

This is an unedited transcription of the original speech given by Christopher Tugendhat at the Abbey National Group's Annual General Meeting on 26 April 2001.

"Good morning everyone. Welcome to the Annual General Meeting. I'm Christopher Tugendhat, Chairman of Abbey National, and I'm delighted to see that so many of you have been able to come along today.

In a few moments, I will give you an overview of Year 2000 – an extraordinarily busy and successful year for Abbey National. After that, Ian Harley, our Chief Executive will look at what we've already achieved in the first quarter of this year – and how we will continue to grow your business into the future.

Before I begin though, I'd like to introduce our Company Secretary, Ian Treacy, who will read the notice convening the meeting.

[Ian Treacy reads notice of meeting and discusses auditors' report]

Financial Summary

Thank you Ian. 2000 was another very successful year for Abbey National.

Our profits of £1,975 million represent an increase of 11% on 1999.

This was the eighth successive year of double digit profit growth. We invested £190 million launching new ventures such as cahoot and Inscape, and our e-banking platforms in Retail.

Excluding this investment, underlying profits increased by 17% to £2.1 billion.

Our total cost:income ratio of a shade over 44% makes us one of the most efficient banks in the UK.

Earnings per share were 93.4 pence - compared to 86.2 pence in 1999.

We increased the full year dividend per share by 13% to 45.5 pence, reflecting our continuing confidence in the Group's future prospects.

Robust Retail Banking performance

In our Retail Banking division, profits increased by 5% boosted by record new business levels. We saw a 42% increase in profits across our current account, credit card, unsecured personal loans, general insurance and life assurance product lines.

Gross mortgage lending of £12.8 billion was our best performance ever.

We also achieved record gross unsecured personal lending, and increased our number of bank account openings by 40%.

We are not only competing hard for mortgage and savings new business, but we are also using the strength of the Abbey National brand to increase our presence in other markets - notably personal banking, general insurance and long term investments.

Strong diversified performance

In fact, diversification has long been a key factor in Abbey National's success - both inside our Retail Bank and through the broad range of businesses that we have established over the last 12 years.

Last year, 53% of profits came from businesses other than mortgage and savings, compared to 45% a year before.

There was particularly strong profit growth in Wholesale Banking, which increased by 37%. The Wholesale Bank continued to break into, and develop, new markets, opening a branch in Hong Kong, and of course, benefiting from the acquisition of Porterbrook last year.

Our Life Assurance businesses produced an excellent performance, with profits up 29%. New business premiums were up 34% to a record £4.3 billion, and funds under management by 12% to almost £21 billion.

Wealth Management, also contributed strongly, growing its deposit base rapidly, and increasing profits by 36%.

In First National, market conditions were tough, but the business still increased profits by 5%.

Our commitment to diversification will be boosted further through the proposed £1.8 billion transfer of Scottish Provident, announced in September 2000. The transfer represents a step change in the scale and growth prospects of our life assurance business - and is our biggest ever transaction.

Investing for the future

We have a strong portfolio of businesses spanning the range of financial services in the UK - but we know there is more to do. This time last year I outlined our plans to invest significantly to transform our existing businesses and launch new ones - offering new propositions to attract new customers.

As part of this transformation, we launched our retail e-banking service in May, cahoot in June, and more recently Inscape in November.

We have also invested to transform the Retail Banking business and continue the integration of our First National businesses.

We have an excellent executive management team - we have delivered on the promises we made 12 months ago, investing in your business, reshaping and building platforms for future growth.

And I am pleased to say that it has been a good year in terms of our share price. Since I last spoke to you at last year's AGM our share price has risen from £7 and 36 pence to £12 and 25 pence - an increase of around 65%.

UK Economic outlook

A feature of the first quarter of this year has been the somewhat turbulent international markets and a less favourable economic outlook, particularly in the United States.

While the UK economy is not immune to such events, we believe that it will grow by around 2% - 2.5% with continued low inflation.

The actions of the Bank of England so far this year have helped to protect continued growth, while still safeguarding low inflation.

If growth in the UK slows more than commentators expect, we believe that our diversified range of business activities would remain robust, and we can continue to sustain good growth.

Corporate activity

No doubt you're aware that in the last quarter of 2000 we entered into merger discussions with Bank of Scotland.

Subsequently, Lloyds TSB made a pre-conditional offer for Abbey National in January of this year - those pre-conditions being that the Abbey National Board would recommend the deal to you - the shareholders - and that the proposal would not be referred to the Competition Commission. The Board rejected the offer.

We considered the terms of the approach to be inadequate, and felt that the premium offered was insufficient for a change of control.

We were also concerned about execution risk, how the two organisations would be combined, and the impact on value to you, our shareholders from such a combination - particularly given that 80% of the consideration for Abbey National was in the form of Lloyds shares.

A third concern was the risk of regulatory intervention - the legal advice we were given was that this would be likely. And in February, the Lloyds TSB bid was in fact referred to the Competition Commission by the Trade Secretary, Stephen Byers.

This referral means that Lloyds TSB can't proceed with an offer to you, as shareholders, unless the competition authorities allow the takeover to proceed. The decision is not expected until some time after the 12th of June.

Given the uncertainty caused by this situation, we felt that it was necessary to end talks with Bank of Scotland - and to focus on running and growing our business.

With this in mind, I'll now hand you over to our chief executive, Ian Harley, who will give you an overview of our recent trading performance and our plans for the future."