

2000 Autumn Business Statement

“We have made excellent progress during the third quarter, focusing on driving growth across the Abbey National Group as we build a broadly based financial services business. This year has seen considerable investment for us as we continue to build businesses with market leading positions. Our proposed transfer of the Scottish Provident business clearly demonstrates our commitment to this strategy.

We also continue to adopt innovative methods of running the business. Since July, we have launched interactive digital TV, piloted internal branch franchising, opened two in-branch Costa Coffee shops and completed the structured sale and lease-back of our entire property portfolio.

In UK Retail Banking, net mortgage lending remains strong and savings performance has improved. We have grown our Retail unsecured personal loan asset by 19% over the last year, and in the last quarter the rate of bank account applications has been 50% higher than in the first half of the year, assisted by our successful entry into the student bank account market.

The Wholesale Bank has had an excellent third quarter, as has our Life Assurance business. In the Finance House we have successfully outsourced back office processing in part of our Retail Finance operations and restructured our Motor Finance business.

We are further diversifying the business, focusing on driving growth and executing plans on schedule.”

Ian Harley, Chief Executive

3rd Quarter Trading Results

.. excellent trading performance across the breadth of the group ...

- Strong first half performance has been maintained throughout the 3rd Quarter across all businesses.
- Full year mortgage net lending performance is expected to be our best since 1993, with the full year UK Retail Banking net interest spread in the region of 200 basis points.
- Credit quality across the Group remains strong.
- In the Wholesale Bank, new income streams including Project Finance and Porterbrook continue to contribute to strong growth. Return on equity continues to improve.

.. significant milestones achieved in further transformation of the business ...

- Life Assurance funds under management are up 27% to £20.4 billion on the corresponding period.
- Motor finance market conditions in the Finance House remain tough. In Business Finance, the range of services and number of clients is being rapidly expanded.
- The Finance House integration is progressing well, and we recently announced the restructuring of our Motor Finance Business.
- Last week the structured sale and leaseback of the Group's entire property portfolio was completed, a first in the UK banking sector. This realises a one off profit on sale in the region of £70 million, and increases our operational flexibility for the future.
- In the UK Retail Bank we are extending the branch franchising pilot following encouraging results from Phase I. An additional 3 local markets consisting of 19 branches will be included in the pilot from 30th October, bringing the total to 64 branches.
- Approaching half a million Retail Bank e-banking customers have registered since May - the fastest rate of take-up of any internet bank. These customers are able to access their accounts via the internet and interactive digital TV - a world first.
- Earlier in the month we launched our on-line 60 second 'mortgage in principle' for introducers.

.. increasing diversification towards our 65% target ...

- In September, we announced the proposed transfer of the Scottish Provident business, which will establish a leading position in the UK protection market.
- We are attracting new valuable customers to the Group through a range of innovative propositions:
- Since launch in June, cahoot has accepted over 45,000 on-line product applications.
- Our internet based student bank account, launched in September, has received 14,000 applications to date.
- In the coming quarter we will launch our new Wealth Management proposition, which will consist of a network of advice centres supported by our third internet platform delivered to the market this year.

UK Retail Banking

.. retention of valuable customers...

The UK Retail Bank is focusing on growing the number of valuable customers, delivering growth through better retention, extending the range of products and services, and improving the flexibility of our offerings.

.. strong new business flows, excellent retention results ..

In the last 3 months gross mortgage lending has again exceeded £3 billion, coupled with repayment levels lower than the same period last year, due to the activity of dedicated retention teams. Full year net lending market share is expected to be at the upper end of the target 5 - 10% range. We are particularly pleased that flexible mortgages now represent around 1 in 5 of all new loans advanced.

Savings inflows have improved slightly, and were particularly strong into the recently launched e-saver account at £0.5 billion. Strong inflows into Abbey National Life branded investment products are again an important part of the overall savings and investment strategy.

Unsecured personal lending continues to outstrip last year's performance, with the loan asset currently 19% higher than at the same point last year.

.. launch of the internet based student bank account ...

Successful bank account applications in this quarter showed a marked improvement on the levels experienced in the first six months of this year. The student bank account was launched in September supported by an exclusive agreement with the National Union of Students, and has received over 14,000 applications during the last six weeks. This underlines our intent to grow our share in this market by focusing on service and innovative offerings to specific customer segments.

The full year UK Retail Banking net interest spread is expected to be in the region of 200 basis points, and credit quality remains robust.

General Insurance

In the General Insurance business we have continued to focus on customer retention across the whole product range including buildings and contents, whilst growing the motor policy base. This has been particularly encouraging with new business growth of 30% over the corresponding period.

.. leading bancassurer with 11% penetration rate ...

Abbey National Life new business volumes are 30% up on the same quarter in 1999. We have now sold Abbey National branded policies to 11% of the Retail Bank customer base, which is market leading amongst the bancassurers. We are on track to increase this to 20% within the next 3 years.

The strong underlying business performance is being delivered alongside a range of innovative and transforming initiatives:

...franchising model is creating value...

The branch franchising pilot will shortly be extended from 4 to 7 local markets and results from the first phase of the pilot are very encouraging in terms of improved sales and service. Sales are currently almost 30% above pre-launch performance.

e-commerce update:

.. 500,000 registered customers .. e-banking and digital TV a world first ...

Fully interactive banking on Open digital TV was launched in July, a world first for both internet and digital TV from the same brand and providing another channel for the half a million customers registered to use the e-banking service.

Products available to transact on-line include savings and bank accounts, sharedealing, motor insurance quotation and buy facility, and stakeholder friendly pensions. Abbey National also has the widest range of applications for products and services on-line over the internet and digital TV. From this week our on-line information facilities will have been rolled out onto **Ondigital**, with **ntl**: to follow shortly. e-banking will launch WAP mobiles later in the year.

Registrations have averaged 80,000 per month since May, the fastest take-up rate of any e-banking proposition, reflecting the breadth and quality of the offering to our strong customer franchise.

There are currently over a quarter of a million visits per week to the e-banking sites, and to date over 44,000 new product applications have been originated from this source. Our site was recently ranked 4th out of 19 internet banks by the Lafferty Research Group based on quality, content and speed.

The cross selling potential, and product holdings of e-banking customers, are a key ingredient in growing the franchise. Registered e-banking customers have almost double the product holdings of the average across the whole customer base.

.. launch of the on-line 60 second mortgage ...

Earlier in October we launched the on-line 60 second mortgage as part of our mortgage introducers internet service, the fastest 'decision in principle' functionality in the market. The service also offers on-line case tracking facilities designed to save time and make life easier for our introducers. This best in class facility will make a significant impact in the market place. The service expects to have 10,000 Introducers registered within 6 months, with £3 billion of business processed through this channel within the first 12 months.

Wholesale Banking

.. strong results across the business ...

In the third quarter, the business continued to apply its expertise to gain strong positions in new but related markets, delivering strong earnings streams. The established businesses also contributed to significant growth in profits, particularly Risk Management & Financial Products and Securities Lending. In addition, strong pipelines of business for the final quarter have been established.

... increased return on equity....

The development of new business streams in markets with attractive risk:returns and active capital management, were instrumental in return on equity in the third quarter further improving from the 16.2% achieved in the first half of the year. The changing shape of the business also contributed to net interest margins narrowing slightly as fee based income streams increased.

... new business streams displaying strong sustainable growth potential ...

The Wholesale Bank provided acquisition finance for a number of deals including Independent News & Media plc's acquisition of the Belfast Telegraph and HSBC Private Equity's buy-out of a division of BBA Group Plc. Wholesale Banking continued to raise its profile in the PFI market, being the sole provider of finance for the new £225 million UCLH hospital in London, and will be jointly funding the building of the UK's first toll road with Bank of America. In total, Wholesale Banking participated in 19 project finance deals, compared to 7 in the same period last year.

The integration of Porterbrook Ltd, which was acquired in April, is proceeding well with a number of deals completed since the acquisition. This business has great potential with significant investment in the UK railway industry predicted as well as opportunities in international markets.

.. development of international presence ...

The Wholesale Bank continues to grow its international presence. A banking licence has been obtained for a branch in Hong Kong, which will be officially launched on 2nd November. The branch builds on the representative office established in 1996 and will offer Wholesale Banking's comprehensive range of services to institutions across the Asian region, building on its existing portfolio of high quality Asian assets and accessing cheaper funding.

...credit quality remains robust...

Wholesale Banking's investment strategy continues to involve lending to predominantly highly rated institutions, and to extend its presence in markets where it can use its expertise and competitive advantage to optimise risk:reward trade off. Wholesale Banking tightly manages its exposure to individual sectors, including the Telecoms and High Yield sectors, and is comfortable that these investments remain at an appropriate level and within its stated risk appetite.

.. maximising capital management ...

In July, a further £2.25 billion of mortgage asset was securitised, further extending Abbey National's lead in the European market. In October, Wholesale Banking managed the issue of a £1.24 billion-equivalent perpetual notes, which provided a significant source of funding following the Group's proposed transfer of Scottish Provident.

Business to Business

Life Assurance

... 27% growth in funds under management, strong growth in new business levels ...

Funds under management have increased by almost 27% over the last 12 months. Year to date new business premiums are up 18% on the corresponding period and are approaching £3 billion.

The highly successful Scottish Mutual With Profit Bond has continued to boost new business volumes and is expected to surpass the £1 billion mark.

With the introduction of stakeholder pensions less than a year away, we have seen sales of Scottish Mutual Group Pension products increase by over 37% from the same period last year.

.. international sales growth ...

Scottish Mutual International continues to deliver excellent growth. Year to date, new business volumes are 150% higher than the same period last year. The new business levels reflects sales into 12 countries outside the UK, with particularly strong sales in the Channel Islands, Switzerland, Germany, Italy and Belgium.

.. cost efficient platforms ...

The shared cost platforms, and ongoing commitment to efficiency, have made Scottish Mutual the second most efficient life assurance provider in the UK.

.. proposed acquisition of Scottish Provident ...

On 7 September 2000, Abbey National announced that it had entered into an agreement with Scottish Provident to transfer (subject to policyholder and Court approval) the business of Scottish Provident.

The Scottish Provident brand will be retained and the operations will be combined with Abbey National's existing IFA business, Scottish Mutual Assurance. Significant increases in new business are forecast as Scottish Provident's products will be offered to a wider selection of IFAs with rebranded versions offered to the Retail Bank's

customer base. It is anticipated that substantial cost synergies will be realised.

Furthermore, the proposed transfer enhances Abbey National's growing international operations, by adding Scottish Provident's Dublin based operations to Scottish Mutual International's operations and providing an additional offshore base in the Isle of Man. This provides Abbey National with a domestic operating presence in the euro-zone and significantly increases the international distribution network.

Finance House

.. ongoing integration programme ...

The integration programme continues to make good progress, and is on target for completion by the end of 2001.

In the last quarter, outsourcing arrangements were introduced to improve the back office processing efficiencies in the Retail Finance business, and staff numbers in this business have reduced by around 500 since the beginning of the year. Over the same period the branch network of our consumer finance business has been reduced from 23 to 13. In our Motor Finance business we have taken advantage of the current lower trading volumes to accelerate our business transformation plans which are therefore being implemented ahead of schedule. As a result of these plans, by the end of this year, we will have reduced the number of our Motor Finance branches since the Lombard acquisition from 60 down to 15.

.. limited residual value impact ...

Business conditions in the motor market remain depressed, despite recent manufacturer repricing in response to Government announcements on car prices. We have minimised the impact of residual values on our motor business through cautious credit underwriting and contract pricing. This has been a deliberate policy, resulting in relatively low new business levels, while we continue to trade profitably in this sector.

Good growth is being delivered in our Business Finance area where we are rapidly expanding the range of services and numbers of clients, in line with our strategy to increase our market share in the SME sector.

Business to Consumer

Wealth Management

.. strong growth in retail deposits ...

Retail deposit balances continue to show strong growth.

.. launch of new proposition in the coming weeks ...

Our new investment management service is on track for launch imminently. For the first time, people with over £50,000 to invest will have access to an innovative combination of financial advice, discretionary fund management and cash management services. Initially, six separately branded advice centres in central London, Watford, Bromley, Manchester, Birmingham and Leeds will provide customers with a face to face service, with access to the service also available via a range of other channels including the internet.

We have introduced the concept to a limited segment of our existing Retail Bank customer base, with remarkable success. To date over 200,000 customers have been mailed, of which over 30% have indicated an interest in this type of service.

The majority of the customer base over the medium term is expected to be new to the Group.

cahoot

.. award winning proposition ...

Since launch in June, cahoot has received over 145,000 enquiries and 92,000 applications with over 45,000 accounts accepted.

The cahoot credit card received the 'Gold Medal Award' for on-line offerings from the Gomez rating agency, receiving specific praise for its ease of use, customer support, SMS messaging service and overall cost.

.. 97% system availability since July ...

Customers signed up to the offering have enjoyed 97% systems availability since July. Further developments include; a recently launched WAP service, a stockbroking offer in November, the launch of an unsecured personal loan pilot in December, and access via digital TV in the first quarter of 2001.

Group Central Infrastructure

Sale & Leaseback of Property Portfolio

.. groundbreaking deal, cost effective operational flexibility for the future ..

In the last week we successfully completed the structured sale and leaseback of the Groups entire property portfolio. The disposal of the Group's property assets generates a significant profit on sale in the current year, in the region of £70 million. The transaction is broadly neutral in terms of profitability on an ongoing basis with the release of funding and reduced empty premises provisions offsetting lease costs.

This deal is one of the largest and most innovative of its kind in the private sector. In addition to the benefit in the current period, and more importantly, cost effective operational flexibility for the future has been secured.

Investment Spend

Investment in significant programmes across the Group, including e-commerce, Finance House integration, cahoot and Prosper has continued throughout the last quarter at levels in line with the first six months of 2000. Total expenditure is expected to be in the region of £190 million for the full year.

This level of investment will reduce significantly in 2001 as many of these projects are completed.

The investment is already bearing fruit with a number of new customer propositions delivered to market, on schedule, already this year.

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Copies of this statement are available from the Abbey National Group website:
www.abbeynational.plc.uk

Achievements in 2000

“We are maintaining our position at the forefront of the financial services industry by working smarter across the Group, innovating and executing our plans on schedule”

Ian Harley, Chief Executive

Innovations

Significance

e-banking launched	on schedule, approaching 500,000 registrations
internet & digital TV e-banking launched	integrated proposition is a world first
mortgage introducer internet service launched	first such launch of totally straight through processing by a major lender, 60 second mortgage in principle and tracking facilities for introducers
on-line student banking introduced	exclusive partnership with NUS, only bank on new NUS website, Abbey National branding on all NUS cards
on-line motor Insurance launched	quote facility provides premium within 30 seconds
flexible saver launched	interest rate determined on a monthly basis by customer's channel choice
range of strategic partnerships and alliances struck	major new technology players, including ntl., Carphone Warehouse, TeleWest & Ondigital.
latest EnAct software rolled out	best in class decision tool provides branch network with real time calculation of individual customer's value
franchising pilot underway	first for financial services in Europe
B2B internet introducer facilities launched	removes barriers to intermediaries across the division, including IFAs and motor dealerships
cahoot	launched on schedule, operating to plan
sale & leaseback agreement	groundbreaking transaction, maximising flexibility
£4.5bn of mortgage securitisation to date	leading European securitiser
capital raised through internet bond issue	first in the world