

**This is an unedited transcription of the original speech given by Christopher Tugendhat at the Abbey National Group's Annual General Meeting on 27 April 2000.**

"Good morning and welcome to Abbey National's Annual General Meeting. I am Christopher Tugendhat, Chairman of Abbey National and I am delighted to see so many of you have been able to attend.

Shortly, I will give you an overview of Abbey National's performance and our strategy moving forward, but first I will ask our Company Secretary, Ian Treacy, to read the notice convening the meeting.

[IAN TREACY READS NOTICE OF MEETING AND DISCUSSES AUDITORS' REPORT]

I will now give you a summary of our 1999 performance: Abbey National announced a very strong set of results. Profit before tax increased 17% and earnings per share were up 19%. The post tax return on equity increased to 22.8% and the final net dividend we are proposing for the year is 26.85 pence, making the full year net dividend 40.25 pence, an increase of 14% over 1998.

Looking at our main business divisions:

- The UK Retail Bank increased profits by 8% to almost £1 billion. Gross lending of £12.2 billion was a new record.
  
- We have continued to diversify our product offerings: in 1999 we launched a Flexible Mortgage, a Flexible Pension, and led the industry in the ISA market.
  
- The Group's Wholesale Banking arm had another excellent year, with a number of new initiatives contributing to a profit increase of 16% to £419 million.
  
- Our Life Assurance Division also had another exceptional year, with an increase in profits of 21%. New business premiums increased by 41% to over £3.5 billion and funds under management increased by 34% to £18.5 billion.

- Finance House pre-tax profit was up 49%. Total revenues more than doubled to £541 million and the balance sheet grew to over £8 billion.
- Our General Insurance and Wealth Management divisions both saw very strong profit growth as we broadened our product offerings in both businesses. General insurance profit increased 6% to £104 million and Wealth Management profit, excluding the costs of developing a new initiative, increased 38% to £36 million.

This extremely healthy set of results, showing strong growth in all areas of our business, was achieved against a backdrop of increasing competition within the financial services' marketplace.

Nonetheless, our share price has suffered - and as you all know, so has the share price of virtually all of the major players in the financial services sector. Over the past few months the sector has suffered as investors have been attracted to technology, media and telecommunications stocks, as fears over interest rate rises have continued, and as regulation and competition - particularly in the mortgage industry - has increased.

In recent weeks bank valuations - and particularly our own - have improved. This has been helped by the downward valuation of the "new economy" stocks, and the realisation of the inherent strength of our business.

I would like to take this opportunity to say that we believe that the strength and diversity of our business will allow us to successfully deal with the challenges we face. Indeed, as you will hear later in my speech, we are already taking advantage of some of the new opportunities offered by technology.

Abbey National is going from strength to strength: we have 16 million customers - double the number we had ten years ago. We are the UK's second biggest provider of mortgages and short term savings. Through First National, we are the UK's leading Finance House. We have the fastest growing life assurer, Scottish Mutual, and we are, through Abbey National Life, the UK's leading bancassurer. Our Wholesale Banking division brings its expertise to institutions worldwide in markets ranging from project finance to risk management solutions, and is one of the largest issuers in the international bond market.

As a Group, we have assets of over £180 billion, and by this criterion, we are the fourth largest bank in the UK.

We are in a strong position to meet the challenges of the future.

Our strategy moving forward remains clear: to increase revenue, to become more cost efficient, and to use our capital even more effectively. By delivering on these we'll continue to generate significant cashflow, and that will allow us to radically change our business - and invest in the future.

The drive behind our strategy is to grow topline revenue. We will do this by focusing on our customers' needs and through investment in new distribution channels. We will also continue to improve our cost efficiency, by radically developing our business and by embracing e-commerce.

To do this, during 1999 we made additional investments of £152 million in building new businesses, investing heavily in new markets and also in improving our business infrastructure and processing efficiency. We will continue to do this moving forward.

### **SPRING BUSINESS REPORT**

Building on the foundations laid last year, Abbey National has seen growth across all its businesses in the first quarter of 2000.

#### **UK Retail Banking**

Turning first to Abbey National's Retail Banking division:

In the first three months of the year, we have seen a strong mortgage performance, achieving gross lending of £3 billion. Abbey National's net mortgage market share for the first quarter was 12%, twice the level achieved last year. A healthy pipeline of mortgage applications continues into the second quarter of the year.

Long term savings and equity linked products have performed strongly with investment ISAs taking a 12% market share and cash ISAs a 10% market share.

The majority of these investments have come from existing customers who trust Abbey National for sound long term financial advice.

We have opened over 54,000 bank accounts during this period and we now have over 3.3 million bank account customers. This reflects our success at breaking into markets historically dominated by the major clearing banks. We will be able to build on this following the Cruickshank review which tackles the issue of bank account portability.

Unsecured personal loans have had a good start to the year with increases in assets and decreases in arrears.

The strength of investment markets together with the January deadline for tax payments has had an impact on our deposit savings balances, where the net savings outflow has been at a similar level to the same period last year.

The transformation of the branch network continues. In line with our brand promise of making our customers' lives easier, we have been focusing on local markets aimed at providing customers with better access to our services at the places and times that they want them.

We now have 25 outlets in Safeway stores, giving us the largest in-store franchise in the UK.

We are revolutionising the role of branches. We've increased the number of service desks to over 1400, and the number of interview rooms to over 2000. In an arrangement with Costa Coffee, we will soon be opening our first in-branch coffee shop with more planned over the next three years. Many branches will also soon be equipped with in-branch PCs to enable customers to use the Internet - many of them for the first time - with staff on hand to help customers, both old and young, to educate themselves in new technology.

The Retail Bank has piloted its e-banking service on the retail website this month, with the launch and controlled roll out during May. The new service and its associated features will offer customers more on-line accounts and facilities than any other provider, adding another means by which customers can manage their finances with us.

The Abbey National Bank Account, Instant Saver, Direct Saver and cash ISA will 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.

In June, Abbey National's e-banking service will go interactive on Open. Later in the year, this service will be extended to the cable channels NTL and Telewest.

Abbey National intends to be the dominant player in providing financial products and services through interactive digital TV in the UK. This new distribution channel will give us access to over 15 million households in the UK over the next couple of years, and we will be the first bank in the world to offer interactive banking services over the Internet and on digital television.

Incidentally, I should like to emphasise that this initiative is quite separate from, and in addition to, cahoot - our separately branded Internet bank, about which I shall speak in a few moments.

### **Wholesale Banking**

Moving now to Wholesale Banking:

In the first quarter of 2000, Wholesale Banking continued its successful development of new, sustainable income streams in a wide range of markets.

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 also increased its return on equity in the quarter.

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.

In February, Abbey National was the first bank in the world to raise capital in the international capital market via the Internet.

On 20th April, we completed the acquisition of Porterbrook from Stagecoach Holdings plc for £773 million. Porterbrook is one of the UK's three major rolling stock leasing companies and combined with Wholesale Banking's financial strength and reputation in the funding markets, this acquisition will give us substantial foundations on which to build our operating lease business in rail and similar industries. We are already winning a significant proportion of new business as the franchises of the train operating companies are renewed.

### **Life Assurance**

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

During the first quarter, we experienced unprecedented demand for our capital protected ISA product. A tranche of £155 million sold out early, and plans are in place to launch 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.

Scottish Mutual International has seen particularly strong single life premium growth with 75% of new business coming from 10 countries outside the UK in the first quarter, demonstrating the huge potential of this business going forward.

### **Finance House**

In our Finance House division, the focus in the first quarter has been on transforming the business. In Motor Finance, the integration of the First National motor business and the ex-Lombard businesses under the First National brand has been completed - as has the rationalisation of the local office network. In Business Finance, the two leasing businesses have been integrated. Significant effort is currently being focused on the transformation programmes in Tricity Finance and the Motor division. Cruickshank's banking

review offers further opportunity to expand significantly into areas traditionally dominated by major clearing banks, and these opportunities are already being seized by Business Finance.

### **General Insurance**

Our General Insurance division remains focused on improving operational efficiencies and 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**

In our Wealth Management division, retail liabilities are continuing to grow, with onshore savings growing at a double digit rate. Work on building a single infrastructure for the two brands of Abbey National offshore and Cater Allen offshore has continued, with the banking back office operations being centralised into one site.

A new initiative - currently code-named Project Prosper - is progressing towards its launch later in the year. This initiative is aimed at addressing the needs of the rapidly growing market of people with over £50,000 liquid savings.

The business will combine investment management, advice, discretionary fund management, and cash management. It will offer its clients a combination of face to face advice - through a national network of offices, together with personal information and two way communication through a range of channels, including the Internet.

### **cahoot**

cahoot, our separately-branded Internet bank, currently being piloted, will launch in June. Its first offerings will include a competitively priced credit card and current account with pricing tailored to individual customers. This new business will offer multi-channel usage, initially through the Internet, with digital television and WAP mobile phones coming on-line in the near future. Abbeylink ATMs will be used to access cash.

The business will be run using only 50 staff. It uses new technology to deliver straight through processing with the customer in control of managing their accounts. cahoot will be the lowest unit cost producer in the market, and will continue to offer competitively priced products.

### **Summary**

In summary, we see tremendous revenue growth opportunities in all our businesses. We will continue to invest to increase revenue, and enhance shareholder value through whichever means is most appropriate, including organic development, acquisitions, joint ventures and partnerships.

We will continue to improve our operational efficiency, building on our success to date, but we won't hesitate to reinvest these savings in new propositions, new initiatives, and new businesses - especially if they allow us to exploit profitable growth opportunities.

Abbey National has 16 million customers and a powerful set of brands that people trust. We have proven products and services, an integrated distribution network that delivers, and financial strength. This is a tremendous base on which to grow our business profitably. We are confident we will continue to be a winner.

That concludes my opening remarks."