

Prior year restatements

Change in presentation

At the interims, the Abbey National Group will be reported as three customer facing business divisions in line with the management changes announced in February. In addition to a Group Infrastructure division, they are:

- Retail Banking;
- Wealth Management and Long-term Savings; and
- Wholesale Banking.

The 2001 interim and full year results have been restated accordingly.

Specifically, the Retail Banking division now includes, in addition to the previous definition, Abbey National business (previously reported as part of First National), and costs relating to the distribution of Inscape products in the UK (previously reported in Business to Consumer).

The Wealth Management and Long-term Savings division comprises the old Business to Business division (excluding Abbey National business now reported as part of the Retail Bank) and the Business to Consumer division (excluding costs relating to the distribution of Inscape products in the UK).

Wholesale Banking remains unchanged.

Change in accounting policies

FRS 19 – Deferred tax

During the year, the Group has adopted the new accounting standard FRS 19, Deferred Tax. FRS 19 requires deferred tax to be provided on a 'full provision' basis on most types of timing difference, rather than the 'partial provision' basis previously required by SSAP 15, Accounting for Deferred Tax. In accordance with this, standard deferred tax assets for general provisions and software development costs have been credited to the profit and loss account for the first time. The impact on the 2001 interim and full year results is to increase profit after tax by £13 million and £24 million respectively.

	6 months to 30 June 2001 £ m	Full year to 31 December 2001 £ m
Total taxation as previously reported	333	603
Less: FRS 19 restatement	(13)	(24)
	<u>320</u>	<u>579</u>
Effective tax rate as previously reported	31.4%	31.1%
Effective tax rate restated	30.4%	30.2%

UITF Abstract 33 - Reserve Capital Instruments (RCI)

Following the issue of UITF Abstract 33 in February 2002, the treatment of RCI has changed. They are now treated as subordinated liabilities, with the coupon payment included as interest payable. The impact on 2001 half-year and full year is a reduction in profit before tax of £8 million and £19 million respectively, with profits attributable to shareholders remaining unchanged. The change impacts Group Infrastructure.

	6 months to 30 June 2001 £ m	Full year to 31 December 2001 £ m
Net interest income as previously reported	1,346	2,711
Less: UITF Abstract 33 restatement	(8)	(19)
	<u>1,338</u>	<u>2,692</u>

The restatement refers to the £300 million Step-up Callable Perpetual RCI issued on 14 February 2001.

Restatement of segmental profit and loss

2001 half-year profit before tax

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	801	291	251	(5)	1,338
Non-interest income	502	80	276	100	958
Total income	1,303	371	527	95	2,296
Operating expenses	(498)	(205)	(85)	(125)	(913)
Depreciation of operating lease assets	(45)	(4)	(71)	-	(120)
Provisions for bad and doubtful debts	(86)	(52)	-	-	(138)
Provisions for contingent liabs and commits	(2)	-	-	(5)	(7)
Amounts w/o fixed asset investments	-	-	(64)	-	(64)
Profit on ordinary activities before tax	672	110	307	(35)	1,054

2000 half-year profit before tax

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	808	305	219	-	1,332
Non-interest income	388	72	155	31	646
Total income	1,196	377	374	31	1,978
Operating expenses	(482)	(224)	(70)	(86)	(862)
Depreciation of operating lease assets	(23)	(5)	(31)	-	(59)
Provisions for bad and doubtful debts	(72)	(60)	-	-	(132)
Provisions for contingent liabs and commits	(4)	1	-	10	7
Amounts w/o fixed asset investments	-	-	(10)	-	(10)
Profit on ordinary activities before tax	615	89	263	(45)	922

1999 half-year profit before tax and exceptional items

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	815	293	201	(2)	1,307
Non-interest income	329	74	71	72	546
Total income	1,144	367	272	70	1,853
Operating expenses	(446)	(164)	(54)	(82)	(746)
Depreciation of operating lease assets	-	(22)	(1)	-	(23)
Provisions for bad and doubtful debts	(101)	(70)	-	-	(171)
Provisions for contingent liabs and commits	(3)	-	-	-	(3)
Amounts w/o fixed asset investments	-	-	(15)	-	(15)
Profit on ordinary activities before tax	594	111	202	(12)	895

Restatement of segmental profit and loss (continued)

2001 profit before tax

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	1,586	641	508	(43)	2,692
Non-interest income	952	154	590	147	1,843
Total income	2,538	795	1,098	104	4,535
Operating expenses	(1,016)	(392)	(186)	(256)	(1,850)
Depreciation of operating lease assets	(97)	(7)	(152)	-	(256)
Provisions for bad and doubtful debts	(142)	(121)	-	-	(263)
Provisions for contingent liabs and commits	(8)	-	-	17	9
Amounts w/o fixed asset investments	-	-	(256)	-	(256)
Profit on ordinary activities before tax	1,275	275	504	(135)	1,919

2000 profit before exceptional items

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	1,615	632	441	(8)	2,680
Non-interest income	916	130	423	145	1,614
Total income	2,531	762	864	137	4,294
Operating expenses	(995)	(452)	(155)	(213)	(1,815)
Depreciation of operating lease assets	(69)	(9)	(100)	-	(178)
Provisions for bad and doubtful debts	(156)	(116)	-	(1)	(273)
Provisions for contingent liabs and commits	(11)	2	-	(12)	(21)
Amounts w/o fixed asset investments	-	2	(34)	-	(32)
Profit on ordinary activities before tax	1,300	189	575	(89)	1,975

1999 profit before tax and exceptional items

	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m	GROUP £ m
Net interest income	1,680	599	393	(11)	2,661
Non-interest income	683	166	169	129	1,147
Total income	2,363	765	562	118	3,808
Operating expenses	(918)	(375)	(115)	(186)	(1,594)
Depreciation of operating lease assets	-	(50)	(2)	-	(52)
Provisions for bad and doubtful debts	(176)	(127)	-	-	(303)
Provisions for contingent liabs and commits	(15)	(5)	-	(3)	(23)
Amounts w/o fixed asset investments	-	-	(26)	-	(26)
Profit on ordinary activities before tax	1,254	208	419	(71)	1,810

Reconciliation of profit and loss restatement

2001 half-year profit before tax

	2001 HY stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	683	683	-	-	-
Wholesale Banking	307	-	-	307	-
Business to Business	126	2	124	-	-
Business to Consumer	(27)	(13)	(14)	-	-
Group Infrastructure	(27)	-	-	-	(27)
2001 HY revised basis	1,062	672	110	307	(27)
Less: RCI restatement	(8)	-	-	-	(8)
2001 HY restated basis	1,054	672	110	307	(35)

2000 half-year profit before tax

	2000 HY stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	605	605	-	-	-
Wholesale Banking	263	-	-	263	-
Business to Business	121	10	111	-	-
Business to Consumer	(22)	-	(22)	-	-
Group Infrastructure	(45)	-	-	-	(45)
2000 HY restated basis	922	615	89	263	(45)

1999 half-year profit before tax and exceptional items

	1999 HY stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	579	579	-	-	-
Wholesale Banking	202	-	-	202	-
Business to Business	113	15	98	-	-
Business to Consumer	13	-	13	-	-
Group Infrastructure	(12)	-	-	-	(12)
1999 HY restated basis	895	594	111	202	(12)

Reconciliation of profit and loss restatement (continued)

2001 profit before tax

	2001 Stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	1,303	1,303	-	-	-
Wholesale Banking	504	-	-	504	-
Business to Business	284	(2)	286	-	-
Business to Consumer	(37)	(26)	(11)	-	-
Group Infrastructure	(116)	-	-	-	(116)
2001 revised basis	1,938	1,275	275	504	(116)
Less: RCI restatement	(19)	-	-	-	(19)
2001 restated basis	1,919	1,275	275	504	(135)

2000 profit before tax

	2000 Stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	1,283	1,283	-	-	-
Wholesale Banking	575	-	-	575	-
Business to Business	254	17	237	-	-
Business to Consumer	(48)	-	(48)	-	-
Group Infrastructure	(89)	-	-	-	(89)
2000 restated basis	1,975	1,300	189	575	(89)

1999 profit before tax and exceptional items

	1999 Stated basis £ m	Retail Banking £ m	WM<S £ m	Wholesale Banking £ m	Group Infra. £ m
Retail Banking	1,227	1,227	-	-	-
Wholesale Banking	419	-	-	419	-
Business to Business	234	27	207	-	-
Business to Consumer	1	-	1	-	-
Group Infrastructure	(71)	-	-	-	(71)
1999 restated basis	1,810	1,254	208	419	(71)

Detailed profit and loss account by business segment

Retail Banking: 6 months to 30 June 2001

	UK Retail Bank	Abbey National Life	Retail Insurance	2001 Total
	£ m	£ m	£ m	£ m
Net interest income	796	7	(2)	801
Fees and commissions receivable	191	28	64	283
Fees and commissions payable	(20)	-	(1)	(21)
Net fees and commissions	171	28	63	262
Other operating income	171	68	1	240
Non-interest income	342	96	64	502
Total operating income	1,138	103	62	1,303
Salaries and other staff costs	(225)	(2)	(9)	(236)
Bank, legal, marketing and professional expenses	(44)	-	2	(42)
Software, computer and other administration expenses	(111)	(2)	(8)	(121)
Depreciation and amortisation	(35)	-	(1)	(36)
Other property and equipment expenses	(62)	-	(1)	(63)
Operating expenses	(477)	(4)	(17)	(498)
Depreciation on operating lease assets	(45)	-	-	(45)
Provisions for bad and doubtful debts	(86)	-	-	(86)
Provisions for contingent liabilities and commitments	(1)	(1)	-	(2)
Profit before tax	529	98	45	672

Retail Banking: Full year to 31 December 2001

	UK Retail Bank	Abbey National Life	Retail Insurance	2001 Total
	£ m	£ m	£ m	£ m
Net interest income	1,579	11	(4)	1,586
Fees and commissions receivable	367	51	133	551
Fees and commissions payable	(55)	-	(1)	(56)
Net fees and commissions	312	51	132	495
Other operating income	302	153	2	457
Non-interest income	614	204	134	952
Total operating income	2,193	215	130	2,538
Salaries and other staff costs	(479)	(5)	(10)	(494)
Bank, legal, marketing and professional expenses	(97)	(1)	-	(98)
Software, computer and other administration expenses	(196)	(3)	(22)	(221)
Depreciation and amortisation	(68)	-	(6)	(74)
Other property and equipment expenses	(124)	(1)	(4)	(129)
Operating expenses	(964)	(10)	(42)	(1,016)
Depreciation on operating lease assets	(97)	-	-	(97)
Provisions for bad and doubtful debts	(142)	-	-	(142)
Provisions for contingent liabilities and commitments	(5)	(3)	-	(8)
Profit before tax	985	202	88	1,275

Detailed profit and loss account by business segment (continued)

Wealth Management and Long-term Savings: 6 months to 30 June 2001

	Scottish Mutual £ m	Scottish Prov £ m	FN £ m	Wealth Mgmt £ m	cahoot £ m	2001 Total £ m
Net interest income	6	-	229	61	(5)	291
Dealing profits	2	-	-	-	-	2
Dividend Income	-	-	-	1	-	1
Fees and commissions receivable	2	-	63	20	1	86
Fees and commissions payable	-	-	(92)	(5)	(2)	(99)
Net fees and commissions	2	-	(29)	15	(1)	(13)
Other operating income	56	-	31	3	-	90
Non-interest income	60	-	2	19	(1)	80
Total operating income	66	-	231	80	(6)	371
Salaries and other staff costs	(2)	-	(44)	(27)	(2)	(75)
Bank, legal, marketing and prof. expenses	(-)	-	(5)	(11)	(21)	(37)
Software, computer and other administration expenses	(1)	-	(58)	(14)	(3)	(76)
Depreciation and amortisation	-	-	(3)	(2)	(1)	(6)
Other property and equipment expenses	-	-	(6)	(5)	-	(11)
Operating expenses	(3)	-	(116)	(59)	(27)	(205)
Depreciation of operating lease assets	-	-	(4)	-	-	(4)
Provisions for bad and doubtful debts	-	-	(49)	-	(3)	(52)
Profit/(loss) before tax	63	-	62	21	(36)	110

Wealth Management and Long-term Savings: Full year to 31 December 2001

	Scottish Mutual £ m	Scottish Prov £ m	FN £ m	Wealth Mgmt £ m	cahoot £ m	2001 Total £ m
Net interest income	16	27	461	143	(6)	641
Dealing profits	2	-	-	-	-	2
Dividend Income	-	-	-	2	-	2
Fees and commissions receivable	5	-	118	38	2	163
Fees and commissions payable	(1)	-	(183)	(12)	(2)	(198)
Net fees and commissions	4	-	(65)	26	-	(35)
Other operating income	146	3	32	4	-	185
Non-interest income	152	3	(33)	32	-	154
Total operating income	168	30	428	175	(6)	795
Salaries and other staff costs	(2)	-	(89)	(57)	(6)	(154)
Bank, legal, marketing and prof. expenses	-	-	(12)	(20)	(28)	(60)
Software, computer and other administration expenses	(2)	-	(96)	(32)	(14)	(144)
Depreciation and amortisation	-	-	(5)	(5)	(1)	(11)
Other property and equipment expenses	-	-	(12)	(10)	(1)	(23)
Operating expenses	(4)	-	(214)	(124)	(50)	(392)
Depreciation of operating lease assets	-	-	(7)	-	-	(7)
Provisions for bad and doubtful debts	-	-	(113)	(1)	(7)	(121)
Profit/(loss) before tax	164	30	94	50	(63)	275

Detailed profit and loss account by business segment (continued)

Group Infrastructure: 6 months to 30 June 2001

	<u>2001</u> <u>£m</u>
Net interest income	(5)
Fees and commissions receivable	-
Fees and commissions payable	-
Net fees and commissions	-
Other operating income	100
Non-interest income	100
Total operating income	<u>95</u>
Salaries and other staff costs	(22)
Bank, legal, marketing and professional expenses	(39)
Software, computer and other administration expenses	(30)
Depreciation and amortisation	(20)
Other property and equipment expenses	(14)
Operating expenses	<u>(125)</u>
Provisions for bad & doubtful debts	-
Provisions for contingent liabilities and commitments	(5)
Loss before tax	<u>(35)</u>

Group Infrastructure: Full year to 31 December 2001

	<u>2001</u> <u>£m</u>
Net interest income	(43)
Dividend income	1
Fees and commissions receivable	1
Fees and commissions payable	(3)
Net fees and commissions	(2)
Other operating income	148
Non-interest income	147
Total operating income	<u>104</u>
Salaries and other staff costs	(57)
Bank, legal, marketing and professional expenses	(56)
Software, computer and other administration expenses	(62)
Depreciation and amortisation	(59)
Other property and equipment expenses	(22)
Operating expenses	<u>(256)</u>
Provisions for bad & doubtful debts	-
Provisions for contingent liabilities and commitments	17
Loss before tax	<u>(135)</u>