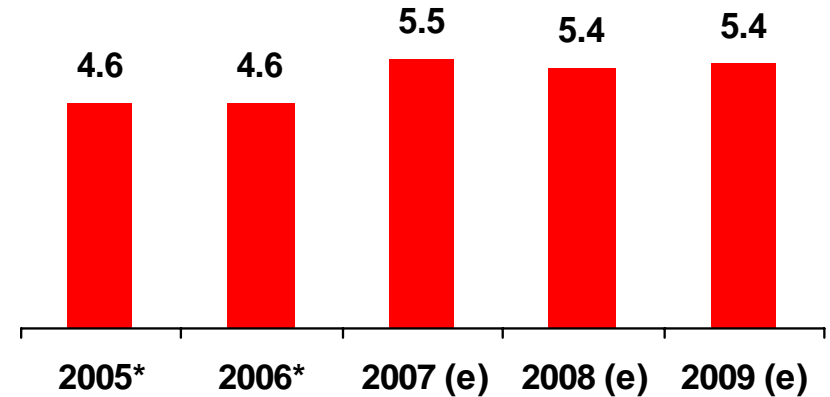
# Market Environment

**UK economy expected to show steady growth and low inflation**

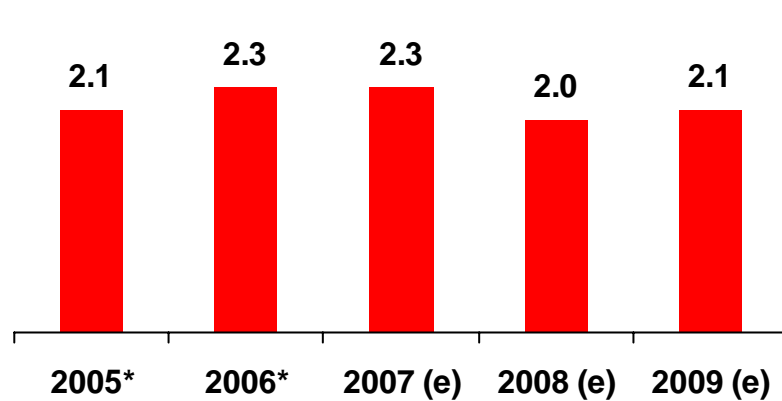
**Annual GDP Growth (% , annual average )**



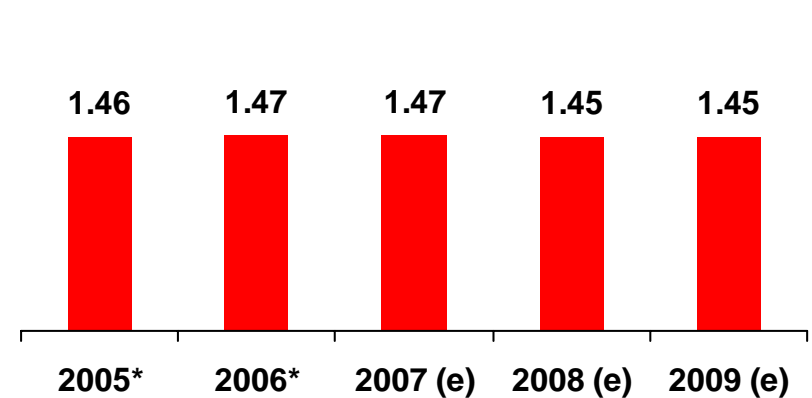
**Interest Rates (% , annual average)**



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



**GBP : Euro exchange rates (annual average)**

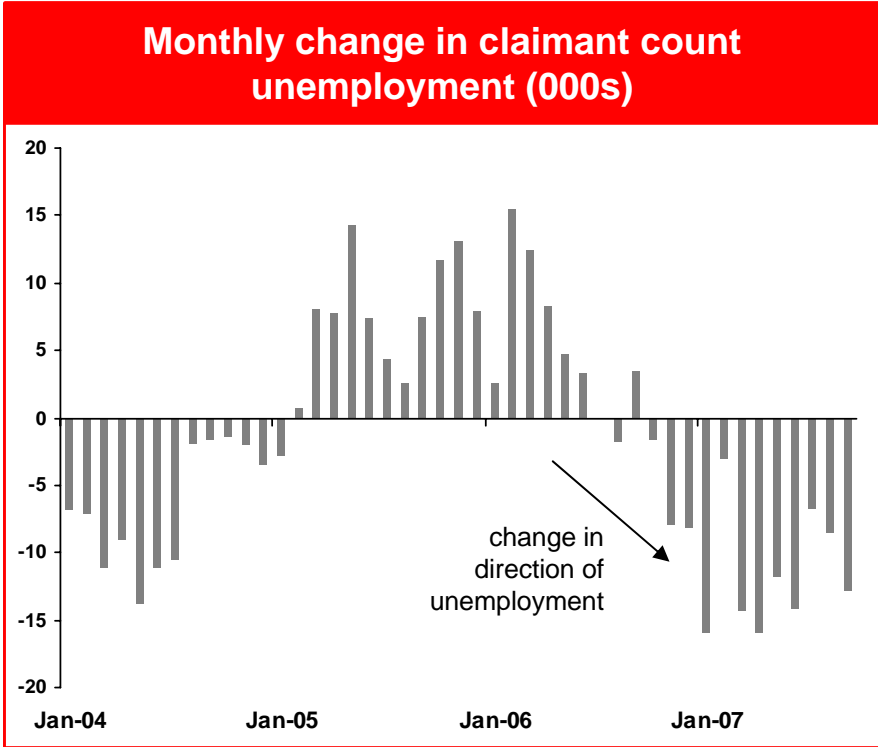


\*source - Office for National Statistics & Bank of England

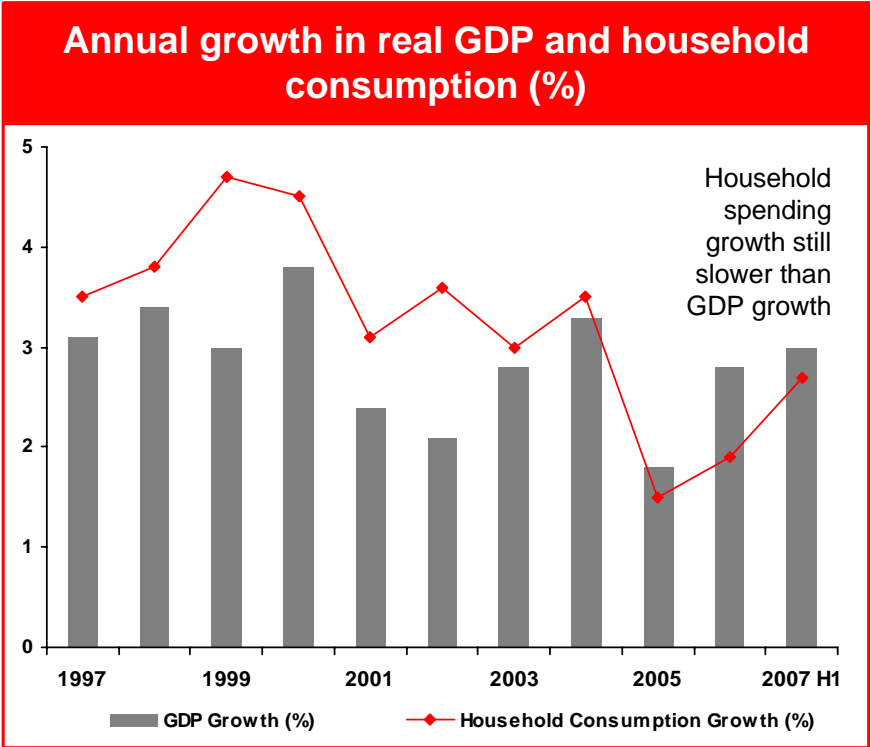
(e) estimated by Abbey

# Market Environment

**Household spending growth continues to be slower than overall economic growth and unemployment has fallen in 2007 to date**



Source – Office for National Statistics

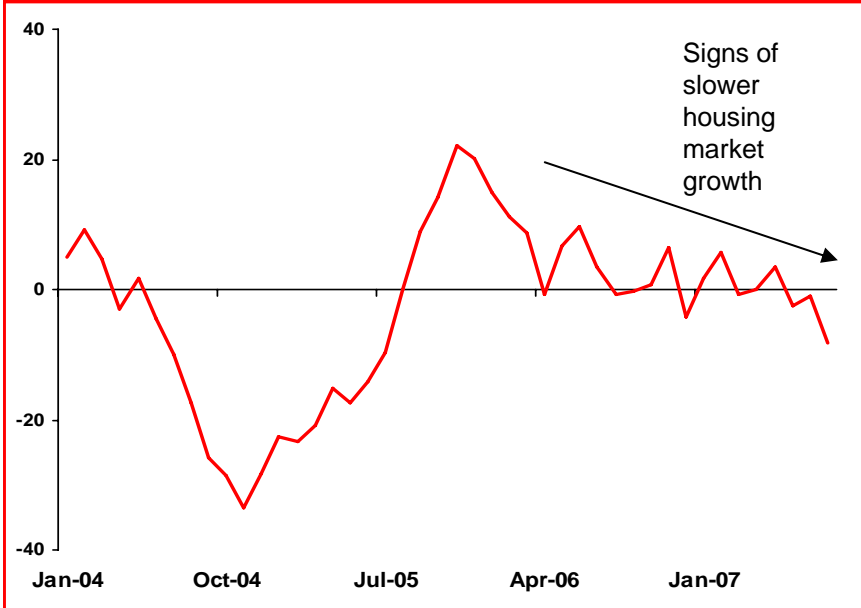


Source – Office for National Statistics

# Market Environment

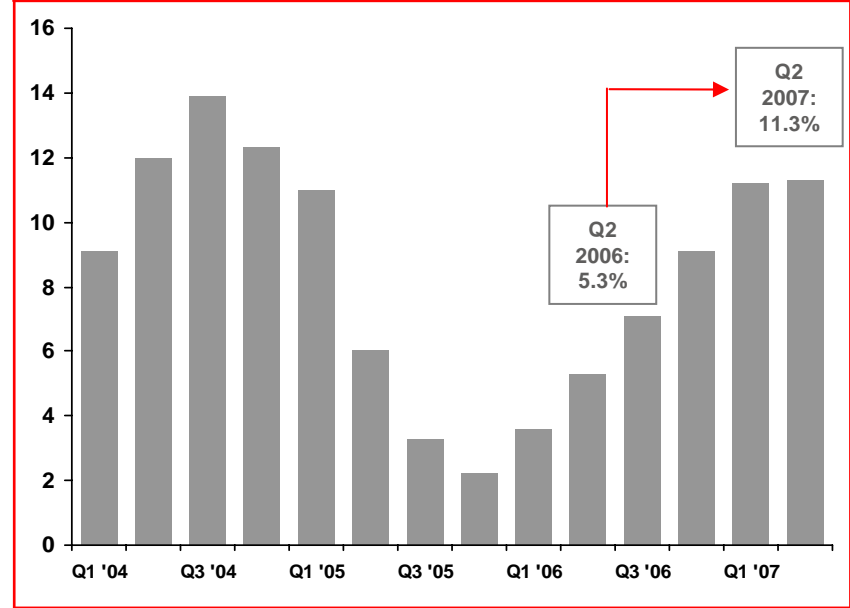
**Growth in housing market activity is slowing but annual house price growth was still around 10% at mid year**

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



Source – Bank of England

**Annual house price growth (%)**

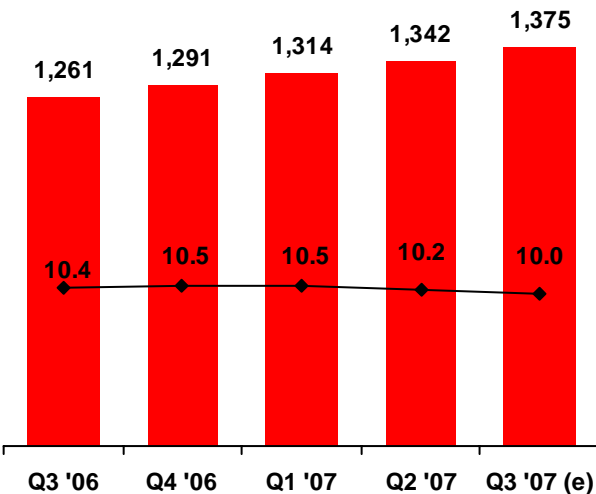


Source – Department for Communities and Local Government

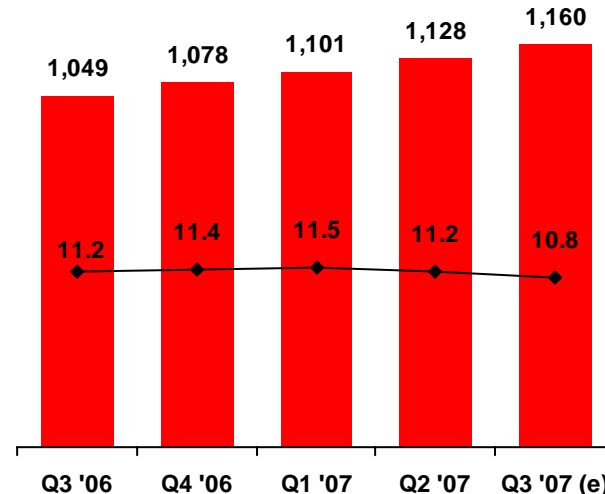
# Market Environment

Household borrowing growth has slowed in 2007 but remains around 10%

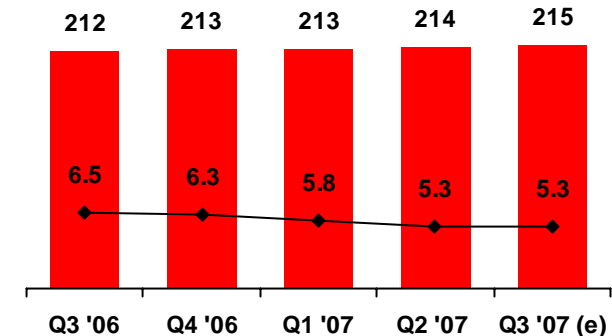
## Total lending to individuals\*



## Mortgage lending market stock\*



## Consumer credit market stock\*



Source – Bank of England.

(e) estimated market size (£bn)

◆ - annual growth rates (%)

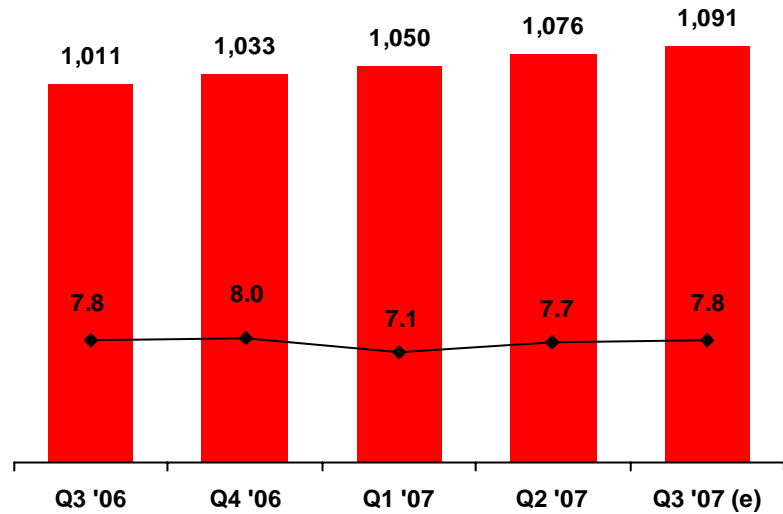
\*Please note:

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

# Market Environment

**Annual growth in retail deposits has been stable, with strong long term growth in the Bancassurance Investment new business market**

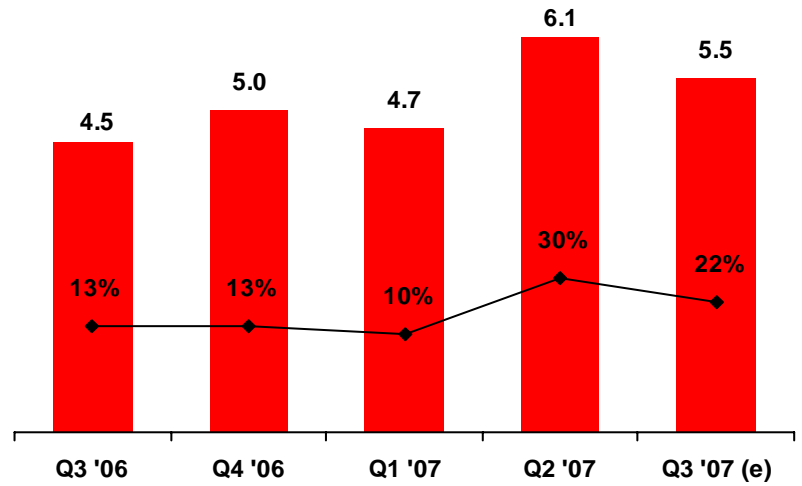
**Retail deposits (incl. current accounts)**



Source – Bank of England.

(e) estimated market size (£bn)

**Bancassurance Investment new business market**



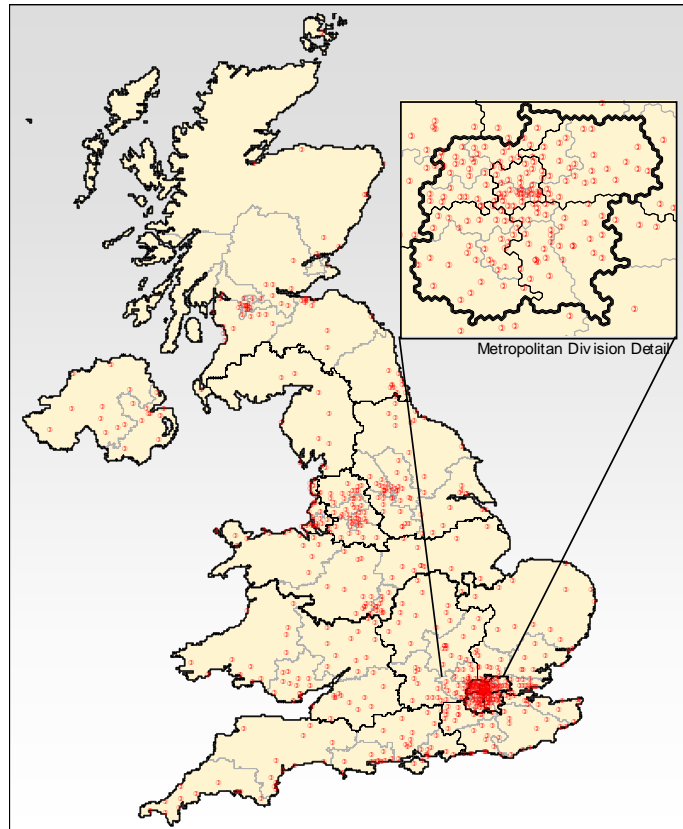
Source – estimated by Abbey based on data from Investment Managers Association / ABI / Structuredretailproducts.com.

◆ annual growth rates (%)



# Our Franchise

A well established retail bank with an attractive customer franchise



**30/9/07**

<b>Customer deposits (£bn)</b>	<b>64.6</b>
<b>Residential mortgages (£bn)</b>	<b>108.7</b>
<b>UPLs (£bn) <sup>(1)</sup></b>	<b>2.9</b>
<b>Total Retail lending (£m)</b>	<b>114.8</b>
<b>Net attributable income ytd (£m)</b>	<b>613</b>

## Market Shares:

<b>Mortgage stock</b>	<b>9.3%</b>
<b>Deposits/Savings stock</b>	<b>5.9%</b>
<b>Abbey UPL's stock</b>	<b>3.2%</b>

<b>Branches</b>	<b>705</b>
<b>Branch market share</b>	<b>5.3%</b>
<b>ATMs</b>	<b>2,422</b>

(1) Includes cahoot

# Agenda

- Market Environment
- Q3 2007

**- Business Update**

- Results

## Moving towards a full service commercial bank

### Opportunities in Retail markets

- **Scope to outperform peer group growth rates**
  - Continue to balance growth and profitability in core markets
  - Improve performance in investment & savings
  - Aggressive in current accounts, Insurance and Credit Cards

### Moving from product to customer focus

- **Leverage global view of customer**
  - Significant underleveraged potential in Abbey's customer base
  - Partenon is key enabler to improving customer segmentation and service
  - Building customer loyalty through value for money

### Strategic projects outside of retail

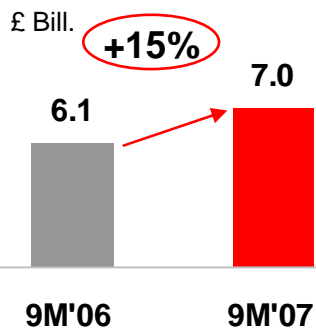
- **Several key projects launched in 2007**
  - New credit card business launched
  - Leveraging global expertise in cards, insurance, private banking, asset management and financial markets
  - Projects launched to further develop Business Banking and Corporate Banking capability

# Business Update

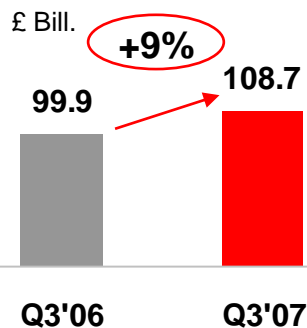
## Business performance

### Mortgages

#### Net lending



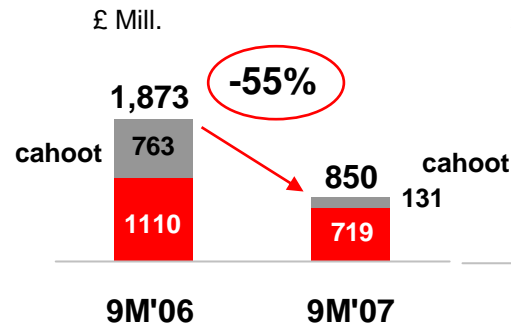
#### Stock



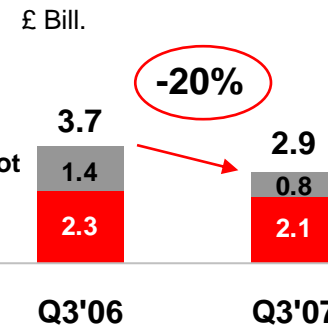
Margin: -7bps

### Personal loans

#### Gross lending



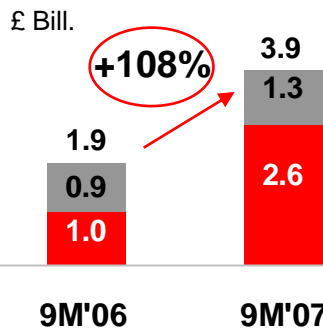
#### Stock



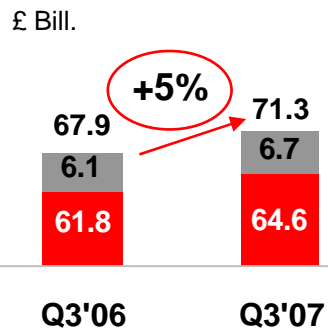
Margin: +61bps

### Savings and Investment

#### Net Flows



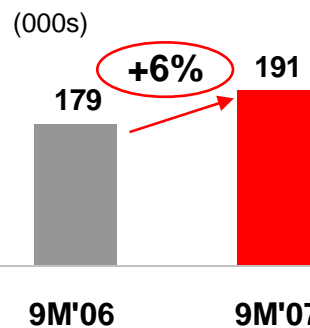
#### Stock



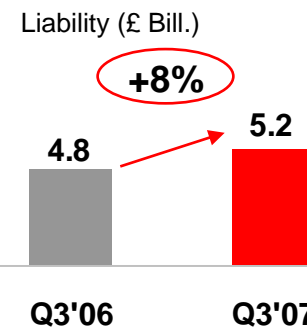
Savings margin: +12bps

### Bank accounts

#### Adult openings



#### Ave. current a/c



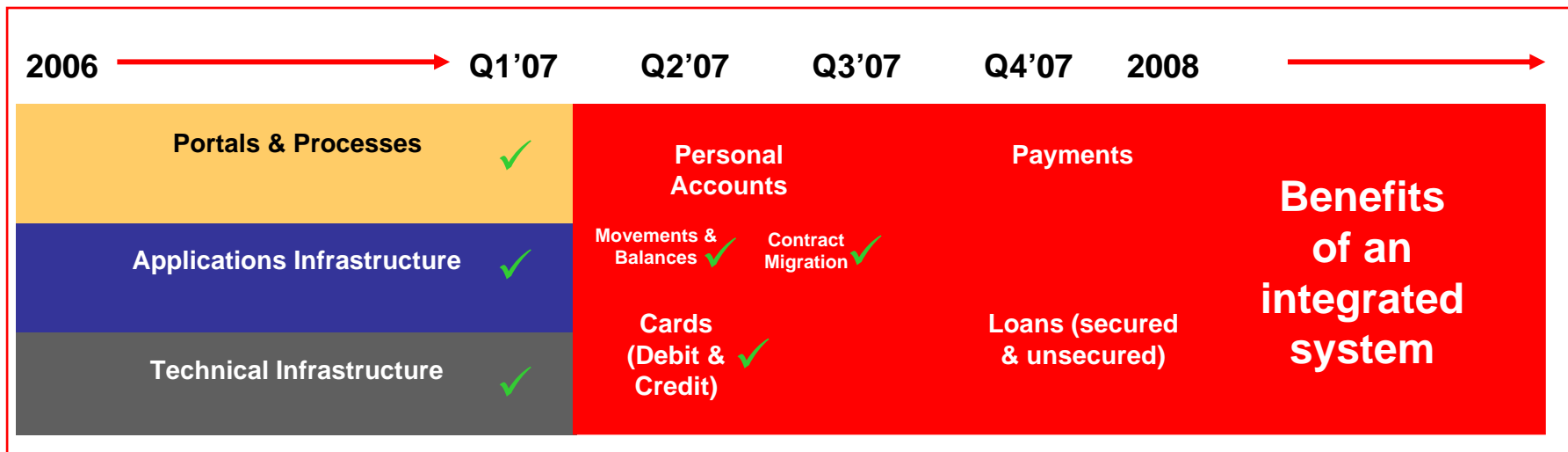
Margin: +85bps

■ Retail deposits ■ API (1)

(1) API: Annual Premium Income measures the flows that impact revenue and commissions

Note: margin variances based on YTD figures

# Implementation of Partenon on track



## ■ Achievements in Q3 2007

- Migration of 18.5 million banking and savings contracts to new personal accounts banking platform for all sales and servicing

## ■ Next steps:

- Leveraging new credit cards and current account capability through sales campaigns
- Remaining core applications start to be replaced in Q4 for Payments and Loans leveraging Group infrastructure
- Throughout 2008:
  - Optimise and leverage Partenon to improve service quality, increase customer loyalty and enhance efficiency
  - Continue development and training of sales force to maximise benefit from Partenon

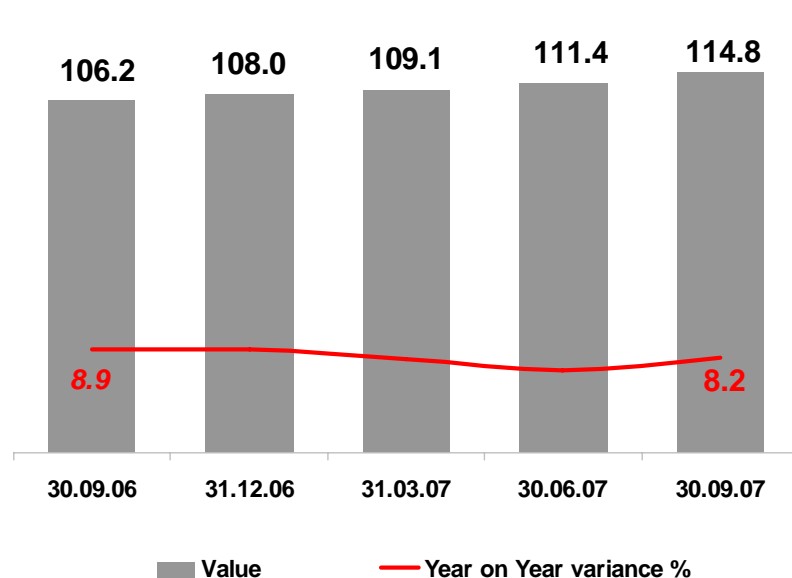
# Business: Lending trends / growth

**Volume growth continuing to be balanced with margin management**

Residential mortgage stock (£bn) and market share (%)

99.9	101.7	103.1	105.3	108.7
9.5%	9.4%	9.4%	9.3%	9.3%

£bn



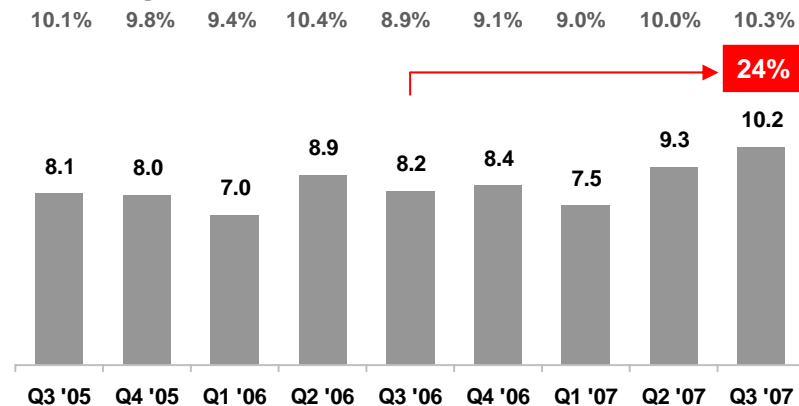
	9M'07 £bn	9M'07 vs 9M'06
Residential mortgages	108.7	8.8%
Commercial mortgages	2.7	34.8%
UPLs	2.9	(20.5%)
Credit Card & overdraft	0.5	(4.2%)
<b>Total Retail loans</b>	<b>114.8</b>	<b>8.2%</b>

# Business Update

## Net market share up due to tactical campaigns and improved retention

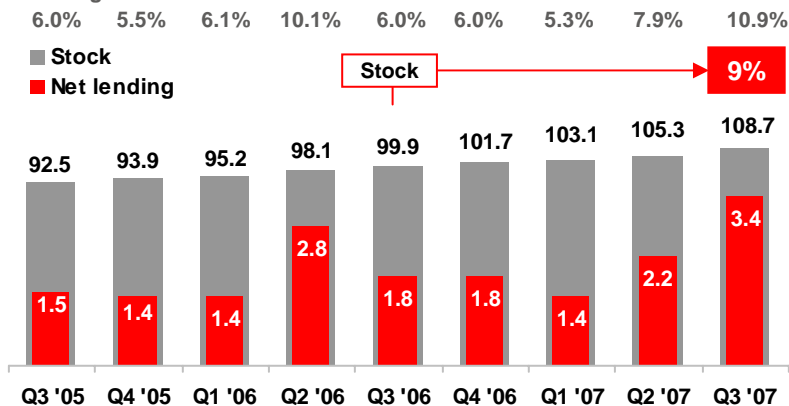
### Total residential mortgage gross lending (£bn)

Gross lending share:



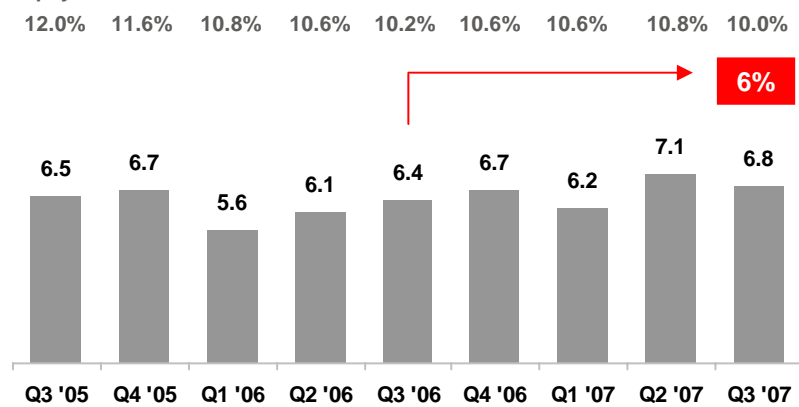
### Residential mortgage net lending and stock (£bn)

Net lending share:



### Total residential mortgage repayments (£bn)

Repayments share:



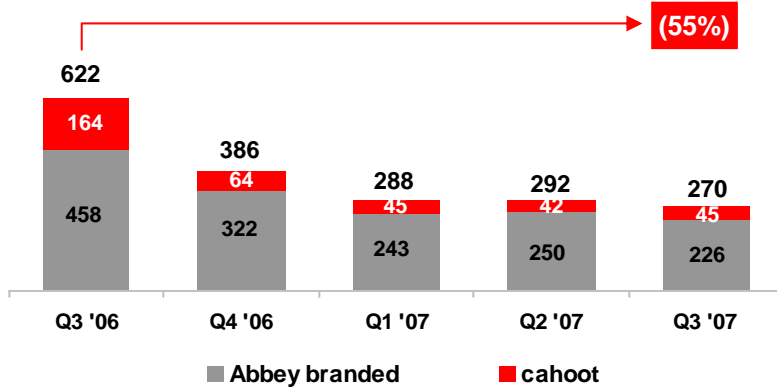
### Comment

- higher gross lending volumes supported by tactical campaigns
- market share of capital repayments lower, driven by lower levels of incentive maturities and improved retention performance
- stronger net lending performance, with continued focus on margin management
- spread impacted by competitive pressures, albeit with some signs of improved new business margins in light of current funding market conditions

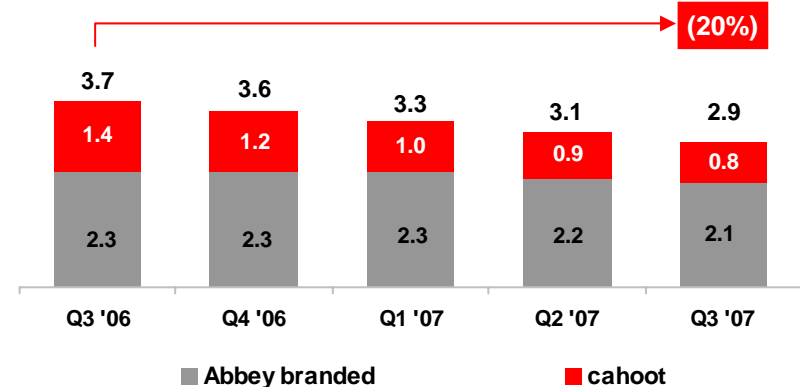
# Business Update

## UPL related income higher despite reduction in asset stock

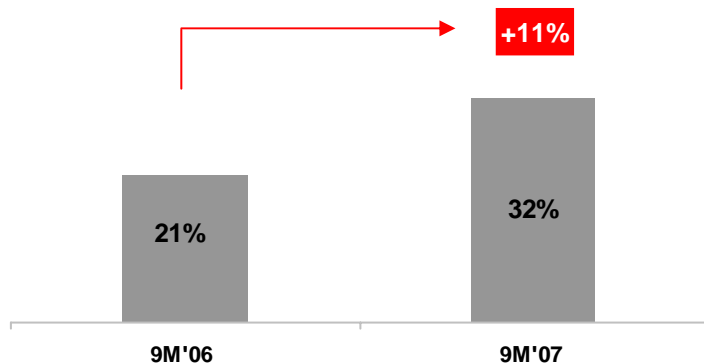
### Total UPL gross lending (£m)



### Total UPL stock (£bn)



### Abbey branch lending as % of total



### Comment

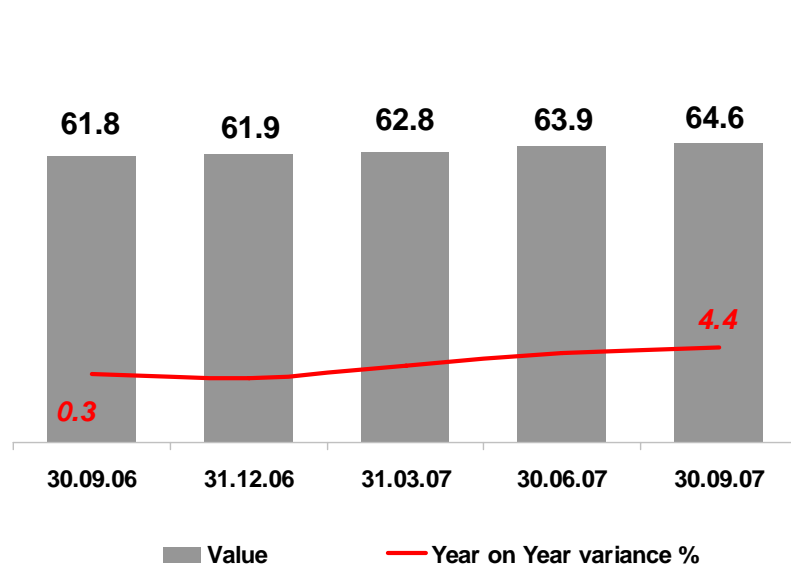
- Abbey new business margins over 60% ahead of last year, following revised pricing
- continue to focus new lending mix towards existing customers and managed to increase the percentage of lending through the branch channel to 32% on a year to year date basis
- reduced unsecured lending through the internet channel



# Business: Liability trends / growth

Overall growth supported by new savings and investment products combined with strong performance in Abbey bank accounts

£bn



	9M'07 £bn	9M'07 vs 9M'06
Abbey branded savings	43.9	3.2%
Abbey bank accounts	5.7	8.2%
Other <sup>1</sup>	15.0	6.7%
<b>Total customer deposits</b>	<b>64.6</b>	<b>4.4%</b>
Retail FUM <sup>2</sup>	6.7	8.2%
<b>Total funds under management</b>	<b>71.3</b>	<b>4.8%</b>

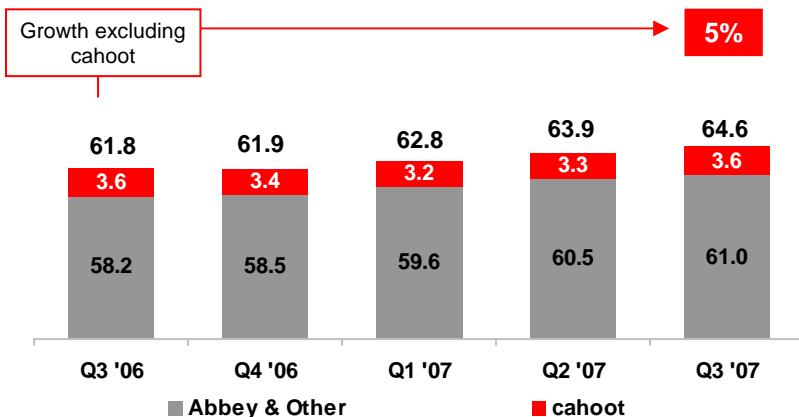
<sup>1</sup> Other businesses including Abbey Business, cahoot & Wealth Management

<sup>2</sup> Managed through Santander Asset Management

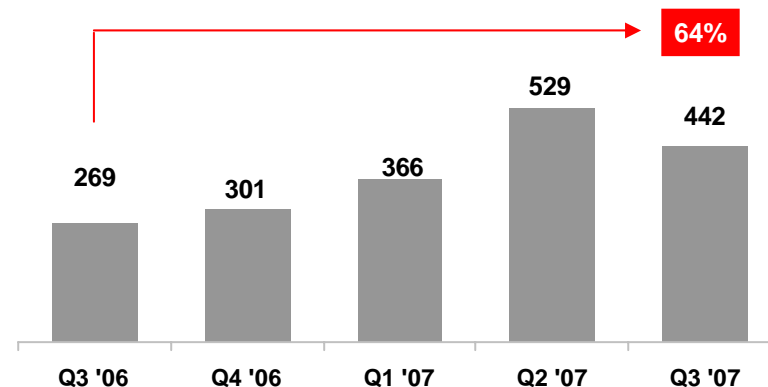
# Business Update

## Focus on investment and savings continuum

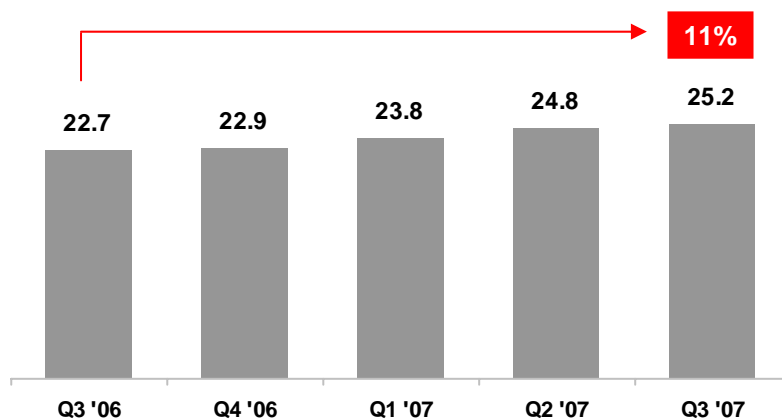
### Total customer deposit stock (£bn)



### Investment new business sales – API (\*) (£m)



### Branch acquisition savings stock (£bn)



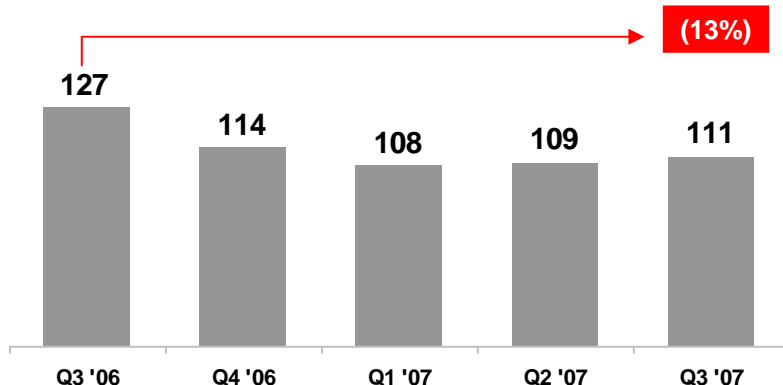
### Comment

- solid growth in higher margin branch acquisition savings
- investment new business supported by linked savings accounts which are linked to investment products
- further increases in the number of branch based investment advisers
- margins have benefited from strong margin management and base rate increases

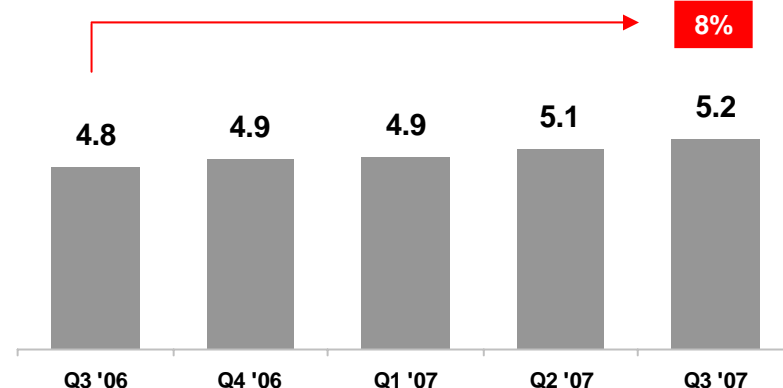
# Business Update

## Continuing to win business from clearing banks

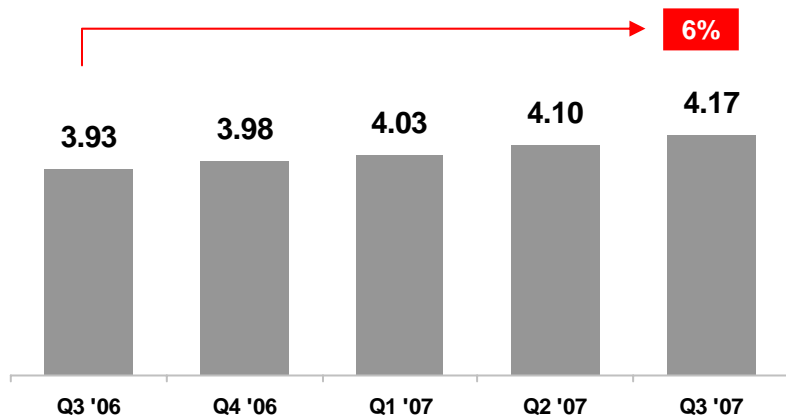
### Bank account openings (000)



### Abbey branded average current a/c liability (£bn)



### Stock of Abbey branded accounts (m)



### Comment

- continuing to attract adult and switcher customers to Abbey - adult account openings have increased over 6% on a year-to-date basis
- overall openings supported by attractive “8%” bank account offer
- higher net interest income resulting from liability increases since Q3 '06, offset by pressure on fees
- this performance was supported by the new F1 campaign

# Agenda

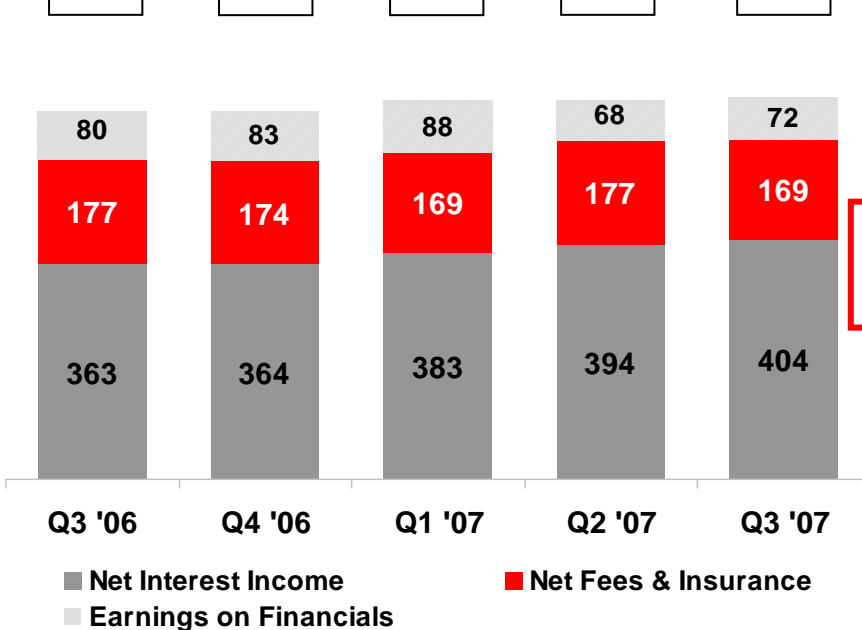
- Market Environment
- Q3 2007
  - Business Update

**- Results**

# Results: Gross operating income

Higher retail banking balances and robust spreads combined with higher earnings on financials driving growth

620	621	640	639	644	Total £m
540	538	552	571	573	Total commercial margin £m



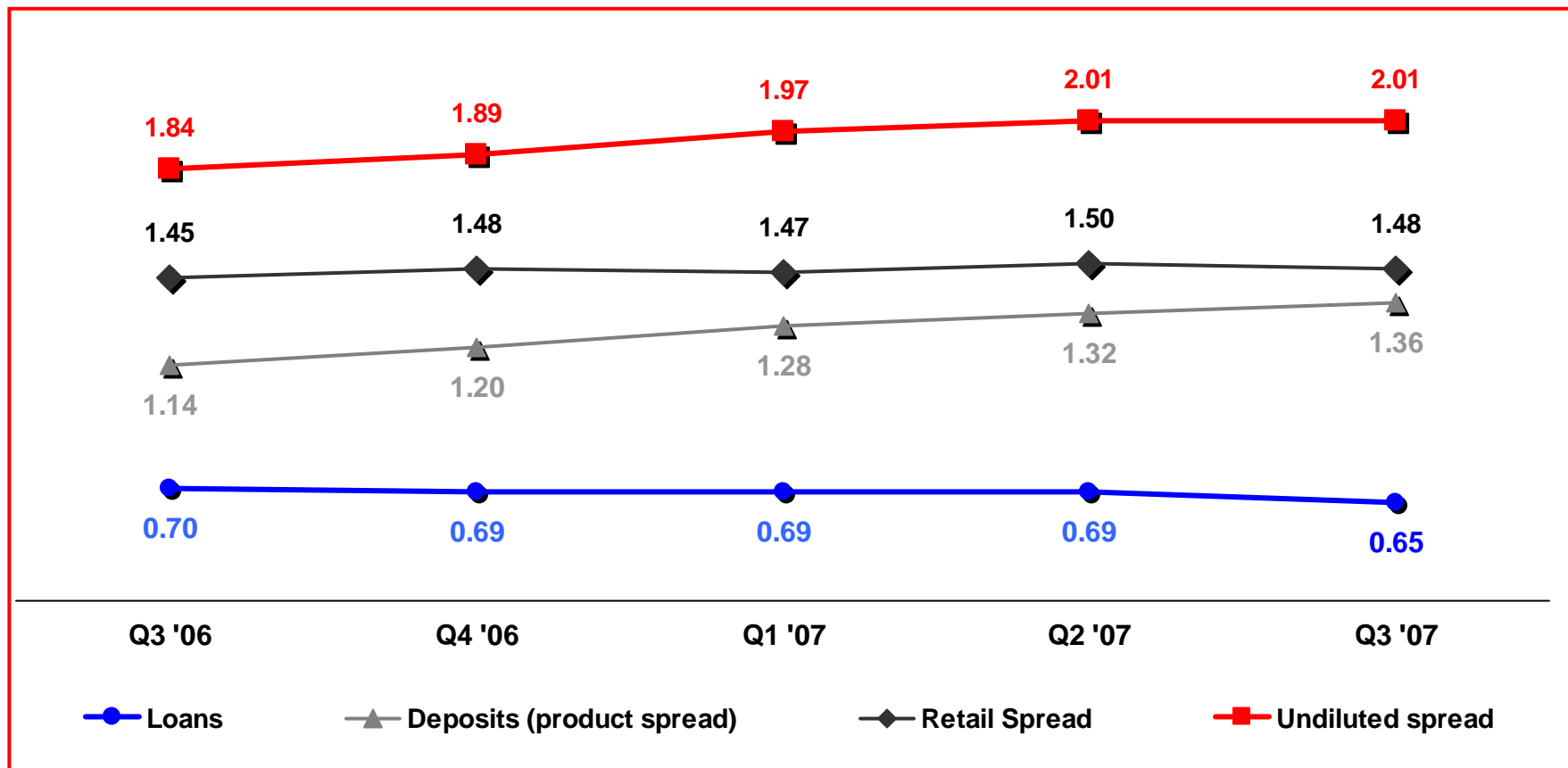
£m	9M'07	9M'06	9M Variance
Net Interest Income	1,181	1,073	10.1%
Net Fees & Insurance	514	525	(2.1%)
Earnings on Financials	227	206	10.6%
<b>Total Ordinary Income</b>	<b>1,923</b>	<b>1,806</b>	<b>6.5%</b>

## Commercial revenues:

- balance sheet growth and higher liability spreads supporting net interest income
- broader product range and cross sales into investments and other non-traditional products offset other pressures on fees

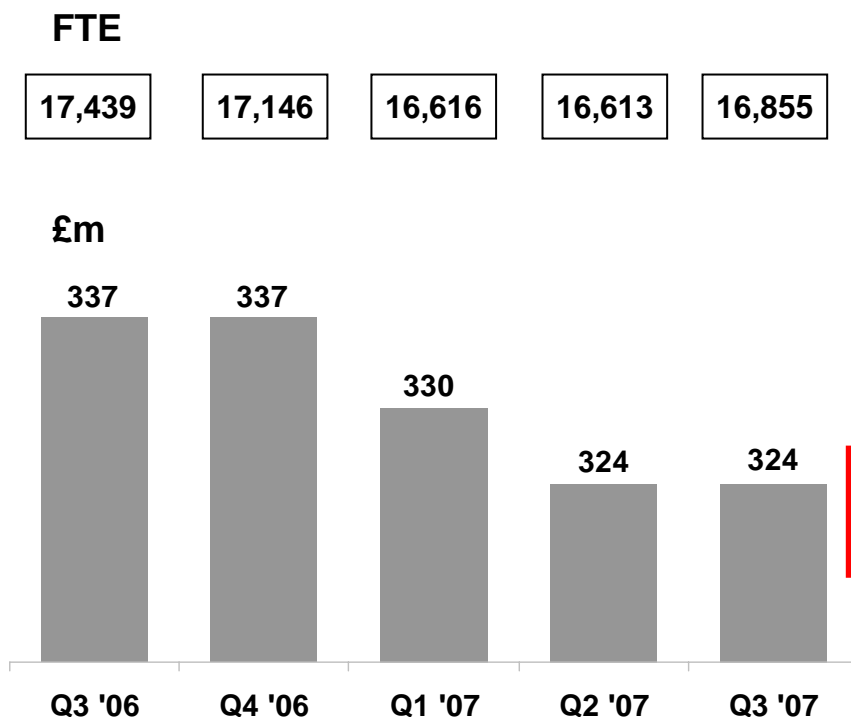
# Results: Retail banking spreads

## Robust retail spread



# Results: Costs

**Cost savings continue, albeit with a targeted increase in customer facing roles**



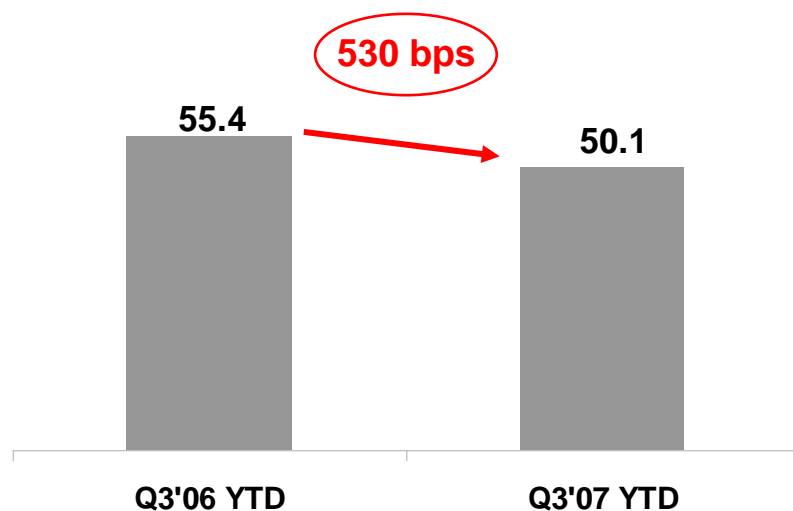
£m	9M'07	9M'06	9M Variance
General and administrative expenses	927	962	(3.6%)
Depreciation and amortisation	51	53	(3.7%)
<b>Operating expenses</b>	<b>978</b>	<b>1,015</b>	<b>(3.6%)</b>

- Recruitment of additional mortgage advisors has been partially offset by back-office efficiencies

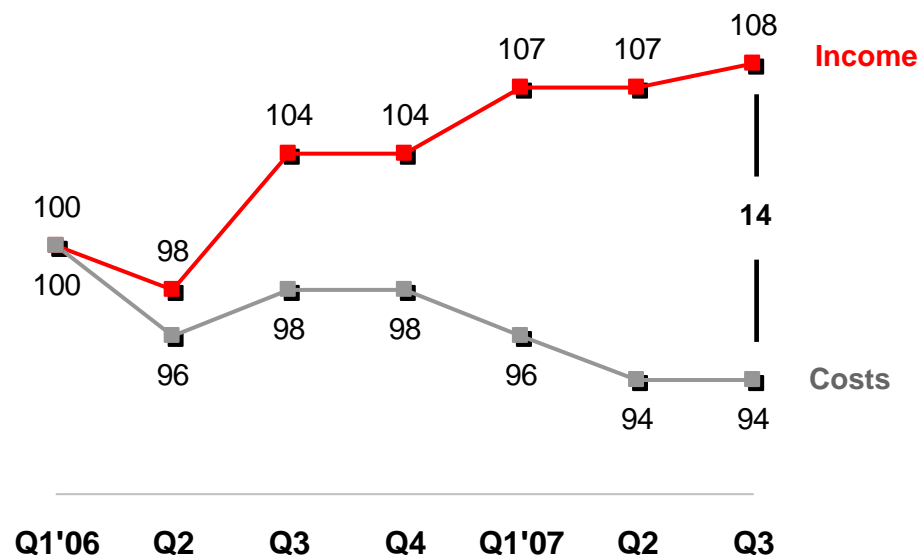
# Results: Ratios

Cost:income ratio continues to trend to UK average and on track for a third year of double digit jaws

Cost:income ratio\*, %



Operating jaws, %

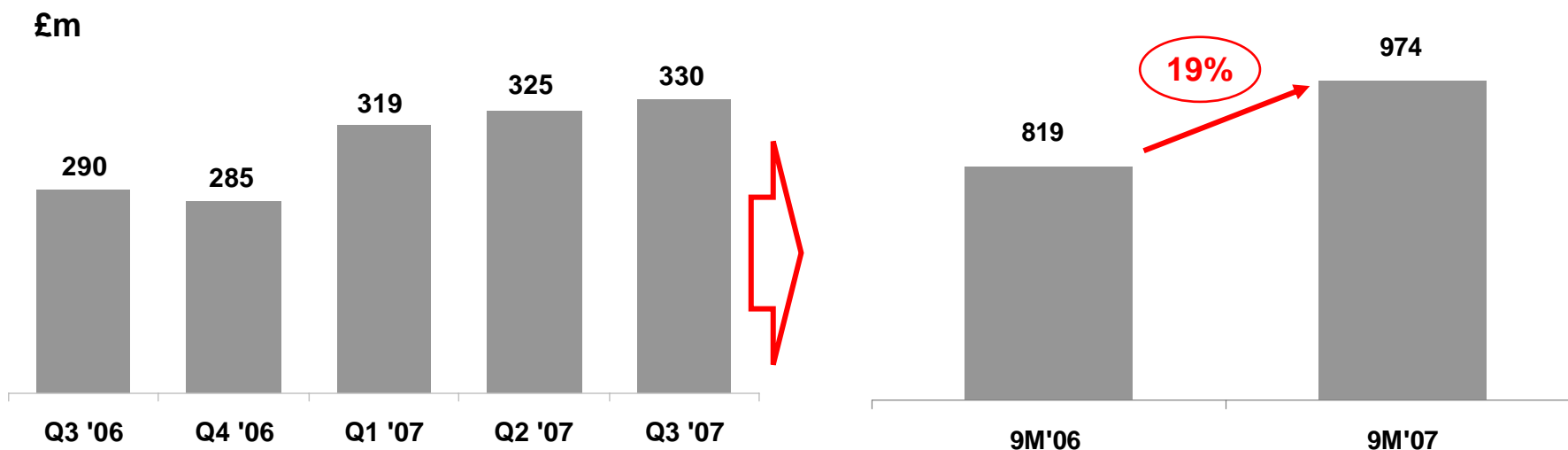


\* Includes depreciation & amortisation



# Results: Net Operating Income

Improvement in net operating income reflecting stronger revenue growth and declining cost base



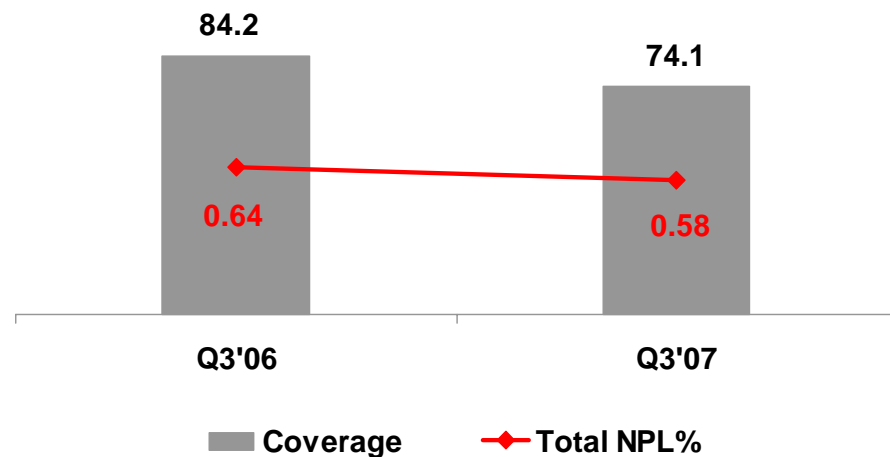
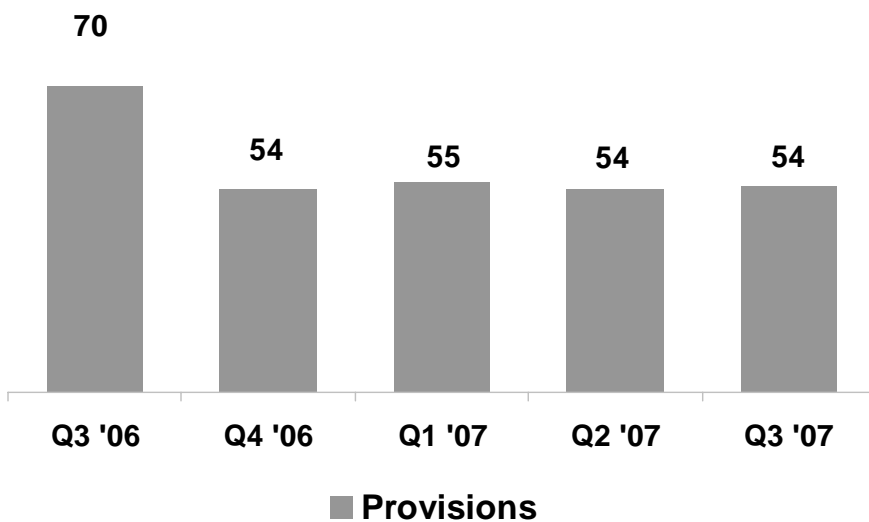
# Results: Provisions and credit quality

Provisions stable during 2007, credit quality remains strong

£m

Net loan loss provisions

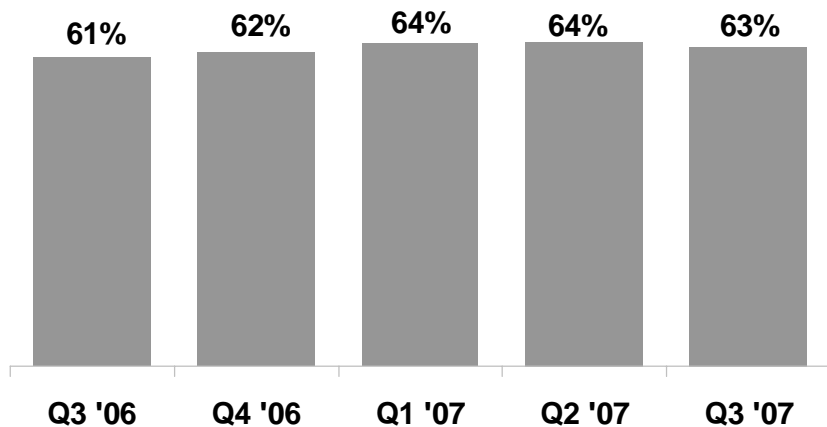
Coverage ratio and NPL, %



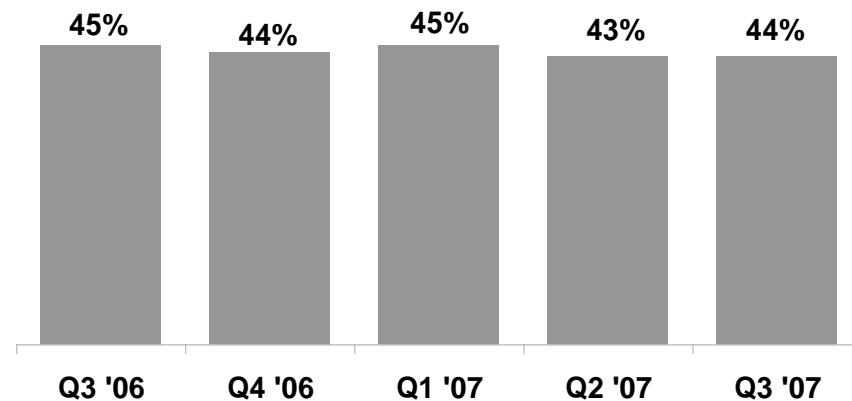
# Results: Provisions and credit quality

Underlying credit quality is strong

Average new business mortgage LTV (%)

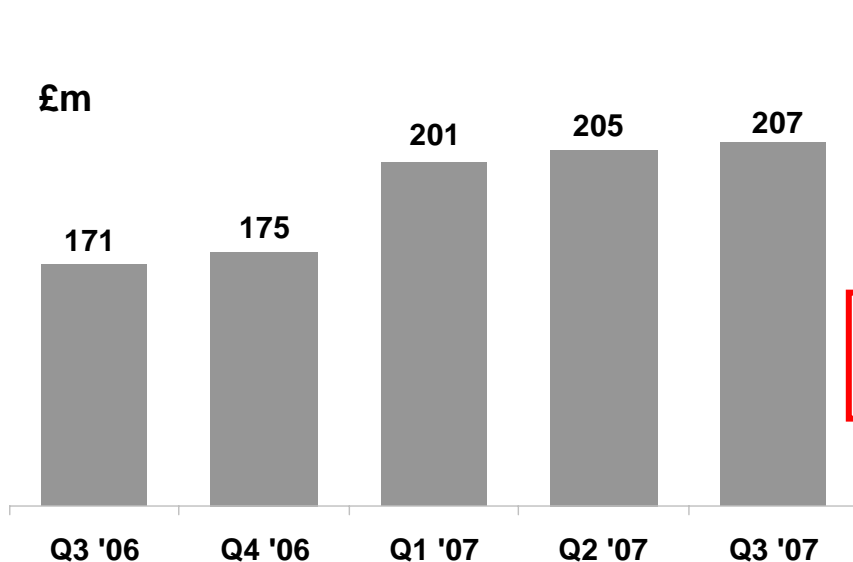


Average indexed mortgage LTV on stock (%)



# Results: Net Income

**Net Income up 20.5%**



£m	9M'07	9M'06	9M Variance
PBT	820	609	34.7%
Provision for income tax	(207)	(178)	16.6%
Life companies sold profit after tax	-	77	n/a
<b>Net Income</b>	<b>613</b>	<b>509</b>	<b>20.5%</b>

## Moving towards a full service commercial bank

### Achievements since year end 2006

- revenue growth strengthening, on track to deliver acquisition revenue target of £150m by end-2007
- acquisition targeted cost savings of £300m achieved ahead of the full benefit of Partenon
- on track for double digit jaws for third consecutive year
- resilient retail balance sheet performance reflecting Abbey's strong retail funding mix c. 60% deposit based, less than 10% short term funding

### Expansion of product range

- continued focus on balancing growth and value
- c.7 – 10 % liability growth pa in banking - success in acquisition of switcher and adult accounts
- introduction of linked products which link savings accounts to investment products (e.g. 8.1% Super Bond, 50% Growth Plan and 10% Super Monthly Saver)
- affordability proposition strengthened with the introduction of “no deposit” mortgage offer
- launch of new “5% cashback” credit card in the third quarter

### Leveraging the global platform

- leveraging global expertise in cards, insurance, private banking, asset management and financial markets
- global cards expertise, plus existing IT platform enabled the launch of a credit card business in the UK in June within 12 months – launched in Q3

### Partenon on track

- migration of 18.5 million banking and savings contracts to new personal accounts banking platform for all sales and servicing completed in Q3 07
- remaining core applications start to be replaced in Q4 for Payments and Loans leveraging Group infrastructure

# APPENDIX

- **Financial results**
- **Balance sheet**
- **Abbey funding mix**

# Financial results: Profit and loss (discontinued life separate)

£ million	Variation			
	9M 07	9M 06	Amount	%
<b>Net interest income*</b>	<b>1,181</b>	<b>1,073</b>	<b>108</b>	<b>10.1</b>
Income from companies accounted for by the equity method	0	2	(1)	(80.1)
Net fees	514	525	(11)	(2.1)
Insurance activity	0	0	0	—
<b>Commercial revenue</b>	<b>1,696</b>	<b>1,600</b>	<b>96</b>	<b>6.0</b>
Gains (losses) on financial transactions	227	206	22	10.6
<b>Gross operating income</b>	<b>1,923</b>	<b>1,806</b>	<b>117</b>	<b>6.5</b>
Income from non-financial services (net) and other operating income	29	28	1	2.6
Operating expenses	(978)	(1,015)	36	(3.6)
General administrative expenses	(927)	(962)	34	(3.6)
<i>Personnel</i>	(529)	(547)	18	(3.2)
<i>Other administrative expenses</i>	(398)	(415)	17	(4.0)
Depreciation and amortisation	(51)	(53)	2	(3.7)
<b>Net operating income</b>	<b>974</b>	<b>819</b>	<b>154</b>	<b>18.8</b>
Net loan loss provisions	(163)	(210)	47	(22.4)
Other income	10	(0)	10	—
<b>Profit before taxes</b>	<b>820</b>	<b>609</b>	<b>212</b>	<b>34.7</b>
Tax on profit	(207)	(178)	(30)	16.6
<b>Net profit from ordinary activity</b>	<b>613</b>	<b>431</b>	<b>182</b>	<b>42.2</b>
Net profit from discontinued operations	—	77	(77)	(100.0)
<b>Net consolidated profit</b>	<b>613</b>	<b>509</b>	<b>104</b>	<b>20.5</b>
Minority interests	—	—	—	—
<b>Attributable profit to the Group</b>	<b>613</b>	<b>509</b>	<b>104</b>	<b>20.5</b>

(\*).- Dividends included

# Financial results: Profit and loss (discontinued life separate)

32

£ million

	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
<b>Net interest income*</b>	<b>349</b>	<b>360</b>	<b>363</b>	<b>364</b>	<b>383</b>	<b>394</b>	<b>404</b>
Income from companies accounted for by the equity method	1	1	0	0	0	0	0
Net fees	173	176	177	174	169	177	169
Insurance activity	(0)	(0)	0	0	0	0	(0)
<b>Commercial revenue</b>	<b>523</b>	<b>537</b>	<b>540</b>	<b>538</b>	<b>552</b>	<b>571</b>	<b>573</b>
Gains (losses) on financial transactions	75	51	80	83	88	68	72
<b>Gross operating income</b>	<b>598</b>	<b>588</b>	<b>620</b>	<b>621</b>	<b>640</b>	<b>639</b>	<b>644</b>
Income from non-financial services (net) and other operating income	11	10	7	1	9	10	10
Operating expenses	(345)	(332)	(337)	(337)	(330)	(324)	(324)
General administrative expenses	(327)	(313)	(322)	(318)	(313)	(307)	(307)
<i>Personnel</i>	(187)	(181)	(179)	(177)	(175)	(175)	(179)
<i>Other administrative expenses</i>	(140)	(132)	(142)	(141)	(138)	(131)	(129)
Depreciation and amortisation	(18)	(19)	(16)	(19)	(17)	(17)	(17)
<b>Net operating income</b>	<b>264</b>	<b>265</b>	<b>290</b>	<b>285</b>	<b>319</b>	<b>325</b>	<b>330</b>
Net loan loss provisions	(61)	(79)	(70)	(54)	(55)	(54)	(54)
Other income	(0)	(1)	1	(0)	3	3	3
<b>Profit before taxes</b>	<b>203</b>	<b>186</b>	<b>221</b>	<b>231</b>	<b>268</b>	<b>274</b>	<b>278</b>
Tax on profit	(56)	(55)	(66)	(56)	(67)	(69)	(71)
<b>Net profit from ordinary activity</b>	<b>146</b>	<b>130</b>	<b>155</b>	<b>175</b>	<b>201</b>	<b>205</b>	<b>207</b>
Net profit from discontinued operations	21	40	16	0	—	—	—
<b>Net consolidated profit</b>	<b>167</b>	<b>170</b>	<b>171</b>	<b>175</b>	<b>201</b>	<b>205</b>	<b>207</b>
Minority interests	—	—	—	—	—	—	—
<b>Attributable profit to the Group</b>	<b>167</b>	<b>170</b>	<b>171</b>	<b>175</b>	<b>201</b>	<b>205</b>	<b>207</b>

(\*).- Dividends included



# Financial Results: Balance Sheet

£ million	Variation			
	30.09.07	30.09.06	Amount	%
Loans and credits*	131,522	124,573	6,949	5.6
Trading portfolio (w/o loans)	42,723	40,594	2,129	5.2
Available-for-sale financial assets	34	15	19	130.4
Due from credit institutions*	14,133	12,190	1,944	15.9
Intangible assets and property and equipment	3,410	3,415	(5)	(0.2)
Other assets	6,303	6,668	(365)	(5.5)
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>198,125</b>	<b>187,455</b>	<b>10,670</b>	<b>5.7</b>
Customer deposits*	86,423	77,900	8,523	10.9
Marketable debt securities*	54,683	46,880	7,803	16.6
Subordinated debt	5,571	7,087	(1,516)	(21.4)
Insurance liabilities	8	48	(41)	(84.4)
Due to credit institutions*	30,685	30,844	(159)	(0.5)
Other liabilities	18,112	22,499	(4,386)	(19.5)
Shareholders' equity	2,644	2,196	448	20.4
<b>Off-balance-sheet funds</b>	<b>7,611</b>	<b>4,253</b>	<b>3,358</b>	<b>78.9</b>
Mutual funds <sup>(1)</sup>	7,611	4,253	3,358	78.9
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
<b>Customer funds under management</b>	<b>154,288</b>	<b>136,121</b>	<b>18,167</b>	<b>13.3</b>

(1) Mutual funds includes non-retail funds under management  
 \* Includes all stock of concept classified in the balance sheet

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