Interim Results Highlights*

- Profit before tax increased by 17% to £875 million (1998: £748 million), earnings per ordinary share by 19% to 41.9 pence and interim net dividend by 14% to 13.4 pence.
- Post-tax return on average ordinary shareholders' equity increased to 23.5% (1998: 22.8%).
- Group cost:income ratio reduced further to 40.8% (1998: 41.2%). Growth in underlying operating income 9% to £1,632 million with underlying operating expenses up 7% to £662 million¬.
- Diversified activities generated 49% of Group profits (1998: 45%).
- Group net interest margin increased to 1.84% (1998: 1.64%). UK Retail Banking net interest spread increased to 2.18% (1998: 2.03)%.
- Improved credit quality against second half 1998 with provisions (excluding the new point of sale consumer finance businesses) at £116 million (1998 second half: £122 million). Arrears improving across all books against the background of a more benign credit cycle.
- UK Retail Banking pre-tax profit up 6% to £460 million. Income growth of 6% to £906 million with operating expenses up only 2% to £386 million and the cost:income ratio reduced to 42.6% (1998: 44.2%). Net mortgage lending of £380 million (1998: £350 million represents an estimated market share of 2.4% (1998: 3.1%) with market share of UK mortgages outstanding estimated at 13.3% (1998: 13.8%).
- Share of cash and investment ISA market estimated at 18% and 14% (£716 million and £204 million) respectively - overall market share of UK retail household liabilities stock reduced to 8.6% (1998: 9.1%).
- Treasury & Wholesale Banking pre-tax profit up 10% to £202 million, reflecting £11 billion growth in investment assets and profits from a number of new business streams.
- Life Assurance pre-tax profit up 15% to £105 million. Total new business premiums up 26% to £1,619 million (1998: £1,288 million), with funds under management increasing to £15.6 billion (31 December 1998: £13.8 billion).
- Finance House pre-tax profit up 32% to £79 million, with asset increased 87% to £9.0 billion, reflecting the contribution from the three consumer finance businesses acquired on 30 December 1998.
- General Insurance pre-tax profit up 9% to £48 million, with operating income up 11% to £73 million (1998: £66 million).
- Wealth Management pre-tax profit up 58% to £19 million.
- Total Group assets up 10% since 31 December 1998 to £196.4 billion, with an equity tier 1 capital ratio of 7.0% (31 December 1998: 6.7%).

**All analysis excludes exceptional items and all comparatives are to 30 June 1998, unless stated otherwise.*

¬ Description of underlying operating expense and income can be found in the summary of key statistics

Consolidated profit and loss account for the six months ended 30 June 1999

Consolidated profit and loss account

For the six months ended 30 June 1999

Six months to 30 June

	1999	1999	1999	1998	Full year
	Before exceptional items	Exceptional items	(unaudited)	(unaudited)	1998
	£m	£m	£m	£m	£m
Net interest income	1,302	1	1,302	1,066	2,229
Commissions, fees and other income ¬	528	(5)	523	432	882
Total operating income	1,830	(5)	1,825	1,498	3,111
Operating expenses ¬	(746)	(15)	(761)	(655)	(1,346)
Provisions for bad and doubtful debts	(171)	1	(171)	(79)	(201)
Provisions for contingent liabilities and commitments	(3)	1	(3)	(9)	(16)
Amounts written off fixed asset investments	(15)	1	(15)	(7)	(28)
Profit on ordinary activities before tax	895	(20)	875	748	1,520
Tax on profit on ordinary activities	(270)	6	(264)	(234)	(462)
Profit on ordinary activities after tax	625	(14)	611	514	1,058
Transfer to non1distributable reserve	1	1	1	1	(125)
Preference dividends	(17)	1	(17)	(16)	(34)
Ordinary dividends	(190)	1	(190)	(167)	(501)
Profit retained for the period	418	(14)	404	331	398
Profit on ordinary activities before tax includes:					
for operations acquired in the period			2	1	1
for operations discontinued in the period			1	12	5
Average number of ordinary shares in issue (millions)			1,418	1,413	1,414
Earnings per ordinary share 1 basic (p)			41.9	35.2	72.4
Earnings per ordinary share 1 diluted (p)			41.5	34.9	71.7
Dividends per ordinary share (p)			13.4	11.75	35.3

Dividend cover	3.1	3.0	2.0

Notes on exceptional items

¬ Comparative charges for 1998 were £36 million in operating expenses (1998 full year: £61 million) and £3 million in commissions, fees and other income (1998 full year: £7 million). Year 2000 and EMU costs incurred in 1999 are shown as exceptional items within operating expenses and as a charge against income from long term assurance business within commissions, fees and other income.

Statement of total recognised gains and losses

for the six months ended 30 June 1999

	Six months to 30 June		Full
	1999	1998	Year
	(unaudited)	(unaudited)	1998
	£m	£m	£m
Profit attributable to the shareholders of Abbey National plc	611	514	1,058
Exchange adjustments on US Dollar preference shares	1	1	1
Total recognised gains relating to the period	611	515	1,058

Results of business segments profit/(loss) before tax

for the six months ended 30 June 1999

	Six months to 30 June		Full
	1999	1998	Year
	(unaudited)	(unaudited)	1998
	£m	£m	£m
UK Retail Banking	460	436	900
Treasury & Wholesale Banking	202	184	361
Life Assurance	105	91	190
Finance House	79	60	120
General Insurance	48	44	98
Wealth Management	19	12	26
Continental Europe	1	1	1
Group Central Holdings	(18)	(41)	(107)
Profit before tax and exceptional items	895	787	1,588
Year 2000 and EMU costs	(20)	(39)	(68)
Profit before tax	875	748	1,520

Summary of key statistics

	Six months to 30 June		Full
	1999	1998	Year
	(unaudited)	(unaudited)	1998
Group operating income (£m)			
Group net interest margin (%)	1.84	1.64	1.61
Group average interest earning assets (£bn)	146.9	129.5	135.1
UK Retail Banking net interest spread (%)	2.18	2.03	2.10
Total operating income	1,830	1,501	3,118
Total income from 3 consumer finance businesses	(138)	1	1
Profit from disposal of equity holding in Irish Permanent	(60)	1	1
Underlying operating income	1,632	1,501	3,118
Underlying operating income growth	9%		
Group operating expenses (£m)			
Total operating expenses	746	619	1,285
Total operating expenses relating to 3 consumer finance businesses(including £7 million of integration costs)	(65)	1	1
Costs of implementing process efficiencies & productivity programmes	(10)	1	(5)
Costs of investing in new businesses	(9)	1	1
Underlying operating expenses	662	619	1,280
Underlying operating expenses growth	7%		
Headcount (full time equivalent)¬	26,618	24,696	26,353
Group cost:income ratio (%)	40.8	41.1	41.2
1 UK Retail Banking (%)	42.6	44.2	43.0
1 Treasury Wholesale banking (%)	19.9	16.2	18.5
1 Finance House (%)	42.3	42.3	41.2
Market shares (estimates)			
Increase in UK mortgages outstanding (%)	2.4	3.1	5.9

UK mortgage stock (%)	13.3	13.8	13.6
Increase in UK retail household liabilities (%)	n/a	6.7	4.8
UK retail household liabilities stock (%)	8.6	9.1	8.9
Increase in UK consumer credit (excluding credit cards) (%)	2.0	5.5	3.4
UK consumer credit stock (excluding credit cards) (%)	5.7	3.8	6.0
Net ISA sales: cash (%) (for April and May)	18.0	n/a	n/a
investment (%) (for April and May)	14.0	n/a	n/a
Other statistics			
Number of bank accounts (000s)	1,933	1,792	1,862
New bank account openings (000s)	104	134	232
Number of Instant Plus Accounts (000s)	718	623	675
Number of debit cards (including Abbey National Multifunction and Electron Cards) (000s)	2,360	1,984	2,150
Number of credit accounts (000s)	506	514	507
New credit card accounts openings (000s)	32	86	120
Total number of Abbeylink ATMs	2,394	1,365	2,298
1 Number of non1branch Abbeylink ATMs	929	814	888
Average number of product holdings per customer	1.74	1.70	1.71

¬ Including 2,061 full time equivalent employees acquired on 30 December 1998 (restated from year end.)
Including 3 consumer finance businesses acquired on 30 December 1998

Chief Executive's Review

"In the first half of 1999, we delivered a strong financial performance with profit before tax increasing by 17% to £875 million (1998: £748 million). This was achieved despite investing heavily in future growth. Operating income grew 22% to £1,830 million (1998: £1,501 million), with cost growth of 21% to £746 million. Underlying revenues increased 9% to £1,632 million, with underlying operating expenses up 7% to £662 million. This generated an underlying cost:income ratio of 40.6% (1998:41.2%), its lowest level in our history as a PLC. Over the next three years we intend to drive our cost:income ratio down to between 36 and 38%. Arrears trends across all books have improved and against the second half of last year provision charges have fallen.

The UK Retail Bank has performed well, with profit before tax up 6% to £460 million and profit before provisions up 9% to £520 million. Income (up 6%) increased three times faster than costs, which rose by only 2% resulting in a record low cost:income ratio for the Retail Bank of 42.6% down from 44.2%. Both arrears and provisions fell compared to the end of 1998.

These results have been achieved despite challenging market conditions for our UK Retail Bank. Money has flowed around the market, attracted by the aggressive marketing of new entrants. The mortgage market has also been tough with significant activity being aimed at attracting re1mortgage business and a number of competitors continuing to operate with extended tie1ins to attract new customers with low headline rates.

The Abbey National brand goes from strength to strength. We increased the average number of products held by our customers from 1.71 at the year end 1998 to 1.74 indicating that our customers are more satisfied than ever with our services, and we have demonstrated our ability, using the Abbey National brand, to increase our presence in new markets. For example:

- Since their launch in April, Abbey National has gained a market leading position in ISAs, taking 18% of the Cash ISA and 14% of the Investment ISA markets. £920 million in total had been taken in ISAs by the end of June.

- We are the fastest growing motor insurer in the UK with policies increasing by 50,000 over the last 12 months. Total general insurance policy sales were up 30% on the first half of 1998.

We were the first major lender to remove extended tie1ins on new mortgages and today we launched a flexible mortgage that will help our customers match their borrowing needs with their lifestyle 1 which fits our aim of making our customers' lives easier.

We are transforming our distribution capability. In our branch network we are installing new customer service desks which will give us nearly 1,500 by the year end and we are creating over 100 new interview rooms to support face1to1face customer service. We are installing 350 more in1branch cash machines, 250 more non1branch machines and 212 new in1branch freephones to meet our customers' needs. In addition, by the year end, we will have a total of 30 in1store branches in Safeway outlets, offering unparalleled convenience to our customers.

Treasury continued to be a major source of revenue for the Abbey National Group as well as raising capital and maintaining liquidity. It raised over £8 billion from global wholesale markets, launched a £1 billion mortgage securitisation into international capital markets 1 one of the largest ever deals offered in the European mortgage backed market 1 and it grew a number of new business streams without compromising credit quality. We have been particularly pleased by revenue growth in newer businesses such as Abbey National Financial Products (ANFP), Cater Allen International Limited (CAIL) and acquisition and project finance.

Total income from our Finance House increased by 94% to £326 million, supported by a 143% growth in unsecured, motor, business and retail finance assets since June 1998. Much of this growth comes from the acquisition of the three consumer finance businesses from NatWest at the end of December 1998. We are now one of the largest Finance Houses in the UK. Against a background of improving economic conditions we expect continued sustainable profitable growth in this important market.

In our Life Assurance business, Scottish Mutual and Abbey National Life demonstrated significant growth. With lower interest rates and increased demand for long term savings and investment products, the Group is well positioned to continue growing its presence in this market.

In the first six months, we spent £26 million on projects aimed at delivering future benefits. This included £7 million for integrating the new Finance House businesses, a further £10 million on implementing our process efficiency and productivity programmes and £9 million investment in new businesses in particular e1commerce and new services from our Wealth Management Division. We will be investing up to £100 million over the next three years in developing a range of e1commerce initiatives.

The 14% growth in the interim dividend to 13.4 pence reflects our confidence in the business."

Results of operations of the Group by nature of income and expense

Net interest income

	Six months to 30 June	
	1999	1998
Net interest income (£m)	1,302	1,066
Group net interest margin (%)	1.84	1.64
Average interest earning assets (£bn)	146.9	129.5
UK Retail Banking net interest spread (%)	2.18	2.03

Net interest income increased by 22% to £1,302 million. Average interest earning assets grew 13% to £146.9 billion, reflecting the increase in Finance House assets and Treasury & Wholesale Banking investment assets during the first half of 1999. The Group net interest margin (excluding the stocklending business of CAIL) increased by 20 basis points, mainly due to higher margin business in the three new consumer finance businesses. The UK Retail Banking net interest spread rose by 15 basis points, despite continuing competitive pressures in the residential mortgage and liquid saving markets.

Commissions, fees and other income

	Six months to 30 June	
	1999	1998
	£m	£m
Insurance income receivable	141	119
Other net fees and commissions receivable	75	138
Income from long term assurance business	88	72
Other operating income	224	106
Total	528	435

In total, commissions, fees and other income increased by 21% to £528 million. Insurance income increased by 18% to £141 million, largely due to growth in General Insurance's motor insurance, and accident and sickness businesses. Other net fees and commissions fell by 46% to £75 million, mainly as a result of the inclusion of the new consumer finance businesses. In addition there were increased payments to introducers and lower booking fees for fixed rate mortgages. Income from long term assurance business increased by 22%, with growth from both Scottish Mutual Assurance and Abbey National Life. Other operating income rose 111% to £224 million, including £60 million from the sale of our equity stake in Irish Permanent. Included in other income is the release of deferred income to cover a proportion of provisions on high loan1to1value (LTV) loans £31 million (1998: £5 million), and an additional release of £3 million made in respect of previous years' lending, (1998: £17 million) where credit quality is such that the likelihood of losses being incurred is remote. Other operating income was also up on the first half of 1998 by £50 million in Treasury due to increased dealing profits and the contribution of CAIL, ANFP and acquisition finance.

Operating expenses

	Abbey national Group excluding new consumer finance businesses	New Consumer Finance businesses	Six months to 30 June	
			1999	1998
	£m	£m	£m	£m
			Total	
Salaries and other staff costs	339	17	356	302
Property and equipment expenses	79	3	82	80
Other administrative expenses	214	39	253	185
Depreciation and amortisation	51	4	55	52
Total	683	63	746	619

Excluding the impact of the three consumer finance businesses acquired last year, total operating expenses increased by 10% to £683 million. Salaries and other staff costs increased by 12% to £339 million. This reflects the annual salary review plus additional costs for staff profit share and pensions.

Other administrative expenses rose £29 million to £214 million, reflecting increased marketing and advertising costs as well as the costs of investing in new businesses.

The total operating expenses of £746 million include £4 million of goodwill arising from the acquisition of 3 consumer finance businesses and £7 million of integration costs. Also included was the cost of implementing process efficiency and productivity programmes (£10 million) and the £9 million cost of investing in new businesses (including investment in e1commerce and Wealth Management).

Excluding these items, the underlying Group cost:income ratio improved to 40.6% (1998: 41.2%), the lowest in the Group's history as a PLC.

Provisions

	Six months to 30 June		Six months to 31 December
	1999	1998	1998
UK Retail Banking	£m	£m	£m
Secured	24	13	41
Unsecured	36	24	32
Sub1Total	60	37	73
Finance House			
Abbey National branded UPL	37	24	33
First National brand	17	13	13
New consumer finance businesses	55	1	1
Sub1Total	109	37	46
Continental Europe	2	4	1
Group Central Holdings	1	1	3
Total	171	79	122
Contingent liabilities and commitments	3	9	7
Amount written off fixed asset investments	15	7	21

	Six months to 30 June		Six months to 31 December
	1999	1998	1998
	£m	£m	£m
Provisions	171	79	122
Suspended Interest	12	18	29
Deferred income release against provisions on high LTV loans	(31)	(5)	(34)
Net cost of bad debt (including £55 million in acquired business in 1999)	152	92	117
Mortgage arrears:			
No. of cases 3+ months in arrears (000s)	33.3	31.8	36.6
Total no. of cases in arrears (000s)	73.0	79.6	89.3
Stock of repossessed properties	2,090	2,016	2,069
Repossessions	3,097	2,666	2,606
Sales	3,076	2,577	2,553

Provisions for bad and doubtful debts reduced £6 million to £116 million in the first half of 1999 against the second half of last year, excluding the three newly acquired consumer finance businesses.

Provisions against secured lending have fallen 41% to £24 million against the second half of last year reflecting a significant fall in arrears.

Provisions against personal banking products (which include overdraft and credit card balances) increased £4 million since the end of 1998. This reflects a 13% growth in assets during the period and a build up of assets over the last 2 years. Arrears on the bank account and credit card fell by 14% from the year end of 1998 reflecting improved credit quality and a more proactive debt management strategy.

The provision charges for Finance House, excluding the £55 million relating to the acquisition of the three consumer finance businesses, increased by £8 million to £54 million. , The charge includes £37 million of provisions for Abbey National1branded unsecured loans (H2 1998: £33 million), and £17 million of other FNB businesses (H2 1998: £13 million). The increase in provisions for Abbey National1branded unsecured loans reflects strong asset growth over the last 2 years and increased arrears in 1998. In this book, arrears have fallen throughout 1999, origination standards have improved and loan growth has slowed.

A prudent approach continues to be taken by Treasury & Wholesale banking and £15 million has been added to provisions for amounts written off fixed asset investments.

Taxation

The effective rate of tax was 30.2% (1998: 31.3%).

Results of operations of the Group by business segment

UK Retail Banking

	Six months to 30 June	
	1999	1998
	£m	£m
Net interest income	738	689
Commissions, fees and other income	168	169
Operating expenses	(386)	(379)
Provisions for bad and doubtful debts	(60)	(37)
Provisions for contingent liabilities and commitments	1	(6)
Profit before tax	460	436
Cost:income ratio	42.6	44.2
Market share of increase in UK retail household liabilities (%)	n/a	6.7
Market share of UK retail household liabilities stock (%)	8.6	9.1
Market share of increase in UK mortgages outstanding (%)	2.4	3.1
Market share of UK mortgage stock (%)	13.3	13.8

UK Retail Banking increased its profit before tax by 6% to £460 million, with profit before provisions increasing 9% to £520 million.

Net interest income increased by 7% to £738 million. The spread between UK Retail Banking's average lending rates and average funding rates increased from 2.03% at 30 June 1998 to 2.18% at 30 June 1999. This has resulted in an increase in the UK Retail Banking net interest margin to 2.44% (1998: 2.35%).

Commissions, fees and other income decreased by 1% to £168 million, due to lower banking income and fees generated from fixed rate mortgage business which has been offset by higher commission receivable from Abbey National Life.

Other income includes the release of deferred income to cover a proportion of provisions on high LTV loans and a release made in respect of the lending of certain previous years where credit quality is such that the likelihood of further losses being incurred is remote 1 totalling £34 million (1998: £22 million).

Total operating income grew by 6% to £906 million, increasing three times faster than operating expenses.

Operating expenses rose by 2% to £386 million (1998: £379 million). Excluding normal inflationary pressures on salaries, this represents a fall in costs as a result of early progress with improving cost efficiency and productivity, including a rationalisation of back office operations.

The provisions charge was £60 million, with £24 million (1998: £13 million) relating to residential mortgages, up against the particularly low levels charged in the first half of 1998, but down significantly against the second half as arrears continued to fall.

Provisions charges against overdrafts and credit cards increased to £36 million (1998: £24 million). This reflects the 14% growth in personal banking unsecured lending assets and a build up of assets over the last 2 years. At the half year, Abbey National's credit card asset was £287 million (1998: £252 million), while the overdraft asset has grown from £206 million to £236 million in 1999.

As at 30 June 1999, Abbey National had a UK mortgage asset of £62.7 billion (31 December 1998: £62.3 billion), an estimated 13.3% market share. The £0.4 billion increase in the first half represents an estimated 2.4% (1998: 3.1%) market share of the increase in UK mortgages outstanding. This is based on an estimated 9.7% (1998:11.6%) share of gross mortgage lending (at £4.9 billion), and an estimated 13.0% (1998: 14.8%) market share of mortgage capital repayments (that is, customers repaying or redeeming their mortgages) equating to £4.5 billion.

As at 30 June 1999, Abbey National had retail household liabilities of £48.5 billion (31 December 1998: £49.3 billion), which equates to an 8.6% share of the total UK retail household liabilities stock. The savings market has continued to change: with competition for equity1based products, in particular with profit bonds, combined with very strong competition in the first half of the year from the aggressive pricing of new entrants. Abbey National experienced a £0.8 billion net outflow of retail household liabilities during the first half of 1999 (1998: £1.0 billion inflow). Abbey National was particularly successful in selling ISAs, with £716 million taken in cash ISAs. In addition, Abbey National equity ISAs, PEPs, unit trusts and investment bonds have attracted £698 million of new business premiums during the first half (1998: £507 million).

Treasury & Wholesale Banking

	Six months to 30 June	
	1999	1998
	£m	£m
Net interest income	196	189
Commissions, fees and other income	75	39
Operating expenses	(54)	(37)
Amounts written off fixed asset investments	(15)	(7)
Profit before tax	202	184
Assets(£bn):		
Investment portfolios and other assets	59.1	47.9
Trading and liquidity books	5.9	5.2
Cater Allen International Limited	37.0	24.3
Total	102.0	77.4

Treasury & Wholesale Banking profit before tax increased 10% to £202 million. This follows a consistently strong performance from the growing investment portfolios, as well as increased fee income from a range of newer but related and complementary businesses such as acquisition finance and equity derivatives. In addition, Treasury & Wholesale Banking continued to invest in business initiatives which will provide further earnings growth in the future.

Net interest income within Treasury & Wholesale Banking increased by 4% to £196 million. CAIL made a significant contribution to income, although the pace has slowed from the its exceptional results of last year. The continued reduction in the trading book was offset by the increase in actively managed assets held for liquidity purposes.

Commissions, fees and other income nearly doubled to £75 million as a result of an outstanding performance from ANFP and the large number of deals completed in a range of structured finance markets during the period to 30 June 1999. ANFP expanded its equity derivatives activities to increase the range of risk management tools ANFP can offer to the UK retail lending and structured savings market. Treasury & Wholesale Banking completed a number of project finance initiatives including three deals through the government's Private Finance Initiative and a number of acquisition finance transactions.

Associated with the development of the business was an increase in operating expenses, which increased by £17 million to £54 million. One1off project costs, which for the half year totalled £5 million, included a major project to re1engineer back1office systems which we expect to finalise in 1999.

Throughout this development Treasury & Wholesale Banking's investment strategy has remained largely unchanged and the business continues to provide the Group with stable and sustainable income streams predominantly through investing in high quality assets. £15 million has been added to provisions reflecting the prudent approach taken in relation to potential credit risks and follows a full review of current holdings.

Treasury & Wholesale Banking raised funding totalling over £8 billion in the first half of the year including a benchmark €2billion eurobond. In addition, Abbey National launched mortgage1backed floating rate notes totalling £1 billion equivalent 1 one of the largest deals ever offered in the European mortgage1backed market. This issue provides the Group with an additional tool to help manage its capital effectively.

Treasury & Wholesale Banking is well prepared for the potential system and business risks associated with the Year 2000 1 planning the Group's liquidity over the year end will be a matter of particular importance. The annuity1based nature of Treasury & Wholesale Banking's businesses means that it is well positioned to respond to either market inactivity or market turbulence and will be alert to potential investment opportunities.

Life Assurance

Six months to 30 June	Profit before tax		New business premiums		Annualised business premiums	
	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m
Abbey National Life¬	60	55	723	533	102	79
Scottish Mutual	45	36	896	755	114	105
Total	105	91	1,619	1,288	216	184

¬ including Abbey National Unit Trust Managers and Abbey National PEP & ISA Managers
 including Abbey National Financial and Investment Services, Pegasus, Scottish Mutual International, Scottish Mutual Portfolio Managers and Aitken Campbell.

Life Assurance increased profit before tax by 15% to £105 million as a result of significant growth in business volumes in a strong market. Funds under management increased from £13.8 billion at 31 December 1998 to £15.6 billion at 30 June 1999.

Abbey National Life increased pre1tax profit by 9% to £60 million (1998: £55 million). Annualised premium income increased by 29% to £102 million and total new business premium income increased by 36% to £723 million (1998: £533 million). This was achieved despite the changing business mix and withdrawal of our regular pension product, which was taken off the market in March in anticipation of the advent of stakeholder pensions and launch of our own flexible pension. It also followed a successful end to the sale of PEPs which, in common with other providers, were sold at lower margins reflecting the competitive nature of that particular market. Abbey National was one of the few providers to successfully launch a full range of ISA products and has achieved significant market shares. The equity1based ISAs have sold £204 million which gives a market1leading share of 14%.

Scottish Mutual increased pre1tax profits by 25% to £45 million (1998: £36 million). Annualised premium income increased by 9% to £114 million and total new business premium income increased by 19% to £896 million. This was largely due to very strong sales of single life business where market share has increased significantly since 1998. New business growth was achieved despite lower sales of new regular premium pension business across the board. This was a direct result of the uncertainty raised by the various stakeholder pension consultative documents. Scottish Mutual continues to diversify its product range and target market, with sales through Pegasus and Scottish Mutual International.

Finance House

	Six months to 30 June						
	Abbey brand	FN brand	New consumer finance business	Total 1999	Abbey brand	FN brand	Total 1998
	£m	£m	£m	£m	£m	£m	£m
Total operating income	64	124	138	326	59	109	168
Operating expenses	(16)	(59)	(63)	(138)	(19)	(52)	(71)
Provisions	(37)	(17)	(55)	(109)	(24)	(13)	(37)
Profit before tax	11	48	20	79	16	44	60
Net loan assets: £m							
Unsecured	1,195	783	1	1,978	1,278	702	1,980
Secured	1	1,725	1	1,725	1	1,810	1,810
Motor Finance	1	614	2,121	2,735	1	597	597
Business Finance	1	559	202	761	1	406	406
Retail Finance	1	1	1,769*	1,769	1	1	1
Total	1,195	3,681	4,092	8,968	1,278	3,515	4,793

* formerly defined as unsecured asset

Finance House profit before tax increased by 32% to £79 million.

Total income in the Finance House increased by 94% supported by 87% growth in total assets since June 1998, reflecting the acquisition of the consumer finance businesses at the end of 1998. The increase in operating expenses reflects the cost of new business acquisition and infrastructure investment as well as £7 million costs of integration. The cost:income ratio was 42.3% (1998: 42.3%).

Total income from the Abbey National1branded unsecured loan business increased 8% to £64 million with profit before tax and provisions increasing 20% to £48 million. However, provisions increased by £13 million, leading to a fall in profit before tax of £5 million to £11 million. Abbey National1branded personal loan assets fell by 6% to £1,195 million (1998: £1,278 million) due to lower volumes of new business, as a result of tightening the credit criteria last year.

Operating income from the First National brand increased 14% to £124 million. This reflects a 12% growth in net unsecured lending to £783 million and 38% growth in business finance loan assets (to £559 million) since 30 June 1998. This was offset by asset roll off in HMC where new lending recommenced last year. Operating expenses increased by 13% to £59 million, following acquisitions made in the first half of 1998. Provisions increased by £4 million to £17 million, partly as a result of reflecting strong growth in unsecured asset.

General Insurance

	Six months to 30 June	
	1999	1998
	£m	£m
Total operating income	73	66
Operating expenses	(25)	(22)
Profit before tax	48	44

General insurance profit before tax increased 9% to £48 million. Good progress has been made by the direct arm of ANGI in Liverpool with significant premium growth in the household and motor insurance business. This performance has been partly offset by the increased investment still required by these businesses. Non1mortgage related business volumes also increased by 7%. However, overall margins have tightened as a result of pricing competition in the market and the impact of bad weather and subsidence claims.

Wealth Management

	Six months to 30 June	
	1999	1998
	£m	£m
Net interest income	29	20
Commissions, fees and other income	24	19
Operating expenses	(34)	(27)
Profit before tax	19	12

Wealth Management profit before tax increased by 58% to £19 million. Net interest income has increased by 45% to £29 million due to increased volumes and margins on the retail deposit business. Commissions increased by £5 million largely due to higher sales of company pension products and Self Invested Personal Pension sales in Abbey National Independent Consulting Group.

Operating expenses increased by 26% to £34 million. This follows increases in staff and back office infrastructure required to deal with business expansion.

Continental Europe

France and Italy broke even, (1998: £1 million profit), but made a small loss after their respective Year 2000 and EMU costs.

Group Central Holding

	Six months to 30 June	
	1999	1998
	£m	£m
Central Services	(80)	(53)
Financial Holdings	62	12
Loss before tax	(18)	(41)

Group Central Holdings comprises Central Services and Financial Holdings 1 which contains the earnings on the difference between the Group's statutory capital and the target regulatory capital allocated to segments. In 1999, Central Services spent £9 million on projects developing new areas of the business and there was a further increase of £15 million relating to additional staff profit share and pension costs. In Financial Holdings, the income from the disposal of the equity stake in Irish Permanent has been included but was offset by greater utilisation of regulatory capital in the operating businesses during 1999. This has led to there being less surplus regulatory capital.

Year 2000 and EMU

Year 2000

Historically, most computer systems and equipment with embedded chips or processors have relied on two rather than four digits to define a specific year. This has created the risk that, from 1 January 2000, dates could be treated by computer systems as dates in the 1900s. If systems calculate, compare or sort using the incorrect date, the resulting errors could lead to a range of problems such as inaccurate or incomplete transaction processing or even system failure. The potential risks associated with these events could include business interruption or shutdown, financial loss, reputational loss and legal liability.

In 1996, Abbey National recognised the need for a co1ordinated approach throughout the Group to address the Year 2000 issue. In response, the Company set up a Steering Group reporting directly to the Board of Abbey National plc with senior representatives from all major businesses. The Steering Group includes both internal officers and external consultants, providing functional expertise and independent oversight of the initiative. This Group has been supported by a Group Programme Office which monitored the progress of the ten major sub1programmes which together ensured coverage of the Abbey National Group's entire portfolio of systems.

The Group's action plan comprised five stages:
1) documenting an inventory of all systems;
2) assessing the Year 2000 impact;
3) identifying solutions;
4) taking remedial action and testing to ensure compliant operation; and
5) testing interfaces and final compliance testing.

Plans addressed the compliance of major IT applications and infrastructure, end user systems and embedded chip technology, as well as the Group's dependency on suppliers of critical IT and non1IT goods and services. The Group has completed substantially all of the work outlined in the above action plan.

Management believes that the activities it has undertaken in the Year 2000 project should have satisfactorily resolved Year 2000 compliance exposures within systems throughout the Group, and that no critical systems are at risk of failing to meet Year 2000 compliance deadlines.

Abbey National already has a range of contingency plans in place primarily aimed at recovering from loss of workplace and providing computer standby facilities. However, the Board recognises that the Year 2000 issue presents a number of unique threats to businesses in general and that there is a need for specific contingency arrangements. To this end, a Group1wide review and update of business continuity plans has taken place. Risks have been identified and evaluated and solutions documented for all areas of the Group. Testing and implementation of these solutions will be substantially complete by the end of September 1999. The Board has approved a "freeze" on new and amended system releases during the period from October 1999 to mid1January 2000 in order to ensure that a stable and compliant environment is maintained.

Abbey National is planning its operations over the millennium rollover period in detail to reflect the additional Bank Holiday, and the limited opening of branches and telephone operations to provide essential customer services. The staffing required at Head Offices to support these operations and to undertake additional "comfort testing" is also being scheduled.

Management believes that the Group's plans significantly reduce the risk of a Year 2000 issue serious enough to cause business disruption. One of the major concerns across the industry is the perceived risk of loss of supply from utility companies caused by Year 2000 failures. The Group is mitigating this risk by maintaining close contacts with utility companies both directly and via the British Bankers' Association. Furthermore, current contingency plans will provide Abbey National's major sites with a continuous power supply for a number of weeks in the case of failure. Abbey National is working with APACS and the Bank of England to ensure that anticipated customer demand for additional cash is supported before and during the millennium rollover period.

Analysis of Year 2000 and EMU Spend

The total expected cost of achieving Year 2000 and EMU compliance is £144 million in the years 1997 1 2000. These figures include the direct costs of internal resources such as salaries and premises.

Total projected spend on the Year 2000 and EMU projects is broken down below. The figures for EMU (phase 1 of which is now completed and no further project costs are due to be incurred) do not take into account any costs that are likely to be incurred should the decision be taken by the UK to join the euro. Also provided is an analysis of the actual spend to date by expense category and business segment.

Total project spend to 2000 (£ million)

	Capital	Revenue	Internal	Total
Year 2000	20	96	18	134
EMU	2	7	1	10
Total	22	103	19	144

1999 half year (£ million)	Other income	Operating expenses	Total revenue expenditure	Capital expenditure	Total
UK Retail Banking	1	9	9	1	10
Treasury & Wholesale Banking	1	1	1	1	1
Life Assurance	5	1	5	1	5
Finance House	1	1	1	1	1
General Insurance	1	1	1	1	1
Wealth Management	1	1	1	1	1
Continental Europe	1	3	3	1	3
Group Central Holdings	1	1	1	1	1
	5	15	20	1	21

Note: All spend in 1999 relates to Year 2000 as EMU preparations were completed in 1998

1998 half year (£ million)	Other income	Operating expenses	Total revenue expenditure	Capital expenditure	Total
UK Retail Banking	1	21	21	2	23
Treasury & Wholesale Banking	1	2	2	1	2
Life Assurance	3	1	3	1	3
Finance House	1	1	1	1	2
General Insurance	1	3	3	1	3
Wealth Management	1	1	1	1	1
Continental Europe	1	3	3	1	3
Group Central Holdings	1	6	6	1	6
	3	36	39	3	42

Return to shareholders

Abbey National's purpose is to continue to achieve above average growth in value for shareholders. Shareholder value is measured by total return to shareholders (TSR), which equates to gross dividends paid plus the movement in the share price over time. Share price for any given year is defined as the average of daily share prices. Since 1989, annualised TSR achieved has been 31%, the best performance among the FTSE 100 companies at the time of Abbey National's flotation. At the end of June 1999, the Company had a market capitalisation of £16.9 billion and ranked as the 17th largest UK quoted company and 12th largest European bank on this measure. Executive remuneration via the long term incentive plan is also based on TSR performance of the Company over three years relative both to specified financial institutions and the constituents of the FTSE 100.

Since January 1997 1 the period for the next incentive plan 1 Abbey National has achieved 37.7% per annum TSR, rating it 14th in the FTSE 100 and 4th relative to the 10 specified financial institutions listed below.

Abbey National's internal financial measures to evaluate plans and to monitor performance are closely aligned with shareholder value creation. The main measures used internally are 'value based cashflow' and 'profit after regulatory equity charge' ("PAREC"). Value based cashflow (profit attributable to ordinary shareholders less the additional regulatory equity required to support the business) was £207 million, up from £165 million in 1998, largely as a consequence of selling our stake in Irish Permanent. PAREC (profit after tax less a notional charge for average Group equity capital) grew 24% in 1999 to £348 million, reflecting the increase in the post1tax return on average ordinary shareholders' equity from 22.8% to 23.5%.

For the first half of 1999, earnings per share increased by 19% to 41.9 pence per share. Ordinary dividends of 13.4 pence are payable to shareholders and are covered, 3.1 times by earnings (1998 : 3.0).

Total shareholder returns of Abbey National and its peer group of companies

January 1997 1 June 1999

Company	TSR%
1. Bank of Scotland	54.1
2. Legal & General	47.1
3. Lloyds TSB Group	46.3
4. Abbey National	37.7
5. Royal Bank of Scotland	35.8
6. Prudential Corporation	33.4
7. Barclays	32.6
8. Nat West Group	32.5
9. CGU	24.7
10. Royal & Sun Alliance	18.2
FTSE 1 100 Average	17.9
Abbey National rank in FTSE 100	14th

Capital resources

	As at 30 June 1999	As at 31 December 1998
	£m	£m
Tier 1	5,638	5,205
Tier 2 and Tier 3	3,884	3,146
less supervisory deductions	(1,301)	(1,107)
Total regulatory capital	8,221	7,244
Total risk weighted assets:		
Banking book	70,513	67,489
Trading book	4,046	3,787
	74,559	71,276
Capital ratios:		
Risk asset ratio	11.1%	10.2%
Tier 1 ratio	7.6%	7.3%
Equity Tier 1 ratio	7.0%	6.7%

The basic instruments of capital monitoring are the risk asset ratio, which compares total regulatory capital to total risk weighted assets, and the tier 1 capital ratio. As at 30 June 1999, the Group's risk asset ratio was 11.0% (31 December 1998: 10.2%) and the tier 1 ratio was 7.6% (31 December 1998: 7.3%). The increase in the ratios reflected retained earnings and, in the case of the risk asset ratio, the issue of new subordinated capital securities, partly offset by 5% growth in risk1weighted assets.
Abbey National's tier 1 capital (ordinary and preference shareholders' funds after deducting goodwill), increased by £433 million to £5,638 million (31 December 1998: £5,205 million). This resulted mainly from £405 million of retained earnings. There was an increase in tier 2 capital (subordinated liabilities and general provisions) of £738 million, including the issue of €500 million dated subordinated debt, and €100 million and US$550 million of perpetual subordinated capital securities. Supervisory deductions mainly represent investments in life assurance and insurance companies within the Group.

Balance sheet

Total assets increased by 10% to £196.4 billion in the first half of 1999. This growth of £18.6 billion was funded mainly through the wholesale debt markets. As at 30 June 1999, wholesale liabilities represented 59% of total liabilities. The percentage of UK mortgage assets funded from retail savings has been maintained at 79% (31 December 1998: 80%).

Consolidated balance sheet at 30 June 1999

	As at 30 June		As at 31 December
	1999 (unaudited)	1998 (unaudited)	1998
Assets	£m	£m	£m
Cash, treasury bills and other eligible bills	3,097	2,289	2,386
Loans and advances to banks	9,972	6,801	7,428
Loans and advances to customers	73,370	67,391	72,474
Non returnable finance on securitised advances	(1,129)	(233)	(213)
Loans and advances to customers after non1returnable finance	72,241	67,158	72,261
Net investment in finance leases	5,362	4,668	5,326
Securities and investments	62,390	49,760	54,326
Assets under stock borrowing and lending agreements	17,767	13,982	15,026
Long1term assurance business	973	710	760
Fixed assets	947	736	932
Operating lease assets	267	84	223
Other assets	8,428	4,666	5,728
Assets of long1term assurance funds	14,974	11,880	13,383
Total assets	196,418	162,734	177,779
Liabilities			
Deposits by banks	36,621	28,552	35,610
Customer accounts	53,321	53,334	52,924
Debt securities in issue	52,949	38,621	42,989
Liabilities under stock borrowing and lending agreements	17,767	13,982	15,026
Other liabilities	10,870	8,419	9,107
Subordinated liabilities including convertible debt	4,096	2,727	3,333
Liabilities of long1term assurance funds	14,974	11,880	13,383
Total liabilities	190,598	157,515	172,372
Non1equity shareholders' funds	450	450	450
Equity shareholders' funds	5,370	4,769	4,957
Total liabilities and shareholders' funds	196,418	162,734	177,779

Average balance sheet, yields, spreads and margins

	Six months to 30 June			
	1999 unaudited		1998 unaudited	
	Average balance	Average rate	Average balance	Average rate
Group	£bn	%	£bn	%
Interest earning assets	146.9	6.39	129.5	7.69
Interest bearing liabilities	137.0	4.88	122.1	6.42
Shareholders' funds	5.7	1	5.1	1
Other net non1interest bearing liabilities	4.2	1	2.3	1
Net interest margin	1	1.84	1	1.64
Net interest spread	1	1.51	1	1.27
UK Retail Banking				
Interest earning asset	60.9	6.64	59.1	8.19
Net interest margin	1	2.44	1	2.35
Net interest spread	1	2.18	1	2.03

Definitions

Net interest margin :
represents net interest income as a percentage of average interest earning assets.
Net interest spread :
the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

Following an accounting presentation change, assets and liabilities under stock borrowing and lending agreements are reported under separate headings in the balance sheet and have been reclassified as non1interest bearing assets and non1interest bearing liabilities respectively. Accordingly, 1998 yields, spreads and margins have been restated.

Interest earning assets and liabilities have been grossed up to reflect the securitised mortgage asset.

Average balance sheet, yields, spreads and margins

	Six months to 30 June			
	1999 unaudited		1998 unaudited	
	Average balance	Average rate	Average balance	Average rate
Group	£bn	%	£bn	%
Interest earning assets	146.9	6.39	129.5	7.69
Interest bearing liabilities	137.0	4.88	122.1	6.42
Shareholders' funds	5.7	1	5.1	1
Other net non1interest bearing liabilities	4.2	1	2.3	1
Net interest margin	1	1.84	1	1.64
Net interest spread	1	1.51	1	1.27
UK Retail Banking				
Interest earning asset	60.9	6.64	59.1	8.19
Net interest margin	1	2.44	1	2.35
Net interest spread	1	2.18	1	2.03

Definitions

Net interest margin :
represents net interest income as a percentage of average interest earning assets.
Net interest spread :
the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

Following an accounting presentation change, assets and liabilities under stock borrowing and lending agreements are reported under separate headings in the balance sheet and have been reclassified as non1interest bearing assets and non1interest bearing liabilities respectively. Accordingly, 1998 yields, spreads and margins have been restated.

Interest earning assets and liabilities have been grossed up to reflect the securitised mortgage asset.

Return to shareholders

Introduction

We have been instructed by the Company to review the financial information set out on pages 1 to 24 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 1999.

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
Chartered Accountants and Registered Auditors
London EC4A 4TR
27 July 1999

Other information

1. The financial information in this release provided for the year ended 31 December 1998 is based on the statutory accounts which were delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) or 237(3) of the Companies Act 1985.

2. A summary of this report will appear as an advertisement in The Times, The Daily Telegraph and Daily Mail on 29 July 1999.

3. The ex1dividend date is 9 August 1999; the record date is 13 August 1999; the payment date is 4 October 1999.

4. The third quarter trading statement will be issued on 26 October 1999 and the preliminary full year results will be announced on 17 February 2000.

For further information contact:

Thomas Coops
Investor Relations Manager

Tel: (0171) 612 4382