Abbey National plc
2000 Interim Financial Results

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2000 Interim Financial Results Highlights

Chief Executive's review

"The financial services sector is going through a period of unprecedented change. Abbey National is radically transforming its business to meet these challenges, maintaining its position at the forefront of the financial services industry with an exciting range of initiatives.

We are adapting our business to succeed in the new environment as our strong performance in the first half clearly demonstrates. We are accelerating growth across the Group, delivering new brands and channels to our market, investing in our high growth businesses such as Wholesale Banking, Life Assurance, Finance House and Wealth Management. We are already one of the UK's leading retail banks with a broadly-based revenue stream, and we intend to continue to increase our products and services and the markets we operate in.

Given the substantial levels of investment, the growth in profit before tax represents a strong performance. The results show that we have the muscle and momentum to transform our business, while growing returns to shareholders."

Financial highlights

- Underlying profit before tax* increased 19% to £1,018 million (1999: £852 million). Underlying cost:income ratio improved from 41.2% to 39.9%.
- Significant investment of £96 million in initiatives to transform the Group, comprising Retail e-banking (£8 million), Retail branch network restructuring (£20 million), cahoot (£31 million), Finance House integration (£21 million) and the new Wealth Management proposition, Prosper (£16 million).
- Total profit before tax increased by 5% to £922 million (1999: £875 million). Total Group cost:income ratio increased to 44.9% (1999: 40.8% excluding Year 2000 and EMU costs).
- Underlying income growth of 8%, particularly strong in Wholesale Banking 27% and Life Assurance 23%.
- Underlying cost growth of 5%, supporting development of our faster growth businesses.
- Improved credit quality resulted in the bad debt charge falling 23% to £132 million.
- Profits generated under the Abbey National brand increased 9%, on an underlying basis.
- Return on equity in Wholesale Banking increased to 16.2% (1999: 13.7%).
- Post-tax return on average ordinary shareholders' equity of 20.7% (1999: 23.2% excluding Year 2000 and EMU costs), and on an underlying basis 23.0% (1999: 22.0%).
- Group assets have increased 9% since 30 June 1999 to £194 billion. The equity tier 1 capital ratio is 7.25% (December 1999: 7.1%).
- Earnings per ordinary share increased to 42.6 pence (1999: 41.9 pence), and the proposed interim dividend of 15.15 pence per ordinary share is up 13%.

* Underlying performance excludes significant investment to develop new income streams and transform the Group of £96 million in 2000 (1999: £17 million), and profits from material asset disposals (£60 million in 1999 relating to the disposal of the Group's equity stake in Irish Permanent).

Operating highlights

- Market share of net mortgage lending in the first six months of 10.3% - the highest since 1993.
- Retail e-banking launched 8 May, 365,000 registrations to date averaging over 33,000 per week - more than double our target.
- Abbey National digital banking sites live on Open and Telewest, interactive capability available on Open.
- The simultaneous delivery of the Abbey National brand e-banking proposition through the Internet and digital TV is a world first.
- Restructuring of the branch network (including removal of a layer of management) and announcement of franchising trial.
- cahoot launched on the 12 June, 63,000 customer applications to date with 31,000 accounts accepted (5,200 per week).
- Porterbrook, a major UK train leasing provider, acquired by Wholesale Banking on 20 April.
- Life Assurance new business premiums up 24% to over £2 billion, the first time we have achieved this level of new business premium.
- First National Tricity Finance reached agreement to outsource back office processing operations to Experian as part of the ongoing integration process.
- Firmly established as the leading European mortgage securitiser following a £2.25 billion securitisation in July.

Business segment highlights

- **UK Retail Banking** pre-tax profit rose 7% to £507 million on an underlying basis (1999: £472 million). The UK Retail Banking net interest spread decreased to 2.06% (1999: 2.18%). The results include £8 million costs relating to e-commerce development, bringing total investment to date to £19 million, and £20 million of redundancy spend relating to the removal of a layer of management in the branch network. In total, profits rose 2% to £479 million.

  Gross lending of £6.6 billion was achieved (1999: £4.9 billion). Capital repayments of £4.6 billion (1999: £4.5 billion) represented 12.1% of the market compared to 13.0% in the first half of 1999. Net lending of £2.0 billion was generated, giving a 10.3% market share. Increased gross lending of £552 million was also achieved in Unsecured Personal Loans, taking the asset to £1,479 million.

  The transfer of customer balances from short term retail savings into long term investment products marketed under the Abbey National Life brand and sold through the branch network continued in the first half of the year. This is reflected in strong inflows to cash and investment ISA products of £888 million (1999: £716 million) and £475 million (1999: £197 million) respectively. Net outflows of UK retail household liabilities were £225 million.

  The new business performance reflects the increasing focus afforded to customer retention and cross sales. Product sales per FTE (full time equivalent) increased by 20% to 51 in the six month period. Product holdings per customer increased from 1.74 to 1.75, and was 2.02 for our key customer segments. Retention of the most profitable customers was 97% compared to 96% in 1999.

- **Wholesale Banking** pre-tax profit increased 30% to £263 million (1999: £202 million) reflecting excellent performance from the wholesale lending and asset financing businesses which include new fast growth initiatives in acquisition finance and project finance.

  Wholesale Banking completed 13 project finance deals world-wide in the first six months, and in July, became the sole provider of finance for the new £225 million University College London Hospital through the UK government's Private Finance Initiative.

  Porterbrook was acquired on 20 April, and contributed £4 million profits in the 10 weeks of trading.

  Return on equity increased to 16.2% (1999: 13.7%) reflecting the changing shape of the business. Assets were up 11% to £93 billion.

  Wholesale Banking has contributed more than 20% of Group profits for six consecutive years.

- **Life Assurance** pre-tax profit increased 22% to £128 million (1999: £105 million). Total new business premiums were up 24% to £2,010 million (1999: £1,619 million), with funds under management increasing 22% since 30 June 1999 to £19.1 billion. The With Profits Bond market has continued to be very strong with the Life Division achieving £964 million (1999: £618 million) of new premiums.

  Life Assurance has continued to diversify internationally with Scottish Mutual International (SMI) entering new markets in mainland Europe. This is reflected in premium income within SMI increasing by 108% to £235 million.

- **Finance House** delivered strong underlying profit growth which was up 20% to £90 million, (1999: £75 million), against a backdrop of tough trading conditions in the motor vehicle finance market and competition in the Retail Finance channel.

  In the first six months, £21 million was invested in integration compared to £7 million in the equivalent period in 1999. Including this investment, profit before tax was slightly higher at £69 million.

- **General Insurance** pre-tax profit increased 6% to £51 million (1999: £48 million), resulting from a focus on operating cost containment and increased customer retention, which was in part offset by pressure on margins reflecting higher claims costs.

- **Wealth Management** profit has increased 32% to £25 million (1999: £19 million) excluding the cost of new business development, helped by strong growth in offshore wholesale balances. Including increased investment in new businesses of £16 million (1999: £5 million), Wealth Management made pre-tax profit of £9 million.

- **cahoot** £31 million was invested in building the business in the first half of 2000 (1999: £1 million).

Investment for Growth

Management restructuring

In May, a new management structure was announced, creating four customer facing divisions responsible for increasing revenue growth. These are Retail Banking, Business to Consumer Banking, Business to Business Banking, and Wholesale Banking. Of the new divisions, Business to Consumer Banking has been created to take forward the e-commerce enabled businesses using a range of brands and distribution channels focused on higher net worth customers. Business to Business Banking has been created to enhance the Group's relationships with intermediaries. The divisions are supported by four infrastructure areas spanning the whole Group. The reorganisation is aimed at developing new income streams and completing the radical transformation of our businesses to sustain revenue growth, and increase cost and capital efficiency; these remain our key strategic priorities.

The financial analysis continues to use the segmental analysis set out in the accounts. The management structure relates to this as follows:

Management Structure	**Segmental Analysis**
Retail Banking	UK Retail Bank, Abbey National Life (from Life Assurance), General Insurance
Wholesale Banking	Wholesale Banking
Business to Consumer	Wealth Management, cahoot
Business to Business	Finance House, Scottish Mutual (from Life Assurance), Continental Europe Operations
Group Infrastructure	Group Central Holdings, Financial Holdings

New income streams

Consistent with our strategic aims to grow revenue and diversify income, the Group has rapidly developed and delivered new revenue streams.

First half

Launched Retail e-banking service on 8 May

- Since launch e-banking has achieved 365,000 customer registrations, which are growing at a rate of over 33,000 per week.
- On-line certificated sharedealing service launched with nominee service to follow.
- WAP mobile phone quotations for mortgages and personal loans, launched in July, as a UK first with interactive banking to follow.

Launched cahoot on 12 June

- cahoot currently offers money transmission and credit card accounts, to date accepting 31,000 accounts with robust credit scoring.
- The service offers true multi-channel options to the customer, coupled with individual pricing capability.
- Low cost base, reflecting use of new systems based on straight-through processing technology, leveraging the Group's procurement strength and with much of the cost base outsourced.
- Strong core team complemented by "best-in-class" business relationships.

Acquired Porterbrook 20 April

- Extended significantly Wholesale Banking's presence in the operating lease markets.
- A number of opportunities are being developed in rail and similar operating lease markets.

Scottish Mutual International

- Significant growth in sales in new European markets, generating a four-fold increase in profits.

Second half

Autumn launch of our new Wealth Management business

- A new investment management service (codenamed Prosper) for those with more than £50,000 of net liquid assets. This new relationship based service will offer an innovative combination of advice, discretionary fund management and cash management which has previously been unavailable to this target audience. Face to face advice will be complemented by a range of communication channels including the Internet.

Full on-line banking via digital TV

- This is a medium that Abbey National aims to dominate, having already signed partnership agreements with Sky Digital, Telewest and NTL. The agreement with Ondigital signed in July completed the coverage of all major suppliers.
- Full interactive e-banking launched on Open DTV, further platforms to follow.

Student banking

- Entering into the student banking market, having secured an exclusive marketing deal with the NUS, delivering an on-line bespoke current account.

Launch of credit derivatives business in Wholesale Banking

- This business will further increase the range of risk management services provided to the Group and third parties.

Transforming the Group

Consistent with our strategic aim to improve the cost efficiency and effectiveness of existing businesses, we have invested in process re-engineering and infrastructure projects across the Group.

Retail Banking

- Branch network management structures aligned to local markets, removing a complete layer of management and generating ongoing savings of £16 million per annum from 2001.
- Pilot launched to explore the potential for franchising the branch network to drive up revenues and move from fixed to variable costs.
- Development of convenience retailing, with a further 4 Safeway branch openings, bringing the total to 29, extension of the ATM network by 314 to 3,038 including 1,290 at remote sites, and launch of Costa Coffee outlets in branches.
- Although transaction levels continue to grow in line with product holdings, low value transactions have been migrated away from the counter to allow greater sales focus in our retail space. Counter transactions are now 15% of total transactions compared to 18% in 1999, and 24% in 1997.
- Imminent launch of on-line functionality for mortgage introducers to deliver 'in principle' decisions and real time tracking of mortgage applications. Later in the second half of the year, additional functionality will be delivered to manage direct mortgage applications, and allow key introducers fast track bespoke access.

Wholesale Banking

- The shape of the Wholesale Banking business is changing with increased presence in markets which deliver strong profit growth and attractive risk adjusted returns. Wholesale Banking is entering new but related businesses where it can use its expertise and size as leverage to gain a significant market position and provide sustainable income streams. This includes increasing the scope and scale of securities lending, financial products and risk management, asset financing and wholesale lending.
- Preparations have been made to open a branch in Hong Kong in the second half which will facilitate a range of new business opportunities in the Asian timezone.
- A period of significant development of IT is now nearing completion, including re-engineering of the back office systems enabling the business to access new markets. These developments will provide a robust platform for growth.

Business to Business Banking

We launched our business to business e-commerce strategy which has a three pronged approach, in particular to strengthen our relationship with IFAs and mortgage introducers; grow our market share of business banking; and to reduce our operating costs by changing the way we deal with suppliers.

Scottish Mutual:

- Of the IFAs dealing with Scottish Mutual some 75% have access to Internet based technology, many utilising the range of services offered on Scottish Mutual On-line.
- Intermediary service for on-line bond valuations went live on 19 June.
- Internet enabled e-stakeholder systems and new business applications scheduled for quarter four.

Finance House:

- HMC mortgage introducers able to view application details since the end of 1999, with the launch of a full on line 'decision in principle' service in Quarter 3.
- Complete on-line mortgage application to be delivered later in 2000, removing traditional delays and costs in this process.
- Currently piloting 'First-Online' in 12 motor dealerships, a fully functional point of sale site enabling underwriting decisions and agreement documents to be available to the dealer in two to three minutes.
- In Retail Finance, an electronic point of sale solution allowing instant on-line credit authorisation is currently being piloted by three retailers.

Investment to integrate and transform Finance House businesses

- Recently acquired businesses in the Finance House are being radically re-engineered. This process has already generated c.£20 million annualised benefits to take forward into 2001. The integration has addressed IT platforms, credit control and debt management issues, outsourcing potential, and employment terms and conditions.

Group infrastructure

- The infrastructure supporting all of the businesses plays a crucial role in supporting strategies across the Group. The value added by the infrastructure and size of the Group is clearly demonstrable in terms of shared resources, IT platforms and centres of excellence.

Capital management efficiency

The Group's capital strength is demonstrated by the Risk Asset Ratio of 12.4% (December 1999: 11.6%). In early 2000, the Group raised US $1 billion of preferred perpetual securities, developing a further source of low cost Tier 1 capital. The equity Tier 1 ratio at 30 June was 7.25%, reaching the target of 7.25% by December 2000 ahead of schedule, and despite high levels of investment.

Efficient and innovative capital management continues to support our strong return on equity. Abbey National leads the European mortgage securitisation market and in July managed the launch of a £2.25 billion equivalent transaction, the largest ever European mortgage backed securities issue. The transaction was issued from a £6.4 billion equivalent residential mortgage master trust which provides the capability to securitise on a rolling programme from the core mortgage portfolio. To date, Abbey National has, in total, securitised £4.5 billion of its mortgage asset.

Consolidated profit and loss account for the six months to 30 June 2000

	6 months to June 2000 (unaudited)	6 months to June 1999 (unaudited)	Full Year 1999
	£m	£m	£m
Net interest income	**1,332**	1,307	2,661
Commissions, fees & other income	**587**	518	1,089
Total operating income	**1,919**	1,825	3,750
Operating expenses	**(862)**	(761)	(1,615)
Provisions for bad & doubtful debts	**(132)**	(171)	(303)
Provisions for contingent liabilities & commitments	**7**	(3)	(23)
Amounts written off fixed asset investments	**(10)**	(15)	(26)
Operating profit on ordinary activities before tax	**922**	**875**	**1,783**
Tax on profit on ordinary activities	**(273)**	(264)	(522)
Profit on ordinary activities after tax	**649**	**611**	**1,261**
Transfer to non-distributable reserve	**-**	-	(13)
Minority interests - non equity	**(23)**	-	-
Preference dividends	**(20)**	(17)	(38)
Ordinary dividends	**(216)**	(190)	(572)
Profit retained for the period	**390**	**404**	**638**

Average number of ordinary shares in issue (millions)	**1,422**	1,418	1,418
Earnings per ordinary share - basic	**42.6p**	41.9p	86.2p
Earnings per ordinary share - diluted	**42.3p**	41.5p	85.5p
Dividends per ordinary share	**15.15p**	13.40p	40.25p
Dividend cover	**2.8**	3.1	2.1

Restatements

A number of changes relating to accounting policies and presentation were made in the accounts for the year ended 31 December 1999. The effect on comparative numbers for the six months to June 1999 is described after 'Key Statistics'.

Segmental profit and loss account

Headline profit before tax and exceptional items

	6 months to June 2000 (unaudited)	6 months to June 1999 (unaudited)
	£m	£m
UK Retail Banking	**479**	471
Wholesale Banking	**263**	202
Life Assurance	**128**	105
Finance House	**69**	68
General Insurance	**51**	48
Wealth Management	**9**	14
Europe	**(1)**	-
cahoot	**(31)**	(1)
Group Central Holdings	**(45)**	(12)
Profit before tax and exceptional items	**922**	895
Year 2000 and EMU costs	**-**	(20)
Profit before tax	**922**	875

Significant investment & asset disposals

UK Retail Banking	e-commerce	**(8)**	(1)
	branch restructuring	**(20)**	-
Finance House	integration / transformation	**(21)**	(7)
Wealth Management	Prosper	**(16)**	(5)
cahoot	business development	**(31)**	(1)
Group Central Holdings	e-commerce	**-**	(3)
		(96)	(17)
Group Central Holdings	Irish Permanent share sales	**-**	60
Impact on profit before tax and exceptional items		**(96)**	43
Year 2000 and EMU costs	operating expenses	**-**	(15)
	commissions, fees and other income		(5)
Impact on profit before tax		**(96)**	23

Underlying performance

UK Retail Banking	**507**	472
Wholesale Banking	**263**	202
Life Assurance	**128**	105
Finance House	**90**	75
General Insurance	**51**	48
Wealth Management	**25**	19
Europe	**(1)**	-
cahoot	**-**	-
Group Central Holdings	**(45)**	(69)
Underlying profit before tax and exceptional items	**1,018**	852
Year 2000 and EMU costs	**-**	-
Underlying profit before tax	**1,018**	852

Underlying definition:
Underlying performance **excludes** significant investment to develop new income streams and transform existing businesses. In addition, the impact of material asset disposals is excluded.

Consolidated balance sheet
as at 30 June 2000

	30 June 2000 (unaudited)	30 June 1999 (unaudited)	31 December 1999
Assets	**£m**	£m	£m
Cash, treasury bills & other eligible bills	**1,275**	3,097	1,815
Loans & advances to banks	**8,742**	9,972	11,472
Loans & advances to customers	**80,811**	72,233	75,221
Loans & advances subject to securitisation	**1,733**	1,137	1,930
Non returnable finance on securitised advances	**(1,321)**	(1,129)	(1,379)
Loans & advances to customers after non-returnable finance	**81,223**	72,241	75,772
Net investment in finance leases	**5,510**	5,362	5,441
Securities & investments	**67,457**	62,390	59,740
Long-term assurance business	**1,110**	973	1,042
Fixed assets	**945**	947	962
Operating lease assets	**1,727**	267	358
Other assets	**8,042**	8,428	6,703
Assets of long-term assurance funds	**18,099**	14,974	17,439
Total assets	**194,130**	178,651	180,744
Liabilities			
Deposits by banks	**30,640**	36,621	29,824
Customer accounts	**64,858**	53,321	59,911
Debt securities in issue	**57,311**	52,949	51,407
Other liabilities	**11,293**	10,870	11,444
Subordinated liabilities including convertible debt	**4,803**	4,096	4,641
Liabilities of long-term assurance funds	**18,099**	14,974	17,439
Total liabilities	**187,004**	172,831	174,666
Minority interests - non equity	**653**	-	-
Non-equity shareholders' funds	**450**	450	450
Equity shareholders' funds	**6,023**	5,370	5,628
Total liabilities, minority interests & shareholders' funds	**194,130**	178,651	180,744

Statement of total recognised gains and losses
for the six months to 30 June 2000

	2000 (unaudited)	1999 (unaudited)	Full Year 1999
	£m	£m	£m
Profit attributable to the shareholders of Abbey National plc	**626**	611	1,261
Translation differences on foreign currency net investment	**-**	-	(1)
Movement on investment revaluation reserve	**-**	-	3
Total recognised gains relating to the period	**626**	611	1,263

Consolidated cashflow statement
for the six months to 30 June 2000

	2000 (unaudited)	1999 (unaudited)	Full Year 1999
	£m	£m	£m
Net cash inflow from operating activities	**714**	8,487	10,527
Returns on investments & servicing of finance			
Interest paid on subordinated liabilities	**(168)**	(120)	(198)
Preference dividends paid	**(19)**	(20)	(41)
Dividends paid to non-equity minority interests	**(23)**	-	-
Net cash outflow from returns on investments & servicing of finance	**(210)**	(140)	(239)
Taxation			
UK corporation tax paid	**(114)**	(115)	(316)
Overseas tax paid	**(3)**	(1)	(3)
Total taxation paid	**(117)**	(116)	(319)
Capital expenditure & financial investment			
Purchases of investment securities	**(8,741)**	(13,149)	(20,384)
Sales of investment securities	**2,149**	2,192	4,166
Redemptions & maturities of investment securities	**4,860**	2,893	7,383
Purchases of tangible fixed assets	**(223)**	(154)	(364)
Sales of tangible fixed assets	**62**	39	95
Transfers to Life Assurance funds	**3**	(154)	(145)
Net cash outflow from capital expenditure & financial investment	**(1,890)**	(8,333)	(9,249)
Acquisitions & disposals	**(783)**	(12)	(30)
Equity dividends paid	**(378)**	(327)	(520)
Net cash inflow (outflow) before financing	**(2,664)**	(441)	170
Financing			
Issue of ordinary share capital	**4**	11	18
Issue of loan capital	**-**	774	1,525
Issue of preferred securities (non-equity minority interests)	**620**	-	-
Repayment of loan capital	**(34)**	(68)	(195)
Net cash inflow from financing	**590**	717	1,348
Increase (decrease) in cash	**(2,074)**	276	1,518

Profit and loss accounts by business segment

2000 unaudited half year profit before tax (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	**785**	**219**	**10**	**270**	**-**	**35**	**13**	**-**	**-**	**1,332**
Commissions, fees & other income	**199**	**124**	**132**	**1**	**70**	**29**	**1**	**-**	**31**	**587**
Total operating income	**984**	**343**	**142**	**271**	**70**	**64**	**14**	**-**	**31**	**1,919**
Operating expenses	**(437)**	**(70)**	**(10)**	**(140)**	**(19)**	**(55)**	**(14)**	**(31)**	**(86)**	**(862)**
Provisions for bad & doubtful debts	**(68)**	**-**	**-**	**(63)**	**-**	**-**	**(1)**	**-**	**-**	**(132)**
Provisions for contingent liabilities & commitments	**-**	**-**	**(4)**	**1**	**-**	**-**	**-**	**-**	**10**	**7**
Amounts written off fixed asset investments	**-**	**(10)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10)**
Profit on ordinary activities before tax	**479**	**263**	**128**	**69**	**51**	**9**	**(1)**	**(31)**	**(45)**	**922**

1999 unaudited half year profit before tax & exceptional items (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	790	201	(5)	280	(1)	29	15	-	(2)	1,307
Commissions, fees & other income	180	70	120	(18)	74	24	1	-	72	523
Total operating income	970	271	115	262	73	53	16	-	70	1,830
Operating expenses	(402)	(54)	(7)	(122)	(25)	(39)	(14)	(1)	(82)	(746)
Provisions for bad & doubtful debts	(97)	-	-	(72)	-	-	(2)	-	-	(171)
Provisions for contingent liabilities & commitments	-	-	(3)	-	-	-	-	-	-	(3)
Amounts written off fixed asset investments		(15)	-	-	-	-	-	-	-	(15)
Profit on ordinary activities before tax	471	202	105	68	48	14	-	(1)	(12)	895

1998 unaudited half year profit before tax & exceptional items (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	736	197	(6)	117	(2)	20	5	-	8	1,075
Commissions, fees & other income	181	31	102	(7)	68	19	15	-	17	426
Total operating income	917	228	96	110	66	39	20	-	25	1,501
Operating expenses	(398)	(37)	(5)	(53)	(22)	(26)	(14)	-	(64)	(619)
Provisions for bad & doubtful debts	(61)	-	-	(13)	-	-	(4)	-	(1)	(79)
Provisions for contingent liabilities & commitments	(6)	-	-	-	-	(1)	(1)	-	(1)	(9)
Amounts written off fixed asset investments	-	(7)	-	-	-	-	-	-	-	(7)
Profit on ordinary activities before tax	452	184	91	44	44	12	1	-	(41)	787

1999 full year profit before tax & exceptional items (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	1,621	393	9	561	(2)	62	28	-	(11)	2,661
Commissions, fees & other income	389	167	236	(20)	145	46	3	-	129	1,095
Total operating income	2,010	560	245	541	143	108	31	-	118	3,756
Operating expenses	(837)	(115)	(12)	(264)	(39)	(91)	(34)	(16)	(186)	(1,594)
Provisions for bad & doubtful debts	(167)	-	-	(132)	-	-	(4)	-		(303)
Provisions for contingent liabilities & commitments	(10)	-	(4)	(5)	-	-	(1)	-	(3)	(23)
Amounts written off fixed asset investments	-	(26)	-	-	-	-	-	-	-	(26)
Profit on ordinary activities before tax	996	419	229	140	104	17	(8)	(16)	(71)	1,810

1998 full year profit before tax & exceptional items (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	1,522	411	(11)	241	(5)	47	17	-	19	2,241
Commissions, fees & other income	383	55	211	(15)	147	38	18	-	40	877
Total operating income	1,905	466	200	226	142	85	35	-	59	3,118
Operating expenses	(804)	(86)	(6)	(106)	(44)	(58)	(31)	-	(150)	(1,285)
Provisions for bad & doubtful debts	(167)	-	-	(26)	-		(4)	-	(4)	(201)
Provisions for contingent liabilities & commitments	(8)	-	(4)	-	-		-	-	(4)	(16)
Amounts written off fixed asset investments	-	(19)	-	-	-	(1)	-	-	(8)	(28)
Profit on ordinary activities before tax	926	361	190	94	98	26	-	-	(107)	1,588

1997 full year profit before tax & exceptional items (£m)

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
Net interest income	1,416	298	(10)	224	(3)	23	16	-	74	2,038
Commissions, fees & other income	255	63	183	(12)	144	31	2	-	56	722
Total operating income	1,671	361	173	212	141	54	18	-	130	2,760
Operating expenses	(746)	(63)	(6)	(92)	(36)	(39)	(37)	-	(149)	(1,168)
Provisions for bad & doubtful debts	(95)	-	-	(20)	-	-	(6)	-	-	(121)
Provisions for contingent liabilities & commitments	(11)	-	-	-	-	-	-	-	(5)	(16)
Amounts written off fixed asset investments	-	(1)	-	-	-	(1)	(1)	-	-	(3)
Profit on ordinary activities before tax	819	297	167	100	105	14	(26)	-	(24)	1,452

UKRB	*UK Retail Banking*
WBank	*Wholesale Banking*
Life	*Life Assurance*
Fin Hse	*Finance House*
Gen Ins	*General Insurance*
Wealth	*Wealth Management*
Europe	*Continental Europe*
cahoot	**cahoot**
GCH	*Group Central Holdings*

Summary of key statistics
for the six months to 30 June 2000

	2000	1999	Full Yr 1999
Headcount (full time equivalent) as at 30 June 2000	**27,464**	26,979	27,553
Group cost:income ratio (%) ①	**44.9**	40.8	42.4
Group cost:income ratio underlying (%)	**39.9**	41.2	41.2
- UK Retail Banking (%)	**44.4**	41.4	41.6
- UK Retail Banking underlying (%)	**41.6**	41.3	41.4
- Wholesale Banking (%)	**20.4**	19.9	20.5
- Finance House (%)	**51.7**	46.6	48.8
- Finance House underlying (%)	**43.9**	43.9	43.8
Pre-tax return on average ordinary shareholders' equity (%) ①	**29.4**	33.2	32.3
Post-tax return on average ordinary shareholders' equity (%) ①	**20.7**	23.2	22.8
Underlying post-tax return on average ordinary shareholders' equity (%)	**23.0**	22.0	23.0
Net asset value per ordinary share (pence)	**423**	378	396
Pre-tax return on average assets (%) ①	**0.99**	1.05	1.03
Pre-tax return on average risk weighted assets (%) ①	**2.36**	2.46	2.44
Market shares (estimates) (%)			
Increase in UK mortgages outstanding	**10.3**	2.4	6.3
UK mortgage stock	**13.0**	13.3	13.1
Increase in UK retail household liabilities	**n/a**	n/a	1.8
UK retail household liabilities stock	**8.4**	8.6	8.6
Increase in UK consumer credit (excluding credit cards)	**0.7**	2.0	3.2
UK consumer credit stock (excluding credit cards)	**8.3**	8.3	8.7
Cash ISA sales (estimate)	**12**	18	14
Investment ISA sales (estimate)	**6**	14	8

① Excluding exceptional items in 1999

Summary of key statistics continued

	2000	1999	Full Year 1999
UK Retail Banking			
e-banking metrics to date:			
Number of registrations (000s)	**365**	-	-
Number of product applications (000s)	**13.5**	-	-
Average number of daily visits (000s)	**11.0**	-	-
Number of bank accounts including Instant Plus (000s)	**2,681**	2,651	2,657
New bank account openings (000s)	**101**	104	201
Number of debit cards (including Multifunction & Electron) (000s)	**2,505**	2,360	2,407
Number of credit card accounts (000s)	**480**	506	489
New credit card account openings (000s)	**14**	32	44
Overdraft asset (£ million)	**216**	236	217
Credit card asset (£ million)	**271**	287	278
Unsecured Personal Loan asset (£ million)	**1,479**	1,195	1,280
Number of branches	**722**	777	765
Number of customers (AN brand only)(millions)	**15.2**	15.0	15.0
Average number of product holdings per customer	**1.75**	1.74	1.75
Total number of Abbeylink ATMs	**3,038**	2,394	2,724
Number of non-branch Abbeylink ATMs	**1,290**	929	1,077
Wholesale Banking			
Assets AA- or better (%)	**63**	69	68
Geographic credit exposure to UK & rest of Europe (%)	**48**	51	48
Geographic credit exposure to US (%)	**42**	39	41
Acquisition finance deals completed	**16**	10	27
Big ticket leasing assets (£ billion)	**5.1**	4.8	5.0
Operating lease assets (£ million)	**121**	28	93
Porterbrook assets (£ billion)	**1.3**	0	0
Private equity fund assets (£ million)	**345**	82	186
Commitments to project finance sector (£ billion)	**1.8**	0.5	1.2
Project finance deals completed	**13**	8	35
Bonds & medium term notes issued (£ billion)	**6.0**	7.9	13.0
Funding from wholesale markets as a proportion of total funding (%)	**56**	50	53
Life Assurance			
Funds under management (£ billion)	**19.1**	15.6	18.5
New business contribution to embedded values (£ million)	**48**	42	98
Total expense ratios ① in: Abbey National Life (%)	**64**	71	68
Scottish Mutual (%)	**77**	82	72

① *Total expense ratios are operating expense and commissions over annualised new business premiums*

Summary of key statistics continued

	2000	1999	Full Year 1999
Wealth Management			
Retail liabilities offshore (£ million)	**3,745**	3,342	3,524
Retail liabilities onshore (£ million)	**556**	370	432
Total (£ million)	**4,301**	3,712	3,956
cahoot metrics to date (launched 12 June)			
Number of customer applications (000s)	**63.0**	-	-
Number of money transmission accounts accepted (000s)	**7.3**	-	-
Number of credit card accounts accepted (000s)	**23.7**	-	-

Summary of restatements:

Following the restatements made in the 1999 full year accounts, comparatives for June 1999 have also been restated. Full descriptions as to the nature and effect of restatements are shown below.

Wholesale Banking interest income on dealing assets

Following an accounting presentation change, interest receivable on trading securities and interest payable on their associated funding is now included in interest receivable and interest payable. These were previously recorded in 'Dealing Profit'. The 1999 comparatives have been restated with the effect being a £5 million reduction in commissions, fees and other income with a corresponding increase in net interest income for the six months to June 1999.

This affects the consolidated profit and loss account, and segmental profit and loss tables.

Segmental restatements

The half year 1999 segmental results reflect the reclassification of the Abbey National unsecured lending business into UK Retail Banking from Finance House. In addition, operating expenses in the first six months to June 1999 relating to the set up of project Prosper and cahoot have been transferred out of Group Central Holdings into Wealth Management and cahoot. The amounts transferred are £5 million and £1 million relating to Prosper and cahoot respectively.

This affects the segmental profit and loss tables only.

Balance sheet restatement

Following an accounting presentation change, assets and liabilities under stock borrowing and lending agreements are no longer shown on the balance sheet. The obligation to return stock borrowed is now recorded as a contractual commitment. The June 1999 comparative has been restated accordingly, reducing total assets by £17,767 million and total liabilities by the equivalent amount.

This affects the Consolidated Group balance sheet only.

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

Net interest income

	2000 £m	1999 £m
Interest receivable	**5,440**	4,757
Interest payable	**(4,108)**	(3,450)
Net interest income (£m)	**1,332**	1,307
Group net interest margin (%)	**1.65**	1.79
UK Retail Banking net interest margin (%)(excluding UPL)(%)	**2.31**	2.43
Wholesale Banking margin (%)	**0.43**	0.45
Finance House margin (%)	**6.94**	7.26
Group average interest earning assets (AIEA) (£bn)	**161.9**	147.7
UK Retail Banking AIEA (£bn)	**64.5**	61.2
Wholesale Banking AIEA (£bn)	**101.5**	90.6
Finance House AIEA (£bn)	**7.8**	7.8
Group net interest spread (%)	**1.48**	1.51
UK Retail Banking net interest spread (excluding UPL)(%)	**2.06**	2.18

Net interest income grew by £25 million to £1,332 million. Average interest earning assets grew 10% to £162 billion, and the Group net interest margin decreased by 14 basis points.

The reduction in the Group net interest margin is principally due to the higher proportion of wholesale assets on the balance sheet, and funding costs associated with non-interest income generating assets, notably Porterbrook and investment in private equity funds. Competitive market conditions in the Retail Bank and Finance House have narrowed margins in both businesses. These have been partially offset by strong margin performance from wholesale lending.

The table below shows average balance sheet data.

Average balance sheet, yields, spreads and margins	**2000** Average balance £bn	**2000** Average rate %	1999 Average balance £bn	1999 Average rate %
Group				
Interest earning assets	**160.6**		146.9	
Securitisation gross up	**1.3**		0.8	
Interest earning assets for margin and spread calculation	**161.9**	**6.76**	147.7	6.50
Interest bearing liabilities	**155.1**		137.0	
Securitisation gross up	**1.3**		0.8	
Interest bearing liabilities for margin and spread calculation	**156.4**	**5.28**	137.8	4.99
Shareholders' funds	**6.3**		5.7	
Other net non-interest bearing (assets) / liabilities	**(0.8)**		4.2	

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.

Securitised assets: are shown with a deduction for non-recourse finance on the face of the balance sheet. Gross securitised assets before this deduction are used in the calculation of yields, spreads and margins.

Commissions, fees and other income

	2000 £m	1999 £m
Total dividend income	**1**	2
Insurance income	**113**	98
Administration, survey & legal fees	**121**	102
Other Retail Banking income	**102**	86
Wholesale banking fees	**29**	27
Other commissions receivable	**53**	46
Fees & commissions receivable	**418**	359
Introducer fee charge	**(96)**	(84)
Financial markets permanent fees / brokerage fees	**(5)**	(6)
Other commissions payable	**(34)**	(30)
Fees & commissions payable	**(135)**	(120)
Net fees & commissions	**283**	239
Dealing profits	**52**	46
Increase in value of long term assurance business	**91**	88
Fee income on high loan to value loans	**39**	34
Property & leasing income	**33**	11
Other financial income	**88**	43
Other operating income	**251**	176
Underlying commissions, fees & other income	**587**	463
Disposal of shares in Irish Permanent	**-**	60
Total commissions, fees & other income *	**587**	523

* excluding exceptional items in 1999

Commissions, fees and other income increased by 27%, £124 million, excluding £60 million profit relating to the disposal of shares in Irish Permanent in the first half of 1999. In total, commissions, fees and other income increased by 12% to £587 million. The majority of the growth was in Wholesale Banking and Life Assurance.

Fees and commissions receivable increased by 16% to £418 million, driven by high volumes of new business across the Group. Insurance income increased by £15 million, largely due to increased life policies and creditor protection sales in the Retail Bank and Finance House respectively. Administration, survey and legal fees increased by £19 million to £121 million, mainly from volume growth in Life Assurance and Finance House, and the increase in pension schemes taken under administration in the Wealth Management division offset by reduced fixed rate mortgage booking fees in the Retail Bank. Other Retail Banking income increased by £16 million, largely due to revised ATM and banking charges.

Fees and commissions payable grew by 13% to £135 million, reflecting increased lending volumes through intermediaries in the Retail Bank and higher acquisition costs in Finance House.

Dealing profits increased, mainly reflecting the success of risk management & financial products provided by the Wholesale Bank to third parties.

Other operating income excluding the profit on sale of shares in Irish Permanent in the first half of 1999, grew by 43%. In total, other operating income increased £75 million to £251 million.

The majority of this growth was in the Group's diversified businesses. Income from long term life assurance increased reflecting growth in both Scottish Mutual and Abbey National Life. Growth in property and leasing income resulted from Porterbrook income in Wholesale Banking, and increased volumes of operating lease business in the Finance House. Increased other financial income relates to fees earned in Wholesale Banking, which are a result of realisations from private equity investments and increased capital gains, as well as within Finance House, resulting from income earned from the PSA joint venture acquired in May 1999.

Deferred income on high loan to value ratio mortgage loans of £39 million was taken to the profit and loss account, more than offsetting £22 million of loan loss provisions on related lending (see Provisions).

Operating expenses

	1999	2000	Growth	£ m
Total 1999 operating expenses *				**746**
Significant investment to transform the Group	**17**	**96**	**79**	
Ongoing investment in business infrastructure / processing efficiency	**30**	**37**	**7**	
Newly acquired businesses	**-**	**2**	**2**	
Other growth (including efficiency savings)			**28**	
Underlying cost growth			**37**	
Total 2000 operating expenses			**116**	**862**

*** excluding exceptional items**

Total operating expenses increased by 16% from £746 million to £862 million. Of the increase, £79 million related to increased investment in projects aimed at delivering a fundamental transformation of the Group. These included investment in e-commerce (£8 million) and redundancy costs (£20 million) in UK Retail Banking, and set up costs relating to cahoot (£31 million) and project Prosper (£16 million). In addition, the process of integrating and radically re-engineering recently acquired businesses in Finance House has continued (£21 million). The increased level of investment builds upon the accelerated progress made in the second half of 1999, and has been instrumental in successful launches of new businesses and products in the first half of 2000.

Excluding the projects outlined above, the underlying cost growth was 5%, explained by the following:

Ongoing investment in business infrastructure and processing efficiency continues at significant levels across the Group, amounting to £37 million, an increase of £7 million on 1999. These include ongoing investment in IT across the Group, including establishment of shared platforms, centres of excellence and customer relationship management software.

The remaining increase in costs is largely salaries increases relating to annual reviews and headcount growth to support new income streams. £16 million of the underlying cost growth of £37 million is within Wholesale Banking, where new businesses are being developed which have generated strong profit growth and increased returns.

Operating expenses by profit and loss line	**2000 £m**	1999 £m
Salaries & other staff costs	**408**	356
Bank legal & professional fees	**80**	53
Advertising & marketing	**40**	33
Bank, legal, marketing & professional expenses	**120**	86
Software, computer & other administration expenses	**196**	187
Premises & equipment depreciation	**59**	49
Goodwill & amortisation	**5**	2
Depreciation & amortisation	**64**	51
Rent payable	**38**	31
Rates payable	**9**	14
Other running costs	**27**	21
Other property & equipment	**74**	66
Total	**862**	746

Salaries and other staff costs increased by 15%, due to LMS redundancy costs in UK Retail Banking and a combination of annual salary increases and growth in headcount across the Group. Growth of £34 million in bank, legal, marketing and professional fees is largely attributable to cahoot (£24 million), and investments in new business initiatives in UK Retail Banking and Finance House.

Provisions

	2000 **£m**	1999 £m
Secured	**13**	24
Unsecured (overdrafts & credit card balances)	**31**	36
Abbey National-branded unsecured personal loans	**24**	37
UK Retail Banking	**68**	97
Finance House	**63**	72
Continental Europe	**1**	2
Total	**132**	171
Provisions	**132**	171
Suspended interest (in net interest income)	**14**	12
High LTV loans fee income released to offset provisions *	**(22)**	(31)
Net cost of bad debt	**124**	152
Contingent liabilities & commitments	**(7)**	3
Amount written off fixed asset investments	**10**	15
* included in commissions, fees & other income		

The total loan loss provisions charge decreased 23% to £132 million (1999: £171 million). This is driven by a combination of favourable economic conditions and initiatives to improve the quality of lending and debt management.

The Retail Bank has the increased automation and pro-active management of arrears, which from the start of this year has included linkage to a telephone dialler system to increase the efficiency and effectiveness of arrears management. Arrears on all products are now managed on a single collection system. Management of credit scoring and fraud detection score cards have also improved the quality of lending, particularly in terms of unsecured loans.

The provision charge for UK Retail Banking has reduced by 30% to £68 million (1999: £97 million).

Arrears levels on secured loans have reduced by 29% with 23,602 (1999: 33,304) cases three or more months in arrears. Properties in possession reduced 30% to 1,465 cases (1999: 2,090).

Arrears levels on overdraft and credit card have reduced by 3% and 1% respectively, since the 1999 year end.

The provision charge on unsecured personal loans reduced by 35% to £24 million (1999: £37 million) with the arrears as a percentage of the asset reducing from 6.7% to 6.4%, against an asset growth of 10%.

In Finance House, provisions for bad and doubtful debts fell 13% to £63 million reflecting tight control of credit and improved collections systems. Residual values in the motor market fell by 8% in the first half of the year compared with the same period last year. However, active management of this risk through prudent contract pricing, requesting higher customer deposits and better management of car disposals, has minimised the effect on profit.

The net cost of bad debt decreased 18% to £124 million. This represents loan provisions plus suspended interest charges, less high LTV loan fee income (see commissions, fees and other income).

The favourable impact of contingent liabilities reflects the release of certain litigation provisions.

Within Wholesale Banking a further £10 million has been added to provisions for amounts written off fixed investments, reflecting a continued prudent approach.

Taxation

The effective rate of tax was 29.6% (1999: 30.2%), obtained by dividing taxes by profit before taxes. The following table provides a reconciliation of taxes payable at standard UK corporation tax rate and the Group's effective tax rate.

	2000	1999
	£m	£m
Taxation at UK corporation rate of 30% (1999: 30.25%)	**277**	265
Effect of non-allowable provisions & other non-equalised items	**-**	12
Effect of non-UK profits & losses	**(4)**	(3)
Adjustment to prior year tax provisions	**-**	(1)
Effect of loss utilisation	**-**	(9)
Tax on profit on ordinary activities	**273**	264
Effective tax rate (%)	**29.6**	30.2

Results of operations of the Group by business segment

UK Retail Banking

	UK Retail Banking £m	**Unsecured Personal Loans £m**	**2000 total £m**	UK Retail Banking £m	Unsecured Personal Loans £m	1999 Restated total £m
Net interest income	**741**	**44**	**785**	738	52	790
Fees & commissions receivable	**159**	**-**	**159**	141	-	141
Fees & commissions payable	**(17)**	**-**	**(17)**	(13)	-	(13)
Net fees & commissions	**142**	**-**	**142**	128	-	128
Other operating income	**44**	**13**	**57**	40	12	52
Commissions, fees & other income	**186**	**13**	**199**	168	12	180
Total operating income	**927**	**57**	**984**	906	64	970
Salaries & other staff costs	**(215)**	**(10)**	**(225)**	(193)	(8)	(201)
Bank, legal, marketing & professional expenses	**(43)**	**(3)**	**(46)**	(42)	(3)	(45)
Software, computer & other administration expenses	**(77)**	**(1)**	**(78)**	(79)	(1)	(80)
Depreciation & amortisation	**(35)**	**-**	**(35)**	(30)	(2)	(32)
Other property & equipment expenses	**(51)**	**(2)**	**(53)**	(42)	(2)	(44)
Operating expenses	**(421)**	**(16)**	**(437)**	(386)	(16)	(402)
Provisions for bad & doubtful debt	**(44)**	**(24)**	**(68)**	(60)	(37)	(97)
Provisions for contingent liabilities & commitments	**-**	**-**	**-**	-	-	-
Profit before tax	**462**	**17**	**479**	460	11	471
Add back:						
Investment in e-commerce	**8**	**-**	**8**	1	-	1
LMS redundancy costs	**20**	**-**	**20**	-	-	-
Underlying profit before tax	**490**	**17**	**507**	461	11	472
Cost:income ratio (%)	**45.4**	**28.1**	**44.4**	42.6	25.0	41.4
Cost:income ratio (underlying %)			**41.6**			41.3
UK Retail Banking spread (%)	**2.06**	**5.93**	**2.13**	2.18	7.48	2.29
UK Retail Banking margin (%)	**2.31**	**6.37**	**2.39**	2.43	8.16	2.55
Risk weighted assets (RWA) * (£ million)	**34,186**	**1,364**	**35,550**	32,742	1,240	33,982
Return on equity (RoE) ** (%)	**27.3**	**24.5**	**27.2**	27.7	17.0	27.3

* RWA is an average during the year
** RoE is a post-tax return on regulatory equity

Profit grew by 7% to £507 million and the cost:income ratio was 41.6% compared to 41.3%, on an underlying basis. In total, profit grew by 2% to £479 million, whilst the cost:income ratio increased to 44.4% (1999: 41.4%).

Net interest income decreased by 1% to £785 million. This reflected competitive market conditions, with the spread between average lending rates and average funding rates narrowing to 2.06%, from 2.18% in the first half 1999. The changing mix of the savings liability, and the impact of competitive mortgage pricing that has helped secure excellent levels of gross lending over the last 12 months, has been partially offset by margin widening in response to base rate changes in the latter part of 1999.

Commissions, fees and other income have increased by 11% to £199 million. Growth has been driven by improved commission relating to Abbey National Life and General Insurance policy sales, and new banking initiatives and enlargement of the ATM network. This strong growth has been achieved despite reduced fixed rate mortgage booking fees as lending switched to discount and cashback products, and higher fees paid to introducers which reflect the growth in volumes. Average product sales per FTE against the first half of last year is up 20%, demonstrating the successful refocusing of the retail branch network towards advice rather than servicing. High loan to value fee income increased in first half 2000 to £39 million (1999: £34 million).

Underlying operating expenses of £409 million represents growth of 2% compared to 1999. This is due to increased salary costs, and investment in ongoing processing efficiency projects across the Retail Bank, offset by efficiency savings from projects implemented in 1999.

A radical restructuring of the branch network to increase sales and improve cost efficiency, was recently announced. The revised structure is geared towards the opportunities and needs of local markets, rather than national standards. The restructuring involved the closure of four Regional Offices and the removal of a layer of management within the branch network. One off redundancy costs of £20 million have been included in the first half, against an ongoing saving of £16 million per annum to be taken forward into 2001.

In the second half of 2000 investment in e-commerce is planned to increase significantly to in excess of £20 million, adding to the £19 million invested over the last 18 months.

The provision charge for UK Retail Banking as a whole improved by 30% to £68 million, reflecting improved economic conditions and more significantly measures to improve both the quality of lending and debt management. Increased automation and pro-active management of arrears including linkage to a telephone dialler system have led to increased efficiency and effectiveness of arrears management. Arrears on all products are now managed on a single collection system. Management of credit scoring and fraud detection score cards has also improved the quality of lending, particularly in terms of unsecured loans.

Arrears levels on secured loans reduced by 29% with 23,602 (1999: 33,304) cases in arrears of three months or over. Properties in possession also reduced by 30% to 1,465 cases (1999: 2,090).

Arrears levels on overdrafts and credit cards have reduced by 3% and 1% respectively, since the 1999 year end.

The provision charge on Unsecured Personal Loans reduced by 35% to £24 million (1999: £37 million) with the arrears as a percentage of the asset reducing from 6.7% to 6.4%, against an asset growth of over 10%.

Gross mortgage lending of £6.6 billion was achieved (1999: £4.9 billion), with capital repayments of £4.6 billion (1999: £4.5 billion) representing 12.1% of the market compared to 13.0% in the first half of 1999. This generated net lending of £2.0 billion, giving a 10.3% market share. The share of stock of UK mortgages outstanding for June 2000 is estimated at 13.0% (1999: 13.3%).

Strong gross lending of £552 million was also achieved in Unsecured Personal Loans, taking the asset to £1,479 million.

The transfer of customer balances from short term retail savings into long term investment products marketed under the Abbey National Life brand and sold through the branch network continued in the first half of the year. This is reflected in strong inflows to cash and investment ISA products of £888 million and £475 million. Net outflows of UK retail household liabilities were £225 million.

Wholesale Banking

	2000 £m	1999 £m
Net interest income	**219**	201
Dividend income	**-**	1
Dealing profits	**45**	43
Fees & commissions receivable	**29**	26
Fees & commissions payable	**(11)**	(15)
Net fees & commissions	**18**	11
Other operating income	**61**	15
Commissions, fees & other income	**124**	70
Total operating income	**343**	271
Salaries & other staff costs	**(37)**	(27)
Bank, legal, marketing & professional expenses	**(6)**	(5)
Software, computer & other administration expenses	**(23)**	(18)
Depreciation & amortisation	**(2)**	(2)
Other property & equipment expenses	**(2)**	(2)
Operating expenses	**(70)**	(54)
Amounts written off fixed asset investments	**(10)**	(15)
Profit before tax	**263**	202
Profit by business type		
Wholesale lending	**82**	50
Asset financing	**51**	26
Asset-backed investments	**81**	84
Risk management & financial products	**25**	21
Securities lending	**12**	13
Treasury & other	**12**	8
Total profit before tax	**263**	**202**
Balance sheet by business type	**£bn**	£bn
Wholesale lending	**20**	18
Asset financing	**12**	7
Asset-backed investments	**27**	26
Risk management & financial products	**2**	2
Securities lending	**22**	19
Treasury & other	**10**	12
Total assets	**93**	**84**
Cost:income ratio (%)	**20.4**	19.9
Wholesale banking margin (%)	**0.43**	0.45
Average risk weighted assets (RWA) (£m)	**32,830**	29,545
Return on equity (%)	**16.2**	13.7

Wholesale Banking increased its profit before tax by 30% to £263 million reflecting the excellent performance of the wholesale lending and asset financing businesses, including the fast growing newer income streams such as project finance and recently established businesses such as Porterbrook Limited, which was acquired on 20 April 2000.

Wholesale Banking increased its return on equity from 13.7% to 16.2% reflecting the changing shape of the business and its increased presence in markets which deliver strong profit growth and attractive risk adjusted returns. Wholesale Banking also contributed to shareholder value through its activities as the Group's treasury, particularly through fund raising and capital management initiatives.

Total operating income increased by 27% to £343 million. Net interest income increased by 9% to £219 million, with contributions from wholesale lending, asset-backed investments and securities lending. The increase in net interest income was partly offset by funding costs for certain new businesses which are taken against interest earnings, while their revenue is reflected predominantly in commissions, fees and other income. Dealing profits increased by 5% to £45 million, with a significant proportion from risk management & financial products and contributions from a range of other businesses. Commissions, fees and other income, excluding dealing profits, increased from £26 million to £79 million, reflecting the strong performance of asset financing and wholesale lending.

Operating expenses increased by £16 million to £70 million. The increase in costs reflects a 29% increase in FTE to 721 including 91 from Porterbrook since 20 April 2000. To support the development of new businesses, Wholesale Banking continues to make significant investment in infrastructure and project costs totalled £5 million. Projects include the development of the credit derivatives business. A number of projects have been successfully completed including the re-engineering of the company's back-office systems and the bringing in-house of risk management and financial products administration systems.

Wholesale lending portfolios performed very well and profit increased by 64% to £82 million. Lending, predominantly to highly rated banks, other financial institutions, corporates and governments, increased from £18 billion to £20 billion. This included participation in 16 acquisition finance deals including PCCW's take-over of Cable and Wireless, Hong Kong Telecom and the take-private of Wassall plc by KKR - a US private equity company.

Wholesale Banking successfully increased its market presence in a range of **asset financing** businesses. Profit before tax increased from £26 million to £51 million. A number of new initiatives delivered profits with shorter than expected lead times and in addition, there are a number of significant deals in the pipeline which are expected to be completed within the year. Porterbrook contributed £4 million of profit in the 10 weeks since it was acquired and a number of opportunities in rail and similar operating lease markets are being examined. Wholesale Banking completed 13 project finance deals world-wide in the first half of this year including the construction of a container terminal in Hong Kong, a high speed rail link in Sweden and, through the UK government's Private Finance Initiative (PFI), lead arranged the finance of the construction of new headquarters for the Norfolk Police Authority and provided finance for the new Government Communications Headquarters. On 12 July 2000, Wholesale Banking completed the deal as the sole provider of finance through PFI for the building of the new £225 million University College London Hospital (UCLH). Wholesale Banking also completed 3 property financing deals in the period. Portfolio investments in private equity funds grew from £82 million to £345 million and contributed to the increase in other income. The returns from these investments are expected to grow strongly as the portfolio matures. Lending commitments to Housing Associations increased by 32% to £2.5 billion. Total asset financing assets increased by £5 billion to £12 billion as at 30 June 2000.

Asset-backed investments increased from £26 billion to £27 billion. Return on equity on these investments increased as progress was made towards achieving this strategic priority in this part of the business. Profit before tax fell slightly to £81 million reflecting the cost of initiatives to improve return on regulatory capital.

Risk management & financial products profit before tax increased by 19% to £25 million reflecting continued success in providing fixed income and equity derivative solutions to the Group and third parties. The fixed income team provided hedging for a number of significant deals including the financing of UCLH in July. The equity derivatives team has established Wholesale Banking as a market leader in UK structured retail savings products. It has provided structures to a number of leading UK financial institutions and arranged the investments in several popular structured products. A credit derivatives business is being developed and this will further increase the risk management services the business can provide.

Securities lending contribution to profits decreased slightly from £13 million to £12 million, reflecting increased investment in new securities markets as the business advanced towards achieving its goal of diversifying its mainly sterling portfolio to include increased US$ and euro-denominated securities. Assets increased from £19 billion to £22 billion.

The **Treasury & Other** segment includes money market and funding activities. Pre-tax profit of the Treasury business increased from £8 million to £12 million. Wholesale Banking continued its high level of activity in the money markets and international capital markets, raising a total of £6 billion through the issuance of bonds and medium term notes. In February, Wholesale Banking launched US$1 billion perpetual preferred securities. In July, Wholesale Banking managed the launch of mortgage-backed floating rate notes totalling £2.25 billion equivalent. This deal was the largest ever in the European mortgage securitisation market and the first deal of its kind to have notes registered in the United States. These bonds further diversified the Group's sources of funding and enhanced the flexibility of the Group's balance sheet management.

Wholesale Banking is on course to establish a branch in Hong Kong by the autumn. The branch is a development of the representative office established in 1996 and will enhance the Company's presence in Asia. As well as being a marketing base for Wholesale Banking's products and services, the full banking licence will enable funding transactions to be completed in the Asian timezone.

Wholesale Banking's total assets increased from £84 billion to £93 billion and risk weighted assets increased from £30 billion to £33 billion.

Life Assurance

Life Assurance has had an excellent first half, with profits before tax increasing 22% to £128 million as a result of very strong growth in new business premiums, particularly in the single premium investment markets. Total new business premiums increased 24% to £2,010 million. Life Assurance has continued to diversify internationally with Scottish Mutual International entering further markets in mainland Europe. Funds under management have increased 22% to £19.1 billion from £15.6 billion as at 30 June 1999.

	Profit before tax		New business premiums		Annualised business premiums ③	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Abbey National Life ①	**75**	60	**870**	723	**118**	102
Scottish Mutual ②	**53**	45	**1,140**	896	**139**	114
Total	**128**	105	**2,010**	1,619	**257**	216

① including Abbey National Unit Trust Managers and Abbey National PEP & ISA Managers.
② including Abbey National Financial and Investment Services, Scottish Mutual International, Scottish Mutual International Fund Managers, Scottish Mutual Pensions Limited, Abbey National Asset Managers (formerly known as Scottish Mutual Portfolio Managers) and Aitken Campbell.
③ Annualised business premiums = regular premiums plus 10% of single premium business.

The new business contribution to embedded value of £48 million is up 14% from 1999 demonstrating strong profit growth from new business levels.

Very low total expense ratios in Abbey National Life and Scottish Mutual of 64% and 77% respectively demonstrate that the Life Division is well placed to respond to further margin pressure with the advent of Stakeholder Pensions. The prime enabler of this performance continues to be the shared cost platform that acts as a service vehicle for all Life Division entities.

Abbey National Life

	2000 £m	1999 £m
New business premiums		
Single		
- Pension	**7**	5
- Life	**362**	222
- PEPs, unit trusts & ISAs	**466**	463
	835	690
Annual		
- Pension	**6**	2
- Life	**11**	17
- PEPs, unit trusts & ISAs	**18**	14
	35	33
Total new business premiums	**870**	723
Annualised equivalent	**118**	102

Abbey National Life increased pre-tax profit by 25% to £75 million (1999: £60 million), whilst annualised new premium income increased by 16% to £118 million.

New single premium life sales increased 63%, driven by sales of the With Profits Bond and the Investment Bond.

Single PEP and ISA volumes were 3% higher than in the first half of 1999 with market share of investment ISAs at 6%. Following a very successful launch in March of a structured ISA product which sold approximately £150 million, a further tranche is planned for launch in the second half of the year.

Scottish Mutual

	2000 **£m**	1999 £m
New business premiums		
Single		
- Pension	**270**	209
- Life	**842**	660
	1,112	869
Annual		
- Pension	**19**	23
- Life	**9**	4
	28	27
Total new business premiums	**1,140**	896
Annualised equivalent	**139**	114

Scottish Mutual increased pre-tax profit by 18% to £53 million (1999: £45 million).

Annualised new premium income increased by 22% to £139 million. Scottish Mutual new single life business premiums rose 28% to £842 million with the With Profits Investment Bond alone accounting for £558 million of new premiums. Since June 1999 Scottish Mutual has revamped and extended its product range – repriced Pegasus Products and introduced a conventional term assurance product, launched a With Profits Annuity and launched further tranches of the Income Bond.

In addition, as a result of strengthening its award winning critical illness product range, Pegasus has seen its annual new business volumes more than double to £7 million (1999: £3 million).

A detailed strategy is now in place in response to the opportunities presented by the forthcoming Stakeholder Pension and Scottish Mutual aims to capture a significant market share. Recent press reports indicate that Scottish Mutual is one of only five providers which currently offers a 'pre-stakeholder' Group Personal Pension which is truly Stakeholder compliant.

Scottish Mutual International has shown substantial growth in its earnings since 1999. In particular, sales of the With Profits Bond are enjoying success as the company continues to gain exposure in new European territories and other international markets.

Finance House

	2000 £m	1999 £m
Net interest income	**270**	280
Fees & commissions receivable	**67**	49
Fees & commissions payable	**(101)**	(88)
Net fees & commissions	**(34)**	(39)
Other operating income	**35**	21
Commissions, fees & other income	**1**	(18)
Total operating income	**271**	262
Salaries & other staff costs	**(70)**	(54)
Bank, legal, marketing & professional expenses	**(20)**	(13)
Software, computer & other administration expenses	**(38)**	(39)
Depreciation & amortisation	**(5)**	(9)
Other property & equipment	**(7)**	(7)
Operating expenses	**(140)**	(122)
Provisions for bad & doubtful debts	**(63)**	(72)
Provisions for contingent liabilities	**1**	-
Profit before tax	**69**	68
Add back:		
Investment in integration	**21**	7
Underlying profit before tax	**90**	75
Cost:income ratio (%)	**51.7**	46.6
Cost:income ratio (underlying %)	**43.9**	43.9
Finance House margins (%)	**6.94**	7.26
RWA (£ million)	**9,332**	8,005
Return on equity (%)	**14.9**	17.0

Net loan assets: £m	**2000**	1999
Consumer Finance:		
Unsecured	**897**	783
Secured	**1,876**	1,725
Motor Finance	**3,107**	3,371
Business Finance	**858**	761
Retail Finance	**1,831**	1,769
Total	**8,569**	8,409

The above table includes 50% of the assets of PSA Finance (acquired in May 1999) within Motor Finance which is accounted for as an associated undertaking.

Finance House is engaged in a major programme to integrate and transform acquired businesses, and to improve the efficiency of its systems and processes. Implementation costs of £21 million (1999: £7 million) were incurred in the first six months bringing the total spend to date to £48 million. The programme has a considerable way to go but is already producing results. An outsourcing contract has been signed with Experian which will significantly reduce unit costs in the Retail Finance business. In the Motor and Consumer businesses progress is being made in implementing new common IT systems and the integration of the Motor Finance branch network is complete. In Business Finance, the integration of the leasing businesses is progressing well and new IT systems have been delivered in the vehicle contract hire businesses. The programme will also deliver a common infrastructure for the group and, in the first half of the year, a new set of group-wide terms and conditions of employment have been implemented.

The programme consists of over 100 projects, of which more than a third are complete. The completed projects have delivered changes which will produce ongoing cost savings and revenue enhancements amounting to £20 million on an annualised basis. These benefits will start to be realised in the second half of 2000.

Excluding the implementation costs of the above programme, underlying profit increased 20% from £75 million to £90 million.

Net interest income fell by 4% to £270 million. Growth in Consumer Finance assets was more than offset by a substantial decline in Motor Finance business arising from the market conditions where used car finance deals are down some 13% on the same period last year. This decline is largely caused by uncertainty over the impact of the government's review of the car market which has kept potential purchasers on the sidelines. In addition, Retail Finance has suffered some margin erosion due to competitive activity.

Commissions, fees and other income were £1 million (1999: net payable of £18 million). Included in this year's figure is a full six months' income from the PSA joint venture in Motor Finance and £3 million generated from the sale of businesses.

Excluding the £21 million (1999: £7 million) of implementation costs referred to above, operating expenses rose by £4 million. Expenses of £3 million relating to Abbey National's Business & Professional Banking Service is included in the first half of 2000. These were previously reported as part of the UK Retail Bank. Costs in the remaining Finance House operations were up £1 million.

Provisions for bad and doubtful debts fell 13% to £63 million reflecting tight control of credit and improved collections systems. Residual values in the motor market fell by 8% in the first half of the year compared with the same period last year. However, active management of this risk through prudent contract pricing, requesting higher customer deposits and better management of car disposals has minimised the effect on profit.

General Insurance

	2000	1999
	£m	£m
Net interest income	**-**	(1)
Fees & commissions receivable	**87**	87
Fees & commissions payable	**(1)**	(1)
Net fees & commissions	**86**	86
Other operating income	**(16)**	(12)
Commissions, fees & other income	**70**	74
Total operating income	**70**	73
Salaries & other staff costs	**(11)**	(11)
Bank, legal, marketing & professional expenses	**(3)**	(4)
Software, computer & other administration expenses	**(2)**	(8)
Depreciation & amortisation	**(1)**	(1)
Other property & equipment	**(2)**	(1)
Operating expenses	**(19)**	(25)
Profit before tax	**51**	48
Cost:income ratio (%)	**27.1**	34.2

General insurance profit before tax increased 6% to £51 million (£48 million). Motor new business volumes grew by 36% to over 37,000 and creditor volumes increased 9%. Good progress continues to be made in retention of the existing customer base, coupled with a focus on operating cost containment. High claims costs from both subsidence and bad weather events, experienced generally across the insurance market, have narrowed margins.

Wealth Management

	Wealth Mgt existing £m	**Prosper £m**	**2000 Total £m**	Wealth Mgt existing £m	Prosper £m	1999 Total £m
Net interest income	**34**	**1**	**35**	29	-	29
Dividend income	**1**	**-**	**1**	1	-	1
Fees & commissions receivable	**28**	**-**	**28**	18	-	18
Fees & commissions payable	**(4)**	**-**	**(4)**	(2)	-	(2)
Net fees & commissions	**24**	**-**	**24**	16	-	16
Other operating income	**4**	**-**	**4**	7	-	7
Commissions, fees & other income	**29**	**-**	**29**	24	-	24
Total operating income	**63**	**1**	**64**	53	-	53
Salaries & other staff costs	**(23)**	**(7)**	**(30)**	(21)	(1)	(22)
Bank, legal, marketing & professional expenses	**(3)**	**(4)**	**(7)**	(2)	(3)	(5)
Software, computer & other administration expenses	**(8)**	**(6)**	**(14)**	(8)	(1)	(9)
Depreciation & amortisation	**(1)**	**-**	**(1)**	(1)	-	(1)
Other property & equipment expenses	**(3)**	**-**	**(3)**	(2)	-	(2)
Operating expenses	**(38)**	**(17)**	**(55)**	(34)	(5)	(39)
Amounts written off fixed asset investments	**-**	**-**	**-**	-	-	-
Profit before tax	**25**	**(16)**	**9**	19	(5)	14
Cost:income ratio (%)	**60.3**		**85.9**	64.2		73.6
RWA (£ million)	**1,581**		**1,581**	1,444		1,444
Return on equity (%)	**32.6**		**11.7**	26.4		19.0

Wealth Management profit has increased 32% to £25 million (1999: £19 million), excluding the cost of new business development, helped by strong growth in offshore wholesale balances.

Including investment in new businesses of £16 million, Wealth Management made pre-tax profit of £9 million in the first half.

Net interest income increased by 21% to £35 million, largely due to a net increase in wholesale assets of £477 million since December 1999, mainly from volume growth in the offshore division.

Commissions, fees and other income increased by 21% to £29 million, due to increased fee income from business growth in pension scheme administration. Growth in fee income in City Deal, the Group's execution-only stockbroking subsidiary, reflected stockmarket activity levels.

Operating expenses increased by £16 million to £55 million, of which £12 million related to additional investment required in Prosper. Excluding this impact, the growth of £4 million reflects additional headcount increases to administer the growth in pension schemes. Within the operating costs are significant ongoing restructuring and investment in back office systems, coupled with additional promotional expenditure. City Deal Services Limited largely outsourced its processing activities in 1999, to improve flexibility in responding to increased transaction volumes.

Continental Europe

	2000 £m	1999 £m
Net interest income	**13**	15
Fees & commissions receivable	**2**	2
Fees & commissions payable	**(1)**	(1)
Net fees & commissions	**1**	1
Commissions, fees & other income	**1**	1
Total operating income	**14**	16
Salaries & other staff costs	**(6)**	(5)
Bank, legal, marketing & professional expenses	**(2)**	(2)
Software, computer & other administration expenses	**(4)**	(5)
Depreciation & amortisation	**(1)**	(1)
Other property & equipment expenses	**(1)**	(1)
Operating expenses	**(14)**	(14)
Provisions for bad & doubtful debts	**(1)**	(2)
Loss before tax	**(1)**	-
Cost:income ratio (%)	**100.0**	87.5
RWA (£ million)	**850**	770
Return on equity (%)	**(2.14)**	(6.20)
Result by country :		
France	**-**	1
Italy	**(1)**	(1)

In both Italy and France there have been good performances in terms of new business levels. In Italy, mortgage completions are up 35% on the equivalent period in 1999, and in France the business is establishing itself as a leading specialised lender in competitive market conditions. Investment has continued including EMU phase II, IT platforms and restructuring.

cahoot

	2000 £m	1999 £m
Total operating income	**-**	-
Salaries & other staff costs	**(2)**	-
Bank, legal, marketing & professional expenses	**(24)**	(1)
Other administration expenses	**(5)**	-
Operating expenses	**(31)**	(1)
Provisions for bad & doubtful debts	**-**	-
Loss before tax	**(31)**	(1)

cahoot is a separately-branded, self-contained virtual banking proposition, launched on 12 June 2000. Since launch, 63,000 customer applications have been received. Following strong credit scoring procedures, 31,000 accounts have been accepted.

The majority of the investment incurred in 2000 has related to IT (£14 million) and marketing, legal and professional costs (£10 million), prior to launch.

Group Central Holdings

	2000 £m	1999 £m
Net interest income	**-**	(2)
Dividend income	**-**	-
Fees & commissions receivable	**3**	3
Fees & commissions payable	**-**	-
Net fees & commissions	**3**	3
Other operating income *	**28**	69
Commissions, fees & other income	**31**	72
Total operating income	**31**	70
Salaries & other staff costs	**(24)**	(33)
Bank, legal, marketing & professional expenses	**(11)**	(11)
Software, computer & other administration expenses	**(27)**	(24)
Depreciation & amortisation	**(18)**	(6)
Other property & equipment expenses	**(6)**	(8)
Operating expenses	**(86)**	(82)
Provisions for contingent liabilities	**10**	-
Loss before tax	**(45)**	(12)
By business:		
Central Services	**(52)**	(68)
Financial Holdings *	**7**	56
	(45)	(12)

* Includes £60 million profit from sale of shares in Irish Permanent in 1999

Net interest income is broadly level, reflecting higher levels of surplus capital offset by increased interest payable following the issue of new subordinated debt late in 1999. Commissions, fees and other income is lower as a result of £60 million profit from the sale of the equity holding in Irish Permanent included in 1999 first half, offset by profits from property sales in 2000. Operating expenses are up 5%, whilst provisions include a release of £10 million of litigation provisions.

The Financial Holdings segment contains the earnings on the difference between the Group's statutory capital and the target regulatory capital allocated to segments.

Capital management and resources

Abbey National continues to actively manage its capital resources and explore capital and balance sheet management opportunities. The capital resources of the Group are as follows:

		as at 30 June 2000 £m	as at 31 Dec 1999 £m
Tier 1		**6,935**	5,871
Tier 2 & Tier 3		**4,700**	4,532
Less supervisory deductions		**(1,713)**	(1,606)
Total regulatory capital		**9,922**	8,797
Total risk weighted assets:			
	banking book	**75,783**	71,706
	trading book	**4,505**	4,170
		80,288	75,876
Capital ratios:			
	risk asset ratio	**12.4 %**	11.6 %
	tier 1 ratio	**8.6 %**	7.7 %
	equity tier 1 ratio	**7.25 %**	7.1 %

The Group's risk asset ratio of 12.4% demonstrates the significant capital strength of the Group. The equity tier 1 ratio improved to 7.25%, despite investment in new businesses, meeting our 7.25% target ahead of schedule.

The basic instruments of capital monitoring are the tier 1 capital ratio and the risk asset ratio, which compares total regulatory capital to total risk weighted assets. As at 30 June 2000, the tier 1 ratio was 8.6% and the Group's risk asset ratio was 12.4%, both are comfortably above the minimum standards set for the Group by the Financial Services Authority. The increased ratios resulted primarily from retained earnings and, in the case of the risk asset ratio, from the issue of new preferred securities, partly offset by a 6% growth in risk-weighted assets.

Abbey National's tier 1 capital (ordinary and preference shareholders' funds after deducting goodwill) increased by £1,064 million to £6,935 million (31 December 1999: £5,871 million), mainly as a result of the issue of US$1 billion preferred securities. There was an increase in tier 2 capital (subordinated liabilities and general provisions) of £168 million, principally due to exchange rate fluctuations. Supervisory deductions mainly represent investments in life assurance and insurance companies within the Group.

Wholesale Banking manages all the Group's capital raising and capital management initiatives. In February, Wholesale Banking launched the US$1 billion perpetual preferred security and in July, managed the launch of mortgage-backed floating rate notes totalling £2.25 billion equivalent. The transaction was issued from a £6.4 billion equivalent residential mortgage master trust and confirms the importance of securitisation as part of the Group's capital management strategy. Wholesale Banking also sponsors a US$10 billion asset-backed commercial paper programme with US$8.2 billion outstanding as at 30 June 2000. Each of these initiatives further diversify the Group's sources of funding and enhances the flexibility of the Group's balance sheet.

The Board has assessed the existing dividend policy in the light of the Group's capital requirements for the current planning cycle and, based on current plans, believes that greater returns can continue to be achieved by retaining capital in the business, rather than returning it to shareholders. If future plans do not envisage value-creating organic growth or acquisition opportunities, the Board would then consider returning surplus capital to shareholders, but only if at least £500 million could be returned over a 12 to 18 month period.

Balance sheet

Total assets increased by 7% to £194 billion since 31 December 1999, funded mainly through the wholesale debt markets. As at 30 June 2000, wholesale liabilities represented 56% of total liabilities. The percentage of UK mortgage assets funded from retail savings was 76% (31 December 1999: 78%).

Shareholder Returns

Abbey National is focused on achieving 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. The share price for any given year is defined as the average of daily share prices.

To ensure that the Company remains focused on shareholder value creation, Abbey National uses Value Based Management as the cornerstone of its planning, budgeting, project evaluation, and monthly reporting of business performance. It also provides a benchmark for incentive schemes in use around the Group. Executive Director remuneration via the long term incentive plan is based on TSR performance of the Company over three years relative both to specified institutions and the constituents of the FTSE 100. Appendix 13 contains a summary of TSR performance in comparison to major competitors and the FTSE 100.

Appendices

Appendix 1: half yearly group profit and loss account

	2000	1999		
	First half	First half	Second half	Total
	£m	£m	£m	£m
Net interest income	**1,332**	1,307	1,354	2,661
Commissions, fees & other income	**587**	523	572	1,095
Total operating income	**1,919**	1,830	1,926	3,756
Operating expenses	**(862)**	(746)	(848)	(1,594)
Provisions for bad & doubtful debts	**(132)**	(171)	(132)	(303)
Provisions for contingent liabilities & commitments	**7**	(3)	(20)	(23)
Amounts written off fixed asset investments	**(10)**	(15)	(11)	(26)
Profit before tax & exceptional items	**922**	895	915	1,810
Year 2000 & EMU	**-**	(20)	(7)	(27)
Profit on ordinary activities before tax	**922**	875	908	1,783
Tax on ordinary activities	**(273)**	(264)	(258)	(522)
Profit on ordinary activities after tax	**649**	611	650	1,261

Appendix 2: half yearly net interest margins and spreads

	2000	1999		
	First half	First half	Second half	Total
	£m	£m	£m	£m
Net interest income	**1,332**	1,307	1,354	2,661
Average interest earning assets (£ bn)				
Group*	**161.9**	147.7	156.4	152.1
UK Retail Banking*	**64.5**	61.2	62.5	61.9
Net interest margins (%)				
Group	**1.65**	1.79	1.72	1.75
UK Retail Banking	**2.31**	2.43	2.47	2.45
Wholesale Banking	**0.43**	0.45	0.38	0.41
Finance House	**6.94**	7.26	7.07	7.20
Spread (%)				
Group	**1.48**	1.51	1.58	1.55
UK Retail Banking (excluding UPLs)	**2.06**	2.18	2.22	2.20

* The interest earning assets have been grossed up to reflect the securitised mortgage assets in 1999.

Appendix 3: operating expenses by segment

Table 1 - 1999 cost base

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
1999 total cost	402	54	7	122	25	39	14	1	82	**746**
Significant Investment to transform the business	(1)	-	-	(7)	-	(5)	-	(1)	(3)	**(17)**
Business infrastructure / processing efficiency	(12)	(7)	-	-	(1)	(2)	(1)	-	(7)	**(30)**
1999 base costs *	389	47	7	115	24	32	13	-	72	**699**

Table 2 - 2000 cost growth

	UKRB	WBank	Life	Fin Hse	Gen Ins	Wealth	Europe	cahoot	GCH	Total
1999 base costs	389	47	7	115	24	32	13	-	72	**699**
Significant Investment to transform the business	28	-	-	21	-	16	-	31	-	**96**
Business infrastructure / processing efficiency	17	5	-	-	-	2	-	-	13	**37**
Newly acquired businesses	-	2	-	-	-	-	-	-	-	**2**
Other growth (including efficiency savings)	3	16	3	4	(5)	5	1	-	1	**28**
Sub Total	**20**	**23**	**3**	**4**	**(5)**	**7**	**1**	**-**	**14**	**67**
2000 total cost	**437**	**70**	**10**	**140**	**19**	**55**	**14**	**31**	**86**	**862**

* Base costs exclude all investment costs

Guidance:

The tables analyse cost base changes year on year on a segmental basis, identifying significant investment to transform the business, and ongoing investment relating to infrastructure and processing efficiency.

Table 1 - removes all investment costs in 1999 half one to calculate the base costs.
Table 2 - reconciles growth in operating expenses from 1999 half one base costs to 2000 half one as reported.

Appendix 4: suspended interest 2000

	Residential (£m)	**Other secured (£m)**	**Unsecured (£m)**	**Total (£m)**
At 1 January 2000	42	62	10	114
Exchange differences	-	1	-	1
Acquisition of subsidiary undertakings	-	-	-	-
Transfer from P&L account	7	2	5	14
Irrecoverable amounts written off	(12)	(8)	(5)	(25)
At 30 June 2000	**37**	**57**	**10**	**104**

Appendix 5: provisions for bad and doubtful debts 2000

	Residential (£m)	Other secured (£m)	Unsecured (£m)	Total (£m)
At 1 January 2000				
General	131	23	39	193
Specific	76	97	163	336
Total	207	120	202	529
Transfer from P&L account	16	21	95	132
Irrecoverable amounts written off	(17)	(11)	(98)	(126)
At 30 June 2000	206	130	199	535
General	139	17	39	195
Specific	67	113	160	340
Total	**206**	**130**	**199**	**535**

Appendix 6: analysis of provisions

2000	**Charge first half (£m)**	**Provisions balance 30 Jun (£m)**	**Balance % of loan assets**
Secured on residential properties	**13**	**174**	**0.3**
Overdraft and credit card	**31**	**55**	**11.3**
Unsecured personal loans	**24**	**59**	**4.0**
UK Retail Banking	**68**	**288**	**0.4**
Finance House	**63**	**176**	**2.2**
France	**0**	**66**	**6.8**
Italy	**1**	**5**	**0.6**
Continental Europe	**1**	**71**	**4.1**
Group Central Holdings	**0**	**0**	
Total	**132**	**535**	**0.7**

1999	Charge first half (£m)	Charge second half (£m)	Provisions charge full year (£m)	Provisions balance 30 Jun (£m)	Balance % of loan assets
Secured on residential properties	**24**	**7**	**31**	**189**	**0.3**
Overdraft and credit card	**36**	**37**	**73**	**62**	**11.8**
Unsecured personal loans	**37**	**26**	**63**	**56**	**4.5**
UK Retail Banking	**97**	**70**	**167**	**307**	**0.5**
Finance House	**72**	**60**	**132**	**169**	**2.2**
France	**2**	**1**	**3**	**76**	**8.2**
Italy	**-**	**1**	**1**	**4**	**0.8**
Continental Europe	**2**	**2**	**4**	**80**	**5.6**
Group Central Holdings	**-**	**-**	**-**	**19**	**50.5**
Total	**171**	**132**	**303**	**575**	**0.8**

Appendix 7: analysis of suspended interest

	Charge first half (£m)	Balance 30 June (£m)	1999 Charge first half (£m)	Charge second half (£m)	Charge full year (£m)	Balance 31 Dec (£m)
Secured on residential property	**6**	**14**	4	4	8	20
Overdraft and credit card	**3**	**4**	3	3	6	3
Unsecured personal loans	**2**	**3**	3	3	6	3
UK Retail Banking	**11**	**21**	10	10	20	26
Finance House	**0**	**9**	-	2	2	14
France	**3**	**67**	2	3	5	67
Italy	**0**	**7**	-	-	-	7
Continental Europe	**3**	**74**	2	3	5	74
Group Central Holdings	**-**	**-**	-	-	-	-
Total	**14**	**104**	12	15	27	114

Appendix 8: UK mortgage arrears

	30 June 2000			31 Dec 1999			30 June 1999		
	No. cases (000s)	**% of Total cases**	**CML industry average %**	No. cases (000s)	% of Total cases	CML industry average %	No. cases (000s)	% of Total cases	CML industry average %
1 - 2 months arrears	**37.11**	**2.59**	**N/A**	37.00	2.58	N/A	39.66	2.75	N/A
3 - 5 months arrears	**12.72**	**0.89**	**N/A**	13.81	0.96	0.88	16.18	1.12	1.07
6 - 11 months arrears	**7.87**	**0.55**	**N/A**	9.94	0.69	0.52	11.56	0.80	0.63
12 months + arrears	**3.01**	**0.21**	**N/A**	4.52	0.31	0.27	5.56	0.39	0.32
	First half 2000			Second half 1999			First half 1999		
	Nos	**% of loans**	**CML industry average %**	Nos	% of loans	CML industry average %	Nos	% of loans	CML industry average %
No. of repossessions	**2,672**	**0.19**	**N/A**	2,731	0.19	0.12	3,097	0.21	0.15
No. of sales	**2,990**	**N/A**	**N/A**	3,059	N/A	N/A	3,076	N/A	N/A
Stock	**1,465**	**N/A**	**N/A**	1,762	N/A	N/A	2,090	N/A	N/A

Note: Abbey National figures exclude the Finance House segment
CML - Council of Mortgage Lenders data for June 2000 was unavailable at time of issue

Appendix 9: mortgage discounts and cashbacks to 30 June 2000

	First Half 2000		
	Expense incurred in year (£m)	**Charged to profit & loss (£m)**	**Balance carried forward (£m)**
Interest rate discounts	**81**	**(95)**	**97**
Cashbacks	**48**	**(73)**	**441**
Total	**129**	**(168)**	**538**

	First Half 1999			Full Year 1999		
	Expense incurred in year (£m)	Charged to profit & loss (£m)	Balance carried forward (£m)	Expense incurred in year (£m)	Charged to profit & loss (£m)	Balance carried forward (£m)
Interest rate discounts	51	(49)	115	109	(111)	111
Cashbacks	82	(60)	457	157	(126)	466
Total	133	(109)	572	266	(237)	577

Appendix 10: share of UK mortgage market

	First Half 2000		First Half 1999		Full Year 1999	
	£ bn	**%**	£ bn	%	£ bn	%
Gross lending	**6.6**	**11.5**	4.9	9.7	12.2	10.7
Capital repayments	**4.6**	**12.1**	4.5	13.0	9.9	12.9
Net lending (change in outstanding stock)	**2.0**	**10.3**	0.4	2.4	2.4	6.3
Stock	**66.7**	**13.0**	62.7	13.3	64.7	13.1

Appendix 11: share of UK retail household liabilities market

	2000		1999		Full Year 1999	
	£ bn	**%**	£ bn	%	£ bn	%
Change in UK retail household liabilities	**(0.2)**	**n/a**	(0.8)	n/a	0.5	1.8
Outstanding UK retail household liabilities	**49.5**	**8.4**	48.5	8.6	49.7	8.6

Appendix 12: headcount

Full time equivalent basis	**30 June 2000**	30 June 1999	31 Dec 1999
UK Retail Banking	**14,631**	14,780	15,180
Wholesale Banking	**721**	557	595
Life Assurance	**2,131**	2,016	1,971
Finance House	**4,532**	4,624	4,628
General Insurance	**971**	861	891
Wealth Management	**1,481**	1,163	1,210
Continental Europe	**335**	346	351
cahoot	**58**	-	33
Group Central Holdings	**2,604**	2,632	2,694
Group total	**27,464**	26,979	27,553

The 1999 June and December FTE figures for Finance House have been restated to include temporary staff on Abbey National contracts.

Appendix 13: shareholder returns

Total shareholder returns of Abbey National against its peer group of companies and the FTSE

January 1998 - June 2000

Rank in peer group	*Rank in FTSE*	*Company*	*TSR %*
1	*13*	*Royal Bank of Scotland*	*28.1*
2	*16*	*Bank of Scotland*	*24.3*
3	*18*	*Prudential Corporation*	*24.0*
4	*22*	*Legal & General*	*19.9*
5	*34*	*Barclays*	*15.5*
6	*45*	*Woolwich*	*9.8*
7	*46*	*Lloyds TSB*	*9.5*
8	***48***	***Abbey National***	***7.9***
9	*49*	*Alliance Leicester*	*7.6*
10	*64*	*Halifax*	*0.2*
		FTSE - 100 Average	*11.0*

INDEPENDENT REVIEW REPORT TO ABBEY NATIONAL PLC

Introduction
We have been instructed by the Company to review the financial information set out on pages 8 to 13 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 UK Listing Authority 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 2000.

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR
25 July 2000

Other information

1. The financial information in this release provided for 1999 is based on the statutory accounts for the year ended 31 December 1999 which have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not include a statement under section 237 (2) or 237 (3) of the Companies Act 1985.

2. A summary of this report will appear as an advertisement in The Daily Telegraph and Daily Mail on 27 July 2000.

3. The ex-dividend date is 7 August 2000; the record date is 11 August 2000; the scrip election date is 18 August 2000; and the payment date is 2 October 2000.

4. The scrip share price will be calculated utilising the average of the mid-market price of Abbey National plc shares over the period 7 - 11 August 2000. The scrip share price can be obtained from 15 August 2000 by telephoning Abbey National Shareholder Services on 0870 532 9430.

5. The third quarter trading statement will be issued on 24 October 2000 and the preliminary full year results will be announced on 22 February 2001.

6. This report will also be available on the Abbey National Group website: www.abbeynational.plc.uk from the 26 July 2000.

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