

2000 Spring Business Statement

This release coincided with Abbey National plc's Year 2000 AGM, that was held on 27 April 2000.

Abbey National plc's Chairman, Lord Tugendhat has commented: "Abbey National has seen growth across all its businesses in the first quarter of 2000. In particular, in the Retail Bank we have continued our excellent performance in the mortgage market with our estimated share of net lending over 12% and we have announced plans to restructure our branch network around local market activity to accelerate revenue growth. Credit quality across all businesses remains good. Our Wholesale Bank continues to grow its revenue, and acquired Porterbrook on 20 April. In Life Assurance, new business premiums are up 36% on the first quarter of 1999 and the fund management arm has been rebranded Abbey National Asset Managers after five years of outstanding performance. In the Finance House, the focus remains on implementing the radical change programme initiated in 1999. Our e-commerce developments are well advanced with the e-banking service in Retail piloted this month with launch in May, cahoot's pilot has started with the full rollout still on track for June and our Wealth Management initiative is set to launch in the fourth quarter. In addition, a number of business to business initiatives to intermediaries will be coming onstream throughout the year."

Current trading conditions

UK Retail Banking

A strong mortgage performance with gross lending of £3 billion has been achieved in the first three months. Steady redemption levels have helped deliver a net mortgage market share of over 12%, twice the level achieved at this time last year. A healthy pipeline of mortgage applications continues into the second quarter of the year.

Long term savings and equity linked products performed strongly and we took a 12% and 10% share of the investment and cash ISA market respectively. This performance has had an impact on shorter term savings accounts, in particular accounts with high headline rates, and the net savings outflow experienced has been at a similar level to the same period last year.

Over 54,000 bank accounts have been opened during the period and the Group now has over 3.3 million bank account customers. In March, Abbey National saw the biggest increase in banking liability for 3 years. With the Cruickshank review tackling the issue of bank account portability, Abbey National expects this to be a continuing growth market. Unsecured personal loans have had a good start to the year with a 14% growth in assets compared to the same period last year and decreases in arrears following

changes made last year to improve quality.

The retail net interest spread is running above the mid-point of its historic range, although below the 220 basis point spread at the year end 1999.

We continue to increase the average number of products held per customer which is up to 1.77 from 1.75 at the year end.

The transformation of the branch network has continued this year. We have been developing our convenience retailing programme and focusing on local market activity. These initiatives are aimed at providing our customers access at locations most convenient to them eg. in-store Safeway stores, offering a branch environment and opening times that reflect customers' needs thereby increasing sales opportunities.

The Retail's e-banking service piloted on the internet this month, with the launch of the service and staged rollout in early May, on the retail website - www.abbeynational.co.uk.

- The Abbey National bank account, Instant Saver, Direct Saver and cash ISA have all become e-enabled with a greater range of products due on-line later in the year, including flexible mortgages, flexible pensions and share dealing.
- The Abbey National bank account lies at the heart of the 'Flexible Finance' proposition, and customers can now transact on-line when and how they wish between their products. For example, a customer will be able to move money between Abbey National accounts, pay bills, make personal payments to other banks and be able to apply for an overdraft on the internet. Flexible Finance will be expanded later in the year to encompass flexible mortgages and pensions.
- In June, Abbey National's banking service will go interactive on Open, with transactional interactive capability available on NTL and Telewest later in the year. We will be the first bank in the world to offer interactive banking services over the internet and the television. Interactive digital television will be able to be accessed by 15 million adults in the UK over the next couple of years and Abbey National will be the dominant player using this channel. We believe it to be the most appropriate new channel for retail customers.
- We expect the "bricks and clicks" approach from one of the UK's most trusted brands to bring 1 million customers on-line within a year.
- In addition, Abbey National was the first major lender to announce the launch of an on-line service for mortgage brokers due this summer which will speed up applications and reduce costs with real time case tracking. More than 10,000 mortgage brokers and independent financial advisors will be users by the autumn and Abbey National has already received guarantees for additional mortgage business as a result of the new system.

Wholesale Banking

Wholesale Banking has successfully developed its new, sustainable income streams in a wide range of markets and the well established asset-backed portfolios and wholesale lending businesses delivered strong performances in the first quarter and contributed to an improvement in interest margins. Wholesale Banking has also increased its return on equity in the first quarter.

In relation to the development of the new markets, with the European mergers and acquisition market continuing to be very active, Wholesale Banking participated in a number of deals including Royal Dutch Telecom's acquisition of E-plus. The asset-financing businesses had an excellent quarter: investments in private equity funds continued to grow and delivered a number of profitable realisations, 12 project finance deals were completed including 3 partnerships through the government's Private Finance Initiative. The risk management and securities lending businesses continued to grow.

In February, Abbey National was the first bank to raise capital in the international capital markets via the internet. This \$1 billion preferred perpetual security distributed 25% of its offering via the internet.

In March, Wholesale Banking successfully completed a three year project which has re-engineered the company's back-office systems.

On 20 April 2000, Abbey National's acquisition of Porterbrook Limited ("Porterbrook") from Stagecoach Holdings plc was completed following approval from Stagecoach's shareholders. The total cash paid was £773 million and Abbey National has taken over Porterbrook's net external debt, including liabilities under new contracts, of approximately £669 million. Porterbrook is one of the UK's three major rolling stock leasing providers and combined with Wholesale Banking's financial strength and reputation in the funding markets, this acquisition will give Wholesale Banking substantial foundations on which to build its operating lease business in rail and similar industries. Wholesale Banking expects to win a significant proportion of new business as the franchises of the train operating companies are renewed.

Life Assurance

Life Assurance continues to grow strongly, with funds under management in Glasgow now standing at over £19 billion. Total new premium business was up 36% on the same period last year, with a substantial increase in new single premium life business.

During the first quarter, Abbey National Life's new single premium business (including Abbey National Unit Trust Managers and Abbey National PEP and

ISA Managers) grew 62%. In particular, a £155 million tranche of the capital protected structured ISA product sold out early and we will be launching further tranches over the remainder of the year.

Scottish Mutual has also seen strong growth in new business predominantly driven by sales of the With Profit Bond. Sales of regular premium healthcare cover have more than doubled on the same period last year following the re-launch of the highly acclaimed critical illness contract, which is sold under the Pegasus brand.

Scottish Mutual International has seen very strong premium income growth with 75% of new business coming from outside the UK in the first quarter. Sales of the International With Profit Bond have been particularly successful and plans are in place to launch this product in Spain, Greece and Austria in the near future.

New business apart, Scottish Mutual and Scottish Mutual International are transforming the way they deal with independent financial advisers (IFAs). IFAs can now deal through the internet gaining access to marketing libraries, quotation services as well as application forms, price and performance data.

As part of its drive into the institutional marketplace, Abbey National has rebranded its Glasgow-based fund management arm from Scottish Mutual Portfolio Managers Limited to Abbey National Asset Managers Limited. The fund management company has been operating as a direct subsidiary of Abbey National plc since 1996 and the re-branding comes just months after an impressive top quartile performance from its flagship pooled managed fund over 3, 5 and 10 years was revealed in the 1999 CAPS survey.*

Finance House

Excellent progress has been made in the first quarter on the business transformation of the Finance House with half the projects within this programme now completed. The integration of the First National and the ex-Lombard motor businesses under the First National brand has been completed as has the rationalisation of the local office network. In addition, the two leasing businesses have been integrated. Significant effort is currently being focused on the business transformation programmes in Tricity Finance and the Motor division to further enhance returns.

We are using technology to strengthen our relationships with intermediaries by supporting them to build their relationships with their customers. First National Consumer Finance has been developing internet sites with suppliers. Motor finance's 'first on line' offers dealers on-line finance giving a faster and more versatile service. First National's leasing business offers a gateway for brokers to send their proposals on-line and Retail Finance have been running electronic Point of Sale pilots with major retailers.

The aftermath of the Cruickshank's banking review potentially enhances the opportunity to expand our SME business banking and finance activities. Abbey National is launching to small business customers through the Abbey National Bank Account, the e-banking service offering transactional functionality to sole traders and partnerships.

General Insurance

The focus remains on improving operational efficiency and increasing customer retention rates. Business priorities have continued to be on the Abbey National Direct offering, with new business volumes in motor insurance increasing by over 40% compared to the first quarter of 1999.

Wealth Management

Retail liabilities are continuing to grow with onshore retail liabilities growing at a double digit rate. Work has continued to build a single infrastructure for Abbey National and Cater Allen offshore, with the banking back office operations being centralised into one site on the Isle of Man.

Project "Prosper", the new business being built to fill a significant gap in the fast growing higher net worth market, is progressing towards its launch later in the year. It will combine investment management with face-to-face advice, discretionary fund management and cash management. The "Prosper" service will be available from a national network of regional client advice centres and comprehensive client information will be available through a wide range of channels including the internet.

cahoot

cahoot, our separately-branded internet bank, currently being piloted, will launch in June initially offering very competitively priced credit cards and current accounts with pricing tailored to individual customers. "cahoot messenger" will ensure the customer is kept up-to-date with their finances. The customer will be able to personalise the messenger to let them know about any activity in their accounts via email, their personalised cahoot homepage or text messaging on their mobile phone. cahoot will offer customers a range of products and services through its innovative partnerships. This new business will offer multi-channel access using the internet at www.cahoot.com, IVR and a contact centre as well as in the near future, digital television and WAP mobile phones. Abbeylink ATMs will be used to access cash.

The business will be run using only 50 staff, using new technology to deliver

straight through processing with the customer being in control of how they manage their accounts. cahoot will be the lowest unit cost producer in the market and will sustain highly competitive pricing in its product range.

Abbey National's 2000 Interim Results will be announced on Wednesday 26th July 2000.

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Full text of Lord Tugendhat's AGM speech will be available on the Group website - www.abbeynational.com.

* Source - CAPS Pooled Pension Fund Survey to end December 1999.