

United Kingdom: Abbey

Q1 2008

London, 29th April 2008

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Agenda

- Market Environment

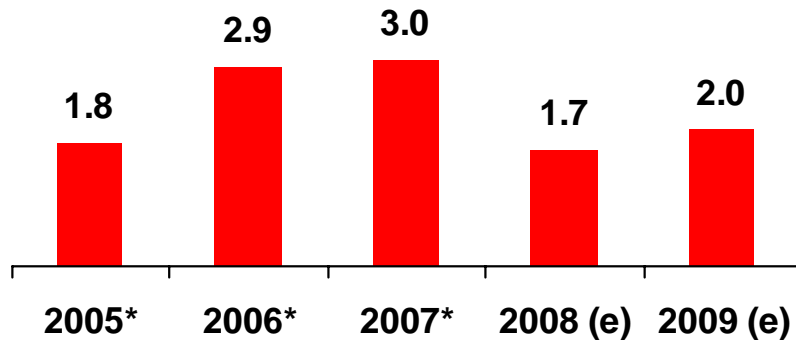
- Q1 2008

- Business Update
- Results

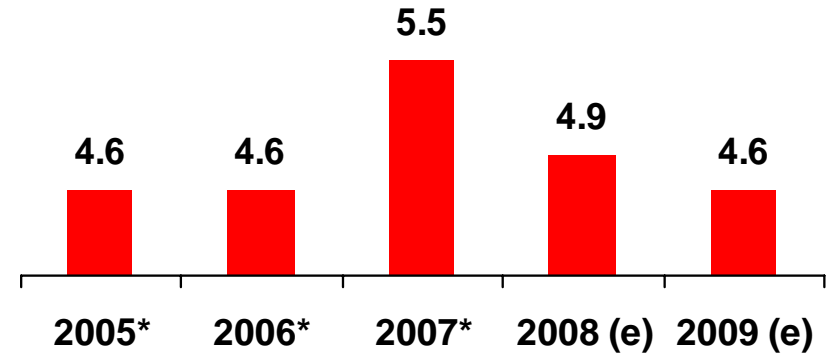
Market Environment

UK economic growth expected to slow sharply, with lower interest rates

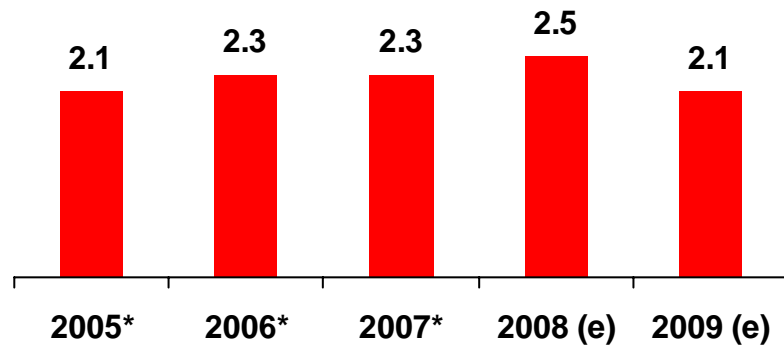
Annual GDP Growth (% , annual average)



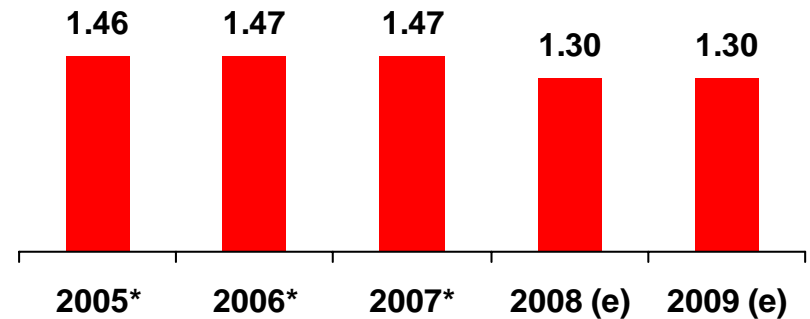
Interest Rates (% , annual average)



Annual CPI inflation rate (% , annual average)



GBP : Euro exchange rates (annual average)



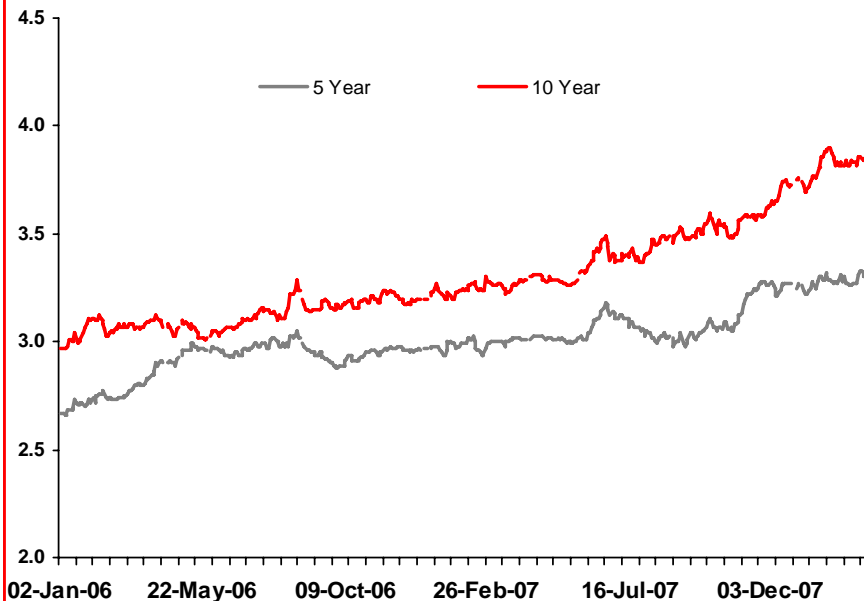
*source - Office for National Statistics & Bank of England

(e) estimated by Abbey

Market Environment

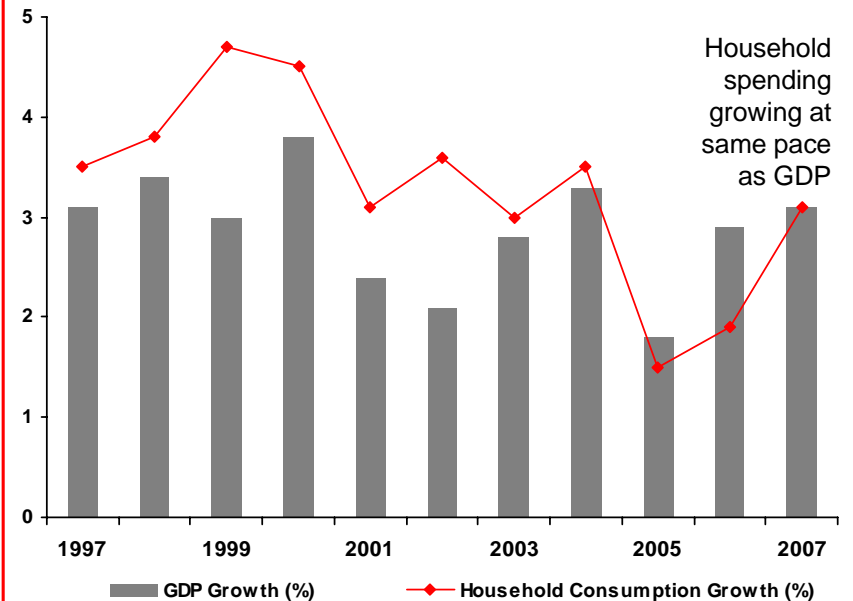
Inflation expectations have started to rise but economic and household spending growth are likely to slow during 2008

Implied market inflation expectations (%)



Source – Bank of England

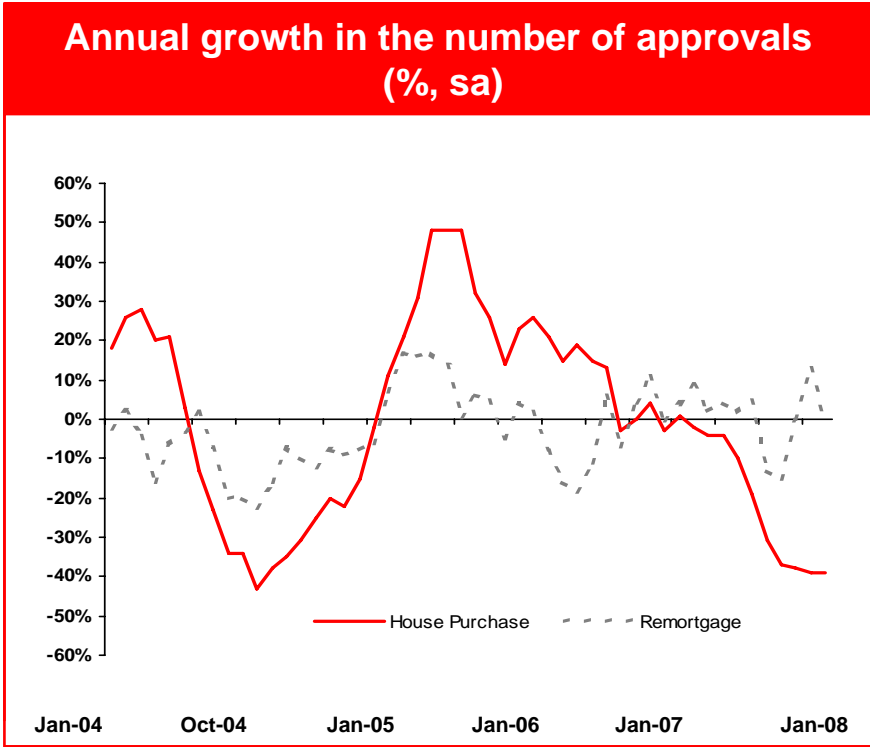
Annual growth in real GDP and household consumption (%)



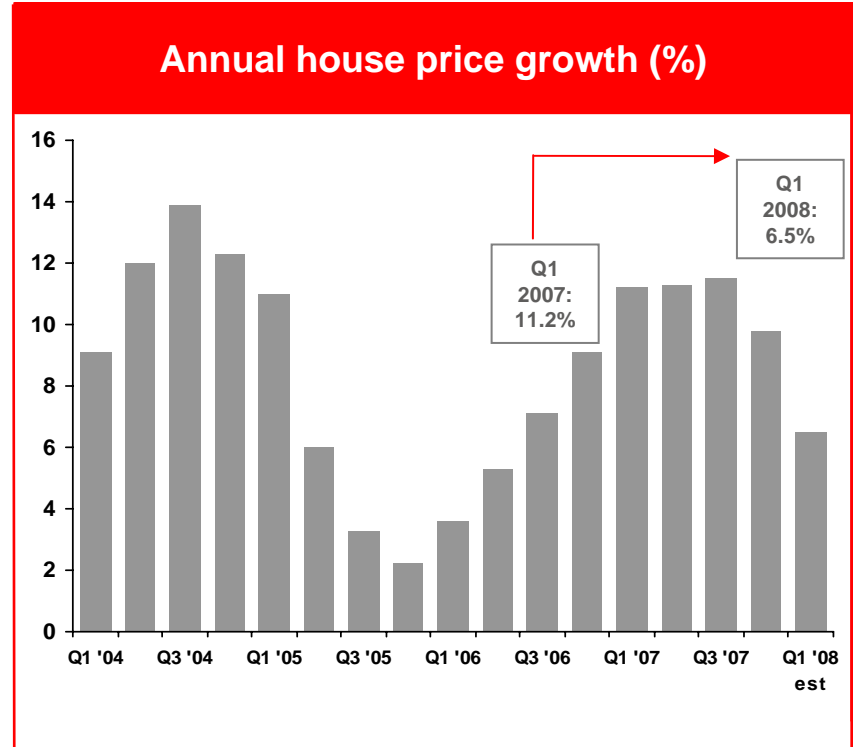
Source – Office for National Statistics

Market Environment

Growth in housing market activity slowed sharply in H2 2007 and annual house price growth is reducing



Source – Bank of England

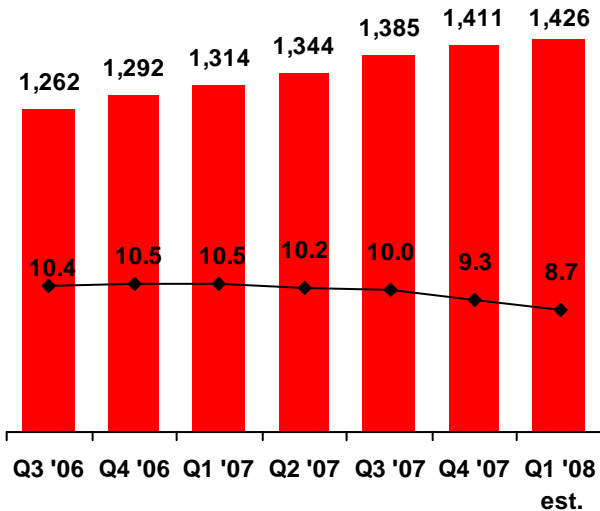


Source – Department for Communities and Local Government

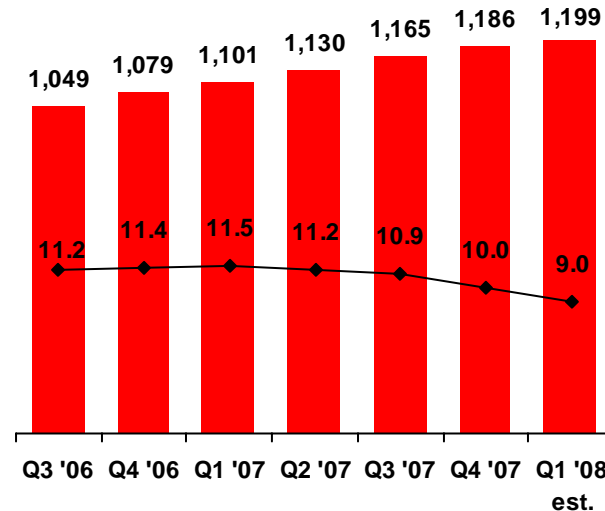
Market Environment

The slowing in household borrowing growth has continued into 2008 and by end year growth could be around 7%

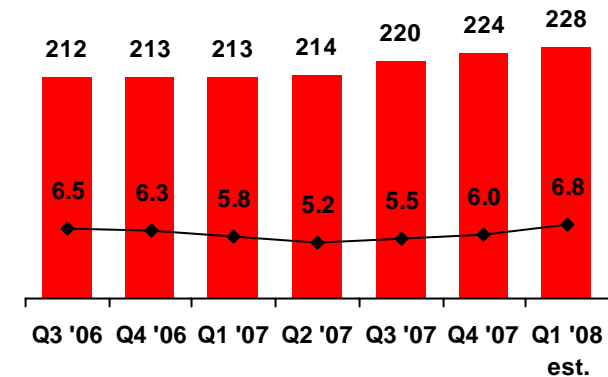
Total lending to individuals*



Mortgage lending market stock*



Consumer credit market stock*



Source – Bank of England.

◆ - annual growth rates (%)

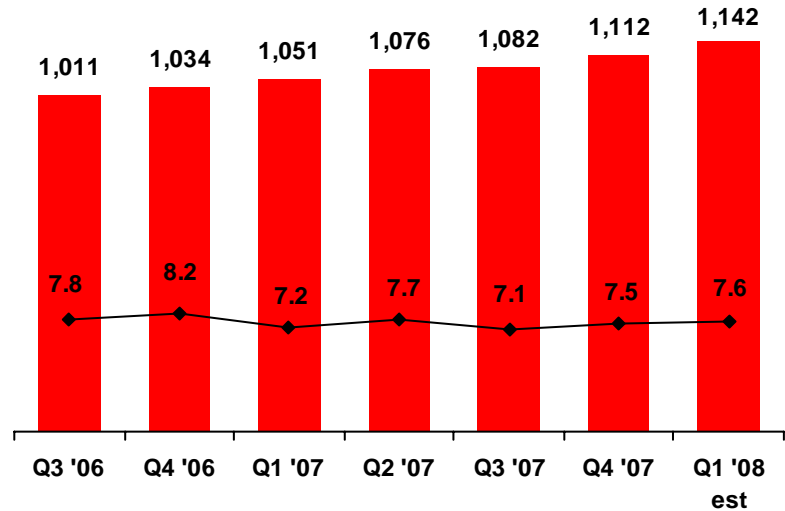
*Please note:

- 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

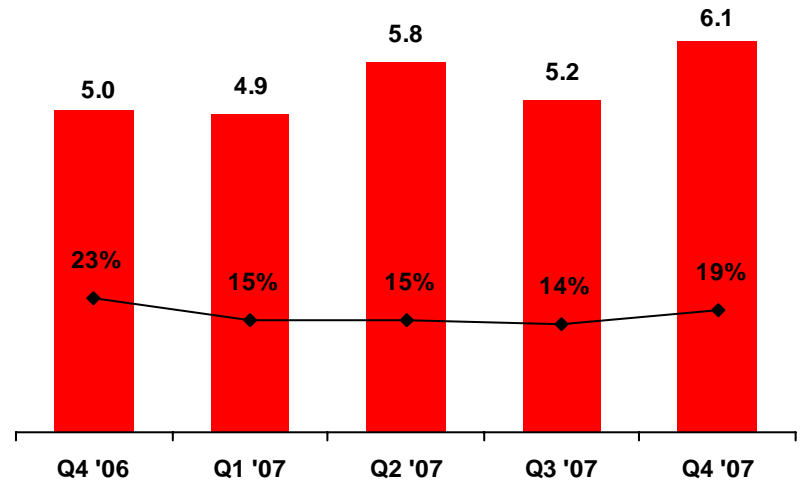
Annual growth in retail deposits has been steady, with long term growth in the Bancassurance Investment new business market

Retail deposits (incl. current accounts)



Source – Bank of England.

Bancassurance Investment new business market*



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

◆ annual growth rates (%)

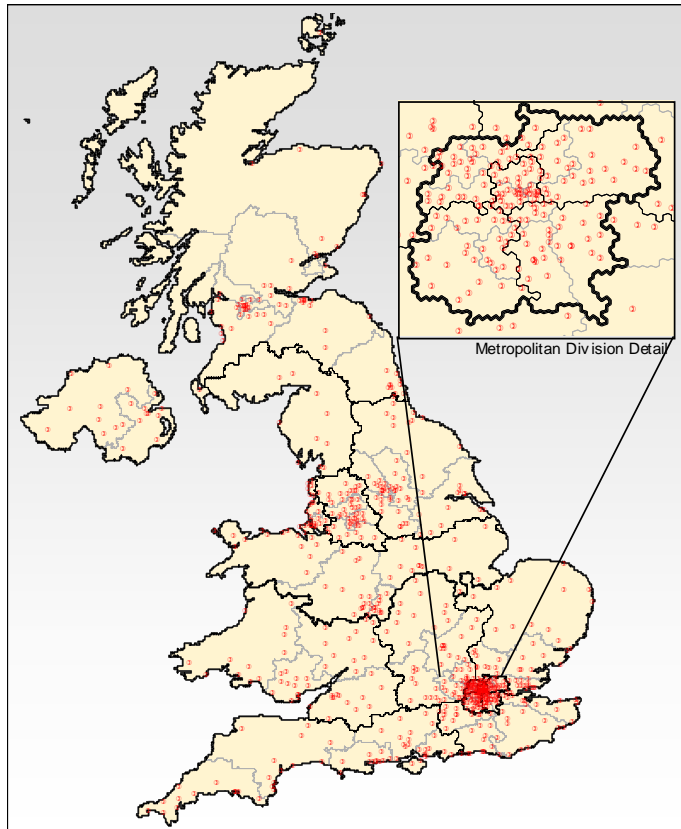
*Please note:

- ABI, IMA and SRP.com all restated data for earlier quarters in the year when Full Year 2007 data was published



Abbey's Franchise

A well established retail bank with an attractive customer franchise



31/03/08

Customer deposits (£bn)	65.9
Residential mortgages⁽¹⁾ (£bn)	107.8
UPLs (£bn)⁽²⁾	2.6
Total Retail lending⁽¹⁾ (£m)	114.0
Net attributable income ytd (£m)	235

Market Shares:

Mortgage stock	9.4%
Deposits/Savings stock	5.8%
Abbey UPL's stock	3.0%

Branches	705
Branch market share	5.3%
ATMs	2,203
ATM market share	c. 3%

(1) excludes Social Housing – this portfolio now included into Corporate Banking

(2) includes cahoot

Agenda

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- Q1 2008

- Business Update

- Results

Business Update

Moving towards a full service commercial bank

Retail Markets

▪ Growing our core business

- 15.9% net lending share, driven equally by increased gross lending (at margins more than double the same period last year) and better retention, whilst maintaining prudent lending criteria.
- strong Tax-year end campaign led by Abbey's market leading 10% Super ISA and 6.25% Direct ISA.
- over 40% uplift in both adult and switcher bank account openings.
- strong balance sheet management – overall short-term funding requirement held stable with Retail lending offset by deposit growth and reduction of short-term assets in SGBM.

Customer Focus

▪ Offering customers “value for money”

- improving retention performance in mortgages and savings e.g. relaunch of esaver direct product has driven retention rates from 50% to 75%+.
- stronger product range including launch of 80% LTV range, refreshed Super ISA and Direct ISA.
- continuing to leverage Partenon and increase cross sales.
- continuing success in credit card sales following the launch in the latter part of 2007.

Strategic projects

▪ Development of commercial bank on track

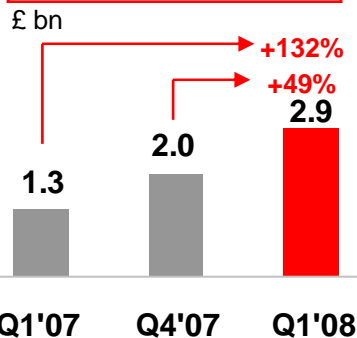
- Private Banking - management team in place. Strong liability growth in both Cater Allen and Abbey International.
- Corporate Banking - continued to build a presence in selected segments of the UK corporate banking market. This has proved successful and assets in this area have risen to £9.6bn, up 25% vs Q1 07. In parallel, have launched a project to build out full-service banking capability for UK SMEs.
- Santander Global Banking & Markets – completed transition period of integrating the London business into the global SGBM business framework, and had a sound financial performance, despite the difficult market environment.

Business Update

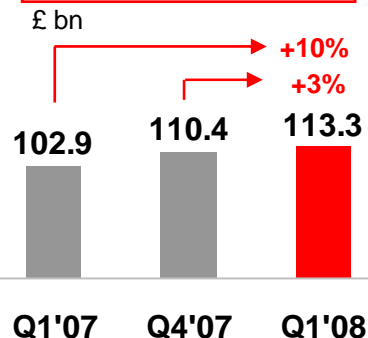
Business performance

Mortgages

Net lending



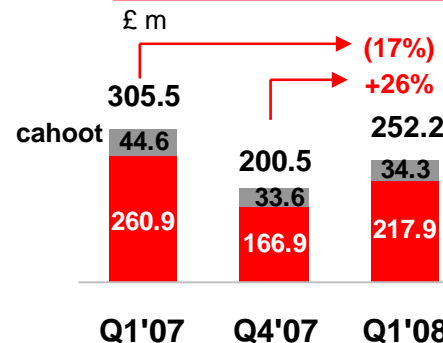
Stock



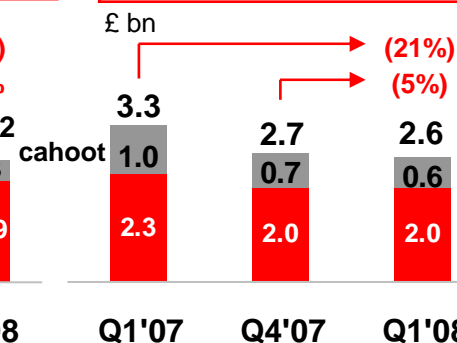
Spread Q1'08 vs: Q1'07 -11bps
Q4'07 +2bps

Personal loans

Gross lending



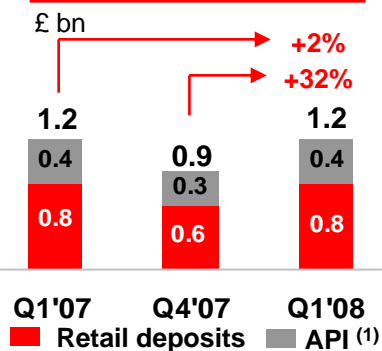
Stock



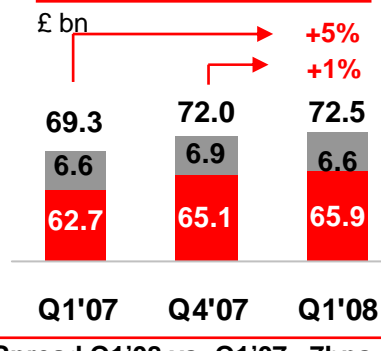
Spread Q1'08 vs: Q1'07 +87bps
Q4'07 +60bps

Retail Savings and Investment

Net Flows



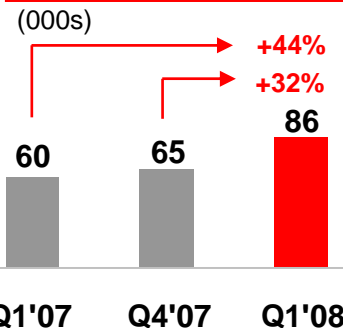
Stock



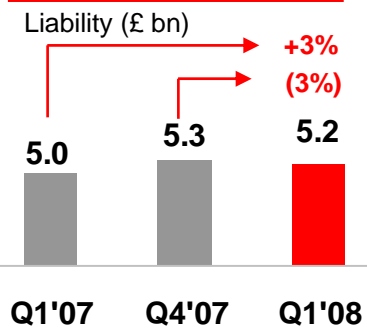
Spread Q1'08 vs: Q1'07 +7bps
Q4'07 +4bps

Bank accounts

Adult openings



Ave. current a/c



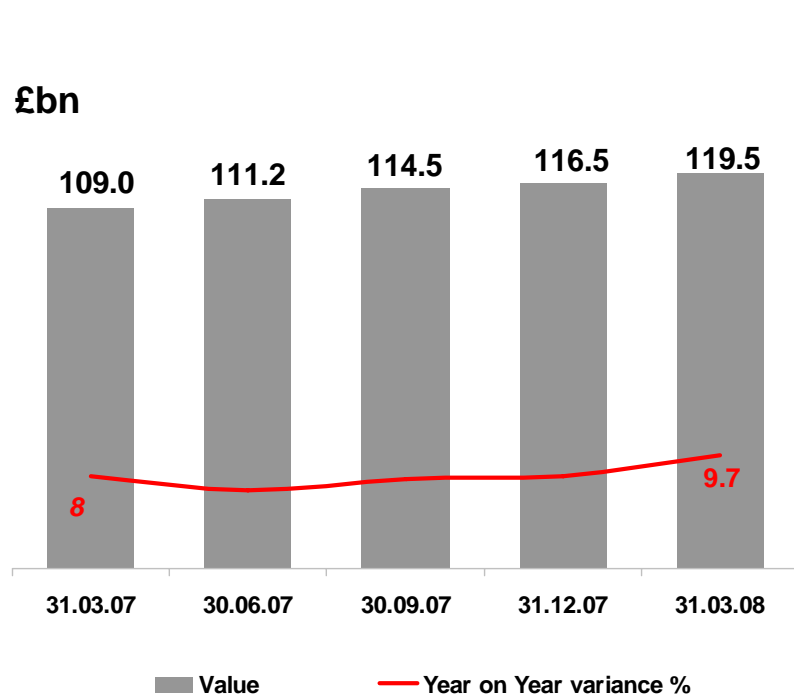
Spread Q1'08 vs: Q1'07 +5bps
Q4'07 -35bps

(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements
Note: spread variances based on quarterly averages

Business: Lending trends / growth

Strong growth whilst maintaining prudent lending criteria

97.8	99.9	103.2	104.9	107.8	Residential retail mortgage stock (£bn)
5.1	5.2	5.2	5.5	5.5	Social Housing stock (£bn)
102.9	105.1	108.4	110.4	113.3	Total residential mortgages
9.3%	9.3%	9.3%	9.3%	9.4%	Market share (%)



	31 March 08 £bn	Q1'08 vs Q1'07
Residential retail mortgages	107.8	10.1%
Commercial mortgages	3.1	35.9%
UPLs	2.6	(21.0%)
Overdraft & Other ⁽¹⁾	0.5	5.9%
Total Retail loans	114.0	9.7%
Social Housing ⁽²⁾	5.5	8.6%
Total Retail loans and Social Housing	119.5	9.7%

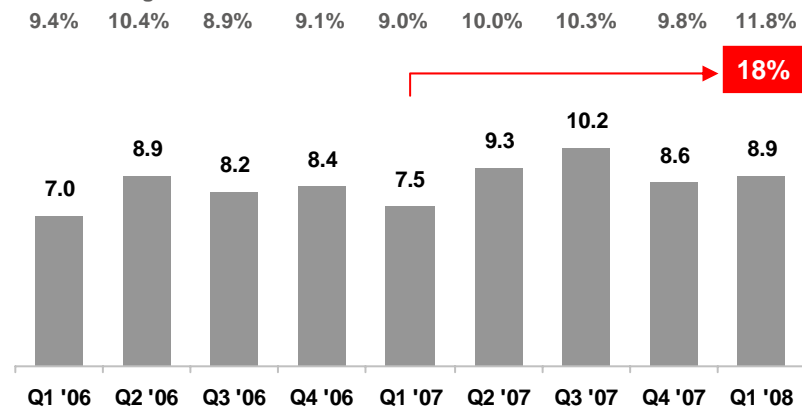
- (1) includes cahoot Credit Cards
 (2) Social Housing reported within Corporate Banking

Business Update

Net market share up with improved new business margins whilst maintaining prudent lending criteria

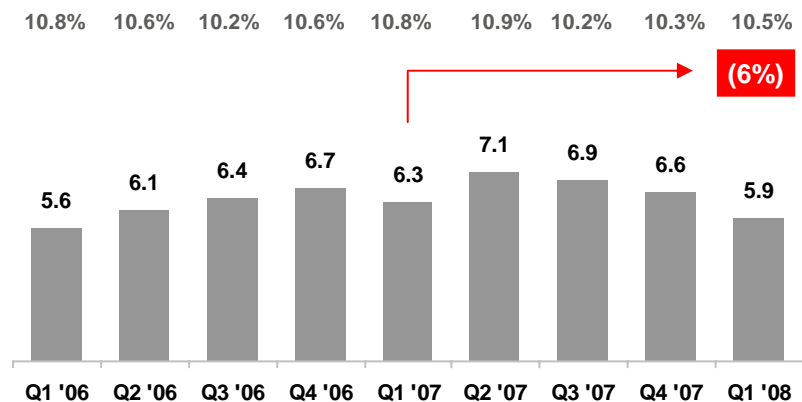
Total residential mortgage gross lending (£bn)

Gross lending share:



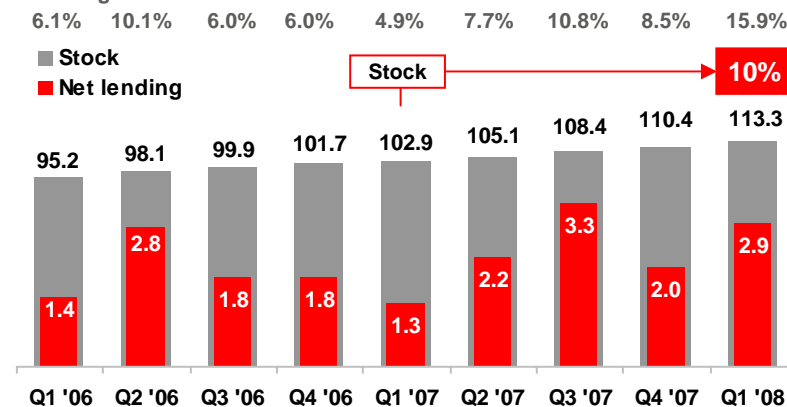
Total residential mortgage repayments (£bn)

Repayments share:



Residential mortgage net lending and stock (£bn)

Net lending share:



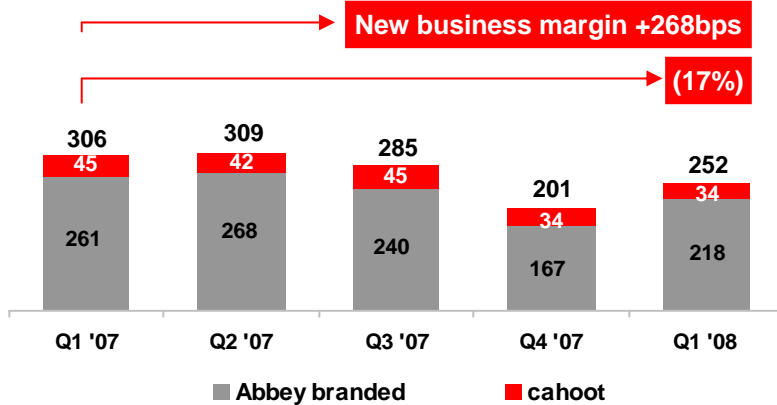
Comment

- mortgage balances were up 10% with an estimated net lending market share of 15.9% in the first quarter, considerably higher than stock share.
- relative to expectations, the stronger performance is driven by a combination of higher gross lending and, as importantly, lower capital repayments. New business margins were more than double those seen in the same period in 2007, whilst maintaining prudent lending criteria.
- Abbey's high net lending share in Q1 reflects, in part, the contraction of non-standard market segments where Abbey has negligible exposure.

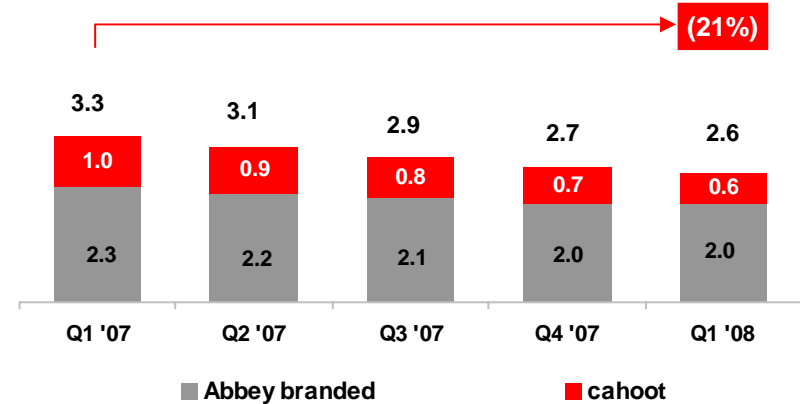
Business Update

Abbey continues to focus on existing customers and margin management

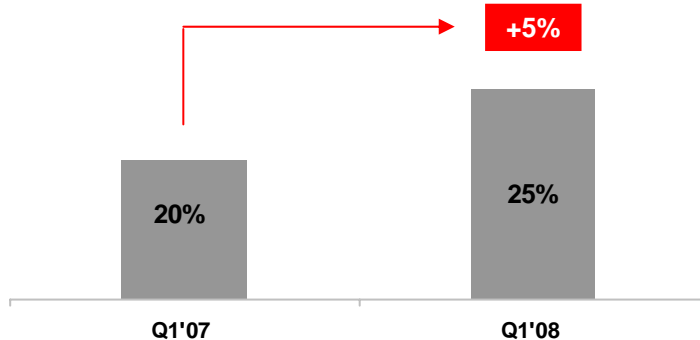
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch stock as % of total



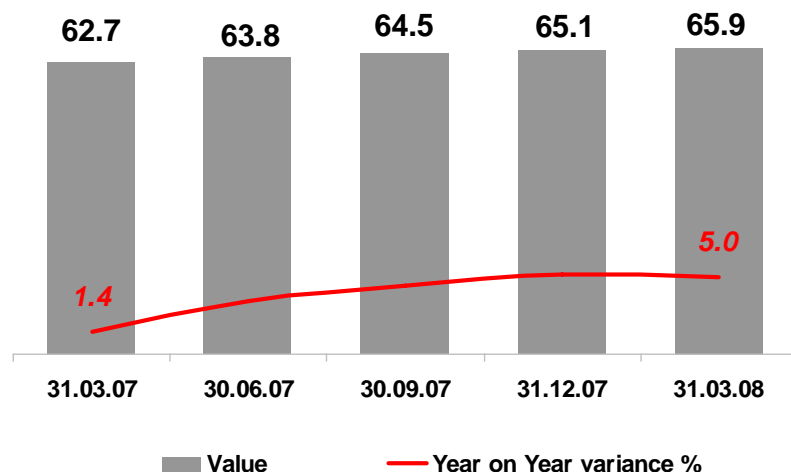
Comment

- Abbey follows a value strategy which focuses on existing customers.
- uplift in lending through Branch channel contributed to higher UPL stock and new business spreads, up 87bps and 268bps respectively.

Business: Liability trends / growth

Overall growth supported by stronger product range

£bn

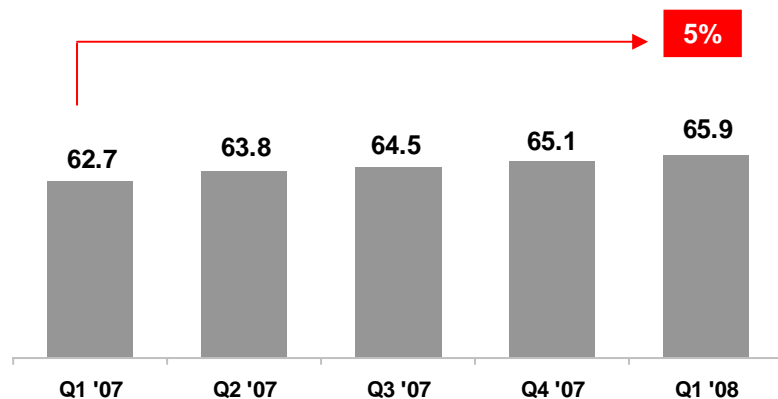


	31 March 08 £bn	Q1'08 vs Q1'07
Abbey branded savings	44.8	4.3%
Abbey bank accounts	5.6	2.6% ⁽¹⁾
Private Banking	9.7	12.8%
Other ⁽²⁾	5.8	3.1%
Total customer deposits	65.9	5.0%
Retail FUM ⁽³⁾	6.6	0.5% ⁽⁴⁾
Total funds under management	72.5	4.6%

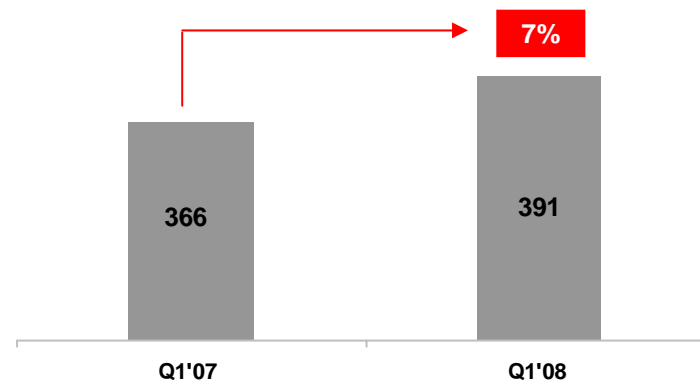
Business Update

Growth in retail deposits supported by innovative product range

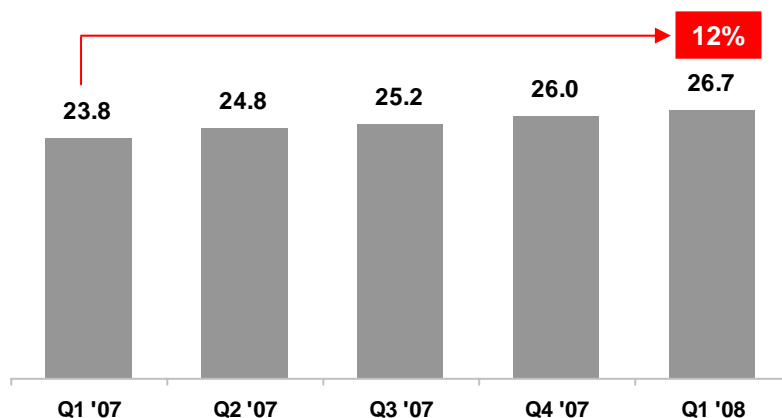
Customer deposit stock (£bn)



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



Branch acquisition savings stock (£bn)



Comment

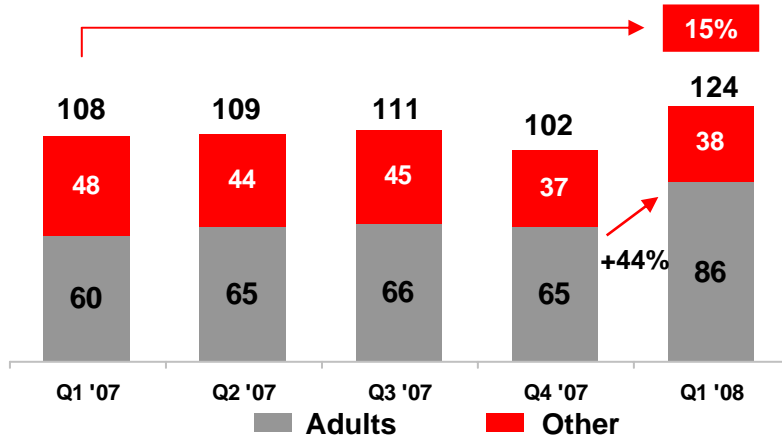
- Abbey's performance has been driven by a continued focus on branch-based savings.
- investment sales driven by a strong range of investment products, linked to market leading Savings accounts and strong promotional campaign in March.
- the number of sales advisors has been increased following a successful recruitment campaign in Q4'07 and Q1'08.

(1) API: Annual Premium Income measures the new business flows that impact revenue and commissions, excluding redemptions and market movements

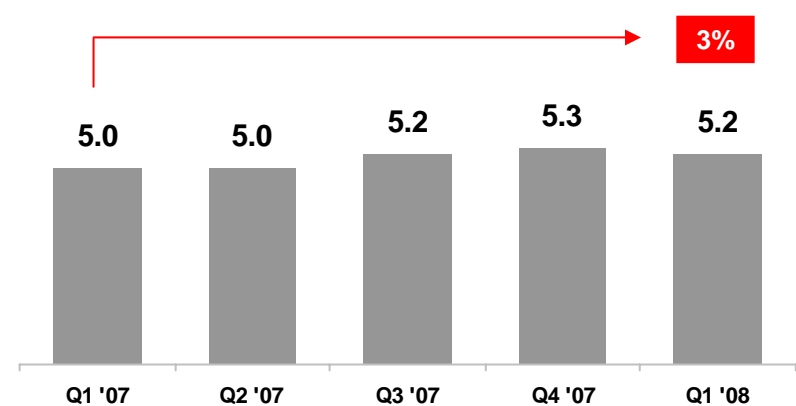
Business Update

Successful in achieving targeted uplift in the level of openings

Bank account openings (000)

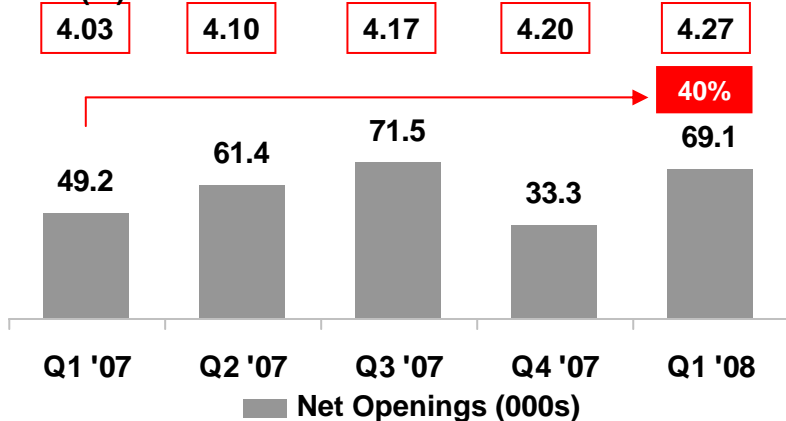


Abbey branded average current a/c liability (£bn)



Abbey branded accounts

Stock (m):



Comment

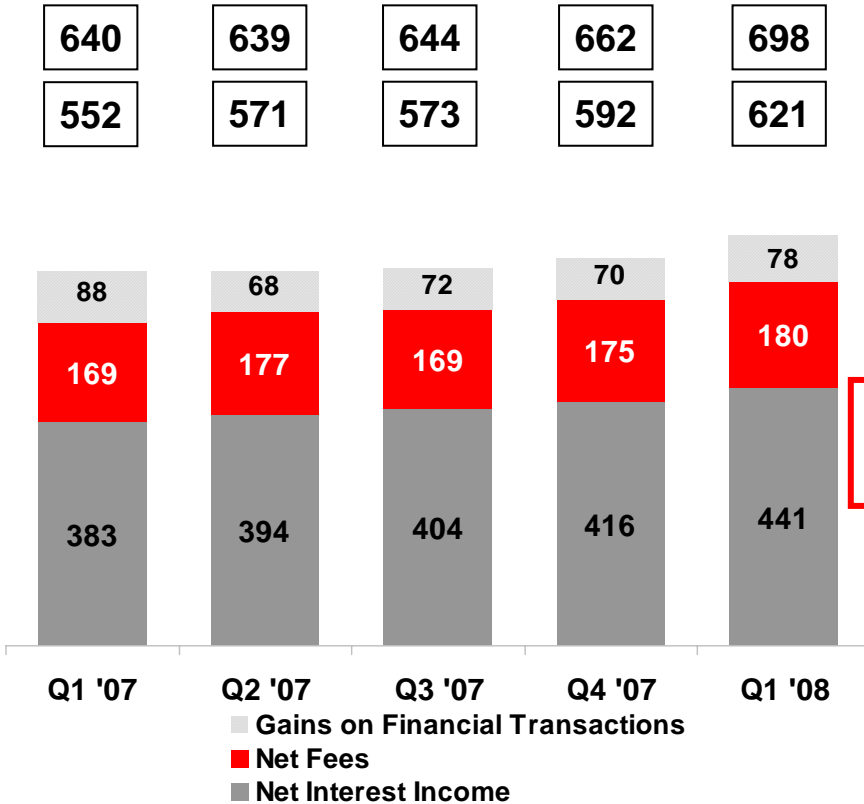
- continuing to attract adult customers, up 44%, and switcher customers, up 48%.
- Abbey sees the current account relationship as a key driver of a customer's overall experience with the bank and has increased focus within its branch and remote channels on developing business in this area.
- the continuation of the 8% offer to switchers and non-switchers has supported this growth being a market leading offer to customers considering switching.

Agenda

- Market Environment
- Q1 2008
 - Business Update
 - **Results**

Results: Gross operating income

Improved income growth driven by higher retail banking balances and robust spreads



Total £m

Total commercial margin £m

£m

Q1'08

Q1'07

Variance

Net Interest Income

441

383

15.1%

Net Fees

180

169

6.6%

Total Commercial Margin

621

552

12.4%

Gains on Financial Transactions

78

88

(11.6%)

Gross Operating Income

698

640

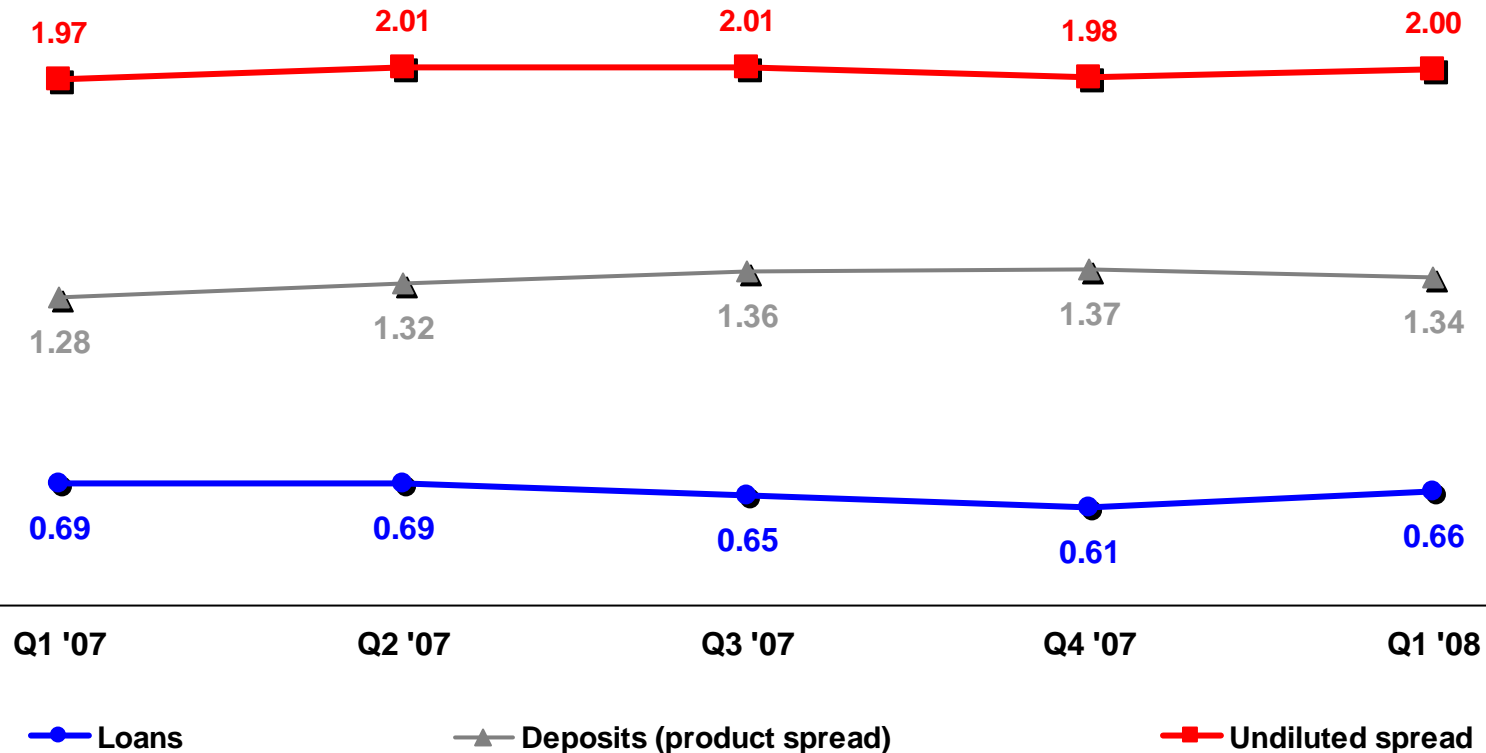
9.1%

Commercial revenues:

- robust asset growth of 10% in challenging market conditions.
- continued focus on effective margin management for both mortgages and customer deposits contributed to an increase of 15.1% in net interest income.

Results: Retail banking spreads

Asset spread benefiting from improvement in mortgage new business margins



Results: Costs

Costs start to level out as expected

FTE

16,616

16,613

16,855

16,827

16,489

£m

330

324

324

334

333

Q1 '07

Q2 '07

Q3 '07

Q4 '07

Q1 '08

£m

Q1'08

Q1'07

Variance

General and administrative expenses

314

313

0.2%

Depreciation and amortisation

19

17

14.5%

Operating expenses

333

330

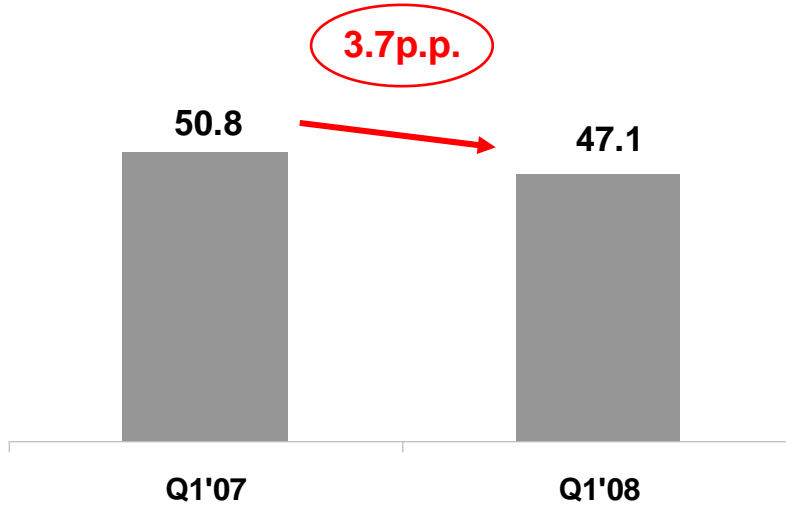
0.9%

- operating expenses in line with previous quarter and with expectations as a result of growth businesses.

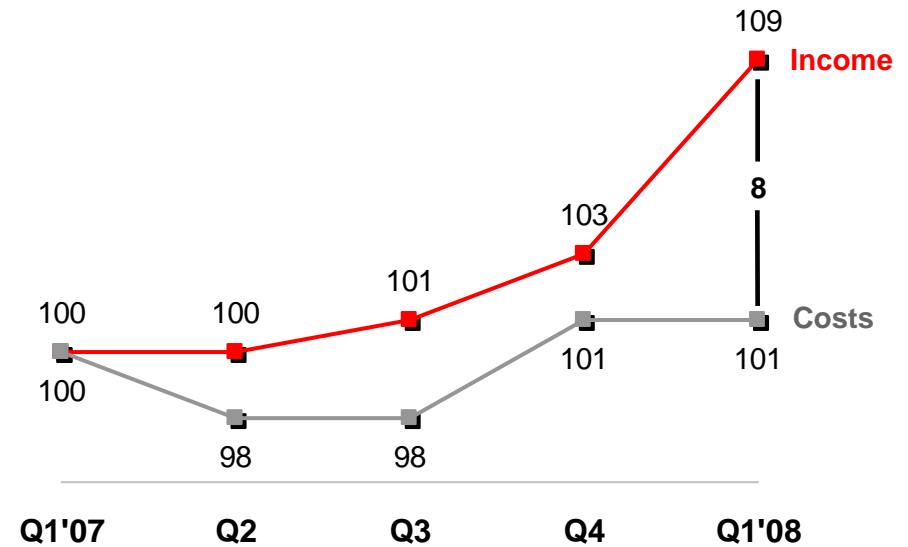
Results: Ratios

Cost:income ratio moving towards the target of 45%

Cost:income ratio*, %



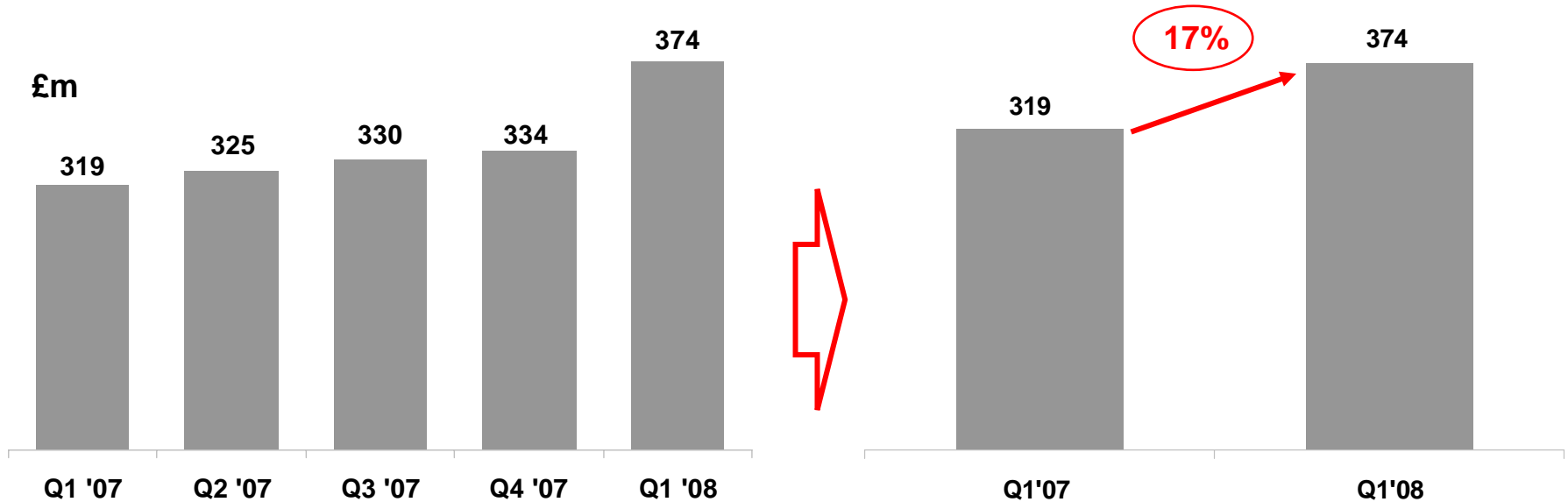
Operating jaws, %



* Includes depreciation & amortisation

Results: Net Operating Income

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

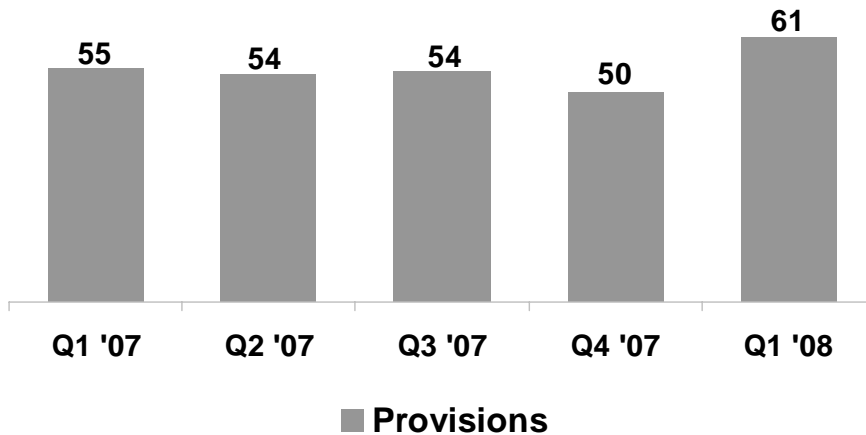


Results: Provisions and credit quality

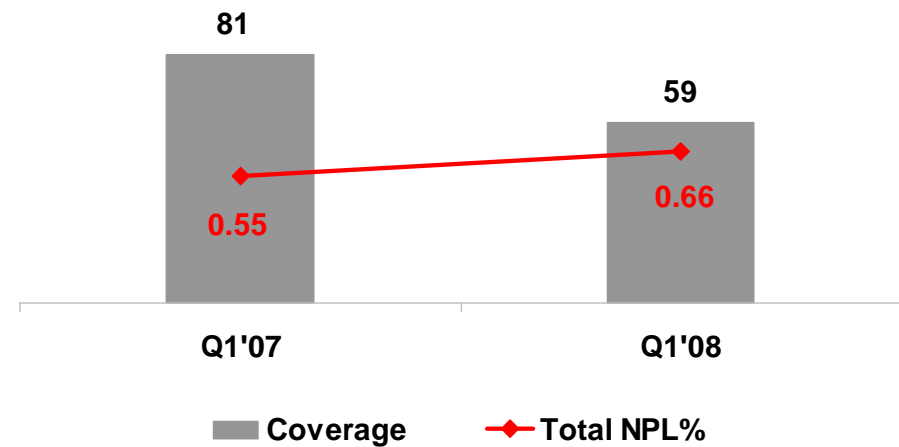
Provisions rising from historically low levels

£m

Net loan loss provisions



Coverage ratio and NPL, %

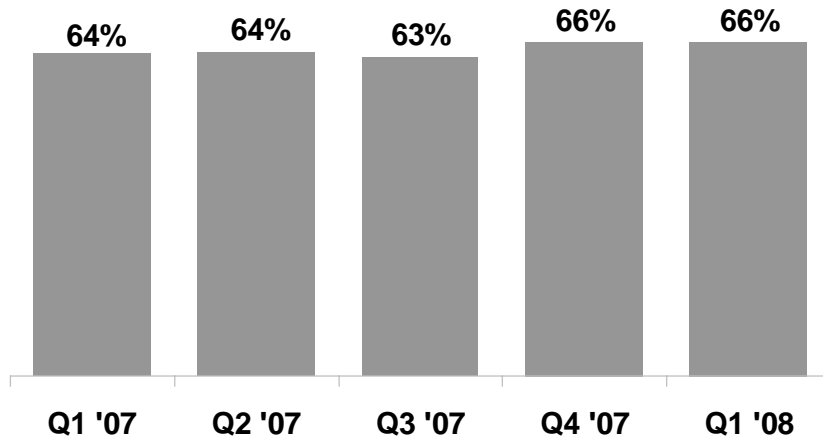


The coverage ratio reduced largely due to the change in mix of arrears, with a reduction in unsecured arrears which has a higher coverage and an increase in secured arrears with lower coverage due to the security held. Secured coverage is more than double the industry average and unsecured coverage is over 150%.

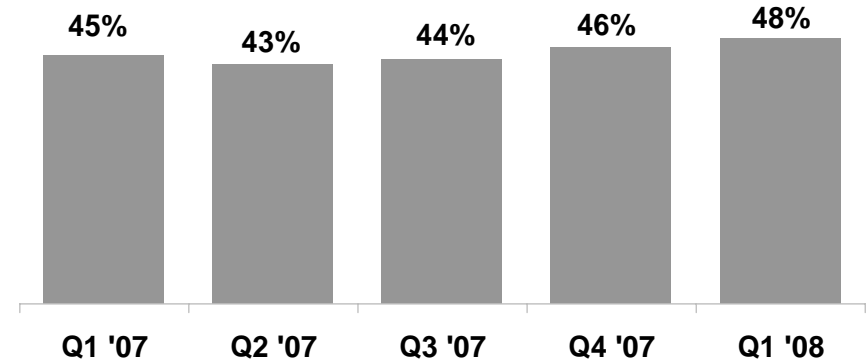
Results: Provisions and credit quality

Underlying credit quality has remained strong, only 3% of new business at LTV greater than 90%

Average new business mortgage LTV (%)

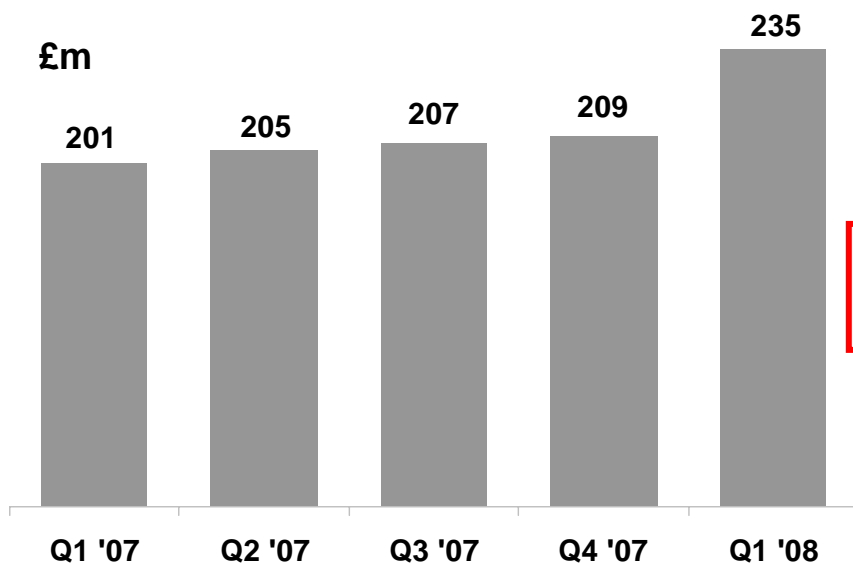


Average indexed mortgage LTV on stock (%)



Results: Net Income

Net Income up 17.1%



£m	Q1'08	Q1'07	Variance
PBT	316	268	17.6%
Provision for income tax	(80)	(67)	18.8%
Net Income	235	201	17.1%

Moving towards a full service commercial bank

Balance sheet strength

- robust capital position with Abbey's capital requirements benefiting from the impact of the Basel 2 methodologies applied in assessing the risks applicable to retail assets.
- resilient retail balance sheet performance reflecting Abbey's strong retail funding mix (c. 60% customer deposit based, less than 10% of commercial assets are funded by wholesale short term funding). During the quarter, Abbey's requirement for short term funding was stable, with growth in retail and commercial lending funded by deposit growth and a reduction in assets in global banking and markets operations.
- Retail risk portfolio comprises largely of standard, prime residential mortgages - a strong position in slowing economic conditions. No exposure to sub-prime mortgages lending and as a result no losses have been incurred.

Well positioned in current market

- able to focus on growing the business, with the business largely unaffected by market volatility.
- well positioned to take advantage of improved mortgage conditions without requiring an increased reliance on short-term funding.
- performance maintained in core markets - higher share reflects contraction of markets where Abbey traditionally has no or limited position.
- innovative savings and investment products in fiercely competitive market – significantly increasing sales capacity.
- balanced growth across all divisions.

Expanding product range

- launch of 80% LTV range in direct channel, priced at a discount to the 90% range.
- cross tax year campaign supported with refreshed Super ISA and Direct ISA.
- launch of the Direct ISA, available to both new and existing customers, has been favourably received.
- new structured investment products such as the Capital Guaranteed Plus.
- continuation of competitive bank account.

APPENDIX

- **Financial results**
- **Balance sheet**

Financial results: Profit and loss

£ million

			Variation	
	Q1 08	Q1 07	Amount	%
Net interest income*	441	383	58	15.1
Income from companies accounted for by the equity meth	0	0	(0)	(39.0)
Net fees	180	169	11	6.6
Insurance activity	—	0	(0)	(100.0)
Commercial revenue	621	552	69	12.4
Gains (losses) on financial transactions	78	88	(10)	(11.6)
Gross operating income	698	640	58	9.1
Income from non-financial services (net) and other operat	9	9	(0)	(4.0)
Operating expenses	(333)	(330)	(3)	0.9
General administrative expenses	(314)	(313)	(1)	0.2
<i>Personnel</i>	(180)	(175)	(5)	2.6
<i>Other administrative expenses</i>	(134)	(138)	4	(2.8)
Depreciation and amortisation	(19)	(17)	(2)	14.5
Net operating income	374	319	55	17.2
Net loan loss provisions	(61)	(55)	(6)	11.1
Other income	2	3	(2)	(48.8)
Profit before taxes	316	268	47	17.6
Tax on profit	(80)	(67)	(13)	18.8
Net profit from ordinary activity	235	201	34	17.1
Net profit from discontinued operations	—	—	—	—
Net consolidated profit	235	201	34	17.1
Minority interests	—	—	—	—
Attributable profit to the Group	235	201	34	17.1

(*).- Dividends included

Financial results: Profit and loss

£ million

31

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Net interest income*	383	394	404	416	441
Income from companies accounted for by the equity method	0	0	0	1	0
Net fees	169	177	169	175	180
Insurance activity	0	0	(0)	0	—
Commercial revenue	552	571	573	592	621
Gains (losses) on financial transactions	88	68	72	70	78
Gross operating income	640	639	644	662	698
Income from non-financial services (net) and other operations	9	10	10	6	9
Operating expenses	(330)	(324)	(324)	(334)	(333)
General administrative expenses	(313)	(307)	(307)	(315)	(314)
<i>Personnel</i>	(175)	(175)	(179)	(180)	(180)
<i>Other administrative expenses</i>	(138)	(131)	(129)	(135)	(134)
Depreciation and amortisation	(17)	(17)	(17)	(19)	(19)
Net operating income	319	325	330	334	374
Net loan loss provisions	(55)	(54)	(54)	(50)	(61)
Other income	3	3	3	5	2
Profit before taxes	268	274	278	289	316
Tax on profit	(67)	(69)	(71)	(80)	(80)
Net profit from ordinary activity	201	205	207	209	235
Net profit from discontinued operations	—	—	—	—	—
Net consolidated profit	201	205	207	209	235
Minority interests	—	—	—	—	—
Attributable profit to the Group	201	205	207	209	235

(*).- Dividends included

Financial Results: Balance Sheet

£ million			Variation	
	31.03.08	31.03.07	Amount	%
Loans and credits*	131,186	130,975	212	0.2
Trading portfolio (w/o loans)	28,027	40,294	(12,267)	(30.4)
Available-for-sale financial assets	31	16	16	99.1
Due from credit institutions*	17,391	15,121	2,269	15.0
Intangible assets and property and equipment	3,415	3,362	53	1.6
Other assets	8,831	5,133	3,698	72.0
Total assets/liabilities & shareholders' equity	188,880	194,900	(6,020)	(3.1)
Customer deposits*	84,590	76,336	8,254	10.8
Marketable debt securities*	54,269	56,103	(1,833)	(3.3)
Subordinated debt	6,005	6,265	(260)	(4.1)
Insurance liabilities	4	7	(3)	(44.2)
Due to credit institutions*	22,832	30,503	(7,671)	(25.1)
Other liabilities	17,679	23,004	(5,325)	(23.1)
Shareholders' equity	3,501	2,682	819	30.5
Off-balance-sheet funds	6,797	9,272	(2,475)	(26.7)
Mutual funds	6,797	9,272	(2,475)	(26.7)
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	151,661	147,976	3,686	2.5

* Includes all stock of concept classified in the balance sheet

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