

shareholder ● review

The Abbey National Group Annual Review 2002

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The **Abbey National**
Group



A new strategy

We are acting quickly and decisively to address challenges, focusing on our strong personal financial services businesses

Review of 2002

Abbey National's results for 2002 reflect a resilient UK personal financial services (PFS) business, which was overshadowed by large write-offs and charges relating to Wholesale Banking, Life Assurance and goodwill. These charges reflect the harsh impact on Abbey National of extremely difficult markets. They also reflect recent actions by management to recognise the challenges we are facing, and to reduce risk in the business to protect against future volatility. The organisation has a strong financial base, as we move forward with our new strategy, offering security to our 16 million customers.

The loss before tax for the Abbey National Group of £984 million is extremely unsatisfactory. On behalf of the whole Board, we would like to express our regret for the results and dividend cut that we have announced. We are acting quickly and decisively to address these challenges and details are outlined below.

Delivering a single-minded strategy

Following an intensive strategic review, the Company will be focused solely on providing a full range of personal financial services in the UK through direct and intermediary channels. This is a radical shift in strategy.

The new strategy directs all our resources towards personal financial services – by

delivering greater value to our customers, we will earn more value for shareholders. Our focus will make us unique and will enhance business performance and execution.

We have a new structure for the Company in place, designed around the customer, which is expected to deliver enhanced performance as well as streamline operations. We are focusing all our energies where we have demonstrated strengths and where we have the greatest opportunity to succeed and distinguish ourselves.

Personal financial services

The core ongoing PFS businesses remain sound and have had a good year in terms of new business. Highlights include a 10.6% share of mortgage net lending in the second half of the year and £1.8 billion of deposit inflows, opening almost half a million bank accounts, and issuing a quarter of a million new credit cards in 2002. Credit quality in these businesses remains good.

We are reducing the risks in our life assurance business and programmes are in place to protect against downward movements in equity markets.

Portfolio Business Unit

As a result of the new strategic direction, various operations including those in France and Italy, and the remaining part of the First National business have been deemed

for growth

non-core due to the lack of synergy with ongoing PFS business. These businesses will be managed for value as part of our newly established Portfolio Business Unit (PBU). It is important to stress that while we will exit these operations, many remain profitable and are open for business as usual.

In addition, asset-based portfolios representing a majority of the Wholesale Bank's risk have also been assigned to the new PBU. This reflects the desire to focus only where we have business advantage, and to align its risk appetite with that of our shareholders and customers. We have made significant progress in terms of managing and reducing the risks in these portfolios.

Capital and dividends

The Board is proposing a final dividend of 7.35 pence, to give a full year dividend for 2002 of 25 pence per share (2001: 50 pence). The 25 pence level represents an appropriate starting point based on the trading potential of the ongoing PFS businesses. It is Abbey National's intention that from 2003 the Group will return to its historical split for dividend payments, between the interim and final dividend of approximately one third/two thirds.

At all times we intend to be disciplined in managing the business for shareholder value. If surplus capital arises from our actions, we will favour shareholder distribution unless there is a compelling strategic and economic case for reinvestment.

Outlook

Despite the difficulties in 2002, we start this year with a strong base of around 16 million customers, a top five position in many relevant market segments,

a distinctive, trusted and powerful brand, and strong product distribution through a variety of channels.

Our goal is to deliver a compelling proposition to UK customers, who do not feel that they have been well served by the UK banking industry. Through the highest level of service and advice, we will aim to deliver more value to customers – to earn their trust and commitment.

We have absolute conviction that this is the right strategy for Abbey National; for our shareholders, our customers and our employees. It will, however, be a long, hard process that we envisage will span the next three years. We know that our shareholders will want to see tangible progress along the way, and we will be reporting regularly, the first such opportunity being at the time of the pre-close statement in June.

The events of 2002 have acted to focus minds, and this is already driving an increased sense of determination and delivery within the business. Our employees are key to our success and we would like to thank them for their continued hard work and commitment.

We have aligned all our talent, investment and energies on a clear, single and unifying goal under a suitable organisational structure. We are now strongly focused on delivering.



Lord Burns
Chairman



Luqman Arnold
Group Chief Executive

The Company will be solely focused on providing a full range of personal financial services in the UK through direct and intermediary channels.

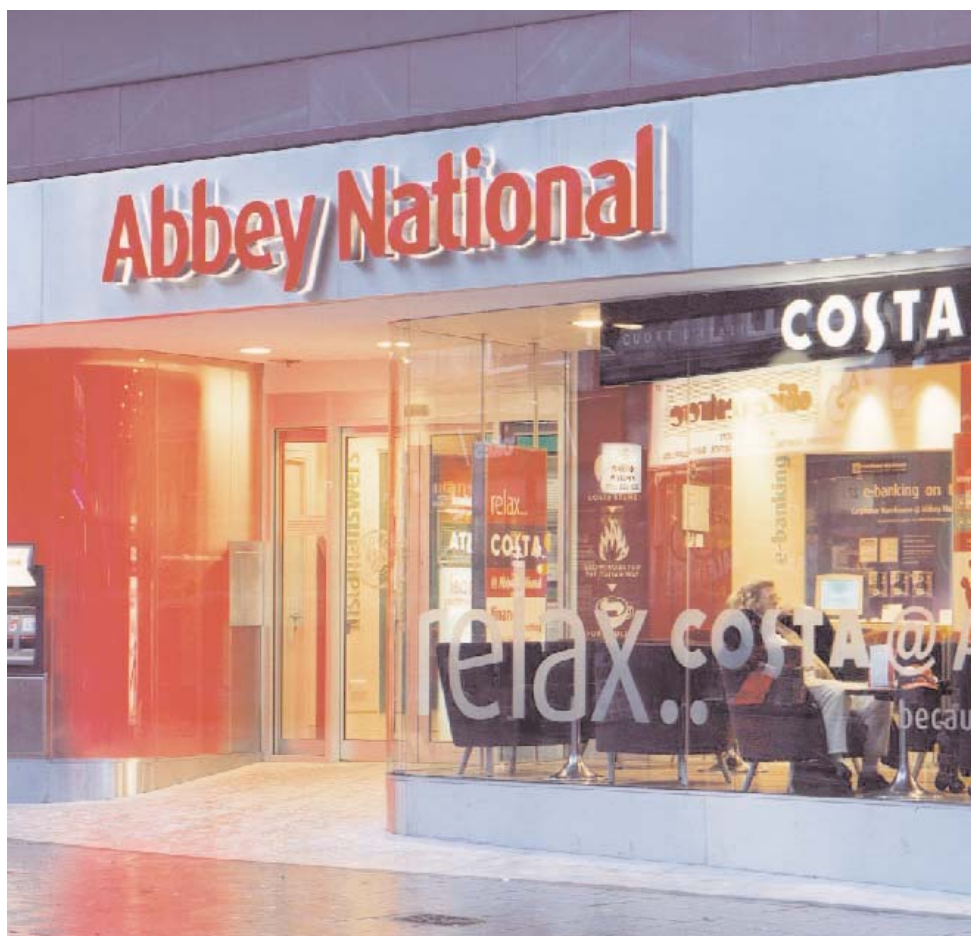
We are reducing the risks in our life assurance business, and protecting ourselves against downward equity market movement.

Mortgage sales

Abbey National is being more aggressive in the mortgage market, focusing both on acquiring and retaining customers.

The result is that gross mortgage lending in the second half of 2002 was running at around 40% ahead of the first half, with net lending at even higher levels. As a result we delivered a significantly improved market share of 10.6% in the second half of 2002, while continuing to maintain a cautious stance on credit quality.

We also improved our Introducer Internet service with the introduction of Full Mortgage Application, allowing customers to complete and send a full mortgage application online. Introducer Internet has processed almost £3 billion of completed mortgages since launching two years ago.



Trade In for a better deal!

We're so confident we can beat the competition, we're offering customers £50 if we can't.

In October, we launched the Trade In campaign where we pledged to offer our customers a better deal on existing products from any other provider, by 'trading in' current or business banking accounts, mortgages and credit cards.

We were so confident we could beat the proposition from their existing provider, that we decided to offer the customer £50 if they proved we couldn't.

The campaign allowed us to show the strength of our propositions, and has been a great success in bringing in new

customers, with only a few hundred pounds paid out by the end of 2002. It is still going strong into the new year, using the actor Martin Kemp in the advertising campaign.

£50 says you'll be better off

THE GREAT ABBEY NATIONAL TRADE iN

Walk in and walk out with a better deal today

FundsCentre launched

In May, we launched FundsCentre, making us the first UK high street bank to offer an internet-based 'fund supermarket'. Customers can choose investments online from 280 funds offered by 24 leading fund managers.

We aim to capitalise on the huge market for unit trusts, PEPs and ISAs, and to increase our earnings from wealth management and long-term savings, while offering great benefits to our customers. With no minimum investment level, the funds are accessible to people with smaller amounts to invest.

Abbey National for Intermediaries

Our unique and competitive offering in the intermediary market puts us in a strong position.

Abbey National for Intermediaries was launched in September 2002 to support intermediaries who advise customers on a wide range of personal financial services products.

The umbrella brand brings together the Group's intermediary brands, Scottish Mutual, Scottish Provident, Cater Allen Private Bank and James Hay, widening the choice of products for our customers, to include life, investment, banking, mortgages, general insurance and protection products.



With such a wide portfolio, Abbey National for Intermediaries will create new business opportunities by giving intermediaries more ideas for products that will suit their clients. At the moment, no other company in the UK offers this sort of service – creating a unique and competitive offering in the intermediary market not only puts us in a very strong position, it also gives us the opportunity to shape the market.

Abbey National joins forces with Prudential

We have joined forces with Prudential in an agreement that will put both companies in a strong position before 'depolarisation' takes effect, when banks can offer advice on other companies' regulated products. It allows us to sell a new Abbey National with-profits bond provided by Prudential and to tailor our range of life protection products for distribution by Prudential.

As with the MBNA relationship, whose expertise we use to sell Abbey National branded credit cards, we are taking advantage of Prudential's strength and leading position in with-profits bonds.

The partnership has so far been extremely successful with over 700 applications received in the first month, with a value in the region of £22 million.

We are moving swiftly to embrace the opportunities offered by depolarisation which will help make Abbey National the best on the high street for a wide range of superior investment products.

A quarter of a million cahoot accounts

During 2002, over a quarter of a million cahoot accounts were opened, bringing the total number of accepted accounts to almost 600,000.

This is a remarkable achievement and 70,000 higher than the number of accepted accounts for 2001.

With acquisition and income figures right on target, the internet bank is still on track to move into profitability towards the end of 2003.

With a growing product portfolio, cahoot continues to appeal to consumers who want attractive rates of interest with combined flexible banking options. The cahoot flexible loan has also proved extremely popular, with well over 100,000 accounts accepted in 2002.



Awards in 2002



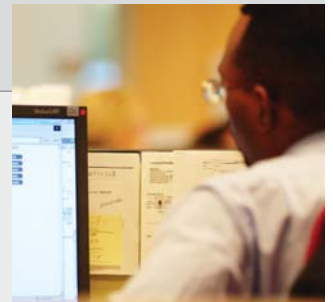
Our award-winning teams are working together for your benefit.

We aim to give our customers the best service and choice of products in the industry. We are proud of the awards we receive, which recognise the high quality of our employees, products and service.

In 2002 we received numerous industry awards for a wide range of products and services, from our online banking facilities, to the high service levels of our call centres, to recognition for the levels of disability awareness shown by our employees and branches.

Some of these awards are shown here.

- | | |
|----------|---|
| February | <ul style="list-style-type: none"> ■ Web User Gold Award for Best Overall Financial Services Website in the UK – Abbey National
Web User magazine |
| April | <ul style="list-style-type: none"> ■ Best Credit Card (standard rate) – cahoot
Moneyfacts magazine ■ Best In-Credit Current Account – cahoot
Moneyfacts magazine ■ Best Authorised Overdraft – cahoot
Moneyfacts magazine |
| May | <ul style="list-style-type: none"> ■ Best Internet Only Account Provider – Abbey National
Moneyfacts magazine |
| June | <ul style="list-style-type: none"> ■ Best Large Business Website – Scottish Provident
Winners at the Web (W@W) |
| July | <ul style="list-style-type: none"> ■ Best Internet Credit Card – cahoot
Your Money Direct Awards |
| October | <ul style="list-style-type: none"> ■ Brand Innovation Award – Abbey National
Marketing Brand Design ■ Secret Shopper Award – Abbey National
John Grooms (a charity which provides services for people with disabilities) in recognition of accessibility of branch interiors and the level of disability awareness shown by employees ■ Best Critical Illness Provider – Scottish Provident
Awarded by Health Insurance magazine for fifth year running |
| November | <ul style="list-style-type: none"> ■ Retail Innovation Award for Most Innovative Working Practices (Banks & Building Societies) – Abbey National
Institute of Financial Services ■ Top Call Centre of the Year – Abbey National
Financial Advisor magazine ■ Overall Mystery Shopper Tied Agent of the Year and Call Centre Mystery Shopper of the Year – Abbey National
Financial Times / Financial Advisor Sales Awards |



Striving to be good citizens

We feel the social, financial and environmental well-being of the communities we serve is crucial.

Abbey National is committed to good corporate citizenship and to treating all those who come into contact with the Company in a fair and ethical manner.

In March 2002, the Board formed a Corporate Social Responsibility (CSR) Steering Group to oversee all CSR matters. We include social, ethical and environmental responsibilities in our management standards across the business at every level. We are committed to adopting policies and procedures across the Group that benefit the environment, for example in the design and management of our buildings and in the material resources we use – such as paper, water, energy and furnishings.

Values

Abbey National's ethical principles are set out in our policy 'How We Do Business' (updated by the Board in December 2002), which covers our responsibilities to our regulators, customers, employees, the community, and suppliers. It also includes a commitment to incorporating ethical concerns in investment decisions on a case-by-case basis. When

investing Abbey National assets, we take human rights issues into consideration and exercise special care before making investments in a number of areas, including the defence sector and organisations or activities that could have an adverse impact on public health or the environment.

We believe there are real business benefits to being a good corporate citizen, and our long-term financial success is closely linked to the way we manage our wider responsibilities.

Setting standards

Abbey National is also a member of the FORGE Group, a consortium of UK banks and insurance companies which developed management and reporting guidance on corporate social responsibility. We believe the guidelines will provide us with the foundation on which to build future environmental and social management and help to achieve a higher level of commitment and consistency across the sector.



Our commitment to local communities

In December 2002 we completed our three year programme of establishing a network of 21 employee community groups based in regional locations where Abbey National has a major presence.

This year, our local Community Partnership Groups, including retired employees and charity stakeholders, made donations to 395 charities across the UK. Total community support for the year was £2,762,360.

More than 4,800 employees participated in one of our matching schemes. Matched donations worth £621,500 were made by the Charitable Trust, adding to funds raised by

employees. Over 460 hours of paid work time was given to support employee volunteering.

Supporting employees to play an active role in their local communities will continue to be part of our commitment to the community throughout 2003.

Here are just a few of the charities we've worked with during 2002:

- The Joseph Clarke School for the Visually Impaired, East London, received a donation that allowed them to purchase a library of 100 "story sack" titles. These help books become more accessible to visually impaired children by using real objects to illustrate each story.
- Community Service Volunteers, Bristol, was given a donation for a community

allotment and tree nursery to help regenerate a deprived area of the city.

- Tulketh School in Preston received a generous donation from the local Abbey National branch. This will enhance sporting facilities to benefit local schools, the community, the disabled and those with learning difficulties and/or behavioural problems.



The purpose of this report is to inform shareholders of Abbey National's policy on remuneration (pay and benefits) as recommended by the Personnel and Remuneration Committee and adopted by the Board.

Overall remuneration strategy

The aim of the remuneration strategy is to allow the Company to secure the talent that it needs to meet its business aims, encourage superior performance and appropriate behaviours, and align the interests of employees and shareholders. We achieve this through policies that aim to make sure that:

- overall rewards are competitive in the relevant market;
- salary increases and bonus payments are based on contribution; and
- all staff are given the opportunity to buy shares in the Company.

These policies govern the design of remuneration arrangements for staff at all levels and in all companies across the Group.

Executive directors' remuneration policy

The remuneration policy for the executive directors follows the principles of the overall remuneration strategy described above. The current policy is described below. The overall remuneration strategy, and the policy for directors, will be reviewed during 2003 to ensure that they are properly aligned with the Company's revised business strategy.

Overall pay levels

In deciding pay levels, the Personnel and Remuneration Committee looks particularly at the pay levels in other UK companies with a similar market capitalisation. The policy is that overall levels of remuneration should be around the middle of this group. Pay levels in other UK financial services companies are also taken into account. The Committee believes that a significant proportion of the pay of the executive directors should be linked to performance. Over half the expected value of their pay (excluding pension) comes from bonus and share schemes in which payment depends on performance.

Basic salary

Basic salaries are reviewed every year and are set to be competitive in the context of the pay of people in similar roles in other UK companies with a similar market capitalisation. The policy is that basic salaries should be around the middle of this group.

Annual performance bonus

The discretionary annual performance-related bonus is designed to provide a direct link between each individual's remuneration and the performance of the Company in the short-term. Total payments under the scheme are based on the Committee's assessment of the Company's performance against a range of measures

agreed at the beginning of the financial year. These include the short-term financial performance of the Company and also qualitative measures linked to the longer term creation of shareholder value. Payments to individual directors reflect their performance and contribution during the year. From 2003, i.e. payment in 2004 in relation to performance in 2003, the maximum payment under the scheme is 100% of basic salary. This has been increased from a maximum of 70% to bring it more in line with the practice in the comparator companies. The Personnel and Remuneration Committee has retained discretion to pay bonuses above the maximum in exceptional circumstances. In 2002, the Committee decided to award a bonus of 70% of annual basic salary to Stephen Hester to reflect his exceptional contribution since joining as Group Finance Director in May 2002.

Total payments under the scheme for 2002 represented 38% of the salaries earned during the year (2001: 45%).

Performance conditions on share schemes

The Share Matching Scheme and Executive Share Option Scheme described below use earnings per share as a performance measure. Changes in the accounting treatment of embedded value mean that earnings per share are likely to be more volatile in future years. This has called into question the suitability of earnings per share as a performance measure in these schemes.

For 2003 the performance conditions will be based entirely on the Company's total shareholder returns. This change is an interim measure. During 2004 the schemes will be reviewed to ensure that they are fully aligned with the new strategy and key performance indicators. Changes in the schemes will be presented for shareholder approval at the AGM in 2004.

No changes have been made to the performance conditions of existing grants or awards under the schemes.

Share Matching Scheme

Executive directors may take part in a Share Matching Scheme. Under the scheme, directors may choose to invest some or all of their bonus in the Company's shares ("the purchased shares"). After three years, as long as the director remains in employment and has not sold the purchased shares, he or she will receive a matching award ("the matching shares") with a value at the start of the three years equal to the value of the pre-tax bonus invested in the purchased shares. For awards in 2002, these matching shares will be available in full only if the Company's earnings per share growth is more than Retail Price Inflation (RPI) by an average of at least 7% each year; 10% of the shares will be matched if growth in earnings per share is more than RPI by an average of 3% each year, and in proportion between these two points. This performance target applies over a fixed three-year period.

For 2003 half of the matching award will be based on the Company's total shareholder return (TSR) compared with the FTSE 100 companies, and half will be based on TSR compared with the group of 13 UK financial services companies used for the Executive Share Option Scheme (see below). Performance against each of these groups will be assessed separately. The matching shares will be available in full only if the Company's TSR is at the upper quartile of the group; half of the award will be available if the Company's TSR is at the median of the group and in proportion between these two points. The performance target applies over a fixed three-year period.

Executive Share Option Scheme

The Company's current policy is to grant options to executive directors each year with a total exercise price equivalent to twice the individual's basic annual salary. Exceptional awards have been made to Luqman Arnold and Stephen Hester who were appointed during the year. These are described in 'New appointments' on page 9 of this publication. Options are also granted to senior executives and to other colleagues who have made an exceptional contribution during the year.

The scheme allows executives to buy shares at the market price at the time the option is granted. The executives only benefit from the scheme to the extent that the Company's share price rises. Their ability to exercise the options is also subject to the Company meeting a number of demanding performance targets. For the options granted in 2002, there are three performance targets and these operate separately:

- 50% of the total options granted depend on the amount by which the growth in earnings per share is ahead of RPI. All of these options can be exercised only if the growth in earnings per share is ahead of RPI by at least 7% each year; half of the options can be exercised if the growth in earnings per share is ahead of RPI by an average of 3% each year, and in proportion between these two points;
- 25% of the options granted depend on the Company's TSR performance compared with the other companies in the FTSE 100. All of these options can be exercised if the Company's TSR performance is ranked in the top quarter in relation to the other companies; half of these options can be exercised if the Company's TSR performance is ranked at the median (i.e. middle) of the group, and in proportion between these two points; and
- 25% of the options granted depend on the growth in the Company's TSR compared with a group of UK financial services companies. For the options granted in 2002 the companies were Alliance and Leicester, Barclays, HBOS, Legal and General, Lloyds TSB Group, Northern Rock, Prudential and Royal Bank of Scotland Group. All of these options can be

Executive directors



Luqman Arnold *
Group Chief Executive
Luqman Arnold was appointed Group Chief Executive in October 2002. Luqman was previously at UBS AG where he was President and chaired the Group Executive Board, at Banque Paribas as a member of the Executive and Management Committees, and at Credit Suisse First Boston as a member of the Operating Committee. Aged 52.



Stephen Hester
Group Finance Director
Stephen Hester was appointed Group Finance Director in May 2002. He started his career with Credit Suisse First Boston in 1982. He was appointed to the Executive Board in 1996 as Chief Financial Officer and Head of Support Division until he was made Global Head of Fixed Income Division in 2000. Aged 42.



Yasmin Jetha
Group IT & Infrastructure Director
Yasmin Jetha was appointed Group IT & Infrastructure Director in January 2001. Her previous positions in Abbey National include Director, Corporate Systems; Director, Retail Lending, and Director, Retail Service and Operations. She is also a Pensions Trustee. Aged 50.



Malcolm Millington
Managing Director, Wealth Management & Long-Term Savings
Malcolm Millington was appointed IT Director in 1999. In June 2000, he became Managing Director, Business to Consumer Banking, and as of 1 March 2002, he is Managing Director, Wealth Management & Long-Term Savings. Aged 52.



Mark Pain
Managing Director, Wholesale Banking
Mark Pain was appointed Finance Director in 1998 and Managing Director, Wholesale Banking in November 2001. His previous appointments include Manager, Strategic Planning; Manager, European Operations; Regional Director, Retail, and Group Financial Controller. Aged 41.

- * Nomination Committee Member
- # Personnel and Remuneration Committee Member
- † Audit Committee Member
- Some directors' responsibilities will change with the new structure.

exercised if the Company's TSR performance is ranked in the top quarter in relation to the other companies; half these options can be exercised if the Company's TSR performance is ranked at the median of the group, and in proportion between these two points.

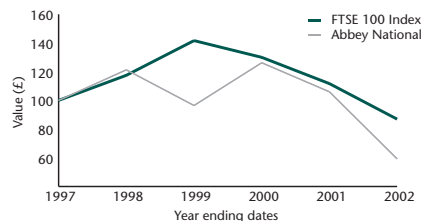
Performance is measured initially over three years. If the conditions have not been met in full after three years, performance is re-tested over four and five years. Any options that have not met the performance criteria after five years lapse and cannot be exercised.

For options granted in 2003, 50% will depend on the Company's TSR compared with the other companies in the FTSE 100, and 50% will depend on the growth in TSR compared with a group of UK financial services companies. This group will comprise the companies listed above plus Aviva, Bradford & Bingley, Friends Provident, HSBC and Old Mutual. The two performance conditions will operate separately. All of the options will be eligible to be exercised if the Company is ranked in the top quarter in relation to the other companies; half of the options will be eligible to be exercised if performance is the median of the group, and in proportion between these two points.

These performance factors have been chosen to align the directors' interests with those of shareholders and to support the Company's objectives in achieving sustained growth in profitability.

Performance graph

The graph below shows a comparison between the Company's TSR performance compared with the companies in the FTSE 100 index. The graph looks at the value, by end of 2002, of £100 invested in Abbey National on 31 December 1997 with the value of £100 invested in the FTSE 100 index. The FTSE 100 group has been chosen to give a comparison with the average returns that shareholders could have received by investing in a range of other major UK companies.



Other benefits

Some of the directors are eligible for a Company subsidy on their membership of the Group Private Medical Insurance Scheme and a concessionary mortgage rate on the same basis as other employees

with the same starting date. These benefits are not offered to directors joining the Company now.

The executive directors are also eligible to take part in the Company's Sharesave Scheme and the Partnership Share Scheme on the same conditions as other employees.

Pensions

Executive directors are eligible to join one of the Company's pension schemes. Luqman Arnold and Stephen Hester receive an allowance calculated as a percentage of basic salary from which they make their own pension arrangements. They are eligible to use some of this allowance to join the Company's defined contribution scheme. The other executive directors are members of the Abbey National Amalgamated Pension Scheme, on the same basis as other employees with a similar length of service. This is a defined benefit scheme providing a pension of 1/50th of final salary for each year of pensionable service. No element of remuneration is treated as pensionable other than the basic salary.

New appointments

Stephen Hester was appointed Group Finance Director with effect from 13 May 2002. He is eligible to participate in the annual bonus scheme, Executive Share Option Scheme and Share Matching Scheme on the same basis as the other executive directors. On appointment he was granted options with a total exercise price equivalent to four times his annual salary. These options were granted at an exercise price of £10.83 per share and were subject to the normal performance conditions described above. In return for these options, he purchased shares from his own resources, with an initial value of £500,000 at a price of £10.96 per share. A further grant of options with a total exercise price of twice salary will be made in March. These will be in addition to the normal discretionary grant under the scheme.

Luqman Arnold was appointed as Group Chief Executive with effect from 21 October 2002. He is eligible to participate in the annual bonus scheme, Executive Share Option Scheme and Share Matching Scheme on the same basis as the other executive directors.

On appointment he was granted share options with a total purchase price of four times his annual salary. The performance conditions on this initial grant of options were designed to reflect the state of the Company's affairs at the time. The growth in earnings per share will be compared with the annualised earnings per share in the first half of 2002. TSR performance will be compared with the TSR in the four months from 1 June to 30 September 2002. Any future grants will be subject to the normal performance conditions.

This option grant was conditional on his purchasing, from his own resources, shares to a value of £675,000

at a price of £6.20 per share. If, before the next grant of options under the Executive Share Option scheme, he increases his share purchases to a total value of £1,000,000, he will receive further options over shares with a market value of one times salary, or two times salary if he increases his share purchases to a total value of £1,500,000. These additional options will be granted in 2003 and will be over and above any normal discretionary grant under the Executive Share Option Scheme.

The purpose of these arrangements for the new appointments was to ensure, immediately on appointment, that the new directors had a direct interest in the Company and that their interests are aligned with those of shareholders.

Non-executive directors' fees

The Board decides the remuneration arrangements for the Chairman and non-executive directors. The Chairman receives fees, benefits and expenses for services. He is not entitled to take part in any bonus or profit-sharing arrangements or the Executive Share Matching or Executive Share Option Schemes. The Chairman's appointment is non-pensionable. For part of 2002 Lord Burns assumed the role of Executive Chairman. He was paid increased fees for his additional responsibilities during this period. Fees are paid to non-executive directors. The basic fee for non-executive directors is reviewed every two years and the latest review took place during 2002. The basic fee is now £40,000 a year. An extra fee of £10,000 is paid for service on the Audit Committee and £7,500 for the Personnel and Remuneration Committee. There is an extra fee of £2,500 a year for chairing the Personnel and Remuneration Committee. An extra fee of £5,000 is paid for service on the Retail Strategy Board. (This is not a committee of the Board but an advisory group to help the management team of the Retail Banking Division.) Lord Shuttleworth receives an extra fee as a director of Abbey National Group Pension Fund Trustees Limited and the National and Provincial Building Society Pension Fund Trustees Limited. Keith Woodley's fees include payment for services as Deputy Chairman of Abbey National plc and Chairman of the Audit Committee.

From July 2002 the non-executive directors decided that a minimum of £10,000 each year from their fees should be used to buy Abbey National shares. The directors have indicated that they will not sell these shares while they remain directors of Abbey National.

Taxable benefits for non-executive directors include travel and other expenses for attending Board meetings.

Non-executive directors



Lord Burns * Chairman

Lord Burns was appointed Joint Deputy Chairman on 1 December 2001 and Chairman on 1 February 2002. He is also Chairman of Glas Cymru Ltd (Welsh Water) and a non-executive director of Pearson Group plc and British Land plc. Aged 58.



Keith Woodley † Deputy Chairman and Senior Independent Non-Executive Director

Keith Woodley was appointed a director in 1996. He became Deputy Chairman and Senior Independent Non-Executive Director in 1999. He is currently Complaints Commissioner for the London Stock Exchange and a Council Member and Treasurer of the University of Bath. Aged 63.



Leon Allen †#

Leon Allen, a US citizen, was appointed a director in 1998. He has held appointments as CEO of Del Monte Foods Europe, Chairman and Chief Executive of Del Monte Foods International Ltd and Chairman and Chief Executive of Tetley Group Ltd. He is the Non-Executive Chairman of Braes Group Ltd. Aged 63.



Richard Hayden †

Richard Hayden, a US citizen, was appointed a director in 1999. He was previously employed at Goldman Sachs where he held a number of posts since 1969. He is currently Executive Chairman of GSC Partners Europe Ltd. Aged 57.



Peter Ogden

Peter Ogden was appointed a director in 1994. He is a former Managing Director of Morgan Stanley & Co and is currently Chairman of Computasoft Ltd and Omnia Ltd, and a non-executive director of PSION PLC and Computacenter PLC. Aged 55.



Vittorio Radice

Vittorio Radice, an Italian citizen, was appointed a director in 2001. He is currently Chief Executive of Selfridges plc, however from 3 March he will move to Marks & Spencer plc as Executive Director, Home. He was formerly Managing Director of Habitat UK and is also a non-executive director of Shoppers Stop India Ltd. Aged 45.



Lord Shuttleworth *#

Lord Shuttleworth was appointed a director in 1996 and held the post of Deputy Chairman from 1996 to April 1999. He was formerly Chairman of the National and Provincial Building Society and the Rural Development Commission. He is currently Lord-Lieutenant for the County of Lancashire. Aged 54.

Summary directors' report

The following is the summary financial statement for Abbey National plc and its subsidiaries for the year ended 31 December 2002. The information provided is only a summary of that contained in the 2002 Annual Report and Accounts.

Results and dividends

The loss on ordinary activities before tax for the year ended 31 December 2002 was £984 million (2001: profit of £1,470 million). An interim net dividend of 17.65 pence per ordinary share was paid on 7 October 2002 (2001: 16.80 pence per ordinary share). The directors propose a final dividend for the year of 7.35 pence per ordinary share (2001: 33.20 pence per ordinary share) to be paid on 6 May 2003.

Business review and future activities

The 2002 business review and prospects for 2003 are set out in the Business Review on page 2 of this document.

Directors

All of the directors shown on pages 8 and 9 have served on the Board for the whole of the period 1 January 2002 to 31 December 2002, with the exception of Luqman Arnold and Stephen Hester, who were appointed to the Board on 21 October and 13 May respectively. Having been appointed to the Board since the last Annual General Meeting, Luqman Arnold and Stephen Hester will retire and, being eligible, offer themselves for election at the forthcoming Annual General Meeting. Timothy Ingram, John King and Ian Treacy all resigned as executive directors on 28 February 2002. Ian Harley resigned as Chief Executive Officer on 19 July 2002, Andrew Pople resigned as executive director on 28 November 2002, and Lord Currie resigned as non-executive director on 31 July 2002. Richard Hayden, Lord Shuttleworth and Keith Woodley will retire by rotation at the Annual General Meeting and, all being eligible, offer themselves for re-election.

Audited annual financial statements

The auditors' report in the financial statements of the Company for the year ended 31 December 2002 was unqualified and did not contain a statement under either Section 237(2) or 237(3) of the Companies Act 1985.

Aggregate directors' emoluments

The total emoluments for the directors, excluding pensions, for the year ended 31 December 2002 were £8,556,855 (2001: £4,720,621). With respect to former directors, there are pension benefits in lieu of notice and contractual pension benefits on redundancy totalling £1,927,000. In addition, gains made during the year by directors and former directors on the exercise of share options were £718,664 (2001: £780,292).

Summary consolidated profit and loss account

for the year ended 31 December 2002

	Total 2002	Total 2001 (restated)
	£m	£m
Net interest income	2,689	2,692
Fees, commissions and other income	811	1,319
Total operating income	3,500	4,011
Operating expenses excluding impairment of goodwill and operating lease assets depreciation and impairment	(2,056)	(1,856)
Impairment of goodwill	(1,138)	–
Depreciation and impairment on operating lease assets	(280)	(256)
Provisions and amounts written off fixed asset investments	(1,075)	(510)
Operating (loss) profit	(1,049)	1,389
Income from associated undertakings	17	14
Profit on disposal of Group undertakings	48	67
(Loss) profit on ordinary activities before tax	(984)	1,470
Tax on (loss) profit on ordinary activities	(152)	(464)
(Loss) profit on ordinary activities after tax	(1,136)	1,006
Minority interests – non-equity	(62)	(59)
(Loss) profit for the financial year attributable to the shareholders of Abbey National plc	(1,198)	947
Transfer from non-distributable reserve	263	161
Dividends including amounts attributable to non-equity interests	(424)	(762)
Retained (loss) profit for the year	(1,359)	346
(Loss) profit on ordinary activities before tax includes:		
for acquired operations	4	25
(Loss) earnings per ordinary share – basic	(87.4)p	63.2p
(Loss) earnings per ordinary share – diluted	(86.9)p	62.8p

Ordinary shareholder analysis

as at 31 December 2002

Size of shareholding	Ordinary shares of 10p	
	Shareholders	Shares
1-100	1,133,819	108,571,015
101-1,000	730,888	288,198,092
1,000+	36,692	1,061,244,237
Total	1,901,399	1,458,013,344

Important note

This summary financial statement does not contain sufficient information to allow a full understanding of the results and state of affairs of the Group. For further information, the Annual Report and Accounts, which includes the full annual financial statements, should be consulted. The Annual Report and Accounts is available on the internet at www.abbeynational.com, or a free copy of the Annual Report and Accounts is available on request from Shareholder Services by calling the shareholder enquiries number on the back of this Annual Review. If, in addition, you would like to receive the Annual Report and Accounts of Abbey National plc in future years, please write to Shareholder Services giving your full name, address and your shareholder account number (which can be obtained from your dividend tax voucher).

Summary consolidated balance sheet

as at 31 December 2002

	2002	2001 (restated)
	£m	£m
Assets		
Cash, treasury bills and other eligible bills	1,879	2,983
Loans and advances to banks	6,601	9,874
Loans and advances to customers not subject to securitisation	81,912	78,650
Loans and advances to customers subject to securitisation	24,156	18,883
Less: Non-returnable finance	(15,160)	(12,952)
Loans and advances to customers	90,908	84,581
Net investment in finance leases	3,447	4,738
Securities and investments	60,770	68,673
Long term assurance business	2,316	1,662
Intangible fixed assets	376	1,243
Tangible fixed assets excluding operating lease assets	371	336
Operating lease assets	2,573	2,522
Other assets	7,069	7,383
Assets of long term assurance funds	29,411	30,415
Total assets	205,721	214,410
Liabilities		
Deposits by banks	24,174	24,945
Customer accounts	76,766	75,809
Debt securities in issue	48,079	54,413
Other liabilities	12,969	13,739
Subordinated liabilities including convertible debt	7,303	6,887
Liabilities of long term assurance funds	29,411	30,415
	198,702	206,208
Minority interests – non-equity	627	681
Non-equity shareholders' funds	748	748
Equity shareholders' funds	5,644	6,773
Total liabilities	205,721	214,410
Memorandum items		
Contingent liabilities	2,059	2,522
Commitments	23,490	28,069

The summary financial statement set out on pages 10 and 11 was approved by the Board on 25 February 2003 and signed on its behalf by:



Lord Burns
Chairman



Luqman Arnold
Group Chief Executive



Stephen Hester
Group Finance Director

Auditors' statement to the members of Abbey National plc

We have examined the summary financial statement which comprises the summary directors' report, the summary consolidated profit and loss account, the summary consolidated balance sheet and the summary remuneration report.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Review in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full Annual Report and Accounts and the directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with bulletin 1999/6 The Auditors' Statement on the Summary Financial Statement issued by the United Kingdom Auditing Practices Board.

Opinion

In our opinion, the summary financial statement is consistent with the full Annual Report and Accounts of Abbey National plc for the year ended 31 December 2002 and with the Companies Act 1985, and the regulations made thereunder.


Deloitte & Touche

Chartered Accountants and Registered Auditors
London, 25 February 2003

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statement since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.



Abbey National for your banking and investment needs

1 Abbey National for your banking needs

Abbey National is offering attractive rates at 3% gross rate p.a. and 3.04% AER on preferred in-credit rate or 8.7% APR preferred overdraft rate. Our Switcher Service gives you an interest free overdraft for four months from the date of application and is the easy way to move to an Abbey National Bank Account. We do all the work for you, from writing to your existing bank, to changing your direct debits and standing orders. All we need is your signature and we do the rest.

For more information call us free on
0800 731 7774

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Abbey National savings bonds provide a secure home for your money, and with our guaranteed fixed rate bonds, you know how much your savings will grow. We also have a range of investment offerings, including Safety Plus-Growth (Issue 11), which aims to provide protection for your investment and a minimum return at the end of five and a half years. You may also benefit from further growth depending on the performance of the stockmarket.

For more information call us free on
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0800 174 635 for savings bonds

3 A great credit card deal

The Abbey National Credit Card and Abbey National Platinum Credit Card, issued by MBNA Europe Bank Limited, offer great cards to suit your needs. With our balance transfer offer, you can enjoy 0% p.a. fixed for six months from the date your account is opened, when you transfer your balance from other credit or store cards, 15.9% APR (variable) for card purchases.

To apply for an Abbey National Credit Card or for more information simply call us on **0800 731 7774**

Telephone lines are open 8am – 9pm Mon to Fri, 8am – 4pm Sat, and 10am – 4pm Sun. Telephone calls may be monitored and/or recorded. The Abbey National Credit Card is issued by MBNA Europe Bank Limited. Registered Office: Stansfield House, Chester Business Park, Chester CH4 9QQ. Registered in England number 2783251. Written quotations available on request. Credit is available, subject to status, only to UK residents aged 18 or over. Please remember the value of investments can fall as well as rise and is not guaranteed. If you cash in your investment early you may get back less than your original investment. Our associate company Abbey National Treasury Services plc has been appointed as Investment Manager in relation to this investment and may be the sole market maker in the underlying assets. Associate companies may maintain a holding in the underlying assets.

SHAREHOLDER OFFER



Make savings on cross-Channel fares with SeaFrance

Abbey National has teamed up with SeaFrance to offer you discounts on all Dover to Calais cross-Channel fares for 2003. SeaFrance offers competitive prices on fares and in the on-board shops – you can save up to 50% on UK high street prices – as well as duty free on tobacco and drinks in the bars and restaurants.

To qualify for a 10% discount, bookings should be made via SeaFrance's website www.seafrance.com, entering the offer code **112235abbey**, or by calling the SeaFrance call centre on **08705 711 711** and quoting **112235abbey**. Fares can be found on SeaFrance's website or by calling **08705 711 711** for a brochure or a quote.



These discounts are not available at the port or on the day of travel. Outward travel must be before 31 December 2003 and return travel must be completed by 14 January 2004. Terms and conditions apply.

For more information log on to: www.abbeynational.com
Shareholder enquiries: **0870 532 9430**

Shareholder Services, Abbey National plc, Carbrook House, 5 Carbrook Hall Road, Sheffield S9 2EG

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