

This is an unedited transcription of the original speech given by Ian Harley, who was at the time Abbey National's Chief Executive at the Annual General Meeting on 26 April 2001.

## **Introduction**

Thank you Christopher. Good morning everyone.

As you have heard, 2000 was an excellent year. We demonstrated real agility, innovation and momentum, radically changing how we do business and launching new services, platforms and flexible products for our customers. At the same time, we competed hard, posted record new business levels, and presented a strong set of financial results.

## **A strong start to 2001**

And I'm very pleased to report that 2001 has started well with a strong set of financial results in the first quarter.

We are continuing to diversify, manage costs and compete successfully for new business - but not at the expense of credit quality.

## **Retail Banking - growing the bank**

Turning first to the Retail Bank. As always, our priority is to grow revenue by attracting and retaining more customers, and increasing sales across our broad range of personal financial service products.

In the first quarter, the mortgage and savings market has again been competitive. Despite this competition, we have achieved a net lending market share comfortably within our target range of 5 - 10%, and, in fact, mortgage approvals in March were our highest ever. We have also achieved positive inflows of retail household deposits.

Back in June last year, we highlighted personal banking as a priority. We are making real progress in this market. In the first quarter of 2001, net branch bank account openings were up 161% on the same period last year to almost 4,000 per week - an outstanding achievement. If we add cahoot bank account openings, this figure is over 6,000 per week.

We offer market leading overdraft rates and an efficient switcher service. We also have an exclusive deal with the National Union of Students to market our account to the profitable customers of the future - the students of today.

We are targeting one million new bank account customers by the end of 2003.

We have recently announced a number of joint ventures and partnerships aimed at boosting sales and increasing cost efficiency.

In January, we announced plans to increase the flexibility and competitiveness of our general insurance offerings by using a panel of specialist underwriters. We also transferred processing and systems development to Capita Eastgate, to improve efficiency and customer service.

In February, we announced a joint venture with EDS to carry out all post-sale servicing of the bank's mortgage and personal loan assets. And, in March, we announced a link up with MBNA to develop a market leading portfolio of credit cards to offer to our 15 million customers.

We are accessing the scale and expertise of global providers to improve our product offerings, service standards and cost efficiency.

Finally, in terms of life assurance sales, the first quarter has seen the Retail Bank consolidate its position as the most successful bancassurer in the UK, with new business premiums running ahead of last year's performance - an excellent result given tough equity market conditions.

Bancassurance will continue to be a major driver of growth in the Retail Bank and we aim to increase the proportion of our active customer base who have a long term investment product from 14% to 20% by the end of 2003.

### **-Retail Banking - re-engineering the business**

Over the last 18 months or so we have been challenging all aspects of how we do business in the Retail Bank - looking for opportunities to grow revenue as well as increasing flexibility and efficiency, particularly in the way in which we distribute and sell our products and services.

In July last year, we launched a branch franchising pilot - the first of its kind by a European bank. This gives our best sales managers much greater freedom to align resources to the needs of their customers at a local level. Sales among franchised branches improved by an average of 17% last year over and above the network average, and with this kind of outcome we want to roll out this format rapidly.

We continue to develop our distribution strategy.

We launched our Retail e-banking service back in May last year and have now registered over 850,000 customers to the service and received approaching 120,000 product applications on line.

We are also investing in the branch infrastructure - changing the format of branches to include Costa Coffee outlets, e-banking interfaces and increasing our number of Safeway in-store branches.

We see the branch as key to providing continued choice for customers. Indeed, our research shows that 90% of customers rank convenient branch

location at the top of their list when choosing a current account provider.

We are confident about the future prospects of the Retail Bank. It has never been easier for customers to do business with us, and when they do we are delivering a unique experience - whether it's over the phone, over the internet, over the counter or over a cup of coffee.

### **Wholesale Banking - strong results, good prospects**

Moving onto our Wholesale Banking division. In the first quarter, financial performance across each of the Wholesale Bank's business streams has been very strong, with total profits running well ahead of the same period last year.

We have continued to invest in our wholesale lending franchise, and increased our participation in acquisition finance deals - we expect this business to continue to grow in 2001 and beyond.

In Asset-financing we are looking to extend our participation in a range of project finance markets. We are already the leading participant in the Government's private finance initiative. In the first quarter, this has included providing finance for the construction and refurbishment of the West Middlesex Hospital.

Our Risk Management and Financial Products division is a market leader in providing equity derivatives to support retail products, and last year extended its scope to include credit derivatives. Going forward, it will continue to develop its product range, strengthen its UK position and expand internationally.

Securities Financing is maintaining its strong position in the sterling market, whilst targeting growth from international expansion and an increased product range.

In fact, the Wholesale Bank operates globally across many of its businesses, and is looking to exploit more international growth opportunities. Having opened a branch in Hong Kong, we are hoping to open a US branch later this year.

We are growing this business and increasing returns. It is a business of which we are rightly proud - its track record is first rate, and its future growth prospects are excellent.

### **B2B - First National**

The Business to Business division is comprised of First National, Scottish Mutual and our European Operations.

In First National, we have the second largest finance house in the UK. By the

end of this year we will have completed the integration of the ex-Lombard businesses, creating an industry leading business for the future.

First National faces tough trading conditions, in particular in the Motor and Retail Finance markets. We are maintaining our market position whilst taking a cautious approach to credit underwriting and contract pricing.

That said, there are significant growth opportunities for First National, particularly in Business Finance. In June last year we signalled our intent to increase our share of the small and medium enterprise, or SME, banking market where we believe we can provide much-needed choice for customers.

In the first quarter we have increased our business customer base by 23% to over 135,000. And we have not yet fully leveraged the resources in our retail branch network to increase distribution capability - we will start this shortly.

By the end of 2005, we are aiming to increase our market share of the SME banking market from 1% to 5%.

## **B2B - Scottish Mutual**

Scottish Mutual, which sells through Independent Financial Advisers, has continued to perform strongly in the first quarter of 2001. New business premiums are up by 26% on the same period last year.

And we have seen excellent growth in international markets.

Scottish Mutual is the most efficient active provider of life assurance through the IFA channel in the UK - a distinct competitive advantage given the advent of stakeholder pensions.

We are confident of the business's prospects, which will be boosted by the proposed transfer of Scottish Provident - which is expected to be finalised this summer.

## **B2C**

Our Business to Consumer division is focused on attracting new customers with new products and services through new distribution channels.

Our existing Wealth Management operations servicing over 120,000 customers, continue to perform strongly. In offshore markets retail deposits are now in excess of £5 billion, growing 10% in the first quarter alone.

We launched cahoot last summer, our internet based banking proposition. We have 150,000 accounts, and are targeting 200,000 by the end of this year.

cahoot has made an immediate impact, winning numerous awards for its service and products, which include a current account, credit card, and share dealing service - with more to come in 2001. Almost half of the UK adult population recognises its brand - a remarkable achievement in its first year of trading.

Inscape was successfully launched in November. It's up and running, and is competing in the mass affluent sector where it has adopted an innovative approach. We're aiming to have 100,000 customers and funds under management of £8 billion by the end of 2004.

## **Efficiency**

Improving efficiency is a key part of our strategy. We know our skills lie in growing businesses - we make no bones about it. And our track record demonstrates our success.

Nevertheless, we have reduced the Group's cost: income ratio down into the low 40's, to a level that is among the most efficient in the industry.

And we will continue to focus on operating efficiency across the breadth of the Group.

## **Summary**

We have an outstanding track record which we plan to continue.

We will keep transforming our existing businesses, expanding into new markets, leveraging the skills and expertise of others through joint ventures and partnerships, and seek opportunities to make acquisitions - but only if they accelerate delivery of our strategy and create value for you, our shareholders.

We have created a lean and successful diversified business, and we are committed to further diversification.

We will continue to be innovative in the way we do business, delivering what our customers want, and focusing on revenue growth. It is what we have done historically and it is our major strength moving forward.

We're confident of our future - this business is in better shape than ever before and we are certain that we can continue to build real value for you, our shareholders. Thank you.