

1999 Spring Business Statement

This release coincided with Abbey National plc's Year 1999 AGM, that was held on 22 April 1999.

COMMENT BY ABBEY NATIONAL CHAIRMAN, LORD TUGENDHAT

"In recent months, the fear of recession in the UK appears to have lifted, with survey indicators showing business and consumer confidence starting to pick up and early indications of an improvement in the housing market. Our expectation is for the economy to improve into the second half of 1999, as the effects of interest rate changes and improved confidence feed through to the economy.

In the first quarter of 1999, we have continued the programme aimed at broadening our earnings base and the services we provide to customers; further improving our cost efficiency and use of capital. We have seen steady growth in all areas of our business. In January, we disposed of our entire holding of 8.15 million shares in Irish Permanent for £9.75 per share. These shares were acquired at an average price of £2.32. The profit on sale will be used to further strengthen our core activities and maintain our growth in shareholder value. Both our Tier 1 capital and our tier 1 equity ratio have risen slightly from the year end and we have raised around £500 million of tier 2 capital."

CURRENT TRADING CONDITIONS

UK Retail Banking

Abbey National's estimated share of the increase in UK mortgages in the first quarter was around 6% which was considerably stronger than in 1998 and is within the 5-10% range we set last year. Gross lending and the volume of new approvals is encouraging and customer retention initiatives are in place in all mortgage centres. The outlook for transactions for the rest of the year will depend largely on the level of economic growth and general consumer confidence.

Long term savings and equity-linked investments performed strongly in the first quarter, with £234 million of PEPs and Unit Trusts sold. This had an impact on flows into traditional deposit based savings, leading to an overall net outflow.

Since 6 April, nearly £300 million has been invested in Abbey National savings and investment ISAs. We are currently opening over 5,000 accounts a day and believe Abbey National is currently the first choice in the market for ISAs. As the demand for cash ISAs builds, it is expected that deposit performance will be stronger in the remainder of the year.

The UK Retail Banking net interest spread is running at a level above the mid point of its historic range of 175 to 225 basis points.

We continue to develop the range of financial services that we offer to customers under the Abbey National "fair banking" proposition. Bank account openings are running at nearly 20,000 each month with the proportion of primary accounts at 53% and over 22,000 credit card accounts have been opened since the beginning of the year.

The total number of mortgage accounts in arrears has reduced by nearly 12% since the end of 1998 and there has been a 7% fall in the value of arrears. The centralisation of collections activity, which is now completed, should contribute to the stabilisation of arrears during the remainder of 1999. The stock of repossessed properties has increased slightly to 2,425 at the end of March, but this trend should reverse given the current reduction in arrears and a more buoyant housing market.

Treasury & Wholesale Banking

Treasury & Wholesale Banking had a good first quarter with strong performances across the wide range of markets in which it participates. The investment portfolios continued to grow as investment margins widened and advantage was taken of attractive investment opportunities in the public and private markets. Cater Allen International and Abbey National Financial Products both continued to perform well, with the new equity derivatives business delivering an encouraging first quarter performance.

Funding raised totalled over £3 billion including a euro 2 billion eurobond - the first euro issue post EMU by a UK financial institution and at the time the largest ever private sector issue in the eurobond market. In addition, Treasury & Wholesale Banking launched three subordinated bonds and an issue equivalent to £1 billion secured on residential mortgages thereby increasing the flexibility of the Group's balance sheet management.

Life Assurance

Life Assurance 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, with greatly increased new single premium business in Scottish Mutual.

Abbey National Life's new single premium business (including Abbey National Unit Trust Managers) was higher than the same period last year, in part reflecting the uptake of PEPs prior to the end of the tax year.

The advent of stakeholder pensions will provide significant opportunities going forward. In view of the uncertainty affecting the future of personal

pensions and recent guidance from the FSA, we took the opportunity in March to withdraw our regular contribution personal pension from sale. We will launch a new Flexible Pension during the summer.

Finance House

The integration of the three point-of-sale finance businesses newly acquired from NatWest is progressing well, including projects to improve business efficiency and enhance revenues.

There has been strong organic growth of First National-branded home improvement loans and secured loans. In Motor Finance, competitive pressure and market conditions have led to reduced levels of new business and margin pressure continues to be a factor.

Organic growth in Abbey National branded unsecured loans has slowed following the more cautious strategy adopted from this time last year. New business levels were down against the same period last year, resulting in a small decline in loan asset. The underlying reduction in Abbey National branded unsecured loan arrears has continued since the end of 1998, and early arrears also continued to fall.

General Insurance

In the first quarter of 1999, business activity continues to be focused on growing the non mortgage-related portfolio and developing the direct telesales operation based in Liverpool. Marketing activity has been successfully directed towards Abbey National savings and banking customers. Sales of buildings and contents insurance increased by 11% and sales to non-borrowers increased by 29% against the same period last year. In addition, we have continued to build our motor insurance business, enjoying high response and conversion rates.

Wealth Management Division

This division has performed strongly during the quarter. Retail liability both offshore and onshore grew by £62 million to £3.5 billion.

Abbey National's 1999 Interim Results will be announced on Wednesday 28th July 1999.