

This is an unedited transcription of the original speech given by Christopher Tugendhat at the Abbey National Group's Annual General Meeting on 22 April 1999.

"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 the events of the past year, but first I will ask our Company Secretary, Ian Treacy, to read the notice convening the meeting.

[COMPANY SECRETARY, IAN TREACY, READS NOTICE OF MEETING]

As I am sure you are aware, this is a rather special year for us: 1999 is the 150th anniversary of the formation of Abbey National's predecessor, the National Freehold Land Society.

I hope you enjoyed the introductory video. The film was made at the end of March during a tour by Abbey National shareholders who had responded to an advertisement in Shareholder News. The idea was to offer shareholders an insight into Abbey National's operations plus the chance to hear presentations from heads of our business divisions. It was also our intention to film the tour as the basis for today's video.

This year my speech will be shorter than usual - because we have an unusually full agenda, with more than the normal number of resolutions to be voted upon. I intend to spend less time going over the financial results, because you will already have received that information in the Annual Review or the Directors' Report and Accounts. Of course, later in the meeting I will be delighted to answer questions on these as well as other Company matters.

To summarise quickly: in 1998, Ian Harley's first year as Chief Executive, Abbey National delivered another strong performance. Profit before tax increased by 19% to £1,520 million. Our cost:income ratio - the percentage of overall profit taken up in costs - improved to 41.2 % from 42.3% in 1997. Total Group assets increased by 18% to £177.8 billion compared with 1997. The final net dividend we are proposing for the year is 23.55 pence, making the full year net dividend 35.30 pence, an increase of 15%.

- UK Retail Banking increased its profit before tax and exceptionals by 15% to £900 million whilst total income grew 13% to nearly £1.8 billion.
- Treasury & Wholesale Banking profit before tax and exceptionals increased by 22% to £361 million - this includes the contribution from Cater Allen International Ltd.

- Our Life Assurance Division increased profit before tax and exceptionals to £190 million. New business premiums increased by 30% to over £2.5 billion and funds under management increased by 31% to £13.8 billion.
- Finance House pre-tax profit was down 10% to £120 million, reflecting recent infrastructure investments and the cost of acquired new businesses.
- General Insurance pre-tax profit fell by 7% to £98 million. However, we spent £4 million on new infrastructure development including investment in our Liverpool direct sales operation. 1998 was also a landmark year for our General Insurance business with the launch of our first ever motor insurance product in July.
- Wealth Management's profit increased 86% to £26 million. This was partly due to the first full year's contribution from those Cater Allen businesses which are now part of Wealth Management.

SPRING BUSINESS REPORT

I'd now like to spend a few minutes on the results for the first three months of 1999.

During the first quarter, our focus continues to be on broadening our earnings base and the range of services we provide to customers - as well as on improving cost efficiency and our use of capital. We have seen steady growth in all areas of the business.

UK Retail Banking

Turning first to our UK Retail Banking Division: Abbey National's estimated share of the increase in UK mortgages was around 6% - which is significantly higher than the same quarter of last year.

During the period, we saw strong sales of longer term savings and equity-linked investments: over £234 million worth of PEPs and Unit Trusts were sold by branches in the three months up to the end of March. This had an impact on flows into traditional deposit based savings, leading to an overall net outflow.

Over 78,000 ISA accounts had been sold by the end of the first day of the tax year. Our strong performance on ISAs reflects the fact that Abbey National is one of the first financial services companies to offer a full range of products.

Nearly £300 million has been invested in the Savings and Investment ISA since the beginning of the tax year and over 5,000 accounts are being opened each day. As the demand for cash ISAs increases we are expecting our performance on savings deposits to become stronger.

We have continued to build up critical mass in the banking services area, as awareness of our fair banking proposition increases:

- Bank account openings are running at nearly 20,000 each month with around 53% of these being primary accounts.
- Furthermore, over 22,000 credit card accounts have been opened since the beginning of the year.

Treasury and Wholesale Banking

Treasury & Wholesale Banking had a strong first quarter with good performances across the wide range of markets in which it participates.

Funding raised in the capital markets totalled over £3 billion - this included a E2 billion eurobond. This was the first euro issue by a UK financial institution since the start of Economic and Monetary Union. At the time, it was also the largest ever private sector issue in the eurobond market, in any currency.

Life Assurance

Our Life Assurance business continues to grow strongly, and funds under management in Glasgow now stand at over £14 billion. Total new premium business was up 20% on the same period last year. In particular, we saw a significant increase in new single premium business at Scottish Mutual.

Abbey National Life's new single premium business (which includes Abbey National Unit Trust Managers) was higher compared to the first quarter of 1998. This in part reflects the increased uptake of PEPs before ISAs come into force.

Finance House

Within our Finance House Division, the integration of the three point-of-sale businesses newly acquired from NatWest is progressing well. This includes projects to improve business efficiency and enhance revenues. As the integration proceeds, it is confirming our belief that these businesses are an excellent addition to our Finance House operation. At the beginning of the month, one of these newly acquired businesses - First National Tricity Finance - announced a new venture with British Airways to provide holiday loans to BA customers.

There has been strong organic growth of First National-branded home improvement loans and secured loans. However, in Motor Finance, competitive pressure and tougher market conditions have led to reduced levels of new business.

General Insurance

During the first quarter, our business focus within General Insurance has been on growing non mortgage-related product sales and developing the direct telesales operation. Overall policy sales during the quarter increased by 35% against the same period last year.

Wealth Management Division

Our Wealth Management Division performed strongly in the first three months of the year: retail savings and investments both offshore and onshore grew by £62 million to £3.5 billion.

Major projects

Having talked about our first quarter business performance, there are a number of projects of major importance about which I'd like to give an update. Perhaps the most important issue facing Abbey National, along with almost every other business, is the effect of Year 2000 on computer systems.

We first recognised the need for a co-ordinated approach to this problem as early as 1996. Since then, we have been systematically working through a detailed 5 stage plan to resolve all Year 2000 issues. Our planned completion date for this work is June 1999. We believe that the work we have been doing should resolve Year 2000 compliance exposures within Abbey National's IT systems. We are also confident that NO critical systems are at risk of failing to meet Year 2000 compliance deadlines.

Another major challenge for the business was the introduction, in January 1999, of the first phase of Economic and Monetary Union. For Abbey National, this meant ensuring that those parts of the business operating in a participating country or doing business in the wholesale markets were ready on day one. I am glad to say that all of Abbey National's preparations ran according to plan.

Abbey National prides itself on being among the first to take advantage of new business opportunities when they arise. Some years ago we pioneered fixed rate mortgages and most recently we are leading the way with ISAs. Likewise with the euro. In January, we were the first UK company to raise funds in the new currency when we issued a E2 billion eurobond - to which I have already referred.

We have also introduced a range of euro-based savings products for those who wish to diversify their holdings both onshore and offshore, and we have launched a euro mortgage to attract those who are paid in the new currency.

Today, two new directors are standing for election to the board of Abbey National. Leon Allen was appointed as a non executive director on 1 October 1998 and is the first American citizen to join our board. Malcolm Millington

was appointed as a director on 1 January 1999. Mac Millington has been Abbey National's Group Information Technology Director since 1997 and has been responsible for preparing Abbey National's IT systems for the Year 2000.

Three long-standing directors stand down from the Board at today's meeting. Charles Toner, Deputy Chief Executive retires after 35 years' service with Abbey National. Charlie's contribution to Abbey National has been immense - he led our Retail Division for 9 years in all and managed the integration of N&P's retail business into Abbey National following the acquisition of National & Provincial. He was also Managing Director of our Life Assurance Division from 1997 until this year. As well as overseeing considerable expansion, he was responsible for setting up our Wealth Management Division. Charlie's wisdom and energy will be sorely missed by all at Abbey National.

Also retiring from the board today are Martin Llowarch, Deputy Chairman, and Lord Rockley, who have respectively served on the board for ten years and nine years. Martin has made a vast contribution to Abbey National and has served both on our Audit Committee and on our Personnel and Remuneration Committee. Lord Rockley was a member of our Audit Committee and, as an adviser, played a particularly valuable role in Abbey National's conversion to plc status. I would like to thank Martin Llowarch and Lord Rockley for their contribution over the years.

On Tuesday, we announced the appointment of John King to the Board of Abbey National with effect from 1 May. John has sat on our executive committee for some years as Human Resources Director, and he will now continue to fulfil those responsibilities as a member of the Board.

Maintaining continuity is, I believe, one of Abbey National's great strengths. We have, as these results make clear, successfully filled both the Chief Executive's position and the Finance Director's with internal appointments so that a new generation is now at the helm of your Company. I can assure you that the group coming up immediately behind - several of whom are women - is of equally high calibre.

This continuity has been a major contributing factor to Abbey National's success over the years. I mentioned at the beginning that in 1999 we celebrate the 150th anniversary of the formation of the National Freehold Land Society - Abbey National's predecessor.

We are celebrating this landmark event with a series of commemorative events across the country. Shareholders, staff and customers are all invited and details are on display in the coffee area outside. I hope as many of you as possible will be able to come along and join in the fun.

The Company has changed dramatically since those early days - however our central purpose of helping millions of people to achieve financial security has

remained unchanged throughout. We now offer an infinitely wider range of products and services that could hardly have been dreamt of in 1849: our Retail Banking business has 15.3 million customers, we employ over 28,000 people and we currently rank as the 10th largest bank in Europe by market capitalisation. We have built on firm foundations and we can look forward with confidence to a bright future.

Thank you for your attention.

That concludes my opening remarks."