United Kingdom: Abbey

Third Quarter 2008

London, 28th October 2008

Abbey

Santander

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Note: The results information contained in this presentation has been prepared according to Spanish accounting criteria and regulation in a manner applicable to all subsidiaries of the Santander Group and as a result it may differ from the one disclosed locally by Abbey.

Agenda

- Market Environment

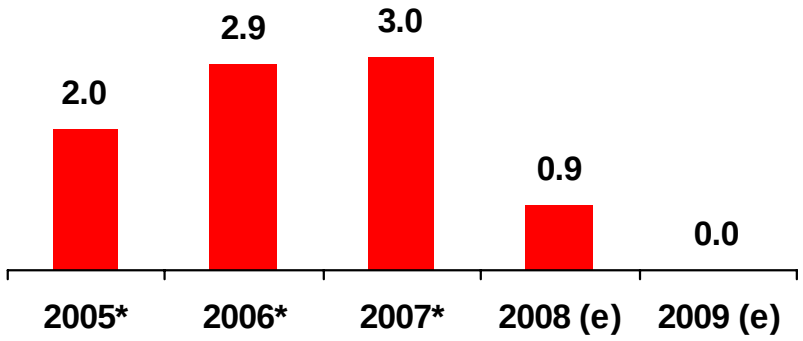
- Q3 2008
  - Business Update
  - Results

NOTE: Unless otherwise stated the figures/comments on subsequent pages exclude the impact of the B&B and A&L transactions

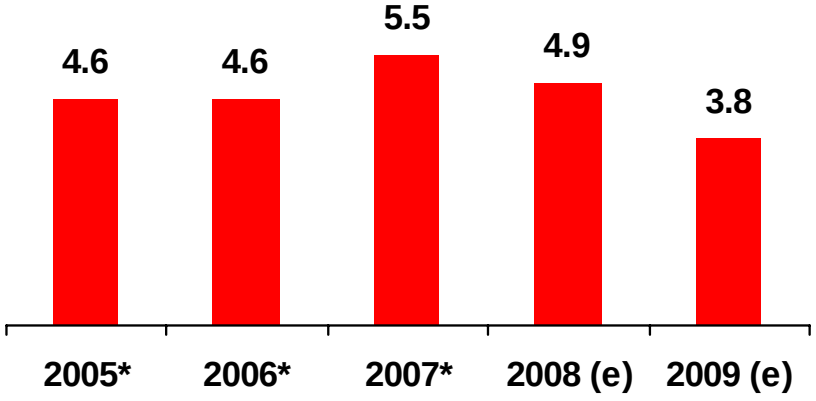
Market Environment

Inflation is expected to fall in 2009 as growth slows

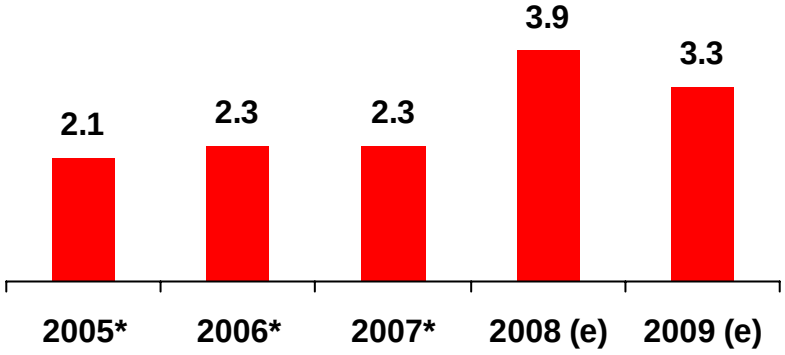
Annual GDP Growth (%, annual average)



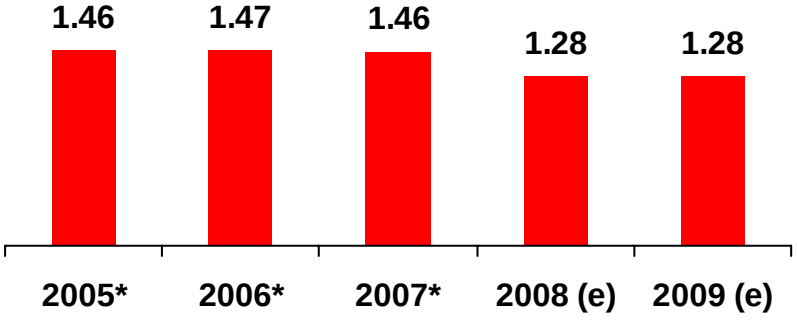
Interest Rates (%, annual average)



Annual CPI inflation rate (%, annual average)



GBP : Euro exchange rates (annual average)



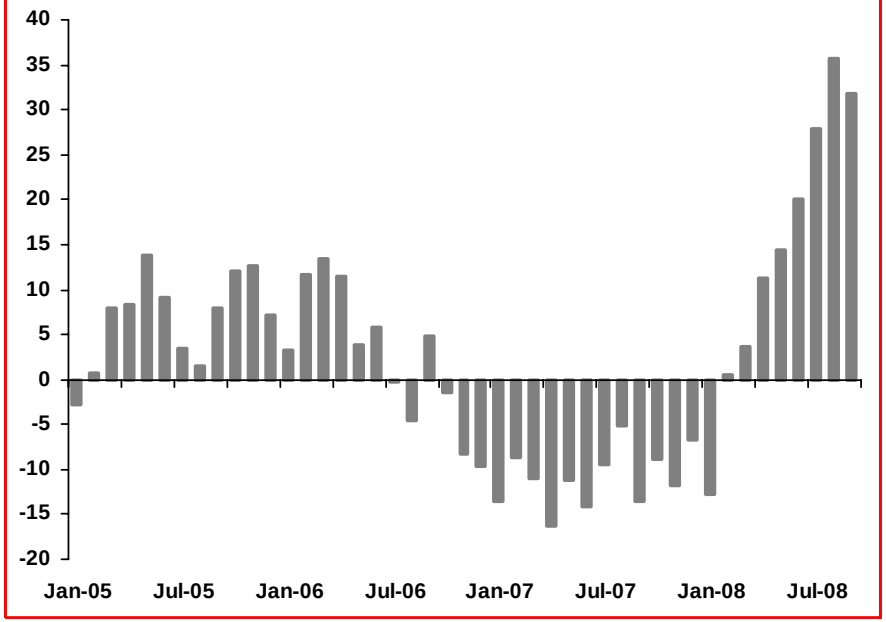
*source - Office for National Statistics & Bank of England

(e) estimated by Abbey

Market Environment

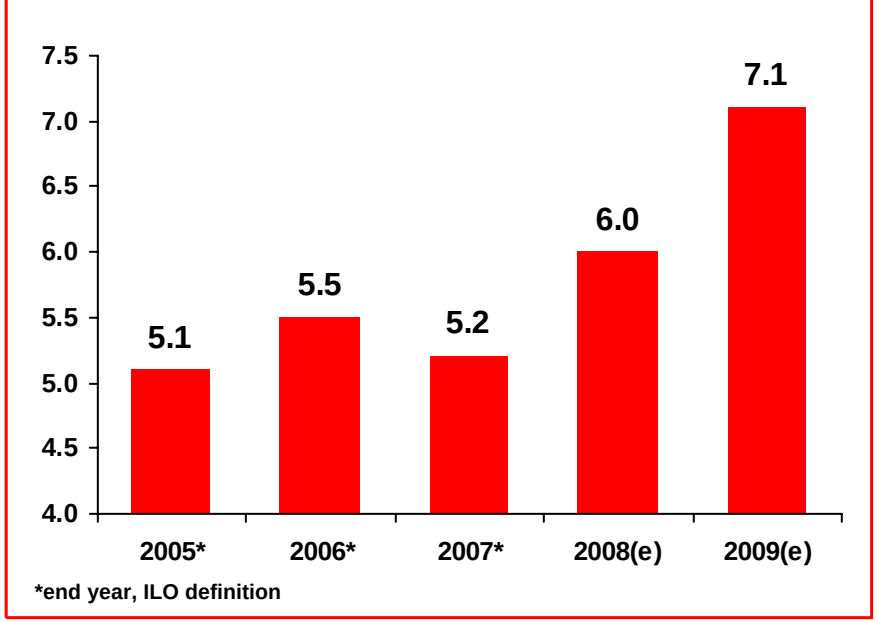
Unemployment is rising and expected to increase in 2009

Monthly change in claimant count unemployment (000)



Source – Office for National Statistics

Unemployment rate (end year, %)

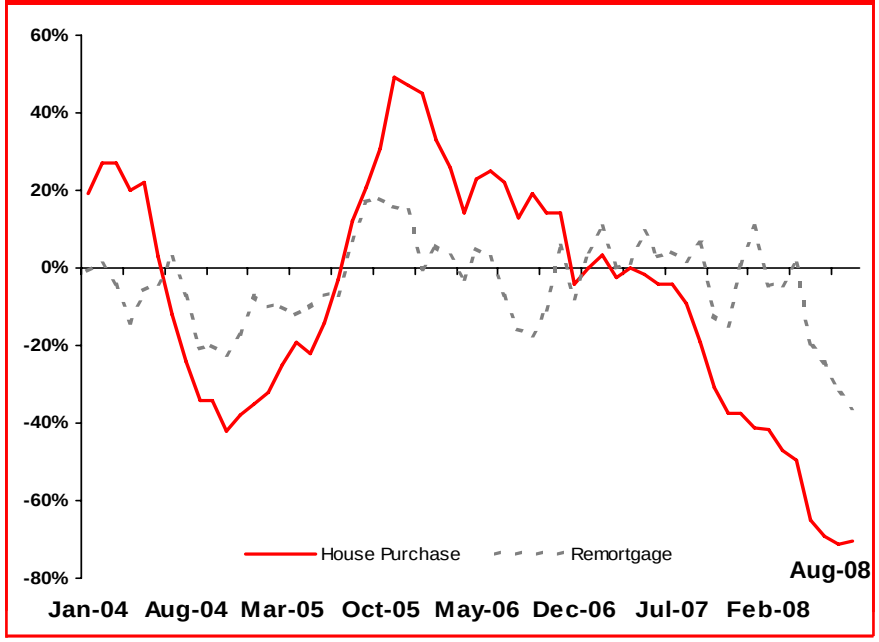


(e) estimated by Abbey

Market Environment

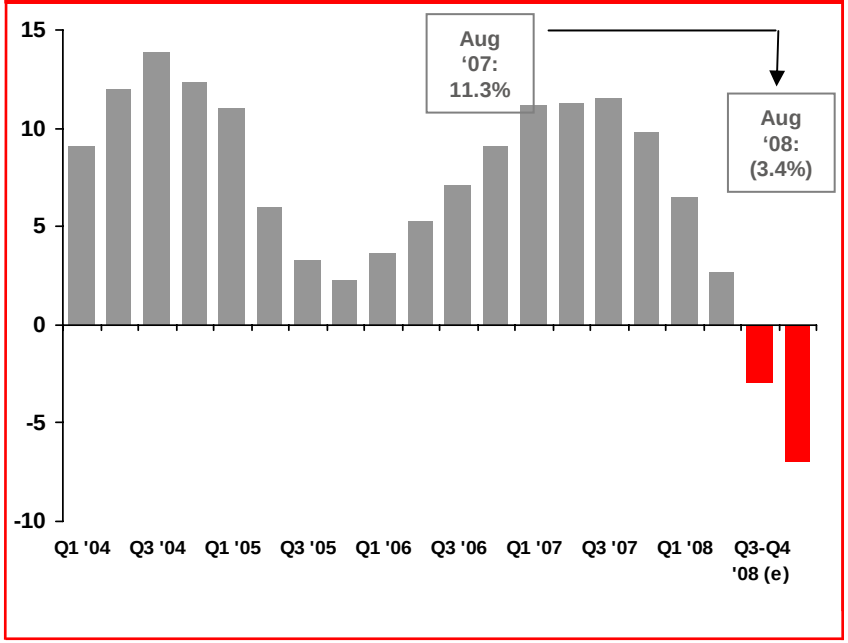
The level of mortgage approvals has fallen sharply in the last year. Lower house purchase activity is now resulting in falling house prices.

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



Source – Bank of England

Annual house price growth (%)

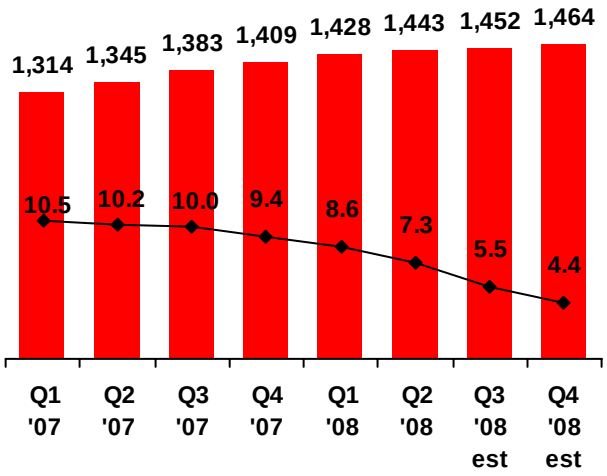


Source – Department for Communities and Local Government.

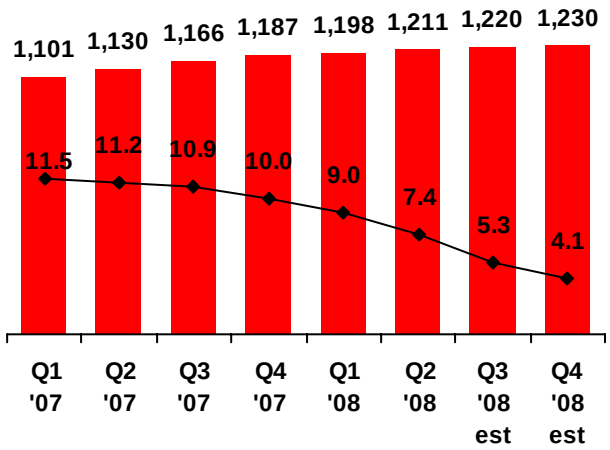
Market Environment

The growth of household borrowing has slowed sharply since the middle of 2007 and by end of 2008 growth could be around 4%

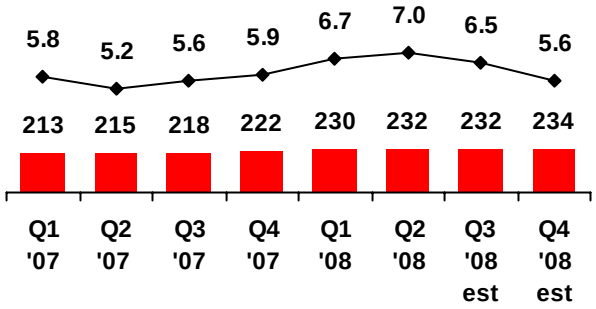
Total lending to individuals*



Mortgage lending market stock*



Consumer credit market stock*



Source – Bank of England.

- annual growth rates (%)

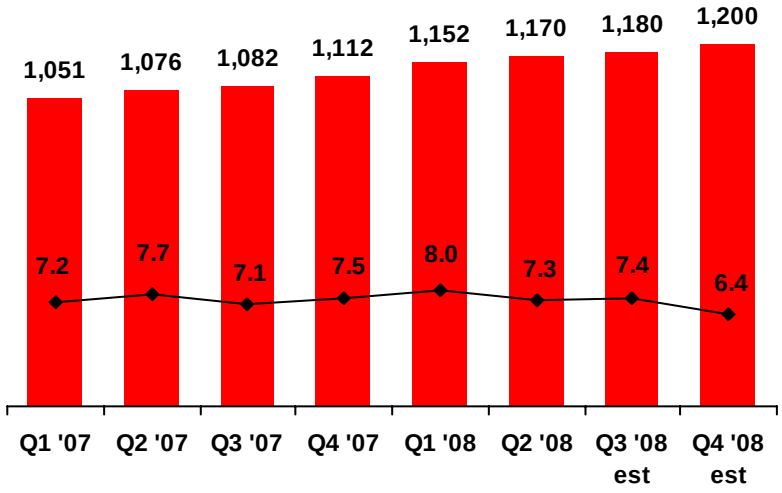
*Please note:

- 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

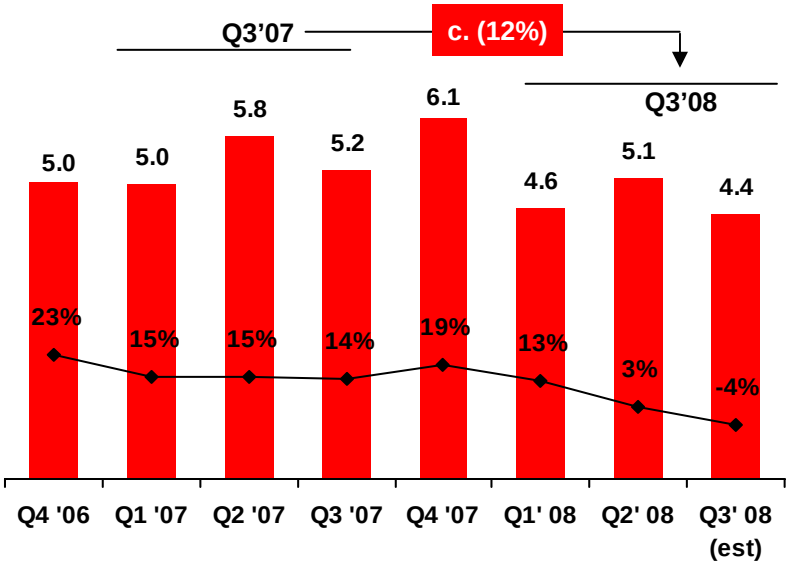
Annual growth in retail deposits has been steady

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.

(e) estimated market size (£bn)

annual growth rates (%)

•Note : ABI. IMA and SRP.com all restated data for earlier quarters in the year when Full year 2007 data was published

Santander's UK Franchise

Recent transactions make Santander the third largest Retail deposit taker in the UK

	Abbey	Bradford & Bingley	Alliance & Leicester	Total 30/09/08
Customer deposits (£bn)	72.6	19.7	23.8	116.0
Residential Mortgages [1] (£bn)	115.4	n/a	39.5	154.9
UPLs [2] (£bn)	2.4	n/a	3.5	5.9
Total Retail Lending (£m)	121.9	n/a	43.1	165.0
Estimated market shares: [3]				
Mortgage stock	9.9%	n/a	3.4%	13.3%
Deposits / Savings stock	6.0%	1.9%	2.1%	10.0%
UPL's stock [4]	2.9%	n/a	4.3%	7.2%
Branches [5]	708	338	254	1,300
Branch market share	5.6%	2.7%	2.0%	10.3%
ATMs	2,111	58	2,358	4,527
ATM market share	3.0%	0.1%	3.3%	6.4%

(1) excludes Social Housing – this portfolio now included into Corporate Banking
(2) includes cahoot
(3) based on Abbey's estimate of market size
(4) Abbey UPL stock excludes cahoot
(5) the B&B total includes 141 agencies

Agenda

- Market Environment
- H1 2008
  - **Business Update**
  - Results

Business Update

Moving towards a fully fledged commercial bank

Abbey on track for another year of strong results

- excellent business & financial results
- revenue growth of over 13% – well ahead of last year and outperforming our peers
- strong operating jaws and improvement in cost:income ratio
- increased coverage of secured lending portfolio

Excellent performance in mortgages Q3 ytd

- improved margins, tighter lending criteria
- gross lending £27.0bn in line with last year: market share 12.6% vs. 9.8% in prior year
- repayments of £16.2bn, 20% lower than last year: market share 9.2% vs. 10.6% in prior year
- net lending growth driven by strong performance in retention activities and sustained gross lending volumes

Prudent lending / portfolio

- c.64% of remortgages versus c.48% last year
- consumer loans via further advances rather than UPLs – lower risk
- unsecured represents less than 2% of portfolio following continued active reduction
- BTL 1% of total mortgage book
- prime lending only and average LTV of stock significantly below CML average – in the third quarter negligible lending in ‘greater than 90%’ LTV bracket
- arrears / PIPs better than CML average
- strong coverage of both secured (28%) and unsecured portfolios (over 100%)

Business Update

Moving towards a fully fledged commercial bank

Deposit flows well ahead of last year

- Q3 ytd retail deposit flows of £4.3bn up 70%, corporate banking flows of £1.7bn compared to £0.1bn in 2007 and retail structured products flows of £0.8bn, up 169% on prior year
- overall investment sales up 18% despite market decline c.12%
- retail assets funded c. 60% by deposits (further strengthened with the addition of B&B deposits of c. £20bn)
- short-term funding requirement reduced

Transaction update

- the B&B transaction completed on 29th September, adding an additional 338 Branches/Agencies to the franchise, strengthening Abbey's funding position and significantly increasing retail customer deposit relationships
- B&B's c. £20bn of customer deposits mitigates A&L's deposit/loan gap identified at announcement of A&L acquisition
- the A&L transaction completed on 10th October and will bring Santander's plans in the UK forward by two to three years in the SME/Corporate Banking segment

Strategic projects

- Private Banking – successful launch of its first Structured Product and an agreed strategy in place for the future development of Abbey Stockbroking. Strong liability growth in both Cater Allen and Abbey International with development of the premium banking team, in the latter, progressing well
- Corporate Banking - continue to have significant success expanding corporate banking business and have continued with project to build a full service small and medium-size enterprise (SME) operation that will ultimately enable Abbey to fully compete in the UK's mid-corporate business banking segment
- Santander Global Banking & Markets – robust performance due to a focus on core business

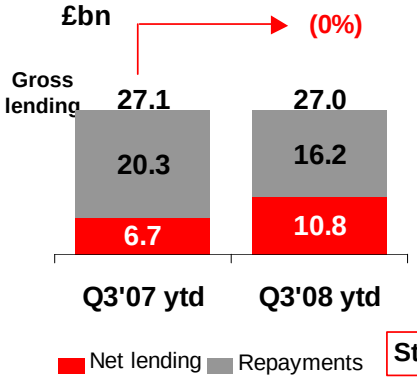
Phase 2 of Abbey's transformation is on track despite unprecedented markets

Business Update

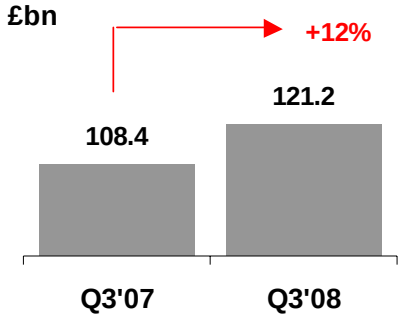
Business performance

Mortgages

Gross Lending



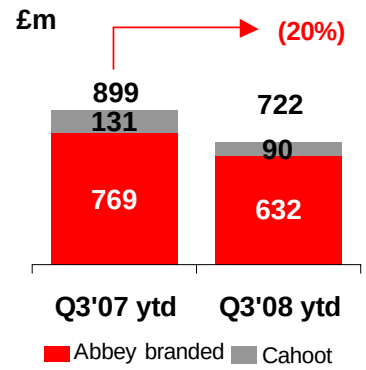
Stock



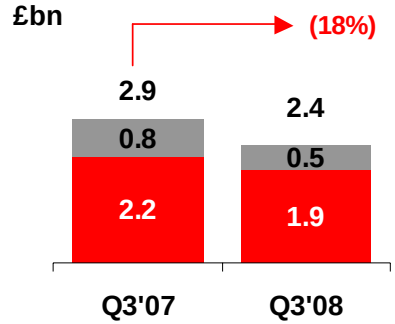
Stock spread Q3'08 vs :Q3'07 +11bps

Personal Loans

Gross lending



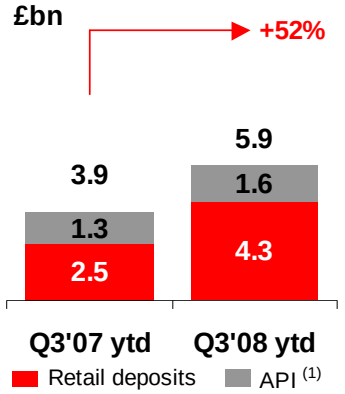
Stock



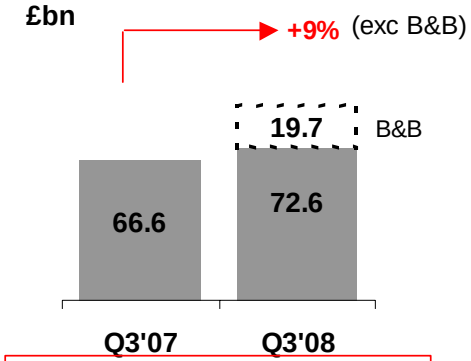
Spread Q3'08 vs :Q3'07 +118bps

Retail Deposits and Investments

Net Flows



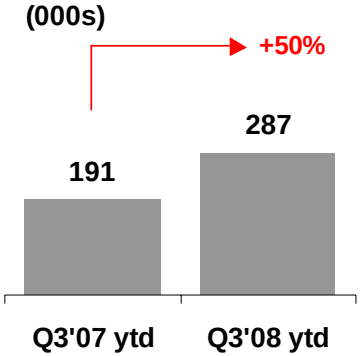
Stock (2)



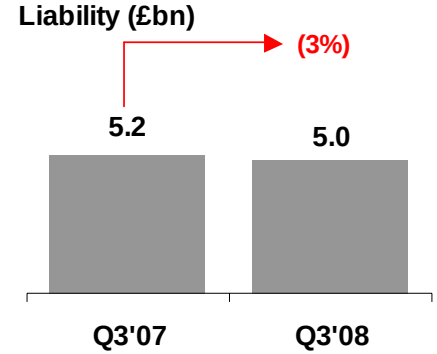
Spread Q3'08 vs :Q3'07 -11bps

Bank accounts

Adult openings



Ave. current a/c



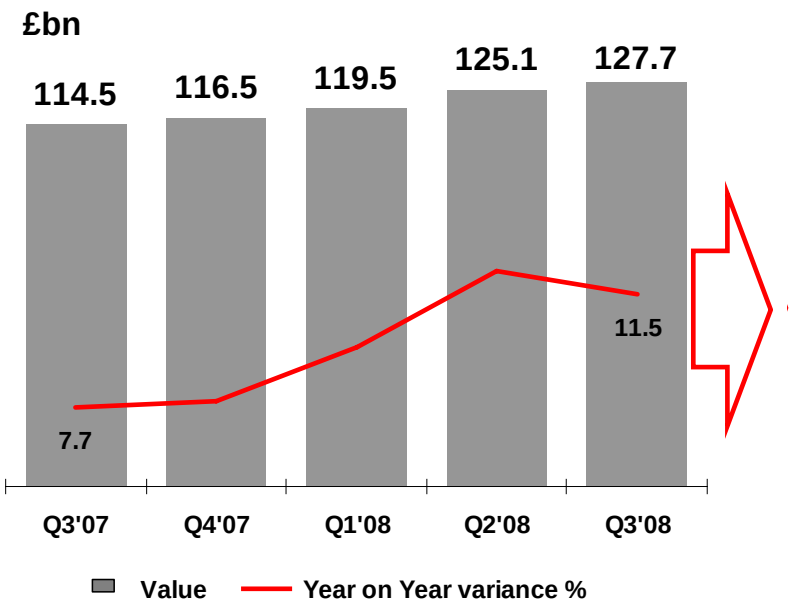
Spread Q3'08 vs :Q3'07 +5bps

(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
(2) Stock excludes FUM and spread excludes FUM and B&B

Business: Lending trends / growth

Stock position restored to historical share of around 10%

103.2	104.9	107.8	113.0	115.4	Residential retail mortgage stock (£bn)
5.2	5.5	5.5	5.7	5.8	Social Housing stock (£bn)
108.4	110.4	113.3	118.7	121.2	Total Residential mortgages
9.3%	9.3%	9.4%	9.7%	9.9%	Market share (%)



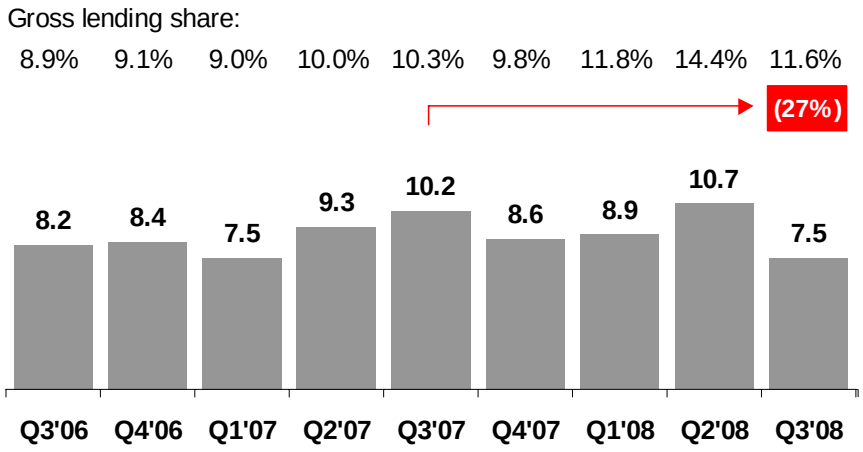
	Q3'08 £bn	Q3'08 vs Q3'07
Residential Retail mortgage	115.4	11.8%
Commercial mortgage	3.6	32.4%
UPLs	2.4	(18.4)%
Overdraft & Other	0.5	6.8%
Total retail loans	**121.9**	**11.5%**
Social Housing [1]	5.8	11.6%
Total retail loans and Social Housing	**127.7**	**11.5%**

(1) Social Housing reported within Corporate Banking

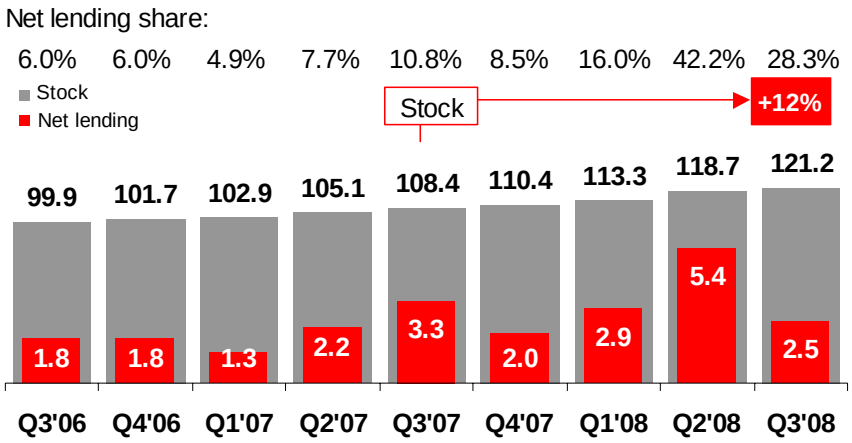
Business Update

Maintained strong retention and gross lending performance focused on longer term, lower LTV business

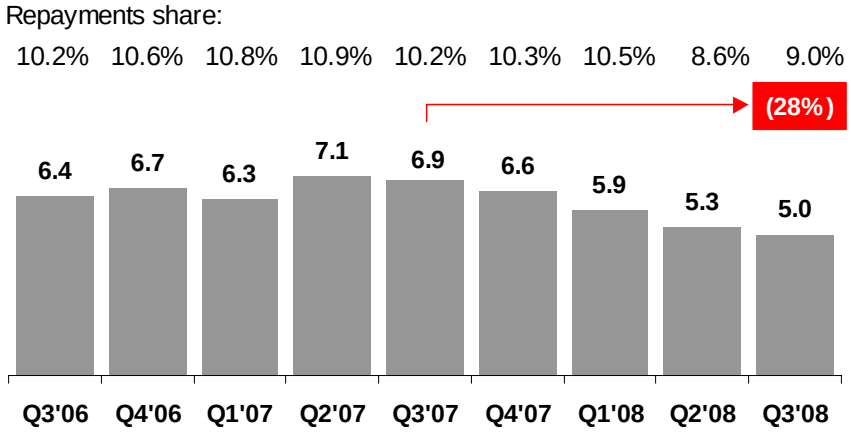
Total residential mortgage gross lending (£bn)



Residential mortgage net lending and stock (£bn)



Total residential mortgage repayments (£bn)



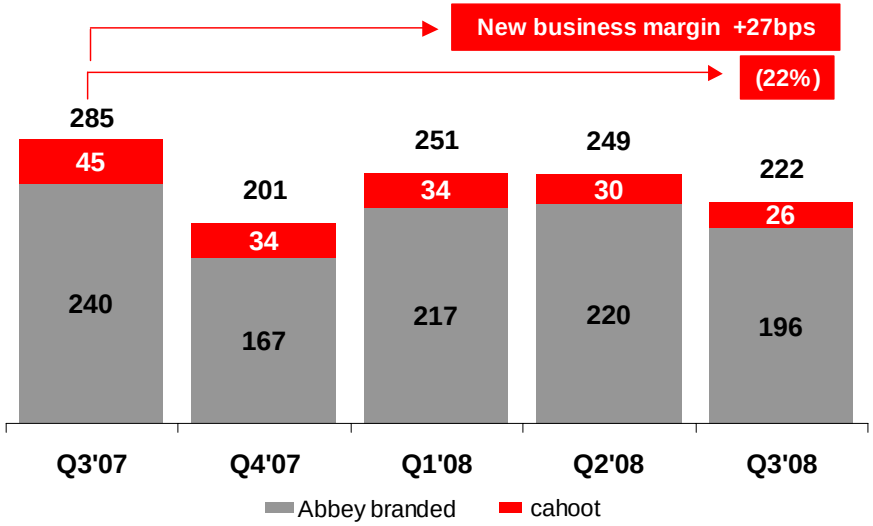
Comment

- growth in net mortgage lending attributed to a strong retention performance and sustained gross lending volumes in a smaller market
- strong pricing and successful campaigns across both direct and intermediary channels
- improved new business margins whilst tightening lending criteria
- increased mix of longer term (3yr+) business through pricing and targeted channel and customer communications and offers

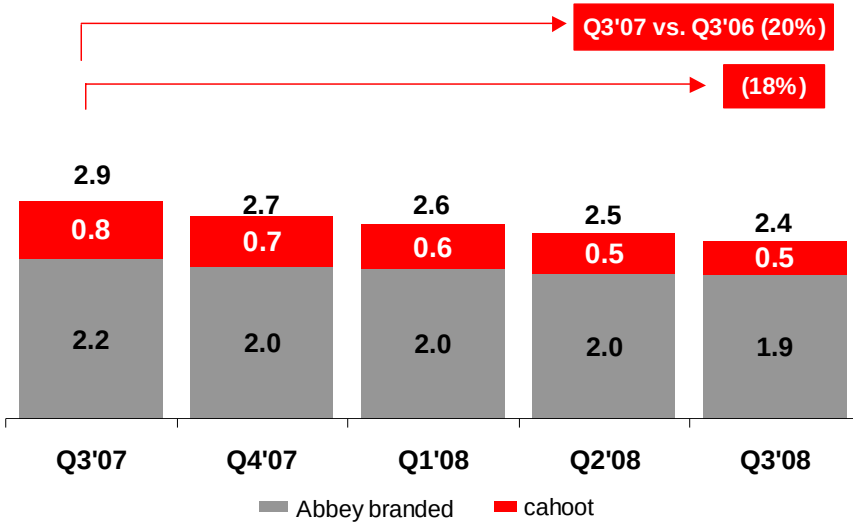
Business Update

Abbey continues to focus on existing customers and margin management

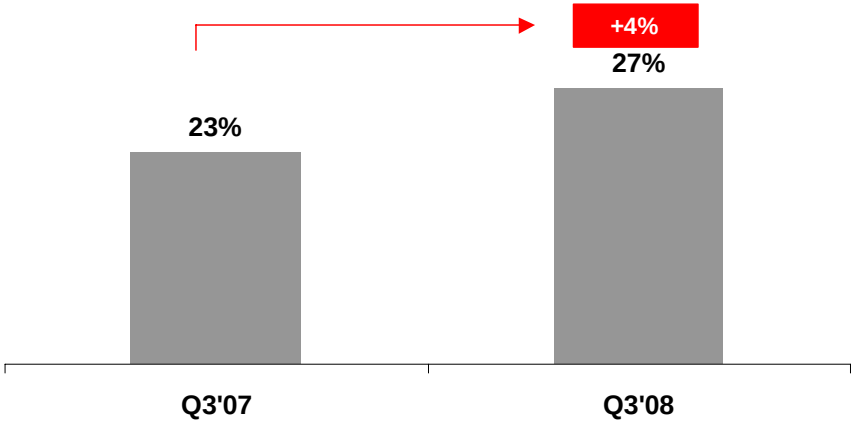
Total UPL gross lending (£m)



Total UPL stock (£bn)



Abbey branch stock as % of total

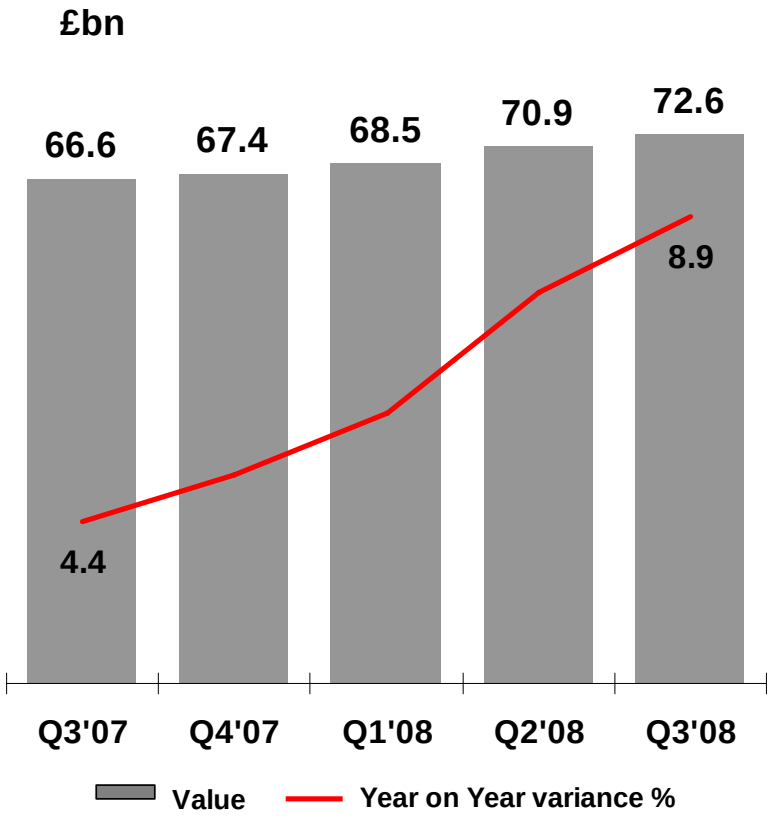


Comment

- Abbey continues with a value based strategy focused on existing customers with c. 90% of lending to existing customers
- reduction of UPL exposure continues with UPLs representing less than 2% of Retail loans
- UPL stock 18% lower than Q3 2007 whilst margins have increased by over 100bps over the same period
- product development is focused on funding specific customer needs rather than using price as the sole differentiating factor

Business: Liability trends / growth

Overall growth supported by stronger product range



	Q3'08 £bn	Q3'08 vs Q3'07
Abbey branded savings	47.9	9.3%
Abbey bank accounts	5.5	(3.4)% [1]
Private Banking	10.1	14.8%
Structured Product deposits	2.6	73.0%
Other [2]	6.4	(5.3)%
Total customer deposits	**72.6**	**8.9%**
Retail FUM [3]	4.1	(22.9)% [4]
Total funds under management	**76.6**	**6.6%**
B&B customer deposits	**19.7**	**n/a**

(1) growth based on monthly average balance rather than closing which is subject to volatility
(2) other businesses including Abbey Business and cahoot
(3) managed through Santander Asset Management
(4) growth excluding market movement was -4%

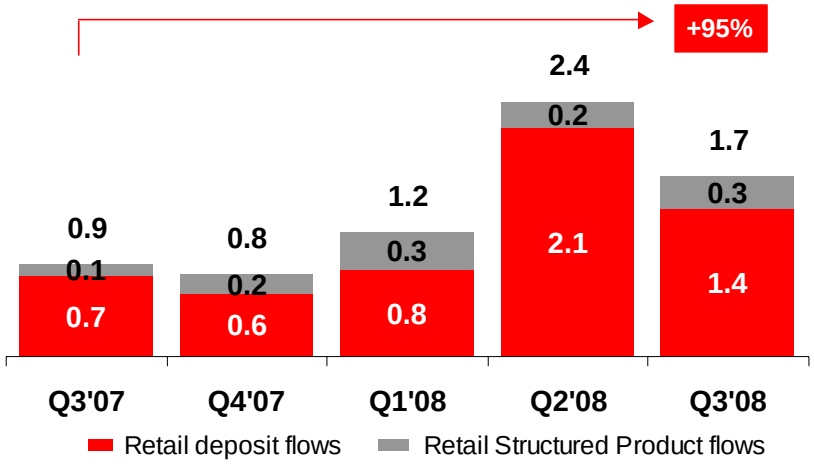
Abbey

Santander

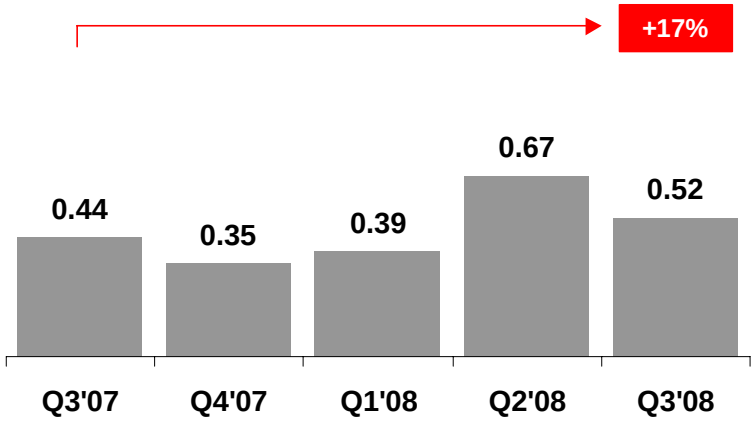
Business Update

Excellent growth in retail deposits supported by innovative product range

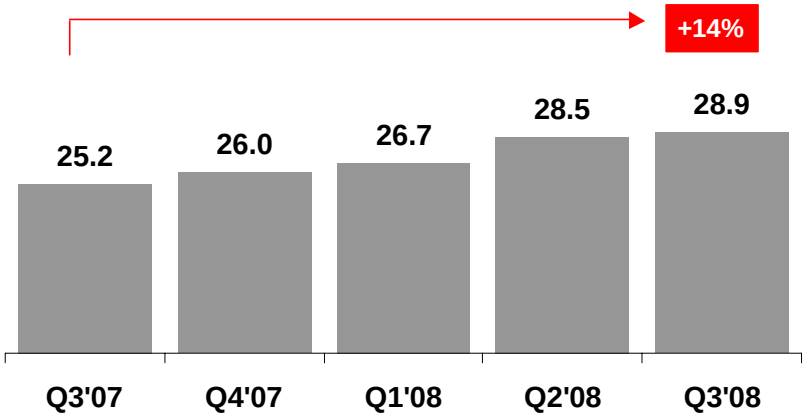
Customer deposit flows (£bn)



Investment new business sales - API [1] (£bn)



Abbey branch stock as % of total



Comment

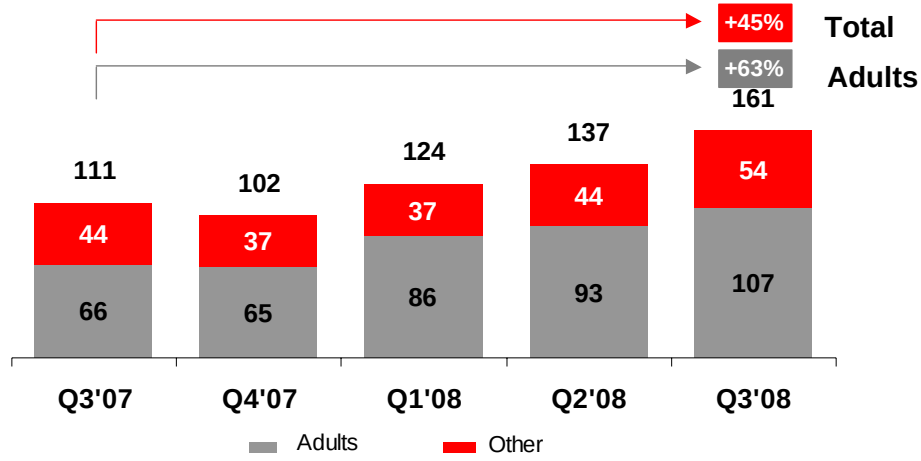
- Abbey continued to deliver very strong deposit flows supported by the successful launch of the Instant Access Saver account, Super Saver campaign and tactical fixed rate bonds in the second quarter, along with the introduction of the Fixed Rate Reward Saver in the third quarter
- despite the market being down c.12% for 9 months to Q3 08, Abbey investment sales were up 18%, as customers continue to move to low risk structured products, such as Abbey's excellent capital guaranteed fixed-term investment range
- continued expansion in the number of sales advisors

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

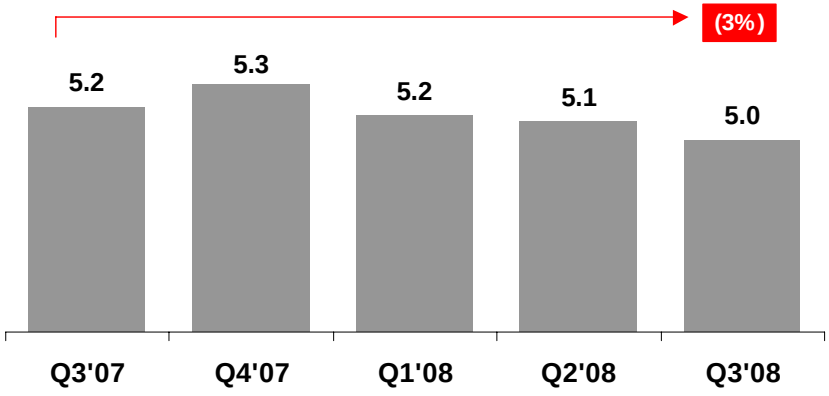
Business Update

Successful in achieving targeted uplift in the level of openings

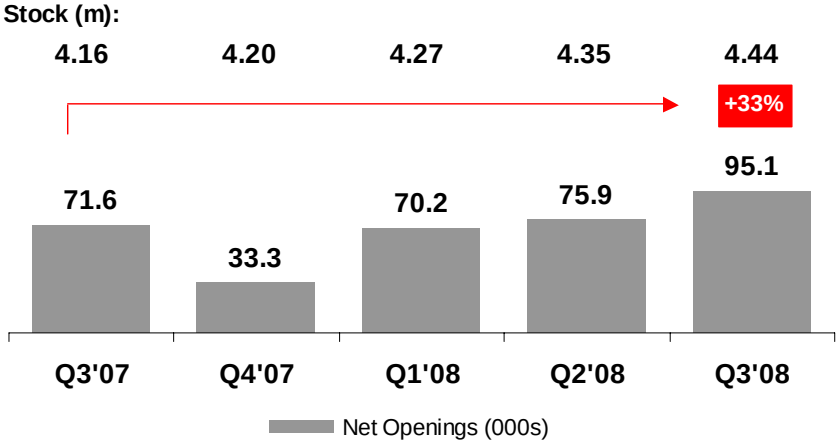
Bank account openings (000)



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



Abbey branded accounts



Comment

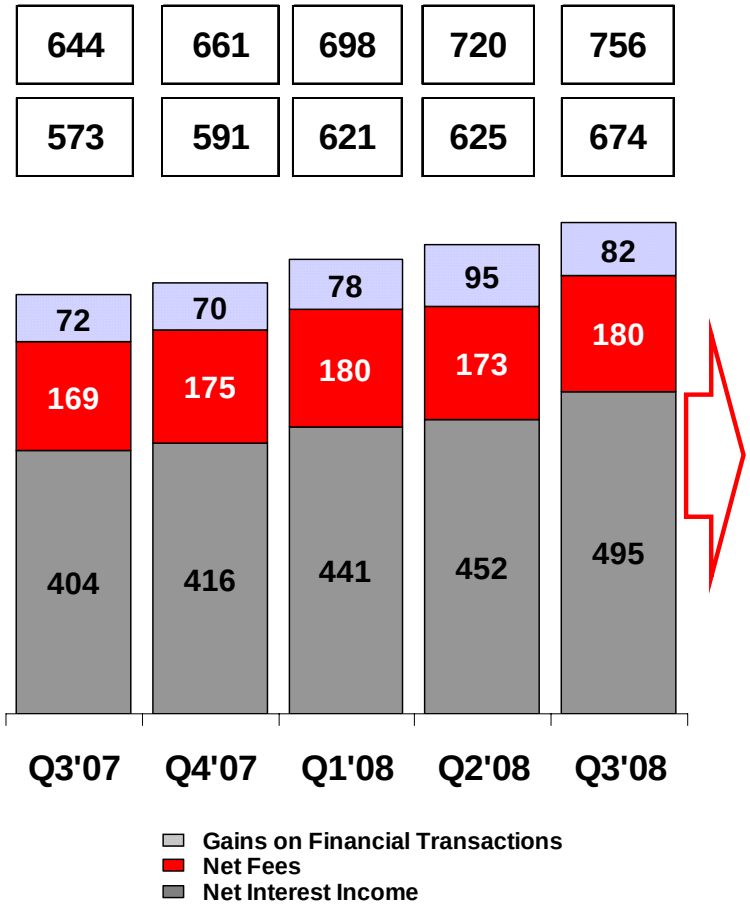
- Abbey continued to increase its level of bank account openings achieving a record number of account openings in the third quarter
- continue to build on success in adult account openings and switcher customers, up over 60% and 40% respectively in Q3 08 compared to Q3 07
- the continuation of successful products focused on switcher and adult : 6% youth account, 8% in credit rate, 0% overdraft has supported the growth in these segments
- Abbey sees the current account relationship as a key driver of a customers overall experience with the bank and has increased focus to develop the business value

Agenda

- Market Environment
- H1 2008
  - Business Update
  - **Results**

Results: Gross operating income

Strong performance drives income growth of 13.1%



Total £m

Total Commercial margin £m

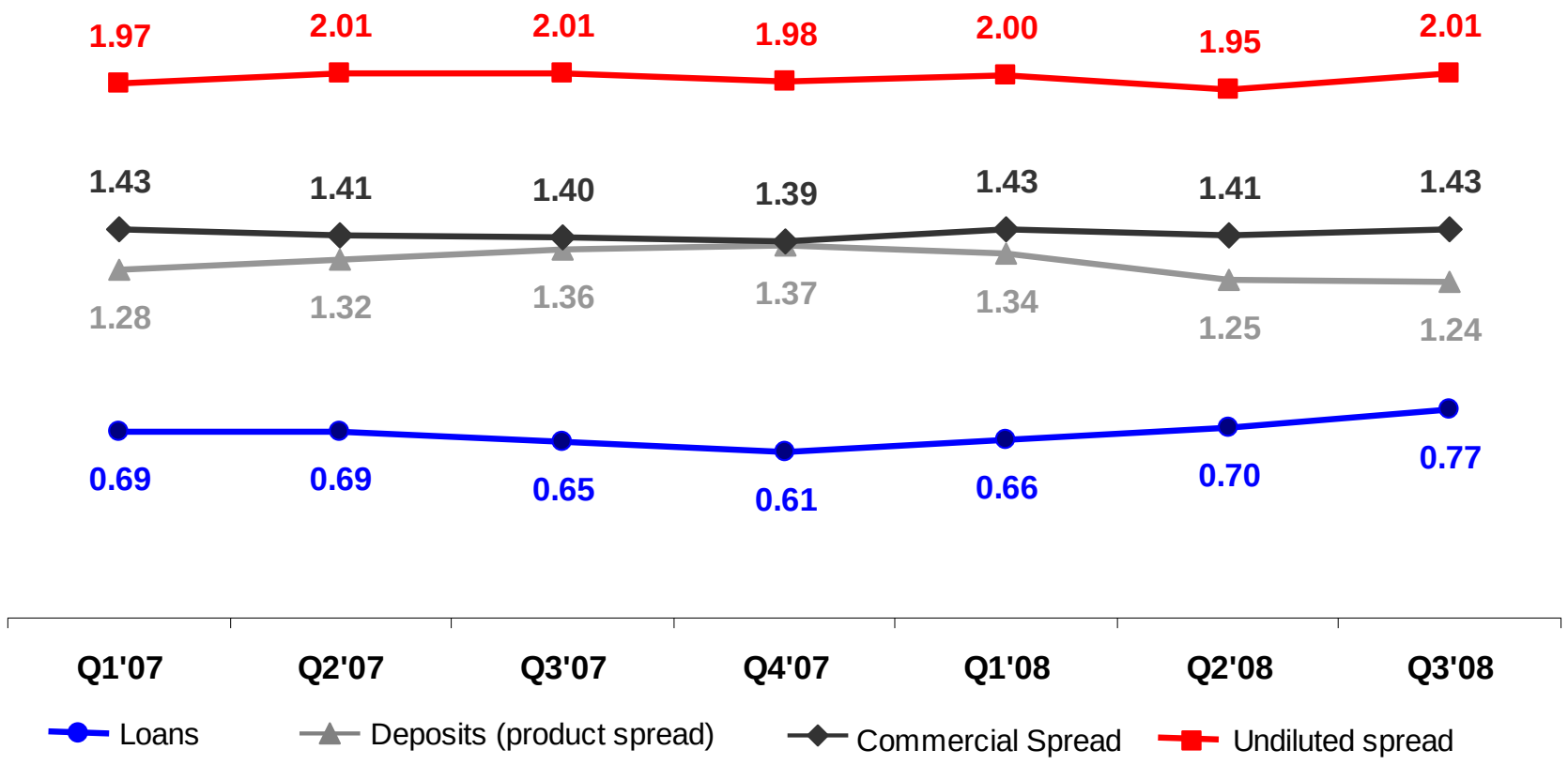
£m	9M '08	9M '07	Var.% 08/07
Net Interest Income	1,388	1,181	17.5%
Net Fees	532	514	3.4%
Total Commercial Margin	1,920	1,695	13.2%
Gains on Financial Transactions	255	227	12.0%
Gross Operating Income	**2,175**	**1,923**	**13.1%**

Commercial revenues:

- robust retail asset growth of 11% in challenging market conditions
- continued focus on effective margin management for both mortgages and customer deposits contributed to an increase of 17.5% in net interest income

Results: Commercial banking spreads

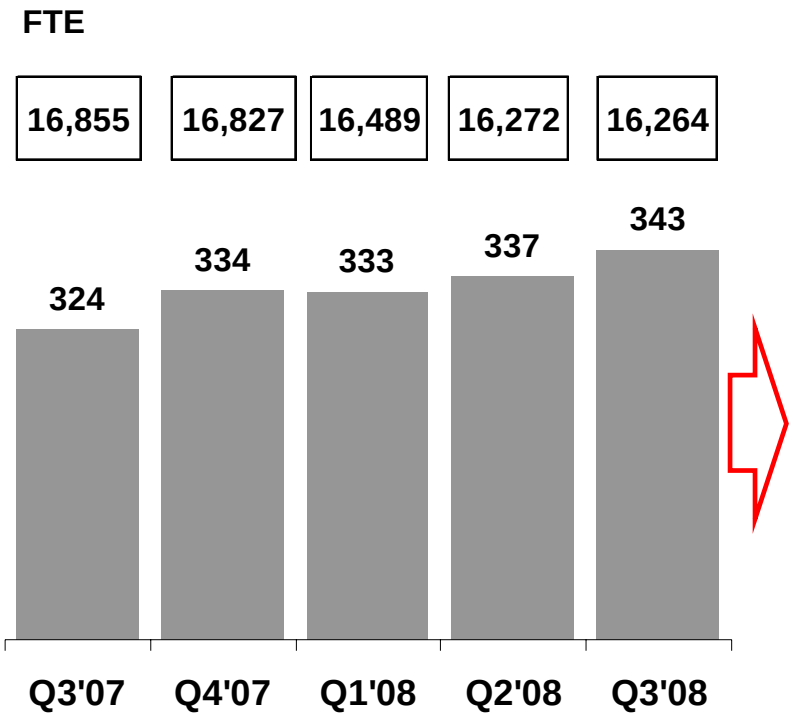
Asset spread benefiting from improvement in mortgage new business margins



Note: Commercial spreads have been restated to include Wealth Management and Corporate Banking. Previously, only Retail Banking spreads were disclosed. Trends remain largely consistent.

Results: Costs

Costs impacted by investment in growth businesses



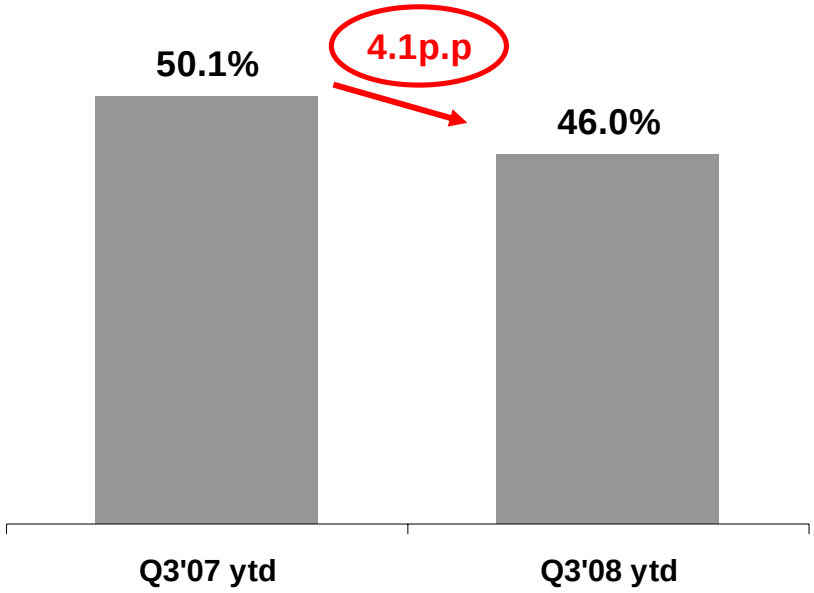
£m	9M '08	9M '07	Var.% 08/07
General and administrative expenses	918	927	(1.0%)
Depreciation and amortisation	95	51	87.2%
Operating expenses	**1,014**	**978**	**3.6%**

- operating expenses were ahead, impacted by investment in growth businesses such as Corporate Banking and Private Banking which are contributing to good income growth.

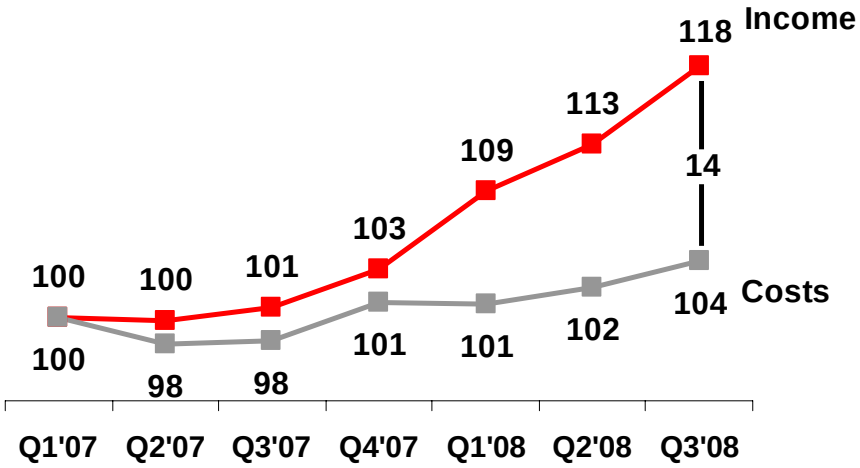
Results: Ratios

Cost:income ratio now better than the average of the sector, and accelerating Abbey's progress to becoming best in class

Cost:Income ratio [1], %



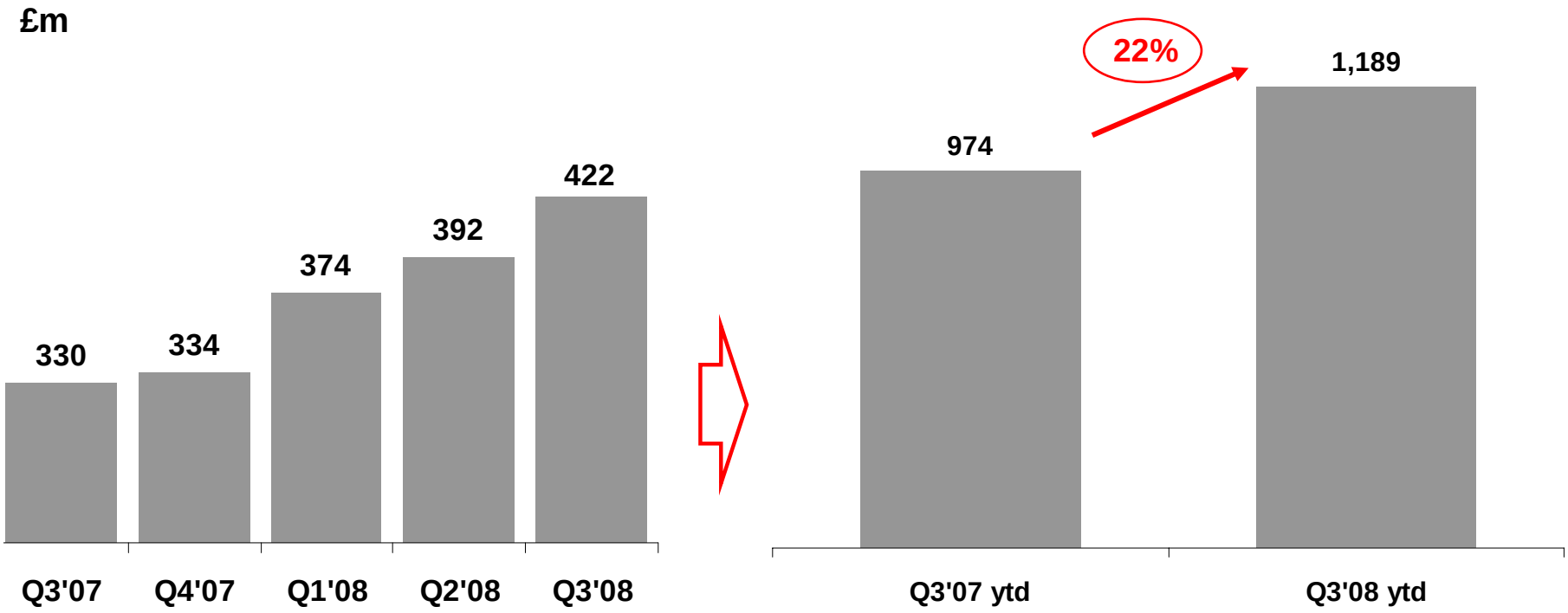
Operating Jaws, %



(1) Includes depreciation & amortisation

Results: Net Operating Income

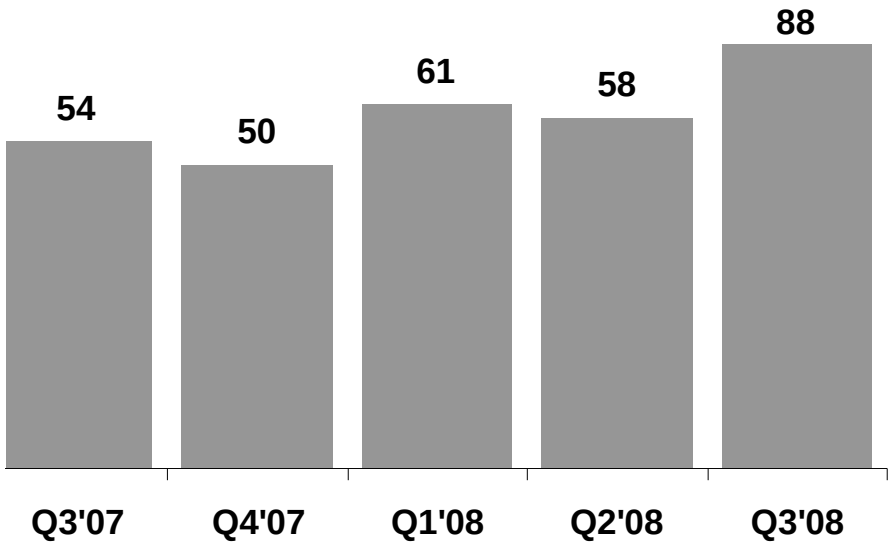
Improvement in net operating income reflecting strong revenue growth



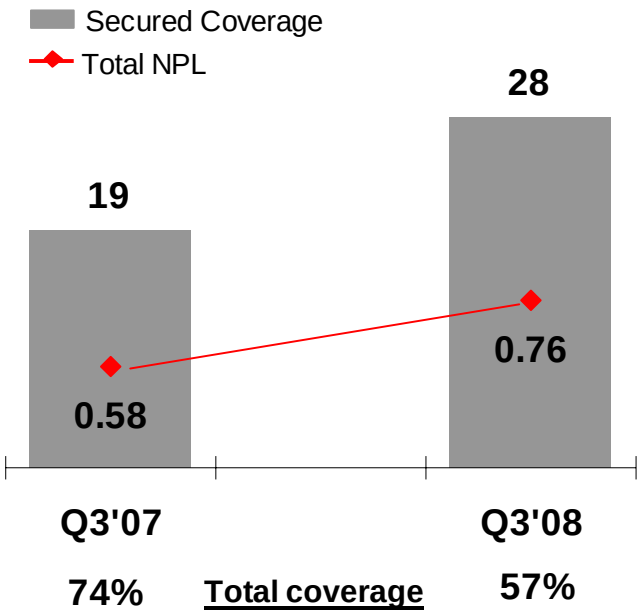
Results: Provisions and credit quality

Increase in secured provisions to strengthen coverage

Net loan loss provisions £m



Coverage ratio and NPL,%

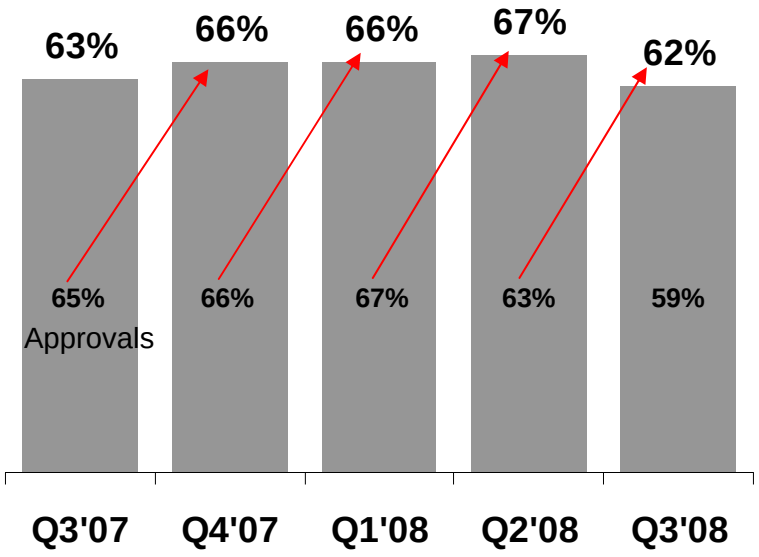


The total coverage ratio has reduced largely due to the change in mix of arrears, with increase in secured arrears with lower coverage due to security held. Secured coverage is more than double the industry benchmark and unsecured coverage, of over 100%, is also well above peer group. The NPL ratio has increased in part due to reduction in unsecured asset and in part due to modest increase in secured arrears.

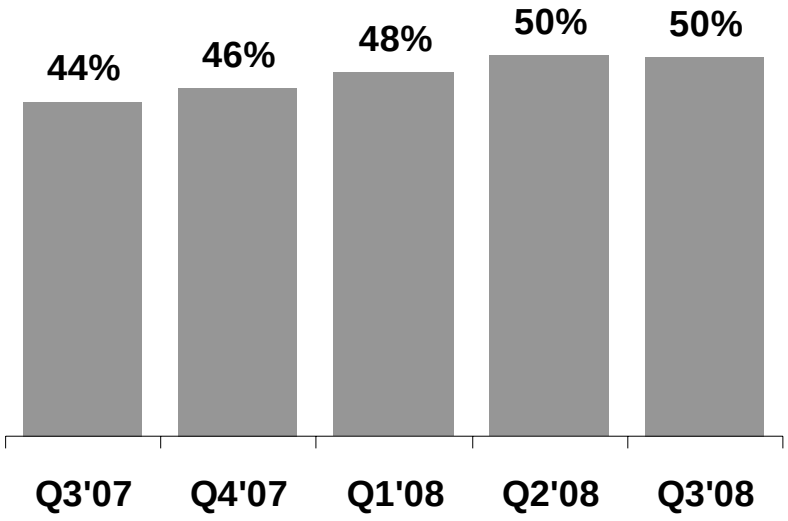
Results: Provisions and credit quality

Underlying credit quality has remained strong, with negligible third quarter lending at LTV greater than 90%

Average new business mortgage LTV (%)



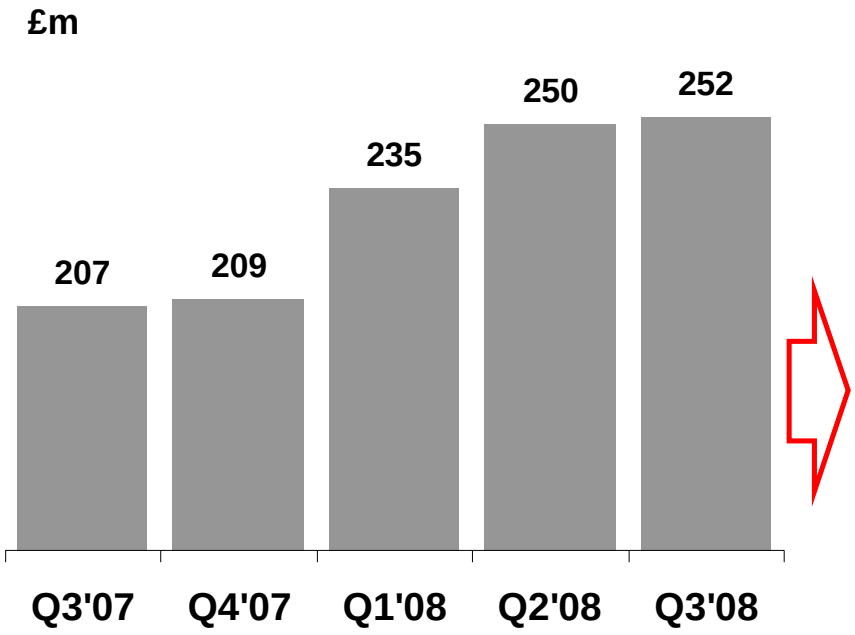
Average indexed mortgage LTV on stock (%)



New business application and approval LTV has reduced further in the 3rd quarter and will flow through to completions in the 4th quarter.

Results: Net Income

Net Income up 20.2%



£m	9M '08	9M '07	Var.% 08/07
PBT	987	820	20.3%
Provisions for income tax	(250)	(207)	20.6%
Net Income	**737**	**613**	**20.2%**

Business summary

Positioned for sustainable growth

Transaction update

- the B&B transaction completed on 29th September, adding an additional 338 Branches/Agencies to the franchise, strengthening Abbey's funding position and significantly increasing retail customer deposit relationships
- B&B's c. £20bn of customer deposits mitigates A&L's deposit/loan gap identified at the announcement of the A&L acquisition
- the A&L transaction completed on 10th October and will bring Santander's plans in the UK forward by two to three years in the SME/Corporate Banking segment

Well positioned in current market

- resilient retail balance sheet performance - Abbey's retail funding mix (c. 60% customer deposit based, less than 10% of retail and corporate assets are funded by short term wholesale funds)
- innovative savings and investment products in fiercely competitive market – significantly increasing sales capacity
- mortgage lending focused on longer term, lower LTV business at significantly higher margins
- Abbey remains well capitalised and has capital resources well in excess of current regulatory requirements. Abbey's position was further strengthened in October with the injection of £1bn of capital from Santander. The injection fulfills Santander's commitment made on the announcement of the A&L acquisition earlier in the year, as well as Santander's commitment to support the UK government's banking support scheme

Moving towards a fully fledged commercial bank

- Abbey on track for another year of strong results in difficult market conditions
- prudent lending and reduction in exposure to unsecured personal loans
- performance underpinned by a strong results across all four business divisions
- strategic projects in-place to develop opportunities in Private Banking, Corporate Banking and Santander Global Banking and Markets

APPENDIX

- Financial results
- Balance sheet
- A&L transaction
- B&B transaction

Financial Results

Financial results: Profit and loss

£ million	9M 08	9M 07	Variation Amount	Variation %
Net interest income*	**1,388**	**1,181**	**207**	**17.5**
Income from companies accounted for by the equity method	0	0	(0)	(30.0)
Net fees	532	514	18	3.4
Insurance activity	—	0	(0)	(100.0)
Commercial revenue	**1,920**	**1,696**	**224**	**13.2**
Gains (losses) on financial transactions	255	227	27	12.0
Gross operating income	**2,175**	**1,923**	**252**	**13.1**
Income from non-financial services (net) and other operating income	28	29	(1)	(3.2)
Operating expenses	(1,014)	(978)	(35)	3.6
General administrative expenses	(918)	(927)	9	(1.0)
Personnel	*(560)*	*(529)*	*(31)*	*5.8*
Other administrative expenses	*(358)*	*(398)*	*40*	*(10.0)*
Depreciation and amortisation	(95)	(51)	(44)	87.2
Net operating income	**1,189**	**974**	**215**	**22.1**
Net loan loss provisions	(206)	(163)	(43)	26.5
Other income	4	10	(5)	(55.0)
Profit before taxes	**987**	**820**	**167**	**20.3**
Tax on profit	(250)	(207)	(43)	20.6
Net profit from ordinary activity	**737**	**613**	**124**	**20.2**
Net profit from discontinued operations	—	—	—	—
Net consolidated profit	**737**	**613**	**124**	**20.2**
Minority interests	—	—	—	—
Attributable profit to the Group	**737**	**613**	**124**	**20.2**

(*).- Dividends included

Financial results: Profit and loss

£ million

	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Net interest income*	**383**	**394**	**404**	**416**	**441**	**452**	**495**
Income from companies accounted for by the equity method	0	0	0	1	0	0	0
Net fees	169	177	169	175	180	173	180
Insurance activity	0	0	(0)	0	—	—	—
Commercial revenue	**552**	**571**	**573**	**592**	**621**	**625**	**674**
Gains (losses) on financial transactions	88	68	72	70	78	95	82
Gross operating income	**640**	**639**	**644**	**662**	**698**	**720**	**756**
Income from non-financial services (net) and other operating income	9	10	10	6	9	9	10
Operating expenses	(330)	(324)	(324)	(334)	(333)	(337)	(343)
General administrative expenses	(313)	(307)	(307)	(315)	(314)	(300)	(304)
Personnel	*(175)*	*(175)*	*(179)*	*(180)*	*(180)*	*(187)*	*(193)*
Other administrative expenses	*(138)*	*(131)*	*(129)*	*(135)*	*(134)*	*(113)*	*(111)*
Depreciation and amortisation	(17)	(17)	(17)	(19)	(19)	(37)	(39)
Net operating income	**319**	**325**	**330**	**334**	**374**	**392**	**422**
Net loan loss provisions	(55)	(54)	(54)	(50)	(61)	(58)	(88)
Other income	3	3	3	5	2	(1)	4
Profit before taxes	**268**	**274**	**278**	**289**	**316**	**333**	**339**
Tax on profit	(67)	(69)	(71)	(80)	(80)	(83)	(87)
Net profit from ordinary activity	**201**	**205**	**207**	**209**	**235**	**250**	**252**
Net profit from discontinued operations	—	—	—	—	—	—	—
Net consolidated profit	**201**	**205**	**207**	**209**	**235**	**250**	**252**
Minority interests	—	—	—	—	—	—	—
Attributable profit to the Group	**201**	**205**	**207**	**209**	**235**	**250**	**252**

(*).- Dividends included

Balance Sheet

Financial Results: Balance Sheet

£ million	30.09.08	30.09.07	Variation Amount	Variation %
Loans and credits*	137,159	131,522	5,636	4.3
Trading portfolio (w/o loans)	24,983	42,723	(17,740)	(41.5)
Available-for-sale financial assets	1,030	34	996	—
Due from credit institutions*	13,464	14,133	(669)	(4.7)
Intangible assets and property and equipment	3,418	3,410	8	0.2
Other assets	27,362	6,303	21,059	334.1
Total assets/liabilities & shareholders' equity	**207,416**	**198,125**	**9,291**	**4.7**
Customer deposits*	101,535	86,423	15,112	17.5
Marketable debt securities*	48,394	54,683	(6,289)	(11.5)
Subordinated debt	5,847	5,571	277	5.0
Insurance liabilities	3	8	(5)	(63.4)
Due to credit institutions*	31,665	30,685	980	3.2
Other liabilities	16,660	18,112	(1,452)	(8.0)
Shareholders' equity	3,312	2,644	669	25.3
Off-balance-sheet funds	**6,750**	**7,611**	**(861)**	**(11.3)**
Mutual funds	6,750	7,611	(861)	(11.3)
Pension funds	—	—	—	—
Managed portfolios	—	—	—	—
Savings-insurance policies	—	—	—	—
Customer funds under management	**162,526**	**154,288**	**8,238**	**5.3**

A&L Transaction

Recommended Offer for Alliance & Leicester

14 July 2008

Abbey

Santander

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Description of the deal

Strategic rationale

Financial impact

Summary

A full and fair offer

- 1 Santander share for every 3 A&L shares[1]
- The value of 299 pence per A&L share plus an 18 pence per share interim dividend
- 36.4% premium to closing price on 11 July 2008
- 9.3% premium based on average share prices over 4 weeks prior to 11 July 2008
- Significant premium to peer group based on P/E multiples

Recommended by A&L's board

(1) Based on approximately 421m A&L shares outstanding, approximately 140m Santander shares will be issued

Additional information

- Structured as Scheme of Arrangement
- Subject to
  - Santander EGM to approve share issuance
  - A&L shareholder approval and UK court sanction
  - Regulatory and anti-trust approvals
- The Board of A&L will declare an interim dividend of 18 pence per share prior to completion
- A&L shareholders will receive Santander dividends following completion of the transaction

Description of the deal

Strategic rationale

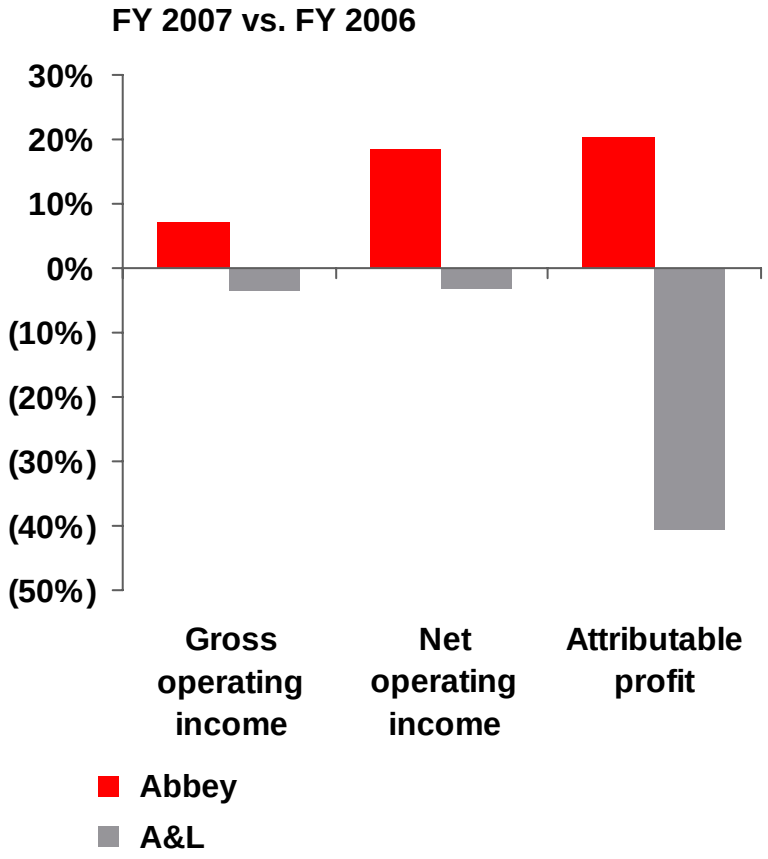
Financial impact

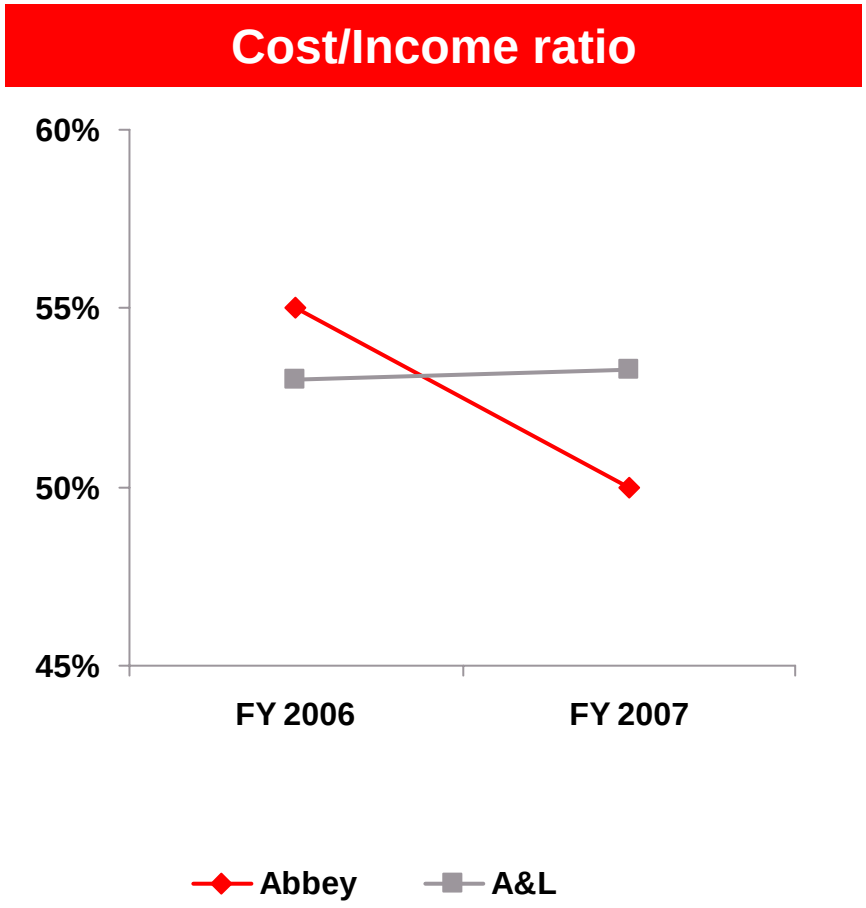
Summary

Strong strategic rationale for A&L shareholders to accept the offer

- Santander believes that A&L's business is affected by current market conditions and cannot take full advantage of growth opportunities
  - Write-downs of treasury assets impacting regulatory capital position
  - Treasury portfolio is relatively large and balance sheet is reliant on wholesale funding
- Santander considers there is a risk of franchise deterioration for A&L as a standalone business in a higher risk environment

Abbey has performed well with Santander's business model

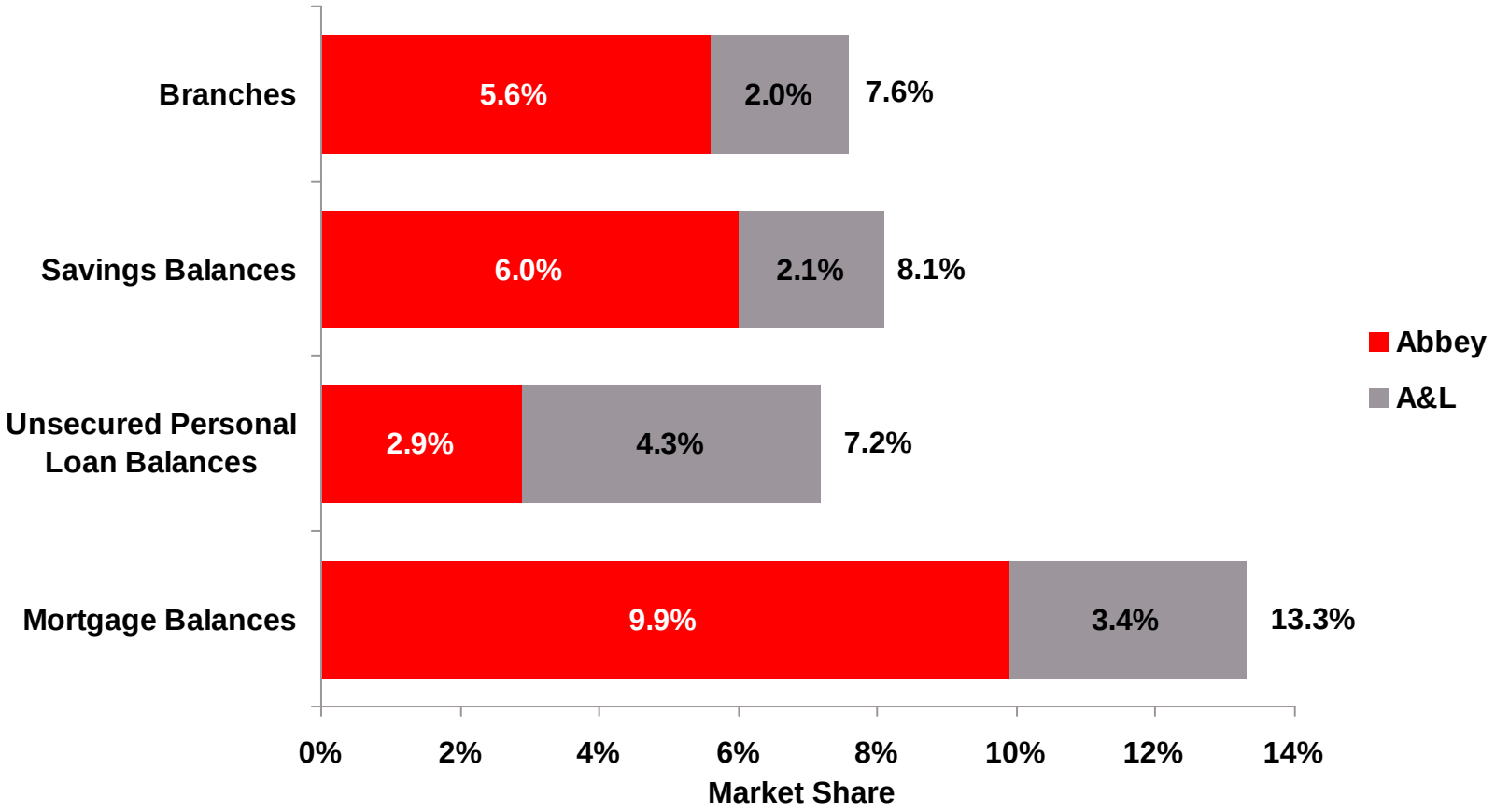




Strong strategic rationale for Santander

1. Increased critical mass in the UK market (as part of our "Vertical Strategy")
2. In-market synergies (migration to Partenon, integration of back office functions)
3. Good geographic fit - better market reach
4. Acceleration of Abbey's planned expansion in SME / commercial market by 2-3 years

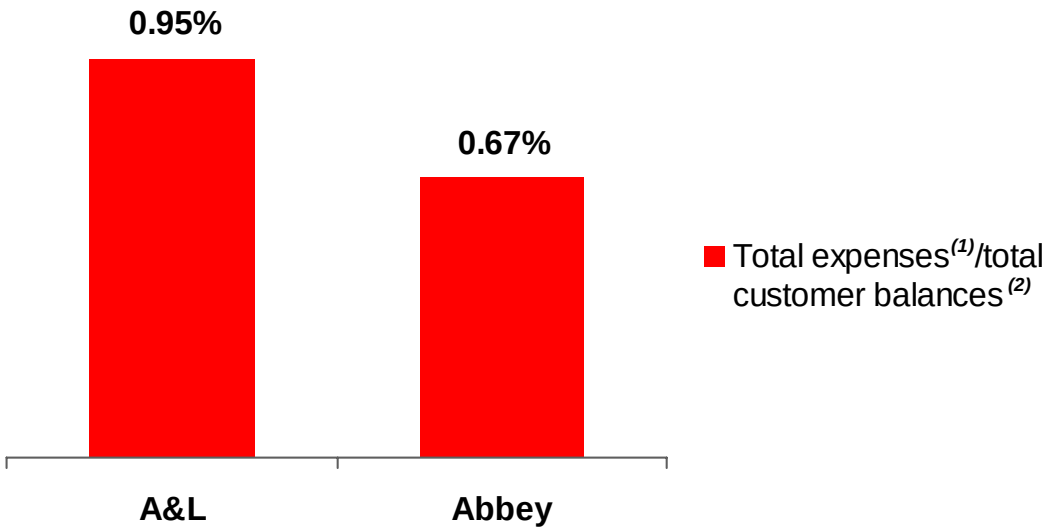
1 Increased critical mass in the UK market (as part of our "Vertical Strategy")



Notes:
- Data as at September 2008
- Market share is based on Abbey's estimate of market size

2 We believe A&L's efficiency can be improved through best practices

Benchmarking: operating expenses (2008)

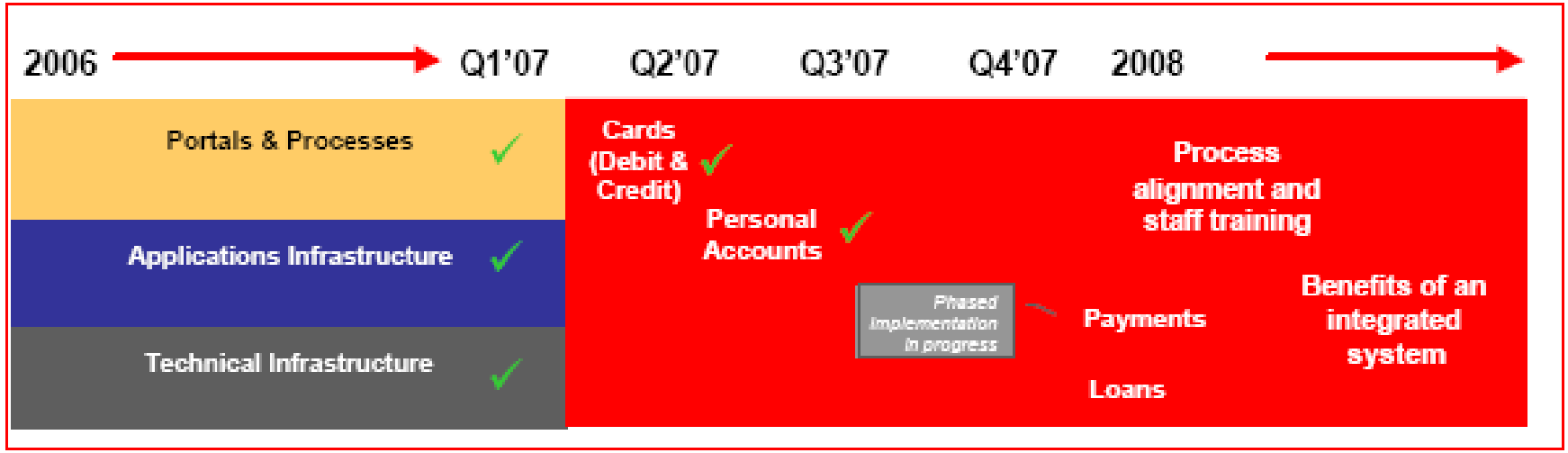


Adjusting for differences in business mix, we believe there is a £30-50m opportunity on a standalone basis, before integration cost synergies are taken into account

(1) Including depreciation and amortisation
(2) Total customer balances are defined as total mortgage, unsecured personal loan, corporate loan and customer deposit balances at 31 December 2007

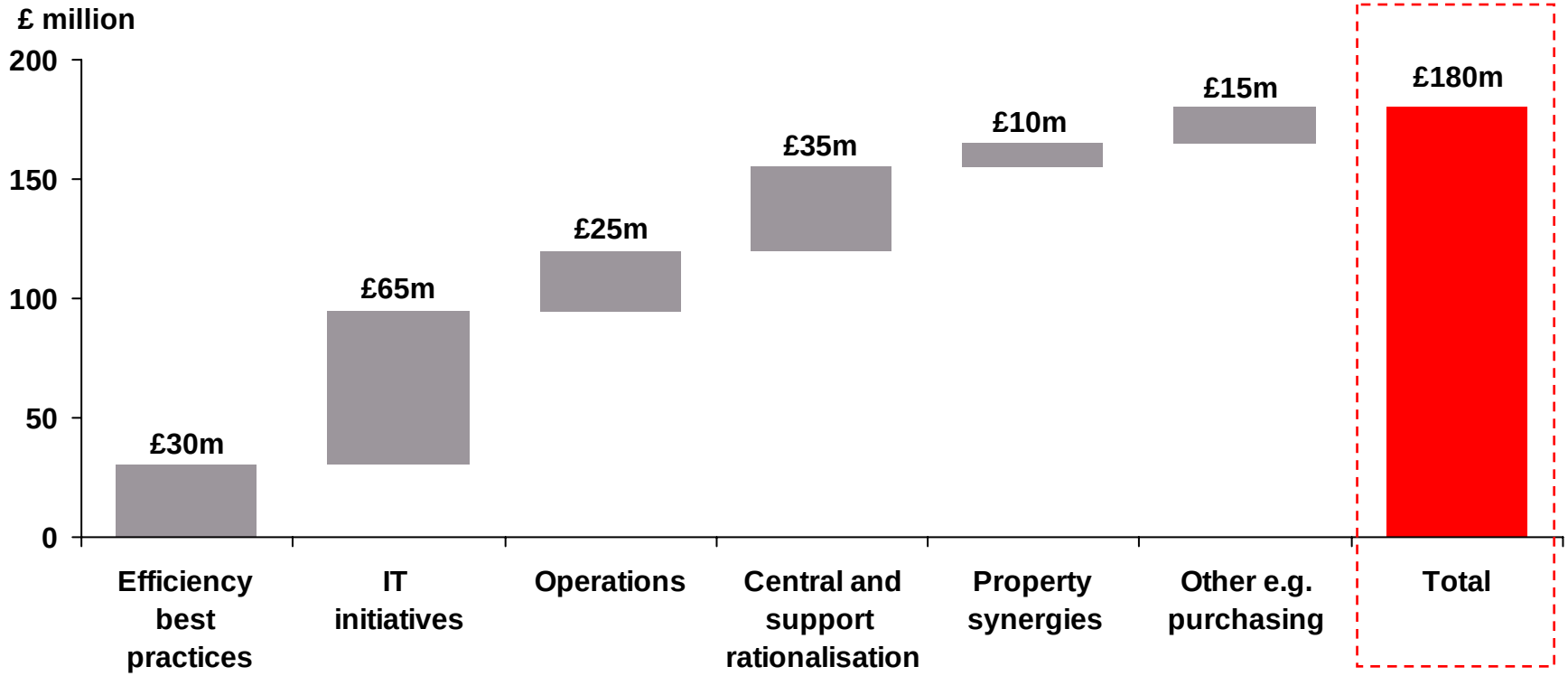
2 In-market synergies: migration to Partenon, integration of back office functions

Implementation of Partenon reaching final stages



… we are now ready to integrate A&L with low execution risk

2 These initiatives will allow Santander to capture approximately £180 million in pre-tax cost synergies

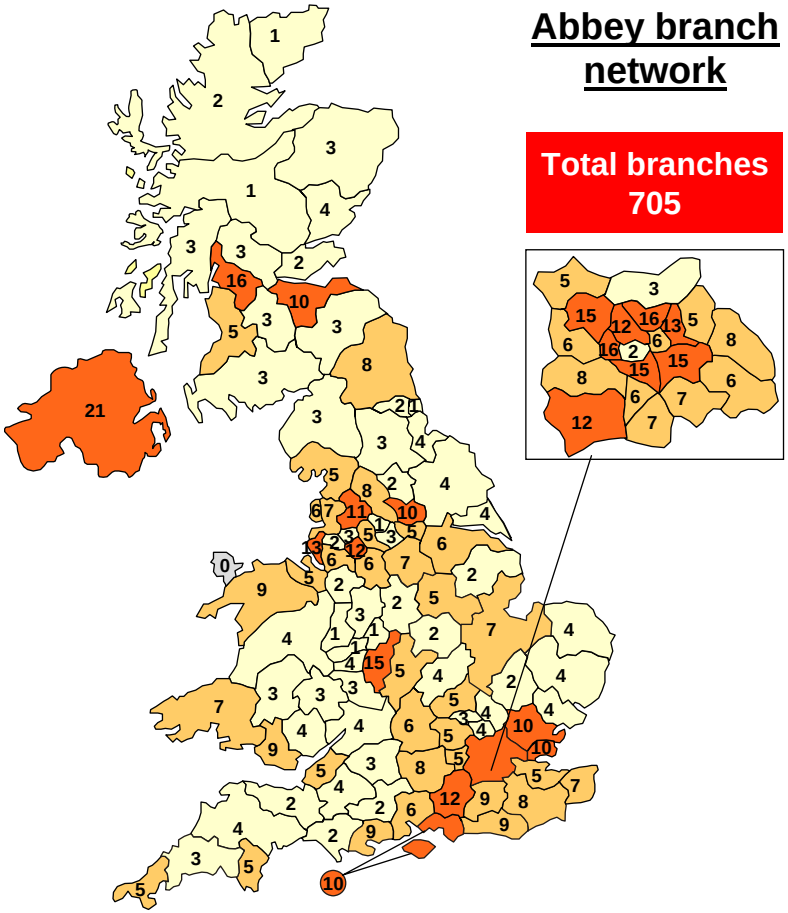


- Top-down analysis conducted by Santander based on experience of prior transactions (including the acquisition of Abbey)
- £70m of synergies expected by end of 2009, £140m by end of 2010 and approximately £180m by end of 2011
- Estimated cost synergies represent 23% of A&L's 2007 cost base

3 Good geographic fit - better market reach

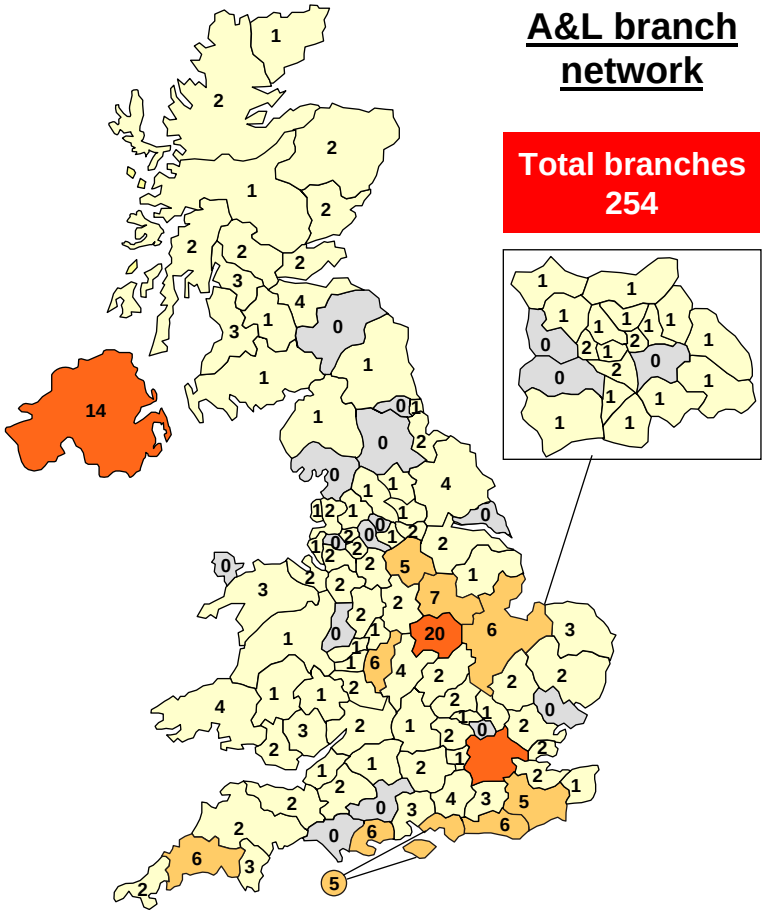
Abbey branch network

Total branches 705



A&L branch network

Total branches 254

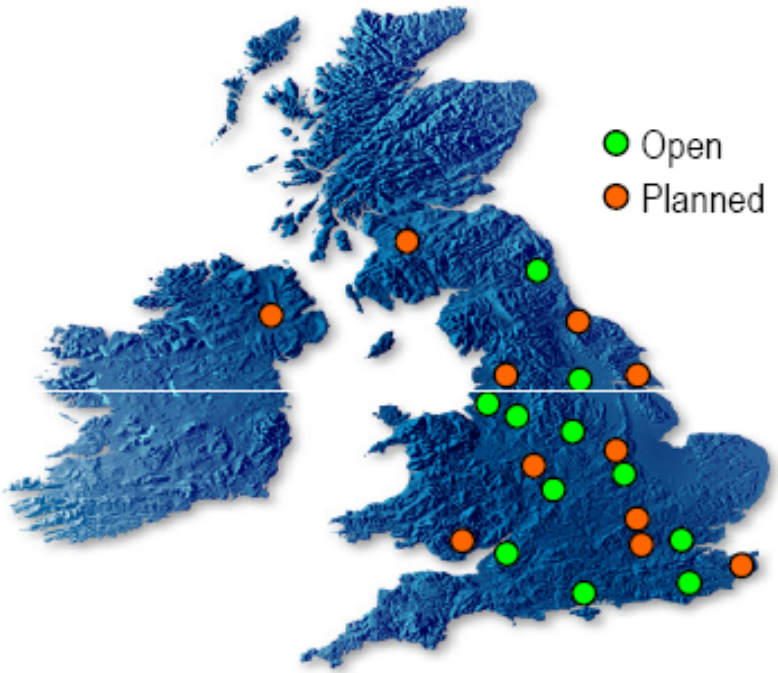


- **Abbey network strengthened by the addition of 254 A&L branches, particularly in Central England, the South Coast and Northern Ireland**
- **A&L branch network fits extremely well with Abbey's existing plans to open 300 new branches, accelerating planned build-out by several years**

Note: Maps show 699 out of total 705 Abbey branches and 246 of total 254 A&L branches

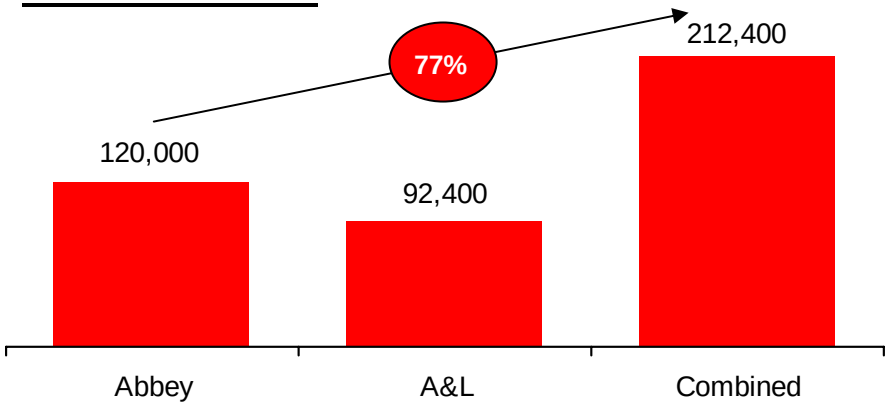
4 Acceleration of Abbey's planned expansion in SME / commercial market by 2-3 years

A&L's business centre network

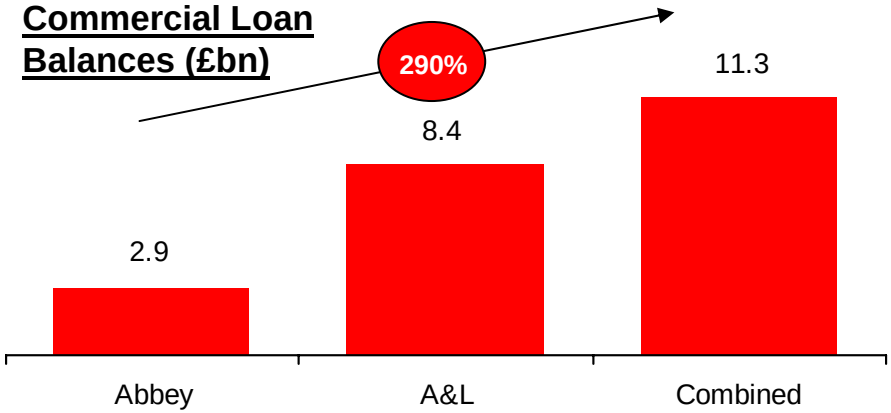


Business banking franchise

Active Customers



Commercial Loan Balances (£bn)



Measures will be taken to manage potential risks

Risks	Mitigants
Credit and liquidity ■ Increasing Santander's exposure to the UK… ■ … at a time where asset quality across the market may be softening ■ Relatively large liquidity gap and exposure to short-term funding in A&L as a standalone business	1. Increase A&L regulatory capital ratios to higher levels 2. Incremental provisions factored into our P&L projections 3. Increase coverage ratios to Abbey's standards 4. Projected assets of combined A&L and Abbey reduced by approximately £20-30bn over two years (deleveraging impact factored into our P&L projections)

Description of the deal

Strategic rationale

Financial impact

Summary

In current market conditions, Santander's conservative approach would imply that an additional £1bn of capital is required

- Santander will allocate £1 billion of capital against balance sheet strengthening and integration costs
  - Protection against future adverse development of treasury portfolio
  - Previous mark-to-market losses on AFS portfolio have not been deducted from regulatory capital to date
  - Anticipated increased credit impairments through the cycle
  - Improvement of coverage ratios and other balance sheet strengthening
  - Restructuring charges associated with integration

Funding gap in A&L will be addressed

- Significant funding gap in A&L's balance sheet currently due to size of treasury and loan portfolios versus retail deposits
- Has created challenges for A&L in less benign market conditions
- Santander intends to close the funding gap by reducing the projected total assets of the combined A&L and Abbey by approximately £20-30 billion over two years

Santander's estimate of potential adjustments to profits under its prudent approach in current environment

Net Profit	
Adjust for: higher provisions	Increase provisioning by 17 bps by 2010 over average of analyst estimates of 44bps
Adjust for: cost of de-leveraging	Projected assets of combined A&L and Abbey reduced by approx. £20-30bn over 2 years
Adjust for: lower "extraordinary" cost of funding	Lower funding costs (due to reduced funding gap, stronger balance sheet)
Adjust for: synergies	Estimate of £180m (pre-tax)
Adjust for: reduced incremental costs at Abbey	Mainly expansion into SME market (£35m benefit pre-tax)
Adjust for: net yield from additional capital	£1bn invested in risk-free instruments
Net profit incl. synergies and other adjustments	

Financial impact: the deal meets our financial criteria

1 Santander share for every 3 A&L shares	
Price proposed per share	299p
Total equity valuation	£1.26bn
Plus: additional capital	£1.00bn
Total cost	**£2.26bn**
Core Tier 1 impact[1]	**(7)bps**

	2009	2010	2011
Net attributable profit inc. synergies and other adjustments[2]	£309m	£372m	£419m
Return on investment	**14%**	**16%**	**19%**

- Accretion in Santander's earnings per share including synergies (before restructuring costs) expected from 2009[3]
- These figures are not based on A&L estimates and have not been approved by A&L

The banking sector's cost of equity has clearly gone up over the past 12 months - higher ROIs are expected

(1) Resulting core Tier 1 based on pro forma core tier 1 as of 1Q08 (initial impact, not assuming deleveraging). Assuming A&L 2007 year end core Tier 1 capital net of goodwill of £1,666m (Basel 2) adjusted for £346m AFS reserves as at 30 April 2008, £189m reduction in fair value and impairment losses (pre-tax) in four months to 30 April 2008, £24,082m of risk-weighted assets and assuming a tax rate of 28%. If the full amount of additional capital (£1 billion) were assumed to affect Santander's core capital, the impact would be 19bps

(2) Adjusted for items listed on slide 20

(3) This statement as to financial accretion is not intended to mean that Santander's future earnings per share will necessarily exceed or match those of any prior year

Description of the deal

Strategic rationale

Financial impact

Summary

Summary

The acquisition of A&L makes sense from an "industrial" point of view…

- Higher economies of scale / commercial reach
- In-market synergies (IT migration, integration of back offices)
- Recapitalisation

… and meets Santander's financial criteria

- Return on investment of 19% in 2011
- Earnings accretion from 2009[1]

However, we are aware of the risks involved

- Credit / risk concentration
- Liquidity risk

We are taking clear measures to address these risks

- Higher provisions factored into our projections
- £1bn additional capital
- The funding gap will be closed over the next 2 years

(1) This statement as to financial accretion is not intended to mean that Santander's future earnings per share will necessarily exceed or match those of any prior year

B&B Transaction

Abbey / Bradford & Bingley

29 September 2008

Abbey

Santander

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Description of the deal

Strategic rationale

Financial impact

Summary

Acquisition of B&B's retail deposit base and direct channels from UK HM Treasury

- HM Treasury to take Bradford & Bingley plc (B&B) into public ownership
- the following components of B&B will transfer to Abbey:
  - £20 billion retail deposit base with 2.7 million customers
  - direct channels including 197 retail branches, 141 agencies (distribution outlets in 3rd party premises) telephone distribution, internet and related employees
  - £200m of capital from Isle of Man operations
- no credit risk transfer is involved
- no head office infrastructure transfer is involved: the HMT will charge for certain support costs relating to B&B deposits and direct channels

Santander pays £0.6bn (of which £0.2bn is capital) - no risk taking involved

Description of the deal

Strategic rationale

Financial impact

Summary

Transaction strengthens Abbey's Retail funding franchise and accelerates progress to becoming the best commercial bank in the UK

1 Critical mass in UK

- Combination of A&L and B&B moves Abbey's estimated share of the PFS market from c. 6% to c. 10% including deposit share
- Expansion of branch network with complementary fit

2 Potential for efficiency improvement

- Cross sales of other retail products (banking, investments, credit cards, insurance)
- Sales productivity improvements
- Integration of back-office functions, leveraging Partenon to deliver synergies

3 Low risk

- All customer loans inc. buy-to-let / self cert mortgages retained by UK HMT
- All wholesale assets retained by UK HMT

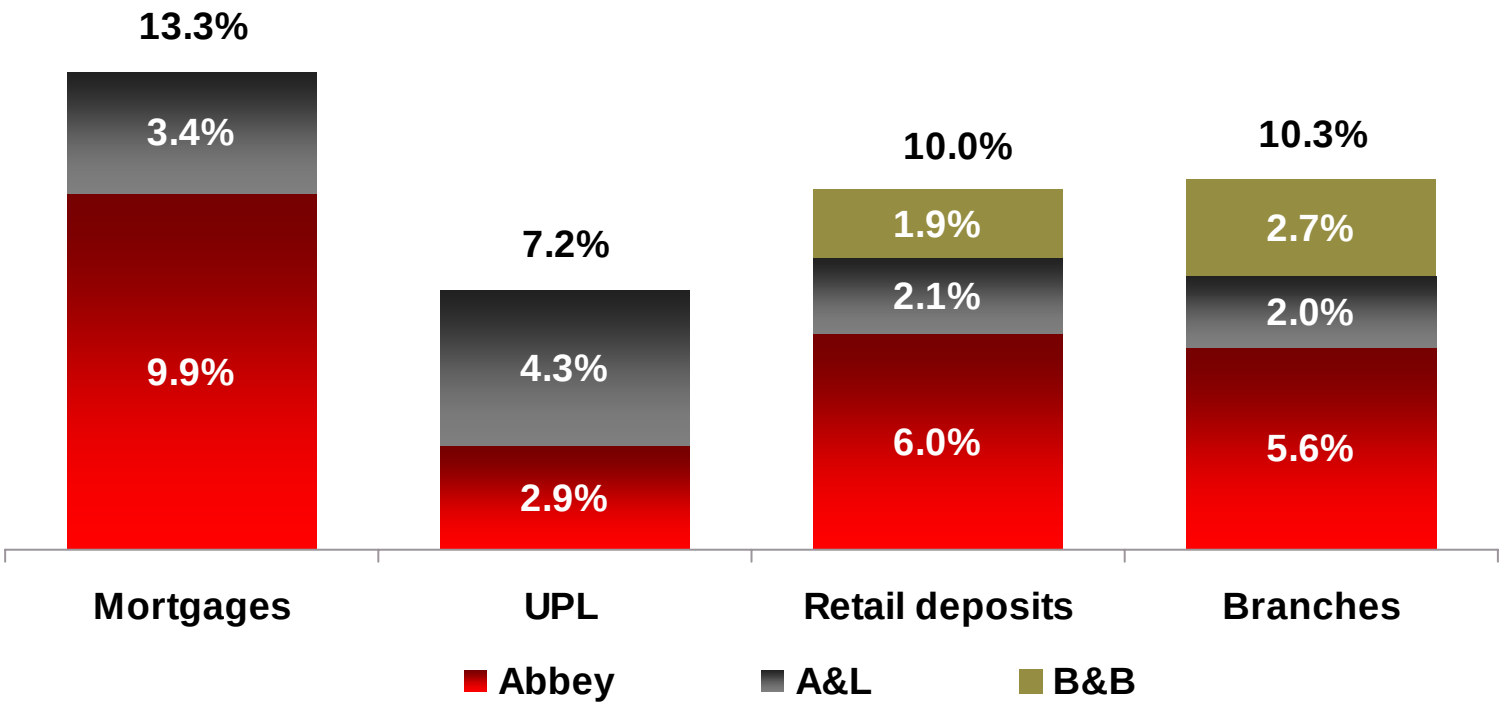
4 Balance sheet strength

- £20bn of customer deposits, further improving Abbey's strong deposit franchise and funding profile
- B&B deposit base is well established with over 61% of customers having been with B&B for over 10 years
- 94% of customers have balances below £35,000

Increased critical mass in core UK PFS markets

Santander vertical strategy: Increasing our share of core markets

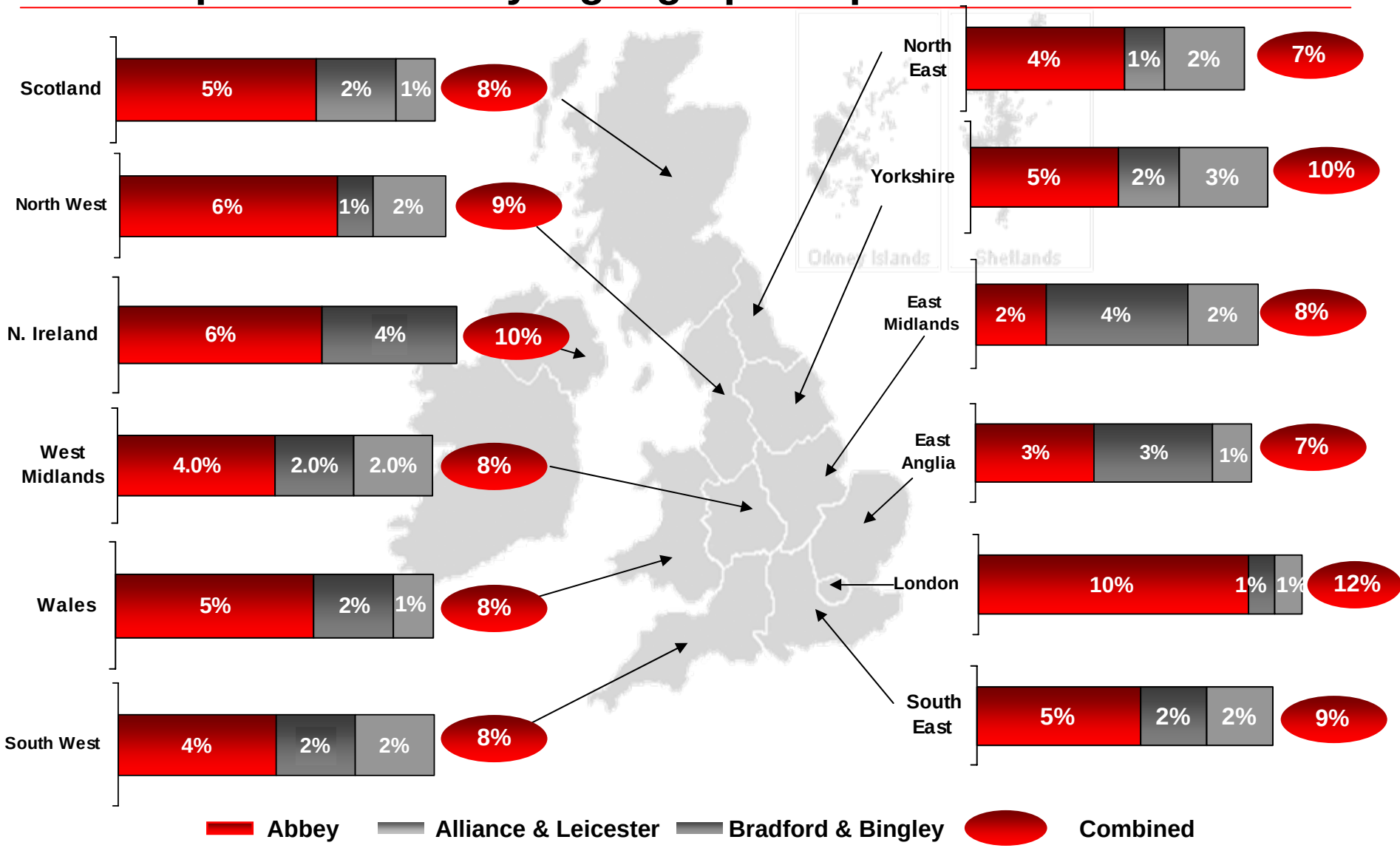
Abbey average share across markets c. 6% → Combined average share across markets c.10%



- **Santander's network will be strengthened by the addition of B&B's 197 branches / 141 agencies**

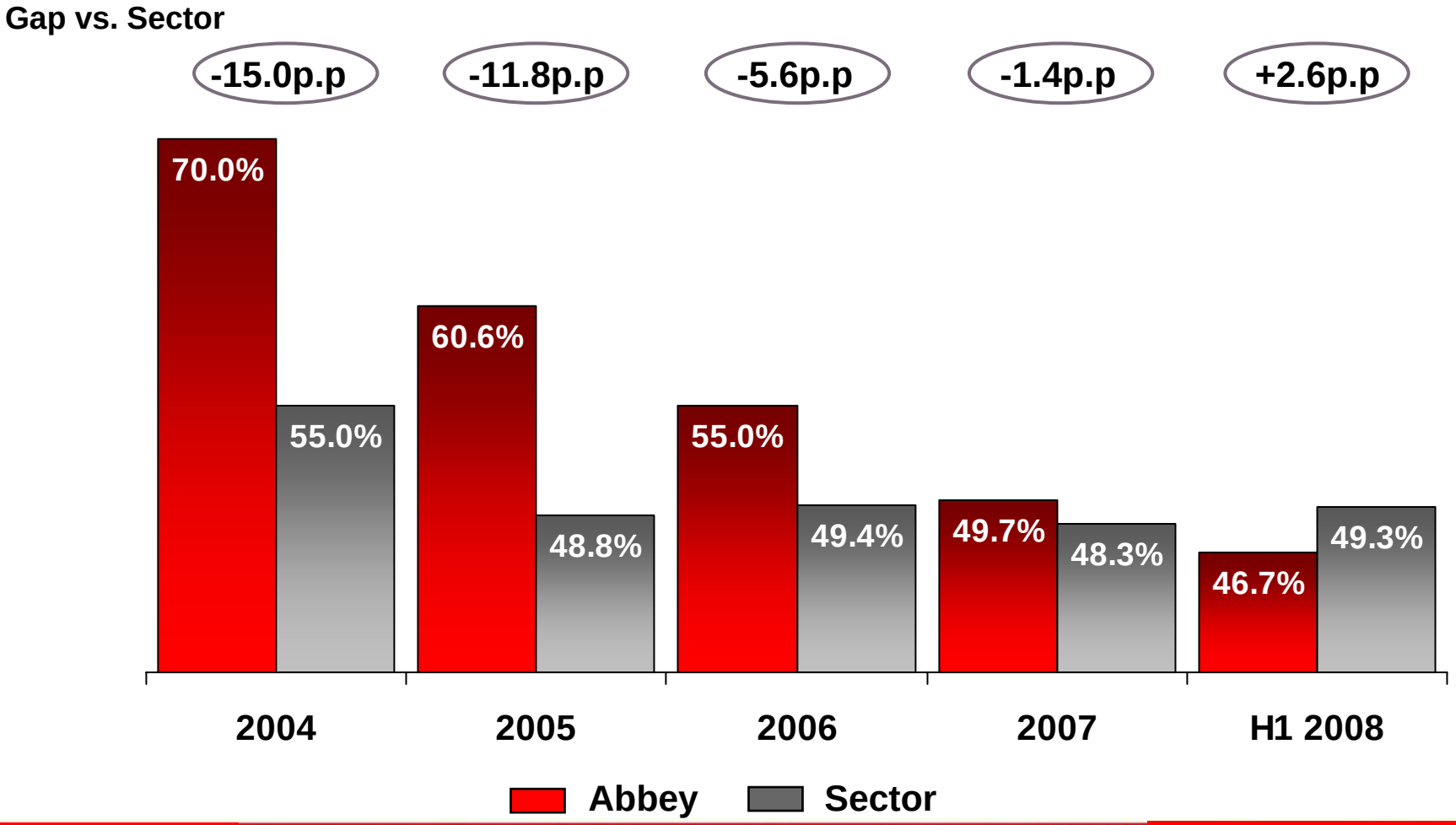
Notes:
- Data as at September 2008
- Market share is based on Abbey's estimate of market size consistently applied for all entities

1 B&B's network concentration in the North / Midlands complements Abbey's geographic spread



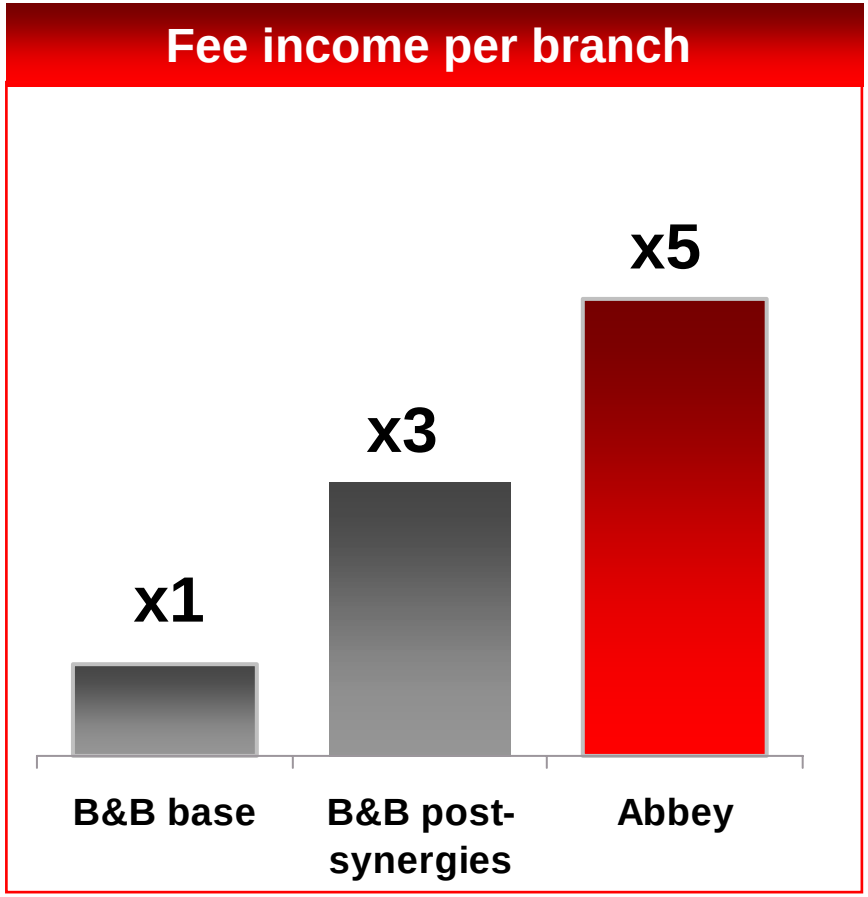
2 Santander has a proven track record in reducing costs - Abbey is now reaching a competitive advantage in terms of efficiency

PFS Cost to Income ratio – Historical Trends



PFS sector average based on internal segmental analysis of the results of Lloyds TSB, HBOS, Barclays, Royal Bank of Scotland and Bradford & Bingley

2 Scope for revenue synergies



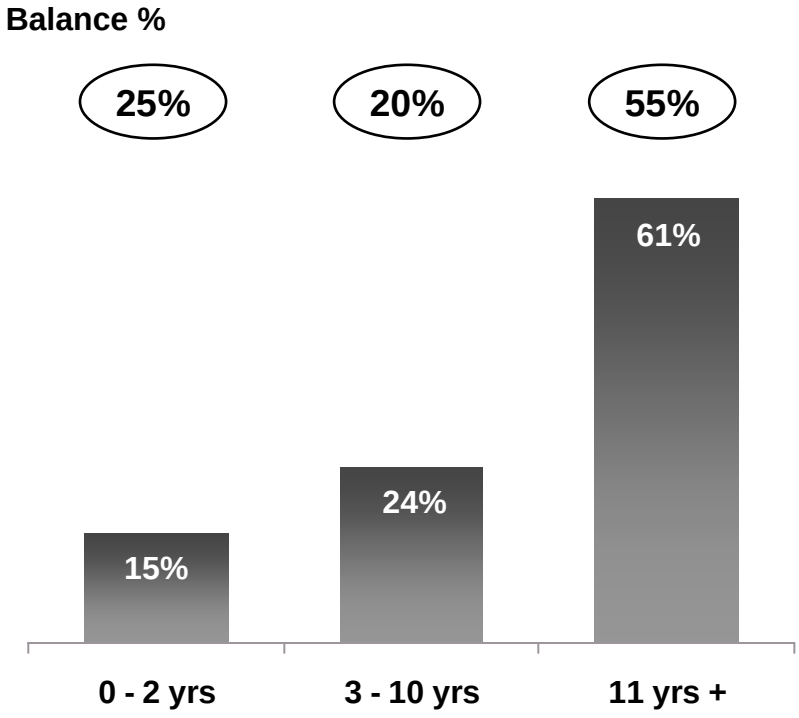
- Cross-sale opportunity to 2.7m customers
- In addition, some scope for margin management of the deposit base through time

Abbey remains focused on prudent risk management with a high quality asset portfolio

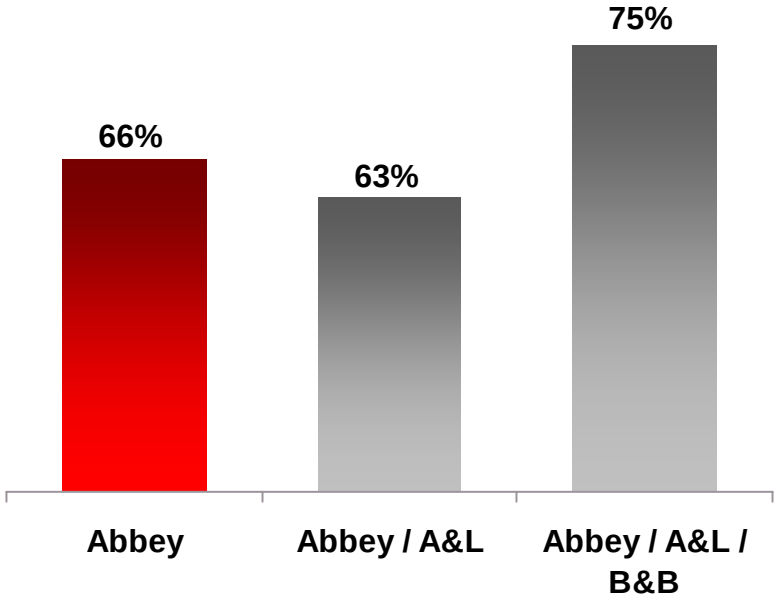
- No exposure to B&B mortgage portfolio which includes BTL and self cert mortgages – consistent with Santander risk management values
- No exposure to B&B's treasury portfolio
- Abbey's retail portfolio is only c. 2% unsecured, and of secured virtually all lending is "prime" – Abbey's risk profile will not be impacted by this transaction
- Abbey's secured lending performance and coverage continues to compare favourably to UK peers

4 B&B deposits are well established, and improves Abbey's funding ratios

% of customers by length of relationship

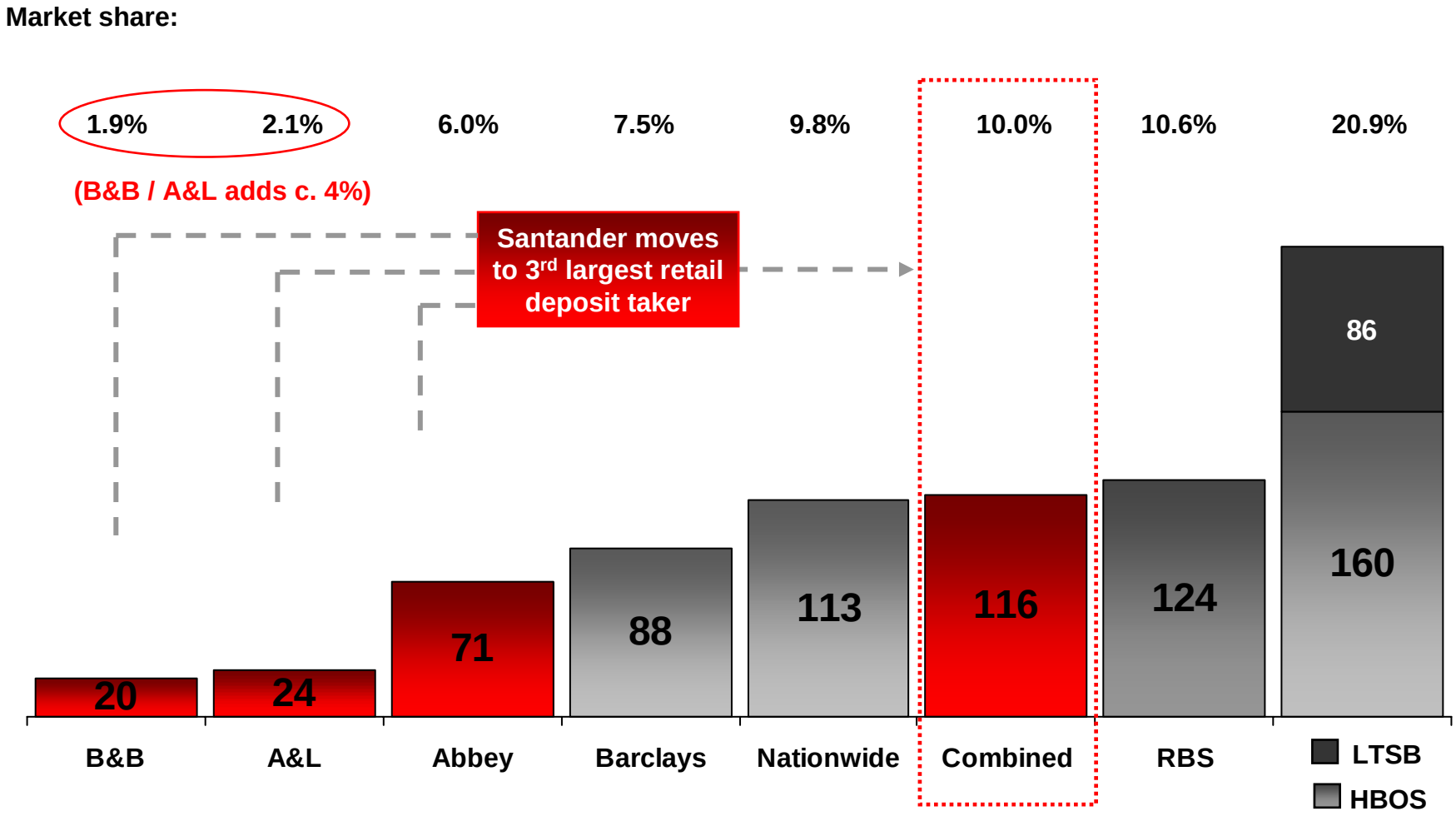


Improving customer deposits / loans ratios



…and establishes Abbey as one of the largest retail deposit takers in the UK

PFS deposits – UK sector (£bn)



Source: Company reports as at June 2008 (market share based on September 2008 figures where available), Nationwide per 2008 annual report & accounts, market shares calculated by Abbey using consistent base

Description of the deal

Strategic rationale

Financial impact

Summary

Financial impact: the deal meets our financial criteria

Net Profit Assumptions

Modest liability attrition offset by margin management	Impact of negative margin, fixed-term maturities in the short-term
Reduced wholesale funding cost	Removal of significant LIBOR premium
Adjust for: cost synergies	c. 25% of costs relating to savings / direct channels
Adjust for: revenue synergies	Sales productivity and broader product range (bank accounts, credit cards, investments)

Net profit incl. synergies and other adjustments

Financial impact: the deal meets our financial criteria

	£bn
Purchase price (excl. capital £0.2bn)	**0.4**

	2009	2010	2011
Net attributable profit inc. synergies and other adjustments	40	60	80
Return on investment (based on £0.4bn above)	**10%**	**15%**	**20%**

- Accretion in Santander's earnings per share including synergies expected from 2009[(1)]
- These figures are based on internal estimates, and before restructuring charges

Given the low risk nature of the acquisition and funding benefits, the ROI offers excellent value to Santander

(1) This statement as to financial accretion is not intended to mean that Santander's future earnings per share will necessarily exceed or match those of any prior year

Summary financials

- Investment of c.£0.4bn for B&B's direct channels and c.£20bn of deposits (2% of the UK Market)
- £200m paid for Isle of Man capital
- Profits of £ 40, 60 and 80 mn in the first 3 years assuming no credit taking activities
- The deal is expected to be EPS enhancing: +0.3% in 2009; +0.4% in 2010; + 0.6% in 2011
- ROI of 20% year 3 (based on £0.4bn purchase price)
- Loan / deposit ratio of 75% with B&B deposit base

Description of the deal

Strategic rationale

Financial impact

Summary

Summary

Transaction fits core Santander principles

1 Critical mass in UK

Accelerates growth strategy and distribution scale in the UK, combination of A&L and B&B adds 4% deposit market share…

2 Potential for efficiency improvement

…continuing to leverage core skills and efficient UK operating platform…

3 Low risk

…with no exposure to B&B's mortgage / wholesale portfolios

4 Balance sheet strength

…enhanced funding position, significantly increasing retail customer deposit relationships. This deal closes A&L's loan / deposit gap…

ROI offers excellent value and is earnings accretive from 2009(1)

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