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2001 Interim Financial Results

Chief Executive's Review

sustaining our track record of profitable growth, well placed to take advantage of future opportunities

"Abbey National is in better shape than ever. We have forged ahead with the business in the first half, and have not allowed the corporate uncertainty of recent months to steer us off course. We have again achieved outstanding double-digit growth in both profits and revenue. So far this year, we have already made two acquisitions - IEM aircraft leasing and Fleming Premier Banking, with Scottish Provident joining us on 1 August. We have also successfully secured three value-creating strategic alliances with Capita Eastgate, EDS and MBNA.

Retail Bank profits were up 13%, with record net mortgage lending of 2.2 billion, a 10% market share, which has boosted profits from mortgage and savings despite further managed spread decline. The contribution from our diversified businesses increased to 55% of the Group's total profits, with another record performance from our Life Assurance businesses, up 27%, and a 17% uplift in the Wholesale Bank.

We remain one of the most efficient banks in the world. In the first half of the year the Group's cost:income ratio improved to 41.8%, and in the Retail Bank absolute cost reduction helped to reduce the cost:income ratio to an all-time low of 37.0%. We remain committed to reducing the Group's costs this year and we are on track to achieve this.

In recent months, the UK banking landscape has changed. In this new environment, Abbey National is well placed to take advantage of significant growth opportunities. We have a proven track record in making acquisitions, and have the option to play our part in future UK consolidation. We are building a powerful business portfolio in high growth businesses such as Life Assurance, Wealth Management and Business Banking, in addition to our established businesses.

Over the next three to five years, we expect our business to be made up of three broadly equal parts - Retail and Consumer Finance, Wholesale and Business Banking, and Life Assurance and Wealth Management. We are also aiming to grow our earnings from overseas markets, and raise our international earnings from an estimated 15% to around 25%.

We are setting the pace of change in UK financial services, introducing cutting-edge new business models to drive up growth and value, and, more importantly making these creative solutions work for our customers and our shareholders."

Ian Harley

Financial Highlights

- | | |
|---|--|
| double-digit profit growth | <ul style="list-style-type: none"> • Profit before tax increased 15% to £1,062 million (2000: £922 million). • 55% of profit before tax was generated by businesses other than mortgages and savings compared to 50% in the same period last year. There was excellent profit growth across the Group, with the Retail Bank up 13%, the Wholesale Bank up 17% and our Life Assurance businesses 27% higher. |
| revenue rising faster than cost | <ul style="list-style-type: none"> • Total Group revenue grew 14%^① compared to cost growth of 6%. Excluding corporate advisory fees, costs increased by 3%, reflecting new business growth in the Wholesale Bank. Operating expenses in Retail Banking were below 2000 levels, and we are on target to meet the full year cost objectives of reducing costs in both Retail Banking and at Group level. The cost:income ratio improved to 41.8% (2000: 44.9%). • Further significant disposals of non-core assets generated a profit of £101 million, again exceeding the cost of investment in new business ventures which peaked in 2000. We continue to focus on building our key profit streams and exiting from businesses that offer poorer returns to shareholders. |
| credit quality remains strong | <ul style="list-style-type: none"> • Credit quality remains strong in Retail Banking and First National, with provisions for bad and doubtful debts broadly level. In the Retail Bank, mortgage arrears have declined further to their lowest levels for over a decade. • Earnings per share of 46.9 pence are up 10%, with an interim dividend per share of 16.8 pence up 11%, and the post tax return on equity down marginally to 20.0% (2000: 20.7%). The equity tier 1 capital ratio increased to 7.8% (December 2000: 7.5%). |
| further diversification within UK Retail Banking | <ul style="list-style-type: none"> • Retail Banking pre-tax profits increased to £683 million, up 13% (2000: £605 million) boosted by profits from the sale of the credit card asset to MBNA. The impact of narrowing retail spreads was more than offset by strong Abbey National Life new business premiums. Underpinning the results is delivery of efficiency improvements across the business, thereby reducing operating costs. • The retail banking spread for the first half is 1.92% (2000: 2.06%), and is likely to exceed the target range for the full year of 1.75% to 1.80%. |
| double-digit profit growth in Wholesale Banking | <ul style="list-style-type: none"> • Wholesale Banking delivered another strong performance, with pre-tax profits rising 17% to £307 million. Whilst the slowdown in global markets affected certain business lines and increased provisioning levels, it also generated significant opportunities to acquire good quality, investment grade assets. The Wholesale Bank continued its strong track record of double digit profit growth, and improved its cost:income ratio to 18.6% (2000: 20.4%). |
| Scottish Mutual driving growth in Business to Business | <ul style="list-style-type: none"> • Profit before tax in Business to Business increased 4% to £126 million, with strong profit growth in Scottish Mutual, up 19% to £63 million. In First National, tough trading conditions in the motor and retail finance markets saw reduced new business income and a drop in asset balances. As a result, profit before tax decreased by 7% to £64 million. |
| investing for future growth in Business to Consumer | <ul style="list-style-type: none"> • Profits in our established Wealth Management businesses are up 12% to £28 million, with strong performances in Cater Allen, James Hay and Abbey National Offshore. • Significant set-up investment in cahoot and Inscape has continued, amounting to £14 million in the first six months. |

① Total revenue growth is stated after deducting Depreciation on operating lease assets.

Operating Highlights

leveraging the strength of our brands

**managing for value
in the mortgage
portfolio**

**over £1.2 billion of
Group retail deposit
inflows**

**the UK's leading
bancassurer**

**multi-channel,
multi-branded, life
assurance portfolio**

**world class funding
& investment
franchise in
Wholesale Banking**

- Mortgage net lending of £2.2 billion represents a 10% market share. Targeted retention activity has reduced our market share of capital repayments still further to 11%, and it has now been below our stock share for the last two and a half years.
- Strong deposit inflows across the Group, including the successful launch of the Branch Saver, and retention of Tessa maturities which contributed to ISA inflows of almost £2 billion. Cahoot and Abbey National Business Banking accounts also contributed to the strong inflows.
- Despite volatile equity markets, new business premiums through Abbey National Life of £1 billion surpassed last year's record levels by 18%. We have now sold long term investment products to 15% of our active customer base, up from 13% at the same point last year, and are making good progress towards the 20% target by the end of 2003.
- Scottish Mutual new business premiums increased 12% to almost £1.3 billion, driven by continued international growth through Scottish Mutual International, up by 50%. At June 2001, total Group funds under management of £21.5 billion are up by 13% on the same period last year.
- The Wholesale Bank is continuing to leverage its expertise into newer markets including a range of fast growth asset financing markets such as project finance. As part of our leasing portfolio, Porterbrook has performed well since acquisition in the first half of 2000. In May, we acquired the aircraft leasing company IEM, from ING Lease Holding NV. The transport leasing business is viewed as a key area for future growth.
- The business is supported by its world-class global funding franchise, with plans being progressed to open a US office, following the establishment of a branch in Hong Kong last year.

innovative solutions, promises met

**1.1 million
customers
registered online**

**leading the market
in introducer
internet capability**

**sales uplift of 21%
from franchising**

**transforming the
business through
strategic alliances**

**efficient capital
management**

- The Group has now registered 1.1 million customers to its online services since launch a little over 1 year ago. In the UK Retail Bank, we have registered nearly 950,000 customers and originated over 150,000 product applications online. In Cahoot, the customer base is now over 150,000.
- Nearly £3 billion of mortgage agreements in principle have been delivered online through our introducer internet service. Using leading edge technology, the service has now registered over 10,000 mortgage introducers. It offers a decision in principle in 60 seconds and real time tracking functionality.
- Since launch in July of last year, 22% of the branch network has now been incorporated within the internal franchising scheme, with sales uplift currently running at 21% over the network average. We are continuing to roll franchising out across the branch network.
- Business alliances with Capita Eastgate, EDS, and MBNA were announced in the first quarter. In July, we launched our first credit cards under the new MBNA arrangement, and have already received over 45,000 account applications. We are targeting to have 2 million cards in issue within 5 years, and are aiming to have opened over a quarter of a million accounts by the end of 2001, bringing our total cards in issue to over three quarters of a million.
- Through the Wholesale Bank, the Group confirmed its position as the leading European Mortgage securitiser, completing a further £2.2 billion in the first half of this year and a further £2.7 billion in July. To date, we have securitised £11.8 billion of our mortgage asset.

sustaining our track record of growth
**net branch based
bank account
openings up 300%**

- Good progress is being made in the current account market, with a net increase in Group customer numbers of 300,000 since June last year. Net branch based openings through the Abbey National brand are up over 300% on the same period last year, providing us with a real opportunity for cross-selling related banking and insurance products.

**a proven track
record in growing
life assurance
earnings**

- The proposed transfer of Scottish Provident has now received all member and court approvals, and we will take control of the business on August 1st. Integration planning has progressed well, the new management structure has been finalised and the business is performing well. We remain confident of achieving our announced cost synergies of £55 million per annum, as well as additional revenue synergies.

**a strong business
customer franchise**

- The Abbey National Group now provides a range of financial services to over 150,000 business customers.

**a real alternative in
SME banking**

- Through First National, the business bank account base continues to grow strongly, up 29% to 45,000 in the first 6 months of this year alone. Against June 2000, deposit levels are up over 80% and asset balances by 46%. Systems developments are well under way to develop a more versatile suite of company bank accounts and services, leveraging the retail branch network to target a wider range of business customers. The increased range of services is due to come on stream in the second half of the year.

**a leading force in
Wealth
Management**

- Our B2C division is the Group's Wealth Management arm, significantly boosted by the announcement of the acquisition of Fleming Premier Banking. We now have over half a million customers and £8 billion of retail deposits across the division which offers a range of investment products, current accounts, savings accounts, credit cards and other lending facilities. This includes Abbey National Offshore, voted 'Bank of the Year' and 'Mortgage Provider of the Year' by International Money Marketing and cahoot voted 'Best Online Bank' by three influential publications.

**committed to the
high net worth
sector**

- As part of our growing portfolio of wealth management businesses, Inscape offers a discretionary investment management service. To date, customer recruitment has been disappointing, reflecting volatile equity market conditions. However, valuable experience and market presence is being established in what is a long-term growth market, at a time when other potential competitors have either stepped away from the market or fundamentally changed their propositions.

**exploiting
opportunities in
international
markets**

- The Group already generates an estimated 15% of profits outside the United Kingdom, predominantly through the Wholesale Bank, but also through Scottish Mutual International and Abbey National Offshore. Innovative ways to access overseas markets are being explored to grow the proportion of profits from overseas to around 25% over the next 3-5 years. In the short term, Scottish Provident will boost these earnings through its experienced international sales force and reach into Hong Kong and Middle East markets.

Consolidated profit and loss account for the six months to 30 June 2001

	6 months to 30 June 2001 (unaudited) £m	6 months to 30 June 2000 (unaudited) £m	Full year 2000 £m
Net interest income	1,346	1,332	2,680
Commissions, fees and other income	958	646	1,614
Total operating income	2,304	1,978	4,294
Operating expenses excl. depreciation on operating lease assets	(913)	(862)	(1,815)
Depreciation on operating lease assets	(120)	(59)	(178)
Provisions for bad and doubtful debts	(138)	(132)	(273)
Provisions for contingent liabilities and commitments	(7)	7	(21)
Amounts written off fixed asset investments	(64)	(10)	(32)
Operating Profit on ordinary activities before tax	1,062	922	1,975
Tax on profit on ordinary activities	(333)	(273)	(559)
Profit on ordinary activities after tax	729	649	1,416
Minority interests – non-equity	(31)	(23)	(51)
Profit attributable to shareholders	698	626	1,365
Transfer to non-distributable reserve	-	-	(156)
Preference dividends	(19)	(20)	(38)
Other non-equity interest appropriations	(8)	-	-
Ordinary dividends	(241)	(216)	(649)
Profit retained for the period	430	390	522
Significant Asset Disposals (Profit before tax)			
Property sale and leaseback	-	-	65
Aitken Campbell	52	-	-
Credit card asset	49	-	-
Average number of ordinary shares in issue (millions)	1,432	1,422	1,420
Earnings per ordinary share – basic (pence)	46.9	42.6	93.4
Earnings per ordinary share – diluted (pence)	46.5	42.3	92.8
Dividends per ordinary share (pence)	16.80	15.15	45.50
Dividend cover (times)	2.8	2.8	2.0
Group key statistics			
Group cost:income ratio (%) ^①	41.8	44.9	44.1
Pre-tax return on average ordinary shareholders' equity (%)	29.1	29.4	30.4
Post-tax return on average ordinary shareholders' equity (%)	20.0	20.7	21.5
Equity tier 1 capital (%)	7.8	7.25	7.5
Segmental Profit and Loss			
Retail Banking	683	605	1,283
Wholesale Banking	307	263	575
Business to Business	126	121	254
Business to Consumer	(27)	(22)	(48)
Group Infrastructure	(27)	(45)	(89)
Profit before tax	1,062	922	1,975

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

Segmental Profit and Loss

Retail Banking	683	605	1,283
Wholesale Banking	307	263	575
Business to Business	126	121	254
Business to Consumer	(27)	(22)	(48)
Group Infrastructure	(27)	(45)	(89)
Profit before tax	1,062	922	1,975

Business Segment Review

Retail Banking

	6 months to 30 June 2001	6 months to 30 June 2000
	£m	£m
Net interest income	783	788
Commissions, fees and other income	432	346
Total operating income	1,215	1,134
Operating expenses	(450)	(457)
Provisions	(82)	(72)
Profit before tax	683	605
Profit by business		
Mortgages and savings	481	457
Banking and unsecured lending	59	22
UK Retail Bank	540	479
Abbey National Life	98	75
Retail Insurance	45	51
Total profit before tax	683	605
Cost:income ratio (%)	37.0	40.3
Retail Banking net interest spread (%) ①	1.92	2.06
Retail Banking net interest yield (%) ①	6.14	6.85
Retail Banking net interest cost (%) ①	4.22	4.79
Retail Banking margin (%) ①	2.17	2.31
Average interest earning assets (£bn) ②	67.7	64.5
Average risk weighted assets (RWA) (£bn) ②	36.6	35.6
Post tax return on regulatory equity (RoE) (%) ②	29.2	27.2

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

② RWAs and RoE analysis are for UK Retail Bank only

Retail Banking has delivered a strong performance with profit before tax increasing 13% to £683 million, and return on equity rising to 29.2% despite spread tightening and ongoing investment to transform the business. Key factors in this achievement are:

- strong new business flows in part offsetting active management of the mortgage and savings portfolios, reducing the retail spread by 14 basis points to 1.92%, in-line with a full year spread likely to exceed the targeted 175 – 180 basis points range;
- continued growth in other income up 25%, driven by mortgage fee income, record levels of bank account customers, Abbey National Life new business volumes, and a £49 million profit on sale of the credit card asset to MBNA;
- containment of costs to below levels incurred in the same period last year, reflecting non-repetition of redundancy costs in 2000, and improved underlying efficiency of the business achieved through ongoing efficiency programmes; and
- continued strong credit quality, driven by improved front end lending quality and arrears management, in part offsetting a volume driven increase in the bad debt charge in 2001.

- The cost:income ratio improved to 37.0%, the lowest ever. Excluding the proceeds from the credit card disposal the cost income ratio is 38.6%.

The Abbey National brand has continued to be leveraged outside the mortgage and savings markets. 30% of the Retail Bank's profit came from Banking, Life assurance and Retail Insurance products. By product, the major factors affecting profitability across the division were:

- increased profitability of mortgages and savings despite further spread reduction. This reflects the impact of efficiency programmes and branch reorganisations undertaken in 2000, and strong growth in mortgage balances;
- a decline in Banking profitability excluding the impact of the credit card sale, reflecting competitive pricing and service propositions underpinning our increased penetration of the bank account market - a key driver of growth in the future;
- profit on sale of the credit card asset to MBNA of £49 million, and the start of a new strategic alliance with a genuine world class provider to increase competitiveness and scale in the credit card market;
- a reduction in Retail Insurance profits, due to a combination of investment in new systems platforms to centralise and handle all insurance processing, and narrowing motor insurance margins; and
- Abbey National Life profit growth of 31%, again driven by record levels of new business premiums, including the contribution from sales of stakeholder pensions, and improved efficiency as a result of the volume of new business. New business contributed £27 million to embedded value.

Strengthening the franchise through innovation

The Abbey National Retail Banking proposition continues to redefine High Street banking, challenging convention and generating value for both shareholders and customers. In the first half of 2001, we announced a number of innovative new business solutions and alliances, and have already brought new products and services to market through these vehicles – including the recent launch of the first of a number of credit card offerings through our new alliance with MBNA. On the High Street, Abbey National is delivering truly differentiated 'Convenience Retailing', including the rollout of new Superstore formats, Costa Coffee branches and offering fully flexible product portfolios with fully integrated distribution.

E-banking metrics

	30 June 2001	31 Dec 2000
Cumulative number of registrations (000s)	942	596
Cumulative number of product applications (000s)	154	73
Cumulative number of registered mortgage introducers (000s)	10	6

The e-banking service has now registered nearly 950,000 customers, and over 150,000 product applications have been generated through this channel. The platform is also a low cost channel for servicing and handling routine transactions, and already over 8% of all transactions, and 15% of all bank account enquiries are handled on-line. More recently, mortgage applications on line have been added to the service, adding to what is the most comprehensive fully integrated digital offering available in the UK.

The introducer internet service has now registered over 10,000 introducers since launch. To date in 2001, nearly £3 billion of agreements in principle have been made online.

	2001	2000
Customer metrics		
Total number of customers (million)	15.2	15.2
Average product holdings per active customer	2.11	n/a
Average product holdings per bank account customer	2.78	n/a
AN Life cross sales ratio (%)	15	13

Following removal of the last layer of administrative management in the branch network in 2000, all staff in the branches are now customer facing with a range of sales responsibilities reflecting their local market needs. Currently 22% of the local markets are subject to internal franchise arrangements, with rollout planned to continue throughout 2001. Sales productivity is running 21% above the rest of the branch network.

The strength of the business is being reinforced through a range of innovative models, with branches remaining an important element of our distribution and selling capabilities.

Mortgages and Savings

Group share of UK mortgage market:

	2001		2000	
	£ bn	%	£ bn	%
Gross lending	7.5	10.6	6.6	11.5
Capital repayments	5.3	11.0	4.6	12.1
Net lending (change in outstanding stock)	2.2	9.6	2.0	10.3
Stock	70.1	12.6	66.7	13.0

A 9.6% share of mortgage net lending (2000: 10.3%) is at the top end of the targeted 5-10% range, and was achieved through:

- competitive pricing supported by re-launch of the mortgage portfolio in May, replacing standard variable rate with tracker and flexible product options for customers reaching the end of discount periods;
- 75% of new customers are now choosing Lifestyle products with flexible features;
- further enhancement of service delivery, awarded 'Your Mortgage' Best Bank award for the second year running, and through Legal & General's Mortgage Club Awards won 'Best Overall Lender' and 'Best Lender for E-Commerce' due to our market-leading introducer internet service;
- bespoke internet functionality for introducers, leading the market in terms of speed and service;
- proactive customer management through dedicated retention teams, significantly reducing our share of capital repayments - now below stock share for the last two and a half years.

Accompanying the strong lending performance there has been a continued improvement in arrears, with a further 9% reduction in 3 months plus arrears to 21,470 cases, the lowest in the last decade.

The joint venture with Electronic Data Systems (EDS) for the servicing and administration of Abbey National's mortgages and personal loans was successfully launched on 1st May 2001. The change programme designed to deliver a single integrated mortgage platform is well under way and is progressing to the original timetable. The Joint Venture is expected to generate immediate annualised cost savings of around £9 million, and will have the scope in the future to insource mortgage processing from third parties.

Group share of UK retail household liabilities market:

	2001		2000	
	£ bn	%	£ bn	%
Change in UK retail household liabilities	1.2	5.3	(0.2)	(1.7)
Outstanding UK retail household liabilities	52.1	8.2	49.5	8.4
Cash ISA sales	2.0	10.5	0.9	12.0
Investment ISA sales	0.3	5.3	0.5	5.8

Strong deposit inflows of over £1 billion across the Group, including inflows into certain branch based savings accounts in recent months reflecting the turbulent equity markets and the ongoing demand for passbook savings accounts from our customers. We successfully retained a large proportion of maturing Tessa balances (80%), and secured inflows in excess of £2 billion into the ISA range.

Elsewhere in the Group, there have been strong inflows into the cahoot current account, business banking and deposit account range, and through our onshore and offshore Wealth Management operations.

The savings customer contact programme is now complete, and the launch of the Branch Saver in March provides a further option to customers as part of our flexible portfolio of remote and branch based savings accounts. The mortgage contact programme is underway, and will be completed in 2001.

Banking and Unsecured Personal Lending

	2001	2000
Number of Abbey National bank accounts (ANBA) (000)	2,219	2,034
Number of Abbey National bank account openings (ANBA) (000)	154	101

The UK Retail Bank is successfully taking market share in the UK bank account market, with a proposition based around competitive overdraft rates, fair banking charges and access through all of its distribution channels.

The number of Abbey National Bank accounts is up 9% on June 2000. Including the Instant Plus Account, the total account base is now over 2.8 million. In the first six months, the number of full bank account openings was 154,000, up 52% on the same period last year. Net branch based account openings are up 300% over the same period.

The total bank account customer base (including joint account customers) is now in the region of 3.5 million compared to 3.3 million at June 2000. Despite increased provisioning associated with the recruitment of student accounts, the overall bank account arrears and provisions balances are improving as a percentage of the asset, reflecting tighter transaction authorisation procedures.

In July, we launched the first of a range of credit cards manufactured and administered by MBNA. We are combining MBNA's scale and expertise in the credit card market with our own distribution and retailing expertise, and aim to make a significant impact in this market.

We have already received over 45,000 account applications, and with further product launches due for quarter three, we expect to open a quarter of a million accounts by the year end, raising the card base to over 750,000. We are on track to exceed our target of 2 million cards in issue by the end of 2005.

The unsecured personal loan asset has increased by 9% to £1.6 billion, driven by a record half year performance in gross lending of nearly £600 million (2000: £552 million). Currently, 10% of all loan applications are sourced over the internet, with the average loan amount some £3,500 higher than the overall average, and with an improved credit profile of borrowers. In total, the provisions charge associated with the unsecured loan book has increased in line with growth in the overall asset.

Abbey National Life

Key statistics:

	2001 £ m	2000 £ m
New business premiums – single		
- Pension	9	7
- Life	659	362
- PEPs, Unit Trusts and ISAs	319	466
	987	835
New business premiums – annual		
- Pension	8	6
- Life	11	11
- PEPs, Unit Trusts and ISAs	18	18
	37	35
Total new business premiums	1,024	870
Annualised equivalent ①	135	118
Total expense ratio (%) ②	54%	64%

Abbey National Life includes Abbey National Unit Trust Managers and Abbey National PEP and ISA Managers.

① Annualised business premiums = regular 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 strongly in the first six months of 2001, despite tough equity market conditions. New business premiums of over £1 billion are running 18% ahead of last year's record levels, and profit before tax is up 31% to £98 million. These impressive results have been achieved through:-

- sales of the With Profit Investment Bond increasing by 156%;
- strong growth in pension sales, including Stakeholder Pensions, up 31%;
- increasing contribution from new business;
- increasing benefit from the in-force book of business, including the unwinding of the discount rate;
- improvements in the expense ratio to 54%, leveraging the benefits of the shared operating cost platforms.

Retail Insurance

In 2001, motor and protection insurance policy sales have continued to grow strongly, with policies in force for these two groups up 45% and 9% respectively on the same period last year. The business continues to focus on retention of existing buildings and contents customers, and is introducing online services to mortgage introducers to increase cross-sales to new customers in the future.

In January, we announced that we would be establishing new panel and outsourcing arrangements for our general insurance business across all our product range. The outsourcing of our policy and claims administration has now been successfully implemented. Investment in the new Consumer Direct platform has commenced, and is a significant driver of the higher expenses in this business.

Good progress has also been made in establishing our panel capabilities. The new household panel and internet service is due to be launched later this year, with the motor panel to follow in early 2002.

Wholesale Banking

	2001 £m	2000 £m
Net interest income	251	219
Commissions, fees and other income	276	155
Total operating income	527	374
Operating expenses excluding depreciation on operating lease assets	(85)	(70)
Depreciation on operating lease assets	(71)	(31)
Provisions	(64)	(10)
Profit before tax	307	263
Profit by business		
Wholesale lending	66	82
Asset financing	103	51
Asset-backed investments	77	81
Risk management and financial products	28	25
Securities financing	28	12
Treasury and other	5	12
Profit before tax	307	263
Balance sheet by business type	£bn	£bn
Wholesale lending	22	20
Asset financing	15	12
Asset-backed investments	25	27
Risk management and financial products	3	2
Securities financing	31	22
Treasury and other	12	10
Total assets	108	93
Cost:income ratio (%)	18.6	20.4
Net interest margin (%)	0.44	0.43
Average interest earning assets (£bn)	115.1	101.5
Average risk weighted assets (RWA) (£bn)	39.2	32.8
Post tax return on regulatory equity (%)	15.6	16.2

Wholesale Banking delivered another strong performance, with pre-tax profits rising 17% to £307 million. A slowdown in global markets, triggered by a weakening of the US economy, affected certain business lines such as private equity realisations, and also drove an increase in provisioning. This dampened short-term profit growth, but generated significant opportunities to acquire good quality, investment grade assets. The cost:income ratio improved to 18.6% (2000: 20.4%), but is expected to edge marginally higher in the second half due to the cost of international expansion.

Total revenue, net of depreciation on operating lease assets, increased by 33% to £456 million. Net interest income rose by 15% to £251 million, driven by asset growth and improved margins. Commission, fees and other income increased by 78% to £276 million, reflecting strong new business flow, and increased contributions from Porterbrook, acquired by the Wholesale Bank in the second quarter of 2000. Dealing profits included as part of other income increased to £56 million (2000: £45 million). Operating expense growth reflected headcount growth to support the newer business streams.

By business unit, the significant profit drivers were:

- in Wholesale Lending, increased returns from asset growth more than offset by increased provisioning in the investment portfolio;
- growth in Asset Financing driven by strong performances in Project Finance, and the full impact of Porterbrook more than offsetting reduced net private equity contributions;

- a reduced contribution from Asset-backed investments, reflecting the ongoing reduction of this portfolio as part of an active capital management programme;
- the contribution of credit derivative business in Risk Management & Financial Products which was launched in the second half of 2000;
- strong growth in Securities Financing as this business extended its range of activities in international markets.

There was a significant increase in the level of business undertaken in the Asian region, following the establishment of a branch in Hong Kong in the second half of 2000. Further international expansion is planned within the US later this year, following submission of applications for a banking licence and a separate broker dealer licence.

Credit quality remains tightly managed, with the increase in provisions reflecting the slowdown of the US economy and subsequent rating downgrades in the investment portfolio. Provisions have also been made against specific exposures that may need to be written off in the future. The fall in the proportion of assets rated AA- or better results predominantly from an increase in assets subject to internal but not external ratings. This includes investments in Bank of England issuances and Project and Infrastructure Finance transactions which are largely internally rated as investment grade. Subinvestment grade investments represented 6.7% of the Wholesale Bank's total assets, compared with 5.3% at year-end 2000, and consisted mainly of private equity investments and selective corporate lending.

The business participates in five main business areas:

Wholesale Lending

The Wholesale Bank's traditional investment arm, lending through a range of financing instruments including debt securities, asset swaps, direct loans and syndicated loans, to banks, financial institutions, corporates and sovereign borrowers.

- Wholesale Lending assets, including acquisition finance, increased by 10% to £22 billion.
- The prevailing economic uncertainty resulted in a widening of margins in the first six months of 2001, presenting opportunities to acquire good quality, investment grade assets with long durations at margins in excess of 100 basis points over Libor.
- Wholesale Lending participated in a total of 28 acquisition finance deals compared to 15 in the first half of 2000, of which 16 were M&A-led transactions.

The growth of this business will be boosted by increased access to growing international markets.

Asset Financing

The Wholesale Bank's fastest growing business area over the last 18 months, providing finance solutions in operating and finance leasing, project finance and social housing markets, and investing in private equity funds.

- Porterbrook Leasing is performing strongly, contributing £26 million profit in the first six months of this year (2000: £4 million), benefiting from the access to strong funding sources to support the addition of new rolling stock, as well as improving rental levels.
- In May, the aircraft leasing company IEM was acquired from ING Lease Holding NV, complementing our existing leasing portfolio. With only a modest portfolio of 8 aircraft at present, the company presents an important platform from which the aircraft leasing business can be developed. Indeed, delivery of 2 A320 aircraft has already taken place.
- Project finance and infrastructure finance completed 26 and 9 new deals respectively, in the first six months, compared with 15 and 10 in the same period in 2000. Increasingly, participation in infrastructure deals is as lead arranger. The Wholesale Bank also continues to be an active participant in the Government's private finance initiative.
- In March, we won the mandate to co-arrange and underwrite £1 billion of debt facilities to support the acquisition of 46% of the UK's National Air Traffic System by a consortium of seven UK airlines.
- Other notable deals include the financing for the acquisition of Bristol Airport International and acting as sole finance provider of £50 million for the redevelopment of the new West Middlesex Hospital.

- The market valuation of the Private Equity portfolio of £687 million remains ahead of its book value.

Growth prospects for Asset Financing remain strong, building expertise in leasing operations to capitalise on the growth in demand for passenger rail travel, and will continue to respond to the growing demand for private finance for large projects both in the UK and internationally.

Asset-backed Investments

This is a substantial portfolio of high quality, asset-backed securities which is being managed downwards, in part through maturities. Further reductions in the second half of this year are expected.

Risk Management and Financial Products

Abbey National Financial Products (ANFP) offers a broad range of innovative risk management solutions and financial products to Group companies and third parties. Product areas continue to be extended, and include structured products, fixed income, equity and credit derivatives.

- Launched two synthetic collateralised bond obligations raising a total of US\$2 billion.
- The credit derivatives team, formed last year, established itself as a respected market participant and contributed positively to overall profit.
- Equity derivatives continued to maintain its strong market share, and in the second half the performance will be bolstered by the expansion into new product areas, such as single-stock derivatives.

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

Securities Financing

Cater Allen International Limited (CAIL) is a prominent player in the sale and repurchase of international securities, and the lending and borrowing of equity, fixed income and government securities.

- The business is realising its strategy to expand its product range and to extend beyond its traditional base in the sterling markets. In particular, a newly formed subsidiary has applied for a licence to operate a broker-dealer business in the US under the name Abbey National Securities Incorporated (ANSI).
- In February, the European Investment Bank (EIB) awarded CAIL the mandate to act as its repo dealer in sterling bonds.

With an extended product range and investor audience, Securities Financing remains a core business, offering strong growth prospects.

Treasury and Other

Manages the Group's liquidity needs, and contributes to the risk management of the Group's balance sheet.

- ANTS managed the issuance of a further £4.9 billion of residential mortgage securitisation for the Group, further diversifying the sources of funding available to the Group, £2.7 billion of this being in July 2001.
- Total medium-term funding, excluding securitisation, raised in the first six months was in excess of £3.8 billion, an effort recognised by Euromoney, who recently named ANTS 'Financial Borrower of the Year'.
- The level of business through the Hong Kong branch is exceeding expectations, contributing in excess of US\$2.6 billion, including nearly US\$1 billion of medium term funding.

Business to Business

	2001	2000
	£m	£m
Net interest income	270	290
Commissions, fees and other income	133	85
Total operating income	403	375
Operating expenses excluding depreciation on operating lease assets	(173)	(163)
Depreciation on operating lease assets	(49)	(28)
Provisions	(55)	(63)
Profit before tax	126	121
Profit by business		
First National	64	69
Scottish Mutual	63	53
European Operations	(1)	(1)
Profit before tax	126	121

Profit before tax increased 4% to £126 million, reflecting strong profit growth in Scottish Mutual, up 19% to £63 million. New business embedded value earnings were strong, up 5% to £29 million.

In First National, profit before tax decreased by 7%, largely attributable to the impact of increased competition in the motor and retailer finance markets, resulting in reduced asset balances, a fall in new business fee income and narrowing margins. The results are supported in part by profit on selected asset disposals, and other non-recurring benefits. Operating expense growth reflects ongoing integration expenditure and investment in SME banking, as well as the impact of newer businesses including Highway Vehicle Management.

Credit quality has remained robust, with provisions down on the first half of 2000.

The First National transformation programme is on target to be complete by the end of the year. We are investing across the breadth of the First National Group to improve operating efficiency and increase sales productivity. We are well positioned to take advantage of improvements in these markets.

First National**Key statistics**

	2001	2000
	£m	£m
Net loan assets		
Unsecured	1,056	897
Secured	1,993	1,876
Consumer Finance	3,049	2,773
Motor Finance	2,781	3,107
Business Finance	1,255	858
Retail Finance	1,526	1,831
Total	8,611	8,569
Cost:income ratio (%)	55.9	51.7
Net interest margin (%)	6.56	6.94
Average interest earning assets (£bn)	7.6	7.8
Average risk weighted assets (RWA) (£bn)	9.3	9.3
Post tax return on regulatory equity (%)	13.5	14.9

Consumer Finance

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

- Loan assets increased by 10%, driven by strong growth in both unsecured and secured lending, including strong levels of second mortgage lending and growth in specialised first mortgage advances following the re-branding of the Household Mortgage Corporation as First National Mortgage Company last year.

Motor Finance

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

- Market conditions continue to be tough, with low transaction levels compounded by reduced demand for point of sale finance. In addition, the impact of declining second hand car values experienced in 2000 is still being felt through an increase in voluntary terminations.
- Despite this, and an absolute reduction in the net asset, the business continues to trade profitably, and is increasing its market share.
- Tailored initiatives are currently underway to capture the improvement in dealership sales, including the introduction of unsecured loans at point of sale, the successful getmotoring.co.uk, continued rollout of the 'First On-line' Internet introducer facility (now operational in over 1,800 motor dealerships) and investment in CRM and back office systems.
- First National Motor Finance was recently voted 'Vehicle Finance Company of the Year 2001' by the Institute of Transport Management.
- The business is well positioned to capture market share, and benefit from the anticipated growth as the markets start to improve.

Business Finance

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

- Total business customers are now 147,000, up 16% on the same point last year. Assets increased by 13% in the first six months of this year, and are now 46% higher than at June 2000, reflecting strong growth in commercial lending and asset financing, in part through the recently launched Country Capital and Middle Market leasing businesses.
- Abbey National Business and Professional Banking continued to rapidly expand its bank account base, increasing by 33% in the first six months of this year to 45,700. Deposit balances have grown accordingly, up by 83% to over £2 billion.
- Plans to further expand our presence in SME banking are being developed, with investment in systems platforms underway to deliver a more versatile suite of company bank accounts and services, targeting a wider range of business customers. The proposition will be multi-channel, and should leverage existing branch and e-banking platforms, commencing in the second half of this year.

Retail Finance

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

- Reduced asset levels reflect competition in the point of sale market, as well as alternative sources of consumer finance.
- Outsourcing of operational functions was completed in 2000, the benefit of which in terms of flexible systems and a lower cost base has partly offset the impact of difficult trading conditions.

Scottish Mutual

Key Statistics:	2001	2000
	£m	£m
New business premiums		
Single		
- Pension	287	270
- Life	957	842
	1,244	1,112
Annual		
- Pension	23	19
- Life	9	9
	32	28
Total new business premiums	1,276	1,140
Annualised equivalent ^①	156	139
Total expense ratio (%) ^②	78.9	76.7

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

^① Annualised business premiums = regular premiums plus 10% of single premium business.

^② Total expense ratios are operating expenses and commissions over annualised new business premiums.

Scottish Mutual has had an excellent first six months, despite competitive market conditions and uncertainty surrounding equity markets.

- Total new business premiums increased 12% to almost £1.3 billion.
- Funds under management are some 16% higher than at the same point last year, and 7% higher than at the end of 2000, compared to stock market decline of around 10% and 9% over these periods.
- Following the rebranding of our in-house fund manager as Abbey National Asset Managers, we are beginning to win institutional pensions mandates.
- The Scottish Mutual With Profit Bond has continued to generate strong sales levels, achieving £0.6 billion in the first six months which equates to an estimated IFA market share of 12%.
- Following a re-launch, sales of single premium pensions have increased 6% over the same period last year to £287 million.
- Scottish Mutual International new business premiums continued to grow strongly, increasing by 50% to over £350 million in the first six months, and our international Life business will be further boosted upon completion of the Scottish Provident transfer. Scottish Mutual International embedded value earnings have increased 74% to £6 million.
- Scottish Mutual continued to leverage its shared operating platforms, with an expense ratio of 78.9%, one of the lowest in the industry.
- Talorcan, Abbey National's Alternative Investment Fund Management operation was launched in June.

Continental Europe

Business levels have improved on the same period last year, in particular in Italy where net lending is up 27%. Conversion of these retail operations to the Euro is progressing well, ahead of de-monetisation of local currency next year. They continue to provide valuable experience for the Group.

Business to Consumer

The Business to Consumer division is the Wealth Management arm of the Abbey National Group. It operates onshore and offshore through a range of separately branded businesses typically targeting higher net worth customers through a number of different distribution channels and offering a broad range of financial services.

The business includes Abbey National Offshore, Cater Allen, James Hay, City Deal and our newer ventures Inscape and cahoot. In July, we completed the acquisition of Fleming Premier Banking, which further boosted the size and growth potential of our Wealth Management portfolio. As a result, we now have over half a million customers, over £8 billion of retail deposits, 245,000 current accounts, £127 million in loan assets and a rapidly expanding base of SIPP customers.

	2001	2000
	£m	£m
Net interest income	39	35
Commissions, fees and other income	17	29
Total operating income	56	64
Operating expenses	(80)	(86)
Provisions	(3)	-
Loss before tax	(27)	(22)
Profit / (loss) by business type		
Established Wealth Management operations	28	25
Inscape	(19)	(16)
cahoot	(36)	(31)
Loss before tax	(27)	(22)

Profits in the established Wealth Management businesses are up 12% to £28 million, with profits in Cater Allen, James Hay and Abbey National Offshore all running well ahead of the same period last year.

Profitability of the Business to Consumer segment as a whole continues to be affected by the set up and initial running costs of new business ventures which are in their customer acquisition phase.

Business Statistics

	30 June 2001	31 Dec 2000
	£m	£m
Abbey National Offshore	4,350	4,032
Cater Allen Onshore	1,104	795
Premier Banking (at 23 July 2001)	1,498	n/a
cahoot	1,268	177
Total Retail Deposits	8,220	5,004
cahoot unsecured lending (including credit card)	89	57
Abbey National Offshore	38	39
Total Retail Lending	127	96
Number of money transmission accounts accepted (000s)	79	27
Number of credit cards accepted (000s)	85	49
Number of unsecured loan accounts accepted (000s)	4	n/a
Total cahoot account acceptances (000s)	168	76

Established Wealth Management Businesses

Established wealth management operations have continued to successfully target the UK and expatriate high net worth market, the highlights being;

- Strong growth in retail deposits, reaching £5.5 billion (2000: £4.3 billion), and in the wholesale investment book which has increased by 10% to £5.5 billion (2000: £5.0 billion);
- Abbey National Offshore awarded 'Bank of the Year' by 'International Money Marketing';
- The acquisition of Fleming Premier Banking by Cater Allen, completed in July, which will increase the Group's share in the growing premier banking sector from 3% to 16%, through its £1.5 billion of deposits and 110,000 clients;
- Rapid growth of the Self Invested Personal Pensions client base by James Hay Pension Trustees Ltd, increasing to 18,718, up 44% on the same period last year.

Inscape

The Inscape investment management service was delivered to market, on schedule, in November of last year, adding to our growing portfolio of wealth management businesses.

Against a backdrop of volatile global markets that have dampened short-term demand for equity-based products such as those provided by Inscape, the key highlights are:

- investment performance of the funds under management outstripping expectations, reflecting the quality of the portfolio of fund managers being used and the breadth of their investment specialities;
- additional high street centres opened in the first half of the year, now totalling 9, with further openings planned in the second half of the year; and
- approaching 2000 customers registered to the service.

Despite the difficult market conditions, valuable experience and market presence is being established in what is a long-term growth market at a time when other potential competitors have stepped away from the market. Inscape is a compelling proposition addressing an exciting gap in the market. We are well positioned to benefit from improving equity markets.

cahoot

cahoot has grown business volumes strongly, with the following highlights:

- over 280,000 applications received, with 168,000 accounts accepted since launch;
- nearly £1.3 billion of funds now held within the money transmission account, with good growth in the credit card asset over the same period; and
- in May, a range of competitively priced unsecured personal loans was launched.

Since launch, cahoot has received numerous accolades for its innovative proposition, functionality and delivery of customer value. Recently this has included being voted 'Best Online Bank' by three influential consumer publications, and earlier in the year voted as one of the UK's most innovative businesses.

Group Infrastructure

	2001	2000
	£m	£m
Net interest income	3	-
Commissions, fees and other income	100	31
Total operating income	103	31
Operating expenses	(125)	(86)
Provisions	(5)	10
Loss before tax	(27)	(45)
(Loss) / profit by business type		
Central Services	(112)	(52)
Financial Holdings	85	7
Loss before tax	(27)	(45)

The loss before tax incurred centrally in Group Infrastructure decreased by 40% to £27 million, reflecting:

- in Financial Holdings, profit of £52 million from the sale of Aitken Campbell;
- growth in operating expenses in Central Services, resulting mainly from £26 million of one-off Corporate advisory fees relating to merger and acquisition activity and an increase in rent payable, following the sale and leaseback of the property portfolio;
- increased provisions resulting from a £5 million charge relating to the pension misselling review.

Group Profit and Loss Account Review

Net interest income

	2001 £m	2000 £m
Interest receivable	5,671	5,440
Interest payable	(4,325)	(4,108)
Net interest income	1,346	1,332
Group average interest earning assets * (AIEA) (£bn)	177.9	161.9
Group net interest margin * (%)	1.52	1.65
Group net interest spread * (%)	1.32	1.48

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

Net interest income has grown by 1% to £1,346 million, with strong growth in Wholesale Banking interest income partially offset by reduced income in Retail Banking and First National. The main drivers of this were:

- asset growth and improved margins in Wholesale Banking;
- a reduction in the Retail Spread of 14 basis points in part offset by strong new business flows within the Retail Bank;
- reduced asset balances and narrowing margins in First National motor and retail finance businesses resulting from competitive market conditions.

As a result, the Group net interest margin decreased by 13 basis points.

Commissions, fees and other income

	2001 £m	2000 restated £m
Total dividend income	1	1
Insurance income	121	113
Administration, survey and legal fees	104	121
Other Retail Banking income	104	102
Wholesale banking fees	47	29
Other commissions receivable	45	53
Fees and commissions receivable	421	418
Introducer fee charge	(91)	(96)
Financial markets permanent fees / brokerage fees	(5)	(5)
Other commissions payable	(35)	(34)
Fees and commissions payable	(131)	(135)
Net fees and commissions	290	283
Dealing profits	58	52
Increase in value of long term assurance business	137	91
Fee income on high loan to value loans	50	39
Income from operating lease assets	204	92
Other financial income	218	88
Other operating income	609	310
Total commissions, fees and other income	958	646

Commissions, fees and other income increased by 48%, to £958 million driven by:

- strong mortgage and bank account new business volumes and profit on sale of the credit card business in Retail Banking;
- growth in the fee based businesses within the Wholesale Bank and increased contribution from Porterbrook;
- increased embedded value earnings within Abbey National Life and Scottish Mutual;
- profit on the sale of Aitken Campbell.

Net fees and commissions increased by 2% due to increased insurance income in First National, growth in Wholesale Banking fees mainly from an increased number of Project and Infrastructure Finance deals and reduced fee income from PEP and Unit Trust sales in Retail Banking due to tough equity market conditions.

Dealing profits increased by 12%, largely in Wholesale Banking, reflecting the increased deal flow mainly in Securities Financing.

Other operating income increased by 96%, due to:

- significant growth in income from long term life assurance increasing in line with business growth in both Scottish Mutual and Abbey National Life;
- increased income from operating lease assets mainly from Porterbrook in Wholesale Banking and the impact of the Highway Vehicle Management acquisition in First National; and
- Other financial income increased by £130 million, mainly as a result of profits on sale of non-core businesses, such as Aitken Campbell and other asset disposals including the credit card asset to MBNA.

Operating expenses

Total operating expenses excluding depreciation on operating lease assets increased by 6% from £862 million to £913 million, an increase of £51 million. Excluding one-off Corporate advisory fees of £26 million, total operating expenses increased by only 3%. Operating expenses in the Retail Bank were below levels incurred in the first six months of 2000, more than offset by cost growth in Wholesale Banking (£15 million), First National (£11 million) and Group Infrastructure (£39 million). The key factors driving the cost uplift were:

- business development costs and the impact of newly acquired businesses within Wholesale Banking;
- investment in SME business banking systems and ongoing integration expenditure in First National;
- one-off corporate advisory fees in Group Infrastructure.

Operating expenses by profit and loss line:	2001	2000
	£m	£m
Salaries and other staff costs	385	408
Bank legal and professional fees	92	80
Advertising and marketing	31	40
Bank, legal, marketing and professional expenses	123	120
Software, computer and other administration expenses	249	196
Premises and equipment depreciation	57	59
Goodwill amortisation	8	5
Depreciation on fixed assets other than operating lease assets	65	64
Rent payable	55	38
Rates payable	9	9
Other running costs	27	27
Other property and equipment expenses	91	74
Total operating expenses excluding depreciation on operating lease assets	913	862
Depreciation on operating lease assets	120	59

Salaries and other staff costs fell by 6% to £385 million, reflecting a significant reduction in headcount in the Retail Bank following a branch network reorganisation completed in 2000, partly offset by headcount growth in Wholesale Banking, largely relating to Porterbrook.

Bank, legal, marketing and professional expenses of £123 million have remained broadly flat despite costs associated with merger and acquisition activity and ongoing development of the SME banking proposition in First National.

Software, computer and other administration expenses increased 27% as a result of outsourcing in First National and Retail Banking and costs associated with SME systems development costs.

Other property and equipment expenses increased to £91m, largely due to an increase in rent payable following the sale and leaseback of the property portfolio to improve operational flexibility.

Depreciation on operating lease assets increased by £61 million to £120 million, £40 million due to the acquisition of Porterbrook, and the balance within First National relating to the acquisition of Highway Vehicle Management in the second half of 2000.

Provisions

	2001	2000
	£m	£m
Retail Banking:		
Secured	27	13
Unsecured (overdrafts and credit card balances)	23	31
Abbey National-branded unsecured personal loans	30	24
	80	68
Business to Business:		
First National	55	63
Continental Europe	-	1
	55	64
Business to Consumer: cahoot	3	-
Total	138	132
Contingent liabilities and commitments	7	(7)
Amounts written off fixed asset investments	64	10

The total loan loss provision charge increased slightly to £138 million. This reflects a combination of continuing stable economic conditions, asset growth and continued strong credit quality.

In the Retail Bank, the provision charge increased to £80 million reflecting:

- an increase in secured loan charge to £27 million following strong growth in mortgage assets and a slower decline in mortgage arrears than experienced in the first half of last year. Notwithstanding this, arrears levels fell again to the lowest level for over a decade;
- a decrease in unsecured (overdraft and credit card balances) provisions arising from a 12% fall in bank account arrears as a result of improved application quality and higher recoveries;
- an increase in AN Branded unsecured personal loan provisions as a result of growth in the unsecured personal loan asset partly offset by improved levels of recoveries.

In First National, provisions for bad and doubtful debts fell 13% to £55 million. This follows a review of provisioning methodologies across the newly integrated businesses and lower default levels in Motor and Consumer Finance.

Contingent liabilities and commitments increased by £14 million. This increase reflects a provision release in 2000 which was not repeated in 2001, and an additional pension misselling provision of £5 million.

Amounts written off fixed asset investments increased to £64 million, reflecting the slowdown in the US economy adversely impacting on the Wholesale Bank's lending portfolio.

Taxation

The effective rate of tax was 31.4% (2000: 29.6%). The following table provides a reconciliation of taxes payable at standard UK corporation tax rate and the Group's effective tax rate.

	2001	2000
	£m	£m
Taxation at UK corporation rate of 30% (2000: 30%)	319	277
Effect of non-allowable provisions and other non-equalised items	20	-
Effect of non-UK profits and losses	(5)	(4)
Adjustment to prior year tax provisions	-	-
Effect of loss utilisation	(1)	-
Taxes before the effect of exceptional items	333	273
Effective tax rate before the effect of exceptional items	31.4%	29.6%

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:

	30 June 2001	31 December 2000
	£m	£m
Tier 1	8,073	7,204
Tier 2	5,953	5,902
Less supervisory deductions	(2,362)	(2,129)
Total regulatory capital	11,664	10,977
Total risk weighted assets:		
banking book	79,634	74,756
trading book	5,611	6,445
	85,245	81,201
Capital ratios:		
risk asset ratio	13.7 %	13.5 %
tier 1 ratio	9.5 %	8.9 %
equity tier 1 ratio	7.8 %	7.5 %

The Group's risk asset ratio of 13.7% demonstrates the significant capital strength of the Group and its ability to drive growth and value creation.

The basic instruments of capital monitoring are the Group's tier 1 and equity tier 1 capital ratios. As at 30 June 2001, the tier 1 ratio was 9.5%, and the Group's risk asset ratio was 13.7%. The Group risk asset ratio is comfortably above the minimum standard for the Group set by the Financial Services Authority. The increased ratios resulted mainly from retained earnings and external non equity capital issues, partly offset by a 5% growth in risk-weighted assets.

Abbey National's tier 1 capital (equity and non equity shareholder's funds after deducting goodwill) increased by £869 million to £8,073 million, mainly due to the issue of £300 million reserve capital instruments, scrip dividends, and retained earnings. The increase in tier 2 capital (subordinated liabilities and general provisions) of £51 million, was principally due to exchange rate fluctuations. Supervisory deductions mainly represent investments in life assurance and insurance companies within the Group.

Wholesale Banking manages all of the Group's capital raising. The Wholesale Bank also manages Abbey National's mortgage asset backed securitisation programme. In May, Abbey National issued £2.2 billion mortgage-backed securities in its sixth transaction, and a further securitisation of £2.7 billion took place in July 2001. This brings Abbey National's total mortgage securitisation to £11.8 billion, and establishes the Group as the leader in the European mortgage securitisation market. Securitisation is seen as a key part of balance sheet management strategy, increasing return on capital and enhancing funding flexibility in the longer term markets.

An assessment has been made of the existing dividend policy in the light of the Group's capital requirements. Based on current plans, the Board is of the view that greater returns for shareholders can continue to be achieved by retaining capital in the business, rather than returning it to shareholders.

Balance sheet

Total assets increased by 2% to £209 billion since 31 December 2000, funded mainly through the wholesale markets. As at 30 June 2001, wholesale liabilities represented 57% of total liabilities (31 December 2000: 54%). The percentage of UK mortgage assets funded from retail savings was 72% (31 December 2000: 75%).

Appendices

Appendix 1: Consolidated balance sheet as at 30 June 2001

	30 June 2001 (unaudited) £m	30 June 2000 (unaudited) £m	31 December 2000 £m
Assets			
Cash, treasury bills and other eligible bills	3,437	1,275	1,596
Loans and advances to banks	14,816	8,742	12,168
Loans and advances to customers	79,730	80,811	81,752
Loans and advances subject to securitisation	12,734	1,733	7,927
Non returnable finance on securitised advances	(7,976)	(1,321)	(4,629)
Loans and advances to customers after non-returnable finance	84,488	81,223	85,050
Net investment in finance leases	4,977	5,510	5,192
Securities and investments	71,085	67,457	69,573
Long-term assurance business	1,589	1,110	1,538
Fixed assets excluding operating lease assets	575	945	634
Operating lease assets	2,204	1,727	1,963
Other assets	6,760	8,042	7,594
Assets of long-term assurance funds	19,415	18,099	19,083
Total assets	209,346	194,130	204,391
Liabilities			
Deposits by banks	38,324	30,640	34,996
Customer accounts	67,662	64,858	66,795
Debt securities in issue	56,674	57,311	57,078
Other liabilities	12,932	11,293	13,074
Subordinated liabilities including convertible debt	5,986	4,803	5,871
Liabilities of long-term assurance funds	19,415	18,099	19,083
Total liabilities	200,993	187,004	196,897
Minority interests – non-equity	702	653	664
Non-equity shareholders' funds	747	450	450
Equity shareholders' funds	6,904	6,023	6,380
Total liabilities, minority interests and shareholders' funds	209,346	194,130	204,391

Appendix 2: Statement of total recognised gains and losses for the six months to 30 June 2001

	2001 (unaudited) £m	2000 (unaudited) £m	Full year 2000 £m
Profit attributable to the shareholders of Abbey National plc	698	626	1,365
Unrealised surplus on revaluation of investment properties	-	-	11
Total recognised gains relating to the period	698	626	1,376

Appendix 3: Consolidated cash flow statement
for the six months to 30 June 2001

	2001 (unaudited) £m	2000 (unaudited) £m	Full year 2000 £m
Net cash inflow from operating activities	2,016	714	6,093
Returns on investments and servicing of finance			
Interest paid on subordinated liabilities	(168)	(168)	(289)
Preference dividends paid	(18)	(19)	(38)
Payments to non-equity minority interests	(30)	(23)	(51)
Net cash outflow from returns on investments and servicing of finance	(216)	(210)	(378)
Taxation			
UK corporation tax paid	(141)	(114)	(402)
Overseas tax paid	(4)	(3)	(4)
Total taxation paid	(145)	(117)	(406)
Capital expenditure and financial investment			
Purchases of investment securities	(10,549)	(8,741)	(18,169)
Sales of investment securities	1,811	2,149	4,971
Redemptions and maturities of investment securities	7,749	4,860	10,898
Purchases of tangible fixed assets	(375)	(223)	(502)
Sales of tangible fixed assets	71	62	508
Transfers from/(to) Life Assurance funds	46	3	(328)
Net cash outflow from capital expenditure and financial investment	(1,247)	(1,890)	(2,622)
Acquisitions and disposals	75	(783)	(968)
Equity dividends paid	(346)	(378)	(548)
Net cash inflow/ (outflow) before financing	137	(2,664)	1,171
Financing			
Issue of ordinary share capital	11	4	11
Issue of loan capital	-	-	1,355
Issue of reserve capital instrument	297	-	-
Issue of preferred securities (non-equity minority interests)	-	620	620
Repayment of loan capital	-	(34)	(365)
Net cash inflow from financing	308	590	1,621
Increase / (decrease) in cash	445	(2,074)	2,792

Appendix 4: Summary profit and loss account by business segment

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

	Retail Banking	Wholesale Banking	Business to Business	Business to Consumer	Group Infrastructure e	Group
Net interest income	783	251	270	39	3	1,346
Comms, fees and other income	432	276	133	17	100	958
Total operating income	1,215	527	403	56	103	2,304
Operating expenses excl. depreciation on operating lease assets	(450)	(85)	(173)	(80)	(125)	(913)
Depreciation on operating lease assets	-	(71)	(49)	-	-	(120)
Provisions for bad and doubtful debts	(80)	-	(55)	(3)	-	(138)
Provisions for contingent liabilities and commitments	(2)	-	-	-	(5)	(7)
Amts w/o fixed asset investments	-	(64)	-	-	-	(64)
Profit on ordinary activities before tax	683	307	126	(27)	(27)	1,062

Table 2: 2000 half-year profit before tax (£m)

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

Table 3: 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
Comms, fees and other income	322	71	57	24	72	546
Total operating income	1,110	272	348	53	70	1,853
Operating expenses excl. depreciation on operating lease assets	(431)	(54)	(139)	(40)	(82)	(746)
Depreciation on operating lease assets	-	(1)	(22)	-	-	(23)
Provisions for bad and doubtful debts	(97)	-	(74)	-	-	(171)
Provisions for contingent liabilities and commitments	(3)	-	-	-	-	(3)
Amts w/o fixed asset investments	-	(15)	-	-	-	(15)
Profit on ordinary activities 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	778	7	(2)	783
Fees and commissions receivable	183	28	64	275
Fees and commissions payable	(15)	-	(1)	(16)
Net fees and commissions	168	28	63	259
Other operating income	104	68	1	173
Commissions, fees and other income	272	96	64	432
Total operating income	1,050	103	62	1,215
Salaries and other staff costs	(204)	(2)	(9)	(215)
Bank, legal, marketing and professional expenses	(32)	-	2	(30)
Software, computer and other administration expenses	(98)	(2)	(8)	(108)
Depreciation and amortisation	(34)	-	(1)	(35)
Other property and equipment expenses	(61)	-	(1)	(62)
Operating expenses	(429)	(4)	(17)	(450)
Provisions for bad and doubtful debts	(80)	-	-	(80)
Provisions for contingent liabilities and commitments	(1)	(1)	-	(2)
Profit before tax	540	98	45	683

Table 2: Retail Banking 2000

	UK Retail Bank £m	Abbey National Life £m	Retail Insurance £m	2000 total £m
Net interest income	785	3	-	788
Fees and commissions receivable	159	41	87	287
Fees and commissions payable	(17)	-	(1)	(18)
Net fees and commissions	142	41	86	269
Other operating income	57	36	(16)	77
Commissions, fees and other income	199	77	70	346
Total operating income	984	80	70	1,134
Salaries and other staff costs	(225)	-	(11)	(236)
Bank, legal, marketing and professional expenses	(46)	-	(3)	(49)
Software, computer and other administration expenses	(78)	(1)	(2)	(81)
Depreciation and amortisation	(35)	-	(1)	(36)
Other property and equipment expenses	(53)	-	(2)	(55)
Operating expenses	(437)	(1)	(19)	(457)
Provisions for bad and doubtful debts	(68)	-	-	(68)
Provisions for contingent liabilities and commitments	-	(4)	-	(4)
Profit before tax	479	75	51	605

Table 3: Wholesale Banking 2001

	<u>2001</u> <u>£m</u>
Net interest income	251
Dealing profits	56
Fees and commissions receivable	52
Fees and commissions payable	(11)
Net fees and commissions	<u>41</u>
Other operating income	<u>179</u>
Commissions, fees and other income	276
Total operating income	527
Salaries and other staff costs	(52)
Bank, legal, marketing and professional expenses	(5)
Software, computer and other administration expenses	(22)
Depreciation and amortisation	(3)
Other property and equipment expenses	(3)
Operating expenses excluding depreciation on operating lease assets	(85)
Depreciation on operating lease assets	(71)
Amounts written off fixed asset investments	(64)
Profit before tax	307

Table 4: Wholesale Banking 2000

	<u>2000</u> <u>£m</u>
Net interest income	219
Dealing profits	45
Fees and commissions receivable	29
Fees and commissions payable	(11)
Net fees and commissions	<u>18</u>
Other operating income	<u>92</u>
Commissions, fees and other income	155
Total operating income	374
Salaries and other staff costs	(37)
Bank, legal, marketing and professional expenses	(6)
Software, computer and other administration expenses	(23)
Depreciation and amortisation	(2)
Other property and equipment expenses	(2)
Operating expenses excluding depreciation on operating lease assets	(70)
Depreciation on operating lease assets	(31)
Amounts written off fixed asset investments	(10)
Profit before tax	263

Table 5: Business to Business 2001

	First National £m	Scottish Mutual £m	Continental Europe £m	2001 total £m
Net interest income	247	6	17	270
Dealing profits	-	2	-	2
Fees and commissions receivable	71	2	2	75
Fees and commissions payable	(97)	-	(1)	(98)
Net fees and commissions	(26)	2	1	(23)
Other operating income	98	56	-	154
Commissions, fees and other income	72	60	1	133
Total operating income	319	66	18	403
Salaries and other staff costs	(60)	(2)	(7)	(69)
Bank, legal, marketing and professional expenses	(12)	-	(5)	(17)
Software, computer and other administration expenses	(68)	(1)	(4)	(73)
Depreciation and amortisation	(4)	-	(1)	(5)
Other property and equipment expenses	(7)	-	(2)	(9)
Operating expenses excluding depreciation on operating lease assets	(151)	(3)	(19)	(173)
Depreciation on operating lease assets	(49)	-	-	(49)
Provisions for bad and doubtful debts	(55)	-	-	(55)
Provisions for contingent liabilities and commitments	-	-	-	-
Profit/(Loss) before tax	64	63	(1)	126

Table 6: Business to Business 2000

	First National £m	Scottish Mutual £m	Continental Europe £m	2000 total £m
Net interest income	270	7	13	290
Dealing profits	-	6	-	6
Fees and commissions receivable	67	3	2	72
Fees and commissions payable	(101)	(1)	(1)	(103)
Net fees and commissions	(34)	2	1	(31)
Other operating income	63	47	0	110
Commissions, fees and other income	29	55	1	85
Total operating income	299	62	14	375
Salaries and other staff costs	(70)	(3)	(6)	(79)
Bank, legal, marketing and professional expenses	(20)	-	(2)	(22)
Software, computer and other administration expenses	(38)	(5)	(4)	(47)
Depreciation and amortisation	(5)	-	(1)	(6)
Other property and equipment expenses	(7)	(1)	(1)	(9)
Operating expenses excluding depreciation on operating lease assets	(140)	(9)	(14)	(163)
Depreciation on operating lease assets	(28)	-	-	(28)
Provisions for bad and doubtful debts	(63)	-	(1)	(64)
Provisions for contingent liabilities and commitments	1	-	-	1

Profit/(Loss) before tax

69

53

(1)

121

Table 7: Business to Consumer 2001

	Wealth Management £m	Inscape £m	cahoot £m	2001 total £m
Net interest income	44	-	(5)	39
Dividend income	1	-	-	1
Fees and commissions receivable	17	1	1	19
Fees and commissions payable	(3)	(1)	(2)	(6)
Net fees and commissions	14	-	(1)	13
Other operating income	3	-	-	3
Commissions, fees and other income	18	-	(1)	17
Total operating income	62	-	(6)	56
Salaries and other staff costs	(17)	(8)	(2)	(27)
Bank, legal, marketing and professional expenses	(5)	(6)	(21)	(32)
Software, computer and other administration expenses	(9)	(4)	(3)	(16)
Depreciation and amortisation	(1)	-	(1)	(2)
Other property and equipment expenses	(2)	(1)	-	(3)
Operating expenses	(34)	(19)	(27)	(80)
Provisions for bad and doubtful debts	-	-	(3)	(3)
Provisions for contingent liabilities and commitments	-	-	-	-
Amounts written off fixed asset investments	-	-	-	-
Profit/(Loss) before tax	28	(19)	(36)	(27)

Table 8: Business to Consumer 2000

	Wealth Management £m	Inscape £m	cahoot £m	2000 total £m
Net interest income	34	1	-	35
Dividend income	1	-	-	1
Fees and commissions receivable	28	-	-	28
Fees and commissions payable	(4)	-	-	(4)
Net fees and commissions	24	-	-	24
Other operating income	4	-	-	4
Commissions, fees and other income	29	-	-	29
Total operating income	63	1	-	64
Salaries and other staff costs	(23)	(7)	(2)	(32)
Bank, legal, marketing and professional expenses	(3)	(4)	(24)	(31)
Software, computer and other administration expenses	(8)	(6)	(5)	(19)
Depreciation and amortisation	(1)	-	-	(1)
Other property and equipment expenses	(3)	-	-	(3)
Operating expenses	(38)	(17)	(31)	(86)
Provisions for bad and doubtful debts	-	-	-	-
Provisions for contingent liabilities and commitments	-	-	-	-
Profit/(Loss) before tax	25	(16)	(31)	(22)

Table 9: Group Infrastructure 2001

	<u>2001</u> <u>£m</u>
Net interest income	3
Fees and commissions receivable	-
Fees and commissions payable	-
Net fees and commissions	-
Other operating income	<u>100</u>
Commissions, fees and other income	100
Total operating income	103
Salaries and other staff costs	(22)
Bank, legal, marketing and professional expenses	(39)
Software, computer and other administration expenses	(30)
Depreciation and amortisation	(20)
Other property and equipment expenses	<u>(14)</u>
Operating expenses	(125)
Provision for bad and doubtful debts	-
Provisions for contingent liabilities and commitments	(5)
Loss before tax	(27)

Table 10: Group Infrastructure 2000

	<u>2000</u> <u>£m</u>
Net interest income	-
Fees and commissions receivable	3
Fees and commissions payable	-
Net fees and commissions	<u>3</u>
Other operating income	<u>28</u>
Commissions, fees and other income	31
Total operating income	31
Salaries and other staff costs	(24)
Bank, legal, marketing and professional expenses	(11)
Software, computer and other administration expenses	(27)
Depreciation and amortisation	(18)
Other property and equipment expenses	<u>(6)</u>
Operating expenses	(86)
Provisions for bad & doubtful debts	-
Provisions for contingent liabilities and commitments	10
Loss before tax	(45)

Appendix 6: Key statistics

Table 1: Retail Banking

	2001	2000	Full year 2000
A. Market shares (estimates) (%)			
Increase in UK mortgages outstanding	9.6	10.3	7.9
UK mortgage stock	12.6	13.0	12.7
Increase in UK retail household liabilities	5.3	(0.2)	3.6
UK retail household liabilities stock	8.2	8.4	8.3
Increase in UK consumer credit (excluding credit cards)	(4.9)	0.7	(0.9)
UK consumer credit stock (excluding credit cards)	7.9	8.3	8.5
Cash ISA sales (estimate)	11	12	11
Investment ISA sales	5.3	6	7
B. Banking metrics for the year			
Number of bank accounts (excluding IPA) (000s)	2,219	2,034	2,101
Number of Instant Plus accounts (000s)	599	647	617
Total bank accounts	2,818	2,681	2,718
Number of bank account openings (ANBA only) (000)	130	62	172
Number of IPA upgrades to ANBA (000)	24	39	70
Number of total ANBA account openings (000)	154	101	242
Number of debit cards (including Multifunction and Electron) (000s)	2,912	2,505	2,672
Overdraft asset (£ million)	236	216	234
Unsecured Personal Loan asset (£ million)	1,615	1,479	1,472
C. Customer metrics			
Total number of customers (million)	15.2	15.2	15.2
Average product holdings per active customer	2.11	n/a	2.06
Average product holdings per bank customer	2.78	n/a	2.72
AN Life cross sales ratio (%)	15	13	14
D. Distribution			
Number of branches	710	722	714
Number of Safeway in-store branches	37	29	37
Number of Costa Coffee branches	8	0	4
Total Number of branches	755	751	755
Number of branch based ATMs	1,754	1,748	1,777
Number of remote ATMs	1,441	1,290	1,403
Total number of ATMs	3,195	3,038	3,180
Counter based transactions (millions)	44	50	98
E. e-banking metrics			
Number of registrations (000s)	942	262	596
Cumulative number of product applications (000s)	154	7	73
Registered internet introducers (000s)	10	n/a	6

Table 2: Wholesale Banking

	2001	2000	Full year 2000
Assets AA- or better (%)	53	63	60
Geographic credit exposure to UK and rest of Europe (%)	52	48	49
Geographic credit exposure to US (%)	37	42	41
Acquisition finance deals completed	28	16	34
Big ticket leasing assets (£ billion)	4.8	5.1	4.9
Operating lease assets (principally Porterbrook) (£ billion)	1.8	1.3	1.5
Private equity investments (£ billion)	0.6	0.3	0.5
Commitments to project finance sector (£ billion)	3.1	1.8	2.5
Commitments to property finance sector (£ billion)	1.2	0.7	1.1
Project finance deals completed	25	13	59
Bonds and medium term notes issued (£ billion)	3.8	6.0	8.9
Funding from wholesale markets as a proportion of total funding (%)	56	56	54

Table 3: Life Assurance

	2001	2000	Full year 2000
New business premiums (£million)	2,300	2,010	4,281
Annualised business premiums (£million)	291	258	538
Funds under management (£ billion)	21.5	19.1	20.7
New business contribution to embedded values (£ million)	56.3	48	119
Total expense ratios in: Abbey National Life (%)	54.3	64.4	65.4
Scottish Mutual (%)	78.9	76.7	75.0

Table 4: Wealth Management (excl. Inscape)

	2001	2000	Full year 2000
Retail liabilities offshore (£ million)	4,350	3,745	4,032
Retail liabilities onshore (£ million)	1,104	556	795
Premier Banking (estimate) (£ million)	1,498	n/a	n/a
cahoot	1,268	-	177
Total retail liabilities (£ million)	8,220	4,301	5,004

Table 5: cahoot

	2001	Full year 2000
Number of customer applications (000s)	283	142
Number of money transmission accounts accepted (000s)	79	27
Number of credit card accounts accepted (000s)	85	49
Number of unsecured loans accepted (000s)	4	n/a

Appendix 7: Net Interest Income

Table 1: Half yearly net interest margins and spreads

	2001 First half £m	2000 First half £m	2000 Second half £m	2000 Total £m
Net interest income	1,346	1,332	1,348	2,680
Average interest earning assets (£bn)	177.9	161.9	170.2	166.1
Group	67.7	64.5	66.2	65.4
UK Retail Banking				
Net interest margins (%)				
Group	1.52	1.65	1.57	1.61
UK Retail Banking	2.17	2.31	2.23	2.27
Wholesale Banking	0.44	0.43	0.42	0.43
First National	6.56	6.94	7.19	7.06
Spread (%)				
Group	1.32	1.48	1.37	1.42
UK Retail Banking (excluding UPLs)	1.92	2.06	1.97	2.01

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

	2001		2000	
	Average balance £bn	Average rate %	Average balance £bn	Average rate %
Group				
Interest earning assets	171.7		160.6	
Securitisation gross up	6.2		1.3	
Interest earning assets	177.9	6.64	161.9	6.76
Interest bearing liabilities	165.0		155.1	
Securitisation gross up	6.2		1.3	
Interest bearing liabilities	171.2	5.32	156.4	5.28
Shareholders' funds	7.5	-	6.3	-
Other net non-interest bearing (assets) / liabilities	(0.8)	-	(0.8)	-

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
Transfer from P&L account	28	14	96	138
Irrecoverable amounts written off	(16)	(20)	(107)	(143)
At 30 June 2001	215	112	195	522
General	153	24	31	208
Specific	62	88	164	314
Total	215	112	195	522

Table 2: Analysis of provisions as at June 2001

	Charge first half (£m)	Provisions balance (£m)	Balance % of loan assets
Secured on residential properties	27	194	0.3
Overdraft and credit card	23	40	17.1
Unsecured personal loans	30	73	4.5
UK Retail Banking	80	307	0.4
First National	55	154	2.0
France	-	53	5.5
Italy	-	5	0.5
Continental Europe	-	58	2.9
cahoot	3	3	3.0
Total	138	522	0.7

Table 3: Analysis of provisions as at June 2000

	Charge first half (£m)	Provisions balance (£m)	Balance % of loan assets
Secured on residential properties	13	174	0.3
Overdraft and credit card	31	55	11.3
Unsecured personal loans	24	59	4.0
UK Retail Banking	68	288	0.4
First National	63	176	2.2
France	-	66	6.8
Italy	1	5	0.6
Continental Europe	1	71	4.1
Total	132	535	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	-	(2)	-	(2)
Transfer from P&L account	5	3	5	13
Irrecoverable amounts written off	(8)	(3)	(5)	(16)
At 30 June 2001	33	52	10	95

Table 2: Analysis of suspended interest

	2001		2000	
	Charge first half (£m)	Balance 30 June (£m)	Charge first half (£m)	Balance 30 June (£m)
Secured on residential property	5	13	6	14
Overdraft and credit card	3	3	3	4
Unsecured personal loans	2	3	2	3
UK Retail Banking	10	19	11	21
First National	-	9	-	9
France	3	60	3	67
Italy	-	7	-	7
Continental Europe	3	67	3	74
Total	13	95	14	104

Appendix 10: UK mortgage arrears**Table 1: Arrears cases**

	30 June 2001			31 Dec 2000			30 June 2000		
	No. cases (000s)	% of Total	CML industry average %	No. cases (000s)	% of Total	CML industry average %	No. cases (000s)	% of Total	CML industry average %
1 - 2 months arrears	32.07	2.23	n/a	36.27	2.56	n/a	37.11	2.59	n/a
3 - 5 months arrears	12.54	0.87	n/a	12.85	0.91	0.82	12.72	0.89	0.87
6 - 11 months arrears	6.92	0.48	n/a	7.21	0.51	0.41	7.87	0.55	0.43
12 months + arrears	2.01	0.14	n/a	2.36	0.17	0.17	3.01	0.21	0.20

Note: CML data not available at time of publication.

Table 2: Properties in Possession

	30 June 2001			31 December 2000			30 June 2000		
	Nos	% of loans	CML industry average %	Nos	% of loans	CML industry average %	Nos	% of loans	CML industry average %
No. of repossessions	2,176	0.15	n/a	2,476	0.18	0.09	2,672	0.19	0.11
No. of sales	2,420	0.17	n/a	2,563	0.18	0.10	2,990	0.21	0.13
Stock	1,134	0.08	n/a	1,378	0.10	0.07	1,465	0.10	0.08

Note: Abbey National figures exclude First National.

Appendix 11: Mortgage discounts and cashbacks

	Half year 2001			Half year 2000		
	Expense incurred in half year (£m)	Charged to profit and loss (£m)	Balance carried forward (£m)	Expense incurred in half year (£m)	Charged to profit and loss (£m)	Balance carried forward (£m)
Interest rate discounts	143	(164)	62	81	(95)	97
Cashbacks	36	(90)	346	48	(73)	441
Total	179	(254)	408	129	(168)	538

Appendix 12: Headcount

Full time equivalent basis	30 June 2001	30 June 2000	31 December 2000
UK Retail Banking (excluding AN Life)	13,853	14,408	13,390
Wholesale Banking	883	721	780
Business to Business (including AN Life)	6,292	6,998	6,734
Business to Consumer	1,293	1,539	1,239
Group Infrastructure	4,032	3,798	3,976
Group total	26,353	27,464	26,119

Appendix 13: Reconciliation of movement in shareholders' funds

	£m	£m
Equity shareholders' funds as at 31 December 2000		6,380
Profit retained for the period	430	
Increases in ordinary share capital including share premium	104	
Capitalised reserves on exercise of share options	(10)	
Net addition to equity shareholders' funds		524
Equity shareholders' funds as at 30 June 2001		6,904

Independent Review Report to Abbey National PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2001 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of total recognised gains and losses. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the UK Listing Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR
24 July 2001

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 contained in this interim statement does not constitute statutory accounts as defined in s240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the year ended 31st December 2000. Those accounts, upon which the auditors issued an unqualified audit opinion, have been delivered to the Registrar of Companies.
2. The financial statements were prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 December 2000.
3. The report was approved by the board of directors of Abbey National plc on 24 July 2001.
4. The ex-dividend date is 22 August 2001; the record date is 24 August 2001; the payment date is 8 October 2001; the scrip election date is 31 August 2001.
5. The scrip price will be calculated utilising the average of the mid-market price of Abbey National plc shares over the period 22 – 24 August 2001. The scrip share price can be obtained from 28 August 2001 by telephoning Abbey National Shareholder Services on 0870 532 9430.
6. The third quarter trading statement will be issued on 23 October 2001.
7. This report will also be available on the Abbey National Group website: www.abbeynational.plc.uk from the 25 July 2001.

For further information contact:

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