The Abbey National Group

2001 Preliminary Full Year Financial Results

February 2002

Chief Executive's Review

A resilient performance in 2001

"The Abbey National Group has delivered a resilient performance in 2001. We generated excellent new business levels across our retail franchises, and profits from our life assurance businesses increased by 34%.

However, at a Group level, profits were adversely affected by increased provisioning within the Wholesale Bank, including £95 million relating to the Enron Group, and reduced business volumes caused by market conditions facing First National's retailer and motor finance businesses. As a result, profit before tax fell 2% in 2001 to £1,938 million.

Notwithstanding this, we delivered revenue growth of 4% and met our cost commitments with operating expenses down by 1% to £1,788 million (excluding significant M&A fees and goodwill amortisation). In addition, retail credit quality across the Group is the healthiest it has been for a decade.

Our retail franchises delivered record gross and net mortgage lending, and our best savings performance since 1994. We are also successfully taking on the 'Big 4' UK banks, and opened over 450,000 personal current accounts, and increased our business banking account base by 55%.

Outlook for 2002

2002 will be another challenging year. We are re-focusing the Wholesale Bank and reducing its risk profile. This, combined with the uncertain outlook for the US economy, is expected to constrain profits growth in the Wholesale Bank in 2002. We are taking action in First National, and we have one more year of spread re-basing to manage in the Retail Bank.

Whilst cautious, we remain positive on the outlook for retail credit quality in 2002.

Building a powerful, balanced business portfolio

At our 2001 interim results, we set out our vision of the Group's earnings split broadly between three major value centres, Retail Banking, Wholesale Banking, and Wealth Management and Long-Term Savings.

We have recently announced Board changes that ensure our structure and priorities are aligned to this strategic shape. Across each of these three divisions we have the customer franchises and platforms to deliver good organic growth.

The Retail Bank and the Wealth Management and Long-Term Savings businesses will be our main engines of sustainable growth in the medium term - generating high quality, stable earnings as part of our strategy of building a balanced business portfolio.

On the attack in the Retail Bank

We will continue to compete aggressively in our core mortgage and savings markets, with growth prospects significantly enhanced through 2003 as the spread re-basing levels off. We will take on the 'Big 4' in the personal and business banking markets, and already in 2002, we have introduced new current account pricing and extended our competitive small and medium sized enterprises (SME) banking proposition.

Growth will be supported by the right platforms, drawing upon innovative business models such as our franchising programme, which is generating sustained sales uplift in the branch network. We have already linked up with world-class operators such as EDS, Capita Eastgate and MBNA, in our mortgage, insurance and credit card businesses, leveraging their expertise to boost sales and efficiency.

Re-focusing the Wholesale Bank

Despite a difficult year, the Wholesale Bank remains a sound business. Mark Pain, previously Group Finance Director, took control of the business in November – and has already implemented measures to re-focus the business and reduce its risk profile.

In 2002, we expect the Wholesale Bank's risk weighted assets to be held broadly flat. Going forward, capital will only be invested in those businesses in the Wholesale Bank that are capable of delivering attractive returns on a fully risk-adjusted basis.

Growing Wealth Management and Long-Term Savings

We have a range of strong brands in attractive long-term savings and established wealth management markets, boosted by the acquisition of Scottish Provident and Fleming Premier Banking in 2001. This division is well placed to benefit from the wealthier, ageing population and the move away from reliance on the state. This will be an important driver of growth in the future."

Ian Harley

Group Highlights

Financial highlights

- Profit before tax down 2% to £1,938 million (2000: £1,975 million).
- Profit before provisions and tax up 6% to £2,448 million (2000: £2,301 million).
- Total operating income up 4% ① to £4,298 million (2000: £4,116 million).
- Total operating expenses ② increased by 2% to £1,850 million (2000: £1,815 million).
- Excluding corporate advisory fees in relation to major merger and acquisition activity, and goodwill amortisation, operating expenses fell 1%, delivering on the commitment to keep costs below 2000 levels.
- Cost: income ratio improved to 43.0% (2000: 44.1%).
- Provisions charge for bad and doubtful debts decreased by 4% to £263 million (2000: £273 million).
- Amounts written off fixed asset investments in the Wholesale Bank, including £95 million relating to the Enron Group, were up to £256 million (2000: £34 million).
- Earnings per share of 84.9 pence, down 9% (2000: 93.4 pence), with the post-tax return on equity at 17.3% (2000: 21.5%).
- Full year dividend per share increased 10% to 50.0 pence (2000: 45.5 pence), including a final dividend of 33.2 pence, reflecting confidence in the future prospects of the Group.

Group new business flows

- Record net mortgage lending of £5.2 billion (2000: £3.2 billion), equating to a 10% market share, our highest since 1995.
- UK Retail household deposit inflows of £3.4 billion (2000: £1.2 billion), a market share of 7%, our highest since 1994.
- Over 450,000 new bank accounts opened, 200,000 new credit cards issued.
- Life assurance new business premiums down 6% on last year's record levels, whilst funds under management grew 5% to £21.8 billion.
- Business Finance assets up 22% to £1.4 billion, and deposit balances at £2.3 billion are up 40%.
- Asset growth of 5% to £215 billion, including 9% customer lending growth.

Divisional performance

The table below details the divisional profit before tax for the year.

	2001 £m	2000 £m	% Change
Retail Banking ③	**1,303**	**1,283**	**2%**
Wholesale Banking	**504**	**575**	**(12)%**
Business to Business	**284**	**254**	**12%**
Scottish Mutual ③ ④	194	113	72%
First National	92	147	(37)%
Continental Europe	(2)	(6)	67%
Business to Consumer	**(37)**	**(48)**	**23%**
Group Infrastructure	**(116)**	**(89)**	**(30)%**
TOTAL	**1,938**	**1,975**	**(2)%**

① Total operating income growth is stated after deducting depreciation of operating lease assets.

② Total operating expenses excludes depreciation of operating lease assets.

③ The impact of revising the Life Assurance long-term economic assumptions to the Group as a whole was £(4) million. Refer to Appendix 14 for the details.

④ Includes £30 million contribution from Scottish Provident. The total contribution to the Group is £18 million, reflecting £12 million of the funding cost which has been borne centrally.

Business Performance

Retail Banking

... profits up in Retail Banking ...

- Retail Banking profit before tax increased 2% to £1,303 million (2000: £1,283 million), including £49 million relating to the sale of the credit card business to MBNA.

... full year Retail Banking spread ahead of target ...

- The Retail Banking spread at 1.86% (2000: 2.01%) was ahead of target, and the managed spread reduction was partially offset by good mortgage and unsecured lending growth. In 2002, the spread will be managed down further, but is expected to remain above 1.65% before flattening off in 2003 and beyond at around this level.
- Strong growth in Abbey National Life profit before tax, up 11%, despite market conditions impacting on new business premiums in the second half.

... bancassurance profits up 11% ...

- Operating expenses are down 3% on 2000, reflecting ongoing efficiency improvements across the business.

... delivering on cost targets ...

- Credit quality of new lending has improved, with mortgage arrears reducing to their lowest levels in a decade. Unsecured arrears also fell, contributing to a £21 million reduction in the provisions charge.

... committed to credit quality ...

- Record net mortgage lending of £5.2 billion was up over 60% on last year, a market share of 10%. This was largely driven by the success of the retention programme, with capital repayments below stock share for the third consecutive year.

... record mortgage lending ...

- Retail household deposit inflows of over £0.5 billion (2000: £(0.2) billion). Strong inflows of £1.5 billion in the second half of the year, reflecting increased demand for the security of cash deposits with a trusted brand, offsetting the reduced demand for equity based investments.

... strong second half deposit inflows ...

- Over 330,000 Abbey National bank accounts opened, up 37%, bringing the total bank account customer base to around 3.6 million. The unsecured personal loan asset grew by 14% to £1.7 billion, with record gross lending of £1.1 billion. With MBNA, we have now issued 162,000 new credit cards, boosting the card base to over 610,000.

... making an impact in personal banking ...

Wholesale Banking

... increased provisions reducing profits ...

- Profit before tax of £504 million is down 12% (2000: £575 million), largely due to increased provisions, including £95 million relating to the Enron Group.

... 24% income growth ...

- Strong new business flows and asset growth contributed to a 24% growth in income, primarily driven by the Asset Financing and Securities Financing businesses, up 36% and 66% respectively.

... credit quality impacted by US ...

- Amounts written off fixed asset investments increased from £34 million to £256 million. This mainly resulted from the deterioration in certain sectors of our high yield portfolio, against a backdrop of a slowdown in the US economy, and exposures to the Enron Group.
- The outlook for the US recession remains uncertain. This, combined with the impact of re-focusing the business and reducing its risk profile, is expected to

... outlook for 2002 ...

constrain profit growth in 2002.

Business to Business

... strong profits growth in Scottish Mutual ...

... Scottish Provident performing well ...

... diversification of life assurance earnings ...

... First National profits down on 2000 ...

... strong asset growth in business finance ...

- Profit before tax in Scottish Mutual (excluding the impact of Scottish Provident) increased by 45% to £164 million (2000: £113 million), reflecting higher earnings from the in-force book, normal experience variations, and improved cost efficiencies. The effect on new business contribution from lower overall business volumes (down 4% on last year's record levels) was offset by an improved mix of product sales and strong international growth.
- For the 5 months since August, Scottish Provident contributed £30 million profit before tax, and new business premiums of £110 million (2000: £148 million). New business levels have been improving since completing the long de-mutualisation process in August, and re-pricing the protection product range in September.
- International new business premiums through Scottish Mutual International were up almost 50% to £0.8 billion. The acquisition of Scottish Provident provides a physical presence in Dubai and Hong Kong, and builds on our presence in Ireland, further enhancing our international earnings capability. In addition, it also establishes one of the leading positions in the UK's IFA protection market.
- Profit before tax in First National fell by 37% to £92 million (2000: £147 million), reflecting difficult conditions in the retailer and used car finance markets. We have maintained our policy of not competing at the expense of credit quality, resulting in reduced balances and margins in these businesses.
- Business Finance performed well, and invested £11 million in extending its SME proposition. Asset balances are up 22%, and the business bank account base is now approaching 55,000, with deposit balances of £2.3 billion, up 40%. In First National, we now have over 190,000 business customers, a significant platform from which to grow.

Business to Consumer

... established businesses growing ...

... approaching £10 billion in deposits ...

... strong growth in James Hay ...

... cahoot ahead of targets ...

... Inscape making progress ...

- Business to Consumer made good progress in developing new and established businesses, with losses reducing from £(48) million to £(37) million. Profit before tax in our established businesses was up by 29% to £63 million (2000: £49 million). Operating losses in Inscape and cahoot were broadly unchanged, as the businesses move from the initial start-up phase into growth and further development.
- Retail deposit balances have grown by 93% to £9.7 billion, driven by strong organic growth of 63% across cahoot, Abbey National Offshore and Cater Allen Onshore, and boosted by the £1.5 billion in deposits from the acquisition of Fleming Premier Banking.
- James Hay now administers £7 billion of self-invested personal pension funds, representing a market share of 45%.
- cahoot opened over 195,000 accounts in 2001, bringing the account base to 239,000. cahoot has already achieved an average product holding of 1.25, and established strong brand recognition.
- Inscape client recruitment accelerated significantly in the 4th Quarter, with almost 5,000 customers now registered, and £293 million of funds under management. The valuable experience gained with Inscape will be drawn upon elsewhere in the Group, by launching a full offshore service and continuing to sell products based on Inscape funds through the Retail Bank in 2002.

Business Developments

... attacking the Big 4...

- The Group now offers market-leading interest rates for both business and personal current account customers.
- The Retail Bank's current account initiative will cost around £25 million this year, and will significantly accelerate our progress towards the target of 4 million bank account customers by the end of 2003. We are in the process of recruiting 500 staff to make it easier for customers to switch to Abbey National.
- Business banking operations and platforms have been developed with plans to recruit up to 600 staff over the next 18 months. These will include local relationship managers providing business customers with advice on a wide range of asset financing and banking solutions. We have made an excellent start to 2002 with account openings almost 30% up on last year.

... innovative models, re-tooling the business ...

- The internal branch franchising initiative now covers over one third of the network, and continues to deliver a significant sustained sales uplift. We have increased the number of Costa coffee superstores and continued to invest in the design of our branches as retail outlets. This innovative approach was recognised when Abbey National became the first bank ever to be nominated – let alone win – the 'Retail Innovation of the Year Award'.
- Over 1.1 million customers are now dealing with the Abbey National Group online, and 286,000 product applications have already been generated through this channel.
- There are now over 15,000 introducers dealing online with the Abbey National Group. In November our mortgage Introducer Internet site won the "Most Innovative e-Delivery Channel – Banks and Building Societies" award at the ifs Financial Innovations 2001 awards.
- Innovative new strategic alliances with EDS (Mortgage Processing), Capita Eastgate (Retail Insurance), and MBNA (Credit Cards) are all progressing well, and will boost efficiency, service levels and sales. The MBNA arrangements have now been extended to a pilot targeting First National's retailer finance customer base of over 2.5 million.

... platforms for international growth ...

- In October, the Wholesale Bank opened a branch in the US following the opening of the Hong Kong branch last year.
- Scottish Provident expands the international reach of our life assurance and wealth management operations, building on the success of Scottish Mutual International and Abbey National Offshore.
- The Group has gained valuable experience from the successful Euro transition in Italy and France.

... building a balanced business portfolio ...

- The established wealth management and long-term savings businesses continue to grow and contribute significantly to the Group's profit.
- The Group is already benefiting from Scottish Provident's strength in the high growth UK individual protection market at a time when equity market volatility has affected consumer demand for other products. We remain confident of achieving the £55 million cost synergy target by 2003.
- The Business to Consumer division continues to grow, helped by this year's acquisition of Fleming Premier Banking, increasing our share of the premier banking market.

Wholesale Banking Strategic Update

The Wholesale Bank is a sound business, competing in many attractive markets.

Going forward the business will seek to improve risk-adjusted returns to shareholders.

The business will focus on markets where it can leverage existing customer relationships. It will work harder to drive synergies within the Wholesale Bank, and across the Group, and it will reduce its risk profile. Capital will only be invested in those aspects of the Wholesale Bank that deliver attractive returns on a fully risk-adjusted basis.

The Wholesale Bank comprises a traditional treasury operation, a commercial banking business (including its asset financing, commercial lending operations, securities financing, and risk management activities), and a large portfolio of investments.

The Treasury function will continue to contribute significant value to the Group through its outstanding global funding franchise, and highly skilled and innovative capital raising ability.

Extending the customer franchise

The commercial banking business will align itself more strongly to those sectors where it can build on existing strong customer relationships, market positions, and competitive advantage. The Wholesale Bank already has around 1,500 relationships with customers, including corporates, governments, insurance companies, mutual funds and banks. It is also the leading provider of finance for the growing Public-Private Partnerships sector in the UK.

These franchises will be developed, deepening customer relationships through the provision of value added services. The business will increasingly participate in those parts of the value chain that deliver more attractive margins, fees and commissions. In particular, it will focus on commercial lending where we can lead or co-arrange deals.

The Wholesale Bank has scope to drive synergies harder within its own business, and with other Group companies. In particular, Risk Management & Financial Products is involved in adding value to transactions and deepening relationships with customers through its structuring capability. This business also provides product design and structuring facilities for the Retail Bank, Scottish Mutual, and our Wealth Management businesses, delivering competitive, structured investment products to retail customers.

Through leveraging this expertise, the Wholesale Bank can deliver more complete and tailored financial solutions for the Group's retail, business and corporate customers.

Increased emphasis on risk management

The business will build on its already sound risk management practices, enhancing the established risk management framework and expertise to deliver leading edge risk management tools, metrics, policies and practices.

The managed portfolio of investments will be re-focused on a well-diversified portfolio of higher quality assets, and we do not expect to increase exposures to certain higher risk portfolios above the current level.

Good progress has already been made in reducing the risk profile of the Wholesale Bank. Since the half year, 95% of the total credit exposure has remained investment grade despite market conditions, with the absolute level of sub-investment grade exposure reducing. Exposure to sub-investment grade high yield securities has been reduced, and now stands at £1.3 billion net of provisions, compared to £1.5 billion at the half year.

Consolidated profit and loss account for the year ended 31 December 2001

	2001 £m	2000 £m
Net interest income	**2,711**	2,680
Commissions, fees and other income	**1,843**	1,614
Total operating income	**4,554**	4,294
Operating expenses excluding operating lease depreciation	**(1,850)**	(1,815)
Depreciation of operating lease assets	**(256)**	(178)
Provisions for bad and doubtful debts	**(263)**	(273)
Provisions for contingent liabilities and commitments	**9**	(21)
Amounts written off fixed asset investments	**(256)**	(32)
Operating profit and profit on ordinary activities before tax	**1,938**	1,975
Tax on profit on ordinary activities	**(603)**	(559)
Profit on ordinary activities after tax	**1,335**	1,416
Minority interests - non equity	**(59)**	(51)
Profit for the financial year attributable to shareholders of Abbey National plc	**1,276**	1,365
Transfer to non-distributable reserve	**(167)**	(156)
Preference dividends	**(42)**	(38)
Other non-equity interest appropriations	**(19)**	-
Ordinary dividends	**(720)**	(649)
Retained profit for the year	**328**	522
Profit on ordinary activities before tax includes:		
For acquired operations	**25**	-

Average number of ordinary shares in issue (millions)	**1,431**	1,420
Earnings per ordinary share - basic	**84.9p**	93.4p
Earnings per ordinary share - diluted	**84.3p**	92.8p
Dividends per ordinary share	**50.0p**	45.5p
Dividend cover	**1.7**	2.0

Group key statistics

Group cost: income ratio (%) ①	**43.0**	44.1
Pre-tax return on average ordinary shareholders' equity (%)	**25.1**	30.4
Post-tax return on average ordinary shareholders' equity (%)	**17.3**	21.5
Net asset value per ordinary share (pence)	**485**	446
Pre-tax return on average assets (%)	**0.93**	1.03
Pre-tax return on average risk weighted assets (%)	**2.30**	2.48
Equity tier 1 capital (%)	**6.6**	7.5
Tier 1 capital (%)	**8.7**	8.9

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

Analysis of significant P&L items

The tables below explain how the Group operating expense target has been achieved, and provides details of other significant items included within the Group results.

Operating expenses

	2001	2000
	£m	£m
Operating expenses excluding operating lease depreciation	**1,850**	1,815
Less:		
Amortisation of goodwill	**(36)**	(12)
Corporate advisory fees in relation to major merger and acquisition activity	**(26)**	(5)
	1,788	1,798

Significant items

Profit on significant disposals

	2001	2000
	£m	£m
Profit on sale and leaseback of property portfolio	**-**	65
Profit on sale of the credit card business	**49**	-
Profit on sale of Aitken Campbell	**52**	-
	101	65

Profit from newly acquired businesses

	2001	2000
	£m	£m
Porterbrook	**53**	35
Scottish Provident	**30**	-
	83	35

Other items

	2001	2000
	£m	£m
Investment expenditure		
e-commerce	**20**	28
Branch restructuring	**-**	18
Integration / transformation in First National	**27**	47
SME banking	**11**	2
	58	95
Provisions		
Amounts written off Enron Group exposures	**95**	-

Business Segment Review

Retail Banking

	2001 £m	2000 £m
Net interest income	**1,545**	1,578
Commissions, fees and other income	**807**	810
Total operating income	**2,352**	2,388
Operating expenses	**(912)**	(944)
Provisions	**(137)**	(161)
Profit before tax	**1,303**	1,283
Profit by business		
Mortgages and savings	**938**	934
Banking and unsecured lending	**75**	51
UK Retail Bank	**1,013**	985
Abbey National Life	**202**	182
Retail Insurance	**88**	116
Profit before tax	**1,303**	1,283
Cost: income ratio (%)	**38.8**	39.5
Retail Banking net interest spread (%) ①	**1.86**	2.01
Retail Banking net interest yield (%) ①	**5.93**	6.79
Retail Banking net interest cost (%) ①	**4.07**	4.78
Retail Banking margin (%) ①	**2.11**	2.27
Average interest earning assets (£bn) ①	**68.8**	65.4
Average risk weighted assets (RWA) (£m) ②	**37,310**	35,347
Post tax return on regulatory equity (RoE) (%) ②	**26.7**	28.5

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

Retail Banking profit before tax increased by 2% to £1,303 million (2000: £1,283 million). The increase is attributable to:

- strong new business flows in mortgages, savings and unsecured lending in part offsetting the impact of the ongoing managed spread decline of 15 basis points to 1.86% (2000: 2.01%). The spread for 2002 will be managed down further, but is expected to remain above 1.65% in 2002 before flattening off in 2003 and beyond at around this level;
- a small decline in commissions, fees and other income. This is largely due to the removal of ATM disloyalty fees, increased introducer commissions payable, and the non repetition of the proceeds from the sale of our share in the insurance underwriting joint venture with CGNU, realised in 2000. This was partly offset by increased Abbey National Life embedded value earnings and the profit on sale of the credit card business to MBNA;

- ongoing efficiency programmes reducing operating expenses by £32 million. In 2002, costs are expected to rise as we invest in our insurance and mortgage strategic alliances, and strengthen our franchise through the promotion of our current account; and
- record low levels of secured arrears, unsecured arrears improving steadily, and the removal of credit card risk, in total resulting in a £21 million reduction in the bad debts provisions charge.

Transforming the Business

Change and innovation are embedded in the Retail Bank strategy, and have delivered numerous benefits, including:

- ground breaking strategic alliances that have been established with world-class organisations such as EDS, MBNA and Capita Eastgate. These alliances will deliver enhanced customer services, best in class unit processing costs and the ability to respond quickly to changes in the market;
- the development of the internal branch franchising initiative. This is delivering a significant sustained sales uplift, and now covers over one third of the branch network. The initiative is delivering value to shareholders, customers and colleagues, and has now progressed to the next stage of "shared ownership" franchises;
- the rollout of a further 14 Costa coffee superstores, and further investment in the design of our branches as retail outlets. These innovations were recognised when Abbey National became the first bank to win the 'Retail Innovation of the Year Award'; and
- the repricing of the Retail Bank's personal current account, now offering the highest in-credit and lowest overdraft rates on the high street, in addition to fair banking charges and access through all of its distribution channels.

Mortgages and Savings

Profit before tax in mortgages and savings of £938 million (2000: £934 million), with the managed spread reduction of 15 basis points offset by strong new business flows and cost savings.

Group share of UK mortgage market:	**2001**		2000	
	£ bn	**%**	£ bn	%
Gross lending	**17.2**	**10.7**	12.8	10.7
Capital repayments	**12.0**	**11.3**	9.6	12.2
Net lending (change in outstanding stock)	**5.2**	**9.5**	3.2	7.9
Stock	**73.1**	**12.4**	67.9	12.7

A 10% share of a record mortgage net lending market is at the top end of the targeted 5-10% range, achieved through:

- competitive pricing supported by the relaunch of our mortgage portfolio, resulting in around 75% of new business being written into new flexible products;
- outperforming the market in both the first time buyer and former owner occupier segments; and
- bespoke internet functionality for introducers, with 13,000 registered, and a leader of the market in terms of speed and service, with further functionality planned in 2002.

It has been another year of positive industry recognition, picking up no fewer than 4 accolades:

- Your Mortgage Award Best Overall Lender 2001-2002;
- Your Mortgage Award Highly Commended Bank 2001-2002;
- Your Mortgage Award Highly Commended Flexible Mortgage Lender 2001-2002; and
- Legal & General Award for Introducer Internet.

There has been a continued improvement in arrears, with a further 14% reduction in 3 month plus arrears to 19,183 cases. The lending mix has continued to improve, with loan to value lending over 90% significantly lower than a year ago. In addition, the proportion of first time buyer business is now 27% of gross lending, down from 39% two years ago.

The joint venture with EDS for the servicing and administration of Abbey National's mortgages and personal loans was successfully launched on 1st May 2001. In the current year we have benefited from annualised cost savings of around £9 million.

Group share of UK retail household liabilities market:	**2001 £ bn**	**%**	2000 £ bn	%
Change in UK retail household liabilities	**3.4**	**7.0**	1.2	3.6
Outstanding UK retail household liabilities	**55.1**	**8.3**	50.9	8.3
Cash ISA sales	**2.5**	**9**	1.3	11
Investment ISA sales	**0.3**	**5**	0.7	7

Across the Group, there were deposit inflows of £3.4 billion (2000: £1.2 billion) equating to a market share of 7%. This included strong inflows into Abbey National branded business banking and deposit accounts, Offshore Wealth Management operations, cahoot and Cater Allen.

In the Retail Bank, deposit inflows were over £0.5 billion (2000: £(0.2) billion), with strong inflows of £1.5 billion in the second half of the year. This reflected demand for the security of cash-based deposits, combined with an improved branch-based product offering that ensured a competitive range for all groups of customers. In the latter part of the year, Abbey National has taken positive steps to protect retail savers from the lowest base rates since 1963.

Banking and Unsecured Personal Lending

Profit before tax of £75 million (2000: £51 million) was up, reflecting the proceeds from the sale of the credit card business to MBNA and increased banking and unsecured lending volumes. This was in part offset by the removal of ATM disloyalty fees and a more competitive banking fee structure.

	2001	2000
Number of Abbey National bank accounts (ANBA) (000)	**2,346**	2,101
Number of Abbey National bank account openings (ANBA) (000)	**332**	242

The Retail Bank's current account now offers the highest in-credit interest rates and lowest overdraft rates on the high street, in addition to fair banking charges and access through all of its distribution channels.

In 2001, the number of bank account openings was 332,000, up 37% on last year.

The total bank account customer base (including joint account customers) is now around 3.6 million compared to 3.4 million at December 2000, representing good progress towards reaching our target of 4 million customers by the end of 2003.

The launch of the graduate and youth propositions provides an opportunity to develop long-term value adding relationships. The e-banking platform provides multi-channel choice and flexibility for the customer, and encourages deeper customer relationships. E-banking customers currently hold 3.09 products compared to an average of 2.13 per active customer across the bank as a whole.

Banking provisions decreased due to the sale of the credit card business, and more effective risk and debt management on overdrafts, resulting in a 11% reduction in the value of arrears against a 22% growth in the overdraft asset.

Since July, we have launched a broad range of credit cards to meet varied customer needs, manufactured and administered by MBNA, combining their scale and expertise with our own distribution and retailing skills. MBNA have stated that, "the start we have made with Abbey National has been the most successful ever with any of our global alliances, reflecting the power of its brand".

To date we have issued 162,000 new credit cards. Existing Abbey National credit card customers have been successfully transferred to the new arrangements, with total cards in issue now in excess of 610,000. This represents an uplift of 33%, and the business remains confident of reaching the target of 2 million cards in issue by the end of 2005.

All credit risk associated with existing and new credit card customers is borne by MBNA.

The net unsecured personal loan asset has increased by 14% to £1.7 billion, driven by the second successive year of record gross lending of £1.1 billion (2000: £1.0 billion). In total, the provisions charge associated with the unsecured loan book has increased in line with growth in the overall asset.

The implementation of risk based pricing in the 4th Quarter will deliver enhanced product propositions to our customers. At the same time it is expected to further improve the credit quality of the portfolio.

Retail Insurance

Retail Insurance has seen a decline in profit before tax to £88 million (2000: £116 million), largely arising from lower profitability of the motor insurance portfolio, one-off disposal gains in 2000 and investment in the new policy processing platform in 2001.

New business volumes outside of motor lines have increased significantly, with buildings and contents up 15% and protection insurance up 34%. Introducers have contributed strongly with sales up over 350%, and further growth is expected in 2002 with the full introduction of an online solution. The business continues to focus on existing customers, with new initiatives aimed at retaining valuable customers.

The outsourcing of our policy and claims administration to Capita Eastgate and Norwich Union Insurance has been successfully implemented, and is already generating improvements in customer service standards.

The development of the insurance platform is progressing well and the first phase offering home insurance over the retail e-banking platform was successfully delivered during 2001. Motor insurance through direct and internet channels is due to be launched in the 2nd Quarter of 2002, enabling greater product pricing flexibility, an improved range and a higher level of service.

Through these strategies, we are confident of achieving the target of growing the policy portfolio from 1.6 million to 2 million by the end of 2003.

Abbey National Life

Key Statistics:	**2001 £ m**	2000 £ m
New business premiums		
Single		
- Pension	**22**	21
- Life	**809**	850
- PEPs, Unit Trusts and ISAs	**542**	772
	1,373	1,643
Annual		
- Pension	**18**	13
- Life	**20**	16
- PEPs, Unit Trusts and ISAs	**41**	39
	79	68
Total new business premiums	**1,452**	1,711
Annualised equivalent ①	**216**	232
Total expense ratio (%) ②	**64.7**	65.4

Abbey National Life includes Abbey National Unit Trust Managers and Abbey National PEP and ISA Managers.
① Annualised equivalent = annual premiums plus 10% of single premium business.
② Total expense ratios are operating expenses and commissions over annualised new business premiums.

Abbey National Life has performed well in 2001, despite tough equity market conditions. New business premiums have fallen below last year's record levels, largely due to reduced single premium ISA sales. Profit before tax was up 11% to £202 million. The main highlights for the year were:

- higher earnings from the in-force book, more than offsetting the impact of lower business volumes, reflecting the significant growth in the book in recent years;
- protection plan sales growing by 35%, benefiting from a relaunch of the product earlier in the year and improved strike rates leveraging record mortgage lending;
- growth in pension sales, including Stakeholder Pensions, up 18%. Abbey National has been a key provider of Stakeholder Pensions for individuals and companies since they were introduced in April 2001. A recent ABI survey indicates that Abbey National is the 6th largest individual stakeholder provider and the 10th largest provider for the Group stakeholder;
- 2,600 companies choosing Abbey National Life to provide Stakeholder Pensions for their employees;
- sales of the With-Profit Investment Bond increasing by 30% over last year's levels;
- a record level of new sharesave and share incentive plans; and
- improvements in the expense ratio to 64.7% (2000: 65.4%), leveraging the benefits of the shared operating cost platforms.

Wholesale Banking

	2001 £m	2000 £m
Net interest income	**508**	441
Commissions, fees and other income	**590**	423
Total operating income	**1,098**	864
Operating expenses excluding operating lease depreciation	**(186)**	(155)
Depreciation of operating lease assets	**(152)**	(100)
Provisions	**(256)**	(34)
Profit before tax	**504**	575
Profit by business:		
Asset financing	**211**	159
Wholesale lending	**83**	135
Asset-backed investments	**134**	149
Risk management & financial products	**88**	76
Securities financing	**69**	38
Treasury and other	**14**	18
Profit before tax excluding amounts written of Enron Group exposures	**599**	575
Less:		
Amounts written off Enron Group exposures	**(95)**	-
Profit before tax	**504**	575
Balance sheet by business;	**£bn**	**£bn**
Asset financing	**16**	13
Wholesale lending	**21**	21
Asset-backed investments	**25**	26
Risk management & financial products	**3**	3
Securities financing	**24**	29
Treasury and other	**13**	11
Total assets	**102**	103
Cost: income ratio (%)	**19.7**	20.3
Net interest margin (%)	**0.45**	0.43
Average interest earning assets (£bn)	**112.9**	103.0
Average risk weighted assets (RWA) (£bn)	**40.0**	34.3
Post tax return on regulatory equity (%)	**12.4**	17.2

Wholesale Banking profit before tax fell 12% to £504 million, largely due to a marked increase in amounts written off fixed asset investments to £256 million (2000: £34 million). This mainly stemmed from the deterioration in certain sectors of our high yield portfolio, against a backdrop of a slowdown in the US economy, and exposures to the Enron Group.

Strong new business flows in asset financing, risk management and financial products, and securities financing, contributed to a 24% growth in operating income, net of operating lease asset depreciation, to £946 million. Ongoing lending and strong new business margins contributed to a 15% increase in net interest income to £508 million. Margins also benefited from improved funding costs, supported by the establishment of a US branch, which has broadened Abbey National's access to global funding markets.

Commission, fees and other income, net of operating lease depreciation, increased by 36% to £438 million, reflecting strong new business flows, the full year contribution from Porterbrook, and risk management and financial product income. Private equity realisations (net of funding costs) were again positive, but below last year's levels, and the market value of the portfolio remains in line with its book value. Total commissions, fees and other income represented just under 50% of total operating income.

Operating expenses increased by £31 million, reflecting increased investment in the development of business activities, the establishment of an international presence in the US and enhancements to the infrastructure and risk controls to support continued growth. The cost: income ratio improved to 19.7% (2000: 20.3%).

Amounts written off fixed asset investments increased to £256 million (2000: £34 million), largely reflecting a deterioration in certain sectors of the high yield securities portfolio, against a backdrop of a slowdown in the US economy, and exposures to the Enron Group.

95% of the total credit exposure has remained investment grade since the half year, and the absolute level of sub-investment grade exposure has reduced. Exposure to sub-investment grade high yield securities has also been reduced, and now stands at £1.3 billion net of provisions, compared to £1.5 billion at the half year.

By business unit, the significant drivers were:

- the Asset Financing business strengthened their leading market position as a provider of infrastructure finance, boosted their project finance presence, and with Porterbrook, contributed over a third of the Wholesale Bank's profits;
- Risk Management & Financial Products benefited from stronger internal and external customer flows across the business, and completed its first full year of providing credit derivatives;
- success in the UK and European securities financing markets, which increased profitability strongly, and has been extended to the US market; and
- the establishment of a US branch in October 2001, which has enhanced the Group's wholesale funding franchise.

Business to Business

	2001 £m	2000 £m
Net interest income	**578**	593
Commissions, fees and other income	**269**	180
Total operating income	**847**	773
Operating expenses excluding operating lease depreciation	**(333)**	(326)
Depreciation of operating lease assets	**(104)**	(78)
Provisions	**(126)**	(115)
Profit before tax	**284**	254
Profit by business		
Scottish Mutual ①	**164**	113
Scottish Provident ②	**30**	-
First National	**92**	147
European operations	**(2)**	(6)
Profit before tax	**284**	254

① Scottish Mutual Assurance includes Abbey National Financial and Investment Services, Scottish Mutual International, Scottish Mutual International Fund Managers, Scottish Mutual PEP and ISA Managers, Scottish Mutual Pensions, Talorcan and Abbey National Asset Managers.

② Scottish Provident includes Scottish Provident UK, Ireland and Isle of Man.

Profit before tax increased 12% to £284 million, reflecting strong profit growth in Scottish Mutual, up 45% to £164 million, and the acquisition of Scottish Provident, contributing £30 million since 1 August 2001. Difficult market conditions facing First National led to a fall in profit before tax to £92 million (2000: £147 million).

Profit growth in Scottish Mutual (excluding Scottish Provident) is driven by higher earnings from the in-force book, normal experience variations and cost efficiencies across the enlarged business portfolio. The contribution from new business benefited from an improved product mix, and an increase in international sales, offsetting the effect of lower overall new business volumes, which fell 4% to £2.5 billion.

The decline in First National profit before tax of 37% is largely due to reduced average asset balances in motor and retailer finance. In addition, margins across First National were reduced at 6.35% (2000: 7.06%) reflecting in part a change in the mix of assets, with considerable growth in Consumer Finance and Business Finance loan assets. Operating expenses excluding operating lease depreciation were up by 2%, due to ongoing investment and the impact of acquisitions such as Highway Vehicle Finance. Credit quality has remained robust, with provisions marginally higher, largely due to increased voluntary terminations in motor finance compounded by increased loss on disposal as a result of falling residual values. The business has maintained its policy of not competing at the expense of credit quality.

Continental Europe's results include £4 million relating to Euro conversion, which was successfully completed. Excluding the euro conversion costs, both the French and Italian businesses are now profitable.

Scottish Mutual (excluding Scottish Provident)

Key Statistics:	2001 £m	2000 £m
New business premiums		
Single		
- Pension	**717**	720
- Life	**1,686**	1,796
	2,403	2,516
Annual		
- Pension	**47**	37
- Life	**17**	17
	64	54
Total new business premiums	**2,467**	2,570
Annualised equivalent ①	**304**	306
Total expense ratio (%) ②	**76.2**	75.0

① Annualised equivalent = annual premiums plus 10% of single premium business.
② Total expense ratios are operating expenses and commissions over annualised new business premiums.

Despite competitive market conditions and uncertainty surrounding equity markets, Scottish Mutual has continued to perform strongly in the IFA channel in the UK, as well as diversifying into international markets. Profit before tax was up 45% to £164 million. The main features were:

- higher earnings from the in-force book reflecting the strong growth in the business portfolio over recent years. This is the most significant driver of profitability in Scottish Mutual;
- total new business premiums were down 4% on last year's record levels, to £2.5 billion, largely due to reduced single premium investment bond sales in the UK;
- sales of single premium pensions increased 36% to £532 million, excluding institutional pension mandates. Sales of Group Personal Pension regular contracts have increased 55%, boosted by the launch of Stakeholder versions in April;
- Scottish Mutual International new business premiums increased by almost 50% to £789 million, with sales of the With-Profit Bond rising 66%. Scottish Mutual International's profit before tax has increased 205% to £23 million;
- the successful launch of Talorcan, Abbey National's alternative investment fund management operation in 2001;
- Scottish Mutual continued to leverage its shared operating platforms, with an expense ratio of 76.2%, one of the lowest in the industry; and
- funds under management of £16.2 billion are some 8% higher than at the end of 2000, compared to a stock market decline of around 15% over this period, reflecting continued strong flows of new business.

Scottish Provident ①

Key Statistics:	5 Months from 1 August 2001 £m	5 Months from 1 August 2000 £m
New business premiums		
Single		
- Pension	13	16
- Life	65	91
	78	107
Annual		
- Pension	2	4
- Life	30	37
	32	41
Total new business premiums	110	148
Annualised equivalent ②	40	52

① Whilst the acquisition was announced in September 2000, Scottish Provident only became part of the Abbey National Group on 1 August 2001.

② Annualised equivalent = annual premiums plus 10% of single premium business.

The Scottish Provident acquisition was successfully completed on 1 August 2001, and integration is progressing well:

- full integration of the management structure and sales force has been completed;
- in only 5 months since acquisition, we have made good progress towards achieving the £55 million in annualised savings targeted by 2003; and
- to date implementation costs of £10 million have been incurred.

The acquisition accelerates the diversification of the Life Assurance portfolio:

- establishing a leading position in the individual protection market in the UK, which Scottish Provident has maintained despite increased competition and some associated margin erosion; and
- extending the international earnings capability and providing a physical presence in Dubai, Hong Kong, and a domestic business in Ireland.

In total, new business premiums in the 5 months since completion were £110 million (5 months from August 2000: £148 million), and the business contributed £30 million to profit before tax after taking into account the implementation expenses of £10 million:

- since the acquisition, total premiums earned have shown marked improvement; and
- Scottish Provident has been voted "Best Life Protection Provider" in the Money Marketing Awards and "Overall Protection Provider" in the Financial Adviser IFA and Provider Awards. In addition, it has retained its 5 Star Service award at the 2001 Financial Adviser Life Insurance Association Service Awards.

First National

Key Statistics	**2001 £m**	2000 £m
Net loan assets		
Unsecured	**1,140**	949
Secured	**2,097**	1,936
Consumer Finance	**3,237**	2,885
Motor Finance	**2,869**	2,906
Business Finance	**1,356**	1,111
Retail Finance	**1,366**	1,772
Total net loan assets	**8,828**	8,674
Cost: income ratio (%)	**57.3**	52.5
Net interest margin (%)	**6.35**	7.06
Average interest earning assets (£bn)	**7.9**	7.8
Average risk weighted assets (RWA) (£m)	**9,287**	9,370
Post tax return on regulatory equity (%)	**9.8**	16.1

Business Finance

The business currently offers a banking service and a range of asset finance solutions to businesses, including leasing, factoring, commercial loans, deposits and vehicle finance:

- in 2001, the business invested £11 million to develop a business banking IT platform to support a new bank account for limited liability companies in 2002. This represents an area of significant growth potential for the Group;
- the SME bank account base increased by 55% to nearly 55,000, with deposits from SME customers up 40% to £2.3 billion;
- the business recently won the 'Best Company Bank Account Provider 2002' award from the magazine Business Moneyfacts for offering the UK's best value business bank account;
- asset growth in the division has been strong, up 22% to £1.4 billion (2000: £1.1 billion);
- a new middle ticket asset finance business was launched, enhancing the product portfolio; and
- in total, First National is now serving over 190,000 business customers.

Consumer Finance

The division is the provider of secured and unsecured loans via introducers, for a range of purposes. Highlights were:

- loan assets grew by 12% to £3.2 billion (2000: £2.9 billion), assisted by substantial increases in second mortgage business;
- the successful implementation of a new loan administration system leading to immediate efficiency benefits; and
- the business provides funding for customers of many of the leading litigation claims management companies in the UK.

Motor Finance

Provides finance for new and used vehicle purchases and vehicle leasing through motor dealerships. Key information:

- the market for point of sale car finance fell in 2000 and 2001. This reflected the uncertainties surrounding the review of new car prices and also the consequent fall in used car prices. As a result, First National's average assets fell by 9% in 2001. In the second half of the year, point of sale finance has increased and First National's market share of both new and used car finance has improved. As a result, asset balances have grown steadily from their low point in August, leading to assets at year end being broadly flat compared to 2000;
- the business has continued to roll out the 'First On-line' introducer internet facility, now operational in over 2,200 motor dealerships; and
- during the year First National signed a deal with MG Rover to provide finance through its dealer network. It also became the main finance provider for two of the leading e-commerce car retailers in the UK.

Retail Finance

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

- Retail Finance currently provides finance to over 2.5 million customers;
- in the point of sale Retail Finance market, the value of instalment credit sold in 2001 declined sharply, largely as a result of a sharp decline in personal computer sales and prices. As a result, the business suffered a 16% fall in average loan assets;
- the outsourcing of back-office administration to Experian was completed, enhancing flexibility and efficiency;
- a new electronic point of sale system was launched providing online loan decisions, assisting in the recruitment of new suppliers in the latter part of the year, including significant new retailers in the furniture, electrical and DIY sectors; and
- a pilot was launched with MBNA to sell credit cards to the Retail Finance customer base in the second half of 2001.

European Operations

Highlights for the year include:

- the successful conversion of systems to the euro, which has also provided the Group with valuable experience should the UK join the single currency. Conversion costs of £4 million have been incurred this year, and excluding these, operations were profitable;
- net lending growth of 19% to £437 million (2000: £366 million); and
- a 26% increase in assets to £2.2 billion.

Business to Consumer

The Business to Consumer division includes the Abbey National Group's Wealth Management businesses. It is made up of a range of independently branded businesses that are based on and offshore, offering higher net worth customers a broad range of financial services through different distribution channels.

During 2001, the division has continued to invest in developing new and established businesses, with considerable success in attracting new customers to the Group.

	2001 £m	2000 £m
Net interest income	**104**	76
Commissions, fees and other income	**30**	56
Total operating income	**134**	132
Operating expenses	**(163)**	(177)
Provisions	**(8)**	(3)
Loss before tax	**(37)**	(48)
Profit / (loss) by business type		
Established Wealth Management operations	**63**	49
Inscape	**(37)**	(34)
cahoot	**(63)**	(63)
Loss before tax	**(37)**	(48)

The loss before tax for the division of £(37) million has reduced by 23%, with profits in the established Wealth Management businesses well ahead of last year. Operating losses in Inscape and cahoot are broadly unchanged, with these businesses moving through their start-up phase and progressing towards critical mass.

Abbey National will continue to develop the businesses as part of an integrated wealth management portfolio. The customer propositions are performing well, and are well positioned in long-term growth markets.

Business Statistics

	2001 £m	2000 £m
Abbey National Offshore	**4,655**	4,032
Cater Allen (including Fleming Premier Banking)	**3,136**	795
cahoot	**1,870**	177
Total retail deposits	**9,661**	5,004
cahoot unsecured lending (including overdraft and credit card)	**214**	57
Abbey National Offshore Mortgages	**39**	39
Total retail lending	**253**	96
Number of cahoot accounts (000)		
Money transmission accounts	**112**	17
Credit cards	**73**	35
Unsecured loan accounts	**32**	-
Other cahoot accounts	**22**	2
Total cahoot accounts	**239**	54

Established Wealth Management Businesses

The established Wealth Management operations have again performed strongly in 2001, targeting the UK and expatriate high net worth market. Highlights:

- strong growth in retail deposit balances, up 61%, to £7.8 billion (2000: £4.8 billion). This has been achieved through organic growth in Abbey National Offshore and the combined Cater Allen businesses of 30%, and £1.5 billion of deposits arising from the Fleming Premier Banking acquisition;
- good progress made in the integration of Fleming Premier Banking into the existing Cater Allen business, significantly increasing the market share in the premier banking market. Since acquisition the sales and management teams have been fully integrated, customer retention has been excellent, and deposit balances are up by 15% to £1.7 billion since acquisition in July;
- significant increase in James Hay Pension Trustees Ltd's market presence in self-invested personal pension funds under administration, now administering £7 billion of funds. This represents some 45% of the total market, growing the self-invested personal pension client base by 20% to 25,200; and
- City Deal Services, the Group's execution-only stockbroker, enhanced its strong reputation for customer service, winning the Daily Telegraph National Customer Service (small company finance) award.

cahoot

cahoot has continued to build its account and customer base, with the following performance highlights:

- well ahead of target, with over 239,000 accounts now opened;
- excellent growth in current account balances to £1.9 billion (2000: £0.2 billion);
- credit card asset increasing to £90 million (2000: £52 million); and
- the successful launch of the unsecured loan product, with over 32,000 loans issued totalling £116 million.

cahoot is demonstrating encouraging customer retention and cross-selling. In particular, the average product holding per customer is now 1.25, boosted by the launch of new products including flexible personal loans, savings and travel insurance. In addition, the proposition has continued to win awards from numerous independent institutions, and has achieved nearly 50% brand recognition.

cahoot represents a significant platform for future growth and development. It is expected that in 2002 the business will make strong progress in moving closer to breakeven.

Inscape

The Inscape investment management service was delivered to market in November 2000. 2001 was characterised by heightened volatility in global equity markets, which dampened short-term demand for equity-based products such as those provided by Inscape. In terms of progress made to date, the key highlights are:

- accelerated customer recruitment in the 4th Quarter, with almost 5,000 clients now registered; and
- growth of funds under management to £293 million, as at 31 December.

Against a difficult economic climate, Inscape has gained valuable experience since launch a little over a year ago, and in the last quarter the rate of client registrations accelerated markedly. This experience will be drawn upon elsewhere in the Group, by launching a full offshore service and continuing to sell products based on Inscape funds through the Retail Bank in 2002.

Group Infrastructure

	2001 £m	2000 £m
Net interest income	**(24)**	(8)
Commissions, fees and other income	**147**	145
Total operating income	**123**	137
Operating expenses	**(256)**	(213)
Provisions	**17**	(13)
Loss before tax	**(116)**	(89)
(Loss) / profit by business type		
Central Services	**(231)**	(175)
Financial Holdings	**115**	86
Loss before tax	**(116)**	(89)

The loss before tax incurred centrally in Group Infrastructure increased by 30% to £(116) million (2000: £(89) million).

This was largely due to higher profits on sale of assets included in 2000, corporate advisory fees in relation to major merger and acquisition activity and increased amortisation of goodwill in 2001, partially offset by provision releases for commitments and contingent liabilities.

Group Profit and Loss Account Review

Net interest income

	2001 £m	2000 £m
Interest receivable	**10,241**	11,210
Interest payable	**(7,530)**	(8,530)
Net interest income	**2,711**	2,680
Group average interest earning assets * (£bn)	**183.9**	166.1
Group net interest margin * (%)	**1.47**	1.61
Group net interest spread * (%)	**1.32**	1.42

* Interest earning assets have been grossed up to include the securitised mortgage assets.

Net interest income has increased 1% to £2,711 million. The main drivers of the improvement were as follows:

- balance sheet growth and strong new business margins in Wholesale Banking, largely within the Wholesale Lending and Asset Financing businesses; and
- strong growth in retail deposit balances and improved margins in the Wealth Management businesses, particularly Abbey National Offshore and Cater Allen Onshore.

Offset by the impact of:

- managed spread reduction in Retail Banking partially negated by record mortgage and unsecured lending volumes; and
- reduced margins and asset balances in First National, particularly in the motor and retailer finance businesses.

Commissions, fees and other income

	2001 £m	2000 £m
Total dividend income	**3**	3
Insurance income	**238**	239
Administration, survey and legal fees	**177**	211
Other Retail Banking income	**214**	246
Wholesale Banking fees	**91**	72
Other commissions receivable	**86**	99
Fees and commissions receivable	**806**	867
Introducer fee charge	**(183)**	(199)
Financial markets permanent fees / brokerage fees	**(11)**	(9)
Other commissions payable	**(81)**	(61)
Fees and commissions payable	**(275)**	(269)
Net fees and commissions	**531**	598
Dealing profits	**176**	116
Increase in value of long-term assurance business	**345**	227
Fee income on high loan to value loans	**100**	95
Income from operating lease assets	**441**	303
Other financial income	**247**	272
Other operating income	**1,133**	897
Total commissions, fees and other income	**1,843**	1,614

Total commissions, fees and other income increased to £1,843 million, up 14%, driven by growth in Wholesale Banking and Business to Business.

Net fees and commissions fell 11% to £531 million primarily due to:

- reduced income in Retail Banking as a result of revised banking and ATM transaction charges and higher commissions payable to introducers;
- lower fees and commissions in Business to Consumer division, largely due to the sale of Abbey National Benefit Consulting (ANBC) in 2000; and
- reduced fees payable to introducers due to lower business volumes in First National.

Dealing profits increased by 52%, principally in Wholesale Banking, reflecting an increased transaction flow.

Other operating income increased 26% to £1,133 million due to:

- increased embedded value earnings in the life assurance businesses;
- expansion of the vehicle leasing business in First National; and
- the full year contribution of Porterbrook in Wholesale Banking.

Operating expenses

Total operating expenses excluding operating lease depreciation increased 2% to £1,850 million (2000: £1,815 million).

Key factors in the movement in operating expenses were:

- reduced operating costs in Retail Banking, reflecting the continued drive to improve the efficiency of core processes;
- business development and other expansion costs in Wholesale Banking; and
- reduced costs in Business to Consumer following the disposal of ANBC and lower set-up and development costs in cahoot;
- additional costs from the amortisation of goodwill, particularly in relation to Scottish Provident, and corporate advisory fees in relation to major merger and acquisition activity in the first half of the year.

Operating expenses by profit and loss line:	**2001 £m**	2000 £m
Salaries and other staff costs	**815**	821
Bank legal and professional fees	**145**	174
Advertising and marketing	**80**	82
Bank, legal, marketing and professional expenses	**225**	256
Software, computer and other administration expenses	**478**	452
Premises and equipment depreciation	**115**	122
Goodwill amortisation	**36**	12
Depreciation of fixed assets other than operating lease assets	**151**	134
Rent payable	**108**	73
Rates payable	**23**	22
Other running costs	**50**	57
Other property and equipment expenses	**181**	152
Total operating expenses excluding operating lease depreciation	**1,850**	1,815
Depreciation of operating lease assets	**256**	178

Salaries and other staff costs reduced by 1%, reflecting the impact of a network reorganisation completed last year in Retail Banking, growth in Wholesale Banking and savings resulting from the sale of ANBC.

Bank, legal, marketing and professional expenses decreased 12%, despite £26 million of merger and acquisition costs, mainly as a result of lower systems administration and consultancy charges in Retail Banking, a fall in consultancy costs in First National, and reduced launch and development costs in cahoot.

Software, computer and other administration expenses increased by 6% to £478 million as a result of outsourcing and SME development costs in First National, offset by IT efficiency savings in Retail Banking.

Depreciation and amortisation costs increased by £17 million mainly due to the additional costs of goodwill amortisation following the acquisition of Scottish Provident and Fleming Premier Banking.

Other property and equipment expenses increased to £181 million largely as a result of higher rent payable following the sale and leaseback of the property portfolio in 2000, and on ATM sites.

Depreciation of operating lease assets increased by £78 million reflecting the full year impact of Porterbrook in Wholesale Banking and Highway Vehicle Finance in First National.

Provisions

	2001 £m	2000 £m
Retail Banking:		
Secured	**31**	38
Unsecured (overdrafts and credit card balances)	**40**	59
Abbey National-branded unsecured personal loans	**58**	53
	129	150
Business to Business:		
First National	**126**	118
Continental Europe	**-**	2
	126	120
Business to Consumer:		
cahoot	**7**	2
Established Wealth Management businesses	**1**	-
	8	2
Group Infrastructure	**-**	1
Total provisions for bad and doubtful debts	**263**	273
Contingent liabilities and commitments	**(9)**	21
Amounts written off fixed asset investments	**256**	32

The total loan loss provision charge has fallen 4% to £263 million. This reflects a continued focus on credit quality across the businesses and further falls in arrears levels.

In the Retail Bank, the provisions charge has reduced by 14% largely as a result of:

- a 14% reduction in the level of secured arrears and a 40% fall in the stock of properties in possession;
- a decrease in unsecured (overdraft and credit card balances) provision charges arising from the removal of credit card risk to MBNA and more effective risk and debt management on overdrafts, resulting in a 11% decline in the value of arrears despite a 22% growth in asset; and
- an increase in the Abbey National branded unsecured personal loan provision resulting from a 12% growth in asset, offset by revised debt management strategies.

In First National, provisions for bad and doubtful debts increased to £126 million, largely due to increased voluntary terminations in motor finance, compounded by increased loss on disposal as a result of falling residual values. Credit quality has remained robust.

The charge for contingent liabilities and commitments decreased by £30 million following the release of provisions no longer required, and reduced charges relating to the pensions misselling review.

Amounts written off fixed asset investments increased to £256 million in the Wholesale Bank, largely reflecting a deterioration in certain sectors of the high yield securities portfolio, against a backdrop of a slowdown in the US economy, and exposures to the Enron Group.

Taxation

The effective rate of tax was 31.1% (2000: 28.3%). The following table provides a reconciliation of taxes payable at standard UK corporation tax rate and the Group's effective tax rate.

	2001 **£m**	2000 £m
Taxation at UK corporation rate of 30% (2000: 30%)	**581**	593
Effect of non-allowable provisions and other non-equalised items	**29**	(3)
Effect of non-UK profits and losses	**(12)**	(7)
Adjustment to prior year tax provisions	**7**	3
Effect of loss utilisation	**(2)**	(27)
Total taxation	**603**	559
Effective tax rate	**31.1%**	28.3%

Capital management and resources

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

	31 December 2001 £m	31 December 2000 £m
Tier 1	**7,317**	7,204
Tier 2 & Tier 3	**6,234**	5,902
Less supervisory deductions	**(3,853)**	(2,129)
Total regulatory capital	**9,698**	10,977
Total risk weighted assets:		
banking book	**76,341**	74,756
trading book	**8,117**	6,445
	84,458	81,201
Capital ratios:		
risk asset ratio	**11.5 %**	13.5 %
tier 1 ratio	**8.7 %**	8.9 %
equity tier 1 ratio	**6.6 %**	7.5 %

The basic instruments of capital monitoring are the Group's equity tier 1 capital ratio and the risk asset ratio. As at 31 December 2001, the equity tier 1 ratio was 6.6%, and the Group's risk asset ratio was 11.5%. The Group risk asset ratio is comfortably above the minimum standard for the Group set by the Financial Services Authority. The change in the ratios arose mainly because of a 4% growth in risk-weighted assets, and the impact of the acquisitions of Scottish Provident and Fleming Premier Banking more than offsetting new capital from retained earnings and external non-equity capital issues.

Abbey National's tier 1 capital (equity and non equity shareholders' funds after deducting goodwill) increased by £113 million to £7,317 million, from the issue of US$450 million preference shares and £300 million reserve capital instruments, scrip dividends, and retained earnings, less additional goodwill arising on acquisitions. The increase in tier 2 capital (subordinated liabilities and general provisions) of £332 million was principally due to the issue of £200 million and US$400 million undated subordinated debt, less amortisation of existing subordinated issues. Supervisory deductions mainly represent investments in life assurance and insurance companies within the Group, and the movement in the year is principally due to the acquisition of Scottish Provident and also increases in the investment in, and embedded value of, the Group's other life businesses.

Wholesale Banking executes all of the Group's capital raising. The Wholesale Bank also manages Abbey National's mortgage asset backed securitisation programme. In the year, Abbey National issued £7.3 billion mortgage-backed securities spread over three transactions. This brings the value of Abbey National's outstanding funding raised via mortgage securitisation to £13.4 billion, and reinforces the Group's position as the leader in the European mortgage securitisation market.

We are proposing a full year dividend of 50.0 pence per share, up 10% on 2000, consistent with our progressive dividend policy. Based on current plans, the Board remains of the view that strong returns for shareholders can be achieved by continuing to retain capital in the business, rather than returning it to shareholders.

Balance sheet

Total assets increased by 5% to £215 billion since 31 December 2000, funded mainly through the wholesale markets. As at 31 December 2001, wholesale liabilities represented 50% of total liabilities, minority interests and shareholders' funds (2000: 54%). The percentage of UK mortgage assets funded from retail savings was 74% (2000: 75%).

Appendices

Appendix 1: Consolidated balance sheet
As at 31 December 2001

	31 December 2001	31 December 2000
	£m	£m
Assets		
Cash, treasury bills and other eligible bills	**2,983**	1,596
Loans and advances to banks	**9,874**	12,168
Loans and advances to customers	**78,650**	81,752
Loans and advances subject to securitisation	**18,883**	7,927
Non returnable finance on securitised advances	**(12,952)**	(4,629)
Loans and advances to customers after non-returnable finance	**84,581**	85,050
Net investment in finance leases	**4,738**	5,192
Securities and investments	**68,673**	69,573
Long-term assurance business	**2,015**	1,538
Fixed assets excluding operating lease assets	**1,599**	634
Operating lease assets	**2,522**	1,963
Other assets	**7,363**	7,594
Assets of long-term assurance funds	**30,558**	19,083
Total assets	**214,906**	204,391
Liabilities		
Deposits by banks	**24,945**	34,996
Customer accounts	**74,259**	66,795
Debt securities in issue	**54,413**	57,078
Other liabilities	**15,409**	13,074
Subordinated liabilities including convertible debt	**6,590**	5,871
Liabilities of long-term assurance funds	**30,558**	19,083
Total liabilities	**206,174**	196,897
Minority interests – non-equity	**681**	664
Non-equity shareholders' funds	**1,045**	450
Equity shareholders' funds	**7,006**	6,380
Total liabilities, minority interests and shareholders' funds	**214,906**	204,391

Appendix 2: Statement of total recognised gains and losses
For the year to 31 December 2001

	2001	2000
	£m	£m
Profit attributable to the shareholders of Abbey National plc	**1,276**	1,365
Unrealised surplus on revaluation of investment properties	**-**	11
Total recognised gains relating to the period	**1,276**	1,376

Appendix 3: Consolidated cash flow statement for the year to 31 December 2001

	2001 £m	2000 £m
Net cash inflow from operating activities	**1,740**	6,093
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	**(323)**	(289)
Preference dividends paid	**(42)**	(38)
Payments to non-equity minority interests	**(59)**	(51)
Net cash outflow from returns on investments and servicing of finance	**(424)**	(378)
Taxation		
UK corporation tax paid	**(438)**	(402)
Overseas tax paid	**(8)**	(4)
Total taxation paid	**(446)**	(406)
Capital expenditure and financial investment		
Purchases of investment securities	**(17,781)**	(18,169)
Sales of investment securities	**3,282**	4,971
Redemptions and maturities of investment securities	**13,993**	10,898
Purchases of tangible fixed assets	**(1,001)**	(502)
Sales of tangible fixed assets	**197**	508
Transfers from/(to) Life Assurance funds	**43**	(328)
Net cash outflow from capital expenditure and financial investment	**(1,267)**	(2,622)
Acquisitions and disposals	**(371)**	(968)
Equity dividends paid	**(570)**	(548)
Net cash (outflow) / inflow before financing	**(1,338)**	1,171
Financing		
Issue of ordinary share capital	**27**	11
Issue of preference share capital	**298**	-
Issue of loan capital	**686**	1,355
Issue of reserve capital instrument	**297**	-
Issue of preferred securities (non-equity minority interests)	**-**	620
Repayment of loan capital	**-**	(365)
Net cash inflow from financing	**1,308**	1,621
(Decrease) / increase in cash	**(30)**	2,792

Appendix 4: Summary profit and loss account by business segment

Table 1: 2001 full-year profit before tax (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	**1,545**	**508**	**578**	**104**	**(24)**	**2,711**
Commissions, fees & other income	**807**	**590**	**269**	**30**	**147**	**1,843**
Total operating income	**2,352**	**1,098**	**847**	**134**	**123**	**4,554**
Operating expenses excl. operating lease depreciation	**(912)**	**(186)**	**(333)**	**(163)**	**(256)**	**(1,850)**
Depn. of operating lease assets	**-**	**(152)**	**(104)**	**-**	**-**	**(256)**
Provs. for bad & doubtful debts	**(129)**	**-**	**(126)**	**(8)**	**-**	**(263)**
Provs. for contingent liabilities & commitments	**(8)**	**-**	**-**	**-**	**17**	**9**
Amts written off fixed asset invests.	**-**	**(256)**	**-**	**-**	**-**	**(256)**
Profit / (loss) before tax	**1,303**	**504**	**284**	**(37)**	**(116)**	**1,938**

Table 2: 2000 full-year profit before tax (£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
Commissions, fees & other income	810	423	180	56	145	1,614
Total operating income	2,388	864	773	132	137	4,294
Operating expenses excl. operating lease depreciation	(944)	(155)	(326)	(177)	(213)	(1,815)
Depn. of operating lease assets	-	(100)	(78)	-	-	(178)
Provs. for bad & doubtful debts	(150)	-	(120)	(2)	(1)	(273)
Provs. for contingent liabilities & commitments	(11)	-	5	(3)	(12)	(21)
Amts written off fixed asset invests.	-	(34)	-	2	-	(32)
Profit / (loss) before tax	1,283	575	254	(48)	(89)	1,975

Table 3: 1999 full-year profit before tax and 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
Commissions, fees & other income	670	169	133	46	129	1,147
Total operating income	2,294	562	726	108	118	3,808
Operating expenses excl. operating lease depreciation	(885)	(115)	(301)	(107)	(186)	(1,594)
Depn. of operating lease assets	-	(2)	(50)	-	-	(52)
Provs. for bad & doubtful debts	(167)	-	(136)	-	-	(303)
Provs. for contingent liabilities & commitments	(15)	-	(5)	-	(3)	(23)
Amts written off fixed asset invests.	-	(26)	-	-	-	(26)
Profit / (loss) before tax	1,227	419	234	1	(71)	1,810

Appendix 4: Summary profit and loss account by business segment (continued)

Table 4: 2001 half-year profit before tax (£m)

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure	Group
Net interest income	783	251	270	39	3	1,346
Commissions, fees & other income	432	276	133	17	100	958
Total operating income	1,215	527	403	56	103	2,304
Operating expenses excl. operating lease depreciation	(450)	(85)	(173)	(80)	(125)	(913)
Depn. of operating lease assets	-	(71)	(49)	-	-	(120)
Provs. for bad & doubtful debts	(80)	-	(55)	(3)	-	(138)
Provs. for contingent liabilities & commitments	(2)	-	-	-	(5)	(7)
Amts written off fixed asset invests.	-	(64)	-	-	-	(64)
Profit / (loss) before tax	683	307	126	(27)	(27)	1,062

Table 5: 2000 half-year profit before tax (£m)

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

Table 6: 1999 half-year profit before tax and 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
Commissions, fees & other income	322	71	57	24	72	546
Total operating income	1,110	272	348	53	70	1,853
Operating expenses excl. operating lease depreciation	(431)	(54)	(139)	(40)	(82)	(746)
Depn. of operating lease assets	-	(1)	(22)	-	-	(23)
Provs. for bad & doubtful debts	(97)	-	(74)	-	-	(171)
Provs. for contingent liabilities & commitments	(3)	-	-	-	-	(3)
Amts written off fixed asset invests.	-	(15)	-	-	-	(15)
Profit / (loss) before tax	579	202	113	13	(12)	895

Appendix 5: Detailed profit and loss account by business segment

Table 1: Retail Banking 2001

	UK Retail Bank £m	Abbey National Life £m	Retail Insurance £m	2001 Total £m
Net interest income	**1,538**	**11**	**(4)**	**1,545**
Dividend Income	**-**	**-**	**-**	**-**
Fees and commissions receivable	**351**	**51**	**133**	**535**
Fees and commissions payable	**(44)**	**-**	**(1)**	**(45)**
Net fees and commissions	**307**	**51**	**132**	**490**
Other operating income	**162**	**153**	**2**	**317**
Commissions, fees and other income	**469**	**204**	**134**	**807**
Total operating income	**2,007**	**215**	**130**	**2,352**
Salaries and other staff costs	**(430)**	**(5)**	**(10)**	**(445)**
Bank, legal, marketing and professional expenses	**(73)**	**(1)**	**-**	**(74)**
Software, computer and other administration expenses	**(169)**	**(3)**	**(22)**	**(194)**
Depreciation and amortisation	**(67)**	**-**	**(6)**	**(73)**
Other property and equipment expenses	**(121)**	**(1)**	**(4)**	**(126)**
Operating expenses	**(860)**	**(10)**	**(42)**	**(912)**
Provisions for bad and doubtful debts	**(129)**	**-**	**-**	**(129)**
Provisions for contingent liabilities and commitments	**(5)**	**(3)**	**-**	**(8)**
Profit before tax	**1,013**	**202**	**88**	**1,303**

Table 2: Retail Banking 2000

	UK Retail Bank £m	Abbey National Life £m	Retail 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 debts	(150)	-	-	(150)
Provisions for contingent liabilities and commitments	(3)	(8)	-	(11)
Profit before tax	985	182	116	1,283

Table 3: Wholesale Banking 2001

	2001 £m
Net interest income	**508**
Dealing profits	174
Fees and commissions receivable	91
Fees and commissions payable	(18)
Net fees and commissions	73
Other operating income	343
Commissions, fees and other income	**590**
Total operating income	**1,098**
Salaries and other staff costs	(111)
Bank, legal, marketing and professional expenses	(11)
Software, computer and other administration expenses	(51)
Depreciation and amortisation	(6)
Other property and equipment expenses	(7)
Operating expenses excluding operating lease depreciation	**(186)**
Depreciation of operating lease assets	**(152)**
Amounts written off fixed asset investments	**(256)**
Profit before tax	**504**

Table 4: 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 operating lease depreciation	(155)
Depreciation of operating lease assets	(100)
Amounts written off fixed asset investments	(34)
Profit before tax	575

Table 5: Business to Business 2001

	First National £m	Scottish Mutual £m	Continental Europe £m	2001 Total £m
Net interest income	**502**	**43**	**33**	**578**
Dealing profits	**-**	**2**	**-**	**2**
Fees and commissions receivable	**134**	**5**	**4**	**143**
Fees and commissions payable	**(194)**	**(1)**	**(2)**	**(197)**
Net fees and commissions	**(60)**	**4**	**2**	**(54)**
Other operating income	**172**	**149**	**-**	**321**
Commissions, fees and other income	**112**	**155**	**2**	**269**
Total operating income	**614**	**198**	**35**	**847**
Salaries and other staff costs	**(126)**	**(2)**	**(15)**	**(143)**
Bank, legal, marketing and professional expenses	**(28)**	**(-)**	**(8)**	**(36)**
Software, computer and other administration expenses	**(116)**	**(2)**	**(9)**	**(127)**
Depreciation and amortisation	**(7)**	**-**	**(2)**	**(9)**
Other property and equipment expenses	**(15)**	**-**	**(3)**	**(18)**
Operating expenses excluding operating lease depreciation	**(292)**	**(4)**	**(37)**	**(333)**
Depreciation of operating lease assets	**(104)**	**-**	**-**	**(104)**
Provisions for bad and doubtful debts	**(126)**	**-**	**-**	**(126)**
Profit/(loss) before tax	**92**	**194**	**(2)**	**284**

Table 6: 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 operating lease depreciation	(287)	(7)	(32)	(326)
Depreciation of operating lease assets	(78)	-	-	(78)
Provisions for bad and doubtful debts	(118)	-	(2)	(120)
Provisions for contingent liabilities and commitments	5	-	-	5
Profit/(loss) before tax	147	113	(6)	254

Table 7: Business to Consumer 2001	**Wealth Management £m**	**Inscape £m**	**cahoot £m**	**2001 Total £m**
Net interest income	**109**	**1**	**(6)**	**104**
Dividend income	**2**	**-**	**-**	**2**
Fees and commissions receivable	**32**	**2**	**2**	**36**
Fees and commissions payable	**(8)**	**(2)**	**(2)**	**(12)**
Net fees and commissions	**24**	**-**	**-**	**24**
Other operating income	**4**	**-**	**-**	**4**
Commissions, fees and other income	**30**	**-**	**-**	**30**
Total operating income	**139**	**1**	**(6)**	**134**
Salaries and other staff costs	**(38)**	**(15)**	**(6)**	**(59)**
Bank, legal, marketing and professional expenses	**(10)**	**(10)**	**(28)**	**(48)**
Software, computer and other administration expenses	**(20)**	**(10)**	**(14)**	**(44)**
Depreciation and amortisation	**(3)**	**-**	**(1)**	**(4)**
Other property and equipment expenses	**(4)**	**(3)**	**(1)**	**(8)**
Operating expenses	**(75)**	**(38)**	**(50)**	**(163)**
Provisions for bad and doubtful debts	**(1)**	**-**	**(7)**	**(8)**
Profit/(loss) before tax	**63**	**(37)**	**(63)**	**(37)**

Table 8: 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 debts	-	-	(2)	(2)
Provisions for contingent liabilities and commitments	(3)	-	-	(3)
Amounts written off fixed asset investments	2	-	-	2
Profit/(loss) before tax	49	(34)	(63)	(48)

Table 9: Group Infrastructure 2001	**2001 £m**
Net interest income	**(24)**
Dividend income	**1**
Fees and commissions receivable	**1**
Fees and commissions payable	**(3)**
Net fees and commissions	**(2)**
Other operating income	**148**
Commissions, fees and other income	**147**
Total operating income	**123**
Salaries and other staff costs	**(57)**
Bank, legal, marketing and professional expenses	**(56)**
Software, computer and other administration expenses	**(62)**
Depreciation and amortisation	**(59)**
Other property and equipment expenses	**(22)**
Operating expenses	**(256)**
Provisions for bad & doubtful debts	**-**
Provisions for contingent liabilities and commitments	**17**
Loss before tax	**(116)**

Table 10: Group Infrastructure 2000	2000 £m
Net interest income	(8)
Dividend income	-
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)
Provisions for bad & doubtful debts	(1)
Provisions for contingent liabilities and commitments	(12)
Loss before tax	(89)

Appendix 6: Key statistics

Table 1: Retail Banking

	31 December 2001	31 December 2000
A. Market shares (estimates) (%)		
Increase in UK mortgages outstanding	**9.5**	7.9
UK mortgage stock	**12.4**	12.7
Increase in UK retail household liabilities	**7.0**	3.6
UK retail household liabilities stock	**8.3**	8.3
Increase in UK consumer credit (excluding credit cards)	**(0.2)**	(0.9)
UK consumer credit stock (excluding credit cards)	**7.7**	8.5
Cash ISA sales	**9**	11
Investment ISA sales	**5**	7
B. Banking metrics for the year		
Number of bank accounts (excluding IPA) (000)	**2,346**	2,101
Number of Instant Plus accounts (000)	**576**	617
Total bank accounts	**2,922**	2,718
Number of bank account openings (ANBA only) (000)	**282**	172
Number of IPA upgrades to ANBA (000)	**50**	70
Number of total ANBA account openings (000)	**332**	242
Number of debit cards (including Multifunctional and Electron) (000)	**3,059**	2,672
Number of credit card accounts (000)	**610**	470
New credit card account openings (000)	**162**	23
Overdraft asset (£ million)	**285**	234
Unsecured Personal Loan asset (net) (£ million)	**1,673**	1,472
C. Customer metrics		
Total number of customers (million)	**15.3**	15.2
Average product holdings per active customer	**2.13**	2.06
Average product holdings per bank customer	**2.83**	2.72
AN Life cross sales ratio (%)	**16**	14
D. Distribution		
Number of branches	**700**	714
Number of Safeway in-store branches	**38**	37
Number of Costa coffee branches	**18**	4
Total number of branches	**756**	755
Number of branch based ATMs	**1,752**	1,777
Number of remote ATMs	**1,423**	1,403
Total number of ATMs	**3,175**	3,180
Counter based transactions (millions)	**86**	98
Counter based transactions (%)	**12.8**	13.9
E. e-banking metrics		
Number of registrations (000)	**1,129**	596
Cumulative number of product applications (000)	**286**	73
Registered internet introducers (000)	**13**	6

Table 2: Wholesale Banking	**31 December 2001**	31 December 2000
Investment grade exposures (%)	**95**	96
Exposures AA or better (%)	**56**	61
Geographic credit exposure to UK and rest of Europe (%)	**51**	49
Geographic credit exposure to US (%)	**38**	41
Acquisition finance deals completed	**40**	34
Big ticket leasing assets (£ billion)	**4.5**	4.9
Operating lease assets (principally Porterbrook) (£ billion)	**1.8**	1.5
Private equity investments (£ billion)	**0.7**	0.5
Commitments to project finance sector (£ billion)	**3.9**	2.5
Commitments to property finance sector (£ billion)	**1.6**	1.1
Project finance deals completed	**63**	59
Bonds and medium term notes issued (£ billion)	**5.3**	8.9
Funding from wholesale markets as a proportion of total funding (%)	**50**	54

Table 3: Life Assurance	**31 December 2001**	31 December 2000
New business premiums (£million)	**4,029**	4,281
Annualised business premiums (£million)	**560**	538
Funds under management (£ billion)	**21.8**	20.7
New business contribution to embedded values (£ million)	**114**	119
Total expense ratios in: Abbey National Life (%)	**64.7**	65.4
Scottish Mutual (%)	**76.2**	75.0

Table 4: Group bank account openings	**31 December 2001**	31 December 2000
Retail Banking (000)	**332**	242
cahoot (000)	**98**	17
Established Wealth Management businesses (000)	**26**	9
	456	268

Table 5: Group credit cards issued	**31 December 2001**	31 December 2000
Retail Banking (000)	**162**	23
cahoot (000)	**38**	35
	200	58

Appendix 7: Net interest income

Table 1: Full year net interest margins and spreads

	2001 First half £m	**2001 Second half £m**	**2001 Total £m**	2000 First half £m	2000 Second half £m	2000 Total £m
Net interest income	**1,346**	**1,365**	**2,711**	1,332	1,348	2,680
Average interest earning assets (£ bn)						
Group	**177.9**	**189.9**	**183.9**	161.9	170.2	166.1
UK Retail Banking	**67.7**	**69.9**	**68.8**	64.5	66.2	65.4
Net interest margins (%)						
Group	**1.52**	**1.42**	**1.47**	1.65	1.57	1.61
UK Retail Banking ①	**2.17**	**2.05**	**2.11**	2.31	2.23	2.27
Wholesale Banking	**0.44**	**0.46**	**0.45**	0.43	0.42	0.43
First National	**6.56**	**6.14**	**6.35**	6.94	7.19	7.06
Spread (%)						
Group	**1.32**	**1.32**	**1.32**	1.48	1.37	1.42
UK Retail Banking ①	**1.92**	**1.80**	**1.86**	2.06	1.97	2.01

① Spread and margin calculations exclude Unsecured Lending, Retail Insurance and Abbey National Life

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

	2001 Average balance £bn	**Average rate %**	2000 Average balance £bn	Average rate %
Group				
Interest earning assets	**174.9**		163.7	
Securitisation gross up	**9.0**		2.4	
Interest earning assets	**183.9**	**5.57**	166.1	6.84
Interest bearing liabilities	**168.3**		157.8	
Securitisation gross up	**9.0**	**-**	2.4	-
Interest bearing liabilities	**177.3**	**4.25**	160.2	5.42
Shareholders' funds	**7.8**	**-**	6.6	-
Other net non-interest bearing (assets) / liabilities	**(1.2)**	**-**	(0.7)	-

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 8: Provisions

Table 1: Provisions for bad and doubtful debts 2001

	Residential £m	Other secured £m	Unsecured £m	Total £m
At 1 January 2001				
General	142	20	32	194
Specific	61	98	174	333
Total	203	118	206	527
Exchange adjustments	-	(1)	-	(1)
Transfer from P&L account	42	23	198	263
Irrecoverable amounts written off	(33)	(46)	(212)	(291)
At 31 December 2001	212	94	192	498
General	150	22	36	208
Specific	62	72	156	290
Total	212	94	192	498

Table 2: Analysis of provisions 31 December 2001

	Charge first half £m	Charge second half £m	Full year £m	Provisions balance £m	Balance % of loan assets
Secured on residential properties	27	4	31	183	0.3
Overdraft and credit card	23	17	40	36	12.1
Unsecured personal loans	30	28	58	73	3.6
UK Retail Banking	80	49	129	292	0.4
First National	55	71	126	147	1.8
France	-	(1)	(1)	51	5.2
Italy	-	1	1	5	0.4
Continental Europe	-	-	-	56	2.5
cahoot	3	4	7	2	1.1
Established Wealth Mgt	-	1	1	1	0.6
Business to Consumer	3	5	8	3	1.0
Total	138	125	263	498	0.6

Table 3: Analysis of provisions 31 December 2000

	Charge first half £m	Charge second half £m	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	3.7
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

Appendix 9: Suspended interest

Table 1: Suspended interest 2001

	Residential £m	**Other secured £m**	**Unsecured £m**	**Total £m**
At 1 January 2001	**36**	**54**	**10**	**100**
Exchange differences	**-**	**(1)**	**-**	**(1)**
Transfer from P&L account	**17**	**(4)**	**10**	**23**
Irrecoverable amounts written off	**(14)**	**(2)**	**(10)**	**(26)**
At 31 December 2001	**39**	**47**	**10**	**96**

Table 2: Analysis of suspended interest 2001

	2001			
	Charge first half £m	**Charge second half £m**	**Charge full year £m**	**Balance 31 December £m**
Secured on residential property	**5**	**3**	**8**	**11**
Overdraft and credit card	**3**	**-**	**3**	**2**
Unsecured personal loans	**2**	**3**	**5**	**3**
UK Retail Banking	**10**	**6**	**16**	**16**
First National	**-**	**-**	**-**	**9**
France	**3**	**3**	**6**	**64**
Italy	**-**	**1**	**1**	**7**
Continental Europe	**3**	**4**	**7**	**71**
Total	**13**	**10**	**23**	**96**

Table 3: Analysis of suspended interest 2000

	2000			
	Charge first half £m	Charge second half £m	Charge full year £m	Balance 31 December £m
Secured on residential property	6	11	17	15
Overdraft and credit card	3	2	5	3
Unsecured personal loans	2	3	5	3
UK Retail Banking	11	16	27	21
First National	0	0	0	8
France	3	2	5	64
Italy	0	0	0	7
Continental Europe	3	2	5	71
Total	14	18	32	100

Appendix 10: UK mortgage arrears

Table 1: Arrears cases

	31 December 2001			**30 June 2001**			31 Dec 2000		
	No. cases (000)	**% of Total**	**CML industry average %**	No. cases (000)	% of Total	CML industry average %	No. cases (000)	% of Total	CML industry average %
1 - 2 months arrears	**28.78**	**2.05**	**n/a**	32.07	2.23	n/a	36.27	2.56	n/a
3 - 5 months arrears	**11.15**	**0.80**	**0.71**	12.54	0.87	0.81	12.85	0.91	0.82
6 - 11 months arrears	**6.14**	**0.44**	**0.38**	6.92	0.48	0.39	7.21	0.51	0.41
12 months + arrears	**1.89**	**0.14**	**0.17**	2.01	0.14	0.17	2.36	0.17	0.17

Table 2: Properties in Possession

	31 December 2001			30 June 2001			31 December 2000		
	Nos	**% of loans**	**CML industry average %**	Nos	% of loans	CML industry average %	Nos	% of loans	CML industry average %
No. of repossessions	**1,727**	**0.12**	**0.07**	2,176	0.15	0.09	2,476	0.18	0.09
No. of sales	**2,042**	**0.15**	**0.08**	2,420	0.17	0.10	2,563	0.18	0.10
Stock	**819**	**0.06**	**0.05**	1,134	0.08	0.06	1,378	0.10	0.07

Note: Abbey National figures exclude First National.

Appendix 11: Mortgage discounts and cashbacks

	2001			2000		
	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
Interest rate discounts	**348**	**(376)**	**55**	205	(232)	83
Cashbacks	**70**	**(180)**	**290**	82	(152)	400
Total	**418**	**(556)**	**345**	287	(384)	483

Appendix 12: Headcount

Full time equivalent basis	**31 December 2001**	31 December 2000
UK Retail Banking (excluding AN Life)	**13,914**	13,390
Wholesale Banking	**1,016**	780
Business to Business (including AN Life)	**7,528**	6,734
Business to Consumer	**1,157**	1,239
Group Infrastructure	**4,019**	3,976
Group total	**27,634**	26,119

Appendix 13: Reconciliation of movement in shareholders' funds

	31 December 2001 £m	31 December 2000 £m
Equity shareholders' funds as at beginning of the year	**6,380**	5,628
Profit retained for the period	**495**	678
Increases in ordinary share capital including share premium	**144**	75
Capitalised reserves on exercise of share options	**(13)**	(15)
Other	**-**	14
Equity shareholders funds as at the end of the year	**7,006**	6,380

Appendix 14: Life Assurance– long-term economic assumptions

The value of the long-term assurance business represents the value of the shareholders' interest in the long-term assurance funds. This consists of the present value of the surplus expected to emerge in the future from business currently in-force, together with the shareholders' interest in the surplus retained within the long-term assurance funds. A series of economic and actuarial assumptions are used to determine this value.

Following the acquisition of the Scottish Provident business and changes in the economic climate, a detailed review of the economic assumptions has been carried out to ensure that these assumptions remain appropriate for the enlarged life and pensions business in the context of expected long-term economic trends.

The revised assumptions are shown below:

	2001 %	2000 %
Risk adjusted discount rate (net of tax)	**8.5**	10.0
Return on equities (gross of tax – Life businesses)	**7.5**	9.0
Return on equities (gross of tax – pensions business)	**7.0**	8.5
Return on corporate bonds – SMA only (gross of tax)	**5.75**	6.50
Return on gilts (gross of tax)	**5.0**	6.5
Inflation – Indexation	**2.5**	4.0
Inflation – Expenses	**3.5**	4.0

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 2001 or 2000, but is derived from these accounts. The preliminary announcement for the year ended 31 December 2001 was approved by the Board on 20 February 2002. Statutory accounts for 2000 have been delivered to the Registrar of Companies and those for 2001 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. The financial statements were prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 December 2001.

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.

3. An annual report on Form 20-F is expected to be filed with the Securities and Exchange Commission in the United States of America in March 2002.

4. The final ex-dividend date is 20 March 2002; the record date is 22 March 2002; the payment date for the final dividend of 33.2 pence per share is 7 May 2002; the scrip election date is 28 March 2002.

5. The scrip price will be calculated utilising the average of the mid-market price of Abbey National plc shares over the period 20 – 22 March 2002. The scrip share price can be obtained from 25 March 2002 by telephoning Abbey National Shareholder Services on 0870 532 9430.

6. The AGM will take place on 25 April 2002.

7. This report will also be available on the Abbey National Group web site: www.abbeynational.com from 21 February 2002.

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