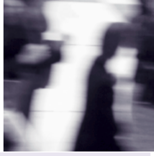
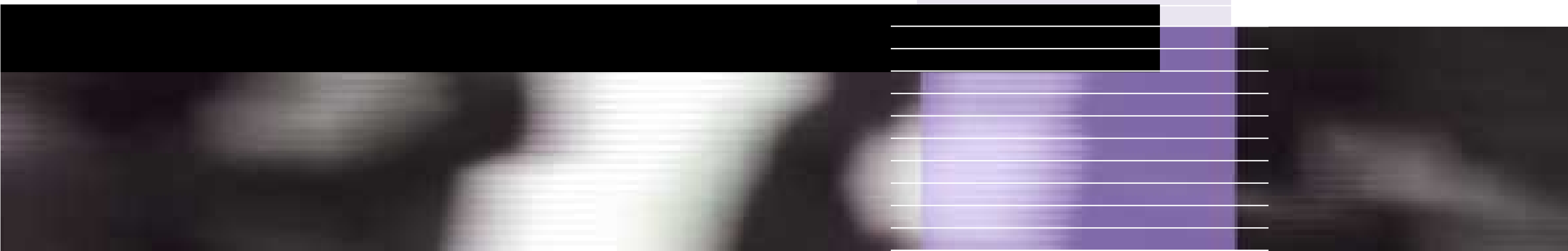


Directors' Report and Accounts 2000



- Profit before tax increased by 11% to £1,975 million (£1,783 million)
- In 2000 diversified business activities accounted for 53% of total Group profit before tax

The Abbey National Group

www.abbeynational.plc.uk

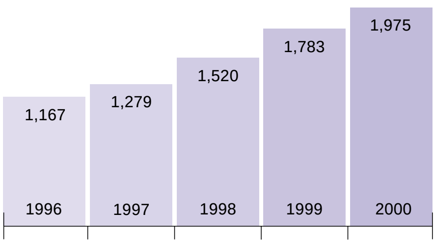
Contents

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.

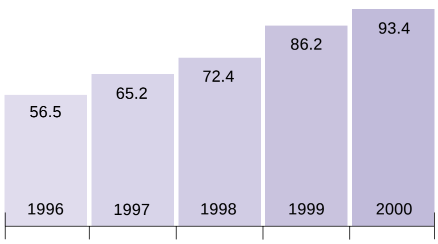
The Directors' Report and Accounts is available online at www.abbeynational.plc.uk with a downloadable PDF to make your life easier...

Results highlights

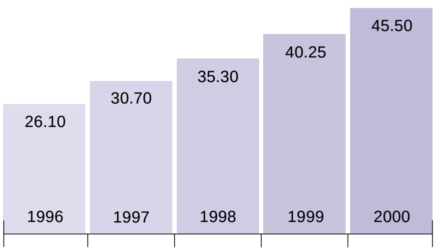
- Profit before tax increased by 11% to £1,975 million (£1,783 million)
- In 2000 diversified business activities accounted for 53% of total Group profit before tax
- Earnings per ordinary share increased by 8% to 93.4 pence
- Proposed final net dividend of 30.35 pence, making the full year net dividend 45.50 pence, an increase of 13%
- Total Group assets up 13% since 31 December 1999 to £204.4 billion



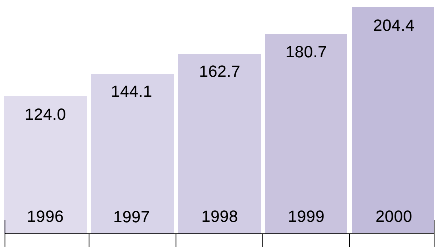
Profit before tax (£m)



Earnings per ordinary share (pence)



Dividend (pence per ordinary share)



Total assets (£bn)

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For our latest trading statements

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"Abbey National is a vibrant, highly efficient business. It is constantly evolving and developing new products and services to meet the needs of millions of customers..."

Confidence for the future

Confidence for the future

At the heart of many of our achievements are the skills, commitment, and flexibility of our people.

2000 was another highly successful year for Abbey National. Underlying profit before tax was up 17% to £2.1 billion, and assets increased by 13% to £204 billion.

Earnings per share were 93.4 pence compared to 86.2 pence in 1999 and the proposed full year dividend per share is to be increased by 13% to 45.5 pence. This was achieved after record investment of £190 million in transforming the Group and the launch of new products, distribution channels and services – such as cahoot and Inscape.

The year also saw a notable landmark in Abbey National's diversification programme. While strong growth was achieved across the Group, 53% of profits were accounted for by our diversified businesses, outside of mortgages and savings. In particular, Wholesale Banking increased profits by 37%, boosted by the acquisition of Porterbrook in April 2000. Profits from the Life Assurance businesses were 29% higher with new business premiums rising by 34% to a record £4.3 billion. In addition, agreement was reached in September to transfer the Scottish Provident business, subject to court and policyholder approval, in the summer of 2001. This will further strengthen our already successful life assurance operations.

In Retail Banking and First National, significant investment has continued, radically transforming the way these businesses serve and expand their respective customer bases. Both have delivered strong new business performances in competitive market conditions. In the Retail Bank, mortgage net lending was the highest since 1994, the unsecured loan asset grew by 15%, and almost a quarter of a million bank accounts were opened. First National maintained its market share in motor finance and further extended its presence in business finance markets. Excellent progress has been made in developing our business banking service, which delivered assets and in-credit balances increases of 35% and 73% respectively.

At the start of 2000, we promised to launch a series of dynamic new initiatives, harnessing the internet to deliver both customer choice and shareholder value. We have done this, and much more. In the last 12 months, we have launched three internet platforms and registered over 800,000 e-banking users Group-wide. We are committed to offering fully integrated multi-channel options to our customers, giving them real choice and value.

Abbey National's community partnerships are also expanding through the Abbey National Charitable Trust, and total donations amounted to £1.8 million. Staff across the Group continued to participate in the Trust's matched donation scheme, with £346,000 raised in 2000 compared to £341,000 in 1999. We have also established community groups, which meet regularly to organise employee involvement programmes and recommend how funds should be used in the area. Groups have been established in nine locations with more planned for other business centres.

In January 2001, Charles Villiers, our Deputy Chairman, stood down as an executive director on reaching retirement age. His contribution to the Group since he joined the Board in 1989 has been immense in many spheres, but above all in Corporate Development. My colleagues and I wish to record our gratitude to him. We were also sorry to bid farewell to James Tuckey, who retired as a non-executive director after ten years, during which time his experience and wise counsel have been a great help to us.

Finally, I should like to pay tribute to our staff. Their continued commitment, flexibility and willingness in rising to new challenges are at the heart of many of the achievements of the Abbey National Group.

Christopher Tugendhat

The Lord Tugendhat
Chairman

We are committed to offering a fully integrated multi-channel approach to our customers, and offer banking through:

- ATMs
- Branches
- Digital TV
- Internet
- Telephone
- WAP-enabled mobile phones

Why don't you check out our e-banking services for yourself at www.abbeynational.co.uk

To find out more about cahoot interactive banking, visit www.cahoot.com

Record results

Record results,

significant investment, delivering our plans

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

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

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

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

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

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

A new management structure

In May, we announced a new management structure creating four customer-facing divisions responsible for increasing revenue growth. These are: Retail Banking; Wholesale Banking; Business to Business; and Business to Consumer – all of which are supported by an infrastructure spanning the whole Group. The reorganisation is integral to completing the radical transformation of our business, and to developing new, sustainable, high-growth income streams.

Retail Banking

Excellent financial performance and strong new business levels

Retail Banking increased profit before tax and investment expenditure by 8%. The full year spread was strong at 2.01%, and we posted our lowest ever underlying cost:income ratio of 37.6%. Credit quality remained robust.

“We enter 2001 in excellent shape, confident of our ability to grow our business in the interest of shareholders, customers and staff”

Abbey National is the second biggest provider of mortgages and savings in the UK, and the most successful bancassurer. In 2000, net mortgage lending of £3.2 billion was the highest since 1994, representing an 8% net lending market share – towards the upper end of our target 5-10% range. This performance was supported by dedicated customer retention teams further reducing absolute capital repayment levels, which have now been below our stock share for the last two years. In addition to a positive net inflow of UK retail deposits, we also achieved £1.7 billion of new business premiums in Abbey National Life. The 44% increase in Life premiums reflects the active transfer of customer retail savings into longer-term investment products.

We again demonstrated our ability to diversify within Retail Banking. The unsecured loan asset grew by 15%, openings of new bank accounts increased by 40%, and motor insurance policy sales were up 28%.

Driving up revenues

We are successfully growing the business by focusing on customer retention, customer value management, and increased cross sales. In 2000, 95% of profitable customers were retained and product sales per employee were up 16%. In July, we launched the internal branch franchising pilot, a powerful proposition to increase sales further by harnessing the entrepreneurial drive of our best sales managers. To date, sales have exceeded pre-launch levels by around 17%.

Our commitment to diversifying our earnings base does not mean we are retreating from mortgages and savings. We will continue to compete hard in these markets. At the same time, we are re-engineering the business to improve efficiency and proactively manage margins. Our target net lending market share of 5-10% remains a priority, but to deliver strong headline revenue growth we need to exploit the strength of our brand across the spectrum of personal financial services.

By the end of 2003, we are targeting 1 million additional current account customers and have been encouraged by early progress. For potential customers, the Abbey National Bank Account now offers market-leading overdraft rates and a no-hassle switcher service. In September, we launched our student bank account, offered through an exclusive deal with the National Union of Students.

We will continue to build on our excellent bancassurance record and may also distribute a version of Scottish Provident’s Self Assurance protection product through the Retail Bank, following completion of the transfer. By the end of 2000, we had sold Abbey National Life policies to 14% of the active customer base – up from 12% at the end of 1999. We are making good progress towards our target of 20% by the end of 2003.

In General Insurance, we are introducing a panel of competing insurers to provide a wider choice of products and more competitive pricing. We aim to expand our General Insurance business and increase the policies in force to over 2 million by the end of 2003.

Convenience retailing

In 2000, we rolled out our convenience retailing concept, strengthening our brand and meeting the needs of the Retail Bank’s 15 million retail customers through more flexible products and delivery channels. The Abbey National branded e-banking service launched on schedule in May. To date, the service has registered over 725,000 customers. Registered customers have access to their accounts through a fully-integrated ‘bricks and clicks’ channel offering, which includes branches, WAP mobile banking and digital TV. We are the only UK bank to be online with all digital TV platforms, a medium that we aim to dominate. The service has been fully interactive on BSkyB’s Open since July.

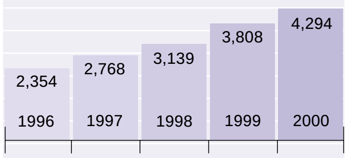
There are currently over 207,000 visits to the e-banking sites each week, and to date, over 90,000 product applications have been generated through this channel.

Record new business levels:

- Mortgage net lending the highest since 1994
- Abbey National Life new business premiums increased 44%
- Scottish Mutual life assurance new business premiums up 27% to a record £2.6 billion

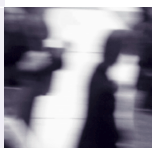
Group revenue growth (£m)

(excluding exceptional items)



We will:

- keep diversifying the business
- build a leading broadly based financial services institution
- strengthen our franchises
- innovate across our range of services



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In 2000, we opened a further 12 branches in Safeway stores, introduced e-banking facilities into many of our branches, and launched a pilot scheme with Costa Coffee. It has never been easier for our customers to do business with Abbey National and, when they do, we are committed to delivering a unique, quality service – whether it is over the counter, over the phone, over the internet, or over a cup of coffee.

Cost efficiency and flexibility a priority

Ongoing business re-engineering is improving efficiency across the bank. We are actively switching servicing to cost-effective channels and are exploring opportunities for outsourcing and establishing business alliances. Early in 2000, we reorganised the branch network to focus on the needs of local markets, reducing the cost base by £16 million on an annualised basis. Counter transactions are now 14% of total transactions. Early in 2001, we announced new outsourcing and business alliances for our general insurance and mortgage processing operations, aimed at increasing efficiency, enhancing service levels and improving customer choice.

The launch of our e-banking platform represents another low-cost servicing channel and offers our customers yet more flexibility. We have also launched a number of business to business initiatives in the Retail Bank, including a mortgage Introducer Internet service. This allows straight-through processing with a decision in principle within 60 seconds. We have already registered 7,000 introducers and we aim to process in the region of £3 billion of mortgage lending online in 2001.

We are radically challenging all aspects of our Retail Bank, investing in the business, focusing on revenues while increasing flexibility and efficiency in our cost base.

Wholesale Banking

Driving up profit and returns on capital

Wholesale Banking delivered an exceptionally strong set of results. Profit before tax was up 37%, supported by growth across a range of existing businesses and newer businesses such as acquisition finance, operating leasing, project finance and private equity – in fact, in the region of a third of profits were generated by businesses developed in the last 3 years. Return on equity increased to 17.2% from 14.0%.

Over the last 6 years, the Wholesale Bank has delivered consistent double-digit profit growth, repeatedly demonstrating its ability to capitalise on market opportunities, and build sustainable income streams. We continue to invest in back office and risk management systems, and completed several significant projects in 2000. These systems provide a strong foundation on which we can continue to grow the business as well as a number of advantages from the use of straight-through processing.

In the future, Wholesale Banking will continue to expand its skills and expertise into markets with attractive risk:rewards, delivering innovative solutions to exploit market opportunities, while maintaining the selective, discerning and highly successful approach adopted to date.

A range of powerful businesses

In 2000, the fastest-growing business within the Wholesale Bank was Asset Financing, which saw profit growth of 161%. Asset Financing includes: project and property finance; participation in the UK government's private finance initiative (PFI); and operating leasing that was boosted by Porterbrook, one of the UK's three train leasing companies, which we acquired in April. We are pleased with the performance of this acquisition, which contributed £40 million to profit before tax, and is already demonstrating strong new business flows. Even excluding Porterbrook, the profits generated by asset finance income streams almost doubled, largely achieved through our prominence in the project and property finance market, where we participated in 59 deals worldwide compared to 35 deals in 1999. We are a leading provider of PFI finance, participating in 15 deals in 2000. The Wholesale Bank is well positioned to benefit in these high-growth asset financing markets.

The established wholesale lending portfolio increased by 24% to over £21 billion, driven in part by increased participation in a number of acquisition finance deals where we extended our remit to underwrite selected deals. The derivatives business also continued to develop its scope and market presence, establishing itself as a significant provider of equity derivatives for third parties in the UK, and also launching a business offering credit derivative solutions in the latter part of the year.

Across the breadth of its operations, the Wholesale Bank will seek to extend its international presence further, using as a platform the branch opened in Hong Kong in November. We are also considering establishing a presence in the United States in 2001.

Sustainable growth

Across the Wholesale Bank we remain very comfortable with the risk profile of the investment portfolios. In all our investments, we remain very selective in our investment approach, and tightly monitor exposure to individual sectors. In our newer business streams, the breadth of our investments is growing.

The business has delivered exceptionally strong results in 2000 and established a strong pipeline of transactions. This is a business with well managed risk, specialist knowledge and a responsive approach to market opportunities and changes.

Business to Business

B2B comprises businesses operating predominantly through intermediaries and includes First National, Scottish Mutual and European Operations. It is through this division that we are spearheading our growth in business banking services.

First National

First National is one of the largest consumer finance houses in the UK, providing point-of-sale finance for a range of goods to over 4 million customers, as well as financial service solutions to business clients. In 2000, market conditions facing First National were tough. Nevertheless, profits increased by 5% with profit before investment spend up 16%. In First National's motor finance business, 'First On-line' is now in over 900 dealerships across the UK, and has been instrumental in securing arrangements with new major dealer groups that helped maintain market share. In Business Finance market share increased, with growth in business banking asset and in-credit balances increasing by 35% and 73% respectively.

We have a solid base for strong expansion into the SME (Small and Medium Enterprise) market, exploiting existing relationships with over 110,000 businesses. Efforts will focus on banking services and asset financing solutions, with the aim of increasing our market share from 1% to 5% by the end of 2005. We are committed to challenging the stranglehold of the "big four" banks through a range of new and innovative solutions for business customers.

Building efficient platforms for growth

The transformation programme is focused on making First National the most efficient operator in this market. The programme has included outsourcing arrangements, branch rationalisation and the development of new, faster, integrated IT systems. Headcount savings of almost 500 have been achieved during 2000. The programme has also addressed collections and recovery systems, significantly improving the levels of bad debt in 2000. To date, over £74 million has been invested, with an expected £28 million of future annualised cost and revenue enhancements now in place. The savings will increase as the programme reaches completion towards the end of 2001.

Scottish Mutual

A formidable life assurance portfolio of brands and channels

Life assurance new business premiums across the Group were up 34% to a record £4.3 billion. Scottish Mutual's contribution was primarily fuelled by premium growth of 141% in Scottish Mutual International and continued strong sales of with profit bonds and personal pension schemes ahead of the stakeholder pension launch. Sales are benefiting from enhanced intermediary relationships, with a growing number of IFAs now using Scottish Mutual's online facilities and services, including a centralised quote facility, policy details for all products and access to commission status.

Scottish Mutual has become the most efficient active life assurance provider through the IFA channel in the UK, benefiting from the shared cost platform with Abbey National Life. At the same time, market share in the IFA channel was increased through continued high service levels and innovative product offerings.

In 2001, the proposed transfer of the Scottish Provident business will represent a step change in the scale and growth prospects of our life assurance business. The proposal is highly complementary to our existing operations in terms of product range, strength in the IFA

Three internet platforms launched in 2000, with over 800,000 registered users across the Group:

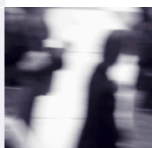
- Retail e-banking www.abbeynational.co.uk
- cahoot www.cahoot.com
- Inscape www.inscape.com

Harnessing the B2B sector:

- 'First On-line' now in over 900 motor dealerships
- A growing number of IFAs now using Scottish Mutual's online facilities and services

Wholesale Banking

Our acquisition of Porterbook in April has substantially extended the Wholesale Bank's operating leasing operations and contributed £40 million to profit before tax



channel and international growth potential.

We have a formidable portfolio of life assurance brands and channels. Funds under management will increase by around 50% to in excess of £30 billion when the Scottish Provident funds under management are transferred. We are a major player in the long-term savings and investment market.

Business to Consumer

New propositions for new customers

The Business to Consumer banking division was created to take forward a number of new e-commerce enabled businesses using a range of brands and distribution channels targeted at higher net worth customers. The division is targeting customer segments new to the Group with innovative, market leading products and services – generating new income streams for the Group. That said, many of our existing customers will also benefit from these new product and service propositions.

cahoot

cahoot launched in June. To date, its bank account and credit card applications have exceeded 189,000 with over 106,000 accepted. It has received a number of accolades including the 'Gold Medal Award' for its credit card from the Gomez rating agency on two separate occasions. It also received the IVCA award sponsored by the Design Council for the best transactional web site and was rated best online bank in the market by Personal Computer in February 2001. During the first six months of operation, cahoot achieved a remarkable 38% brand recognition.

A WAP mobile phone service, share dealing and a range of unsecured loans have recently been made available to customers – who will soon be able also to access their accounts via digital TV.

Inscape

Our new wealth management service, Inscape, launched in November, targeting the mass affluent market. The service provides access to a selection of leading international fund managers, supported by advice from dedicated client relationship managers. The offering is based on competitive and transparent pricing, and is truly multi-channel. A network of advice centres is supported by telephone help-lines, internet access and performance reports posted to customers monthly and quarterly. We expect Inscape to make a real impact in this market in 2001 and beyond.

Innovative solutions, radical thinking

We are channelling all our efforts to deliver sustainable shareholder value, a goal that requires creativity and innovation, the ability to learn, adapt and introduce new initiatives faster than competitors.

In July, we launched our internal branch-franchising pilot, the first of its kind in Europe. In October, we completed the sale and leaseback of our entire property portfolio – a groundbreaking transaction significantly increasing our operational flexibility for the next 20 years. Wholesale Banking delivered excellent capital management solutions for the Group, including the largest single European mortgage securitisation issue. We were the first bank in the UK to deliver single-brand banking services on both the internet and digital TV, and the first to provide a 60-second mortgage in principle to our introducers.

We believe the combination of innovation and execution will continue to strengthen Abbey National's position as a leading force in UK financial services.

In conclusion

In 2001, we will make further investment to transform already strong franchises and harness the power of e-enabled solutions.

Our mortgage and savings business will continue to be a source of great strength, but we are focusing on increasing revenues across other businesses – with a particular emphasis on personal banking, life assurance and SME banking. In the shape of cahoot and Inscape, we have new propositions to attract new customers to the Abbey National Group. We are committed to diversification, broadening and enhancing the strength of our income streams. We anticipate that 65% of profits will be sourced from businesses other than mortgages and savings by the end of 2002, a year ahead of target.

We will continue to monitor acquisition opportunities where we feel they are complementary to our organic plans. Over the last two and a half years, we have spent or committed to spend almost £3 billion on acquisitions.

Most importantly, we will continue to be highly innovative in pursuing our ambition to build the Abbey National Group into exactly what we want it to be – a leading broadly-based financial services institution.

Ian Harley
Chief Executive

Financial highlights

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

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

Segmental profit and loss account

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

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

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

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

Results of operations of the Group by business segment

Retail Banking

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

① Spread and margin calculations exclude unsecured lending, General Insurance and Abbey National Life

② RWAs and RoE analysis are for UK Retail Bank only

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

- active management of the Retail spread which reduced by 19 basis points to 2.01% against a backdrop of stable base rates, adversely affecting net interest income, in part offset by strong new business flows;
- increasing other income by 21% through record levels of new business in Abbey National Life, increased banking and mortgage fee income earned from customers;
- careful cost management. Excluding investment in e-commerce and redundancy costs, expense growth of £17 million represents only a 2% increase in costs. During 2000, 87 projects relating to cost efficiency and income generation were completed;
- 11% reduction in mortgage processing costs achieved through re-engineering processes and introducing imaging and workflow management. The proposed joint venture with Electronic Data Systems is expected to deliver close to best-in-class loan processing costs from 2001 onwards through advanced systems utilisation and process re-engineering. In addition, we have re-organised our branch network to focus on local markets, aligning service to customer needs and removing £16 million from the cost base from 2001 onwards; and
- improving both the quality of business underwritten and arrears management, contributing to a 12% reduction in the provision charge.

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

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

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

Convenience Retailing	2000	1999
Customer metrics:		
Total number of customers (million)	15.2	15.0
AN Life cross sales ratio (%)	14	12
Distribution:		
Number of branches	714	765
Number of Safeway in-store branches	37	25
Number of Costa Coffee branches	4	–
Total number of branches	755	790
Number of Abbeylink ATMs	3,180	2,724
Number of non-branch Abbeylink ATMs	1,403	1,077
	4,583	3,801

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

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

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

Mortgages and Savings

Group share of UK mortgage market:	2000 £bn	2000 %	1999 £bn	1999 %
Gross lending	12.8	10.7	12.2	10.7
Capital repayments	9.6	12.2	9.9	12.9
Net lending (change in outstanding stock)	3.2	7.9	2.4	6.3
Stock	67.9	12.7	64.7	13.1

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

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

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

Group share of UK retail household liabilities market:

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

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

Banking and Unsecured Personal Lending	2000	1999
Number of Abbey National bank accounts (ANBA) (000)	2,101	1,976
Number of ANBA openings (000)	172	123

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

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

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

Abbey National Life	2000 £m	1999 £m
New business premiums – single		
– Pension	21	18
– Life	850	464
– PEPs, Unit Trusts and ISAs	772	636
	1,643	1,118
New business premiums – annual		
– Pension	13	8
– Life	16	36
– PEPs, Unit Trusts and ISAs	39	23
	68	67
Total new business premiums ①	1,711	1,185
Annualised equivalent ②	232	179
Total expense ratio ③	65.4	68.0

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

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

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

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

General Insurance

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

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

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

Investment in the region of £50 million will be required over the next 36 months to implement the new arrangements fully, and is expected to have a favourable impact on headline profitability from 2002 onwards. The objective of this investment is to create a new platform, which will support our target of growing our insurance book to over 2 million policies by the end of 2003.

Wholesale Banking

	2000 £m	1999 £m
Net interest income	441	393
Commissions, fees and other income	423	169
Total operating income	864	562
Operating expenses excluding depreciation on operating lease assets	(155)	(115)
Depreciation on operating lease assets	(100)	(2)
Provisions	(34)	(26)
Profit before tax	575	419
Profit by business		
Wholesale lending	135	101
Asset financing	159	61
Asset-backed investments	149	165
Risk management and financial products	76	49
Securities lending	38	30
Treasury and other	18	13
Profit before tax	575	419
Balance sheet by business type	£bn	£bn
Wholesale lending	21	17
Asset financing	13	9
Asset-backed investments	26	27
Risk management and financial products	3	2
Securities lending	29	19
Treasury and other	11	8
Total assets	103	82
Cost : income ratio (%)	20.2	20.5
Net interest margin (%)	0.43	0.41
Average interest earning assets (£bn)	103.0	94.6
Average risk weighted assets (RWA) (£m)	34,274	30,036
Return on regulatory equity (%)	17.2	14.0

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

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

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

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

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

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

Wholesale Banking participates in five main business areas:

Wholesale Lending

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

Wholesale Lending assets, including the provision of acquisition finance, increased from £17 billion to £21 billion, generating both interest and fee income.

Wholesale Lending participated in a total of 34 acquisition finance deals, consolidating the Wholesale Bank's position in this market and extending its remit to include underwriting and co-arranging finance for selected corporate mergers and acquisitions.

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

Asset Financing

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

The exercise to integrate Porterbrook is complete. Since acquisition, it has completed deals to provide funding totalling £359 million. This includes funding for 400 new vehicles for commuter routes in southern England to be delivered over the next few years.

Asset Financing participated in 50 project finance deals worldwide and 9 property finance deals. The book value of commitments increased from £1.2 billion to £3.6 billion. Wholesale Banking is also the leading provider of finance through the UK government's private finance initiative (PFI) and participated in a total of 15 deals.

The diverse private equity investment portfolio, built up since 1997, delivered strong returns. Investments increased from £0.2 billion to £0.5 billion with holdings in 50 funds across 20 industrial sectors. It focuses on funds whose strategies concentrate on managing buy-outs of small and medium sized businesses. The portfolios are held at cost and as at 31 December had unrealised gains amounting to around £60 million.

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

Asset-backed Investments

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

Return on equity increased to 11.5% (1999: 10.8%).

Total assets remained flat, with reduced holdings in the home equity loan adjustable rate mortgage (HEL ARM) sector as a number of investments matured. It is expected that a decrease in certain holdings will continue in 2001.

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

Risk Management and Financial Products

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

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

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

Securities Financing

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

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

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

Treasury and Other

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

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

Business to Business

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

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

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

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

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

First National Transformation Programme

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

Consumer Finance

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

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

Motor Finance

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

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

Business Finance

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

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

Retail Finance

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

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

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

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

① Total premiums exclude £890 million (1999: £337 million) of reassurance premiums received from Group entities previously included.
② Annualised business premiums = regular premiums plus 10% of single premium business
③ Total expense ratios are operating expense and commissions over annualised new business premiums.

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

- New business premiums increased 27% to £2.6 billion, with funds under management increasing by 13% to £15 billion.
- Despite new market entrants, the success of the Scottish Mutual With Profit Bond has continued, with sales exceeding £1 billion for the second successive year (an IFA market share of 14%).
- Group Personal Pensions volumes increased 38%, and the commitment to stakeholder pensions was demonstrated with the launch of the pre-stakeholder Universal Group Pension.

- Scottish Mutual International new business premiums increased by 141% largely due to With Profit Bond sales and the launch of the Complete Investment Portfolio contract. Profit before tax increased by £6 million to £8 million.
- Scottish Mutual Pegasus volumes of regular premiums increased 83% to £13.7 million.

Scottish Mutual has become the most efficient active life assurance provider through the IFA channel in the UK, when comparing the total expense ratios calculated using the latest available data (1999 FSA returns).

Scottish Provident

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

Continental Europe

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

Business to Consumer

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

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

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

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

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

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

Inscape

The Inscape investment management business was launched in November and began advertising in January 2001. Since launch almost 20,000 people have contacted Inscape and a large number have commenced the interview process. The average amount invested is well ahead of target, and over two thirds of funds invested is new money to the Group. Funds under management are targeted to be £8 billion by the end of 2003 from 100,000 clients.

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

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

cahoot

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

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

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

Group Infrastructure

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

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

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

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

Change in accounting presentation

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

Net interest income

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

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

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

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

Commissions, fees and other income

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

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

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

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

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

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

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

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

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

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

Operating expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

* included in commissions, fees and other income

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

The secured loan charge increased to £38 million arising from growth in mortgage assets. Arrears levels on secured loans fell by 21% to 22,416 cases three or more months in arrears (1999: 28,270), the lowest level in the last decade. Given the growth in volume during 2000, the trend of falling arrears seen over the last few years is not expected to continue.

The provision charge for credit card and overdrafts fell by 19%. This resulted from improved recoveries on bank account debt previously written off and from more proactive management of early arrears. Bank account arrears as a percentage of asset fell from 30% to 27%.

There was a 16% decrease in the charge for unsecured personal loans. This reflects an improvement in the quality of business written during the latter half of 1999 and £3 million additional recoveries.

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

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

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

Taxation

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

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

Strategic decision-making process

Strategic decisions in Abbey National plc are made by the Board through a structured process, supplemented by a continuous evaluation and analysis of strategic opportunities and threats. There are two main strands to the structured process: the Group's formal planning process and a series of strategy conferences held throughout the year.

The Group's formal planning process is an annual event, co-ordinated centrally, in which all business areas write plans covering three calendar years. The plans are written in the context of a strategic framework, agreed by the Board, which sets out the main internal and external factors likely to shape the Group over that three-year period. The plans set out each value centre's long term vision, strategy and implementation plan, together with alternative strategies that have been considered and specific initiatives to grow income streams for the future. The plans from each of the business areas are challenged by the Chief Executive and executive directors and then amalgamated into the Group's plan. They drive the deliverables in the performance management process.

There are four strategy conferences held for executive directors during the course of the year and one for the full Board. They set the strategic framework and explore the strategic issues facing the Group, identifying areas for revenue growth, the impact of competitors and market changes.

Performance management

Performance objectives, measures and targets are identified across the Group at the beginning of the year, using the three-year plan as a framework. They flow from Group level, through each business and central area and into individual performance objectives for each employee. The objectives and performance measures used are the key drivers in achieving above average returns to shareholders. On a monthly basis, performance against the key objectives is discussed by the Executive Committee. Performance measurement encompasses: financial measures such as income growth, return on equity, cost efficiency and margins. The financial measures are themselves driven by the key drivers of value within each business, for example, within Retail Banking, market share in mortgages and savings is measured alongside the retail margin and customer satisfaction measures such as retention and advocacy as well as staff satisfaction.

Capital management and resources

Abbey National continues to increase shareholder value by active management of its capital resources and will continue to explore capital and balance sheet management opportunities.

The capital resources of the Group are as follows:	2000 £m	1999 £m
Tier 1	7,204	5,871
Tier 2 and tier 3	5,902	4,532
Less supervisory deductions	(2,129)	(1,606)
Total regulatory capital	10,977	8,797
Total risk weighted assets:		
Banking book	74,756	71,706
Trading book	6,445	4,170
	81,201	75,876
Capital ratios:		
Risk asset ratio	13.5%	11.6%
Tier 1 ratio	8.9%	7.7%
Equity tier 1 ratio	7.5%	7.1%

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

Abbey National's tier 1 capital (ordinary and preference shareholders' funds after deducting goodwill), increased by £1,333 million to £7,204 million, mainly due to the issue of US$1 billion preferred perpetual notes. The increase in tier 2 capital (subordinated liabilities and general provisions) of £1,370 million, was principally due to the issue of £1.2 billion subordinated debt in September 2000. Supervisory deductions mainly represent investments in life assurance and insurance companies within the Group.

Wholesale Banking manages all the Group's capital raising and capital efficiency. In addition to the activities quoted above, Wholesale Banking also managed two further tranches of mortgage asset-backed securitisations. In July, Abbey National issued £2.2 billion mortgage-backed securities in its fourth transaction. In November, a fifth transaction – amounting to £2.4 billion – was the largest ever residential mortgage-backed deal in the European securitisation market. This brings Abbey National's total mortgage securitisation to £6.9 billion, and establishes the Group as the leader in the European mortgage securitisation market. Securitisation is seen as a key part of balance sheet management strategy, increasing return on capital and enhancing funding flexibility in the longer term markets. There are plans to progress the securitisation programme further during 2001.

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

Balance sheet

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

Financial instruments

Financial instruments are fundamental to the businesses of the Group, and are either held on a continuing basis for the purpose of collection in the form of cash flows over time (non-trading business), or held in order to benefit from short term market price movements or in order to facilitate customers' transactions (trading business). The management of the risks of financial instruments is fundamental to the conduct of banking and financial services business.

The Group's financial risk management framework and processes, and the principal financial risks faced by the Group, are described in 'Risk management' on page 17.

Abbey National holds or issues financial instruments in the following main categories:

Customer loans and deposits are held on a continuing basis in order to earn cash flows from net interest margin and fee income over the life of the instruments or customer relationships. Loans and deposits are held relating to retail and institutional customers, the majority being retail.

Investments in portfolios of debt securities and equity shares, excluding strategic investments, are held in order to generate sustainable income streams on a continuing basis, and are classified as non-trading assets. Assets in investment portfolios are predominantly fixed income securities, floating rate notes, asset-backed securities and mortgage-backed securities, and are managed on a floating rate basis using derivative and non-derivative hedging instruments. Income is primarily net interest margin.

Funding of the Group balance sheet is provided by customer deposits, money market loans and deposits, debt securities in issue, loan capital and preference shares. Funds are raised from a wide diversity of market sources in a range of maturities. An additional objective in issuing loan capital and preference shares is to ensure that a prudent level of capital is available to support growth in the Group's businesses (see 'Capital management and resources' above).

Trading financial instruments are held in order to benefit from short term market price movements or in order to facilitate customers' transactions. Trading portfolios are held by Wholesale Banking, and mainly comprise highly rated bonds, asset-backed securities, equity derivatives and traded asset swaps. Abbey National Financial Products (ANFP), a part of Wholesale Banking, provides the Group and external counterparties with products to facilitate their financial business requirements, and also uses derivatives to take advantage of short-term price movements in relative market prices. During 2000, ANFP also commenced trading in credit derivatives.

Hedging instruments are used in order to match or eliminate the risk of volatility in earnings from the Group's non-trading and trading assets, liabilities or positions which arises from potential movements in market rates. Such risks may be managed by derivative or non-derivative financial instruments as part of the integrated approach to risk management described within 'Risk management' on page 17.

For a more detailed description of the Group's use of derivatives, see page 55 of the financial statements. The accounting policy and financial disclosures for derivatives are given on pages 41 and 57 of the financial statements, respectively.

In addition, the Business to Consumer and Business to Business divisions enter into insurance and investment contracts with customers, managing investment funds on their behalf. Such contracts are not classified as financial instruments, but exposures to shareholders resulting from such contracts are included within the market risk measures on non-trading instruments, detailed within 'Risk management' on page 17.

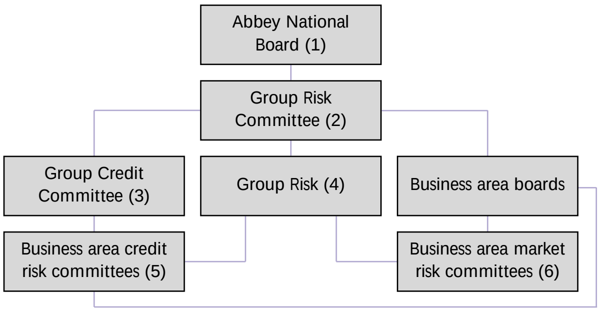
Financial risk management

Abbey National's financial risk management focuses on the major areas of credit risk, market risk, liquidity risk and residual value risk.

Abbey National has a well developed structure for managing financial risk, which consists of a comprehensive set of committees. Of these, the principal committees are the Group Risk Committee (GRC), formerly known as the Asset and Liability Committee (ALCO), which is charged with the responsibility of monitoring and controlling the level of Group balance sheet risk, and the Group Credit Committee (GCC) which monitors and reviews credit risk exposures and approves Group credit policies. There are further risk and credit committees in each major business area which report into the Group committees. Specialist risk managers within each business area have responsibility for the management and control of the financial risks generated within that business. An independent Group Risk function ensures that policies and mandates are established for the Group as a whole, monitors and reports exposures to the Board, and sets standards for financial risk management.

Management structure

The following chart shows the interrelationship of those of the Group's boards and committees that deal with risk management.



(1) Approves and authorises overall Group market risk and credit policies.
(2) Monitors and controls the level of financial risk of the Group.
(3) Monitors and reviews credit exposure and recommends Group credit policies to the GRC for approval.
(4) The independent risk function is responsible for ensuring that policies and mandates are established for the Group as a whole. The department monitors and reports Group risk positions to the Board, sets standards for financial risks and data integrity and ensures that the financial risks are fully considered in the planning process.
(5) Approve credit transactions within mandates authorised by GCC. Business area credit risk committees include Retail Credit Committee, ANTS Board Credit Committee, Treasury Credit Committee and credit committees of other business areas generating material credit risks.
(6) Authorise dealer mandates and monitors market risk exposures against limits agreed by GRC and business area boards. Business area market risk committees include Retail Pricing & Risk Committee, ANTS' Market Risk Committee and market risk committees of other business areas generating material market risks.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations, which may result in Abbey National losing the principal amount lent, the interest accrued and any unrealised gains (less any security held). Credit risk occurs mainly in the Group's loan and investment assets, and in derivative contracts.

Managing credit risk in Retail Banking

Secured Lending. Abbey National lends on many types of property but only after a credit risk assessment of the borrower and an assessment of the property is undertaken. The systems used to manage and monitor the quality of the mortgage asset are under continual review within the Group.

The majority of residential lending is subject to national lending policy and national lending authority levels which are used to structure lending decisions to the same high standard across the retail network, a process further improved by the addition of mortgage credit scoring. Details concerning the prospective borrower and the mortgage are subject to a criteria-based decision making process including credit references, loan-to-value ratio, status and loan size information and mortgage credit scoring.

The majority of loans provided by Abbey National are secured on UK properties. All properties must be permanent in construction; mobile homes, riverboats and commercial property are not generally acceptable. Abbey National can provide a mortgage for the purchase of properties outside the UK, where the property is a second home and the loan is secured on the main property located in the UK, or where Abbey National operates a European branch or subsidiary. Abbey National introduced a euro mortgage in 1999 where the loan and repayments are denominated in euros, although the property used as security may be in the UK.

Prior to granting any first mortgage loan on a property, Abbey National has the property valued by an approved and qualified surveyor who is often an Abbey National employee. The valuation is based on set Abbey National guidelines. In the case of a further advance below 75% loan-to-value (LTV) the original property value is subject to indexation and no further survey is carried out.

The basic advance value is 75% of the lower of the valuation or the purchase price of the property. All loans in excess of this LTV ratio require additional security which is usually in the form of mortgage indemnity guarantee insurance. This provides insurance cover to the lender. The maximum LTV ratio is usually no more than 95% where the maximum loan is £250,000. In common with experience throughout the UK mortgage market, Abbey National has a considerable number of customers who wish to provide the minimum deposit. As a result, a substantial portion of new lending has an LTV ratio above 90%.

Mortgage indemnity guarantee insurance (MIG) and high LTV fee. MIG insurance is an agreement between a lender and an insurance company to underwrite the amount of every mortgage advance which exceeds the lender's basic advance LTV ratio (for Abbey National, an LTV ratio above 75%). Abbey National may make a charge to the customer in this connection, typically where the advance LTV ratio is at or above 90%.

The MIG insurance arrangements for Abbey National are as follows:

- For loans originated prior to 1993, the credit risk on the amount of every mortgage advance which exceeded an LTV ratio of 75% at the time originated is fully insured with third party insurance companies. The expected insurance recovery is taken into account in calculating the provisions for bad and doubtful debts.
- For loans originated thereafter, Abbey National has obtained significantly all of its MIG insurance from its insurance subsidiary Carfax Insurance Limited (Carfax). It is Carfax's policy to reinsure a portion of the credit risk where commercially appropriate. Such reinsurance covers a layer of risk above a level of losses which Carfax believes it can prudently bear itself. At Group level, the only external insurance purchased is the reinsurance purchased by Carfax; accordingly the Group provision for bad and doubtful debts includes a provision for losses insured by Carfax unless reinsurance recovery is expected. The fees charged to the customer to compensate for the additional risk of mortgage advances are deferred and taken to 'Other operating income' in the profit and loss account over the average anticipated life of the loan.

Mortgage arrears and repossessions. Like other lenders, Abbey National experienced a significant rise in arrears and bad debts in the early 1990s. This was due to falling house prices, high interest rates and the rapid growth in unemployment brought about by the worst recession experienced in the UK in recent history. However, as a result of an improvement in economic conditions, a tightening of controls on lending as described below, the centralisation of all debt management and use of collections scoring/risk segmentation, Abbey National's performance is much improved compared to the early 1990s.

- When a mortgage falls into arrears action is taken to prevent wherever possible the account deteriorating further. The debt management strategy is based around telephone contact undertaken by professional advisers which helps the customer to resolve any difficulties and agree arrears repayment arrangements.
- If the agreed repayment arrangement is not maintained, legal proceedings may be taken which may result in the property being taken into possession. Abbey National sells the repossessed property at market price and uses the sale proceeds less costs to pay off the outstanding value of the loan previously secured on the property. The number of repossessed properties held by Abbey National varies according to the number of new possessions and the buoyancy of the housing market.

Abbey National's stock of repossessed properties in the Retail Banking segment decreased from 1,783 properties at 31 December 1999 to 1,378 at 31 December 2000.

The following table sets forth information on UK residential mortgage arrears and properties in possession as at 31 December 2000, 1999 and 1998 for Abbey National compared to the industry average as provided by the Council of Mortgage Lenders (CML).

	Abbey National	CML
	(percentage of total mortgage loans by number)	
6 months to 12 months in arrears		
31 December 1998	0.83	0.68
31 December 1999	0.69	0.52
31 December 2000	0.51	0.41
12 months or more in arrears		
31 December 1998	0.37	0.32
31 December 1999	0.31	0.27
31 December 2000	0.17	0.17
Properties in possession		
31 December 1998	0.14	0.13
31 December 1999	0.12	0.10
31 December 2000	0.10	0.07

Abbey National figures shown above exclude the activities of First National Group (part of the Business to Business segment). The activities of First National Group account for 2% of the Group's total UK residential mortgage assets.

Bank account and unsecured personal lending. Abbey National uses many systems and processes to manage the risks involved in providing unsecured personal loans, overdraft lending on bank accounts and customer borrowing on the credit card product. These include regular monitoring of the quality of the unsecured lending portfolio and associated scorecards and the use of credit scoring and behavioural scoring systems to assist in the granting of credit facilities on these products.

Behavioural scoring examines all the relationships that a customer has with Abbey National and how the customer uses their bank account or credit card. This information generates a score which is used to assist in deciding the level of risk (in terms of overdraft facility amount, preferred unsecured personal loan value, and credit card facility limit amount), that the Group wishes to be exposed to for each customer. Individual customer scores are normally updated on a monthly basis.

Abbey National has successfully extended the use of behavioural scoring into other areas of the business, including the refinement of debt management strategies, bank account transaction processing and the upgrade strategy for Instant Plus customers to full banking facilities.

Managing credit risk in the Business to Business segment

First National Group is the only entity with material credit risks within this segment. Since acquisition in 1995, when First National Bank was brought into the Abbey National Group risk control framework, greater emphasis has been placed on the assessment and monitoring of risk. In December 1998, First National made a number of acquisitions which have been integrated by accommodating all activities into four distinct divisions: motor, retail, consumer and business.

First National Group activities are generally more risky than those of a residential mortgage lender. This, together with the relative diversity of a Finance House's business, requires a system of risk control which is sensitive and close to the business generation, e.g. to monitor intermediaries' credit quality.

The risk management framework reflects this divisional structure and the nature of the advances provided, which are predominantly introduced to the Group by third parties.

The motor finance division provides funds via motor dealers acting as introducers to individuals and businesses. All such arrangements are secured on the vehicle involved. In the course of these operations, advances are also provided to participating dealers. Credit risk management policies are in place which mirror the varying forms of financial products provided by the business, including the use of credit scoring.

The retail division provides unsecured point of sale finance facilities to customers of participating retailers. Various processes are utilised to assess the credit risk associated with such transactions, including credit scoring. In addition, contingent exposure to the retailer arises which is managed via an assortment of methods appropriate to the quality of the retailer and the nature of the exposure.

The consumer division provides secured and unsecured finance arrangements to personal customers. Credit policies pertinent to the product and delivery channel are in place, which include the use of credit scoring.

The business finance division provides a varied range of products to assist with the finance requirements of businesses including leasing, lease purchase, contract hire, invoice finance, property finance and secured loans. Risk management policies are aligned to the new business generation activities of the division and the inherent risks of the specific product set.

The divisional risk management units report to a centralised risk function to maintain objectivity, adoption of best practice and appropriate overall control. First National Group has a mandate set by GRC to operate within agreed policies and limits. These are subject to monitoring by GCC.

Managing credit risk in Wholesale Banking

With respect to asset quality in Wholesale Banking, a clear set of credit mandates and policies has been established by GRC which is designed to ensure that a substantial majority of credit exposures are rated AA- or better (or equivalent) by one or more rating organisations. All transactions falling within these mandates and policies are scrutinised by the appropriate Treasury Credit Committee. Specific approval is required for all transactions which fall outside these mandates. ANFP operates within Wholesale Banking's overall mandates. The controls over, and risk assumed by, ANFP are closely monitored and tight risk control limits are consistently applied. Analyses of credit exposures and credit risk trends are provided in summary for the ANTS Board each month, and more detailed reports are provided to GCC on a regular basis. Large exposures (as defined by the FSA) are reported monthly internally and quarterly to GRC and the FSA.

Credit risk on derivative instruments is assessed by using scenario analysis to determine the potential future mark-to-market exposure of the instruments at a 95% statistical confidence level and adding this value to the current mark-to-market value. The resulting 'loan equivalent' credit risk is then included against credit limits along with other non-derivative exposures.

In addition, a policy framework to enable the collateralisation of certain derivative instruments (in particular swaps) has been approved by GCC. If collateral is deemed necessary to reduce credit risk, then the amount and nature of the collateral to be obtained is based upon management's credit evaluation of the customer.

Market risk

Market risk is the risk of financial loss arising from adverse price movements associated with the interest rate, foreign exchange and equity markets. The most significant sources of market risk arise in Wholesale Banking as a result of investment, trading, funding and derivatives activities; in Retail Banking primarily from the provision of fixed rate and structured mortgage and savings products; and from the management of long term structural positions in the Group balance sheet.

Within the life assurance businesses, market risk arises on funds managed for the benefit of the customer as well as on specific shareholder funds, with all exposures borne by the shareholder consolidated with other Group market risk exposures: such market risk arises within the Retail Banking and Business to Business segments. The Group hedges substantially all its foreign exchange risk. For a description of the sources of risk see note 50, Derivatives.

Abbey National recognises that market risk is an inevitable result of being an active participant in financial markets. The Group manages its market risk exposure by limiting the adverse impact of market movements on profitability while seeking to enhance earnings within clearly defined parameters. Abbey National ensures that business areas have sufficient expertise to manage the risks associated with their operations, and to devolve the responsibility for risk taking and risk control within the framework prescribed by the Abbey National Group Market Risk Policy. Business area policies, limits and mandates are established within the context of the Group policy and monitored by business area market risk committees with Group Risk monitoring the consolidated short-term market risks daily and GRC and the Board reviewing the consolidated position at least monthly.

Senior management have recognised the different characteristics of market risk exposures across the Group, and that different risk measures are required to best reflect the risks faced in different types of business activities. In measuring exposure to market risk, the Group uses a sensitivity analysis approach, covering both value and earnings as appropriate, as a central common tool within their risk management process. The market risk disclosures shown below are calculated using a sensitivity analysis.

Other approaches such as value at risk (using a historical simulation approach) are used as additional risk management tools as appropriate to individual business areas, and at both Group and business area levels such analysis is complemented by stress testing. In order to achieve consistency in measurement across business areas, GRC, at the request of the Board, has approved a series of market risk measurement standards to which business areas are required to adhere.

Senior management receive regular consolidated market risk reports covering the range of risks generated by the Group, and are considered to fall into two broad categories:

Short term market risk covers activities where exposed positions are subject to frequent change and where positions could be closed out over a short time horizon. Much of the exposure is generated by the Wholesale Banking activities, and includes both trading and non-trading portfolios. The risk sensitivity is calculated by applying the statistically determined potential adverse movements in market risk factors that can be expected within a 95% level of confidence as a result of overnight market movements.

Structural market risk includes exposures which arise as a result of the structure of portfolios of assets and liabilities. The risk exposure is generated by features inherent in either a product or portfolio structure which are normally present over the life of the portfolio or product. Such exposures can take a number of different forms. Included in structural market risk are the exposures arising out of the uncertainty of business volumes from the launch of fixed rate and structured retail products. Such exposures are a requirement of the decision to undertake specific business activities, and where it is possible to manage positions arising, this can only be achieved over a longer time horizon. Although most long term balance sheet positions are hedged, the Group remains exposed to variances in customer behaviour (often caused by market rate movements) impacting new business take-up and early redemption and causing unfavourable mismatches to arise. The risk sensitivity is calculated by applying the statistically determined potential adverse movements in market risk factors that can be expected within a 95% level of confidence as a result of market movements over a time horizon reflecting the reasonable management horizon of the portfolio (commonly up to 3 months).

The following table shows the sensitivity based consolidated exposures for the major risk classes run by all Group companies as at 31 December 2000, together with the highest, lowest and average exposures for the year. Exposures within each risk class reflect a range of exposures associated with movements in that financial market, for example, interest rate risks include the impact of absolute rate movements, movements between interest rate bases and movements in implied volatility on interest rate options. It should be noted that due to the range of possible modelling techniques and assumptions and their statistical nature, these measures are not precise indicators of expected future losses but are estimates of the potential change in the value of the portfolio over a specified time horizon and within a given confidence interval.

From time to time, losses may exceed the amounts stated where the movements in market rates fall outside the statistical confidence interval used in the calculation of the sensitivity analysis. The 95% confidence interval means that the theoretical loss at a risk factor level is likely to be exceeded one period in twenty. The Group addresses this risk by monitoring stress testing measures across the different business areas.

The figures below are all calculated to a 95% level of confidence and are based upon overnight market movements for short term market risks, and market movements of between one week and three months (as appropriate to the management of the portfolio) for structural market risk positions.

	Exposure as at December 31						Exposure for the year ended December 31					
	Actual exposure		Hypothetical exposure(2)		Hypothetical exposure(3)		Average exposure		Highest exposure		Lowest exposure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Trading Instruments												
Short Term Market Risk												
Interest Rate Risks	9.5	7.0	7.7	22.8	3.8	11.9	10.8	4.4	14.3	17.6	6.3	1.9
Equity Risks	0.5	0.3	1.6	1.7	0.8	0.5	0.4	0.1	1.0	0.6	–	–
Spread Risk	2.7	2.2	4.4	3.4	2.2	1.7	2.2	3.1	2.8	5.5	2.0	2.2
Other Risks(1)	0.2	0.1	1.2	0.1	0.6	0.1	0.4	0.3	1.5	0.6	0.1	–
Structural Market Risk												
Interest Rate Risks	2.8	0.8	3.9	2.5	1.9	1.2	2.0	0.6	3.4	1.6	0.7	–
Equity Risks	9.4	10.8	3.7	7.6	1.9	3.8	8.6	5.4	11.0	10.8	5.9	1.3

(1) Other risks include foreign exchange risk and inflation risk. These risks are not significant, and are therefore not separately disclosed.
(2) Relates to the effect on reported earnings for the trading instruments as a result of a hypothetical fall of 10% in the relevant market prices or rates.
(3) Relates to the effect on reported earnings for the trading instruments as a result of a hypothetical fall of 5% in the relevant market prices or rates.
These numbers represent the potential change in market values of such instruments. Trading instruments are recorded at market value, thus these numbers represent the potential effect on earnings. Trading instruments are held only in Wholesale Banking.

In addition, a sensitivity analysis of exposures on non-trading financial instruments calculated according to the above methodology is shown below. These numbers represent the potential change in theoretical market values of such instruments, and do not represent the potential effects on the earnings for a given time period. Separate earnings at risk measures are used to supplement these analyses for appropriate portfolios. Non-trading instruments are held for collection in the form of cash over time, and are accounted for at amortised cost, with earnings accrued over the relevant lives of the instruments. The Group's risk measures, however, focus on potential risks over the life of the non-trading instruments wherever appropriate, and are therefore based on valuation measures, using estimated discounted cash flow measures where reliable market values are not available.

	Exposure as at December 31		Exposure for the year ended December 31					
			Average exposure		Highest exposure		Lowest exposure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Non-trading Instruments								
Short Term Market Risk								
Interest Rate Risks	2.3	3.4	2.3	3.1	4.3	5.2	1.1	1.6
Equity Risks	0.3	0.2	0.2	0.1	0.4	0.3	0.2	–
Spread Risk	0.8	0.8	0.8	0.2	0.9	1.1	0.7	–
Structural Market Risk								
Interest Rate Risks	59.3	42.0	60.3	31.6	65.8	50.0	44.8	17.7
Equity Risks	0.7	0.6	2.9	0.6	6.0	1.1	0.7	–
Foreign Exchange Risks	3.3	0.6	2.4	1.1	3.8	2.4	0.9	0.3

The above sensitivity exposures should not be aggregated, as no account has been taken of the correlation between risk classes.

During 2000, no major changes have been implemented to the methodology used for consolidated reporting. Certain risks and portfolios have been reclassified from short term market risks to structural market risks (and vice versa) following reviews of the management of such exposures through liquid market markets. Prior period exposures have been similarly reclassified to reflect these changes.

Managing market risk in Retail Banking. Abbey National is able to mitigate the impact of interest rate movements on net interest income in Retail Banking by re-pricing separately the administered variable rate mortgages and variable rate retail deposits, subject to competitive pressures. However, to the extent that variable rate assets and liabilities are not precisely matched, the Retail Banking balance sheet is exposed to changes in the relationship between administered rates and market rates.

In addition to administered variable rate products, Abbey National has also a significant volume of fixed rate and structured mortgage and savings products. Abbey National has a policy of fully hedging its fixed rate and structured product exposures. Where on-balance sheet mismatches occur between fixed rate mortgage and savings products or where structured products are held, hedging activity is carried out using derivative financial instruments, transacted with ANFP, and the related market risks of such contracts are managed within the Treasury Mandate (as defined below). However, during the period of product launches it is not possible to hedge actual volumes exactly and limits on the maximum exposure are maintained during that period. The business also remains exposed to variances from the expected redemption level of fixed rate and structured products by customers in advance of the contractual maturity, with measures and limits in place to control the exposure. The exposures below also incorporate those associated with Abbey National Life borne by the shareholder.

The following table shows the sensitivity based exposures for Retail Banking as at 31 December 2000 together with the highest, lowest and average exposures for the year. They are all calculated to a 95% level of confidence and are based upon overnight market movements for short term market risks, and market movements of between one month and three months (as appropriate to the management of the portfolio) for structural market risk positions.

	Exposure as at December 31		Exposure for the year ended December 31					
			Average exposure		Highest exposure		Lowest exposure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Non-trading instruments								
Short Term Market Risk								
Interest Rate Risks	0.8	0.5	0.3	0.6	1.0	1.9	–	–
Equity Risks	0.2	0.2	0.2	0.1	0.2	0.2	0.1	–
Structural Market Risk								
Interest Rate Risks	10.5	20.0	15.4	21.0	21.7	28.9	10.5	11.8
Equity Risks	0.7	0.6	1.5	0.6	4.7	0.9	0.7	–

Managing market risk in Wholesale Banking. Wholesale Banking organises its investment activities by means of matched currency investment books in a number of currencies. The matching process is achieved either by (i) raising funding directly in the currency of assets or (ii) hedging assets or liabilities mainly through the use of cross-currency swaps.

The Treasury Mandate, approved by both ANTS Board and GRC, specifies the maximum level of market risk that may be taken. This is subject to an annual review, the last of which was undertaken in 2000. The level of risk is monitored against the Treasury Mandate and reported daily to the ANTS executive directors. ANTS operates consistently within the approved limits. Risk exposures are calculated on individual portfolios with limits placed on the overall level of risk in each portfolio, and on the individual risk types within the portfolio. Typically a combination of value at risk and stress testing measures are used.

The following table sets forth the sensitivity based exposures at 95% confidence levels for the trading and non-trading portfolios within Wholesale Banking as at 31 December 2000 and 1999, together with the highest, lowest and average exposures for those years. The measures are based upon overnight market movements for short term market risks, and market movements of between one week and one month (as appropriate to the management of the portfolio) for structural market risk positions. These numbers are taken from the Group consolidated market risk measurement, and do not take account of correlation between risk factors, or between trading and non-trading portfolios.

	Exposure as at December 31		Exposure for the year ended December 31					
			Average exposure		Highest exposure		Lowest exposure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Trading instruments								
Short Term Market Risk								
Interest Rate Risks	9.5	7.0	10.8	4.4	14.3	17.6	6.3	1.9
Equity Risks	0.5	0.3	0.4	0.1	1.0	0.6	–	–
Spread Risk	2.7	2.2	2.2	3.1	2.8	5.5	2.0	2.2
Other Risks	0.2	0.1	0.4	0.3	1.5	0.6	0.1	–
Structural Market Risk								
Interest Rate Risk	2.8	0.8	2.0	0.6	3.4	1.6	0.7	–
Equity Risks	9.4	10.8	8.6	5.4	11.0	10.8	5.9	1.3
Non-trading instruments								
Short Term Market Risk								
Interest Rate Risks	1.4	2.8	1.7	2.6	3.4	2.8	0.7	1.5
Spread Risk	0.8	0.8	0.8	0.2	0.9	1.1	0.7	–
Structural Market Risk								
Foreign Exchange Risk	2.4	0.3	1.6	0.8	3.0	2.1	0.3	0.2

Managing market risk in other segments. Other segments also generate market risk exposures, predominantly interest rate risk, in the course of their normal business activities. The most significant areas are as follows :

- fixed rate and structured lending within the Business to Business segment;
- exposures borne by the shareholder from the launch of retail investment products and the management of unit linked business within the Business to Business segment; and
- the management of long term structural positions within the Group balance sheet.

These risks are controlled in accordance with policies approved by Business Area Boards and reported to GRC.

The following table sets forth the sensitivity based exposures for the major risk classes run by these businesses as at 31 December 2000 and 1999, together with the highest, lowest and average exposures for those years. They are all calculated to a 95% level of confidence and are based upon overnight market movements for short term market risks, and market movements of between one week and three months (as appropriate to the management of the portfolio) for structural market risk position.

	Exposure as at December 31		Exposure for the year ended December 31					
			Average exposure		Highest exposure		Lowest exposure	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Non-trading Instruments								
Short Term Market Risk								
Interest Rate Risks	0.2	0.1	0.2	0.3	0.9	0.5	0.1	0.1
Equity Risks	–	–	–	–	0.2	–	–	–
Structural Market Risk								
Interest Rate Risks	48.8	21.8	44.9	11.0	53.5	26.7	23.2	5.9
Equity Risks	–	–	1.3	0.4	3.1	–	–	–
Foreign Exchange Risks	0.9	0.3	0.8	0.4	0.9	0.6	0.6	0.2

Liquidity risk

Liquidity risk arises across the Group balance sheet. Liquidity is managed on behalf of the banking subsidiaries of the Group by ANTS, within a policy framework laid down by the Board and monitored by GRC. This framework, together with the Group Wholesale Banking Liquidity Policy, is reviewed annually to ensure compliance with the FSA's 'Sterling Stock Liquidity' requirements and the 'Sound Principles for Managing Liquidity in Banking Organisations' issued by the Basel Committee. Abbey National views the essential elements of liquidity management as controlling potential cash outflows, maintaining prudent levels of highly liquid assets and ensuring that access to funding is available from a diversity of sources. These elements are underpinned by a comprehensive management and monitoring process. Wholesale Banking management focuses on cash flow planning and day-to-day cash flow control, and on balancing the maturity profiles of Wholesale Banking's liquid assets and wholesale funding to ensure Group funding and liquidity ratios are adequate. Abbey National's liquidity position is reported to the FSA on a monthly basis.

Residual value risk

Residual value risk occurs when there is a possibility that the value of a physical asset at the end of certain contracts (e.g. operating leases) may be worth less than that required to achieve the anticipated return from the transaction. Residual value risk arises primarily within First National Group and Wholesale Banking.

Within First National, exposure arises within portfolios of contract hire and contract purchase agreements relating to motor vehicles. The balance sheet value of such agreements as at 31 December 2000 amounted to £345m. This value is greater than 1999 due to contract hire acquisitions completed during the year. Revaluations are undertaken every quarter and any reductions in assumed values are treated in accordance with generally accepted accounting practice.

Within Wholesale Banking, exposure increased significantly during the year upon the acquisition of Porterbrook Limited from Stagecoach plc. Porterbrook's principal activity involves the provision of operating leases for railway rolling stock. Total exposure within Wholesale Banking at 31 December 2000 amounts to £2,185m, of which £1,666m relates to Porterbrook and £519m to other smaller portfolios. Periodic revaluations are undertaken and any reductions in assumed values are treated in accordance with generally accepted accounting practice.

Tools such as residual value insurance products, repurchase agreements and appropriate return conditions are employed by the Group to mitigate the associated risks. Group mandates and reporting requirements are agreed by GRC.

Impact of repricing risks on the Group

The interest rate repricing gap information is shown in note 49.

Non-trading activity

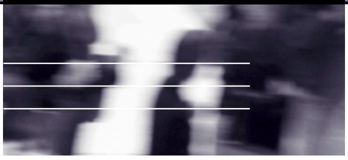
A significant part of Abbey National's exposures can be hedged internally by offset against other categories of exposure in the balance sheet. See 'Derivatives', note 50.

Operational risk management

Operational risk is the risk of direct or indirect loss to Abbey National resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent throughout the Group and is managed and controlled at business unit level. Operational risk is monitored by the Group including semi-annual reporting to the Board. Operational Risk Committee considers and discusses operational risk issues.

The Group also maintains contingency arrangements, to ensure that it can continue to function in the event of an unforeseen interruption. The management of environmental risk is supported by the Environmental Working Group tasked with monitoring and improving Abbey National's environmental performance. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

The Board



The Lord Tugendhat *
Chairman

Lord Tugendhat was appointed as joint Deputy Chairman in June 1991 and as Chairman in July of the same year. He is also Chairman of Blue Circle Industries PLC, a non-executive director of Eurotunnel plc and Rio Tinto PLC, and Chancellor of Bath University. Formerly a Member of Parliament and a vice-president of the European Commission, he has also served as Chairman of the Civil Aviation Authority and the Royal Institute of International Affairs. Aged 63.

Executive directors

Malcolm Millington
Managing Director, Business to Consumer Banking

Malcolm Millington was appointed a Director in January 1999. He joined Abbey National in 1975 and was appointed Head of IT for Retail in 1993 and Group IT Director in 1997. In June 2000 he became Managing Director of the newly created Business to Consumer Banking Division, including cahoot and the Group's Wealth Management and Offshore businesses. Aged 49.

John King
Corporate Development & Resources Director

John King was appointed a director in May 1999. He joined Abbey National in 1972 from Michelin Tyres. After holding various training and personnel roles, he assumed overall responsibility for the personnel function in 1988, becoming Human Resources Director in 1992. John King's current responsibilities include Group Property and Survey, the Company's management consultancy area, Strategic Performance Improvement Group, Strategic Planning and Corporate Development. Aged 55.

Andrew Pople
Managing Director, Retail Banking

Andrew Pople was appointed a director in 1996. His early career was with the Civil Service followed by the Bank of England. He joined Abbey National in 1988 and has since held appointments as Regional Director, Retail Sales; Chief Executive, Scottish Mutual Assurance plc and Head of the Life Division. His current responsibilities cover the retail branded businesses including General Insurance. He is a member of the Board of the Association of British Insurers and Deputy Chairman of the Executive Committee of the Council of Mortgage Lenders. Aged 43.

Yasmin Jetha FCMA
Group IT & Infrastructure Director

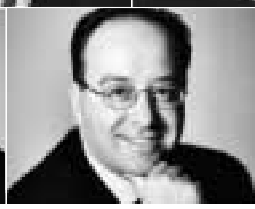
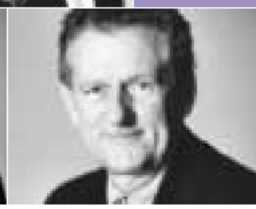
Yasmin Jetha was appointed Group IT & Infrastructure Director in January 2001. She joined Abbey National in 1985 having worked previously at Lucas CAV and Nationwide Building Society. Within Abbey National she has held various positions including Director, Corporate Systems; Director, Retail Lending; and Director, Retail Service & Operations. Her current responsibilities include Group Money Transmission and Debt Management Operations in addition to Group IT. She is also a Pensions Trustee and Director of First National Bank. Aged 48.









Ian Harley FCA FCIB *
Chief Executive

Ian Harley was appointed Finance Director in 1993 and Chief Executive in March 1998. He began his career with Touche Ross & Co and joined Abbey National as a Financial Analyst from Morgan Crucible Ltd in 1977. He held various appointments before joining the Board including management positions in the Finance Division (Group Financial Controller, Assistant General Manager); the Retail Division (Regional Manager, Finance Director, Operations Director) and the Wholesale Banking Division (Treasurer and Chief Executive). Ian Harley is also Chairman of the Association for Payment Clearing Services, a director of Dah Sing Financial Holdings Limited, a non-executive director of Rentokil Initial plc and a member of the Deposit Protection Board and the FSA's Financial Services Practitioner Forum. Aged 50.

Timothy Ingram FCIB
Managing Director, Business to Business Banking

Timothy Ingram was appointed a director in 1996. A career-long banker, he worked for 22 years with ANZ Grindlays Bank, holding various senior international and business banking appointments. He joined Abbey National in 1995 when it acquired First National Finance Corporation plc and is currently Chairman of First National Bank. In June 2000 he became Managing Director of the newly created Business to Business Banking Division, including First National, the Group's Life Division and European Operations. Aged 53.

Gareth Jones FCA FCT
Managing Director, Wholesale Banking

Gareth Jones was appointed a director in 1993. His past experience includes the roles of Finance Director, First Mortgage Securities Limited and Group Treasurer, Redland plc. Gareth Jones joined Abbey National in 1989 as Assistant General Manager and Group Treasurer before becoming Chief Executive of Abbey National Treasury Services plc. He subsequently held the position of Director, Retail Operations before returning to Abbey National Treasury Services plc as Group Treasurer and its Chief Executive. He is a non-executive director of Somerfield plc and is a past Chairman of the Association of Corporate Treasurers. Gareth Jones is also a member of the Economic and Research Council of Cambridge University and the Accountancy Review Board. Aged 52.

Mark Pain FCA
Group Finance Director

Mark Pain was appointed Finance Director in January 1998. He began his career at Touche Ross & Co and joined Abbey National in 1989. He has previously held appointments as Manager, Strategic Planning; Manager, European Operations; Regional Director, Retail; and Group Financial Controller. His current responsibilities include Investor Relations and Corporate Affairs. Aged 39.

Ian Treacy FCA
Director and Secretary

Ian Treacy was appointed Company Secretary in 1991 and a director in January 1998. He started his career with Peat, Marwick, Mitchell and Co and subsequently gained experience in stockbroking. He joined Abbey National in 1983 and has held appointments as Manager, European Operations and Deputy Secretary. He is currently responsible for the Group Risk and Secretariat Division. Aged 56.

Non-executive directors

Leon Allen †

Leon Allen, a US citizen, was appointed a director in October 1998. Following an 18 year career with Procter and Gamble, he held appointments as Chairman and Chief Executive of Del Monte Foods International Ltd; President and Chief Executive of Del Monte Foods Europe, non-executive Chairman of Devro plc and Chairman and Chief Executive of The Tetley Group Limited. He is the non-executive Chairman of Braes Group Ltd. Aged 61.

Richard Hayden †

Richard Hayden, a US citizen, was appointed a director in September 1999. He previously worked with Goldman Sachs, the US investment bank and held a variety of positions from 1969, including general partner of Goldman Sachs & Co., Managing Director of Goldman Sachs International and Deputy Chairman of Goldman Sachs International. He is currently Executive Chairman of GSC Partners Europe Ltd. Aged 55.

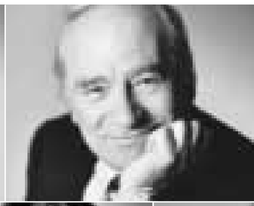
Sir Terence Heiser GCB †

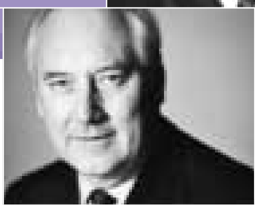
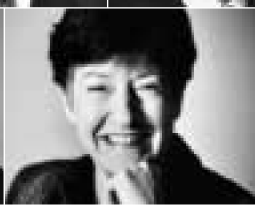
Sir Terence Heiser was appointed a director in 1992. He was previously a Permanent Secretary to the Department of the Environment. He is a trustee of the Victoria and Albert Museum, a member of the Government Review Body on Senior Salaries and a member of the Executive Committee of the National Trust. He is also a Governor and honorary Fellow of Birkbeck College, London University, a Governor of Sussex University and a Freeman of the City of London. Aged 68.

The Lord Currie

Professor Lord Currie was appointed a director in January 2001. He is Dean of City University Business School and previously held a number of senior positions at London Business School and at Queen Mary College, University of London. He has held visiting appointments at the International Monetary Fund, the Bank of England and the European University Institute, and has acted as a consultant to the European Commission and the OECD. Lord Currie is a member of the Gas and Electricity Markets Authority, the UK energy regulator, a non-executive director of Joseph Rowntree Reform Trust Limited, a council member of Britain in Europe and the European Policy Forum, and director and trustee of the Policy Network Foundation. Aged 54.





Keith Woodley FCA *†

Deputy Chairman and Senior Independent Non-Executive Director

Keith Woodley was appointed a director in 1996. He became Deputy Chairman and Senior Non-Executive Director in April 1999. He is a former non-executive director of National and Provincial Building Society, a former partner of Deloitte Haskins & Sells and a past President of the Institute of Chartered Accountants in England and Wales. He is currently Complaints Commissioner for the London Stock Exchange, the Personal Investment Authority and the Securities and Futures Authority. He is also a Council Member of the University of Bath, and a director of the Learning Through Landscapes charity. Aged 61.

Mair Barnes *#

Mair Barnes was appointed a director in 1992. She was previously Managing Director of Woolworths plc, Chairman of Vantios Plc and a non-executive director of George Wimpey PLC. Mair Barnes was Veuve Clicquot Business Woman of the Year 1988 and is currently a non-executive director of Scottish Power plc and the South African Company, Woolworths Holdings plc, and an honorary Doctor of Laws, University of Wales. Aged 56.

Peter Ogden

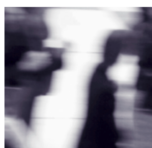
Peter Ogden was appointed a director in 1994. He is a former Managing Director of Morgan Stanley & Co. Peter Ogden is currently Chairman of Computasoft Limited and Omnia Limited and a director of Computacenter PLC and PSION PLC. Aged 53.

The Lord Shuttleworth

FRICS #

Lord Shuttleworth was appointed a director in 1996 and held the post of Deputy Chairman from 1996 to April 1999. He was formerly Chairman of the National and Provincial Building Society and the Rural Development Commission. Lord Shuttleworth is also Lord-Lieutenant for the County of Lancashire. Aged 52.

* Nomination Committee Member
# Personnel and Remuneration Committee Member
† Audit Committee Member



Directors' report

The directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 2000.

Principal activities

The principal activity of Abbey National plc and its subsidiaries continues to be the provision of an extensive range of personal financial services. The Operating and financial review for the year, including a review of non-banking activities, is set out on pages 9 to 16 of this document. Note 23 to the financial statements on page 48 provides a list of the principal subsidiaries and the nature of each company's business as well as details of overseas branches. Details of important events which have occurred since the end of the financial year and prospects for 2001 are included in the Chairman's statement, and in the Operating and financial review.

Results and dividends

The profit on ordinary activities before tax for the year ended 31 December 2000 was £1,975 million (1999: £1,783 million).

An interim net dividend of 15.15 pence per ordinary share was paid on 2 October 2000 (1999: 13.40 pence per ordinary share).

The directors propose a final net dividend for the year of 30.35 pence per ordinary share (1999: 26.85 pence per ordinary share) to be paid on 8 May 2001.

Corporate governance

A report on corporate governance is set out on pages 27 and 28.

Payment policy and practice

Abbey National deals with a large number of suppliers operating in a diverse range of industries and accordingly does not operate a single payment policy in respect of all classes of suppliers. Each individual operating area is responsible for agreeing terms and conditions under which business is to be transacted and for making the supplier aware of these beforehand. It is, and will continue to be, the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions.

The Company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997. Based on the ratio of amounts invoiced by trade creditors during the year to amounts of Company trade creditors at 31 December 2000, trade creditor days for the Company were 25 (1999: 24). The equivalent period calculated for the UK Group is 23 days (1999: 24 days).

Corporate citizenship

A report on corporate citizenship is included in the Directors' Report and Accounts for the first time this year on pages 25 and 26. The report includes a statement on the Group's environmental policy and details of its charitable activities and donations. It also outlines the Company's employment practices, including those in respect of disabled employees and employee communication.

Political contributions

No contributions were made for political purposes.

Share capital

The authorised and issued share capital of the Company are detailed in note 41 to the financial statements.

During the year, 3,788,971 ordinary shares were issued on the exercise of options under the Sharesave Scheme, 219,825 ordinary shares were issued on the exercise of options under the terms of the Employee Share Option Scheme and 236,533 ordinary shares were issued under the terms of the Executive Share Option Scheme. In addition, 5,474,853 ordinary shares were issued in lieu of cash for the interim dividend in 2000, in accordance with the terms of the Alternative Dividend Plan. During 2000, shares to meet grants under the Executive Share Option Scheme were purchased in the market by the Abbey National ESOP Trust. Similarly, shares awarded under the Long Term Incentive Plan were bought in the market and held by Abbey National Employee Trust.

At the Annual General Meeting on 27 April 2000, shareholders authorised the Company to make market purchases of its own shares, to a maximum of 142,195,340 ordinary shares of 10 pence each, 125,000,000 8 5/8% preference shares of £1.00 each and 200,000,000 10 3/8% preference shares of £1.00 each. No purchases have been made during the year under these authorities. These authorities remain valid until the forthcoming Annual General Meeting, when it is intended that resolutions will be put to shareholders to renew them.

At the Annual General Meeting on 27 April 2000, shareholders also authorised the creation of 1,000,000,000 preference shares of €0.01 each.

Market value of land and buildings

As described in note 7 to the financial statements, on 19 October 2000 Abbey National entered into a sale and leaseback transaction involving the sale of substantially all of the Group's freehold and leasehold properties for a cash consideration of £457 million.

On the basis of a regular review process, the estimated aggregate market value of the Group's land and buildings was below the fixed asset net book value of £16 million, as disclosed in note 26 to the financial statements, by approximately £4 million. It is considered that, except where specific provisions have been made, the land and buildings have a value in use to the Group which exceeds the estimated market value, and that the net book value is not impaired. Provisions of £10 million have been made for the cost of empty premises.

Directors and directors' interests

Details of all the current directors are included on pages 22 and 23.

All of the directors listed on pages 22 and 23 have served on the Board for the whole of the period 1 January 2000 to 31 December 2000, with the exception of Yasmin Jetha and Lord Currie, who were appointed to the Board on 23 January 2001, and having been appointed since the last Annual General Meeting will retire and, both being eligible, offer themselves for election at the forthcoming Annual General Meeting. James Tuckey retired as a non-executive director on 1 September 2000 and Charles Villiers retired as an executive director on 31 January 2001. Sir Terence Heiser, Peter Ogden, Lord Tugendhat, Mark Pain and Ian Treacy will retire by rotation at the Annual General Meeting and, all being eligible, offer themselves for re-election.

No director had a material interest in any contract of significance, other than a service contract, with the Company or any of its subsidiaries at any time during the year. Disclosures required by Financial Reporting Standard 8, 'Related Party Disclosures', are set out in note 54 of the financial statements.

Directors' interests in the shares of the Company, awards under the Long Term Incentive Plan and options to acquire shares are set out in the Directors' remuneration report on pages 29 to 34.

Substantial shareholdings

As at 13 February 2001, the Company had not been notified of any disclosable interests in the issued ordinary share capital of the Company in accordance with sections 198 to 208 of the Companies Act 1985.

Auditors

A resolution to re-appoint Deloitte & Touche as Auditors will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

Details of the business of the Annual General Meeting can be found in the accompanying booklet 'Notice of Annual General Meeting 2001'.

By Order of the Board

Ian K Treacy
Director and Secretary
13 February 2001

This is a new section to the Directors' Report and Accounts that outlines Abbey National's business approach, and attitudes towards key stakeholders. The Abbey National Group is committed to behaving as a good corporate citizen and to extending ethical and equitable treatment to all those who come into contact with the business.

Our values

Social, ethical and environmental factors are increasingly interwoven with financial performance. Abbey National recognises that its long-term financial success is linked to the proactive management of these factors in accordance with its purpose and values. In the Company's relationships with all stakeholders, Abbey National is committed to maintaining the highest standards of business practice – managing impacts on the environment, treating all stakeholders fairly and consistently, considering the indirect ethical consequences of decisions, adhering to laws and regulations, and investing in the community. During 2001, the Company will produce its first comprehensive social report.

Ethical responsibilities

Abbey National puts its Statement of Ethical Principles at the core of business practice. The Company believes in conducting its business with integrity and investing in the communities in which it operates for the benefit of all stakeholders.

Abbey National puts these same considerations into practice in all its lending and investment decisions, ensuring a consistency of approach across the broad range of its business operations.

Environmental management

Abbey National's environmental impacts arise from operational factors and from the management and delivery of products and services. The Company is committed to putting the highest standards of environmental governance and stewardship into practice. The environmental policy, approved by the Board in November 1999, covers all Group businesses: investments, lending and support functions; is subject to regular review and provides the basis for environmental management.

The policy states that the Company will:

- give due consideration to environmental issues in the acquisition, design and location of buildings;
- reduce the use of energy in buildings and the associated emissions of carbon dioxide;
- reduce waste production, responsibly dispose of waste and wherever practicable, maximise the recycling of materials;
- ensure environmental issues are considered in the procurement of material resources and services;
- incorporate environmental factors in investment and lending decisions;
- continuously improve our environmental performance;
- promote good environmental practice within the financial services industry.

Environmental management involves identifying, understanding, managing and reporting on environmental impacts, risks and opportunities. Ian Treacy, Director & Secretary, is responsible for the Company's environmental policy and oversight. An Environmental Working Group meets quarterly to oversee policy implementation and monitor environmental performance, and a report to the Board is made at least annually. The Company has been concentrating on developing environmental management and measuring performance throughout 2000. PricewaterhouseCoopers have been involved in a risk review and audit of the Company's environmental management and policy implementation; recommendations will be built into management systems. There are reduction targets for energy and water consumption, and carbon dioxide emissions. Further targets and performance measures will be developed during 2001. Abbey National will seek to motivate and educate employees to conduct their activities in an environmentally responsible manner.

Customers

The principal activity of The Abbey National Group is the provision of personal financial services in the UK. The Company is dedicated to maintaining strong relationships with its customers based on fairness, honesty, openness and integrity. The Company understands that its reputation is at stake with every customer and every service offered. Abbey National is therefore committed to finding ways of making customers' lives easier, providing value-for-money financial products and the highest quality of service.

When customers are not satisfied with the service they have received, a customer service recovery unit is available to help implement solutions.

The Company wants to understand the consequences of its actions on all its customers, to treat them as individuals, and to take into consideration their unique circumstances. It also acknowledges an obligation to offer a product range to meet the needs of all potential customers, including those who might ordinarily be excluded from the financial marketplace because of their circumstances.

Abbey National is committed to maintaining open and honest communications with its customers – keeping them informed of developments that affect them and communicating in plain English.

Shareholders

Abbey National is mindful of its duties to the 2 million owners of the business. The Company aims, simply, to increase shareholder value and to provide real increases in shareholder dividends.

Abbey National will continue to give investors full information about the Company they own. It is committed to unqualified shareholder satisfaction and to responsible management of their funds for growth.

Employees

As in previous years, in 2000 Abbey National invited eligible employees to become financial stakeholders in the Company by participating in the Company's Sharesave Scheme. Additionally, Abbey National has a Share Participation Scheme which can grant shares of up to 5% of salary to eligible employees. Through these schemes, and others that have been introduced over the years, the majority of employees now have a shareholding interest in the Company.

Employee involvement and effective communication remain vital to Abbey National's continued success. The Company publishes a quarterly employee magazine 'Abbeyview' combining work-related issues and information with more general, topical articles. Almost all employees have access to Abbey National's own internal web sites. These, together with traditional methods of communication, such as team meetings, aim to ensure that employees are fully informed of news and developments of interest to them, including information on the Company's performance.

Abbey National continues to seek employee views and opinions. The results of quarterly opinion surveys are made available to all staff. Additionally in 2000, Abbey National carried out a special survey that aimed to identify work factors that underpin a quality work atmosphere.

Abbey National has a 'Partnership Agreement' with ANSA, the Trade Union it recognises for employee representation. Consultation takes place at both national and local levels. Regular relationship management meetings are held to ensure communication is open and two-way.

Diversity

Abbey National has demonstrated a commitment to achieving workforce diversity through the launch of 'Valuing People as Individuals' – a policy that is consistent with its overall values and builds on the Company's long standing Equal Opportunities Policy. A number of Regional Diversity Action Groups meet in locations where the make up of the workforce does not represent fully the mix in the local community. These Groups are working towards the achievement of specific equality objectives. During 2001, a diversity training programme will be completed by large groups of staff to support them in implementing Abbey National's policy in relation to 'Valuing People as Individuals'.

Participation in national campaigns has continued in 2000 through support of Opportunity Now, the Employers Forum on Disability, the Employers Forum on Age and the Leadership Challenge initiatives. Abbey National continued to score well in the Opportunity Now benchmarking exercise, achieving a silver standard for 1999.

A training programme has been implemented across the Group to make staff aware of the provisions of the Disability Discrimination Act and to provide advice on how to work more effectively with both customers and colleagues with disabilities.

Measures have been put into place to help ensure that all of Abbey National's services are equally accessible to customers with disabilities. For example, communication aids such as induction loops for hearing-impaired customers exist in most branches and textphones are in operation across head office sites. Customer and shareholder information remains available in alternative formats including braille and large print. The Company enjoyed recognition at the EASE Awards for the ease of access to Abbey National products and premises.

Work – life balance

Abbey National is committed to supporting individuals in achieving a reasonable balance between their home and working life. Abbey National is aware that people should be valued as individuals and supported through the various stages of their lives. To this end, Abbey National offers a comprehensive range of flexible working options, including part time working, job sharing, career breaks and extended maternity provisions.

Abbey National frequently reviews and develops these flexible working options to ensure it retains competitive advantage and to support its reputation as an employer of choice. The Company keeps abreast of external best practice and legislative developments, offering enhancements to legal requirements wherever this is appropriate.

During 2000, Abbey National introduced an improved adoption leave scheme, a flexible dress code for staff in non-customer facing operations and continued to trial new ways of working, including working from home and compressing weekly hours into a lesser number of days per week. During 2000, employees were also able to take advantage of the Company's parental leave, discretionary leave and paid paternity leave provisions, all introduced under the Company's Life Flex Policy at the end of 1999.

Charitable donations

The Company has continued to support a wide range of charitable projects, primarily through the Abbey National Community Partnership and Abbey National Charitable Trust Limited (the Trust).

During the year, Abbey National plc donated £1.3m (1999: £1.3m) to the Trust's funds. The Trust also received income from its invested permanent endowment funds.

Total cash donations of £1,834,406 (1999: £1,879,061) were made to charities through the Trust and by other Abbey National Group companies in 2000.

The total value of support to charities and the voluntary sector amounted to £2,655,000 in 2000 (1999: £2,657,000). This mainly comprised cash donations through the Trust, and other support given in kind, including the value of staff time.

To help meet the needs of individual communities, Abbey National has established nine Community Partnership groups across the UK, including Northern Ireland. These meet regularly to organise employee involvement programmes and make recommendations for the use of Charitable Trust funds in their local areas.

The Trust continues to give priority to charities working to improve equality of opportunity for people with disabilities and those working to improve educational and employment opportunities for the most disadvantaged groups in society. The Trust also supported the fund-raising efforts of Abbey National staff, giving £346,000 (1999: £341,000) to match amounts they raised during the year.

Volunteering

Abbey National is committed to supporting the communities within which the Company operates. This is achieved both at a corporate level and also at an individual employee level, where the Company is keen for staff to have opportunities for practical involvement within their local communities.

Under the Company's Volunteering Scheme, staff are encouraged to give practical support to their own favourite community organisations. The aim of the Volunteering Scheme is to help staff to give time to such organisations by matching this time on an hour for hour basis.

Suppliers and business partners

Abbey National has in place a procurement policy that reinforces the principle that all employees are expected to maintain the highest standards of integrity and ethical behaviour.

Employees must not use their authority or office for personal gain and should conduct their business relationships in an open manner. The receipt of gifts of significant value is not acceptable. The Group Procurement Policy also states that a record of hospitality received must be maintained by each department and made available for review.

Corporate governance is concerned with how companies are directed and controlled and in particular with the role of the Board of Directors and the need to ensure a framework of effective accountability.

Combined code

This statement, together with the Directors' remuneration report, set out on pages 29 to 34, explains how Abbey National has applied the principles of good practice in corporate governance set out by the Financial Services Authority in Section 1 of the Combined Code. Abbey National has complied with all the provisions of Section 1 of the Combined Code throughout the year ended 31 December 2000.

The Board

At 31 December 2000, the Board comprised a part-time Chairman, nine executive directors, including the Chief Executive, and seven independent non-executive directors, who bring a wide range of skills and experience to the Board. Biographical details of all directors are to be found on pages 22 and 23. The roles of Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working of the Board and the Chief Executive for the running of the business and implementation of Board strategy and policy. The Chief Executive is assisted in managing the business on a day-to-day basis by the Executive Committee, which he chairs and which meets weekly and comprises his direct reports. All the non-executive directors are independent of management and they make a significant contribution to the functioning of the Board, thereby helping to ensure that no one individual or group dominates the Board's decision-making process. The Board met on twelve scheduled occasions during 2000, including a separate session specifically devoted to the long-term strategic direction of the Group. The Board's focus is on strategy formulation, policy and control. A framework of high-level authorities is in place which maps out the structure of delegation below Board level as well as specifying those issues which remain within the Board's preserve.

Risk management in banking continues to be critical and the Board devotes appropriate time to considering the significant risks (see internal control statement below). The Group Risk Committee ('GRC') plays an important role by monitoring and controlling the level of Group structural balance sheet risk. GRC oversees a number of subcommittees: principally the Group Credit Committee ('GCC') and the Operational Risk Committee ('ORC'). GRC meets monthly, chaired by the Chief Executive, and its membership comprises seven other executive directors plus one executive manager. GCC comprises two executive directors plus several members of the Executive Management Group, including business area risk specialists, and meets fortnightly to review and oversee high-level credit policies and exposures. The ORC includes three executive directors and meets quarterly to review and monitor operational risk exposures within the Group. The Board, at its regular monthly meetings, reviews in detail the minutes of GRC, which incorporate key points from the minutes of GCC and the ORC.

One of the responsibilities of the Chairman is to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties. The adequacy of this information is regularly reviewed.

All directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The Company Secretary is also charged with ensuring that all new Board members are equipped to fulfil their duties and responsibilities. As part of the early familiarisation programme, new non-executive directors are encouraged to meet the executive directors individually and engage in an induction programme of visits to different areas of the Group.

Non-executive directors are appointed for a three year term after which their appointment may be extended upon mutual agreement. It is envisaged that the maximum term for a non-executive director under this regime is unlikely to exceed nine years. In accordance with the Company's Articles of Association, one-third of the Board are required to retire by rotation each year but over a three year period all directors must have retired from the Board and faced re-election. The Company's Articles of Association also require that a director must retire at the first Annual General Meeting after their 70th birthday.

As Abbey National continues to diversify, a growing responsibility falls on the Boards of directors of its subsidiary companies, particularly those in the Business to Business and Wholesale Banking divisions. Within these divisions, the Boards of Scottish Mutual Assurance plc, Abbey National Life plc, Abbey National Treasury Services plc and First National Bank plc include at least one independent non-executive director with requisite expertise who is not necessarily a member of the Abbey National plc Board.

Board committees

The Board maintains three standing committees, all of which operate within written terms of reference. Their minutes are circulated for review and consideration by the full complement of directors, supplemented by oral reports from the committee chairmen.

Audit Committee

The Audit Committee is chaired by Keith Woodley and comprises four members. Richard Hayden replaced James Tuckey on the Audit Committee in September 2000. The Audit Committee met six times in 2000. Its prime tasks are to review the scope of external and internal audit, to receive regular reports from Deloitte & Touche and the Chief Internal Auditor, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and compliance, and areas of management judgement and estimates. The Audit Committee more generally acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems and processes. The Audit Committee also conducts a review of the remit of the internal audit function, its authority, resources and scope of work. Detailed subsidiary level issues are considered by the subsidiary companies' audit committees set up for key trading subsidiaries and key issues are reported to the group Audit Committee. Membership of the Audit Committee is restricted to independent non-executive directors.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee is chaired by Mair Barnes and met eight times in 2000. Its principal function is to monitor the human resource policies of the Group to ensure they are consistent with the Company's business objectives and philosophy. It is charged with recommending to the full Board the Company's policy on executive director and executive management remuneration. The Personnel and Remuneration Committee determines the individual remuneration package of each executive director. The Board's report to shareholders on how directors are remunerated, together with details of individual directors' remuneration packages, is to be found on pages 29 to 34.

Nomination Committee

The Nomination Committee is chaired by Lord Tugendhat and comprises four members. The Nomination Committee meets when necessary and at least once in each year. The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. It met twice during 2000.

The number of full scheduled Board meetings and committee meetings attended by each director during the year was as follows:

	Scheduled Board meetings	Audit Committee meetings	Personnel and Remuneration Committee meetings	Nomination Committee meetings
The Lord Tugendhat	12			2
Ian Harley	12			2
Leon Allen	12	6		
Mair Barnes	11		8	2
Richard Hayden	11	2		
Sir Terence Heiser	11	4		
Timothy Ingram	12			
Gareth Jones	12			
John King	12			
Malcolm Millington	12			
Peter Ogden	11		7	
Mark Pain	12			
Andrew Pople	12			
The Lord Shuttleworth	12		8	
Ian Treacy	12			
Charles Villiers	11			
Keith Woodley	12	6		2

Relations with shareholders

Abbey National values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During 2000, Abbey National directors held 115 meetings with institutional investors whose combined shareholdings represented over 34% of the total issued ordinary share capital of the Company.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit, Personnel and Remuneration and Nomination Committees will be available at the Annual General Meeting to answer any shareholder questions.

This year's Annual General Meeting will be held on 26 April 2001. The Notice of the Annual General Meeting, which is in plain English, is circulated more than 20 working days before the Meeting and Abbey National will continue its practice of proposing only unbundled individual resolutions, including a separate resolution relating to the Directors' Report and Accounts.

Pension funds

The assets of the Company's main pension schemes are held separately from those of the Group and are under the control of the trustees of each scheme. The four Abbey National pension schemes have a common corporate trustee which, at 31 December 2000, had eight directors, comprising six Company appointed directors, including Lord Tugendhat, and two other directors of the Company, together with two member-nominated directors. The National and Provincial Pension Fund has a different corporate trustee, the Board of which comprises Lord Tugendhat, two other Company appointed directors and three member-elected directors. The Scottish Mutual Assurance (SMA) plc Staff Pension Scheme is administered by six trustees, of which SMA appoints four (two of whom are directors and two of whom are members), whilst the active members appoint two of their number as trustees.

Asset management of the schemes is delegated to a number of fund managers and the trustees receive independent professional advice on the performance of the managers. Asset management of the SMA Staff Pension Scheme is through a Trustee Investment Account invested in units of SMA's Pooled Managed Fund.

Legal advice to the trustees of the various schemes is provided by external firms of solicitors. The audits of Group Pension Schemes are separated from that of Abbey National. The audit of the Abbey National pension schemes and the National and Provincial Pension Fund is undertaken by Grant Thornton. The audit of the SMA Staff Pension Scheme is undertaken by KPMG Audit Plc.

Going concern

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board of Directors has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Abbey National Group. However, it is important to note that the size and complexity of the Group's operations mean that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The rationale of the system of internal control is to enable the Group to achieve its corporate objectives within a managed risk profile, not to eliminate the risk, and the effectiveness of internal control has to be viewed in this context. The Board is responsible for determining strategies and policies for risk and control, whilst management is responsible for designing, operating and monitoring risk management and control processes which implement Board policies effectively.

The Board confirms that an on-going process for identifying, evaluating and managing the Group's significant risks has operated throughout the year and up to the date of approval of the Directors' Report and Accounts. This process has been subject to regular review by the Board and accords with the guidance contained in 'Internal Control – Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in September 1999. The key elements of this process are as follows:-

- Strategic risks are considered by both the Board and the Executive Committee in the context of an agreed strategic framework, which is refreshed during the year through a series of strategy conferences. The whole process is supported by a corporate development function which is supported by appropriate external consultants. A three year plan is produced annually for all value centres to respond to the strategic challenges facing the Group and is approved by the Board. Detailed financial and operating plans are developed for the year ahead and monthly reports are provided to the Board covering actual performance against plan, analysis of significant variances, and scrutiny of key performance indicators by the Group's finance function.
- Financial risks (credit, market, liquidity and residual value) are considered on behalf of the Board by the Group Risk Committee (GRC) as described in the 'Board' section above. The Board reviews the minutes of GRC in detail and in addition receives half yearly reports from the Group Risk Director, and annually considers financial risk scenarios.
- Operational risks are considered on behalf of the Board by the Operational Risk Committee (ORC) as described in the 'Board' section above. The Board also receives half yearly reports from the Group Risk Director. In addition there is a series of specific reports produced covering various aspects of operational risk such as compliance with the Financial Services Act and money laundering,
- The Executive Committee manages the business on a day to day basis and the divisional directors are responsible for embedding risk management and control in accordance with the framework of high level authorities.
- A key ingredient of the risk management arrangements is the segregation of duties between the four customer facing divisions, and the four Group infrastructure divisions. Together with other responsibilities the Group infrastructure divisions define standards and guidelines which enable Board policies to be translated into operational practice and also measure and monitor the overall risk exposures.

The Board has established a process for reviewing the effectiveness of the system of internal controls through reports it and board committees receive from the executive risk committees and various independent monitoring functions. The Audit Committee, as described above, makes an important contribution to this assurance process. Internal Audit provides independent and objective assurance that the processes by which significant risks are identified, assessed and managed are appropriate and effectively applied. Internal and external audit utilise common reporting protocols to escalate significant exceptions and Internal Audit follow up all significant exceptions until satisfactory resolution by management. In addition management, including executive directors, submit Self Certification Statements on the effectiveness of risk management and internal controls against significant risks. The Board undertook a formal annual assessment of the risk management and control arrangements on 23 January 2001 in order to form a view on the overall effectiveness of the system of internal control.

During the year the Group acquired a number of subsidiaries, including Porterbrook Limited and Highway Vehicle Management Limited, which have subsequently been subject to a review against the Group's expected risk management and control standards and plans established to address any improvements required.

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

Overall remuneration strategy

Abbey National operates in a competitive market. It is essential that it attracts, develops and retains high quality staff at all levels. Remuneration policy has an important part to play in achieving this objective. The Company aims to offer its entire staff remuneration packages which are competitive in the relevant employment market and which are set in relation to individual performance. The Company also seeks to align the interests of shareholders and staff by giving staff the opportunity to build up a shareholding in the Company. Through a series of offers under the sharesave, share participation and employee share option schemes, nearly all staff continue to have a shareholding interest.

Personnel and Remuneration Committee (the 'Committee')

The Committee exists to provide a mechanism through which the Board can satisfy itself that the Company is adopting human resource policies which are consistent with the Company's business objectives and philosophy. Its written terms of reference require the Committee to recommend policy on executive directors' remuneration to the Board and, in accordance with the provisions of the Combined Code, to determine the remuneration of each executive director, including pension rights and any compensation payments.

The Committee is chaired by Mair Barnes. Its membership is restricted to independent non-executive directors, although the Committee consults, as appropriate, with both the Chairman and the Chief Executive. The Committee is assisted in its deliberations by the Corporate Development and Resources Director and regularly obtains advice from external advisers.

Remuneration policy

The aim of the Board and the Committee is to maintain a policy which:

- is market driven within each business aimed at ensuring Abbey National can attract, develop and retain high quality staff at all levels in the organisation;
- ensures employee behaviours are closely aligned with Business and Group objectives through the use of performance-related rewards;
- is designed to motivate and reinforce superior performance;
- seeks to align the interest of shareholders and staff by giving staff an opportunity to build up a shareholding in the Company.

Executive directors' remuneration

Details of directors' remuneration, together with details of interests in shares and share options, are set out below.

Basic salary

Basic salaries are reviewed annually and are set to reflect market conditions, personal performance and the pay of those in similar jobs in comparable organisations. The comparator group used in consideration of remuneration matters comprises retail banks, insurance companies and other companies with market capitalisation similar to Abbey National's. The Committee obtains advice and information from external experts when making its comparisons.

The base salaries of the executive directors were increased during 2000 following a review, which is explained in more detail below.

Annual performance related bonus

The discretionary annual performance related bonus scheme is designed to provide a direct link between each individual's remuneration and the performance of the Company in the short term. It is based on individual and Company performance. It will pay out in March 2001 in relation to performance in 2000. The maximum potential cash payment, to be shared among the executive directors, is 50% of that group's basic salary earned during the year.

The aggregate payment under the scheme is determined by the Committee's assessment of the Company's performance against a range of measures agreed at the beginning of the financial year and approved by the Board.

Payments to individual executive directors reflect their individual performance and contribution during the year. Total payments under the scheme for 2000 represented 40% of the salaries earned during the year (1999: 18.5%).

Benefits

Taxable benefits for executive directors include medical expenses and subsidised mortgage loans.

Long Term Incentive Plan ('LTIP')

An LTIP for senior executives was adopted at the 1997 Annual General Meeting. Each year individuals are conditionally granted shares to a maximum value of 70% of their basic salary. The number eventually awarded to the individual depends upon the extent to which the performance conditions are met. Half of the awards will be determined by the total shareholder return of the Company relative to the constituents of the FTSE 100 Share Index. The other half of the awards will be determined by the total shareholder return of the Company relative to specified financial institutions.

The two parts of the award are determined separately. For each part, the award will be made in full if the Company is ranked in the top quartile of the relevant comparator group; 25% of the award will be made if the Company is ranked at median; and pro rata between these two points. No award will be made for any part where the Company is ranked below the median of the relevant comparator group. Thus, if the Company is ranked below the median of both comparator groups, no award will be made. For the award to be made in full, the Company must be ranked in the top quartile of both comparator groups.

In normal circumstances, to the extent that the performance conditions are satisfied, one half of a participant's shares awarded will be transferred to the individual on the third anniversary of the date the conditional rights were originally granted, while the other half are held in trust for a further two years. The LTIP for the performance period 1998 to 2000 will not generate an award in 2001.

The LTIP is currently open only to the nine members of the Executive Committee. Details of the grants to directors under the LTIP are set out on pages 33 and 34.

Shareholders have approved an employee sharesave scheme, an employee share option scheme, an employee share participation scheme and the all employee share ownership plan. These schemes are available to all employees. The last grant to executive directors, under the executive share option scheme, was in 1996, however existing options remain exercisable.

Directors' interests in share options are set out on pages 32 and 33.

Pensions

Directors are eligible to join one of the Company's pension schemes. There are no elements of remuneration, other than basic salary, which are treated as pensionable.

Service contracts

All of the executive directors have rolling one-year service contracts. Where the individual is not required to work their contractual notice period, they will be able to receive pay in lieu of notice. If an executive director is made redundant within the meaning of the relevant employment legislation, he/she will be eligible to receive a redundancy severance payment in line with the Company's terms applicable to the majority of staff. This will be calculated based on 3.25 weeks pay for each year of continuous service up to a maximum of two years' salary. Over 30 years of continuous service will be required to achieve a maximum payout.

Non-executive directors' fees

The remuneration arrangements of the Chairman and non-executive directors are determined by the Board and are as follows:

The Chairman's emoluments consist wholly of fees, benefits and expenses in respect of services. He is not entitled to participate in any bonus or profit sharing arrangements nor is he entitled to participate in the LTIP or the executive share option scheme. However, he is entitled to participate in the Company's sharesave scheme, which is available to all eligible employees. The Chairman's appointment is non-pensionable and he makes his own private pension arrangements.

Fees are paid to non-executive directors. The basic fee for non-executive directors is reviewed every two years and this review took place during 2000. As a result, the basic fee of £25,000 per annum was increased to £30,000 per annum. The basic fee is augmented by £5,000 for service on each of the Audit Committee, Personnel and Remuneration Committee, and the Retail Strategy Board. There is an additional fee of £2,500 per annum for chairing the Personnel and Remuneration Committee. Lord Shuttleworth receives an additional fee in his capacity as director of Abbey National Group Pension Scheme Trustees Limited and National and Provincial Building Society Pension Fund Trustees Limited. Keith Woodley's remuneration includes payments for services as a Deputy Chairman of Abbey National plc, a non-executive director of Abbey National Treasury Services plc and as Chairman of both their audit committees.

The Articles of Association set a limit on non-executive directors' fees, but this has not been changed since 1996. The opportunity is therefore being taken to increase the aggregate of all fees paid from the current level of £750,000 to £1,250,000.

Taxable benefits for non-executive directors include the reimbursement of travel and other incidental expenses for attendance at Board meetings.

Non-executive directors do not have service contracts, save for the Chairman whose contract is renewable on an annual basis at the first board meeting in each year following the Annual General Meeting. This provides for payment of fees for a period of twelve months.

Executive directors' remuneration policy for the future

During 2000, the Committee undertook a major review of executive remuneration policy in the light of current best practice in this area, particularly bearing in mind the guidelines published by the Association of British Insurers in July 1999.

As a consequence of this review, the Board is proposing amendments to directors' remuneration and will be seeking separate shareholder approval at the Annual General Meeting in April 2001 for each of the two key elements of the remuneration policy – the 2001 executive share option scheme and the share matching scheme. Under the circumstances, the Board does not consider it appropriate, at this time, for shareholders to be asked to approve a full remuneration report.

Details of the proposed key changes to directors' remuneration arrangements are set out below.

Basic salary

The base salaries of the executive directors were adjusted during 2000 to take into account the findings of the review.

Annual performance related bonus

The maximum potential payment associated with this bonus, for the year 2001, will be increased from 50% to 70%. Payments under the scheme will be dependent upon achievement of challenging performance targets agreed by the Committee.

Share matching scheme

Senior executives, including executive directors, may also participate in a share matching scheme. Under the share matching scheme, executives may choose to invest some or all of their annual bonus in the Company's shares ('the purchased shares'). This will strengthen the alignment of their interests with shareholders' interests. Executives will receive matching awards ('the matching shares') equal in value to the pre-tax bonus invested in the purchased shares. These matching shares will be available in full only if the Company's earnings per share growth exceeds inflation by an average of at least 7% per annum; 10% of the shares will be matched if growth in earnings per share exceeds inflation by an average of 3% per annum; and pro rata between these two points. This will apply over a fixed three year period provided the executive has not sold the purchased shares in the meantime.

The principal terms of this new scheme are contained in the Notice of the AGM.

2001 Executive share option scheme (the 'Scheme')

The Scheme will replace the LTIP and the existing executive share option scheme. On adoption of this Scheme, no further grants will be made under either of the previous two schemes.

The Scheme will provide for the grant of options to executive directors (as well as senior executives and other managers) on an annual basis and will incorporate a range of demanding performance targets. Operating the Scheme in this way will mean that there is a direct link between executives' remuneration and the Company's longer-term performance. Since executives will only benefit under the Scheme to the extent the Company's share price rises, executives' interests will be clearly aligned with those of shareholders. The value of shares under option which an executive may initially receive in any financial year will not normally exceed twice basic salary. These options will be exercisable in full only if the Company's total shareholder return performance is ranked in the upper quartile relative both to other financial services companies and to FTSE-100 companies, and if Abbey National's earnings per share growth exceeds inflation by an average of at least 7% per annum.

The principal terms of this new Scheme are contained in the Notice of the AGM.

The Board believes that these changes to the remuneration arrangements reflect current market practice and is convinced that they will be an essential element in attracting, developing and retaining the highest quality executives required to carry out the Company's challenging plans.

Directors' emoluments

The following table shows an analysis of directors' emoluments, excluding pensions, details of which are provided below:

	Salary/Fee £	Performance related annual bonus £	Performance related three year bonus – LTIP awards £	Taxable benefits £	2000 Total £	1999 Total £
Chairman						
The Lord Tugendhat	339,333	–	–	19,911	359,244	347,746
Executive directors						
I Harley	520,833	208,333	43,050	1,946	774,162	544,886
T C W Ingram	300,615	120,245	31,461	1,921	454,242	321,096
D G Jones	338,771	135,508	39,743	1,493	515,515	427,628
J King	219,542	87,816	26,989	1,557	335,904	238,177
M J Millington	234,792	93,916	–	1,605	330,313	238,428
M A Pain	287,917	115,167	–	1,871	404,955	267,916
A H Pople	313,333	125,333	34,777	1,295	474,738	333,054
I K Treacy	229,833	91,933	28,974	2,197	352,937	251,063
C N Villiers	312,750	125,100	41,401	2,041	481,292	357,422
Non-executive directors						
L R Allen	36,250	–	–	309	36,559	28,480
M Barnes	38,750	–	–	2,790	41,540	33,781
R M Hayden	30,417	–	–	47	30,464	6,935
Sir Terence Heiser	33,750	–	–	1,416	35,166	30,952
P J Ogden	33,750	–	–	309	34,059	28,672
The Lord Shuttleworth	43,750	–	–	2,223	45,973	45,409
J L Tuckey (retired 1 September 2000)	25,000	–	–	–	25,000	30,339
K S Woodley	93,375	–	–	3,179	96,554	83,183
Totals	3,432,761	1,103,351	246,395	46,110	4,828,617	3,615,167

Note: amounts included under 'Performance related three year bonus – LTIP awards' represent the value of ordinary shares transferred to the directors during the year, calculated using the market price of the Company's ordinary shares at the date of receipt by the directors, irrespective of whether the shares were sold or retained.

Directors' pensions

Executive directors are eligible to join one of the Company's pension schemes.

The following table shows an analysis of the accrued pension benefits as at 31 December 2000 for executive directors participating in the Company's defined benefits pension schemes. Further information concerning the Company's pension schemes is set out in note 52 to the financial statements.

	Contributions from directors during 2000 (6) £	Increase in accrued pensions during 2000 (1)(4) £	Transfer value of the increase in accrued pensions during the year (2) £	Total accrued pensions as at 31 December 2000 (3) £	Total accrued pensions as at 31 December 1999 £
Executive directors					
I Harley	13,333	40,887	627,187	239,307	196,261
T C W Ingram (5)	–	22,576	325,998	113,566	90,000
D G Jones	3,388	17,831	284,255	112,359	93,500
J King	30,189	7,367	100,307	124,981	116,344
M J Millington	2,348	19,854	302,028	113,892	93,015
M A Pain	2,879	20,062	193,699	63,649	43,113
A H Pople	9,995	14,370	154,649	80,422	65,333
I K Treacy	34,475	18,626	303,123	132,920	113,050
C N Villiers	46,912	19,288	308,948	169,927	149,000
Totals	143,519	180,861	2,600,194	1,151,023	959,616

Notes:

1. The increase in accrued pension during 2000 represents the increase in the annual pension which each director would be entitled to receive from normal retirement age (less the statutory inflationary increase of 1.1%, where relevant), if he had left service voluntarily at 31 December 2000 or at his actual retirement date if earlier.
2. The transfer value of the increase in accrued pension represents the current capital sum which would be required, using demographic and financial assumptions, to produce an equivalent increase in accrued pension and ancillary benefits, excluding the statutory inflationary increase, and after deducting members' contributions (including Additional Voluntary Contributions). Although the transfer value represents a liability to the Company, it is not a sum paid or due to be paid to the individual director and cannot therefore meaningfully be added to the annual remuneration.
3. The accrued pension as at 31 December 2000 represents the annual pension which each director would be entitled to receive from normal retirement age if he had left service voluntarily at 31 December 2000 or at his actual retirement date if earlier.
4. In most cases the figure for the increase in accrued pension during 2000 which appears in the table does not equal the difference between the total accrued pension as at 31 December 2000 and the total accrued pension as at 31 December 1999. The difference arises where the increase in accrued pension is stated after deducting the statutory inflationary increase which would have been applied to the deferred pension entitlement had the director left at the start of the year. This deduction had been made where directors have been in service for the whole year, and is made in order to present a figure showing that element of the increase which results from an extra full year of service and from changes in remuneration.
5. Mr Ingram does not participate in the Company's defined benefits pension scheme. His pension arrangements are on a defined contributions basis. However, the Company has agreed to provide additional benefits as if he were participating in the defined benefits scheme.
6. Additional Voluntary Contributions made have been included in the above table where these payments result in an increase in the value of the directors' pension entitlements.

Directors' share interests

The beneficial interests of directors and their immediate families in the ordinary shares of 10 pence each in the Company are shown below:

Ordinary shares	No. of shares at 1.1.00	No. of shares at 31.12.00
L R Allen	4,000	4,000
M Barnes	1,000	1,000
I Harley	58,782	76,081
R M Hayden	4,000	4,000
Sir Terence Heiser	1,000	1,000
T C W Ingram	30,636	39,425
D G Jones	31,189	38,152
J King	39,897	45,964
M J Millington	32,916	37,752
P J Ogden	4,000	4,000
M A Pain	17,964	22,964
A H Pople	50,661	55,489
The Lord Shuttleworth	816	832
I K Treacy	46,079	49,364
The Lord Tugendhat	18,867	19,885
C N Villiers	26,152	33,264
K S Woodley	2,160	5,160

Note: In addition, £36,529 Abbey National Floating Rate Unsecured Loan Notes 2000, issued on 23 August 1995 in consideration for shares held in FNFC plc to TCW Ingram, were redeemed on 30 June 2000.

Share options	At 1.1.00	Number of options: granted	exercised	cancelled	At 31.12.00	Exercise price £	Market price at date of exercise £	Gain on exercise £	Date from which exercisable £	Expiry date	Scheme
I Harley	2,418		2,418		–	4.28	8.90	11,171	01/10/00	31/03/01	Sharesave
	568				568	6.07			01/04/02	30/09/02	Sharesave
	349				349	9.88			01/04/03	30/09/03	Sharesave
	38,053		10,000		28,053	5.65	7.13	14,800	25/03/99	24/03/06	Executive
	36,379				36,379	5.91			09/09/99	08/09/06	Executive#
	150				150	5.91			09/09/99	08/09/06	Employee
	77,917		12,418		65,499			25,971			
T C W Ingram	3,701				3,701	4.66			01/04/01	30/09/01	Sharesave
	150				150	5.91			09/09/99	08/09/06	Employee
	3,851				3,851						
D G Jones	2,418		2,418		–	4.28	8.90	11,171	01/10/00	31/03/01	Sharesave
	568				568	6.07			01/04/02	30/09/02	Sharesave
	179				179	10.87			01/04/01	30/09/01	Sharesave
	8,012				8,012	4.68			11/04/97	10/04/04	Executive†
	36,106				36,106	5.65			25/03/99	24/03/06	Executive
	22,829				22,829	5.91			09/09/99	08/09/06	Executive#
	150				150	5.91			09/09/99	08/09/06	Employee
		1,052			1,052	5.13			01/04/05	30/09/05	Sharesave
	70,262	1,052	2,418		68,896			11,171			
J King	291		291		–	6.68	8.58	551	01/04/00	03/09/00	Sharesave
	2,418		2,418		–	4.28	8.90	11,171	01/10/00	31/03/01	Sharesave
	349				349	9.88			01/04/03	30/09/03	Sharesave
	4,455				4,455	4.68			11/04/97	10/04/04	Executive†
	23,181				23,181	5.91			09/09/99	08/09/06	Executive#
	150				150	5.91			09/09/99	08/09/06	Employee
		657			657	5.13			01/04/05	30/09/05	Sharesave
	30,844	657	2,709		28,792			11,722			
M J Millington	4,836		4,836		–	4.28	8.90	22,342	01/10/00	31/03/01	Sharesave
	19,000				19,000	4.83			10/04/98	09/04/05	Executive
	20,353				20,353	5.65			25/03/99	24/03/06	Executive
	6,000				6,000	5.64			04/04/99	03/04/06	Executive
	17,451				17,451	7.22			24/03/00	23/03/07	Executive
	10,769				10,769	11.70			13/03/01	12/03/08	Executive
	300				300	5.91			09/09/99	08/09/06	Employee
	150				150	11.95			01/04/03	31/03/08	Employee
		1,315			1,315	5.13			01/04/05	30/09/05	Sharesave
	78,859	1,315	4,836		75,338			22,342			
M A Pain	1,285				1,285	6.07			01/04/04	30/09/04	Sharesave
	698			698	–	9.88			01/04/03	30/09/03	Sharesave
	371			371	–	9.89			01/04/06	30/09/06	Sharesave
	13,008		5,000		8,008	5.65	7.13	7,400	25/03/99	24/03/06	Executive
	13,850				13,850	7.22			24/03/00	23/03/07	Executive
	150				150	5.91			09/09/99	08/09/06	Employee
		1,973			1,973	5.13			01/04/05	30/09/05	Sharesave
	29,362	1,973	5,000	1,069	25,266			7,400			
A H Pople	2,418		2,418		–	4.28	8.90	11,171	01/10/00	31/03/01	Sharesave
	568				568	6.07			01/04/02	30/09/02	Sharesave
	349			349	–	9.88			01/04/03	30/09/03	Sharesave
	150				150	5.91			09/09/99	08/09/06	Employee
		657			657	5.13			01/04/05	30/09/05	Sharesave
	3,485	657	2,418	349	1,375			11,171			
I K Treacy	25,042				25,042	5.91			09/09/99	08/09/06	Executive#
	150				150	5.91			09/09/99	08/09/06	Employee
		1,714			1,714	5.65			01/04/03	30/09/03	Sharesave
	25,192	1,714			26,906						

Directors' share interests continued

Share options	At 1.1.00	Number of options: granted	exercised	cancelled	At 31.12.00	Exercise price £	Market price at date of exercise £	Gain on exercise £	Date from which exercisable £	Expiry date	Scheme
The Lord Tugendhat	1,745			1,745	–	9.88			01/04/03	30/09/03	Sharesave
		1,714			1,714	5.65			01/04/03	30/09/03	Sharesave
	1,745	1,714		1,745	1,714						
C N Villiers	2,418		2,418		–	4.28	8.90	11,171	01/10/00	31/03/01	Sharesave
	568				568	6.07			01/04/02	30/09/02	Sharesave
	349				349	9.88			01/04/03	30/09/03	Sharesave
	9,612				9,612	4.68			11/04/97	10/04/04	Executive
	3,204				3,204	4.68			11/04/97	10/04/04	Executive†
	32,086				32,086	4.83			10/04/98	09/04/05	Executive
	36,988				36,988	5.91			09/09/99	08/09/06	Executive#
	150				150	5.91			09/09/99	08/09/06	Employee
	85,375		2,418		82,957			11,171			

Replacement options
† Parallel discounted options (see below)

Notes:
1. The executive share options detailed above are subject to performance conditions based on the average growth of earnings per ordinary share relative to the average increase in the retail price index in any three years prior to exercise.
2. Executive share options granted since 1996 become exercisable if the average growth in earnings per ordinary share exceeds the average increase in the retail price index by 2%. Executive share options granted since 1997 become exercisable if the growth in earnings per ordinary share over a three year period exceeds the average increase in inflation by an average of at least 2% per annum, and the Company's total shareholder return at least matches the median performing company in a group of specified financial institutions.
3. Parallel discounted options are exercisable at £3.98 from 11/4/99 to 10/4/04. Parallel discounted options become exercisable if the average growth in earnings per ordinary share exceeds the average increase in the retail prices index by at least 10% in any five year period prior to the date of exercise. The option holder may exercise either the standard or discounted option, but not both, thereby reducing both options, subject to the achievement of the appropriate performance criteria. The Board determined in 1994 that it would no longer make grants of discounted options.
4. The options refer to those granted under the Company's Executive Share Option, Employee Share Option and Sharesave schemes, as set out in note 41 to the financial statements.
5. Options shown under the headings 'Number of options: granted, exercised or cancelled' refer to options granted, exercised or cancelled during the year.
6. Market price at the date of exercise is the Middle Market Quotation, as derived from the London Stock Exchange Daily Official List. The market price of the shares on 29 December 2000, the last day of trading in 2000, was 1219p (31 December 1999: 990p) and the range during 2000 was 622p to 1219p.
7. There have been no changes to the beneficial and other interests of the directors in the ordinary shares of the Company as shown above up to 13 January 2001.
8. The gains made upon the exercise of options during the year are based on the amount by which the market value of shares on the date of exercise exceeded the option price irrespective of whether the shares were sold or retained.

Long Term Incentive Plan

Details of the Company's ordinary shares over which the directors have conditional rights under the LTIP are as follows:

Conditional rights	Conditional rights held under plan at 1/1/00	Conditional rights granted during the year	Shares awarded during year	Conditional rights lapsed during year	Conditional rights held under plan 31/12/00
I Harley	47,025	53,435	–	22,474	77,986
T C W Ingram	28,125	30,081	–	13,484	44,722
D G Jones	32,248	35,347	–	15,881	51,714
J King	21,219	22,282	–	10,308	33,193
M J Millington	20,500	22,282	–	9,589	33,193
M A Pain	22,763	28,320	–	10,488	40,595
A H Pople	29,359	31,206	–	14,083	46,482
I K Treacy	23,443	23,404	–	11,986	34,861
C N Villiers	15,761	–	–	15,761	–

Long Term Incentive Plan continued

Shares held in trust	Shares held in trust at 1/1/00	Shares awarded during the year	Shares transferred during the year	Shares held in trust at 31/12/00	These shares are receivable 2001	2002
I Harley	9,763	–	4,881	4,882	–	4,882
T C W Ingram	7,135	–	3,567	3,568	–	3,568
D G Jones	9,012	–	4,506	4,506	–	4,506
J King	6,121	–	3,060	3,061	–	3,061
M J Millington	–	–	–	–	–	–
M A Pain	–	–	–	–	–	–
A H Pople	7,886	–	3,943	3,943	–	3,943
I K Treacy	6,571	–	3,285	3,286	–	3,286
C N Villiers	9,388	–	4,694	4,694	–	4,694

Notes:

1. Shares sufficient to satisfy the conditional rights granted under the LTIP during the year were bought in the market and are held by the Abbey National Employee Trust (the Trust), which is administered by an independent professional trustee. The cost of these conditional rights is being charged to the profit and loss account over the three year performance period to which they relate. In 2000, £2,219,976 (1999: £1,869,123) was charged to the profit and loss account.

2. Shares are awarded to directors upon the relevant performance criteria being met. Directors receive 50% of the shares awarded to them three years from the date the conditional rights are granted and the remainder five years from the same date. The shares awarded form part of directors' emoluments in the year in which they are received and are disclosed at the value of the shares on the date of receipt by the directors.

3. The aggregate maximum value of the conditional rights and shares held in trust shown above, based on the maximum number of shares that are receivable by the directors if the Company is ranked in the top quartile of both the relevant comparator groups, and on the market price of the Company's ordinary shares at 29 December 2000, the last day of trading in 2000, 1219p (1999: 990p), would have been £4,763,559 (1999: £2,934,449). As stated above, all conditional rights are subject to performance criteria. The directors do not receive any of the shares if the Company is ranked below the median of both the relevant comparator groups.

   Normally the directors only receive the shares awarded to them if they remain in employment with the Company. Shares held in trust are not subject to any further performance criteria.

4. By virtue of their being potential beneficiaries of the Trust, each executive director is deemed, for the purpose of the Companies Act 1985, to have an interest in the shares held in the Trust. At 31 December 2000, the Trust held 604,362 ordinary shares (31 December 1999: 389,320 ordinary shares) for the above-named directors.

Directors' responsibilities for financial statements

The directors of Abbey National plc are required by United Kingdom company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year, and of the profit of the Group for the year. They are also responsible for ensuring that proper and adequate accounting records have been maintained and that reasonable procedures have been followed for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

In respect of the financial statements the directors are required to:

- ensure that suitable accounting policies, which follow generally accepted accounting practice, have been applied consistently;
- ensure that reasonable and prudent judgements and estimates have been used in the preparation of the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business; and
- state whether applicable United Kingdom accounting standards have been followed and to disclose and explain any material departures in the financial statements.

Auditors' report to the members of Abbey National plc

We have audited the financial statements on pages 36 to 61 which have been prepared under the accounting policies set out on pages 40 and 41.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
London
13 February 2001

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

Notes		2000 Total £m	2000 Total £m	1999 Total (restated) £m	1999 Total (restated) £m
	Interest receivable:				
	Interest receivable and similar income arising from debt securities		3,968		2,902
2	Other interest receivable and similar income		7,242		6,327
4	Interest payable		(8,530)		(6,568)
	Net interest income		2,680		2,661
5	Dividend income		3		2
	Fees and commissions receivable		867		737
	Fees and commissions payable		(269)		(246)
6	Dealing profits		116		98
	Other income:				
21	Income from long term assurance business		240		196
7	Other operating income		657		354
	Total operating income		4,294		3,802
8	Administrative expenses		(1,681)		(1,496)
25,26	Depreciation on fixed assets excluding operating lease assets	(134)		(119)	
27	Depreciation on operating lease assets	(178)		(52)	
	Depreciation and amortisation		(312)		(171)
	Provisions:				
9	Provisions for bad and doubtful debts		(273)		(303)
38	Provisions for contingent liabilities and commitments		(21)		(23)
	Amounts written off fixed asset investments		(32)		(26)
	Operating profit on ordinary activities before tax		1,975		1,783
10	Tax on profit on ordinary activities		(559)		(522)
11	Profit on ordinary activities after tax		1,416		1,261
40	Minority interests – non-equity		(51)		–
	Profit for the financial year		1,365		1,261
42	Transfer to non-distributable reserve		(156)		(13)
12	Dividends including amounts attributable to non-equity interests		(687)		(610)
	Profit retained for the financial year		522		638
13	Earnings per ordinary share – basic		93.4p		86.2p
13	Earnings per ordinary share – diluted		92.8p		85.5p

The Group's results as reported are in all material respects on a historical cost basis. Accordingly, no note of historical cost profits and losses has been presented.

The 1999 comparative results have been restated to reflect a change in presentation of depreciation on operating lease assets. For details of the change in presentation, see Accounting Policies – Assets leased to customers.

All results arise from continuing operations.

Consolidated balance sheet as at 31 December 2000

Notes		2000 £m	2000 £m	1999 £m	1999 £m
	Assets				
	Cash and balances at central banks		437		701
14	Treasury bills and other eligible bills		1,159		1,114
15	Loans and advances to banks		12,168		11,472
16	Loans and advances to customers		81,752		75,221
17	Loans and advances subject to securitisation	7,927		1,930	
	less: non-returnable finance	(4,629)		(1,379)	
			3,298		551
18	Net investment in finance leases		5,192		5,441
19	Debt securities		68,972		59,445
20	Equity shares and other similar interests		601		295
21	Long term assurance business		1,538		1,042
22	Interests in associated undertakings		57		59
25	Intangible fixed assets		245		203
26	Tangible fixed assets excluding operating lease assets	389		759	
27	Operating lease assets	1,963		358	
	Tangible fixed assets		2,352		1,117
28	Other assets		4,351		3,930
29	Prepayments and accrued income		3,186		2,714
21	Assets of long term assurance funds		19,083		17,439
	Total assets		204,391		180,744
	Liabilities				
31	Deposits by banks		34,996		29,824
32	Customer accounts		66,795		59,911
33	Debt securities in issue		57,078		51,407
	Dividend proposed		433		382
34	Other liabilities		7,948		6,930
35	Accruals and deferred income		3,250		2,857
36	Provisions for liabilities and charges		1,443		1,275
39	Subordinated liabilities including convertible debt		5,871		4,641
21	Liabilities of long term assurance funds		19,083		17,439
40	Minority Interests – non-equity		664		–
			197,561		174,666
41	Called up share capital – ordinary shares	143		142	
	– preference shares	325		325	
41	Share premium account	1,610		1,536	
42	Reserves	616		449	
42	Profit and loss account	4,136		3,626	
43	Shareholders' funds including non-equity interests		6,830		6,078
	Total liabilities		204,391		180,744
	Memorandum items				
	Contingent liabilities				
45	Guarantees and assets pledged as collateral security		2,134		2,214
46	Other contingent liabilities		299		477
			2,433		2,691
	Commitments				
47	Obligations under stock borrowing and lending agreements		19,763		17,024
47	Other commitments		8,047		6,235
			27,810		23,259

The financial statements on pages 36 to 61 were approved by the Board on 13 February 2001 and signed on its behalf by:

Lord Tugendhat
Chairman

Ian Harley
Chief Executive

Mark Pain
Finance Director

Company balance sheet as at December 2000

Notes		2000 £m	2000 £m	1999 £m	1999 £m
	Assets				
	Cash and balances at central banks		426		672
15	Loans and advances to banks		4,500		4,650
16	Loans and advances to customers		60,038		62,927
17	Loans and advances subject to securitisation	7,932		1,932	
	less: non-returnable finance	(6,204)		(1,911)	
			1,728		21
19	Debt securities		1,753		1,302
20	Equity shares and other similar interests		2		2
22	Interests in associated undertakings		–		12
23	Shares in Group undertakings		4,803		4,187
26	Tangible fixed assets		269		575
28	Other assets		458		343
29	Prepayments and accrued income		1,036		1,049
	Total assets		75,013		75,740
	Liabilities				
31	Deposits by banks		6,143		11,020
32	Customer accounts		54,520		52,919
33	Debt securities in issue		139		21
	Dividend proposed		433		382
34	Other liabilities		599		627
35	Accruals and deferred income		1,293		1,024
36	Provisions for liabilities and charges		45		54
39	Subordinated liabilities including convertible debt		6,578		4,668
			69,750		70,715
41	Called up share capital – ordinary shares	143		142	
	– preference shares	325		325	
41	Share premium account	1,610		1,536	
42	Profit and loss account	3,185		3,022	
43	Shareholders' funds including non-equity interests		5,263		5,025
	Total liabilities		75,013		75,740
	Memorandum items				
	Contingent liabilities				
45	Guarantees and assets pledged as collateral security		127,835		128,643
46	Other contingent liabilities		8		8
			127,843		128,651
47	Commitments		597		497

The financial statements on pages 36 to 61 were approved by the Board on 13 February 2001 and signed on its behalf by:

Lord Tugendhat
Chairman

Ian Harley
Chief Executive

Mark Pain
Finance Director

Statement of total recognised gains and losses as at 31 December 2000

Notes		2000 £m	1999 £m
	Profit attributable to the shareholders of Abbey National plc	1,365	1,261
42	Translation differences on foreign currency net investment	–	(1)
42	Unrealised surplus on revaluation of investment properties	11	3
	Total recognised gains relating to the year	1,376	1,263

Consolidated cash flow statement for the year ended 31 December 2000

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

For the purposes of the consolidated cash flow statement, cash includes all cash in hand and loans and advances to banks repayable on demand without notice or penalty, including amounts denominated in foreign currencies.

Basis of presentation
The consolidated financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to banking companies and banking groups.

Accounting convention
The Group prepares its financial statements under the historical cost convention, modified by the revaluation of certain assets. They are prepared in accordance with applicable accounting standards of the Accounting Standards Board and pronouncements of its Urgent Issues Task Force and with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation.

Basis of consolidation
The Group financial statements comprise the financial statements of the Company and all its subsidiary undertakings. The accounting reference date of the Company and its subsidiary undertakings is 31 December, with the exception of those leasing, investment, insurance and funding companies, which, because of commercial considerations, have various accounting reference dates. The financial statements of these subsidiaries have been consolidated on the basis of interim financial statements for the period to 31 December 2000.

The assets and liabilities of the long term assurance funds are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest therein.

Interests in subsidiary undertakings and associated undertakings
The Company's interests in subsidiary undertakings and associated undertakings are stated at cost less any provisions for impairment. The Group's interests in associated undertakings are stated as the Group's share of the book value of the net assets of the associated undertakings.

Goodwill
Goodwill arising on consolidation as a result of the acquisitions of subsidiary undertakings and the purchase of businesses after 1 January 1998 is capitalised under the heading Intangible fixed assets and amortised on a straight line basis over its expected useful economic life. Such goodwill is subject to review for impairment in accordance with FRS 11, 'Impairment of fixed assets and goodwill' (see below). The useful economic life is calculated using a valuation model which determines the period of time over which returns are expected to exceed the cost of capital, subject to a maximum period of 20 years.

Goodwill arising on consolidation as a result of the acquisitions of subsidiary undertakings, and the purchase of businesses prior to 1 January 1998, has previously been taken to reserves. On disposal of subsidiary undertakings and businesses, such goodwill is charged to the profit and loss account balanced by an equal credit to reserves. Where such goodwill in continuing businesses has suffered an impairment, a similar charge to the profit and loss account and credit to reserves is made.

Impairment of fixed assets and goodwill
Tangible fixed assets, other than investment properties, and goodwill are subject to review for impairment in accordance with FRS 11. The carrying values of tangible fixed assets and goodwill are written down by the amount of any impairment, and the loss is recognised in the profit and loss account in the period in which this occurs. Should an external event reverse the effects of a previous impairment, the carrying value of the tangible fixed assets and goodwill may be written up to a value no higher than the original depreciated cost.

Depreciation
Tangible fixed assets excluding operating lease assets are depreciated on a straight line basis over their estimated useful lives. The following annual rates are used:

Premises and equipment	
Freehold buildings:	1.0%
Long and short leasehold premises: over the remainder of the lease, with a maximum of 100 years. Acquisition premiums are depreciated over the period to the next rent review.	
Office fixtures, equipment and furniture:	12.5%
Computer equipment:	
Mainframes	25.0%
Peripherals	20.0%
No depreciation is provided on freehold land.	

For depreciation on operating lease assets, see 'Assets leased to customers' below.

Investment properties
In accordance with Statement of Standard Accounting Practice (SSAP) 19, 'Accounting for investment properties', investment properties are included in the consolidated balance sheet at their open market value in existing use and are revalued annually. Changes in market value are reflected in the investment revaluation reserve except where the property is permanently impaired when the loss is taken directly to the profit and loss account.

No depreciation is provided in respect of investment properties. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view.

Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified.

Deferred taxation
Deferred taxation is accounted for where it is probable that a liability or asset will arise. Provision is calculated at rates expected to be applicable when the liability or asset crystallises.

Interest receivable
Interest is suspended where due but not received on loans and advances in arrears where recovery is doubtful. The amounts suspended are excluded from interest receivable on loans and advances until recovered.

Fees, commissions and dividends receivable
Fees and commissions receivable in respect of services provided are taken to the profit and loss account when the related services are performed. Where fees, commissions and dividends are in the nature of interest, these are taken to the profit and loss account on a systematic basis over the expected life of the transaction to which they relate, and are included under the heading, Interest receivable. Fees received on loans with high loan-to-value ratios are taken to the profit and loss account over the average anticipated life of the loan, as described under Deferred income, and are included under the heading, Other operating income. Income on investments in equity shares and other similar interests is recognised as and when dividends are received, and included within Dividend income.

Lending-related fees and commissions payable and discounts
Under certain schemes, payments and discounts may be made to customers as incentives to take out loans. It is usually a condition of such schemes that incentive payments are recoverable by way of early redemption penalty charges in the event of redemption within a specified period, 'the penalty period', and it is the Group's policy and normal practice to make such charges. Such incentive payments are charged to the profit and loss account over the penalty period where their cost is recoverable from the net interest income earned from the related loans over the penalty period,or from the penalty charge in the event of early redemption. When the related loan is redeemed, sold or becomes impaired any amounts previously unamortised are charged to the profit and loss account. The profit and loss account charge for such amounts is included under the heading, Interest receivable.

Commissions payable to introducers in respect of obtaining certain lending business, where this is the primary form of distribution, are charged to the profit and loss account over the anticipated life of the loans. The profit and loss account charge for such commissions is included under the heading, Fees and commissions payable.

Dealing profits
Dealing profits include movements in prices on a mark to market basis, including accrued interest, on trading derivatives. Dealing profits also include movements in prices, on a mark to market basis excluding accrued interest, on trading debt securities and trading treasury and other eligible bills.

Deferred income
The arrangement of certain UK loans and advances secured on residential properties with high loan-to-value ratios may result in a fee being charged.

In the Group accounts, such fees are deferred and are included in the balance sheet under the heading, Accruals and deferred income. The deferred income balance is taken to the profit and loss account over the average anticipated life of the loan.

Securities
Debt securities, equity shares and other similar interests held for investment purposes are stated at cost, adjusted for any amortisation of premium or discount on an appropriate basis over their estimated remaining lives. Provision is made for any impairment. Investment securities are intended for use on a continuing basis by the Group and have been identified as such.

In accordance with industry practice, securities which are not held for the purpose of investment and the associated funding of these assets are stated at market value and profits and losses arising from this revaluation are taken directly to the profit and loss account. The net return on these assets, excluding interest, appears in Dealing profits in the profit and loss account. This net return comprises the revaluation profit and loss referred to above, plus profits and losses on disposal of these assets. The difference between the cost and market value of securities not held for investment is not disclosed as its determination is not practicable.

Where securities are transferred from portfolios held for investment purposes to portfolios held for other purposes, the securities are transferred at market value. Gains and losses on these transfers are taken directly to the profit and loss account, and are included within Other operating income.

Interests in securities are recognised as assets or, in the case of short positions, liabilities, at the date at which the commitment to purchase or sell is considered to be binding.

Securities sold subject to sale and repurchase agreements are retained on the balance sheet where the risks and rewards of ownership of the securities remain with the Group. Similarly, securities purchased subject to purchase and resale agreements are treated as collateralised lending transactions where the Group does not acquire the risks and rewards of ownership.

Sale and repurchase agreements

The Group enters into purchase and resale and sale and repurchase agreements as part of its money market business. These amounts are included within Loans and advances to banks, Loans and advances to customers, Deposits by banks and Customer accounts. The difference between sale and repurchase and purchase and resale prices for such transactions is charged or credited to the profit and loss account over the life of the relevant transactions within Interest receivable and Interest payable.

Stock borrowing and lending agreements

The Group enters into stock borrowing and lending agreements as a means of carrying out its money market business. In addition, stock borrowing and lending agreements are entered into for the purpose of acquiring and selling equities. Obligations taken on pursuant to entering into such agreements are reported as Commitments.

Income earned and expense paid on stock borrowing and lending agreements is reported as Fees and commissions receivable and Fees and commissions payable, except when in the nature of interest, in which case they are reported as Interest receivable and Interest payable.

Debt securities in issue

Premiums, discounts and expenses relating to bonds and notes issued as part of the Group's funding programme are amortised over the life of the underlying transaction. Bonds and notes issued are therefore stated at net issue proceeds adjusted for amortisation. Where premiums, discounts and expenses are matched by swap fees, the presentation of these premiums, discounts and expenses has been matched with the presentation of the swap fees, in Prepayments and accrued income and Accruals and deferred income.

Derivatives

Transactions are undertaken in derivative financial instruments, ('derivatives'), which include interest rate swaps, cross-currency swaps, futures, equity and credit derivatives, options and similar instruments for both trading and non-trading purposes.

Derivatives classified as trading are held for market making or portfolio management purposes within the Group's trading books. Trading book activity is the buying and selling of financial instruments in order to take advantage of short term changes in market prices or for market making purposes in order to facilitate customer requirements. Trading derivatives are carried at market value in the balance sheet within Other assets and Other liabilities. Valuation adjustments to cover credit and market liquidity risks and future administration costs are made. Positive and negative market values of trading derivatives are offset where the contracts have been entered into under master netting agreements or other arrangements that represent a legally enforceable right of set-off which will survive the liquidation of either party. Gains and losses are taken directly to the profit and loss account and reported within Dealing profits.

Derivatives classified as non-trading are those entered into for the purpose of matching or eliminating risk from potential movements in foreign exchange rates, interest rates, and equity prices inherent in the Group's non-trading assets, liabilities and positions. Non-trading assets, liabilities and positions are those intended for use on a continuing basis in the activities of the Group.

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates on the derivative and designated non-trading asset, liability or position being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are initially recorded at cost and accounted for on an accruals basis, consistent with the assets, liabilities, or positions being hedged. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable or payable.

Where a non-trading derivative no longer represents a hedge because either the underlying non-trading asset, liability or position has been de-recognised, or transferred into a trading portfolio, or the effectiveness of the hedge has been undermined, it is restated at market value and any change in value is taken directly to the profit and loss account and reported within Other operating income. Thereafter the derivative is classified as trading or re-designated as a hedge of a non-trading item and accounted for accordingly.

In other circumstances, where non-trading derivatives are reclassified as trading or where non-trading derivatives are terminated, any resulting gains and losses are amortised over the remaining life of the hedged asset, liability or position. Unamortised gains and losses are reported within Prepayments and accrued interest and Accruals and deferred income respectively on the balance sheet.

Derivatives hedging anticipatory transactions are accounted for on a basis consistent with the relevant type of transaction.

Where anticipatory transactions do not actually occur, related derivatives are restated at fair value and changes in value are taken directly to the profit and loss account and reported within Other operating income. Where retained, such derivatives are reclassified as trading or re-designated as a hedge of a non-trading item and accounted for accordingly.

Assets leased to customers

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. All other assets leased to customers are classified as operating lease assets. The net investment in finance leases represents total minimum lease payments less gross earnings allocated to future periods. Income from finance leases is credited to the profit and loss account using the actuarial after tax method to give a constant periodic rate of return on the net cash investment.

Operating lease assets are reported at cost less depreciation, calculated on the actuarial after tax method, and are shown as a separate class of tangible fixed asset because they are held for a different purpose to tangible fixed assets used in administrative functions. In the profit and loss account, income in respect of operating lease assets is reported within Other operating income, and depreciation on operating lease assets is reported within Depreciation and amortisation. This represents a change in presentation from previous years, where such depreciation was reported as a charge against income on operating lease assets. This change results from the application of FRS15, 'Tangible fixed assets', which first applies to the financial statements for the year ended 31 December 2000.

Provisions for bad and doubtful debts

Specific provisions are made against loans and advances when, as a result of regular appraisals of the assets, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but which are known from experience to be present in any portfolio of loans and advances. The specific and general provisions are deducted from loans and advances. Provisions made during the year, less amounts released and recoveries of amounts written off in previous years, are charged to the profit and loss account.

Securitisations

Certain Group undertakings have issued debt securities, or have entered into funding arrangements with lenders, in order to finance the purchase of certain portfolios of loan and investment assets. These obligations are secured on the assets of the undertakings. Where the conditions for linked presentation as stipulated in FRS5 are met, the proceeds of the note issues (to the extent that there is recourse) are shown deducted from the securitised assets on the face of the balance sheet.

Long term assurance business

The value of the long term assurance business represents the value of the shareholders' interest in the long term assurance funds, which consists of the present value of the surplus expected to emerge in the future from business currently in force, together with the Group's shareholders' interest in the surplus retained within the long term assurance funds.

In determining this value, assumptions relating to future mortality, persistency and levels of expenses are based on experience of the business concerned. The surplus expected to emerge in the future is discounted at a risk-adjusted discount rate after provision has been made for taxation. Changes in the value, which is determined on a post-tax basis, are included in the profit and loss account grossed up at the effective rate of tax. The post-tax increase in the value is treated as non-distributable until it emerges as part of the surplus arising during the year.

The values of the assets and liabilities of the long term assurance funds are based on the amounts included in the financial statements of the Life Assurance companies. The values are determined in accordance with the terms of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, adjusted for the purposes of inclusion in the Group financial statements in order to be consistent with the Group's accounting policies and presentation, where a separate asset is established to account for the value of long term assurance business.

Foreign currency translation

Income and expenses arising in foreign currencies are translated into sterling at the average rates of exchange over the accounting period unless they are hedged in which case the relevant hedge rate is applied. Dividends are translated at the rate prevailing on the date the dividend is receivable. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange current at the balance sheet date. In the Group financial statements, exchange differences on the translation of the opening net assets of foreign Group undertakings to the closing rate of exchange are taken to reserves, as are those differences resulting from the restatement of the profits and losses of foreign Group undertakings from average to closing rates. Exchange differences arising on the translation of foreign currency borrowings used to hedge investments in overseas undertakings are taken directly to reserves and offset against the corresponding exchange differences arising on the translation of the investments. Other translation differences are dealt with through the profit and loss account.

Pensions

Where pensions are provided by means of a funded defined benefits scheme, annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic basis over the expected average remaining service lives of members of the scheme.

1. Segmental analysis

	Retail Banking £m	Wholesale Banking £m	Business to Business £m	Business to Consumer £m	Group Infrastructure £m	Group Total £m
2000						
Net interest income	1,578	441	593	76	(8)	2,680
Other income and charges	810	423	180	56	145	1,614
Total operating income	2,388	864	773	132	137	4,294
Operating expenses excluding depreciation on operating lease assets	(944)	(155)	(326)	(177)	(213)	(1,815)
Depreciation on operating lease assets	–	(100)	(78)	–	–	(178)
Provisions for bad and doubtful debts	(150)	–	(120)	(2)	(1)	(273)
Provisions for contingent liabilities and commitments	(11)	–	5	(3)	(12)	(21)
Amounts written off fixed asset investments	–	(34)	–	2	–	(32)
Profit (loss) before taxation	1,283	575	254	(48)	(89)	1,975
Total assets	69,097	102,495	26,722	5,517	560	204,391
Net assets	2,674	2,510	1,231	129	286	6,830
The average number of staff employed by the Group during the year was as follows:						
Employees	18,141	702	6,750	1,465	4,210	31,268
1999						
Net interest income	1,624	393	593	62	(11)	2,661
Other income and charges	670	169	133	46	129	1,147
Total operating income	2,294	562	726	108	118	3,808
Operating expenses excluding depreciation on operating lease assets	(885)	(115)	(301)	(107)	(186)	(1,594)
Depreciation on operating lease assets	–	(2)	(50)	–	–	(52)
Provisions for bad and doubtful debts	(167)	–	(136)	–	–	(303)
Provisions for contingent liabilities and commitments	(15)	–	(5)	–	(3)	(23)
Amounts written off fixed asset investments	–	(26)	–	–	–	(26)
Profit (loss) before taxation and exceptional items	1,227	419	234	1	(71)	1,810
Year 2000 and EMU costs	(16)	(2)	(7)	(1)	(1)	(27)
Profit (loss) before taxation	1,211	417	227	–	(72)	1,783
Total assets	68,943	81,741	25,087	4,491	482	180,744
Net assets	2,740	2,087	1,442	107	(298)	6,078
The average number of staff employed by the Group during the year was as follows:						
Employees	18,005	561	6,693	1,141	2,809	29,209

The segmental analysis has been revised to reflect recent changes in the management structure of the Group.

Retail Banking now includes General Insurance and Abbey National Life.
Business to Business comprises First National, Continental Europe and Scottish Mutual Assurance.
Business to Consumer comprises Wealth Management, Inscape, and cahoot.
Group Infrastructure is the new name for the Group Central Holdings segment.

The effect on the results for the year ended 31 December 2000 is as follows:

	Previously reported basis £m	Retail Banking £m	Wholesale Banking £m	Business to Business £m	Business to Consumer £m	Group Infrastructure £m
Profit before taxation and exceptional items						
UK Retail Banking	985	985				
Wholesale Banking	575		575			
Life Assurance	295	182		113		
Finance House	147			147		
General Insurance	116	116				
Wealth Management	15				15	
Continental Europe	(6)			(6)		
Group Central Holdings	(89)					(89)
cahoot	(63)				(63)	
2000 Revised basis	1,975	1,283	575	254	(48)	(89)

The comparative segmental results for the year ended 31 December 1999 have been restated as follows:

	Previously reported basis £m	Retail Banking £m	Wholesale Banking £m	Business to Business £m	Business to Consumer £m	Group Infrastructure £m
Profit before taxation and exceptional items						
UK Retail Banking	996	996				
Wholesale Banking	419		419			
Life Assurance	229	127		102		
Finance House	140			140		
General Insurance	104	104				
Wealth Management	17				17	
Continental Europe	(8)			(8)		
Group Central Holdings	(71)					(71)
cahoot	(16)				(16)	
1999 Revised basis	1,810	1,227	419	234	1	(71)

1. Segmental analysis continued

Consistent with previous years, when arriving at the segmental analysis, certain adjustments have been made. They include an adjustment to reflect the capital notionally absorbed by each segment, based on the Group's Financial Services Authority regulatory requirements, and an allocation across the segments of the earnings on Group reserves.

No separate geographical analysis is presented because the non-UK businesses represent less than 5% of total assets and profit before tax.

2. Other interest receivable and similar income

	2000 £m	1999 £m
On secured advances	5,227	4,550
On unsecured advances	1,055	839
On finance leases	346	337
On other interest earning assets and investments	614	601
	7,242	6,327

Interest receivable on secured advances has been reduced by £384m (£235m) in respect of the charge for lending-related fees and discounts payable, which are charged against interest income over the period of time which the Group has the right to recover the incentives in the event of early redemption. The movements on such incentives are as follows:

	Group			Company		
	Interest rate discounts £m	Cashbacks £m	Total £m	Interest rate discounts £m	Cashbacks £m	Total £m
At 1 January 2000	110	470	580	110	467	577
Expenditure incurred in the year	205	82	287	205	82	287
Transfer to profit and loss account	(232)	(152)	(384)	(232)	(151)	(383)
At 31 December 2000	83	400	483	83	398	481

Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where collectability is in doubt, but has been suspended. A table showing the movements on suspended interest is included in note 9.

3. Exceptional items

2000:
There were no exceptional items recorded in the period.

1999: Year 2000 and EMU costs
The costs incurred during 1999 in preparing the Group for Year 2000 and Economic and Monetary Union (EMU) were treated as exceptional items but included within existing captions in the profit and loss account. No such costs were incurred in 2000.

An analysis of the expenditure incurred in 1999 is shown below:

Year ended 31 December 1999	Year 2000 £m	EMU £m	Total £m
Expenditure charged to the profit and loss account, included within:			
Other administrative expenses	17	4	21
Income from long term assurance business	6	–	6
Capital expenditure, included within Tangible fixed assets	2	–	2

4. Interest payable

	2000 £m	1999 £m
On retail customer accounts	2,220	1,930
On sale and repurchase agreements	110	776
On other deposits and loans	5,879	3,621
On subordinated liabilities including convertible debt	321	241
	8,530	6,568

5. Dividend income

	2000 £m	1999 £m
Income from equity shares	3	2

6. Dealing profits

	2000 £m	1999 £m
Securities	34	20
Interest rate, equity and credit derivatives	82	78
	116	98

7. Other operating income

	2000 £m	1999 (restated) £m
Deferred income release (see note 35)	95	77
Profits less losses on disposal of investment securities	33	33
Profit on disposal of equity shares (see (1) below)	28	60
Profit on disposal of fixed assets (see (2) below)	67	11
Profit on disposal of subsidiaries and associates	45	–
Income from operating leases	303	78
Income from associated undertakings	17	12
Other	69	83
	657	354

Notes:
(1) The 1999 profit on disposal of equity shares comprises profit made by Abbey National Beta Investments Ltd, a subsidiary of Abbey National plc, on disposal of its equity holding in Irish Permanent.

(2) On 19 October 2000 Abbey National entered into a sale and leaseback transaction with Mapeley Columbus Ltd (Mapeley), a company owned by Fortress Investment Group, Soros Real Estate Partners and Delancey Estates Plc.

Under the terms of the transaction, substantially all of the Group's freehold and leasehold properties were purchased by Mapeley for a cash consideration of £457m and Mapeley committed to provide the Abbey National Group's property management for a twenty year term. The deal comprised an outright sale of freeholds, the disposal of a subsidiary owning freehold properties, and a combination of legal and equitable assignments of leasehold property interests. The resulting leases of the portfolio to Abbey National have been accounted for as operating leases under the applicable accounting standards.

8. Administrative expenses

	2000 £m	1999 £m
Staff costs (1):		
Wages and salaries	700	621
Social security costs	55	49
Other pension costs	72	69
	827	739
Property and equipment expenses:		
Rents payable	75	72
Rates payable	23	27
Hire of equipment	4	5
Other property and equipment expenses	53	50
	155	154
Other administrative expenses (2)	699	603
	1,681	1,496

Notes:
(1) Excludes the following staff costs incurred by Life Assurance businesses, which are charged to income from long term assurance business:

	2000 £m	1999 £m
Staff costs:		
Wages and salaries	44	39
Social security costs	4	3
Other pension costs	4	4
	52	46

(2) The aggregate remuneration for audit and other services payable to Deloitte & Touche is analysed below:

	2000 £m	1999 £m
Audit services	3.4	3.2
Reporting accountants and other regulatory reporting	0.6	0.9
Sub-total: Audit and similar services	4.0	4.1
Tax services	–	0.1
Consultancy and advisory services	3.8	1.9
Sub-total: Other services	3.8	2.0
	7.8	6.1

Included within the remuneration for audit services is the audit fee for Abbey National plc of £0.9m (£0.8m).

Of the fees payable to the Group's auditors for audit services £3.2m (£3.0m) related to the United Kingdom.

Payments to Deloitte & Touche for consultancy and advisory services represent less than 5% of the Group's total consultancy expenditure.

AUDITED FINANCIAL STATEMENTS

9. Provisions for bad and doubtful debts

	On advances secured on residential properties £m	On other secured advances £m	On unsecured advances £m	Total £m
Group				
At 1 January 2000				
General	131	23	39	193
Specific	76	97	163	336
Transfer from profit and loss account	34	34	205	273
Irrecoverable amounts written off	(38)	(36)	(201)	(275)
At 31 December 2000	203	118	206	527
Being for the Group:				
General	142	20	32	194
Specific	61	98	174	333
Company				
At 31 December 2000				
General	65	–	13	78
Specific	22	1	109	132
At 31 December 1999				
General	68	–	14	82
Specific	30	1	98	129
Total Group provisions as at:				
31 December 2000				
UK	189	72	201	462
Non-UK	14	46	5	65
31 December 1999				
UK	192	68	198	458
Non-UK	15	52	4	71

Capital provisions as a percentage of loans and advances to customers:	%	%	%	%
Group				
At 31 December 2000				
UK	0.3	2.5	1.8	0.6
Non-UK	0.9	37.9	4.4	3.5
At 31 December 1999				
UK	0.3	2.3	2.3	0.6
Non-UK	1.2	38.4	3.4	4.6
Company				
At 31 December 2000	0.1	1.0	5.6	0.3
At 31 December 1999	0.2	1.1	6.0	0.3

Analysis of movements on suspended interest:	£m	£m	£m	£m
Group				
At 1 January 2000	42	62	10	114
Amounts suspended in the period	16	4	12	32
Irrecoverable amounts written off	(22)	(12)	(12)	(46)
At 31 December 2000	36	54	10	100
Company				
At 31 December 2000	20	1	7	28
At 31 December 1999	26	1	6	33
The value of loans and advances at 31 December 2000 on which interest is suspended is as follows:				
Group				
Loans and advances to customers	362	283	212	857
Provisions on these amounts	(66)	(53)	(129)	(248)
Company				
Loans and advances to customers	251	2	104	357
Provisions on these amounts	(24)	(1)	(83)	(108)

Analysis of Group non-performing loans and advances

The following table presents loans and advances which are classified as 'non-performing' in accordance with US disclosure requirements. Under this definition loans and advances are classified as 'non-performing' if they are either accounted for on a non-accruals basis, or in arrears for more than 90 days, irrespective of whether interest has been suspended or a specific provision made. No interest is suspended or provisions made in respect of such cases where the Group does not expect to incur losses.

9. Provisions for bad and doubtful debts continued

	2000 £m	1999 £m
Loans and advances on which a proportion of interest has been suspended and/or on which specific provision has been made	915	938
Loans and advances 90 days overdue on which no interest has been suspended and on which no specific provision has been made	885	1,111
Non-accruing loans and advances	160	145
Total non-performing loans and advances	1,960	2,194
Non-performing loans and advances as a percentage of total loans and advances to customers	2.60%	2.90%
Provisions as a percentage of total non-performing loans and advances	26.87%	24.11%

10. Tax on profit on ordinary activities

	2000 £m	1999 £m
UK Corporation tax:		
Current year at 30% (30.25%)	466	457
Prior years	(37)	(53)
Double tax relief	–	(1)
Deferred tax:		
Current year	78	73
Prior years	43	41
Share of associated undertakings taxation	6	3
Overseas taxation	3	2
	559	522

11. Profit on ordinary activities after tax

The profit after tax of the Company attributable to the shareholders is £864m (£1,446m). As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been presented in these financial statements.

12. Dividends

	2000 Pence per share	1999 Pence per share	2000 £m	1999 £m
Ordinary shares (equity):				
Interim (paid)	15.15	13.40	216	190
Final (proposed)	30.35	26.85	433	382
	45.50	40.25	649	572
Preference shares (non-equity)			38	38
			687	610

13. Earnings per ordinary share

	2000	1999
Profit attributable to the shareholders of Abbey National plc (£m)	1,365	1,261
Preference dividends (£m)	(38)	(38)
Profit attributable to the ordinary shareholders of Abbey National plc (£m)	1,327	1,223
Weighted average number of ordinary shares in issue and ranking for dividends during the year – basic (million)	1,420	1,418
Dilutive effect of share options outstanding (million)	9	12
Weighted average number of ordinary shares in issue and ranking for dividends during the year – diluted (million)	1,429	1,430
Basic earnings per ordinary share (pence)	93.4	86.2
Diluted earnings per ordinary share (pence)	92.8	85.5

In accordance with UITF 13, 'Accounting for ESOP Trusts', shares held in trust in respect of certain incentive schemes have been excluded from the calculation of earnings per ordinary share as the trustees have waived dividend and voting rights.

14. Treasury bills and other eligible bills

	Group			
	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Treasury bills	53	53	12	12
Other eligible bills	1,106	1,106	1,102	1,102
	1,159	1,159	1,114	1,114

Treasury and other eligible bills are held for purposes other than investment. The market value of Treasury and other eligible bills is equal to the carrying value.

15. Loans and advances to banks

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Items in the course of collection	229	259	222	255
Amounts due from subsidiaries	–	–	4,164	4,277
Purchase and resale agreements	9,896	6,397	–	–
Other loans and advances	2,043	4,816	114	118
	12,168	11,472	4,500	4,650
Repayable:				
On demand	5,594	4,942	444	855
In not more than 3 months	5,448	5,643	217	255
In more than 3 months but not more than 1 year	372	217	525	338
In more than 1 year but not more than 5 years	560	481	1,151	1,040
In more than 5 years	194	189	2,163	2,162
	12,168	11,472	4,500	4,650
Banking business	2,272	3,140	4,500	4,650
Trading business	9,896	8,332	–	–
	12,168	11,472	4,500	4,650

The loans and advances to banks in the above table have the following interest rate structures:

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed rate	10,472	6,907	398	2,932
Variable rate	1,467	4,306	3,880	1,463
Items in the course of collection (non-interest bearing)	229	259	222	255
	12,168	11,472	4,500	4,650

The Group's policy is to hedge all fixed rate loans and advances to banks to floating rates using derivative instruments, or by matching with other on-balance sheet interest rate exposures. See note 50, Derivatives, 'Non-trading derivatives' for further information.

16. Loans and advances to customers

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Advances secured on residential properties	65,430	64,756	59,157	60,247
Purchase and resale agreements	6,875	77	–	–
Other secured advances	2,450	2,534	89	82
Unsecured advances	10,214	8,310	1,911	1,739
Collateralised and guaranteed mortgage loans	81	95	–	–
Amounts due from subsidiaries	–	–	609	880
	85,050	75,772	61,766	62,948
Repayable:				
On demand or at short notice	7,133	3,644	1,854	2,943
In not more than 3 months	7,934	3,367	570	568
In more than 3 months but not more than 1 year	3,642	2,992	1,093	982
In more than 1 year but not more than 5 years	8,868	8,599	4,839	4,403
In more than 5 years	58,000	57,699	53,620	54,263
Less: provisions (see note 9)	(527)	(529)	(210)	(211)
	85,050	75,772	61,766	62,948
Banking business	78,175	75,686	61,766	62,948
Trading business	6,875	86	–	–
	85,050	75,772	61,766	62,948

Included in Group loans and advances to customers are loans to associated undertakings of nil (£10m).

The loans and advances to customers included in the above table have the following interest rate structures:

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed rate	28,682	22,508	12,682	15,989
Variable rate	56,895	53,793	49,294	47,170
Provisions	(527)	(529)	(210)	(211)
	85,050	75,772	61,766	62,948

The Group's policy is to hedge all fixed rate loans and advances to customers using derivative instruments, or by matching with other on-balance sheet interest rate exposures. See note 50, Derivatives, 'Non-trading derivatives' for further information.

17. Loans and advances to customers subject to securitisation

Loans and advances to customers include portfolios of residential mortgage loans which are subject to non-recourse finance arrangements. These loans have been purchased by, or assigned to, special purpose securitisation companies from Abbey National plc, and have been funded primarily through the issue of mortgage-backed floating rate notes (FRNs). No gain or loss has been recognised as a result of these sales. These special purpose securitisation companies comprise ILSE No.1 plc, Holmes Funding No.1 plc, Holmes Funding No.2 plc, Holmes Trustees Ltd, Holmes Financing (No.1) plc and Holmes financing (No.2) plc. These companies are consolidated and included in the Group financial statements as quasi-subsidiaries.

Abbey National plc and its subsidiaries are under no obligation to support any losses that may be incurred by the securitisation companies or holders of the FRNs except as described below, and do not intend to provide such further support. Mortgage indemnity guarantee (MIG) insurance is provided to the securitisation companies by a subsidiary of Abbey National plc to cover a proportion of potential losses on high loan-to-value ratio loans, in line with normal market practice. Holders of the FRNs are only entitled to obtain payment of principal and interest to the extent that the resources of the securitisation companies are sufficient to support such payments, and the holders of the FRNs have agreed in writing not to seek recourse in any other form. Abbey National plc receives payments from the securitisation companies in respect of fees for administering the loans, and payment of deferred consideration for the sale of the loans. In addition, Abbey National plc has made interest bearing subordinated loans to the companies and receives interest income thereon. Abbey National plc does not guarantee the liabilities of the subsidiary which provides MIG insurance. Abbey National plc is contingently liable to pay to the subsidiary any unpaid amounts in respect of share capital. At a Group level, a separate presentation of assets and liabilities is adopted to the extent of the amount of insurance cover provided by the subsidiary.

Abbey National Treasury Services plc has entered into a number of interest rate swaps with the securitisation companies with the exception of Holmes Financing (No.1) plc and Holmes Financing (No.2) plc. These swaps in effect convert a proportion of the interest flows receivable from customers into variable rate interest rate flows to match with the interest payable on the FRNs.

Abbey National plc has no right or obligation to repurchase the benefit of any securitised loan, except if certain representations and warranties given by Abbey National plc at the time of transfer are breached. Abbey National plc does, however, have the right to repurchase a loan, on application from the securitisation companies, if the loan holder requests a further advance or change in product type.

During the year Abbey National plc assigned a portfolio of residential mortgage loans with a book value of £6.4bn to Holmes Trustees Limited for the purpose of securitisation. Holmes Funding Limited acquired, at book value, a beneficial interest in the trust property vested in Holmes Trustees Limited. The beneficial interest in the trust property was acquired in two stages, the first for £2.3bn on 19 July 2000 and the second for £2.4bn on 29 November 2000. Holmes Funding Limited financed its acquisitions through borrowing from Holmes Financing (No.1) plc and Holmes Financing (No.2) plc. Both Holmes Financing (No.1) plc and Holmes Financing (No.2) plc funded their advances to Holmes Funding Limited principally through the issue of mortgage-backed floating rate notes. The remaining share of the beneficial interest in residential mortgage loans held by Holmes Trustees Limited belongs to Abbey National plc, and amounts to £1.7bn as at 31 December 2000.

The balances of assets securitised and non-returnable finance at 31 December 2000 were as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Non-returnable finance £m	Sub-ordinated loans made by the Group £m
ILSE No1 plc	26 February 1998	87	70	7
Holmes Funding No.1 plc	25 February 1999	619	458	13
Holmes Funding No.2 plc	25 October 1999	862	653	11
Holmes Financing (No.1) plc	19 July 2000	2,256*	1,669	–
Holmes Financing (No.2) plc	29 November 2000	2,405*	1,779	–

* Represents the interest in the trust property at book value held by Holmes Funding Limited relating to the debt issued by these companies.

Abbey National plc does not own directly, or indirectly, any of the share capital of any of the above securitisation companies or their parents.

A summarised profit and loss account for the year to 31 December 2000 for the above companies is set out below:

	2000 £m	1999 £m
Net interest income	2	8
Other operating income	(2)	1
Administrative expenses	(5)	(2)
Provisions	(4)	(7)
Loss for the financial period	(9)	–

18. Net investment in finance leases

	Group 2000 £m	Group 1999 £m
Amounts receivable	9,559	10,930
Less: deferred income	(4,355)	(5,477)
Less: provisions for impairment (see below)	(12)	(12)
	5,192	5,441
Repayable:		
In not more than 3 months	147	168
In more than 3 months but not more than 1 year	267	383
In more than 1 year but not more than 5 years	745	666
In more than 5 years	4,033	4,224
	5,192	5,441
Cost of assets acquired for the purpose of letting under finance leases in the year	313	427
Gross rentals receivable	483	494
Commitments as lessor for the purchase of equipment for use in finance leases	124	384
Amounts outstanding subject to a sub-participation	194	202

Provisions for impairment relate to small ticket leasing assets.

19. Debt securities

Group	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Investment securities				
Issued by public bodies:				
Government securities	4,404	4,592	3,722	3,858
Other public sector securities	1,905	1,927	2,272	2,267
	6,309	6,519	5,994	6,125
Issued by other issuers:				
Bank and building society certificates of deposit	282	291	399	400
Other debt securities	42,036	41,648	37,360	37,205
	42,318	41,939	37,759	37,605
Less: provisions	(109)	–	(72)	–
Sub-total – Non-trading book	48,518	48,458	43,681	43,730
Other securities				
Issued by public bodies:				
Government securities	2,602	2,602	1,618	1,618
Issued by other issuers:				
Bank and building society certificates of deposit	11,748	11,748	10,506	10,507
Other debt securities	6,104	6,104	3,640	3,640
	17,852	17,852	14,146	14,147
Sub-total – Trading book	20,454	20,454	15,764	15,765
Total	68,972	68,912	59,445	59,495

Company	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Investment securities				
Issued by public bodies:				
Government securities	–	–	7	7
Other public sector securities	28	28	29	29
	28	28	36	36
Issued by other issuers:				
Other debt securities	1,725	1,725	1,266	1,266
Total – Non-trading book	1,753	1,753	1,302	1,302

The Company held no securities for purposes other than investment. The investment securities held by the Company include subordinated investments in subsidiaries of £1,699m (£1,266m) and are included within Other debt securities. Investment securities held by the Group include £20m (£20m) of subordinated investments in associates and are included within Other debt securities.

19. Debt securities continued

Group – Analysed by listing status:	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Investment securities				
Listed in the UK	4,995	5,004	2,528	2,562
Listed or registered elsewhere	40,250	40,344	38,710	38,700
Unlisted	3,273	3,110	2,443	2,468
Sub-total – Non-trading book	48,518	48,458	43,681	43,730
Other securities				
Listed in the UK	2,146	2,146	681	681
Listed or registered elsewhere	7,084	7,084	3,134	3,134
Unlisted	11,224	11,224	11,949	11,950
Sub-total – Trading book	20,454	20,454	15,764	15,765
Total	68,972	68,912	59,445	59,495

Company	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Investment securities				
Listed in the UK	–	–	7	7
Unlisted	1,753	1,753	1,295	1,295
Total – Non-trading book	1,753	1,753	1,302	1,302

Book value analysed by maturity:	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Due within 1 year	16,190	12,985	–	–
Due in more than 1 year but not more than 5 years	21,388	18,355	–	29
Due in more than 5 years but not more than 10 years	12,337	9,545	542	480
Due in more than 10 years	19,166	18,632	1,211	793
Less: provisions	(109)	(72)	–	–
	68,972	59,445	1,753	1,302

The movement on debt securities held for investment purposes was as follows:

Group	Cost £m	Provisions £m	Net book value £m
At 1 January 2000	43,753	(72)	43,681
Exchange adjustments	2,647	(5)	2,642
Additions	18,076	–	18,076
Disposals	(4,590)	–	(4,590)
Redemptions and maturities	(10,898)	–	(10,898)
Transfers to other securities (net)	(394)	–	(394)
Transfer from profit and loss account	–	(32)	(32)
Net amortisation of discounts (premiums)	33	–	33
At 31 December 2000	48,627	(109)	48,518

Company	Cost £m	Provisions £m	Net book value £m
At 1 January 2000	1,302	–	1,302
Exchange adjustments	122	–	122
Additions	331	–	331
Disposals	(1)	–	(1)
Net amortisation of discounts (premiums)	(1)	–	(1)
At 31 December 2000	1,753	–	1,753

The total net book value of debt securities held for investment purposes at 31 December 2000 includes unamortised discounts of £239m (£134m) for the Group, and unamortised premiums of nil (£1m) for the Company.

Market values of investment securities are based on quoted market prices of securities where available. Where market prices are not available, valuations are determined using in-house pricing models or, where use of such models is not practicable, are stated at amortised cost less any provision for impairment.

Included within investment securities are a number of securities held for hedging purposes. Some of these provide temporary hedging cover where permanent hedges are not immediately available. There are hedges in place in respect of the majority of fixed rate investment securities whereby the rise or fall in their market value, due to interest rate movements, will be offset by a substantially equivalent reduction or increase in the value of the hedges.

19. Debt securities continued

Investment debt securities include asset-backed and mortgage-backed securities sold to various bankruptcy-remote special purpose vehicles.

The special purpose vehicles are owned directly by charitable trusts and are therefore not legal subsidiaries of the Group. However, they have been consolidated into the Group on the basis that substantially all the rewards inherent in those entities are retained in the Group.

The debt security acquisitions by these special purpose vehicles have been funded primarily through issue of commercial paper to the market.

An aggregated summary profit and loss account for the years ended 31 December 2000 and 1999 and an aggregated balance sheet as at 31 December 2000 and 1999 for these entities are shown below.

Profit and loss account for the year ended 31 December	2000 £m	1999 £m
Interest receivable	359	166
Interest payable	(334)	(156)
Net interest income	25	10
Profit on disposal of investment debt securities	4	–
Profit for the financial year	29	10
Amounts charged to the entities of the Group	(29)	(10)
Retained profits	–	–

Balance sheet as at 31 December	2000 £m	1999 £m
Investment debt securities	5,217	5,160
Prepayments and accrued income	52	192
Total assets	5,269	5,352
Debt securities in issue	5,261	5,347
Accruals and deferred income	8	5
Total liabilities	5,269	5,352

20. Equity shares and other similar interests

	Group			
	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Listed in the UK	21	30	19	23
Listed elsewhere	40	50	36	35
Unlisted	540	602	240	256
	601	682	295	314

	Company			
	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Unlisted	2	2	2	2

Included within unlisted securities of the Group are equity shares held for purposes other than investment, having book and market values of £34m (1999: £47m). All other equity shares and other similar interests are held in the non-trading book for investment purposes and are carried at cost less any provision for impairment.

Where available, equity shares and other similar interests have been valued using quoted market prices. Where market prices are not available, a valuation based on discounted cash flows, market prices of comparable securities and other appropriate valuation techniques have been used.

The movement on equity shares and other similar interests held for investment purposes was as follows:

	Group			Company		
	Cost £m	Provisions £m	Net book value £m	Cost £m	Provisions £m	Net book value £m
At 1 January 2000	248	–	248	2	–	2
Additions	357	–	357	–	–	–
Disposals	(50)	–	(50)	–	–	–
Exchange adjustment	4	–	4	–	–	–
Acquisitions	8	–	8	–	–	–
At 31 December 2000	567	–	567	2	–	2

21. Long term assurance business

The value of the long term assurance business is as follows:

	2000 £m	1999 £m
Value of shareholders' interest in the long term assurance funds	1,538	1,042

The value of the long term assurance business is calculated by discounting the proportion of surplus which is projected to accrue to shareholders in future years from business currently in force, and adding the shareholders' interest in the surplus retained within the long term assurance funds. The basis on which this value is determined is reviewed regularly in the light of the experience of the business and expectations regarding future economic conditions. The principal long term economic assumptions used are as follows:

	2000 %	1999 %
Risk adjusted discount rate (net of tax)	10.0	10.0
Return on equities (gross of tax – pension business)	8.5	8.5
Return on equities (gross of tax – life business)	9.0	9.0
Return on gilts (gross of tax)	6.5	6.5
Inflation	4.0	4.0

The assumed rates of return on investments above are applied to the value of investments adjusted by reference to the assumed long term rate of investment return.

Business in force is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. Shareholders are entitled to 10% of the value of bonuses declared in any particular year derived from the Scottish Mutual with profits fund, with the exception of the Unitised with profits element. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets over liabilities. For all other business the entire surplus is attributable to shareholders.

Income from long term assurance business, which is included as Other income in the Group profit and loss account, is calculated as follows:

	2000 £m	1999 £m
Value of shareholders' interest in the long term assurance funds at 31 December	1,538	1,042
Value of shareholders' interest in the long term assurance funds at 1 January	1,042	760
Increase in value of long term assurance business	496	282
Transfers into long term assurance funds	(340)	(240)
Net increase in value of long term assurance business	156	42
Surplus transferred from long term funds	12	95
Income after tax from long term assurance business	168	137
Income before tax from long term assurance business	240	196

Income before tax from long term assurance business includes £14m profit on disposal of fixed assets arising from the Group's sale and leaseback transaction. See note 7 for further information on this transaction.

The assets and liabilities of the long term assurance funds are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest in them. The amounts of these assets, which are valued at market value, and liabilities of the long term assurance funds included in the consolidated balance sheet are based on the Life Assurance balance sheets prepared under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The assets and liabilities of the long term assurance funds are:

	2000 £m	1999 £m
Investments	12,046	9,972
Assets held to cover linked liabilities	5,956	6,092
Debtors and prepayments	699	1,084
Other assets	382	291
Assets of the long term assurance funds	19,083	17,439
Technical provisions	9,690	7,217
Technical provisions for linked liabilities	5,965	6,086
Fund for future appropriations	251	1,459
Other creditors	3,177	2,677
Liabilities of the long term assurance funds	19,083	17,439

22. Interests in associated undertakings

The movement in interests in associated undertakings was as follows:

	Group £m	Company £m
At 1 January 2000	59	12
Additions	1	–
Disposals	(15)	(12)
Retained profits	12	–
At 31 December 2000	57	–

The principal associated undertakings at 31 December 2000 are:

Name and nature of business	Issued share capital	Group interest (%)
DAH Holdings Ltd, Private banking	1,000,000 US$1 ordinary A shares	24.5
Willis National Holdings Ltd, Independent financial advice	1,000 £1 ordinary shares	49
PSA Finance plc, Personal finance	40,000,000 £1 ordinary shares	50

On 8 September 2000, DAH Holdings underwent a restructure and all of the convertible B shares were consolidated into ordinary A shares on a 1:1 basis. The Group's economic interest in DAH Holdings was unchanged as a result of this restructure, but the Group now has a 24.5% voting interest in DAH Holdings (previously 9.9%).

On 29 December 2000, Abbey National plc disposed of its interest in CGU Underwriting Ltd. The amount receivable for the issued share capital was £26m and was received in cash. The Group profit on disposal of £17m is included within Other operating income.

The United Kingdom is the principal area of operation of principal associated undertakings except for DAH Holdings, whose principal area of operation is the Channel Islands, and all are registered in England & Wales, except for DAH Holdings which is registered in Bermuda.

All associated undertakings are unlisted and have a year end of 31 December.

Income from associated undertakings is included within Other operating income.

23. Shares in Group undertakings

	2000 Cost and book value £m	1999 Cost and book value £m
Subsidiary undertakings		
Banks	1,320	1,191
Others	3,483	2,996
	4,803	4,187

The movement in shares in Group undertakings was as follows:

	Company £m
At 1 January 2000	4,187
Exchange adjustments	(1)
Additions	836
Disposals	(240)
Amounts written back	21
At 31 December 2000	4,803

Subscriptions for additional share capital in existing subsidiary undertakings during the year amounted to £836m, including £200m in Abbey National Treasury Services plc, £200m in Abbey National SMA Holdings Limited, £155m in Abbey National Property Jersey Limited and £120m in First National Finance Corporation plc.

The investment in the share capital of Abbey National Beta Investments Limited has been written back by £21m to its historical cost, following a review which identified that a provision for permanent diminution in value was no longer necessary.

Subsidiaries of Abbey National plc entered into the following transactions in 2000:

Date	Company purchased/ business acquired	Purchaser	Consideration
25 April	Porterbrook Limited	ANTS plc	£786m cash
20 July	Brooklyn vehicle contracts	First National Vehicle Holdings Ltd	£2m cash
1 August	Highway Vehicle Management Ltd	First National Vehicle Holdings Ltd	£171m cash
30 November	Bluecoats contract	First National Vehicle Holdings Ltd	£1m cash
30 November	Investec Bank legal claims funding business	First National Professional Solutions Ltd	£66m cash

All of the above transactions are included in the consolidated financial statements as acquisitions. Further disclosures relating to these transactions can be found in note 24, Summary of the effect of acquisitions and note 51, Consolidated cash flow statement.

23. Shares in Group undertakings continued

Date	Company disposed of	Consideration
5 June	First Scottish Searching Services	£3m cash
31 July	Abbey National December 8 Leasing	£6m cash
19 October	Abbey National Property (Jersey) Ltd	£276m cash
16 November	Tinty Ltd	£6m cash
16 November	Abbey National Benefit Consultants Ltd	£23m cash

The principal subsidiaries of Abbey National plc at 31 December 2000 are shown below, all of which are directly held and unlisted except where indicated.

	Nature of business	Country of Incorporation or registration
Abbey National General Insurance Services Ltd	General insurance	England & Wales
Abbey National Leasing Companies* (24 companies)	Finance leasing	England & Wales
Abbey National Treasury Services plc	Treasury operations	England & Wales
Abbey National Unit Trust Managers*	Unit trust management	Scotland
Abbey National Treasury International Ltd*	Personal finance and treasury operations	Jersey
Cater Allen International Ltd*	Money market and stockbroking	England & Wales
First National Bank plc*	Personal finance and commercial lending	England & Wales
Scottish Mutual Investment Managers Ltd	Investment managers	Scotland
Carfax Insurance Ltd	Insurance	Guernsey
Abbey National Life plc	Insurance	England & Wales
Abbey National PEP and ISA Managers Ltd*	PEP and ISA management	Scotland
Scottish Mutual Assurance plc*	Insurance	Scotland
Scottish Mutual Pension Funds Investment Ltd	Investment	Scotland
Abbey National North America Corporation	Funding	United States

*Held indirectly through subsidiary companies.

All the above companies are included in the consolidated financial statements. The Company holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate principally in their country of incorporation or registration. Abbey National Treasury Services plc also has branch offices in France and Hong Kong. Abbey National Treasury International Ltd has representative offices in Hong Kong, Portugal and Spain, and branches in the Isle of Man and Gibraltar. Abbey National plc has branches in Italy and France and a representative office in Dubai.

24. Summary of the effect of acquisitions

The following table summarises the effect of all subsidiary undertakings and purchases of businesses in the year ended 31 December 2000:

	Book value before acquisition £m	Accounting policy adjustments £m	Revaluation adjustments £m	Total fair value adjustments £m	Fair value at acquisition £m
Loans and advances to banks	275	–	–	–	275
Net investment in finance leases	2	–	–	–	2
Tangible fixed assets	1,063	–	424	424	1,487
Other assets	56	(1)	1	–	56
Total assets	1,396	(1)	425	424	1,820
Debt securities in issue	549	–	–	–	549
Deferred taxation	136	12	(1)	11	147
Deposits by banks	1	–	–	–	1
Other liabilities	165	(15)	1	(14)	151
Total liabilities excluding shareholders' funds	851	(3)	–	(3)	848
Net assets acquired	545	2	425	427	972
Total fair value of the consideration and cost of acquisitions					1,026
Goodwill on acquisition of subsidiary undertakings					54

The only significant undertakings included in the above table are Porterbrook Limited ('Porterbrook') and Highway Vehicle Management ('Highway'). Porterbrook's profit after tax for the period 1 May 1999 to 20 April 2000, and for the year ended 30 April 1999, calculated using Porterbrook's accounting policies, was £112m and £78m respectively. Highway's profit after tax for the period 1 April 2000 to 1 August 2000 and for the year ended 31 March 2000, calculated using Highway's accounting policies was £nil and £nil respectively.

The only material fair value adjustment made to the book values on acquisition, as included above, are revaluation adjustments made to the operating lease assets of Porterbrook. The total fair value adjustment to such operating lease assets was £433m.

25. Intangible fixed assets

	Purchased goodwill Group £m
Cost	
At 1 January 2000	215
Additions	54
At 31 December 2000	269
Amortisation	
At 1 January 2000	12
Charge for the year	12
At 31 December 2000	24
Net book value	
At 31 December 2000	245
At 31 December 1999	203

Intangible fixed assets comprises positive purchased goodwill arising on acquisitions of subsidiary undertakings and purchases of businesses made since 1 January 1998. Previously, goodwill arising on acquisitions of subsidiary undertakings and purchases of businesses was taken directly to reserves.

The cumulative amount of goodwill taken to profit and loss account reserve in previous periods by the Group and not subsequently recognised in the profit and loss account is £1,201m (£1,204m), and by the Company £528m (£528m).

Goodwill included above in respect of all material acquisitions is being amortised over a period of 20 years.

26. Tangible fixed assets excluding operating lease assets

	Group			
	Investment properties £m	Other premises £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2000	68	425	1,035	1,528
Additions	–	7	108	115
Disposals	(17)	(412)	(101)	(530)
Revaluation adjustment	11	–	–	11
At 31 December 2000	62	20	1,042	1,124
Depreciation				
At 1 January 2000	–	82	687	769
Charge for the year	–	5	117	122
Disposals	–	(83)	(73)	(156)
At 31 December 2000	–	4	731	735
Net book value				
At 31 December 2000	62	16	311	389
At 31 December 1999	68	343	348	759

Disposals of tangible fixed assets principally reflect the sale and leaseback transaction entered into on 19 October 2000, including premises sold through disposal of a subsidiary. Further details can be found in note 7.

As at 31 December 2000, investment properties are included in Tangible fixed assets at their open market value. For properties let out to tenants this is based on their existing value in use and for vacant possessions the market value is calculated accordingly. They are valued on a rolling basis such that the portfolio is valued in full every five years. The valuations are conducted by Colleys, an independent firm of professional valuers.

	Company		
	Other premises £m	Equipment £m	Total £m
Cost			
At 1 January 2000	368	910	1,278
Additions	5	91	96
Disposals	(366)	(69)	(435)
At 31 December 2000	7	932	939
Depreciation			
At 1 January 2000	78	625	703
Charge for the year	5	97	102
Disposals	(82)	(53)	(135)
At 31 December 2000	1	669	670
Net book value			
At 31 December 2000	6	263	269
At 31 December 1999	290	285	575

26. Tangible fixed assets excluding operating lease assets continued

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
The net book value of Other premises comprises:				
Freeholds	12	273	3	232
Long leaseholds	1	27	–	15
Short leaseholds	3	43	3	43
Land and buildings occupied for own activities:				
Net book value at 31 December	16	250	6	211
The net book value of equipment includes:				
Assets held under finance leases	19	11	18	9
Depreciation charge for the year on these assets	6	2	6	1
Capital expenditure which has been contracted, but not provided in the financial statements	30	34	29	33

27. Operating lease assets

	Group £m
Cost	
At 1 January 2000	431
Acquisitions of subsidiary undertakings	2,058
Additions	361
Disposals	(114)
At 31 December 2000	2,736
Depreciation	
At 1 January 2000	73
Charge for the year	178
Acquisitions of subsidiary undertakings	571
Disposals	(49)
At 31 December 2000	773
Net book value	
At 31 December 2000	1,963
At 31 December 1999	358

	Group	
	2000 £m	1999 £m
Capital expenditure which has been contracted, but not provided in the financial statements	24	14

28. Other assets

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Foreign exchange, interest rate, equity & credit contracts:				
Positive market values of trading derivative contracts (see note 50)	1,600	930	–	–
Translation differences on foreign exchange derivatives used for hedging purposes	605	565	108	20
Debtors and other settlement balances	1,505	1,905	134	151
Introducer fees	264	305	6	–
Own shares	29	19	29	19
Other	348	206	181	153
	4,351	3,930	458	343

Own shares represent Abbey National plc shares held in trust to be used to satisfy exercises under certain employee share option schemes.

The charge for the period in respect of introducer fees is £199m (£174m).

29. Prepayments and accrued income

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Accrued interest due from subsidiaries	–	–	45	180
Unamortised lending-related fees (see note 2)	483	580	481	577
Other accrued interest	2,490	1,897	446	268
Prepayments and other accruals	213	237	64	24
	3,186	2,714	1,036	1,049

30. Assets subject to sale and repurchase transactions

	Group		Company	
	2000 £m	1999 (restated) £m	2000 £m	1999 £m
Treasury and other eligible bills	506	306	–	–
Debt securities	7,046	4,989	–	–
	7,552	5,295	–	–

The above amounts are the assets held under sale and repurchase transactions included within the amounts disclosed in note 14, Treasury bills other eligible bills and note 19, Debt securities.

31. Deposits by banks

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Items in the course of transmission	236	262	231	253
Amounts due to subsidiaries	–	–	5,718	10,565
Sale and repurchase agreements	23,630	18,127	–	–
Other deposits	11,130	11,435	194	202
	34,996	29,824	6,143	11,020
Repayable:				
On demand	10,495	15,156	77	6,237
In not more than 3 months	20,441	11,709	4,243	253
In more than 3 months but not more than 1 year	3,221	2,327	–	135
In more than 1 year but not more than 5 years	192	117	143	42
In more than 5 years	647	515	1,680	4,353
	34,996	29,824	6,143	11,020
Banking business	12,086	7,598	6,143	11,020
Trading business	22,910	22,226	–	–
	34,996	29,824	6,143	11,020

32. Customer accounts

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Retail deposits	51,340	49,914	46,556	45,950
Amounts due to subsidiaries	–	–	6,300	5,183
Sale and repurchase agreements	7,287	97	–	–
Other customer accounts	8,168	9,900	1,664	1,786
	66,795	59,911	54,520	52,919
Repayable:				
On demand	46,966	40,305	44,260	43,372
In not more than 3 months	16,177	16,523	9,098	8,417
In more than 3 months but not more than 1 year	1,498	1,179	35	39
In more than 1 year but not more than 5 years	387	258	72	–
In more than 5 years	1,767	1,646	1,055	1,091
	66,795	59,911	54,520	52,919
Banking business	59,383	59,749	54,520	52,919
Trading business	7,412	162	–	–
	66,795	59,911	54,520	52,919

Included in Group and Company customer accounts are amounts due to associated undertakings of £3m (£4m) and £3m (£4m), respectively.

33. Debt securities in issue

	Group			
	2000 Book value £m	2000 Market value £m	1999 Book value £m	1999 Market value £m
Bonds and medium term notes	27,707	27,983	27,986	27,836
Other debt securities in issue	29,371	29,390	23,421	23,411
	57,078	57,373	51,407	51,247

The market values for medium and long term debt securities in issue have been determined using quoted market prices where reliable prices are available. In other cases, market values have been determined using in-house pricing models, or stated at amortised cost. The market value of short term debt securities in issue do not differ significantly from book value.

	Company	
	2000 £m	1999 £m
Bonds and medium term notes	134	–
Other debt securities in issue	5	21
	139	21

33. Debt securities in issue continued

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bonds and medium term notes are repayable:				
In not more than 3 months	2,851	2,517	134	–
In more than 3 months but not more than 1 year	5,765	8,382	–	–
In more than 1 year but not more than 2 years	4,775	3,472	–	–
In more than 2 years but not more than 5 years	9,749	9,912	–	–
In more than 5 years	4,567	3,703	–	–
	27,707	27,986	134	–
Other debt securities in issue are repayable:				
In not more than 3 months	21,448	20,103	–	5
In more than 3 months but not more than 1 year	7,792	1,411	–	16
In more than 1 year but not more than 2 years	1	1,887	1	–
In more than 2 years but not more than 5 years	55	–	4	–
In more than 5 years	75	20	–	–
	29,371	23,421	5	21

34. Other liabilities

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Creditors and accrued expenses	1,263	1,573	331	344
Short positions in government debt securities	2,300	1,521	–	–
Taxation	474	481	251	274
Foreign exchange, interest rate, equity & credit contracts:				
Negative market value of trading derivative contracts (see note 50)	2,842	2,439	–	–
Translation differences on foreign exchange derivatives used for hedging purposes	1,052	907	–	–
Obligations under finance leases all payable in:				
less than 1 year	7	4	7	4
1 year to 5 years	10	5	10	5
	7,948	6,930	599	627

Short positions in government debt securities are mainly held for purposes other than investment. Such positions are all carried at quoted market value.

35. Accruals and deferred income

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Accrued interest due to subsidiaries	–	–	168	103
Other accrued interest	2,915	2,499	1,120	921
Deferred income from residential mortgage lending	240	277	–	–
Other deferred income	95	81	5	–
	3,250	2,857	1,293	1,024

See Accounting policies for a description of the accounting treatment of deferred income from residential mortgage lending. During the year, £95m (£77m) of deferred income was taken to the profit and loss account.

36. Provisions for liabilities and charges

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Deferred taxation (see note 37)	1,351	1,173	7	5
Other provisions for liabilities and charges (see note 38)	92	102	38	49
	1,443	1,275	45	54

37. Deferred taxation

	Group £m	Company £m
At 1 January 2000	1,173	5
Transfer from profit and loss account	121	2
Acquisitions of subsidiary undertakings	147	–
Disposals of subsidiary undertakings	(87)	–
Other movements	(3)	–
At 31 December 2000	1,351	7

The amounts provided and total potential liability are:

	Amount provided		Total potential liability	
	Group £m	Company £m	Group £m	Company £m
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	170	–	170	–
Capital allowances on finance lease receivables	1,078	–	1,078	–
Other	103	7	103	7
	1,351	7	1,351	7

38. Other provisions for liabilities and charges

	Pension and other similar obligations (1) £m	Provisions for commitments (2) £m	Pension misselling compensation (3) £m	Other provisions (4) £m	Total £m
Group					
At 1 January 2000	(9)	28	35	48	102
Transfer from profit and loss account	70	16	10	5	101
Pension contributions/ provisions utilised	(80)	(12)	(8)	(1)	(101)
Unutilised provisions reversed	–	–	–	(10)	(10)
At 31 December 2000	(19)	32	37	42	92
Company					
At 1 January 2000	(9)	9	12	37	49
Transfer from profit and loss account	53	4	3	11	71
Pension contributions/ provisions utilised	(64)	(5)	(2)	(1)	(72)
Unutilised provisions reversed	–	–	–	(10)	(10)
At 31 December 2000	(20)	8	13	37	38

The £21m charge to the profit and loss account in respect of provisions for contingent liabilities and commitments comprises the amounts transferred from the profit and loss account and unutilised provisions reversed for provisions for commitments, pension misselling compensation and other provisions.

(1) Pension and other similar obligations

The above balance represents the difference between amounts paid to the respective pension schemes of the Group and any amounts charged to the profit and loss account in accordance with SSAP 24, 'Accounting for pension costs'.

In addition to Pension and other similar obligations included in the above table, a balance in respect of the pension surplus acquired with the purchase of the business of N&P is included within Other assets. This balance, which was £21m (£23m) as at 31 December 2000, is being amortised over the remaining service lives of employees contributing to the scheme, and £2m (£2m) was charged to the profit and loss account in the year ended 31 December 2000. See also note 52, 'Retirement benefits'.

(2) Provisions for commitments

This comprises amounts in respect of committed expenditure, including administrative costs of carrying out the review of business involving transfers from occupational to personal pension schemes and the opting-out of and the non-joining of occupational pension schemes (see also below), amounts in respect of vacant premises, and provisions for loyalty bonuses payable in certain unit trusts managed within the Life Assurance businesses.

38. Other provisions for liabilities and charges continued

(3) Pension misselling compensation

This comprises amounts in respect of compensation payable as a result of the ongoing review of business involving the transfers from occupational to personal pension schemes and the opting-out of and the non-joining of occupational pension schemes. Amounts provided in respect of the Life Assurance businesses are charged to Income from long term assurance business and carried against the asset Long term assurance business in the balance sheet. During the year £2m (£8m) was transferred from the profit and loss account in respect of the Life Assurance businesses and the amount currently provided is £11m (£14m). In addition, provisions have been made for the administrative costs of carrying out the review, which are included within Provisions for commitments (see also above).

(4) Other provisions

Other provisions principally comprise amounts in respect of litigation.

39. Subordinated liabilities including convertible debt

	Group	
	2000 £m	1999 £m
Dated subordinated liabilities:		
4.513% Registered junior subordinated floating rate extendible notes 2000 (US $275m)	–	170
Registered junior subordinated fixed rate notes 2000 (US $53m)	–	33
9.00% Subordinated guaranteed bond 2002 (LUX Fr 1bn)	15	15
Subordinated guaranteed floating rate notes 2002 (US $75m)	50	46
8.00% Subordinated guaranteed bond 2002 (NLG 200m)	57	57
10.375% Subordinated guaranteed bond 2002	100	100
Subordinated guaranteed floating rate notes 2003 (US $100m)	67	62
Subordinated collared floating rate notes 2004 (CAN $100m)	45	42
8.75% Subordinated guaranteed bond 2004	150	151
8.2% Subordinated bond 2004 (US $500m)	336	309
6.69% Subordinated bond 2005 (US $750m)	501	462
10.75% Subordinated bond 2006	101	101
Subordinated guaranteed floating rate step-up notes 2009 (Swiss Fr 130m)	53	50
5.00% Subordinated bond 2009 (DEM 1bn)	317	315
4.625% Subordinated notes 2011 (€500m)	310	309
11.50% Subordinated guaranteed bond 2017	150	152
10.125% Subordinated guaranteed bond 2023	149	152
7.983% Subordinated notes 2029 (US $1,000m)	663	611
6.50% Subordinated notes 2030	148	148
Undated subordinated liabilities:		
10.0625% Exchangeable subordinated capital securities	199	199
7.35% Perpetual subordinated reset capital securities (US $500m)	334	308
7.25% Perpetual subordinated capital securities (US $150m)	98	90
7.10% Perpetual callable subordinated notes (US $150m)	99	91
7.00% Perpetual subordinated capital securities (US $250m)	163	150
6.70% Perpetual subordinated reset capital securities (US$ 500m)	333	307
6.00% Step-down perpetual callable subordinated notes (€100m)	61	61
5.56% Subordinated guaranteed notes (YEN 15bn)	87	90
5.50% Subordinated guaranteed notes (YEN 5bn)	29	30
Fixed/Floating rate subordinated notes (YEN 5bn)	29	30
7.50% 10 Year step-up perpetual subordinated notes	319	–
7.50% 15 Year step-up perpetual subordinated notes	318	–
7.38% 20 Year step-up perpetual subordinated notes	173	–
7.13% 30 Year step-up perpetual subordinated notes	170	–
7.13% Fixed to floating rate perpetual subordinated notes (€400m)	247	–
	5,871	4,641

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39. Subordinated liabilities including convertible debt continued

	Company 2000 £m	Company 1999 £m
Dated subordinated liabilities:		
4.513% Registered junior subordinated floating rate extendible notes 2000 (US $275m)	–	170
Registered junior subordinated fixed rate notes 2000 (US $53m)	–	33
Subordinated loan stock 2002*	17	17
Subordinated floating rate notes 2002 (US $75m)*	50	47
Subordinated loan 2002 (US $112m)*	75	69
10.512% Subordinated loan stock 2001*	100	100
Subordinated floating rate notes 2003 (US $100m)*	67	62
Subordinated floating rate notes 2004 (US $74m)*	51	46
Subordinated floating rate notes 2004*	150	150
Subordinated floating rate notes 2004 (US $500m)*	336	309
6.69% Subordinated bond 2005 (US $750m)	501	462
10.75% Subordinated bond 2006	101	101
Subordinated floating rate notes 2009 (US $102m)*	69	63
Subordinated floating rate notes 2009 (DEM 1bn)	317	315
4.625% Subordinated notes 2011 (€500m)	310	309
11.59% Subordinated loan stock 2017*	150	150
10.18% Subordinated loan stock 2023*	150	150
7.983% Subordinated notes 2029 (US $1,000m)	663	611
6.50% Subordinated notes 2030	148	148
8.96% Subordinated notes 2030 (US $1,000m)	664	–
Undated subordinated liabilities:		
10.0625% Exchangeable subordinated capital securities	199	199
7.35% Perpetual subordinated reset capital securities (US $500m)	334	308
7.25% Perpetual subordinated capital securities (US $150m)	98	90
7.10% Perpetual callable subordinated notes (US $150m)	99	91
7.00% Perpetual subordinated capital securities (US $250m)	163	150
6.70% Perpetual subordinated Reset Capital Securities (US$ 500m)	333	307
6.00% Step-down perpetual callable subordinated notes (€100m)	61	61
5.56% Subordinated guaranteed notes (YEN 15bn)	87	90
5.50% Subordinated guaranteed notes (YEN 5bn)	29	30
Fixed/Floating rate subordinated notes (YEN 5bn)	29	30
7.50% 10 Year step-up perpetual subordinated notes	319	–
7.50% 15 Year step-up perpetual subordinated notes	318	–
7.38% 20 Year step-up perpetual subordinated notes	173	–
7.13% 30 Year step-up perpetual subordinated notes	170	–
7.13% Fixed to floating rate perpetual subordinated notes (€400m)	247	–
	6,578	4,668

*These represent the on-lending to the Company, on a subordinated basis, of issues by subsidiary companies.

The subordinated floating rate notes pay a rate of interest related to the LIBOR of the currency of denomination.

The 10.0625% Exchangeable subordinated capital securities are exchangeable into fully paid 10.375% non-cumulative non-redeemable sterling preference shares of £1 each, at the option of Abbey National. Exchange may take place on any interest payment date providing that between 30 and 60 days' notice has been given to the holders. The holders will receive one new sterling preference share for each £1 principal amount of capital securities held. The rights attaching to these preference shares would be the same as those detailed in note 41.

The 7.35% Perpetual subordinated reset capital securities are redeemable at par, at the option of Abbey National, on 15 October 2006 and each fifth anniversary thereafter.

The 7.25% Perpetual subordinated capital securities are redeemable at par, at the option of Abbey National, on or after 15 June 2004.

The 7.10% Perpetual callable subordinated notes are redeemable at par, at the option of Abbey National, on 12 March 2004 and thereafter on each interest payment date.

The 7.00% Perpetual subordinated capital securities are redeemable at par, at the option of Abbey National, on or after 29 April 2004.

The 6.70% Perpetual subordinated reset capital securities are redeemable at par, at the option of Abbey National, on 15 June 2008 and each fifth anniversary thereafter.

The 6.00% Step-down perpetual callable subordinated notes are redeemable at par, at the option of Abbey National, on 19 April 2004 and thereafter on each interest payment date.

The 5.56% Subordinated guaranteed notes are redeemable at par, at the option of Abbey National, on 31 January 2015 and each fifth anniversary thereafter.

39. Subordinated liabilities including convertible debt continued

The 5.50% Subordinated guaranteed notes are redeemable at par, at the option of Abbey National, on 27 June 2015 and each fifth anniversary thereafter.

The Fixed/Floating rate subordinated notes are redeemable at par, at the option of Abbey National, on 24 December 2016 and each fifth anniversary thereafter.

The 7.50% 10 Year step-up perpetual subordinated notes are redeemable at par, at the option of Abbey National, on 28 September 2010 and each fifth anniversary thereafter.

The 7.50% 15 Year step-up perpetual subordinated notes are redeemable at par, at the option of Abbey National, on 28 September 2015 and each fifth anniversary thereafter.

The 7.38% 20 Year step-up perpetual subordinated notes are redeemable at par, at the option of Abbey National, on 28 September 2020 and each fifth anniversary thereafter.

The 7.13% 30 Year step-up perpetual subordinated notes are redeemable at par, at the option of Abbey National, on 30 September 2030 and each fifth anniversary thereafter.

The 7.13% Fixed to floating rate perpetual subordinated notes are redeemable at par, at the option of Abbey National, on 28 September 2010 and each fifth anniversary thereafter.

In common with other debt securities issued by Group companies, the capital securities are redeemable in whole at the option of Abbey National, on any interest payment date, in the event of certain tax changes affecting the treatment of payments of interest on the capital securities in the United Kingdom, at their principal amount together with any accrued interest.

Subordinated liabilities including convertible debt securities in issue are repayable:

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
In 1 year or less	–	203	100	203
In more than 1 year but not more than 2 years	222	–	142	100
In more than 2 years but not more than 5 years	1,099	832	1,105	763
In more than 5 years	1,891	2,250	2,572	2,246
Undated	2,659	1,356	2,659	1,356
	5,871	4,641	6,578	4,668

Subordinated liabilities including convertible debt issued by the Group have a market value, calculated using quoted market prices where available, of £6,491m (£4,783m).

40. Minority Interests – non-equity

On 7 February 2000 Abbey National Capital Trust I (the 'trust') issued US$1,000m of 8.963% non-cumulative trust preferred securities (the 'preferred securities'). Each preferred security represents an undivided beneficial interest in the assets of the trust, the assets of which consist of partnership preferred securities representing non-cumulative, perpetual preferred limited partnership interests issued by Abbey National Capital LP I, a Delaware limited partnership (the 'partnership'). Abbey National plc has 100% indirect ownership of the general partnership interest and priority limited partnership interest.

Distributions on the preferred securities are made on 30 June and 31 December of each year, beginning on 30 June 2000. The distribution rate is initially 8.963% per annum. After 30 June 2030, the distribution rate on the preferred securities will be at the rate of 2.825% per annum above the three-month US$ LIBOR rate for the relevant distribution period.

The preferred securities are not redeemable at the option of the holders and the holders do not have any rights against other Abbey National Group companies. The partnership preferred securities may be redeemed by the partnership, in whole or in part, on 30 June 2030 and on each distribution payment date thereafter. Redemption by the partnership of the partnership preferred securities may also occur in the event of a tax or regulatory change. Generally, holders of the preferred securities will have no voting rights.

The preferred securities and the partnership preferred securities have the benefit of subordinated guarantees of Abbey National plc. On a return of capital or on a distribution of assets on a winding up of the partnership, holders of the partnership preferred securities will be entitled to receive, for each partnership preferred security a liquidation preference of $1,000, together with any due and accrued distributions and any additional amounts, out of the assets of the partnership available for distribution.

The preferred securities, the partnership preferred securities and the subordinated guarantees taken together will not entitle the holders to receive more than they would have been entitled to receive had they been the holders of directly issued non-cumulative, non-voting preference shares of Abbey National plc.

41. Called up share capital and share premium account

	Ordinary shares of 10 pence each £m	Preference shares of £1 each £m	Preference shares of US$0.01 each £m	Preference shares of €0.01 each £m	Total £m
Authorised share capital					
At 31 December 1999	175	1,000	6	–	1,181
At 31 December 2000	175	1,000	6	6	1,187
Issued and fully paid share capital					
At 31 December 1999	142	325	–	–	467
At 31 December 2000	143	325	–	–	468
Share premium account					
At 1 January 2000	1,411	9	116	–	1,536
Shares issued	59	–	–	–	59
Capitalisation of reserves in respect of shares issued via QUEST	15	–	–	–	15
At 31 December 2000	1,485	9	116	–	1,610

Under the Company's Executive, All Employee and Sharesave Schemes, employees hold options to subscribe for 31,478,172 (26,013,596) ordinary shares at prices ranging from 299 to 1306 pence per share, exercisable up to August 2010. During the year 4,245,329 (4,554,522) ordinary shares were issued on the exercise of options for a consideration of £34m (£43m). In addition, 5,474,853 ordinary shares were issued in lieu of cash for the interim dividend in 2000, in accordance with the terms of the Alternative Dividend Plan.

The Group has taken advantage of the exemption from the provisions of UITF 17 (Revised 2000), 'Employee Share Schemes', as they relate to the Group's Sharesave Scheme which is an Inland Revenue approved SAYE scheme.

The Qualifying Employee Share Trust (QUEST) operates in conjunction with the Sharesave Scheme by acquiring shares in the Company and using them to satisfy Sharesave options, by delivering the shares to the employees on payment of the option price.

During the year the QUEST has subscribed at market value for ordinary shares at a total cost of £27m (£33m). The Company provided £15m (£25m) to the QUEST for this purpose and £12m (£8m) was received from Sharesave participants. The shares were all transferred by the QUEST to participants in the Group's Sharesave Scheme in satisfaction of their options. The price paid by option holders, including executive directors, was 428 pence per share (five year options) and 322 pence per share (seven year options). The Company's contribution has been included as a capitalisation of reserves.

As of 31 December 2000 there were 2,010,898 shareholders. The following tables show an analysis of their holdings:

		Ordinary shares of 10 pence each
Size of shareholding	Shareholders	Shares
1–100	1,227,241	118,750,633
101–1,000	748,434	300,720,294
1,001+	34,043	1,012,202,663
	2,009,718	1,431,673,590

		Preference shares of £1 each
Size of shareholding	Shareholders	Shares
1–100	1	100
101–1,000	23	17,345
1,001+	1,117	324,982,555
	1,141	325,000,000

		Preference shares of US$0.01 each
Size of shareholding	Shareholders	Shares
1–100	7	700
101–1,000	28	12,440
1,001+	4	7,986,860
	39	8,000,000

Sterling preference shares

Holders of the sterling preference shares are entitled to receive a bi-annual non-cumulative preferential dividend payable in sterling out of the distributable profits of the Company. The rate per annum will ensure that the sum of the dividend payable on such date and the Associated Tax Credit (as defined in the terms of the sterling preference shares) represents an annual rate of 8 5/8% per annum of the nominal amount of shares issued in 1998, and an annual rate of 10 3/8% for shares issued in 1995 and 1997. On a return of capital or on a distribution of assets on a winding up, the sterling preference shares shall rank pari passu with any other shares that are expressed to rank pari passu therewith as regards participation in assets, and otherwise in priority to any other share capital of the Company.

41. Called up share capital and share premium account continued

On such a return of capital or winding up, each sterling preference share shall, out of the surplus assets of the Company available for distribution amongst the members after payment of the Company's liabilities, carry the right to receive an amount equal to the amount paid up or credited as paid together with any premium paid on issue and the full amount of any dividend otherwise due for payment.

Other than as set out above, no sterling preference share confers any right to participate on a return of capital or a distribution of assets of the Company.

Holders of the sterling preference shares are not entitled to receive notice of or attend, speak and vote at general meetings of the Company unless the business of the meeting includes the consideration of a resolution to wind up the Company or any resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the sterling preference shares or if the dividend on the sterling preference shares has not been paid in full for the three consecutive dividend periods immediately prior to the relevant general meeting.

In any such case, the sterling preference shareholders are entitled to receive notice of and attend the general meeting at which such resolution is proposed and will be entitled to speak and vote on such a resolution but not on any other resolution.

US dollar preference shares

Holders of the US dollar preference shares are entitled to receive a quarterly non-cumulative preferential dividend payable in US dollars out of the distributable profits of the Company payable at a rate per annum which will ensure that the sum of the dividend payable on such date and the Associated Tax Credit represents an annual rate of 8.75% per annum of the Sterling value of the dollar amount issued, as fixed at issue.

The US dollar preference shares are redeemable, in whole or in part, at the option of Abbey National at any time and from time to time after five years and one day after the date of original issue, 15 November 1996. Redemption may occur only if the sterling dollar exchange rate is at or above its level at date of allotment, US$1.654:£1, or in the event of a tax or regulatory change. The redemption amount will be $25, unless redeemed in years five to ten in which instance a redemption premium will be payable.

On a return of capital or on a distribution of assets on a winding up, the US dollar preference shares shall rank pari passu with any other shares that are expressed to rank pari passu therewith as regards participation in assets, and otherwise in priority to any other share capital of the Company. On such a return of capital or winding up, each US dollar preference share shall, out of the surplus assets of the Company available for distribution amongst the members after payment of the Company's liabilities, carry the right to receive an amount equal to £22.67, payable in US dollars together with any accrued and unpaid dividends at that time.

Other than as set out above, no US dollar preference share confers any right to participate on a return of capital or a distribution of assets of the Company.

Holders of the US dollar preference shares are not entitled to receive notice of or attend, speak and vote at general meetings of the Company unless the business of the meeting includes the consideration of a resolution to wind up the Company or any resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the US dollar preference shares or if the dividend on the US dollar preference shares has not been paid in full for the six consecutive quarters immediately prior to the relevant general meeting.

In any such case, the US dollar preference shareholders are entitled to receive notice of and attend the general meeting at which such resolution is proposed and will be entitled to speak and vote on such a resolution but not on any other resolution.

42. Reserves and profit and loss account

	Profit and loss account Group £m	Company £m
At 1 January 2000	3,626	3,022
Exchange adjustments	–	1
Profit retained for the financial year	522	177
Goodwill transferred to profit and loss account during the year	3	–
Capitalised on exercise of share options issued via QUEST	(15)	(15)
At 31 December 2000	4,136	3,185

Exchange gains arising from foreign currency borrowings used to hedge investments in overseas Group undertakings of £2m (£16m) have been taken to the reserves of the Group and Company. These exchange movements are matched by corresponding exchange movements on the investments in the financial statements of the Company, and exchange movements on the net assets of overseas Group undertakings in the Group financial statements.

Goodwill transferred to profit and loss account during the year represents the goodwill previously taken to reserves in respect of the acquisition of GM Benefit Consultants Ltd (subsequently renamed Abbey National Benefit Consultants Ltd), which was disposed of in November 2000.

	Revaluation reserve		Non-distributable reserve	
	Group £m	Company £m	Group £m	Company £m
At 1 January 2000	3	–	446	–
Transfer from profit and loss account	–	–	156	–
Revaluation movement in the year	11	–	–	–
At 31 December 2000	14	–	602	–

42. Reserves and profit and loss account continued

The non-distributable reserve represents the value of the Group's shareholders' interest in the long term assurance funds of the Life Assurance businesses. The revaluation reserve represents cumulative revaluation adjustments in respect of the Group's portfolio of investment properties.

43. Reconciliation of movements in shareholders' funds

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit attributable to the shareholders of Abbey National plc	1,365	1,261	864	1,446
Dividends (see note 12)	(687)	(610)	(687)	(610)
	678	651	177	836
Other recognised net gains and losses relating to the year	–	(1)	1	2
Increases in ordinary share capital including share premium	75	43	75	43
Capitalised reserves on exercise of share options	(15)	(25)	(15)	(25)
Movement on other reserves	11	3	–	–
Goodwill transferred from profit and loss account reserve during the year	3	–	–	–
Net addition to shareholders' funds	752	671	238	856
Shareholders' funds at 1 January	6,078	5,407	5,025	4,169
Shareholders' funds at 31 December	6,830	6,078	5,263	5,025
Comprising				
Equity shareholders' funds	6,380	5,628	4,813	4,575
Non-equity shareholders' funds	450	450	450	450

Equity shareholders' funds comprise called up ordinary share capital, ordinary share premium account, profit and loss account and reserves.

Non-equity shareholders' funds comprise called-up preference share capital and preference share premium account.

44. Assets and liabilities denominated in foreign currency

The aggregate amounts of assets and liabilities denominated in currencies other than sterling were as follows:

	Group		Company (restated)	
	2000 £m	1999 £m	2000 £m	1999 £m
Assets	72,389	50,747	6,849	6,401
Liabilities	77,622	57,425	11,710	9,467

The above assets and liabilities denominated in foreign currencies do not indicate the Group's exposure to foreign exchange risk. The Group's foreign currency positions are substantially hedged by off-balance sheet hedging instruments, or by on-balance sheet assets and liabilities denominated in the same currency.

45. Contingent liabilities: guarantees and assets pledged as collateral security

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Guarantees given by Abbey National plc of subsidiaries' liabilities	–	–	127,828	128,642
Guarantees given to third parties	1,009	1,183	7	1
Mortgaged assets granted	1,125	1,031	–	–
	2,134	2,214	127,835	128,643

Mortgaged assets granted are to secure future obligations to third parties who have provided security to the leasing subsidiaries.

Guarantees given to third parties include amounts in respect of credit derivative contracts of £374m (£432m). Credit derivatives include contracts such as credit default swaps, spread put options and credit linked notes, whereby credit risk is accepted in respect of reference assets.

46. Other contingent liabilities

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Other contingent liabilities	299	477	8	8

The principal other contingent liabilities are as follows:

Rediscounted commercial bills

Cater Allen International Limited has sold eligible bills to the Bank of England under the 'Master Agreement', amounting to £132m (£355m).

46. Other contingent liabilities continued

Overseas tax demands

Abbey National Treasury Services plc has received a demand from an overseas tax authority for an amount of £100m (at the balance sheet exchange rate) (£100m) relating to the repayment of certain tax credits received and related charges. As at 31 December 2000, additional interest in relation to the demand could amount to £18m (at the balance sheet exchange rate) (£13m).

Abbey National UK Investments has received a demand from an overseas tax authority for an amount of £40m (at the balance sheet exchange rate) relating to a reassessment of the tax payable by the company.

The subsidiaries have received legal advice that they have strong grounds to challenge the validity of the demands and accordingly no specific provisions have been made.

47. Commitments

Obligations under stock borrowing and lending agreements

Obligations under stock borrowing and lending agreements represent contractual commitments to return stock borrowed. These obligations are offset by a contractual right to receive stock under other contractual agreements.

Other commitments

The table below shows the contract or principal amount of commitments other than those relating to derivatives (see note 50).

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year	1,567	999	597	497
1 Year and over	4,415	2,591	–	–
Forward sale and repurchase agreements	2,064	2,644	–	–
Other commitments	1	1	–	–
	8,047	6,235	597	497

48. Operating leases

	Group			
	2000 Property £m	2000 Equipment £m	1999 Property £m	1999 Equipment £m
Further rental commitments under operating leases expiring:				
In not more than 1 year	11	1	1	2
In more than 1 year but not more than 5 years	29	3	17	3
In more than 5 years	67	–	50	–
	107	4	68	5

	Company			
	2000 Property £m	2000 Equipment £m	1999 Property £m	1999 Equipment £m
Further rental commitments under operating leases expiring:				
In not more than 1 year	8	1	1	2
In more than 1 year but not more than 5 years	26	3	15	3
In more than 5 years	56	–	43	–
	90	4	59	5

As at 31 December 2000 the Group held various leases on land and buildings, many for extended periods, and other leases for equipment, which require the following aggregate annual rental payments:

	Group 2000 £m	Company 2000 £m
Year ended 31 December:		
2001	111	94
2002	100	85
2003	87	74
2004	90	71
2005	71	64
Total thereafter	725	613

	2000 £m	1999 £m
Group rental expense comprises:		
In respect of minimum rentals	81	64
Less: sub-lease rentals	(5)	(6)
	76	58

49. Financial instruments

Disclosures required under FRS13 regarding financial instruments can be found as follows:

(1) In the Operating and financial review and Risk management sections:
The Objectives and policies in holding financial instruments: see 'Financial instruments', page 16;
Financial risk management policies: see 'Financial risk management', page 17;
Trading financial instrument exposure sensitivity analysis: see 'Financial risk management – Market risk', page 18.

(2) In the financial statements:
Dealing profits from financial instruments: see note 6, 'Dealing profits';
Interest rate risk of non-trading financial instruments: see 'Interest rate risk' below;
Foreign exchange risk of non-trading financial instruments: see 'Foreign exchange risk' below;
The use of derivatives for hedging and trading purposes, with financial disclosures: see note 50, 'Derivatives'.

In summary, fair value (i.e. market value) disclosures are required by FRS13 for all financial instruments in the trading book, and the following financial instruments in the non-trading book:

– all derivatives;
– all listed and/or publicly traded securities; and
– all other financial instruments for which there is a liquid and active market.

Such disclosures required by FRS13 are provided in the note to the financial statements relevant to the financial instrument type. These may be found in: note 14, 'Treasury bills and other eligible bills'; note 19, 'Debt securities'; note 20, 'Equity shares and other similar interests'; note 33, 'Debt securities in issue'; note 39, 'Subordinated liabilities including convertible debt'; and note 50, 'Derivatives'.

Fair value disclosures are not provided for loans and deposits as there is no liquid and active market for such instruments held by the Group. The financial assets and liabilities of insurance companies are excluded from the scope of FRS13.

Interest rate risk

In accordance with FRS13, interest rate repricing gap information is shown in the table (the 'gap table') below, as at 31 December 2000. It provides an estimate of the repricing profile of the Group's assets, liabilities and off-balance sheet exposures for non-trading activities. For the major categories of assets and liabilities, the gap table shows the values of interest earning assets and interest bearing liabilities which reprice within selected time bands. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date. This leads to an apparent timing mismatch where the anticipated maturity date is different from the legal maturity date and hedges have been structured accordingly. The positions shown reflect both the repricing behaviour of the administered rates on mortgage and savings products (over which Abbey National has no control) and contracted wholesale on and off-balance sheet positions (which are determined by market rates). The tables do not purport to measure market risk exposure.

Interest rate repricing gap as at 31 December 2000

	Non-trading						Trading	Total
	Not more than 3 months £m	In more than 3 months but not more than 6 months £m	In more than 6 months but not more than 12 months £m	In more than 1 year but not more than 5 years £m	In more than 5 years £m	Non-interest bearing amounts £m	£m	£m
Assets								
Treasury and other eligible bills	–	–	–	–	–	–	1,159	1,159
Loans and advances to banks (1)	1,539	71	48	264	128	659	9,896	12,605
Loans and advances to customers (2)	57,172	1,721	1,915	13,450	3,735	60	6,997	85,050
Net investment in finance leases	4,009	643	219	234	87	–	–	5,192
Securities and investments	35,043	2,796	469	3,801	6,410	566	20,488	69,573
Other assets	–	–	–	–	–	9,531	2,198	11,729
Assets of long term assurance funds	–	–	–	–	–	19,083	–	19,083
Total assets	97,763	5,231	2,651	17,749	10,360	29,899	40,738	204,391
Liabilities								
Deposits by banks (1)	4,490	897	1,347	29	131	578	27,524	34,996
Customer accounts	51,884	1,974	2,072	3,094	159	199	7,413	66,795
Debt securities in issue	33,302	5,699	4,715	11,620	1,716	–	26	57,078
Subordinated liabilities	95	121	–	1,158	4,497	–	–	5,871
Other liabilities	–	–	–	–	–	7,299	5,775	13,074
Liabilities of long term assurance funds	–	–	–	–	–	19,083	–	19,083
Minority interests – non-equity	–	–	–	–	–	664	–	664
Shareholders' funds – non-equity	–	–	–	–	–	450	–	450
– equity	–	–	–	–	–	6,380	–	6,380
Total liabilities	89,771	8,691	8,134	15,901	6,503	34,653	40,738	204,391
Off-balance sheet items (3)	(10,362)	3,174	4,574	4,222	(1,429)	(179)		
Interest rate repricing gap	(2,370)	(286)	(909)	6,070	2,428	(4,933)		
2000 Cumulative gap	(2,370)	(2,656)	(3,565)	2,505	4,933	–		
1999 Cumulative gap	(5,659)	(5,851)	(5,369)	710	4,825	–		

(1) Non-interest bearing items within Loans and advances to banks and Deposits by banks include items in the course of collection and items in the course of transmission, respectively. These are short-term receipts and payments within the UK retail banking clearing system. The remaining non-interest bearing item within Loans and advances to banks relates to the interest free deposit maintained with the Bank of England.

(2) Non-interest bearing items within Loans and advances to customers relate to non-accruing lendings after deduction of associated provisions.

(3) Off-balance sheet items are classified in the table above according to the interest terms contained in the contracts.

Negative gaps are liability sensitive and, all other things being equal, would indicate a benefit if interest rates decline. A positive gap is asset sensitive and, all other things being equal, would indicate a benefit if interest rates increase.

Gap positions shown within the interest rate repricing table are attributable to the balance sheet management of the Group's capital, low rate and non-interest bearing liabilities, aimed at reducing income volatility. Fixed rate assets and liabilities are hedged in line with a broadly risk neutral management objective.

A number of Abbey National non-trading assets and liabilities are subject to more complex repricing than can be reflected in the above table or reprice with reference to indices other than interest rates. The market risk exposure is minimised through the use of matching derivatives. The material product groupings include:

a) Loans with embedded interest rate caps and floors. These are subject to a predetermined maximum or minimum interest rate for a period of up to seven years. The risk of volatility in earnings from movements in interest rates is hedged with purchased interest rate caps and floors.

b) Customer accounts where the return for a fixed period is determined by the performance of an equity index. The risk of volatility in earnings from movements in the equity index is hedged using equity swaps.

49. Financial Instruments continued

c) Contracts with interest rate floor and swaption features. These may be written, for example, in order to hedge fixed rate funding at efficient overall funding rates, while setting a predetermined minimum rate of interest to be payable in future periods.

The risks associated with such instruments, and their hedges, are reflected in 'Financial risk management – Market risk', page 18.

Foreign exchange risk

The Group's main overseas operations are in France and Italy. The Group also has some small operations elsewhere in Europe, North America and Asia. The main operating (or 'functional') currencies of its operations are therefore Sterling and the Euro. As the currency in which the Group prepares its consolidated financial statements is Sterling, it follows that the Group's consolidated balance sheet is predominantly affected by movements in the exchange rates between the Euro and Sterling. Such exposures are referred to as structural currency exposures. This is not the same as structural market risk which arises from a variety of exposures inherent in a product or portfolio (see page 18). Translation gains and losses arising from these exposures are recognised in the Statement of total recognised gains and losses.

The Group mitigates the effect of this exposure by financing a significant proportion of its net investments in its overseas operations with borrowings in the currency of the local operation.

The Group's structural currency exposures as at 31 December 2000 were as follows:

Structural currency exposures as at 31 December 2000

	Net investments in overseas operations 2000 £m	Borrowings hedging net investments in overseas operations 2000 £m	Net structural currency exposures 2000 £m	Net structural currency exposures 1999 £m
Euro – Subsidiary	66	(65)	1	1
– Branches	(25)	–	(25)	(21)
Other non-sterling amounts	2	(1)	1	1
Total	43	(66)	(23)	(19)

The Group also has some transactional currency exposures. Such exposures arise from the activities of the Group where the operating unit undertakes activities in currencies other than the unit's functional currency. Where such activities show currency mismatches between assets and liabilities, the Group uses a variety of derivative products (e.g. cross currency swaps, forward foreign exchange contracts) to eliminate some or all of the currency risk depending on the amount and nature of the transaction. Controls are in place to limit the size of the Group's open transactional foreign exchange positions.

The table below shows those transactional (or non-structural) exposures which give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations (as shown in the above table). The exposures shown below are stated net of derivatives used to hedge currency risk.

Transactional currency exposures – Non-trading book

	Net foreign currency monetary assets/(liabilities)				
At 31 December 2000 – Functional currency of Group operation	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
Sterling	n/a	17	7	(11)	13
Euro	24	–	n/a	–	24
Total	24	17	7	(11)	37

	Net foreign currency monetary assets/(liabilities)				
At 31 December 1999 – Functional currency of Group operation	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
Sterling	n/a	3	8	(2)	9
Euro	4	–	n/a	–	4
Total	4	3	8	(2)	13

The Wholesale Banking and Business to Consumer segments generate a significant proportion of their income in currencies other than the functional currency, and may use forward foreign exchange contracts to fix the functional currency equivalent of their forecast income. The outstanding nominal of such transactions at 31 December 2000 was £49m, all with a maturity of less than 1 year.

50. Derivatives

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement. Derivatives are used for trading and non-trading purposes. These terms are defined in Accounting policies: Derivatives on page 41.

Non-trading derivatives

The main non-trading derivatives are interest rate and cross-currency swaps, which are used to hedge the Group's exposures to interest rates and exchange rates inherent in non-trading assets, liabilities and positions, including fixed rate lending and structured savings products within the Retail Banking, Business to Business and Business to Consumer segments and medium term note issues, capital issues and fixed rate asset purchases within Wholesale Banking.

The following table summarises activities undertaken by the Group, the related risks associated with such activities and the types of derivatives used in managing such risks. Such risks may also be managed using on-balance sheet instruments as part of an integrated approach to risk management.

Derivative products which are combinations of more basic derivatives (such as swaps with embedded option features), or which have leverage features, may be used in circumstances where the underlying position being hedged contains the same risk features. In such cases the derivative used will be designed to match the risks of the underlying asset or liability. Exposure to market risk on such contracts is therefore hedged.

Derivatives used for non-trading activities are accounted for on an accruals basis consistent with the underlying products.

Activity	Risk	Type of Hedge
Management of the return on variable rate assets funded by shareholders' funds and net non-interest bearing liabilities.	Reduced profitability due to falls in interest rates.	Receive fixed interest rate swaps. Purchase interest rate floors.
Fixed rate lending.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps. Purchase interest rate caps.
Fixed rate retail and wholesale funding.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Equity-linked retail funding.	Sensitivity to increases in equity market indices.	Receive equity swaps.
Management of other net interest income on retail activities.	Sensitivity of returns to changes in interest rates.	Interest rate swaps and caps/floors according to the type of risk identified.
Fixed rate asset investments.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps.
Investment in foreign currency assets.	Sensitivity to strengthening of sterling against other currencies.	Cross-currency and foreign exchange swaps. Foreign currency funding.
Profits earned in foreign currencies.	Sensitivity to strengthening of sterling against other currencies.	Forward foreign exchange contracts. Purchased foreign exchange options.
Investment in, and issuance of, products with embedded options.	Sensitivity to changes in underlying rate and rate volatility causing option exercise.	Interest rate swaps plus caps/floors, and other matched options.
Investment in, and issuance of, bonds with put/call features.	Sensitivity to changes in rates causing option exercise.	Purchase swaptions*.
Firm commitments (e.g. asset purchases, issues arranged).	Sensitivity to changes in rates between arranging a transaction and completion.	Hedges are arranged at the time of commitments if there is exposure to rate movements.

*A swaption is an option on a swap which gives the holder the right but not the obligation to buy or sell a swap.

Trading derivatives

Abbey National Financial Products (ANFP) is the principal business within the Abbey National Group actively trading derivative products and is additionally responsible for implementing Group hedging activities involving derivative contracts with the external market. ANFP's objective is to gain margin value by marketing derivatives to end-users and hedging the resulting exposures efficiently. Products offered by ANFP include interest rate and cross-currency swaps, caps, floors, swaptions, equity derivatives and credit derivatives. ANFP has established clear guidelines for staff to ensure that end-users are aware of the potential risk of entering into complex derivative transactions.

A comprehensive value at risk (VaR) limit structure has been established for ANFP which includes exposures to interest rates, yield curve shape, volatility, volatility surfaces, equity indices and credit spread risks. In addition to the normal limits, additional limits covering sensitivity to large changes in the underlying variables have been imposed. Substantially no foreign exchange risk is currently run within ANFP, other than that accruing through profits earned in currencies other than sterling. These exposures are monitored and hedged on a regular basis. Direct interest rate exposure is also maintained at low levels, but exact hedges are often not available in the market and this will give rise to a combination of yield curve, volatility and spread risk within the established limits. The overall management and control policy framework for ANFP is consistent with 'The Derivatives Practices and Principles' issued by the Group of 30 Global Derivatives Study Group.

ANTS additionally holds trading derivatives to hedge interest rate exposures created within trading portfolios of asset backed and other securities.

Derivatives used in trading activities are stated at fair value.

Quantitative disclosures

The table below shows the contract or underlying principal amounts, positive and negative market values and related book values of non-trading and trading derivatives analysed by type of contract. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values represent the amount at which a contract could be exchanged in an arm's length transaction, calculated at market rates current at the balance sheet date.

2000 – Non-trading derivatives:

	Group				
	Contract or underlying principal £m	Positive fair values £m	Related book value £m	Negative fair values £m	Related book value £m
Exchange rate contracts:					
Cross-currency swaps	18,574	740	425	873	792
Forward foreign exchange	2,885	19	21	146	146
Foreign exchange options	29	3	1	–	–
	21,488	762	447	1,019	938
Interest rate contracts:					
Interest rate swaps	99,343	2,823	1,670	1,755	740
Caps, floors and swaptions	9,043	97	177	8	(1)
Futures (exchange traded)	2,030	–	–	–	–
Forward rate agreements	1,685	–	–	–	–
	112,101	2,920	1,847	1,763	739
Equity and commodity contracts:					
Equity index options	939	1	–	6	–
Equity and commodity index swaps	474	31	(17)	42	7
	1,413	32	(17)	48	7
Total	135,002	3,714	2,277	2,830	1,684

50. Derivatives continued

1999 – Non-trading derivatives:	Group Contract or underlying principal £m	Positive fair values £m	Related book value £m	Negative fair values £m	Related book value £m
Exchange rate contracts:					
Cross-currency swaps	14,090	468	506	964	890
Forward foreign exchange	6,954	19	54	15	5
Foreign exchange options	29	2	1	–	–
	21,073	489	561	979	895
Interest rate contracts:					
Interest rate swaps	85,595	1,967	923	1,452	482
Caps, floors and swaptions	9,069	283	193	33	5
Futures (exchange traded)	1,029	–	–	–	–
Forward rate agreements	1,648	1	–	–	–
	97,341	2,251	1,116	1,485	487
Equity and commodity contracts:					
Equity index options	448	24	32	–	–
Equity and commodity index swaps	394	7	(18)	16	(4)
	842	31	14	16	(4)
Total	119,256	2,771	1,691	2,480	1,378

Included in the above analysis of non-trading derivatives are exchange rate contracts, interest rate contracts and equity and commodity contracts with underlying principal amounts of £2,618m (£2,098m), £61,205m (£54,025m) and £126m (£152m) respectively, which were undertaken by Group entities with ANFP. The total net positive fair value of such contracts amounted to £433m (£209m).

2000 – Trading derivatives:	Group Contract or underlying principal £m	Positive fair values £m	Negative fair values £m
Exchange rate contracts:			
Cross-currency swaps	8,677	230	211
Forward foreign exchange	10,785	194	143
	19,462	424	354
Interest rate contracts:			
Interest rate swaps	191,549	2,848	2,927
Caps, floors and swaptions	41,356	260	401
Futures (exchange traded)	8,836	–	–
Forward rate agreements	2,409	2	2
	244,150	3,110	3,330
Equity and credit contracts:			
Equity index options	7,274	429	1,084
Equity index options (exchange traded)	3,407	2	11
Credit derivatives	1,710	7	2
	12,391	438	1,097
Total	276,003	3,972	4,781
Effect of netting		(2,372)	(2,372)
Fair values of contracts between ANFP and other Group entities		–	433
Amount included in Other assets/Other liabilities		1,600	2,842

Included in the negative fair value of equity index options are amounts due under guaranteed retail products, the cash for which was received at inception.

Associated contracts which ANFP has transacted with external counterparties are included in the analysis of trading derivatives. Net negative fair values of £433m (£209m) on all contracts held by ANFP with other Group entities are included within Other liabilities, as shown in the above table.

Positive fair values arise where gross positive fair values exceed gross negative fair values on a contract by contract basis. This equates to net replacement cost. Negative fair values arise where gross negative fair values exceed gross positive fair values on a contract by contract basis. The totals of positive and negative fair values arising on trading derivatives as at 31 December 2000 have been netted where the Group has a legal right of offset with the relevant counterparty.

1999 – Trading derivatives:	Group Contract or underlying principal £m	Positive fair values £m	Negative fair values £m
Exchange rate contracts:			
Cross-currency swaps	4,851	110	135
Forward foreign exchange	3,310	1	12
	8,161	111	147
Interest rate contracts:			
Interest rate swaps	145,389	1,969	2,145
Caps, floors and swaptions	31,355	361	270
Futures (exchange traded)	13,644	–	–
Forward rate agreements	4,828	4	3
	195,216	2,334	2,418
Equity and credit contracts:			
Equity index options	6,171	267	1,447
Equity index options (exchange traded)	45	–	–
Credit derivatives	–	–	–
	6,216	267	1,447
Total	209,593	2,712	4,012
Effect of netting		(1,782)	(1,782)
Fair values of contracts between ANFP and other Group entities		–	209
Amount included in Other assets/Other liabilities		930	2,439

Substantially all of the Group's derivatives activity is contracted with financial institutions.

All exchange traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Other derivative contracts are not subject to these cash requirements.

50. Derivatives continued

The following table analyses over-the-counter (OTC) and other non-exchange traded derivatives held for non-trading purposes by remaining maturity:

	Contract or underlying principal 2000 £m	Net replace-ment cost 2000 £m	Contract or underlying principal 1999 £m	Net replacement cost 1999 £m
Non-trading derivatives maturing:				
In not more than 1 year	37,546	1,143	31,789	551
In more than 1 year but not more than 5 years	67,454	1,395	62,798	1,401
In more than 5 years	27,972	1,176	23,640	819
	132,972	3,714	118,227	2,771

The following table analyses OTC and other non-exchange traded derivatives held for trading purposes by remaining maturity:

	Contract or underlying principal 2000 £m	Net replace-ment cost 2000 £m	Contract or underlying principal 1999 £m	Net replacement cost 1999 £m
Trading derivatives maturing (before netting):				
In not more than 1 year	56,718	835	39,365	233
In more than 1 year but not more than 5 years	126,301	1,610	100,983	1,367
In more than 5 years	80,741	1,525	55,556	1,112
	263,760	3,970	195,904	2,712

Unrecognised gains and losses on financial assets and financial liabilities resulting from hedge accounting

Gains and losses on financial instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging are expected to be recognised as follows:

	Group Gains £m	Losses £m	Total net gains (losses) £m
At 31 December 2000:			
In 1 year or less	664	(533)	131
After 1 year	1,222	(1,062)	160
	1,886	(1,595)	291
At 31 December 1999:			
In 1 year or less	394	(433)	(39)
After 1 year	1,067	(1,044)	23
	1,461	(1,477)	(16)

The net loss unrecognised at 31 December 1999 and recognised during the year was £43m (1999: net gain £203m).

Deferred gains and losses on financial assets and financial liabilities resulting from hedge accounting

Deferred balances relating to settled derivatives and other financial transactions previously used as hedges, will be released to the profit and loss account in the same periods as the income and expense flows from the underlying transactions. The movement in the period is as follows:

	Group Gains £m	Losses £m	Total net gains (losses) £m
At 1 January 2000	64	(29)	35
Previous years deferred gains and losses recognised in the year	(17)	11	(6)
Gains and losses deferred in the year	34	(1)	33
At 31 December 2000	81	(19)	62
Gains and losses expected to be recognised:			
In 1 year or less	16	(8)	8
After 1 year	65	(11)	54

51. Consolidated cash flow statement

a) Reconciliation of profit before tax to net cash inflow from operating activities

	2000 £m	1999 £m
Profit on ordinary activities before tax	1,975	1,783
(Increase) decrease in interest receivable and prepaid expenses	(647)	342
Increase (decrease) in interest payable and accrued expenses	918	(155)
Provisions for bad and doubtful debts	273	303
Provisions for contingent liabilities and commitments	21	23
Net advances written off	(308)	(317)
Increase before tax from long term assurance business	(240)	(196)
Depreciation and amortisation	312	171
Income from associated undertakings	(17)	(12)
Profit on sale of subsidiary and associated undertakings	(45)	–
Profit on sale of tangible fixed assets and investments	(104)	(108)
Effect of other deferrals and accruals of cash flows from operating activities	(43)	98
Net cash inflow from trading activities	2,095	1,932
Net increase in loans and advances	(6,656)	(5,504)
Net decrease (increase) in investment in finance leases	164	(100)
Net (increase) decrease in bills and securities	(4,307)	3,314
Net increase in deposits and customer accounts	12,197	445
Net increase in debt securities in issue	4,612	8,404
Net increase in other liabilities less assets	472	2,243
Exchange movements	(2,484)	(207)
Net cash inflow from operating activities	6,093	10,527

Exchange movements represent exchange movements on cash balances and investing and financing activities. The movements are not indicative of the Group's exposure to foreign exchange risk on these items, because foreign currency positions in such balances are substantially hedged by other on-balance sheet and off-balance sheet foreign currency amounts. All other exchange movements, including movements on hedges, are included in the relevant captions in the above reconciliation.

b) Analysis of the balances of cash as shown in the balance sheet

Included in the balance sheet are the following amounts of cash:

	Cash and balances with central banks £m	Loans and advances to other banks repayable on demand £m	Total £m
At 1 January 2000	701	2,483	3,184
Net cash (outflow) inflow	(264)	3,056	2,792
At 31 December 2000	437	5,539	5,976

	Cash and balances with central banks £m	Loans and advances to other banks repayable on demand £m	Total £m
At 1 January 1999	329	1,337	1,666
Net cash inflow	372	1,146	1,518
At 31 December 1999	701	2,483	3,184

The Group is required to maintain balances with the Bank of England which at 31 December 2000 amounted to £111m (£98m). These are shown in Loans and advances to banks, and are not included in cash for the purposes of the cash flow statement.

c) Analysis of changes in financing during the year

	Share capital inc. share premium £m	Non-equity minority interests £m	Sub–ordinated liabilities £m	Total £m
At 1 January 2000	2,003	–	4,642	6,645
Net cash inflow from financing	11	620	990	1,621
Shares issued for a non-cash consideration	49	–	–	49
Capitalised on exercise of share options	15	–	–	15
Effect of foreign exchange rate changes	–	44	239	283
At 31 December 2000	2,078	664	5,871	8,613

51. Consolidated cash flow statement continued

	Share capital inc. share premium £m	Sub-ordinated liabilities £m	Total £m
At 1 January 1999	1,960	3,333	5,293
Net cash inflow from financing	18	1,330	1,348
Effect of foreign exchange rate changes	–	(21)	(21)
Capitalised on exercise of share options	25	–	25
At 31 December 1999	2,003	4,642	6,645

d) Acquisitions of subsidiary undertakings and purchase of businesses	2000 £m	1999 £m
Net assets acquired:		
Loans and advances to banks	275	–
Net investment in finance leases	2	–
Tangible fixed assets	1,487	36
Other assets	56	30
Deposits by banks	(1)	–
Debt securities in issue	(549)	–
Other liabilities	(298)	–
Goodwill on acquisitions	54	–
	1,026	66
Satisfied by:		
Cash	1,026	30
Loan prepayment	–	36
	1,026	66

e) Analysis of the net outflow of cash in respect of acquisitions of subsidiary undertakings and purchase of businesses	2000 £m	1999 £m
Cash consideration	1,026	30
Cash acquired	–	–
Net outflow of cash in respect of acquisitions of subsidiary undertakings and purchase of businesses	1,026	30

f) Sale of subsidiary undertakings	2000 £m	1999 £m
Net assets disposed of:		
Other assets	16	–
Cash at bank and in hand	5	–
Other liabilities	(3)	–
Goodwill written back	3	–
Profit on disposal	42	–
	63	–
Satisfied by:		
Cash	63	–

g) Analysis of the net inflow of cash in respect of the sale of subsidiary undertakings	2000 £m	1999 £m
Cash received as consideration	63	–
Cash disposed of	(5)	–
Net inflow of cash in respect of sale of subsidiary undertakings	58	–

52. Retirement benefits

The Abbey National Amalgamated Pension Fund, Abbey National Group Pension Scheme and National & Provincial Building Society Pension Fund are the principal pension schemes within the Group, covering 77% (80%) of the Group's employees, and are all funded defined benefits schemes.

The latest formal actuarial valuation carried out by an independent professionally qualified actuary was made as at 31 March 1999 for the Amalgamated Fund and Group Pension Scheme and 31 March 2000 for the National & Provincial Building Society Pension Fund.

The main long term financial assumptions, as stated in absolute terms, used in the 2000 actuarial valuations were:

	% Nominal per annum
Investment return	6.25
Pension increases	3.0
General salary increases	4.5
General price inflation	3.0

52. Retirement benefits continued

Formal actuarial valuations of the assets and liabilities of the schemes are carried out on a triennial basis and, in addition, there is an annual review by the appointed actuary. The results of these reviews are included in the financial statements. As at 31 March 2000, the combined market value of the schemes' assets was £2,094m, and the combined funding level 105%. All of the pension funds are valued using the projected unit method with pension assets valued at their full market value on the valuation date.

As shown in the table below, the pension cost reflects the regular contribution rate less amounts in respect of the surplus or deficit being recognised over the expected remaining service lives of the members of all the Group's schemes in accordance with SSAP 24 'Accounting for pension costs'. Surpluses or deficits are amortised on the basis of straight line amortisation with interest on the reducing balance. The pension cost charged to the profit and loss account for the year was as follows:

	Group	
	2000 £m	1999 £m
Regular cost	79	73
Amortisation of surpluses arising on the Abbey National Amalgamated Pension Fund and the National & Provincial Pension Fund	(12)	(9)
Amortisation of deficit arising on the Abbey National Group Pension Scheme	1	1
Amortisation of surplus arising from fair value adjustment on acquisition of N&P	2	2
Charged to profit and loss account (note 38)	70	67

An asset of £21m (£10m) in respect of the surplus and a liability of £2m (£1m) in respect of the deficit have been included in the balance sheet accordingly. In addition, included in Other assets as at 31 December 2000 was an amount of £21m (£23m) in respect of the unamortised pension scheme surplus assessed at the date the business of National & Provincial was purchased. This was based on an actuarial assessment of the scheme at that date and is included in the balance sheet in accordance with FRS7. This balance is being amortised over the average remaining service lives of employees in the scheme as shown above.

53. Directors' emoluments and interests

Further details of directors' emoluments and interests are included in the Board Report of the Personnel and Remuneration Committee on pages 29 to 34. These details include, as specified for audit by the UK Listing Authority, an analysis, by director, of salary and other payments and benefits on page 30, an analysis of directors' share interests and share options on pages 31 to 33 and details of the directors' conditional rights over the Company's shares under the Long Term Incentive Plan on pages 33 to 34, all of which form part of these audited financial statements.

Ex gratia pensions paid to former directors of Abbey National plc in 2000, which have been provided for previously, amounted to £139,220 (£157,900). In 1992, the Board decided not to award any new such ex gratia pensions and accordingly, no charge (nil) to the profit and loss account has been made in respect of them.

Details of loans, quasi loans and credit transactions entered into or agreed by the Company or its subsidiaries with persons who are or were directors and connected persons and officers of the Company during the year were as follows:

	Number of persons	Aggregate amount outstanding £000
Directors		
Loans	9	1,540
Quasi loans	6	18
Credit transactions	–	–
Officers		
Loans	25	2,379
Quasi loans	13	26
Credit transactions	24	419

No director had a material interest in any contract of significance, other than a service contract, with the Company or any of its subsidiaries at any time during the year. The directors did not have any interests in shares or debentures of subsidiaries. Further disclosures relating to these transactions, as required under FRS 8, 'Related party disclosures' are given in note 54.

54. Related party disclosures

a) Transactions with directors, executive officers and their close family members

Directors, executive officers and members of their close families have undertaken the following transactions with the Abbey National Group in the course of normal banking and life assurance business.

	Number of directors and executive officers (1) 2000	Amounts in respect of directors, executive officers (1) and their close family members 2000 £000
Secured loans, unsecured loans and overdrafts		
Net movements in the year	12	307
Balances outstanding as at 31 December	11	1,583
Deposit, investment, bank and instant access accounts		
Net movements in the year	16	(180)
Balances outstanding as at 31 December	15	3,464
Life assurance policies and investments		
Net movements in the year	3	280
Total sum insured/value of investment	3	451

	Number of directors and executive officers (1) 1999	Amounts in respect of directors, executive officers (1) and their close family members 1999 £000
Secured loans, unsecured loans and overdrafts		
Net movements in the year	12	(16)
Balances outstanding as at 31 December	11	1,276
Deposit, investment, bank and instant access accounts		
Net movements in the year	14	709
Balances outstanding as at 31 December	15	3,644
Life assurance policies and investments		
Net movements in the year	3	(5)
Total sum insured/value of investment	2	171

(1) Executive officers are defined as those officers who report directly to the Group Chief Executive.

Two directors have also undertaken sharedealing transactions through a subsidiary company of an aggregate net value of £56,359. The transactions were on normal business terms and standard commission rates were payable.

Secured and unsecured loans are made to directors, executive officers and their close family members on the same terms and conditions as applicable to other employees within the Group.

Amounts deposited by directors, executive officers and their close family members earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Group.

Life assurance policies and investments are entered into by directors, executive officers and their close family members on normal market terms and conditions, or on the same terms and conditions as applicable to other employees within the Group.

54. Related party disclosures continued

b) Transactions with associated undertakings

Abbey National plc had a joint venture agreement with Commercial General Union plc. Abbey National plc acted as agent for CGU Underwriting Ltd (CGUUL), under which it passed insurance premiums to CGUUL and earned an agent's margin. The agency margin amounted to £130m (£132m) for the period ended 29 December 2000. On 29 December 2000 Abbey National sold its interests in CGUUL for £26m.

Abbey National Independent Consulting Group Ltd holds a 49% share in Willis National Holdings Ltd (Willis National), a company offering independent financial advice. Willis National earns a commission on insurance premiums, for which it pays introductory fees. The net income from such fees amounted to nil (nil) for the year ended 31 December 2000.

Abbey National plc has a joint venture agreement with Safeway plc which includes various savings products and an in-store banking network. Customer accounts are all managed by Abbey National plc, with a share of profits being paid to Safeway. During the year ended 31 December 2000, nil (nil) was paid to Safeway plc.

First National Bank plc holds a 50% share in PSA Finance plc (PSA), a subsidiary of Peugeot SA. PSA is a finance organisation providing financial services to the Peugeot-Citroen car dealership network. The income receivable from the Group's interest in PSA amounted to £16m (£11m) in the year.

Abbey National Jersey International Limited holds 24.5% of the 'A' ordinary shares in DAH Holdings Limited (DAH). DAH is the holding company of a private banking organisation, and is registered in Bermuda. The income receivable from the Group's interest in DAH amounted to £1m (£1m) in the year.

Balances outstanding between the Group and associated companies as at 31 December 2000 are detailed in notes 16 and 32. Further details of the Group's interests in associated undertakings are shown in note 22.

c) Transactions with long term assurance funds

The long term assurance funds are related parties for the purposes of this disclosure because the assets and liabilities of the long term assurance funds are included in the balance sheet.

As at 31 December 2000, Group entities owed £202m (£232m) to, and were owed £327m (£31m) by, the long term assurance funds. Of these respective amounts £198m (£230m) relates to amounts deposited by the long term assurance funds with Abbey National plc or Abbey National Treasury Services plc (ANTS), and £271m (£4m) relates to amounts owed by the long term assurance funds to Abbey National plc or ANTS. The remaining amounts represent balances between the long term assurance funds and the shareholders' funds of the life assurance businesses within the Group. In addition, the long term assurance funds have lent £1,121m (£897m) of investment assets to a subsidiary of ANTS under stock lending agreements as at 31 December 2000.

Included in Fees and commissions receivable in the year is an amount of £48m (£32m) receivable from the long term assurance fund of Abbey National Life in respect of life assurance products sold through the retail branch network.

During the year Abbey National Financial Investment Services plc incurred costs amounting to £98m (£96m) on behalf of the long term assurance funds. All such costs were recharged to the long term assurance funds and included within the charge to income from long term assurance business.

Details of transfers of funds between shareholders' funds and long term assurance funds are provided in note 21. Included within Assets of long term assurance funds and Liabilities of long term assurance funds are amounts owing between the long term assurance funds of £1m (£6m).

The value of the funds' holdings in internally managed unit trusts amounted to £4,281m (£4,431m) at 31 December 2000. The unit trusts are managed by Abbey National Unit Trust Management Ltd, Scottish Mutual International Fund Managers Ltd, Scottish Mutual International Managers Ltd and Abbey National Asset Managers Ltd.

55. Proposed acquisition of Scottish Provident

Abbey National has entered into an agreement with Scottish Provident under which the business of Scottish Provident will be transferred to the Abbey National Group. In connection with the transaction, Abbey National will provide £1.8 billion, subject to final calculations, so that members of Scottish Provident will receive £1.6 billion as compensation for loss of membership rights and a further £0.2 billion will be paid into the with profit fund.

The transfer is subject to, amongst other things, approval by Scottish Provident members, approval by certain regulatory authorities and the sanction of the Court. It is anticipated that completion of the acquisition will take place in summer 2001.

Group financial summary

Profit and loss accounts

	Total 2000 £m	Total 1999 £m	Total 1998 £m	Total 1997 £m	Total 1996 £m
Net interest income	2,680	2,661	2,241	1,905	1,815
Commissions, fees and other income	1,614	1,141	890	716	539
Operating expenses excluding operating lease depreciation	(1,815)	(1,615)	(1,346)	(1,194)	(1,038)
Depreciation on operating lease assets	(178)	(52)	(20)	(8)	(5)
Provisions for bad and doubtful debts	(273)	(303)	(201)	(121)	(127)
Provisions for contingent liabilities and commitments	(21)	(23)	(16)	(16)	(4)
Amounts written off fixed asset investments	(32)	(26)	(28)	(3)	(13)
Profit on ordinary activities before tax	1,975	1,783	1,520	1,279	1,167
Tax on profit on ordinary activities	(559)	(522)	(462)	(326)	(403)
Profit on ordinary activities after tax	1,416	1,261	1,058	953	764
Minority interests – equity	–	–	–	1	3
Minority interests – non-equity	(51)	–	–	–	–
Profit attributable to the shareholders of Abbey National plc	1,365	1,261	1,058	954	767
Transfer to non-distributable reserve	(156)	(13)	(125)	(78)	(67)
Dividends including amounts attributable to non-equity interests	(687)	(610)	(535)	(469)	(373)
Profit retained for the financial year	522	638	398	407	327
Earnings per ordinary share (pence)					
– basic	93.4p	86.2p	72.4p	65.2p	56.5p
– diluted	92.8p	85.5p	71.7p	64.7p	56.0p
Dividends per ordinary share (pence)					
Net	45.50p	40.25p	35.30p	30.70p	26.10p
Gross equivalent	50.56p	44.72p	40.85p	38.38p	32.63p
Dividend cover (times)	2.00	2.10	2.00	2.10	2.10

The Group financial summary is based on the audited consolidated financial statements of the Abbey National Group for the five years ended 31 December 2000, and has been derived from the consolidated financial statements for each of the relevant years.

For a description of exceptional items in 1999 see note 3 to the financial statements. Exceptional items in 1998 and 1997 include Year 2000 and EMU costs of £74m and £28m respectively. In addition tax changes introduced in 1997 resulted in a £133m reduction in net interest income and a £12m provision against the embedded value profits for the Life Assurance subsidiaries (included within commissions, fees and other income), with credits of equivalent amount to the tax charge. Operating expenses in 1996 include exceptional costs of £61m incurred in the integration of the business of the National and Provincial Building Society (N&P).

The calculation of the gross equivalent dividend per ordinary share applies a tax rate of 20% for grossing-up purposes for dividends up to and including the interim dividend for 1998. Thereafter the rate of 10% has been applied.

Balance sheets

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Assets					
Cash, treasury bills and other eligible bills	1,596	1,815	2,386	1,957	339
Loans and advances to banks	12,168	11,472	7,428	8,271	2,825
Loans and advances to customers	81,752	75,221	72,257	66,878	64,227
Loans and advances subject to securitisation	7,927	1,930	217		
less: non-returnable finance	(4,629)	(1,379)	(213)		
	3,298	551	4	–	–
Net investment in finance leases	5,192	5,441	5,326	4,655	4,310
Securities and investments	69,573	59,740	54,326	46,537	39,774
Long term assurance business	1,538	1,042	760	649	555
Intangible fixed assets	245	203	201	–	–
Tangible fixed assets excluding operating lease assets	389	759	731	698	689
Operating lease assets	1,963	358	223	67	26
Tangible fixed assets	2,352	1,117	954	765	715
Other assets	7,594	6,703	5,728	4,317	3,397
Assets of long term assurance funds	19,083	17,439	13,383	10,101	7,869
Total assets	204,391	180,744	162,753	144,130	124,011
Liabilities					
Deposits by banks	34,996	29,824	35,610	23,814	17,718
Customer accounts	66,795	59,911	52,924	55,719	49,678
Debt securities in issue	57,078	51,407	42,989	40,201	35,193
Other liabilities	13,074	11,444	9,107	6,954	6,786
Subordinated liabilities including convertible debt	5,871	4,641	3,333	2,463	2,374
Liabilities of long term assurance funds	19,083	17,439	13,383	10,101	7,869
	196,897	174,666	157,346	139,252	119,618
Minority interests – non-equity	664	–	–	–	–
Non-equity shareholders' funds	450	450	450	450	321
Equity shareholders' funds	6,380	5,628	4,957	4,428	4,072
Total liabilities, minority interests and shareholders' funds	204,391	180,744	162,753	144,130	124,011

The Annual Report on Form 20-F (Form 20-F) for the year ended 31 December 2000 will be filed with the Securities and Exchange Commission in accordance with US legislation. The Form 20-F will be available for public inspection, and a copy may be obtained from Abbey National plc, registered office: Abbey House, Baker Street, London NW1 6XL. The Form 20-F contains certain additional information which is prepared in accordance with generally accepted accounting principles applicable in the United States (US GAAP) which differ in certain respects from those used in the UK (UK GAAP). The following pages include an average balance sheet prepared under UK GAAP, which is a US requirement, and is provided here as supplementary information. Throughout this section, references to UK and non-UK refer to the location of the office where the transaction is recorded.

Average balance sheet	2000 Average balance £m	2000 Interest £m	2000 Average rate %	1999 (restated) Average balance £m	1999 (restated) Interest £m	1999 (restated) Average rate %	1998 (restated) Average balance £m	1998 (restated) Interest £m	1998 (restated) Average rate %
Assets									
Loans and advances to banks									
UK	2,711	174	6.40	3,263	159	4.86	4,465	265	5.94
Non-UK	377	26	6.82	281	17	6.42	316	25	7.85
Loans and advances to customers									
UK	76,829	5,946	7.74	72,603	5,308	7.31	66,403	5,668	8.54
Non-UK	1,663	97	5.82	1,453	81	5.56	1,368	85	6.23
Lease receivables									
UK	4,847	345	7.12	5,341	336	6.29	4,679	339	7.24
Non-UK	20	1	2.70	26	1	4.94	29	1	4.19
Debt securities									
UK	36,847	2,280	6.19	35,220	1,706	4.84	33,478	1,935	5.77
Non-UK	10,604	674	6.36	7,468	403	5.39	3,818	244	6.38
Total average interest earning assets and interest income – banking	133,898	9,543	7.13	125,655	8,011	6.38	114,556	8,562	7.47
Total average interest earning assets and interest income – trading	29,815	1,667	5.59	25,523	1,218	4.77	20,561	1,363	6.63
Total average interest earning assets and interest income	163,713	11,210	6.85	151,178	9,229	6.10	135,117	9,925	7.35
Allowance for loan losses	(635)	–	–	(694)	–	–	(614)	–	–
Non-interest earning assets:									
Long term assurance fund assets	18,207	–	–	14,687	–	–	11,264	–	–
Other	10,855	–	–	11,062	–	–	8,554	–	–
Total average assets and interest income	192,140	11,210	5.83	176,233	9,229	5.24	154,321	9,925	6.43
Non-UK assets as a percentage of total	6.59%	–	–	5.67%	–	–	3.52%	–	–
Total average interest earning assets and net interest income	163,713	2,680	1.64	151,178	2,661	1.76	135,117	2,241	1.66

Average balance sheet continued			2000			1999 (restated)			1998 (restated)
	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %	Average balance £m	Interest £m	Average rate %
Liabilities and shareholders' funds									
Deposits by banks									
UK	9,645	572	5.93	5,654	332	5.88	9,591	597	6.23
Non-UK	819	47	5.76	750	33	4.66	748	25	3.27
Customer accounts – retail demand deposits									
UK	31,351	1,164	3.71	28,922	862	2.98	23,234	997	4.29
Non-UK	1,384	64	4.62	1,298	58	4.43	848	46	5.37
Customer accounts – retail time deposits									
UK	14,861	847	5.70	16,654	882	5.30	22,420	1,577	7.03
Non-UK	2,345	145	6.21	2,027	129	6.35	2,000	138	6.88
Customer accounts – wholesale deposits									
UK	9,977	620	6.22	9,664	494	5.11	3,740	270	7.21
Non-UK	464	28	5.96	330	19	5.61	210	9	4.45
Bond and medium term notes									
UK	27,353	1,563	5.71	27,702	1,221	4.41	24,361	1,420	5.83
Non-UK	314	15	4.85	156	5	3.45	270	17	6.38
Other debt securities in issue									
UK	18,144	1,103	6.08	13,572	716	5.28	12,142	790	6.50
Non-UK	10,791	649	6.01	7,918	382	4.82	4,221	221	5.24
Dated and undated loan capital and other subordinated liabilities									
UK	4,532	278	6.13	3,450	205	5.94	2,036	158	7.77
Non-UK	612	43	7.10	622	37	5.89	635	42	6.58
Other interest bearing liabilities									
UK	64	3	5.52	106	7	6.21	545	34	6.27
Non-UK	–	–	–	–	–	–	–	–	–
Total average interest bearing liabilities and interest expense – banking	132,656	7,141	5.38	118,825	5,382	4.53	107,001	6,341	5.93
Total average interest bearing liabilities and interest expense – trading	25,154	1,389	5.52	25,611	1,186	4.63	21,509	1,343	6.24
Total average interest bearing liabilities and interest expense	157,810	8,530	5.41	144,436	6,568	4.55	128,510	7,684	5.98
Non-interest bearing liabilities:									
Long term assurance fund liabilities	18,207	–	–	14,687	–	–	11,264	–	–
Other	9,511	–	–	11,219	–	–	9,236	–	–
Shareholders' funds	6,612	–	–	5,891	–	–	5,311	–	–
Total average liabilities, shareholders' funds and interest expense	192,140	8,530	4.44	176,233	6,568	3.73	154,321	7,684	4.98
Non-UK liabilities as a percentage of total	8.71%	–	–	8.29%	–	–	6.41%	–	–
Interest income as a percentage of average interest earning assets			6.85			6.10			7.35
Interest expense as a percentage of average interest bearing liabilities			5.41			4.55			5.98
Interest spread			1.44			1.55			1.37
Net interest margin			1.64			1.76			1.66

For the purposes of the average balance sheet, interest income and interest expense have been stated after allocation of interest on instruments entered into for hedging purposes.

Interest earning assets, interest bearing liabilities and the associated interest reflect a 'linked presentation' treatment for certain securitised assets (see note 17). If linked presentation was not adopted, the interest spread and net interest margin would be as follows:

	2000	1999	1998
Interest spread	1.42	1.55	1.36
Net interest margin	1.61	1.75	1.66

Following an accounting presentation change, the average balance sheet has been restated to show average trading assets and liabilities, and their relevant interest, separate from the average non-trading assets and liabilities of the Group.

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The Abbey National Group
comprises Abbey National plc
and its subsidiary companies

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Registered in England

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Shareholder analysis – 2000 figures as at 31 December 2000

	Ordinary shares of 10p		*Preference shares of £1*	
Size of shareholding	Shareholders	Shares	Shareholders	Shares
1-100	1,227,241	118,750,633	1	100
101-1,000	748,434	300,720,294	23	17,345
1,001+	34,043	1,012,202,663	1,117	324,982,555
Total	2,009,718	1,431,673,590	1,141	325,000,000

Financial calendar

21 March 2001	Ex-dividend date
23 March 2001	Record date
26 April 2001	Annual General Meeting, Barbican Centre, London
08 May 2001	Final dividend payment
25 July 2001	Interim results announced
22 August 2001	Ex-dividend date
24 August 2001	Record date for interim dividend
08 October 2001	Interim dividend payment

Still No1 for private investors

For the second year running, Abbey National has won the prestigious Proshare Award for 'Best Overall Performance in Meeting the Needs of Private Investors'. And, in a first for any company, Abbey National also scooped the top award for 'Best Overall Performance in Fostering Employee Share Ownership'. The trophies were presented at the Proshare Awards ceremony in November 2000 where the judges praised Abbey National's "overall excellence in private investor services".

Alternative Dividend Plan

The Alternative Dividend Plan (ADP) allows shareholders to receive their dividend as new shares in Abbey National rather than as a cash payment. The ADP means that a shareholder in Abbey National can expand their holding by acquiring new shares without incurring any share dealing costs normally associated with buying shares. For further information on the ADP and an application form, please contact Shareholder Services.

Direct payment of the dividend

Shareholders who are still receiving their dividend payment by cheque may wish to have their money paid directly into a bank or building society account. If you do this, you will still be sent a tax voucher to your home address, giving full details of the dividend paid. Shareholder Services can set up the direct payment for you.

Amalgamating your shares

If you were mailed more than one copy of this Directors' Report and Accounts, it may be because Abbey National has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future, you can have all your shares amalgamated into one account by contacting Shareholder Services.

Shareholder Services
0870 532 9430*

Share Price Information Line
0870 577 5525*

Abbey National Share Dealing Service
0845 602 3040†

* Calls are charged at the national rate.

† Calls are charged at the local rate.

To help us improve our service, we may record or monitor all calls.

Abbey National is regulated by the Personal Investment Authority. The value of shares may go down as well as up.

The Abbey National Group comprises Abbey National plc and its subsidiary companies. Abbey National plc Registered Office:

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Baker Street,
London NW1 6XL

Registered Number 2294747
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The Abbey National Group