

# 2001 Spring Business Statement

## Overview of Trading Results

"Our business has got off to a flying start in the first quarter, with Group profits running well ahead of the same period last year.

In our mortgage, life assurance and **wholesale banking operations we are delivering** record levels of new business, and credit quality across the Group remains robust.

We now have approaching one million e-banking customers and more than 10,000 intermediaries doing business with us online. We also announced innovative partnering agreements to boost sales and reduce costs in our general insurance, loan processing and credit card businesses. In June 2000, we announced our commitment to increase our presence in the current account and SME banking markets, and we are making good progress.

Abbey National is in great shape - we are focusing on growing the business, and remain committed to building on our excellent track record of delivering shareholder and customer value."

Ian Harley

### **.. Retail Banking ..**

Half year mortgage net lending is expected to be in the upper end of our targeted 5 – 10% market share range. Mortgage approvals in March were our highest ever. The Retail Banking Spread is on target to be within the projected range for the full year of 175 to 180 basis points.

Good progress in growing our share of the personal banking market, with net current account openings approaching 4,000 per week - up 161% on the same period last year. Including cahoot, net openings are running in excess of 6,000 per week.

Abbey National Life new business premiums are running slightly ahead of the record levels achieved in the same period last year.

### **.. Wholesale Banking ...**

Profits are running well ahead of the levels achieved in Quarter 1 2000, and the business has continued to drive up return on equity. The weakness and volatility in global markets has had no negative impact on the Wholesale Bank's transaction flows and revenues over this period, and credit quality remains robust.

### **.. Business to Business ...**

First National is competing hard in the Consumer and Business Finance markets. In particular in business banking, deposit balances have increased by 15% in the first quarter alone. Market conditions in Motor Finance and Retail Finance remain subdued, where we continue to adopt a cautious approach to credit underwriting and pricing.

In Scottish Mutual, new business premiums are up 26% on the same period last year, driven by Scottish Mutual International sales, which are up 39%.

### **.. Business to Consumer**

Our existing Wealth Management operations continue to perform well, increasing offshore deposit balances by 10% in the first quarter to over £5.3 billion.

...

cahoot has received more than 240,000 account applications with accounts accepted now approaching 150,000 and deposit balances of over £700 million. Inscape is competing well in tough equity investment market conditions.

## UK Retail Banking

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- .. focusing on retailing**  
... By focusing on our core retailing skills, being innovative and delivering excellent value and choice to customers, we are deepening our franchise and driving up revenues. We are challenging how we do business, increasing the quality and the efficiency of the service we are providing.
- .. strong mortgage and savings performance ..**  
Gross mortgage approvals in March were the highest for any month in our history. Capital repayment levels reduced for the third successive quarter, and have been below our stock share for over two years.  
  
In March, we announced the launch of two base rate tracker mortgages: a no-frills, low cost product and a fully flexible version. The offering delivers flexibility and value for money for all our customers, and replaces SVR for new customers who reach the end of an offer period in the future. We are proactively contacting our existing SVR customers to offer a review of their current mortgage arrangements.  
  
Despite continued switching into equity-based investments, savings deposits in the last quarter saw a net inflow with improved performance in branch-based accounts. In addition, a large proportion of maturing TESSA capital was retained into the ISA range, which saw an inflow of £1.4 billion, double the level of the first quarter in 2000.
- .. making an impact in personal banking ...**  
Current account net openings of approaching 4,000 per week are up 161% on the same period last year, supported by market leading overdraft rates, an efficient switcher service, and the NUS agreement for the new to market student segment.
- .. general insurance ...**  
Strong motor policy sales were up 25%, with policies in force now 60% higher than at the same point last year. We are also developing a healthy pipeline of secured creditor business from our intermediary lending.
- .. sales through Abbey National Life boosting revenues ...**  
Abbey National Life new business premiums of just under £500 million are running slightly ahead of the record levels achieved at the same period last year, despite adverse market conditions. The business is expected to make another strong contribution in 2001.
- .. over 850,000 banking registrations...** e-  
We have now registered more than 850,000 customers, and have received approaching 120,000 product applications online.
- .. £1.3 billion of mortgage approvals online...**  
We have registered more than 8,500 introducers who are now dealing with us online, with mortgage approvals of over £1.3 billion received in the first quarter alone.
- .. branch franchising success ...**  
The branch franchising pilot has now been extended to over 10% of the branch network, and is continuing to generate significant sales productivity uplift.
- .. convenience retailing redefining the banking experience ...**  
Convenience Retailing continues to be rolled out across the network. The Croydon 'superstore' was opened on January 4<sup>th</sup> 2001, and includes Costa coffee facilities, a Carphone Warehouse, an e-banking interface, a financial 'MOT' service, and lounge and play areas. There will be more superstore openings in 2001 – reflecting customer feedback on our 'cappuccino banking' concept.
- .. new panel for general insurance business to increase customer choice**  
... In January, we announced new panel and outsourcing arrangements for our general insurance business. These will deliver more competitive pricing, covering a broader spectrum of risks, and with internet functionality available from the summer. We are aiming to increase the number of policies in force by 40% by the end of 2003. The

transaction is targeted to be earnings enhancing from 2002 onwards.

***.. joint venture with EDS delivers immediate loan processing savings ...***

In February, we announced an arrangement with Electronic Data Systems to form a Joint Venture for the post-sales servicing of Abbey National's retail mortgages and personal loans. The JV will deliver immediate cost savings of approximately £9 million per annum in 2001 whilst aiming to provide best-in-class loan processing costs in the future.

***.. innovative partnership arrangement with MBNA to boost credit card sales...***

In March, we announced new arrangements with MBNA to galvanise our credit card offering. MBNA will develop a wide portfolio of innovative Abbey National branded cards, which will generate a fee-based income stream driven by card issuance and usage. As part of the deal, the existing credit card asset was sold to MBNA, generating an estimated profit on sale of £45 million.

### **Wholesale Banking**

***.. strong results across the business ...***

In the first quarter of 2001, the Wholesale Bank continued to deliver strong results across established and newer business streams. Profits are running well ahead of the same period in 2000, with a notable contribution from Asset Financing.

Debt markets have shown some improvement in terms of liquidity and spreads, although further volatility is expected. The weakness in equity markets had no negative impact on the Wholesale Bank's transaction flows and revenues over this period, and the level of private equity realisations remained healthy.

***... increased return on equity...***

We are making progress in improving the return on equity above the 17.2% achieved in 2000, in line with our stated target of 18% - 20%.

***.. strong deal flow sustaining growth ...***

This quarter's excellent performance reflects strong deal flow across a number of business areas. In particular, Acquisition and Project Finance completed 12 and 14 deals respectively, compared with 6 and 9 in the same period last year. In March, we won the mandate to co-arrange and underwrite £1.45 billion of debt facilities to support the acquisition of 46% of the UK's National Air Traffic System by a consortium of seven UK airlines. PFI deals for the Wholesale Bank include providing senior debt for the acquisition of Bristol International Airport, and providing finance for the construction and refurbishment of the West Middlesex Hospital. Current market conditions are also providing more opportunities for businesses such as credit derivatives, launched by the Wholesale Bank in 2000.

***.. international operations ...***

Our Hong Kong branch opened in 2000, and made good progress during the first quarter diversifying sources of funding, raising over \$1.5 billion by the period end. We are planning to extend our physical international presence further through a branch and broker dealer office in Connecticut, USA, during the second half of this year.

***.. an award-winning bank...***

Following numerous accolades in 2000, the Wholesale Bank has received further recognition of its innovative approach to capital and funding markets including being named Structured Finance International's 'Asset Backed Issuer of the Year'.

***...credit quality remains robust...***

Despite the slowdown in the US economy and repercussions in other markets, the credit quality of the Wholesale Bank's assets remained robust, consistent with our strategy of lending to predominantly highly rated institutions. Exposure to individual sectors, including the telecoms and high yield sectors, are tightly managed. Provisions continue to be made to reflect business growth and market conditions.

*.. strong pipeline of business carried forward ...*

The first quarter's strong results lay the foundation for continued success. The Wholesale Bank is well positioned to benefit from the increasingly active debt markets, and the strong appetite for government related finance, which has resulted in a strong pipeline of new business carried forward into the second quarter.

## **Business to Business**

### **Life Assurance**

*... strong growth in new business levels ...*

In total, funds under management have increased by over 8% in the last 12 months, despite a falling stock market. In Scottish Mutual, year to date new business premiums are up 26% to around £0.6 billion, including strong sales of With Profit Bonds.

*.. international sales growth ...*

New business volumes through Scottish Mutual International are 39% higher than the same period last year. This again reflects particularly strong sales of the With Profits Bond throughout mainland Europe.

*.. proposed acquisition of Scottish Provident ...*

The proposed transfer of Scottish Provident is progressing well. Policyholder voting is expected to be complete by end June, subject to which there will be a final Court meeting to sanction the transfer that is anticipated to become effective in July. Scottish Provident will contribute to, and complement, an increasingly powerful portfolio of life assurance brands and channels.

### **First National**

*.. a discerning approach to new business ...*

First National is continuing to compete more selectively in the depressed Motor and Retail Finance markets.

*.. limited residual value impact ...*

Motor and Retail Finance have seen lower new business volumes than in the same period in 2000. This in part reflects a reduction in the size of the point of sale finance markets for cars and PCs. In addition, we have continued to take a cautious approach to credit underwriting and pricing in order to minimise the future effect of defaults and falls in residual values.

In both Consumer and Business Finance, First National is competing more aggressively and generating good growth.

*.. breaking into the SME banking market ...*

Business Finance deposit balances increased by 15% in the first quarter alone. The Group is now providing services to over 135,000 business customers, and is committed to growing its market share of SME services to 5% by the end of 2005. Plans are being progressed to develop in-branch business banking and overdraft facilities, in the second half of the year.

*.. integration approaching completion ...*

The integration programme continues to make good progress, and is on target for completion by the end of 2001.

## Business to Consumer

### Wealth Management

*.. strong growth in retail deposits ...*

In the existing Wealth Management operations ongoing business performance continues to be strong, building on excellent results in 2000. Offshore retail deposits have grown by 10% to over £5.3 billion. James Hay has expanded, with rapid growth in the number of Self Invested Personal Pensions being administered.

### Inscape

*.. competing hard, despite difficult market conditions ...*

Inscape is competing hard in difficult market conditions, attracting two thirds of all funds from outside of the Group. In addition to the six client advice centres already open, a further six sites are due to be opened by the year-end. The business is targeting 100,000 customers and funds under management of £8 billion by the end of 2004.

### cahoot

*.. award winning proposition ...*

cahoot has received more than 240,000 account applications and has accepted approaching 150,000 accounts, well on the way to the 200,000 accounts targeted by the end of 2001. Credit card balances are now in excess of £80 million, and current account balances over £700 million, in addition to which we offer a share dealing service.

*.. numerous awards for the service and product offering ...*

The cahoot brand has achieved exceptional awareness levels of 46%, an outstanding result for a brand less than one year old. It has also been short-listed for the new Brand of the Year Award, and was recently voted one of the UK's most innovative companies.

*.. additional products being launched ...*

In the second quarter, a flexible loan will be added to the product range with structured savings to follow later in the year.

## Investment Spend & Cost Targets

*.. investment levels to halve in 2001 ...*

In 2000, £190 million was invested in Retail e-commerce, Finance House integration, cahoot and Inscape. The level of investment will halve this year. The majority of the investment spend will be focused on the Retail e-banking service and completing the Finance House integration.

*.. committed to cost containment at a Group level ...*

We are making good progress towards reducing costs in the Retail Bank, and, subject to corporate activity costs, our full year objective to reduce costs at a Group level in 2001.

## Credit Exposure

*..continuing credit strength despite some economic slowdown ...*

Credit quality across the Group remains robust, despite volatile market conditions and a moderate economic slowdown.

In the Retail Bank, mortgage arrears remain at their lowest levels for a decade, and are some 12% lower than at the same point last year. Banking products continue to show improvement, despite increased unsecured loan provisions reflecting the significant growth of this book.

In the Wholesale Bank we have provided to reflect growth of the business and current market conditions.

In First National, we have continued to take a cautious approach to credit underwriting and pricing in order to minimise the impact of defaults and residual value losses.

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Copies of this statement are available from the Abbey National Group website:  
[www.abbeynational.plc.uk](http://www.abbeynational.plc.uk)

Copies of the recent Wholesale Banking presentation are available at the Wholesale Bank's website:  
[www.ants.co.uk](http://www.ants.co.uk)

The Interim results announcement will take place on July 25<sup>th</sup>.