

Chairman's statement ANTS' performance in 1999 and its profit record over the last ten years reflect the quality of the ANTS business and emphasise the importance of ANTS to the Abbey National Group.



In 1999, Abbey National Treasury Services plc (ANTS) again achieved an excellent set of results. ANTS increased pre-tax profits on continuing operations by nearly a third and grew assets by 12%. This performance and ANTS' profit record over the last ten years reflect the quality of the ANTS business and emphasise the importance of ANTS to the Abbey National Group (the Group).

At the same time as being a distinct business in its own right, ANTS is a significant part of the Group and in 1999, the business contributed 23% of the Group's total profit on a segmental reporting basis. This is the fifth consecutive year that this contribution has been over 20%.

ANTS' purpose is to maximise its contribution to the shareholder value of the Group, and it achieves this in two ways: through its activities as a wholesale bank; and as the Group's treasury.

ANTS is a leading wholesale bank with scale, breadth and stature in the international financial markets. ANTS has been active in lending to predominantly highly rated banks, other financial institutions, corporates and governments and investing in asset-backed securities since 1989. These activities continued to earn significant, non-volatile interest income streams in 1999.

ANTS has built on its existing expertise and market presence to establish new income streams and sustain its profit record. The business mix has evolved to include a number of new businesses which deliver larger fees, commissions and other income but less net interest income over the life of the transactions. Both project finance, a business we have grown rapidly over the past three years, and acquisition finance, a market we entered in 1999, provide a combination of interest and other income and are examples of the change in ANTS' mix of business.

Other successful developments include the securities lending business, Cater Allen International Limited (CAIL), which in its second full year as part of ANTS, again made a significant contribution to income; and the risk management & financial products business, Abbey National Financial Products (ANFP). This business provides derivative solutions to the Group and third parties and made a significant contribution to dealing profits in 1999. The equity derivatives business established in 1998 as part of ANFP, had a particularly successful year in 1999. The demand for derivative risk management solutions is expected to continue and ANTS intends to maintain the growth of this business.

The profits earned by these businesses in 1999 reflect the successful diversification of ANTS through participation in new but related businesses. ANTS will continue to respond to opportunities and extend its presence in markets which offer profit growth and attractive risk reward opportunities.

As the Group's treasury, ANTS provides highly effective liquidity management, wholesale funding, capital raising and risk management services which increase the value of businesses across the Group. ANTS continued to play a key role in managing the risks of the Group and through its activities in the money markets, managed the liquidity needs of the Group throughout the year and over the millennium year end. In the wholesale markets, ANTS raised a total of £13.0bn, mainly in the US, European and Asian markets through a range of debt programmes and the issuance of bonds tailored to meet the needs of investors. ANTS' expertise and global presence in these funding markets enabled the Group to raise a further £1.5bn of capital through seven new issues.

The successful launch of two £1bn equivalent mortgage-backed floating rate notes securitised on Abbey National residential mortgages has placed Abbey National as a leader in the UK's securitisation market. This further enhances the sources of funding available to the Group in the future, and increases the flexibility in managing the Group's balance sheet.

The excellent results achieved in 1999 were made possible by the productivity of the ANTS team, and I would like to thank each employee for their contribution to the success of this business. I was pleased to welcome Tony Hibbitt to the ANTS Board in January 1999, as an executive director. Tony is Chief Executive of CAIL and has headed up this securities lending operation for the past 11 years. On 1 February 2000, we welcomed Anna Merrick as Director, Special Finance and John Hasson as Director, Information Technology and Treasury Operations to the ANTS Board. Both Anna and John have headed up their respective areas of the business for the past few years.

Over the past decade, ANTS' successful diversification into new but related businesses has proved its ability to deliver growing and non-volatile income streams. I believe there is significant potential for growth in the wholesale markets and I am confident of the company's ability to sustain its growth in these markets.

Ian Harley *Chairman*