The Abbey National Group

2000 Preliminary Full Year Financial Results

Chief Executive's Review

record results and a faster growing, more efficient, more customer friendly bank

In 2000, Abbey National posted a record set of results. Underlying profit before tax was up 17%, to £2,100 million, exceeding £2 billion for the first time in our history. Profit before tax was up 11% to £1,975 million. Year 2000 marked the eighth consecutive year of double-digit profit growth and the sixth consecutive year of double-digit revenue growth.

We have delivered record new business flows at the same time as continuing to transform our existing operations, launching products and services into new markets, and enhancing our position as a broad based retailer of financial services and products to over 15 million retail customers.

We continue to be one of the fastest-growing banks in the UK as a result of our strong brands and track record of innovation. Revenue increased 13% last year and has averaged 17% per annum over the past 5 years.

Our successful diversification strategy generated 53% of profits from businesses other than mortgages and savings in 2000, driven by strong performances in Life Assurance and Wholesale Banking. We expect the changes we have put in place to increase this to around 60% by the end of 2001 – and we aim to meet our target of 65% diversification by the end of 2002 – a year ahead of our commitment.

We are growing the business without losing our focus on costs. Our underlying cost:income ratio was down again to 40.2%, making Abbey National one of the UK's most efficient banks. The exceptionally high investment spend of £190 million in 2000 will halve in 2001, and we will continue to focus on cost efficiency. We expect absolute costs in the Retail Bank to fall, and our objective is to reduce costs at a Group level in 2001.

2000 has been a year of radical change in which Abbey National has executed its plans on schedule, delivered industry-leading innovations, and provided genuine competition and choice for millions of customers. We enter 2001 in excellent shape, confident of our ability to continue to grow our business in the interests of shareholders, customers and staff.

Ian Harley

Financial Highlights

excellent financial performance includes £190 million of investment

- Underlying profit before tax* improved by 17% to £2,100 million. Profit before tax increased 11% to £1,975 million (1999: £1,783 million).
- 53% of profit was generated by businesses other than mortgages and savings (1999: 45%).
- The strength of the existing diversified businesses was prominent in helping the Group deliver double-digit profit growth for the 8th successive year. Life Assurance profit before tax increased by 29% and Wholesale Banking by 37%.
- Total revenue grew 13% in 2000, and we have now achieved 17% compound average annual growth rates over the last 5 years.
- Significant investment spend of £190 million (1999: £73 million) was undertaken to transform the Group and develop new income streams, resulting in headline cost growth of 14% and an increase in the cost:income ratio to 44.1%. Investment spend on such projects will reduce by over 50% in 2001, and still further in 2002.
- On an underlying basis*, the cost:income ratio improved to 40.2% (1999: 41.2%), and cost growth was 7%.
- Credit quality remains strong. Despite a 13% increase in Group assets to £204 billion, the bad debt charge fell by 10%.
- Earnings per share was 93.4 pence (1999: 86.2 pence), dividend per share 45.5 pence (1999: 40.25 pence), post tax return on equity 21.5% (1999 22.8%). The equity tier 1 capital ratio rose to 7.5% (1999: 7.1%).

strong underlying performance in the Retail Bank

- Retail Banking division, including Abbey National General Insurance and Abbey National Life, increased pre-tax profit by 5% to £1,283 million (1999: £1,227 million). On an underlying basis*, this equates to 8% growth.
- Our bancassurance performance was particularly strong, with Abbey National Life profit before tax up 43% in line with total premium growth of 44%. Active management of the Retail Banking spread continued against a backdrop of stable base rates, with a spread of 2.01% (1999: 2.20%) within the historical range. As previously indicated the spread for 2001 is expected to be in the region of 1.75% - 1.80%.

outstanding growth in Wholesale Banking

- Wholesale Banking profit before tax increased 37% to £575 million (1999: £419 million), and post-tax return on equity rose to 17.2% (1999: 14.0%). New income streams contributed to a 54% increase in income, with strong growth in Asset Financing (including the acquisition of Porterbrook), Wholesale Lending, and Risk Management and Financial Products.

strong business flows and transformation in B2B

- Profit before tax in the Business to Business division up 9% to £254 million, despite competitive market conditions. In First National, underlying profit before tax of £194 million is up 16%, with good market share performance across the business as a whole.
- Scottish Mutual profit before tax increased 11% to £113 million, reflecting sales of With Profit Bonds, and personal pensions as well as excellent growth in international markets.

new B2C customer propositions launched

- In the Business to Consumer division, cahoot and Inscape were launched in June and November respectively, offering new propositions to attract new customers to the Group.

*** underlying performance excludes significant investment of £190 million (1999: £73 million) (to develop new income streams and transform the Group), and profits from significant asset disposals of £65 million in 2000 (1999: £60 million); a detailed breakdown is included on page 8 of this statement.**

Operating Highlights

record new business volumes across the Group

best mortgage net lending since 1994

- Mortgage net lending of £3.2 billion is the best performance since 1994, and represents an 8% market share. Share of capital repayments was further reduced to 12%, and has now been below stock share for the last two years, driven by a proactive customer retention effort.

40% increase in bank account openings

- Good progress made in attracting new bank account customers, with openings up 40% on 1999, with a very strong final quarter performance. Record Abbey National branded unsecured loan lending, increasing the asset by 15%.

the UK's most successful bancassurer

- Net inflows of UK retail household liquid savings of £1.2 billion, as well as £0.7 billion into investment ISA products. Abbey National Life premiums of £1.7 billion reflect success in selling investment and protection products to 14% of the active customer base.

record life assurance new business levels

- Life Assurance total new business premiums are up 34% to a record £4.3 billion and annualised new business premiums are up 25% to £538 million. This has been fuelled in part by premium growth overseas through Scottish Mutual International which has seen new business increase by 141%. Funds under management increased by 12% to £20.7 billion.

a growing presence in SME banking

- First National increased its managed contract hire fleet by 59% to over 70,000 vehicles, and continued to expand into the SME business banking market. In total, Business Finance grew assets by 35% to £1.1 billion, providing services to over 110,000 business customers.

36% revenue growth in Wholesale Banking

- In Wholesale Banking, newer businesses including project finance, operating leasing and private equity were instrumental in the 36% increase in operating income, net of operating lease depreciation.

continually challenging the way we do business

retail bank transformation

- We are radically transforming the Retail Bank, increasing still further our sales productivity and focus while driving forward on efficiency programmes.

redefining the retail banking experience

- Integral to this is Convenience Retailing, which makes it easier for customers to do business with us through integrated distribution channels and flexible products. It includes in-branch e-banking facilities, new Costa Coffee branches, more Safeway in-store branch openings, an extended ATM network, and an increasingly flexible product range.

increasing flexibility in the Retail cost base

- We have re-organised our branch network to focus on local markets, removing £16 million from the cost base from 2001. The branch-franchising pilot programme was launched in July, harnessing the entrepreneurial drive of our best sales managers and significantly increasing sales productivity.

business alliances with industry leading third parties

- In 2001, we announced business alliances in mortgage and general insurance administration to improve efficiency and customer choice. We have just announced an arrangement with Electronic Data Systems (EDS) to create a joint venture, operational in May 2001 to carry out post-sale servicing of the Retail bank's mortgage and personal loan assets. It is expected to make cost savings of nearly £9 million per annum. In general insurance, the arrangements with Capita Eastgate will allow more competitive pricing to cover a broader spectrum of risks, drawing upon a panel of specialist underwriters.

£28 million of enhanced earnings for 2001

- In First National, the transformation programme is on target for completion by the end of 2001. During the last 12 months the programme has included outsourcing arrangements and the rationalisation of branches and systems across the business. Projects have been completed which, in total are expected to provide future annualised cost and revenue enhancements of £28 million.

e-commerce increasing sales and cutting costs

725,000 registered e-banking customers

- Over 725,000 retail customers have registered since the launch of the Abbey National e-banking service in May. From July, these customers were able to access their accounts via the Internet and digital TV – a U.K. first. More recently, WAP mobile banking has been launched as part of the fully integrated channel offering under the Abbey National brand.
- Currently there are over 207,000 visits per week to the e-banking sites, and to date, over 90,000 product applications have been generated through this channel.
- Mortgage Introducer Internet service was successfully launched in November, including the on-line 60-second mortgage approval in principle, supported by real time case-tracking facilities. 7,000 introducers are now registered and we expect a significant amount of gross lending through this channel in 2001.

7,000 mortgage introducers on-line

- In First National, the rollout of B2B initiatives continued. 'First On-line' is now in over 900 motor dealerships, enabling dealers to submit credit applications and receive approvals on-line. In Scottish Mutual, e-commerce initiatives include a centralised quotation facility and on-line access to commission for IFAs. In December 2000, Scottish Mutual launched its first electronic business application for the With Profit Investment Bond.

e-commerce solutions being harnessed in B2B division

- cahoot account applications now exceed 189,000 with over 106,000 accepted since launch in June. The cahoot credit card received the 'Gold Medal Award' for on-line offerings from the Gomez rating agency, and Personal Computer World rated cahoot the best online bank in the market in February 2001.

innovative solutions, radical thinking

extending the branch franchising programme

- The internal branch-franchising programme is the first of its kind by any European financial services institution. At present 8% of the branch network is franchised, and this will be extended further during 2001. The first markets to be franchised have seen sales productivity rise by 17% compared to the network average.

addressing legacy cost structures

- In October, the structured sale and leaseback of the Group's entire property portfolio was completed. The transaction is one of the largest and most innovative of its kind in the private sector, generating a profit of £65 million, and securing cost-effective operational flexibility for the next 20 years.

the leading mortgage securitiser in Europe

- Expertise in the Wholesale Bank continued to deliver excellent capital efficiency initiatives. A US$1 billion tier one deal was launched in February, and a £1.2 billion upper tier 2 deal was launched in September. Abbey National is firmly established as the leader in the European residential mortgage securitisation market, having now launched benchmark issues totalling £6.9 billion. The £2.2 billion July issue was selected by International Financing Review as 'European Securitisation Deal of the Year 2000'.

65% diversification by 2002

increased diversification – 53% in 2000

- 53% of profits in 2000 were generated from businesses other than mortgages and savings. By the end of 2001, we expect the level of diversification to increase to around 60%, and aim to achieve 65% by the end of 2002, one year ahead of the 2003 target.

diversification within Retail Banking

- The 2000 results demonstrate our successful diversification within Retail Banking. Combined profitability of Abbey National branded personal banking, general insurance and long-term investment products increased by 42% on 1999.
- The launch of the internet-based student account, supported by an exclusive agreement with the NUS, marked a significant step towards the target of 1 million additional bank account customers by 2003.
- New panel arrangements and distribution channels in General Insurance will boost consumer choice and accelerate the growth of this business. The outsourcing of policy administration and certain claims handling to Capita Eastgate will provide greater flexibility in service and cost base management.

new business streams driving growth in the Wholesale Bank

- A strong pipeline of business has been established and the Wholesale Bank will continue to develop its existing businesses and enter new but related markets where it can use its expertise to gain a strong competitive position. For the sixth consecutive year, the Wholesale Bank has contributed over 20% of Group profits.
- To facilitate further growth in the international markets, Wholesale Banking upgraded its representative office in Hong Kong to a branch and Asian regional office. We are also considering establishing a presence in the United States in 2001.

one of the UK's leading Finance Houses – serving businesses

- The First National brand will continue to be leveraged into the SME market, exploiting existing business to business relationships. It will focus on banking services and asset financing solutions, aiming to increase market share from 1 to 5% by the end of 2005.

a powerful portfolio of Life Assurance brands and channels

- The proposed transfer of the business of Scottish Provident will boost growth of the Life Assurance business. Scottish Provident is highly complementary in terms of product range, strength in the IFA channel and international growth. A version of Scottish Provident's Self Assurance protection product may also be distributed through the Retail Bank, under the Abbey National brand, building on our position as one of the leading bancassurers in the UK.
- Scottish Mutual has become the most efficient active life assurer through the IFA channel in the UK. These skills will be leveraged into the combined organisation.

launching new businesses to target new customers

- The Business to Consumer division is delivering new products and services to new, typically high net worth customers. It is also deepening existing customer relationships by selective targeting of our Retail Bank customer base.
- Our innovative Wealth Management proposition, Inscape, launched in November. It is a discretionary investment management service providing access to a selection of leading fund managers from around the world, supported by advice from dedicated client relationship managers as part of a true multi-channel approach.

Consolidated profit and loss account for the year ended 31 December 2000

	2000 £m	1999 Restated £m
Net interest income	**2,680**	2,661
Commissions, fees and other income	**1,614**	1,141
Total operating income	**4,294**	3,802
Operating expenses excluding depreciation on operating lease assets	**(1,815)**	(1,615)
Depreciation on operating lease assets	**(178)**	(52)
Provisions for bad and doubtful debts	**(273)**	(303)
Provisions for contingent liabilities and commitments	**(21)**	(23)
Amounts written off fixed asset investments	**(32)**	(26)
Operating Profit on ordinary activities before tax	**1,975**	1,783
Tax on profit on ordinary activities	**(559)**	(522)
Profit on ordinary activities after tax	**1,416**	1,261
Minority interests - non equity	**(51)**	-
Transfer to non-distributable reserve	**(156)**	(13)
Preference dividends	**(38)**	(38)
Ordinary dividends	**(649)**	(572)
Profit retained for the period	**522**	638

The 1999 comparative results have been restated to reflect a change in presentation of depreciation on operating lease assets. For details, see 'Change in accounting presentation' under 'Group profit and loss account review' on page 22.

Average number of ordinary shares in issue (millions)	**1,420**	1,418
Earnings per ordinary share - basic	**93.4p**	86.2p
Earnings per ordinary share - diluted	**92.8p**	85.5p
Dividends per ordinary share	**45.5**	40.25p
Dividend cover	**2.0**	2.1

Group key statistics

Group cost:income ratio (%) ① ②	**44.1**	42.4
Underlying Group cost:income ratio (%) ② ③	**40.2**	41.2
Pre-tax return on average ordinary shareholders' equity (%) ②	**30.4**	32.3
Post-tax return on average ordinary shareholders' equity (%)②	**21.5**	22.8
Underlying post-tax return on average ord. shareholders' equity (%) ② ③	**23.0**	23.0
Net asset value per ordinary share (pence)	**446**	396
Pre-tax return on average assets (%) ②	**1.03**	1.03
Pre-tax return on average risk weighted assets (%) ②	**2.48**	2.44
Equity tier 1 capital (%)	**7.5**	7.1
Tier 1 capital (%)	**8.9**	7.7

① The cost:income ratio measure calculated throughout this document is a measure of administrative efficiency, and is calculated as Operating expenses excluding depreciation on operating lease assets divided by Total operating income after deducting Depreciation on operating lease assets.

② Excluding exceptional items in 1999 (Year 2000 and EMU costs of £27 million). This is split £6 million in Commissions, fees and other income, and £21 million in Operating expenses.

③ Underlying performance **excludes** significant investment to develop new income streams and transform existing businesses. The impact of significant asset disposals is also excluded. See page 8.

Segmental profit and loss account

Headline profit before tax

	2000 £m	1999 £m
Retail Banking	**1,283**	1,227
Wholesale Banking	**575**	419
Business to Business	**254**	234
Business to Consumer	**(48)**	1
Group Infrastructure	**(89)**	(71)
Profit before tax and exceptional items	**1,975**	1,810
Year 2000 and EMU costs	**-**	(27)
Profit before tax	**1,975**	1,783

Significant investment and asset disposals

		2000 £m	1999 £m
Retail Banking	e-commerce	**(28)**	(4)
	branch restructuring	**(18)**	-
Business to Business	integration / transformation	**(47)**	(27)
Business to Consumer	Inscape ①	**(34)**	(19)
	cahoot ①	**(63)**	(16)
Group Infrastructure	e-commerce	**-**	(7)
		(190)	(73)
Group Infrastructure	Sale of property portfolio	**65**	-
	Irish Permanent share sales	**-**	60
		65	60
Impact on profit before tax and exceptional items		**(125)**	(13)

Underlying profit before tax

	2000 £m	1999 £m
Retail Banking	**1,329**	1,231
Wholesale Banking	**575**	419
Business to Business	**301**	261
Business to Consumer	**49**	36
Group Infrastructure	**(154)**	(124)
Underlying profit before tax and exceptional items	**2,100**	1,823
Year 2000 and EMU costs	-	(27)
Underlying profit before tax	**2,100**	1,796

① Significant investment in Inscape and cahoot is taken as being the loss before tax.

Business Segment Review

Retail Banking

	2000 £m	1999 £m
Net interest income	**1,578**	1,624
Commissions, fees and other income	**810**	670
Total operating income	**2,388**	2,294
Operating expenses	**(944)**	(885)
Provisions	**(161)**	(182)
Profit before tax	**1,283**	1,227
Add back:		
Investment in e-commerce	**28**	4
Branch restructuring	**18**	-
Underlying profit before tax	**1,329**	1,231
Profit by business		
Mortgages and savings	**934**	982
Banking and unsecured lending	**51**	14
UK Retail Bank	**985**	996
Abbey National Life	**182**	127
General Insurance	**116**	104
Total profit before tax	**1,283**	1,227
Cost:income ratio (%)	**39.5**	38.6
Underlying cost:income ratio (%)	**37.6**	38.4
Retail Banking net interest spread (%) ①	**2.01**	2.20
Retail Banking net interest yield (%) ①	**6.79**	6.53
Retail Banking net interest cost (%) ①	**4.78**	4.33
Retail Banking margin (%) ①	**2.27**	2.45
Average interest earning assets (£bn) ②	**65.4**	61.8
Average risk weighted assets (RWA) (£m) ②	**35,347**	34,223
Return on regulatory equity (RoE) (%) ②	**28.5**	29.1

① *Spread and margin calculations exclude Unsecured Lending, General Insurance and Abbey National Life*
② *RWAs and RoE analysis are for UK Retail Bank only*

Profit before tax increased by 5% to £1,283 million. Excluding the investment and transformation costs, the underlying profit before tax increased by 8% to £1,329 million. This growth was achieved through:

- active management of the Retail Spread which reduced by 19 basis points to 2.01% against a backdrop of stable base rates, adversely affecting net interest income, in part offset by strong new business flows;
- increasing other income by 21% through record levels of new business in Abbey National Life, increased banking and mortgage fee income earned from customers;
- careful cost management. Excluding investment in e-commerce and redundancy costs, expense growth of £17 million represents only a 2% increase in costs. During 2000, 87 projects relating to cost efficiency and income generation were completed;
- 11% reduction in mortgage processing costs achieved through re-engineering processes and introducing imaging and workflow management. The proposed joint venture with Electronic Data Systems is expected to deliver close to best-in-class loan processing costs from 2001 onwards through advanced systems utilisation and process re-engineering. In addition, we have re-organised our branch network to

focus on local markets, aligning service to customer needs and removing £16 million from the cost base from 2001 onwards; and

- improving both the quality of business underwritten and arrears management, contributing to a 12% reduction in the provision charge.

Excluding one-off investment expenditure, the underlying cost:income ratio has improved to 37.6% (1999: 38.4%).

Further diversification in Retail Banking has been achieved with 42% growth in profit before tax from products other than Mortgages and Savings:

- the reduced profitability of mortgages and savings reflects active management of our existing and new customer base through competitive pricing;
- Banking profitability improved significantly due to increased fee income, and better asset quality giving rise to lower provisions;
- growth in General Insurance profits in part reflects profit on sale of the Group's 15% stake in the underwriting joint venture. This profit line excludes income from creditor insurance sales in Retail and elsewhere in the Group; and
- Abbey National Life profit growth of 43% was achieved through 44% growth in new business premiums, and a benefit of £12 million from a tax adjustment.

Convenience Retailing

	2000	1999
Customer metrics		
Total number of customers (million)	**15.2**	15.0
Average product holdings per active customer	**2.06**	n/a
Average product holdings per bank account customer	**2.72**	n/a
AN Life cross sales ratio (%)	**14**	12
Distribution		
Number of branches	**714**	765
Number of Safeway in-store branches	**37**	25
Number of Costa Coffee branches	**4**	-
Total Number of branches	**755**	790
Number of Abbeylink ATMs	**3,180**	2,724
Number of non-branch Abbeylink ATMs	**1,403**	1,077
	4,583	3,801

E-banking metrics	**4 February 2001**	31 December 2000
Number of registrations (000s)	**725**	596
Number of product applications (000s)	**90**	73

The e-banking service has been developed rapidly as a part of a fully integrated channel choice for customers. Over 90,000 product applications have been received on-line, and the service is also contributing to counter migration results, with counter based transactions now 14%. This has freed up capacity for increased sales and improved service in the network. The average product holdings per bank account customer and e-banking registered customer are now 2.7 and 2.9 respectively.

The Mortgage Introducer Internet functionality was launched in October, and provides a decision in principle, on-line, in 60 seconds with real time case tracking and fast track functionality also available.

Mortgages and Savings

Group share of UK mortgage market:	**2000**		1999	
	£ bn	**%**	£ bn	%
Gross lending	**12.8**	**10.7**	12.2	10.7
Capital repayments	**9.6**	**12.2**	9.9	12.9

Net lending (change in outstanding stock)	**3.2**	**7.9**	2.4	6.3
Stock	**67.9**	**12.7**	64.7	13.1

Share of mortgage net lending increased to 7.9% (1999: 6.3%), an excellent performance achieved through:

- new product innovations, such as flexible mortgages;
- enhanced service delivery, selected as the best bank in "Your Mortgage" for the second year running;
- cutting edge internet functionality for introducers - an integral part of the enhanced service delivery;
- proactive customer management through dedicated retention teams, delivering a 3% reduction in the level of capital repayments - now below stock share for the last two years; and
- at the same time, arrears management has been improved, with a reduction of 21% in 3 months plus arrears to 22,416 cases, the lowest in the last decade.

We recently signed heads of terms with Electronic Data Systems (EDS) to form a joint venture for the servicing and administration of Abbey National's mortgages and personal loans. The joint venture will administer almost 2 million accounts, and is expected to generate immediate annualised cost savings of around £9 million.

Group share of UK retail household liabilities market:	**2000**		1999	
	£ bn	**%**	£ bn	%
Change in UK retail household liabilities	**1.2**	**3.6**	0.5	1.8
Outstanding UK retail household liabilities	**50.9**	**8.3**	49.7	8.6
Cash ISA sales	**1.3**	**11**	1.2	14
Investment ISA sales	**0.7**	**7**	0.4	8

Positive net receipts have been achieved by retention initiatives, and by encouraging customers to move money to our higher rate accounts or longer-term investment products. In particular, positive flows into Direct Saver of £2.4 billion, and e-Saver of £1.3 billion since launch. Of the increase £0.9 billion relates to deposits taken through our Business to Consumer operations.

Banking and Unsecured Personal Lending

	2000	1999
Number of Abbey National bank accounts (ANBA) (000)	**2,101**	1,976
Number of Abbey National bank account openings (ANBA) (000)	**172**	123

Openings of new bank accounts increased by 40%, and the quality of lending has improved due to enhanced credit risk management techniques. Bank account and credit card arrears improved by 5% and 8% respectively.

A range of banking initiatives has been launched over the last year to increase the account base. This includes market leading overdraft rates, a no-hassle switcher service and the launch of the student bank account, offered through an exclusive agreement with the National Union of Students (NUS). Together these initiatives resulted in a very strong fourth quarter, with openings up 150% on the equivalent period in 1999.

The unsecured personal loan asset has increased by 15% to £1.5 billion, driven by record gross lending of £963 million and improved completion rates.

Abbey National Life

Key statistics:	**2000**	1999
	£ m	£ m
New business premiums – single		
- Pension	**21**	18
- Life	**850**	464
- PEPs, Unit Trusts and ISAs	**772**	636
	1,643	1,118

New business premiums – annual		
- Pension	**13**	8
- Life	**16**	36
- PEPs, Unit Trusts and ISAs	**39**	23
	68	67
Total new business premiums ①	**1,711**	1,185
Annualised equivalent ②	**232**	179
Total expense ratio (%) ③	**65.4**	68.0

Abbey National Life includes Abbey National Unit Trust Managers and Abbey National PEP and ISA Managers.
① Total premiums exclude £9 million (1999: £9 million) of reassurance premiums received from Group entities previously included.
② Annualised business premiums = regular premiums plus 10% of single premium business.
③ Total expense ratios are operating expenses and commissions over annualised new business premiums.

Abbey National Life's performance has been outstanding in 2000 with new business premiums increasing by 44% to £1.7 billion. Significant increases have occurred in most product areas, notably:

- sales of the With Profit Investment Bond increasing by 114%;
- through the launch of three structured ISA tranches during the year. These products were provided with the help of Wholesale Banking's Risk Management and Financial Products division; and
- doubling in sales of the Flexible Pension, designed as a forerunner for stakeholder pensions.

General Insurance

In 2000, Motor insurance volumes have increased by 28%, supported by the launch of the motor insurance Internet site in November 2000. In addition, the business focus on retention initiatives has been maintained with overall levels showing good improvements.

In January 2001, we announced plans to accelerate the growth of the general insurance business by widening choice and improving our retail prices. This will be achieved by using a panel of competing insurers, including ongoing relationships with Norwich Union, to offer a wider choice of products and more competitive retail pricing. In addition, Capita Eastgate will be responsible for the management and development of new systems to support our general insurance business, using its new Consumer Direct platform. This will aim to provide market leading product flexibility and straight through processing, improved customer service and lower costs.

By mid 2001, a full Internet service will be available, including on-line quotes, on-line applications, policy processing and alterations, and on-line claims handling.

Investment in the region of £50 million will be required over the next 36 months to implement the new arrangements fully, and is expected to have a favourable impact on headline profitability from 2002 onwards. The objective of this investment is to create a new platform, which will support our target of growing our insurance book to over 2.0 million policies by the end of 2003.

Wholesale Banking

	2000 £m	1999 £m
Net interest income	**441**	393
Commissions, fees and other income	**423**	169
Total operating income	**864**	562
Operating expenses excluding depreciation on operating lease assets	**(155)**	(115)
Depreciation on operating lease assets	**(100)**	(2)
Provisions	**(34)**	(26)
Profit before tax	**575**	419
Profit by business		
Wholesale lending	**135**	101
Asset financing	**159**	61
Asset-backed investments	**149**	165
Risk management and financial products	**76**	49
Securities financing	**38**	30
Treasury and other	**18**	13
Profit before tax	**575**	419
Balance sheet by business type	**£bn**	£bn
Wholesale lending	**21**	17
Asset financing	**13**	9
Asset-backed investments	**26**	27
Risk management and financial products	**3**	2
Securities financing	**29**	19
Treasury and other	**11**	8
Total assets	**103**	82
Cost:income ratio (%)	**20.3**	20.5
Net interest margin (%)	**0.43**	0.41
Average interest earning assets (£ bn)	**103.0**	94.6
Average risk weighted assets (RWA) (£m)	**34,274**	30,036
Return on regulatory equity (%)	**17.2**	14.0

Wholesale Banking delivered an exceptionally strong set of results, with a 37% increase in profit before tax, and return on regulatory equity up from 14.0% to 17.2%. These results reflect the robust performance of existing income streams, and the development of new businesses targeting markets with strong sustainable growth potential, and attractive risk:rewards. A significant pipeline of deals for 2001 has been established and the Wholesale Bank's responsive and innovative approach, and market expertise will contribute to the sustainability of these results.

Total revenue increased by 54% to £864 million. Net interest income increased 12% to £441 million. The net interest margin increased slightly with the benefits of higher margin income streams largely offset by funding costs associated with fee-earning assets. Commissions, fees and other income (excluding dealing profits and operating lease income) increased by 65% to £119 million, largely reflecting the contributions of project finance and private equity. Operating lease income increased from £4m to £197 million as a result of the acquisition of Porterbrook. Associated depreciation costs increased from £2 million to £100 million. Dealing profits increased 16% to £107 million, reflecting increased deal flow in Securities Financing and Risk Management and Financial Products.

Operating expenses increased by 35% to £155 million. The increase in costs is due to growth in headcount and investment in new businesses and enhanced systems. Notwithstanding this increase, the cost:income ratio improved from 20.5% to 20.3%.

Particularly strong profit growth was generated in **Wholesale Lending** (profits up 34%), reflecting successful management of the portfolios of assets and increased volumes in acquisition finance, where the remit was extended to underwrite selected deals. In **Asset Financing** (profits up 161%), growth reflects the impact of the Porterbrook acquisition (profit of £40 million), private equity investment realisations, and increased project finance business.

Wholesale Banking continues to focus on lending to investment grade institutions, and to extend its presence in markets where it can use its expertise to optimise risk:reward trade offs, while maintaining its selective and discerning approach. Changes in the risk profile are partly offset by the shorter maturities of assets in newer business areas and the effect of collateralisation of some highly rated counterparty exposures. Exposure to individual sectors, including the telecoms and high yield sector, continues to be tightly managed and remains at an appropriate level within our stated risk appetite.

A branch with a full banking licence was launched in Hong Kong in November, and a physical US presence is being considered for 2001.

Wholesale Banking participates in five main business areas:

Wholesale Lending

A well–established business lending through a range of financing instruments including debt securities, asset swaps, direct loans and syndicated loans, to highly rated banks, financial institutions, corporates and governments.

- Wholesale Lending assets, including the provision of acquisition finance, increased from £17 billion to £21 billion, generating both interest and fee income.
- Wholesale Lending participated in a total of 34 acquisition finance deals, consolidating the Wholesale Bank's position in this market and extending its remit to include underwriting and co-arranging finance for selected corporate mergers and acquisitions.

The steady growth of this business is expected to continue through increased penetration in growing international markets.

Asset Financing

Asset financing was the Wholesale Bank's fastest growing business area in 2000. The business provides finance solutions in operating and finance leasing, project finance and social housing markets and invests in private equity.

- The exercise to integrate Porterbrook is complete. Since acquisition, it has completed deals to provide funding totalling £359 million. This includes funding for 400 new vehicles for commuter routes in southern England to be delivered over the next few years.
- Asset Financing participated in 50 project finance deals worldwide and 9 property finance deals. The book value of commitments increased from £1.2 billion to £3.6 billion. Wholesale Banking is also the leading provider of finance through the UK government's private finance initiative (PFI) and participated in a total of 15 deals.
- The diverse private equity investment portfolio, built up since 1997, delivered strong returns. Investments increased from £0.2 billion to £0.5 billion with holdings in 50 funds across 20 industrial sectors. It focuses on funds whose strategies concentrate on managing buy-outs of small and medium sized businesses. The portfolios are held at cost and as at December had unrealised gains amounting to around £60 million.

Growth prospects for Asset Financing remain strong. Porterbrook is well positioned to capitalise on the growth in demand for passenger rail travel anticipated over the next decade, and the Wholesale Bank will continue to respond to the growing demand for private finance for large projects both in the UK and internationally.

Asset-backed Investments

The Wholesale Bank manages substantial portfolios in asset-backed securities. The portfolios include investments that are backed by credit card receivables, student loans, collateralised debt obligations and mortgages. These investments are predominantly AAA rated and provide substantial net interest income.

- Return on equity increased to 11.5% (1999: 10.8%).
- Total assets remained flat, with reduced holdings in the home equity loan adjustable rate mortgage (HEL ARM) sector as a number of investments matured. It is expected that a decrease in certain holdings will continue in 2001.

Wholesale Banking anticipates that, given the credit profile of these portfolios, it will benefit from the revised approach to the measurement of regulatory capital required to cover these assets, proposed by the Basel Committee on Banking Supervision. However, these changes have not yet been finalised and the new rules are not expected to be implemented until 2004.

Risk Management and Financial Products

Abbey National Financial Products (ANFP) combines expertise in structured products, fixed income, equity and credit derivatives to offer comprehensive derivative solutions to Group companies and third parties. A strong performance was complemented by new business flows and extended presence in a number of niche markets. In 2000, ANFP:

- was a very active participant in the UK retail price index (RPI) swap market;
- extended its range of equity index-linked structured retail products and was a significant provider of these products to major financial companies; and
- established a credit derivatives business, which completed its first synthetic collateral bond obligation in December.

ANFP will continue to develop its product range, build on its strong position in the UK, and increase penetration of international markets.

Securities Financing

Cater Allen International Limited (CAIL) is an active participant in the sale and repurchase of UK and international securities, and the lending and borrowing of equity, fixed income and government securities. In 2000, CAIL:

- continued to deliver a high return on regulatory equity; and
- maintained its strong position in the sterling securities financing market and continued to make progress in diversifying its portfolio to include a broader product range and a larger proportion of euro and US$-denominated securities.

CAIL is currently developing plans to establish a broker-dealer in the US market to capitalise on the expected investor demand for the products and services of a company with Abbey National's financial backing.

Treasury and Other

Treasury ensures that diverse and sufficient sources of wholesale funding and capital are available to the Group. It manages the Group's liquidity needs, and contributes to the risk management of the Group's balance sheet.

- Treasury established Abbey National as the leader in the European residential mortgage securitisation market in 2000, managing the launch of two mortgage-backed floating rate note issues totalling £4.7 billion.
- Also on behalf of the Group, Treasury launched US$1 billion perpetual preferred securities and £1.2 billion equivalent perpetual notes raising tier one and upper tier two capital respectively.
- Reflecting Treasury's performance in the capital markets, Abbey National was selected by the International Financing Review as the 'Best Bank Borrower in 2000'.

Business to Business

	2000 £m	1999 £m
Net interest income	**593**	593
Commissions, fees and other income	**180**	133
Total operating income	**773**	726
Operating expenses excluding depreciation on operating lease assets	**(326)**	(301)
Depreciation on operating lease assets	**(78)**	(50)
Provisions	**(115)**	(141)
Profit before tax	**254**	234
Add back:		
Investment in integration	**47**	27
Underlying profit before tax	**301**	261
Profit by business		
First National	**147**	140
Scottish Mutual	**113**	102
France	**(4)**	(2)
Italy	**(2)**	(6)
Profit before tax	**254**	234

Profit before tax increased 9% to £254 million. Excluding £47 million (1999: £27 million) of integration costs in First National, underlying profit increased 15% to £301 million.

In First National, profit before tax increased 5% with a change in business mix towards higher credit quality lending, and improved credit processes, resulting in a reduced bad debt charge. Commissions, fees and other income have grown, driven by increased fee and insurance income, as well as fees from the PSA joint venture. Excluding the implementation expenses of the transformation programme, expenses increased by only 1%.

Scottish Mutual profit before tax increased 11%, as a result of strong growth of new business premiums.

First National

Key statistics **Net loan assets**	2000 £m	1999 £m
Unsecured	**949**	885
Secured	**1,936**	1,802
Consumer Finance	**2,885**	2,687
Motor Finance	**2,906**	3,238
Business Finance	**1,111**	821
Retail Finance	**1,772**	1,878
Total	**8,674**	8,624
Cost:income ratio (%)	**52.5**	48.8
Cost:income ratio (underlying %)	**43.9**	43.8
Net interest margin (%)	**7.06**	7.20
Average interest earning assets (£bn)	**7.8**	7.8
Average risk weighted assets (RWA) (£m)	**9,370**	8,515
Return on regulatory equity (%)	**16.1**	16.4

First National Transformation Programme

The First National transformation programme has continued, with over 50% of projects now completed. The scope of the programme includes integrating businesses, replacing systems, outsourcing back-office operations, consolidation of branch networks and improved credit and fraud prevention procedures. The programme is due for completion by the end of 2001. In total, projects expected to provide future annualised cost and revenue enhancements of £28 million were completed in 2000.

Consumer Finance

Provides secured and unsecured loans mainly for house purchase, home improvement and holiday home ownership.

- Loan assets increased by 7%, driven by second mortgage and home improvement lending.
- Household Mortgage Corporation was re-branded First National Mortgage Company in October, launching a competitive range of non-status mortgages with the aim of achieving faster growth in 2001.
- A leading position in the new litigation funding market was established, securing deals with two of the major claims management companies.

Motor Finance

Provides finance for new and used vehicle purchases and vehicle leasing, through motor dealerships.

- Trade continued to be profitable despite very difficult market conditions in the motor industry.
- Despite lower new business volumes, and hence a 10% fall in loan assets, market share was maintained in car finance and there was an increased penetration of major dealer groups.
- Investment in the transformation programme was accelerated given quieter trading conditions.
- 'First On-line' Internet introducer facility was launched in July. It is operational in over 900 motor dealerships enabling dealers to submit credit applications and receive approvals on-line.

Business Finance

Offers a banking service and a range of asset finance solutions to businesses, including leasing, factoring, commercial loans, deposits and vehicle finance.

- Assets increased by 35%, reflecting strong growth in commercial lending and invoice finance.
- Highway Vehicle Management was acquired in August 2000. This, coupled with a number of small portfolio acquisitions, has increased the vehicle contract hire and managed fleet from 44,000 to 70,000 and has given the business access to the small corporate fleet market.
- Prudent pricing mitigated the effect of falling residual values, at the expense of new business volumes.
- Abbey National Business and Professional Banking increased its bank account base by 81% to 34,237, taking in net new deposits of £646 million, bringing total deposits to over £1.5 billion.

Retail Finance

Provides point of sale finance through retailers of furniture, electrical and home technology goods.

- Assets were 6% lower at £1.8 billion, as a result of a programme of re-pricing and tighter credit control, which resulted in an improvement in margins on new business and lower bad debts.
- Outsourcing of operational functions was completed giving access to more flexible systems and a lower cost base.

Scottish Mutual

Key Statistics:	2000 £m	1999 £m
New business premiums		
Single		
- Pension	**720**	450
- Life	**1,796**	1,512
	2,516	1,962
Annual		
- Pension	**37**	42
- Life	**17**	12
	54	54
Total new business premiums ①	**2,570**	2,016
Annualised equivalent ②	**306**	250
Total expense ratio (%) ③	**75.0**	76.6

Scottish Mutual Assurance includes Abbey National Financial and Investment Services, Scottish Mutual International, Scottish Mutual International Fund Managers, Scottish Mutual Pensions, Abbey National Asset Managers and Aitken Campbell.
① Total premiums exclude £890 million (1999: £337 million) of reassurance premiums received from Group entities previously included.
② Annualised business premiums = regular premiums plus 10% of single premium business.
③ Total expense ratios are operating expenses and commissions over annualised new business premiums.

Scottish Mutual has had another excellent year despite competitive market conditions.

- New business premiums increased 27% to £2.6 billion, with funds under management increasing by 13% to £15 billion.
- Despite new market entrants, the success of the Scottish Mutual With Profit Bond has continued, with sales exceeding £1 billion for the second successive year (an IFA market share of 14%).
- Group Personal Pensions volumes increased 38%, and the commitment to stakeholder pensions was demonstrated with the launch of the pre-stakeholder Universal Group Pension.
- Scottish Mutual International new business premiums increased by 141% largely due to With Profit Bond sales and the launch of the Complete Investment Portfolio contract. Profit before tax increased by £6 million to £8 million.
- Scottish Mutual Pegasus volumes of regular premiums increased 83% to £13.7 million.
- Scottish Mutual has become the most efficient active life assurance provider through the IFA channel in the UK, when comparing the total expense ratios calculated using the latest available data (1999 FSA returns).

Scottish Provident

In September, Abbey National entered into an agreement to transfer (subject to policyholder and Court approval) the business of Scottish Provident. The Scottish Provident brand will be retained, and its operations will be combined with existing Life Assurance operations. It is anticipated that the integration will realise substantial cost synergies, and provide the means for significant increases in new business volumes through the promotion of individual protection products to a wider range of IFAs, and to the Retail Bank's customer base under the Abbey National brand. Integration of existing international businesses will raise the profile of Abbey National's international operations significantly. The plans for transfer and integration are currently progressing to schedule.

Continental Europe

Net lending in Continental Europe increased by 84%, to £376 million, mainly within AN Italy. Good progress has been made, and useful experience gained, in converting these retail operations to the Euro.

Business to Consumer

	2000 £m	1999 £m
Net interest income	**76**	62
Commissions, fees and other income	**56**	46
Total operating income	**132**	108
Operating expenses	**(177)**	(107)
Provisions	**(3)**	-
(Loss) / profit before tax	**(48)**	1
Add back investment in business development:		
cahoot	**63**	16
Inscape	**34**	19
Underlying profit before tax	**49**	36
Profit / (loss) by business type		
Wealth Management	**49**	36
cahoot	**(63)**	(16)
Inscape	**(34)**	(19)
(Loss) / profit before tax	**(48)**	1

The business to consumer segment is made up largely by new business ventures. Both Inscape and cahoot have invested heavily during the year to establish the infrastructure required to develop the businesses and product range in 2001.

The existing Wealth Management operations increased profit before tax by 36%, reflecting cost savings from outsourcing back office services in City Deal, a 14% growth in retail deposits in the Offshore business and the continued growth of Self Invested Personal Pensions (SIPP) clients in James Hay.

Wealth Management

	2000	1999
Cost:income ratio (%)	**61.8**	66.7
Average risk weighted assets (RWA) (£m)	**1,633**	1,494
Return on regulatory equity (RoE) (%)	**30.7**	23.7

Wealth Management has focused on the development of its onshore and offshore retail deposits and pensions business, targeting the UK expatriate market with significant investment potential.

- Strong growth in retail deposits, reaching £4.8 billion (1999: £4.0 billion), drove interest income up by 21%.
- The wholesale investment book expanded to £5.2 billion (1999: £4.5 billion).
- James Hay Pension Trustees Ltd, operating in the SIPP market, has achieved 60% growth in clients subscribed to over 15,000. Against a background of strong market expansion, James Hay is expected to continue to grow strongly.
- City Deal Services sharedealing business completed their re-organisation programme, achieving significant cost savings (£5 million) by outsourcing back office services. Transactions grew by 31% to contribute further to the improvement in profit performance.
- Ongoing investment continued in business systems and centralisation, and the businesses are now well poised for growth in 2001. The centralisation of certain back office processes in the Isle of Man, and the migration to a common retail banking systems platform, was completed this year.

Inscape

The Inscape investment management business was launched in November and began advertising in January 2001. Since launch almost 20,000 people have contacted Inscape and a large number have commenced the interview process. The average amount invested is well ahead of target, and over two thirds of funds invested is new money to the Group. Funds under management are targeted to be £8 billion by the end of 2004 from 100,000 clients.

Inscape is an innovative wealth management business targeting individuals with at least £50,000 liquid assets to invest. The discretionary investment management service includes:

- delivery through its national network of advice centres where clients can meet dedicated relationship managers for face-to-face professional advice, seven days a week;
- portfolios tailored to meet each client's specific needs, held in Open Ended Investment Company global sub-funds;
- portfolios drawing on Inscape's access to a selected range of the world's leading fund managers; Abbey National Asset Managers, AXA Rosenberg, CDC Asset Management, Dresdner RCM Global Investors, Goldman Sachs Asset Management, Merrill Lynch, Schroder Investment Management, State Street Global Advisors, and Wellington Asset Management;
- value for money through competitive, transparent charges;
- a true multi-channel offering, with the advice centre network supported by a helpline, internet access providing daily updates, and monthly and quarterly performance reports distributed by post; and
- six client advice centres are already open, with six more planned for 2001.

cahoot

Key Statistics:	**4 February 2001**	31 December 2000
Number of customer applications (000s)	**189**	142
Number of money transmission accounts accepted (000s)	**41**	27
Number of credit card accounts accepted (000s)	**66**	49
Bank account liability (£ million)	**302**	177
Bank account asset (£ million)	**6**	5
Credit card asset (£ million)	**66**	52

Since launch over 189,000 applications have been received and over 106,000 accounts have been accepted. During the first 6 months of operations, cahoot has achieved 38% brand awareness, making it the second best known on-line financial services brand. cahoot has been recognised on two separate occasions as the best on-line credit card by Gomez ratings agency. It has also received the Design Council-sponsored IVCA award for the best transactional website, and was rated the best online bank in the market by Personal Computer World in February 2001.

Customers can now access cahoot via the Internet, the telephone and through WAP services. A range of new product developments is planned in 2001 as a further step towards becoming a full service bank. The recent link up with Selftrade to offer a stockbroking service to customers is already proving successful. An account base of 200,000 is targeted by the end of 2001.

Group Infrastructure

	2000 £m	1999 £m
Net interest income	**(8)**	(11)
Commissions, fees and other income	**145**	129
Total operating income	**137**	118
Operating expenses	**(213)**	(186)
Provisions	**(13)**	(3)
Loss before tax	**(89)**	(71)
Add / (reduce) by:		
Investment in e-commerce	**-**	7
Profit on sale and leaseback of property portfolio	**(65)**	-
Profit on sale of Irish Permanent shares	**-**	(60)
Underlying loss before tax	**(154)**	(124)
(Loss) / profit by business type		
Central Services	**(175)**	(133)
Financial Holdings	**86**	62
Loss before tax	**(89)**	(71)

The net loss before tax incurred centrally in Group Infrastructure increased by 25% to £89 million, reflecting the following:

- in Financial Holdings, profit of £65 million from the sale and leaseback of the Group's entire property portfolio. In 1999, the profit on sale of the equity holding in Irish Permanent was £60 million;
- excluding the above, the increase in income resulted from the disposal of other small non-core businesses, including Abbey National Benefit Consultants and Cater Allen Trust business;
- 15% growth in operating expenses in Central Services, resulting from additional IT development spend, and Group performance related bonus costs; and
- provisions of £13 million relate primarily to pension misselling provisions within Central Services.

Group Profit and Loss Account Review

Change in accounting presentation

Depreciation on operating lease assets is reported within Operating expenses, and is separately identified because operating lease assets are used for a different purpose to fixed assets used in administrative functions. This represents a change in presentation from previous years, where operating lease depreciation was reported as a charge against income on operating lease assets within Commissions, fees and other income. Income in respect of operating lease assets continues to be reported within Commissions, fees and other income. This change results from the application of FRS 15, 'Tangible fixed assets', which applies to the accounts for the year ended 31 December 2000.

Net interest income

	2000 £m	1999 £m
Interest receivable	**11,210**	9,229
Interest payable	**(8,530)**	(6,568)
Net interest income (£m)	**2,680**	2,661
Group average interest earning assets * (AIEA) (£bn)	**166.1**	152.1
Group net interest margin * (%)	**1.61**	1.75
Group net interest spread * (%)	**1.42**	1.55

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

Net interest income remained broadly level at £2,680 million, with the reduction in Retail Banking interest income being more than offset by interest income from Wholesale Banking balance sheet growth. The Group net interest margin decreased by 14 basis points, largely reflecting:

- margin management in the Retail Bank, through active management of the existing and new customer base, which reduced the Retail Banking spread by 19 basis points;
- funding costs associated with fee-based income streams in the Wholesale Bank, such as Porterbrook and private equity funds; and
- the increased proportion of Wholesale Banking assets on the balance sheet.

Commissions, fees and other income

	2000 £m	1999 restated £m
Total dividend income	**3**	2
Insurance income	**239**	210
Administration, survey and legal fees	**211**	197
Other Retail Banking income	**246**	182
Wholesale banking fees	**72**	55
Other commissions receivable	**99**	93
Fees and commissions receivable	**867**	737
Introducer fee charge	**(199)**	(174)
Financial markets permanent fees / brokerage fees	**(9)**	(9)
Other commissions payable	**(61)**	(63)
Fees and commissions payable	**(269)**	(246)
Net fees and commissions	**598**	491
Dealing profits	**116**	98
Increase in value of long term assurance business	**227**	202
Fee income on high loan to value loans	**95**	77
Income from operating lease assets	**303**	78
Other financial income	**196**	139
Other operating income	**821**	496
Underlying commissions, fees and other income	**1,538**	1,087
Profit on sale and leaseback of property portfolio	**76**	-
Disposal of shares in Irish Permanent	**-**	60
Total commissions, fees and other income *	**1,614**	1,147

* excluding exceptional items in 1999 comprising Year 2000 and EMU costs of £6 million.

Commissions, fees and other income increased by 41%, to £1,614 million, reflecting growth in Retail Banking, Wholesale Banking and Life Assurance new business levels across the Group.

Fees and commissions receivable increased by 18% to £867 million, due to:

- increased insurance income from strong growth in Abbey National Life, sales in Retail Banking, and creditor protection volumes in First National;
- increased administration, survey and legal fees, reflecting record Abbey National Life policy sales - particularly from structured ISA tranches - in part offset by reduced fixed rate booking fees in the Retail Bank;
- increased fee income in First National, and other Retail banking income largely due to revised ATM and banking charges; and
- increased Wholesale Banking fees, primarily relating to project finance and property finance transactions.

Fees and commissions payable grew by 9%, reflecting increased fees and volumes of intermediary lending.

Dealing profits increased 18%, largely in Wholesale Banking, reflecting the increased deal flow in Securities Financing and Risk Management and Financial Products.

Excluding the impact of significant one-off disposals, other operating income increased by 66%, due to:

- income from long term life assurance increasing in line with growth in both Scottish Mutual and Abbey National Life;
- high loan to value fees received from customers and amortised on a level yield basis. This level of income is expected to continue in 2001;
- increased income from operating lease assets following the acquisition of Porterbrook (and increased depreciation on operating lease assets included under operating expenses); and
- other financial income increasing by 41%, driven by growing fee-based income streams in Wholesale Banking, primarily realisations from private equity investments and operating lease income. In First National, there were higher fees from its joint venture with PSA, and, in Retail Banking, from the sale of shares in Commercial General Union Underwriting Limited.

In 2000, a profit of £76 million, less £11 million in associated transaction costs, was made on the sale and leaseback of the Group's entire property portfolio. This transaction was one of the largest of its kind in the private sector, and secured cost effective operational flexibility for the next 20 years. In addition there was the disposal of other small non-core businesses, including Abbey National Benefit Consultants and Cater Allen Trust Company. In 1999, a profit of £60 million was made from the disposal of shares in Irish Permanent.

Operating expenses

	1999 £m	2000 £m	Growth £m	£m
Total 1999 operating expenses *				**1,594**
Significant investment to transform the Group	73	**189**	**116**	
Ongoing investment in business infrastructure / processing efficiency	79	**66**	**(13)**	
Newly acquired businesses		**8**	**8**	
Other growth (including efficiency savings)			**110**	
Underlying cost growth			**105**	
Total 2000 operating expenses			**221**	**1,815**

** excluding exceptional items in 1999 of £21 million, and depreciation on operating lease assets of £178 million (1999: £52 million).*

Total operating expenses increased by 14% from £1,594 million to £1,815 million, an increase of £221 million. £116 million of this increase relates to investment spend consisting of:

- £28 million invested in developing the Retail e-banking service, bringing total expenditure to £39 million;
- branch re-organisation to improve service levels by addressing local market structures resulting in redundancy costs of £18 million incurred in the first half of the year. Annualised benefits of £16 million are expected in 2001;
- launch and development costs associated with cahoot and Inscape were £60 million and £36 million respectively, compared to £16 million and £19 million in 1999; and
- the First National integration programme, radically re-engineering existing and recently acquired businesses, incurred a further £47 million of expenditure (1999: £27 million).

Investment in these projects will continue into 2001, although absolute levels will reduce by over 50% of those incurred in 2000.

In addition to the major investment programmes, there has been a range of other projects aimed at improving the business infrastructure and processing efficiency. Expenditure on these projects has totalled £66 million. This includes £37 million within Retail Banking, focusing on re-engineering key processes and developing and enhancing IT systems. In Wholesale Banking, expenditure also focused on the enhancement of systems, as well as the development of new businesses. In Group Infrastructure, £14 million was incurred, mainly on Internet, telephony and e-procurement projects.

Expenditure of £8 million related primarily to the newly acquired businesses of Highway Vehicle Management and Porterbrook.

Of the remaining cost growth of £110 million, £25 million was incurred in Retail Banking, £40 million in Wholesale Banking and £32 million in Group Infrastructure. This is explained by:

- increased staff costs, particularly in Wholesale Banking;
- expenditure on smaller software and IT development projects;
- additional depreciation costs incurred in accelerating the write-off of desktop equipment; and
- costs associated with merger and acquisition activity across the Group.

Operating expenses by profit and loss line:	**2000 £m**	1999 £m
Salaries and other staff costs	**821**	725
Bank legal and professional fees	**174**	133
Advertising and marketing	**82**	65
Bank, legal, marketing and professional expenses	**256**	198
Software, computer and other administration expenses	**452**	401
Premises and equipment depreciation	**122**	108
Goodwill amortisation	**12**	11
Depreciation on fixed assets other than operating lease assets	**134**	119
Rent payable	**73**	70
Rates payable	**22**	27
Other running costs	**57**	54
Other property and equipment expenses	**152**	151
Total operating expenses excluding depreciation on operating lease assets	**1,815**	1,594
Depreciation on operating lease assets	**178**	52

Salaries and other staff costs increased by 13% to £821 million, reflecting:

- growth in headcount to support rapid growth in Wholesale Banking and the development of new businesses in Business to Consumer;
- redundancy costs of £18 million, relating to retail branch network reorganisation to address local market structures; and
- annual salary increases across the Group and bonus payments, particularly in Wholesale Banking, reflecting exceptional performance during 2000.

Bank, legal, marketing and professional expenses of £256 million have increased 29% due to:

- costs associated with the set-up and marketing of cahoot;
- consultancy costs in Retail Banking relating to e-commerce and other business efficiency and systems enhancement and development projects; and
- costs associated with merger and acquisition activity.

Software, computer and other administration expenses increased by 13%, primarily from:

- the purchase and development of software in Inscape and cahoot; and
- increased project costs in Group Infrastructure, mainly focusing on the development and enhancement of IT systems and key processes.

Additional depreciation on fixed assets excluding operating lease assets of £15 million relate mainly to the acceleration of desktop depreciation within the Retail Bank and Group Infrastructure.

Other property and equipment expenses remained in line with those incurred in 1999. Rent payable is expected to increase during 2001 following the sale and leaseback of the property portfolio.

Depreciation on operating lease assets increased by £126 million to £178 million, largely due to the acquisition of Porterbrook.

Provisions

	2000 £m	1999 £m
Retail Banking:		
Secured	**38**	31
Unsecured (overdrafts and credit card balances)	**59**	73
Abbey National-branded unsecured personal loans	**53**	63
	150	167
Business to Business:		
First National	**118**	132
Continental Europe	**2**	4
	120	136
Business to Consumer: cahoot	**2**	-
Group Infrastructure	**1**	-
Total	**273**	303
Provisions	**273**	303
Suspended interest (in net interest income)	**32**	27
High LTV loans fee income released to offset provisions *	**(40)**	(41)
Net cost of bad debt	**265**	289
Contingent liabilities and commitments	**21**	23
Amounts written off fixed asset investments	**32**	26

* included in commissions, fees and other income

The total loan loss provision charge reduced by 10% to £273 million. This reflects a combination of favourable economic conditions, and improved quality of lending and effective debt management. In the Retail Bank, revised credit and fraud detection scorecards have been introduced and debt management activities have been centralised into fewer sites. As a result, the provisions charge reduced by 10% to £150 million.

- The secured loan charge increased to £38 million arising from growth in mortgage assets. Arrears levels on secured loans fell by 21% to 22,416 cases three or more months in arrears (1999: 28,270), the lowest level in the last decade. Given the growth in volume during 2000, the trend of falling arrears seen over the last few years is not expected to continue.
- The provision charge for credit card and overdrafts fell by 19%. This resulted from improved recoveries on bank account debt previously written off and from more proactive management of early arrears. Bank account arrears as a percentage of asset fell from 30% to 27%.
- There was a 16% decrease in the charge for unsecured personal loans. This reflects an improvement in the quality of business written during the latter half of 1999 and £3 million additional recoveries.

In First National, provisions for bad and doubtful debts fell 11% to £118 million. This largely resulted from changing the business mix (with more higher credit quality lending), and the implementation of better collection systems and processes, and the alignment of provisioning methodologies as part of the First National integration programme. Prudent pricing in the vehicle leasing business has mitigated the effect of falling residual car prices.

The net cost of bad debt decreased by 8%. This represents loan provisions, plus suspended interest charges, less high LTV fee income (see commissions, fees and other income).

Contingent liabilities and commitments remained broadly flat. Within the Wholesale Bank, a further £34 million was added to provisions for amounts written off fixed investments.

Taxation

The effective rate of tax was 28.3% (1999: 29.3%). The following table provides a reconciliation of taxes payable at standard UK corporation tax rate and the Group's effective tax rate.

	2000 £m	1999 £m
Taxation at UK corporation rate of 30% (1999: 30.25%)	**593**	548
Effect of non-allowable provisions and other non-equalised items	**(3)**	22
Effect of non-UK profits and losses	**(7)**	(9)
Adjustment to prior year tax provisions	**3**	(12)
Effect of loss utilisation	**(27)**	(19)
Taxes before the effect of exceptional items	**559**	530
Effective tax rate before the effect of exceptional items	**28.3%**	29.3%

Capital management and resources

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

	31 December 2000 £m	31 December 1999 £m
Tier 1	**7,204**	5,871
Tier 2 and Tier 3	**5,902**	4,532
Less supervisory deductions	**(2,129)**	(1,606)
Total regulatory capital	**10,977**	8,797
Total risk weighted assets:		
banking book	**74,756**	71,706
trading book	**6,445**	4,170
	81,201	75,876
Capital ratios:		
risk asset ratio	**13.5 %**	11.6 %
tier 1 ratio	**8.9 %**	7.7 %
equity tier 1 ratio	**7.5 %**	7.1 %

The basic instruments of capital monitoring are the equity tier 1 capital ratio and the risk asset ratio, which compares total regulatory capital to total risk weighted assets. As at 31 December 2000, the equity tier 1 ratio was 7.5%, and the Group's risk asset ratio was 13.5%. The Group risk asset ratio is comfortably above the minimum standard for the Group set by the Financial Services Authority. The increase in ratios over the last year resulted primarily from external capital issues and from retained earnings.

Abbey National's tier 1 capital (ordinary and preference shareholder's funds after deducting goodwill) increased by £1,333 million to £7,204 million, mainly due to the issue of US$1 billion preferred perpetual notes. The increase in tier 2 capital (subordinated liabilities and general provisions) of £1,370 million, was principally due to the issue of £1.2 billion subordinated debt in September 2000. 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 efficiency. In addition to the activities quoted above, Wholesale Banking also managed two further tranches of mortgage asset backed securitisations. In July, Abbey National issued £2.2 billion mortgage-backed securities in its fourth transaction. In November, a fifth transaction - amounting to £2.4 billion - was the largest ever residential mortgage-backed deal in the European securitisation market. This brings Abbey National's total mortgage securitisation to £6.9 billion, and establishes the Group as the leader in the European mortgage securitisation market. Securitisation is seen as a key part of balance sheet management strategy, increasing return on capital and enhancing funding flexibility in the longer term markets. There are plans to progress the securitisation programme further during 2001.

An assessment has been made of the existing dividend policy in the light of the Group's capital requirements. Based on current plans, the Board is of the view that greater returns for shareholders can continue to be achieved by retaining capital in the business, rather than returning it to shareholders. If, however, future plans do not generate satisfactory value creation for shareholders, the Board would then consider returning capital to shareholders, but only if at least £500 million could be returned over a 12 to 18 month period. Confidence in the business is reflected in a 13% increase in the proposed dividend payment to 45.5 pence per share.

Balance Sheet

Total assets increased by 13% to £204 billion in 2000. The growth was funded mainly through the wholesale debt markets. Wholesale Liabilities now represent 54% of total liabilities. The percentage of UK mortgage assets funded from retail savings was 75% (31 December 1999: 78%).

Appendices

Appendix 1: Consolidated balance sheet as at 31 December 2000

	31 December 2000 £m	31 December 1999 £m
Assets		
Cash, treasury bills and other eligible bills	**1,596**	1,815
Loans and advances to banks	**12,168**	11,472
Loans and advances to customers	**81,752**	75,221
Loans and advances subject to securitisation	**7,927**	1,930
Non returnable finance on securitised advances	**(4,629)**	(1,379)
Loans and advances to customers after non-returnable finance	**85,050**	75,772
Net investment in finance leases	**5,192**	5,441
Securities and investments	**69,573**	59,740
Long-term assurance business	**1,538**	1,042
Fixed assets excluding operating lease assets	**634**	962
Operating lease assets	**1,963**	358
Other assets	**7,594**	6,703
Assets of long-term assurance funds	**19,083**	17,439
Total assets	**204,391**	180,744
Liabilities		
Deposits by banks	**34,996**	29,824
Customer accounts	**66,795**	59,911
Debt securities in issue	**57,078**	51,407
Other liabilities	**13,074**	11,444
Subordinated liabilities including convertible debt	**5,871**	4,641
Liabilities of long-term assurance funds	**19,083**	17,439
Total liabilities	**196,897**	174,666
Minority interests - non equity	**664**	-
Non-equity shareholders' funds	**450**	450
Equity shareholders' funds	**6,380**	5,628
Total liabilities, minority interests and shareholders' funds	**204,391**	180,744

Appendix 2: Statement of total recognised gains and losses for the year ended 31 December 2000

	2000 £m	1999 £m
Profit attributable to the shareholders of Abbey National plc	**1,365**	1,261
Translation differences on foreign currency net investment	**-**	(1)
Movement on investment revaluation reserve	**11**	3
Total recognised gains relating to the period	**1,376**	1,263

Appendix 3: Consolidated cashflow statement
for the year ended 31 December 2000

	2000 £m	1999 £m
Net cash inflow from operating activities	**6,093**	10,527
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	**(289)**	(198)
Preference dividends paid	**(38)**	(41)
Dividends paid to non-equity minority interests	**(51)**	-
Net cash outflow from returns on investments and servicing of finance	**(378)**	(239)
Taxation		
UK corporation tax paid	**(402)**	(316)
Overseas tax paid	**(4)**	(3)
Total taxation paid	**(406)**	(319)
Capital expenditure and financial investment		
Purchases of investment securities	**(18,169)**	(20,384)
Sales of investment securities	**4,971**	4,166
Redemptions and maturities of investment securities	**10,898**	7,383
Purchases of tangible fixed assets	**(502)**	(364)
Sales of tangible fixed assets	**508**	95
Transfers to Life Assurance funds	**(328)**	(145)
Net cash outflow from capital expenditure and financial investment	**(2,622)**	(9,249)
Acquisitions and disposals	**(968)**	(30)
Equity dividends paid	**(548)**	(520)
Net cash inflow before financing	**1,171**	170
Financing		
Issue of ordinary share capital	**11**	18
Issue of loan capital	**1,355**	1,525
Issue of preferred securities (non-equity minority interests)	**620**	-
Repayment of loan capital	**(365)**	(195)
Net cash inflow from financing	**1,621**	1,348
Increase in cash	**2,792**	1,518

Appendix 4: Segmental profit and loss account restatement

2000 **£m**	2000 previously stated basis	UK Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure
UK Retail Banking	**985**	**985**				
Wholesale Banking	**575**		**575**			
Life Assurance	**295**	**182**		**113**		
First National	**147**			**147**		
General Insurance	**116**	**116**				
Wealth Management	**15**				**15**	
Continental Europe	**(6)**			**(6)**		
Central Holdings	**(89)**					**(89)**
cahoot	**(63)**				**(63)**	
2000 revised basis	**1,975**	**1,283**	**575**	**254**	**(48)**	**(89)**

1999 £m	1999 previously stated basis	UK Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure
UK Retail Banking	996	996				
Wholesale Banking	419		419			
Life Assurance	229	127		102		
First National	140			140		
General Insurance	104	104				
Wealth Management	17				17	
Continental Europe	(8)			(8)		
Central Holdings	(71)					(71)
cahoot	(16)				(16)	
1999 revised basis	1,810	1,227	419	234	1	(71)

1998 £m	1998 previously stated basis	UK Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure
UK Retail Banking	926	926				
Wholesale Banking	361		361			
Life Assurance	190	113		77		
First National	94			94		
General Insurance	98	98				
Wealth Management	26				26	
Continental Europe	-			-		
Central Holdings	(107)					(107)
cahoot	-				-	
1998 revised basis	1,588	1,137	361	171	26	(107)

Segmental Restatement

These segments have been restated following the restructuring of the Group in the first half of the year.

Appendix 5: Summary profit and loss account by business segment

Table 1: 2000 profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	**1,578**	**441**	**593**	**76**	**(8)**	**2,680**
Comms, fees and other income	**810**	**423**	**180**	**56**	**145**	**1,614**
Total operating income	**2,388**	**864**	**773**	**132**	**137**	**4,294**
Operating expenses excl. depreciation on operating lease assets	**(944)**	**(155)**	**(326)**	**(177)**	**(213)**	**(1,815)**
Depreciation on operating lease assets	**-**	**(100)**	**(78)**	**-**	**-**	**(178)**
Provisions for bad and doubtful debts	**(150)**	**-**	**(120)**	**(2)**	**(1)**	**(273)**
Provisions for contingent liabilities and commitments	**(11)**	**-**	**5**	**(3)**	**(12)**	**(21)**
Amts w/o fixed asset investments	**-**	**(34)**	**-**	**2**	**-**	**(32)**
Profit on ordinary activities before tax	**1,283**	**575**	**254**	**(48)**	**(89)**	**1,975**

Table 2: 1999 profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	1,624	393	593	62	(11)	2,661
Comms, fees and other income	670	169	133	46	129	1,147
Total operating income	2,294	562	726	108	118	3,808
Operating expenses excl. depreciation on operating lease assets	(885)	(115)	(301)	(107)	(186)	(1,594)
Depreciation on operating lease assets	-	(2)	(50)	-	-	(52)
Provisions for bad and doubtful debts	(167)	-	(136)	-	-	(303)
Provisions for contingent liabilities and commitments	(15)	-	(5)	-	(3)	(23)
Amts w/o fixed asset investments	-	(26)	-	-	-	(26)
Profit on ordinary activities before tax	1,227	419	234	1	(71)	1,810

Table 3: 1998 profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	1,515	411	249	47	19	2,241
Comms, fees and other income	651	55	114	38	40	898
Total operating income	2,166	466	363	85	59	3,139
Operating expenses excl. depreciation on operating lease assets	(849)	(86)	(142)	(58)	(150)	(1,285)
Depreciation on operating lease assets	-	-	(21)	-	-	(21)
Provisions for bad and doubtful debts	(167)	-	(30)	-	(4)	(201)
Provisions for contingent liabilities and commitments	(13)	-	1	-	(4)	(16)
Amts w/o fixed asset investments	-	(19)	-	(1)	(8)	(28)
Profit on ordinary activities before tax	1,137	361	171	26	(107)	1,588

Table 4: 2000 half-year profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	788	219	290	35	-	1,332
Comms, fees and other income	346	155	85	29	31	646
Total operating income	1,134	374	375	64	31	1,978
Operating expenses excl. depreciation on operating lease assets	(457)	(70)	(163)	(86)	(86)	(862)
Depreciation on operating lease assets	-	(31)	(28)	-	-	(59)
Provisions for bad and doubtful debts	(68)	-	(64)	-	-	(132)
Provisions for contingent liabilities and commitments	(4)	-	1	-	10	7
Amounts written off fixed asset investments	-	(10)	-	-	-	(10)
Profit on ordinary activities before tax	605	263	121	(22)	(45)	922

Table 5: 1999 half-year profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	788	201	291	29	(2)	1,307
Comms, fees and other income	322	71	57	24	72	546
Total operating income	1,110	272	348	53	70	1,853
Operating expenses excl. depreciation on operating lease assets	(431)	(54)	(139)	(40)	(82)	(746)
Depreciation on operating lease assets	-	(1)	(22)	-	-	(23)
Provisions for bad and doubtful debts	(97)	-	(74)	-	-	(171)
Provisions for contingent liabilities and commitments	(3)	-	-	-	-	(3)
Amounts written off fixed asset investments	-	(15)	-	-	-	(15)
Profit on ordinary activities before tax	579	202	113	13	(12)	895

Table 6: 1998 half-year profit before exceptional items (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	733	197	117	20	8	1,075
Comms, fees and other income	305	37	54	19	17	432
Total operating income	1,038	234	171	39	25	1,507
Operating expenses excl. depreciation on operating lease assets	(420)	(37)	(72)	(26)	(64)	(619)
Depreciation on operating lease assets	-	(6)	-	-	-	(6)
Provisions for bad and doubtful debts	(61)	-	(17)	-	(1)	(79)
Provisions for contingent liabilities and commitments	(6)	-	(1)	(1)	(1)	(9)
Amounts written off fixed asset investments	-	(7)	-	-	-	(7)
Profit on ordinary activities before tax	551	184	81	12	(41)	787

Appendix 6: Detailed profit and loss account by business segment

Table 1: Retail Banking 2000	UK Retail Bank £m	Abbey National Life £m	General Insurance £m	**2000 total £m**
Net interest income	**1,571**	**8**	**(1)**	**1,578**
Dividend income	**-**	**1**	**-**	**1**
Fees and commissions receivable	**373**	**68**	**151**	**592**
Fees and commissions payable	**(16)**	**-**	**(6)**	**(22)**
Net fees and commissions	**357**	**68**	**145**	**570**
Other operating income	**101**	**120**	**18**	**239**
Commissions, fees and other income	**458**	**189**	**163**	**810**
Total operating income	**2,029**	**197**	**162**	**2,388**
Salaries and other staff costs	**(440)**	**(3)**	**(22)**	**(465)**
Bank, legal, marketing and professional expenses	**(100)**	**(1)**	**(5)**	**(106)**
Software, computer and other administration expenses	**(173)**	**(3)**	**(16)**	**(192)**
Depreciation and amortisation	**(73)**	**-**	**(2)**	**(75)**
Other property and equipment expenses	**(105)**	**-**	**(1)**	**(106)**
Operating expenses	**(891)**	**(7)**	**(46)**	**(944)**
Provisions for bad and doubtful debt	**(150)**	**-**	**-**	**(150)**
Provisions for contingent liabilities and commitments	**(3)**	**(8)**	**-**	**(11)**
Profit before tax	**985**	**182**	**116**	**1,283**
Underlying cost:income ratio (%)	**41.6**			**37.6**

Table 2: Retail Banking 1999	UK Retail Bank £m	Abbey National Life £m	General Insurance £m	1999 total £m
Net interest income	1,621	5	(2)	1,624
Dividend income	-	1	-	1
Fees and commissions receivable	295	56	179	530
Fees and commissions payable	(29)	-	(2)	(31)
Net fees and commissions	266	56	177	499
Other operating income	123	79	(32)	170
Commissions, fees and other income	389	136	145	670
Total operating income	2,010	141	143	2,294
Salaries and other staff costs	(403)	(5)	(17)	(425)
Bank, legal, marketing and professional expenses	(91)	-	(6)	(97)
Software, computer and other administration expenses	(179)	(4)	(13)	(196)
Depreciation and amortisation	(64)	-	(2)	(66)
Other property and equipment expenses	(100)	-	(1)	(101)
Operating expenses	(837)	(9)	(39)	(885)
Provisions for bad and doubtful debt	(167)	-	-	(167)
Provisions for contingent liabilities and commitments	(10)	(5)	-	(15)
Profit before tax	996	127	104	1,227
Underlying cost:income (%)	41.4			38.4

Table 3: Wholesale Banking 2000	**2000 £m**
Net interest income	**441**
Dealing profits	**107**
Fees and commissions receivable	**73**
Fees and commissions payable	**(22)**
Net fees and commissions	**51**
Other operating income	**265**
Commissions, fees and other income	**423**
Total operating income	**864**
Salaries and other staff costs	**(89)**
Bank, legal, marketing and professional expenses	**(11)**
Software, computer and other administration expenses	**(44)**
Depreciation and amortisation	**(5)**
Other property and equipment expenses	**(6)**
Operating expenses excluding depreciation on operating lease assets	**(155)**
Deprecation on operating lease assets	**(100)**
Amounts written off fixed asset investments	**(34)**
Profit before tax	**575**

Table 4: Wholesale Banking 1999	**1999 £m**
Net interest income	393
Dealing profits	92
Fees and commissions receivable	55
Fees and commissions payable	(23)
Net fees and commissions	32
Other operating income	45
Commissions, fees and other income	169
Total operating income	562
Salaries and other staff costs	(58)
Bank, legal, marketing and professional expenses	(10)
Software, computer and other administration expenses	(41)
Depreciation and amortisation	(4)
Other property and equipment expenses	(2)
Operating expenses excluding depreciation on operating lease assets	(115)
Depreciation on operating lease assets	(2)
Amounts written off fixed asset investments	(26)
Profit before tax	419

Table 5: Business to Business 2000

	First National £m	Scottish Mutual £m	Continental Europe £m	**2000 total £m**
Net interest income	**549**	**18**	**26**	**593**
Dealing profits	**-**	**9**	**-**	**9**
Fees and commissions receivable	**140**	**5**	**4**	**149**
Fees and commissions payable	**(216)**	**(1)**	**(2)**	**(219)**
Net fees and commissions	**(76)**	**4**	**2**	**(70)**
Other operating income	**152**	**89**	**-**	**241**
Commissions, fees and other income	**76**	**102**	**2**	**180**
Total operating income	**625**	**120**	**28**	**773**
Salaries and other staff costs	**(127)**	**(3)**	**(13)**	**(143)**
Bank, legal, marketing and professional expenses	**(40)**	**-**	**(5)**	**(45)**
Software, computer and other administration expenses	**(95)**	**(3)**	**(10)**	**(108)**
Depreciation and amortisation	**(10)**	**-**	**(1)**	**(11)**
Other property and equipment expenses	**(15)**	**(1)**	**(3)**	**(19)**
Operating expenses excluding depreciation on operating lease assets	**(287)**	**(7)**	**(32)**	**(326)**
Depreciation on operating lease assets	**(78)**	**-**	**-**	**(78)**
Provisions for bad and doubtful debt	**(118)**	**-**	**(2)**	**(120)**
Provisions for contingent liabilities and commitments	**5**	**-**	**-**	**5**
Profit before tax	**147**	**113**	**(6)**	**254**

Table 6: Business to Business 1999

	First National £m	Scottish Mutual £m	Continental Europe £m	1999 total £m
Net interest income	561	4	28	593
Dealing profits	-	6	-	6
Fees and commissions receivable	107	2	3	112
Fees and commissions payable	(186)	(1)	(1)	(188)
Net fees and commissions	(79)	1	2	(76)
Other operating income	109	93	1	203
Commissions, fees and other income	30	100	3	133
Total operating income	591	104	31	726
Salaries and other staff costs	(115)	(3)	(14)	(132)
Bank, legal, marketing and professional expenses	(33)	-	(5)	(38)
Software, computer and other administration expenses	(91)	-	(11)	(102)
Depreciation and amortisation	(11)	-	(1)	(12)
Other property and equipment expenses	(14)	-	(3)	(17)
Operating expenses excluding depreciation on operating lease assets	(264)	(3)	(34)	(301)
Depreciation on operating lease assets	(50)	-	-	(50)
Provisions for bad and doubtful debt	(132)	-	(4)	(136)
Provisions for contingent liabilities and commitments	(5)	1	(1)	(5)
Profit before tax	140	102	(8)	234

Table 7: Business to Consumer 2000	**Wealth Management £m**	**Inscape £m**	**cahoot £m**	**2000 total £m**
Net interest income	**75**	**2**	**(1)**	**76**
Dividend income	**2**	**-**	**-**	**2**
Fees and commissions receivable	**52**	**-**	**-**	**52**
Fees and commissions payable	**(7)**	**-**	**-**	**(7)**
Net fees and commissions	**45**	**-**	**-**	**45**
Other operating income	**9**	**-**	**-**	**9**
Commissions, fees and other income	**56**	**-**	**-**	**56**
Total operating income	**131**	**2**	**(1)**	**132**
Salaries and other staff costs	**(46)**	**(15)**	**(4)**	**(65)**
Bank, legal, marketing and professional expenses	**(9)**	**(8)**	**(47)**	**(64)**
Software, computer and other administration expenses	**(19)**	**(12)**	**(7)**	**(38)**
Depreciation and amortisation	**(3)**	**(-)**	**(1)**	**(4)**
Other property and equipment expenses	**(4)**	**(1)**	**(1)**	**(6)**
Operating expenses	**(81)**	**(36)**	**(60)**	**(177)**
Provisions for bad and doubtful debt	**-**	**-**	**(2)**	**(2)**
Provisions for contingent liabilities and commitments	**(3)**	**-**	**-**	**(3)**
Amounts written off fixed asset investments	**2**	**-**	**-**	**2**
Profit before tax	**49**	**(34)**	**(63)**	**(48)**

Table 8: Business to Consumer 1999	Wealth Management £m	Inscape £m	cahoot £m	1999 total £m
Net interest income	62	-	-	62
Dividend income	1	-	-	1
Fees and commissions receivable	39	-	-	39
Fees and commissions payable	(5)	-	-	(5)
Net fees and commissions	34	-	-	34
Other operating income	11	-	-	11
Commissions, fees and other income	46	-	-	46
Total operating income	108	-	-	108
Salaries and other staff costs	(41)	(4)	(1)	(46)
Bank, legal, marketing and professional expenses	(4)	(7)	(15)	(26)
Software, computer and other administration expenses	(20)	(8)	-	(28)
Depreciation and amortisation	(3)	-	-	(3)
Other property and equipment expenses	(4)	-	-	(4)
Operating expenses	(72)	(19)	(16)	(107)
Provisions for bad and doubtful debt	-	-	-	-
Provisions for contingent liabilities and commitments	-	-	-	-
Profit before tax	36	(19)	(16)	1

Table 9: Group Infrastructure 2000

	2000 **£m**
Net interest income	**(8)**
Fees and commissions receivable	**2**
Fees and commissions payable	**-**
Net fees and commissions	**2**
Other operating income	**143**
Commissions, fees and other income	**145**
Total operating income	**137**
Salaries and other staff costs	**(59)**
Bank, legal, marketing and professional expenses	**(29)**
Software, computer and other administration expenses	**(71)**
Depreciation and amortisation	**(39)**
Other property and equipment expenses	**(15)**
Operating expenses	**(213)**
Provision for bad and doubtful debts	**(1)**
Provisions for contingent liabilities and commitments	**(12)**
Loss before tax	**(89)**

Table 10: Group Infrastructure 1999

	1999 £m
Net interest income	(11)
Fees and commissions receivable	2
Fees and commissions payable	-
Net fees and commissions	2
Other operating income	127
Commissions, fees and other income	129
Total operating income	118
Salaries and other staff costs	(65)
Bank, legal, marketing and professional expenses	(25)
Software, computer and other administration expenses	(35)
Depreciation and amortisation	(35)
Other property and equipment expenses	(26)
Operating expenses	(186)
Provisions for contingent liabilities and commitments	(3)
Loss before tax	(71)

Appendix 7: Key statistics

Table 1: Retail Banking

	2000	1999
A. Market shares (estimates) (%)		
Increase in UK mortgages outstanding	**7.9**	6.3
UK mortgage stock	**12.7**	13.1
Increase in UK retail household liabilities	**3.6**	1.8
UK retail household liabilities stock	**8.3**	8.6
Increase in UK consumer credit (excluding credit cards)	**(0.9)**	3.2
UK consumer credit stock (excluding credit cards)	**8.5**	8.7
Cash ISA sales (estimate)	**11**	14
Investment ISA sales	**7**	8
B. Banking metrics for the year		
Number of bank accounts (excluding IPA) (000s)	**2,101**	1,976
Number of Instant Plus accounts (000s)	**617**	681
Total bank accounts	**2,718**	2,657
Number of bank account openings (ANBA only) (000)	**172**	123
Number of IPA upgrades to ANBA (000)	**70**	78
Number of total ANBA account openings (000)	**242**	201
Number of debit cards (including Multifunction and Electron) (000s)	**2,672**	2,407
Number of credit card accounts (000s)	**470**	489
New credit card account openings (000s)	**23**	44
Overdraft asset (£ million)	**234**	217
Credit card asset (£ million)	**273**	278
Unsecured Personal Loan asset (£ million)	**1,472**	1,280
C. Customer metrics		
Total number of customers (million)	**15.2**	15.0
Average product holdings per active customer	**2.06**	n/a
Average product holdings per bank customer	**2.72**	n/a
AN Life cross sales ratio (%)	**14**	12
Retention of profitable customers	**95**	96
D. Distribution		
Number of branches	**714**	765
Number of Safeway in-store branches	**37**	25
Number of Costa Coffee branches	**4**	-
Total Number of branches	**755**	790
Number of branch based ATMs	**3,180**	2,724
Number of remote ATMs	**1,403**	1,077
Total number of ATMs	**4,583**	3,801
Counter based transactions (millions)	**98**	111

E. e-banking metrics	**4 February 2001**	31 December 2000
Number of registrations (000s)	**725**	596
Number of product applications (000s)	**90**	73
Registered internet introducers (000s)	**7**	6

Table 2: Wholesale Banking

	2000	1999

Assets AA- or better (%)	**60**	68
Geographic credit exposure to UK and rest of Europe (%)	**49**	48
Geographic credit exposure to US (%)	**41**	41
Acquisition finance commitments (£ billion)	**2.0**	1.1
Acquisition finance deals completed	**34**	27
Big ticket leasing assets (£ billion)	**4.9**	5.0
Operating lease assets (principally Porterbrook) (£ billion)	**1.5**	-
Private equity investments (£ billion)	**0.5**	0.2
Commitments to project finance sector (£ billion)	**2.5**	1.2
Commitments to property finance sector (£ billion)	**1.1**	-
Project finance deals completed	**59**	35
Bonds and medium term notes issued (£ billion)	**8.9**	13.0
Funding from wholesale markets as a proportion of total funding (%)	**54**	53

Table 3: Life Assurance	**2000**	**1999**
New business premiums (£million)	**4,281**	3,201
Annualised business premiums (£million)	**538**	429
Funds under management (£ billion)	**20.7**	18.5
New business contribution to embedded values (£ million)	**119**	98
Total expense ratios in: Abbey National Life (%)	**65.4**	68.0
Scottish Mutual (%)	**75.0**	76.6

Table 4: Wealth Management (excl. Inscape)	**2000**	1999
Retail liabilities offshore (£ million)	**4,032**	3,524
Retail liabilities onshore (£ million)	**795**	432
Total retail liabilities (£ million)	**4,827**	3,956

Table 5: cahoot	**4 February 2001**	31 December 2000
Number of customer applications (000s)	**189**	142
Number of money transmission accounts accepted (000s)	**41**	27
Number of credit card accounts accepted (000s)	**66**	49

Appendix 8: Net Interest Income

Table 1: Half yearly net interest margins and spreads

	2000 First half £m	**2000 Second half £m**	**2000 Total £m**	1999 First half £m	1999 Second half £m	1999 Total £m
Net interest income	**1,332**	**1,348**	**2,680**	1,307	1,354	2,661
Average interest earning assets (£ bn)						
Group	**161.9**	**170.2**	**166.1**	147.7	156.4	152.1
UK Retail Banking	**64.5**	**66.2**	**65.4**	61.2	62.5	61.8
Net interest margins (%)						
Group	**1.65**	**1.57**	**1.61**	1.79	1.72	1.75
UK Retail Banking	**2.31**	**2.23**	**2.27**	2.43	2.47	2.45
Wholesale Banking	**0.43**	**0.42**	**0.43**	0.45	0.38	0.41
First National	**6.94**	**7.19**	**7.06**	7.26	7.07	7.20
Spread (%)						
Group	**1.48**	**1.37**	**1.42**	1.51	1.58	1.55
UK Retail Banking (excluding UPLs)	**2.06**	**1.97**	**2.01**	2.18	2.22	2.20

Table 2: Average balance sheet data for margin and spread calculations

	2000 Average balance £bn	**2000 Average rate %**	1999 Average balance £bn	1999 Average rate %
Group				
Interest earning assets	**163.7**		151.2	
Securitisation gross up	**2.4**		0.9	
Interest earning assets	**166.1**	**6.84**	152.1	6.10
Interest bearing liabilities	**157.8**		144.4	
Securitisation gross up	**2.4**		0.9	
Interest bearing liabilities	**160.2**	**5.42**	145.3	4.55
Shareholders' funds	**6.6**	**-**	5.9	-
Other net non-interest bearing (assets) / liabilities	**27.7**	**-**	25.9	-

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.

Appendix 9: Operating expenses by segment

Table 1: 1999 cost base (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
1999 total cost	885	115	301	107	186	1,594
Significant investment to transform the business	(4)	-	(27)	(35)	(7)	(73)
Business infrastructure / processing efficiency	(45)	(13)	(2)	(7)	(12)	(79)
1999 base costs *	836	102	272	65	167	1,442

Table 2: 2000 cost growth (£m)

	Retail Banking	**Wholesale Banking**	**Business to Business**	**Business to Consumer**	**Group Infrastructure**	**Group**
1999 base cost	**836**	**102**	**272**	**65**	**167**	**1,442**
Significant investment to transform the business	**46**	**-**	**47**	**96**	**-**	**189**
Business infrastructure / processing efficiency	**37**	**8**	**3**	**4**	**14**	**66**
Newly acquired businesses	**-**	**5**	**3**	**-**	**-**	**8**
Underlying growth (including efficiency savings)	**25**	**40**	**1**	**12**	**32**	**110**
2000 total costs *	**944**	**155**	**326**	**177**	**213**	**1,815**

* 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.

Both tables exclude depreciation on operating lease assets.

Appendix 10: Provisions

Table 1: 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	**34**	**34**	**205**	**273**
Irrecoverable amounts written off	**(38)**	**(36)**	**(201)**	**(275)**
At 31 December 2000	**203**	**118**	**206**	**527**
General	**142**	**20**	**32**	**194**
Specific	**61**	**98**	**174**	**333**
Total	**203**	**118**	**206**	**527**

Table 2: Analysis of provisions 2000

	Charge first half (£m)	Charge second half (£m)	Charge full year (£m)	Provisions balance (£m)	Balance % of loan assets
Secured on residential properties	**13**	**25**	**38**	**181**	**0.3**
Overdraft and credit card	**31**	**28**	**59**	**50**	**9.8**
Unsecured personal loans	**24**	**29**	**53**	**68**	**4.6**
UK Retail Banking	**68**	**82**	**150**	**299**	**0.4**
First National	**63**	**55**	**118**	**161**	**2.0**
France	**-**	**1**	**1**	**60**	**6.1**
Italy	**1**	**-**	**1**	**5**	**0.5**
Continental Europe	**1**	**1**	**2**	**65**	**3.5**
cahoot	**-**	**2**	**2**	**2**	**4.2**
Group Infrastructure	**-**	**1**	**1**	**-**	**-**
Total	**132**	**141**	**273**	**527**	**0.7**

Table 3: Analysis of provisions 1999

	Charge first half (£m)	Charge second half (£m)	Charge full year (£m)	Provisions balance (£m)	Balance % of loan assets
Secured on residential properties	24	7	31	178	0.3
Overdraft and credit card	36	37	73	53	10.6
Unsecured personal loans	37	26	63	57	3.4
UK Retail Banking	97	70	167	288	0.4
First National	72	60	132	170	2.2
France	2	1	3	67	7.4
Italy	-	1	1	4	0.7
Continental Europe	2	2	4	71	4.7
Total	171	132	303	529	0.6

Appendix 11: Suspended interest

Table 1: Suspended interest 2000

	Residential (£m)	Other secured (£m)	Unsecured (£m)	Total (£m)
At 1 January 2000	**42**	**62**	**10**	**114**
Exchange differences	**-**	**-**	**-**	**-**
Acquisition of subsidiary undertakings	**-**	**-**	**-**	**-**
Transfer from P&L account	**16**	**4**	**12**	**32**
Irrecoverable amounts written off	**(22)**	**(12)**	**(12)**	**(46)**
At 31 December 2000	**36**	**54**	**10**	**100**

Table 2: Analysis of suspended interest

	2000				1999			
	Charge first half (£m)	**Charge second half (£m)**	**Charge full year (£m)**	**Balance 31 Dec (£m)**	Charge first half (£m)	Charge second half (£m)	Charge full year (£m)	Balance 31 Dec (£m)
Secured on residential property	**6**	**11**	**17**	**15**	4	4	8	20
Overdraft and credit card	**3**	**2**	**5**	**3**	3	3	6	3
Unsecured personal loans	**2**	**3**	**5**	**3**	3	3	6	3
UK Retail Banking	**11**	**16**	**27**	**21**	10	10	20	26
First National	**-**	**-**	**-**	**8**	-	2	2	14
France	**3**	**2**	**5**	**64**	2	3	5	67
Italy	**-**	**-**	**-**	**7**	-	-	-	7
Continental Europe	**3**	**2**	**5**	**71**	2	3	5	74
Group Infrastructure	**-**	**-**	**-**	**-**	-	-	-	-
Total	**14**	**18**	**32**	**100**	12	15	27	114

Appendix 12: UK mortgage arrears

Table 1: Arrears cases

	31 Dec 2000			30 June 2000			31 Dec 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	**36.27**	**2.56**	**N/A**	37.11	2.59	N/A	37.00	2.58	N/A
3 - 5 months arrears	**12.85**	**0.91**	**0.82**	12.72	0.89	0.87	13.81	0.96	0.88
6 - 11 months arrears	**7.21**	**0.51**	**0.41**	7.87	0.55	0.43	9.94	0.69	0.52
12 months + arrears	**2.36**	**0.17**	**0.17**	3.01	0.21	0.20	4.52	0.31	0.27

Table 2: Properties in Possession

	31 December 2000			30 June 2000			31 December 1999		
	Nos	**% of loans**	**CML industry average %**	Nos	% of loans	CML industry average %	Nos	% of loans	CML industry average %
No. of repossessions	**2,476**	**0.18**	**0.09**	2,672	0.19	0.11	2,731	0.19	0.12
No. of sales	**2,563**	**0.18**	**0.10**	2,990	0.21	0.13	3,059	0.21	0.15
Stock	**1,378**	**0.10**	**0.07**	1,465	0.10	0.08	1,762	0.12	0.10

Note: Abbey National figures exclude the First National segment

Appendix 13: Mortgage discounts and cashbacks

	2000			1999			1998
	Expense incurred in year (£m)	**Charged to profit and loss (£m)**	**Balance carried forward (£m)**	Expense incurred in year (£m)	Charged to profit and loss (£m)	Balance carried forward (£m)	Balance carried forward (£m)
Interest rate discounts	**205**	**(232)**	**83**	109	(111)	111	113
Cashbacks	**82**	**(152)**	**400**	157	(126)	466	435
Total	**287**	**(384)**	**483**	266	(237)	577	548

Appendix 14: Headcount

Full time equivalent basis	**31 December 2000**	31 December 1999
UK Retail Banking (excluding AN Life)	**13,390**	14,858
Wholesale Banking	**780**	595
Business to Business (including AN Life)	**6,734**	6,950
Business to Consumer	**1,239**	1,301
Group Infrastructure	**3,976**	3,849
Group total	**26,119**	27,553

The 1999 FTE figures have been adjusted for the following:

- in Business to Business, First National temporary staff on Abbey National contracts are now included;
- in Retail Banking, 1,213 FTE have transferred to Group Infrastructure as a result of an internal reorganisation;
- in Group Infrastructure, 58 Inscape FTE have transferred to Business to Consumer;

The 1999 FTE for Business to Consumer include Abbey National Benefit Consultant employees who are now no longer part of the Group.

Appendix 15: Reconciliation of movement in shareholders' funds

	31 December 2000 £m	31 December 1999 £m
Equity shareholders' funds	**6,380**	5,628
Movement in equity shareholders' funds comprises:		
Profit retained for the period	**522**	638
Movement on investment revaluation reserve	**11**	3
Transfer to non-distributable reserve	**156**	13
Increases in ordinary share capital including share premium	**75**	43
Capitalised reserves on exercise of share options	**(15)**	(25)
Goodwill transferred from profit and loss account reserve during the year	**3**	-
Exchange adjustments	**-**	(1)
Net addition to equity shareholders' funds	**752**	671

Forward-looking statements

This document contains certain "forward-looking statements" with respect to certain of Abbey National's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Abbey National's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Abbey National and its affiliates operate. As a result, Abbey National's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Abbey National's forward-looking statements.

Other information

1. The financial information in this release does not constitute the Company's statutory accounts for the years ended 31 December 2000 or 1999, but is derived from these accounts. The preliminary announcement for the year ended 31 December 2000 was approved by the Board on 13 February 2001. Statutory accounts for 1999 have been delivered to the Registrar of Companies and those for 2000 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.

2. The financial information in this release is prepared on the basis of the accounting policies as stated in the previous year's financial statements with the exception of those that have been changed. The changed accounting policies are stated and explained in this release.

3. An annual report on Form 20-F, which includes more detailed financial information, will be filed with the Securities and Exchange Commission in the United States of America by 1 April 2001.

4. The ex-dividend date is 21 March 2001; the record date is 23 March 2001; the payment date is 8 May 2001; the scrip election date is 30 March 2001.

5. The scrip price will be calculated utilising the average of the mid-market price of Abbey National plc shares over the period 21 – 27 March 2001. The scrip share price can be obtained from 28 March 2001 by telephoning Abbey National Shareholder Services on 0870 532 9430.

6. The first quarter trading statement will be issued on 26 April 2001 and the interim results will be announced on 25 July 2001.

7. This report will also be available on the Abbey National Group website: www.abbeynational.plc.uk from the 14 February 2001.

For further information contact:

Jon Burgess
Head of Investor Relations

Tel: (020) 7612 4382
or (020) 7612 4524
or (020) 7612 4561
or (020) 7612 4151