


Abbey National Interim Results 1999

Financial Summary

	1998	1999
Profit before tax (£m)	748	875
Earnings per ordinary share (pence)	41.9	35.2
Interim net dividend (pence)	11.75	13.4
Post tax return on average ordinary shareholders' equity (%)	23.5	22.8
Total Group assets (£bn)	177.8	196.4
Equity tier 1 capital ratio (%)	6.7	7.0

 at 31 December 1998

We remain focused on.....

Growing income 2 to 3 times faster
than costs
over the next 3 years

Total operating income up 22% to £1.83bn

	Six months to 30th June	
	1998 £m	1999 £m
Total operating income	1,501	1,830
Profit on sale of Irish Permanent stake	-	(60)
Total income from acquired consumer finance businesses	-	(138)
Underlying operating income	<u>1,501</u>	<u>1,632</u>

Abbey National brand revenue up 7%

	Six months to 30th June 1998 £m	1999 £m
UK Retail Banking operating income	858	906
Abbey National Life operating income	54	64
Abbey National General Insurance operating income	73	66
Abbey National UPL operating income	59	64
Total	1,037	1,107

Non Abbey National brand revenue up 56%

	Six months to 30th June	
	1998 £m	1999 £m
Treasury & Wholesale Banking operating income	228	271
Scottish Mutual operating income	51	32
First National operating income	109	262
Wealth Management operating income	39	53
Total	408	637

Underlying operating expenses up 7%

	Six months to 30th June	
	1998 £m	1999 £m
Underlying operating expenses	619	662
Acquired consumer finance businesses	-	65
Cost of implementing process efficiencies	10	-
Cost of investment in new businesses	-	9
Total operating expenses	746	619

Lowest cost:income ratio since conversion

	Six months to 30th June	
	1998	1999
Cost:income ratio (%)		
UK Retail Banking	44.2	42.6
Treasury & Wholesale Banking	16.2	19.9
Finance House	42.3	42.3
Group total	41.2	40.8

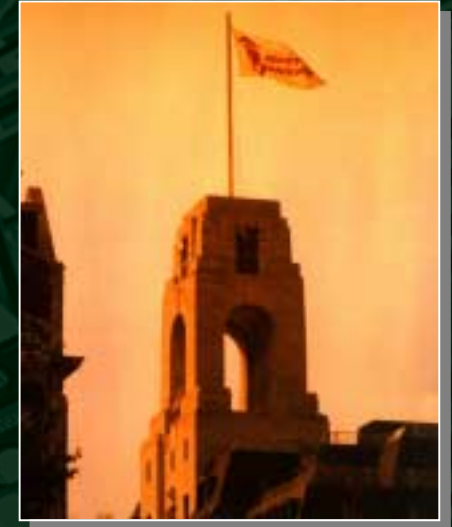
Re-structuring the cost base



Process
Efficiency



Shared
Platforms



Head
Office

Aligning reward mechanisms with increased efficiency

30 projects already delivering c. £40 million savings

- Streamlined management structures in the Retail Bank
- Improved purchasing and reduced branch literature
- Improving operating efficiency
- Outsourcing

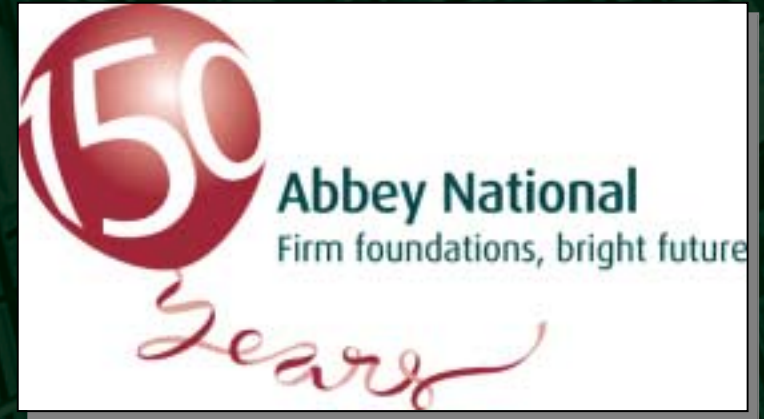
Investment in new businesses

- Finance House integration
- E-commerce
- Wealth Management

Arrears falling and provisions down to £116 million

- Secured lending:
 - provisions down 41%
 - arrears down 18%
- Personal banking product arrears down 14%
- Abbey National UPLs
 - arrears after write-offs down 8%
- First National Bank
 - provisions in line with asset growth

Firm foundations.....bright future



- Strong financial performance
- Significant top line revenue growth
- Cost:income ratio at historic low

A clear strategic response to challenges faced in retail banking in the UK

- Build the Abbey National brand
- Improve Retail Bank profitability
- Diversify revenue streams
- Generate new sources of income
- Become a lower cost provider
- Efficient capital management

Building the Abbey National Brand

- Strong cross-selling
- Successful bancassurer
- 14% market share of investment ISAs
- 18% market share of ISA cash deposits
- Strong growth in General Insurance

Improving the profitability of the Retail Bank

- Managing margins and volume
- Increasing non interest income
- Meeting customers' needs
- Transforming the way we deal with customers
- Reconfiguring distribution and increasing value

Building new sources of revenue in diversified businesses



- Strong growth
- New businesses coming on stream
- Outstanding track record



- Excellent brand
- Highly efficient
- Good growth prospects



- Good track record
- Growth market
- Opportunity to grow value

Accessing new sources of revenue growth

- E-commerce:



- Wealth management

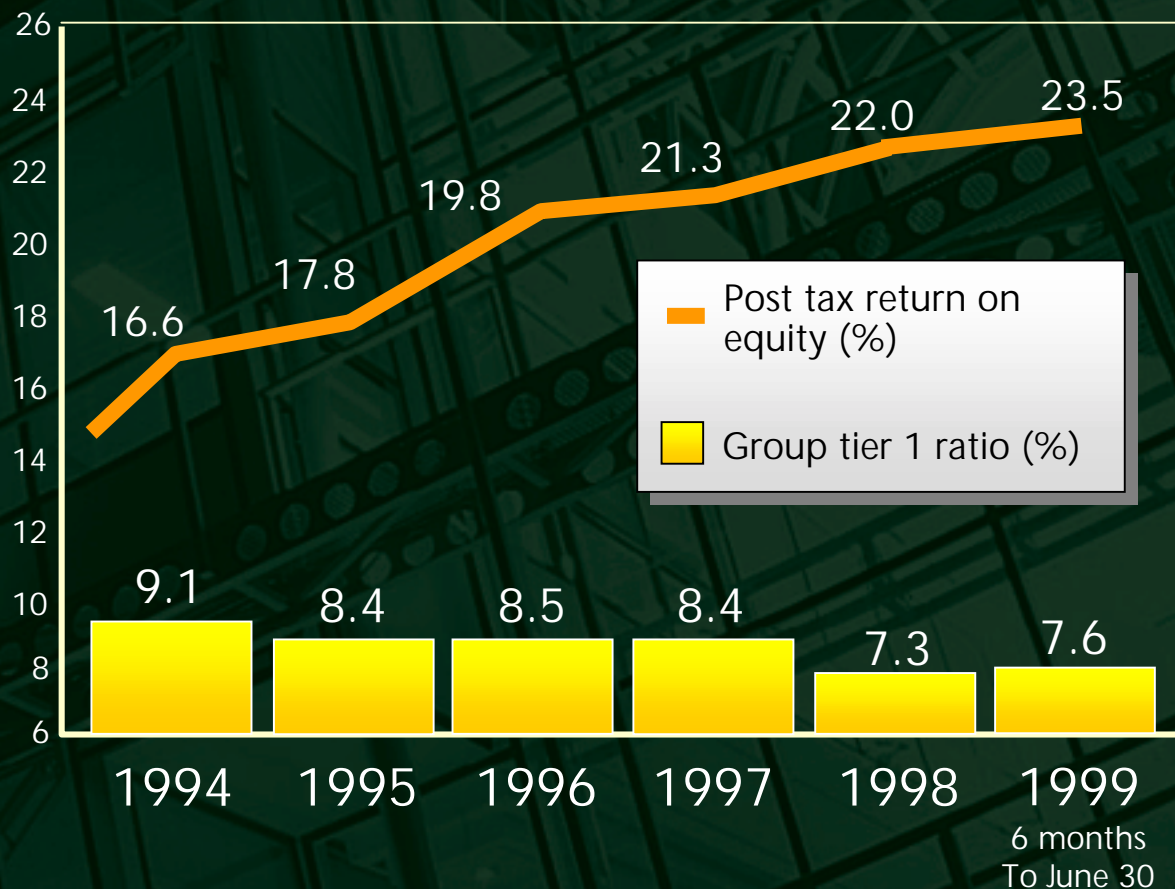


Becoming more cost efficient

- Cost:income ratio at a record 40.8%
- Scope to improve across all business areas
- Aim to reduce cost:income ratio to 36-38% by end of 2001

Continuous improvement in capital management

- Refocus capital
- Securitisation
- Asset-backed commercial paper conduits
- Surplus of around £2bn regulatory capital in excess of economic capital



Shape of the Abbey National Group

- 49% of revenue from diversified businesses
- Strong returns on equity
- Focus:
 - UK personal finance
 - best not biggest
- Seeking greater scale:
 - Banking services
 - Funds under management

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