

The **Abbey National**  
Group

**Terry Burns**

**Chairman**



# Financial Highlights

**Mark Pain**

**Managing Director, Wholesale Banking**

# Group financial highlights

	2001	2000
Profit before tax (£m)	1,938	1,975
Cost: income ratio (%)	43.0	44.1
Post tax return on equity (%)	17.3	21.5
EPS (p)	84.9	93.4
Dividend per share (p)	50.0	45.5

# Group operating income

**Total operating income up 4% to £4.3 billion**

**Retail Banking spread of 186 bps**

**Life Assurance earnings up 34%**

**Wholesale Banking up 24%**

**First National down 7%**

# Group operating expenses

£m	2001	2000	Growth
Group operating expenses	1,850	1,815	2%
Less: Corporate advisory fees	(26)	(5)	
Goodwill amortisation	(36)	(12)	
	1,788	1,798	(1)%

## Delivering on Group cost commitments

Retail Banking costs down 3% - cost: income ratio 38.8%

Wholesale Banking up 20% - cost: income ratio 19.7%

Costs of Inscape and cahoot down on 2000

# Provisions - retail credit quality

	P&L Charge		Provisions as a % of Asset	
	2001	2000	2001	2000
Mortgages	31	38	0.3	0.3
Banking	40	59	12.1	9.8
Unsecured loans	58	53	3.6	3.7
<b>Retail Bank</b>	<b>129</b>	<b>150</b>	<b>0.4</b>	<b>0.4</b>
First National	126	118	1.8	2.0
Business to Consumer	8	2	1.0	4.2
Other	-	3	2.5	3.5
<b>Total Group</b>	<b>263</b>	<b>273</b>	<b>0.6</b>	<b>0.7</b>

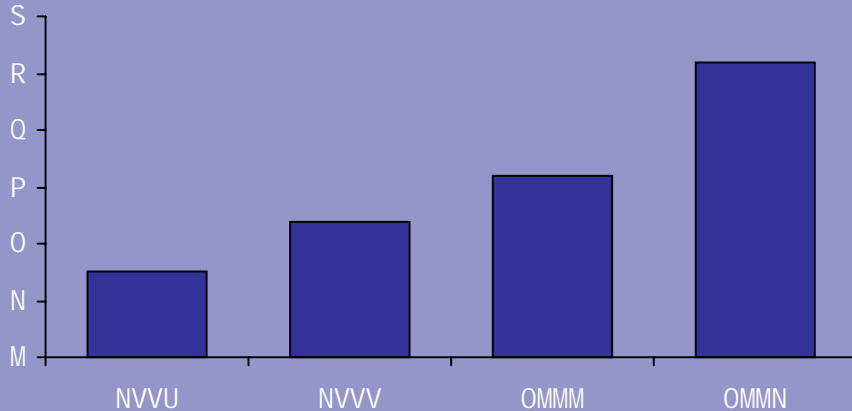
# Segmental performance

£m		2001	2000
Retail Bank	- Mortgages & Savings	938	934
	- Banking	75	51
	- Abbey National Life	202	182
	- General insurance	88	116
		<hr/>	<hr/>
		1,303	1,283
Wholesale Bank		504	575
B2B	- Scottish Mutual	164	113
	- Scottish Provident	30	-
	- First National	92	147
	- Europe	(2)	(6)
		<hr/>	<hr/>
		284	254
B2C	- Established	63	49
	- New ventures	(100)	(97)
		<hr/>	<hr/>
		(37)	(48)
Group Infrastructure		(116)	(89)
		<hr/>	<hr/>
		1,938	1,975

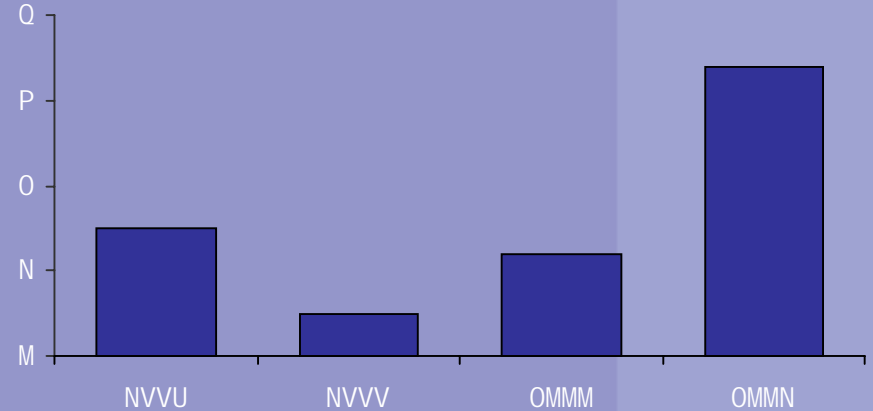
# Business flows

## strong flows in mortgages and savings

Mortgage Net Lending (£bn)

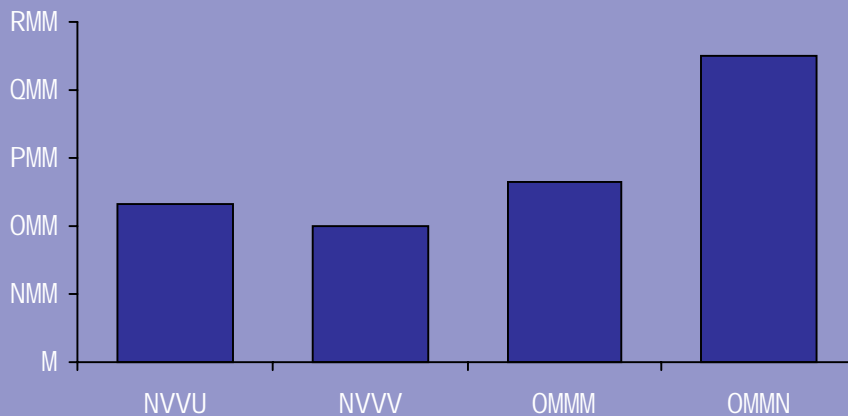


Household Deposit Inflows (£bn)

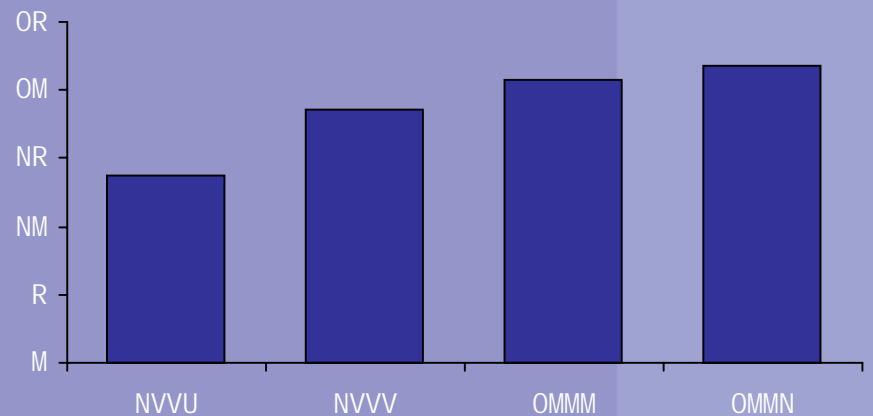


## broadening our earnings base for the future

Bank Account Openings (000's)



Funds Under Management (£bn)





# Conclusion – a resilient performance

**Retail Bank performed well**

**Excellent profit growth from Life Assurance**

**Profits down in Wholesale Bank and First National**

**Costs down - targets met**

**Retail credit quality remains good**

**Strong new business volumes**



# **Wholesale Banking Update**

**Mark Pain**

**Managing Director, Wholesale Banking**

# Wholesale Banking – 2001 overview

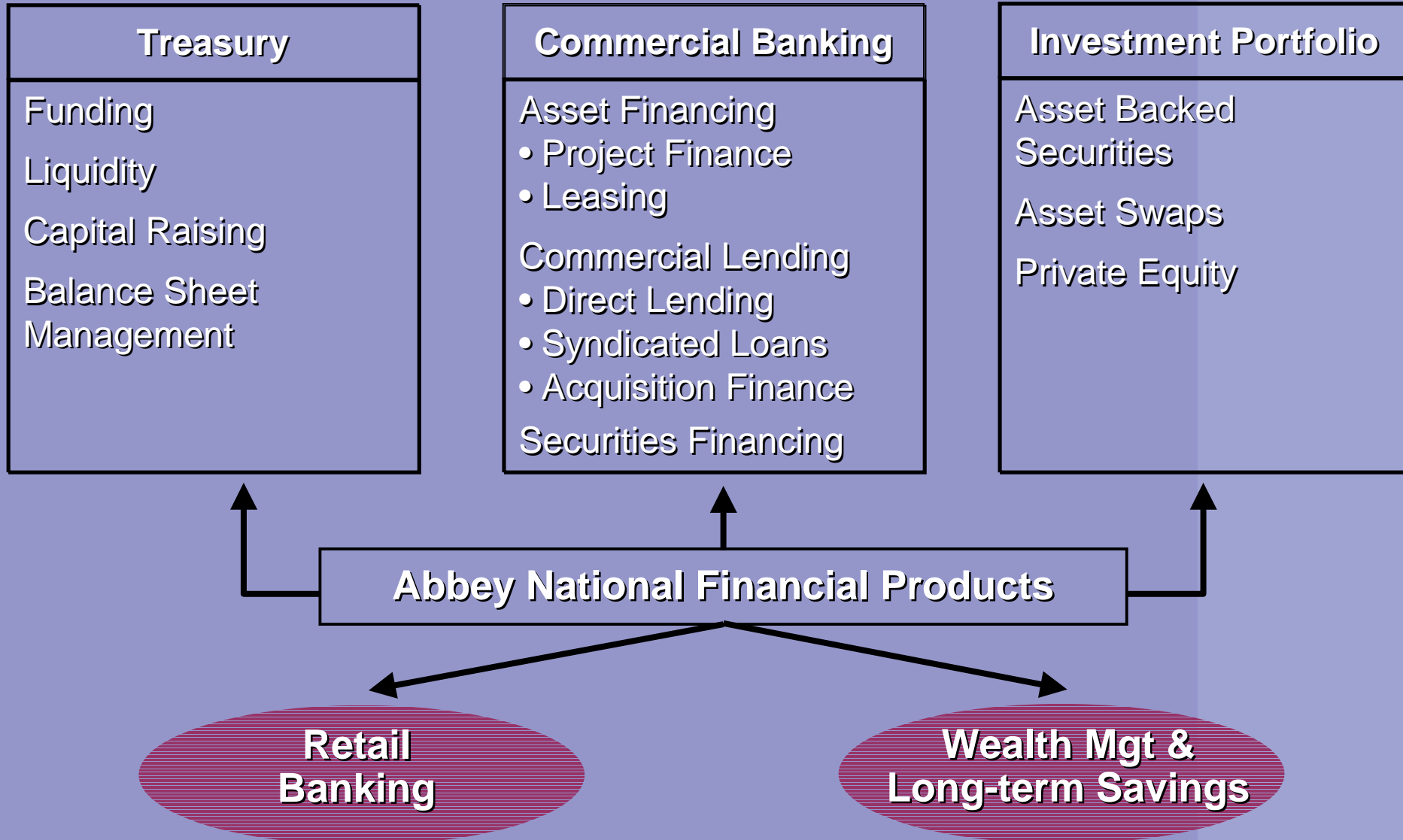
## Increased provisions charge of £256 million

- high yield
- Enron

## Wholesale Bank a very sound business

- profit growth pre provisions of 25%
- £504 million profit before tax
- pre-tax return on equity of 18%

# Wholesale Banking – focused & customer driven



# Wholesale Banking – refocusing the strategy

## Strategic Goal:

- improve the value generated for shareholders by increasing risk adjusted returns

## The business will focus on:

- extending customer franchises
- strong risk management framework

# Wholesale Banking – extending our customer franchise

## **Grow Commercial Banking**

- around 1,500 customer relationships
- leading market positions

## **Focus on fee earning opportunities**

- expertise in structuring transactions
- deliver complete financial solutions

## **Driving synergies harder across the Group**

- structuring products for retail customers

# Wholesale Banking – emphasis on risk management

## Risk Management expertise, systems and controls

- good risk management skills
- increased focus on portfolio management
- strengthening the management team

## Reducing the risk profile

- 95% investment grade
- sub-investment grade exposures reduced
- high yield exposure managed down
- appropriate, conservative provisions

# Wholesale Banking – generating attractive risk adjusted returns

## The business

### will:

- redeploy capital into customer facing businesses
- fully exploit synergies
- increase prominence of risk management

## Outlook:

- profit growth constrained in 2002
- RWA held broadly flat in 2002
- beyond 2002 growth prospects improve

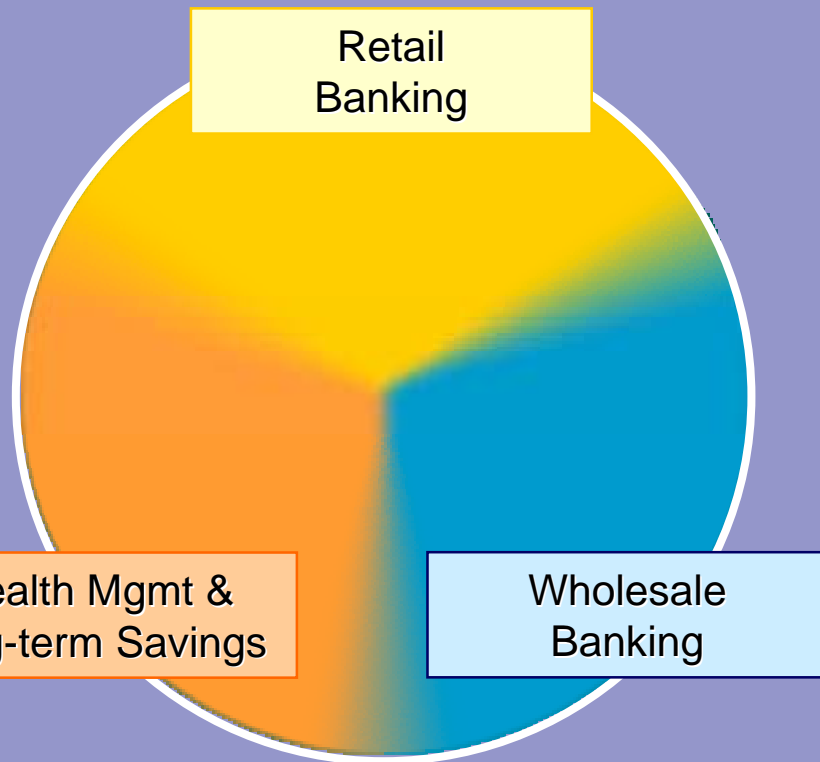


The **Abbey National**  
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**Ian Harley**

**Chief Executive**

# Building a powerful, balanced business portfolio



**Broad mix of markets**

**Range of distribution channels**

**Innovative business models**

**UK and overseas**

**High quality, stable earnings**

# Retail Banking - a powerful franchise

## **Innovative business models**

- e-banking
- convenience retailing
- branch franchising
- strategic alliances

## **Delivering strong business volumes**

- reinforcing our strength in mortgages and savings
- attacking personal and SME banking markets

## **Growth prospects improving**

# Wholesale Bank - refocusing the business

**Thorough review of the business completed**

**Managing as part of a balanced business portfolio**

**Platforms to deliver shareholder value**

**Redeploying capital into customer-facing businesses**

**Reducing the risk profile**

**Growth prospects beyond 2002 improve**

# Wealth Management & Long-term Savings

## Life Assurance

### A powerful mix of products and brands

- number 1 bancassurer in the UK
- Top 6 provider to the IFA market
- rapid growth of international sales

### Acquisition of Scottish Provident

- leading position in UK IFA protection market

### A major player in a redefined market post depolarisation

# Wealth Management & Long-term Savings

## Wealth Management

### Building a powerful customer franchise

- Fleming Premier Banking acquisition
- over 600,000 customers
- deposit balances approaching £10 billion

**cahoot - surpassing expectations**

**Inscape - building momentum**

# Growing value for our shareholders

**A resilient performance**

**Good growth opportunities in our three businesses**

- **Retail Bank**
  - spread re-basing nearing completion
  - attacking the 'Big 4'
- **Wholesale Banking**
  - refocusing the strategy
- **Wealth Management and Long-term Savings**
  - powerful portfolio
  - boosting international earnings

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