Abbey National

Terry Burns
Chairman

Abbey National

Luqman Arnold
Chief Executive

Overview of the first six months …

- PFS earnings better than previous guidance
- excellent progress in reducing risk and releasing capital from PBU
- fundamental transformation of PFS underway
- focused on significant execution challenges
- a lot already achieved … we are on track
- improvements visible in 2004

… laying the foundations

Abbey National

Stephen Hester
Chief Operating Officer

Financial Results Summary

Group financial overview

£m	Half 1 2003	Half 1 2002 Restated	Half 2 2002
PFS trading profit before tax	588	663	556
Other PFS items	(237)	(267)	(1,168)
PFS profit before tax	351	396	(612)
PBU	(495)	16	(784)
Total profit before tax	(144)	412	(1,396)

- PFS trading EPS 24.5p
- PFS trading cost:income ratio 53.7%
- Total EPS (12.0)p
- PBU notional capital release £0.8bn

Personal Financial Services (PFS)

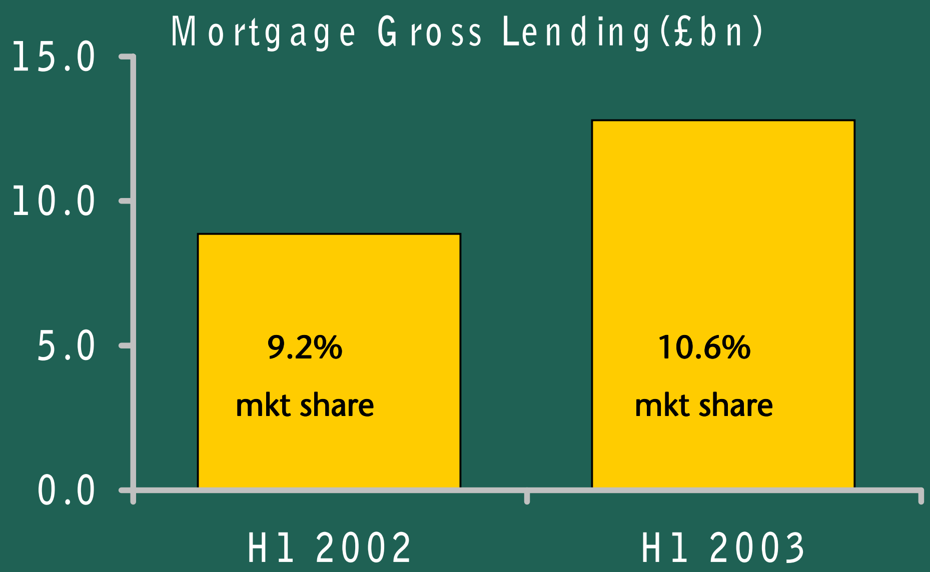
PFS: trading profit by business

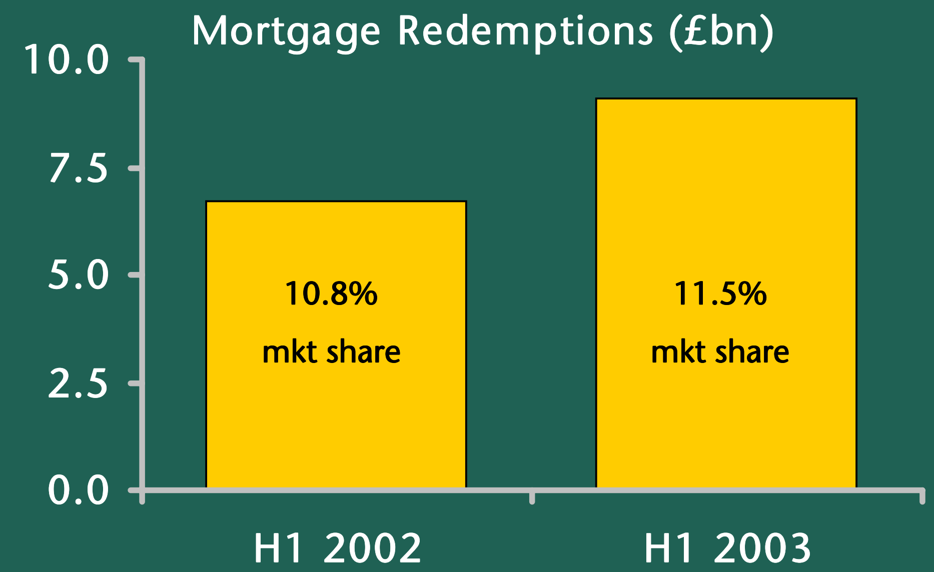
PBT £m	Half 1 2003	Half 1 2002 Restated	Half 2 2002
Banking and Savings	475	470	492
Investment and Protection	106	181	191
General Insurance	29	45	47
Treasury Services	98	84	64
Group Infrastructure	(120)	(117)	(238)
Trading profit before tax	588	663	556

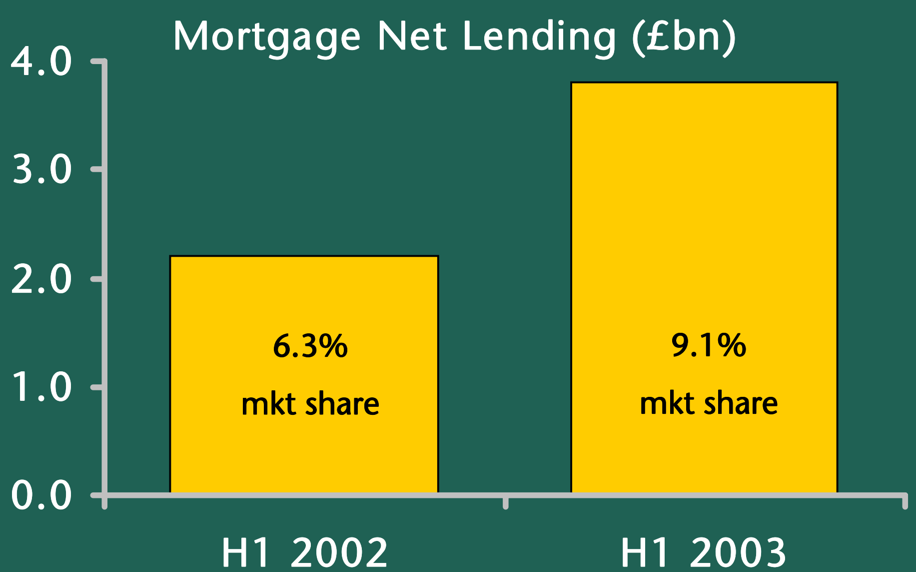
PFS: profit and loss summary

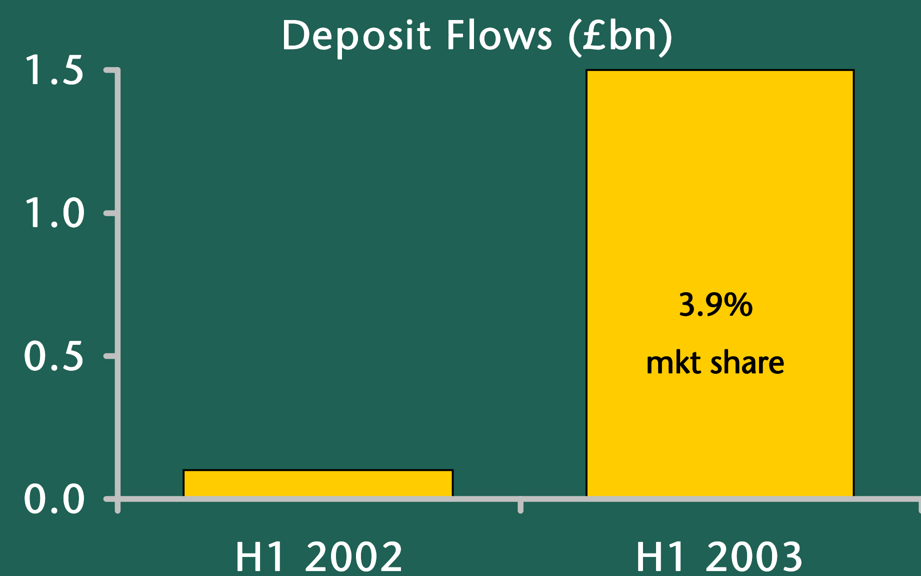
£m	Half 1 2003	Half 1 2002 Restated	Half 2 2002
Net interest income	926	929	914
Non interest income	489	574	573
Total trading income	1,415	1,503	1,487
Trading expenses	(760)	(756)	(821)
Provisions	(67)	(84)	(110)
Trading profit before tax	588	663	556
Other PFS items	(237)	(267)	(1,168)
Profit before tax	351	396	(612)

PFS: mortgage[1] & savings new business flows



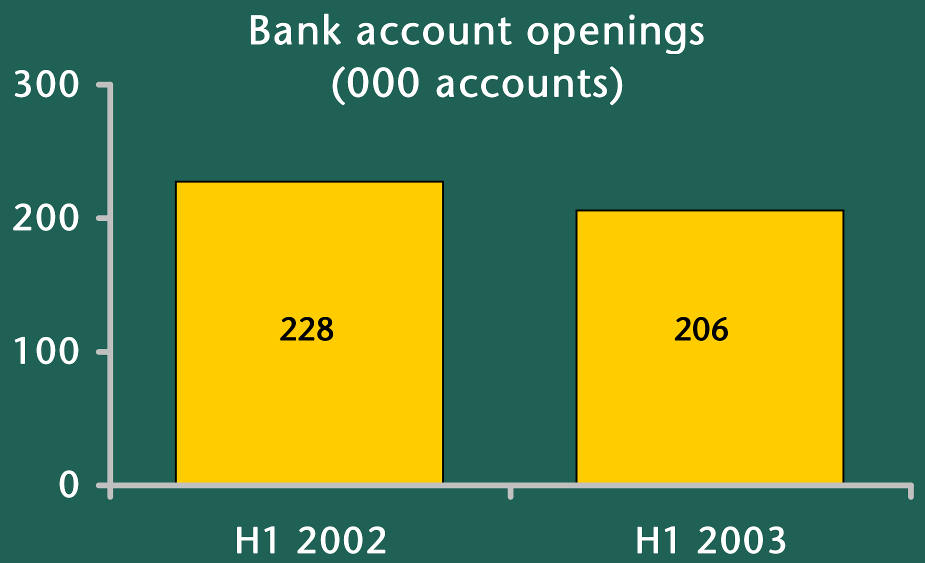


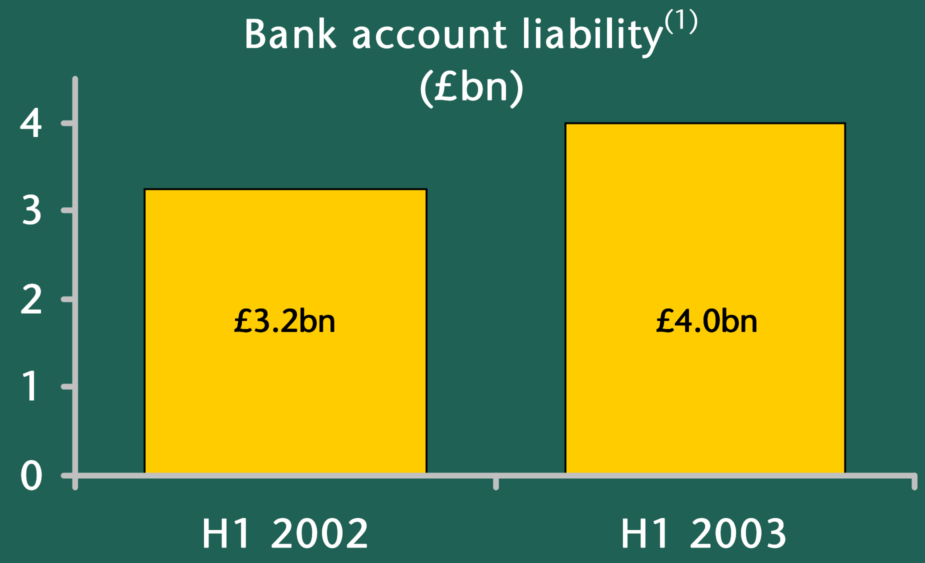


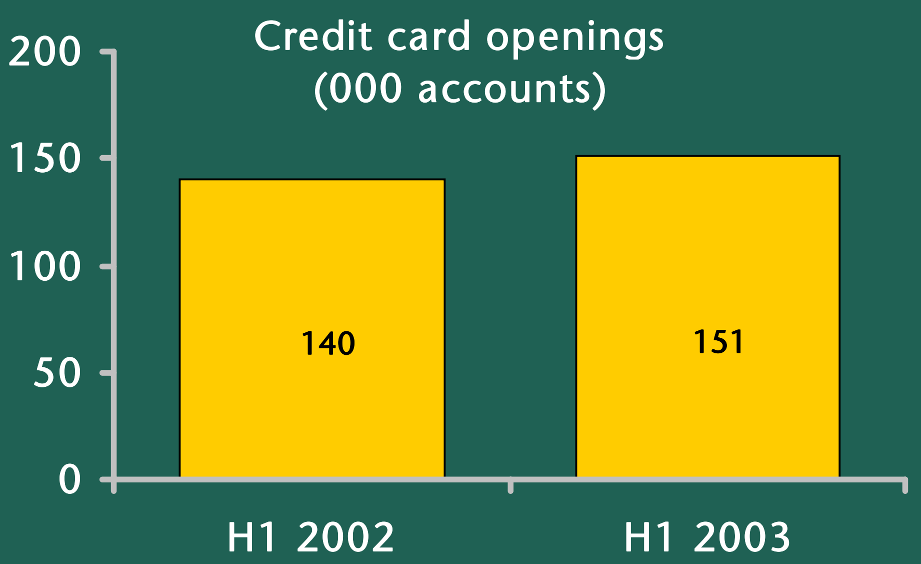


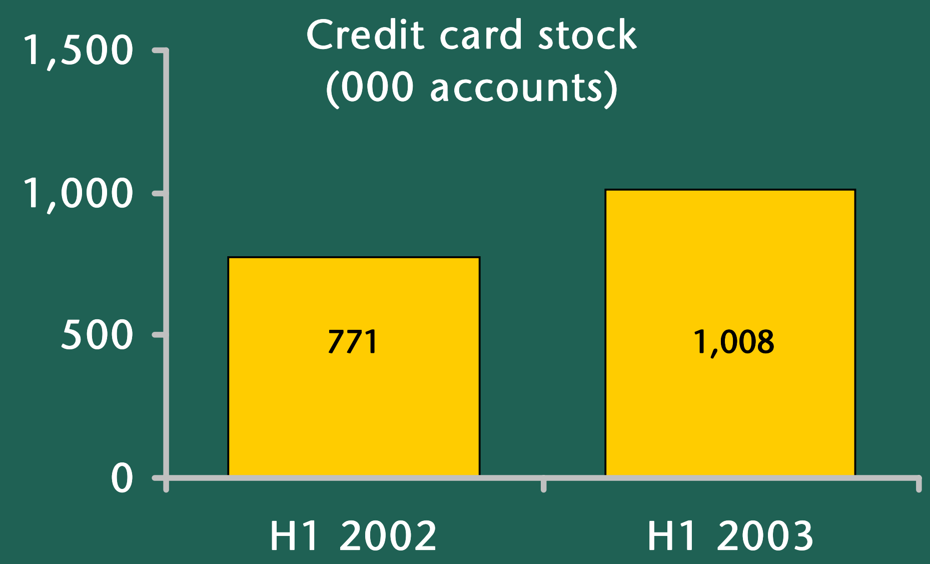
(1) H1 2002 restated to eliminate impact of First National businesses sold in 2003

PFS: banking new business flows





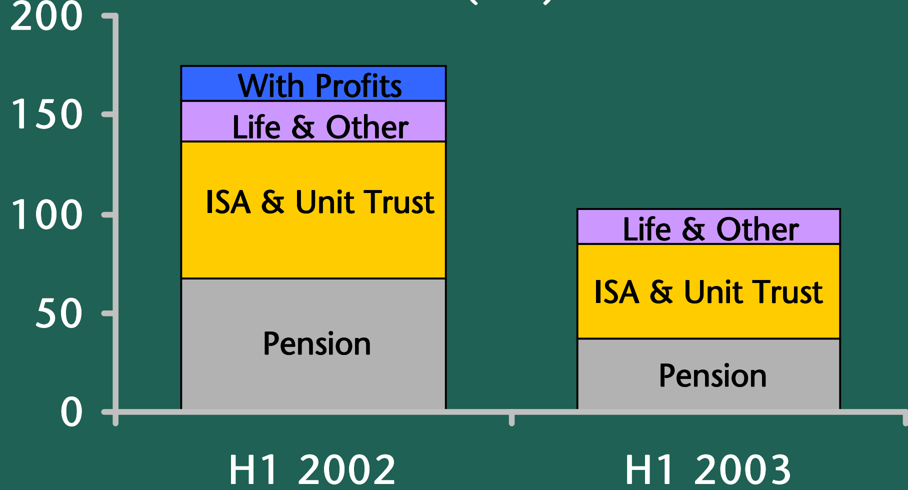




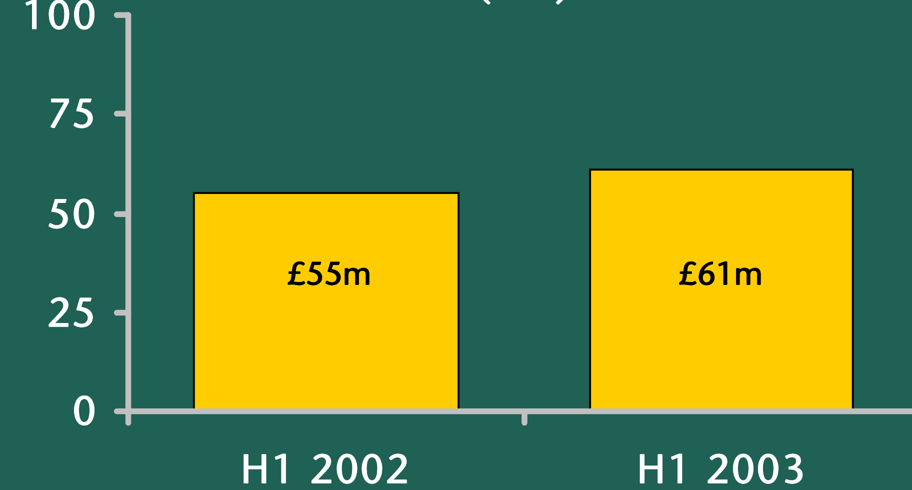
(1) Abbey National branded bank accounts only

PFS: investment & protection new business flows[1]

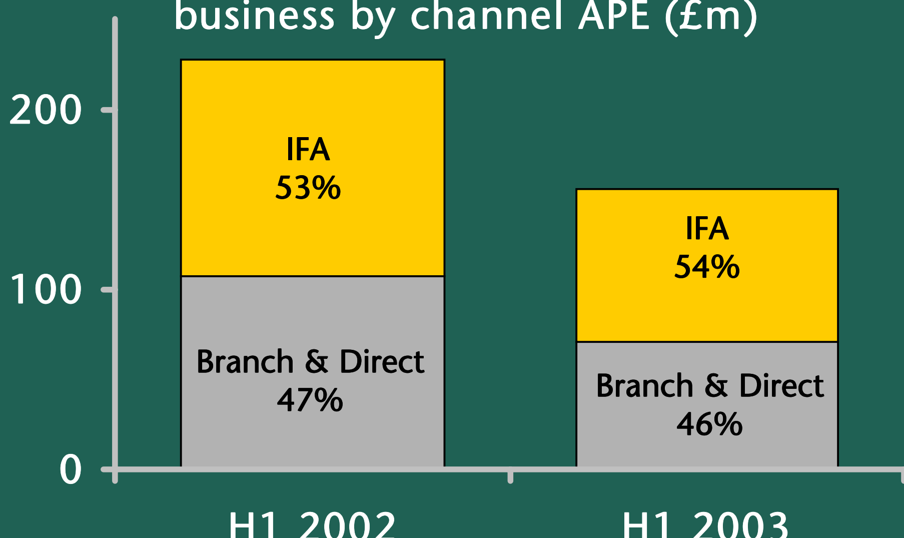
Investment new business APE (£m)



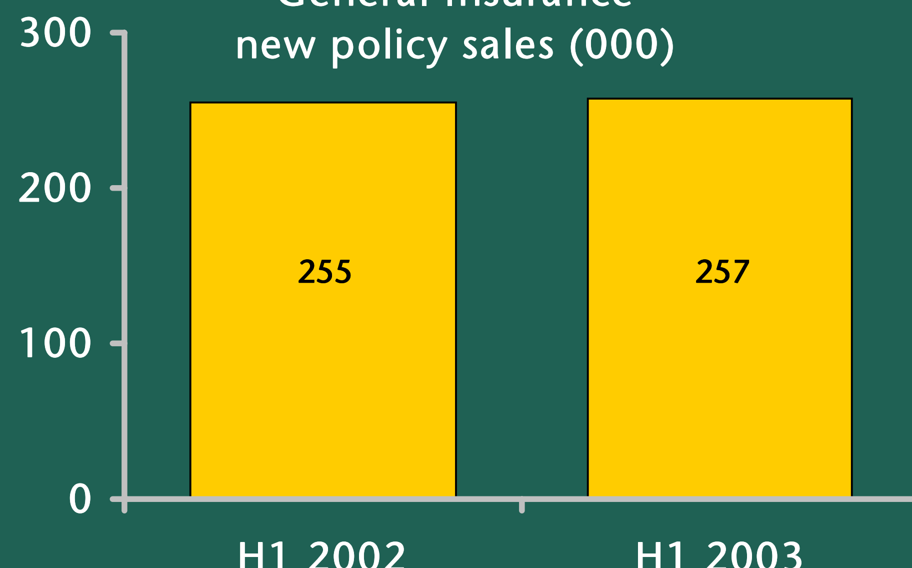
Protection new business APE (£m)



Investment & protection new business by channel APE (£m)



General Insurance new policy sales (000)



(1) H1 2002 restated to eliminate new business flows from the international life businesses transferred to the PBU

PFS: trading income

£m	Half 1 2003	Half 1 2002 Restated	Half 2 2002
Total trading income	1,415	1,503	1,487
Movement vs Half 1:		(88)	(72)
Including:			
- Banking & Savings		(8)	(50)
- Life new business contribution		(15)	(8)
- experience variances and assumption changes		(50)	(68)
- General Insurance commissions		(13)	(18)
- Treasury trading income		19	39
- Group Infrastructure		(8)	41

PFS: Retail Banking spread movement

%	Half 1 2003	Half 1 2002	Half 2 2002
Retail Banking spread [1]	1.61	1.82	1.75
Movement to Half 1:		(0.21)	(0.14)
Explained by:			
- new business dilution / back book transfers & redemptions		(0.12)	(0.06)
- unilateral SVR changes		(0.04)	(0.02)
- redemption fees		0.02	(0.05)
- other		0.04	0.05
Asset spread		(0.14)	(0.13)
- funding compression		(0.07)	(0.01)
Liability spread		(0.07)	(0.01)

(1) Excludes unsecured personal lending and AN Business balances

PFS: embedded value earnings (EV)

£m	Half 1 2003	Half 1 2002 Restated
New business contribution	17	32
Expected return	96	97
Experience variances, assumption changes & integration costs	(32)	18
Trading EV earnings	**81**	**147**
Non EV earnings	25	43
Trading income from long term assurance	**106**	**190**

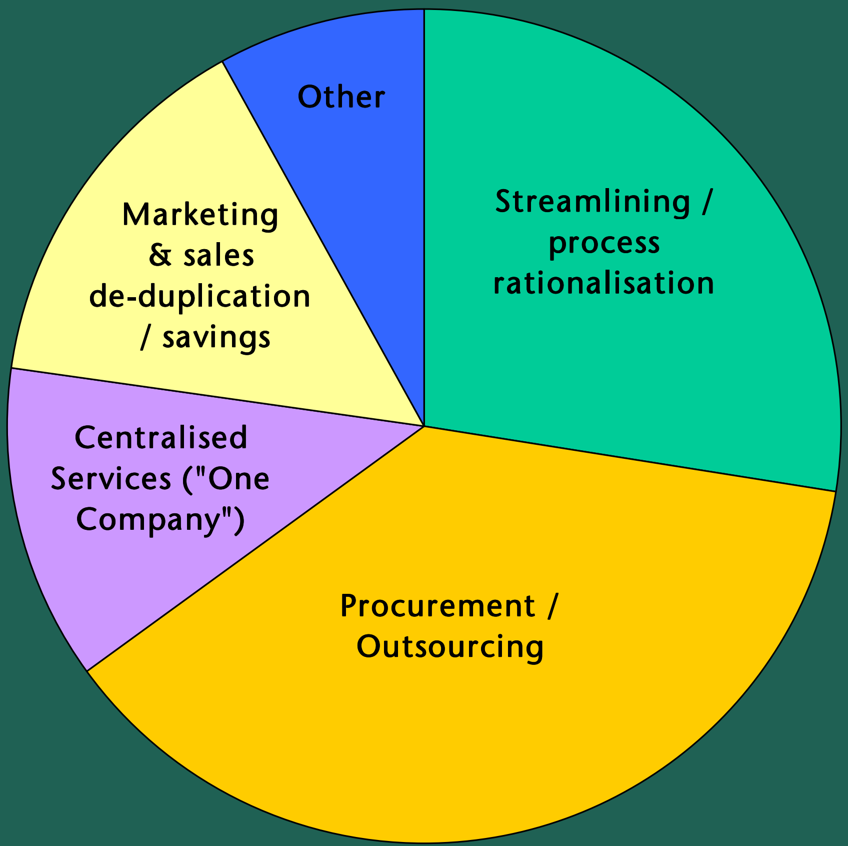
- New business margin 17% (H12002: 23%) reflecting exit from with profits and temporary effect of increased protection reassurance rates
- Expected return stable – impact of EV rebasing offset by new business written and earnings from capital injections made in 2002
- Adverse experience variances and assumption changes relate to reserve strengthening for critical illness, expenses overruns due to lower new business, and changes in the policyholder tax rate from 22% to 20% (£24m)

PFS: trading expenses

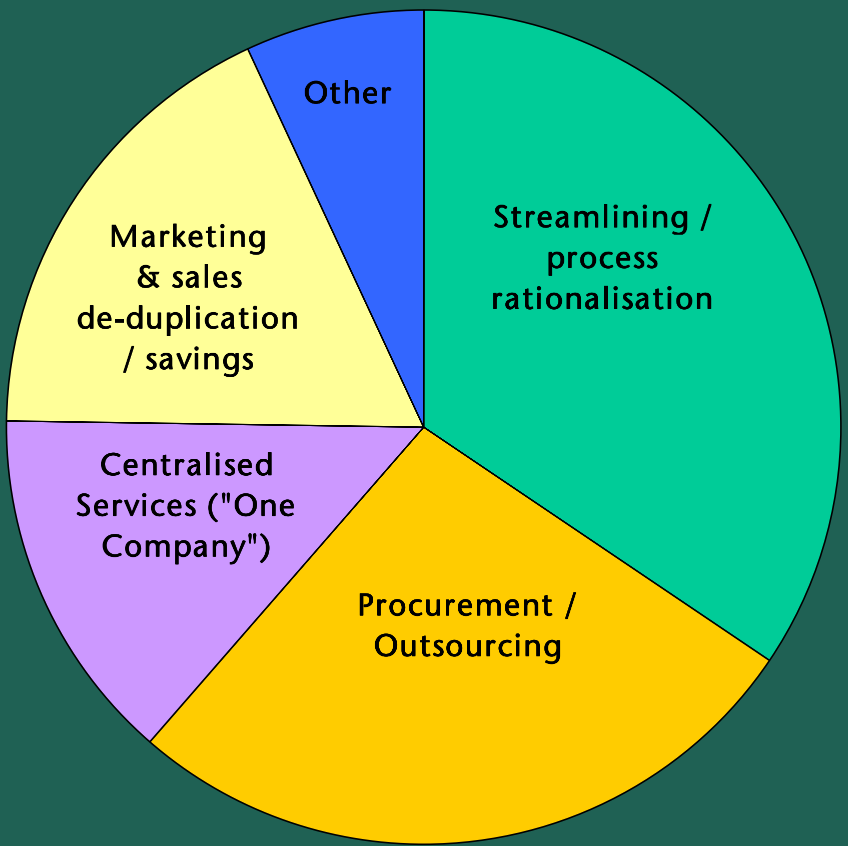
£m	Half 1 2003	Half 1 2002	Half 2 2002
PFS trading expenses	760	756	821
Trading expenses included in EV	93	103	98
Total PFS expenses	853	859	919
Add: estimated savings from cost programme	46	-	13
Trading expenses pre savings	899	859	932
Cost growth vs Half 1 2002 pre savings		4.7%	
Explained by:			
- staff costs		23	
- pension fund contributions		16	
- premises related costs		10	
- other		(9)	

PFS: restructuring programme

£46 million savings benefit in H1



Actions taken to secure £125 million of annualised savings



- Total restructuring charges of £54 million, of which c£37 million employment costs
- Over 1,000 roles removed

PFS: risk management

Arrears	30 June 2003	30 June 2002	31 Dec 2002
3 months + arrears (% of loans)	0.80	1.16	0.97
Number of properties in possession	414	723	419
Lending quality			
LTV < 90%	91	81	86
LTV of stock (%) [1]	46	51	46
Life Assurance			
Equity backing ratio (%)	25	47	34

(1) LTV of stock shown gross of securitisation

PFS: Other charges and one-offs

	Half 1 2003	Half 1 2002 Restated	Half 2 2002
EV charges and rebasing	102	234	319
Restructuring costs	54	-	34
Asset write-downs	72	-	37
Goodwill charges	9	33	778

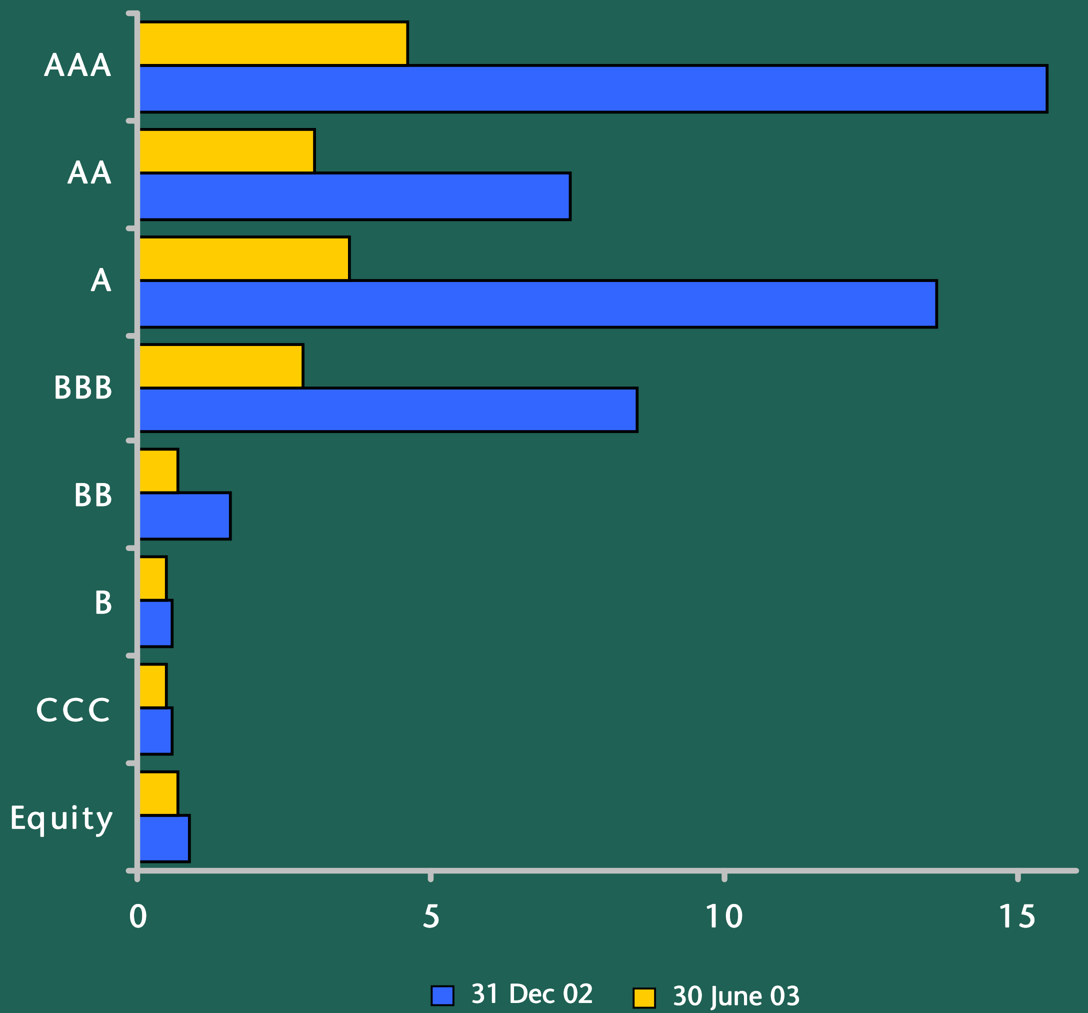
- EV rebasing includes £80 million relating to tax law changes impacting the Scottish Provident acquisition structure
- One-off restructuring costs relate to the cost reduction programme and other strategic restructuring initiatives
- Asset write downs in H1 2003 largely reflect costs previously capitalised in relation to the outsourcing of mortgage and insurance processing

Portfolio Business Unit

PBU: balance sheet

£bn	June 2003		Change from Dec 2002	
	Asset	RWA	Asset	RWA
Debt securities	6.9	2.8	(25.4)	(8.3)
Loan portfolio	5.0	4.5	(3.4)	(2.7)
Leasing businesses	5.6	3.7	(0.1)	-
Private equity	0.6	0.9	(0.2)	(0.2)
Other	0.3	-	(1.1)	-
Wholesale Banking	**18.4**	**11.9**	**(30.2)**	**(11.2)**
First National	3.0	3.3	(5.0)	(4.5)
European Banking & other	4.3	2.5	0.9	0.7
PBU	**25.7**	**17.7**	**(34.3)**	**(15.0)**

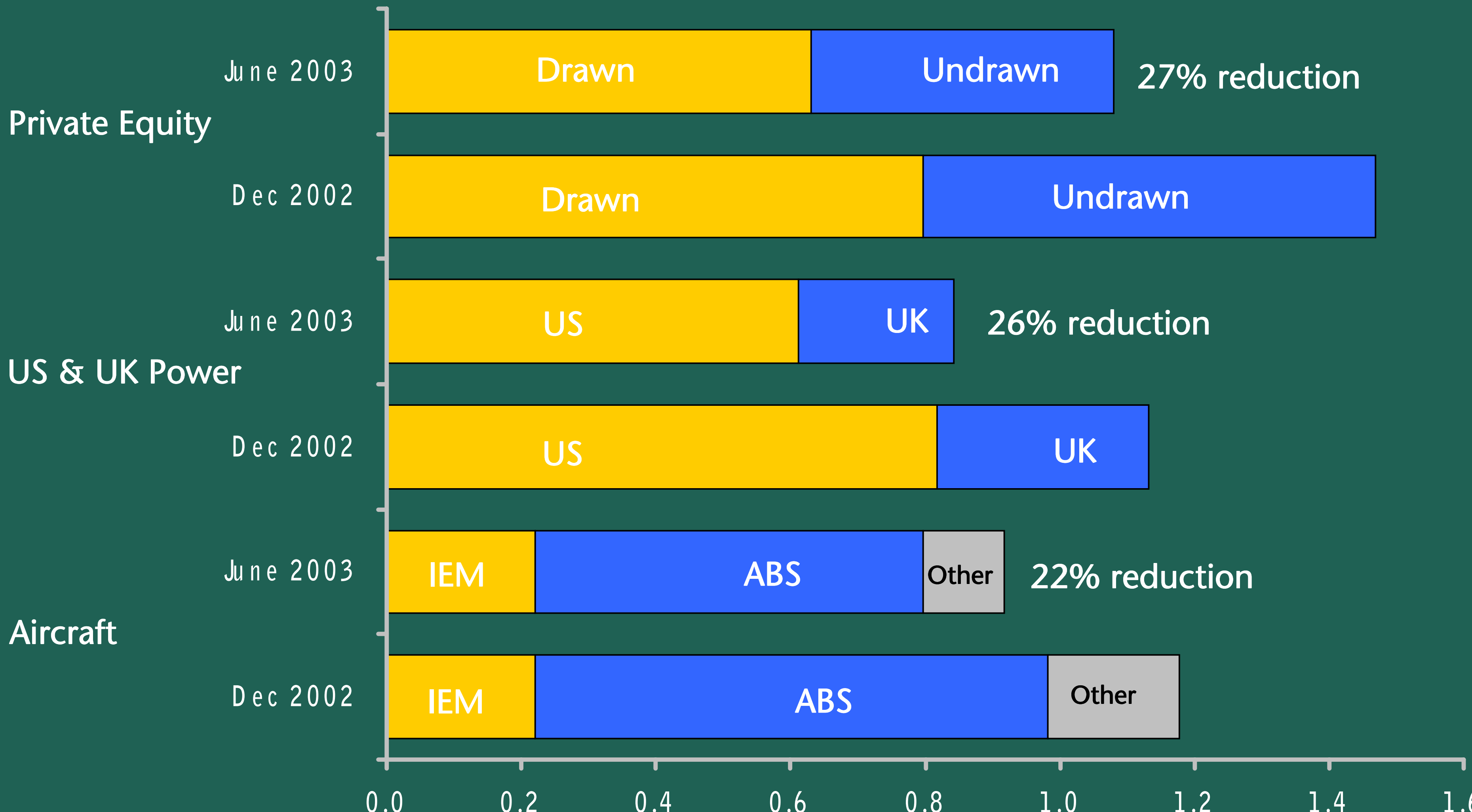
PBU: Wholesale exposures by credit rating [1]



Reduction since Dec [2] (%)	Average of top 5 exposures (£m) June 03	Average of top 5 exposures (£m) Dec 02
70	139	339
59	258	475
74	181	300
67	209	377
56	50	60
17	40	44
17	50	44
22	n/a	n/a

- Net of provisions
- Excluding the impact of credit migration, there was a 61% reduction in sub investment grade exposures (BB and below)

PBU: Wholesale – specific sector exposures



- IEM balance of £220 million relates to rentals receivable, but has a corresponding NBV of £414 million
- Power projects - £511 million on credit watch at June 2003

PBU: Wholesale Banking mark to market

£m	30 June 2003	31 Dec 2002
Debt securities MTM deficit	(180)	(664)
Loans and advances MTM deficit	(394)	(491)
	(574)	(1,155)
Movement	581	
Explained by:		
- losses realised on disposal	352	
- additional provisions raised	133	
- asset deterioration	(283)	Net improvement of £96 million
- asset improvement	379	

Excludes the value impact of:
- IEM, Porterbrook, private equity and finance leasing
- restructuring charges and pre provision income

All numbers stated pre tax relief and net of provisions

PBU: profit & loss

£m	Half 1 2003
Operating income pre disposal losses	160
Trading operating expenses & other	(31)
Restructuring costs	(16)
Provisions, impairments & disposal losses	(568)
Wholesale Banking loss before tax	(455)
First National	(2)
International Life businesses	(33)
European Banking & Other	(5)
PBU loss before tax	(495)

Net interest margin on Wholesale PBU securities and loan assets broadly maintained:

H1 03 0.55%, H1 02 0.63%

PBU: Wholesale Banking losses and credit charges

Half 1 2003 (£m)	Losses	Provisions				Total
		Sale	MTM	Credit	Total	
Debt securities						
- Corporates	136	(5)	0	0	(5)	131
- High Yield	4	0	14	0	14	18
- CDOs	129	13	0	0	13	142
- Other asset backed	58	9	22	43	74	132
Loan portfolio						
- Project finance	10	1	4	17	22	32
- Real Estate	4	0	0	3	3	7
- Other	10	6	6	1	13	23
Leasing businesses	-	-	-	13	13	13
Private Equity	21	-	-	49	49	70
Total	372	24	46	126	196	568

PBU: notional equity release

	Assets (£bn)	RWA (£bn)
Balance at 30 June 2003	25.7	17.7
Balance at 31 December 2002	60.0	32.7
Reduction	**34.3**	**15.0**
Gross equity release at equity tier 1 ratio of 6.4% (1)		1.0
Plus: pre-goodwill impact of First National sale		0.2
Less: other PBU losses after tax at 30%		(0.4)
Net notional equity release		**0.8**

(1) Equity tier 1 ratio at 31 December 2002

PBU: summary

- Progressing ahead of plan
  - £34.3bn reduction in total assets to date in 2003
  - single name concentrations well down
  - in total, £15bn reduction in RWAs
  - closure of First National Motor Finance, Scottish Mutual International and Scottish Provident Ireland to new business
- Continued focus on maximising NPV of capital release within risk reduction framework, with a meaningful capital release expected
- Asset exposures to be largely eliminated by end 2004
- Overall expected cost of exit not materially changed as difficult areas remain

Capital

Capital: ratios

	30 June 2003	31 Dec 2002
Risk asset ratio (%)	13.7	11.6
Total Tier 1 capital (£m)	7,178	7,246
Total Tier 1 capital ratio (%)	10.9	9.2
Equity Tier 1 ratio (%)	7.6	6.4
Banking Equity Tier 1 ratio [1] (%)	5.3	4.6
RWAs by business (£bn):		
PFS	48.2	46.0
PBU	17.7	32.7
Total	**65.9**	**78.7**

(1) Illustrative ratios apply equity against investment in life companies in the same proportion as against banking assets

Capital: regulatory and accounting uncertainties

Basel II

- \+ Mortgage risk weighting to fall to at least 35% … likely further
- (-) Life assurance and other deductions to be taken 50% from tier 1 and 50% from tier 2
- (-) Capital requirement for operational risk

IAS

- ? Pension fund deficit impact on equity base
- ? Derivatives marked to market
- ? Life assurance accounting changes
- ? IAS impact on regulatory capital not yet clear

Capital: dividend policy

- Interim dividend of 8.33 pence consistent with full year 2002 dividend rebasing decision
- 2003 payment rebalanced to target split of approximately one third interim / two thirds final
- Dividend payments over time based on sustainable PFS profits, with consideration of non-cash components (e.g. EV)
- Progressive payments targeted, with clarification of growth rate and payout ratios as strategy implementation progresses

Summary

- PFS earnings lower than 2002 but better than guidance
- New business flows (ex investment sales) robust given business change
- Actions taken to achieve £125 million of annualised cost savings
- Credit quality strong
- PBU asset reduction well ahead of plan … challenges still exist
- Capital ratios strengthened, 8.33 pence interim dividend

… finding the earnings base from which to grow

Abbey National

Luqman Arnold
Chief Executive

customers

– earn customers' commitment to us

structure

– organise around the customer

four strategic priorities

efficiency

– radically streamline our business

capital

– impose rigorous discipline

Making a difference in UK PFS …

tackling underperformance

- underleveraged potential
- brand strength, 18m customers, distribution, product range

scope for differentiation

- service
- advice
- choice

…underpinned by price competitiveness and cost efficiency

At our full year results, the priorities we highlighted were …

- de-risking and capital release from the PBU
- new customer-focused structure fully operational
- laying the foundations to improve the customer experience, to earn our customers' commitment
- streamlining and de-duplication, with progress in realising cost savings

Earn customers' commitment

getting closer to customers

- new Customer Propositions & HR directors appointed
- external appointments to newly-formed Customer Board
- CRM rolled out to around 1700 customer-facing staff

getting the service right

- tackling fundamental service issues
- investing in recruitment, induction & retention

Earn customers' commitment

investing in brand and marketing

- simplifying the product range
- new product launches in Q4
- major brand relaunch in 2nd half

investing in advice and choice

- rollout of new advice model underway
- complete restructuring of customer-facing roles and staffing levels

Radically streamline our business

tackling inefficiencies

- reworking mortgage and payments processes
- improving speed of internal mortgage transfers

radical sourcing review

- announced closure of 6 sites
- decision in principle to selectively offshore
- rollout of outsourced telecoms capability underway

Radically streamline our business

right people, right place

- over 1,000 roles permanently removed through the cost programme

cost reduction programme

- on track to exceed £200m annualised savings by end 2005
- estimated £46m savings realised in 1st half alone
- estimated £125m of annualised savings in place

focus on revenue initiatives…

Managing margin pressure in mortgages and savings …

improving front book margins

- improve branding & marketing
- increase branch sales productivity
- better product innovation and design

mortgage retention

- current remortgaging levels not sustainable
- more sophisticated and targeted retention

Opportunities in investment & savings

significant opportunities as market evolves

- depolarisation becoming clearer
- low interest rates, collapse of with-profits, demographics, pension uncertainty

full range of investment & savings products

- including market-leading positions in SIPPs, protection, structured products & savings
- managed as one portfolio for the first time

sell full portfolio through all distribution channels

- leveraging and scaling the Inscape model
- improve products and services to IFAs

Underleveraged potential

protection – building on market-leading position

- scope to improve mortgage-related cross-sales

general insurance – fundamental review underway

- rolling out new systems, reviewing sourcing arrangements
- key senior appointments to be made

unsecured lending – currently less than 3% of PFS lending

- increase sales to mortgage customers

Reinvesting to deliver the strategy

main areas of investment:	Cost driven	Revenue driven
systems enhancements & rollout	✓	✓
step up in training		✓
brand relaunch & marketing		✓
increased staffing levels to enhance service		✓
enhancing the retail estate		✓

Only increasing ongoing costs where these are more than offset by cost & revenue benefits

Scope for growth in UK PFS

- improve frontline sales effectiveness
  - improve customer experience (service, advice & choice)
  - focus on training, staffing levels & turnover
  - invest in the right technology
- strengthen demand & pricing power through improved branding & marketing
- target areas of product underperformance
- leverage position in core markets
- reduce operating cost base

getting closer to customers
– brand relaunch
– improving products & services
– investing in outreach

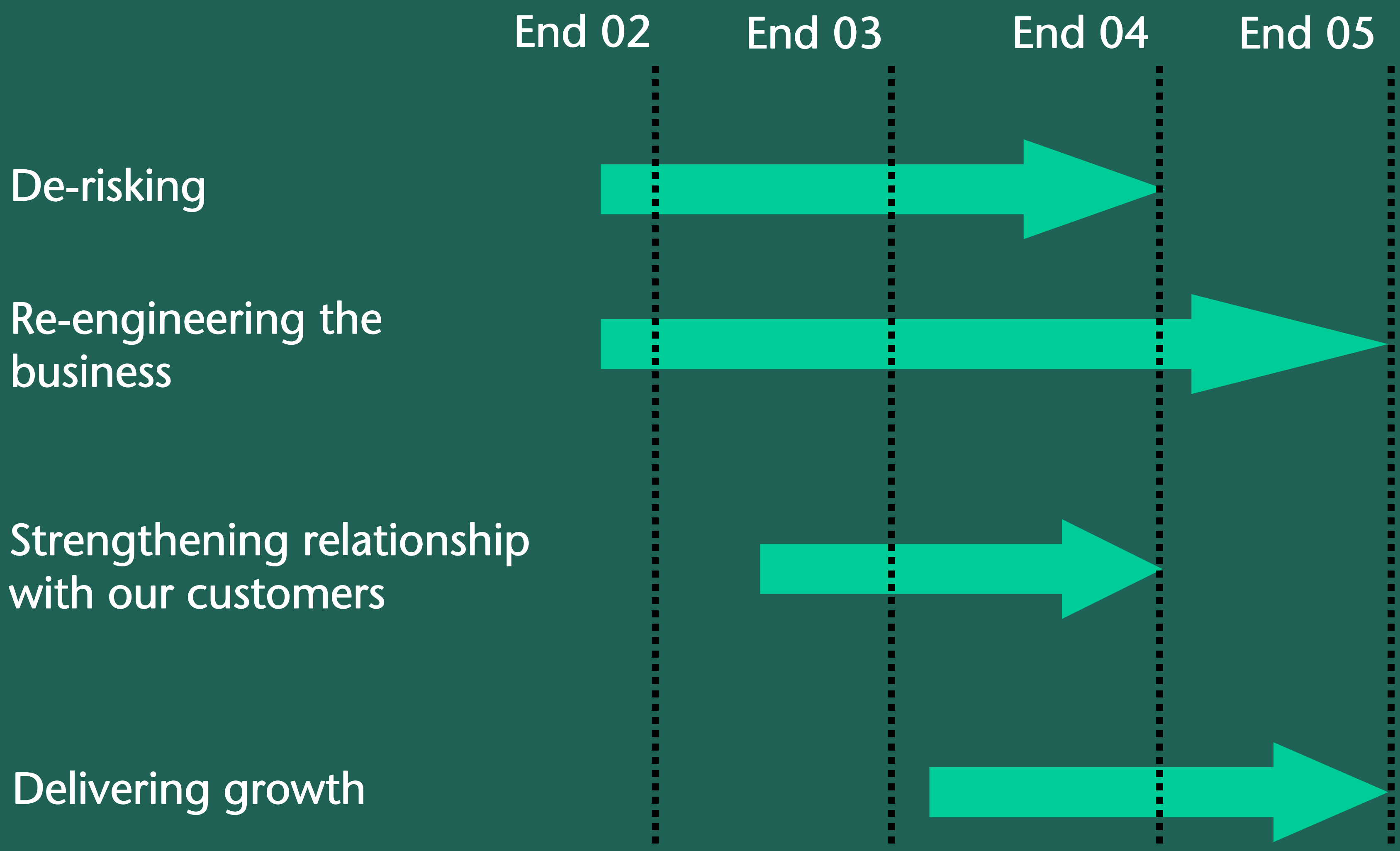
getting the service right
– 150,000 training days in H2
– embedding new advice model

the next 6 months…

tackling inefficiencies
– rolling out IT upgrades
– further site rationalisation
– progressing sourcing plans

rebuilding capital strength
– progress in winding down PBU
– guidance on cost programme

we are on track… but still a lot to do



single-minded

focus on UK Personal Financial Services…

…and nothing else