

COMMENT BY ABBEY NATIONAL CHAIRMAN, LORD TUGENDHAT

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"In the last quarter, Abbey National has seen strong growth across all businesses and continued improvement in overall credit quality. In UK Retail Banking a stronger competitive stance has been taken in the mortgage and savings markets which has resulted in improved business volumes. Life Assurance has grown at record levels with new business premiums at over £2.5 billion in the first 9 months, up 41% against the same period last year and already higher than at the end of 1998. Treasury continues to grow strongly and in Finance House, significant progress is being made in the ongoing integration of new businesses. Profits achieved in total across the new businesses acquired from NatWest are ahead of our forecasts at the time of acquisition.

We are also broadening our range of distribution and services with significant work being undertaken on e-commerce initiatives and developing our wealth management proposition.

We are continuing to make cost efficiencies a priority, with excellent progress made in achieving greater efficiency in Retail, which is the key driver to efficiency in the Group.

The Group continues to seek methods to improve capital efficiency and access new sources of liquidity. Treasury & Wholesale Banking has recently managed the launch of a US\$1 billion bond which raised tier 2 capital for the Group and also recently launched a £1 billion residential mortgage securitisation. The Group's securitisation programme now funds 4% of the mortgage stock.

Abbey National is confident that its systems and operations are ready for the year 2000 and that it will be 'business as usual' for us before, during and after the century date change. "

CURRENT TRADING CONDITIONS

UK Retail Banking

There has been a sharp recovery in net lending in the third quarter with gross lending volumes of £3 billion achieved, without offering products with extended tie-ins. Applications in September are also significantly higher than the same period last year at £2.4 billion, with significant levels of pipeline cases running into the remainder of the year.

Abbey National's share of short-term liquid savings flows has improved helped by the new Direct Saver account launched on 15th September and new highly competitive bonds. Improved volumes in long term savings and equity-linked investments products have been achieved over the third quarter when compared to last year. Abbey National savings and investment ISAs have continued to sell well with respective market shares of stock of 15% and 9%. Both the market and our own cash ISA figures suggest that the initial burst of enthusiasm for ISAs has waned.

The UK Retail Banking net interest spread remains robust. Further success in cross-selling and a focus on strategies to drive up customer value has taken the average number of products held per customer to 1.75 (1.71 at the beginning of this year).

We continue to develop the range of financial services offered to customers under the Abbey National Brand.

- On 10th August we launched our flexible pension which is a forerunner to the stakeholder pension. We have sold 3,500 plans since the launch - doubling our normal market share of the Retail personal pensions market;
- Abbey National's first ISA mortgage was launched on 15th September.
- Our flexible mortgage was also launched to existing customers during the period (28th July) and was released for new borrowers from 7th October continuing our commitment to meet customers' changing needs;
- We announced our interactive digital TV service with BSkyB Open in August and our service will launch on 1st November. This offers our customers an exciting way to shop and bank from their own home.

Bank account openings have been running at an average of 13,000 each month over the last quarter up against the same period last year, with the proportion of primary accounts at 56%. The bank account and credit card asset is expected to rise towards the year end with higher borrowing levels in the run up to the Millennium.

The total number of mortgage accounts in arrears has continued to fall and is down by around 22% since 31 December 1998. The stock of repossessed properties has remained steady since the end of June. Provisions against personal banking products are in line with the first half.

Treasury & Wholesale Banking

The wholesale markets have slowed a little in the run up to the Year 2000. However, Treasury & Wholesale Banking took advantage of a number of

attractive opportunities and secured mandates for prospective deals in a wide range of markets, generating strong and diverse earnings in the third quarter, and this has positioned the business well for the coming year.

The investment portfolios grew 3% during the quarter, and net interest margins increased, delivering steady and substantial net interest income earning streams. Commissions, fees and other income increased with contributions from Abbey National Financial Products and Cater Allen International Limited and reflected earlier than expected successes of the newer businesses - equity derivatives and acquisition finance were particularly successful.

This has been an active period in the wholesale funding and money markets with over £5 billion raised in the capital markets. In addition, on behalf of the Group, Treasury & Wholesale Banking recently launched a £1 billion mortgage-backed FRN through a special purpose vehicle. The Group intends to take a lead in developing further this market as a source of long term funding and a means of increasing the Group's return on capital.

Life Assurance

Life Assurance continues to grow strongly with funds under management increasing by approximately 17% from the year-end to £16.1 billion. Total new business premium at the end of September 1999 of £2.5 billion has increased 41% over the first nine months of 1998.

Abbey National Life's total new business premium (including Abbey National Unit Trust Managers and Abbey National PEP and ISA Managers) of £980 million increased by 49% over the same period last year. These results reflect the power of the Retail franchise to sell both our new investment and our protection products.

The advent of stakeholder pensions will provide significant opportunities for Abbey National Life and the Flexible Pension contract, which was launched earlier this year, represents a first step towards this market.

We have now achieved total sales of 1.2 million Abbey National Life policies to our Retail customer base.

Scottish Mutual Assurance plc's total new business premium of £1.5 billion is up 37% over the same period last year. This reflects the continued success of single premium investment contracts together with various new product launches during the year, in particular, the launch of the With Profits Bond. Additionally, Scottish Mutual International is making inroads into South Africa and mainstream European territories.

Finance House

Significant progress is being made in the integration of the new consumer finance businesses acquired from NatWest at the end of last year. We believe good foundations are already in place to realise a large proportion of the anticipated total shareholder value creation arising from the acquisition. The management of the ex-Lombard Motor Finance and Wagon brand have been unified under the First National banner, as has the management of the two leasing businesses.

New business levels are ahead of last year and it is particularly pleasing to see this during the period of integration. Total customer balances have increased from £7.9 billion at the end of last year (which includes the acquired businesses) to £9.3 billion at the end of September (this includes all of PSA balances -the joint venture with Peugeot-Citroen which was purchased from NatWest in May this year). Credit quality remains good and arrears as a percentage of balances have fallen from the half year.

Major transformation programmes are now underway in both First National Motor Finance and First National Tricity Finance to reduce significantly the cost base and hence lower the cost:income ratio.

Organic growth in Abbey National branded unsecured loans has increased over the last quarter and the trend in underlying arrears has fallen slightly since the half year.

General Insurance

In the third 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. We have continued to build our motor insurance business, with record motor volumes achieved.

Wealth Management Division

Considerable work is also progressing in our Wealth Management area to develop a new offering to higher net worth customers. Retail liability both offshore and onshore grew by £185 million to £3.6 billion from the half year.

E-Commerce Development

A number of initiatives are underway to promote the use of e-commerce across all our businesses. So far this year, £20 million has been spent out of a total projected spend of £100 million over the next 3 years on these initiatives.

By the Spring of next year, e-commerce will be available on a full business-to-business basis with our intermediaries in First National and Scottish Mutual as well as Retail mortgage introducers. This will reduce costs and improve service and functionality.

We are continuing to broaden distribution to make our customers' lives easier. On 1 November, we will launch the Abbey National brand on Open, the shopping channel available through Sky digital TV. Customers will be able to use calculators, review products, order literature and book telesales interviews from their living rooms. It is planned that in April 2000, customers will be able to transfer money, pay bills, order cheque books and access their account information using interactive digital TV. In the Spring, we will also provide a full internet banking channel for the UK Retail Bank which will provide internet access for banking, savings and credit cards, giving customers with these products the potential for on-line access.

We are also working on a self-contained virtual banking proposition which will launch in the Spring next year. This will use entirely new systems based on straight through processing, have a variable, largely outsourced, cost base and will aim to grow its own customer base profitably. It is proposed that this new operation will enter into partnerships with e-commerce organisations which are challenging existing business models.

Abbey National's 1999 Preliminary Full Year Results will be announced on Thursday 17th February 2000.