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Alliance
Leicester

Alliance & Leicester plc
Annual Report and Accounts

1999 2000 2001 2002 2003 2004 2005 2006

Moving forward with a **new strategy**

Alliance & Leicester's vision is to deliver value to our shareholders by becoming the UK's most customer focused financial services organisation – bar none.

We believe that speed beats size; Alliance & Leicester is big enough to be powerful, yet small enough to be fast. We will use this advantage to be responsive to the changing needs of our customers, delivering the services they want in the way they want them.

contents

Highlights

- Basic earnings per share up 5% at 63.9p (1999: 60.7p)
- Pre-tax profit of £447m (1999: £494m) reflecting a £48m investment in the Group's strategy and incorporating a £19m reduction from the share buyback programme.
- Total dividend up 13% to 33.0p per share (1999: 29.3p per share)
- Average interest-earning assets up 9% from £28.3bn to £30.8bn

Launch of 'Alliance Premier Account'

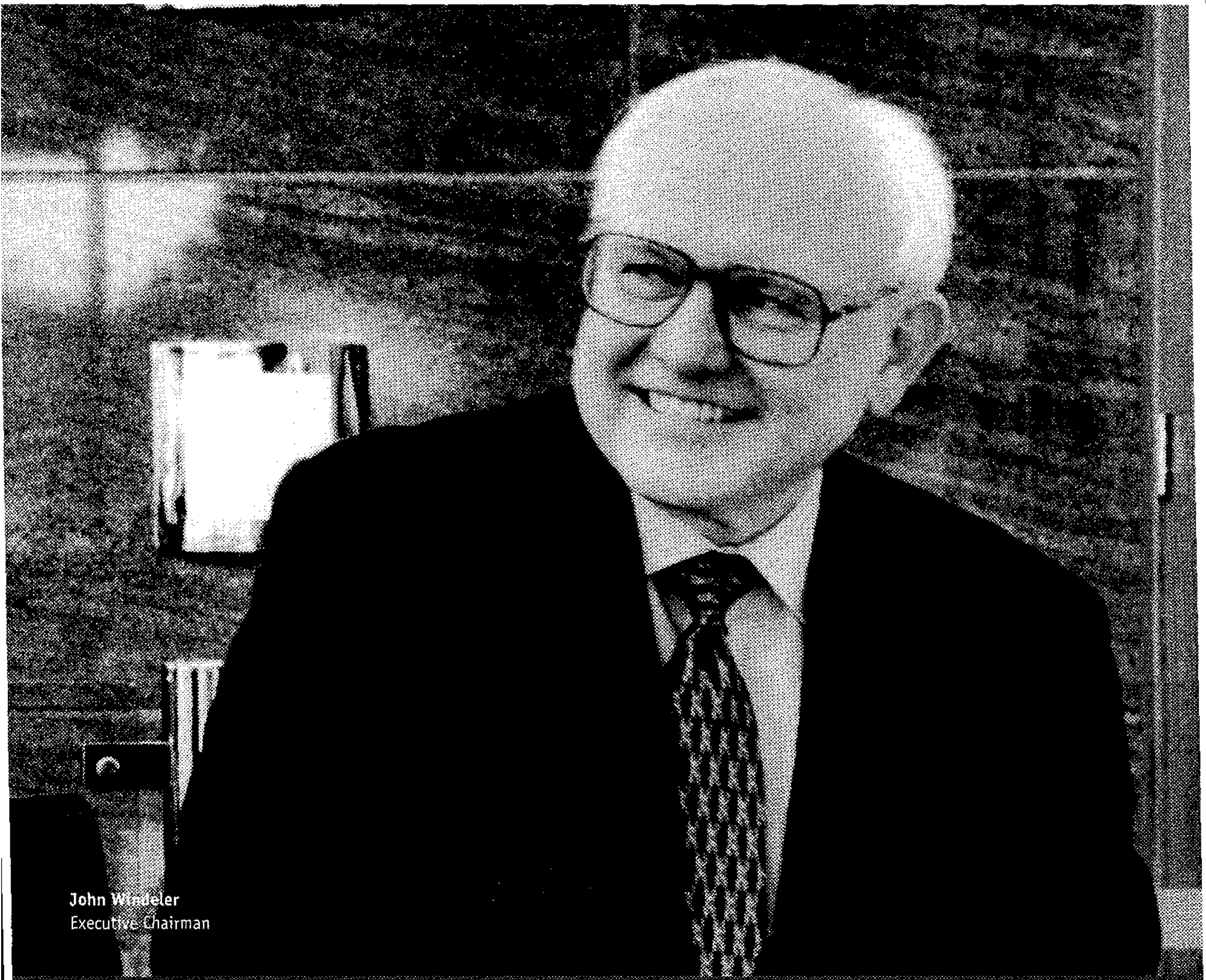
The Alliance Premier product consists of a competitively priced current account which gives customers real incentives to buy a full range of Alliance & Leicester products.

Launch of 'Alliance Business Banking'

We rebranded our small business offering in October 2000. Now known as Alliance Business Banking, this activity was supported with the launch of a number of new product and service developments in January 2001.

Diversifying our commercial business

Our commercial banking service has continued to thrive with major contracts established in both the bill payments and asset finance areas of the business.



John Windeler
Executive Chairman

strong results

The first year of the new millennium was a watershed year for Alliance & Leicester as we delivered a strong set of results and laid the foundations for a **successful future.**

Laying new foundations

The first year of the new millennium was a watershed year for Alliance & Leicester as we delivered a strong set of results and laid the foundations for a successful future.

In a year of considerable change for our industry, we undertook a detailed review of our business, to determine where we could compete most effectively; we reshaped the Board and senior management to release the potential of our most senior people; we restructured our operations to take advantage of our speed and agility; and we set challenging business targets with the objective of significantly enhancing shareholder value.

The benefits of the steps we have taken will be seen in the coming years by way of superior business performance.

While the future was very firmly on the agenda in 2000, we also delivered a strong set of financial results in a tough, competitive environment. Basic earnings per share in 2000 rose 5% to a record 63.9p per share (1999: 60.7p), while pre-tax profits of £447m were broadly in line with our 1999 figures after allowing for the cost of investment in our new strategy.

Recognising this performance, and the inherent strength of the Group, the Board is recommending a final dividend of 22.3p, making a total for the year of 33.0p, an increase of 13% on 1999.

There were many notable business successes in 2000. We attracted 545,000 new personal customers to the Group; saw improvements in our customer retention and cross selling; received more than 88,000 product applications through our retail banking website, from more than two million visits; increased gross unsecured personal lending by 11% and credit card balances by 10%; saw growth of 27% in funds under management; handled record volumes of cash for commercial customers, and record non-Post Office cash sales of £12bn; increased merchant acquiring transactions by 25%, taking our market share to 6% in just over four years; and saw a 53% growth in new lending in our asset finance business.

Our key achievement in 2000, however, was to re-invigorate Alliance & Leicester, with a strengthened and unified Board and senior management team pursuing the delivery of a new strategy.

1 Chris Rhodes Director, Manufacturing
2 Peter McNamara Group Managing Director
3 Tim Pile Director, Business Strategy & Marketing
4 David Bennett Group Executive Director
5 Russell Simm Director of Group Information Services
6 Charles Taylor Director, Commercial Banking Customers
7 Lynne Turner Director, Business Banking Customers
8 Graham Pilkington Director, Personal Customers
9 Richard Banks Distribution Director
10 Richard Pym Group Finance Director

developing a new strategy

The strategy we chose to pursue is, in many ways, a simple one. We intend to become the most customer focused financial services organisation – bar none.

The process began in the last few weeks of 1999 when the Board, executive and senior management team came together in a series of meetings to determine how a bank the size of Alliance & Leicester could compete in the foreseeable future.

The development of detailed options for the future direction of the Group was carried out by a team of our most senior managers. From June we were able to call on the very considerable talent and strategic experience of Peter McNamara as Group Managing Director, and with Peter's input these options were further refined and improved upon.

In July the initial outline of the Group strategy was announced to our staff, the City and the media. In October we set out detailed targets for cost control and income growth over the next three years. We had established that there were a number of strengths on which we could build: a long-established record of profitability; significant capital strength; a well-regarded brand; an experienced workforce; national distribution through our branch and ATM network, and our links with the Post Office; and a strong track record in the delivery of services to customers through 'direct' channels.

Most importantly we determined that speed is more important than size and that while Alliance & Leicester is big enough to be powerful, it is also small enough to be fast.

The strategy we chose to pursue is, in many ways, a simple one. Through the effective, integrated deployment of new technology and the rigorous simplification of our business, we intend to become the most customer-focused financial services organisation – bar none.

By using internet technologies to web-enable the bank, we will simplify internal processes, and give those customers who want to transact with us over the internet the means to do this. At the same time, recognising that many customers want to be able to choose from a range of access channels, we will continue to invest in other points of access such as the branch, telephone and post.

The driving force behind the creation of our new strategy is a Board which is committed to growth, both in the business and in shareholder value.

We have added considerably to the existing strengths of our Board. The appointments of Michael Allen and David Bennett were highlighted in last year's Report, and we appointed a further three new non-executive directors onto the Board during 2000.

David Brougham is an experienced banker, while Mike McTighe and Jonathan Watts have leading-edge experience of the technology and telecommunications sectors.

Peter McNamara, who joined Alliance & Leicester as Group Managing Director from LloydsTSB in June has already made a considerable impact on the operational and strategic management of the Group. He has given clear direction to our young and talented senior management team and we are delighted to have such a capable and experienced banker driving the implementation of our strategy.

Sir Michael Thompson, who made a significant contribution to the Group during 21 years as a non-executive director and, since 1995, as Deputy Chairman, retired from the Board at the end of December. Peter Barton, who was appointed joint Deputy Chairman alongside Sir Michael in May 2000, became sole Deputy Chairman on 1 January 2001. Our thanks and good wishes go to Sir Michael for a long and happy retirement.

Trevor Hilliard stepped down from the Board in August and from the Group in December. Trevor made a major contribution to Alliance & Leicester, most notably in the development of Alliance & Leicester Personal Finance. We wish him well for the future.

Any strategy is only as good as its implementation and, ultimately, implementation comes down to people. Our staff are among the best in the industry, and I thank them for their commitment during a year of challenge and transition. They have enthusiastically embraced the new, customer-focused, direction of the bank, and their professionalism and desire to meet our customers' needs gives me cause for great optimism in the future.

And what does that future hold?

Our technology strategy will enable us to simplify our working processes to reduce costs. It will also improve customer service, helping to drive up retention and cross-sale rates.

Consolidation within the banking sector was a theme for 2000 and will inevitably be on the agenda in 2001. The independent strategy we are pursuing is, we believe, the most effective way to deliver growth in shareholder value.

At the same time, we will continue to look for effective and imaginative ways to manage the Group's excess capital either by way of value-enhancing acquisitions, partnerships or joint ventures with third parties, or through a continuation of the share buyback programme we have pursued in recent years. We remain committed to our target tier 1 ratio of 8% by the end of 2001.

Competition will remain intense. We have seen strong pressure on margins in some of our core markets, but we are focused strongly on new product development which will broaden the scope of our customers' relationship with Alliance & Leicester and enable us to develop additional lines of income.

The effective use of new technology to enhance shareholder returns is an important issue. Our technology strategy will enable us to simplify our working processes to reduce costs. It will also improve customer service, helping to drive up retention and cross-sale rates.

Our size has enabled us to mine a rich seam of business from the internet, with more than 10% of new personal loan applications received through this channel. Industry indications are that the amount of business written by Alliance & Leicester through the internet is more than five times that of our competitors.

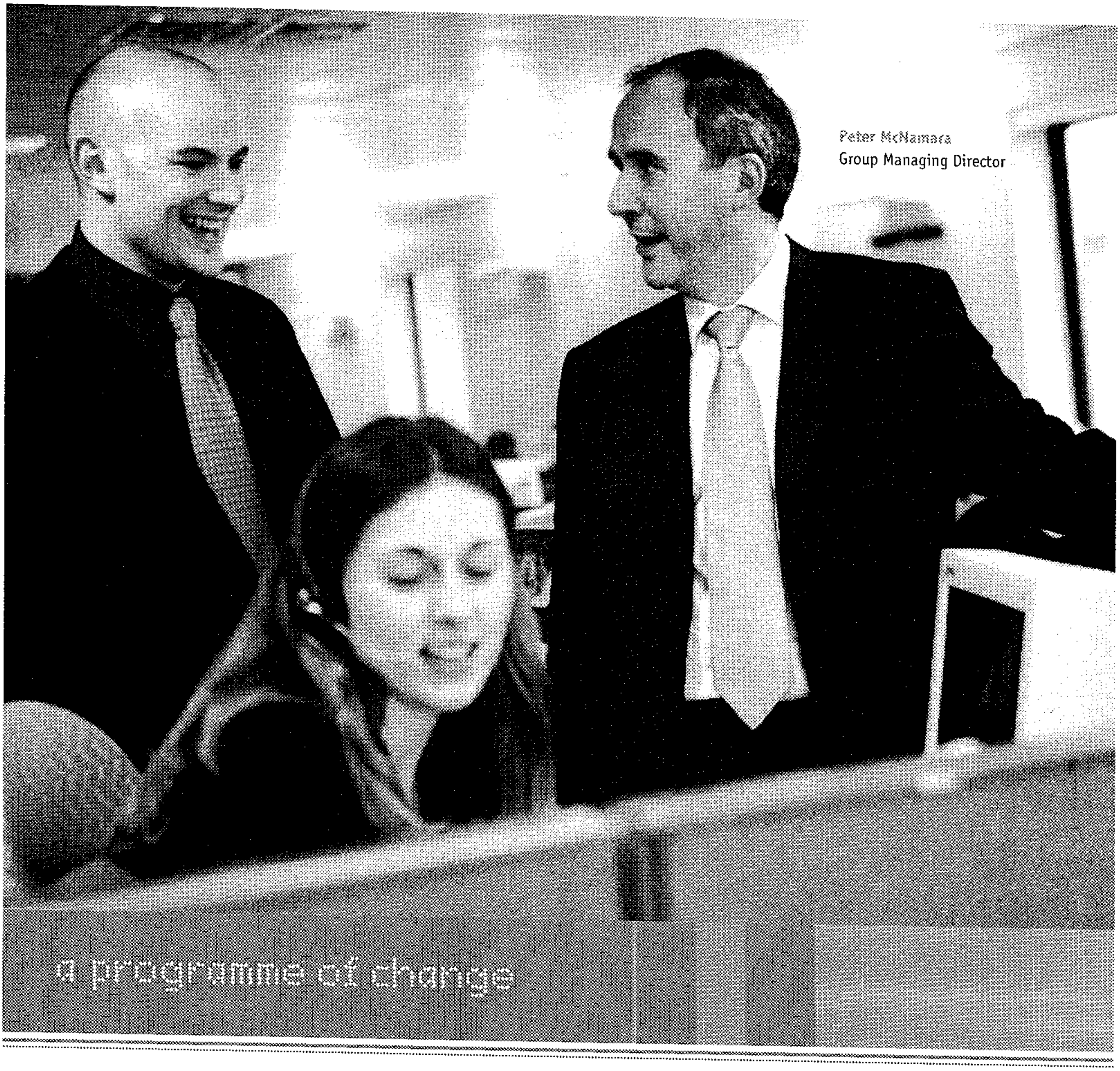
We have set some demanding milestones for the business; like-for-like running costs to be £100m per annum lower by the end of 2003, coupled with average annual growth in revenues of 6% over the same period.

We have made excellent progress towards these targets, with a rigorous approach to cost control and some exciting product launches in the key SME and current account markets – demonstrating once again the truth of the maxim that speed is more important than size.

But we know that success can only be measured by the effective delivery of all the key elements of the strategy.

With a strengthened Board and senior management team and a renewed sense of purpose, we are confident that 2001 will be the year in which we see clear and significant evidence of the rewards of our efforts.

John R Windeler
Executive Chairman



Alliance & Leicester's management has been restructured around our primary customer groups: personal customers, small businesses and commercial customers.

Co-ordinating activities

2000 – a new strategy for Alliance & Leicester

As the Chairman's Review makes clear, 2000 was a year of great change for Alliance & Leicester. We developed a new strategy, announced detailed business targets, and completed a fundamental restructuring of the way the Group is managed. Our strategy will deliver growth, by harnessing the Group's existing strengths. Our customers will increasingly see products and services which better meet their needs, with service delivered in a consistent, high-quality manner across all distribution channels, based on competitive, sustainable pricing.

Targets

In October, we announced targets to grow the Group's total revenue by an average rate of 6% per year from 2000 to 2003. We also announced plans to significantly reduce our cost base, targeting savings so that, if business volumes remained at 2000 levels, the annualised costs of running our business would be £100m lower by the end of 2003 than they were in 2000.

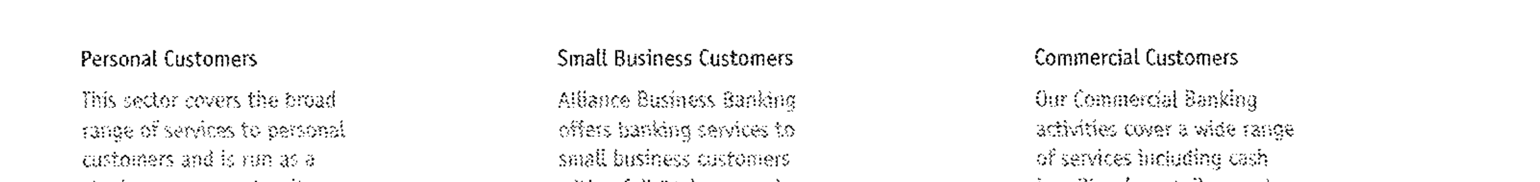
We have identified a major programme of change and investment to deliver our targets, and have indicated that the incremental cost of the programme will total £130m over the years 2001-2003.

We remain confident of delivering these targets.

Restructuring

Alliance & Leicester's management has been restructured around our primary customer groups: personal customers, small businesses and commercial customers. Our new structure makes identifying and meeting customer needs our primary focus, and encourages de-duplication and simplification of processes, enabling us to grow business volumes, whilst reducing costs.

We have identified three distinct segments amongst our personal customers, based on the ways in which customers behave and wish to buy financial services products, rather than traditional analysis by age, income or socio-demographics. The management of our offerings to personal customers and our internal analysis of profits will increasingly be based around these customer segments. This will encourage the development of product offerings which provide significant 'reasons to buy' for our customers.



Personal Customers

This sector covers the broad range of services to personal customers and is run as a single management unit. We have identified three distinct segments amongst our personal customers based on the ways in which customers behave and wish to buy financial products.

Small Business Customers

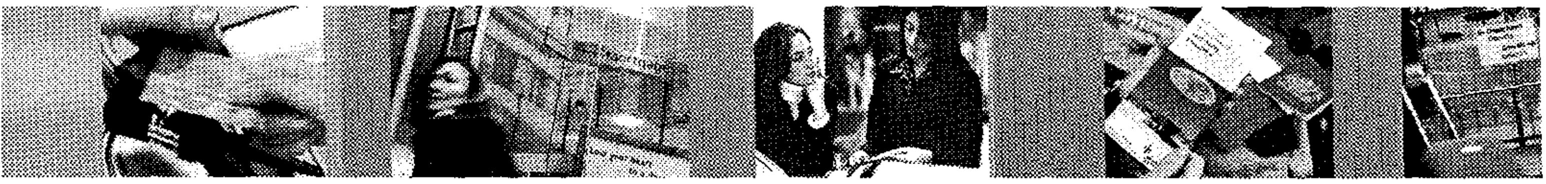
Alliance Business Banking offers banking services to small business customers with a full 24-hour service via phone or internet. We provide small businesses with more than 18,000 locations in the UK where they can deposit their takings through our relationship with Post Office Counters.

Commercial Customers

Our Commercial Banking activities cover a wide range of services including cash handling for retailers and other corporates, cash sales to Post Office Counters and to other financial institutions, bill payments, merchant acquisition, international payments, commercial lending, and asset finance.

meeting our customers' needs

An example of our new approach is the Alliance Premier product. This consists of a competitively priced current account which also gives customers real incentives to buy a full range of Alliance & Leicester products, including discounts on mortgages, credit cards and personal loans, higher interest rates for savings accounts, and free annual travel insurance.



Our customers will increasingly see products and services which better meet their needs, with service delivered in a consistent, high-quality manner across all distribution channels, based on competitive, sustainable pricing.

Personal Customers

We have more than 5.5 million personal customers, offering them a broad range of personal financial services. The Alliance & Leicester Group has been built by growing a series of successful, but essentially separate, businesses. This has resulted in the average number of Alliance & Leicester products held by each of our customers being lower than comparable figures for most of our competitors, providing an opportunity for Alliance & Leicester as we grow in the future. We have the expertise to offer a wide range of services, and can act as an 'attacker' in a range of areas, without the threat of destroying income streams from existing businesses.

A key part of our strategy is that our customers buy more of their financial services from Alliance & Leicester.

All financial services companies spend significant amounts of money simply to attract new customers. By selling more products to existing customers, much of this acquisition cost can be saved. The benefits of this saving can then be shared with customers by offering them more attractive prices. This strategy will enable Alliance & Leicester to offer sustainable, competitive pricing, whilst providing a real incentive for existing customers to buy more from us.

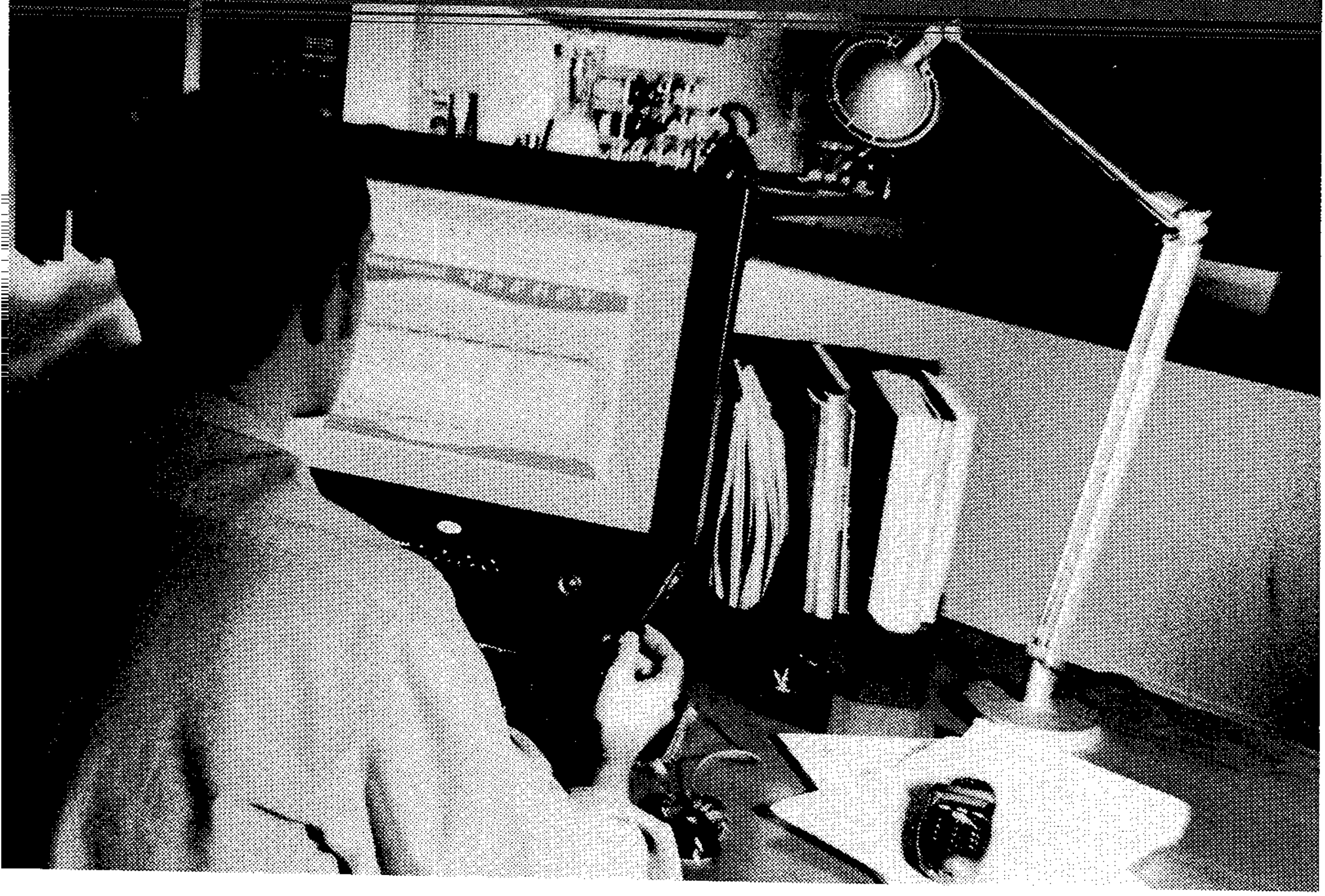
An example of this approach is the Alliance Premier product, which we launched in November 2000. This consists of a competitively priced current account which also gives customers real incentives to buy a full range of Alliance & Leicester products, including discounts on mortgages, credit cards and personal loans, higher interest rates for savings accounts, and free annual travel insurance. Our early experience shows that Premier customers own on average more than four Alliance & Leicester product types, even excluding the free annual travel insurance.

To achieve our revenue growth targets we need to attract broadly the same number of new customers each year as now, but to increase the retention rate of those customers, and the number of products we sell to them.

Since we adopted our new strategy in the second half of 2000, all key indicators are progressing firmly in line with our plans:

- We added 545,000 'new-to-Group' personal customers during 2000; that is individuals who had no relationship with the Group at the start of the year, but purchased at least one A&L product during the year. This is well in line with the figure of 531,000 for 1999, and our target of 550,000 for 2003.
- Our customer retention rate during 2000 improved to 92.9%, compared with 91.1% for 1999. We are well on the way to delivering our strategic target of an annual retention rate of 93% by 2003.
- Our personal customer base increased by 127,000 in 2000, compared with 18,000 in 1999.
- We sold more than 1.24 million products to existing A&L personal customers during 2000. Of these, 375,000 were sales of a new product type to existing customers. For example, an existing savings account customer who bought a current account would be classed as buying a new product type, but the same customer buying a new savings account would not. Our target is to increase this cross-sales figure to 600,000 sales per year by 2003.
- Achieving our sales and retention targets will result in the average number of product types held per A&L personal customer growing to 1.65 in 2003. The year 2000 saw initial progress towards that objective, with this ratio growing from 1.46 at the end of 1999 to 1.49 at the end of 2000.

supporting our small business customers



We rebranded our small business offering as 'Alliance Business Banking'. We now offer a full 24-hour service via phone or internet, interest payment on current account balances, and a simplified tariff system.

Unlike a number of other potential new entrants in this market, Alliance & Leicester already has an established small business customer base. Servicing this base means we have all of the skills within the Group to develop this business further.

Small Business Customers

The small business banking market will be a source of major expansion for Alliance & Leicester.

The Government's Cruickshank report highlighted the high returns available from this market, and the currently very limited choice of suppliers. The lack of real competition is also leading to significant customer dissatisfaction with the major suppliers.

Unlike a number of other potential new entrants in this market, Alliance & Leicester already has an established small business customer base. Servicing this base means we have all of the skills within the Group to develop this business further.

We rebranded our small business offering as 'Alliance Business Banking' in October, and rolled out a new service package from January 2001. We now offer a full 24-hour service via phone or internet, interest payment on current account balances, and a simplified tariff system. Our centralised system provides customer service via telephone, fax and the internet, and we provide small businesses with more than 18,000 locations in the UK where they can deposit their takings, through our relationship with Post Office Counters Limited. We will continue to improve our offering to this market, and have set a market share target of 10% of new small business accounts by the end of 2003.

We have developed a number of e-business services for our business customers, including full internet banking. Our Netshop Solutions service will build and maintain a website for a business, and ensure that electronic transactions are handled in a secure way. We also offer businesses the ability to buy business supplies over the internet.

Commercial Customers

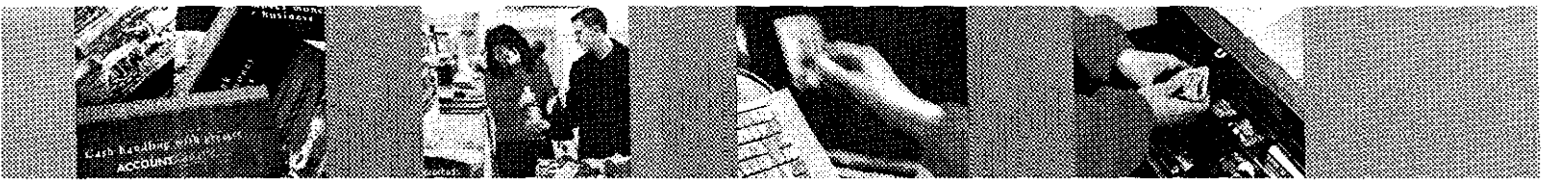
Our Commercial Customers sector includes a variety of significant sources of revenue, including Girobank's cash handling for retailers and other corporates, cash sales to Post Office Counters Limited, cash sales to other financial institutions, bill payments, merchant acquisition, international payments, commercial lending and an asset finance business. During 2000, business volumes grew in all of these areas.

Girobank's traditional role was obtaining the cash required by the UK Post Office network, particularly to pay state benefits. Since Alliance & Leicester acquired Girobank, in 1990, Girobank's strategy and business mix has broadened considerably, and the cash-related business now accounts for significantly less than half the profits of the Group's Commercial Customers sector.

The usage of cash in the UK continues to grow, and our relationship with retailers and other 'cash-rich' companies remains strong, maintaining our position as a market-leader. The proportion of that cash which is required by the Post Office has fallen steadily in recent years. Sales of cash to non-Post Office users has grown rapidly in the same period, averaging growth of more than 20% per year since 1996.

The Government plans to make it compulsory by 2005 for state benefits to be paid directly into some form of current or Post Office-based account. Whilst this is likely to continue the declining trend in Post Office cash needs, the Government has stated that those who wish to draw their benefit in cash at Post Office counters will still be able to do so, either via a basic account marketed by financial institutions or via an account which can only be accessed over a Post Office counter. Post Office, Government and our own research shows that many benefit recipients will still want to draw their cash that way.

Our Commercial Customers sector includes **a variety of significant sources of revenue,** including cash handling for retailers and other corporates, cash sales to Post Office Counters Limited and other financial institutions, bill payments, merchant acquisition, international payments, commercial lending and an asset finance business.



Our strategy and business mix has broadened considerably, and the cash-related business now accounts for significantly less than half the profits of the Group's Commercial Customers sector.

The overall demand for cash in the UK will still remain strong, and that cash will have to be provided from some source. Our strategy is to continue to be an integral part of the UK's cash cycle. Progress during 2000 was encouraging. In addition to growing the volume of cash sold, we also signed agreements to supply the cash to a number of new independent ATM providers.

Marketing and Sales

We have brought together the marketing of our products, providing a more efficient structure, a more consistent brand image and higher visibility for the Group's products.

A common customer database has been built for all of the Group's personal customer segments, enabling advanced customer relationship management tools to be applied across the Group, leading to improved customer service and cost savings.

We already target customers to receive telephone calls, aimed at arranging meetings in branches. Some 10% of all in-branch appointments are now the result of such a targeted phone call, and during 2000 more than 80% of the resulting branch interviews led to the sale of at least one product.

Distribution

Alliance & Leicester's distribution network is strongly positioned to deliver services directly, through call centres and the internet, and to provide face-to-face contact.

- Our network of 309 branches provides UK-wide coverage.
- Our call centres handled over 25 million inbound customer calls during 2000.
- Our ATM network grew in 2000 from 687 to 946 and we are planning for a considerable further expansion of this network over the next two years.
- More than 2 million customers visited the Group's website during 2000, and we received more than 80,000 product applications from personal customers over the web.
- Our relationship with the Post Office means that our current account customers can transact at a further 18,000 locations.

Our strategy of web-enabling the entire bank will result in the same information being available to transact business whether a customer contacts us by phone, in a branch, by post or using the internet.

We continued our programme of improving the layout of our key branches during 2000. 29% of the network is now in our new format, and we plan to increase this to 50% by the end of 2001.

We are introducing point-of-sale decision-making for mortgage applications, following a successful trial in Scotland over the last twelve months. At the end of a mortgage interview, eligible customers will be issued with a guaranteed mortgage offer. This is made possible by our branches having direct access to our credit scoring systems.

Our Mortgage Direct service allows our customers to buy mortgages by telephone or internet. Usage of this service increased strongly during 2000, and 10% of all mortgage applications in 2000 came through this channel.

Alliance & Leicester is uniquely well positioned to take advantage of the increasing popularity of ATMs in the UK. We have significant current account and credit card businesses, but until recently a relatively low number of ATMs compared to the number of our customers who use them. We are also, through Girobank, a major supplier of cash to ATMs – providing cash to other banks and

Our strategy of web-enabling the entire bank will result in the same information being available to transact business whether a customer contacts us by phone, in a branch, by post or using the internet.

increasingly to the new independent ATM operators who are now setting up business in the UK.

During 2000 we increased the number of Alliance & Leicester ATMs from 687 to 946. This improves service for our customers, increases Alliance & Leicester's brand presence and improves the net income we receive through interchange fees. In 2001, we will continue to increase our ATM network, with a mix of traditional 'through-the-wall' machines, and smaller internal machines. These smaller machines are proving attractive to retailers, generating customer-footfall. The roll-out of our ATM strategy will add around £14m of incremental costs in 2001, with incremental income from our expansion during 2001 planned to be higher than this amount.

In February 2001 we became the first UK bank to pilot new marketing screen technology through our relationship with iATMglobal which is owned by NCR Corporation and TRM Corporation. Their technology facilitates ATM marketing and promotions and e-commerce services.

In 2000 we saw astonishing increases in the amount of business transacted over the internet. The total number of unique visits to our Personal Customer website more than tripled from 615,000 in 1999 to 2,010,000 in 2000.

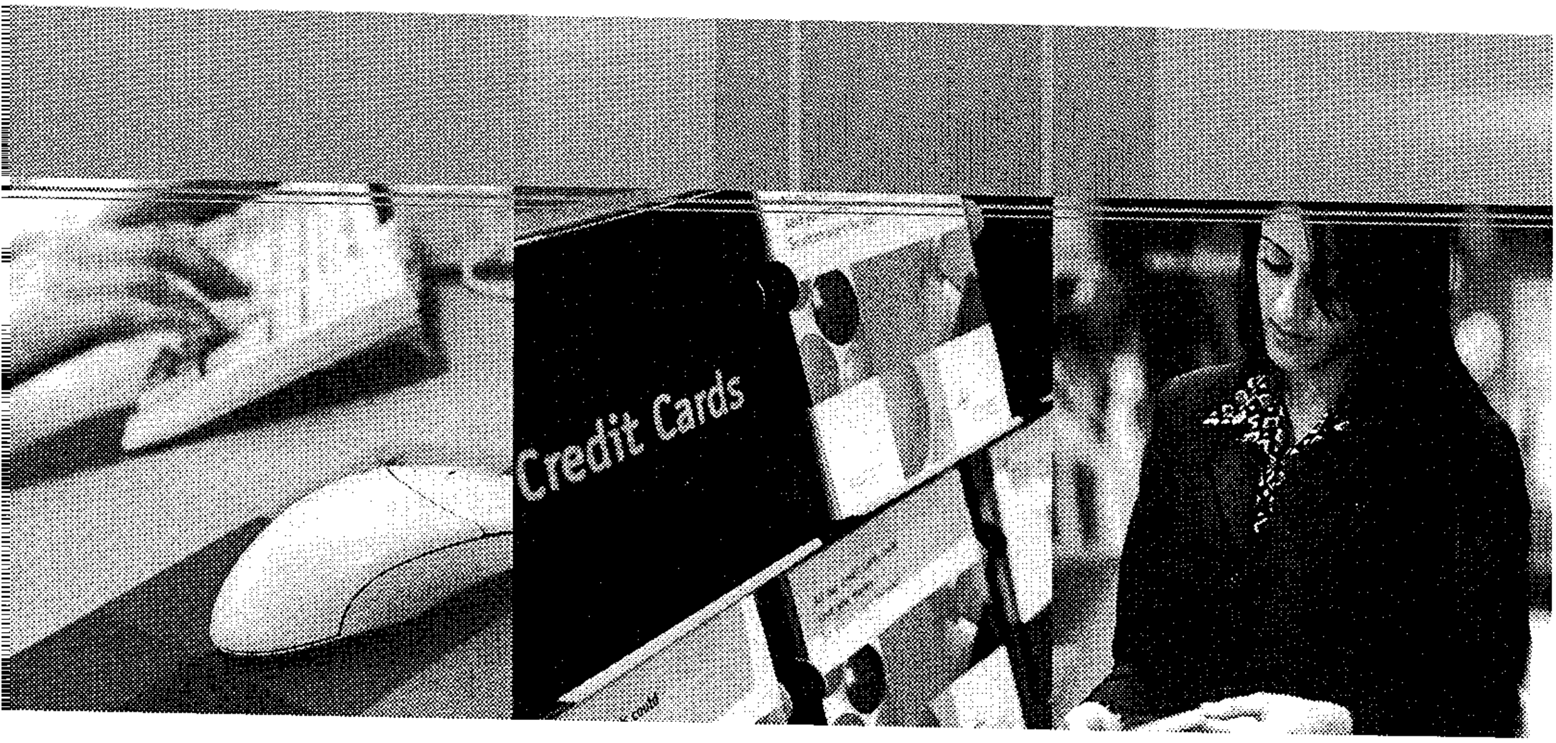
We received more than 88,000 product applications over the internet in 2000, more than a three-fold increase compared with the 24,000 received the previous year. More than 10% of our personal loan applications were received over the internet throughout 2000, and – following the launch of our internet credit card application micro-site in May – a similar proportion of credit card applications now also arrive via the internet.

Manufacturing

A key component of our strategy is to simplify our manufacturing processes, for example, developing common processes for account opening, closure and the management of arrears, which will apply across our whole business. These will deliver significant cost savings and service improvements.

During 2001, we will be rolling out the Essentis software to manage our credit card and unsecured personal loan businesses. This will provide efficiency improvements, significant increases in functionality and allow for far more flexible product design for our customers, as well as integrating with the Group's overall IT strategy.

In December, we signed a partnership agreement with Unisys to move our mortgage book onto their industry-leading UFSS software, with software development



and maintenance outsourced to Unisys. This provides lower-cost and more flexible manufacture of mortgages, and demonstrates how our technology strategy can include insourced or outsourced product manufacturing.

Technology

During 2000 we agreed a technology strategy for the Group and tested its key components. This will underpin the delivery of our cost and revenue targets. The strategy is based on a technical architecture providing integrated customer access across all products and channels, allowing us to significantly enhance our service edge whilst at the same time reducing costs. It also provides the flexibility to easily add or remove business partners, and gives us a complete and accurate understanding of our customer base across all products and channels. Our technology will enable us to be quicker to market, working from fewer legacy systems, and processing with fewer re-works.

This approach is more likely to succeed at Alliance & Leicester than at other competitors, as we have a sufficiently broad product range to offer customers, but our technology systems are neither too large, nor too old, to achieve our objective.

Our decision to develop all of our internet banking operations as part of our core business has allowed us to put more resource and focus into progressing our technology strategy.

Our Staff

During 2000 we took a number of important steps to develop our staff and culture in line with our strategy.

The launch of our strategy was accompanied by a number of roadshows, at which senior management met with staff to communicate what the Group is trying to achieve. Staff have been kept up to date with strategy developments through an improved intranet site and through regular bulletins. In addition, a new union forum has enabled monthly discussions between senior management and employee representatives which helps foster an inclusive and co-operative approach as our business develops. We have introduced new bonus arrangements, rewarding performance which helps meet our strategic objectives. We have agreed a three-year pay deal with staff representatives, underpinning a clear commitment from management and staff to make our strategy work. We have also introduced a range of incentives reflecting the value we place on individual employees, aimed at creating a higher customer orientation at all levels in the Group.

Conclusion

We recognise that delivering our strategic targets in a highly competitive market place will be a challenging task. In 2000 we have put in place a programme of change, and a commitment at all levels of our organisation to make it happen.

We remain confident of delivering the targets we have set ourselves.

Peter McNamara
Group Managing Director

Personal Customers

	Year ended 31.12.00 £m	Year ended 31.12.99 (restated) £m
Net interest income	**628**	608
Non-interest income	**215**	213
Total income	**843**	821
Administrative expenses	**(401)**	(392)
Bad debt provisions	**(35)**	(39)
Profit before tax	**407**	390
Profit before tax:		
MLI*	**301**	274
Personal Banking	**106**	116
Personal Customers	**407**	390
Net interest margin:		
MLI	**1.74%**	1.61%
Personal Banking	**5.83%**	6.62%
Personal Customers	**2.47%**	2.40%
Mean interest – earning assets (£m):		
MLI	**20,926**	21,341
Personal Banking	**4,515**	3,981
Personal Customers	**25,441**	25,322
Cost:income ratio	**47.6%**	47.7%
Cost:income ratio (MLI)	**41.3%**	42.3%
Post tax return on capital	**24.6%**	24.8%
Personal customer deposit balances (£m)	**16,036**	15,639
No. branches	**309**	315
No. ATMs	**946**	687

*Mortgage Lending & Investments (MLI)

The Personal Customers sector is run as a single management unit. However, to aid analysis, and for consistency with prior years, the results are subdivided into two parts – MLI and Personal Banking. In total, pre-tax profit for the sector is £407m, 4% higher than 1999, with an increase in MLI of £27m offset by a reduction in Personal Banking of £10m.

Net interest income

Net interest income increased by 3% to £628m. The overall margin of the sector has improved from 2.40% to 2.47%, reflecting a change in business mix with growth in higher margin Personal Banking assets and an improvement in the MLI margin. The interest spread between average lending rates and average funding rates was maintained at 1.95% compared to 1.94% in 1999 with an improvement in the spread in MLI being offset by a reduction in Personal Banking.

Whilst there has been downward pressure on unsecured loan margins in the last two years as older loans, on higher margins, matured, our new business margins have increased steadily during 2000. Average margins on new business have risen by 0.8% from the first to last quarter of the year.

	Six months ended 30.06.00 £m	Six months ended 31.12.00 £m	Year ended 31.12.00 £m	Year ended 31.12.99 £m
Net interest income	314	314	**628**	608
Average balances:				
Interest-earning assets (IEA)	25,367	25,514	**25,441**	25,322
Financed by:				
Interest-bearing liabilities	22,898	23,053	**22,976**	22,830
Interest-free liabilities	2,469	2,461	**2,465**	2,492
Average rates:	%	%	**%**	%
Bank base rate	5.93	6.00	**5.96**	5.35
Gross yield on average IEA	7.20	7.34	**7.27**	6.64
Cost of interest-bearing liabilities	5.22	5.41	**5.32**	4.70
Interest spread	1.98	1.93	**1.95**	1.94
Contribution of interest-free liabilities	0.51	0.52	**0.52**	0.46
Net interest margin on average IEA	2.49	2.45	**2.47**	2.40

Mortgage incentive costs, as a discount to the appropriate headline mortgage rate, have fallen in the year from £250m to £217m primarily due to the maturity of fixed rate loans, lower discounts and cashbacks, and a lower level of lending in 2000 compared to 1999.

Non-interest income

Non-interest income has increased by £2m over 1999 with higher insurance services income, current account transaction fees and credit card income being partially offset by lower mortgage-related insurance earnings and lower creditor protection insurance income on unsecured loans.

Administrative expenses

Administrative expenses increased by £9m (2.3%) from 1999 levels, mainly driven by increased marketing activity and salary reviews. These were partly offset by lower redundancy costs and cost savings via supplier contract negotiations.

The Personal Customers' cost:income ratio improved slightly to 47.6% (1999: 47.7%), whilst the MLI ratio improved to 41.3% (1999: 42.3%).

Provisions

The charge for bad and doubtful debts has fallen by £4m to £35m, and comprises a charge of £58m in respect of Personal Banking offset by a provision release of £23m in MLI for residential lending and other mortgage recoveries.

The arrears performance for both our mortgage and unsecured lending businesses compares very favourably with industry data. The value of residential mortgage arrears has fallen by 23% in 2000 and represents 0.1% of mortgage balances. Over half of new residential lending is with a loan-to-value of 75% or less. For unsecured lending, the value of loans over 30 days in arrears as a percentage of total loans is approximately 30% lower than the average for Finance and Leasing Association members.

Mortgages

During 2000 we continued our policy of emphasising mortgage lending which will add value for shareholders. In a very competitively priced market this resulted in reduced gross residential mortgage lending of £3.0bn (1999: £4.0bn) and net lending of £0.05bn (1999: £1.2bn). Our gross lending represented an estimated market share of 2.5% (1999: 3.5%), whilst our market share of redemptions was 3.7% for 2000 (1999: 3.7%). Residential mortgage balances increased to £19.4bn.

Following our strategic review our product range, marketing and customer targeting was improved, and business volumes have increased very significantly. Our market share of mortgage approvals was 4.6% in December 2000, compared with 2.3% in December 1999.

Our most popular mortgage product currently is the flexible base rate tracker mortgage. This offers an attractive, but sustainable price for customers in keeping with our overall philosophy of pricing products to build sustainable relationships.

Personal Customer Deposits

Our total personal customer account balances increased by £397m to £16.0bn (1999: £15.6bn). This increase includes a strong performance in on-shore retail deposits, where branch-based and postal account balances both increased, for the first time since our flotation in 1997. This was offset by a managed decline in high-interest rate funds based on the Isle of Man.

2000 was also another successful year for Alliance & Leicester's growing insurance and unit trusts businesses. Total funds under management grew by 27% from £767m to £972m.

Personal Banking

Our unsecured personal loan business continued the excellent volume growth delivered in the 11 years since this business was set up. Gross advances in 2000 were £1,471m, up 11% on £1,320m achieved in 1999. Total unsecured loan balances grew by 14% from £1,842m to £2,108m.

The market for new UK credit cards was extremely competitive in 2000, with a number of competitors offering zero interest 'teaser' rates and other unsustainable prices to attract new customers. Alliance & Leicester's innovative MoneyBack concept is still proving to be popular, and our total number of credit cards grew from 1.11m cards to 1.22m. Credit card balances also increased, by 10%, from £695m at the end of 1999 to £762m at the end of 2000.

During 2000 we continued to concentrate on increasing the size and quality of the Alliance & Leicester current account base. The majority of new accounts opened in 2000 were 'Alliance' Accounts, which are largely salary funded. Sales of the 'Alliance' Account doubled from 56,000 to 112,000. Since October 2000 we have offered a basic banking product which enables us to offer accounts to a greater proportion of applicants. During 2000 we opened 134,000 new current accounts and grew the total current account base to 1.68m.

Commercial Customers

	Year ended 31.12.00 £m	Year ended 31.12.99 £m
Net interest income	**94**	83
Non-interest income	**204**	205
Total income	**298**	288
Administrative expenses	**(215)**	(214)
Bad debt provisions	**(7)**	(2)
Profit before tax	**76**	72
Net interest margin	**2.77%**	2.88%
Mean interest – earning assets (£m)	**3,380**	2,869
Cost:income ratio	**72.1%**	74.3%
Post tax return on capital	**24.0%**	31.9%
Commercial Customer deposit balances (£m)	**5,288**	4,486

Pre-tax profit of the Commercial Customer sector, including small business customers, increased by 7% to £76m in 2000.

Net interest income

Net interest income increased by £11m to £94m with interest earning assets increasing by 18%. The net interest margin reduced by 0.11% to 2.77% reflecting the growth of lower margin big-ticket leasing being partly offset by an increase in the contribution from interest-free liabilities.

Non-interest income

The fall in Commercial Customers non-interest income is due to an increasing proportion of bill payments made by electronic means and lower Benefit Agency payments, offset to an extent by higher merchant acquiring volumes, asset finance income, and cash and cheque handling fees.

Administrative expenses

Total administrative expenses increased by £1m from 1999. The annual pay review impact on staff costs, plus business growth in small business customers, asset finance and merchant acquiring were offset by lower Post Office and other outsourcing costs due to a continued fall in paper-based transaction levels.

The cost:income ratio fell to 72.1% (1999: 74.3%) reflecting a growth in the proportion of income gained via asset finance and commercial lending products.

Provisions

The charge for bad and doubtful debts has increased by £5m, of which £4m is a one-off event in respect of a single merchant acquiring customer in receivership. The Bank's liability arises from chargebacks in respect of non-delivered goods to customers on which full payments or deposits had been taken by credit card.

Business volumes

The amount of cash used in the UK continued to grow during 2000, with the latest data showing that the real value of cash is 20% higher than 5 years ago. Alliance & Leicester's Girobank business remains a market leader in handling cash for retailers and other corporates. The volume of cash we handled increased for the 27th year in a row. Cash handled grew from £55bn to £57bn, and despite a long-term declining trend in national cheque usage, the value of cheques handled by Girobank was maintained at £22bn.

The largest user of the cash handled is Post Office Counters Limited (POCL). But the proportion sold to other cash users has grown dramatically over recent years, in line with our strategy of being a major provider of cash for the UK – wherever it is required. These customers include other banks and independent ATM operators. We sold £12.0bn of cash to non-POCL customers in 2000. This is an increase on the £11.4bn sold in 1999, however a better indication of the rapid rate of growth of this business is to note that the year 2000 figure shows compound annual growth of 24% per year compared to the £5.1bn handled in 1996. The volume in 1999 was inflated, and the volume in 2000 deflated, by the 'hoarding' of cash by financial institutions around the millennium period.

We handled 209.1m bill payment transactions in 2000, compared to 208.7m the previous year. The on-going trend towards payments being made by electronic, rather than paper-based, systems continues.

Some 70 corporate organisations have signed on for our unique internet bill payment service – 'BillPay'. This enables their customers to pay their bills over the internet using any debit card. These corporates include major utility, insurance and telecom companies, and since January 2001, the Inland Revenue, so that taxpayers are able to pay their tax bills using the service.

We launched our merchant acquiring business, processing electronic credit and debit card transactions, in 1996, based on a low-cost, largely outsourced model. Our market share has grown rapidly to 6% in a highly competitive market, dominated by the 'big 4' clearing banks. We processed 235 million transactions in 2000, a 25% increase on the 188 million handled the previous year.

Our asset finance business continued to grow, with good business being written in big-ticket and smaller ticket leasing. During 2000 we built successful new partnerships with organisations such as the Road Haulage Association and the London Taxi Drivers Association, and we bought a specialist coach leasing business. Net advances were 53% higher in 2000, at £886m compared with £579m in 1999. Asset finance balances, included in customer loans and fixed assets, increased by 36% from £1.25bn to £1.70bn.

Group & Treasury

	Year ended 31.12.00 £m	Year ended 31.12.99 £m
Net interest income	**46**	62
Non-interest income	**–**	2
Total income	**46**	64
Administrative expenses	**(34)**	(27)
Profit before tax	**12**	37

The Group & Treasury sector includes Alliance & Leicester Group Treasury (ALGT), central overheads and the earnings from the Group's excess capital. The principal objective of the Group's Treasury operation is to support the Group in delivering products and services to its personal and corporate customers. The Treasury also provides services directly to its own customer base, offering a range of treasury services including money market deposits and foreign exchange.

Net interest income

Net interest income in the Group & Treasury sector includes income from the Group's capital not allocated to the other business sectors. The cumulative impact of the share buyback programme, has reduced this level of income by £23m in 2000 compared with £4m in 1999.

Administrative expenses

Total core costs increased by £7m over the 1999 level, mainly due to annual pay inflation, increased project and payroll expenditure to support the growth in Treasury business requirements, plus the impact of the revised accounting policy for software.

Treasury volumes

During 2000 our holdings of instruments such as FRNs and asset-backed securities were increased, whilst our exposure to interest rate movements was reduced. A $US300 million subordinated debt transaction was completed in February to support the capital management of the Group.

We are continuing to progress a Parliamentary Bill which will legally integrate ALGT into Alliance & Leicester plc. ALGT was set up as a separate licensed bank to meet the requirements of the Building Societies Act (1986). Such a legal requirement no longer exists, and integrating the business will simplify processes and save administration costs.

Financial Review

Summary Profit and Loss Account

	Six months ended 30.06.00 (restated) £m	Six months ended 31.12.00 £m	**Year ended 31.12.00 £m**	Year ended 31.12.99 (restated) £m
Net interest income	382	386	**768**	753
Non-interest income	209	210	**419**	420
Total income	591	596	**1,187**	1,173
Administrative expenses:				
Core	(316)	(334)	**(650)**	(633)
Non-core	(10)	(38)	**(48)**	(5)
Total administrative expenses	(326)	(372)	**(698)**	(638)
Bad debt provisions	(19)	(23)	**(42)**	(41)
Profit before tax	246	201	**447**	494
Taxation	(57)	(54)	**(111)**	(146)
Profit after tax	189	147	**336**	348
Basic earnings per share	35.1p	28.8p	**63.9p**	60.7p
Underlying basic earnings per share*	32.2p	28.8p	**61.0p**	60.7p

*Excluding the exceptional tax credit in relation to conversion costs

The results previously published for 1999 and the first half of 2000 have been restated to reflect the change in accounting policy for software costs, as explained in Note 2 on page 44.

Group pre-tax profit for the year to 31 December 2000 was £447m, £47m lower than 1999. Core Group profit was £495m (1999: £499m), excluding the investment in the Group's strategy and internet banking operation in the year, and Year 2000 costs in 1999. The impact of the share buyback programme has further reduced income and profit by £19m in 2000, when compared to 1999, whilst improving earnings per share.

The tax charge of £111m includes an exceptional tax credit of £15m in respect of conversion costs, as detailed in Note 8 on page 46. Underlying earnings per share, excluding the exceptional tax credit, increased to 61.0p.

Net interest income

The following table provides a detailed analysis of the net interest margin achieved on interest-earning assets.

	Six months ended 30.06.00 £m	Six months ended 31.12.00 £m	**Year ended 31.12.00 £m**	Year ended 31.12.99 £m
Net interest income	382	386	**768**	753
Average balances:				
Interest-earning assets (IEA)	30,141	31,409	**30,778**	28,306
Financed by:				
Interest-bearing liabilities	26,221	27,332	**26,779**	24,241
Interest-free liabilities	3,920	4,077	**3,999**	4,065
Average rates:	%	%	**%**	%
Bank base rate	5.93	6.00	**5.96**	5.35
Gross yield on average IEA	6.98	7.43	**7.21**	6.58
Cost of interest-bearing liabilities	5.09	5.73	**5.42**	4.58
Interest spread	1.89	1.70	**1.79**	2.00
Contribution of interest-free liabilities	0.66	0.74	**0.70**	0.66
Net interest margin on average IEA	2.55	2.44	**2.49**	2.66

The Group net interest of £768m was £15m higher than 1999 and the average interest earning assets were 9% higher than the comparable period.

The net interest margin has been reduced by 0.17% to 2.49% with a reduction in the interest spread of 0.21% being offset by an increase in the contribution from interest-free liabilities, despite the impact of the share buyback programme which reduced margins by 0.07%. The fall in interest spreads is due to margin pressure in credit cards and personal loans and the impact of changing business mix driven by comparatively rapid growth in treasury and asset finance balances.

Non-interest income

	Six months ended 30.06.00 £m	Six months ended 31.12.00 £m	**Year ended 31.12.00 £m**	Year ended 31.12.99 £m
Fees and commissions receivable	224	228	**452**	457
Fees and commissions payable	(42)	(42)	**(84)**	(81)
Other operating income	27	24	**51**	44
Total	209	210	**419**	420

Group non-interest income at £419m, is marginally lower than 1999 with a fall in fees and commissions receivable being partially offset by higher insurance services income included within other operating income.

Administrative expenses

Administrative expenses were in total £698m for the year to December 2000, an increase of £60m or 9% over 1999. An analysis of administrative expenses (including depreciation) is as follows:

	Six months ended 30.06.00 (restated) £m	Six months ended 31.12.00 £m	**Year ended 31.12.00 £m**	Year ended 31.12.99 (restated) £m
Staff related expenditure	109	118	**227**	222
Post Office Counters	56	54	**110**	121
Marketing costs	38	36	**74**	63
Premises, equipment and other	75	89	**164**	153
Outsourcing costs	19	19	**38**	39
Depreciation	19	18	**37**	35
Core costs	316	334	**650**	633
Non-core internet and strategy development:				
Software and associated consultancy	4	19	**23**	–
Internet and strategy development	6	19	**25**	–
Year 2000 and EMU	–	–	**–**	5
	10	38	**48**	5
Total	326	372	**698**	638

Total core costs increased by £17m (2.7%) from 1999 levels, with staff related costs being driven by the annual pay review, offset by lower redundancy payments. Marketing costs increased by £11m due to increased activity from the low levels seen in 1999, and premises, equipment and other costs increased by £11m partly due to the change in accounting policy for software. These increases were partly offset by lower Post Office costs due to the continued migration of bill payments to electronic media.

Expenditure on 'non-core' internet and strategy development totalled £48m, including £23m of software costs, £17m spent on developing internet banking components and £8m of other strategy development costs.

The incremental impact of the change in accounting policy for software and directly associated consultancy costs was to add £10m of 'core' costs mainly in the second half, and shown in premises, equipment and other costs. This is split £8m to Personal Customers, £1.5m to Commercial Customers and £0.5m to Group & Treasury. The total impact of the policy change, including that shown in 'non-core' costs was £33m.

Staff related expenses increased in the second half due to the normal impact of the July pay review, plus the impact of investment in small business customer banking and ATM implementation teams, and higher training and redundancy costs.

The Group cost:income ratio in total is 58.8% (1999: 54.4%), with a core Group cost:income ratio of 54.8% (1999: 54.0%). Adjusting for the adverse income impact of the share buyback programme the core Group cost:income ratio would be 53.7% (1999: 53.9%).

Provisions for bad and doubtful debts

The charge for losses on bad and doubtful debts can be analysed as follows:

	Year ended 31.12.00 £m	Year ended 31.12.99 £m
Residential property mortgages	(9)	(4)
Other mortgages	(14)	(7)
Unsecured loans and credit cards	58	50
Personal Customers	35	39
Commercial secured and unsecured loans	5	1
Asset finance	2	1
Commercial Customers	7	2
Total	42	41

The closing balances of provisions were as follows:

	As at 31.12.00 £m	As at 31.12.99 £m
Residential property mortgages	29	41
Other mortgages	8	15
Unsecured loans and credit cards	89	82
Personal Customers	126	138
Commercial secured and unsecured loans	7	3
Asset finance	9	15
Commercial Customers	16	18
Total provisions	142	156
General	35	42
Specific	107	114
Total	142	156

For residential lending, the ratio of closing provisions to gross loans and advances balances, fell from 0.21% to 0.15%. In addition to the £29m of residential provisions above, the Group has an offshore captive insurance subsidiary with available funds totalling £36m and a further £6m of high percentage loan fees held on balance sheet. These funds are disclosed in the Group balance sheet under the heading 'accruals and deferred income'. Together this pool provides £71m of cover within the Group for losses in the residential mortgage book. Further cover is provided through re-insurance of risk with external insurers.

The provision for other mortgages has fallen from £15m to £8m due primarily to the successful sale of a security property and recovery of a professional litigation case. The provision for unsecured loans and credit cards has increased from £82m to £89m, and represents 2.93% (1999: 3.07%) of gross balances. The commercial secured and unsecured loans provision at December 2000 includes a £4m one-off provision in respect of a merchant acquiring customer in receivership.

During the year, £5m of asset finance provisions in respect of residual value impairment, previously shown as loss provisions, were reclassified and are now more accurately reflected as a deduction from the fixed asset values affected. The asset finance book is split between 'big-ticket' structured finance transactions of £885m (1999: £603m) and a small/medium ticket portfolio of £834m (1999: £668m). The total level of provision at December 2000, including a £6m residual value provision, is £15m (1999: £16m), representing 1.8% of gross balances against the small/medium book (1999: 2.4%). Of the total book, agreements with banks, or balances guaranteed by banks amounted to £830m (1999: £560m).

Taxation

A corporation tax rate of 30% (1999: 30.25%) has been used in preparing these results. The tax charge for 2000 of £110.4m (1999: £146.0m) represents 24.7% of profit before tax (1999: 29.6%). This is significantly lower than 30% due to a favourable Special Commissioners decision on the tax deductibility of conversion costs. This has resulted in a tax credit in respect of prior years of £15.2m being reflected in these results. The underlying tax rate, excluding the tax credit in respect of conversion costs, is 28.1%.

Dividend

A final dividend of 22.3p per share is proposed, giving a total dividend for the year of 33.0p, up 13% on 1999. This compares to basic earnings per share of 63.9p and underlying earnings per share of 61.0p. The directors have proposed the 33.0p dividend for 2000 after considering the core profits of the business.

If the £15.2m exceptional tax credit on conversion costs and £48.2m of non-core costs are adjusted for, then the core profit after tax is £355.4m and the core earnings per share would be 67.5p. Based on the dividend charge for 2000 of £165.5m, this gives a dividend cover of 2.15.

Balance sheet

The structure of the consolidated balance sheet as at 31 December 2000 is shown below in summary format:

	As at 31.12.00 £m	As at 31.12.99 (restated) £m
Assets		
Cash, treasury assets and loans and advances to banks	**8,652**	5,410
Loans and advances to customers:		
Residential mortgages including securitised advances	**19,359**	19,326
Less: non-recourse finance	**(239)**	–
Other secured loans	**346**	621
Unsecured consumer loans	**2,108**	1,842
Credit card balances	**762**	695
Other	**298**	263
Asset finance	**1,388**	985
	24,022	23,732
Intangible assets	**4**	–
Fixed assets:		
For use in the business	**281**	286
Leased to customers	**287**	230
Other assets	**1,470**	827
	34,716	30,485
Liabilities		
Customer accounts:		
Personal customers	**16,036**	15,639
Commercial customers	**5,288**	4,486
	21,324	20,125
Deposits by banks	**1,402**	1,024
Debt securities in issue	**7,853**	5,751
Other liabilities	**2,018**	1,568
Subordinated loan capital	**462**	273
Shareholders' funds	**1,657**	1,744
	34,716	30,485

Total assets increased by £4.2bn reflecting an increase in treasury assets of £3.2bn, a net increase in loans and advances to customers of £0.3bn and an increase in fixed and other assets of £0.7bn. This has mainly been funded by an increase in customer accounts of £1.2bn and the issue of debt securities, which increased by £2.1bn.

The Group completed its first mortgage securitisation in the year and this will provide the flexibility to use this funding market in the future. The total asset finance book, included in both customer loans and fixed assets, has grown by 36% in the year to £1.7bn. The £4m of intangible assets in 2000 represents goodwill on the acquisition of a specialist coach leasing business.

Customer deposit balances have increased to £21.3bn (1999: £20.1bn) reflecting an increase of £0.4bn in personal customer balances and an increase of £0.8bn in commercial customer balances since 1999.

A $US300m subordinated debt transaction was completed in February 2000 to support the capital management of the Group.

Capital structure

The Group's risk asset ratio is given in the table below:

	As at 31.12.00 £m	As at 31.12.99 (restated) £m
Capital: Tier 1	**1,565**	1,717
Tier 2	**498**	317
Deductions	**(77)**	(77)
Total capital	**1,986**	1,957
Total risk weighted assets	**17,104**	15,335
Risk asset ratios:		
Total capital	**11.6%**	12.8%
Tier 1	**9.2%**	11.2%

The Group's excess Tier 1 capital above a target ratio of 8% is around £200m at the end of 2000 and it remains the Group's objective to achieve the target ratio by the end of 2001.

The Group commenced its share buyback programme in June 1999. In total, since then 80m shares have been repurchased and cancelled, representing 14% of the capital base.

The Group's profit ratios compared to 1999 were as follows:

	Year ended 31.12.00 %	Year ended 31.12.99 (restated) %
Post tax return on capital	**19.8**	19.3
Post tax return on mean assets	**1.0**	1.2
Post tax return on mean risk weighted assets	**2.1**	2.4

To illustrate the return on underlying capital, at an 8% Tier 1 ratio the Group's post tax return on capital would be 24.8% and at 7% would be 27.7%.

Risk Management and Control

As a result of its normal business activities, the Group is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk and liquidity risk.

Responsibility for approving policies for the management of operational risk lies with the Group Audit and Risk Committee (GARC), which is a sub committee of the Group Board. Responsibility for approving policies for the management of credit, fraud, market and liquidity risks lies with the Group Credit Policy Committee (GCPC). The Group Assets and Liabilities Committee (ALCO) monitors market and liquidity risks and recommends policy in these areas to GCPC. GCPC is a sub committee of the Group Board.

GARC is also responsible for approving the Group's overall risk management framework.

Membership of GARC comprises non-executive Group Board directors only. Membership of the remaining committees comprises Group Board directors and other senior management.

Operational Risk

Operational risk is the potential for future loss, including reputational damage, arising from failures in systems, procedures or internal controls and processes. All of the Group's activities give rise to the potential for operational loss events.

The Group monitors its operational risks using a variety of techniques, including risk profiling. Risk profiling involves the identification of all the key risks in each business area and categorising the risk according to the likelihood of the risk materialising and the expected severity of any resulting losses.

Operational risk is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning.

Credit Risk

Credit risk is the potential risk of financial loss where counterparties are not able to meet their obligations as they fall due. The Group is firmly committed to the management of this risk in both its lending and wholesale money market activities.

The Group employs sophisticated credit scoring, behavioural scoring, underwriting and fraud detection techniques to support sound decision making and minimise losses in its lending activities. Behavioural scoring also operates within the personal account management and collections processes. A proactive approach to the control of bad and doubtful debts is maintained within the collections areas.

Lending policies and processes are defined, agreed and managed centrally. The GCPC ensures that any exposure to risk, or significant changes in policy or expansion into new areas of business remain within overall risk exposure levels agreed by the Board.

Experienced credit and risk functions operate within the Group, and are driven both by the recognised need to manage the potential and actual risks, but also by the need to develop continually new processes to ensure sound decisions into the future. In this way, any changes in risk from market, economic or competitive changes are identified and the appropriate controls developed and put in place.

Comprehensive management information on movement and performance within the various personal and corporate portfolios ensure that credit risk is effectively controlled and trends identified prior to any potential impact on performance. Group performance is also measured against the industry, where appropriate, to ensure debt default levels remain below that of the industry average. This management information is distributed widely across the Group and monitored within tight boundaries at Board and credit policy committees.

Policy statements, covering, amongst other things, criteria to be used in considering limits on counterparties and countries, are reviewed annually by the GCPC. Authorised limits on a counterparty are governed largely by the size of its capital base and, where published, credit ratings assigned by the major rating agencies. The Group has no treasury exposures on counterparties resident in South Korea, Thailand, the Philippines, Indonesia, Malaysia, South America, Eastern Europe or Russia.

Market Risk

Market risk is the potential adverse change in Group income or the value of Group net worth arising from movements in interest rates, exchange rates or other market prices. Market risk exists to some extent in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value.

The Group's exposure to market risk is governed by a policy approved by the Group Board. This policy sets out the nature of risk which may be taken and aggregate risk limits. Based on these aggregate limits, ALCO assigns risk limits to all Group businesses and monitors compliance with these limits. Each business has its own market risk policy which is approved by ALCO. At each meeting ALCO reviews reports showing the Group's exposure to market and liquidity risks.

Wherever possible it is the Group's policy to transfer material exposure to market risk to ALGT by way of appropriate hedging arrangements. ALGT plays a pivotal role in managing the Group's market risk. ALGT acts as a 'Risk Clearing House' managing these risks within its own limits and seeks to take advantage of natural hedges within the Group's businesses.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, scenario analysis and value at risk.

Interest Rate Risk

Interest rate risk is the most significant market risk to which the Group is exposed. This risk arises due to mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Group's balance sheet and from the investment profile of the Group's reserves and other net non-interest bearing liabilities.

Outside of ALGT, interest rate risk primarily arises in the Group's mortgage, savings, leasing and personal loan businesses. The exposure in these portfolios is hedged with ALGT using interest rate swaps and other appropriate instruments.

Non-interest bearing liabilities comprise mainly interest-free personal and corporate current accounts and shareholders' funds and totalled £4.3bn at 31 December 2000 (1999: £4.2bn). Wherever it decides to invest these funds, the Group is exposed to market risk – if the funds are invested short term net interest income will be very volatile but the market value of the assets will be relatively stable, whilst investing the funds longer term will achieve more stability in net interest income but at the expense of greater volatility in the market value of the assets. In managing these two extremes the Group's objective is to minimise volatility in net interest income over the medium term.

These balances, particularly current account balances, are constantly changing and it is therefore necessary to establish a view of the core balance and to keep this under review on a regular basis. This responsibility rests with ALCO. At 31 December 2000, the core fund was £3.3bn (1999: £3.3bn) and the remainder, representing fluctuations above core balance levels on current accounts and capital not allocated to business units, was £1.0bn (1999: £0.9bn). A full interest rate repricing table is shown in Note 39 on page 63.

Foreign Exchange Risk

The Group's policy is not to run material, speculative foreign exchange positions.

The Group offers foreign exchange services to customers through both ALGT and Girobank and detailed limits and controls are established within those businesses to control the exposure. Girobank clears its positions with ALGT in accordance with the policy of transferring market risk positions to ALGT wherever possible.

As part of its normal operations ALGT raises and invests funds in currencies other than Sterling. The foreign exchange risks of these activities are hedged within ALGT's limits.

Equity Risk

The Group's policy is to have no material exposure to equity markets.

The Group markets a number of equity related products to its customers including unit trust and 'Stock Market Bond' products. The exposures arising from these products are eliminated as far as is practicable by appropriate hedging contracts.

Liquidity Risk

It is Group policy to ensure that resources are at all times available to meet the Group's obligations including the withdrawal of customer deposits, the draw-down of customer facilities and growth in the balance sheet. The development and implementation of policy is the responsibility of ALCO. The day to day management of liquidity is the responsibility of ALGT, which provides funding to and takes surplus funds from each of the Group's businesses as required.

Liquidity policy is approved by the Group Board and agreed with the Financial Services Authority. Limits on potential cash-flow mismatches over defined time horizons are the principal basis of liquidity control. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows.

Derivatives

A derivative is an off balance sheet agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other market prices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposures and are an indispensable tool in treasury management. Derivatives are primarily used by the Group for balance sheet management purposes. However the bank also runs trading book positions in derivatives; details of the level of interest rate risk in the trading book are contained in Note 39 on page 65.

Types of Derivatives and uses

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, futures, interest rate options and foreign exchange contracts which are used to hedge balance sheet exposures arising from fixed and capped rate mortgage lending, personal loans, leasing arrangements, funding and investment activities and foreign exchange services to customers.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist in the Group balance sheet.

Activity	Risk	Type of hedge
Fixed or capped rate lending	Sensitivity to increases in interest rates	Interest rate swaps and options
Fixed rate savings products and fixed rate funding	Sensitivity to falls in interest rates	Interest rate swaps and options
Equity linked investment products	Sensitivity to changes in equity indices and interest rates	Equity linked futures and options and interest rate swaps
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Foreign exchange contracts, cross-currency interest rate swaps
Customer foreign exchange business	Sensitivity to changes in foreign exchange rates	Foreign exchange contracts
Management of shareholders' funds and other net non-interest liabilities	Sensitivity to falls in interest rates	Interest rate contracts

Control of Derivatives

With the exception of credit exposures, which are managed within policies approved by the GCPC, all limits over the use of derivatives are the responsibility of ALCO.

All exchange traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges and are not subject to significant credit risk. Other derivatives contracts are on an 'Over the Counter' basis with OECD financial institutions. The exposures arising from these contracts are shown in Note 39 on page 66.

Board of Directors

John Windeler Aged 57
Executive Chairman

John Windeler has had extensive experience in international money and securities markets with two multinational banks. Formerly he was Executive Vice President of Irving Trust Bank in charge of investment banking and strategic planning and then the Group Chief Financial Officer at the National Australia Bank and Chief Executive of that bank's UK insurance division. He is also a non-executive director of BMS Associates Limited.

Peter Barton Aged 63
Non-Executive Deputy Chairman

Peter Barton is a solicitor who has many years' experience in the finance sector, having held senior positions in investment banking at Lehman Brothers and Robert Fleming & Co. His other directorships include Foreign & Colonial US Smaller Companies plc, Howard de Walden Estates Limited (Chairman) and the Guinness Trust Group.

Peter McNamara Aged 50
Group Managing Director

Peter McNamara began his career in finance at Lloyds Bank in 1974. His early career was spent in branch banking and in a number of corporate and institutional roles. From 1991 to 1996, during a period of significant corporate activity, Peter was Head of Strategic Planning and from 1996 he held the position of Managing Director, Personal Banking. He joined Alliance & Leicester in June 2000 as Group Managing Director with executive responsibility for the operational day to day running of the Group.

Michael Allen Aged 63
Non-Executive Director

Michael Allen has extensive experience in general and marketing management in the UK, Europe and the USA. He was Group Vice President in Procter & Gamble's European operations, having held a number of senior management positions in the group. He was previously a director of Alliance & Leicester from 1995 to 1998 and is a director of Safeway plc.

Richard Banks Aged 49
Distribution Director

Richard Banks became Distribution Director in August 2000. He has overall responsibility for the distribution of services to Alliance & Leicester's retail customer base. He was Managing Director of Girobank plc from 1996 until August 2000 having previously held a number of senior positions in Girobank since he joined the Company in 1987.

David Bennett Aged 39
Group Executive Director

David Bennett is Group Executive Director of Alliance & Leicester. He has many years' experience in the financial sector. He was Finance Director of Cheltenham & Gloucester plc and then an executive director of the National Bank of New Zealand Ltd before joining Alliance & Leicester in January 1999.

The Honourable David Brougham Aged 60
Non-Executive Director

David Brougham has many years' experience in the banking sector, both UK and international. He has served as Chairman at Chartered Trust plc, and as an executive director at Standard Chartered where he was on the Board from 1993 until 1998. His responsibilities have spanned both Europe and Asia. He remains a non-executive director at Asia Pacific Debt Recovery Company Hong Kong, Hampden Holdings Limited and Matrix E Ventures Fund VCT plc.

Frances Cairncross Aged 56
Non-Executive Director

Frances Cairncross holds MA degrees in history and economics. In 1967 she joined the staff of 'The Times' and since then has held positions with 'The Banker', 'The Observer' and 'The Guardian'. She is currently Management Editor of 'The Economist'. She is a Governor of the National Institute of Economic and Social Research, a member of the Council of the Institute for Fiscal Studies and an honorary fellow of St Anne's College, Oxford.

Nicholas Corah Aged 59
Non-Executive Director

Nicholas Corah is an industrialist with wide business experience, and was formerly Deputy Chairman of East Midlands Electricity plc and Chairman of Corah plc. He is a Deputy Lieutenant of Rutland. He is Chairman of the Group Audit and Risk Committee and Chairman of Trustees of the Alliance & Leicester Pension Scheme.

Mike McTighe Aged 47
Non-Executive Director

Mike McTighe joined Cable & Wireless in May 1999 as Chief Executive, Global Operations, where he holds responsibility for strategy, product and business development, marketing, networks and technology. He was previously President and Chief Executive Officer of Philips Consumer Communications LLP, a joint venture between Philips Electronics NV and Lucent Technologies inc. Prior to that he held a number of positions with Motorola and General Electric of the U.S.A.

Richard Pym Aged 51
Group Finance Director

Richard Pym joined Alliance & Leicester in 1992 and became Group Finance Director in 1993. A physics graduate and Fellow of the Institute of Chartered Accountants, his previous career was with Thomson McLintock & Co, British Gas plc, BAT Industries plc and The Burton Group plc. He is a non-executive director of Selfridges plc.

Jonathan Watts Aged 46
Non-Executive Director

Jonathan Watts is Managing Director of COLT Telecommunications, Europe's leading business telephony data and internet company. He is a member of that group's operational board and is responsible for the UK business which represents around a third of the company's total turnover. He has held this position since 1998, having previously held senior positions in the UK and overseas in a number of telecommunications and technology companies, including National Band Three Ltd, Aircall Holdings (now owned by Vodafone), Sintrom Plc and Control Data Corp.

Directors' Report

The directors have pleasure in presenting their report and the consolidated financial statements of Alliance & Leicester plc for the year ended 31 December 2000.

Principal Activities and Business Review

The principal activity of Alliance & Leicester plc and its subsidiaries is the provision of a comprehensive range of personal financial services. In addition, the Group's principal subsidiary, Girobank plc, provides a wide range of banking and financial services to business and public sector customers.

The Group's business during the year and future plans are reviewed on pages 2 to 23.

Results and Dividends

The profit on ordinary activities before tax for the year ended 31 December 2000 was £446.7m (1999: £493.5m).

An interim net dividend of 10.7 pence per share (1999: 9.5 pence per share) was paid on 16 October 2000.

The directors propose a final net dividend for the year of 22.3 pence per share (1999: 19.8 pence per share) to be paid on 14 May 2001.

Directors

The following persons were directors of the Company during the year:

J R Windeler *Executive Chairman*

Sir Michael Thompson *Deputy Chairman (to 31 December 2000)*

M P S Barton *Deputy Chairman (from 2 May 2000)*

P D McNamara *Group Managing Director (from 1 June 2000)*

M J Allen *(from 1 January 2000)*

R L Banks

D J Bennett *(from 1 January 2000)*

The Hon D Brougham *(from 8 May 2000)*

F A Cairncross

G N Corah

T M Hilliard *(to 1 August 2000)*

R M McTighe *(from 1 June 2000)*

R A Pym

E J Watts *(from 8 May 2000)*

The names and brief biographies of the current directors are shown on page 24. Mr R A Pym and Mr R L Banks will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. Mr P D McNamara, Mr D Brougham, Mr R M McTighe and Mr E J Watts, who were appointed directors during the year, will stand for election at the Annual General Meeting.

Directors' Service Contracts

Details of directors' service contracts are included in the Report on Directors' Remuneration on page 30.

Directors' Interests in Contracts

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Company or any of its subsidiary undertakings.

Directors' Interests in Shares

Directors' interests in the shares of the Company and options to acquire shares are set out in the report on Directors' Remuneration on pages 31 and 32.

Substantial Shareholders

Shareholders with an interest in the issued ordinary share capital of the Company disclosed in accordance with Sections 198-208 of the Companies Act 1985 are shown in note 33.

Corporate Governance

The Group's Statement of Corporate Governance is set out on pages 33 to 35.

Charitable and Political Donations

During 2000, the Group made donations for charitable purposes amounting to £202,500 including its support for Business in the Community. No contributions were made for political purposes.

During the year, Alliance & Leicester continued to develop its relationship with the community. Our corporate community investment programme has given support to a number of organisations nationally and locally. Our support has taken various forms including financial contributions, gifts in kind, management secondments and matching donations given by our staff.

We have maintained and developed our close links with Business in the Community through which we co-operate with other major companies on national initiatives giving practical help to community projects.

Staff
The business strategy seeks the understanding and commitment of all staff to becoming the most customer-focused financial services provider, bar none. A range of initiatives was launched in the second half of 2000 to support an enhanced customer obsession amongst employees and to demonstrate that the Company values them as individuals.

The Group has further advanced its effective communication and consultation with its staff. Regular staff involvement is achieved through two-way dialogue between staff and their managers, and consultative and negotiating committees, including discussion with trade unions. Regular meetings, group wide team briefings, circulars and newsletters help to ensure that staff are aware of the organisation's performance and objectives. In addition, the Group Managing Director addresses the Group's top managers on key issues, signposting future direction and responding to questions from around the Group. The Group encourages the involvement of employees in the performance of the Company through the employee ShareSave and Share Award Schemes, and introduced an All Employee Share Option Plan (AESOP) in 2001.

The Group has an equal opportunities policy. The aim of this policy is to ensure that no job application or staff member receives less favourable treatment on the grounds of race, colour, religion, nationality, ethnic or national origin, sex, marital status or physical disability. The Group continues to participate in a joint management/union equal opportunities forum to better facilitate constructive dialogue on equality issues.

It is the Group's policy to give all applications for employment from disabled people full consideration in relation to the vacancy concerned and their own aptitude and abilities. In the event of existing staff members becoming disabled, every effort is made to move them to suitable work within the Group if they cannot continue in their present job. The Group offers suitable training and career development for all disabled staff.

Health and Safety
Work within the financial sector is generally regarded as 'low hazard' employment. However, the Group recognises every type of employment may involve the potential for injury, damage or loss.

It is, therefore, our policy to provide a safe and healthy working environment for our staff, our customers and visitors to our premises.

Creditor Payment Policy
The Group is a signatory of the DTI's Better Payment Practice Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

It is Group policy to:
- agree the terms of payment at the start of business with that supplier
- ensure suppliers are aware of the payment terms
- pay in accordance with any contractual and other legal obligations.

Trade creditor days of the Company for the year ended 31 December 2000 were 24 days (1999: 28 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Environmental Policy
Alliance & Leicester recognises that it has a responsibility to act in a way that respects the environment.

Environmental best practice is, wherever reasonably practicable, incorporated into decision-making processes. The Group will invest in environmentally-friendly and sustainable products and services wherever it is practical to do so, minimise energy usage, encourage energy efficiency (and encourage staff to be environmentally-friendly) and promote waste minimisation and environmentally-friendly waste disposal.

In February we launched the Group's first Environment Update, an internal review aimed at evaluating and managing the Group's impact on the environment. This set a number of objectives for Alliance & Leicester:

- To introduce new energy accounting software that can be used to produce energy performance indicators for branches and regional offices.
- To introduce targets for improvements to those already in place for energy and water, and to monitor progress.
- To initiate a staff communication programme on environmental issues.
- To enhance supplier interface relationships and begin to introduce environmental issues into the selection process.

The Group's progress is compared against the progress of its peers in the Business in the Environment Index of Corporate Environmental Engagement.

Authority to Purchase Shares

During the year, 45,490,099 shares of 50p each were repurchased and cancelled, representing 9.02% of the Company's issued capital as at 31 December 2000. The aggregate consideration (including stamp duty) paid for the shares was £260,320,469. The purpose of the share buyback programme, which began in 1999, is to achieve a Tier 1 capital ratio of 8% by the end of 2001.

The authority for the Company to purchase in the market up to 55 million of its shares, representing some 10 per cent of the issued share capital, expires at the Annual General Meeting. Shareholders will be asked to give a similar authority up to 50 million of its shares at the Annual General Meeting.

Special Business at the Annual General Meeting

The Annual General Meeting will be held on 1 May 2001. Shareholders will see from the Notice of the Annual General Meeting that they are asked to consider and, if thought fit, pass a resolution as special business.

Auditors

Following a tendering process, KPMG Audit Plc resigned as auditors in August 2000. Deloitte & Touche were appointed in place of KPMG Audit Plc and have expressed their willingness to continue in office. A resolution appointing them as auditors and authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board
J Hepplewhite
Company Secretary

14 February 2001

Report on Directors' Remuneration

Remuneration Committee's Composition and Scope

The Board Remuneration Committee ('the Committee') comprises four non-executive directors:

Mr M P S Barton (Chairman and senior independent non-executive director)
Mr M J Allen
Mr G N Corah
Miss F A Cairncross

Sir Michael Thompson stepped down as Chairman and as a member of the Committee upon his retirement from the Board on 31 December 2000.

The Committee is responsible for determining, pursuant to a policy framework on executive remuneration agreed by the Board, the pay and benefits and contractual arrangements of each executive director and for overseeing the Group's Share Schemes.

Within the parameters set by the Board, individual performance-related payments and share awards are made by the Committee with the objective of rewarding achievements and aligning the interests of the individual with those of the Group's shareholders. The individual salary, bonus and benefit levels of executive directors are normally reviewed annually by the Committee and due consideration is given to advice from independent advisers.

The Executive Chairman and Group Managing Director may attend meetings of the Committee except when their own remuneration is being considered.

Remuneration Policy and its Development

The broad policy of the Board and the Remuneration Committee remains to set remuneration so as to attract and retain high calibre executives and to encourage and reward superior business performance. Remuneration for executive directors should reward both individual and company performance measured against performance criteria that are relevant and realistic but also challenging, so that good performance is encouraged. Of the total remuneration package of executive directors, a potentially significant proportion should relate directly to the performance of the Company and its share performance.

During the year the Board and the Remuneration Committee undertook a review of bonus and long-term incentive arrangements in the light of the Group's broad remuneration policy objectives with the aim of ensuring a sufficiently direct and clearly defined 'line of sight' (i.e. a clear relationship between actions and the corresponding level of reward received) in order to deliver successful implementation of the Group's strategy and the delivery of shareholder value. That strategy focuses on business development and rigorous control of costs, with customer service as a key differentiator. Following the review and in the light of a recent amendment to ABI guidelines, shareholder approval will be sought to change the current grant limit under the approved and unapproved executive share option schemes of four times annual remuneration in any ten year period. The Remuneration Committee intends that annual grants will not exceed a maximum of two times salary save in exceptional circumstances when up to four times salary may be granted. In the Board's view capped options can discourage share retention and executive directors should be encouraged to build a significant personal shareholding in the Company. To this end there will be a new policy for executive directors whereby they will be required to build up and retain a minimum holding of shares with a value of the order of their annual basic salary under Remuneration Committee agreed guidelines.

In designing schemes of performance-related remuneration, the Committee has followed the provisions in Schedule A to the Combined Code.

Details of individual directors' remuneration, share options and long-term incentive schemes are set out on pages 30 to 32 of this report.

Components of Emoluments

The main components of the remuneration package for executive directors are:

Basic Salary

Basic salary for executive directors takes into account the role and responsibilities, performance and experience of the individual set against background information from independent advisers on salary levels for similar positions amongst a specific comparator group of financial organisations and with due regard to general salary trends within companies in the FTSE 100. Executive directors have agreed to a two year salary 'freeze' effective from 1 July 2000.

Annual Bonus

At the discretion of the Committee, executive directors are eligible to receive an annual performance bonus. The amount of the bonus is determined by the Company's performance and director's performance and is based on the achievement of profit targets and individual performance goals specified and agreed at the beginning of each year together with a discretionary element to be determined by the Committee. Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration.

Executive directors are required to receive one-quarter of their annual bonus in the form of a deferred shares award which the Company will match if the related performance criteria are achieved (see later under Long-Term Incentive Schemes). Executive directors can voluntarily defer up to 100% of their annual bonus for this purpose. The rights to deferred shares cannot normally be exercised for three years and lapse if not exercised within seven years.

Long-Term Incentive Schemes

These are share schemes for executive directors in order to align the interests of executive directors with those of shareholders:

1. Options are granted under the Alliance & Leicester Approved and Unapproved Company Share Option Schemes. The aggregate value of options to subscribe for new shares (at market value on the day before the grant) granted to each individual cannot currently exceed four times annual remuneration in any ten year period. As indicated earlier, authority will be sought at the forthcoming Annual General Meeting to change this limit to a maximum annual award of two times basic salary per annum with a power to increase this to four times basic salary if the Committee considers that this is warranted in exceptional circumstances. Options cannot normally be exercised for three years from the date of issue. The performance condition that has been applied to the schemes is that options can only be exercised if the percentage growth in earnings per share over a three year period exceeds the Retail Price Index (RPI) inflation by at least 6% (9% for the 1998 scheme) over the same period.

2. In addition, the Company will match an award of deferred shares (see under Annual Bonus above) on the basis of up to three matched shares for each deferred share awarded. The maximum matched award is given for upper quartile performance measured relative to a peer group of Retail Banks (rather than a mix of Retail Banks and the FTSE-100 Index, reflecting the changing nature of the FTSE-100 Index). Awards begin to vest when median performance relative to the peer group is achieved. The rights to matching shares cannot normally be exercised for three years and lapse if not exercised within seven years.

Employee Share Schemes

Directors may also participate in the Company's existing Employee Share Schemes and Savings Related Share Option Schemes (including the Company's All Employee Share Option Plan approved at the 2000 Annual General Meeting) on the same basis as all other employees.

Pensions

Executive directors are members of the defined benefit section of the Alliance & Leicester Pension Scheme which has a normal retirement age of 60.

Its main features, in respect of executive directors, are:

(a) Pensions from age 60 of 1/60th of basic salary averaged over the last twelve months prior to retirement (restricted to the earnings cap where it applies) for each year of pensionable service.
(b) A cash benefit on death in service of 4x annual rate of basic salary (restricted to the earnings cap where it applies) at date of death.
(c) Pensions payable in the event of ill-health.
(d) Pensions for dependants on a member's death generally equal to half the member's prospective retirement pension at 60 on death in service, or half the member's pension entitlement on death in retirement.
(e) Member contributions are 5% of basic salary (restricted to the earnings cap where it applies).

The following executive directors have special benefits:
Mr McNamara, Mr Pym and Mr Bennett are entitled to a pension of 2/3rd of their final pensionable salary at age 60 retirement inclusive of retirement benefits from service at other organisations.
(Mr Hilliard was similarly entitled.)

Mr McNamara and Mr Pym are not required to contribute. Mr Windeler contributes 5% and Mr Bennett contributes 15% up to the earnings cap.

There is an unfunded unapproved pension arrangement to increase the pension benefits to the level promised, where, because of Inland Revenue limitations (including those resulting from the earnings cap) these cannot be paid in total from the Scheme. Such arrangements apply to Mr Windeler, Mr McNamara, Mr Pym and Mr Bennett.

On retirement from service an executive director may, with the consent of the employer, draw his accrued pension under the Pension Scheme at any time after his 50th birthday (subject to a reduction of 3% for each year by which retirement precedes his 60th birthday).

All pensions earned over the year are subject to contractual increases each April in line with the annual percentage rise in the RPI over the previous calendar year, subject to a maximum of 5%.

It is confirmed that there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

Other Benefits

Executive directors are eligible for a range of benefits which include the provision of company cars, payment of operating expenses including fuel and membership of a private medical insurance scheme.

Remuneration for Non-Executive Directors

The fees of the non-executive directors are determined by the Board as a whole in the light of recommendations by the Executive Chairman and within the limits specified in the Articles of Association of the Company:

Mr G N Corah is entitled, as a former director of the Company's predecessor Alliance & Leicester Building Society, to an unfunded unapproved arrangement providing for a pension (and to the benefit of private medical insurance) on retirement. This obligation has been transferred to the Company. The pension (which has been fully accrued) is payable from a normal retirement age of 70.

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

Service Contracts

The non-executive directors do not have service contracts with the Company, but on appointment are issued with a letter of understanding, which does not have contractual force.

For executive directors the Board has adopted an objective of moving towards contracts with a twelve months notice period over a period of time, having regard to existing arrangements. Indeed, notice periods have already been reduced from the three years applicable at the time of conversion to plc status, without payment of compensation. The Board also recognises, as is acknowledged in the Combined Code, that there are circumstances on recruitment where it may be necessary to agree a longer notice period for an initial period. In the case of Mr P D McNamara, Group Managing Director, he has an initial fixed period of two years under his contract and thereafter the contract will be subject to 12 months notice.

The service contracts of Mr J R Windeler (Executive Chairman) and Mr D Bennett are terminable by the Company on twelve months notice. The service contracts of Mr R A Pym and Mr R L Banks are terminable by the Company on two years notice.

If the employment of an executive director is terminated by the Company for any reason (other than due cause) without notice being given then Mr Pym and Mr Banks (and Mr McNamara during his initial fixed period of two years) are entitled to receive payment of eighteen months basic salary (or two years basic salary if at the time the executive director is 55 or over) and pension benefits. In the case of those directors subject to twelve months notice, they are entitled to receive payment of twelve months basic salary, annual bonus and pension benefits (plus an additional three months basic salary and pension benefits at the discretion of the Committee as 'good leavers', or an additional six months basic salary and pension benefits where employment is terminated by the Company within 6 months of a change of control of the Company). No such payments of salary and pension benefits on termination by the Company will in any event exceed a payment based on the number of months from the date of termination of employment to the executive director's 60th birthday.

The Committee believes that these provisions will ensure that the right calibre of directors are recruited and retained and ease an orderly transition from a two year to a twelve month notice period.

The executive directors may terminate their contracts of employment at any time by giving six months prior notice.

Directors' Remuneration

Year ended 31 December 2000

	Salaries/ Fees £'000	Bonus £'000	Deferred Bonus (i) £'000	Other Benefits £'000	Compensation for loss of Office (ii) £'000	**Total 2000 £'000**	Total 1999 £'000
Executive Chairman							
J R Windeler	446	60	300	2	–	**808**	208
Executive Directors							
R L Banks	227	90	60	15	–	**392**	367
D J Bennett (from 1.1.00)	230	100	50	11	–	**391**	–
T M Hilliard (ii)	176	44	–	11	491	**722**	536
P D McNamara (from 1.6.00)	222	75	75	10	–	**382**	–
R A Pym	325	138	92	16	–	**571**	568
P R White (to 29.10.99)	–	–	–	–	–	–	1,647
Subtotal	1,626	507	577	65	491	**3,266**	3,326
Non-Executive Directors							
M J Allen (from 1.1.00)	33	–	–	–	–	**33**	–
M P S Barton	52	–	–	–	–	**52**	29
The Hon D Brougham (from 8.5.00)	22	–	–	–	–	**22**	–
F A Cairncross	35	–	–	–	–	**35**	30
G N Corah	36	–	–	4	–	**40**	37
S Everard (to 4.5.99)	–	–	–	–	–	–	48
M McTighe (from 1.6.00)	18	–	–	–	–	**18**	–
Sir Michael Thompson (to 31.12.00)	63	–	–	–	–	**63**	58
E J Watts (from 8.5.00)	20	–	–	–	–	**20**	–
Subtotal	279	–	–	4	–	**283**	202
Total	1,905	507	577	69	491	**3,549**	3,528

Note:

(i) Maximum aggregate market value at date of grant of shares recommended by the Remuneration Committee to the Trustees of the Alliance & Leicester Share Ownership Trust (to be awarded in February 2001) in accordance with the deferred bonus arrangements described on page 28 of this report. The director will receive the deferred shares after 3 years and the matching shares upon fulfilment of the performance criteria if he is still employed by the Company (or, at the discretion of the Trustees, if he leaves the Group early).

(ii) In addition a payment of £997,000 was made by the Company into the Pension Scheme in order to reflect Mr Hilliard's pension promise and to credit Mr Hilliard with additional pensionable service in accordance with the provisions of his service contract. Mr Hilliard's contract of employment terminated with effect from 31 December 2000 and his directorship of the Company ceased on 1 August 2000. The emoluments shown relate to the period of his directorship.

Pension Entitlements

Executive Director	R L Banks	T M Hilliard	R A Pym	J R Windeler	P McNamara	D J Bennett
Age attained at 31.12.00	49	55	51	57	49	38
Normal retirement age	60	60	60	60	60	60
	£	£	£	£	£	£
Amount of accrued pension per annum at 31.12.00	50,872	147,879[i]	76,988	8,345	10,089	12,869
(at 31.12.99)	(42,941)	(83,988)	(60,033)	(1,111)	–	(5,149)
Change in amount of accrued pension p.a. net of revaluation during year to 31.12.00	6,514	61,119	14,974	7,197	10,089	7,550
(to 31.12.99)	(10,077)	(30,138)	(16,435)	(1,111)	–	(5,149)
Directors contributions payable during year to 31.12.00	11,375	38,750	–	4,575	–	13,725

[i] This amount came into payment as an immediate pension on 31 December 2000, with the usual early retirement reduction factor applying. The corresponding amount as at 31 December 1999 was payable from age 60.

Details of terms and conditions associated with the above pensions are shown on page 29.

Non-Executive Director	G N Corah	Sir Michael Thompson
Age attained at 31.12.00	68	69
Normal retirement age	70	70
	£	£
Amount of accrued pension p.a. at 31.12.00	16,373	32,749
Amount of pension accruing during 2000	–	–
Directors' contributions	–	–

Sir Michael Thompson retired on 31 December 2000. On the death of Sir Michael Thompson or Mr Corah, a widow's pension of one half of the full pension entitlement is payable. If Mr Corah ceases to be a director before his normal retirement age, his pension may be drawn without reduction from the former date (as he is now aged over 65).

Directors' Interests in Ordinary Shares

The beneficial interests of directors at the year-end in shares in Alliance & Leicester plc were:

	Fully Paid Shares of 50p each	
Directors	As at 1.1.00 (or date of appointment if later)	As at 31.12.00‡
M J Allen	500	500
R L Banks	918	2,443
M P S Barton	500	1,500
D J Bennett	500	2,025
The Hon D Brougham	3,000	3,000
F A Cairncross	8,964	12,014
G N Corah	4,217	4,217
P D McNamara	2,500	5,000
R M McTighe	500	500
R A Pym	1,244	10,269
Sir Michael Thompson	3,455	3,455
E J Watts	500	500
J R Windeler	2,500	32,500

‡Directors' share interests include the interests of their spouses and infant children, as required by Section 328 of the Companies Act 1985.

Rights to Acquire Shares

In addition, the following directors have options to subscribe for shares of 50p each granted under the terms of the Alliance & Leicester Share Option Schemes:

Directors	Number of options: As at 1.1.00	Granted during the year	As at 31.12.00	Exercise price £	Exercise period
R L Banks	5,628		5,628	5.33#	23/4/00 – 23/4/07
	16,417		16,417	5.33*	23/4/00 – 23/4/04
	3,239		3,239	4.26‡	1/8/02 – 1/2/03
	38,589		38,589	9.00½*	6/3/01 – 6/3/05
	513		513	6.72‡	1/11/03 – 1/5/04
	47,320		47,320	8.77*	17/6/02 – 17/6/06
	3,768		3,768	Nil†	17/6/02 – 17/6/06
	Nil	43,137	43,137	5.10*	17/2/03 – 17/2/07
	Nil	11,764	11,764	Nil†	17/2/03 – 17/2/07
D J Bennett	42,189		42,189	8.77*	17/6/02 – 17/6/06
	3,420		3,420	8.77#	17/6/02 – 17/6/09
	1,443		1,443	6.712‡	1/11/02 – 1/5/03
	Nil	45,098	45,098	5.10*	17/2/03 – 17/2/07
P D McNamara	Nil	4,850	4,850	6.18½#	2/6/03 – 2/6/10
	Nil	118,027	118,027	6.18½*	2/6/03 – 2/6/07
R A Pym	5,628		5,628	5.33#	23/4/00 – 23/4/07
	76,923		76,923	5.33*	23/4/00 – 23/4/04
	4,049		4,049	4.26‡	1/8/02 – 1/2/03
	31,093		31,093	9.00½*	6/3/01 – 6/3/05
	59,293		59,293	8.77*	17/6/02 – 17/6/06
	5,938		5,938	Nil†	17/6/02 – 17/6/06
	Nil	60,784	60,784	5.10*	17/2/03 – 17/2/07
	Nil	19,606	19,606	Nil†	17/2/03 – 17/2/07
J R Windeler	Nil	6,586	6,586	4.555#	27/7/03 – 27/7/10
	Nil	190,998	190,998	4.555	27/7/03 – 27/7/07
	Nil	2,658	2,658	3.644‡	1/11/03 – 1/5/04

‡ Options granted under the Alliance & Leicester ShareSave Scheme.
\# Options granted under the Alliance & Leicester Approved Company Share Option Scheme.
* Options granted under the Alliance & Leicester Unapproved Company Share Option Scheme.
† Options granted over Matching Shares under the Alliance & Leicester Deferred Bonus Scheme.

On 31 December 2000 the market price of ordinary shares in Alliance & Leicester plc was £6.80 and the range during 2000 was £4.54 to £7.695.

Bonus Awards

The following table shows the directors' interests in options awarded under the deferred bonus scheme (but does not include those to be awarded in February 2001 as described on page 30 of this report).

Executive Director	Bonus year		Value of award £	Market value at date of grant £	No. of options	Exercise price £	Exercise period
R L Banks	1998	Deferred Shares	16,530	8.77	1,884*	Nil	17/6/02 – 17/6/06
	1999	Deferred Shares	29,998	5.10	5,882*	Nil	17/2/03 – 17/2/07
R A Pym	1997	Deferred Shares	22,800	9.00½	2,532	Nil	6/3/01 – 6/3/05
	1997	Matching Shares	22,800	9.00½	2,531~	Nil	6/3/01 – 6/3/05
	1998	Deferred Shares	26,040	8.77	2,969*	Nil	17/6/02 – 17/6/06
	1999	Deferred Shares	49,995	5.10	9,803*	Nil	17/2/03 – 17/2/07

~ The Matching shares granted in 1998 in respect of the 1997 bonus year were not subject to a performance objective.
* In the case of the 1998 and 1999 bonus years, a maximum of up to two Matching shares for each Deferred Share may be awarded subject to the Company's total shareholder return (TSR) performance ranking greater than 50th percentile against the TSR performance of two comparator groups namely the FTSE Retail Banks Index and the FTSE 100 Index (with application on a linear basis between zero for the 50th percentile performance and two times for the top 25th percentile performance).

On behalf of the Board
M P S Barton
Chairman of the Remuneration Committee

14 February 2001

Statement of Corporate Governance

Principles of Corporate Governance

The Company's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple 'box ticking' approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in Section 1 of the Principles of Good Governance and Code of Best Practice ('the Combined Code') published by the Stock Exchange in June 1998) in a sensible and pragmatic fashion having regard to the individual circumstances of a particular company's business. The key objective is to enhance and protect shareholder value.

Board Structure

The Company's Board comprises seven non-executive directors and five executive directors who have the collective responsibility for ensuring that the affairs of the Company and its subsidiaries are managed competently and with integrity. The Executive Chairman is Mr J R Windeler and the Group Managing Director is Mr P D McNamara. The senior independent non-executive director is the Deputy Chairman, Mr M P S Barton. Mr Windeler combined the roles of Chairman and Chief Executive as an interim measure until the appointment of Mr McNamara as Group Managing Director in June 2000.

The Executive Chairman and the Group Managing Director each have a set of devolved powers from the Board reflecting their respective responsibilities. The Executive Chairman's focus is on governance and long-term strategic direction, including the development of strategic alliances and partnerships and external relationships. The Group Managing Director has executive responsibility for business strategy and for day to day operations of the Group and the implementation of the new strategy.

The non-executive directors are not employees of the Company and the Board considers that all the non-executive directors are independent of management and free from business or other relationships which could materially interfere with the exercise of their independent judgement. It should be noted in this context that the pension entitlement of Mr G N Corah is fully accrued in accordance with the details disclosed in the Report on Directors' Remuneration.

The non-executive directors provide an independent challenge to executive directors and play a full part as members of the Board 'team'. They bring a diversity of business perspective and objectivity which complements the 'hands on' expertise of their executive director colleagues. All members of the Board share responsibility for Board decisions.

The composition of the Board is kept under review with the aim of ensuring that there is a proper balance between executive and non-executive members of the Board and that the Board collectively possesses the necessary skills and experience for the proper direction of the Group's business activities. During the year, a new Deputy Chairman was appointed and six new directors joined the Board including a new Group Managing Director. These appointments ensure that there is a proper balance of power and authority in decision taking as well as strengthening the Board in a range of key areas including branding, distribution, marketing, retailing, technology and telecommunications (all of which are very relevant to the rapidly evolving financial services marketplace).

Newly appointed directors submit themselves for election by shareholders at the first opportunity after their appointment and at three yearly intervals thereafter. They receive induction training upon appointment.

The Board meets regularly and approves and closely monitors the Alliance & Leicester Group's strategic direction and business strategy. There is a formal schedule of matters specifically reserved to the Board for decision including major capital expenditure, annual budgets and corporate objectives. Procedures are in place which allow directors to take independent professional advice in the course of their duties and all directors have access to the advice and services of the Company Secretary.

The Board receives regular management performance and internal control reports and operates a system of Board reviews of individual business units and their performance against key business targets and objectives.

The Board has established several committees with specified terms of reference which assist the full Board in the exercise of its responsibilities:

Nomination Committee

Under the chairmanship of Mr Windeler this Committee has the task of recommending new appointments to the Board and reviewing re-appointments when they become due. It has formal Terms of Reference and its current membership comprises:

Mr J R Windeler (Chairman)
Mr M P S Barton (non-executive)
Mr M J Allen (non-executive)
Miss F A Cairncross (non-executive)

Remuneration Committee

Under the chairmanship of Mr Barton (non-executive Deputy Chairman) this Committee determines the remuneration and contractual arrangements of individual executive directors having regard to a general policy framework for executive remuneration established by the Board. The Board's Report on Directors' Remuneration appears on pages 28 to 32.

The Committee's Terms of Reference require membership of the Committee to be confined to non-executive directors. The present members of the Committee are:

Mr M P S Barton (Chairman)
Mr M J Allen
Mr G N Corah
Miss F A Cairncross

Sir Michael Thompson was Chairman of the Committee until his retirement on 31 December 2000.

Group Audit and Risk Committee

Membership of the Committee comprises Mr Corah (Chairman), Mr Barton and The Hon. D Brougham, (all of whom are non-executive directors). Meetings of the Committee are normally attended by the Group Finance Director, the Director of Group Risk, the Head of Internal Audit and the Head of Group Compliance. The Chairman of the Committee has independent access to both internal and external auditors (and to the Group's key external regulator, the Financial Services Authority).

The duties of the Committee fall into two main areas: internal control and financial reporting.

Internal Control: the Committee reviews the effectiveness of the Group's systems of internal control and risk management and monitors compliance with regulatory requirements. To do this, the Committee approves the annual Internal Audit and Compliance plans, which are based on thorough risk assessments of the full scope of the Group's business activities, and monitors progress against the plans. Each meeting of the Committee receives a report regarding the state of internal control within the Group and the salient points of this report are presented to the next Board meeting.

Financial Reporting: the Committee's role is to review, on behalf of the Board, the Annual Report and Accounts, the Interim Report and internal audit reports. The Committee focuses on reviewing any changes in accounting policy, major areas of judgement and estimates, and compliance with accounting principles and regulatory requirements.

The Committee recognises the importance of maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets. Further information on the systems of business control appears later in this Statement. The Committee has formal Terms of Reference. The Company's auditors are present at meetings of the Committee and the Committee keeps under review the overall financial relationship between the Company and its auditors in order to ensure a proper balance between the maintenance of objectivity and obtaining value for money.

The Board has also established two other committees. The Group Credit Policy Committee reviews all aspects of lending credit and market risk and the Group Assets and Liabilities Committee establishes strategies for, and monitors and controls, the levels of balance sheet risk including liquidity, funding and currency exposures across the Group and the monitoring of interest rate refixing profiles.

Pension Funds

The Group's pension funds are held and controlled by Trustees separately from the Group; in particular no scheme assets are invested in or loaned to the Company or its subsidiaries. Independence is reinforced by strong employee trustee representation.

Relations with Shareholders

The Company values dialogue with its institutional shareholders through meetings and results briefings. The Annual General Meeting and the documents sent to shareholders before that meeting provide an opportunity for the Board to account to shareholders for its stewardship of the Group's business.

Compliance Statement

As from May 2000, all directors in post at the time of flotation of the Company in April 1997 had stood for re-election and the Group now operates a system of retirements at three yearly intervals thereafter.

Subject to this exception, in the director's opinion the Company complied with the provisions of Section 1 of the Combined Code throughout the year ended 31 December 2000.

Internal Control

The Group Audit and Risk Committee has regularly reviewed the effectiveness of the Group's system of internal control for the year to 31 December 2000 on behalf of the Board and has taken account of any material developments that may have taken place since the year end.

Systems of Business Control

The Board is responsible for the Group's system of internal controls and for monitoring its effectiveness. The Group's business involves the identification, acceptance and mitigation of risk and appropriate internal control systems have been implemented and embedded. These systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and provide reasonable but not absolute assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud, but it must be recognised that they cannot provide absolute assurance.

The directors are required by law to establish systems for the control of the conduct of the business in accordance with Schedule 3 of the Banking Act 1987 and to conduct the business with prudence and integrity, ensuring that there are adequate reserves and other capital resources and assets in liquid form for the protection of depositors.

There has been in place for the year under review and up to the date of this report a process of identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed by the Board and accords with the Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales in September 1999.

The Board receives a detailed monthly report from the Group Managing Director and key executives identifying performance against budget, major business issues and the impact of the external business and economic environment on their areas of responsibility. The Board also receives the minutes of the Group's major risk committees, the Group Audit and Risk Committee, the Group Assets and Liabilities Committee and the Group Credit Policy Committee. These minutes identify any significant issues relating to the adequacy of the Group's risk management policies and procedures across the full range of risk to which the Group is exposed.

The Board has delegated oversight of the Group's Internal Control Policy to the Group Audit and Risk Committee. Each regular meeting of this Committee receives a report identifying the effectiveness of internal control together with specific reports on major issues. An annual assessment of the effectiveness of internal control within the Group is submitted by the Head of Internal Audit to this Committee. The Board retains control over this area through the presentation of a regular Group Audit and Risk Committee 'activities' report together with the minutes of the Committee meetings.

The key features of the system of business control established by the Board are:

- a Group Internal Control Policy requiring senior management to identify major risks and monitor the effectiveness of internal controls through key performance indicators and certify to the Board on a twice yearly basis that they are effective. The results of this self certification are subject to internal audit scrutiny and are reported via the Group Audit and Risk Committee;
- a well defined management structure with clear accountabilities and delegations;
- a planning and budget process that delivers detailed annual financial forecasts and targets for Board approval;
- management information systems enabling the Board to receive comprehensive monthly analysis of financial and business performance including variance against budget;
- risk management functions to identify and monitor all major risks to which the Group is exposed;
- an Internal Audit function to report to the Board on the effectiveness of key internal controls in relation to these major risks;
- a Compliance function to manage relationships with the Group's key regulators and to identify and control major compliance risks; and
- documented procedures and authority levels to ensure that risks involved in major projects are properly assessed and controlled.

The activities of the Group, including the systems of business control, are subject to supervision by the Financial Services Authority. The Group is required on a regular basis to submit detailed prudential and statistical returns covering all areas of its business and meets regularly with its supervisors, conducting the relationship in an open and constructive manner. This includes a specific bilateral meeting between the FSA and the Chairman of the Group Audit and Risk Committee.

Going Concern

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

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare financial accounts on the going concern basis unless it is inappropriate to assume the Group will continue to be in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report to the members of Alliance & Leicester plc

We have audited the financial statements on pages 38 to 69 which have been prepared under the accounting policies set out on pages 43 and 44. We have also audited the information which is specifed by the Financial Services Authority to be audited in respect of any directors' remuneration, share options, long-term incentive schemes and pension entitlements and which is set out in the report to shareholders by the Board on directors' remuneration on pages 28 to 32.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 36, 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 Listing Rules of 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 34 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 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 misstatements, 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

Deloitte & Touche
Chartered Accountants and Registered Auditors
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

14 February 2001

Consolidated Profit and Loss Account

For the year ended 31 December 2000	Notes	Continuing Operations 2000 £m	1999 (restated) £m
Interest receivable:			
Interest receivable and similar income arising from debt securities		**334.9**	196.0
Other interest receivable and similar income		**1,884.0**	1,667.1
Interest payable		**(1,451.4)**	(1,110.5)
Net interest income		**767.5**	752.6
Fees and commissions receivable		**452.3**	457.8
Fees and commissions payable		**(84.4)**	(81.4)
Other operating income		**51.4**	44.2
Total non-interest income		**419.3**	420.6
Operating income		**1,186.8**	1,173.2
Administrative expenses	3	**(662.3)**	(601.7)
Depreciation and amortisation		**(36.0)**	(36.8)
		(698.3)	(638.5)
Provisions for bad and doubtful debts	16	**(41.8)**	(41.2)
Operating profit on ordinary activities before tax		**446.7**	493.5
Tax on profit on ordinary activities:			
Underlying	8	**(125.6)**	(146.0)
Tax credit in respect of conversion costs	8	**15.2**	–
		(110.4)	(146.0)
Profit attributable to the shareholders of Alliance & Leicester plc	9	**336.3**	347.5
Dividends	10	**(165.5)**	(162.9)
Retained profit for the year	34	**170.8**	184.6
Basic earnings per ordinary share	11	**63.9p**	60.7p
Underlying basic earnings per ordinary share	11	**61.0p**	60.7p
Diluted earnings per ordinary share	11	**63.7p**	60.3p

In both the current and preceding year the Group had no material acquisitions or discontinued operations.

There is no difference, in the current or previous period, between the consolidated profit and loss account as reported and the profit and loss account which would have been reported on an unmodified historical cost basis.

Consolidated Balance Sheet

As at 31 December 2000	Notes	2000 £m	1999 (restated) £m
Assets			
Cash and balances at central banks		**122.3**	155.8
Treasury bills and other eligible bills	12	**218.5**	279.5
Loans and advances to banks	13	**1,347.7**	1,230.7
Items in the course of collection from other banks		**190.6**	102.0
Loans and advances to customers	14	**24,022.4**	23,732.0
Securitised advances	15	**239.1**	–
Less: non-recourse finance	15	**(239.1)**	–
		24,022.4	23,732.0
Debt securities	17	**6,963.3**	3,743.9
Intangible fixed assets	19	**4.3**	–
Tangible fixed assets	20	**567.9**	516.5
Other assets	21	**466.2**	163.1
Prepayments and accrued income	22	**396.8**	238.2
Long-term assurance business attributable to shareholders	23	**75.1**	64.8
		34,375.1	30,226.5
Long-term assurance assets attributable to policyholders	23	**340.7**	258.0
Total assets		**34,715.8**	30,484.5
Liabilities			
Deposits by banks	24	**1,402.2**	1,023.8
Items in the course of transmission to other banks		**215.0**	197.7
Customer accounts	25	**21,324.0**	20,125.0
Debt securities in issue	26	**7,852.9**	5,751.4
Other liabilities	27	**432.8**	352.0
Accruals and deferred income	28	**892.4**	659.2
Provisions for liabilities and charges	29	**137.4**	100.1
Subordinated liabilities	32	**461.8**	273.5
		32,718.5	28,482.7
Called up share capital	33	**252.2**	274.7
Share premium account	34	**21.9**	19.9
Capital redemption reserve	34	**40.1**	17.4
Profit and loss account	34	**1,342.4**	1,431.8
Shareholders' funds (equity)		**1,656.6**	1,743.8
		34,375.1	30,226.5
Long-term assurance liabilities to policyholders	23	**340.7**	258.0
Total liabilities		**34,715.8**	30,484.5
Memorandum items			
Contingent liabilities	37	**99.1**	51.8
Commitments	37	**681.4**	410.6

Approved by the Board of directors on 14 February 2001 and signed on its behalf by:
J R Windeler Executive Chairman
P D McNamara Group Managing Director
R A Pym Group Finance Director

Company Balance Sheet

As at 31 December 2000	Notes	2000 £m	1999 (restated) £m
Assets			
Cash and balances at central banks		**49.2**	122.7
Loans and advances to banks	13	**3,453.7**	2,745.8
Loans and advances to customers	14	**19,991.2**	20,151.0
Securitised advances	15	**239.1**	–
Less: non-recourse finance	15	**(239.1)**	–
		19,991.2	20,151.0
Debt securities	17	**45.0**	75.2
Shares in group undertakings	18	**662.9**	662.9
Tangible fixed assets	20	**237.1**	236.5
Other assets	21	**348.2**	204.1
Prepayments and accrued income	22	**139.8**	113.9
Total assets		**24,927.1**	24,312.1
Liabilities			
Deposits by banks	24	**5,766.2**	6,759.2
Customer accounts	25	**15,005.2**	14,225.6
Debt securities in issue	26	**1,477.1**	993.3
Other liabilities	27	**364.7**	249.7
Accruals and deferred income	28	**562.0**	468.3
Provisions for liabilities and charges	29	**17.2**	15.9
Subordinated liabilities	32	**461.8**	273.5
		23,654.2	22,985.5
Called up share capital	33	**252.2**	274.7
Share premium account	34	**21.9**	19.9
Capital redemption reserve	34	**40.1**	17.4
Profit and loss account	34	**958.7**	1,014.6
Shareholders' funds (equity)		**1,272.9**	1,326.6
Total liabilities		**24,927.1**	24,312.1

Approved by the Board of directors on 14 February 2001 and signed on its behalf by:

J R Windeler Executive Chairman
P D McNamara Group Managing Director
R A Pym Group Finance Director

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2000	2000 £m	1999 (restated) £m
Group profit attributable to the shareholders of Alliance & Leicester plc	**336.3**	347.5
Prior year adjustment		
– Prior to 1 January 1999	**(0.9)**	–
– Year ended 31 December 1999	**(6.8)**	–
	(7.7)	–
Total gains and losses relating to the year	**328.6**	347.5

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2000	2000 £m	1999 (restated) £m
Group profit attributable to the shareholders of Alliance & Leicester plc	**336.3**	347.5
Dividends	**(165.5)**	(162.9)
Retained profit for the financial year	**170.8**	184.6
New shares issued	**0.2**	–
Repurchase of share capital	**(260.2)**	(293.4)
Share premium on issue of shares under option	**2.0**	0.2
Net (decrease) in shareholders' funds	**(87.2)**	(108.6)
Opening shareholders' funds		
– as previously reported	**1,751.5**	1,853.3
– prior year adjustment	**(7.7)**	(0.9)
– as restated	**1,743.8**	1,852.4
Closing shareholders' funds	**1,656.6**	1,743.8

Consolidated Cash Flow Statement

For the year ended 31 December 2000	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	40	**3,575.1**	2,118.2
Returns on investments and servicing of finance:			
Interest paid on loan capital		**(34.7)**	(24.8)
Taxation		**(74.4)**	(113.1)
Capital expenditure and financial investment:			
Purchase of investment securities		**(9,495.6)**	(6,694.1)
Sale and maturity of investment securities		**6,357.0**	5,407.8
Purchase of tangible fixed assets		**(216.6)**	(253.1)
Sale of tangible fixed assets		**75.4**	97.8
Net cash outflow from capital expenditure and financial investment		**(3,279.8)**	(1,441.6)
Acquisitions and disposals		**1.0**	–
Equity dividends paid		**(159.2)**	(145.1)
Net cash inflow before financing		**28.0**	393.6
Financing:			
Proceeds from issue of ordinary share capital		**2.2**	–
Repurchase of share capital	40	**(260.2)**	(293.4)
Issue of loan capital	40	**188.1**	–
(Decrease)/increase in cash	40	**(41.9)**	100.2

Notes to the Accounts

1 Principal accounting policies

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

Accounting convention
The Group prepares its accounts under the historical cost convention, and in accordance with applicable UK accounting standards.

Basis of consolidation
The Group accounts consolidate the accounts of the bank and all its subsidiaries at the end of the year. Where subsidiaries are acquired during the year, their results are included in the Group accounts from the date of acquisition.

Goodwill
Goodwill arising on the acquisition of subsidiary companies, which is represented by the excess of fair value of the purchase consideration over the fair value of assets acquired, is capitalised and shown as an asset in the balance sheet and subsequently amortised over the economic life of the asset as a charge to the profit and loss account. This is a change from the previous policy of writing off goodwill to reserves on acquisition. As permitted by FRS 10 prior year figures have not been restated to reflect this change in accounting policy. Goodwill previously written off to reserves amounts to £42.2m.

Deferred taxation
Provision is made using the liability method for taxation which is deferred as a result of timing differences, only to the extent that it is likely that such taxation will become payable or receivable in the foreseeable future. Provision is calculated at rates expected to be applicable when the liability or asset crystallises.

Fixed assets and depreciation
The cost of additions and major alterations to office premises, plant, fixtures, equipment and motor vehicles is capitalised. The cost of fixed assets less estimated residual value is written off on a straight line basis over their estimated useful lives as follows:

Freehold buildings	40 to 75 years
Leasehold buildings	over the remainder of the lease up to 75 years
Plant, fixtures and major alterations	10 to 15 years
Equipment and motor vehicles	3 to 9 years
No depreciation is provided on freehold land	

Software costs and external consultancy costs associated with software development are written off to the profit and loss account as incurred.

Depreciation is provided on operating lease assets acquired for the purposes of renting out at rates calculated to write off the cost of the assets, less estimated residual value, over their useful lives using methods which allocate depreciation charges on a systematic basis to the periods which are expected to benefit from their use.

Finance and rental agreements
The minimum lease payments receivable from finance lease and other finance agreements, less appropriate future income arising from finance charges, are included in loans and advances to customers.

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciated in accordance with the accounting policy set out above. Gross earnings on finance and rental agreements comprise the income component of repayments, after recognising sufficient income to cover initial direct costs, which are credited to the profit and loss account using methods which produce an approximate constant rate of return on the net cash investment.

Operating lease agreements
Rentals under operating leases are charged to administrative expenses on a straight line basis.

Wholesale funding issue costs
Premiums or discounts, net of commission costs associated with the issue of fixed and floating rate notes and subordinated liabilities, are amortised over the relevant period to maturity and are included in the profit and loss account within interest payable.

Pensions
The Group operates both defined benefit and defined contribution arrangements. Under the defined benefit sections the cost of providing pensions and related benefits is charged to the profit and loss account so as to spread the costs evenly over the employees' working lives. The difference between the charge to the profit and loss account and the contributions paid to the scheme is shown as an asset or a liability in the balance sheet. The assets of the defined contribution section are held separately in an independently administered fund. Contributions to the scheme are charged to the profit and loss account as they fall due.

Securities
Securities intended for use on a continuing basis in the bank's activities are classified as investment securities and are stated in the balance sheet at cost. Adjustments are made to cost for premiums and discounts arising on the purchase of investment securities, which are amortised over the period to the maturity date of the security, and for the effect of the annual movement in the retail price index where redemption is so fixed under the terms of the issue.

Securities used in trading activities are carried at fair value, with all gains and losses taken directly to the profit and loss account.

Provisions for bad and doubtful debts
Specific provisions are made in respect of loans and advances where recovery is considered doubtful; a general provision is made for losses which, although not specifically identified,

1 Principal accounting policies continued

are known to be inherent in any portfolio of lending. Where the collection of interest is in significant doubt, it is credited to a suspense account and written off when there is no longer any realistic prospect of recovery. The outstanding provisions are deducted from loans and advances, along with the interest on non-performing loans held in suspense. The charge in the profit and loss account represents the net increase (or decrease) in the provisions less recoveries for the year.

Income recognition
Interest is recognised in the profit and loss account on an accruals basis. The costs of mortgage cashbacks, discounts and other incentives to borrowers are charged as incurred to interest receivable. Mortgage arrangement fees are taken to income in the profit and loss account on a received basis. Other fees receivable are credited to income when the related service is performed.

Foreign currencies
Monetary assets and liabilities in foreign currencies, other than those covered by forward contracts which are translated at contracted rates, are translated into sterling using year end exchange rates and any differences charged or credited to the profit and loss account.

Derivative financial instruments
Derivatives used in trading activities are carried at fair value, with all gains and losses taken directly to the profit and loss account.

Gains and losses on non-trading derivatives are taken to the profit and loss account in accordance with the accounting treatment of the underlying transaction being hedged. Accrued income or expense is reported in prepayments and accrued income or accruals and deferred income as appropriate. Profits and losses relating to hedges of commitments and anticipated transactions are deferred and taken to the profit and loss account over the life of the underlying hedge.

Hedging contracts and instruments are used by the Group as part of its overall risk management strategy. Instruments used for hedging purposes include interest rate swaps, interest rate caps, collars and floors, futures, forward rate agreements and spot and forward foreign exchange transactions.

The criteria required for a derivative instrument to be classified as a designated hedge is:

i) the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities or positions being hedged which results from potential movements in interest rates and exchange rates;
ii) adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets and liabilities being hedged must be established at the outset of the transaction.

Hedge transactions which cease to be effective or are terminated early are measured at fair value. Any profit or loss arising is deferred and amortised over the remaining life of the asset, liability or position being hedged. Where the underlying asset, liability or position no longer exists, the hedging transaction is measured at fair value and any profit or loss arising is recognised in full.

Mortgage guarantee income
The bank charges a fee to reflect the increased risk on high loan to value advances and has established a wholly owned subsidiary, as a captive insurance company, for the purposes of insuring part of the risk upon such secured lending.

The insurance fund of the captive is included within accruals and deferred income in the Group balance sheet.

Long-term life assurance business
The value of long-term assurance business represents an actuarial assessment of the value of the shareholders' interest in the long-term assurance funds, comprising the present value of future surpluses expected to emerge from business currently in force together with the surplus retained in the long-term funds. The value is determined on the advice of a qualified actuary.

Movements in the value of long-term assurance business, grossed up at the effective rate of corporation tax, are included within other operating income in the Group profit and loss account.

Securitisation
Securitisation transactions are reported in accordance with FRS 5, 'Reporting the Substance of Transactions'. Where assets are sold under securitisation, if there is no significant change to the Group's rights and benefits to those assets and its exposure is limited to a fixed monetary ceiling, linked presentation is used. Under linked presentation the finance is shown deducted from the gross amount of the item it finances on the face of the balance sheet within a single asset caption 'loans and advances to customers'.

2 Change in accounting policy

Software costs and external consultancy costs associated with software development are now written off direct to the profit and loss account as incurred in order to reflect the rate of technological change. Previously these costs had been capitalised and depreciated over 3 years. The change in accounting policy has been accounted for as a prior year adjustment and the profit and loss accounts and balance sheets for previous years have been restated accordingly. This has resulted in a net charge to shareholders' funds of £7.7m as at 1 January 2000. The effect on the 2000 results is to increase costs by £33.2m (1999: £6.8m).

3 Administrative expenses

	2000 £m	1999 £m
Staff costs:		
Wages and salaries	**175.7**	169.8
Social security costs	**15.5**	14.9
Other pension costs	**12.7**	11.2
	203.9	195.9
Other administrative expenses	**458.4**	405.8
Total	**662.3**	601.7

The above expenses exclude those incurred by Alliance & Leicester Life Assurance Company Limited, which are reflected in the movement in the value of long-term assurance business, included within Other operating income.

4 Profit on ordinary activities before tax

	2000 £m	1999 £m
Is stated after:		
(i) Income		
Income from listed investments	**221.6**	103.1
(ii) Charges		
Interest payable on subordinated liabilities	**35.6**	24.8
Rentals under operating leases		
Land and buildings	**11.8**	11.3
Other operating leases	**2.7**	2.4
Finance lease interest charges	**1.4**	1.0
Auditors' remuneration:		
Group		
Deloitte & Touche:		
as auditors	**0.3**	–
other fees paid to the auditors and their associates	**0.6**	–
fees earned before appointment as auditors	**0.2**	–
KPMG:		
as auditors	**–**	0.4
other fees paid to the auditors and their associates	**0.8**	1.8
fees earned after resignation as auditors	**6.1**	–
Company		
Deloitte & Touche:		
as auditors	**0.2**	–
other fees paid to the auditors and their associates	**0.1**	–
fees earned before appointment as auditors	**0.2**	–
KPMG:		
as auditors	**–**	0.2
other fees paid to the auditors and their associates	**0.4**	1.4
fees earned after resignation as auditors	**6.0**	–

5 Staff numbers

The average number of persons employed by the Group during the year was as follows:

	Full time		Part time	
	2000	1999	2000	1999
Total	**6,078**	6,092	**2,776**	2,787

6 Directors' emoluments

	2000 £m	1999 £m
Services as a director	**0.3**	0.3
Other services	**2.7**	2.2
	3.0	2.5
Compensation for loss of office	**0.5**	1.0
Total	**3.5**	3.5

Directors' emoluments include those emoluments received by directors from the Company and its associated bodies. The highest paid director was Mr Windeler. A detailed analysis of directors' emoluments is given on page 30 in the Report on Directors' Remuneration.

7 Directors' loans and transactions

The aggregate amount outstanding at 31 December 2000 in respect of loans in the ordinary course of business from the Company, or a subsidiary company, to directors of the Company and persons connected with the directors of the Company was £9,018 representing loans to 4 persons.

8 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax at 30% (30.25%)	**80.9**	96.3
Relief for overseas taxation	**(3.8)**	(2.7)
	77.1	93.6
Deferred tax	**40.6**	44.8
Overseas taxation	**7.9**	7.6
	125.6	146.0
Exceptional adjustments to prior years' tax provisions in respect of conversion costs	**(15.2)**	–
	110.4	146.0

The tax charge for 2000 is 24.7% of profit before tax. This is significantly lower than 30% due to a favourable Special Commissioners decision on the tax deductibility of conversion costs during the year. This has resulted in a tax credit in respect of prior years of £15.2m being reflected in these results. The underlying tax rate, excluding the tax credit in respect of conversion costs, is 28.1%. The tax charge for 1999 was 29.6% of profit before tax.

9 Group profit dealt with in the accounts of Alliance & Leicester plc

£369.8m (1999: £255.2m) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of Alliance & Leicester plc. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of Alliance & Leicester plc has not been presented separately.

10 Dividends

	2000 pence per share	1999 pence per share	2000 £m	1999 £m
Interim	**10.7**	9.5	**54.5**	54.8
Final	**22.3**	19.8	**111.0**	108.1
Total	**33.0**	29.3	**165.5**	162.9

11 Earnings per share

Earnings per ordinary share are calculated by dividing the Group profit attributable to shareholders of £336.3m (1999: £347.5m) by the weighted average number of ordinary shares in issue and ranking for dividend of 526.4m (1999: 572.8m) during the year.

The underlying earnings per share is provided to disclose the trend in earnings excluding the distorting effect of non-recurring items. This is based on the same number of shares and the profit for the financial year after excluding the exceptional tax credit in respect of conversion costs as follows:

	2000 £m	1999 £m
Profit for the financial year as reported	**336.3**	347.5
Adjusted for:		
Exceptional tax credit in respect of conversion costs	**(15.2)**	–
Underlying profit for the year	**321.1**	347.5

The diluted earnings per share is based on the total dilutive potential shares and the Group profit attributable to shareholders. The total dilutive potential shares are the ordinary shares together with all dilutive financial instruments or rights that may entitle the holder to ordinary shares.

	2000 Number m	1999 Number m
Weighted average number of ordinary shares in issue	**526.4**	572.8
Weighted average dilutive options outstanding	**1.6**	3.3
	528.0	576.1

12 Treasury bills and other eligible bills

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Investment securities				
Treasury bills and similar securities	**6.1**	–	**–**	–
Other eligible bills	**212.4**	279.5	**–**	–
Total	**218.5**	279.5	**–**	–
Market value of investment securities	**218.5**	279.3	**–**	–
Unamortised discounts on investment securities	**1.6**	1.6	**–**	–

12 Treasury bills and other eligible bills continued

The movement on Treasury bills and similar securities held for investment purposes was as follows:

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
At 1 January 2000	**279.5**	454.9	**–**	–
Additions	**1,238.9**	1,703.9	**–**	–
Disposals	**(1,301.5)**	(1,882.5)	**–**	–
Amortisation of discounts and premiums	**1.6**	3.2	**–**	–
At 31 December 2000	**218.5**	279.5	**–**	–

13 Loans and advances to banks

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Amounts due from subsidiary undertakings	**–**	–	**3,412.3**	2,715.2
Sale and repurchase agreements	**72.7**	132.5	**–**	–
Other loans and advances	**1,275.0**	1,098.2	**41.4**	30.6
Total	**1,347.7**	1,230.7	**3,453.7**	2,745.8
Repayable on demand	**27.8**	36.2	**149.8**	482.3
Remaining maturity:				
3 months or less	**1,250.9**	1,177.9	**2,766.5**	2,000.4
1 year or less but over 3 months	**66.0**	16.6	**287.4**	63.1
5 years or less but over 1 year	**3.0**	–	**150.0**	150.0
Over 5 years	**–**	–	**100.0**	50.0
Total	**1,347.7**	1,230.7	**3,453.7**	2,745.8

Amounts due from subsidiary undertakings include £100m subordinated debt (1999: £50m).

14 Loans and advances to customers

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Advances secured on residential properties	**19,120.0**	19,326.0	**19,086.3**	19,287.4
Sale and repurchase agreements	**–**	150.0	**–**	–
Other secured advances	**345.6**	471.0	**58.1**	76.5
Unsecured loans	**3,168.8**	2,799.9	**819.1**	757.8
Net investment in finance leases and hire purchase contracts	**1,388.0**	985.1	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**27.7**	29.3
Total	**24,022.4**	23,732.0	**19,991.2**	20,151.0

Repayable on demand	**118.7**	167.0	**94.5**	99.5
Remaining maturity:				
3 months or less	**1,310.7**	1,234.1	**778.9**	713.9
1 year or less but over 3 months	**834.3**	953.5	**13.4**	47.2
5 years or less but over 1 year	**2,118.7**	1,943.6	**410.1**	499.6
Over 5 years	**19,781.9**	19,590.1	**18,772.5**	18,887.1
Less: provisions	**(141.9)**	(156.3)	**(78.2)**	(96.3)
Total	**24,022.4**	23,732.0	**19,991.2**	20,151.0

Net investment in finance leases and hire purchase contracts arise from loans and advances to customers by Sovereign Finance plc, a subsidiary undertaking.

The cost of equipment acquired during the year for the purpose of finance lease and hire purchase agreements was £613.6m (1999: £386.6m).

The aggregate amounts receivable, including capital repayments, under finance and hire purchase agreements were £351.2m (1999: £315.4m).

15 Securitisation

On 1 November 2000, the Company sold residential mortgage assets of £250.0m to Fosse Securities No.1 plc ('Fosse'). Fosse issued Mortgage Backed Floating Rate Notes to finance the purchase of the portfolio of loans. These notes are serviceable only from cash flows generated by the mortgage assets together with £3.8m of subordinated finance from the Company. In addition, the Company made a subordinated loan of £1.5m to finance certain issue related expenses.

The Group is not obliged to support any losses in respect of these mortgages other than to the extent of its subordinated loans, nor does it intend to do so. This is clearly stated in the agreements with bondholders.

The Company has an option to sell further mortgage loans to Fosse where at the end of any interest period the actual rate of repayment of principal ('ARR') exceeds 20% per annum, so long as the sale price of such loans does not exceed the principal repayments received in the interest period and the ARR after the sale is not less than 20% per annum.

The controlling interest of Fosse is held by a discretionary trust established for charitable purposes. The Group receives administration fees for servicing Fosse's mortgage portfolio together with its residual income arising after the claims of the bondholders and other creditors are met.

The summary results of Fosse are as follows:

	2000	1999
	£m	£m
Interest receivable	**2.9**	–
Interest payable	**(2.8)**	–
Net interest receivable	**0.1**	–
Administrative and other expenses	**(0.1)**	–
Profit for the financial period	**–**	–

16 Provisions for bad and doubtful debts

	Advances secured on residential property £m	Advances secured on land £m	Unsecured loans and Leasing £m	Total £m
Group				
At 1 January 2000				
General	11.5	4.8	25.9	42.2
Specific	29.6	12.1	72.4	114.1
Total	41.1	16.9	98.3	156.3
Charge for the year:				
Increase/(decrease) in provision	(6.1)	(10.0)	68.6	52.5
Recoveries of amounts previously written off	(3.2)	(4.1)	(3.4)	(10.7)
	(9.3)	(14.1)	65.2	41.8
Amounts written off in year	(3.1)	7.1	(60.2)	(56.2)
At 31 December 2000				
General	7.4	4.3	22.9	34.6
Specific	21.3	5.6	80.4	107.3
Total	28.7	9.9	103.3	141.9
Company				
At 1 January 2000				
General	17.2	3.7	10.3	31.2
Specific	42.7	11.5	10.9	65.1
Total	59.9	15.2	21.2	96.3
Charge for the year:				
Increase/(decrease) in provision	(7.3)	(10.1)	17.9	0.5
Recoveries of amounts previously written off	(3.2)	(4.1)	(0.4)	(7.7)
	(10.5)	(14.2)	17.5	(7.2)
Amounts written off in year	(3.1)	7.1	(14.9)	(10.9)
At 31 December 2000				
General	16.0	3.0	9.0	28.0
Specific	30.3	5.1	14.8	50.2
Total	46.3	8.1	23.8	78.2

The total of non-performing loans, being those on which interest is no longer being credited to the profit and loss account, is as follows:

	Group 2000 £m	Company 2000 £m
Non-performing loans before provisions	**4.6**	**4.1**
Non-performing loans after provisions	**1.8**	**1.8**

17 Debt securities

	Group 2000 Book value £m	Group 2000 Market value £m	Group 1999 Book value £m	Group 1999 Market value £m	Company 2000 Book value £m	Company 2000 Market value £m	Company 1999 Book value £m	Company 1999 Market value £m
Investment securities								
Issued by public bodies:								
Government securities	**210.4**	**210.9**	179.5	178.5	**45.0**	**45.0**	75.2	75.7
Other public sector securities	**76.1**	**75.8**	74.5	73.1	**–**	**–**	–	–
	286.5	**286.7**	254.0	251.6	**45.0**	**45.0**	75.2	75.7
Issued by other issuers:								
Bank and building society certificates of deposit	**1,880.2**	**1,882.6**	1,449.1	1,447.8	**–**	**–**	–	–
Other debt securities	**4,743.9**	**4,739.8**	2,040.8	2,032.0	**–**	**–**	–	–
	6,624.1	**6,622.4**	3,489.9	3,479.8	**–**	**–**	–	–
Total investment securities	**6,910.6**	**6,909.1**	3,743.9	3,731.4	**45.0**	**45.0**	75.2	75.7
Other debt securities	**52.7**	**52.7**	–	–	**–**	**–**	–	–
Total debt securities	**6,963.3**	**6,961.8**	3,743.9	3,731.4	**45.0**	**45.0**	75.2	75.7
Analysed by listing status:								
Debt securities								
Listed in the UK	**2,440.5**	**2,441.5**	1,354.8	1,396.8	**45.0**	**45.0**	75.2	75.7
Listed or registered elsewhere	**2,313.2**	**2,312.5**	603.2	557.5	**–**	**–**	–	–
Unlisted	**2,209.6**	**2,207.8**	1,785.9	1,777.1	**–**	**–**	–	–
Total	**6,963.3**	**6,961.8**	3,743.9	3,731.4	**45.0**	**45.0**	75.2	75.7

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Book value				
Analysed by maturity:				
Due within one year	**2,416.3**	1,684.9	**45.0**	49.0
Due one year and over	**4,547.0**	2,059.0	**–**	26.2
Total	**6,963.3**	3,743.9	**45.0**	75.2
Unamortised premiums and indexation on investment securities	**19.0**	8.3	**–**	2.2

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

	Cost £m	Discounts, premiums and indexation £m	Net book value £m
Group			
At 1 January 2000	3,735.6	8.3	3,743.9
Acquisitions	8,209.1	(5.1)	8,204.0
Disposals	(5,053.9)	(1.6)	(5,055.5)
Amortisation of discounts, premiums and indexation	0.8	17.4	18.2
At 31 December 2000	6,891.6	19.0	6,910.6
Company			
At 1 January 2000	73.0	2.2	75.2
Acquisitions	45.0	–	45.0
Disposals	(73.0)	(1.1)	(74.1)
Amortisation of premiums	–	(1.1)	(1.1)
At 31 December 2000	45.0	–	45.0

18 Shares in group undertakings

	Company Shares £m
At 1 January 2000	662.9
Additions	–
Repayments	–
At 31 December 2000	662.9
Credit institutions	155.6
Other	507.3
Total	662.9

The principal subsidiary undertakings of Alliance & Leicester plc at 31 December 2000 are listed below. These subsidiary undertakings are incorporated and all operate in the United Kingdom except Alliance & Leicester International Limited, which is incorporated and operates in the Isle of Man and Alliance & Leicester Mortgage Insurance (Guernsey) Limited which is incorporated and operates in Guernsey.

Directly held subsidiaries	**Nature of business**
Girobank plc	Banking
Alliance & Leicester Personal Finance Limited	Unsecured lending
Alliance & Leicester Mortgage Insurance (Guernsey) Limited	Insurance
Alliance & Leicester Life Assurance Company Limited	Ordinary long-term insurance cover
Alliance & Leicester Unit Trust Managers Limited	Management of personal equity plans and authorised unit trusts
Alliance & Leicester General Insurance Company Limited	General insurance
Alliance & Leicester Investments Limited	Making and holding of investments
Alliance & Leicester Group Treasury plc	Treasury management

Indirectly held subsidiaries	**Nature of business**
Girobank Investments Ltd	Holding index-linked securities
Sovereign Finance plc	Leasing
Alliance & Leicester International Limited	Offshore deposit taking

All subsidiary undertakings are limited by shares and are unlisted.

The Company holds 100% interest in the ordinary share capital of all its subsidiary undertakings.

The results of all subsidiary undertakings have been included in the consolidated accounts.

19 Intangible fixed assets

Goodwill	Group £m
Cost	
At 1 January 2000	–
Additions	4.6
At 31 December 2000	4.6
Amortisation	
At 1 January 2000	–
Charge in year	0.3
At 31 December 2000	0.3

19 Intangible fixed assets continued

	Group £m
Net book value	
At 31 December 2000	4.3
At 31 December 1999	–

The addition to goodwill in the year relates to the acquisition of Hansar Finance Limited by Sovereign Finance plc. No further disclosures are given due to the immateriality of the transaction to the Group results.

20 Tangible fixed assets

		Leasehold			
	Freehold land and buildings £m	50 or more years unexpired £m	Under 50 years unexpired £m	Equipment fixtures and vehicles £m	Total £m
Group					
Cost					
At 1 January 2000	287.2	11.4	50.8	594.4	943.8
Additions	7.9	0.1	3.7	212.9	224.6
Disposals	(7.3)	(0.4)	(0.6)	(112.9)	(121.2)
At 31 December 2000	287.8	11.1	53.9	694.4	1,047.2
Depreciation and amortisation					
At 1 January 2000	100.3	4.3	37.6	285.1	427.3
Charge in year	8.8	0.4	3.0	66.1	78.3
Disposals	(1.0)	(0.2)	(0.4)	(24.7)	(26.3)
At 31 December 2000	108.1	4.5	40.2	326.5	479.3
Net book value					
At 31 December 2000	179.7	6.6	13.7	367.9	567.9
At 31 December 1999	186.9	7.1	13.2	309.3	516.5

Freehold land and buildings includes land of £32.0m which is not depreciated. The net book value of land and buildings occupied by the Group for its own activities was £185.8m (1999: £184.4m).

The cost of assets leased to customers under operating leases and included in equipment, fixtures and vehicles above was £372.7m (1999: £296.4m). The related cumulative depreciation of £85.1m (1999: £66.5m) includes £39.8m (1999: £34.9m) charged during the year which is included within interest receivable in the Group profit and loss account.

The aggregate rentals receivable in respect of operating leases were £68.5m (1999: £56.4m).

Included in the total net book value of equipment, fixtures and vehicles is £nil (1999: £2.9m) in respect of assets held under finance leases. Depreciation for the year on these assets was £nil (1999: £3.2m).

20 Tangible fixed assets continued

	Freehold land and buildings £m	Leasehold 50 or more years unexpired £m	Leasehold Under 50 years unexpired £m	Equipment fixtures and vehicles £m	Total £m
Company					
Cost					
At 1 January 2000	233.6	6.5	44.0	195.2	479.3
Additions	3.6	0.1	3.7	23.4	30.8
Disposals	(1.7)	(0.1)	(0.6)	(2.6)	(5.0)
At 31 December 2000	235.5	6.5	47.1	216.0	505.1
Depreciation and amortisation					
At 1 January 2000	72.3	3.6	32.3	134.6	242.8
Charge in year	7.2	0.3	2.7	18.7	28.9
Disposals	(1.0)	(0.1)	(0.4)	(2.2)	(3.7)
At 31 December 2000	78.5	3.8	34.6	151.1	268.0
Net book value					
At 31 December 2000	157.0	2.7	12.5	64.9	237.1
At 31 December 1999	161.3	2.9	11.7	60.6	236.5

Freehold land and buildings includes land of £26.0m which is not depreciated. The net book value of land and buildings occupied by the Company for its own activities was £156.5m (1999: £156.0m).

Included in the total net book value for equipment, fixtures and vehicles is £nil (1999: £1.7m) in respect of assets held under finance leases. Depreciation for the year on these assets was £nil (1999: £1.6m).

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Future capital expenditure:				
Contracted for but not provided in the accounts	**2.7**	5.7	**–**	2.6

21 Other assets

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Trade debtors	**410.4**	137.8	**–**	–
Due from subsidiary undertakings	**–**	–	**310.9**	190.5
Other	**55.8**	25.3	**37.3**	13.6
Total	**466.2**	163.1	**348.2**	204.1
Due within one year	**460.9**	163.0	**324.0**	195.2
Due after more than one year	**5.3**	0.1	**24.2**	8.9
Total	**466.2**	163.1	**348.2**	204.1

22 Prepayments and accrued income

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Accrued interest	**330.9**	171.1	**112.5**	85.0
Prepayments and other accruals	**65.9**	67.1	**27.3**	28.9
Total	**396.8**	238.2	**139.8**	113.9

23 Long-term assurance business

The value of long-term assurance business attributable to shareholders included in the consolidated balance sheet comprises:

	2000 £m	1999 £m
Group		
Net tangible assets of life company including surplus retained within the long-term assurance funds	**43.0**	40.6
Value of policies in force	**32.1**	24.2
Long-term assurance business attributable to shareholders	**75.1**	64.8
The long-term assurance assets attributable to policyholders are:		
Investments	**383.8**	294.9
Value of policies in force	**32.1**	24.2
Net current (liabilities)/assets	**(0.1)**	3.7
	415.8	322.8
Less: Long-term assurance business attributable to shareholders	**(75.1)**	(64.8)
Long-term assurance business attributable to policyholders	**340.7**	258.0

The increase in value of the Group's long-term assurance business included in the profit and loss account amounted to £14.8m before tax (1999: £12.6m) and £10.3m after tax (1999: £8.6m).

The value placed on long-term assurance business is calculated by discounting estimated future flows of statutory profits from in-force business at a discount rate that includes a risk margin. The future flows are based on prudent assumptions about long-term economic and business experience determined with the advice of a qualified actuary. The risk margin is designed to reflect uncertainties in expected future flows.

The key assumptions used are:

	2000	1999
Risk discount rate (net of tax)	**10%**	10%
Economic assumptions		
Growth of unit-linked funds (pa gross of tax)	**7.5%**	7.5%
Growth of non-linked funds (pa gross of tax)	**6%**	6%
Policyholder taxation – life	**20%**	20%
Shareholder taxation – life	**30%**	30%
Expense inflation	**4.5% pa**	4.5% pa

24 Deposits by banks

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts due to subsidiary undertakings	**–**	–	**5,763.6**	6,756.7
Other deposits	**1,402.2**	1,023.8	**2.6**	2.5
Total	**1,402.2**	1,023.8	**5,766.2**	6,759.2
Repayable on demand	**6.3**	12.8	**169.0**	334.1
Remaining maturity:				
3 months or less	**765.8**	809.5	**5,552.2**	6,349.9
1 year or less but over 3 months	**628.1**	201.5	**45.0**	49.0
5 years or less but over 1 year	**2.0**	–	**–**	26.2
Total	**1,402.2**	1,023.8	**5,766.2**	6,759.2

25 Customer accounts

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Repayable on demand	**16,436.6**	16,175.5	**13,732.1**	13,097.0
With agreed maturity dates or periods of notice – remaining maturity:				
3 months or less but not repayable on demand	**3,254.9**	2,534.6	**244.4**	185.6
1 year or less but over 3 months	**1,260.7**	1,068.4	**712.4**	640.9
5 years or less but over 1 year	**371.8**	346.5	**316.3**	302.1
Total	**21,324.0**	20,125.0	**15,005.2**	14,225.6

26 Debt securities in issue

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Bonds and medium-term notes – remaining maturity:				
1 year or less or on demand	**233.0**	203.8	**–**	199.8
2 years or less but over 1 year	**1,071.3**	233.0	**–**	–
5 years or less but over 2 years	**1,741.8**	2,258.3	**150.0**	150.0
Over 5 years	**60.4**	143.2	**–**	–
	3,106.5	2,838.3	**150.0**	349.8
Other debt securities in issue – remaining maturity:				
3 months or less or on demand	**3,436.7**	2,159.6	**1,066.5**	580.4
1 year or less but over 3 months	**1,224.2**	613.1	**260.6**	63.1
2 years or less but over 1 year	**74.0**	66.9	**–**	–
5 years or less but over 2 years	**11.5**	73.5	**–**	–
	4,746.4	2,913.1	**1,327.1**	643.5
Total	**7,852.9**	5,751.4	**1,477.1**	993.3

27 Other liabilities

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Falling due within one year:				
Trade creditors	**20.2**	19.0	**6.4**	6.7
Corporation taxation	**65.6**	78.5	**37.1**	26.6
Other taxation	**54.8**	50.0	**53.2**	49.4
Dividends payable	**126.6**	119.0	**126.6**	119.0
Finance leases	**7.6**	6.9	**2.2**	0.9
Other liabilities	**144.7**	66.5	**128.5**	41.3
	419.5	339.9	**354.0**	243.9
Falling due after more than one year:				
Finance leases	**13.3**	12.1	**10.7**	5.8
Total	**432.8**	352.0	**364.7**	249.7
Amounts include				
Due to subsidiary undertakings	**–**	–	**24.3**	11.2
The maturity of net obligations under finance leases is as follows:				
1 year or less	**7.6**	6.9	**2.2**	0.9
5 years or less but over 1 year	**11.2**	10.1	**8.6**	3.8
Over 5 years	**2.1**	2.0	**2.1**	2.0
Total	**20.9**	19.0	**12.9**	6.7

28 Accruals and deferred income

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Interest accrued on subordinated liabilities	**7.8**	6.7	**7.8**	6.7
Other accrued interest	**585.4**	440.1	**435.0**	320.5
Captive mortgage indemnity fund	**36.1**	44.8	**–**	–
Other	**263.1**	167.6	**119.2**	141.1
Total	**892.4**	659.2	**562.0**	468.3

29 Provisions for liabilities and charges

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Deferred taxation (note 30)	**120.2**	84.2	**–**	–
Other provisions for liabilities and charges (note 31)	**17.2**	15.9	**17.2**	15.9
Total	**137.4**	100.1	**17.2**	15.9

30 Deferred taxation

The amounts provided for deferred taxation are set out below:

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Difference between accumulated depreciation and capital allowances	**135.1**	88.3	**1.4**	1.4
Other timing differences	**(14.9)**	(4.1)	**(20.3)**	(10.3)
Total	**120.2**	84.2	**(18.9)**	(8.9)
Full potential deferred liability/(asset):				
Difference between accumulated depreciation and capital allowances	**140.2**	85.7	**9.6**	6.1
Other timing differences	**(17.0)**	(19.7)	**(20.3)**	(18.0)
Total	**123.2**	66.0	**(10.7)**	(11.9)

Where there is a liability in respect of deferred taxation it is included in 'provisions for liabilities and charges'; where there is an asset it is included in 'other assets'.

	Group £m	Company £m
Deferred taxation liability/(asset):		
At 1 January 2000	**84.2**	**(8.9)**
Amount charged during year	**40.6**	**(10.0)**
Deferred tax on acquisitions and disposals in the year	**(4.6)**	**–**
At 31 December 2000	**120.2**	**(18.9)**

31 Other provisions for liabilities and charges

	Post retirement medical benefits £m
Group and Company	
At 1 January 2000	15.9
Transfer from profit and loss account	1.8
Provisions utilised	(0.5)
At 31 December 2000	17.2

32 Subordinated liabilities

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Dated loan capital	**463.7**	275.0	**463.7**	275.0
Total subordinated liabilities	**463.7**	275.0	**463.7**	275.0
Less: Unamortised issue costs	**(1.9)**	(1.5)	**(1.9)**	(1.5)
Total	**461.8**	273.5	**461.8**	273.5
Maturing by 2006	**200.0**	200.0	**200.0**	200.0
Maturing by 2008	**75.0**	75.0	**75.0**	75.0
Maturing by 2010	**188.7**	–	**188.7**	–
Total	**463.7**	275.0	**463.7**	275.0

The interest rate liabilities of 8.75% on the £200 million Notes due 2006 and of 9.75% on the £75 million Notes due 2008 have each been swapped into floating rate, with rates of up to 1.36% above 6-month sterling LIBOR. The Notes due 2010 have been swapped, on an unsubordinated basis, into UK Sterling. The subordinated debt was raised in order to widen the capital base of the Company.

The following subordinated loans each exceed 10% of total subordinated liabilities. The Subordinated Notes due 2006 and 2008 are denominated in UK Sterling. The Subordinated Notes due 2010 are denominated in US Dollars.

	Terms	Group and Company £m
Subordinated Notes due 2006	Fixed interest rate of 8.75%	200.0
Subordinated Notes due 2008	Fixed interest rate of 9.75%	75.0
Subordinated Notes due 2010	Floating rate	188.7

The Notes are subordinated to the claims of depositors and all other creditors. During the year $US300m Subordinated Notes due 2010 were issued to support the capital management of the Group.

All the Notes may be redeemed at the option of the Group, at the outstanding principal amount plus accrued interest, in the event of certain changes in UK taxation. The Group may also purchase the Notes in the open market. The 2008 Notes can be redeemed at the option of the Group, at the higher of their principal amount and the price at which the gross redemption yield on the Notes is equal to the gross redemption yield on 9% Treasury Stock 2008. The 2010 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before March 2005. For all the Notes, no such purchase or redemption may be made without the consent of the Financial Services Authority.

33 Called up share capital

	Number m 2000	Amount £m 2000	Number m 1999	Amount £m 1999
Authorised share capital:				
Ordinary shares of 50p each	**776.0**	**388.0**	776.0	388.0
Issued and fully paid	**504.4**	**252.2**	549.4	274.7

The number of shares in issue at 31 December 2000 was after adjusting for the cancellation of shares following the share buyback. During the year, the Group has repurchased 45,490,099 shares with a nominal value of £22.7m at a total cost of £260.2m which has been charged against profit and loss account reserves. 439,590 new shares were issued at 533p under the Alliance & Leicester Executive Share Option Plan.

At 31 December 2000, there were 8,685,527 options outstanding under the Alliance & Leicester ShareSave Scheme and 2,266,742 options outstanding under the Alliance & Leicester Executive Share Option Plan. The options enable members of staff and executive directors to subscribe for ordinary shares of 50p between 2000 and 2010, at prices ranging from 364.4p to 900.5p. There are also 105,562 options outstanding under the Alliance & Leicester Deferred Share Bonus Scheme. The Group has taken advantage of the exemption from UITF 17 permitted for ShareSave Schemes.

Substantial share interests

In accordance with sections 198 to 208 of the Companies Act 1985, the following shareholders disclosed a major interest in the share capital of the Company as at 7 February 2001.

	%
Alliance & Leicester ShareSafe Limited	14.2
M&G Investment Management Limited	4.5

34 Reserves

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Profit and loss account				
At 1 January 2000				
– as previously reported	**1,439.5**	1,541.5	**1,022.3**	1,216.6
– prior year adjustment	**(7.7)**	(0.9)	**(7.7)**	(0.9)
– as restated	**1,431.8**	1,540.6	**1,014.6**	1,215.7
Retained profit for the year	**170.8**	184.6	**204.3**	92.3
Repurchase of share capital	**(260.2)**	(293.4)	**(260.2)**	(293.4)
At 31 December 2000	**1,342.4**	1,431.8	**958.7**	1,014.6
Share premium account				
At 1 January 2000	**19.9**	19.7	**19.9**	19.7
Share premium on issue of shares under option	**2.0**	0.2	**2.0**	0.2
At 31 December 2000	**21.9**	19.9	**21.9**	19.9
Capital redemption reserve				
At 1 January 2000	**17.4**	–	**17.4**	–
Repurchase of share capital	**22.7**	17.4	**22.7**	17.4
At 31 December 2000	**40.1**	17.4	**40.1**	17.4

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, after deducting goodwill relating to disposals made prior to the balance sheet date, which has been written off to Group profit and loss account reserves is £42.2m (1999: £42.2m).

35 Assets and liabilities in foreign currencies

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Assets denominated in sterling	**31,755.5**	29,544.9	**23,628.2**	23,668.8
Assets denominated in other currencies	**2,960.3**	939.6	**1,298.9**	643.3
Total assets	**34,715.8**	30,484.5	**24,927.1**	24,312.1
Liabilities denominated in sterling	**31,414.3**	29,348.7	**23,440.0**	23,668.8
Liabilities denominated in other currencies	**3,301.5**	1,135.8	**1,487.1**	643.3
Total liabilities	**34,715.8**	30,484.5	**24,927.1**	24,312.1

The above assets and liabilities denominated in currencies other than sterling do not indicate the Group's exposure to foreign exchange risk. The Group has hedged all material foreign currency exposures by using off balance sheet hedging instruments so that there are no material unmatched exposures at the balance sheet date. All of the subsidiaries owned by Alliance & Leicester plc use sterling as their functional currency. Therefore, the Group is not subject to any structural currency exposures.

36 Pensions

	2000 £m	1999 £m
Regular cost	**15.2**	13.5
Variations from regular cost(i)	**(2.2)**	(2.1)
Notional interest on prepayment	**(1.6)**	(1.5)
Total	**11.4**	9.9

(i) Variations from regular cost arise from the scheme surplus being spread on a basis increasing in line with pensionable payroll over the average expected future working life of the membership (16 years).

The Alliance & Leicester Pension Scheme (the Scheme) comprises funded defined benefit sections which became closed to new entrants on 31 March 1998. New employees on or after 1 April 1998 were eligible to join a defined contribution section of the Scheme.

The principal scheme is an exempt approved pension scheme under which retirement and death benefits are provided for Group employees. The funds of the scheme are administered by trustees independently of the finances of the participating employers.

In addition benefits are provided by the Company on an unfunded unapproved basis to a number of senior staff recruited since June 1989 whose benefits would otherwise be restricted by the Finance Act 1989 earnings cap.

The pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuation was made as at 31 March 2000. The significant assumptions in these valuations were that salaries increase on average by 1.75% p.a. above inflation, long-term return on investments is 6.5% p.a. in the period before members reach retirement and 5% p.a. in the post-retirement period, and that pensions increase at 2.5% p.a. Assets were valued at their market value as at 31 March 2000.

At 31 March 2000 the market value of the assets of the Scheme was £784.4m and this was sufficient to cover 108% of the liabilities for benefits due to members in respect of service prior to that date. Contributions to the Scheme amounted to £11.2m.

The excess of £0.2m of the pension charge over the contributions has reduced the prepayment of £25.0m at the start of the year. An asset of £24.8m representing total net accumulated prepaid contributions is included in the Group balance sheet as at 31 December 2000.

Post retirement benefits

The Group provides post-retirement medical benefits to certain pensioners and active employees. The liability has been assessed by a qualified actuary as at 31 December 2000, using the projected unit method. The principal actuarial assumptions used in the valuation were a gross interest rate of 7.25% and medical benefit cost inflation of 8% for 3 years gradually reducing to 4.25% over 5 years and remaining at 4.25% thereafter.

The charge in the year for post retirement medical benefits in the Group accounts is £1.3m (1999: £1.3m).

37 Memorandum items

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Contingent liabilities				
Guarantees	**99.1**	51.8	**–**	–
Commitments				
Irrevocable undrawn loan facilities	**681.4**	410.6	**–**	–

Litigation

Members of the Group are engaged in litigation, involving claims by and against them which arise in the ordinary course of business. The directors, after reviewing the claims pending and threatened against Group undertakings and taking into account the advice of the relevant legal advisers, are satisfied that the outcome of these claims will not have a material adverse effect on the net assets of the Group.

38 Guarantees and other financial commitments

a) Alliance & Leicester (International) Limited, a subsidiary licensed under the Isle of Man Banking Acts 1975 to 1986, has a contingent liability to the Isle of Man Depositors Compensation Scheme.

b) The Company does guarantee or give commitments in respect of some of its subsidiary undertakings.

c) Operating lease commitments:

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
At 31 December, annual commitments under operating leases are as follows:				
Land and buildings				
Leases which expire:				
Within 1 year	**0.1**	0.4	**0.1**	0.4
1-5 years	**3.6**	2.4	**3.5**	2.4
Over 5 years	**8.2**	7.6	**8.2**	7.5
Total	**11.9**	10.4	**11.8**	10.3
Other operating leases				
Leases which expire:				
Within 1 year	**–**	–	**–**	–
1-5 years	**–**	1.5	**–**	–
Total	**–**	1.5	**–**	–

39 Derivatives and other financial instruments

The Group uses financial instruments, including derivatives, to manage its financial risks.

Financial instruments have the potential to reduce, modify or increase the liquidity, credit and market risks arising from normal business activities.

Details of the objectives and policies for managing the risks associated with the Group's use of financial instruments are presented in the Financial Review on pages 21 to 23. These disclosures form part of the audited financial statements.

i) Interest rate repricing analysis

The following table provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 December 2000. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial interests whose effect is to alter the interest basis of Group assets and liabilities.

The trading book and non-interest bearing balances have been included in a separate column; the interest rate risk of the trading book is analysed under ii) below.

Differences between the balance sheet and the totals below arise due to the exclusion of life insurance assets and liabilities from the interest rate repricing analysis.

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing/ trading book £m	Total £m
Assets							
Treasury bills and other eligible bills	212	6	–	–	–	–	218
Loans and advances to banks	1,245	37	1	2	–	185	1,470
Loans and advances to customers	19,061	371	683	3,842	187	(122)	24,022
Debt securities	5,526	576	560	221	20	61	6,964
Other assets	440	27	34	173	16	936	1,626
Total assets	26,484	1,017	1,278	4,238	223	1,060	34,300
Liabilities							
Deposits by banks	754	396	231	–	–	21	1,402
Customer accounts	17,156	469	722	813	–	2,164	21,324
Debt securities in issue	5,950	761	592	475	75	–	7,853
Other liabilities	40	1	2	2	–	1,633	1,678
Subordinated liabilities	188	–	–	–	274	–	462
Shareholders' funds	–	–	–	–	–	1,581	1,581
Total liabilities	24,088	1,627	1,547	1,290	349	5,399	34,300
Off-balance sheet items	(2,054)	716	1,059	116	163	–	–
Interest rate sensitivity gap	342	106	790	3,064	37	(4,339)	–
Cumulative gap at 31 December 2000	342	448	1,238	4,302	4,339	–	–

39 Risk management continued

The following table provides interest rate sensitivity gap analysis for the non-trading book as at 31 December 1999:

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets							
Treasury bills and other eligible bills	254	26	–	–	–	–	280
Loans and advances to banks	1,100	10	2	6	–	268	1,386
Loans and advances to customers	18,032	940	1,306	3,438	129	(112)	23,733
Debt securities	2,126	810	296	507	4	–	3,743
Other assets	50	41	29	117	13	770	1,020
Total assets	21,562	1,827	1,633	4,068	146	926	30,162
Liabilities							
Deposits by banks	821	112	89	–	–	1	1,023
Customer accounts	16,017	296	729	896	–	2,187	20,125
Debt securities in issue	4,547	270	343	506	86	–	5,752
Other liabilities	3	2	2	7	–	1,296	1,310
Subordinated liabilities	–	–	–	–	273	–	273
Shareholders' funds	–	–	–	–	–	1,679	1,679
Total liabilities	21,388	680	1,163	1,409	359	5,163	30,162
Off-balance sheet items	(1,489)	777	236	186	290	–	–
Interest rate sensitivity gap	(1,315)	1,924	706	2,845	77	(4,237)	–
Cumulative gap at 31 December 1999	(1,315)	609	1,315	4,160	4,237	–	–

For the purposes of this analysis, loans and advances to banks includes cash and balances at central banks.

The tables take account of derivative financial instruments whose effect is to alter the interest basis of Group assets and liabilities. Instruments have been allocated to time bands by reference to the earlier of the next contractual interest rate reset date and the maturity date.

Differences between the balance sheet and the totals above arise due to the exclusion of insurance assets and liabilities from the gap analysis.

39 Risk management continued

ii) Trading book

On 31 October 2000 the Group commenced trading activities, conducted through its Treasury subsidiary. There have been no material net gains or losses from trading in financial instruments included in the profit and loss account during the period.

The bank uses a variety of techniques to measure market risk in the trading book, including calculating the sensitivity of the market value of positions to hypothetical changes in interest rates. The following table sets out the change in the value of the trading book arising from a 1% change in market interest rates, for the year ended 31 December 2000, with all other variables remaining constant:

	Change in value £m
High	0.5
Low	0.0
Average (from 31 October 2000)	0.1
As at 31 December 2000	0.1

The sensitivity analysis technique used by the Group measures the change in the fair value of the Group's trading book arising from hypothetical changes in market rates. Actual results in the future could differ from these projected figures if fluctuations in interest rates exceeded the hypothetical 1% shift. The Group's trading book is not materially exposed to other market risks.

iii) Fair values

The table below compares the book and fair values of some of the Group's financial instruments by category at the balance sheet date. Where available, market prices have been used to determine fair values. Where market prices are not available, fair values have been calculated for options by using option-pricing models and for other financial instruments by discounting cash flows at prevailing interest and exchange rates. Minor changes in assumptions used could have a significant impact on the resulting estimated fair values, and, as a result, readers of these financial statements are advised to use caution when using this data to evaluate the Group's financial position.

The concept of fair value assumes realisation of financial instruments by way of sale. However, in many cases, the Group intends to realise assets through collection over time.

	Group 2000 Carrying value £m	Group 2000 Fair value £m	Group 1999 Carrying value £m	Group 1999 Fair value £m
Trading book:				
Off balance sheet and similar instruments	-	-	-	-
Debt securities	**52.7**	**52.7**	-	-
Primary non-trading financial instruments:				
Assets				
Cash and balances at central banks	**122.3**	**122.3**	155.8	155.8
Treasury bills and other eligible bills	**218.5**	**218.5**	279.5	279.3
Debt securities	**6,910.6**	**6,909.1**	3,743.9	3,731.4
Liabilities				
Debt securities in issue	**(7,852.9)**	**(7,880.6)**	(5,751.4)	(5,734.4)
Subordinated liabilities	**(461.8)**	**(504.5)**	(273.5)	(301.2)
Off balance sheet and similar instruments	-	**230.1**	-	84.7

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, leases, personal loans and retail savings accounts whose book and fair values differ.

39 Risk management continued

The table below analyses the Group's derivatives portfolios by type of contract and maturity and shows the contract amount and the replacement cost. Contract amount indicates the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The replacement cost represents the cost of replacing contracts, calculated at market rates current at the balance sheet date and reflects the Group's exposure should counterparties default. No account is taken of offsetting positions with the same counterparty.

	Group 2000 Contract or underlying principal amounts £m	**Group 2000 Replacement cost £m**	Group 1999 Contract or underlying principal amounts £m	Group 1999 Replacement cost £m
Non-trading derivatives:				
Used to manage foreign exchange risk				
Exchange rate contracts:				
Forward foreign exchange	**485.8**	**2.3**	592.8	12.2
Cross currency swaps	**1,253.8**	**60.7**	671.0	4.6
Total	**1,739.6**	**63.0**	1,263.8	16.8
With OECD financial institutions	**1,711.3**	**62.7**	1,182.0	15.3
With non-financial institutions	**28.3**	**0.3**	81.8	1.5
Total	**1,739.6**	**63.0**	1,263.8	16.8
In not more than one year	**477.8**	**2.2**	592.1	12.2
In more than one year but not more than five years	**1,226.7**	**60.7**	671.7	4.6
In more than five years	**35.1**	**0.1**	–	–
Total	**1,739.6**	**63.0**	1,263.8	16.8
Used to manage interest rate risk				
Interest rate contracts:				
Interest rate swaps	**15,049.0**	**298.6**	10,947.3	114.5
Caps, collars and floors	**1,649.7**	**14.8**	1,824.6	59.7
Futures	**405.0**	**–**	250.0	–
Forward rate agreements	**223.5**	**0.4**	570.0	–
Total	**17,327.2**	**313.8**	13,591.9	174.2
With OECD financial institutions	**17,014.7**	**310.5**	13,591.9	174.2
With non-financial institutions	**312.5**	**3.3**	–	–
Total	**17,327.2**	**313.8**	13,591.9	174.2
In not more than one year	**6,329.1**	**149.4**	5,217.3	44.3
In more than one year but not more than five years	**10,009.2**	**120.9**	7,876.3	101.1
In more than five years	**988.9**	**43.5**	498.3	28.8
Total	**17,327.2**	**313.8**	13,591.9	174.2

39 Risk management continued

	Group 2000 Contract or underlying principal amounts £m	Group 2000 Positive fair value £m	Group 2000 Negative fair value £m	Group 1999 Contract or underlying principal amounts £m	Group 1999 Positive fair value £m	Group 1999 Negative fair value £m
Trading derivatives						
Foreign exchange derivatives	–	–	–	–	–	–
Interest rate derivatives						
Interest rate contracts:						
Futures	50	–	–	–	–	–
Total	50	–	–	–	–	–
With OECD financial institutions	50	–	–	–	–	–
With non-financial institutions	–	–	–	–	–	–
Total	50	–	–	–	–	–
In not more than one year	50	–	–	–	–	–
In more than one year but not more than five years	–	–	–	–	–	–
In more than five years	–	–	–	–	–	–
Total	50	–	–	–	–	–

iv) Hedging

As explained in the Financial Review on page 23, the Group's policy is to hedge the following exposures:

- Interest rate risk – using interest rate swaps, caps, collars and floors, futures and forward rate agreements;
- Transactional currency exposures – using spot and forward foreign exchange transactions.

Gains and losses on 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, and the movements therein, are as follows:

	Gains £m	Losses £m	2000 Total net gains/(losses) £m	Gains £m	Losses £m	1999 Total net gains/(losses) £m
Unrecognised gains/(losses) on hedges at 1 January 2000 (1999)	**142.8**	**(92.5)**	**50.3**	134.5	(137.8)	(3.3)
(Gains)/losses arising in previous years that were recognised in the year	**(58.9)**	**42.7**	**(16.2)**	(43.0)	59.1	16.1
Gains/(losses) arising before 1 January 2000 (1999) that were not recognised in the year	**83.9**	**(49.8)**	**34.1**	91.5	(78.7)	12.8
Gains/(losses) arising in the year that were not recognised in the year	**115.7**	**(62.5)**	**53.2**	51.3	(13.8)	37.5
Unrecognised gains/(losses) on hedges at 31 December 2000 (1999)	**199.6**	**(112.3)**	**87.3**	142.8	(92.5)	50.3
Of which:						
Gains/(losses) expected to be recognised in the next year	**80.0**	**(56.0)**	**24.0**	58.9	(42.7)	16.2
Gains/(losses) expected to be recognised after the next financial year	**119.6**	**(56.3)**	**63.3**	83.9	(49.8)	34.1

The above analysis is net of accrued interest at 31 December 2000 of £142.8m (1999: £34.4m).

The above table shows the gains and losses on off-balance sheet derivative instruments used for hedging by the Group. The gains and losses do not therefore represent absolute gains or losses expected by the Group as they will be substantially offset by corresponding losses or gains from on-balance sheet instruments.

40 Reconciliation of operating profit to net operating cash flows

For the year ended 31 December 2000	2000 £m	1999 £m
Operating profits	**446.7**	493.5
(Increase)/decrease in accrued income and prepayments	**(158.6)**	31.0
Increase/(decrease) in accruals and deferred income	**222.7**	(47.7)
Provision for bad and doubtful debts	**41.8**	41.2
Loans and advances written off net of recoveries	**(56.2)**	(53.7)
Depreciation and amortisation	**78.6**	73.2
Interest on subordinated loan added back	**34.7**	24.8
Provisions for liabilities and charges	**1.3**	1.3
Increase in shareholders interest in long-term assurance fund	**(10.3)**	(8.6)
Other non-cash movements	**0.2**	1.7
Net cash flow from trading activities	**600.9**	556.7
Net (increase)/decrease in collections/transmissions	**(71.3)**	82.9
Net increase in loans and advances to banks and customers	**(397.9)**	(1,403.1)
Net increase in deposits by banks and customer accounts	**1,592.6**	535.6
Net increase in debt securities in issue	**2,101.5**	2,344.6
Net (increase)/decrease in other assets	**(303.1)**	7.9
Net increase in other liabilities	**76.1**	0.8
Other non-cash movements	**(23.7)**	(7.2)
Net cash inflow from operating activities	**3,575.1**	2,118.2

Analysis of the balances of cash as shown in the balance sheet

	At 1/1/00 £m	Cashflow £m	At 31/12/00 £m
Cash and balances at central banks	155.8	(33.5)	122.3
Loans and advances to other banks repayable on demand	36.2	(8.4)	27.8
	192.0	(41.9)	150.1

The Group is required to maintain balances with the Bank of England which at 31 December 2000 amounted to £32.9m (1999: £31.6m).

Analysis of changes in financing during the year

	Share capital £m	Subordinated liabilities £m
Balance at 1 January 2000	274.7	273.5
Net cash outflow from financing	(260.2)	–
Shares repurchased – transfer from reserves	260.2	–
Repurchase of share capital	(22.7)	–
Issue of loan capital	–	188.1
Other movements	0.2	0.2
Balance at 31 December 2000	252.2	461.8

41 Segmental analysis

The Group has three business sectors: Personal Customers, Commercial Customers and Group & Treasury. The information contained within the following table, in a format guided by SSAP 25 and the BBA SORP on segmental reporting, represents an analysis of the Group profit before tax and Group total assets. Further information is provided in the notes below. A more detailed and relevant breakdown is given within the Business and Financial Reviews on pages 16 to 23.

2000	Personal Customers £m	Commercial Customers £m	Group & Treasury £m	Total Group £m
Total income	843.6	297.6	45.6	1,186.8
Profit/(loss) on ordinary activities before tax	406.6	76.5	(36.4)	446.7

	Personal Customers £m	Commercial Customers £m	Group & Treasury £m	Inter-group eliminations £m	Total Group £m
Gross assets	28,670.6	4,318.0	16,935.9	(15,208.7)	34,715.8
Inter-group eliminations	(5,629.6)	(1,184.4)	(8,394.7)	15,208.7	–
Total assets	23,041.0	3,133.6	8,541.2	–	34,715.8

1999	Personal Customers £m	Commercial Customers £m	Group & Treasury £m	Total Group £m
Total income	820.6	288.1	64.5	1,173.2
Profit on ordinary activities before tax	390.0	71.8	31.7	493.5

	Personal Customers £m	Commercial Customers £m	Group & Treasury £m	Inter-group eliminations £m	Total Group £m
Gross assets	28,059.6	3,659.8	14,022.5	(15,257.4)	30,484.5
Inter-group eliminations	(5,132.5)	(1,575.2)	(8,549.7)	15,257.4	–
Total assets	22,927.1	2,084.6	5,472.8	–	30,484.5

Notes

a) Capital is allocated to business sectors on the basis of 8% equity and 3% subordinated debt. Excess capital is held within Group & Treasury.

b) Costs have been assigned to each sector based on resources consumed. Corporate overheads not directly attributable to business units, including Year 2000 and EMU costs, strategy costs and internet development costs are included within Group & Treasury.

c) The Group operates entirely within the banking and insurance business, and operations are not managed on the basis of an allocation of net assets. The level of banking assets can fluctuate throughout the year, therefore the information derived from the year end figures does not provide a picture representative of the year as a whole. A more meaningful analysis of average interest-earning assets and average interest-bearing liabilities by business sector is contained within the Business Review on pages 16 and 17.

d) No geographical analysis is presented because substantially all of the Group's activities are in the UK.

Consolidated Profit and Loss Account 5 Year Summary

	2000 £m	1999 (restated) £m	1998 £m	1997 £m	1996 £m
Interest receivable:					
Interest receivable and similar income arising from debt securities	**334.9**	196.0	196.4	185.8	176.5
Other interest receivable and similar income	**1,884.0**	1,667.1	1,871.9	1,525.4	1,387.4
Interest payable	**(1,451.4)**	(1,110.5)	(1,328.6)	(1,017.8)	(920.1)
Net interest income	**767.5**	752.6	739.7	693.4	643.8
Fees and commissions receivable	**452.3**	457.8	443.9	400.4	406.6
Fees and commissions payable	**(84.4)**	(81.4)	(67.1)	(47.5)	(37.5)
Other operating income	**51.4**	44.2	72.5	71.4	64.3
Total non-interest income	**419.3**	420.6	449.3	424.3	433.4
Operating income	**1,186.8**	1,173.2	1,189.0	1,117.7	1,077.2
Administrative expenses:					
Underlying	**(662.3)**	(601.7)	(660.9)	(630.8)	(663.3)
Exceptional costs of conversion	**-**	-	-	(28.0)	(26.0)
Depreciation and amortisation:					
Underlying	**(36.0)**	(36.8)	(34.2)	(35.0)	(35.7)
Supplementary	**-**	-	-	-	(27.1)
	(698.3)	(638.5)	(695.1)	(693.8)	(752.1)
Provision for bad and doubtful debts	**(41.8)**	(41.2)	(38.7)	(29.3)	(19.5)
Operating profit on ordinary activities before tax	**446.7**	493.5	455.2	394.6	305.6
Tax on profit on ordinary activities:					
Underlying	**(125.6)**	(146.0)	(137.3)	(133.9)	(119.5)
Tax credit in respect of conversion costs	**15.2**	-	-	-	-
	(110.4)	(146.0)	(137.3)	(133.9)	(119.5)
Profit attributable to the shareholders of Alliance & Leicester plc	**336.3**	347.5	317.9	260.7	186.1
Dividends	**(165.5)**	(162.9)	(142.6)	(121.1)	-
Retained profit for the year	**170.8**	184.6	175.3	139.6	186.1

					Proforma
Basic earnings per ordinary share	**63.9p**	60.7p	54.6p	44.8p	32.0p
Underlying basic earnings per ordinary share	**61.0p**	60.7p	54.6p	49.6p	40.7p
Diluted earnings per ordinary share	**63.7p**	60.3p	54.3p	44.7p	32.0p

Proforma earnings per ordinary share calculations in respect of 1996 have been given for the purpose of providing comparatives and are based on 582.0 million shares in issue.

The figures have not been restated for 1998 and prior years to reflect the change in accounting treatment for transactions between Girobank and Post Office Counters Ltd or for the change in accounting policy with respect to software and external consultancy costs.

Consolidated Balance Sheet 5 Year Summary

	2000	1999 (restated)	1998	1997	1996
	£m	£m	£m	£m	£m
Assets					
Cash and balances at central banks	**122.3**	155.8	66.5	84.7	100.6
Treasury bills and other eligible bills	**218.5**	279.5	454.9	202.8	85.2
Loans and advances to banks	**1,347.7**	1,230.7	2,061.1	1,841.6	1,676.0
Items in the course of collection from other banks	**190.6**	102.0	128.8	118.0	156.3
Loans and advances to customers	**24,022.4**	23,732.0	21,475.1	19,133.6	18,261.3
Securitised advances	**239.1**	–	–	–	–
Less: non-recourse finance	**(239.1)**	–	–	–	–
	24,022.4	23,732.0	21,475.1	19,133.6	18,261.3
Debt securities	**6,963.3**	3,743.9	2,274.8	2,307.1	3,196.1
Intangible fixed assets	**4.3**	–	–	–	–
Tangible fixed assets	**567.9**	516.5	440.5	355.7	321.8
Other assets	**466.2**	163.1	171.9	60.0	80.0
Prepayments and accrued income	**396.8**	238.2	269.2	173.0	107.6
Long-term assurance business attributable to shareholders	**75.1**	64.8	56.2	32.6	28.2
	34,375.1	30,226.5	27,399.0	24,309.1	24,013.1
Long-term assurance assets attributable to policyholders	**340.7**	258.0	179.6	94.6	65.1
Total assets	**34,715.8**	30,484.5	27,578.6	24,403.7	24,078.2
Liabilities					
Deposits by banks	**1,402.2**	1,023.8	721.0	89.1	235.2
Items in the course of transmission to other banks	**215.0**	197.7	141.6	200.6	206.9
Customer accounts	**21,324.0**	20,125.0	19,892.2	18,948.4	18,201.2
Debt securities in issue	**7,852.9**	5,751.4	3,406.8	1,820.6	2,341.3
Other liabilities	**432.8**	352.0	345.3	349.9	382.7
Accruals and deferred income	**892.4**	659.2	711.6	629.2	501.5
Provisions for liabilities and charges	**137.4**	100.1	54.0	18.4	13.4
Subordinated liabilities					
undated loan capital	**–**	–	–	198.9	198.9
dated loan capital	**461.8**	273.5	273.2	376.0	375.7
	32,718.5	28,482.7	25,545.7	22,631.1	22,456.8
Called up share capital	**252.2**	274.7	292.1	291.0	–
Share premium account	**21.9**	19.9	19.7	–	–
Capital redemption reserve	**40.1**	17.4	–	–	–
Profit and loss account	**1,342.4**	1,431.8	1,541.5	1,387.0	1,556.3
Shareholders' funds (equity)	**1,656.6**	1,743.8	1,853.3	1,678.0	1,556.3
	34,375.1	30,226.5	27,399.0	24,309.1	24,013.1
Long-term assurance liabilities to policyholders	**340.7**	258.0	179.6	94.6	65.1
Total liabilities	**34,715.8**	30,484.5	27,578.6	24,403.7	24,078.2

Shareholder Information

Shareholder analysis as at 31 December 2000

	No. of holders*	Percentage of total holders	No. of shares	Percentage of ordinary share capital
Shareholding range:				
1 - 250	762,729	91.31	185,853,389	36.84
251 - 500	55,010	6.59	26,313,443	5.22
501 - 10,000	16,689	2.00	21,917,911	4.35
10,001 - 50,000	408	0.05	9,819,475	1.95
50,001 - 100,000	137	0.02	9,631,672	1.91
100,001 and over	289	0.03	250,838,445	49.73
	835,262	100.00	504,374,335	100.00

Classification of shareholders:

Personal holders (**)	236.1m	46.8%
Institutional holders	268.3m	53.2%

(*) Including those holders whose shares are held in the "Alliance & Leicester ShareSafe" nominee account.
(**) Includes private shareholdings, ShareSafe and shares held in Private Client Accounts by institutional investors.

Financial Calendar

Ex dividend date for final dividend	11 April 2001
Record date for final dividend	17 April 2001
Annual General Meeting	1 May 2001
Final dividend for the year to 31 December 2000 payable	14 May 2001
Interim results to be announced	20 July 2001

Dividend History

Interim dividend 1999	9.5p
Final dividend 1999	19.8p
Interim dividend 2000	10.7p
Final dividend 2000	22.3p

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