

COMMENT BY ABBEY NATIONAL CHAIRMAN, LORD TUGENDHAT

27 October 1998

"In the third quarter of 1998, Abbey National continued to implement its three-fold strategy of growing revenue in its traditional and diversified businesses, improving cost efficiency and productivity and continuing to deliver strong returns on capital.

"Abbey National can report a good performance in UK Retail Banking, diversification of its business streams continued and there was a slight strengthening of the retail banking net interest spread during the period. Progress has also been made in our other businesses, with particularly strong growth in Life Assurance during the third quarter. The deteriorating performance trends seen in the consumer finance industry over the last year have been reflected by increased provisioning in the Abbey National branded unsecured personal loan book. These conditions are also impacting on our other consumer credit activities, although to a lesser extent.

"We have been monitoring the recent unprecedented events in financial markets closely. Treasury & Wholesale Banking continued to make progress in the third quarter. During this period it has remained cautious, and will continue to take a measured approach to growing the business, maintaining a particular focus on risk management, tight control and balance sheet quality. However, the market conditions have presented opportunities. In the expectation of some stability returning to these markets, our outlook for Treasury & Wholesale Banking continues to remain positive.

In relation to specific market events, we have no direct exposure to Latin America or Russia. Abbey National has no loan or credit exposure nor any equity investment in LTCM or any other hedge fund. The extent of the relationship to LTCM consists entirely of fully performing swaps which were put in place in the normal course of business and are collateralised with cash. The estimated maximum potential exposure is less than US\$10 million and the current exposure is nil. The situation with regard to our exposure to the troubled Asian economies is unchanged from the statement we made at our Interim Results in July. We do not have any specific provisions against Treasury assets, which are all currently fully performing.

"Our programme to continue to improve productivity and our cost efficiency by reviewing processing, operating platforms and head office functions is progressing.

"We are on target for ensuring that the business critical systems are Year 2000 compliant by the end of 1998. Our progress and the associated development cost has been accelerated with further expenditure brought forward to this

year, including costs associated with EMU.

"Our tier 1 capital ratio remains above 8%, with the tier 1 equity ratio falling slightly since the half year."

CURRENT TRADING CONDITIONS

UK RETAIL BANKING

Abbey National's share of the increase in UK mortgages outstanding in the third quarter was 8% and market shares of both mortgage and retail savings flows for the year to date are running just below the lower end of the 5-10% range that we stated earlier in the year was a reasonable share of the flow of new business. This has been against the background of a strengthening retail banking net interest spread. The number of pipeline mortgage cases is also encouraging.

We continue to develop the range of financial services that we offer to customers under the Abbey National brand:

Bank account openings have increased and are running at nearly 13,000 each month with the proportion of primary accounts now standing at 54%; Branches continued their success in selling PEPs and Unit Trusts, with over £488 million sold so far this year, maintaining the market share of new openings at 7%; We have continued to offer competitive new mortgage products, whilst removing extended tie-ins on all new products;

On 1 September, we extended our highly successful financial services partnership with Safeway by announcing the expansion of the in-store banking initiative to 25 Safeway branches over the next year. This will keep us at the forefront of in-store banking developments within the UK, by offering new concept branches, with extended hours, open 7 days a week.

The UK residential lending market has shown signs of slowing this year, with this trend expected to continue for the remainder of this year and into the first half of 1999. Abbey National still expects some modest real growth in the stock of mortgage assets for the market as a whole in 1998, but with transactions down slightly on 1997 to just below 1.4 million.

The overall number of Abbey National mortgage accounts in arrears has risen by 1% since 30 June, with the number of cases six months or more in arrears also up 1%. The stock of repossessed properties fell 1% during the period and the average provision for capital losses and interest arrears for repossessed property under offer has fallen very slightly.

TREASURY & WHOLESALE BANKING

During the third quarter, Treasury continued to develop a number of business areas within Structured Finance, and the investment portfolios continued to grow and deliver high quality sustainable margin income. Cater Allen International Limited in particular has been successful in increasing its market presence, and the business flows achieved to date have reinforced our view that this will be an important business in the future.

Treasury has remained cautious in its approach to investing. The unprecedented market conditions do present opportunities, and Treasury has selectively invested in a range of high quality securities at historically attractive levels, which will deliver attractive income streams for the future. The investment portfolios have increased by over £4 billion since the interim stage. Overall, Treasury's net credit exposure has improved, with AA rated exposures representing 73% of total credit exposures.

Treasury has continued to benefit from the decision to significantly reduce the size of the trading portfolio over the last year. Treasury also stands to benefit from the market's flight to quality. With a high quality balance sheet, strong credit ratings and negligible exposures to troubled economies, Treasury's global funding franchise ensures it has continual access to the international capital and money markets. This has been reinforced by the fact that Treasury has raised in excess of US\$2.5 billion in the international capital markets since the half year.

LIFE ASSURANCE

Scottish Mutual and Abbey National Life performed extremely well in the third quarter.

Total new business premiums have risen 39% since the half year. There was a significant increase in single premium business in Scottish Mutual helped by sales of Investment Bond products and, in Scottish Mutual International with sales of Personal Bonds. The performance in Abbey National Life (including Abbey National Unit Trust Managers) was boosted by PEP sales. The recent lack of confidence in the equity markets may have an impact on new business in the fourth quarter.

FINANCE HOUSE

The growth of both Abbey National branded unsecured personal loan assets and those sold through FNB has slowed due to a more pro-active risk averse strategy being adopted in response to the deteriorating credit performance trends seen in the industry over the last year. Provisioning has increased, particularly in Abbey National branded unsecured personal loan asset as arrears have emerged, following the significant growth of new business and net asset in recent years.

GENERAL INSURANCE

General insurance continues to develop, building on the launch of the direct insurance operation and increasing sales of home and contents insurance to banking and savings customers. Sales of the new motor insurance product and private medical insurance are progressing well. Motor insurance sales are growing steadily, with over 13,000 policies sold to date, following the public launch in July.

WEALTH MANAGEMENT

This has performed strongly during the quarter. Retail liability both offshore (under Abbey National and Cater Allen brands) and onshore (Cater Allen Ltd) grew 5% to £3.2 billion.

Abbey National's 1998 Preliminary Full Year Results will be announced on Friday 19 February 1999.